Montgomery County, Maryland

ANNUAL INFORMATION STATEMENT

In Connection With Bonds and Other Obligations

Department of Finance

January 15, 2013

MONTGOMERY COUNTY, MARYLAND
OFFICIAL ROSTER OF COUNTY OFFICIALS

COUNTY EXECUTIVE

Isiah Leggett

COUNTY COUNCIL

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

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

APPOINTED OFFICIALS

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

BOND COUNSEL

McKennon Shelton & Henn LLP
Baltimore, Maryland

INDEPENDENT PUBLIC ACCOUNTANTS

BDO USA, LLP
Bethesda, Maryland

DEBT MANAGEMENT AND DISCLOSURE INFORMATION

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

ANNUAL INFORMATION STATEMENT
IN CONNECTION WITH BONDS AND OTHER OBLIGATIONS

This Annual Information Statement ("the AIS"), dated January 15, 2013 is prepared by Montgomery County, Maryland ("the County"), to provide, as of its date, certain general information concerning the County and its operations. Included is information on the County 1) government, organizational structure and services, 2) financial information, 3) annual budgets, 4) results of fiscal years 2008-2012, 5) retirement system, 6) revenue sources, and 7) selected demographic and economic statistics, and information including population, employment and income.

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

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

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

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TABLE OF CONTENTS

LIST OF TABLES

STATISTICAL HIGHLIGHTS

Debt as of June 30, 2012

General Obligation Bonds and Notes Outstanding	$2,097,290,000
Total Assessed Value	$165,916,095,468
Direct Debt (incl. Revenue Bonds)	$2,726,230,000
Ratio of Direct Debt to Assessed Value	1.64%
Net Direct Debt	$2,597,290,000
Ratio of Net Direct Debt to Assessed Value	1.57%

Budgets

Approved FY13 Operating Budget	$4.6 billion
Approved FY13 General Fund Undesignated Surplus	$139.0 million
FY12 General Fund Unassigned/Undesignated Balance	$192.9 million
FY12 Revenue Stabilization Fund Balance	$155.2 million
FY13-18 Approved Capital Budget	$4.4 billion

FY12 Major Revenues

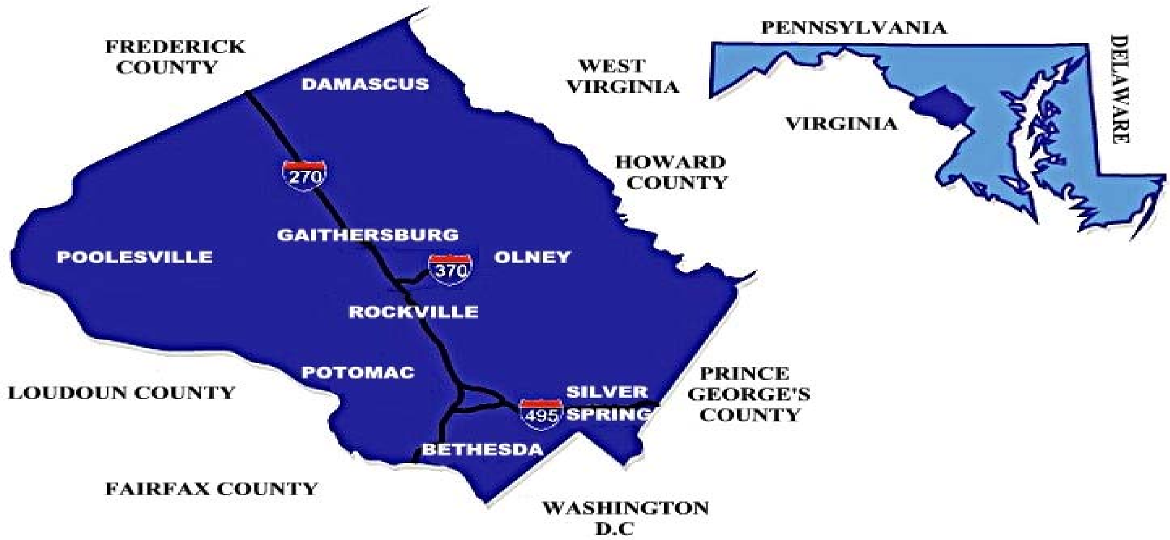
Income Tax	$1,255.1 million
Property Tax (General Fund)	$1,042.9 million
Transfer and Recordation Tax	$127.3 million
Other Taxes	$293.5 million

Demographics

Population 2011	989,794
Households 2011	359,000
Median Age 2010	38.5 years

Employment

Private Sector 2011	361,688
Public Sector 2011	86,096
Unemployment Rate (2012 Average monthly rate)	5.0%
Personal Income 2011	$69.1 billion
Per Capita Income 2011 (est.)	$ 69,762
Average Household Income 2011 (est.)	$192,340
MCPS K-12 Projected FY13 Enrollment	149,018
MCPS Per Pupil Operating Expenditures (FY13)	$14,495
Montgomery College Enrollment (Fall 2012)	25,513



MONTGOMERY COUNTY - HISTORY AND GOVERNMENT

Location

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

History

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

Government

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

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

County Officials

County Executive – Isiah Leggett

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

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

President, County Council – Nancy Navarro

Nancy Navarro was elected to represent District 4 on the Montgomery County Council in a special election in May 2009 and was re-elected in November 2010. Since December 2010, she has chaired the Government Operations and Fiscal Policy (GO) Committee and serves on the Health and Human Services Committee. In October 2011, Ms. Navarro was appointed as a member of the U.S. President's Commission on Educational Excellence for Hispanics, where she serves on the Early Childhood Education Committee.

Prior to her election to the Council, Ms. Navarro served on the Montgomery County Board of Education, where she served on the Board's Strategic Planning Committee and Chaired the Communication and Public Engagement Committee. Before entering public life, Ms. Navarro co-founded a non-profit, community-based organization whose mission is to assist the economic and educational development of Latino and other immigrant communities. Ms. Navarro has also served in a number of volunteer leadership roles, including PTSA co-president; chair of the Youth, Schools, and Childcare Work Group of the Long Branch Revitalization Task Force.

Chief Administrative Officer - Timothy L. Firestine

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

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

Director of Finance – Joseph F. Beach

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

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

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

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

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

County Attorney – Marc P. Hansen

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

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

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DEBT SUMMARY

Overview

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

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

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

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

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

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

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

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Table 1
Statement of Direct and Overlapping Debt
As of June 30, 2012

Direct Debt:		
General Obligation Bonds Outstanding	$1,997,290,000	
General Obligation Variable Rate Demand Obligations	100,000,000	
Short-Term BANs/Commercial Paper Outstanding	500,000,000	
Revenue Bonds Outstanding	128,940,000	
Total Direct Debt		$2,726,230,000
Overlapping Debt:		
Gross Debt:		
Washington Suburban Sanitary Commission Applicable to Montgomery County	1,009,582,945	
Housing Opportunities Commission	769,043,174	
Montgomery County Revenue Authority	100,539,284	
Maryland-National Capital Park and Planning Commission Applicable to Montgomery County	37,785,138	
Kingsview Village Center Development District	1,805,000	
West Germantown Development District	14,235,000	
Towns, Cities and Villages within Montgomery County	55,243,741	
Total Overlapping Debt		1,988,234,282.
Total Direct and Overlapping Debt		4,714,464,282
Less Self-Supporting Debt:		
County Government Revenue Bonds	128,940,000	
Washington Suburban Sanitary Commission Applicable to Montgomery County	1,009,582,945	
Housing Opportunities Commission	769,043,174	
Montgomery County Revenue Authority	100,539,284	
Maryland-National Capital Park and Planning Commission Applicable to Montgomery County	1,064,101	
Total Self-Supporting Debt		(2,009,169,504)
Net Direct and Overlapping Debt		$2,705,294,778
Ratio of Debt to June 30, 2012 Assessed Valuation of (100% Assessment):		$165,916,095,468
Direct Debt		1.64%
Net Direct Debt *		1.57%
Direct and Overlapping Debt		2.84%
Net Direct and Overlapping Debt		1.63%
Ratio of Debt to June 30, 2012 Market Value of:		$178,312,217,785
Direct Debt		1.53%
Net Direct Debt *		1.46%
Direct and Overlapping Debt		2.64%
Net Direct and Overlapping Debt		1.52%

*Net Direct Debt of $2,597,290,000 is derived by subtracting direct self-supporting debt, which consists only of County Government Revenue Bonds, from Total Direct Debt.

Debt Affordability

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

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

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

Table 2
Statement of Legal Debt Margin
As of June 30, 2012

June 30, 2012 Assessed Valuation – Real Property		$162,197,149,758
Debt Limit (% of Assessed Valuation)		6%
Subtotal Limitation – Real Property		$ 9,731,828,985
June 30, 2012 Assessed Valuation – Personal Property		$ 3,718,945,710
Debt Limit (% of Assessed Valuation)		15%
Subtotal Limitation – Personal Property		$ 557,841,857
Total Assessed Valuation – Real and Personal Property		$165,916,095,468
Legal Limitation for the Borrowing of Funds and the Issuance of Bonds		$10,289,670,842
Less Amount of Debt Applicable to Debt Limit:		
General Obligation Bonds Outstanding	$1,997,290,000	
General Obligation Variable Rate Demand Obligations	100,000,000	
Short-Term BANs/Commercial Paper	500,000,000	
Net Direct Debt		2,597,290,000
Legal Debt Margin		$7,692,380,842
Net Direct Debt as a Percentage of Assessed Valuation		1.57%

Direct Debt

General Obligation Bonds

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

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

Table 3
General Obligation Bonded Debt Ratios
2003 – 2012

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
2003	1.45	8.47	1,543	2.90	71.10
2004	1.45	7.98	1,608	2.88	70.94
2005	1.30	7.74	1,527	2.61	70.20
2006	1.30	7.77	1,701	2.71	69.75
2007	1.30	7.83	1,861	2.81	68.92
2008	1.18	7.95	1,848	2.70	71.39
2009	1.13	7.31	1,997	2.83	70.63
2010	1.22	7.92	2,277	3.24	69.37
2011	1.27	8.58	2,507	3.55	68.65
2012	1.46	8.87	2,625	3.60	68.22

* Amounts restated due to restatement of population data.

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The County's general obligation indebtedness by issue is presented in Table 4. Annual debt service payments for the County's debt is displayed in Table 5. Table 6 sets forth the amount of general obligation bonds authorized to be issued by the County as of June 30, 2012. See Subsequent Events, Note 1 on page 15.

Table 4
General Obligation Debt of the County
As of June 30, 2012

Issue	Dated Date	Original Issue Size	Original Coupon Rates	TIC*	Maturity	Principal Outstanding June 30, 2012
GO Refunding Bonds	11/15/02	93,595,000	2.75-5.25	3.2799	2005-13	22,775,000
GO Bonds	05/01/03	155,000,000	1.50-4.00	3.6304	2004-23	7,750,000
GO Bonds	03/15/04	154,600,000	3.00-5.00	3.8290	2005-24	23,190,000
GO Refunding Bonds	08/15/04	97,690,000	3.00-5.25	3.7208	2008-17	80,835,000
GO Bonds	05/15/05	200,000,000	4.00-5.00	3.8806	2006-25	50,000,000
GO Refunding Bonds	06/01/05	120,355,000	5.00	3.7817	2011-21	114,175,000
GO Bonds	05/01/06	100,000,000	4.25-5.00	3.8711	2007-16	40,000,000
GO VRDO**	06/07/06	100,000,000	variable	variable	2017-26	100,000,000
GO Bonds	05/01/07	250,000,000	5.00	4.0821	2008-27	125,000,000
GO Refunding Bonds	03/12/08	70,295,000	2.75-5.00	2.8965	2009-15	21,090,000
GO Bonds	07/15/08	250,000,000	3.00-5.00	4.1809	2009-28	212,500,000
GO Bonds***	11/03/09	232,000,000	3.75-5.00	3.1774	2015-29	232,000,000
GO Refunding Bonds	11/03/09	161,755,000	2.00-5.00	2.6487	2011-20	154,770,000
GO Bonds	11/17/09	78,000,000	2.00-5.00	1.1823	2010-14	46,800,000
GO Bonds	07/08/10	195,000,000	2.00-5.00	2.2596	2011-22	178,750,000
GO Bonds****	07/08/10	130,000,000	4.75-5.40	5.0708	2023-30	130,000,000
GO Bonds	08/11/11	320,000,000	2.00-5.00	3.2268	2012-31	320,000,000
GO Refunding Bonds	08/11/11	237,655,000	2.00-5.00	1.9896	2012-22	237,655,000
Total						$2,097,290,,000

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

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Table 5
Summary of General Obligation Bonds
Debt Service Requirements by Fiscal Year
As of June 30, 2012

General Obligation Bonds and Notes			
Fiscal Year	Principal	Interest*	Total
2013	160,830,000	93,230,954	254,060,954
2014	153,965,000	85,874,929	239,839,929
2015	158,490,000	78,101,341	236,591,341
2016	153,660,000	70,002,785	223,662,785
2017	147,590,000	62,721,086	210,311,086
2018	142,045,000	55,951,894	197,996,894
2019	136,320,000	49,672,384	185,992,384
2020	130,410,000	43,653,625	174,063,625
2021	123,720,000	38,108,834	161,828,834
2022	116,570,000	32,332,503	148,902,503
2023	108,680,000	29,229,081	137,909,081
2024	100,445,000	24,606,600	125,051,600
2025	92,715,000	20,241,100	112,956,100
2026	82,720,000	16,163,681	98,883,681
2027	72,720,000	12,544,300	85,264,300
2028	60,220,000	8,966,206	69,186,206
2029	60,220,000	6,054,400	66,274,400
2030	47,720,000	3,373,550	51,093,550
2031	32,250,000	1,398,750	33,648,750
2032	16,000,000	320,000	16,320,000
Total	$2,097,290,000	$732,548,003	$2,829,838,003

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

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Table 6
General Obligation Bonds Authorized – Unissued
As of June 30, 2012

Purpose	Chapter	Act	Amount	Amount Unissued
General County, Parks, and Consolidated Fire Tax District	36	2008	$ 68,200,000	$ 65,890,000
	22	2009	58,700,000	58,700,000
	54	2010	341,600,000	341,600,000
	24	2011	65,400,000	65,400,000
			533,900,000	531,590,000
Road & Storm Drainage	22	2009	64,600,000	30,040,000
	54	2010	192,000,000	192,000,000
			256,600,000	222,040,000
Public Schools and Community College	22	2009	272,500,000	233,768,000
	54	2010	108,700,000	108,700,000
	24	2011	214,300,000	214,300,000
			595,500,000	556,768,000
Mass Transit	22	2009	57,100,000	31,005,000
	54	2010	32,600,000	32,600,000
	24	2011	103,200,000	103,200,000
			192,900,000	136,805,000
Public Housing	17	1981	2,650,000	2,590,000
	13	1982	995,000	995,000
	8	1983	230,000	230,000
	20	1985	900,000	900,000
	13	1986	855,000	855,000
	22	2009	1,000,000	1,000,000
	54	2010	46,400,000	46,400,000
			53,030,000	52,970,000
Parking Districts:	9	1983	2,945,000	2,045,000
	6	1984	1,220,000	1,220,000
			4,165,000	3,265,000
Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	1,050,000	1,050,000
			9,150,000	4,865,000
Total Parking Districts			13,315,000	8,130,000
Total General Obligation Bonds			$1,648,645,000	$1,511,403,000

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

Current Revenue Substitution for General Obligation Bonds (PAYGO)

The County follows a practice of budgeting significant current revenue substitution for general obligation bonds over the six-year Capital Improvements Program. This "pay-as-you-go" approach to funding debt-eligible capital improvement projects, known as PAYGO, helps manage the County's debt burden and retain funding flexibility. The significant amounts of PAYGO substitutions over the past eight years, and planned for substitution over the six years beginning FY13, are displayed below.

Table 7
PAYGO Substitutions
(Actual FY05-12, Budgeted FY13-18)

Fiscal Year	PAYGO Amount	Fiscal Year	PAYGO Amount
2005	$ 7,275,000	2012	$ 31,000,000
2006	11,737,000	2013	29,500,000
2007	27,500,000	2014	35,500,000
2008	27,500,000	2015	55,500,000
2009	5,406,000	2016	55,500,000
2010	1,316,000	2017	55,500,000
2011	--	2018	55,500,000

Short-Term Bond Anticipation Notes/Commercial Paper

The County utilizes Bond Anticipation Notes (BANs)/commercial paper for short-term capital financing of capital expenditures with the expectation that the principal amount will be refinanced with the proceeds of long-term general obligation bonds. Interest costs incurred are usually at lower rates than with long-term financing. The County has BANs/commercial paper authorized, issued, and outstanding as financing sources for capital construction and improvements. BANs/commercial paper are issued at varying maturities to a maximum of 270 days, under a note program that matures on June 30, 2022. The County reissues the notes upon maturity until they are refinanced with long-term bonds. Changes in BANs/commercial paper during the period July 1, 2011 through June 30, 2012 are presented in Table 8 below. Also see Subsequent Events, Note 1 on page 15.

Table 8
Bond Anticipation Notes Outstanding
As of June 30, 2012

Issue	Balance July 1, 2011	BANs Issued	BANs Retired	Balance June 30, 2012
Issued May 2012				
BAN Series 2009	$ --	$112,200,000	$ --	$112,200,000
BAN Series 2010	--	243,800,000	--	243,800,000
Prior Years' Issues				
BAN Series 2010-A	100,000,000	--	100,000,000	--
BAN Series 2009-C	75,000,000	--	75,000,000	--
BAN Series 2010-B	125,000,000	--	125,000,000	--
BAN Series 2009-D	125,000,000	--	37,200,000	87,800,000
BAN Series 2010-C	75,000,000	--	18,800,000	56,200,000
Total	$500,000,000	$356,000,000	$356,000,000	$500,000,000

Revenue Bonds

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

County revenue bonds were issued for County Solid Waste Management facilities, supported with the revenues of the Solid Waste Disposal System. County revenue bonds are also used in the Bethesda Parking District, supported by parking fees and fines, together with parking district property taxes. During FY12, revenue bonds were issued to finance a portion of the costs of a parking garage in Bethesda and refund other outstanding Bethesda Parking System Revenue Bonds.

County revenue bond indebtedness by issue is presented in Table 9. Annual debt service payments for the County's revenue bond debt are displayed in Table 10. Table 11 sets forth the amount of revenue bonds authorized to be issued by the County as of June 30, 2012. Also see Subsequent Events, Note 2 on page 15.

Table 9
Revenue Bond Debt of the County
As of June 30, 2012

Issue Date	Dated	Original Issue Size	Original Coupon Rates Maturity	TIC*		Principal Outstanding June 30, 2012
Parking Revenue Bonds (Bethesda PLD)	08/01/05	16,495,000	3.63%-5.00%	4.0471%	2007-25	13,310,000
Parking Revenue Bonds	05/16/12	24,190,000	3.00%-3.25%	2.8367%	2015-23	24,190,000
Parking Revenue Refunding Bonds	05/16/12	13,750,000	1.25%-1.93%	2.8367%	2013-17	13,750,000
Solid Waste Refunding Revenue Bonds	04/03/03	31,075,000	3.00%-5.00%	3.5982%	2004-13	2,685,000
Liquor Control Revenue Bonds	05/12/09	46,765,000	3.00%-5.00%	4.1196%	2010-29	41,865,000
Liquor Control Revenue Bonds	04/15/11	34,360,000	2.00%-5.00%	4.2826%	2012-31	33,140,000
Total						$128,940,000

* True Interest Cost.

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Table 10
Summary of Revenue Bond Debt Service Requirements by Fiscal Year
As of June 30, 2012

	Revenue Bonds		
Fiscal Year	Principal	Interest	Total
2013	7,495,000	5,726,369	$13,221,369
2014	5,015,000	5,349,889	10,364,889
2015	6,175,000	5,134,989	11,309,989
2016	6,460,000	4,858,367	11,318,367
2017	6,720,000	4,598,958	11,318,958
2018	7,035,000	4,282,770	11,317,770
2019	7,360,000	3,964,120	11,324,120
2020	7,685,000	3,626,670	11,311,670
2021	8,040,000	3,274,160	11,314,160
2022	6,520,000	2,881,220	9,401,220
2023	6,810,000	2,590,130	9,400,130
2024	7,105,000	2,302,687	9,407,687
2025	7,395,000	2,011,453	9,406,453
2026	7,720,000	1,678,851	9,398,851
2027	6,790,000	1,367,581	8,157,581
2028	7,095,000	1,060,931	8,155,931
2029	7,420,000	737,183	8,157,183
2030	4,090,000	409,781	4,499,781
2031	4,265,000	238,181	4,503,181
2032	1,745,000	56,713	1,801,713
Total	$ 128,940,000	$ 56,151,003	$ 185,091,003

Table 11
Revenue Bonds Authorized – Unissued
As of June 30, 2012

Purpose	Resolution No.	Year	Amount	Amount Unissued
Parking Lot Districts	11-1383	1989	$ 51,163,000	$ 1,403,000
	14-921	2001	35,000,000	9,000,000
			86,163,000	10,403,000
Solid Waste Disposal	12-1010	1993	56,935,000	6,255,000
Public Housing	16-675	2008*	50,000,000	50,000,000
Liquor Control & Transit	16-863	2009*	60,000,000	56,875,000
Total Revenue Bonds			$253,098,000	$123,533,000

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

Conduit Debt of the County

Montgomery County's conduit issuers issue bonds on the County's behalf and loan the proceeds to the County. This results in lease payments from the County to the conduit issuers, which in turn pays the debt service on the bonds. Table 12 below displays the principal amounts owed to these conduit issuers as of June 30, 2012. Also see Subsequent Events, Note 3 below.

Table 12
Conduit Debt of the County
As of June 30, 2012

Purpose	Issuer	Principal Outstanding June 30, 2012
Parking Garages	Maryland Economic Development Corp.	$ 24,575,000
Conference Center	Montgomery County Revenue Authority	7,920,000
Human Services Headquarters	Montgomery County Revenue Authority	2,790,000
Swim Centers	Montgomery County Revenue Authority	11,245,000
Solid Waste Disposal System	Northeast Maryland Waste Disposal Authority	113,720,000
TOTAL		$ 160,250,000

Subsequent to June 30, 2012 Events

1. On October 10, 2012, the County issued General Obligation Bonds (Tax-Exempt Series A) in the amount of $295,000,000 and General Obligation Refunding Bonds (Tax –Exempt Series B) in the amount of $23,360,000. The Series B bonds included refunding of the outstanding Maryland Economic Development Corporation bonds with general obligation bonds. Subsequent to closing the County retired commercial paper bond anticipation notes (BANs) totaling $326,790,000 and on December 18, 2012 the County issued BANs of $200,000,000 for the 2009 series.

2. On July 18, 2012, the County received $37, 835,000 in proceeds from Water Quality Protection Charge Revenue Bonds (2012A) to finance stormwater management capital projects in order to comply with the County's Municipal Separate Storm Sewer Systems (MS4) Permit. The bonds were sold on June 28, 2012.

3. The County anticipates savings in the future minimum lease payments due to the October 18, 2012 refunding of Montgomery County Revenue Authority Taxable Lease Revenue bonds that were issued for the construction of the Montgomery County Conference Center. Savings are estimated at $1 million over the remaining lease term.

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Overlapping Debt

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

Washington Suburban Sanitary Commission

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

Housing Opportunities Commission

The Montgomery County Housing Opportunities Commission (HOC) issues revenue bonds for its Multi-Family Mortgage Purchase Program and its Single-Family Mortgage Purchase Program which are paid through mortgages and rents. A portion of this revenue bond debt is guaranteed by Montgomery County pursuant to the Housing and Community Article, Title 16-201 to 204 of the Annotated Code of Maryland. The County may by local law provide its full faith and credit as guarantee of bonds issued by HOC in principal amount not exceeding $50,000,000. Title 16-205 of the Housing and Community Article in the Code provides the method by which the County implemented the guarantee.

Montgomery County Revenue Authority

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

Maryland-National Capital Park and Planning Commission

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

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Special Taxing Districts

The County created three development districts: Kingsview Village Center, West Germantown, and Clarksburg Town Center. These development districts were created in accordance with Chapter 14 of the Montgomery County Code, the Montgomery County Development District Act enacted in 1994. The creation of these districts allows the County to provide financing, refinancing, or reimbursement for the cost of infrastructure improvements necessary for the development of land in areas of the County with high priority for new development or redevelopment. Pursuant to Chapter 14, special taxes and/or special assessments may be levied to fund the costs of bonds or other obligations issued on behalf of the respective district. Any bond issued under Chapter 14 is not an indebtedness of the County within the meaning of Section 312 of the Charter. Additionally, any bond issued must not pledge the full faith and credit of the County, and must state that the full faith and credit is not pledged to pay its principal, interest, or premium, if any. Any bonds issued are not considered liabilities of the County and are not reported in the County's financial statements.

In December 1999, the County issued $2.4 million in special obligation bonds for the Kingsview Village Center Development District. Special taxes and assessments were levied beginning in FY01 to repay this debt. In April 2002, the County issued two series of special obligation bonds for the West Germantown Development District. The County issued $11.6 million of Senior Series 2002A bonds and $4.3 million of Junior Series 2002B bonds to finance the construction of infrastructure in the development district. Special taxes and assessments were levied beginning in FY03 to repay this debt.

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

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

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

Towns and Cities

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

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County Facility Lease Obligations

The County leases building and office facilities and other equipment under non-cancelable operating leases. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet subsequent rental payments are not appropriated. Total costs for operating leases were approximately $21,320,023 for FY12. Long-term leases with the Maryland Economic Development Corporation (MEDCO) and the Montgomery County Revenue Authority are subject to annual appropriations, but are related to the debt service on bonds that MEDCO and the Revenue Authority issued on the County's behalf.

Following is a listing of significant lease agreements for FY12:

Payee	Location	Use	Total Rent For FY12
Eldridge, Inc.	255 Rockville Pike, Rockville	Various Agencies	$5,258,932
GXS, Inc.	100 Edison Park Drive, Gaithersburg	Public Safety Headquarters	4,718,844
Maryland Economic Development Corp &	921 Wayne Avenue, Silver Spring	Parking Garage	3,084,425
Maryland Economic Development Corp &	801 Ellsworth Drive, Silver Spring	Parking Garage	2,469,739
Montgomery County Revenue Authority	Indoor Swim Centers	Recreation	2,325,681
Montgomery County Revenue Authority	5701 Marinelli Drive, Rockville	Conference Center	1,903,886
F.S. Peoples Realty Co.	14935 Southlawn Lane, Rockville	Fire & Rescue/Liquor Control	1,682,541
Washington Real Estate Investment Trust	600 East Jefferson St., Rockville	Community Use of Public facilities/Family Justice Ctr.	989,054
Alexandria Real Estate	1300 Quince Orchard Blvd., Gaithersburg	Emergency Communications Center	962,413
Washington Real Estate Investment Trust	51 Monroe Street, Rockville	Various Agencies	924,077
Seneca Center II, LLC	18753 N. Frederick Ave.	Board of Elections	840,587
Felland Limited Partnership	4901-43 Nicholson Ct., Kensington	DOT/Transit Services	768,591
1335 Piccard LLC, c/o Wellstone Corp.	1335 Piccard Drive, Rockville	Health Center	661,341
Fanaroff & Steppa c/o HBW Group	981 Rollins Avenue, Rockville	HHS-OAS Clinic	656,966
Montgomery County Revenue Authority	1301 Piccard Drive, Rockville	Health & Human Services	632,480
Williamson, Harry E. and Helga R.	12500 Ardennes Avenue, Rockville	Corrections	581,024
Investment Properties, Inc.	701-C Dover Road, Rockville	Fire & Rescue Warehouse	539,134
FP Gude LLC	7300 Calhoun Drive, Derwood	Juvenile Assessment Center	497,258
Rockville Metro Plaza I, LLP	111 Rockville Pike, Rockville	Economic Development	491,930
C-W Gaither, LLC	9121-25 Gaither Road, Rockville	Police/S.O.D.	451,091
ARE 25/35/45 W. Watkins Corp.	45 West Watkins Mill Rd, Gaithersburg	Police-6th District	438,674
The Gudelsky Company	8630 Fenton Street, Silver Spring	Health Center	409,392
PS Business Parks, Inc.	9210 Corporate Boulevard, Rockville	Police/S.I.D.	373,758
Investment Properties, Inc.	11 North Washington St. 4th Floor Rockville.	HHS Community Support Network	349,567
Betty B. Casey Trust	8516-40 Anniversary Circle, Rockville	Records Center/Warehouse	326,569
Halcyon Associates	8300-8434 Helgerman Court, Gaithersbg.	Police	267,088
Halcyon Associates	8663-73 Grovemont Circle, Gaithersbg.	Fire & Rescue	240,240

& - See Subsequent to June 30, 2012 Events, Note 1 on page15.

Other Operating Payment Agreements

Lease Revenue Bonds – Metrorail Garage Projects

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

Pursuant to the Trust Agreement, and a First Supplemental Trust Agreement dated September 1, 2004, additional bonds in the amount of $4.7 million were issued by the County on September 28, 2004 to complete construction of the Shady Grove and Grosvenor parking structures and related facilities. The final maturity of the Series 2002 and Series 2004 bonds is in 2024.

On September 27, 2011, the County issue $35.5 million in Lease Revenue Project and Refunding bonds to finance a portion of the design and construction costs of the Glenmont Metrorail Station parking structure and refund the outstanding Series 2002 and 2004 Metrorail garage bonds. The Bonds were issued pursuant to a Trust Agreement between the County and U.S. Bank National Association as Trustee. The final maturity of the bonds is 2031.

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

Certificates of Participation (COPs) and Taxable Limited Obligation Certificates

The County entered into a conditional purchase agreement (COPs) dated October 1, 2007 with U.S. Bank National Association for the purpose of borrowing $33.6 million to acquire equipment for use in the County's fire and rescue program. The COPs mature in 10 years. In April 2010, the County entered into a conditional purchase agreement with U.S. Bank, for the purpose of borrowing $23.0 million to acquire buses. That issuance of COPs matures in seven years.

Also in April 2010, the County issued $30.4 million of Taxable Limited Obligation Certificates which was supplemented by an additional issue of $28.8 million in August 2011. The proceeds of these sales are being used to fund the County's Facility and Residential Development Projects-primarily projects associated with affordable housing and the Fillmore music venue. The Certificates fully amortize over 20 years.

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

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GENERAL FINANCIAL POLICIES

Financial Reporting Standard

Montgomery County seeks to continually maintain best practices in its financial reporting operation. The County received the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA) for its Comprehensive Annual Financial Report (CAFR) more times than any other county in the nation. Since 1951, the County received the award 42 times and in 40 consecutive years since 1972. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. The report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The County believes the FY12 CAFR continues to meet the Certificate of Achievement Program's requirements and submitted it to the GFOA to determine its eligibility for another certificate.

Reporting Entity

The County reporting entity is determined by criteria set forth in promulgations of the Governmental Accounting Standards Board. The reporting entity includes the fiscal activities of Montgomery County Government, as the primary government, and Montgomery County Public Schools (MCPS), Montgomery College ("the College"), Montgomery County Revenue Authority, the Housing Opportunities Commission of Montgomery County, and the Bethesda Urban Partnership, Inc., as component units. Not included within the reporting entity are the Montgomery County portion of Maryland-National Capital Park and Planning Commission, Washington Suburban Sanitary Commission, Washington Suburban Transit Commission, Washington Metropolitan Area Transit Authority, Metropolitan Washington Council of Governments, and the Northeast Maryland Waste Disposal Authority. These entities are considered joint ventures and disclosure of the County's participation in these joint ventures is presented as a footnote to the County's financial statements included in its Basic Financial Statements (refer to Appendix A for statements as of June 30, 2012).

Basis of Accounting

The County's financial statements focus on both the County as a whole (government-wide), and on the major individual funds. "Funds" are resources segregated for the purposes of implementing specific activities or achieving certain objectives in accordance with special regulations, restrictions, or limitations. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/net assets, revenues, and expenditures/expenses. Both the government-wide and fund perspectives allow users to address relevant questions and understand changes in financial conditions. The basis of accounting for both types of statements is presented below.

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

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

Proprietary funds, which consist of enterprise funds and internal service funds, are used to account for operations that are financed and operated in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like the government-wide financial statements, provide both long-term and short-term financial information. The fund financial statements provide more detail and additional information, such as cash flows, for the County's enterprise funds. The County has three major enterprise funds – liquor control, solid waste activities, and parking lot districts – and two non-major funds. The internal service funds, which are presented in a single, aggregated column in the proprietary fund financial statements, are used to account for the provision of liability and property insurance coverage, employee health benefits, motor pool services, and central duplicating services, to County departments on a cost reimbursement basis. Financial activity and position of the internal service funds are accounted for in the governmental activities columns of the government-wide financial statements. Although both the fund and government-wide financial statements that include the financial activity and position of the internal service funds 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 in the government-wide statements; cumulative net results and current year net results of financial activities between internal service funds and other proprietary fund financial statements are reflected on the bottom of the proprietary fund financial statements.

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

Basis of Budgeting

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

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

The Montgomery County Results

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

County Stat

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

Legal Framework for Budgeting

As required by the County Charter, the County Executive submits to the County Council, not later than January 15, a comprehensive six-year Capital Improvements Program (CIP) in each even numbered year, and a Capital Budget each year. In addition, the County Executive, not later than March 15 of each year, 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 30 of each year the County Council makes the tax levies deemed necessary to finance the budgets for the ensuing fiscal year beginning July 1. Pursuant to a Charter amendment adopted in the November 2008 general election, the County Council may not levy an ad valorem tax on real property to finance the budgets that will produce total revenue that exceeds the total revenue produced by the tax on real property in the preceding fiscal year plus a percentage of the previous year's real property tax revenues that equals an increase in the Consumer Price Index unless approved by the affirmative vote of all nine Council members. This limit does not apply to revenue from 1) newly constructed property, 2) newly rezoned property, 3) property that, because of a change in State law, is assessed differently than it was assessed in the previous tax year, 4) property that has undergone a change in use, and 5) any development district tax used to fund capital improvement projects.

The Charter requires that County capital improvement projects which are estimated to cost in excess of an amount established by law, or which the County Council determines to possess unusual characteristics or to be of sufficient public importance, must be individually authorized by local law, which would be subject to referendum upon timely petition of five percent of the County's registered voters.

The cost criterion for projects in the FY13 Capital Budget and the FY13-18 CIP is $12.9 million. The Charter also requires approval of the aggregate operating budget by the affirmative vote of six Council members, as opposed to a simple majority, when it exceeds the budget for the preceding year by a percentage which is greater than the percentage increase in the Consumer Price Index for all urban consumers for the Washington-Baltimore combined metropolitan statistical area (CMSA) for the 12 months preceding December 1 of each year, as published by the U.S. Department of Labor. In addition, a Charter amendment adopted at the November 1990 general election requires the County Council to annually adopt spending affordability guidelines for the capital and operating budgets, including guidelines for the aggregate capital and operating budgets. Any aggregate capital budget or aggregate operating budget that exceeds the guidelines then in effect requires the affirmative vote of seven of the nine council members for approval.

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ANNUAL BUDGETS

Operating Budget and Tax Rates

On May 24, 2012 the County Council approved the FY13 operating budget comprising the County Government, MCPS, the College, and M-NCPPC aggregating $4.612 billion. This budgetary level represents an increase of 5.6 percent over the adopted budget for FY12.

The FY13 operating budget provides the greatest share (50.5 percent) of total tax supported resources to Montgomery County Public Schools. The budget for Montgomery College includes funding to accommodate growth in enrollment. In addition, limited funding is included to strategically restore program funding for critical programs, particularly public safety services.

The approved FY13 budget provided for an undesignated surplus of $139.0 million in the General Fund and $167.1 million across all tax supported funds. For FY13, the estimated effective real property tax rate for the County is $0.991 per $100 of assessed value.

Capital Budget/Capital Improvements Program

The County Council approved the FY13 Capital Budget and FY13-18 Capital Improvements Program (CIP) for the County government and the required agencies, except for WSSC, aggregating $4.355 billion for FY13-18. The FY13-18 program provided for County bond funding aggregating $1.770 billion over the FY13-18 six-year period. The Council approved a Capital Improvements Program for WSSC totaling $1.246 billion for FY13-18. (WSSC is governed by State Law and is the only agency for which the County Council adopts an annual CIP).

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SELECTED FINANCIAL INFORMATION

GENERAL FUND AND MAJOR SOURCES OF REVENUE

Status of the General Fund

General Fund Revenues

Actual revenues for the General Fund totaled $2,809.1 million and were 2.4 percent above the budget estimate for FY12 and 6.3 percent above actual tax revenues for FY11. The three largest contributors to the variance in dollars between the budget estimate and actual revenues were the income tax (+$137.8 million), the energy tax (-$25.1 million), followed by the property tax (-$18.3 million). Revenues from the transfer and recordation taxes amounted to $127.3 million – -$16.2 million, or 11.3 percent, below the budget estimate and 1.7 percent below actual tax revenues for FY11. Revenues from consumption/excise taxes which include fuel/energy, telephone, hotel/motel, and admissions taxes, were $293.5 million in FY12. That amount was $31.7 million or 6.5 percent below the budget estimate and that decline was driven by shortfalls across all excise taxes except for the admissions tax, with the largest decline experienced by the fuel-energy tax ($25.1 million or 10.0 percent). Investment income was approximately $0.2 million below the budget estimate. Licenses and permits came in above budget estimates (1.1%), but charges for services came in below the budget estimate (10.1%). Intergovernmental revenues were 5.3 percent below the budget estimate. Such a decrease was attributed across the board to State and federal reimbursements, which came in 5.8 percent and 6.3 percent below budget estimates, respectively.

Major Source of General Fund Revenue

Income Tax

One of the largest revenue sources for the General Fund is the County income tax. Revenues from the income tax were $1,255.1 million and represented 46.2 percent of actual tax revenues in FY12 and 44.7 percent of total actual revenues. The reliance on the income tax as a major source of revenue in recent years can be attributed to three factors: the expansion of the employment base in the County, the growth in capital gains, and significant property tax relief that 000reduced otherwise strong property tax revenue growth. However, the Standard & Poor's 500 index, representing a proxy for capital gains, experienced significant volatility over the past ten calendar years ranging from an increase of +26.4 percent in (calendar year) CY04 to a decrease of -38.5 percent in CY08, and resident employment also experienced volatility during this period - an average annual growth rate of 1.2 percent in the County's resident employment during the CY02-CY06 period and a decline of -0.8 percent in CY07, followed by an increase of +0.8 percent in CY08, followed by a decrease of -2.3 percent in CY09, and increases of +0.1 percent and +1.1 percent in CY10 and CY11, respectively. However, with employment growth in CY10 and CY11 coupled with strong growth in the S&P 500 index in CY09 (23.5%) and CY10 (12.8%), total income tax revenues increased 20.8 percent in FY12. Total quarterly distributions for withholding and estimated payments increased 11.5 percent in FY12 which followed a decrease of 0.3 percent in FY11, another decrease of 9.0 percent in FY10 and increases of 0.2 percent and 4.9 percent in FY09 and FY08, respectively.

Property Tax

Property tax collections, which represent another major contributor of actual tax revenues to the General Fund and the second largest in FY12, amounted to $1,042.9 million in FY12, which were $18.3 million (1.7%) below the budget estimate and 1.8 percent below actual revenues in FY11. Actual property taxes, excluding penalties and interest and other items, were $1,042.4 million in FY12 – a decrease of 1.6 percent from the previous fiscal year. Collections from penalties and interest and other items were $0.5 million – a 76.6 percent decrease from FY11.

The taxable assessments for real property decreased 3.3 percent from FY11 to FY12. This was the first decrease in over twenty-three years. New construction, which added $585.6 million to the base in FY12, was 36.3 percent lower than in FY11.

The real estate market, particularly the annual double-digit price increases during fiscal years FY03-FY06, fueled the dramatic increases in the triennial reassessment rates beginning with Group Two, which increased from 21.8 percent in levy year 2002 to 65.0 percent in levy year 2005, for Group Three triennial reassessments increased from 36.3 percent in levy year 2003 to 63.3 percent in levy year 2006, and for Group One triennial reassessments were 51.8 percent and 43.3 percent in levy years 2004 and 2007, respectively. With the average sales price for an existing home declining 16.2 percent in FY09 and 5.4 percent in FY10, the reassessment rate for Group Two declined from 65.0 percent for LY05 to 16.2 percent for LY08, the rate for Group Three declined from 63.3 percent for LY06 to -10.6 percent for LY09, and the rate for Group One declined from 43.3 percent in levy year 2007 to -17.0 percent in levy year 2010. With the dramatic decline in average sales prices, the triennial reassessment rate for Group Two declined from 16.2 percent to -14.5 percent for LY11.

The homestead tax credit limits annual increases in homeowners' taxable assessments to 10 percent per year although other taxable assessments such as commercial and investment residential properties are not limited by this credit. While there was a dramatic decrease in the reassessment rates for Groups One, Two and Three for the past four levy years, the remaining amount of the credit added $729 million to the assessable base in FY12, down from $5.1 billion in FY11.

Assessments of personal property increased 0.6 percent in FY03, but declined 6.2 percent in FY04 primarily due to weaknesses in all three categories: individual, public utility, and corporate. Unfortunately, there was no rebound in the subsequent years as illustrated by a 1.5 percent decline in FY05, and another 1.8 percent decline in FY06. The declines in FY05 and FY06 were attributed to adjustments to individual personal property undertaken by the Maryland State Department of Assessments and Taxation (SDAT).

Due to a rebound in personal property for public utilities, assessments increased 3.1 percent in FY07 and a modest 0.5 percent in FY08. However, because of declines in individual and corporate personal property and public utility tax assessments, total personal property assessments declined 1.3 percent in FY09 rebounding in FY10 (5.2%) attributed to increases in corporate and public utility assessments, but declined 6.5 percent in FY11 and declined 3.6 percent in FY12 to $3.719 billion and attributed to declines in corporate and utility personal property. For the previous five fiscal years (FY07-FY11), taxable assessments for personal property averaged $3.964 billion ranging from a low of $3.920 billion in FY09 to a high of $4.124 billion in FY10.

Transfer and Recordation Taxes

Another major tax revenue category in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources in FY12 were $127.3 million (excluding recordation tax revenues earmarked for CIP funding of school construction and transfer tax revenues from condominium conversions). The decrease of 1.7 percent in actual revenues from FY11 represented the second decrease during the past four fiscal years – the other decrease occurred in FY09 (20.6%). With a decrease in actual revenues in FY12, they were also 11.3 percent below the budget estimate. The total amount collected from these taxes increased from $146.4 million in FY03 to a peak of $241.7 million in FY06, before declining to $107.2 million in FY09. In FY10, taxes from the combined transfer and recordation taxes rebounded to $122.0 million, increased to $129.5 million in FY11, and then declined to $127.3 million in FY12.

General Fund revenues from the transfer tax experienced an increase of 6.0 percent in FY12 compared to an 11.3 percent decrease in the recordation tax. Because of the decline attributed to a dramatic decrease in home sales in FY12 (2.7%), revenues from the residential sector for both taxes were $76.1 million, a decrease of 4.9 percent from FY11. The number of residential transfers decreased to approximately 12,100 (5.6%).

Based on the amount of revenues from the transfer tax, the commercial market improved in FY12 with revenues reaching $19.4 million – an increase of 57.7 percent over FY11. That amount of revenues was the highest since FY06. The increased revenues from the commercial market were attributed to the increase in the number of transfers, 213 in FY12 compared to 129 in FY11 and was the largest number since FY08.

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Other Taxes

The remaining tax sources – consisting of fuel/energy, telephone, hotel/motel, and admissions and amusement taxes – totaled $293.5 million and were approximately $31.7 million, or 6.5 percent, below the budget estimate. Revenues from the telephone tax were 9.8 percent below the budget estimate and 5.3 percent below actual revenues in FY11. Revenues from the hotel/motel industry of $18.2 million in FY12 were 9.0 percent below the budget estimate and 5.8 percent below actual revenues in FY11. The admissions tax was 6.4 percent above the budget estimate and 24.1 percent above actual revenues in FY11.

Investment Income

In the General Fund, there was little change in actual investment income in from $12,206 in FY11 to $12,224 in FY12 and was nearly $167,000 lower than the budget estimate (93.2%). The dramatic decrease in FY12 over the budget estimate was the result of a continued accommodative policy of the Federal Open Market Committee (FOMC) of the Federal Reserve that reduced interest rates beginning in September 2007. From that time to December 2008, the FOMC decreased the target interest rate for federal funds from 5.25 percent to a range of between 0.00 and 0.25 percent ─ a decline of 500-525 basis points and remained at that historic low level throughout FY12. The justification for such a decrease was the significant global credit crisis that began in August 2007, the subsequent economic recession that ended in June 2009, and the European Community financial crisis of CY12. Because of this low level of interest rates during FY12 short-term or money market rates remained at historic low levels as well, hence the average yield on cash equity for the County decreased from 0.22 percent in FY10, to 0.10 percent in FY11, and to 0.02 percent in FY12. During FY12 the County made fewer investments, and total pooled investment income on a budgetary basis, (which includes all funds and outside participants excluding unrealized gains or losses) was $32,325 or 89.6 percent below last fiscal year. With the decrease in investment income coupled with a lesser rate of increase in spending, the average daily portfolio balance decreased from $322.9 million in FY11 to $187.9 million in FY12.

General Fund Expenditures and Transfers

Expenditure savings in FY12 amounted to $4.8 million. Savings occurred predominantly in departmental expenditures ($3.8 million) compared to non-departmental expenditures ($1.0 million). Even though all departmental and non-departmental units recognized some savings this year, the majority of the savings occurred in lower than projected operating costs for Technology Services ($0.8 million), and Finance ($0.5 million).

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

In FY12, there was a mandatory contribution of $60,716,985 from the General Fund, which is less than the amount needed to obtain a total reserve of 10 percent of the Adjusted Governmental Revenues ($259,110,858).

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

	Fiscal Year Actual(1)				Fiscal Year Budget
	2009	2010	2011	2012	2013
Revenues:					
Taxes:					
Property, including interest & penalty	$ 962,319,307	$1,045,604,890	$1,061,582,080	$1,042,924,958	$1,025,203,222
Transfer tax and recordation tax	107,208,955	122,041,019	129,534,809	127,296,778	136,597,220
County income tax	1,291,716,935	1,042,098,527	1,039,234,850	1,255,089,822	1,263,585,546
Other taxes	179,232,787	205,594,301	304,004588	293,532,105	304,091,600
Total Taxes	2,540,477,984	2,415,338,737	2,534,356,327	2,718,843,663	2,729,477,588
Licenses and permits	9,319,612	9,542,255	10,372,597	9,877,007	10,270,645
Intergovernmental revenue	90,521,958	50,521,703	51,645,247	41,873,345	42,362,944
Charges for services	14,631,624	9,757,107	9,483,647	8,387,285	9,004,196
Fines and forfeitures	27,604,483	23,107,769	19,249,187	18,742,899	20,461,110
Investment income	568,785	(144,976)	12,206	12,224	252,250
Miscellaneous	17,801,203	13,767,949	16,823,983	16,061,866	8,218,410
Total Revenues	2,700,925,649	2,521,890,544	2,641,943,194	2,813,798,289	2,820,047,143
Expenditures (including encumbrances):					
General County:					
General government	257,466,968	222,489,761	224,132,215	276,824,927	357,155,209
Public safety	355,854,194	344,427,956	334,915,498	342,225,124	369,011,803
Transportation and public works	56,329,154	98,647,800	63,657,144	51,076,683	51,331,463
Health and human services	201,771,333	198,470,632	183,462,232	184,255,411	202,176,053
Culture and recreation	51,710,097	46,478,007	34,021,901	33,615,205	36,073,898
Housing and community development	5,473,883	4,448,701	3,860,221	3,374,938	4,577,308
Environment	5,224,553	4,102,641	2,666,513	2,414,241	2,329,229
Total Expenditures	933,830,182	919,065,498	846,715,724	893,786,529	1,022,654,963
Transfers In (Out) :					
Transfers In:					
Special Revenue Funds	17,699,145	95,441,777	24,649,524	25,557,670	24,502,418
Enterprise Funds	38,601,750	39,859,930	37,771,540	30,993,350	28,400,910
Internal Service Funds	--	14,779,000	2,500,000	--	8,572,842
Capital Projects Fund	--	499,847	--	--	--
Component Units	591,084	255,150	247,613	240,075	247,610
Total Operating Transfers In (Out)	56,891,979	150,835,704	65,168,677	56,791,095	61,723,780
Transfers Out:					
Special Revenue Funds	(13,437,311)	(13,137,847)	(33,625,392)	(78,066,365)	(48,687,646)
Debt Service Fund	(204,596,878)	(210,865,864)	(220,150,085)	(235,553,941)	(258,193,030)
Capital Projects Fund	(28,736,385)	(18,625,802)	(21,567,200)	(40,384,588)	(43,373,252)
Enterprise Funds	(2,988,617)	(3,171,570)	(3,420,070)	(3,389,630)	(2,967,119)
Internal Service Funds	(1,214,928)	--	--	(884,147)	(1,466,225)
Component Units	(1,650,994,360)	(1,568,829,854)	(1,532,153,074)	(1,484,536,407	(1,569,957,231)
Total Transfers Out	(1,901,968,479)	(1,814,630,937)	(1,810,915,821)	(1,842,815,078)	(1,924,644,503)
Net Transfers In (Out)	(1,845,076,500)	(1,663,795,233)	(1,745,747,144)	(1,786,023,983)	(1,862,920,723)
Excess of revenues and operating transfers in over/ (under) expenditures, encumbrances and operating transfers out	(77,981,033)	(60,970,187)	49,480,326	133,987,777	(65,528,543)
Fund Balances, July 1 as previously stated	146,932,820	86,905,675	39,657,640	93,078,794	235,497,305
Adjustment for previous year encumbrances(2)	17,953,888	13,722,152	3,940,828	8,430,734	20,236,692
Fund Balances, July 1 restated	164,886,708	100,627,827	43,598,468	101,509,528	255,733,997
Equity transfers in (out)	--	--	--	--	--
Budgetary Fund Balance, June 30	$ 86,905,675	$ 39,657,640	$ 93,078,794	$ 235,497,305	$ 190,205,454

(1) Audited amounts.
(2) Prior year encumbrances are net of write-offs.
Note: Actual and budget amounts are for fiscal years ended June 30.

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

	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012
Budgetary to GAAP Reconciliation:				
Budgetary Fund Balance as noted above (2)	$ 86,905,675	$ 39,657,640	$ 93,078,794	$ 235,497,305
Encumbrances outstanding	18,630,308	4,959,728	11,022,956	20,382,922
Cumulative Marriot Conference Center	2,655,314	2,692,824	3,416,052	4,332,672
Unrealized investment gain (loss) (1)	(338,014)	(300,511)	(272,792)	(277,552)
Net differences between beginning fund balances	252,779	252,775	266,911	263,911
GAAP Fund Balance as Reported	$ 108,106,062	$ 47,262,456	$ 47,262,456	$ 260,199,258
Elements of GAAP Fund Balance:				
Nonspendable	$ 8,621,928	$ 7,596,839	$ 4,181,482	$ 5,635,580
Committed	51,999,830	34,705,889	23,275,746	41,243,696
Assigned	18,630,308	4,959,728	11,022,956	20,382,922
Unassigned	28,853,996	--	--	192,937,060
Total Fund Balance	$ 108,106,062	$47,262,456	$ 107,511,921	$ 260,199,258

Note: All amounts are audited, and are for fiscal years ended June 30.
(1) Amount restated to break out impact of unrealized investment gains (losses)
(2) Amounts consistent with prior year budget ending fund balance but does not equal CAFR RSI-1.

Revenue Stabilization Fund

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

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

In FY12, there was a mandatory contribution of $60,716,985, which is less than the amount needed to obtain a total reserve of 10 percent of the Adjusted Governmental Revenues ($259,110,858). As of June 30, 2012, this resulted in an ending fund balance in the Revenue Stabilization Fund of $155,255,188. In FY11, there was a mandatory contribution of $19.6 million to the Fund. Therefore, the amount in the Fund increased approximately to $94.5 million. In FY08-FY10, there were no mandatory contributions made to the Fund due to weaker than expected revenue growth from the income tax, transfer and recordation taxes, and investment income. The County is phasing in a 10 percent reserve requirement for Adjusted Governmental Revenues and expects to obtain this level of funding in the Revenue Stabilization Fund by FY20.

Table 15
Revenue Stabilization Fund
Transfers In and Fund Balance

Fiscal Year	Transfers (millions)	Fund Balance (millions)
2012	$60.7	$155.2
2011	19.6	94.5
2010	(44.8)	74.9
2009	--	119.6
2008	--	119.6
2007	11.9	119.6
2006	6.6	107.8
2005	5.2	101.2
2004	8.8	95.9
2003	--	87.2
2002	7.7	87.2
2001	8.9	79.5
2000	8.4	70.6
1999	5.5	62.2
1998	21.4	56.8
1997	18.7	29.4

Note: Fund Balances include transfers in and investment income.

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Enterprise Funds

The County has three major enterprise funds, liquor control, solid waste activities, and parking lot districts, which are accounted for and operated in a manner similar to private business enterprises. The results of operations for Fiscal Years 2008 – 2012 are shown in the table below.

Table 16
Enterprise Funds Paying Debt Service
Results of Operations

Fund	Fiscal Year 2008	2009	2010	2011	2012
Liquor Control					
Operating Revenues	$ 213,669,534	$ 220,736,650	$ 229,212,948	$ 242,609,273	$ 252,325,417
Operating Expenses	189,496,069	194,787,124	203,062,862	214,184,399	218,758,812
Operating Income	$ 24,173,465	$ 25,949,526	$ 26,150,086	$ 28,424,874	$ 33,566,605
Solid Waste Activities					
Operating Revenues	$ 101,920,730	$ 100,040,196	$ 103,254,833	$ 105,997,778	$ 107,772,792
Operating Expenses	97,268,843	96,140,996	100,018,519	100,372.622	98,781,876
Operating Income	$ 4,651,887	$ 3,899,200	$ 3,236,314	$ 5,625,156	$ 8,990,916
Bethesda Parking Lot District					
Operating Revenues	$ 14,117,392	$ 14,502,594	$ 16,104,060	$ 16,257,449	$ 28,916,500
Operating Expenses	11,193,848	11,796,219	12,806,038	12,755,410	28,436,826
Operating Income	$ 2,923,544	$ 2,706,375	$ 3,298,022	$ 3,502,039	$ 479,674

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Self-Insurance Funds

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

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

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

In addition to the self-insured coverage, Risk Management coordinates the purchase of commercial insurance for such coverage as All Risk Property Insurance, Boiler and Machinery, Public Official and Employee Bonds, Electronic Data Processing, Fiduciary Liability, and others. Beginning March 15, 2007, Commercial Excess Liability insurance was purchased, and is effective through June 30, 2012. It is expected this coverage will be maintained, but is dependent on market conditions and price at the time of the policy renewal.

A summary of FY12 operations of the program is outlined below:

Revenues:	($000"s)
Contributions from participating agencies	$ 55,701
Interest on investments	1
Recovered losses	744
Other income	541
Total Revenues	56,987
Expenses:	
Claims expense	56,848
Claims administration, loss control, external insurance and other administrative expenses	13,210
Total Expenses	70,058
Net Loss	(13,071)
Retained earnings (loss), July 1, 2011	(6,435)
Equity (Loss) balance, June 30, 2012	$ (19,506)

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 FY12 operations for these two elements of the insurance program are not reflected above.

County Employee Retirement Plans

Employees' Retirement System

The Employees' Retirement System (System) is a cost-sharing multiple-employer defined benefit pension plan established in 1965. Nine other agencies and political subdivisions elected to participate, including the: Montgomery County Revenue Authority, Housing Opportunities Commission of Montgomery County, independent fire/rescue corporations, Town of Chevy Chase, Strathmore Hall Foundation, Inc., Washington Suburban Transit Commission, Montgomery County Employees Federal Credit Union, and certain employees of the State Department of Assessments and Taxation and the District Court of Maryland. The System is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and participants in the Guaranteed Retirement Income Plan (GRIP). All covered full-time employees of the County and participating agencies must become members of the System as a condition of employment. The System is a contributory plan with employees contributing a percentage of their base annual salary depending on their group classification which also determines retirement eligibility. The payroll for employees covered by the System for the years ended June 30, 2012 and 2011 was approximately $398.5 million and $405.3 million, respectively. The total payroll for Montgomery County Government in FY12 and FY11 was $667.0 million and $679.1 million, respectively.

Deferred Retirement Option Plans (DROP), established in FY00, allow any employee who is a member of a specified membership group or bargaining unit, and who meets certain eligibility requirements, to elect to "retire" but continue to work for a specified time period, during which pension payments are deferred. When the member's participation in the DROP ends, the member must stop working for the County, draw a pension benefit based on the member's credited service and earnings as of the date that the member began to participate in the DROP, and receive the value of the DROP payoff. At June 30, 2012 there were 190 participants in the DROP.

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

The Board of Investment Trustees is responsible for managing the investment programs of the Montgomery County Employee Retirement Plans. The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long term increases in the value of assets. The Board has also established a risk budgeting system to evaluate the System's overall risk exposure on an ongoing basis. The System's assets are invested in a diversified portfolio of equities, fixed income, and real assets.

Table 17
Employees' Retirement System

	Fiscal Year End		
	2010	2011	2012
Net Assets (billions)	$2.443	$2.897	$2.937
Actuarial Value (billions)	$2.791	$2.869	$2.891
Actuarial Liabilities (billions)	$3.646	$3.745	$3.769
Funded Ratio	76.6%	76.6%	76.7%
Participants:			
Active	5,786*	5,515	5,554
Retired	5,967	6,110	6,237

Retirement Savings Plan

The Retirement Savings Plan (RSP) is a cost-sharing multiple-employer defined contribution plan established in 1994. All non-public safety and certain public safety employees not represented by a collective bargaining agreement and hired on or after October 1, 1994 are covered by the Plan unless they elect to participate in the GRIP. All covered full-time employees of the County and participating agencies must become members as a condition of employment. All covered career part-time employees of the County and participating agencies may become members on an individual basis.

The County Code authorizes the Board to establish a diversified slate of investment options from which participants may select. As of June 30, 2012, the defined contribution plan had 4,279 participants with net assets totaling $198.1 million. As of June 30, 2011, the plan had 4,509 participants and assets of $185 million.

Deferred Compensation Plan

Employees of the County may participate in the Montgomery County Deferred Compensation Plan (DCP), which was established pursuant to Section 457 of the Internal Revenue Code of 1986, as amended. The County Code authorizes the Board to establish a diversified slate of investment options from which participants may select. Under the DCP, contributions are sent to the provider for the different types of investments as selected by participants. Legislation enacted in December 2004 allows the County to sponsor one or more additional deferred compensation plans for employees covered by a collective bargaining agreement. At June 30, 2012 there were 3,421 participants in the County's DCP with $271.4 million in net assets.

Additional Information

Additional information on the County's retirement plans is available in the Montgomery County Comprehensive Annual Financial Report for FY12 Appendix A, "Notes to Financial Statements" Note IV-F, Pension Plan Obligations and the Comprehensive Annual Financial Report prepared by the Board of Investment Trustees for the Montgomery County Employee Retirement Plans for FY12.

Other Post Employment Benefits

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

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

Based on the assumptions and qualifications stated therein, the OPEB report concluded that, assuming full prefunding, the FY13 annual required contribution (ARC) for the County and its tax supported agencies is $296.7 million, and the related actuarial accrued liability (AAL) is $3.3 billion. In May 2008, the County Council passed resolution number 16-555, calling for an eight-year phase-in to the ARC. Consistent with this approach and based on the current economic situation, the County appropriated $113.4 million in its FY13 operating budget for the tax-supported agencies. This is in addition to the $61.7 million, $7.3 million, $15.3 million, $40.6 million and $38.6 million appropriated and funded in FY12, FY11, FY10, FY09 and FY08, respectively.

The Board of Trustees is responsible for managing the investment program of the OPEB Trust. The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long term increases in the value of assets. The OPEB Trust assets are invested in a diversified portfolio of equities, fixed income, and real assets.

Property Tax Information

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

Property Tax Assessments

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

As the level of new construction was less than $1.5 billion per year between FY08 and FY10, less than $1.0 billion in FY11 and less than $0.6 billion in FY12, coupled with a decline in the valuation of properties, the real property taxable base increased at an average annual growth rate of 3.3 percent over the last five-year period, measured through FY12 (from FY08 to FY12), compared to the average annual growth rate of 10.6 percent the previous five-year period (from FY03 to FY07). Because of the dramatic decline in the reassessment rates in FY10, FY11, and FY12 and the reduction in the available Homestead Tax Credit (HSTC), real property taxable assessments grew 5.7 percent in FY10 and 0.4 percent in FY11, then declined 3.3 percent in FY12. Due to a decline in business investment in personal property between FY03 and FY12, attributed to an adjustment by the SDAT to assessments of individual personal property, the personal property base decreased at an average annual rate of 1.4 percent during the ten-year period (from FY03 to FY12).

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Table 18

Assessed Value of All Taxable Property by Class and Fiscal Year

Fiscal Year	Real Property	Personal Property	Total Assessed Value	Percent Change From Prior Year	Ratio of Assessment to Full Market Value
2012	$162,197,149,758	$3,718,945,710	$165,916,095,468	-3.34%	93.05%
2011	167,790,792,529	3,856,191,952	171,646,984,481	0.25	88.63
2010	167,096,843,537	4,123,996,612	171,220,840,149	5.66	95.51
2009	158,133,491,472	3,920,171,020	162,053,662,492	10.79	96.48
2008	142,306,435,593	3,970,547,370	146,276,982,963	12.82	98.05

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

Tax-exempt properties are excluded from the above figures. In FY12, such exemptions for real property owned by Federal, State, County, and other governmental units, and certain non-profit organizations totaled $18.9 billion at the beginning of the fiscal year based on data from the State Department of Assessments and Taxation. Tax-exempt real property constitutes 10.3 percent of the total assessable base. The SDAT grants exemptions from property taxes, pursuant to State law. The ratio of total assessed value to total full market value is based on studies conducted by the SDAT.

Table 19
Tax Levies and Revenue

Fiscal Year	General County Tax Levy (including Education)	Revenue From Current Year Assessment	Ratio of Current Yr Revenue to Tax Levy	Revenue From Prior Year Assessment	Total Revenue	Ratio Of Total Revenue to Tax Levy	Accumulated Delinquent Taxes	Ratio of Accumulated Delinquent Taxes to Current Year Tax Levy
2012	$1,089,656,756	$1,068,630,086	98.07%	($26,293,427)	$1,042,336,659	95.66%	$16,292,469	1.50%
2011	1,104,184,153	1,088,633,177	98.59	(25,571,510)	1,063,061,667	96.28	15,259,381	1.38
2010	1,082,224,889	1,064,870,559	98.40	(16,618,444)	1,048,252,115	96.86	24,752,779	2.29
2009	1,003,679,078	984,378,292	98.08	(20,121,191)	964,257,101	96.07	20,570,727	2.05
2008	848,638,685	822,982,107	96.98	(22,930,874)	800,051,233	94.27	12,156,570	1.43

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Table 20
Tax Rates and Tax Levies, by Purpose

Fiscal	General County (including Education)		Transit		State		Total	
Year	Rate	Levy	Rate	Levy	Rate	Levy	Rate	Levy
2012	$0.713	$1,089,656,756	$0.038	$57,868,221	$0.112	$182,298,673	$0.863	$ 1,329,823,650
2011	0.699	1,104,184,153	0.037	58,220,069	0.112	188,764,480	0.848	1,351,168,702
2010	0.683	1,082,224,889	0.037	58,460,427	0.112	187,999,760	0.832	1,328,685,076
2009	0.661	1,003,679,078	0.040	60,562,706	0.112	177,929,853	0.813	1,242,171,637
2008	0.627	848,638,685	0.058	78,263,664	0.112	160,027,167	0.797	1,086,929,516
2007	0.624	808,175,965	0.053	68,439,347	0.112	141,503,123	0.789	1,018,118,435

Note: Rates are per $100 of assessed value. Tax rates shown are for real property only, and tax levies are based upon a 100% of full cash value assessment. The personal property rate for General County was 1.783 in FY2012, $1.747 in FY2011, $1.707 in FY2010, $1.652 in FY09, $1.567 in FY08, and $1.560 in FY07; the personal property rate for Transit was .095 in FY12, $0.092 in FY11, $0.092 in FY10, $0.100 in FY09, $0.145 in FY08, and $0.133 in FY07(the State does not tax personal property).

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Table 21
Ten Highest Commercial Property Taxpayers' Assessable Base
As of June 30, 2012

Taxpayer	Total	Real Property	Personal Property	Ratio: Taxpayer Base to Total Assessable Base
Potomac Electric Power Co	$751,658,563	$24,481,033	$727,177,530	0.45%
Verizon – Maryland Inc.	572,981,617	38,155,367	534,826,250	0.35
Montgomery Mall, LLC	293,001,260	292,319,100	682,160	0.18
Washington Gas Light Co.	263,742,870	-	263,742,870	0.16
Medimmune Inc.	223,005,690	202,991,600	20,014,090	0.13
Chevy Chase Land Co.	207,018,567	207,018,567	--	0.12
Camalier, Anne D. et al, Trustee	205,657,500	205,657,500	--	0.12
7501 Wisconsin Avenue LLC	200,032,490	200,000,000	32,490	0.12
Federal Realty Investment Trust	196,688,020	194,431,300	2,256,720	0.12
Wheaton Plaza Reg Shopping Ctr.	175,771,910	175,141,900	630,010	0.11
Total	$3,089,558,487	$1,540,196,367	$1,549,362,120	1.86%
Assessable Base (June 30, 2012)	$165,916,095,468			

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

Impact Tax

Development is occurring throughout Montgomery County, placing great demands on the County to provide for transportation improvements, public schools and other public facilities. Effective March 1, 2004, and pursuant to Articles VII and XII of Chapter 52 of the Montgomery County Code ("Development Impact Tax for Transportation Improvements," and "Development Impact Tax for Public School Improvements," respectively), most new residential development within Montgomery County is required to pay impact taxes. These impact taxes are a means of transferring a share of the costs of additional transportation improvements and additional classrooms in public schools to the new development that is primarily responsible for creating these needs. Prior to Bill 26-11, which became effective December 1, 2011, the tax was imposed prior to the issuance of a building permit. Under Bill 26-11 the payment of the tax is now due at the earlier of (A) the final inspection by the Department of Permitting Services; or (B1) 6 months for single family residential; or (B2) 12 months for multi-family residential and non-residential.

The original impact tax law was enacted in 1990, and applied to transportation improvements only, and affected two outlying geographic areas of the County: Germantown, in the northern section of the County, and an eastern section of the County. The law was amended in 2001 to add another northern section of the County (Clarksburg), and again in 2002 to extend the impact tax for transportation improvements to the remainder of the County. Amendments in 2004 added the schools impact tax, and 2007 amendments (effective during FY08) substantially increased tax rates, and required the County to increase rates by the rate of construction inflation (for the two previous years) in every odd year, for a two year period. In December 2010 the law exempted properties within the White Flint Sector Plan area from paying impact taxes, and in December 2011 the law changed the timing of the payments (see paragraph above).

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

Table 22
Impact Tax Collections

Fiscal Year	Transportation Impact Tax	Schools Impact Tax
2012	$6,352,401	$16,462,394
2011	6,191,216	14,480,846
2010	3,812,000	11,473,000
2009	2,398,000	7,925,000
2008	9,744,000	6,767,000
2007	11,501,000	9,563,000
2006	6,252,000	6,960,000
2005	8,471,000	7,695,000
2004 (1)	5,245,000	435,000
2003 (2)	1,790,000	--

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

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DEMOGRAPHIC INFORMATION

Population

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

Table 23
Households and Population

	Households	Population	Population Percent Change from Prior Census
2015 (est.)	376,500	1,015,400	4.5%
2012 (est.)	363,722	989,540	1.8
2011	359,000	989,794	1.9
2010 (U.S. Census)	357,086	971,777	10.6
2009	345,301	959,013	9.1
2008	341,812	942,748	7.3
2007	343,540	931,694	6.0
2006	341,438	926,492	5.4
2005	339,628	921,531	4.9
2004	337,838	914,991	4.1
2003	336,613	910,498	3.6
2002	334,500	903,140	2.8
2001	329,000	891,764	1.5
2000 (U.S. Census)	324,565	878,683	15.7
1990 (U.S. Census)	283,400	759,600	31.2
1980 (U.S. Census)	207,195	579,053	--

Note: Data for total population for 2001 to 2009 from the Bureau of Economic Analysis, U.S. Department of Commerce. Data for 2010 from the U.S. Census Bureau, and data for 2011 and 2012 interpolated from the Metropolitan Washington Council of Governments (MWCOG), Round 8.1 Cooperative Estimates (Final for Round 8.1) and population estimate for 2015 from Metropolitan Washington Council of Government (MWCOG), Round 8.1. Data for households for 2001 and 2002 from *Sales and Marketing Management* issues of "Survey of Buying Power." Data for households in 2003 to 2004 from the American Community Survey, U.S. Census Bureau, and household data for 2005 through 2015 derived from the Demographic Forecast Model from MWCOG (Final for Round 8.1) and Montgomery County Department of Finance.

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Table 24
Median Age

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

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

Employment

The County's economic structure reveals a diversified economy with a strong service sector. The total private sector (trade, information services, financial activities, professional services, education and health, and hospitality) employed 80.8 percent of the total workforce in 2011, the latest available annual data. The following tables present the County's employment by industrial sector.

Table 25
Payroll Employment

	2000	2010	2011
TOTAL PRIVATE SECTOR	365,022	358,172	361,688
PUBLIC SECTOR EMPLOYMENT:			
Federal	39,615	45,072	46,460
State	1,100	1,199	1,186
Local	33,084	37,140	38,450
TOTAL PUBLIC SECTOR	73,799	83,411	86,096
GRAND TOTAL	438,821	441,583	447,784

Notes: The following groups are excluded from the payroll count: Federal military, self-employed, railroad workers, and domestic employees.
Payroll employment represents the total number of jobs covered by the Maryland Unemployment Insurance Program.

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

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Table 26
Payroll Employment Shares by Industry

.	2000	2010	2011
TOTAL PRIVATE SECTOR	83.2%	81.1%	80.8%
PUBLIC SECTOR EMPLOYMENT:			
Federal	9.0	10.2	10.4
State	0.3	0.3	0.3
Local	7.5	8.4	8.5
TOTAL PUBLIC SECTOR	16.8	18.9	19.2
GRAND TOTAL	100.0%	100.0%	100.0%

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

Due to reclassification by the Bureau of Labor Statistics, U.S. Department of Commerce, of private-sector industrial categories from the U.S. Standard Industrial Classification (SIC) system to the North American Industrial Classification System (NAICS) beginning with the 2001 employment statistics, there is no longer a historical comparison available within the private sector employment categories for years prior to 2001. Table 27 provides a comparison of the payroll employment data for 2010 and 2011 based on the new classification system which shows that, with the exception of natural resources and mining, manufacturing, information, financial activities, and state government; the County gained employment in 2011.

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Table 27
Payroll Employment
(NAICS Series)*

	2010	2011	Difference	Percent Change
TOTAL PRIVATE SECTOR	358,172	361,688	3,516	1.0%
GOODS-PRODUCING	35,443	35,832	389	1.1%
Natural Resources and Mining	796	620	(176)	-22.1%
Construction	22,291	23,425	1,134	5.1%
Manufacturing	12,356	11,787	(1,075)	-4.6%
SERVICE PROVIDING	322,729	325,856	3,127	1.0%
Trade, Transportation, and Utilities	57,287	57,440	153	0.3%
Information	12,818	12,634	(184)	-1.4%
Financial Activities	30,830	30,474	(356)	-1.2%
Professional and Business Services	100,075	101,751	1,676	1.7%
Education and Health Services	63,188	64,234	1,046	1.7%
Leisure and Hospitality	36,894	37,523	629	1.7%
Other Services	21,637	21,800	163	0.8%
UNCLASSIFIED	0	0	0	--
PUBLIC SECTOR EMPLOYMENT	83,411	86,096	2,685	3.2%
Federal Government	45,072	46,460	1,388	3.1%
State Government	1,199	1,186	(13)	-1.1%
Local Government	37,140	38,450	1,310	3.5%
GRAND TOTAL	441,583	447,784	6,201	1.4%

* North American Industrial Classification System.

During first ten months of 2012 the County's unemployment rate averaged 5.0 percent. The following table presents the County's labor force, employment and unemployment for the calendar years 2000 through 2011, and annualized data based on the first ten months of 2012.

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

	Labor Force	Employment	Unemployment	Unemployment
2012**	529,900	503,650	26,250	5.0%
2011*	525,157	498,057	27,100	5.2%
2010*	522,913	492,574	30,339	5.8%
2009*	521,429	492,034	29,395	5.6%
2008*	519,957	503,399	16,558	3.2%
2007*	512,934	499,536	13,398	2.6%
2006	518,142	503,476	14,666	2.8%
2005	508,251	492,431	15,820	3.1%
2004	497,204	481,248	15,956	3.2%
2003	496,223	479,675	16,548	3.3%
2002	496,101	478,782	17,319	3.5%
2001	490,213	475,049	15,164	3.1%
2000	489,050	476,197	12,853	2.6%

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

* Data for 2007 through 2011 were revised by DLLR and BLS to incorporate intercensal population controls for 2000 and 2010.
** Based on the rate of change in the averages of the first ten months of 2011 and 2012.

Federal Government Employment

The County is home to 18 Federal agencies in which nearly 55,000 civilians are employed, including a significant number of non-Federal employees working as consultants or researchers. The National Institutes of Health in Bethesda (part of the Department of Health and Human Services) is one of the nation's premier centers of medical research. The following is a partial list of Federal agencies in the County and their estimated employment in 2012.

Department of Health and Human Services	28,617
National Institutes of Health	
Food and Drug Administration	
Other	
Department of Defense	14,890
Walter Reed National Military Medical Center	
Carderock Naval Surface Warfare Center	
U.S. Army Research Laboratory	
Other	
Department of Commerce	6,600
National Oceanic & Atmospheric Administration	
National Institute of Standards & Technology	
Nuclear Regulatory Commission	3,000
Department of Energy	1,800

Source: M-NCPPC Montgomery County Department of Park and Planning, Research and Technology Center (2008 data), Maryland Department of Business & Economic Development and selected federal agency websites.

Private Sector Employment

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

Name of Firm	Est. No. of Employees
Adventist Healthcare	5,900
Marriott International, Inc. (Headquarters)	5,497
Lockheed Martin	5,200
Verizon	3,571
Giant Food Corporation	3,493
Holy Cross Hospital	2,915
Westat, Inc.	2,311
Government Employee Insurance Company (GEICO)	2,300
MedImmune/Astra Zeneca	2,141
Suburban Hospital	1,680
International Business Machines (IBM)	1,655
Discovery Communications, Inc.	1,593

Note: The employee numbers were published in the third quarter of 2012 by the Maryland Department of Business & Economic Development.

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Personal Income

Actual personal income of County residents reached $65.9 billion in calendar year 2010, $69.1 billion in 2011 and an estimated $72.1 billion in 2012. The County's total personal income experienced an increase of 4.8 percent in 2011, less than the nation's increase of 5.2 percent, and lower than the State's rate of 5.0 percent. The County's total personal income increased 4.8 percent in 2011 then an estimated 4.4 percent in 2012, which is slightly greater than the seven-year (2003-2010) annual average growth rate of 4.3 percent.

The County was expected to account for 23.5 percent of the State's personal income in 2012, which is a percentage that has been fairly consistent to the previous ten-year average.

Table 29
Total Personal Income
($ millions)

Calendar Year	Montgomery County	Maryland	U.S.	Montgomery County as Percent of Maryland
2012 (est.)	$72,110	$306,566	$13,289,150	23.5 %
2011	69,050	295,236	12,949,905	23.4
2010	65,904	281,305	12,308,496	23.4
2009	62,963	271,729	11,852,715	23.2
2008	65,846	277,793	12,451,660	23.7
2007	62,644	264,798	11,900,562	23.7
2006	60,372	252,431	11,256,516	23.9
2005	55,846	237,146	10,476,669	23.5
2004	52,239	224,646	9,928,790	23.3
2003	48,650	209,701	9,369,072	23.2

Notes: Data for 2008, 2009, 2010, and 2011 from U.S. Department of Commerce, Bureau of Economic Analysis, revised November 26, 2012 (County, State, and U.S.).
Personal income estimates for Montgomery County (2012) by Montgomery County Department of Finance, November 2012. Personal income estimates for Maryland (2012) by State of Maryland, Board of Revenue Estimates, and the United States (2012) by the Montgomery Department of Finance based on 2011-2012 quarterly data to date.

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Average Household and Per Capita Personal Income

The County's total personal income reached $69.1 billion in calendar year 2011, up from $65.9 billion in 2010, while per capita income reached $69,762 in 2011, up from $67,564 in 2010. Average household income increased from $184,562 in 2010 to $192,340 in 2011.

Table 30
Per Capita and Average Household Income, 2011

County	Per Capita Income	County	Average Household Income
Marin, CA	$85,761	Fairfield, CT	$218,845
Arlington, VA	82,491	Marin, CA	212,693
Fairfield, CT	78,504	Westchester, NY	209,620
Westchester. NY	75,855	Somerset, NJ	207,443
Somerset, NJ	73,011	Douglas, CO	207,145
Morris, NJ	71,730	Nassau, NY	205,542
Douglas, CO	71,463	Fairfax, VA	203,315
Montgomery, MD	**69,762**	Morris, NJ	197,707
San Mateo, CA	69,577	San Mateo, CA	197,318
Fairfax, VA	69,008	Arlington, VA	192,765
Nassau, NY	67,776	**Montgomery, MD**	**192,340**
Norfolk, MA	66,806	Howard, MD	187,695
Howard, MD	66,300	Loudoun, VA	186,714
Bergen, NJ	66,096	Santa Clara, CA	186,575
Montgomery, PA	64,718	Bergen, NJ	180,783
Middlesex, MA	62,324	Norfolk, MA	176,300
Santa Clara, CA	61,833	Montgomery, PA	169,203
Chester, PA	59,467	Chester, PA	163,985
Collier, FL	59,264	Middlesex, MA	163,885
Monmouth, NJ	58,355	Contra Costa, CA	163,587

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

Source: U.S. Department of Commerce, Bureau of Economic Analysis, "Survey of Current Business", November 26, 2012, for total personal income and per capita data; the Department of Finance used data from the Metropolitan Washington Council of Governments and the U.S. Department of Commerce, Bureau of the Census, *American Community Survey*, for the number of households in each county.

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ECONOMY

Agriculture

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

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

Since its creation in 1980, the 93,000 acre Agricultural Reserve controlled farmland development in the County. There are approximately 70,000 acres of farmland in the Reserve, and another 20,000 acres within the Reserve are publicly owned (parkland) or previously developed land (rural villages). Currently, Montgomery County is ranked second nationally in acres of farmland protected through easements (72,172 acres), and has the highest percentage of land in farms preserved in the nation (94 percent).

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

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

Major capital asset events during the current fiscal year included $2,283,000 in purchased preservation easements on farmland in agricultural zones to preserve farmland not protected by Transferable Development Rights (TDRs) and an additional $2.5 million dollars in pending FY13 easement settlements in association with the County's new Building Lot Termination (BLT) easement program and $1.3 million in association with the County and State Agricultural Easement Programs.

Federal Spending

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

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

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

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

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

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

Note: Due to the cancellation of the consolidated federal funds report, data after 2010 are no longer available**.**

New Construction

Between FY11 and FY12, the number of new construction projects decreased 2.9 percent. At the same time, the value of new construction added to the real property tax base decreased 36.3 percent to $0.586 billion. Over the prior nine-year period (from FY03 to FY11), the number of projects, both residential and non-residential decreased from over 4,062 to 863. However, during that same period, the value of new construction averaged $1.5 billion between FY03 and FY11 and ranging from a high of $1.668 billion in FY05 to a low of $0.920 billion in FY11. The decline in the construction of residential properties beginning in FY08 and ending in FY12 reached its lowest level in ten fiscal years. Because of the depressed housing market beginning in late 2005, the value of new residential construction declined 76.8 percent between the peak in 2007 and 2012.

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

Fiscal Year	Construction Starts	Residential	Apartments	Condominiums	Commercial/ Industrial	All Other	Total
2012	839	$241.5	$39.0	$60.7	$241.3	$3.1	$585.6
2011	863	540.2	20.6	56.6	226.9	75.5	919.8
2010	833	599.4	19.7	180.3	354.7	226.6	1,380.7
2009	738	724.1	5.8	455.4	229.5	0.0	1,414.9
2008	952	882.7	25.8	318.5	256.6	0.0	1,483.6
2007	985	1,040.1	22.0	211.4	312.6	19.5	1,605.6
2006	1,580	978.3	41.2	132.9	384.6	4.8	1,541.8
2005	2,077	874.2	82.5	121.2	588.4	1.7	1,668.0
2004	2,758	892.4	21.0	176.4	559.1	3.0	1,651.9
2003	4,062	1,023.5	49.9	133.2	426.9	1.2	1,634.7
10-Year Summary		$ 7,796.4	$327.5	$1,846.6	$3,580.6	$335.4	$13,886.5
Categories as Percent of Total		56.1%	.4%	13.3%	25.8%	2.4%	100.0%

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

Development Districts

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

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

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

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Economic Development Initiatives

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

Overview of Montgomery County

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

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

Technology Corridors

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

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

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

As the first new hospital in Montgomery County in 35 years, Holy Cross Germantown Hospital will bring much-needed health care services to the most rapidly growing and aging region in the county. The six-story, 237,000 square-foot hospital will offer medical, surgical, obstetric, emergency and psychiatric care when it opens its doors in 2014.

As the anchor tenant of the Montgomery College Science & Technology Park, Holy Cross Germantown will serve as a valuable educational resource for aspiring health care workers.

The proposed project has significant economic impact both directly and through its multiplier effect. It is anticipated that the construction project alone will lead to the creation of 1,100 jobs and ongoing hospital operations will create more than 1,500 permanent jobs. The combined effect of hospital operations, an expanded nursing program, and a fully developed Science & Technology Park could create more than 5,700 jobs.

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

The White Flint Sector Plan, approved in March 2010 continues to move forward. The plan targets future growth along Rockville Pike with development clustered around about 430 acres near the White Flint Metro Station. It will allow replacement of aging low-rise commercial properties in the area with mixed-use buildings as tall as 30 stories. The revitalized new urban neighborhood would include residences, offices, service-oriented businesses, restaurants and entertainment venues. Plans for almost six million square feet of new development were submitted for approval in White Flint. Federal Realty Investment Trust (FRIT) broke ground in July of 2012 on Maryland's first "Fast Track" approved project – Pike & Rose – that will bring transit oriented development (TOD) to the White Flint Area. The plan is to overhaul 3.44 million square feet of mixed-use development for Mid-Pike Plaza, a retail center located at the corner of Rockville Pike and Old Georgetown Road. FRIT's development plan is comprised of 1.14 million square feet of office space, 1,500 dwelling units, a 125-room hotel and 304,200 square feet of retail all less than a quarter mile from the White Flint Metro Station. For its part, the JBG Companies submitted plans for the next phase of development at North Bethesda Market. The plans include over 700,000 square feet of new residential and commercial space. A sketch plan for North Bethesda Gateway proposed 1.7 million square feet, half office and half residential, in the southeast quadrant of Rockville Pike and Nicholson Lane. Both plans received Planning Department approval in early 2012.

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

The U.S. Route 29 Corridor in eastern Montgomery County continues its steady transformation into the County's other major technology and business center, with more than 100 major employers. The $900 million FDA Headquarters Consolidation project is nearing completion, occupying 130 acres of the 660-acre Federal Research Center in White Oak. The new FDA campus will include over 2.1 million square feet of office, lab and support facilities. Currently, about 7,500 employees work at the new campus and 11,000 will work there when it is completed in 2014, contingent on Congressional appropriations.

The consolidation of the Food & Drug Administration provides an opportunity for the County to reexamine its long-term goals and objectives for this area. This planning effort will explore whether a new research and technology node that capitalizes on the growing presence of the FDA, complimented by mixed-use development, is a realistic option for the future of this area. There are approximately 300 acres on two sites adjacent to the FDA – the 115-acre County-owner Site 2 and the 185-acre Percontee property. Potential synergies between these properties and the FDA, as well as with the planned Washington Adventist Hospital are being explored. Adventist HealthCare plans to build a hospital and medical campus on nearly 50 acres along Plum Orchard Drive.

Future specific sites are also being reviewed with an eye towards development, including the National Labor College, several vacant properties on US 29 and the White Oak and Hillandale shopping centers. The need for additional community facilities, recreational opportunities, and pedestrian and bicycle links will be explored as well.

Central Business Districts

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

Downtown Silver Spring

Since 1998, the State and Montgomery County invested a total of approximately $200 million in the redevelopment of downtown Silver Spring. Downtown Silver Spring transformed into a vibrant business, retail and entertainment hub with the American Film Institute (AFI) and Discovery Communications leading the way.

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

The next phase unveiled an array of new restaurants and shops as new sections were completed. The Regal Majestic 20 movie theaters with its 20 screens (one IMAX) and 4,500 seats have, along with the American Film Institute (AFI), made downtown Silver Spring a significant entertainment destination.

Each year the AFI Silver Theatre and Discovery Communications co-sponsor the Silverdocs international documentary film festival, which attracts an estimated 20,000 people. Additionally, downtown Silver Spring has over 190 free diverse and multicultural events per year within the development including festivals, concerts, movies and fashion shows.

United Therapeutics Corporation, an innovative locally grown biotech company, began construction on the third phase of its headquarters/research/laboratory campus in downtown Silver Spring. The third phase includes a seven-story building with an integrated public use space and street-level retail building. The first level is comprised of retail space and the remaining six stories consist of office space supporting activities of the adjacent laboratories. United Therapeutics totals 213,000 square feet on both corners of Spring and Cameron streets in downtown Silver Spring.

United Therapeutics occupied the remaining space in February 2012. This is a massive outgrowth from its 8,000 square foot dwelling on Spring Street just 11 years ago. In May, the company celebrated the opening of their new Unitherium, Bio Walk of Fame and BioWall on Earth Day. The company's newly installed "Connector" – a tubular skywalk connecting the company's two facilities – is the latest, impressive architectural feature complementing the company's landmark campus.

The Paul S. Sarbanes Silver Spring Transit Center is designed for integrated private transit oriented development. The private portion of this transit oriented development, which will be paid for with private funds, is a mixed use project comprised of two residential towers with 450 apartments and condominiums and a 200 room hotel. The private transit oriented development will generate over 4,200 additional daily bus and rail trips for a 7 percent increase in baseline transit ridership at the Transit Center. The $189 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 moving forward.

The Fillmore Silver Spring has been a huge success in the heart of Silver Spring and brings the tradition of the legendary Fillmore Auditorium in San Francisco to the area through a diverse lineup of performers across many genres of music. The 23,000 square foot music venue is the newest addition to a burgeoning arts and entertainment district anchored by the American Film Institute (AFI) and Discovery Communications. The Fillmore's ability to host 2,000 fans will further invigorate Silver Spring's Arts & Entertainment district to make Silver Spring a true entertainment destination. An adaptive reuse of a former J.C. Penny department store, the Fillmore Silver Spring stemmed from a true public-private partnership between the Lee Development Group and Montgomery County. The venue was designed to preserve the historic façade of the old store site which was vacant for 18 years.

The State of Maryland is the first state in the country to sponsor Arts and Entertainment Districts as a way to stimulate the economy and improve quality of life. This designation enables jurisdictions, municipalities, and counties to apply for state designations and offer tax incentives as provided by law. The State of Maryland has redesignated Silver Spring as an Arts & Entertainment District, a designation which will be in effect through November 30, 2021.

The Silver Spring Civic Building and Veterans Plaza added a new dimension to the arts & entertainment economy in the area. The facility has transformed what it means to be in a public space in Silver Spring. During the winter, the ice rink brings this urban space alive. During the remaining months, the space is enjoyed by the community and visitors alike as a gathering place reminiscent of the great urban spaces throughout the world. The County's annual – and regionally renowned – Jazz Festival and Thanksgiving Parade and SilverDocs Film Festival are now augmented with many other events throughout the year.

The 42,000 square foot building with six community use rooms and a 5,200 square foot Great Hall has become the "go-to" venue for fundraisers, celebrations and major civic events as well as private conferences and seminars. The venue is a true economic engine for the nearby retail community. The facility houses the Silver Spring Regional Services Center and the administrative offices of the Round House Theatre Company.

In addition, the facility has a large pedestrian plaza (Veterans Plaza), which includes a pavilion where the Silver Spring Swings summer concert series is held. Veterans Plaza also houses three artistic panels dedicated to Veterans, featuring letters to and from home, created by Toby Mendez Studios who also created the Thurgood Marshall Memorial at the State Capital.

The new Silver Spring Library that is currently under design will be 63,000 square feet, almost four times bigger than the current Silver Spring Library. The Library project will include an Arts Center (Pyramid Atlantic) with a Gallery and Community Arts Store and County Office space. The building is being designed to allow for a station for the Purple Line transit project to be on the site. Parking will be provided in the Wayne Avenue Garage across the street from the Library.

The official ribbon-cutting ceremony for the newly renovated and renamed DoubleTree by Hilton Washington, DC-Silver Spring was celebrated by the County, hotel and community representatives on February 1. The hotel just completed a multi-million dollar renovation completely transforming the 248 guest rooms, more than 20,000 square feet of event space and the hotel's dining outlets and public areas.

In addition to being a destination for work, entertainment, and shopping, downtown Silver Spring is established as a place where people are attracted to live. More than 5,000 units of rental housing provide a solid residential base for downtown Silver Spring.

South Silver Spring has become a prominent residential urban neighborhood with its own major street festival, poised for an increase in supportive retail and cuisine opportunities, and – thanks to Montgomery College – a state-of-the art Cultural Center. The recently opened 1200 East West Hwy Apartments (247 units) occupies one of the last remaining opportunities for development along this major corridor. On the west side of Georgia Avenue, the façade of the historic Dry Cleaning Institute is being preserved as 210 units are under construction.

In the Fenton Village area the challenge continues to be incorporating the proposed developments into the existing fabric of small businesses, restaurants, and service retail. Some of these proposed developments have advanced through the development process and are set to begin construction soon. Among these is the First Baptist Church Redevelopment (corner of Wayne and Fenton), where 220 apartment units and 20,000 square feet of retail will begin construction soon. Across the street (on Bonifant) will be a senior housing development with approximately 110 units. Just south of this area, the Studio Plaza approved major development has applied for the start of phase one, which would bring over 400 apartment units, supportive retail, and a new public plaza. In addition, there are at least four other projects nearby in the approval process.

Back across Georgia Avenue, the plans for the Ripley District are fast becoming a reality. The Solaire Apartments (286 units) recently opened; and the Home Properties development, which will also include retail, is well under construction right across the street.

On the north side of downtown, the Falklands redevelopment – if built out to its full potential – will bring over 1,000 units plus 60,000 square feet of retail. In its near vicinity, Fenwick Station (at the old post office site) is under construction for 310 units.

In the core of downtown, right behind the Civic Building, 222 units are nearly finished. This will be the last piece of the puzzle of the original, formal "redevelopment area" for the core of downtown Silver Spring.

Commercial activity continues at a brisk pace in downtown Silver Spring, as demonstrated when an anchor store went bankrupt nationally (Borders), another major anchor was eager to take its place (H&M.) Vacancies in the area are hard to find, with most spaces turning around very quickly. Peterson Cos., the management/owners of "Downtown" Silver Spring point to their development in Silver Spring as one of their most successful in the region and beyond.

The success of the residential market and growing arts, entertainment, retail, and restaurant options, lays the framework for an active, economically viable downtown Silver Spring that is ready for the rebound in commercial office activity - something that has been lackluster in the recent past due more to the national economic situation than local factors. Not that the area has been stagnant. For example, Radio-One and MedTech have moved into the area, highlighting not only the arts and entertainment opportunities, but the medical and educational opportunities provided by Silver Spring's premier location. Also, United Therapeutics continues their headquarters expansion, creating not only a growing employment center, but architecturally significant buildings and public works of art.

In the first decade of this century, approximately $200 million was invested in Silver Spring's downtown redevelopment by the State of Maryland and Montgomery County. The area was designated an Enterprise Zone; a Parking Lot District was created; the Urban District came into its own; and an Arts & Entertainment District was created (and recently re-designated.) These incentives and programs were instrumental in creating the Silver Spring of today.

Public investment continues. The Transit Station is scheduled to open sometime in 2013; a new library will be built within the next three years; and the Purple Line light rail will add new transit options to the region, with two stations in downtown Silver Spring – and nine in the Silver Spring Regional Area.

Wheaton

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

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

In May 2012, the County approved a $66.2 million budget for facility planning of a multi-user government office facility to include a new headquarters for the Maryland-National Capital Park & Planning Commission, street-level retail uses, structured underground parking, and a town square on the site of County Parking Lot 13. The site is situated in Wheaton's downtown core, directly across the street from the WMATA Red Line subway station and bus depot. The budget also allocates funding to assess the economic feasibility of air-rights development above the subway station and bus depot.

The Wheaton CBD and Vicinity Sector Plan, which was approved by the County Council in November 2011 promotes transit-oriented, "smart growth" development in downtown Wheaton. Such development will enhance Wheaton's strong retail base, which includes a newly renovated Westfield Wheaton regional shopping mall and over 300 locally owned and operated small businesses, including more than 80 restaurants. Westfield is currently constructing a 232,000 square foot addition to the mall that will house a 148,000 square foot Costco Wholesale and an additional 80,000 square feet of national and regional retailers.

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Capitalizing on Wheaton's retail strength, the County seeks to enhance Wheaton's urban character and improve it further by attracting more arts/entertainment-related entities, and encouraging more mixed-use development. It will continue to use its designations as both an Enterprise Zone and an Arts and Entertainment District to move this type of development forward.

Patriot Realty Co., Foulger-Pratt Construction and Safeway, Inc. are currently constructing an 800,000 square foot mixed-use residential/retail project – The Exchange at Wheaton Station – directly across from the WMATA Red Line subway station. The 17-story building will contain a 58,000 square foot, street level Safeway Supermarket and 486 residential units. Structured parking will provide 140 parking spaces for Safeway customers and 432 residential parking spaces. The grocery store is anticipated to open summer 2013 with residential leasing in early fall 2013.

Approximately 200 feet south of the Exchange project, Lowe Enterprises Real Estate Group has received Planning Board approval for the conversion of an existing 5-story office building into a 12-story mixed-use residential/commercial building containing up to 194 residential units and street-level commercial space. Construction is anticipated to begin in February 2013. One block south of Lowe Enterprise's project, Washington Property Co. is currently constructing Allaire Wheaton, a six-story, 221-unit residential apartment complex, adjacent to Westfield II Wheaton Mall and one block south of the subway station and bus depot. The project is on track to be completed by March 2014. Centex Homes is in the final phase of its residential project "Leesborough." The project, approximately one-half mile due north of the Wheaton subway station, is comprised of 143 townhomes, 45 condominiums and 6 single-family homes. The single-family homes are currently under construction. All other units have been built and sold.

Bethesda

Downtown Bethesda is one of the County's major urban business and entertainment centers, with nearly 200 restaurants along with the density of both high-rise office and residential buildings. Downtown Bethesda is a thriving, destination offering residents, visitors and its workforce multi-cultural dining, live theater, cinema, unique shops and numerous special events and festivals. Residents and visitors alike continue to enjoy the artistic and enriching performances provided at the Bethesda Round House Theatre, Imagination Stage, and Bethesda Row Landmark Theatre. These marquee entertainment organizations highlight classical plays, children's theatre, and independent and foreign films.

Bethesda has a workforce of nearly 44,000 and includes employees who work for some of the region's most notable employers, including Capital One (formerly Chevy Chase Bank), Clark Construction Group, Development Alternatives and American Capital Strategies.

The Hilton Garden Inn, Bethesda opened its doors in January 2010. This hotel created 216 additional guestrooms to serve the National Institutes of Health, National Military Medical Center, and the Bethesda community. The hotel is part of the Air Rights Center, a 700,000 square foot office and retail located on Wisconsin Avenue in the heart of Bethesda. The Air Rights Center has approval to add another 150,000 square feet of office space.

Akridge Development has completed renovation of 7550 Wisconsin Avenue, a formerly vacant 10-story Federal building, into a 120,000 square foot commercial office building. The project, which is targeting LEED Gold certification, will begin leasing in late 2012.

Carr Properties acquired the contract and development rights for 4500 East West Highway, a 223,000 square foot trophy office project located in the CBD of Bethesda. Carr broke ground in November and construction was slated to start in December. Delivery is expected to begin in 2013. The project is the first trophy quality ground up office development in the Bethesda market in over ten years. 4500 East Way will be designed to achieve LEED Gold certification.

In the popular Bethesda Row section of downtown Bethesda, StonebridgeCarras has broken ground on the redevelopment of County Parking Lot 31. The development, which will add 250 residential units in two buildings and a new 940-space underground County parking garage, is a joint venture with PN Hoffman. Across the street from Lot 31, JBG has plans to break ground on a 230-room boutique hotel, 25,000 square feet of shops and cafes, and nearly 270,000 square feet of office space within the next 18-24 months.

A block south at 7001 Arlington Road, Associated Estates Realty Corporation recently acquired the former Bethesda Post Office site and has approval to build 145 dwelling units and 7,000 square feet of street level retail. Residential development is also booming in the Woodmont Triangle section of downtown Bethesda, where several developments are poised to add more than 1,200 new housing units and 360,000 square feet of commercial space in the next two to five years.

Bainbridge Bethesda began construction at 4918 St. Elmo Avenue in October 2011. Built by the Bainbridge Development, Bainbridge Bethesda is a 17-store, mixed-use project with 200 dwelling units (including 30 moderately priced dwelling units) and 7,200 square feet of retail space and four levels of underground parking. The entire project plans to seek LEED Silver certification.

In 2012, Donohoe Development broke ground on the first phase of the Gallery of Bethesda at Auburn and Del Ray Avenues. The Gallery of Bethesda will include two 17 and 16 story high-rise apartment buildings with a total of 456 apartments. Donohoe Development also plans to construct 90,000 square feet of office space at Battery Lane and Wisconsin Avenue.

StonebridgeCarras is preparing to break ground at 8300 Wisconsin Avenue early in 2013. This former hotel property will be transformed into 360 high-rise residential units and a 55,000 square foot grocery store.

At 4900 Fairmont, JBG has received approval to build a 17-story, 250 unit residential high-rise building with 7,000 square feet of street-level retail.

At Wisconsin Avenue, just south of Norfolk Avenue, Bernstein Management has received preliminary approval for 466,000 square feet redevelopment that will include a full-service hotel, office and retail. The National Capital Planning Commission has approved final details of the first phase of a $300 million intelligence campus being developed at the former National Geospatial-Intelligence Agency headquarters in Bethesda.

The Army Corps of Engineers is working with the Defense Intelligence Agency on the large-scale $300 million, 40-acre overhaul, which will be developed in two phases. Work is now underway for the northern 12 acres, to be followed by a second phase which still needs to be approved by the planning commission. The Army Corps expects to start renovating the southern portion of the campus in spring 2013. When complete, the site will be home to roughly 3,000 employees from the federal government's intelligence gathering agencies, including the Office of the Director of National Intelligence. As proposed, the military wants to keep all but one of the five buildings at the site, which now has about 700,000 square feet. In addition, it plans to add 170,000 square feet and create connections so the complex would be turned into one large facility rather than a cluster of separate buildings.

Friendship Heights

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

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

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The second and third components of Chevy Chase Center consist of 100,000 square feet of neighborhood-oriented retail, and a 200,000 square foot office tower, which was originally leased in its entirety by The Mills Corporation in 2006. Mills subsequently filed for bankruptcy and put the entire building on the market for sublease, and the space was immediately backfilled by such tenants as New Enterprise Associates, Columbia Partners and The Travel Channel. The final project completed in 2009 in Friendship Heights is Wisconsin Place, a one million square foot mixed-used development on Wisconsin Avenue. Wisconsin Place consists of 305,000 square feet of retail (Bloomingdale's and Whole Foods are the anchor tenants), 432 luxury apartments, 295,000 square feet of office space, a 20,500 square foot community center and a 1,765 space underground parking garage. Wisconsin Place is also home to the mid-Atlantic offices for Microsoft.

Wisconsin Place accounts for a significant portion of the development allowed in Friendship Heights under the Friendship Heights Sector Plan. The Plan originally allowed for a total of over 1.4 million additional square feet of office and retail space, and an estimated 635 dwelling units. One of the first major projects constructed in this plan was the Chase Tower, a 240,000 square foot retail and office building delivered in November 2001. This luxury Class A tower is now home to the corporate headquarters for Ritz Carlton. Other tenants include Capital Trust and the JBG Companies.

Existing Office/R&D/Commercial Space

As of October 2012, Montgomery County has over 143 million square feet of commercial real estate space (office, flex, R&D, industrial and retail).

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

Table 33
Office/Flex/Industrial/Retail Space Availability by Major Submarkets
As of October 2012

Montgomery County Market	Total Inventory (Square Feet)	Direct Vacant (Square Feet)	Direct Vacancy Rate	Vacancy Rate w/ Sublet
Bethesda/Chevy Chase	16,898,482	1,192,397	8.0%	7.0%
Gaithersburg	22,578,454	1,742,611	8.0	8.0
Germantown	7,732,660	554,829	7.0	7.0
Kensington/Wheaton	7,349,175	636,032	9.0	9.0
North Bethesda/Potomac	17,221,446	1,956,503	11.0	11.0
North Rockville	22,663,584	2,367,648	12.0	10.0
North Silver Spring/Rt 29	9,545,731	698,490	8.0	7.0
Rockville	18,730,157	1,969,924	11.0	11.0
Silver Spring	13,639,668	994,246	8.0	7.0
Total County	274,806,035	12,112,680	9.1	8.5%

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

Office/Industrial Projects

Summary

A few large commercial projects continued in Montgomery County in 2012. Construction began for the new headquarters of the Nuclear Regulatory Commission in Bethesda and the NIH's National Institute of Allergy and Infectious Diseases (NIAID). Additionally, Montgomery County continued to make significant progress developing two strategic Science and Technology Centers. Details on these projects appear below.

Developers and local government officials broke ground on the Crown project in October 2012. The 182-acre tract is now the construction site for 320,000 square feet of retail and commercial space, plus 2,250 residential units, to be built by Buzzuto Group and called "Cadence at Crown."

JBG won the retail rights and restaurants and shops will include Harris Teeter, La Madeleine, Asia Nine and Roti Mediterranean Grill.

Public/Private Projects

East County Center for Science and Technology (ECCST)

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

Montgomery College-Germantown Science and Technology Park

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

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Montgomery County Business Innovation Network

The Montgomery County Business Innovation Network is a program of business incubator facilities that has successfully assisted start-up technology and professional services companies to grow and expand in the County. The Maryland Technology Development Center (MTDC), opened its doors in 1998 and was renamed the Shady Grove Innovation Center in September 2009. In August 2012, it was renamed the William E. Hanna, Jr. Innovation Center at Shady Grove to honor the pioneering contributions made by William Hanna which led directly to Montgomery County's preeminent position as one of the world's leading biotechnology centers. To date, nearly 137 companies graduated from the County's incubators. The County opened a second incubator in 2004, called the Silver Spring Innovation Center (SSIC). The SSIC is nearly fully leased to start-up information technology facilities. The success of and demand for the incubator program spurred the County to develop three additional incubators since the opening of the SSIC. The Wheaton Business Innovation Center (WBIC) opened in 2006, and the Rockville Innovation Center (RIC) opened in 2007. The latest addition to the incubator program is the Germantown Innovation Center (GIC), which opened in October 2008.

Commercial Projects Continuing in 2013

National Institute of Allergy and Infectious Diseases (NIAID)

The National Institute of Allergy and Infectious Diseases will bring a projected 2,000 workers to a new 491,000-square-foot building on Fishers Lane in Twinbrook, under a lease signed by the U.S. General Services Administration. Chevy Chase-based JBG Companies will construct and lease the 10-story office at 5601 Fishers Lane, near where NIAID already has 150,000 square feet of laboratory space. There is also a 5-story, concrete parking garage located adjacent to the building. NIAID signed a 15-year lease for its new quarters, which are expected to be completed in 2014.

Construction is set to begin by the end of 2012 on a new mixed-use development project in Rockville Town Center. The $100 million development will include about 40,000 square feet of retail space, 465 apartments, a 140-room Cambria Suites Hotel and 1,000 parking spaces. The project is expected to generate $10.18 million in revenue for the county and nearly $3.8 million for the city during the next 15 years. The property is across the street from construction on Choice Hotels International's new headquarters thus realizing the long-time vision for the headquarters and the flagship hotel brand to be located in close proximity.

New Business Additions and Expansions

Montgomery County's Department of Economic Development worked extensively with 29 companies during calendar year 2012 that were interested in starting up, expanding, or relocating to the County. The companies that signed commitments to locate or expand in the County during the time frame are projected to retain and create approximately 5,000 jobs, lease or construct over 600,000 square feet of office space, and generate over $642 million in capital investment over the next five years.

Highlights of this activity include:

- **COSTCO Corporation** – COSTCO has built a new 145,000 square feet store in the Wheaton Mall. The project will create 475 jobs.

- **Kohl's Corporation** – recently opened a new store in the Aspen Hill area and projects 1,125 new jobs.

- **Tasly Pharmaceuticals** – Chinese biopharmaceutical company established a US presence of 24,757 square feet in Rockville. The attraction is estimated to create new 25 new jobs

- **Notable Solutions** – has relocated to Gaither Road and expanded by 7,000 square feet. The expansion also included the addition of 25 new jobs.

- **Novavax** – expanded by 2,000 square feet in a new location, estimated to add 25 new jobs.

- **Wedding Wire** – due to rapid growth the company consolidated into a larger space within the County in which it invested over $500 million dollars; added over 25,000 square feet of leased space and is expected to create 45 new jobs.

- **Discovery Communications –** close to 1,500 jobs were retained after Discovery Communications decided to remain in the County and take advantage of the enhanced tax credit

- **Hughes Communications –** remained in the County after the acquisition by EchoStar; retention of 1,300 jobs.

- **Bethesda Blues and Jazz Theatre –** Bethesda Blues LLC acquired the art-deco theatre, which was built in 1938 and renovated in 2007. The new venue feature 300 seats for dinners, 200 additional performance seats and a new 40ft bar and lounge.

- **Meso Scale Diagnostics, LLC (MSD) –** signed a 15 year lease for just over 104,000 square feet of space at 1701 Research Boulevard in Rockville. The lease follows MSD's recent purchase of the entire 180,000 square foot building at 1601 Research Boulevard also in Rockville which the company will soon occupy.

- **ICF International** – ICF signed a lease for 97,910 square feet at Redland Corporate Center II in Rockville and will add about 100 new jobs.

Retail Sales

Retail sales, as measured by sales tax data collected for the first nine months of calendar year (CY) 2012, increased 3.5 percent in Montgomery County compared to 4.4 percent for Maryland based on data adjusted for the rate increase. Compared to the prior full year, retail sales in the County increased 4.4 percent in CY11.

Retail sales in Montgomery County during the first nine months of CY12 experienced improvement over the same period in CY11. Sales of nondurable goods as measured by purchases of food and beverages (7.9%), apparel (2.9%), general merchandise (5.6%), automotive (0.7%), building and industrial supplies (2.2%), utilities and transportation (1.9%), and hardware, machinery, and equipment (10.6%) all increased in CY11 over the same period in CY11. Sales of furniture and appliances declined 0.3 percent and miscellaneous decreased 3.5 percent in CY12.

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Table 34
Sales & Use Tax Receipts
by Principal Business Activity

	2010		2011		Montgomery County Jan.-Sept. 2012		Maryland Jan.-Sept. 2012	
	Pct. Chg.	Share of Total	Pct. Chg.	Share of Total	Pct. Chg.(1)	Share of Total	Pct. Chg.(1)	Share of Total
Food and Beverages	5.6%	29.3%	9.3	29.4%	7.9%	32.0%	10.0%	25.2%
Apparel	-1.8	6.3	3.5	6.3	2.9	6.0	5.0	4.5
General Merchandise	-6.9	16.6	0.5	16.6	5.6	15.6	3.9	17.1
Automotive	18.3	9.3	0.6	9.3	0.7	9.1	0.8	6.6
Furniture & Appliances	5.8	6.0	8.3	6.0	-0.3	6.1	-1.5	7.9
Building & Industrial Supplies	8.0	8.6	-0.5	8.6	2.2	8.5	4.5	12.2
Utilities & Transportation	-17.8	7.6	15.0	7.6	1.9	8.2	-2.5	8.6
Hardware, Machinery & Equipment	-4.4	1.3	13.2	1.2	10.6	1.5	2.8	2.5
Miscellaneous	5.7	14.7	-3.5	14.7	-3.5	12.7	4.6	14.9
Other	54.3	0.3	28.0	0.3	9.5	0.3	39.0	0.5
Total Retail Sales Tax	1.4%	100.0%	4.4%	100.0%	3.5%	100.0%	4.4%	100.0%

(1) Percent change between the period January through September 2011 and January through September 2012.
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 Montgomery Shopping Mall in Bethesda, Westfield Wheaton Shopping Mall in Silver Spring, and White Flint Mall in North Bethesda.

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

Westfield Montgomery Shopping Mall opened in 1968, and covers 1.6 million square feet of space. It features Nordstrom, Macy's, Macy's Furniture Gallery, Sears Roebuck & Co., 211 other stores, and three parking garages. Expansion plans were approved in 2007 to enlarge the Macy's, move the Sears Automotive Center and add a promenade with shops and restaurants with outdoor seating. The expansion will also include a Montgomery County Transit Center. The plans are currently on hold.

Westfield Wheaton Shopping Mall is located adjacent to the Wheaton Metro Center at the intersection of Georgia Avenue and Veirs Mill Road in the Wheaton Central Business District. This was the County's first shopping mall (opened in 1960) and was enclosed and remodeled in 1987. JC Penney, Macy's, and Target anchor the mall, which includes 195 stores, with an expansion to include Costco coming in 2013.

White Flint Mall, which is located east of Rockville Pike in North Bethesda close to the White Flint Metro Station, opened in 1977 and features three enclosed levels with over 125 stores, and numerous restaurants. The 800,000 square foot mall also features a five-auditorium cinema, and an office center with professional space. In 2012, the Montgomery County Planning Board approved a sketch plan for a new mixed development project on the mall site that will include residential, office, retail and other public uses.

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COUNTY GOVERNMENT SERVICES

Human Resources

The County government employs approximately 8,101full time and 782 part-time employees. Seven thousand and ten (7,010) employees are in bargaining unit positions and represented by one of the three labor organizations that are certified under County law to bargain over the wages, fringe benefits, and working conditions of bargaining unit employees. The table below summarizes the current status of County labor agreements.

Table 35
County Bargaining Units

Bargaining Unit	Number of Employees	Contract Expiration Date
Service, Labor & Trades (MCGEO)	1,346	June 30, 2015
Office, Professional & Technical (MCGEO)	3,468	June 30, 2015
Police officers (FOP)*	1,113	* June 30, 2012
Firefighters/Rescuers (IAFF)	1,083	June 30, 2013

* FOP in current negotiations

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 20,843 full-time equivalent (FTE) employees. This number includes 73 non-represented employees and 20,770 employees in bargaining units. The Board bargains collectively with employees on matters concerning wages, hours and other conditions of employment. There are four bargaining units, which are comprised of teachers, professional/administrative, non-certified supervisors, and support/maintenance employees, as presented in the table below.

Table 36
Board of Education Bargaining Units

Bargaining Unit	Number of FTE Employees	Contract Expiration Date
Teachers & Other Professional (MCEA)	11,922	June 30, 2014
Administrative & Supervisory (MCAAP/MCBOA)	791	June 30, 2014
Support Services (SEIU Local 500)	8,130	June 30, 2014

Arts and Leisure

The Montgomery County Department of Recreation provides a wide range of programs including: aquatics, camps, classes, youth and adult sports, summer fun centers, special events, teen, senior citizen and therapeutic programs. The Department operates 20 community centers that facilitate leisure activity, social interaction, family participation, and neighborhood civic involvement. Its newest community center, the White Oak Community Recreational Center, opened in the summer of 2012. Currently, two of the Department's Community Centers are closed for renovations, Plum Gar, which is scheduled to be completed in the Summer of 2013, and Scotland, scheduled for completion in July 2014. An additional ten program sites serve select senior populations, offering adults aged 55 and above classes, sports and fitness, trips, neighborhood programs, and special programs for frail and isolated seniors. The Department also administers contracted grants for the Takoma Park Community Center, the Arts and Humanities Council and the Public Arts Trust. It also provides specialized recreational programming for at-risk teens, and works cooperatively with the Montgomery County Public Schools to provide a wide range of recreation and leisure opportunities for middle school and high school students throughout the County.

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

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

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

Economic Development

Department of Economic Development

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

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

Economic Development Services and Programs

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

Economic Development Fund and Other Financial Incentives

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

As of January, 2013, 174 offers for grants and loans totaling $70.4 million were accepted under the Economic Development Fund Grant and Loan Program. The economic impact of these transactions is estimated to include: over 38,000 jobs retained, attracted and projected to be created, over $1.79 billion in estimated private investment, and an estimated annual net revenue return of over $39 million.

In addition to the original Economic Development Fund Grant and Loan Program, there are three other financial incentive programs. The Technology Growth Program (TGP) was developed to facilitate the growth of early-stage technology-based companies located or desiring to locate in the County. The TGP is aimed at leveraging private sector financing and State Challenge and Enterprise Investment funds. Since the beginning of the TGP in 1999, 72 companies have received a total of $4.05 million in funding.

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

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

Education

Montgomery County Public Schools (MCPS) is governed by an elected Board of Education comprised of eight members, including one student member. The Board, which was created by State law, appoints the Superintendent and all other employees. The system operates 202 elementary and secondary schools. The operating budget is $2.160 billion for FY13, a 3.5 percent increase from the prior year, and the amended FY13-18 capital improvement budget is $1.341 billion, a decrease of $11.76 million over the previously approved CIP. The emphasis that County residents place on education is reflected in budgeted per pupil operating expenditures of $14,495 in FY13, and in the high percentage of high school graduates who continue formal education. In FY13, projected enrollment is 149,018 students.

Finance

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

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

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

For FY12, the County managed an average of $187.9 million in its pooled consolidated investment portfolio. During FY12 the County earned investment income of $32,325, with an average rate of return of .02%.

Libraries

County public libraries offer free and equal access to services and resources to assist residents in finding ideas and information to sustain and enrich their lives. During FY12, total circulation was 9.4 million. Per capita circulation of ten items is among the highest in Maryland and nationally.

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

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Liquor Control

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

The Department of Liquor Control’s responsibilities include the operation of 23 County retail stores and a warehouse that distributes beverage alcohol to the County stores and to approximately 1,000 licensed establishments (including beer and wine stores, restaurants, country clubs, etc.); inspections of licensed premises, training and education programs and community partnering. The Department is a self-supporting business enterprise with all operating requirements included in the Department’s annual budget. Income in excess of departmental needs is transferred to the County’s General Fund to pay for general governmental services. In the last five fiscal years (FY08 through FY12) the Department transferred over $143.6 million to the General Fund.

Parks

The Maryland-National Capital Park and Planning Commission administers 35,300 acres of parkland in the County. This includes 13 developed and three undeveloped regional and recreational parks, many consisting of over 200 acres, and featuring more than 640 acres of recreational lakes including Lake Frank, Lake Needwood, Little Seneca Lake and Pine Lake. Of the 417 parks in the Montgomery Parks system, 310 smaller park and open space areas serve as local and neighborhood parks. Additionally, Seneca Creek State Park is located in the heart of the County, and Patuxent River State Park is located along the County's northeastern border. The National Park Service provides additional park facilities including the C & O Canal National Historic Park, Great Falls National Park, and Glen Echo Park. Several municipalities within the County, including Rockville, Takoma Park, Kensington, Gaithersburg, Poolesville, and Washington Grove, among others, maintain local parks.

Public Safety

Fire and Rescue Service

The Montgomery County Fire and Rescue Service (MCFRS) is an all-hazard fire and rescue service. MCFRS is one of the largest combination career/volunteer fire and rescue departments in the nation. MCFRS manages all components of the County’s fire suppression, Emergency Medical Services, Emergency Communications, apparatus management, Fire Code Enforcement, Fire/Explosive Investigations, Community Outreach, Wellness, Safety and Training, and administration. MCFRS is comprised of approximately 2,149 personnel, including 1,152 career uniformed employees, 105 civilian employees, 892 call active volunteers and 19 Local Fire and Rescue Departments. MCFRS operates 35 fire and rescue stations and 10 satellite offices.

An extensive Capital Improvements Program (CIP) is in place to ensure that the MCFRS operates and maintains a sufficient complement of facilities to provide response capability and an appropriate level of readiness. In response to increasing calls for service and population growth, MCFRS continues to add stations to serve the UpCounty area. An interim fire station to serve the Clarksburg area was opened in 2005. Construction of the Germantown-Kingsview Station was completed in 2009, and the Germantown-Milestone station was completed in 2010. A fourth UpCounty station in Travilah is currently under construction and is scheduled to open in January 2014. In addition, MCFRS must rebuild or extensively renovate several older stations. The Takoma Park Station was rebuilt in its current location and reopened in October 2010. Also, a replacement station for Wheaton Rescue Squad is under construction near the location of the present station and is slated to open January 2014. Stations in Rockville, Cabin John, and Glen Echo are scheduled to be renovated; an addition to the Kensington Station is scheduled as well. Finally, there are several on-going projects to replace and/or update major building systems (roof, HVAC, fire alarm, generators) at other fire/rescue facilities to ensure that these facilities are properly maintained and meet current building code standards.

Police Department

The Montgomery County Police Department (MCPD) is a highly-trained merit system force of 1,202 sworn officers and 657 civilian staff for a total complement of 1,859 personnel. MCPD operates over 34 facilities, including six district police stations, and is accredited by the Commission for the Accreditation of Law Enforcement Agencies (CALEA).

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

Correction and Rehabilitation

The Department of Correction and Rehabilitation (DOCR) personnel complement includes 517 approved positions consisting of Correctional Officers, program staff, and other professionals who provide progressive and comprehensive correctional services through a wide variety of detention and community supervision programs. The Department operates facilities for incarceration and intensive community re-entry planning: the Montgomery County Detention Center (MCDC), the Montgomery County Correctional Facility (MCCF), and the Pre-Release and Reentry Services (PRRS). In addition, the Pre-Trial Services Unit (PTSU) supervises over 2,200 defendants in the community on a daily basis.

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

Solid Waste Management

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

The County has exceeded the recycling rate of 50% for Fiscal Year 2012. The County Executive approved and the County Council has enacted a regulation which sets a new recycling goal for the County to recycle 70 percent of waste generated by 2020. As of July 1, 2012, the program included County-provided separate curbside collection from 212,302 single- family households of yard trim, glass bottles and jars, metal and plastic containers, and all types of clean, unsoiled paper. Under a contract with the County, the Maryland Environmental Service (MES) constructed and operates two facilities for the processing and marketing of the materials. The first is a 42-acre composting facility located in the northwest part of the County, which processes yard trimming materials collected in conjunction with a ban prohibiting disposal of yard waste.

The second is a Materials Recovery Facility (MRF), located mid-County and capable of processing 100 tons of recyclable containers per eight-hour shift (current operations require only one shift). During FY12, the County collected $3.9 million in MRF material sales revenue that includes $2.3 million in plastics sales revenue and $14,302 in recycled textiles sales revenue, plus $1.6 million in other recycled metal sales revenue. The plastic containers are now sorted by type, baled, and shipped to plastics buyers (previous to FY03, all acceptable plastics were sold mixed yielding less than ideal prices). To assure the processing and marketing of all County residential mixed paper collected, the County utilizes a long-term agreement with Office Paper Systems (OPS), which began in July 2002. The County also enacted mandatory multi-family and commercial recycling regulations, and conducts technical outreach and enforcement in this connection.

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

Transportation

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

Ride-On Bus System

The County Ride-On bus system operates on 76 routes and is designed to complement the service provided by other transit operators in the County. Two of those routes serve one or more of the 12 Metrorail Red Line or MARC Rail Stations in the County. In FY12, approximately 27.2 million passenger trips took place on the County system. The entire fleet consists of 339 buses owned and operated by the County, which travel approximately 14.3 million miles per year.

Parking Districts

There are four parking lot districts in the major urbanized areas of the County. Prior to 1987, general obligation bonds were issued by the County to finance the construction of parking facilities in these areas. In 1987, the County began using parking revenue bonds. A special ad valorem tax is levied on certain commercial and residential property located within each district to pay debt used to finance parking facilities within the district, the maintenance and operation of such facilities, and capital construction projects within each district. Other significant sources of revenue used to finance the parking program are meter collections, fees from off-street lots and parking garages, and parking fines. Since 1987, the County has issued parking revenue bonds in the amount of $125,041,667 for land acquisition, construction, repair and renovation of parking facilities. During FY12, the four districts collectively had in service 20 garages with approximately 16,599 parking spaces, 22 surface lots with 1,581 spaces, and 2,394 on-street metered spaces.

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OTHER SERVICES

Transportation

Airports

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

Ronald Reagan Washington National Airport is located in Arlington County, Virginia, across the Potomac River from Washington, D.C. Reagan National is accessible to Montgomery County by Metrorail. In 2011 the airport served approximately 18.8 million passengers on commercial, general aviation and commuter flights, a 4.0 percent increase from 2010.

Dulles International Airport is located in adjacent Fairfax/Loudoun counties in Virginia and offers commercial, general aviation and commuter service. Dulles served 23.2 million passengers in 2011, a 1.6 percent decrease from 2010. The 16-mile Dulles Access Highway provides two dedicated lanes in each direction and a direct connection to Interstate 66 and the Capital Beltway.

Baltimore-Washington International Thurgood Marshall Airport (BWI) is located in Anne Arundel County, Maryland. Approximately 22.4 million passengers used the airport in 2011, an increase of 2.1% percent over 2010. As part of a recently completed five-year expansion program, BWI added a new terminal facility, parking garages, multiple skywalks, and a new rental car facility.

Metrorail Transit System

Services of the Washington Metropolitan Area Transit Authority (Metro) are the backbone of the County transit system. Providing service to the County are 12 rapid rail stations with 15,559 parking spaces and additional service by 150 Metrobuses. With the opening of the final Metrorail station in the County (Glenmont) in July 1998, the system includes 18.4 miles of rail service operating in the County. Each weekday approximately 160,000 trips are made on Metrorail in Montgomery County.

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

Metrobus

Another significant element in the mass transit system is Metrobus, which carries 15 million passengers annually on major trunk lines such as East-West Highway, Georgia Avenue, Veirs 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.

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Water and Sewer Service

WSSC

Operation and maintenance of the public water and sewer systems in the County (exclusive of those for the City of Rockville and for the Town of Poolesville) are the responsibilities of a State-chartered agency, the Washington Suburban Sanitary Commission (WSSC) that serves both Montgomery and Prince George's Counties. WSSC operates under State law and is governed by a six-member Commission. The county executives of Montgomery County and Prince George's County each appoint three members, subject to confirmation by the respective county councils. The FY13 approved operating budget for WSSC totals $661.7 million; the approved capital budget totals $788.0 million.

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

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

City of Rockville

The City of Rockville operates its own water and wastewater system, which serves approximately 74 percent of the City's residential population. WSSC provides public service for the remainder of the city's population. Rockville's Water Treatment Plant, located on Sandy Landing Road in Potomac, draws raw water from the Potomac River. The plant is currently rated at 8.0 MGD. Rockville has 12 MG of water supply storage in the following tanks: Hunting Hill, Carr Avenue and Talbott Street. Wastewater treatment for Rockville's sewerage system is provided at Blue Plains via WSSC's and DC WASA's transmission facilities. Rockville is allocated 9.31 MGD of treatment capacity of WSSC's 170 MGD capacity at Blue Plains. The approved FY13 Operating Budget for Rockville totals $10.9 million for the water fund and $9.1 million for the sewer fund. The approved FY13 Capital Budget for Rockville totals $13.6 million for the water fund and $14.9 million for the sewer fund.

Rockville initiated water supply system upgrades and rehabilitation projects in FY09 that improve fire flows, water quality, and water production. The Mayor and Council approved a financing plan to fund these programs through user rates, which started with a 25 percent increase in the rate for FY09 and an additional 25 percent rate increase for each of FY10, FY11, and FY12. The City is also undertaking an aggressive preventative maintenance, pipe-lining and dig and replace plan for the sewage collection system that will help prevent blockages and overflows, identify and prioritize capital improvements, and reduce opportunities for infiltration and inflow of rain and ground water into the system. Rockville invested $ 4.4 million in capital projects for the wastewater collection system in FY13.

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Town of Poolesville

The Town of Poolesville also operates its own water and wastewater systems, which serve the majority of the Town. Raw water for the Town's system is supplied by eleven groundwater wells, with an average daily demand of approximately 0.5 MGD. The Town has acquired withdrawal permits for up to 0.65 MGD on an annual daily average. An additional well, for redundancy, is slated to be constructed in 2014. A 500 thousand gallon elevated tank and a one million gallon standpipe serve as storage and fire protection. The Town's Waste Water Treatment Plant is permitted to discharge 0.75 MGD and has completed treatment improvements to meet the Enhanced Nutrient Removal limits of the State. Efforts continue to reduce Inflow and Infiltration to the sewer system through pipe lining and additional repairs. The Town's approved water and sewer operating budget in FY13 is just over $1 million, while the planned CIP budget is $60,500.

Utilities

Potomac Electric Power Company (PEPCO) serves the major portion of the County, with additional service from the Baltimore Gas and Electric Company (BGE), and Allegheny Power Company. Three natural gas transmission pipeline companies (Columbia Gas Transmission, Dominion Transmission, and Transcontinental Gas Pipeline Corporation) traverse the County, supplying it with Appalachian and Southwest natural gas. Washington Gas and Baltimore Gas and Electric distribute this natural gas. There are 122 companies that sell gas in the County, of which only 49 serve residential customers, with 17 seeking new customers as of December 2012.

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

PEPCO took advantage of the Customer Choice and Competition Act regarding the disposition of its generation assets by selling these assets in 2000 to the Mirant Corporation, which now runs the generating units in the Dickerson area of the County. PEPCO continues to own and operate its transmission and distribution system. Baltimore Gas and Electric restructured in 1996 under the name Constellation Energy Group (CEG), with BGE owning and operating the transmission and distribution system and various other CEG entities owning the generation assets. In November 2009 Constellation Energy Group, Baltimore Gas and Electric's parent company, sold nearly half of its interest in CEG's nuclear assets to EDF Group, the largest nuclear power company in the world. Potomac Edison, which does business as Allegheny Power, is the regulated transmission and distribution utility for Allegheny Energy Supply Company, LLC, which owns the company's generation assets. As of December 2012, there were 118 companies licensed as electricity suppliers to Montgomery County residents, but only 42 of them were actively seeking new customers.

Financial Institutions

The State of Maryland is home to 123 FDIC insured financial institutions, which in turn operate 1,752 branch banking locations with an estimated $121 billion in deposits. Montgomery County dominates the majority market share of these deposits with an estimated $31 billion in deposits or 26 percent of the market. The County's financial institutions are comprised of 35 commercial banks, with 317 branch locations and seven savings institutions with 18 branch locations. In addition to these FDIC institutions, the County has 16 national credit unions with an estimated $1.7 billion in share deposits and a membership base of over 192,720.

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Table 37
Summary of Market Share by Location
As of June 30, 2012

City/County	Number of Branch Offices	Deposits	Market Share
Montgomery	317	$31,159,898	26%
Baltimore City	120	25,352,100	21
Baltimore	266	15,800,676	13
Anne Arundel	178	10,162,078	8
Prince George's	172	8,112,942	7
Howard	88	5,081,050	4
Frederick	87	3,885,027	3
Carroll	57	3,186,484	3

Table 38
FDIC Institutions Market Share
Montgomery County
As of June 30, 2012

Institution Name	Number of Branch Offices	Deposits (000)	Market Share
Capital One, N.A.	61	$ 7,782,610	24.98%
Bank of America, N.A.	33	4,845,030	15.55%
SunTrust Bank.	37	4,006,642	12.86%
Wells Fargo Bank , N.A.	16	2,530,472	8.12%
Sandy Spring Bank	21	1,778,111	5.71%
EagleBank	7	1,597,703	5.13%
M & T Trust Company	26	1,406,633	4.51%
Citibank, N.A.	9	1,230,417	3.95%
PNC Bank, N.A.	27	1,226,014	3.93%
BB & T Company	17	900,410	2.89%

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

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Healthcare

There are five accredited hospitals located within the County: Holy Cross Hospital in Silver Spring, Suburban Hospital-Johns Hopkins Medicine in Bethesda, Washington Adventist Hospital in Takoma Park, Shady Grove Adventist Hospital in Gaithersburg, and MedStar Montgomery General Medical Center in Olney. A military hospital, Walter Reed National Military Medical Center (formerly Bethesda Naval Hospital), is located in Bethesda and the National Institutes of Health in Bethesda operates one of the world's foremost centers of medical research. 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; and various hospitals in the District of Columbia and Northern Virginia. In January 2011, Holy Cross Hospital was granted permission by the State of Maryland to build a new hospital in Germantown. Permission was subsequently rescinded, pending the results of an appeal initiated by Adventist HealthCare. The Maryland Health Care Commission re-issued the certificate of need to Holy Cross in May 2012. The new Germantown hospital is expected to open in 2014.

Higher Education

The 2010 Census Update Survey indicated that County residents, on average, are highly educated. County residents 25 years old or over completing four or more years of college was 57.0 percent according with the 2010 Census. Advanced degrees are held by 29.0 percent of the adult population. While high school graduates account for 91.0 percent of the County population aged 25 and over, an increase of .07 percent from 90.3 percent in 2000.

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

Table 39
Post - Secondary Education

College	Student Enrollment
American University, Washington, DC	12,724
Catholic University, Washington, DC	6,838
Hood College, Frederick, MD	2,422
Howard University, Washington, DC	10,583
Johns Hopkins University, Baltimore, MD ***	7,047
Montgomery College, Rockville, MD (2-year)*	25,513**
University of Maryland, College Park, MD	37,248

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

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Travel and Tourism

According to the most recent report released by Tourism Economics, an Oxford Economics Company, the tourism industry in Montgomery County generated $1.6 billion in expenditures in 2011 up from $1.56 billion in 2010, or 3.9%. Local room rental transient tax (7% levied) collections generated $18.0 in FY12, down $0.8 from FY11. The decrease was due to a one year increase in hotel tax collections from hosting the 2011 U.S. Open. Lodging occupancy for the first six months of 2012 is up slightly, average daily rate in the lodging sector was also up slightly. The county welcomed 2.9 million overnight visitors in 2011 and 4.1 million day trip visitors. In FY12, Tourism Sales & Use Tax Codes Revenues grew 4.3% from FY11.

The Conference and Visitors Bureau of Montgomery County, Maryland, Inc. (CVB) is a public-private non-profit membership organization dedicated to the promotion of travel and tourism to the County. The CVB serves as a subcontractor to the Montgomery County Department of Economic Development. On behalf of its membership, the Bureau participates in travel industry trade shows across the country, sponsors familiarization tours for tour operators, travel agents and travel writers, implements a $450,000 print and electronic advertising campaign annually, manages a direct sales initiative for the meetings, group tour and sports markets, implements marketing programs specifically targeting large groups that could meet in the Montgomery County Conference Center, markets all of the County's assets, including the Music Center at Strathmore, The Fillmore and the American Film Institute. The CVB also provides marketing and sales support to the numerous sporting events hosted annually at signature facilities like the Maryland SoccerPlex and Discovery Sports Center, Congressional Country Club, and other Maryland National Capital Park and Planning facilities located in Montgomery County.

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APPENDIX A

BASIC FINANCIAL STATEMENTS

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TABLE OF CONTENTS

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7101 Wisconsin Ave, Suite 800
Bethesda, MD 20814

Independent Auditor's Report

The Honorable County Council
of Montgomery County, Maryland
Rockville, 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, 2012, 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 Housing Opportunities Commission of Montgomery County, Maryland, the Montgomery College, the Montgomery County Revenue Authority, and the Bethesda Urban Partnership, Inc. which represents 100% of the total assets, revenues, and net assets 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, insofar as it relates to the amounts included for those presented component units, is based 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis; and budgetary comparison information for the general, revenue stabilization, housing initiative, and grants funds; and retiree health benefits trust supplement, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BDO USA, LLP

December 21, 2012

Management's Discussion and Analysis

INTRODUCTION

This discussion and analysis (MD&A) is designed to a) assist readers in understanding Montgomery County, Maryland's (the County's) basic financial statements, the relationship of different types of statements, and the significant differences in the information they provide; b) assist the reader in focusing on significant financial issues; c) provide an overview of the County's current financial activity; d) identify changes in the County's financial position, i.e., its ability to address the next and subsequent years' financial needs, based on currently known facts; e) identify any material deviations from the approved budget for the fiscal year, and f) identify individual fund issues or concerns. The MD&A is best understood if read in conjunction with the Transmittal Letter and the County's basic financial statements.

FINANCIAL HIGHLIGHTS

- The government-wide assets of the County exceeded its liabilities at the close of FY12 by $1,322.8 million. That amount is net of a $1,314 million unrestricted deficit. The deficit occurs mainly because the County issues debt to fund construction costs for Montgomery County Public Schools (MCPS) and Montgomery College (MCC), two of its component units, and for Maryland-National Capital Park and Planning Commission (M-NCPPC), a joint venture. Debt outstanding for these entities amounted to $1,399.4 million at June 30, 2012. Absent the effect of this relationship, the County would have reported government-wide unrestricted net assets of $85.4 million.

- The County's total government-wide net assets increased by $116.6 million.

- As of the close of FY12, the County's governmental funds reported combined ending fund balances of $755.7 million, an increase of $238.1 million over the prior year's ending fund balances. Of the total ending fund balances, $186.4 million is available for spending at the County's discretion.

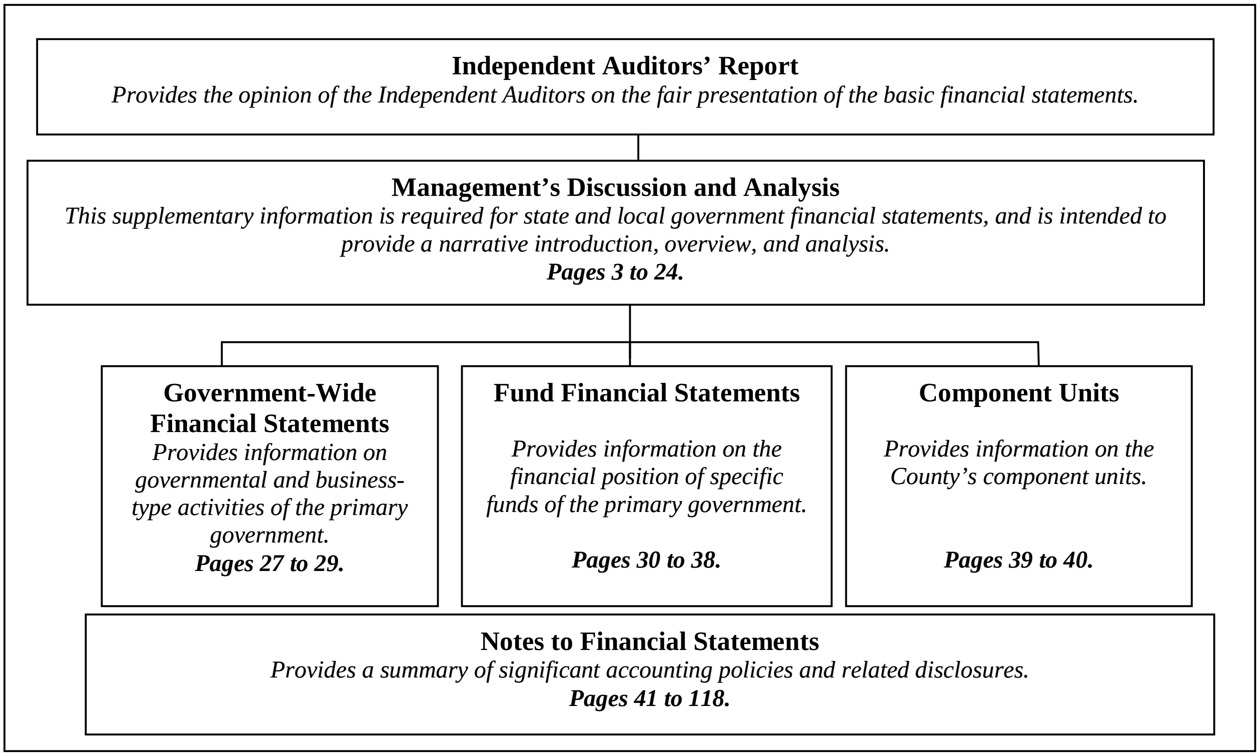
- At the end of FY12, unassigned fund balance for the General Fund was $192.9 million, or 8.1 percent of total General Fund expenditures.

- The County's government-wide long-term debt and obligations increased by $360.0 million during FY12. The key factors in this increase are:
  - The issuance of $557.7 million in general obligation (GO) bonds, used to refund $356 million in bond anticipation notes (BANS), and the issuance of an additional $356.0 million in BANS
  - Net increase in Other Postemployment Benefits obligation of $93.2 million
  - The retirement of $416.0 million in GO bond principal.
  - Lease Revenue Bonds were issued in the amount of $35.5 million for Capital projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Organization and Flow of Financial Section Information



Government-Wide Financial Statements

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

The first government-wide statement - the statement of net assets- presents information on all of the County's assets and liabilities, with the difference between the two 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 second statement-the statement of activities—presents information showing how the County's net assets changed during the fiscal year. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid. The information on governmental activities included in the statement reflect the County's basic services, including general government, public safety, public works and transportation, health and human services, and others. Taxes, including the property and income tax, license and permit fees, intergovernmental revenues, charges for services, fines and forfeitures, and investment income finance the majority of these services. The business-type activities reflect private sector-type operations, including: liquor control, solid waste activities, four parking lot districts, permitting services, and community use of public facilities, where fees for services or products are required or designed to recover the cost of operation, including depreciation.

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

Fund Financial Statements

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

Governmental Funds – Most of the County's basic services are included in governmental funds, which focus on (1) cash and other financial assets that can readily be converted to cash and how they flow in and out, and (2) the balances remaining at year-end that are available for spending. The governmental funds financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, a reconciliation of the fund financial statements to the government-wide financial statements is presented immediately after the fund financial statements. For example, the fund financial statements will reflect bond proceeds and interfund transfers as other financing sources, as well as capital expenditures and bond principal payments as expenditures. The reconciliation will reflect the elimination of these transactions and will incorporate the capital assets and long-term obligations (bonds and others) that are presented in the governmental activities column (in the government-wide statements). The County has six major governmental funds – General, Debt Service, Revenue Stabilization, Housing Initiative, Grants and Capital Projects – and 12 non-major special revenue funds.

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

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

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

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

Statement of Net Assets

The following presents a summary of the Statements of Net Assets for the County as of June 30, 2012 and 2011:

Summary of Net Assets *
June 30, 2012 and 2011

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and other assets	$ 1,535,312,047	$ 1,314,180,976	$211,399,140	$ 132,074,401	$1,746,711,187	$1,446,255,377
Capital assets, net	3,352,484,513	3,205,431,287	254,668,972	248,242,405	3,607,153,485	3,453,673,692
Total Assets	4,887,796,560	4,519,612,263	466,068,112	380,316,806	5,353,864,672	4,899,929,069
Liabilities:						
Long-term liabilities outstanding	3,574,662,183	3,123,642,736	119,427,445	100,892,218	3,694,089,628	3,224,534,954
Other liabilities	295,737,611	434,164,523	41,191,110	34,940,069	336,928,721	469,104,592
Total Liabilities	3,870,399,794	3,557,807,259	160,618,555	135,832,287	4,031,018,349	3,693,639,546
Net assets:						
Invested in capital assets, net of related debt	1,880,813,780	1,923,668,729	185,300,678	173,232,831	2,041,539,458	2,069,882,289
Restricted	502,059,858	426,265,013	93,254,622	52,817,393	595,314,480	479,082,406
Unrestricted (deficit)	(1,365,476,872)	(1,388,128,738)	26,894,257	18,434,295	(1,314,007,615)	(1,342,675,172)
Total Net Assets	$ 1,017,396,766	$ 961,805,004	$305,449,557	$ 244,484,519	$1,322,846,323	$1,206,289,523

* Primary Government

The County's current and other assets increased by $300.5 million or 20.8 percent from FY11. The County's assets exceeded its liabilities at the close of FY12 by $1,322.8 million. By far the largest portion of the County's net assets reflects its investment in capital assets (e.g., land, buildings, improvements, furniture and equipment, infrastructure), less any related outstanding debt used to construct or acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. Governmental capital lease obligations of $24.6 million, related to business-type activity capital assets, are classified as a component of unrestricted net assets for governmental activities purposes, but reclassified to invested in capital, net of related debt, for total primary government purposes.

It is also important to note that although counties in the state of Maryland issue debt for the construction of schools, those school buildings are owned by each county's Board of Education. The County also funds projects for MCC and M-NCPPC. Therefore, while the County's financial statements include this outstanding debt, they do not include the capital assets funded by the debt. Debt outstanding for these entities amounted to $1,399.4 million at June 30, 2012. Absent the effect of this relationship, the County would have reported government-wide unrestricted net assets of $85.4 million. An additional portion of the County's net assets ($595.3 million or 45.0 percent) represents resources that are subject to restrictions on how they may be used. This amount includes $155.3 million in net assets restricted for revenue stabilization for periods of economic downturn.

The County's total net assets increased by $116.6 million for FY12 or 9.7 percent over FY11.

Statement of Activities

The following table summarizes the County's change in net assets for the years ended June 30, 2012 and 2011:

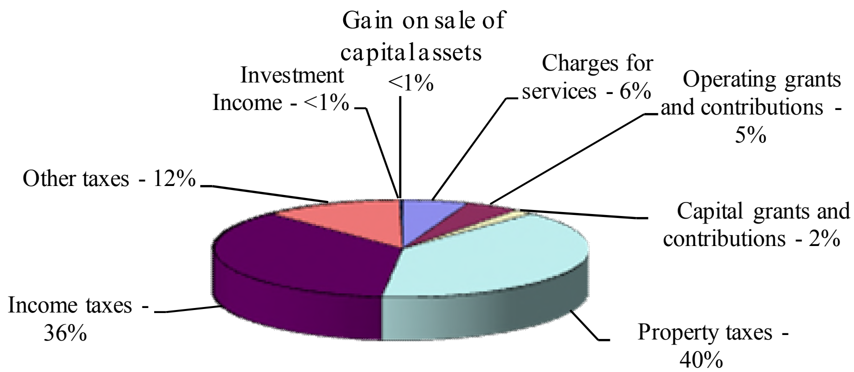
Summary of Changes in Net Assets * For the Fiscal Years Ended June 30, 2012 and 2011						
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
REVENUES						
Program Revenues:						
Charges for services	$ 198,420,598	$ 192,205,555	$441,479,602	$ 420,146,285	$ 639,900,200	$ 612,351,840
Operating grants and contributions	165,428,771	192,755,739	-	-	165,428,771	192,755,739
Capital grants and contributions	61,263,275	47,397,507	-	-	61,263,275	47,397,507
General revenues:						
Property taxes	1,395,693,492	1,358,968,819	8,503,222	9,273,198	1,404,196,714	1,368,242,017
Income taxes	1,265,289,159	1,151,260,721	-	-	1,265,289,159	1,151,260,721
Other taxes	422,095,840	435,384,988	-	-	422,095,840	435,384,988
Investment income	7,035,479	5,543,975	43,202	154,471	7,078,681	5,698,446
Gain on sale of capital assets	1,103,216	2,669,858	42,544,670	-	43,647,886	2,669,858
Total Revenues	3,516,329,830	3,386,187,162	492,570,696	429,573,954	4,008,900,526	3,815,761,116
EXPENSES						
Governmental Activities:						
General government	351,138,451	287,987,929	-	-	351,138,451	287,987,929
Public safety	600,877,545	614,081,563	-	-	600,877,545	614,081,563
Public works and transportation	263,586,549	255,731,300	-	-	263,586,549	255,731,300
Health and human services	256,703,043	283,727,427	-	-	256,703,043	283,727,427
Culture and recreation	93,560,027	88,433,456	-	-	93,560,027	88,433,456
Community development and housing	46,198,670	73,432,068	-	-	46,198,670	73,432,068
Environment	28,584,840	19,189,065	-	-	28,584,840	19,189,065
Education	1,751,721,080	1,728,747,256	-	-	1,751,721,080	1,728,747,256
Interest on long-term debt	116,354,151	99,272,929	-	-	116,354,151	99,272,929
Business-type Activities:						
Liquor control	-	-	220,242,176	215,359,402	220,242,176	215,359,402
Solid waste activities	-	-	99,723,180	100,890,192	99,723,180	100,890,192
Parking lot districts	-	-	29,724,042	30,755,951	29,724,042	30,755,951
Permitting services	-	-	25,039,256	25,490,571	25,039,256	25,490,571
Community use of public facilities	-	-	8,890,716	8,727,217	8,890,716	8,727,217
Total Expenses	3,508,724,356	3,450,602,993	383,619,370	381,223,333	3,892,343,726	3,831,826,326
Net Assets Before Transfers	7,605,474	(64,415,831)	108,951,326	48,350,621	116,556,800	(16,065,210)
Transfers	47,986,288	53,459,555	(47,986,288)	(53,459,555)	-	-
Change in Net Assets	55,591,762	(10,956,276)	60,965,038	(5,108,934)	116,556,800	(16,065,210)
Net Assets, beginning of year	961,805,004	972,761,280	244,484,519	249,593,453	1,206,289,523	1,222,354,733
Net Assets, end of year	$1,017,396,766	$ 961,805,004	$305,449,557	$ 244,484,519	$1,322,846,323	$1,206,289,523

* Primary Government

Governmental Activities

Revenues for the County's governmental activities were $3,516.3 million for FY12. Sources of revenue are comprised of the following items:

Revenues by Source - Governmental Activities
For the Fiscal Year Ended June 30, 2012



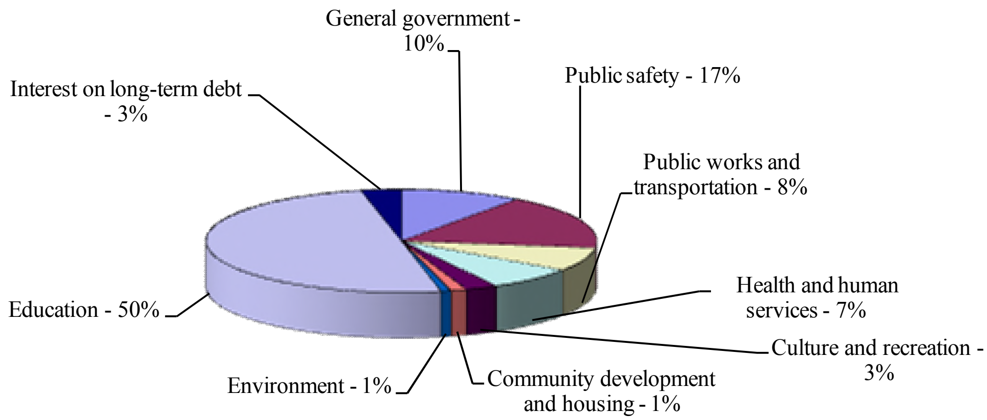
- Taxes constitute the largest source of County revenues, amounting to $3,083.1 million for FY12. Property and local income tax combined comprise 76.4 percent of all County revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 3.2 percent of the State taxable income for calendar years 2012 and 2011. 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 ($87.0 million or 52.6 percent), public works and transportation ($17.6 million or 10.6 percent) and public safety ($34.1 million or 20.6 percent).

A more detailed discussion of the County's revenue results for FY12 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 FY12 was $3,508.7 million. As the chart below indicates, education constitutes the County's largest program and highest priority; education expenses totaled $1.751.7 million. Public safety expenses totaled $600.9 million, general government services totaled $351.1 million, and Public Works and Transportation, the fourth largest expense for the County, totaled $263.6 million.

Expenses by Function - Governmental Activities
For the Fiscal Year Ended June 30, 2012



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

For the Fiscal Years Ended June 30, 2012 and 2011	Expenses		Revenues		Net Cost of Services	
	2012	2011	2012	2011	2012	2011
Education	$ 1,751,721,080	$1,728,747,256	$ -	$ -	$1,751,721,080	$1,728,747,256
Public safety	600,877,545	614,081,563	70,831,963	76,328,674	530,045,582	537,752,889
General government	351,138,451	287,987,929	80,262,370	83,396,479	270,876,081	204,591,450
Public works and transportation	263,586,549	255,731,300	95,806,572	94,541,571	167,779,977	161,189,729
Health and human services	256,703,043	283,727,427	92,830,929	108,728,767	163,872,114	174,998,660
Culture and recreation	93,560,027	88,433,456	45,215,425	41,080,801	48,344,602	47,352,655
Other	191,137,661	191,894,062	40,165,385	28,282,509	150,972,276	163,611,553
Total	$ 3,508,724,356	$3,450,602,993	$ 425,112,644	$ 432,358,801	$3,083,611,712	$3,018,244,192

Of the total cost of governmental activities of $3,508.7 million, $425.1 million was paid by those who directly benefited from the programs ($198.4 million) and other governments and organizations that subsidized certain programs with operating and capital grants and contributions ($226.7 million). Of the $3,083.6 million net cost of services, our taxpayers paid for these activities through County taxes which totaled $3,083.1 million; also available to contribute towards such net costs were investment income and other contributions not restricted to a specific program.

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

- Community Development and Housing:
  - $27.2 million decrease in resources spent on housing and economic development

- Environment:
  - $9.4 million increase in environmental protection resources primarily made possible by increased fees and a new implemented bag tax

- General Government:
  - $63.1 million increase in expenses due primarily to additional contributions to the County's consolidated retiree health trust

- Health and Human Services:
  - $27 million decrease in health and human services related expenses including significant decreases in personnel and capital expenses

Business-type Activities

Highlights of the County's business-type activities for FY12 are as follows:

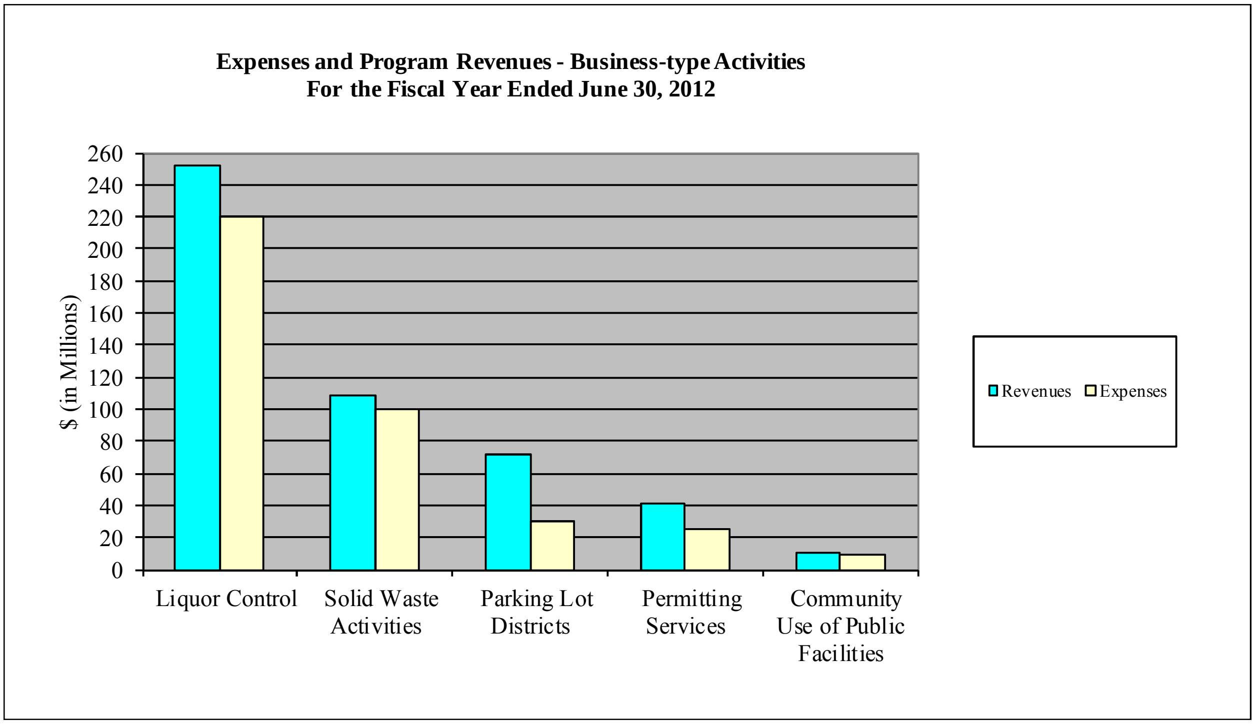
- Business-type activities experienced an increase in net assets of $61.0 million for FY12. This amount is reported after total net transfers out of $48.0 million. The most significant components of the increase include:
  - $36.4 million increase in net assets for the Parking Lot Districts due primarily to gain in the sale of land; and
  - $13.2 million increase in net assets due to increase in fee revenue for licenses and permits.

- Charges for services to users comprise 98.3 percent of revenues, with $252.3 million (52.1 percent of charges for services revenue) attributable to liquor control operations and $108.4 million (22.4 percent) attributable to solid waste activities. The remaining charges for services are generated from operations relating to parking lot districts, permitting services, and community use of public facilities.

- Parking lot district property taxes of $8.5 million is the second largest source of revenue at only 1.8 percent of total revenues.

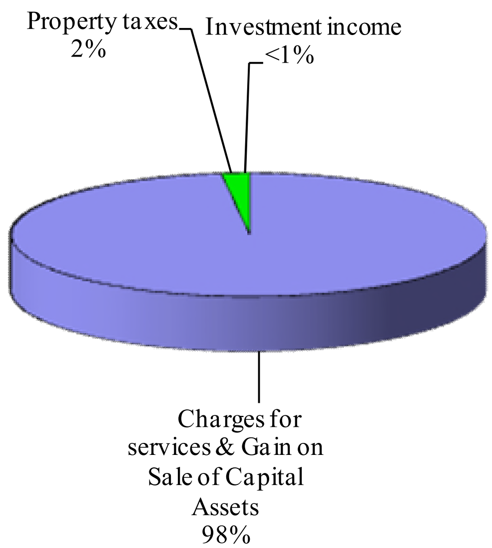
- Investment income of $.04 million reflects a decrease of $.11 million or 72.0 percent under FY11, primarily because of the decrease in pooled cash and investments during the year.

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



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

Revenues by Source - Business-type Activities
For the Fiscal Year Ended June 30, 2012



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 FY12, the County's governmental funds reported combined ending fund balances of $755.7 million, an increase of $238.1 million from the end of FY11. Of the total ending fund balances, $186.4 million constitutes the unassigned fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of $569.3 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 FY12, the General Fund had $192.9 million of unassigned fund balance and total fund balance was $260.2 million. As a measure of the General Fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 10.9 percent of total General Fund expenditures.

The fund balance of the County's General Fund increased by $152.7 million during FY12, primarily due to increased income tax revenues.

The Revenue Stabilization Fund (RSF) is used to account for the accumulation of resources during periods of economic growth and prosperity to provide greater budgetary flexibility in addressing future revenue shortfalls. Funds may be drawn upon during periods of economic slowdown when appropriations become unfunded. At the end of FY12, the RSF had a fund balance of $155.3 million. This includes an increase of $60.7 million -- a transfer from the General Fund -- and represents a 64.2% increase in ending fund balance over FY11.

The Housing Initiative Fund (HI) is used to account for the fiscal activity of financing, supplementing, and constructing affordable residential facilities for eligible participants. At the end of FY12, HI had a fund balance of $192.9 million, which is entirely restricted for legal reasons. The HI fund balance represents an decrease of $4.1 million over FY11. Mortgage Receivables for this fund, which is a measure of its financing activities, increased $2.5 million, or 1.7 percent, over FY11.

The Grants Fund is used to account for Federal and State grant-funded activities of the tax-supported General and special revenue funds. The Grants fund by design has no fund balance at the end of each fiscal year as revenues equal expenditures - that is, expenditures of this fund are either billable to one or more federal or state agencies or paid via a transfer from another County fund. The Grants fund received $113.3 million in revenues for FY12. This is a $4.9 million decrease over FY11.

The Debt Service Fund accumulates resources for the payment of general long-term debt principal, interest, and related costs. This fund does not maintain an unassigned fund balance; the restricted fund balance of $3.1 million represents a debt service reserve account.

The Capital Projects Fund has a total fund balance of $115.8 million, an increase of $20.1 million from the end of FY11. The increase was primarily due new debt issued in FY12 to fund capital projects.

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

Proprietary Funds

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

Unrestricted net assets of the Liquor Fund at the end of FY12 amounted to $10.0 million, and operating income was $33.6 million. After a subsidy transfer to the General Fund of $28.5 million, the fund ended FY12 with an increase in net assets of $3.6 million.

The Solid Waste Activities Fund total net assets amounted to $78.5 million, of which the unrestricted net assets were $6.4 million. Restricted net assets of $33.8 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 $36.4 million in FY12, resulting in total ending net assets of $188.9 million. Of this amount, $135.9 million (71.9 percent) is invested in capital net of related debt; $11.3 million (6.0 percent) is restricted for debt service on revenue bonds; and $41.7 million (22.1 percent) is unrestricted.

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

General Fund Budgetary Highlights

Revisions to the General Fund expenditure original budget (excluding transfers) to arrive at the final budget amounted to $6.4 million, which included County Council approved supplemental and special appropriations and the year-end County Council transfer and County Executive supplemental appropriations. Major components of the appropriation decreases include the following:

- $4.0 million decrease for transfer from the Compensation Adjustment NDA to departments for group health and retirement funding changes.

- $2.6 million decrease due to prior year encumbrance liquidations.

Actual revenues were more than budget amounts by $67.0 million, while actual expenditures and net transfers out were less than final budget by $4.8 million and $44.3 million, respectively. Highlights of the comparison of final budget to actual figures for expenditures and net transfers for the fiscal year-ended June 30, 2012, include the following:

- Actual expenditures of $893.8 million were $4.8 million less than the final budget, which represents 0.54 percent of the final budget, and is attributable to savings achieved across numerous departments.

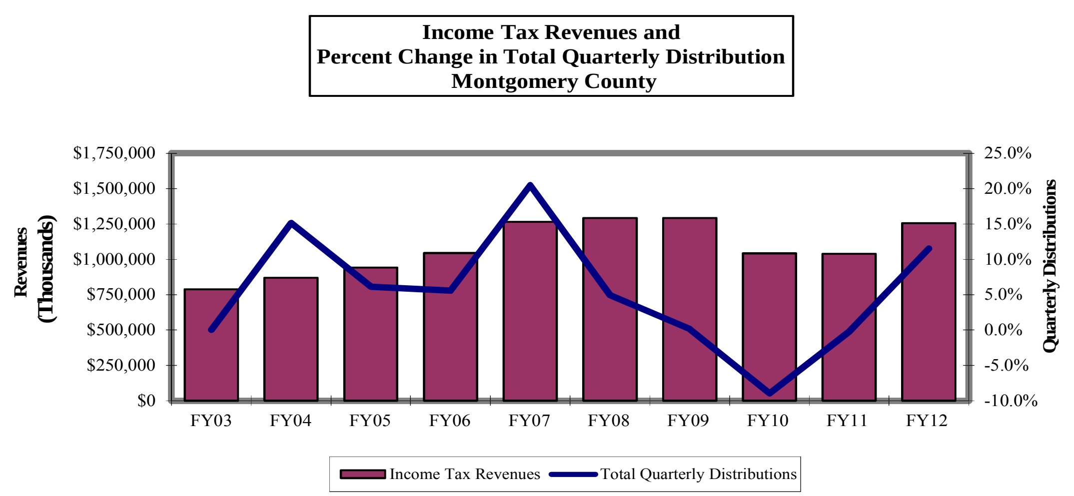
- Actual transfers to the Capital Projects Fund and component units for capital purposes were less than budgeted by $41.2 million. This is due both to the multi-year nature of capital projects, and to time delays that can be encountered for certain projects.

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

Overview - Actual revenues for the General Fund totaled $2,809.1 million and were 2.4 percent above the budget estimate for the fiscal year and 6.3 percent above actual tax revenues for FY11. The three largest contributors to the variance in dollars between the budget estimate and actual revenues were the income tax (+$137.8 million), the energy tax (-$25.1 million), followed by the property tax (-$18.3 million). Revenues from the transfer and recordation taxes amounted to $127.3 million – -$16.2 million, or 11.3 percent, below the budget estimate and 1.7 percent below actual tax revenues for FY11. Revenues from consumption/excise taxes which include fuel/energy, telephone, hotel/motel, and admissions taxes, were $293.5 million in FY12. That amount was $31.7 million or 6.5 percent below the budget estimate and that decline was driven by shortfalls across all excise taxes except for the admissions tax with the largest decline experienced by the fuel-energy tax (-$25.1 million or ↓10.0 percent). Investment income was approximately $0.2 million below the budget estimate. Licenses and permits came in above budget estimates (↑1.1%), but charges for services came in below the budget estimate (↓10.1%). Intergovernmental revenues were 5.3 percent below the budget estimate. Such a decrease was attributed across the board to State and federal reimbursements, which came in 5.8 percent and 6.3 percent below budget estimates, respectively.

Income Taxes

One of the largest revenue sources for the General Fund is the County income tax. Revenues from the income tax were $1,255.1 million and represented 46.2 percent of actual tax revenues in FY12 and 44.7 percent of total actual revenues. The reliance on the income tax as a major source of revenue in recent years can be attributed to three factors: the expansion of the employment base in the County, the growth in capital gains, and significant property tax relief that reduced otherwise strong property tax revenue growth. However, the Standard & Poor's 500 index, representing a proxy for capital gains, experienced significant volatility over the past ten calendar years ranging from an increase of +26.4 percent in CY04 to a decrease of -38.5 percent in CY08, and resident employment also experienced volatility during this period - an average annual growth rate of 1.2 percent in the County's resident employment during the CY02-CY06 period and a decline of -0.8 percent in CY2007, followed by an increase of +0.8 percent in CY08, followed by a decrease of -2.3 percent in CY09, and increases of +0.1 percent and +1.1 percent in CY10 and CY11, respectively. However, with employment growth in CY10 and CY11 coupled with strong growth in the S&P 500 index in CY09 (↑23.5%) and CY10 (↑12.8%), total income tax revenues increased 20.8 percent in FY12. As the chart below illustrates, total quarterly distributions for withholding and estimated payments increased 11.5 percent in FY12 which followed a decrease of 0.3 percent in FY11, another decrease of 9.0 percent in FY10 and increases of 0.2 percent and 4.9 percent in FY09 and FY08, respectively.

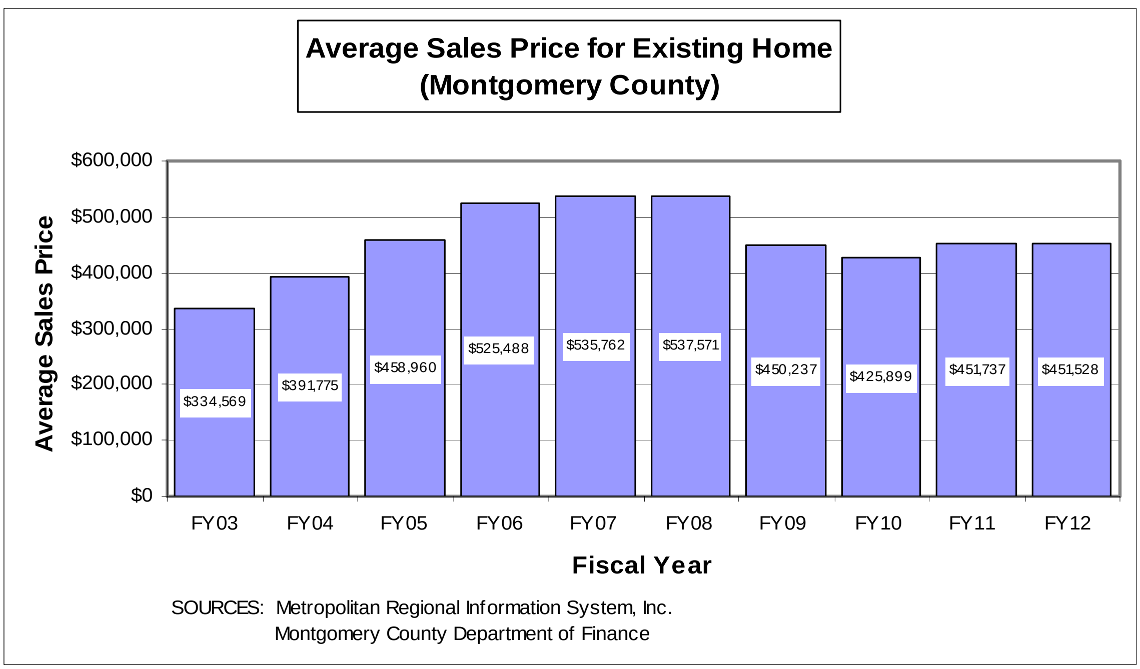


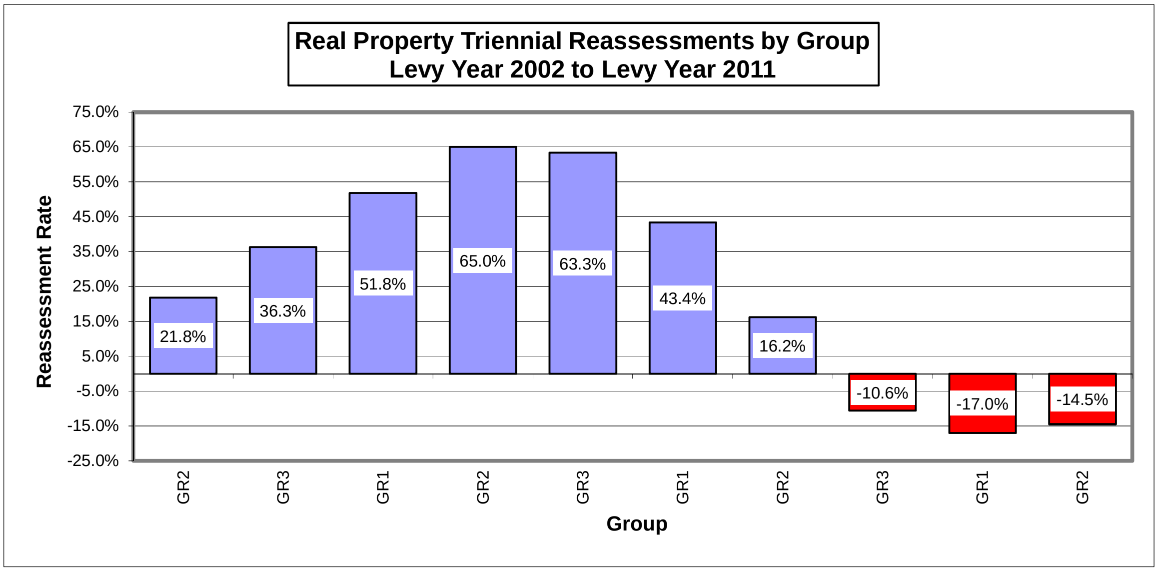
SOURCE: Montgomery County Department of Finance

Property Taxes

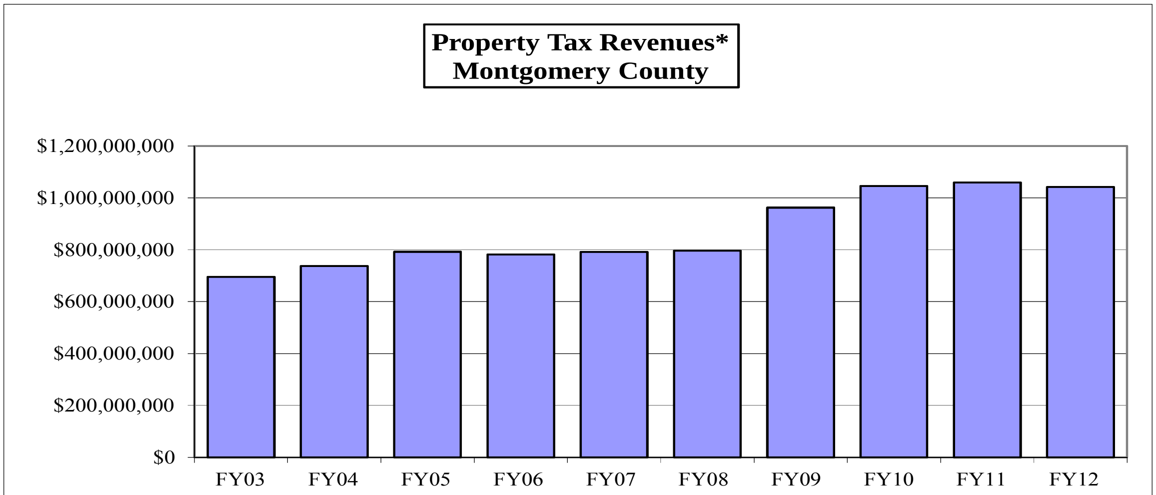
Property tax collections, which represent another major contributor of actual tax revenues to the General Fund and the second largest in FY12, amounted to $1,042.9 million in FY12, which were $18.3 million (↓1.7%) below the budget estimate and 1.8 percent below actual revenues in FY11. Actual property taxes, excluding penalties and interest and other items, were $1,042.4 million in FY12 – a decrease of 1.6 percent from the previous fiscal year. Collections from penalties and interest and other items were $0.5 million – a 76.6 percent decrease from FY11.

The taxable assessments for real property decreased 3.3 percent from FY11 to FY12. This was the first decrease in over twenty-three years. New construction, which added $585.6 million to the base in FY12, was 36.3 percent lower than in FY11. The real estate market, particularly the annual double-digit price increases during fiscal years (FY03-FY06), fueled the dramatic increases in the triennial reassessment rates beginning with Group Two, which increased from 21.8 percent in levy year 2002 to 65.0 percent in levy year 2005, for Group Three triennial reassessments increased from 36.3 percent in levy year 2003 to 63.3 percent in levy year 2006, and for Group One triennial reassessments were 51.8 percent and 43.3 percent in levy years 2004 and 2007, respectively. With the average sales price for an existing home declining 16.2 percent in FY09 and 5.4 percent in FY10, the reassessment rate for Group Two declined from 65.0 percent for LY05 to 16.2 percent for LY08, the rate for Group Three declined from 63.3 percent for LY06 to -10.6 percent for LY09, and the rate for Group One declined from 43.3 percent in levy year 2007 to -17.0 percent in levy year 2010. With the dramatic decline in average sales prices, the triennial reassessment rate for Group Two declined from 16.2 percent to -14.5 percent for LY11.





However, the homestead tax credit limits annual increases in homeowners' taxable assessments to 10 percent per year although other taxable assessments such as commercial and investment residential properties are not limited by this credit. While there was a dramatic decrease in the reassessment rates for Groups One, Two and Three for the past four levy years, the remaining amount of the credit added $729 million to the assessable base in FY12 down from $5.1 billion in FY11.



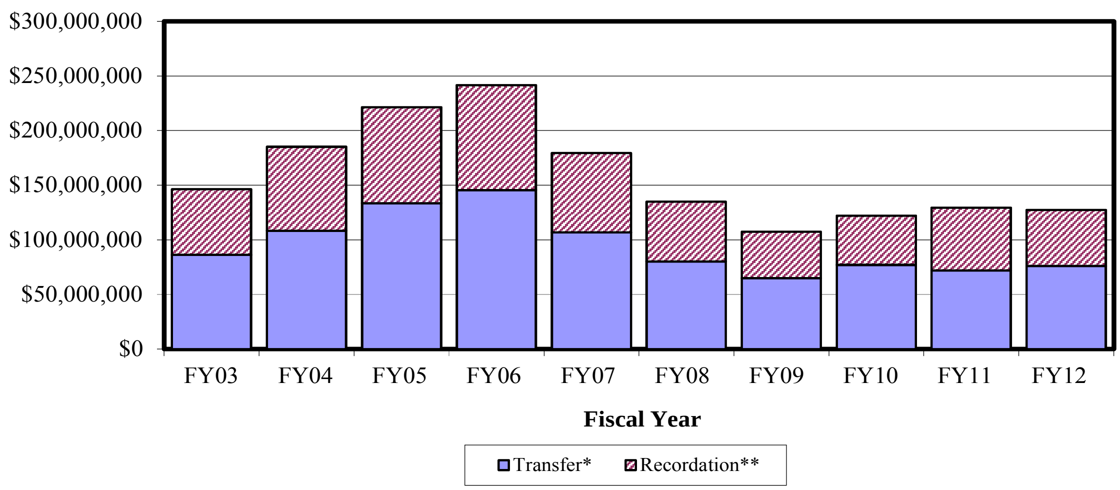
SOURCE: Montgomery County Department of Finance

Assessments of personal property increased 0.6 percent in FY03, but declined 6.2 percent in FY04 primarily due to weaknesses in all three categories: individual, public utility, and corporate. Unfortunately, there was no rebound in the subsequent years as illustrated by a 1.5 percent decline in FY05, and another 1.8 percent decline in FY06. The declines in FY05 and FY06 were attributed to adjustments to individual personal property undertaken by the Maryland State Department of Assessments and Taxation (SDAT). Due to a rebound in personal property for public utilities, assessments increased 3.1 percent in FY07 and a modest 0.5 percent in FY08. However, because of declines in individual and corporate personal property and public utility tax assessments, total personal property assessments declined 1.3 percent in FY09 rebounding in FY10 (↑5.2%) attributed to increases in corporate and public utility assessments, but declined 6.5 percent in FY11 and declined 3.6 percent in FY12 to $3.719 billion and attributed to declines in corporate and utility personal property. For the previous five fiscal years (FY07-FY11), taxable assessments for personal property averaged $3.918 billion ranging from a low of $3.920 billion in FY09 to a high of $4.124 billion in FY10.

Transfer and Recordation Taxes

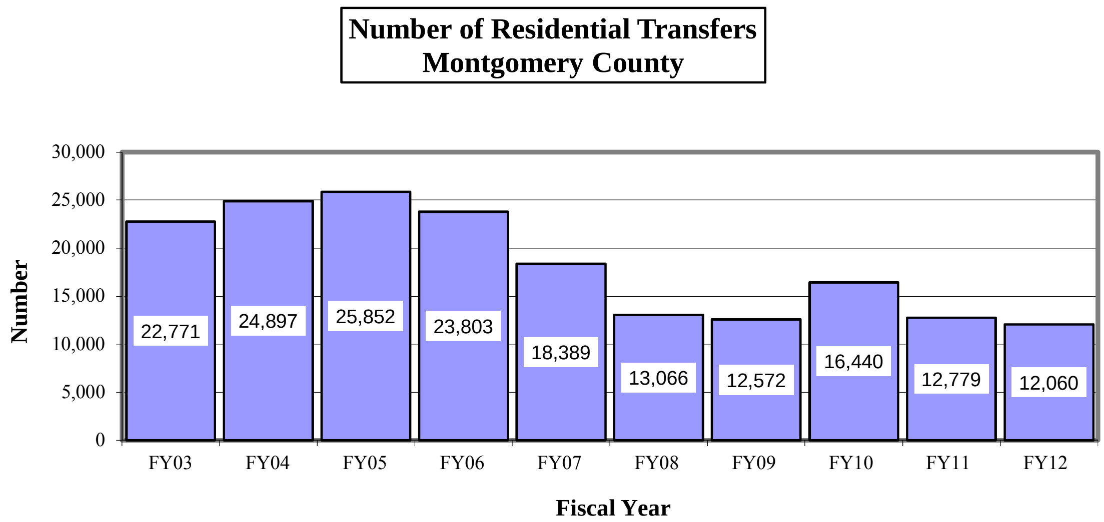
Another major tax revenue category in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources in FY12 were $127.3 million (excluding recordation tax revenues earmarked for CIP funding of school construction and transfer tax revenues from condominium conversions). The decrease of 1.7 percent in actual revenues from FY11 represented the second decrease during the past four fiscal years – the other decrease occurred in FY09 (↓20.6%). With a decrease in actual revenues in FY12, they were also 11.3 percent below the budget estimate. As the accompanying chart illustrates, the total amount collected from these taxes increased from $146.4 million in FY03 to a peak of $241.7 million in FY06, before declining to $107.2 million in FY09. In FY10, taxes from the combined transfer and recordation taxes rebounded to $122.0 million, increased to $129.5 million in FY11, and then declined to $127.3 million in FY12.

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



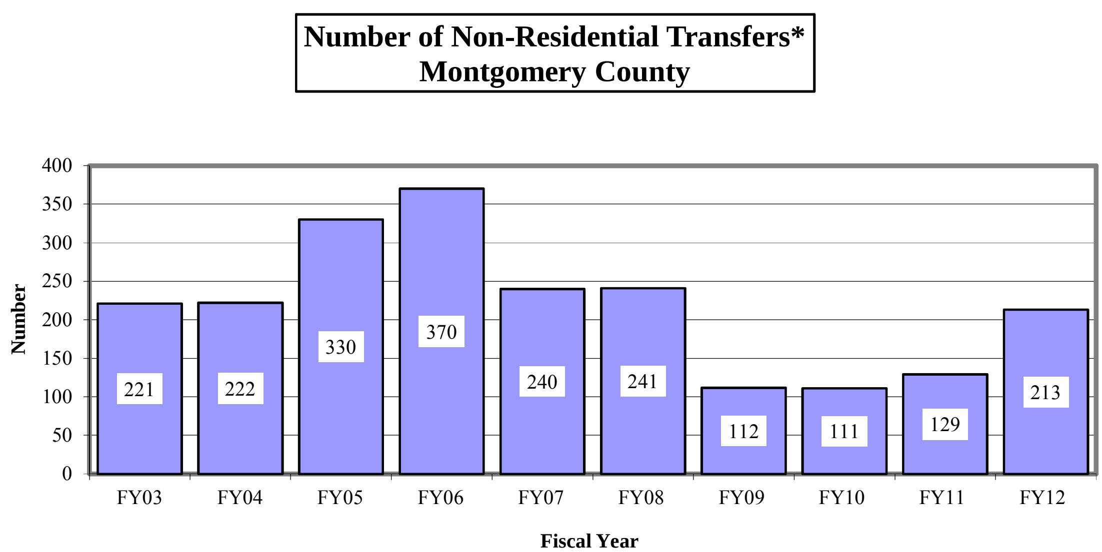
SOURCE: Montgomery County Department of Finance
* Excludes condominium conversions
** Excludes School CIP

General Fund revenues from the transfer tax experienced an increase of 6.0 percent in FY12 compared to an 11.3 percent decrease in the recordation tax. Because of the decline attributed to a dramatic decrease in home sales in FY12 (↓2.7%), revenues from the residential sector for both taxes were $76.1 million, a decrease of 4.9 percent from FY11. The number of residential transfers decreased to approximately 12,100 (↓5.6%).



SOURCE: Montgomery County Department of Finance

Based on the amount of revenues from the transfer tax, the commercial market improved in FY12 with revenues reaching $19.4 million – an increase of 57.7 percent over FY11. That amount of revenues was the highest since FY06. The increase in revenues from the commercial market was attributed to the increase in the number of transfers of 213 in FY12 compared to 129 in FY11 and was the largest number since FY08.



SOURCE: Montgomery County Department of Finance
* Excludes farm, rezoned rates and condominium conversions.

The remaining tax sources – consisting of fuel/energy, telephone, hotel/motel, and admissions and amusement taxes – totaled $293.5 million and were approximately $31.7 million, or 6.5 percent, below the budget estimate. Revenues from the telephone tax were 9.8 percent below the budget estimate and 5.3 percent below actual revenues in FY11. Revenues from the hotel/motel industry of $18.2 million in FY12 were 9.0 percent below the budget estimate and 5.8 percent below actual revenues in FY11. The admissions tax was 6.4 percent above the budget estimate and 24.1 percent above actual revenues in FY11.

In the General Fund, there was little change in actual investment income from $12,206 in FY11 to $12,224 in FY12 and was nearly $167,000 lower than the budget estimate (↓93.2%). The dramatic decrease in FY12 from the budget estimate was the result of a continued accommodative policy of the Federal Open Market Committee (FOMC) of the Federal Reserve that reduced interest rates beginning in September 2007. From that time to December 2008, the FOMC decreased the target interest rate for federal funds from 5.25 percent to a range of between 0.00 and 0.25 percent ─ a decline of 500-525 basis points and remained at that historic low level throughout FY12. The justification for such a decrease was the significant global credit crisis that began in August 2007, the subsequent economic recession that ended in June 2009, and the European Community financial crisis of CY12. Because of this low level of interest rates during FY12 short-term or money market rates remained at historic low levels as well, hence the average yield on cash equity for the County decreased from 0.22 percent in FY10, to 0.10 percent in FY11, and to 0.02 percent in FY12. In addition, investments were sold before maturity to meet the need for cash. Because of that need, the County made fewer investments and total pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was $32,325 or 89.6 percent below last fiscal year. With the decrease in investment income coupled with a lesser rate of increase in spending, the average daily portfolio balance decreased from $322.9 million in FY11 to $187.9 million in FY12.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets as of June 30, 2012, amounted to $3,607 million (net of accumulated depreciation and amortization), as summarized below:

Capital Assets, Net of Depreciation
June 30, 2012

	Governmental Activities	Business-type Activities	Total FY12	Total FY11
Land	$ 795,651,835	$ 59,639,134	$ 855,290,969	$ 845,009,209
Buildings	416,232,196	132,091,954	548,324,150	570,383,958
Improvements other than buildings	27,155,069	40,031,137	67,186,206	62,804,337
Furniture, fixtures, equipment and machinery	53,007,722	6,345,635	59,353,357	67,351,635
Leasehold improvements	6,638,513	-	6,638,513	7,458,674
Automobiles and trucks	117,822,206	907,461	118,729,667	122,071,307
Infrastructure	1,132,847,146	11,051	1,132,858,197	1,131,670,003
Other assets	37,613,553	-	37,613,553	5,004
Construction in progress	765,516,273	15,642,600	781,158,873	646,919,565
Total	$ 3,352,484,513	$ 254,668,972	$ 3,607,153,485	$3,453,673,692

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

Changes in the County's capital assets for FY12 are summarized as follows:

Change in Capital Assets For the Fiscal Year Ended June 30, 2012				
	Governmental Activities	**Business-type Activities**	**Total FY12**	**Total FY11**
Beginning Balance	$ 3,205,431,287	$ 248,242,405	$3,453,673,692	$ 3,303,084,166
Additions*	237,053,778	23,031,270	260,085,048	249,736,901
Retirements, net*	605,509	3,187,566	3,793,075	814,051
Depreciation expense	89,395,043	13,417,137	102,812,180	98,333,324
Ending Balance	$ 3,352,484,513	$ 254,668,972	$3,607,153,485	$ 3,453,673,692

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

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

- Roads, including underlying land, valued at $4.85 million were transferred to the County by various developers.
- In order to transform the way Montgomery County serves its residents and customers, the tech mod project provided for replacement, upgrade and implementation of major IT systems. In FY12, $13.8 million was spent for the project.
- Construction began in FY11 on the new Judicial Center Annex; this project expected to be completed in FY15, will house 21 Circuit Court Judges. In FY12, $19.5 million was spent on this project.
- The White Oak Community Recreation Center will serve communities in the White Oak region of the County; this densely populated & ethnically diverse community does not have an existing community recreation facility. The project spent $6.8 million in FY12 and will serve 65,000 residents once completed.
- $34.2 million was spent for the Equipment Maintenance and Operations Center (EMOC). The EMOC project supports a doubling of transit ridership by 2020; the facility will include administrative buildings, parking for 200 buses, bus service maintenance bays and a Compressed Natural Gas fast-fill station.

Additional information pertaining to the County's capital assets can be found in Notes to Financial Statements, Notes I-D5 and III-C.

Long-Term Debt:

The following is a summary of the County's gross outstanding long-term debt as of June 30, 2012:

Long-Term Debt June 30, 2012	Governmental Activities	Business-type Activities	Total FY12	Total FY11
General obligation bonds	$ 1,997,290,000	$ -	$ 1,997,290,000	$ 1,855,600,000
Variable rate demand obligation	100,000,000	-	100,000,000	100,000,000
Bond anticipation notes	500,000,000	-	500,000,000	500,000,000
Revenue bonds	41,265,110	87,674,890	128,940,000	114,370,000
Lease revenue bonds	33,100,000	-	33,100,000	31,550,000
Leases and Notes payable *	59,537,476	-	59,537,476	15,104,953
Certificates of participation	37,420,000	-	37,420,000	43,935,000
Capital leases	46,530,000	-	46,530,000	71,156,740
Taxable Ltd. Obligation Certificates	56,265,000	-	56,265,000	29,470,000
Compensated absences	74,149,675	5,500,882	79,650,557	86,948,127
Other Postemployment Benefits	376,728,590	3,965,222	380,693,812	287,497,493
Claims payable self-insurance	138,197,027	-	138,197,027	109,557,407
Claims and judgements	1,976,921	-	1,976,921	1,990,101
Landfill closure costs	-	16,999,682	16,999,682	17,630,123
Total	$ 3,462,459,799	$ 114,140,676	$ 3,576,600,475	$ 3,264,809,944

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

At June 30, 2012, the County had outstanding general obligation (GO) bonds of $1,997.3 million, with outstanding variable rate demand obligations (VRDOs) of $100 million and bond anticipation notes (BANs) of $500 million. Over the last ten years, the County issued its GO bonds once a year, with the exception of FY08, when no GO "new money" bonds were issued. The County adopted a policy in 1988 of initially financing capital construction with BANs. BANs are subsequently paid off by the issuance of the County's GO bonds. Montgomery County also issues bonds to finance the capital construction of MCPS, MCC, and M-NCPPC not otherwise financed by the State of Maryland. Since FY02, the County sold general obligation bond issues, exclusive of refundings, of up to $325 million. Over the last ten fiscal years, the County's annual issues (including the June 2006 issue of $100 million of VRDOs) averaged $230 million.

The County continues to maintain its status as a top rated issuer of municipal securities, with the highest credit ratings possible for a local government. For its GO bonds, the County is a 'Triple AAA' rated County, and received ratings of Aaa from Moody's Investors Service, Inc., AAA from Standard and Poor's, and AAA from Fitch Ratings. County GO bonds have been consistently awarded the highest credit rating from Moody's and Standard and Poor's since 1973 and 1976, respectively, and from Fitch since 1991.

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

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

The rating category, by definition, represents extremely strong capacity to pay principal and interest. Typically, 'AAA' rated counties demonstrate an ability to weather all economic cycles by maintaining tight budgetary controls, articulating and executing well-designed capital plans, maintaining sufficient reserves, and planning for future contingencies.

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

Continuing Disclosure **-** For purposes of complying with the County's continuing disclosure undertakings, this Comprehensive Annual Financial Report is provided to each nationally recognized municipal securities information repository and to the state information depository, if any, established for Maryland. Through the end of FY12, the County satisfied its disclosure requirements via electronic disclosure filings to the Electronic Municipal Market Access (EMMA) system. Individuals interested in the information to be provided pursuant to such continuing disclosure undertakings should refer to the A Exhibits and Notes to the Financial Statements, as well as Tables 4, 8, 9, 11, and 17-21.

Significant bond-related debt activities during FY12 were:

- Purchase Agreement – On July 7, 2011, the County issued a Purchase Agreement totaling $20,900,000 to finance public safety system communication equipment.

- General Obligation Bonds and Refunding Bonds – In August 2011, the County's annual general obligation bond issue was in the amount of $320 million. The proceeds of this bond issue were used to pay off an equivalent amount of the County's BANs which funded capital expenditures for transportation, education, and other County facilities. Concurrent with this annual bond sale, the County issued $237.7 million of general obligation refunding bonds to refund outstanding County bonds for debt service savings.

- Taxable Limited Obligation Certificates - In August 2011, the County issued $28.84 million in Taxable Certificates to finance the Montgomery Housing Initiative Program which was established to promote a broad range of housing opportunities. Financing was also provided for a community and recreational facility.

- Master Lease - Purchase Agreement – The Purchase Agreement, in the amount of $12.922 million to finance the acquisition and installation of new information technology systems was entered into on September 30, 2011.

- Lease Revenue Project and Refunding Bonds (Metrorail Garage Projects) – Bonds in the amount of $35.465 million were issued in October 2011 to finance a portion of the costs of a parking structure and related facilities in the County ("the Glenmont Project") and to refund the County's outstanding Lease Revenue Bonds for debt service savings.

- Parking System Project Revenue and Refunding Bonds (Bethesda Parking Lot District) – The Bonds, issued in April 2012 in the amount of $37.9 million, will be used to finance the costs of a parking garage located in Bethesda Maryland and to refund the County's outstanding Parking Revenue Bonds for debt service savings.

- Bond Anticipation Notes (BANs) – Over the course of FY12, the County issued $356 million in BANs and retired $356 million with general obligation bond proceeds.

- Additional information pertaining to the County's long-term debt can be found in Notes to Financial Statements, Notes I-D7, III-E3, and III-F.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following economic factors are reflected in the County's FY13 budget with updates based on revised economic data subsequent to the approval of the County's budget:

- Montgomery County's economy experienced a weak recovery in calendar year (CY) 2011. The primary indicators of the weak recovery were a decline in housing sales, modest construction in single-family homes, and unemployment rates that remained at historic high levels. Resident employment showed a modest increase, but not enough to substantially reduce the high rate of unemployment. The construction of multi-family units boosted residential construction which helped offset the modest construction in single-family units. The County's economic projections in the FY13 budget assume a mixed economic performance in FY13 with the County continuing to experience elevated unemployment rates but below the rates in 2009, 2010 and 2011, and a modest increase (↑0.7% in calendar year 2012) in total resident employment.

- During the past twelve years (CY00 – CY11), total payroll employment in Montgomery County, which is based on the survey of establishments, experienced three distinct cycles: modest growth from CY00 to CY06 at an average annual rate of 0.8 percent, a decline from CY06 to CY10 at an average annual rate of -0.9 percent, and an increase of 1.0 percent in CY11. The Department of Finance estimates that total payroll employment is expected to increase 0.9 percent in CY12. That rate follows a 2.5 percent decline in CY09, no increase in payroll employment during CY10, and 1.0 percent increase in CY11.

- Resident employment in the County, which is based on a survey of County households, provides a slightly different picture of employment growth. For example, resident employment grew at an average annual rate of 0.9 percent between CY00 and CY06 (compared to the 0.8 percent for payroll employment). Between CY07 and CY08, resident employment in the County experienced an increase of 0.8 percent while payroll employment declined 0.4 percent. On a calendar year basis, resident employment in Montgomery County increased 1.1 percent in CY11 and is expected to increase 0.7 percent in CY12.

- The employment projection in the FY13 budget assumes that personal income will increase 5.2 percent in CY11 and 4.5 percent in CY12 and per capita income will increase 4.3 percent in CY11 and 3.6 percent in CY12. Those rates are an improvement over the 4.2 percent increase in CY10 in total personal income and a 2.8 percent increase in per capita income. Income data for CY11 and CY12 are based on estimates derived by the Department of Finance.

- The estimated increase in employment and an estimated increase of 4.5 percent in personal income in CY12 are offset by the elevated unemployment rate thereby reflecting a mixed performance in the County's economy.

- The Federal Open Market Committee (FOMC) of the Board of Governors of the Federal Reserve System is expected to maintain the targeted federal funds rate within the target range of 0.00-0.25 percent through late 2014 – based on the policy statement of the FOMC dated August 1, 2012. Because of that policy by the FOMC, the County's budget projections include only a modest increase in the yield on its investments from 0.15 percent in FY12 to 0.25 percent in FY13.

- Inflation, as measured by the Consumer Price Index, is expected to increase 2.7 percent in FY13.

OTHER SIGNIFICANT MATTERS

The Maryland General Assembly 2009 Session passed House Bill 101, "Budget Reconciliation and Financing Act of 2009." A key provision of this bill required the State Comptroller to distribute $366,778,631 from the local reserve account to the State's General Fund by June 30, 2009. From fiscal 2013 through 2022, the State Comptroller is required to distribute $36,677,863 annually in income tax revenues to the local reserve account; and reduce the total amount of income tax revenues distributed to local jurisdictions by a corresponding amount. The effect on the County may have resulted in a decrease in income tax revenues in the aforementioned years. However, the Maryland General Assembly 2012 Special Session passed Senate Bill 1301, "Budget Reconciliation and Financing Act of 2012," which repealed the provisions of House Bill 101 in regard to the reduction in the amount of tax revenues distributed to local jurisdictions.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2012
Exhibit A-1

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Total
ASSETS				
Equity in pooled cash and investments	$ 660,285,135	$ 70,721,502	$ 731,006,637	$ 51,698,600
Cash with fiscal agents	51,857,628	30,844,364	82,701,992	50,540,818
Cash	392,695	129,784	522,479	15,653,294
Investments - cash equivalents	-	-	-	119,028,437
Investments	-	-	-	35,633,769
Receivables (net of allowance for uncollectibles):				
Income taxes	363,559,920	-	363,559,920	-
Property taxes	20,526,172	669,551	21,195,723	-
Capital leases	33,100,000	-	33,100,000	20,730,374
Accounts	82,881,946	4,756,173	87,638,119	53,968,724
Notes	6,268,417	33,171,500	39,439,917	59,705,000
Parking violations	645,138	1,729,418	2,374,556	-
Mortgage receivable	187,797,806	-	187,797,806	375,102,851
Interest	-	-	-	5,435,660
Other	8,141	-	8,141	4,969,720
Internal balances	3,968,103	(3,968,103)	-	-
Due from primary government	-	-	-	64,608,146
Due from component units	67,259,567	46,868	67,306,435	-
Due from other governments	36,991,254	137,331	37,128,585	23,098,842
Inventory of supplies	12,447,056	26,060,009	38,507,065	10,306,010
Prepaids	451,490	214,491	665,981	5,725,302
Deferred charges	6,871,579	1,017,702	7,889,281	367,705
Other assets	-	721,113	721,113	129,315,803
Restricted Assets:				
Equity in pooled cash and investments	-	37,052,693	37,052,693	17,410,310
Cash with fiscal agents	-	-	-	16,847,398
Cash	-	-	-	3,137,519
Investments - cash equivalents	-	-	-	118,218,589
Investments	-	8,094,744	8,094,744	156,882,529
Capital Assets:				
Nondepreciable assets	1,561,168,108	75,281,734	1,636,449,842	486,362,960
Depreciable assets, net	1,791,316,405	179,387,238	1,970,703,643	2,677,790,805
Total Assets	4,887,796,560	466,068,112	5,353,864,672	4,502,539,165
LIABILITIES				
Accounts payable	56,093,047	20,239,336	76,332,383	120,200,174
Interest payable	35,577,157	367,207	35,944,364	38,389,498
Retainage payable	18,334,923	1,432,850	19,767,773	10,426,716
Accrued liabilities	60,321,358	5,004,826	65,326,184	44,420,083
Deposits	1,363,799	9,370,141	10,733,940	10,252,203
Due to primary government	-	-	-	69,535,763
Due to component units	63,943,303	664,843	64,608,146	-
Due to other governments	13,656,659	839,227	14,495,886	72,398
Unearned revenue	46,447,365	2,504,339	48,951,704	33,422,165
Other liabilities	-	768,341	768,341	20,323,332
Noncurrent Liabilities:				
Due within one year	786,764,541	11,207,434	797,971,975	102,830,943
Due in more than one year	2,787,897,642	108,220,011	2,896,117,653	1,585,550,029
Total Liabilities	3,870,399,794	160,618,555	4,031,018,349	2,035,423,304
NET ASSETS				
Invested in capital assets, net of related debt	1,880,813,780	185,300,678	2,041,539,458	2,629,919,864
Restricted for:				
Capital projects	115,803,097	-	115,803,097	2,917,165
General government	167,152,724	-	167,152,724	-
Public safety	3,400,983	-	3,400,983	-
Public works and transportation	5,222,295	93,254,622	98,476,917	-
Recreation	4,280,022	-	4,280,022	-
Community development and housing	197,286,085	-	197,286,085	-
Environment	5,790,026	-	5,790,026	-
Debt service	3,124,626	-	3,124,626	66,506,019
Other purposes	-	-	-	37,675,837
Unrestricted (deficit)	(1,365,476,872)	26,894,257	(1,314,007,615)	(269,903,024)
Total Net Assets	$ 1,017,396,766	$ 305,449,557	$ 1,322,846,323	$ 2,467,115,861

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
Exhibit A-2

Functions	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Governmental Activities				
General government	$ 351,138,451	$ 69,255,366	$ 4,727,151	$ 6,279,853
Public safety	600,877,545	35,960,217	34,066,226	805,520
Public works and transportation	263,586,549	28,375,493	17,616,341	49,814,738
Health and human services	256,703,043	5,785,003	87,045,926	-
Culture and recreation	93,560,027	36,029,762	5,391,330	3,794,333
Community development and housing	46,198,670	5,328,444	13,596,969	556,768
Environment	28,584,840	17,686,313	2,984,828	12,063
Education	1,751,721,080	-	-	-
Interest on long term debt	116,354,151	-	-	-
Total Governmental Activities	3,508,724,356	198,420,598	165,428,771	61,263,275
Business-type Activities				
Liquor control	220,242,176	252,285,232	-	-
Solid waste disposal and collection	99,723,180	108,410,918	-	-
Parking lot districts	29,724,042	29,208,719	-	-
Permitting services	25,039,256	41,196,475	-	-
Community use of public facilities	8,890,716	10,378,258	-	-
Total Business-type Activities	383,619,370	441,479,602	-	-
Total Primary Government	$ 3,892,343,726	$ 639,900,200	$ 165,428,771	$ 61,263,275
Component Units:				
General government (BUPI)	$ 4,516,099	$ 4,198,315	$ 211,544	$ -
Culture and recreation (MCRA)	19,099,824	17,516,047	-	2,861,138
Community development and housing (HOC)	224,027,766	119,092,523	106,606,775	1,629,382
Education:				
Elementary and secondary education (MCPS)	2,471,506,627	29,930,682	115,075,530	59,852,277
Higher education (MCC)	293,752,875	78,844,685	44,438,477	773,184
Total Component Units	$ 3,012,903,191	$ 249,582,252	$ 266,332,326	$ 65,115,981

General Revenues:
Property taxes
County income taxes
Real property transfer taxes
Recordation taxes
Fuel energy taxes
Hotel-motel taxes
Telephone taxes
Other taxes
Grants and contibutions not restricted to specific programs
Investment income
Gain on sale of capital assets
Transfers
Total General Revenues and Transfers
Change in net Assets
Net Assets - Beginning
Net Assets - Ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (270,876,081)	$ -	$ (270,876,081)	$ -
(530,045,582)	-	(530,045,582)	-
(167,779,977)	-	(167,779,977)	-
(163,872,114)	-	(163,872,114)	-
(48,344,602)	-	(48,344,602)	-
(26,716,489)	-	(26,716,489)	-
(7,901,636)	-	(7,901,636)	-
(1,751,721,080)	-	(1,751,721,080)	-
(116,354,151)	-	(116,354,151)	-
(3,083,611,712)	-	(3,083,611,712)	-
-	32,043,056	32,043,056	-
-	8,687,738	8,687,738	-
-	(515,323)	(515,323)	-
-	16,157,219	16,157,219	-
-	1,487,542	1,487,542	-
-	57,860,232	57,860,232	-
$ (3,083,611,712)	$ 57,860,232	$ (3,025,751,480)	$ -
$ -	$ -	$ -	$ (106,240)
-	-	-	1,277,361
-	-	-	3,300,914
-	-	-	(2,266,648,138)
-	-	-	(169,696,529)
$ -	$ -	$ -	$ (2,431,872,632)
1,395,693,492	8,503,222	1,404,196,714	-
1,265,289,159	-	1,265,289,159	-
76,089,437	-	76,089,437	-
51,207,341	-	51,207,341	-
226,148,664	-	226,148,664	-
18,167,827	-	18,167,827	-
46,470,315	-	46,470,315	-
4,012,256	-	4,012,256	-
-	-	-	2,526,452,312
7,035,479	43,202	7,078,681	4,996,791
1,103,216	42,544,670	43,647,886	325,175
47,986,288	(47,986,288)	-	-
3,139,203,474	3,104,806	3,142,308,280	2,531,774,278
55,591,762	60,965,038	116,556,800	99,901,646
961,805,004	244,484,519	1,206,289,523	2,367,214,215
$ 1,017,396,766	$ 305,449,557	$ 1,322,846,323	$ 2,467,115,861

MONTGOMERY COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012
Exhibit A-3

	General	Revenue Stabilization	Housing Initiative	Grants	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS								
Equity in pooled cash and investments	$ 81,549,138	$ 155,255,188	$ 880,714	$ -	$ 1,239,429	$ 221,874,600	$ 36,027,556	$ 496,826,625
Cash with fiscal agents	3,667,311	-	-	-	3,151,969	45,038,348	-	51,857,628
Cash	147,345	-	212,450	-	-	-	32,600	392,395
Receivables (net of allowances for uncollectibles):								
Income taxes	363,559,920	-	-	-	-	-	-	363,559,920
Property taxes	16,292,469	-	-	-	-	-	4,233,703	20,526,172
Capital leases	-	-	-	-	33,100,000	-	-	33,100,000
Accounts	73,884,352	-	-	-	-	321,651	7,539,901	81,745,904
Notes	-	-	-	5,287,071	-	12,068	969,278	6,268,417
Parking violations	371,943	-	-	-	-	-	273,195	645,138
Mortgages receivable	142,152	-	149,846,366	34,108,658	-	300,000	3,400,630	187,797,806
Other	-	-	-	8,066	-	75	-	8,141
Due from other funds	133,566,634	-	-	1,368	-	-	656,410	134,224,412
Due from component units	306,825	-	44,338,930	3,955,577	-	17,548,402	-	66,149,734
Due from other governments	6,862,536	-	-	23,294,667	-	4,542,506	1,905,794	36,605,503
Inventory of supplies	5,325,225	-	-	-	-	2,722,032	-	8,047,257
Prepaids	310,355	-	-	355	-	2,500	104,580	417,790
Total Assets	$ 685,986,205	$ 155,255,188	$ 195,278,460	$ 66,655,762	$ 37,491,398	$ 292,362,182	$ 55,143,647	$ 1,488,172,842
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	$ 16,657,088	$ -	$ 289,445	$ 3,593,075	$ 64,942	$ 23,065,809	$ 3,936,267	$ 47,606,626
Retainage payable	2,578	-	-	-	-	18,293,573	38,772	18,334,923
Accrued liabilities	37,645,512	-	44,456	860,718	-	836,661	9,311,775	48,699,122
Deposits	-	-	-	-	1,200,000	-	163,799	1,363,799
Due to other funds	6,584,696	-	10,179	13,122,154	-	117,227,661	5,083,017	142,027,707
Due to component units	51,432,787	-	43,632	1,087,310	-	11,378,454	1,120	63,943,303
Due to other governments	3,079,871	-	600	4,471,866	-	3,366,690	2,737,632	13,656,659
Deferred revenue	310,384,415	-	1,977,129	43,520,639	33,101,830	2,390,237	5,481,109	396,855,359
Total Liabilities	425,786,947	-	2,365,441	66,655,762	34,366,772	176,559,085	26,753,491	732,487,498
Fund Balances:								
Nonspendable	5,635,580	-	192,208,168	-	-	16,053,242	4,402,222	218,299,212
Restricted	-	155,255,188	608,996	-	3,124,626	-	13,179,770	172,168,580
Committed	41,243,696	-	95,855	-	-	99,749,855	17,381,939	158,471,345
Assigned	20,382,922	-	-	-	-	-	-	20,382,922
Unassigned	192,937,060	-	-	-	-	-	(6,573,775)	186,363,285
Total Fund Balances	260,199,258	155,255,188	192,913,019	-	3,124,626	115,803,097	28,390,156	755,685,344
Total Liabilities and Fund Balances	$ 685,986,205	$ 155,255,188	$ 195,278,460	$ 66,655,762	$ 37,491,398	$ 292,362,182	$ 55,143,647	$ 1,488,172,842

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, 2012
Exhibit A-4

Total fund balance - governmental funds (see Exhibit A-3)		$ 755,685,344
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets uses in governmental fund activities are not financial resources and therefore not reported in the funds:		
Nondepreciable capital assets:		
Land	$ 795,629,329	
Construction in progress	764,824,971	
Depreciable capital assets:		
Buildings	758,406,976	
Improvements other than buildings	48,755,996	
Furniture, fixtures, equipment and machinery	255,575,431	
Automobiles and trucks	181,790,549	
Infrastructure	1,713,429,414	
Other capital assets	43,489,147	
Total capital assets	4,561,901,813	
Less accumulated depreciation	(1,231,587,451)	3,330,314,362
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	(1,997,290,000)	
Variable rate demand obligations	(100,000,000)	
Bond anticipation notes payable	(500,000,000)	
Lease revenue bonds payable	(33,100,000)	
Accrued interest payable	(35,577,157)	
Capital leases payable	(46,530,000)	
Taxable limited obligation	(56,265,000)	
Certificates of participation	(37,420,000)	
Notes payable	(59,537,476)	
Revenue bonds	(41,265,110)	
Other postemployment benefits	(375,587,377)	
Claims and judgements	(1,976,921)	
Compensated absences	(71,858,495)	(3,356,407,536)
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	(145,994,127)	
Deferred amount on refunding	33,791,743	
Deferred issuance costs	6,871,579	(105,330,805)
Internal service funds are used by management to provide certain goods and services to governmental funds. The assets and liabilities of internal service funds are included in the government-wide statement of net assets:		
Assets:		
Current and non current assets	175,208,622	
Capital assets	78,574,447	
Less accumulated depreciation	(56,404,296)	
Liabilities	(155,973,147)	
Cumulative gain for certain activities of internal service funds that is reported with business-type activities	1,321,781	42,727,407
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Income taxes	289,152,939	
Property taxes	19,804,593	
Intergovernmental revenue	2,545,418	
Other revenue	38,905,044	350,407,994
Net assets of governmental activities (See Exhibit A-1)		$ 1,017,396,766

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
Exhibit A-5

	General	Revenue Stabilization	Housing Initiative	Grants	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES								
Taxes	$ 2,719,812,391	$ -	$ 1,088,744	$ -	$ -	$ 51,601,547	$ 298,852,810	$ 3,071,355,492
Licenses and permits	9,877,007	-	-	-	-	-	2,318,133	12,195,140
Intergovernmental	41,873,345	-	-	112,640,313	6,278,732	52,035,422	26,000,289	238,828,101
Charges for services	26,194,590	-	-	-	-	-	78,279,584	104,474,174
Fines and forfeitures	18,742,899	-	-	-	-	-	1,080,392	19,823,291
Investment income	7,470	615	1,060,091	246,088	60,070	202,345	102,003	1,678,682
Miscellaneous	13,294,449	-	9,805,087	458,985	5,602,890	1,480,482	1,621,079	32,262,972
Total Revenues	2,829,802,151	615	11,953,922	113,345,386	11,941,692	105,319,796	408,254,290	3,480,617,852
EXPENDITURES								
Current:								
General government	287,397,383	-	-	4,074,945	-	-	12,819,921	304,292,249
Public safety	337,430,390	-	-	18,751,732	-	-	189,549,853	545,731,975
Public works and transportation	51,213,365	-	-	4,506,724	-	-	107,775,498	163,495,587
Health and human services	178,657,113	-	-	63,101,466	-	-	-	241,758,579
Culture and recreation	33,348,898	-	-	205,484	-	-	36,364,731	69,919,113
Community development and housing	8,759,687	-	21,418,600	14,097,711	-	-	150,306	44,426,304
Environment	2,284,275	-	-	3,132,569	-	-	15,440,677	20,857,521
Education	1,478,257,618	-	-	6,213,325	-	-	-	1,484,470,943
Debt Service:								
Principal retirement	-	-	-	-	160,126,917	-	-	160,126,917
Leases and other obligations	-	-	-	-	24,704,102	-	-	24,704,102
Interest	-	-	-	-	96,102,824	-	-	96,102,824
Issuing costs	-	-	-	-	6,108,436	-	-	6,108,436
Capital projects	-	-	-	-	-	559,056,287	-	559,056,287
Total Expenditures	2,377,348,729	-	21,418,600	114,083,956	287,042,279	559,056,287	362,100,986	3,721,050,837
Excess (Deficiency) of Revenues over (under) Expenditures	452,453,422	615	(9,464,678)	(738,570)	(275,100,587)	(453,736,491)	46,153,304	(240,432,985)
OTHER FINANCING SOURCES (USES)								
Transfers in	54,787,810	60,716,985	19,476,311	1,371,570	272,272,931	64,230,626	21,357,111	494,213,344
Transfers (out)	(355,882,775)	-	(15,094,891)	(633,000)	(6,946,619)	(9,903,021)	(58,678,156)	(447,138,462)
Sale of property	-	-	1,032,256	-	-	546,109	-	1,578,365
Financing under notes and leases payable	1,328,880	-	-	-	-	33,822,618	-	35,151,498
Payment to refunded bond escrow agent	-	-	-	-	(314,114,061)	-	-	(314,114,061)
Debt Issued:								
General obligation bonds	-	-	-	-	320,000,000	-	-	320,000,000
Premium on original issue debt	-	-	-	-	37,661,920	-	-	37,661,920
Bond anticipation notes	-	-	-	-	(356,000,000)	356,000,000	-	-
Taxable limited obligation certificate	-	-	-	-	-	28,840,000	-	28,840,000
General obligation refunding bonds	-	-	-	-	237,655,000	-	-	237,655,000
Premium on general obligation refunding bonds	-	-	-	-	43,863,734	-	-	43,863,734
Lease revenue refunding bonds	-	-	-	-	35,465,000	-	-	35,465,000
Premium on lease revenue refunding bonds	-	-	-	-	5,024,199	328,836	-	5,353,035
Total Other Financing Sources (Uses)	(299,766,085)	60,716,985	5,413,676	738,570	274,882,104	473,865,168	(37,321,045)	478,529,373
Net Change in Fund Balances	152,687,337	60,717,600	(4,051,002)	-	(218,483)	20,128,677	8,832,259	238,096,388
Fund Balances - Beginning of Year	107,511,921	94,537,588	196,964,021	-	3,343,109	95,674,420	19,557,897	517,588,956
Fund Balances - End of Year	$ 260,199,258	$ 155,255,188	$ 192,913,019	$ -	$ 3,124,626	$ 115,803,097	$ 28,390,156	$ 755,685,344

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

MONTGOMERY COUNTY, MARYLAND
RECONCILIATION OF THE REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
Exhibit A-6

Net change in fund balances - total governmental funds (see Exhibit A-5)		$ 238,096,388
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays are expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated lives and reported are depreciation expense:		
Capital outlay	$ 228,234,653	
Depreciation expense	(82,973,466)	145,261,187
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.	(530,721)	(530,721)
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.	4,856,777	4,856,777
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	10,199,337	
Property taxes	2,440,545	
Intergovernmental revenues	(11,007,986)	
Other revenues	(731,376)	900,520
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmenal funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and simmilar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:		
Debt issued or incurred:		
General obligation bonds	(639,180,654)	
Bond anticipation notes	(356,000,000)	
Taxable Limited Obligation Certificates	(29,168,836)	
Notes payable	(33,849,018)	
Capital lease financing	(1,328,880)	
Lease revenue bonds	(40,489,199)	
Less issuance costs	3,920,970	
Principal repayments:		
General obligation bonds	415,965,000	
Bond anticipation notes	356,000,000	
Taxable Limited Obligation Certificates	2,045,000	
Leases payable	33,958,000	
Capital leases	7,805,000	
Certificates of participation	6,515,000	
Notes payable	7,442,333	
Revenue bonds	1,538,846	(264,826,438)
Some expenses, representing the change in long-term liabilities or assets, reported in the statement of activities do not require the use of current financial resources and, therfore, are not reported as expenditures in governmental funds:		
Accrued interest payable	(11,212,329)	
Compensated absences	7,100,751	
Other postemployment benefits	(93,196,319)	
Amortization	23,155,193	(74,152,704)
The current year gain for certain activities of internal service funds is reported with governmental activities.		5,986,753
Change in net assets of governmental activities (see Exhibit A-2)		$ 55,591,762

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012
Exhibit A-7

	Business-Type Activities - Enterprise Funds					
	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds	Totals	Governmental Activities- Internal Service Funds
ASSETS						
Current Assets:						
Equity in pooled cash and investments	$ 182,500	$ 28,433,800	$ 14,957,396	$ 27,147,806	$ 70,721,502	$ 163,458,510
Cash with fiscal agents	7,250,998	-	23,593,366	-	30,844,364	-
Cash	33,325	3,000	93,459	-	129,784	300
Receivables (net of allowances for uncollectibles):						
Property taxes	-	-	669,551	-	669,551	-
Accounts	1,775,725	2,777,608	98,353	104,487	4,756,173	1,136,042
Parking violations	-	-	1,729,418	-	1,729,418	-
Due from other funds	-	-	-	-	-	4,684,689
Due from component units	-	46,868	-	-	46,868	1,109,833
Due from other governments	-	137,331	-	-	137,331	385,751
Inventory of supplies	26,060,009	-	-	-	26,060,009	4,399,799
Prepaids	210,523	928	3,040	-	214,491	33,700
Other assets	721,113	-	-	-	721,113	-
Total Current Assets	36,234,193	31,399,535	41,144,583	27,252,293	136,030,604	175,208,624
Noncurrent Assets:						
Restricted Assets:						
Equity in pooled cash and equivalents	-	30,015,766	7,036,927	-	37,052,693	-
Investments	-	3,788,132	4,306,612	-	8,094,744	-
Restricted Assets	-	33,803,898	11,343,539	-	45,147,437	-
Notes receivable	-	-	33,171,500	-	33,171,500	-
Unamortized debt costs	314,782	45,800	657,120	-	1,017,702	-
Capital Assets:						
Land, improved and unimproved	7,033,656	17,834,755	34,770,723	-	59,639,134	22,506
Improvements other than buildings	-	81,554,468	74,207,064	-	155,761,532	268,565
Infrastructure	-	14,351	-	-	14,351	-
Buildings	33,597,257	32,750,237	185,519,552	-	251,867,046	-
Furniture, fixtures, equipment, and machinery	6,503,884	12,433,986	1,060,733	1,964,586	21,963,189	5,068,197
Automobiles and trucks	3,679,373	173,960	131,446	215,595	4,200,374	72,523,877
Construction in progress	10,793,703	-	4,848,897	-	15,642,600	691,302
Subtotal	61,607,873	144,761,757	300,538,415	2,180,181	509,088,226	78,574,447
Less: Accumulated depreciation	15,184,111	103,762,429	133,453,076	2,019,638	254,419,254	56,404,296
Total Capital Assets (net of accumulated depreciation)	46,423,762	40,999,328	167,085,339	160,543	254,668,972	22,170,151
Total Noncurrent Assets	46,738,544	74,849,026	212,257,498	160,543	334,005,611	22,170,151
Total Assets	82,972,737	106,248,561	253,402,081	27,412,836	470,036,215	197,378,775
LIABILITIES						
Current Liabilities:						
Accounts payable	11,140,532	5,231,031	3,638,286	229,487	20,239,336	8,486,421
Interest payable	-	11,188	356,019	-	367,207	-
Retainage payable	935,998	-	496,852	-	1,432,850	-
Deposits	433,900	-	464,328	8,471,913	9,370,141	-
Claims payable	-	-	-	-	-	38,346,027
Accrued liabilities	2,188,849	1,148,718	3,569,110	2,223,813	9,130,490	2,987,325
Due to other funds	2,240,139	109,395	47,172	249,611	2,646,317	3,831,979
Due to component units	-	-	5,372	659,471	664,843	-
Due to other governments	-	838,834	393	-	839,227	-
Equipment notes payable	-	-	-	-	-	412,462
Unearned revenue	-	-	-	2,504,339	2,504,339	343,083
Revenue bonds payable	1,316,500	2,683,309	2,020,000	-	6,019,809	-
Landfill closure costs	-	1,060,272	-	-	1,060,272	-
Other liabilities	-	-	768,341	-	768,341	-
Total Current Liabilities	18,255,918	11,082,747	11,365,873	14,338,634	55,043,172	54,407,297
Noncurrent Liabilities:						
Claims payable	-	-	-	-	-	99,851,000
Revenue bonds payable	34,141,224	-	52,800,627	-	86,941,851	-
Landfill closure costs	-	15,939,410	-	-	15,939,410	-
Compensated absences	500,893	236,290	89,943	548,096	1,375,222	573,636
Other postemployment benefits	1,838,263	477,233	229,800	1,419,926	3,965,222	1,141,214
Total Noncurrent Liabilities	36,480,380	16,652,933	53,120,370	1,968,022	108,221,705	101,565,850
Total Liabilities	54,736,298	27,735,680	64,486,243	16,306,656	163,264,877	155,973,147
NET ASSETS						
Invested in capital, net of related debt	10,966,038	38,316,019	135,858,078	160,543	185,300,678	21,757,689
Restricted for debt service	7,250,998	33,803,898	11,343,539	-	52,398,435	-
Unrestricted	10,019,403	6,392,964	41,714,221	10,945,637	69,072,225	19,647,939
Total Net Assets	$ 28,236,439	$ 78,512,881	$ 188,915,838	$ 11,106,180	306,771,338	$ 41,405,628
ADJUSTMENTS						
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(1,321,781)	
Net assets of business-type activities					$ 305,449,557	

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, 2012
Exhibit A-8

	Business-Type Activities - Enterprise Funds					
	Liquor	**Solid Waste Activities**	**Parking Lot Districts**	**Other Enterprise Funds**	**Totals**	**Governmental Activities- Internal Service Funds**
OPERATING REVENUES						
Sales - net	$ 250,350,747	$ -	$ -	$ -	$ 250,350,747	$ -
Charges for services	16,291	107,738,142	21,100,345	14,033,502	142,888,280	272,446,882
Licenses and permits	1,691,321	7,435	-	37,308,378	39,007,134	-
Fines and penalties	267,058	27,215	7,816,155	65,153	8,175,581	-
Claim recoveries	-	-	-	-	-	2,135,338
Total Operating Revenues	252,325,417	107,772,792	28,916,500	51,407,033	440,421,742	274,582,220
OPERATING EXPENSES						
Cost of goods sold	177,547,640	-	-	-	177,547,640	-
Personnel costs	23,949,711	12,195,786	4,005,319	21,320,910	61,471,726	24,079,004
Other post employment contributions	3,225,800	843,350	548,180	2,213,780	6,831,110	2,530,020
Postage	2,175	18,607	7,835	9,349	37,966	1,098,252
Self-insurance incurred and estimated claims	-	-	-	-	-	188,756,623
Insurance	541,330	823,462	21,610	140,240	1,526,642	6,406,062
Supplies and materials	526,014	868,967	440,044	332,523	2,167,548	29,781,600
Contractual services	1,835,202	79,146,127	6,265,433	4,312,917	91,559,679	11,669,061
Communications	482,207	185,142	190,179	246,934	1,104,462	612,908
Transportation	1,045,437	1,724,564	270,348	650,477	3,690,826	148,978
Public utility services	950,804	129,931	3,514,547	1,873,107	6,468,389	1,236,580
Rentals	6,395,422	25,010	1,173,788	2,420,058	10,014,278	1,683,416
Maintenance	426,314	324,181	2,305,245	302,856	3,358,596	10,996,551
Depreciation	1,504,449	2,144,369	9,684,217	84,102	13,417,137	6,421,576
Landfill closure expense	-	242,000	-	-	242,000	-
Other	326,307	110,380	10,081	22,719	469,487	71,964
Total Operating Expenses	218,758,812	98,781,876	28,436,826	33,929,972	379,907,486	285,492,595
Operating Income (Loss)	33,566,605	8,990,916	479,674	17,477,061	60,514,256	(10,910,375)
NONOPERATING REVENUES (EXPENSES)						
Property taxes	-	-	8,503,222	-	8,503,222	-
Intergovernmental	-	25	-	-	25	-
Gain (loss) on disposal of capital assets	(1,617)	(572,285)	42,544,670	-	41,970,768	55,572
Investment income	2,869	23,549	16,620	164	43,202	1,117
Interest expense	(1,481,747)	(369,019)	(1,287,216)	-	(3,137,982)	(15,411)
Other revenue	33,690	175,131	293,627	27,137	529,585	4,414,418
Insurance recoveries	2,694	431,361	5,635	-	439,690	541,077
Total Nonoperating Revenues (Expenses)	(1,444,111)	(311,238)	50,076,558	27,301	48,348,510	4,996,773
Income (Loss) Before Capital Contributions and Transfers	32,122,494	8,679,678	50,556,232	17,504,362	108,862,766	(5,913,602)
Transfers In (Out):						
Transfers in	-	-	-	25,000	25,000	911,406
Transfers out	(28,503,717)	(2,177,180)	(14,176,801)	(3,153,590)	(48,011,288)	-
Total Transfers In (Out)	(28,503,717)	(2,177,180)	(14,176,801)	(3,128,590)	(47,986,288)	911,406
Change in Net Assets	3,618,777	6,502,498	36,379,431	14,375,772	60,876,478	(5,002,196)
Total Net Assets - Beginning of Year	24,617,662	72,010,383	152,536,407	(3,269,592)		46,407,824
Total Net Assets - End of Year	$ 28,236,439	$ 78,512,881	$ 188,915,838	$ 11,106,180		$ 41,405,628

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	88,560
Change in net assets of business-type activities	$ 60,965,038

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, 2012
Exhibit A-9

	Business Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Disposal and Collection	Parking Lot Districts	Other Enterprise Funds	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	$ 262,087,705	$ 105,142,085	$ 29,431,014	$ 50,230,959	$ 446,891,763	$ 278,454,567
Payments to suppliers	(199,558,040)	(83,948,414)	(12,063,748)	(12,386,569)	(307,956,771)	(88,721,648)
Payments to employees	(22,886,964)	(13,098,166)	(1,283,988)	(22,072,132)	(59,341,250)	(27,551,986)
Internal activity - payments from other funds	-	2,918,630	-	1,153,770	4,072,400	-
Other operating receipts	-	-	-	4,049,141	4,049,141	5,158,743
Other operating payments	-	-	-	(4,317,251)	(4,317,251)	-
Claims paid	-	-	-	-	-	(141,064,578)
Other revenue	38,052	606,517	299,189	27,137	970,895	-
Net Cash Provided (Used) by Operating Activities	39,680,753	11,620,652	16,382,467	16,685,055	84,368,927	26,275,098
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Property tax collections	-	-	8,503,222	-	8,503,222	-
Operating subsidies and transfers from other funds	-	-	-	25,000	25,000	-
Operating subsidies and transfers to other funds	(28,503,717)	(2,177,180)	(14,176,801)	(3,758,590)	(48,616,288)	-
Net Cash Provided (Used) by Noncapital Financing Activities	(28,503,717)	(2,177,180)	(5,673,579)	(3,733,590)	(40,088,066)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from capital debt	-	-	23,757,624	-	23,757,624	671,436
Proceeds from sale of capital assets	-	144,760	12,562,599	-	12,707,359	-
Acquisition and construction of capital assets	(9,753,196)	(568,819)	(13,240,198)	-	(23,562,213)	(2,882,440)
Principal paid on capital debt	(1,286,154)	(3,071,997)	(2,076,782)	-	(6,434,933)	(77,892)
Interest paid on capital debt	(1,639,020)	(318,750)	(1,279,745)	-	(3,237,515)	(16,169)
Internal activity - payments from other funds	-	-	-	-	-	911,406
Net Cash Provided (Used) by Capital and Related Financing Activities	(12,678,370)	(3,814,806)	19,723,498	-	3,230,322	(1,393,659)
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment income from pooled investments	2,869	374	77	164	3,484	1,060
Investment income from nonpooled investments	-	-	-	-	-	57
Net Cash Provided (Used) by Investing Activities	2,869	374	77	164	3,484	1,117
Net Increase (Decrease) in Cash and Cash Equivalents	(1,498,465)	5,629,040	30,432,463	12,951,629	47,514,667	24,882,556
Balances - Beginning of Year	8,965,288	52,823,526	15,248,685	14,196,177	91,233,676	138,576,254
Balances - End of Year	$ 7,466,823	$ 58,452,566	$ 45,681,148	$ 27,147,806	$ 138,748,343	$ 163,458,810
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	$ 33,566,605	$ 8,990,916	$ 479,674	$ 17,477,061	$ 60,514,256	$ (10,910,375)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization	1,504,449	2,144,369	9,684,217	84,102	13,417,137	6,421,576
Other revenue	38,052	606,517	299,189	27,137	970,895	4,414,418
Other operating expenses	-	70,835	-	-	70,835	-
Changes in assets and liabilities:						
Receivables, net	452,140	217,091	108,572	(12,541)	765,262	4,616,672
Prepaids	-	-	132,864	-	132,864	-
Inventories, prepaids and other assets	1,974,206	-	-	-	1,974,206	(245,229)
Accounts payable and other liabilities	1,246,378	413,984	2,930,189	98,176	4,688,727	24,636,335
Accrued expenses	898,923	(823,060)	2,747,762	(988,880)	1,834,745	(2,658,299)
Net Cash Provided (Used) by Operating Activities	$ 39,680,753	$ 11,620,652	$ 16,382,467	$ 16,685,055	$ 84,368,927	$ 26,275,098
Noncash investing, capital and financing activities:						
Refunding of revenue bonds	$ -	$ -	$ 14,860,000	$ -	$ 14,860,000	$ -
Revenue bonds issued as a result of refunding bonds	-	-	13,750,000	-	13,750,000	-
Restricted investments used to retire capital debt	-	618,003	-	-	618,003	-
Change in fair value of investments that are not cash and cash equivalents	-	23,175	16,543	-	39,718	-
Capital asset disposals	125,475	717,045	2,998,179	-	3,840,699	-

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012
Exhibit A-10

	Pension and Other Employee Benefit Trusts	Investment Trust	Private-Purpose Trusts	Agency Funds
ASSETS				
Current Assets:				
Equity in pooled cash and investments	$ 1,295,747	$ 34,188,638	$ 209,286	$ 33,042,018
Cash	-	-	-	113,795
Investments:				
Government and agency obligations	303,907,668	-	-	-
Asset-backed securities	2,966,713	-	-	-
Municipal/Provincial bonds	28,647,969	-	-	-
Corporate bonds	572,946,146	-	-	-
Collateralized mortgage obligations	2,547,786	-	-	-
Commercial mortgage-backed securities	1,196,517	-	-	-
Common and preferred stock	1,266,564,139	-	-	-
Mutual and commingled funds	660,660,732	-	-	-
Short-term investments	292,635,896	-	-	-
Cash collateral received under securities lending agreements	303,900,721	-	-	-
Real assets	150,047,987	-	-	-
Private equity	229,073,503	-	-	-
Total investments	3,815,095,777	-	-	-
Receivables (net of allowances for uncollectibles):				
Receivables and accrued interest	6,132,660	-	-	-
Property taxes	-	-	-	5,061,490
Accounts	231,439	-	-	115,678
Due from other funds	9,608,767	-	-	-
Due from component units	2,229,328	-	-	-
Due from other governments	928,536	-	-	1,296,257
Total Current Assets	3,835,522,254	34,188,638	209,286	39,629,238
Total Assets	3,835,522,254	34,188,638	209,286	$ 39,629,238
LIABILITIES				
Current Liabilities:				
Accounts payable	308,158,744	-	25,000	27,864
Accrued liabilities	182,845	-	-	1,719,821
Claims payable	4,494,553	-	-	-
Due to other funds	11,865	-	-	-
Due to other governments	-	-	-	943,672
Uncollected property taxes due to governments	-	-	-	4,737,003
Undistributed taxes and refunds	-	-	-	16,689,683
Unearned revenue	77,121	-	-	-
Tax sale surplus and redemptions payable	-	-	-	2,999,773
Other liabilities	-	-	-	12,511,422
Total Current Liabilities	312,925,128	-	25,000	39,629,238
Noncurrent Liabilities:				
Compensated absences	44,621	-	-	-
Total Liabilities	312,969,749	-	25,000	$ 39,629,238
NET ASSETS				
Held in trust for pension and other postemployment benefits, external investment pool participants, and other purposes	$ 3,522,552,505	$ 34,188,638	$ 184,286	

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, 2012
Exhibit A-11

	Pension and Other Employee Benefit Trusts	Investment Trust	Private-Purpose Trusts
ADDITIONS			
Contributions:			
Employers	$ 206,095,559	$ -	$ -
Members	64,804,411	-	-
Federal government - Medicare Part D	2,415,262	-	-
Share purchases	-	28,589,433	-
Total Contributions	273,315,232	28,589,433	-
Investment income (loss)	137,057,388	11,310	56
Less: Investment expenses	17,307,080	-	-
Net Investment Income (Loss)	119,750,308	11,310	56
Other income - forfeitures	252,634	-	-
Total Additions, net	393,318,174	28,600,743	56
DEDUCTIONS			
Benefits:			
Annuities:			
Retirees	150,413,170	-	-
Survivors	8,233,185	-	-
Disability	44,127,146	-	-
Claims	44,676,677	-	-
Total Benefits	247,450,178	-	-
Share redemptions	-	47,335,453	-
Member refunds	27,133,112	-	-
Administrative expenses	7,514,329	-	555,742
Total Deductions	282,097,619	47,335,453	555,742
Net Increase (Decrease)	111,220,555	(18,734,710)	(555,686)
Net Assets - Beginning of Year	3,411,331,950	52,923,348	739,972
Net Assets - End of Year	$ 3,522,552,505	$ 34,188,638	$ 184,286

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2012
Exhibit A-12

	MCPS	HOC	Nonmajor Component Units	Total
ASSETS				
Equity in pooled cash and investments	$ 14,632,824	$ -	$ 37,065,776	$ 51,698,600
Cash with fiscal agents	-	39,348,466	11,192,352	50,540,818
Cash	8,930,050	16,990	6,706,254	15,653,294
Investments-cash equivalents	63,174,896	36,431,058	19,422,483	119,028,437
Investments	4,509,331	-	31,124,438	35,633,769
Receivables (net of allowances for uncollectibles):				
Capital leases	-	-	20,730,374	20,730,374
Accounts	45,085,722	989,725	7,893,277	53,968,724
Notes	-	-	59,705,000	59,705,000
Mortgages receivable	-	375,102,851	-	375,102,851
Interest	-	5,435,660	-	5,435,660
Other	347,827	3,016,213	1,605,680	4,969,720
Due from primary government	54,272,709	2,475,960	7,859,477	64,608,146
Due from other governments	20,067,633	539,325	2,491,884	23,098,842
Inventory of supplies	8,089,224	271,193	1,945,593	10,306,010
Prepaids	309,910	2,426,128	2,989,264	5,725,302
Deferred charges	-	-	367,705	367,705
Other assets	1,892,720	56,782,515	70,640,568	129,315,803
Restricted Assets:				
Equity in pooled cash and investments	-	-	17,410,310	17,410,310
Cash with fiscal agents	-	16,847,398	-	16,847,398
Cash	-	-	3,137,519	3,137,519
Investments - cash equivalents	-	118,218,589	-	118,218,589
Investments	-	153,587,453	3,295,076	156,882,529
Capital Assets:				
Nondepreciable assets	282,390,515	84,673,024	119,299,421	486,362,960
Depreciable assets, net	1,980,516,339	367,552,316	329,722,150	2,677,790,805
Total Assets	2,484,219,700	1,263,714,864	754,604,601	4,502,539,165
LIABILITIES				
Accounts payable	71,376,560	23,139,223	25,684,391	120,200,174
Interest payable	-	37,561,389	828,109	38,389,498
Retainage payable	10,426,716	-	-	10,426,716
Accrued liabilities	36,580,118	7,059,598	780,367	44,420,083
Deposits	-	10,088,152	164,051	10,252,203
Due to primary government	117,241	69,061,841	356,681	69,535,763
Due to other governments	-	-	72,398	72,398
Unearned revenue	4,621,086	21,617,788	7,183,291	33,422,165
Other liabilities	-	20,280,104	43,228	20,323,332
Noncurrent Liabilities:				
Due within one year	40,856,422	51,364,931	10,609,590	102,830,943
Due in more than one year	530,801,547	826,651,447	228,097,035	1,585,550,029
Total Liabilities	694,779,690	1,066,824,473	273,819,141	2,035,423,304
NET ASSETS				
Invested in capital, net of related debt	2,238,375,950	25,451,090	366,092,824	2,629,919,864
Restricted for:				
Capital projects	-	-	2,917,165	2,917,165
Debt service	-	63,210,943	3,295,076	66,506,019
Other purposes	3,634,941	9,178,396	24,862,500	37,675,837
Unrestricted (deficit)	(452,570,881)	99,049,962	83,617,895	(269,903,024)
Total Net Assets	$ 1,789,440,010	$ 196,890,391	$ 480,785,460	$ 2,467,115,861

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, 2012
Exhibit A-13

		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	$ 4,516,099	$ 4,198,315	$ 211,544	$ -	$ -	$ -	$ (106,240)	$ (106,240)
Culture and recreation	19,099,824	17,516,047	-	2,861,138	-	-	1,277,361	1,277,361
Community development and housing	224,027,766	119,092,523	106,606,775	1,629,382	-	3,300,914	-	3,300,914
Education:								
Secondary education	2,471,506,627	29,930,682	115,075,530	59,852,277	(2,266,648,138)	-	-	(2,266,648,138)
Higher education	293,752,875	78,844,685	44,438,477	773,184	-	-	(169,696,529)	(169,696,529)
Total component units	$ 3,012,903,191	$ 249,582,252	$ 266,332,326	$ 65,115,981	(2,266,648,138)	3,300,914	(168,525,408)	(2,431,872,632)
General revenues:								
Grants and contributions not restricted to specific programs					2,348,020,094	-	178,432,218	2,526,452,312
Investment income					-	590,387	4,406,404	4,996,791
Gain on sale of capital assets					325,175	-	-	325,175
Total general revenues					2,348,345,269	590,387	182,838,622	2,531,774,278
Change in net assets					81,697,131	3,891,301	14,313,214	99,901,646
Net assets - beginning, as restated					1,707,742,879	192,999,090	466,472,246	2,367,214,215
Net assets - ending					$ 1,789,440,010	$ 196,890,391	$ 480,785,460	$ 2,467,115,861

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

MONTGOMERY COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County conform to accounting principles generally accepted in the United States of America (GAAP) applicable to local government entities. The following is a summary of significant policies:

A) Reporting Entity

Background

Montgomery County, Maryland (County) is a charter government under the constitution and general laws of the State of Maryland (State). The charter provides for separate legislative and executive branches with legislative responsibility vested in an elected nine-member county council and executive responsibility vested in an elected county executive. The County provides its citizens with services in areas of general government, public safety, public works and transportation, health and human services, education, culture and recreation, community development and housing, and environment.

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

Discretely Presented Component Units

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

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

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

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

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

Bethesda Urban Partnership, Inc (BUPI) has its entire eleven-member Board of Directors appointed by the County Executive with the approval of the County Council. The primary purpose of BUPI is to execute service contracts for the benefit of one of the Primary Government's special taxing districts (Bethesda Urban District). Substantially all of BUPI's funding is granted through the Primary Government's operating budget. The County Council annually approves the BUPI operating budget and is able to modify it in a manner similar to the way Primary Government agency budgets are modified.

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

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

<u>Joint Ventures</u>

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

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

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

B) Government-Wide and Fund Financial Statements

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

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

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

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

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

<u>Budget-to-Actual Comparison Schedules</u> - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the financial progress of their governments over the course of the year. Budget-to-actual comparison schedules for the General Fund and the County's major special revenue funds, (Revenue Stabilization, Housing Initiative, and Grants) are presented as Required Supplementary Information.

C) <u>Measurement Focus, Basis of Accounting, and Financial Statement Presentation</u>

<u>Measurement Focus and Basis of Accounting</u>

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

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

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

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

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

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

Financial Statement Presentation

The County reports the following major governmental funds:

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

Revenue Stabilization Fund - This fund is used to account for the accumulation of resources at a targeted reserve level sufficient to address unexpected increases or decreases in revenues and expenditures. If certain criteria are met, the County is required by law to make an annual contribution to the fund. Funds may be drawn upon during periods of economic slowdown, when a current year appropriation has become unfunded due to revenue shortfalls or unexpected expenditure increases. A significant portion of fund net assets were originally contributed from specific revenue sources, where actual revenues earned exceeded amounts originally budgeted.

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

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

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

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

The County reports the following major enterprise funds:

Liquor Enterprise Fund - This fund accounts for the operations of twenty-three liquor stores and two Montgomery County liquor warehouses. Under State law, the Montgomery County Department of

Liquor Control has a monopoly on the distribution of alcoholic beverages, and the sale of spirits, within the County.

Solid Waste Activities Enterprise Fund - This fund accounts for the fiscal activity of all solid waste disposal operations, including recycling and leaf vacuuming, for the County. The fund utilizes the Dickerson, Maryland Resource Recovery Facility for refuse incineration, in combination with the out-of-County landfill haul and local recycling operations, to meet its disposal and recycling requirements. The fund also accounts for the fiscal activity related to County contracted refuse collection within the Solid Waste Collection District. This district is essentially comprised of the higher density, non-municipal, residential areas of the County. The Vacuum Leaf Collection program provides leaf collection services to downcounty residents during the late fall/winter months.

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

Additionally, the County reports the following fund types:

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

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

The County reports the following fiduciary fund types:

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

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

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

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

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

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

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

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

D) Assets, Liabilities, and Net Assets or Equity

1) Cash and Investments

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

Non-pooled Investments:

Proprietary Fund Types – The Solid Waste Activities and the Parking Lot District enterprise funds investments in U.S. Government securities are stated at fair value plus accrued interest.

Pension and Other Employee Benefit Trust Fiduciary Fund Type – Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2012. Fair value for private investments funds, including private equity, private real estate, and private real assets, is determined using unit values supplied by the fund managers, which are based upon the fund managers' appraisals of the funds' underlying holdings. Such values involve subjective judgment and may differ from amounts which would be realized if such holdings were actually sold. The fair value of limited partnership investments are based on valuations of the underlying assets of the limited partnerships as reported by the general partner. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

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

2) Receivables and Payables

Due From/To Other Funds and Internal Balances – Activity between funds that are representative of lending/borrowing arrangements that are outstanding at the end of the year and where repayment is expected within a reasonable time are referred to as "due from/to other funds." Such outstanding balances not expected to be repaid within a reasonable time are included in interfund "transfers in/out." Any residual balances of "due from/to other funds" outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

3) Inventories and Prepaids

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

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

4) Restricted Assets

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

5) Capital Assets

Capital assets, which include property, plant, equipment, computer software, and infrastructure assets (e.g., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of $10,000 or more, and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are recorded at estimated fair market value at the date of donation.

An asset's cost basis may be adjusted after acquisition due to improvements or impairments to the asset. However, the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

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

Assets	Years
Buildings and structures	20 – 40
Improvements other than buildings	3 – 40
Infrastructure	20 – 60
Furniture, fixtures, equipment and machinery	3 – 20
Automobiles and trucks	2 – 15
Intangibles	3 – 20

For Statement of Cash Flows reporting purposes, proceeds from insurance on capital assets that are stolen or destroyed are classified as proceeds from sale of capital assets.

6) Compensated Absences

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

7) Long-Term Obligations

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

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

8) Fund Equity/Net Assets

In the government-wide financial statements, the County has reported negative unrestricted net assets. This is due to the fact that the County issues general obligation bonded debt for purposes of capital construction on behalf of MCPS, MCC, and M-NCPPC. The related capital assets are reported on the financial statements of these governments. For MCPS and MCC, component units of the County, this amount is also classified as net assets invested in capital, net of related debt (of which there is none) in the Component Units column of the government-wide Statement of Net Assets (Exhibit A-1). For Primary Government purposes, since the issuance of such debt has not resulted in a capital asset, the effect of this debt is reflected in unrestricted net assets (deficit) in the Governmental Activities column of the government-wide Statement of Net Assets. At June 30, 2012, the County has reported outstanding general obligation bond, variable rate demand obligation, and bond anticipation note debt related to MCPS, MCC, and M-NCPPC amounting to $1,399,452,195. Absent the effect of this relationship, the County would have reported a surplus in unrestricted net assets of governmental activities in the amount of $33,975,323.

In the government-wide Statement of Net Assets (Exhibit A-1), the amount reported in the Business-type Activities column for net assets invested in capital, net of related debt, includes $44,058,809 in capital assets acquired by the Silver Spring Parking Lot District. Since the related capital lease liability of $24,575,000 at June 30, 2012, is an obligation of the Governmental Activities (see Note III-E3), and the debt does not relate to a governmental capital asset, the impact of such debt is reported in the unrestricted portion of net assets in the Governmental Activities column. However, in the Total Primary Government column, the impact of such debt has been reclassified and reflected with the associated capital asset, in net assets invested in capital, net of related debt.

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

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

Long-term receivables in the Grants Special Revenue Fund, a major governmental fund, have not met the "available" criteria for revenue recognition, and are, therefore, offset by deferred revenue rather than any of the constrained categories of fund balance. In the Capital Projects Fund, committed fund balance represents recordation and impact tax collections on hand that are legally restricted for use on projects of other component unit and municipality governments.

9) Property Taxes

Real and personal property taxes are levied at rates enacted by the County Council in the tax levy resolution on the assessed value as determined by the Maryland State Department of Assessments and Taxation. State law stipulates that the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation cannot be exceeded without public notice of the intent to exceed, and only after public hearings. The general property tax rate was levied below the constant yield rate for FY12. Following the Fairness in Taxation (FIT) legislation, the County Charter requires an affirmative vote of nine members of the Council to increase the real property tax rate to a level that will produce total revenues exceeding the total revenue produced by the tax on real property in the preceding year, plus 100 percent of any increase in the Consumer Price Index with exemptions for revenue from newly constructed, rezoned property and development district tax to fund capital improvement projects. The tax rate adopted for levy year 2011 (i.e., FY12), in conjunction with a one-time income tax offset credit, met the Charter limit for that year.

Generally, property taxes are levied as of July 1 and become delinquent on October 1. Interest and penalty amounts are assessed annually at 20 percent on delinquent tax bills. Owner-occupied residential and "small business" property owners pay their tax on a semi-annual schedule, with the first and second installments due on September 30 and December 31, respectively. Taxpayers may opt to make both semi-annual payments on or before September 30.

The County collects delinquent real property taxes through a public tax lien sale. Tax liens, representing delinquent taxes on real property are sold in random groups, utilizing a sealed bid process, on the second Monday in June, when taxes have remained overdue since the preceding October 1 or in the case of a semi-annual schedule, January 1.

E) New Accounting Standards

The County has adopted GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination* which was issued to update and improve existing standards requiring financial reporting and disclosure requirements on derivative securities. This statement did not have any impact on the County's financial statements as the County currently does not use derivatives for hedging.

The County has adopted GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multi-Employer Plans.* This statement did not have an impact on the County's financial statements since the County's OPEB plan is not an agent or agent multiple-employer plan.

NOTE II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A) Budgetary Information

Overview

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

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

Approval

Pursuant to the Montgomery County Charter, the Capital Improvements Program (CIP), is presented to the County Council by January 15 in even numbered years. An Amended CIP is presented to the County Council by January 15 in odd numbered years. The annual capital budget, with the CIP or Amended CIP, is presented to the County Council by January 15 of every year and the operating budget is presented to the County Council by March 15 of every year. The County Council holds public hearings and, pursuant to the County Charter, an annual appropriation resolution must be passed by the County Council by June 1. This resolution becomes effective for the one-year period beginning the following July 1. For the operating budget, the annual resolution provides the spending authority at the department level in two major categories (personnel costs and operating) with the unencumbered appropriation authority expiring the following June 30. Encumbered appropriations are reappropriated and carried forward to the subsequent fiscal year. With the exception of the Grants Special Revenue Fund (see Note III-H1), such encumbrances are reported as a restricted or committed component of the current fiscal year's fund balance. The annual budget must be consistent with the six-year program for public services and fiscal policy. Multi-year planning provides a framework to make informed decisions about the levels of public services and project the impact of what may happen as a result of current decisions and policies. For the capital projects budget, the annual resolution provides spending authority at the project level. The unencumbered appropriation of the CIP budget is reappropriated in the following year's budget unless specifically closed out by County Council action.

The County Executive has authority to transfer appropriations within departments up to 10 percent of the original appropriation. Transfers between departments are also limited to 10 percent of original appropriation and require County Council action. During the operating year the County Council may adopt a supplemental appropriation if recommended by the County Executive and after holding a public hearing. Supplemental appropriations enacted during the first half of the fiscal year require: five Councilmember votes if they are to avail the County of, or put into effect the provision of Federal, State, or local legislation or regulation; or six Councilmember votes for any other purpose. During the operating year the County Council may also adopt, with six Councilmember votes, special appropriations to meet an unforeseen disaster or other emergency or to act without delay in the public interest. Special appropriations require only public notice by news release. During FY12, the County Council increased the operating budget through supplemental and special appropriations by $8.8 million. In addition, supplemental appropriations increased the CIP budget by $79.1 million.

Presentation

The basis used to prepare the legally adopted budget is different from GAAP in a number of ways, including the following:

- Encumbrances outstanding are charged to budgetary appropriations and considered expenditures of the current period; any cancellations of such encumbrances in a subsequent year are classified with miscellaneous revenue for budgetary purposes.
- Certain activity, such as unrealized gains (losses), is not budgeted due to its nature.
- Certain interfund revenues/expenditures are classified as transfers for budget purposes.
- Proprietary fund budgets do not include depreciation and bad debts, however they do include debt service payments and capital outlay.
- Year-end incurred but not reported (IBNR) adjustments in the self-insurance internal service funds are not budgeted for, as they are incorporated into the budget preparation process of the following fiscal year.
- Mortgages and loans made and related repayments are generally accounted for as expenditures/other financial uses and revenues/other financing sources, respectively.
- Retirement of commercial paper bond anticipation notes through the issuance of general obligation bonds is not budgeted.
- Proceeds under certain capital lease financing are not budgeted.
- Certain activity is not budgeted by the County, since it is included in the budget of a component unit that is legally adopted by the County Council, such as certain pass-through expenditures, and bond proceeds and related transfers to MCPS and MCC.

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

	Revenues	Expenditures and Encumbrances	Other Financing Sources (Uses)	Effect on Fund Balance
General Fund:				
As reported - budgetary basis	$ 2,809,053,357	$ 893,786,529	$ (1,786,023,983)	$ 129,242,845
Reconciling items:				
Cancellation of prior year encumbrances	(2,592,222)	-	-	(2,592,222)
Fair market value gains (losses)	(7,760)	-	-	(7,760)
Elimination of encumbrances outstanding	-	(20,382,922)	-	20,382,922
White Flint Development District consolidation	968,734	-	(968,734)	-
Financing under notes and leases payable not required to be budgeted	-	-	1,328,880	1,328,880
Conference center activity	20,376,757	16,044,085	-	4,332,672
Interfund activities budgeted as transfers:				
Recreation facility maintenance costs	1,763,210	-	(1,763,210)	-
Public agency permits	-	1,153,770	1,153,770	-
Solid Waste tipping fees	-	2,081,490	2,081,490	-
Community Use of Public Facilities for elections	-	129,370	129,370	-
Component Unit activities budgeted as transfers:				
Component Units - transfer in	240,075	-	(240,075)	-
Component Units and Joint Venture - transfer out	-	1,484,536,407	1,484,536,407	-
As reported - GAAP basis	$ 2,829,802,151	$ 2,377,348,729	$ (299,766,085)	$ 152,687,337

B) Deficit Fund Equity

Fire Tax District Special Revenue Fund – The fund balance deficit in the Fire Tax District (FTD) Fund was caused primarily by higher than anticipated overtime costs and increased maintenance costs. To address this shortfall, management recommended and the County Council approved increased property tax rates for the FTD in FY13 which eliminates the current deficit by the end of FY13.

Liability and Property Coverage Self Insurance Internal Service Fund – The $19,505,953 total net deficit in the Liability and Property Coverage Self Insurance Fund was caused by an increase in claims payable and a carryover from the previous fiscal year of a net deficit of $6,434,891. Participant contributions were increased in FY11 and FY12 to offset a deficit that originated in FY10, due to higher than anticipated claims in that year. However, an unfavorable trend in increased claim cost development has been identified over the past several years, particularly in FY12. Increased participant contributions, originally designed to eliminate the FY10 deficit, will need to continue through FY15 in order to offset the increased claims costs trend and align fund revenues with projected future costs.

Central Duplicating Internal Service Fund – The $573,953 total net deficit in the Central Duplicating Fund Fund resulted from actual printing and mailing work that was less than anticipated in the budget, leading to a reduction in chargeback revenue to the fund. As a result, overhead costs were not fully recovered by chargeback collections. Chargebacks will be adjusted over three years to eliminate the fund deficit by FY15.

NOTE III. DETAILED NOTES ON ALL FUNDS

A) Cash and Investments

1) Overview

The Montgomery County reporting entity total cash and investments as of June 30, 2012, totaled $5,328,375,069 of which $4,743,323,806 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	$ 799,742,326	$ 51,698,600	$ 851,440,926
Cash with fiscal agents	82,701,992	50,540,818	133,242,810
Cash	636,274	15,653,294	16,289,568
Investments - cash equivalents	-	119,028,437	119,028,437
Investments	3,815,095,777	35,633,769	3,850,729,546
Restricted equity in pooled cash and investments	37,052,693	17,410,310	54,463,003
Restricted cash with fiscal agents	-	16,847,398	16,847,398
Restricted cash	-	3,137,519	3,137,519
Restricted investments - cash equivalents	-	118,218,589	118,218,589
Restricted investments	8,094,744	156,882,529	164,977,273
Total	$ 4,743,323,806	$ 585,051,263	$ 5,328,375,069
Deposit and Investment Summary:			
Deposits	$ 806,344,347	$ 100,479,310	$ 906,823,657
Investments	3,853,641,193	335,507,247	4,189,148,440
Cash on hand, fiscal agents, safe deposit escrow	83,338,266	149,064,706	232,402,972
Total	$ 4,743,323,806	$ 585,051,263	$ 5,328,375,069

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

Government-wide	$ 859,378,543
Fiduciary funds	3,883,945,263
Total	$ 4,743,323,806

PRIMARY GOVERNMENT

2) External Investment Pool

Overview:

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

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

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

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

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

Balance Sheet Amounts:	Primary Government	Component Units	Total Reporting Entity
Equity in pooled cash and investments	$ 799,742,326	$ 3,951,790	$ 803,694,116
Restricted equity in pooled cash and investments	37,052,693	-	37,052,693
Total	$ 836,795,019	$ 3,951,790	$ 840,746,809
Deposit and Investment Summary:			
Deposits	$ 806,344,347	$ -	$ 806,344,347
Investments, including accrued interest	30,450,672	3,951,790	34,402,462
Total	$ 836,795,019	$ 3,951,790	$ 840,746,809

Deposits:

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the County will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statute requires that securities underlying certificates of deposit have a market value that equals or exceeds the cost of the deposit while County investment policy requires a market value of at least 102 percent of the cost of the deposit. Appropriate sections of these cited statutes also require that funds on deposit in financial institutions be fully secured. The form of such security shall be in compliance with State statute and the County Code. Collateral pledged for protection of these banking deposits is held in the County's name at a third party depository, in the trust department of pledging banks, or insured by a surety bond by a State approved insurance company.

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

<u>Investments</u>:

The County, through its external investment pool, maintains an active and sophisticated cash and investment management program. The primary objectives of the program are the preservation of capital, providing liquidity to meet financial obligations, and maximization of the investment yield on short-term working capital. Working capital is managed pursuant to the Annotated Code of Maryland, the County Code, and the County's investment policies as approved by the County Council. At year-end, the investment portfolio was comprised of money market mutual funds and the Maryland Local Government Investment Pool (MLGIP). During the year, the County also invested in U.S. Government securities. The County was in compliance with all applicable investment statutes throughout the fiscal year.

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

Investment Type:	Fair Value	Principal	Maturity Range	Interest Range
Bankers' acceptances	$ 2,798,833	$ 2,798,215	10/9/2012	0.15%
Money market mutual funds	21,071,598	21,071,598	n/a	0.00 - 0.12%
State pool	10,532,031	10,532,031	n/a	0.20%
Total	$ 34,402,462	$ 34,401,844		

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the County's investment policy limits investments to maturities of one year or less. However, a portion of the portfolio may be invested in investments with longer maturities (up to two years); any investment with a maturity of over 12 months must be approved by the Director of Finance prior to execution. As of June 30, 2012, the County's investment maturities are as follows:

		Investment Maturities (in Years)	
Investment Type:	Fair Value	Less than 1	1-2
Bankers' acceptances	$ 2,798,833	$ 2,798,833	$ -
Money market mutual funds	21,071,598	21,071,598	-
State pool	10,532,031	10,532,031	-
Total	$ 34,402,462	$ 34,402,462	$ -

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The County is authorized to invest in: a) obligations for which the United States has pledged its full faith and credit for the payment of principal and interest, b) obligations that a federal agency or instrumentality issues in accordance with an act of Congress, or c) repurchase agreements that any of the foregoing listed obligations secures. Cited statutes also authorize investments in bankers' acceptances, secured certificates of deposit issued by Maryland banks, commercial paper of the highest investment grade, the MLGIP, and money market mutual funds that are registered and operate in accordance with Rule 2a-7 and in accordance with Maryland State Code. State statutes and County policies require that these money market mutual funds invest only in obligations of U.S. Treasuries, U.S. agencies and repurchase agreements collateralized by an obligation of the United States, its agencies or instrumentalities.

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

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

N/R - Not Rated

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

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

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

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

5 - While the certificates of deposit are not rated, County policy requires that the underlying issuer is of the highest short-term investment grade.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, the County will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, or not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent, but not in the government's name.

County and State statutes require that securities underlying repurchase agreements have a market value of at least 102 percent of the cost of the investment. County policies require that a third party custodian hold investment securities and the collateral underlying all repurchase agreements. At June 30, 2012, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

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

Diversification by Investment Type	Maximum percent of Portfolio*
U. S. Treasury obligations	100 %
U. S. Government agencies	50
Repurchase agreements	50
Bankers' acceptances	50
Money market mutual fund	25
Local government investment pool	25
Collateralized certificates of deposit**	25
Commercial paper	5

Diversification by Institution	Maximum percent of Portfolio*
Approved broker/dealers	50 %
Money market mutual funds by fund	25
Bankers' acceptances by country	25
Bankers' acceptances by institution	10
Commercial banks (certificates of deposit)**	10
U.S. Government agencies by agency	20

* At time of purchase

** Certificates of deposit are classified as deposits for financial reporting purposes.

In FY12, the County's investment pool maintained over 90 percent of its cash in bank accounts for liquidity purposes. The remaining amount was invested in bankers' acceptances (8.14%), local government investment pool (30.61%), and money market funds (61.25%).

External Investment Pool Condensed Financial Statements:

The condensed financial statements of the County's external investment pool at June 30, 2012, are as follows:

Statement of Net Assets
June 30, 2012

Assets:		
Investment in securities, at fair value	$	34,402,462
Cash		806,344,347
Accrued interest receivable		-
Total assets and net assets	$	840,746,809
Net assets consist of:		
Internal participants' units outstanding ($1.00 par)	$	806,558,171
External participants' units outstanding ($1.00 par)		34,188,638
Net assets	$	840,746,809
Participants net asset value, offering price and redemption price per share ($840,746,809 /841,023,676 units)	$	1.00

Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2012

Investment Income *				$	28,250
Distributions to participants:					
Distributions paid and payable					(28,250)
Share transactions at net asset value of $1.00 per share:					
Purchase of units	$	422,786,004	*		
Redemption of units		(199,076,621)			
Net increase (decrease) in net assets and shares resulting from share transactions					223,709,383 *
Total increase (decrease) in net assets					223,709,383 *
Net assets, July 1, 2011					617,037,426
Net assets, June 30, 2012				$	840,746,809

* The pool has no expenses.

3) Major and Nonmajor Fund Deposit and Investment Risks

Primary government (non fiduciary) cash and investments are primarily invested in the County's external investment pool. Major funds with significant cash and investments comprised of other than the external investment pool include the following:

Debt Service Fund - Cash with fiscal agents of $3,151,969 represents lease revenue bond debt service reserve funds which are held in money market mutual funds and U.S Government securities.

Capital Projects Fund - Cash with fiscal agents of $45,038,348 is held in money market mutual funds.

Liquor Fund – Cash with fiscal agents of $7,250,998 at the end of FY12 was held in money market funds for the purpose of disbursement of design, planning and renovation costs for a warehouse. At the end of FY12, the County had incurred and paid renovation expenses that were to be reimbursed with cash from fiscal agents. The reimbursement did not take place, however, until after the close of the fiscal year. After the reimbursement, no cash remained with fiscal agents except amounts transferred to fiscal agents for debt service.

Parking Lot Districts – Cash with fiscal agents of $23,593,366 represents revenue bond proceeds held in a mutual fund which invests exclusively in short-term U.S government securities, including repurchase agreements secured by U.S. government securities.

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

4) Fiduciary Funds

Employees' Retirement System:

Investment Overview

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

Credit Risk/Concentration of Credit Risk

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

U.S. Government or pooled investments) in any one company that represents 5 percent or more of net assets held in trust for pension benefits.

The quality ratings of investments in fixed income securities as described by nationally recognized rating organizations as of June 30, 2012, are as follows:

Type of Investment	Quality Rating	Fair Value	Percentage of Portfolio
U.S. Government Obligations*	AAA	$ 88,403,061	8.71 %
Foreign Government Obligations	AAA	1,371,686	0.14
	A	5,427,767	0.53
	BBB	1,545,385	0.15
	BB	1,201,182	0.12
	Unrated	1,258,109	0.12
Asset-Backed Securities	AAA	2,133,633	0.21
	BBB	118,478	0.01
	CCC	714,602	0.07
Commercial Mortgage-Backed Securities	BBB	820,589	0.08
	B	375,928	0.04
Collateralized Mortgage Obligations	AA	109,995	0.01
	BBB	269,450	0.03
	B	142,172	0.01
	CCC	1,488,170	0.15
	D	537,999	0.05
Municipal/Provincial Bonds	AAA	11,349,083	1.12
	AA	8,047,783	0.79
	A	9,251,103	0.91
Corporate Bonds	AAA	4,229,922	0.42
	AA	25,300,903	2.49
	A	142,347,195	14.02
	BBB	95,114,881	9.36
	BB	64,935,939	6.40
	B	103,746,465	10.22
	CCC	54,086,724	5.33
	CC	3,945,189	0.39
	C	142,313	0.01
	D	2,605,630	0.26
	Unrated	24,918,265	2.45
Fixed Income Pooled Funds	Unrated	279,024,208	27.49
Short-term Investments and Other	Unrated	80,362,029	7.91
Total Fixed Income Securities		$ 1,015,325,838	100.00 %

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. The Board's investment policies and guidelines manage interest rate risk by establishing duration constraints on each fixed income manager's portfolio based on the duration of each manager's respective benchmark. Duration is a measure of interest rate risk based on a bond price's sensitivity to a 100-basis point change in interest rates. The greater the duration of a bond, or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration of eight would mean that, given a 100-basis point change up/down in rates, a bond's price would move down/up by 8 percent.

As of June 30, 2012, the System's fixed income portfolio had the following sensitivity to changes in interest rates:

Type of Investment	Effective Duration in Years	Fair Value	Percentage of Portfolio
U.S. Government Obligations	17.18	$ 88,403,061	8.71 %
Foreign Government Obligations	4.34	10,804,129	1.06
Asset-Backed Securities	9.90	2,966,713	0.29
Commercial Mortgage-Backed Securities	4.71	1,196,517	0.12
Collateralized Mortgage Obligations	1.12	2,547,786	0.25
Municipal/Provincial Obligations	14.22	28,647,969	2.82
Corporate Bonds	6.99	521,373,426	51.35
Fixed Income Pooled Funds	N/A	279,024,208	27.49
Short-term Investments and Other	N/A	80,362,029	7.91
Total Fixed Income Securities		$ 1,015,325,838	100.00 %

Foreign Currency Risk

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

International Securities	Equity	Fixed Income	Short-term and Other	Total Non-U.S. Dollar
European Currency Unit	$ 121,242,545	$ 773,194	$ 44,681,553	$ 166,697,292
British Pound Sterling	62,972,056	-	28,331,691	91,303,747
Japanese Yen	97,315,194	-	(10,096,208)	87,218,986
Swedish Krona	14,256,228	-	9,309,430	23,565,658
Hong Kong Dollar	13,687,114	-	1	13,687,115
Danish Krone	7,220,476	-	-	7,220,476
South Korean Won	4,654,703	-	(24)	4,654,679
Philippine Peso	2,268,260	2,251,333	-	4,519,593
Mexican Peso	-	3,176,435	-	3,176,435
Singapore Dollar	2,663,660	-	-	2,663,660
Other Currencies	36,771,118	5,435,431	(94,546,736)	(52,340,187)
Total International Securities	$ 363,051,354	$ 11,636,393	$ (22,320,293)	$ 352,367,454

Derivatives

In accordance with the Board's Derivatives Policy, the System regularly invests in derivative financial instruments in the normal course of its investing activities to manage exposure to certain risks within the fund. During FY12, the System invested directly in various derivatives including asset-backed securities, collateralized mortgage obligations, exchange-traded future contracts, forward currency contracts, swaps, and floating rate securities. Investment managers are prohibited from purchasing securities on margin or using leverage unless specifically permitted within the investment manager's guidelines. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the creditworthiness of the related parties to the contracts. The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Board's Derivatives Policy seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual and commingled funds which may hold derivative financial instruments. The system is not a dealer, but an end-user of these instruments.

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

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

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specified financial instrument at a predetermined date and price. Gains and losses on future contracts are settled daily. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay. As of June 30, 2012, the System held 144 long US Treasury futures contracts with a fair value of $24,390,719 and 547 short US Treasury futures contracts with a fair value of ($69,193,625).

A swap is an agreement in which party commits to pay a fee in exchange for a return linked to the market performance of an underlying security, group of securities, index or other asset. Risks may arise if the counterparty is unable to meet the terms of the contract. Swaps contain market risk resulting from fluctuations in the value of the reference obligation. As of June 30, 2012, the System held a foreign currency swap with a notional value of $83,400,000.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. Foreign exchange contracts contain market risk resulting from fluctuations in currency rates. The credit risk is associated with the creditworthiness of the related parties to the contracts. As of June 30, 2012, the System held $187,785,694 buy foreign exchange contracts and ($227,279,792) sell foreign exchange contracts. The unrealized loss on the System's contracts was $3,130,318.

Securities Lending

Board policy permits the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodian is the agent in lending the System's securities for collateral of 102 percent for domestic and 105 percent for international securities. The custodian receives cash, securities or irrevocable bank letters of credit as collateral. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral received from the borrower is invested by the lending agent, as an agent for the System, in a short-term investment pool in the name of the System, with guidelines approved by the Board. Such investments are considered a collateralized investment pool. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool, which the System cannot determine. The System records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of net assets. The agent indemnifies the System by agreeing to purchase replacement securities, or return the cash collateral thereof, in the event a borrower fails to return loaned securities or pay distributions thereon. There were no such failures by any borrower during the fiscal year, nor were there any losses during the period resulting from a default of the borrower or lending agent.

As of June 30, 2012, the fair value of securities on loan was $301,873,672. Cash received as collateral and the related liability of $303,900,721 as of June 30, 2012, is shown on the Statement of Plan Net Assets. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the collateral securities absent borrower default. Securities lending revenues and expenses amounting to $787,831 and ($386,458), respectively, have been classified with investment income and investment expenses, respectively, in the accompanying financial statements.

The following represents the balances relating to the securities lending transactions at June 30, 2012:

Securities Lent	Underlying Securities	Non-Cash Collateral Value	Cash Collateral Investment Value
Lent for Cash Collateral:			
U.S. Government Obligations	$ 72,577,011	$ -	$ 73,862,244
Corporate Bonds	90,128,491	-	91,156,895
Equities	137,043,980	-	138,881,582
Lent for Non-Cash Collateral:			
Equities	2,124,190	2,138,295	-
Total	$ 301,873,672	$ 2,138,295	$ 303,900,721

At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceeded the amounts the borrowers owe the System. The System is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2012, there were no funds held by a counterparty that was acting as the System's agent in securities lending transactions.

Employees' Retirement Savings Plan:

Section 33-125 of the Code authorizes the Board to establish a diversified slate of mutual and commingled investment funds from which participants may select an option. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2012, the fair value of the mutual and commingled investment funds was $196,978,242. The fair value of the investments in international mutual funds was $36,752,653.

Employees' Deferred Compensation Plan:

The Board is required to establish a diversified slate of mutual and commingled funds from which participants may select investment options. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2012, the fair value of the mutual and commingled investment funds was $270,887,077. The fair value of the investments in international mutual funds included in the County Plan was $33,613,895.

Consolidated Retiree Health Benefits Trust:

Section 33-163 of the Code authorizes the Board of Trustees of the Trust to act with the care, skill, prudence and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes. The Code also requires that such investments be diversified so as to minimize the risk of large losses unless it is clearly not prudent to diversify under the circumstances. The Board has adopted an investment policy that works to control the extent of downside risk to which the Trust Fund is exposed while maximizing the potential for long term increases in the value of assets. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolios and by monitoring the financial markets, the Trust Fund's asset allocation and the investment managers hired by the Board. Section 33-162 of the Code prohibits the Board from investing in any bonds, notes, or debt instruments issued by Montgomery County, any political subdivision within Montgomery County, any agency supported or financed wholly or partly by taxes levied by the Montgomery County Council, or any agency supported by bond issues underwritten by Montgomery County.

As of June 30, 2012, the fair value of the mutual and commingled investment funds was $114,099,255. The fair value of the investments in international mutual funds was $34,555,123.

COMPONENT UNITS

HOC:

At year-end, HOC's cash and investments are significant in relation to the total component unit cash and investments. HOC's cash balances as of June 30, 2012, were entirely insured or collateralized with securities held by HOC's agent in HOC's name. HOC's investments are subject to interest rate, credit, and custodial risk as described below:

Interest Rate Risk

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

Credit Risk

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

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

Custodial Risk

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

General Fund, Housing Opportunity Fund and Public Fund are in bank money market accounts and interest bearing accounts. These amounts are unrated by an independent rating agency. The Moody's rating for PNC Bank short-term deposits as of June 30, 2012 was P-1.

At June 30, 2012, HOC had the following cash, cash equivalents, investments and maturities:

Cash Equivalents	Fair Value	Rating
Cash Equivalents:		
General Fund:		
Money Market Accounts	$ 15,671,967	N/A
Opportunity Housing Fund:		
Investment in MLGIP	307,067	AAAm
Money Market Accounts	11,484,734	N/A
Public Fund:		
Investment in MLGIP	3,981,927	AAAm
Money Market Accounts	3,823,332	N/A
Multi-Family Fund		
Money Market Accounts	49,499,947	AAA
Single Family Fund - Money Market Accounts	64,316,965	AAA
Total cash equivalents	$ 149,085,939	
Short-term Investments:		
Multi-Family Fund:		
GNMA Pool	699,775	AAA
Single Family Fund		
USG GSE Global Escrow Agreement	12,416,465	N/A
Total short-term investments	$ 13,116,240	

Long-Term Investments	Fair Value	1-5 years	6-10 years	Greater than 10 years	Rating
Long-term Investments:					
Multi-Family Fund:					
U. S. Treasuries	$ 2,706,028	$ -	$ 1,773,782	$ 932,246	AAA
Fannie Mae	4,619,685	-	-	4,619,685	AAA
Freddie Mac	1,843,062	-	-	1,843,062	AAA
GNMA Pool	90,149,694	37,452,457	-	52,697,237	AAA
Bank One Investment Agreement	591,525	-	-	591,525	AA/Aa2
Federal Farms	1,908,244	-	-	1,908,244	AAA
Single Family Fund:					
Federal Farm Credit Banks	7,226,840	-	-	7,226,840	AAA
Federal Home Loan Banks	11,382,132	-	-	11,382,132	AAA
Fannie Mae	1,085,318	-	-	1,085,318	AAA
U. S. Treasuries	9,508,520	2,801,987	5,271,203	1,435,330	AAA
Solomon Repurchase Agreement	2,345,800	2,345,800	-	-	A
Tennessee Valley Authority	7,104,365	-	2,730,863	4,373,502	AAA
Total long-term investments	140,471,213	$ 42,600,244	$ 9,775,848	$ 88,095,121	
Cash balances	50,314,042				
Total Cash, Cash Equivalents and Investments	$ 352,987,434				

B) Receivables

1) Accounts Receivable

The allowance for doubtful accounts at June 30, 2012, reported in the enterprise funds, amounted to:

Liquor	$ 783,803
Parking Lot Districts	1,596,580
	$ 2,380,383

2) Due from/to Component Units

The balances at June 30, 2012, were:

Due from Component Units /
Due to Primary Government:

Due from Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due to Primary Government:						
General	$ 660	$ 228,456	$ -	$ 77,709	$ -	$ 306,825
Grants	-	-	-	3,955,577	-	3,955,577
Capital Projects	-	-	-	17,548,402	-	17,548,402
Housing Initiative	-	-	-	44,338,930	-	44,338,930
Solid Waste Activities Enterprise	42,862	437	-	1,053	2,516	46,868
Internal Service	73,719	24,118	72,465	921,972	17,559	1,109,833
Fiduciary	-	-	11,130	2,218,198	-	2,229,328
Total Due to Primary Government	$ 117,241	$ 253,011	$ 83,595	$ 69,061,841	$ 20,075	$ 69,535,763

Due to Component Units /
Due from Primary Government:

Due to Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due from Primary Government:						
General	$ 50,686,817	$ -	$ -	$ 745,970	$ -	$ 51,432,787
Grants	787,874	95,350	-	204,086	-	1,087,310
Capital Projects	2,137,427	7,758,755	-	1,482,272	-	11,378,454
Housing Initiative	-	-	-	43,632	-	43,632
Parking Lot Districts	-	-	-	-	5,372	5,372
Nonmajor Governmental	1,120	-	-	-	-	1,120
Nonmajor Enterprise	659,471	-	-	-	-	659,471
Total Due from Primary Government	$ 54,272,709	$ 7,854,105	$ -	$ 2,475,960	$ 5,372	$ 64,608,146

In the major governmental funds, $44,338,930 due from HOC to the Housing Initiative Special Revenue Fund represents mortgage loans, which are generally repayable based on project cash flows, specified future dates, or sales of the respective properties. Included in this amount is a loan of $1,977,057, for which payments are based on cash flows. Terms of the note stipulate that the balance of the note will be forgiven at the termination of the ground lease in December 2035. To date the project has not generated cash flows. Also included in the amount above is a ground lease, upon which is located affordable housing owned by HOC. The ground lease provides for lease payments from HOC for $1 per year for 83 years, amounting to $72 at year-end. These two loans are offset by deferred revenue. Fund balance has been reserved for the remaining loans.

3) Due From Other Governments

The total amount due from other governments at June 30, 2012, was comprised of the following:

	General	Grants	Capital Projects	Solid Waste Activities	Nonmajor Governmental	Internal Service	Fiduciary	Total
Federal government	$ 34,135	$ 16,814,594	$ 40,000	$ 489	$ -	$ -	$ 910,033	$ 17,799,251
State of Maryland	6,827,827	6,313,073	3,674,042	21,978	834,745	57,816	16,079	17,745,560
Other	574	167,000	828,464	114,864	1,071,049	327,935	1,298,681	3,808,567
Total	$ 6,862,536	$ 23,294,667	$ 4,542,506	$ 137,331	$ 1,905,794	$ 385,751	$ 2,224,793	$ 39,353,378

C) Capital Assets

PRIMARY GOVERNMENT

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Governmental Activities				
Nondepreciable Capital Assets:				
Land	$ 784,839,133	$ 10,812,702	$ -	$ 795,651,835
Construction in progress	638,232,384	216,461,285	89,177,396	765,516,273
Total Nondepreciable Capital Assets	1,423,071,517	227,273,987	89,177,396	1,561,168,108
Depreciable Capital Assets:				
Buildings	758,238,424	168,552	-	758,406,976
Improvements other than buildings	48,988,139	36,422	-	49,024,561
Furniture, fixtures, equipment and machinery	243,224,105	4,668,644	27,024	247,865,725
Leasehold improvements	12,777,902	-	-	12,777,902
Automobiles and trucks	243,071,532	16,737,219	5,494,325	254,314,426
Infrastructure	1,677,492,480	35,936,934	-	1,713,429,414
Other assets	2,079,731	41,409,416	-	43,489,147
Total Capital Assets being Depreciated	2,985,872,313	98,957,187	5,521,349	3,079,308,151
Less Accumulated Depreciation for:				
Buildings	323,360,412	18,814,368	-	342,174,780
Improvements other than buildings	20,680,456	1,189,036	-	21,869,492
Furniture, fixtures, equipment and machinery	184,144,141	10,740,886	27,024	194,858,003
Leasehold improvements	5,319,228	820,161	-	6,139,389
Automobiles and trucks	122,099,525	19,281,511	4,888,816	136,492,220
Infrastructure	545,834,054	34,748,214	-	580,582,268
Other assets	2,074,727	3,800,867	-	5,875,594
Total Accumulated Depreciation	1,203,512,543	89,395,043	4,915,840	1,287,991,746
Total Depreciable Assets, net	1,782,359,770	9,562,144	605,509	1,791,316,405
Governmental Activities Capital Assets, net	$ 3,205,431,287	$ 236,836,131	$ 89,782,905	$ 3,352,484,513
Business-Type Activities				
Nondepreciable Capital Assets:				
Land	$ 60,170,076	$ -	$ 530,942	$ 59,639,134
Construction in progress	8,687,181	14,602,093	7,646,674	15,642,600
Total Nondepreciable Capital Assets	68,857,257	14,602,093	8,177,616	75,281,734
Depreciable Capital Assets:				
Buildings	247,860,396	4,006,650	-	251,867,046
Improvements other than buildings	146,345,047	12,189,838	2,773,353	155,761,532
Furniture, fixtures, equipment and machinery	23,160,676	410,305	1,607,792	21,963,189
Infrastructure	14,351	-	-	14,351
Automobiles and trucks	4,311,615	-	111,241	4,200,374
Total Capital Assets being Depreciated	421,692,085	16,606,793	4,492,386	433,806,492
Less Accumulated Depreciation for:				
Buildings	112,354,450	7,420,642	-	119,775,092
Improvements other than buildings	111,848,393	4,188,112	306,110	115,730,395
Furniture, fixtures, equipment and machinery	14,889,005	1,616,018	887,469	15,617,554
Infrastructure	2,774	526	-	3,300
Automobiles and trucks	3,212,315	191,839	111,241	3,292,913
Total Accumulated Depreciation	242,306,937	13,417,137	1,304,820	254,419,254
Total Depreciable Assets, net	179,385,148	3,189,656	3,187,566	179,387,238
Business-Type Activities Capital Assets, net	$ 248,242,405	$ 17,791,749	$ 11,365,182	$ 254,668,972

As indicated in note I-D5, the County's policy is to depreciate assets using the straight-line method over the estimated useful life of the asset. During FY12, management reviewed its depreciation allocation for all assets whose historical costs had been adjusted by improvements or impairments. All adjustments were to be depreciated over the remaining useful life of the asset. However, as a result of the review, variations in the service date (e.g., same month versus next month convention) by asset class were identified. To ensure useful lives were consistent with management experience, the service date conventions were required to be the same regardless of the asset class. The net effect of this change in management's estimated depreciation allocation was reflected in current year activity.

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

Governmental activities:	
General government	$ 7,114,701
Public safety	16,010,849
Public works and transportation	55,662,565
Health and human services	1,619,008
Culture and recreation	7,691,888
Community development and housing	1,062,430
Environment	233,602
Total depreciation expense-governmental activities	$ 89,395,043

Business-type activities:	
Liquor	$ 1,504,449
Solid waste activities	2,144,369
Parking lot districts	9,684,217
Permitting services	77,229
Community use of public facilities	6,873
Total depreciation expense-business-type activities	$ 13,417,137

Construction commitments as of June 30, 2012, are as follows:

	Construction Commitments
General Government	$ 249,300,206
Public Safety	487,975
Public Works and Transportation	38,487,789
Health and Human Services	38,115
Culture & Recreation	7,859
Community Development & Housing	373,853
Environment	9,373,018
Total	$ 298,068,815

COMPONENT UNITS

Capital assets of MCPS, amounting to $2,262,906,854 at June 30, 2012, are significant in relation to the total component unit capital assets.

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Governmental Activities				
Nondepreciable capital assets:				
Land	$ 74,678,201	$ -	$ -	$ 74,678,201
Construction in progress	141,778,708	212,292,621	146,359,015	207,712,314
Total nondepreciable capital assets	216,456,909	212,292,621	146,359,015	282,390,515
Depreciable capital assets:				
Buildings and improvements	2,432,662,285	147,305,359	5,087,497	2,574,880,147
Site improvements	216,776,803	13,585,409	-	230,362,212
Vehicles and equipment	148,898,588	13,916,590	10,996,272	151,818,906
Total depreciable capital assets	2,798,337,676	174,807,358	16,083,769	2,957,061,265
Less accumulated depreciation for:				
Buildings and improvements	775,824,819	60,788,566	4,485,116	832,128,269
Site improvements	46,803,635	4,462,864	-	51,266,499
Vehicles and equipment	97,052,088	10,637,620	10,700,838	96,988,870
Total accumulated depreciation	919,680,542	75,889,050	15,185,954	980,383,638
Total depreciable capital assets, net	1,878,657,134	98,918,308	897,815	1,976,677,627
Government activities capital assets, net	$ 2,095,114,043	$ 311,210,929	$ 147,256,830	2,259,068,142
Business-Type Activities				
Depreciable capital assets:				
Vehicles and equipment	$ 17,373,382	$ 774,421	$ 481,668	$ 17,666,135
Total depreciable capital assets	17,373,382	774,421	481,668	17,666,135
Less accumulated depreciation for:				
Vehicles and equipment	13,480,061	779,377	432,015	13,827,423
Total accumulated depreciation	13,480,061	779,377	432,015	13,827,423
Business-type activities capital assets, net	$ 3,893,321	$ (4,956)	$ 49,653	3,838,712
Total MCPS government-wide capital assets				$ 2,262,906,854

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

Governmental activities:	
Regular instruction	$ 64,170,501
Special education	209,259
School administration	56,889
Student transportation	8,198,664
Operation of plant	132,637
Maintenance of plant	2,582,846
Administration	538,254
Total depreciation expense-governmental activities	$ 75,889,050
Business-type activities:	
Food services	$ 777,894
Real estate management	1,483
Total depreciation expense-business type activities	$ 779,377

Commitments for ongoing construction in progress at June 30, 2012, were $232,184,086.

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

The composition of interfund receivables and payables as of June 30, 2012, is as follows:

	Due From Fund					
Due To Fund	General	Grants	Nonmajor Governmental	Internal Service	Fiduciary	Total
General	$ -	$ 1,368	$ -	$ 2,804,273	$ 3,779,055	$ 6,584,696
Montgomery Housing Initiative	-	-	-	4,377	5,802	10,179
Grants	12,929,913	-	-	101,037	91,204	13,122,154
Capital Projects	116,386,721	-	656,410	89,742	94,788	117,227,661
Liquor	2,000,000	-	-	143,869	96,270	2,240,139
Solid Waste Activities	-	-	-	57,021	52,374	109,395
Parking Lot Districts	-	-	-	23,199	23,973	47,172
Nonmajor Governmental	2,250,000	-	-	1,201,229	1,631,788	5,083,017
Nonmajor Enterprise	-	-	-	112,026	137,585	249,611
Internal Service	-	-	-	141,316	3,690,663	3,831,979
Fiduciary	-	-	-	6,600	5,265	11,865
Total	$ 133,566,634	$ 1,368	$ 656,410	$ 4,684,689	$ 9,608,767	$ 148,517,868

Included in the amounts presented above are the following short-term loans from the General Fund that were, or will be, repaid during FY13:

- $10.3 million to the Grants Special Revenue Fund to cover vendor payments prior to revenues being received from other government agencies; and

- $116.4 million to the Capital Projects Fund to cover construction payments, due primarily to the timing of reimbursements from Federal, State and other agencies, and to lag time between programming and collection of certain impact taxes.

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

Interfund transfers for the year ended June 30, 2012, consisted of the following:

Transfers Out Fund	Transfers In Fund: General	Revenue Stabilization	Housing Initiative	Grants	Debt Service	Capital Projects	Subtotal Major
General	$ -	$ 60,716,985	$ 9,573,290	$ -	$ 235,553,939	$ 41,353,322	$ 347,197,536
Housing Initiative	205,060	-	-	-	4,157,962	10,731,869	15,094,891
Grants	633,000	-	-	-	-	-	633,000
Debt Service	-	-	-	-	-	6,946,619	6,946,619
Capital Projects	-	-	9,903,021	-	-	-	9,903,021
Liquor	25,066,800	-	-	-	3,436,917	-	28,503,717
Solid Waste Activities	2,177,180	-	-	-	-	-	2,177,180
Parking Lot Districts	595,780	-	-	-	-	-	595,780
Nonmajor Governmental	22,956,400	-	-	1,371,570	29,124,113	5,198,816	58,650,899
Nonmajor Enterprise	3,153,590	-	-	-	-	-	3,153,590
Total	$ 54,787,810	$ 60,716,985	$ 19,476,311	$ 1,371,570	$ 272,272,931	$ 64,230,626	$ 472,856,233

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Transfers Out Fund	Transfers In Fund: Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Subtotal Major	Total
General	$ 7,776,090	$ 25,000	$ 884,149	$ 347,197,536	$ 355,882,775
Housing Initiative	-	-	-	15,094,891	15,094,891
Grants	-	-	-	633,000	633,000
Debt Service	-	-	-	6,946,619	6,946,619
Capital Projects	-	-	-	9,903,021	9,903,021
Liquor	-	-	-	28,503,717	28,503,717
Solid Waste Activities	-	-	-	2,177,180	2,177,180
Parking Lot Districts	13,581,021	-	-	595,780	14,176,801
Nonmajor Governmental	-	-	27,257	58,650,899	58,678,156
Nonmajor Enterprise	-	-	-	3,153,590	3,153,590
Total	$ 21,357,111	$ 25,000	$ 911,406	$ 472,856,233	$ 495,149,750

Primary activities include:

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

E) Leases

1) Operating Leases

The County leases buildings and office facilities and other equipment under non-cancelable operating leases. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet subsequent rental payments are not appropriated. Total costs for operating leases were approximately $21,320,023 for FY12. Future minimum lease payments under significant non-cancelable operating leases are as follows:

Fiscal Year Ending June 30	
2013	$ 22,241,000
2014	20,037,000
2015	14,671,000
2016	13,122,000
2017	11,745,000
2018 - 2022	42,038,000
2023 - 2027	4,895,000
Total	$ 128,749,000

2) Capital Lease Receivable

Pursuant to the issue of the 2002 Lease Revenue Bonds and 2004 Lease Revenue Bonds (See Note III-F8), the County is obligated to lease the Shady Grove and Grosvenor Metrorail Garage Projects to WMATA at amounts calculated to be sufficient in both time and amount to pay, when due, the principal of and interest on the bonds. Separate lease agreements were executed in conjunction with each bond issue. The leases associated with the 2002 and 2004 bond issues have original terms of 22 years and 20 years, respectively, both ending on June 1, 2024.

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

The composition of the capital lease receivable is as follows:

	Minimum Lease Receivable	Unearned Income	Net Investment
Shady Grove	$ 18,241,542	$ (5,018,210)	$ 13,223,332
Grosvenor	17,924,452	(4,930,979)	12,993,473
Glenmont	9,495,344	(2,612,149)	6,883,195
	$ 45,661,338	$ (12,561,338)	$ 33,100,000

At June 30, 2012, the minimum future lease payments due under the direct financing capital lease agreements are as follows:

Fiscal Year Ending June 30	
2013	$ 3,472,363
2014	3,474,363
2015	3,481,613
2016	3,478,613
2017	3,490,613
2018-2022	17,520,562
2023-2027	8,474,525
2028-2031	2,268,686
Total minimum lease payments	$ 45,661,338

3) <u>Capital Lease Obligations</u>

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

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

Land	$ 13,449,033
Land improvements	1,673,621
Buildings	53,783,181
Furniture, fixtures, equipment and machinery	159,291
Subtotal	69,065,126
Less accumulated depreciation	(25,936,896)
Total asset value under capital leases	$ 43,128,230

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, are as follows:

Fiscal Year Ending June 30	
2013	$ 3,955,329
2014	3,465,929
2015	3,466,146
2016	3,473,586
2017	3,473,912
2018-2022	8,645,680
2023	996,400
Total minimum lease payments	27,476,982
Less: amount representing interest	(5,521,982)
Present value of minimum lease payments	$ 21,955,000

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

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

The assets acquired through this capital lease are as follows:

	Town Square	Wayne Avenue	Total
Buildings	$ 30,492,462	$ 29,700,233	$ 60,192,695
Less accumulated depreciation	(8,131,323)	(8,002,563)	(16,133,886)
Total asset value under capital leases	$ 22,361,139	$ 21,697,670	$ 44,058,809

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, are as follows:

Fiscal Year Ending June 30	Town Square	Wayne Avenue	Total
2013	$ 2,461,668	$ 3,113,219	$ 5,574,887
2014	2,451,011	3,110,393	5,561,404
2015	2,451,021	3,112,856	5,563,877
2016	2,444,668	3,093,363	5,538,031
2017	2,442,178	3,094,144	5,536,322
Total minimum lease payments	12,250,546	15,523,975	27,774,521
Less: amount representing interest	(1,345,546)	(1,853,975)	(3,199,521)
Present value of minimum lease payments	$ 10,905,000	$ 13,670,000	$ 24,575,000

F) Long-Term Debt

PRIMARY GOVERNMENT

1) General Obligation Bonds Payable

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

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

The County issued $237,655,000 in general refunding bonds dated August 3, 2011; the County received a premium on the issue of $43,863,734. The total net proceeds were used to current refund $89,820,000 of series 2001 general obligation refunding bonds and advance refund $168,880,000 of general obligation bonds previously issued. These bonds were issued with a true interest cost of 1.99%. A detail listing of these refunded bonds is as follows:

	Dated Date	Original Maturity	True Interest Cost	Originally Issued	Years Refunded	Amount Refunded
GO Bonds	11/15/2001	2003-19	4.5107	$ 146,375,000	2012 to 2019	$ 89,820,000
GO Bonds	02/01/2002	2003-22	4.5447	160,000,000	2013	8,000,000
GO Bonds	05/01/2003	2004-23	3.6304	155,000,000	2016 to 2023	62,000,000
GO Bonds	03/15/2004	2005-24	3.8290	154,600,000	2018 to 2023	46,380,000
GO Bonds	05/15/2005	2006-25	3.8806	200,000,000	2016-2019-2022-2023	40,000,000
GO Bonds	05/01/2007	2008-27	4.0821	250,000,000	2022	12,500,000
				$ 1,065,975,000		$ 258,700,000

Net proceeds of the general obligation refunding bonds were used to purchase direct obligation, or obligations on which the timely payment of principal and interest is unconditionally guaranteed by the U.S government. These government obligations have been deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the advance bond refunding of $168,880,000, which mature in FY12 and beyond. As a result, the trust account assets and the liabilities for the defeased bonds are not included in these financial statements.

The reacquisition price exceeded the net carrying amount of the old debt by $18,324,147. This amount is being netted against the new debt and amortized over the remaining life of the new debt.

The debt service savings from this refunding is $26.6 million as shown below. The present value of the debt service savings (or economic gain) on the refunding is $22.1 million.

Fiscal Year	Refunded Debt Service Requirements	Refunding Debt Service Requirements	Debt Service Savings
2012	$ 11,819,675	$ 4,424,856	$ 7,394,819
2013	31,859,688	22,253,350	9,606,338
2014	29,379,494	19,777,250	9,602,244
2015	28,384,213	28,382,625	1,588
2016	39,384,331	39,380,875	3,456
2017	21,981,813	21,981,625	188
2018	29,026,912	29,026,500	412
2019	38,014,538	38,009,750	4,788
2020	26,622,536	26,620,625	1,911
2021	19,078,550	19,077,500	1,050
2022	40,920,700	40,919,625	1,075
2023	26,618,525	26,614,125	4,400
Total	$ 343,090,975	$ 316,468,706	$ 26,622,269

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General obligation bond issues outstanding as of June 30, 2012, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2012	Unamortized Premium	Unamortized Deferred Difference	Carrying Value June 30, 2012
11/15/02 *	2005-13	2.75 - 5.25	$ 93,595,000	$ 22,775,000	$ 186,610	$ (141,074)	$ 22,820,536
05/01/03	2004-23	1.5 - 4.0	155,000,000	7,750,000	134,418	-	7,884,418
03/15/04	2005-24	3.0 - 5.0	154,600,000	23,190,000	1,647,303	-	24,837,303
08/15/04*	2008-17	3.0 - 5.25	97,690,000	80,835,000	1,769,494	(2,166,348)	80,438,146
05/15/05	2006-25	4.0 - 5.0	200,000,000	50,000,000	3,907,961	-	53,907,961
06/01/05*	2005-16	3.781	120,355,000	114,175,000	6,477,580	(5,317,454)	115,335,126
05/01/06	2006-17	3.871	100,000,000	40,000,000	925,911	-	40,925,911
06/07/06	2017-26	Variable	100,000,000	100,000,000	-	-	100,000,000
05/01/07	2007-27	4.082	250,000,000	125,000,000	8,940,818	-	133,940,818
3/12/08*	2009-15	2.750 - 5.0	70,295,000	21,090,000	530,435	(232,925)	21,387,510
07/15/08	2009-29	3.0 - 5.0	250,000,000	212,500,000	5,221,227	-	217,721,227
11/03/09*	2011-20	2.0 - 5.0	161,755,000	154,770,000	14,075,147	(7,682,122)	161,163,025
11/03/09	2015-29	3.75 - 5.5	232,000,000	232,000,000	1,476,864	-	233,476,864
03/17/09*	2010-14	2.0 - 5.0	78,000,000	46,800,000	2,072,761	-	48,872,761
07/26/10	2011-22	2.0 - 5.0	195,000,000	178,750,000	18,940,234	-	197,690,234
07/26/10	2023-30	4.75 - 5.4	106,320,000	106,320,000	186,297	-	106,506,297
07/26/10	2023-30	4.75 - 5.4	23,680,000	23,680,000	41,493	-	23,721,493
08/11/11	2012-31	2.00 - 5.0	320,000,000	320,000,000	34,375,290	-	354,375,290
08/11/11*	2012-22	2.00 - 5.0	237,655,000	237,655,000	37,949,075	(16,526,645)	259,077,430
Total			$2,945,945,000	$2,097,290,000	$ 138,858,918	$ (32,066,568)	$ 2,204,082,350

* Issue represents refunding bonds.

Changes in general obligation bonds during FY12 are as follows:

	Balance July 1, 2011	Bonds Issued	Bonds Retired	Bonds Refunded	Balance June 30, 2012
Governmental Activities:					
General County	$ 309,980,401	$ 85,802,590	$ 24,580,674	$ 45,923,084	$ 325,279,233
Roads and Storm Drainage	401,238,093	153,527,955	37,535,085	67,553,543	449,677,420
Parks	60,985,854	23,243,855	5,750,119	10,641,007	67,838,583
Public Schools	868,881,792	224,969,440	75,962,444	115,871,167	902,017,621
Community College	120,986,372	27,407,440	7,964,542	12,333,279	128,095,991
Consolidated Fire Tax District	51,000,448	10,802,480	4,311,210	4,255,709	53,236,009
Mass Transit	42,527,040	31,901,240	1,160,926	2,122,211	71,145,143
	$1,855,600,000	$557,655,000	$157,265,000	$ 258,700,000	$1,997,290,000

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

Fiscal Year Ending June 30	General Obligation Bond Requirements		
	Principal	Interest	Total
2013	$ 160,830,000	$ 93,230,954	$ 254,060,954
2014	153,965,000	85,874,929	239,839,929
2015	158,490,000	78,101,341	236,591,341
2016	153,660,000	70,002,785	223,662,785
2017	147,590,000	62,721,086	210,311,086
2018-2022	649,065,000	219,719,240	868,784,240
2023-2027	457,280,000	102,784,762	560,064,762
2028-2032	216,410,000	20,112,906	236,522,906
Total	$ 2,097,290,000	$ 732,548,003	$ 2,829,838,003

Article 25A, Section 5(P), of the Annotated Code of Maryland, authorizes borrowing of funds and issuance of bonds to a maximum of 6 percent of the assessable base of real property and 15 percent of the assessable base of personal property and operating real property. The legal debt margin as of June 30, 2012 is $7,692,380,842.

General obligation bonds authorized and unissued as of June 30, 2012, are as follows:

Purpose	Authority Chapter	Authority Act	Authority Amount	Amount Unissued
General County, Parks, and	36	2008	$ 68,200,000	$ 65,890,000
Consolidated Fire Tax District	22	2009	58,700,000	58,700,000
	54	2010	341,600,000	341,600,000
	24	2011	65,400,000	65,400,000
			533,900,000	531,590,000
Roads and Storm Drainage	22	2009	64,600,000	30,040,000
	54	2010	192,000,000	192,000,000
			256,600,000	222,040,000
Public Schools and	22	2009	272,500,000	233,768,000
Community College	54	2010	108,700,000	108,700,000
	24	2011	214,300,000	214,300,000
			595,500,000	556,768,000
Mass Transit	22	2009	57,100,000	1,005,000
	54	2010	32,600,000	32,600,000
	24	2011	103,200,000	103,200,000
			192,900,000	136,805,000
Public Housing	17	1981	2,650,000	2,590,000
	13	1982	995,000	995,000
	8	1983	230,000	230,000
	20	1985	900,000	900,000
	13	1986	855,000	855,000
	22	2009	1,000,000	1,000,000
	54	2010	46,400,000	46,400,000
			53,030,000	52,970,000
Agricultural Eastments	24	2011	2,000,000	2,000,000
Facade Eastments	24	2011	1,100,000	1,100,000
			3,100,000	3,100,000
Parking Districts:				
Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	1,220,000	1,220,000
			4,165,000	3,265,000
Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	1,050,000	1,050,000
			9,150,000	4,865,000
Total Parking Districts			13,315,000	8,130,000
Total General Obligation Bonds			$ 1,648,345,000	$ 1,511,403,000

Bond authority and related amounts unissued, presented above, include amounts related to variable rate demand obligations (see Note III-F2). In addition to this bond authority, the County has authority under the provisions of Section 56-13 of the 1994 Montgomery County Code, as amended, to issue County bonds within statutory debt limits to finance approved urban renewal projects.

2) <u>Variable Rate Demand Obligations</u>

On June 7, 2006, the County for the first time issued variable rate demand obligations (VRDOs), in the amount of $100 million. These obligations will not mature in total until 2026; however, the County is required by the Note Order to make annual sinking fund payments to retire one-tenth of the notes each year beginning in 2017.

The interest rate on the obligations, which re-sets daily, is established by the remarketing agents, and is payable on the first business day of each month. Other potential modes for the obligations include a Weekly Mode, a Commercial Paper Mode, a Term Rate Mode or a Fixed Rate Mode. Subject to certain terms and conditions in the Note Order, the County may effect a change in Mode with respect to the obligations. The obligations are subject to optional tender and purchase on the demand of the owners thereof, upon certain terms. All such obligations are general obligations of the County to the payment of which the full faith and credit and unlimited taxing power of the County is irrevocably pledged.

In connection with the VRDOs, on May 25, 2011, the County entered into a Standby Note Purchase Agreement with Wells Fargo Bank, National Association which will expire on July 15, 2014. The Wells Fargo Note Purchase Agreement requires Wells Fargo to provide funds for the purchase of VRDOs that have been tendered and not remarketed pursuant to such agreement. Because the County entered into a financing agreement that ensures the VRDOs can be refinanced on a long-term basis, these obligations are classified as noncurrent liabilities at year-end.

VRDOs outstanding as of June 30, 2012, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2012
06/07/06	2017-26	Variable	$ 50,000,000	$ 50,000,000
06/07/06	2017-26	Variable	50,000,000	50,000,000
Total			$ 100,000,000	$ 100,000,000

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

Changes in VRDOs during FY12 are as follows:

	Balance July 1, 2011	VRDOs Issued	VRDOs Retired	Balance June 30, 2012
Governmental Activities:				
General County	$ 2,500,000	$ -	$ -	$ 2,500,000
Roads and Storm Drainage	26,000,000	-	-	26,000,000
Parks	1,000,000	-	-	1,000,000
Public Schools	64,000,000	-	-	64,000,000
Community College	4,000,000	-	-	4,000,000
Consolidated Fire Tax District	2,100,000	-	-	2,100,000
Mass Transit	400,000	-	-	400,000
Total	$ 100,000,000	$ -	$ -	$100,000,000

VRDO requirements to maturity are as follows:

Fiscal Year Ending June 30	Variable Rate Demand Obligation Requirements Principal	Interest*	Total
2013	$ -	$ 600,000	$ 600,000
2014	-	600,000	600,000
2015	-	600,000	600,000
2016	-	600,000	600,000
2017	10,000,000	600,000	10,600,000
2018-2022	50,000,000	1,980,000	51,980,000
2023-2026	40,000,000	420,000	40,420,000
Total	$ 100,000,000	$ 5,400,000	$ 105,400,000

* Includes interest on VRDOs at estimated rates of .600 percent for Series A and .600 percent for series B respectively, for the June 7, 2006 issue; the interest rate on the notes is calculated daily and due monthly. The estimated rates used for this calculation were based on the proposed budget.

3) Revenue Bonds Payable

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

In May 2009 and 2011, the County issued $46.8 million and $34.6 million of revenue bonds respectively, secured by Department of Liquor Control revenues. The proceeds were used to purchase and to renovate a warehouse facility for the Department, as well as to fund the County's share of an interchange at the intersection of Maryland Route 355 (Rockville Pike) and Montrose Parkway West. On April 28, 2011, the County issued an additional $34,360,000 to supplement these projects.

In May 2012, the County issued $24.2 million Parking System Project Revenue Bonds (Bethesda Parking Lot District) Series 2012A, and $13.8 million Parking System Refunding Revenue Bonds

(Bethesda Parking Lot District), Series 2012B. These bonds were issued with a true interest cost of 2.84% and 1.49%, respectively. The proceeds of the Series 2012A Bonds will be used to finance a portion of the cost of constructing a public parking garage in the County.

The proceeds of the Series 2012B refunding revenue bonds of $13,750,000 together with a premium on the issue of $2,318,456 will be used to refund $14,860,000 Bethesda Parking Lot District series 2002A revenue bonds maturing on and after June 1, 2013.

	Dated Date	Original Maturity	True Interest Cost	Originally Issued	Years Refunded	Amount Refunded
Revenue Bonds	06/11/2002	2003-19	4.4231	$ 26,000,000	2013 to 2020	$ 13,750,000

Debt service saving from this refunding is $1.29 million as shown below. The present value of the debt service savings (or economic gain) on the refunding is $1.1 million.

Fiscal Year	Refunded Debt Service Requirements	Prior Receipts	Refunding Debt Service Requirements	Debt Service Savings
2012	$ 2,002,377	$ 1,666,739	$ 321,479	$ 14,159
2013	2,003,397		1,875,550	127,847
2014	2,010,236		1,892,425	117,811
2015	2,012,361		1,884,550	127,811
2016	2,015,447		1,883,050	132,397
2017	2,019,341		1,876,750	142,591
2018	2,023,108		1,874,875	148,233
2019	2,026,363		1,874,125	152,238
2020	2,029,175		1,869,375	159,800
2021	2,032,144		1,865,500	166,644
Total	$ 20,173,949	$ 1,666,739	$ 17,217,679	$ 1,289,531

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

	Terms of Commitment (Years)	Approximate Amount of Pledge
Bethesda Parking Lot District	19	$ 68,858,911
Solid Waste Disposal Fund	1	2,819,250
Liquor Control	18	113,412,842
Total		$ 185,091,003

The pledged net revenues recognized during FY12 for the payment of the outstanding principal and interest of the revenue bonds are as follows:

	Net Available Revenue for Debt Service	Debt Service		
		Principal	Interest	Total
Parking Lot District:				
Bethesda Parking Lot District	$ 10,099,395	$ 1,995,000	$ 1,278,136	$ 3,273,136
Silver Spring Parking Lot District	8,278,620	-	-	-
Solid Waste Disposal Fund	10,775,762	3,690,000	318,750	4,008,750
Liquor Control Fund	35,110,307	2,825,000	3,530,455	6,355,455

Revenue bond issues outstanding as of June 30, 2012, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2012	Unamortized Premium/ (Discount)	Unamortized Deferred Difference	Carrying Value June 30, 2012
Parking Revenue Bonds:								
Bethesda Parking Lot District 2005A	08/31/05	2007-25	3.62 - 5.00	$ 16,495,000	$ 13,310,000	$ 64,093	$ -	$ 13,374,093
Bethesda Parking Lot District 2012	05/16/12	2015-23	3.00 - 3.25	24,190,000	24,190,000	1,494,691	-	25,684,691
Bethesda Parking Lot District 2012 Ref.	05/16/12	2013-17	1.25 - 1.93	13,750,000	13,750,000	2,245,368	(233,525)	15,761,843
Solid Waste Refunding 2003A	04/03/03	2004-13	3.00 - 5.00	31,075,000	2,685,000	17,834	(19,525)	2,683,309
Liquor Control Revenue Bonds:								
Liquor Control & Transportation 2009	05/12/09	2010-29	3.00 - 5.00	46,765,000	41,865,000	2,168,106	-	44,033,106
Liquor Control & Transportation 2011	04/28/11	2012-31	2.00 - 5.00	34,360,000	33,140,000	1,513,603	-	34,653,603
Total				$166,635,000	$128,940,000	$ 7,503,695	$ (253,050)	$ 136,190,645

Changes in revenue bond principal during FY12 are as follows:

	Balance July 1, 2011	Bonds Issued	Bonds Retired	Balance June 30, 2012
Bethesda Parking Lot District	$ 30,165,000	$37,940,000	$ 16,855,000	$ 51,250,000
Solid Waste Disposal	6,375,000	-	3,690,000	2,685,000
Liquor Control	77,830,000	-	2,825,000	75,005,000
Total	$ 114,370,000	$37,940,000	$ 23,370,000	$ 128,940,000

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Bethesda Parking Lot District		Liquor Control	
	Principal	Interest	Principal	Interest
2013	$ 2,020,000	$ 2,030,369	$ 2,790,000	$ 3,561,750
2014	2,100,000	1,910,939	2,915,000	3,438,950
2015	3,120,000	1,839,789	3,055,000	3,295,200
2016	3,245,000	1,715,917	3,215,000	3,142,450
2017	3,375,000	1,588,008	3,345,000	3,010,950
2018-2022	17,470,000	5,428,250	19,170,000	12,600,690
2023-2027	11,690,000	2,309,952	24,130,000	7,640,750
2028-2032	8,230,000	785,687	16,385,000	1,717,102
Total	$ 51,250,000	$ 17,608,911	$ 75,005,000	$ 38,407,842

Fiscal Year Ending June 30	Solid Waste Disposal		Total Revenue Bond Requirements		
	Principal	Interest	Principal	Interest	Total
2013	$ 2,685,000	$ 134,250	$ 7,495,000	$ 5,726,369	$ 13,221,369
2014	-	-	5,015,000	5,349,889	10,364,889
2015	-	-	6,175,000	5,134,989	11,309,989
2016	-	-	6,460,000	4,858,367	11,318,367
2017	-	-	6,720,000	4,598,958	11,318,958
2018-2022	-	-	36,640,000	18,028,940	54,668,940
2023-2027	-	-	35,820,000	9,950,702	45,770,702
2028-2032	-	-	24,615,000	2,502,789	27,117,789
Total	$ 2,685,000	$ 134,250	$ 128,940,000	$ 56,151,003	$ 185,091,003

Revenue bonds authorized and unissued as of June 30, 2012, are as follows:

Purpose	Resolution Number	Year	Amount Authorized	Amount Unissued
Parking Lot Districts	11-1383	1989	$ 51,163,000	$ 1,403,000
Parking Lot Districts	14-921	2001	35,000,000	9,000,000
Solid Waste Disposal	12-1010	1993	56,935,000	6,255,000
Public Housing	16-675	2008	50,000,000	50,000,000
Liquor & Transportation	16-863	2009	60,000,000	56,875,000
Total			$ 253,098,000	$ 123,533,000

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

Purpose	Bethesda Parking Lot District	Silver Spring Parking Lot District	Solid Waste Disposal
Operation and Maintenance Account - Available to pay current expenses	$1,672,759	$2,094,823	$ -
Debt Service Account - Used to pay debt service on bonds	269,345	-	-
Debt Service Reserve Account - (including accrued interest) - Available to pay debt service on bonds if there is insufficient money available	4,306,612	-	3,788,132
Renewal and Renovation Account - Available for payment of renewals, replacements, renovations, and unusual and extraordinary repairs	1,500,000	1,500,000	3,997,740
Rate Covenant Cash Reserve - Available to fund operating activities for a minimum of three months	-	-	24,856,836
Rate Stabilization Account - In case of short-term extraordinary expenses	-	-	1,161,190
Total	$7,748,716	$3,594,823	$ 33,803,898

In lieu of Debt Service Reserve Accounts, the 2002 Series Parking Refunding Bonds and the 2002 Series A Parking Revenue Bonds are being secured with a municipal bond insurance policy. The County is in compliance with all significant financial bond covenants.

4) Bond Anticipation Notes Payable

Commercial paper bond anticipation notes (BANs) are authorized, issued, and outstanding as financing sources for capital construction and improvements. Changes in BANs during FY12 are as follows:

	Balance July 1, 2011	BANs Issued	BANs Retired	Balance June 30, 2012
BAN Series 2002	$ 100,000,000	$ -	$ 100,000,000	$ -
BAN Series 2009-A	125,000,000	112,200,000	37,200,000	200,000,000
BAN Series 2010-A	200,000,000	-	200,000,000	-
BAN Series 2010-B	75,000,000	243,800,000	18,800,000	300,000,000
Total	$ 500,000,000	$ 356,000,000	$ 356,000,000	$ 500,000,000

Interest earned on BAN proceeds totaling $17,222 was accounted for in the Debt Service Fund. During FY12 interest rates varied from .05 to .259 percent.

BANs totaling $356 million were issued during FY12; $243.8 million Series 2010 and $112.2 million Series 2009 respectively, at varying maturities to a maximum of 270 days, under a program whose authority was adopted on June 11, 2002 and was amended on July 16, 2002, July 29, 2003, July, 27, 2004, July 26, 2005, November 30, 2006, September 18, 2007, October 28, 2008, September 15, 2009, and November 30, 2010 to consolidate additional authority to borrow money and incur indebtedness. The County reissued the notes upon maturity and continues to do so, until they are replaced with long-term bonds. The County will issue long-term bonds in FY13, and intends to use the proceeds to replace short-term notes that were issued to fund capital construction and improvements. In connection with the BANs, utilizing a competitive request for proposals process the County entered into credit agreements provided by State Street Bank and PNC Bank to borrow up to $300,000,000. These Agreements are each $150,000,000 and are for three-year terms; to expire on July 31, 2013. The county entered into a Credit Agreement with JPMorgan Chase to provide liquidity with respect to the 2009 Series Notes. Under the terms of the 2009 Credit agreement, the County may borrow up to $200,000,000 plus interest not to exceed 34 days interest at 10% per annum calculated on the basis of 365-day year on a revolving principal and interest; the credit agreement expires on August 24, 2014.

During FY12, the County Council passed Resolution No. 17-318 dated December 6, 2011 to increase the County's authority to issue BANS by $386 million. Cumulative BANs authorized and unissued as of June 30, 2012, including amounts authorized and unissued from prior years, is $960,003,000.

5) Certificates of Participation

In April 2010, the County issued Certificates of Participation (certificates) for Equipment Acquisition in the public transportation Program dated April 7, 2010, in the amount of $23.0 million. In October 2007, the County issued certificates for its Equipment Acquisition in the fire and rescue Program dated October 24, 2007, in the amount of $33.58 million. The certificates represent proportionate interest in a Conditional Purchase Agreement (CPA) between the County, as purchaser and U.S. Bank National Association, as the seller. The CPA requires the County, as purchaser; to make periodic purchase installments in amounts sufficient to pay the scheduled debt service on the certificates until the County pays the entire price necessary to acquire the equipment, which shall be equal to the amount necessary to pay the principal and interest on all outstanding certificates. The ability of the County, as purchaser, to pay the purchase installments due under the CPA depends upon sufficient funds being appropriated each year by the County Council for such purpose. The County Council is under no obligation to make any appropriation with respect to the CPA. The CPA is not a general obligation of the County and does not constitute an indebtedness of the County within the meaning of any constitutional or statutory limitation or charge against the general credit or taxing powers of the County.

The Certificates were issued at interest rates ranging from 2.4 to 5.0 percent and have maturity schedules as follows:

Fiscal Year Ending June 30	Certificates of Participation		
	Principal	Interest	Total
2013	$ 6,745,000	$ 1,475,000	$ 8,220,000
2014	6,370,000	1,212,600	7,582,600
2015	6,620,000	923,600	7,543,600
2016	6,885,000	640,000	7,525,000
2017	7,155,000	289,100	7,444,100
2018	3,645,000	145,800	3,790,800
Total	$ 37,420,000	$ 4,686,100	$ 42,106,100

6) Master Lease/Equipment Notes

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

The following is a schedule by fiscal year for the debt service requirement at June 30, 2012:

Fiscal Year Ending June 30	
2013	$ 5,659,961
2014	5,659,959
2015	5,659,962
2016	5,659,995
2017	3,844,416
2018-2019	3,159,109
Total minimum lease payments	29,643,402
Less: amount representing interest	(2,483,527)
Present value of minimum lease payments	$ 27,159,875

The County has entered into purchase agreements to provide financing for the acquisition of capital asset equipment. The agreements have terms of two to five years with interest rates identified in the agreements. Arrangements provide that proceeds are to be held by a trustee and disbursed to vendors. If assets are acquired prior to the note agreement, the trustee reimburses the County. The following is a schedule by fiscal year for the agreements as of June 30, 2012:

Fiscal Year Ending	Equipment Notes Requirements		
June 30	Principal	Interest	Total
2013	$ 1,083,777	$ 85,161	$ 1,168,938
2014	913,609	56,854	970,463
2015	871,941	30,550	902,491
2016	418,201	6,889	425,090
2017	14,831	831	15,662
2018	15,300	361	15,661
Total	$ 3,317,659	$ 180,646	$ 3,498,305

On July 7, 2011, the County issued a Master Lease Purchase Agreement to finance public safety system communication equipment. The following is a schedule by fiscal year for the agreement as of June 30, 2012:

Fiscal Year Ending June 30	Satefy Equipment Notes Requirements		
	Principal	Interest	Total
2013	$ 4,074,556	$ 298,983	$ 4,373,539
2014	4,143,021	230,519	4,373,540
2015	4,212,637	160,903	4,373,540
2016	4,283,421	90,118	4,373,539
2017	2,168,626	18,144	2,186,770
Total	$ 18,882,261	$ 798,667	$ 19,680,928

7) WSSC Promissory Note

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

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

The following is a schedule by fiscal year for the debt service requirement at June 30, 2012:

Fiscal Year Ending June 30	Promissory Note Requirements		
	Principal	Interest	Total
2013	$ (27,569)	$ 427,569	$ 400,000
2014	(28,791)	428,791	400,000
2015	(30,066)	430,066	400,000
2016	(31,398)	431,398	400,000
2017	(32,789)	432,789	400,000
2018- 2022	(187,065)	2,187,065	2,000,000
2023 - 2025	9,989,358	1,110,132	11,099,490
Total	$ 9,651,680	$ 5,447,810	$ 15,099,490

8) Lease Revenue Bonds

In June 2002, the County issued Lease Revenue Bonds dated June 1, 2002, in the amount of $37.88 million for its Metrorail garage projects. These bonds were issued to finance the costs of the planning, design, construction, and placing into commercial operation, of garages at the Shady Grove and Grosvenor Metrorail Stations. The County has leased these metrorail garage projects to the Washington Metropolitan Area Transit Authority (WMATA).

The County issued $4,745,000 in lease revenue bonds (Metrorail Garage Projects) on September 1, 2004. The bonds were issued due to certain cost increases incurred since the issuance of the Series 2002 Bonds. The County needed an additional $2,100,000 to complete construction of the Shady Grove Metro Garage and an additional $2,110,000 to complete construction of the Grosvenor Metro Garage. The Series 2004 bonds were delivered on September 28, 2004. The lease has a term of 20 years ending on June 1, 2024.

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

The bonds are payable from and secured by a pledge of revenues from WMATA's lease payments and certain reserve funds. The approximate amount of the pledge is $45,661,338. WMATA's obligation to make payments under the leases is payable solely from amounts held in a Surcharge Reserve Account which is funded by revenues from a surcharge on the parking facilities.

In the event that the County's Reserve Subfund of $3,124,626, included in Debt Service Fund cash with fiscal agents in the accompanying financial statements, is less than the required amount, the County Executive is obligated to include, in the next subsequent appropriation request to the County Council, a request for sufficient resources to reimburse the Reserve Subfund. The Lease Revenue Bonds are not a debt of the County within the meaning of any constitutional, compact, charter or statutory debt limit or restriction. Neither the faith and credit nor the taxing power of the County is pledged to the payment of the bonds.

In FY12, pledged revenue of $3,416,120 equals the principal and interest on the lease revenue bonds.

Lease revenue bonds outstanding as of June 30, 2012, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2012	Unamortized Premium (Discount)	Unamortized Deferred Difference	Carrying Value June 30, 2012
Lease Revenue Bonds	10/13/11	2011-31	2.6687%	$35,465,000	$33,100,000	$ 4,628,375	$ (1,725,175)	$36,003,200

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

Fiscal Year Ending June 30	Lease Revenue Bond Requirements Principal	Interest	Total
2013	$ 1,860,000	$ 1,612,363	$ 3,472,363
2014	1,955,000	1,519,362	3,474,362
2015	2,060,000	1,421,613	3,481,613
2016	2,160,000	1,318,612	3,478,612
2017	2,280,000	1,210,613	3,490,613
2018-2022	13,300,000	4,220,563	17,520,563
2023-2027	7,425,000	1,049,525	8,474,525
2028-2031	2,060,000	208,687	2,268,687
Total	$ 33,100,000	$ 12,561,338	$ 45,661,338

9) Taxable Limited Obligation Certificates

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

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

The following is a schedule by fiscal year for the debt service requirement at June 30, 2012:

Fiscal Year Ending June 30	Taxable Limited Obligation Requirements Principal	Interest	Total
2013	$ 2,095,000	$ 2,607,198	$ 4,702,198
2014	2,165,000	2,533,897	4,698,897
2015	2,240,000	2,458,098	4,698,098
2016	2,320,000	2,379,597	4,699,597
2017	2,400,000	2,298,247	4,698,247
2018-2022	13,555,000	9,940,688	23,495,688
2023-2027	16,985,000	6,516,370	23,501,370
2028-2031	14,505,000	1,792,040	16,297,040
Total	$ 56,265,000	$ 30,526,135	$ 86,791,135

10) HUD Loan

During 2002, the County Council authorized the Department of Housing and Community Affairs (DHCA) to participate in the HUD Section 108 program for the purpose of acquiring twenty-one units at the Chelsea Tower which provides affordable housing for income qualified persons. On July 16, 2003, the County signed a loan agreement with HUD in the amount of $870,000. The County subsequently received approval from the County Council to disburse and re-loan these funds to HOC. HOC will repay the County, through the Housing Initiative Special Revenue Fund, the principal of $870,000 with interest thereon on a semi-annual basis at 4.59 percent over a twenty-year period, which is consistent with the HUD repayment terms. The principal amount payable at June 30, 2012, for this loan is $526,000.

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11) Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2012, was as follows:

Governmental Activities	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due within one year
General obligation bonds payable:					
General obligation bonds	$ 1,855,600,000	$ 557,655,000	$ (415,965,000)	$ 1,997,290,000	$ 160,830,000
Variable rate demand obligations	100,000,000	-	-	100,000,000	-
Bond anticipation notes	500,000,000	356,000,000	(356,000,000)	500,000,000	500,000,000
Revenue bonds	42,803,956	-	(1,538,846)	41,265,110	1,473,500
Lease revenue bonds payable	31,550,000	35,465,000	(33,915,000)	33,100,000	1,860,000
Add remaining original issue premium	88,922,088	86,549,853	(30,020,771)	145,451,170	-
Less deferred amount on refundings	(21,855,668)	(20,206,261)	8,270,186	(33,791,743)	-
Total general obligation bonds	2,597,020,376	1,015,463,592	(829,169,431)	2,783,314,537	664,163,500
Leases and Notes payable:					
Capital leases*	53,006,120	1,328,880	(7,805,000)	46,530,000	7,305,000
Certificates of participation	43,935,000	-	(6,515,000)	37,420,000	6,745,000
Taxable limited obligation certificates	29,470,000	28,840,000	(2,045,000)	56,265,000	2,095,000
HUD loan	569,000	-	(43,000)	526,000	43,000
WSSC Promissory Note	9,625,280	26,400	-	9,651,680	427,569
Equipment notes*	22,979,511	33,822,618	(7,442,333)	49,359,796	10,050,268
Add remaining original issue premium	264,651	328,836	(50,530)	542,957	-
Total Leases and Notes Payable	159,849,562	64,346,734	(23,900,863)	200,295,433	26,665,837
Other non-debt related liabilities:					
Compensated absences	81,250,426	42,337,782	(49,438,533)	74,149,675	55,612,256
Other postemployment benefits	283,532,271	158,529,980	(65,333,661)	376,728,590	-
Claims payable - self-insurance*	109,555,407	170,577,335	(141,935,715)	138,197,027	38,346,027
Claims and judgments	1,990,101	-	(13,180)	1,976,921	1,976,921
Total other non-debt related	476,328,205	371,445,097	(256,721,089)	591,052,213	95,935,204
Total Governmental Activities	$ 3,233,198,143	$ 1,451,255,423	$ (1,109,791,383)	$ 3,574,662,183	$ 786,764,541
Business-Type Activities					
Revenue Bonds:					
Liquor Control	$ 35,026,044	$ -	$ (1,286,154)	$ 33,739,890	$ 1,316,500
Parking revenue bonds	30,165,000	37,940,000	(16,855,000)	51,250,000	2,020,000
Solid waste disposal revenue refunding bonds	6,375,000	-	(3,690,000)	2,685,000	2,685,000
Add remaining original issue premium	2,032,590	3,833,439	(326,210)	5,539,819	-
Less remaining original issue discount	(8,852)	-	8,852	-	-
Less deferred amount on refundings	(72,392)	(241,126)	60,468	(253,050)	-
Total revenue bonds	73,517,390	41,532,313	(22,088,044)	92,961,659	6,021,500
Equipment notes payable	81,782	-	(81,782)	-	-
Other non-debt related liabilities:					
Compensated absences	5,697,701	28,281	(225,100)	5,500,882	4,125,662
Other postemployment benefits	3,965,222	2,530,020	(2,530,020)	3,965,222	-
Landfill closure costs	17,630,123	242,000	(872,441)	16,999,682	1,060,272
Total other non-debt related	27,374,828	2,800,301	(3,709,343)	26,465,786	5,185,934
Total Business-Type Activities Liabilities	$ 100,892,218	$ 44,332,614	$ (25,797,387)	$ 119,427,445	$ 11,207,434

* Change in Presentation

Funding Source for Other Non-debt Related Liabilities

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, $2,291,180 ($1,718,385 due within one year and $572,795 due in more than one year) of internal service fund compensated absences were included in the above amounts. Compensated absences liabilities of governmental activities are generally liquidated by the governmental funds that incurred the associated personnel cost. The County liquidates claims payable for self-insurance funds with internal service fund resources. Other post employment benefit liabilities are liquidated with General Fund resources. Claims and judgments are liquidated with resources from the General Fund or the fund to which the claim relates.

12) Conduit Debt Obligations

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

As of June 30, 2012, there were 23 issues of Industrial Revenue Bonds and Economic Development Revenue Bonds outstanding. Of these, 9 were issued prior to July 1, 1996. The aggregate principal amount payable at June 30, 2012, for bonds issued prior to July 1, 1996, could not be determined; however, their original issue amounts totaled $158,695,000. The principal amount payable at June 30, 2012, for bonds issued after July 1, 1996, totaled $319,917,307.

13) Special Taxing Districts

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

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

In December 1999, the County issued $2.4 million in special obligation bonds for the Kingsview Village Center Development District. Special taxes and assessments were levied beginning in FY01 to repay this debt. In April 2002, the County issued two series of special obligation bonds for the West Germantown Development District. The County issued $11.6 million of Senior Series 2002A bonds and $4.3 million of Junior Series 2002B bonds to finance the construction of infrastructure in the development district. Special taxes and assessments were levied beginning in FY03 to repay this debt.

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

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

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

COMPONENT UNITS

At June 30, 2012, HOC's noncurrent liabilities are comprised of the following:

	Due within one year	Long-Term	Total
Revenue bonds payable	$ 32,479,323	$ 700,191,542	$ 732,670,865
Capital leases payable	169,628	20,308,586	20,478,214
Notes and other payable	18,715,980	106,151,319	124,867,299
Total	$ 51,364,931	$ 826,651,447	$ 878,016,378

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	$ 426,974,338
Single Family Mortgage Purchase Program Fund	305,696,527
Total	$ 732,670,865

Interest rates on the HOC Multi-Family and Single Family Mortgage Purchase Program Fund bonds ranged from 0.25 to 11.26 percent and 0.45 to 6.75 percent, respectively, as of June 30, 2012.

Pursuant to Section 15 of Article 44A of the Annotated Code of Maryland, the County may, by local law, provide its full faith and credit as guarantee of bonds issued by HOC in principal amount not exceeding $50,000,000. Section 20-32 of the Montgomery County Code provides the method by which the County has implemented the guarantee.

The debt service requirements by fiscal year for the HOC debt guaranteed by the Primary Government are as follows:

Fiscal Year	Guaranteed Revenue Bond Requirements		
Ending June 30	Principal	Interest	Total
2013	$ 370,000	$ 464,058	$ 834,058
2014	385,000	446,500	831,500
2015	405,000	427,834	832,834
2016	425,000	407,591	832,591
2017	445,000	385,841	830,841
2018-2022	2,580,000	1,563,932	4,143,932
2023-2027	3,295,000	827,568	4,122,568
2028-2029	1,565,000	79,915	1,644,915
Total	$ 9,470,000	$ 4,603,239	$ 14,073,239

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	Total Revenue Bond Requirements		
Ending June 30	Principal	Interest	Total
2013	$ 32,479,323	$ 22,215,150	$ 54,694,473
2014	19,381,304	21,823,483	41,204,787
2015	21,383,199	21,172,288	42,555,487
2016	22,760,300	20,486,017	43,246,317
2017	23,432,645	19,683,343	43,115,988
2018-2022	88,859,143	88,585,448	177,444,591
2023-2027	102,325,173	72,108,393	174,433,566
2028-2032	146,222,535	50,907,352	197,129,887
2033-2037	116,565,189	33,340,565	149,905,754
2038-2042	118,800,000	15,752,423	134,552,423
2043-2047	27,730,000	4,458,237	32,188,237
2048-2052	11,895,000	795,564	12,690,564
Unamortized Bond Discount	837,054	-	837,054
Total	$ 732,670,865	$ 371,328,263	$ 1,103,999,128

Changes in the HOC revenue bonds during FY12 are as follows:

Purpose	Balance July 1, 2011	Bonds Issued*	Bonds Retired	Balance June 30, 2012
Multi-Family Mortgage Purchase Program Fund	$432,396,933	$ 61,553,104	$ 66,975,699	$426,974,338
Single Family Mortgage Purchase Program Fund	304,296,827	32,784,209	31,384,509	305,696,527
Total	$736,693,760	$ 94,337,313	$ 98,360,208	$732,670,865

* Includes accretions and bond discounts.

HOC has issued a number of individual bonds for financing multi-family developments for which HOC has no legal liability for repayment or administration (conduit debt), and accordingly, the bonds are not included in the accompanying financial statements. HOC participates in such issuances in order to increase the availability of affordable housing in the County. The bonds outstanding are summarized below:

Bonds outstanding, July 1, 2011	$ 249,286,857
Issuances during the year	-
Redemptions during the year	(57,324,667)
Bonds outstanding, June 30, 2012	$ 191,962,190

The County is not liable in any manner for the remaining debt of HOC or any debt of MCPS, MCC, or MCRA. BUPI has no long-term debt.

G) Segment Information

The County has issued revenue bonds to finance activities relating to Solid Waste Disposal operations, including recycling, and the Silver Spring and Bethesda Parking Lot districts (PLDs). The Solid Waste Disposal operations and the Silver Spring and Bethesda PLDs are accounted for within the Solid Waste Activities Fund and the Parking Lot Districts Fund, respectively. However, investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for each activity as of and for the year ended June 30, 2012, is presented below:

Condensed Statements of Net Assets

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
ASSETS			
Current assets	$ 28,650,109	$ 9,367,886	$ 63,870,333
Due from component units	46,868	-	-
Other assets	33,849,698	3,594,823	8,405,836
Capital assets	40,999,328	85,504,428	76,171,661
Total Assets	103,546,003	98,467,137	148,447,830
LIABILITIES			
Current liabilities	10,773,298	3,853,814	7,293,518
Due to other funds	95,704	18,254	20,536
Long-term liabilities	16,570,607	158,556	52,929,260
Total Liabilities	27,439,609	4,030,624	60,243,314
NET ASSETS			
Invested in capital assets, net of related debt	38,316,019	85,504,428	21,351,034
Restricted for debt service	33,803,898	3,594,823	7,748,716
Unrestricted	3,986,477	5,337,262	59,104,766
Total Net Assets	$ 76,106,394	$ 94,436,513	$ 88,204,516

* Includes Solid Waste Leafing

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

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
OPERATING REVENUES (EXPENSES):			
Operating Revenues:			
Charges for services	$ 101,350,027	$ 8,982,371	$ 11,265,755
Licenses and permits	7,435	-	-
Fines and penalties	27,215	2,575,463	4,749,362
Total Operating Revenues (pledged against bonds)	101,384,677	11,557,834	16,015,117
Depreciation	2,144,369	4,647,798	4,683,277
Other operating expenses	90,666,676	9,488,193	8,038,372
Operating Income (Loss)	8,573,632	(2,578,157)	3,293,468
NONOPERATING REVENUES (EXPENSES):			
Intergovernmental	25	-	-
Property taxes	-	6,001,573	2,024,199
Gain (loss) on disposal of capital assets	(572,285)	7,780,648	34,764,022
Investment income	23,529	71	16,543
Interest expense	(369,019)	(537)	(1,286,679)
Other revenue	606,492	201,699	81,908
Insurance Recoveries	-	5,635	-
Transfers out	(2,011,630)	(4,692,271)	(8,962,230)
Change in Net Assets	6,250,744	6,718,661	29,931,231
Beginning Net Assets	69,855,650	87,717,852	58,273,285
Ending Net Assets	$ 76,106,394	$ 94,436,513	$ 88,204,516

Condensed Statements of Cash Flows

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
Net Cash Provided (Used) By:			
Operating activities	$ 11,500,118	$ 4,553,883	$ 11,678,571
Noncapital financing activities	(2,011,630)	1,309,302	(6,938,031)
Capital and related financing activities	(3,814,806)	1,060,514	18,692,737
Investing activities	354	71	-
Net Increase (Decrease)	5,674,036	6,923,770	23,433,277
Beginning Cash and Cash Equivalents	50,086,014	4,761,344	9,624,476
Ending Cash and Cash Equivalents	$ 55,760,050	$ 11,685,114	$ 33,057,753

* Includes Solid Waste Leafing

H) Fund Equity

1) Governmental Fund Balances

The governmental fund balances at June 30, 2012 are composed of the following:

	General	Revenue Stabilization	Housing Initiative	Grants	Debt Service	Capital Projects	Other Non-Major Governmental Funds
Fund Balances:							
Nonspendable:							
Inventory	$ 5,325,225	$ -	$ -	$ -	$ -	$ 2,722,032	$ -
Long term receivables	-	-	192,208,168	-	-	13,328,710	4,369,908
Prepaids	310,355	-	-	-	-	2,500	32,314
Restricted for:							
Public works and transportation	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	1,807,473
Community development and housing	-	-	608,996	-	-	-	-
Environment	-	-	-	-	-	-	2,944,364
Other Purposes	-	155,255,188	-	-	3,124,626		8,427,933
Committed to:							
Public safety	-	-	-	-	-	-	3,400,983
Public works and transportation	80,340	-	-	-	-	-	5,168,325
Culture and recreation	3,391,309	-	-	-	-	-	2,463,226
Community development and housing	1,912,659	-	95,855	-	-	-	-
Environment	-	-	-	-	-	-	5,641,353
Education	18,505,445	-	-	-	-	-	-
Capital Projects	-	-	-	-	-	99,749,855	-
Other Purposes	17,353,943	-	-	-	-	-	708,052
Assigned to:							
Public safety	4,794,734	-	-	-	-	-	-
Public works and transportation	1,017,088	-	-	-	-	-	-
Health and human services	5,598,298	-	-	-	-	-	-
Culture and recreation	1,051,307	-	-	-	-	-	-
Community development and housing	109,041	-	-	-	-	-	-
Environment	129,966	-	-	-	-	-	-
Other Purposes	7,682,488	-	-	-	-	-	-
Unassigned:	192,937,060	-	-	-	-	-	(6,573,775)
Total fund balances	$ 260,199,258	$ 155,255,188	$ 192,913,019	$ -	$ 3,124,626	$ 115,803,097	$ 28,390,156
Summary of fund balances:							
Nonspendable	$ 5,635,580	$ -	$ 192,208,168	$ -	$ -	$ 16,053,242	$ 4,402,222
Restricted	-	155,255,188	608,996	-	3,124,626	-	13,179,770
Committed	41,243,696	-	95,855	-	-	99,749,855	17,381,939
Assigned	20,382,922	-	-	-	-	-	-
Unassigned	192,937,060	-	-	-	-	-	(6,573,775)
Total fund balances	$ 260,199,258	$ 155,255,188	$ 192,913,019	$ -	$ 3,124,626	$ 115,803,097	$ 28,390,156

2) Encumbrances

Encumbrance accounting is employed as part of the budgetary integration for all governmental funds. As of June 30, 2012, certain amounts which were available for specific purposes have been encumbered in the governmental funds. Encumbrances are included in the County's governmental fund balances are as follows:

Governmental Fund		Restricted/Committed or Assigned Fund Balance
General Fund	$	20,382,922
Housing Initiative		95,855
Capital Projects		99,749,855
Non-major Governmental Funds		6,700,653
Total Governmental Funds	$	126,929,285

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

Governmental Fund		Encumbrances not included in Fund Balance
Grants	$	9,621,878
Debt Service		711,704
Capital Projects		194,586,761
Fire Tax District		1,363,542
Total Governmental Funds	$	206,283,885

3) Net Assets Restricted by Enabling Legislation

Net assets restricted by enabling legislation represent legislative restrictions that a party external to the government can compel the government to honor. For the County, such amounts represent primarily accumulated net assets attributed to revenue streams, such as taxes or fees, which are restricted for specified purposes in the County Code. This generally includes Capital Project Fund recordation and impact tax collections on hand for a component unit and municipal governments, ending fund balances of substantially all special revenue funds, and ending unrestricted net assets of the Solid Waste Activities and Parking Lot Districts enterprise funds. Such amounts, which are included with restricted net assets in the government-wide Statement of Net Assets, are as follows at year-end:

Governmental activities	$ 415,244,927
Business-type activities	48,107,187
Total	$ 463,352,114

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, 2012:

	General Fund			Capital	
	Operating	Capital *	Total	Projects	Total
MCPS	$ 1,371,526,480	$ 3,741,708	$ 1,375,268,188	$ 237,586,098	$ 1,612,854,286
MCC	96,248,755	6,740,674	102,989,429	26,950,044	129,939,473
HOC	5,493,790	-	5,493,790	-	5,493,790
Total	$ 1,473,269,025	$ 10,482,382	$ 1,483,751,407	$ 264,536,142	$ 1,748,287,549

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

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

2) Other Transactions

BUPI charges for services revenue includes $4,021,824 earned under contracts with the County. For capital leases with MCRA, see Note III-E3. For mortgages receivable due from HOC, see Note III-B2.

NOTE IV. OTHER INFORMATION

A) Risk Management

The County, for itself and certain component units and other governments, maintains two self-insurance internal service funds. County management believes it is more economical to manage its risks internally and set aside assets for claim settlements in these internal service funds.

One fund is maintained for Liability and Property Coverage under which participants share the costs of workers' compensation; comprehensive general; automobile and professional liability (errors and omissions); property coverage including fire and theft; and other selected areas which require coverage. Commercial insurance is purchased for claims in excess of coverage provided by the self-insurance fund and for other risks not covered by the fund. In addition to all funds of the County, participants in this program include MCPS, HOC, MCC, MCRA, BUPI, M-NCPPC, the independent fire/rescue corporations, the Bethesda-Chevy Chase Rescue Squad, the Rockville Housing Enterprises, the Town of Somerset, the City of Gaithersburg, the Village of Drummond, and the Village of Friendship Heights. The liability for claims with respect to all participants transfers to the self-insurance fund, except for M-NCPPC which retains ultimate liability for its own claims.

The second fund is maintained for Employee Health Benefits under which participants share medical, prescription, dental, vision, and life insurance. While the majority of coverage is self-insured, certain fully insured plan options, including health maintenance organizations (HMO's), are offered to participants. WSTC, BUPI, Montgomery Community Television, the Strathmore Hall Foundation, Inc., Arts and

Humanities Council of Montgomery County, Montgomery County Volunteer Fire & Rescue Association, and certain employees of the State of Maryland in addition to some of the participants in the Liability and Property Coverage Program, participate in this program.

Both internal service funds use the accrual basis of accounting. Payments to the Liability and Property Coverage Self-Insurance Fund by participants and recognition of the fund's liability for unpaid claims including those incurred but not reported are based on actuarial estimates. For the Employee Health Benefits Fund, charges to participants are based on actuarial estimates. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported which incorporate incremental claims adjustment expenses incurred only because of the claim, but do not include nonincremental claims adjustment expenses such as internal salary costs. Because actual claims liabilities depend on complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. During the year, there were no significant reductions in commercial insurance coverage in the Liability and Property Coverage Self-Insurance Fund from the prior year. For the past three years, no insurance settlements exceeded commercial insurance coverage in either fund.

Changes in the balances of Claims Payable for the self-insurance funds for FY12 and FY11 are as follows:

	Liability and Property Coverage	Employee Health Benefits
Balance July 1, 2010	$ 94,833,000	$ 7,202,569
Claims and changes in estimates	39,611,783	93,345,399
Claim payments [1]	(32,418,783)	(93,036,561)
Balance June 30, 2011	102,026,000	7,511,407
Claims and changes in estimates	56,847,994	113,729,341
Claim payments [1]	(36,985,994)	(104,743,187)
Balance June 30, 2012 [2,3]	$ 121,888,000	$ 16,497,561

1 Includes non-monetary settlements.

2 Includes incurred but not reported (IBNR) claims of $71,263,000 and $16,309,027 for the Liability and Property Coverage and the Employee Health Benefits Self-Insurance Funds, respectively.

3 Life Insurance is covered by a third-party provider, but the County is required to hold a reserve with the provider proportionate to claims incurred. The decrease in Life Insurance IBNR of $188,534 is not reflected in the schedule. Claims payable including the effect of the decrease in Life IBNR is $16,309,027.

B) Significant Commitments and Contingencies

1) Landfill

The County, in its effort to provide for estimated landfill capping and postclosure maintenance costs, accrues such costs and recognizes those costs as expenses as the landfill is utilized. The October 9, 1991 U.S. Environmental Protection Agency (EPA) rule, “Solid Waste Disposal Criteria,” established closure requirements for all municipal solid waste landfills (MSWLFs) that receive waste after October

9, 1991. The County has been accruing closure expenses since FY91 in an attempt to match the costs of closure against the revenues associated with the use of the landfill. GASB Statement No. 18, issued in August 1993, expanded the items considered in the original EPA calculation of closure costs. The expanded requirements include postclosure care for thirty years for landfills accepting refuse materials after October 1991. The Oaks Landfill closed on October 22, 1997, and the County began using out-of-County waste hauling during FY98. At the time the landfill was closed, total cumulative capacity used was 6,990,437 tons. The total closure and postclosure costs are estimated at $62,709,000, which has been fully accrued through June 30, 2012. Of the total amount accrued, $44,836,077 in actual costs has been paid out in prior years, and $872,441 was paid in FY12, resulting in a net liability of $17,000,482 at June 30, 2012. The current and non-current portions of the adjusted liability at year-end are estimated at $1,060,272 and $15,939,410 respectively. These costs are subject to change based on cost differences, changes in technology, or applications of laws and regulations. The County plans to use primarily operating cash to pay for these closure and postclosure costs as they are incurred in the future.

2) <u>Pollution Remediation</u>

The County has a contingent liability with respect to the Gude Landfill. This landfill was used for the disposal of County municipal solid waste from 1965 to 1982. The landfill received approximately 4.8 million tons of municipal waste from 1965 until the site was closed in 1982. A contingent liability currently exists because the Gude Landfill has been identified as a site which will require pollution remediation or additional post-closure costs due to ground water and surface water contamination. The County is still investigating the extent to which this site needs remediation, therefore no reasonable estimable costs can be reported for FY12 and may not be until FY13.

3) <u>Litigation</u>

In addition to those suits in which claims for liability are adequately covered by insurance, the County is a defendant in various suits involving tort claims, violations of civil rights, breach of contract, inverse condemnation, and other suits arising in the normal course of business. In the opinion of the County Attorney, the estimated liability of the County in the resolution of these cases will not exceed $1,976,921. In accordance with general accepted accounting principles, this amount has been reflected as a liability in the accompanying financial statements.

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

The County participates in a number of Federal and State assisted grant, entitlement, and/or reimbursement programs, principal of which are the Community Development Block Grant, the Head Start Grant, Community Mental Health Grant, and the Medical Assistance Grant. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of most of these programs for, or including, the year-ended June 30, 2012, have not yet been completed. In accordance with the provisions of the Single Audit Act of 1984 and Circular A-133, issued by the U.S. Office of Management and Budget, the County participates in single audits of federally assisted programs. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although management does not believe amounts ultimately disallowed, if any, would be material.

5) Other Commitments

County proprietary funds have entered into contract commitments that remain uncompleted as of year-end. The amounts of outstanding commitments at June 30, 2012, are as follows:

Enterprise Funds:	Operating	Capital	Inventory	Total
Major Funds:				
Liquor	$ 4,817,627	$ -	$ 6,516,527	$ 11,334,154
Solid Waste Activities:				
Disposal operations	11,889,973	-	-	11,889,973
Collection operations	222,410	-	-	222,410
Parking Lot Districts:				
Silver Spring	173,182	2,297,676	-	2,470,858
Bethesda	75,827	2,497,142	-	2,572,969
Wheaton	42,093	353,108	-	395,201
Montgomery Hills	8,484	-	-	8,484
Subtotal	17,229,596	5,147,926	6,516,527	28,894,049
Nonmajor Funds:				
Permitting Services	150,231	-	-	150,231
Community Use of Public Facilities	8,678	-	-	8,678
Subtotal	158,909	-	-	158,909
Total Enterprise Funds	17,388,505	5,147,926	6,516,527	29,052,958
Internal Service Funds:				
Motor Pool	6,208,403	-	2,126,110	8,334,513
Central Duplicating	1,062,199	-	-	1,062,199
Liability and Property Coverage Self-Insurance	46,840	-	-	46,840
Employee Health Benefits Self-Insurance	12,502,216	-	-	12,502,216
Total Internal Service Funds	19,819,658	-	2,126,110	21,945,768
Total Proprietary Funds	$ 37,208,163	$ 5,147,926	$ 8,642,637	$ 50,998,726

As of June 30, 2012, the County has $10,007,150 in outstanding offers of loans and/or grants that have been extended to various companies under its Economic Development Fund programs. To help fund such offers, the designated fund balance of the Economic Development Special Revenue Fund at the end of the year is typically reappropriated in the following year.

C) Subsequent Events

On July 18, 2012, the County received $37,835,000 in proceeds from Water Quality Protection Charge Revenue Bonds (Series 2012A) to finance stormwater management capital projects in order to comply with the County's Municipal Separate Storm Sewer Systems (MS4) Permit. The bonds were sold on June 28, 2012.

On October 10, 2012, the County issued General Obligation Bonds (Tax-Exempt Series A) in the amount of $295,000,000 and General Obligation Refunding Bonds (Tax-Exempt Series B) in the amount of $23,360,000. Subsequent to closing the County retired commercial paper bond anticipation notes (BANS) totaling $326,790,000; $200,000,000 for the 2009 series and $126,790,000 for the 2010 series.

The County anticipates savings in future minimum lease payments due to the October 18, 2012 refunding of Montgomery County Revenue Authority Taxable Lease Revenue bonds that were issued for the construction of the Montgomery County Conference Center referenced at note III-E3. Savings are estimated at $1 million over the remaining lease term.

On December 18, 2012 the County issued BANs of $200,000,000 for the 2009 series.

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, 2012, M-NCPPC had outstanding notes payable and bonds payable in the amount of $94,267,800, of which $1,064,101 was self-supporting. Of the total amount payable, $12,609,409 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, 2012, is $37,785,138, 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, 2012, WSSC had outstanding notes payable and bonds payable in the amount of $1,585,998,000, which was fully self-supporting. Of the total amount payable, $281,662,000 represented debt due within one year. Pursuant to Section 4-101 of Article 29 of the Annotated Code of Maryland, the County must guarantee payment of principal and interest on WSSC bonds, unless WSSC waives such guarantee requirement in accordance with Section 4-103 of Article 29. WSSC has waived such guarantee requirement with respect to all outstanding WSSC bonds. At June 30, 2012, all WSSC debt relating to the County is self-supporting.

Washington Suburban Transit Commission (WSTC)

The Washington Suburban Transit District (WSTD), encompassing Prince George's and Montgomery Counties, Maryland, was chartered by the State of Maryland in 1965 to, among other things, coordinate and participate in the formulation of the transit plan of the Washington Metropolitan Area Transit Authority for

WSTD. The WSTD is governed by the WSTC, which is composed of three representatives each from Prince George's and Montgomery Counties and one representative from the Maryland Department of Transportation. One commissioner from each county is appointed by the Governor of the State of Maryland, and the other two commissioners are appointed by the chief executive officer of the organizations they represent. The two participating counties have equal budgetary authority and financial responsibility for WSTC; however, both are required to act in consultation with the Maryland Department of Transportation. WSTC's liabilities are limited to funds payable from the participating counties and the State under outstanding grant agreements and State legislation. Montgomery County made an operating contribution totaling $84,690 to WSTC during FY12.

Washington Metropolitan Area Transit Authority (WMATA)

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

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

Under State statutes, the State of Maryland is required to cover its related 100 percent of the combined operating deficit of WMATA and County Ride-On operations (that began on or after June 30, 1989) assuming that 35 percent (effective in FY09) of gross operating costs are recovered by revenues.

A summary reflecting WMATA’s expenditures incurred for the County's share of WMATA's activities for FY12, which are fully funded by the State and not reflected in the accompanying financial statements, is as follows:

Bus operating subsidy	$ 54,969,805
Rail operating subsidy	26,355,810
Americans with Disabilities Act service	23,394,898
MetroMatters program	4,945,065
Capital Improvement Program	27,980,000
Project Development Program	506,000
Debt service on WMATA revenue bonds	4,866,163
Local bus program	22,089,042
Total	$ 165,106,783

At June 30, 2012, WMATA had outstanding bonds payable of $325,030,000, of which $27,360,000 represented bonds payable due within one year. This debt is payable from resources of WMATA.

Metropolitan Washington Council of Governments (COG)

COG is a multi-governmental regional planning organization in which local governments work together, in partnership with state and federal government agencies, to create and implement solutions to regional issues. The County is a COG member along with other Washington metropolitan area governments. The governing body of COG is a Board of Directors. Each participating governmental unit is allotted a member or members on the Board in accordance with a specified population formula. Budgetary authority rests with the Board. Member dues finance approximately 12 percent of the total funding for COG, with state and Federal grants and private contributions providing the remainder. COG does not utilize debt financing. As a participating government in COG, the County paid FY12 membership dues and fees for services amounting to $742,928.

Northeast Maryland Waste Disposal Authority (NEMWDA)

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

NEMWDA issued bonds in 1993 to fund the construction of the Montgomery County Resource Recovery Project (Project). In April 2003, NEMWDA refinanced $205,078,908 of the 1993 bonds. At June 30, 2012, NEMWDA had outstanding bonds payable in the amount of $117,535,000 of which $21,995,000 represented debt due within one year. Of these amounts, $113,720,000 is related to the Project, $20,045,000 of which represented debt due within one year. These bonds are limited obligations of NEMWDA, payable solely from the Project revenues and other sources. Since the Project is owned and operated by NEMWDA, the bonds and related activities are included in the financial statements of NEMWDA.

This Project became operational in August 1995. NEMWDA has entered into a service contract with the County under which the County pays a waste disposal fee calculated in accordance with the agreement. The waste disposal fee is comprised of an amount equal to debt service, facility fees, alternative disposal costs, NEMWDA administrative costs, operating costs, and NEMWDA component revenue. Waste disposal fee expense incurred by the Solid Waste Activities Enterprise Fund during FY12 amounted to $36,790,986.

E) Employee Benefits

1) Deferred Compensation

During FY05, the Montgomery County Council passed legislation enabling the County to establish and maintain one or more additional deferred compensation plans for employees covered by a collective bargaining agreement. All county non-represented employees, those County represented employees who elected to participate, and employees who were retired at the time of transfer, continue to participate in the Montgomery County Deferred Compensation Plan administered by the County (the County Plan). County represented employees who elected and all represented employees hired after March 1, 2005 participate in the newly created Montgomery County Union Employees Deferred Compensation Plan (the Union Plan) administered by the bargaining units. The purpose of these Plans is to extend to employees deferred compensation plans pursuant to Section 457 of the Internal Revenue Code of 1986, as amended.

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

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

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

2) Annual, Sick Leave, and Other Compensated Absences

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

3) Group Insurance Benefits

The County provides comprehensive group insurance programs to its employees. These benefits include, but are not limited to, medical, dental, and vision benefits, long-term disability, term life, and accidental death and dismemberment insurance. The cost of each insurance program is shared between the employer and the employees. During FY12, the County and its employees contributed \$97,054,369 and \$32,392,332, respectively. Employees of MCRA, HOC, and BUPI participate in the comprehensive insurance program of the County. Employer contributions totaled \$630,877, \$3,991,779, and \$175,326 for these component units, respectively, for FY12.

F) Pension Plan Obligations

1) Defined Benefit Pension Plan

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

This Plan is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and GRIP participants. Substantially all employees hired prior to October 1, 1994, of the County, MCRA, HOC, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., WSTC, Montgomery County Employees Federal Credit Union, certain employees of the State Department of Assessments and Taxation, and the District Court of Maryland are provided retirement benefits under the System. The System, established under Section 33 of Montgomery County Code, 2001, as amended, is a contributory plan with employees contributing a percentage of their base annual salary, depending on their group classification which determines retirement eligibility.

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

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

Montgomery County Code of 2001, as amended. A member who terminates employment prior to five years of credited service is refunded their accumulated contributions with interest.

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

For members of the GRIP, employee contributions vest immediately and employer contributions are vested after three years of service or upon death, disability, or reaching retirement age. Members are fully vested upon reaching normal retirement (age 62) regardless of years of service. At separation, a participant's benefit is determined based upon the account balance which includes contributions and earnings.

Funding Policy - Required employee contribution rates varying from 3 to 10.25 percent of regular earnings are fixed and specified under Section 33-39 (a) of the Montgomery County Code of 2001, as amended. The County and each participating agency are required to contribute the remaining amounts necessary to fund the System, using the actuarial basis as specified in Section 33-40 of the Montgomery County Code of 2001, as amended. Under the current procedures, an actuarial valuation is performed to determine the employer contribution rate for the System. The contribution rate developed is a percentage of active member payroll. The dollar amount of each year's employer contribution is determined by applying the contribution rate to the actual payroll for each year. Funding of the System during the period is the sum of the normal costs and amortization of the unfunded accrued liability over a forty-year period.

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

Annual Pension Cost and Net Pension Obligation - The annual required contributions (ARC) for FY12 were based on an actuarial valuation as of June 30, 2010, the latest valuation available on the date the County Council was required to approve the 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 FY12 were as follows:

Fiscal Year	APC	Percentage of APC Contributed	NPO
2010	$ 113,957,784	100 %	$ -
2011	109,343,933	100	-
2012	107,855,595	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 – The Employees' Retirement Savings Plan (Plan) is a cost-sharing multiple-employer defined contribution plan established by the County under Section 33-114 of the County Code. Other agencies or political subdivisions have the right to elect participation. All non-public safety and certain public safety employees not represented by a collective bargaining agreement and hired on or after October 1, 1994, are covered under this Plan, unless they elect to participate in the GRIP. In addition to the County, other participant agencies include MCRA, HOC, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., WSTC, and Montgomery County Employees Federal Credit Union. Employees covered under the defined benefit plan may make an irrevocable decision to move into this Plan, provided they are unrepresented employees, or represented by a collective bargaining agreement that allows for participation in this Plan.

Under Section 33-116 of the Code, the Plan requires non-public safety employees to contribute 4 percent of regular earnings up to the Social Security wage base and 8 percent above the Social Security wage base. Public safety employees are required to contribute 3 percent of regular earnings up to the Social Security wage base and 6 percent above the Social Security wage base. Section 33-117 of the Code requires the County and each participating agency to contribute 6 percent and 8 percent of regular earnings for non-public safety and public safety employees, respectively. Members were offered an optional additional 2% contribution for FY12. Employee contributions are always vested under this Plan and employer contributions are vested after 3 years of service or upon death, disability, or retirement age of the employee. Members are fully vested upon reaching normal retirement age (62) regardless of years of service. At separation, a participant's benefit is determined based upon the account balance which includes contributions and investment gains or losses. The Board of Investment Trustees monitors the Plan and offers investment options to the participating employees. Required employer and employee contributions to this Plan for FY12 were $11,791,545 and $8,434,872, respectively.

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

3) <u>Other</u>

The County contributed $1,081,693 during FY12 for pension costs for a limited number of employees/retirees who elected to remain in the State plan. This amount includes the current service costs plus an amount sufficient to amortize the prior service cost over a forty-year period ending June 30, 2020.

4) <u>Length of Service Award Program (LOSAP)</u>

Under Section 21-21 of the Montgomery County Code, the County has established a Length of Service Award Program (LOSAP) for the County's Department of Fire and Rescue Service volunteers who meet certain age and service criteria. Benefit expenditures amounting to $1,152,582 in FY12 also include disability and survivor annuities and lump-sum death benefits, and are reported in the Fire Tax District Special Revenue Fund on a "pay-as-you-go" basis. There were 505 recipients comprising former volunteers and their beneficiaries at the end of FY12. Based on the latest available valuation, the unfunded actuarial accrued liability for the LOSAP plan is $20,740,159.

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

<u>Plan Description</u> – During FY08, the Montgomery County Council enacted legislation (Bill No. 28-07) to establish a new trust effective July 1, 2007 to fund certain County retiree benefit plans. Effective July 1, 2011, the Montgomery County Council enacted legislation (Bill No. 17-11) to change the name to Consolidated Retiree Health Benefits Trust (CRHBT) due to the addition of County-funded agency retiree benefits plans. The County-funded agencies are MCPS and MCC, both component units of the reporting entity. During FY12, the County contributed $20,000,000 and $1,000,000 to the CRHBT on behalf of MCPS and MCC for the health benefits of their retirees, respectively. The CRHBT is a cost-sharing multiple-employer defined benefit healthcare plan sponsored by the County. Other agencies and political subdivisions have the right to elect participation. The Board of Trustees (Board) has the exclusive authority to manage the assets of the CRHBT. The Board consists of nineteen trustees and functions as part of the County. Separate financial statements are not issued for the CRHBT.

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

Plan membership at June 30, 2010, the most recent actuarial valuation, consisted of the following:

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

Condensed FY12 financial statements for the Consolidated Retiree Health Benefits Trust are as follows:

Condensed Statement of Fiduciary Net Assets		Condensed Statement of Changes in Fiduciary Net Assets	
ASSETS		**ADDITIONS**	
Cash and investments	$ 114,155,438	Contributions	$ 107,425,708
Other assets	6,602,553	Net investment income (loss)	1,882,673
Total Assets	120,757,991	Total Additions, net	109,308,381
LIABILITIES		**DEDUCTIONS**	
Claims payable	4,494,553	Benefits	44,676,677
Other liabilities	32,712	Administrative	3,663,839
Total Liabilities	4,527,265	Total Deductions	48,340,516
NET ASSETS:		Change in Net Assets	60,967,865
Held in trust for other		Beginning Net Assets	55,262,861
postemployment benefits	$ 116,230,726	Ending Net Assets	$ 116,230,726

Contributions – The County Council has the authority to establish and amend contribution requirements of the plan members and the County. The Plan is a contributory plan in which the County and the retired members and beneficiaries contribute, based on an actuarial valuation, certain amounts toward the current cost of healthcare benefits. During FY12, plan members and beneficiaries receiving benefits contributed $18,562,027 (approximately 40 percent of current contributions). The County and other contributing entities contributed $65,448,418, including $27,274,988 (approximately 60 percent of current contributions) for current premiums, claims and administrative expenses, and $38,173,430 toward prefunding future benefits.

Funding Status and Funding Progress – As of June 30, 2010, the most recent actuarial valuation, the actuarial accrued liability (AAL) was $1,859,450,000 and there was $47,962,000 of actuarial plan assets; therefore, the unfunded AAL (UAAL) was $1,811,488,000. The annual covered payroll of active employees covered by the Plan was $694,040,000 and the ratio of the UAAL to covered payroll was 261.0 percent.

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

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

Annual OPEB Cost and Net OPEB Obligation - The ARC, or annual OPEB cost (AOC), for FY12 was based on an actuarial valuation as of June 30, 2010, the latest valuation available on the date the County Council was required to approve the FY12 budget.

The AOC and the net OPEB obligation of the County as of June 30, 2012 were as follows:

Annual required contribution (ARC)	$ 156,167,000
Interest on net OPEB obligation	16,308,000
Adjustment to annual required contribution	(11,415,000)
Annual OPEB cost	161,060,000
Contributions made	67,863,681
Increase in net OPEB obligation	93,196,319
Net OPEB obligation - beginning of year	287,497,491
Net OPEB obligation - end of year	$ 380,693,810

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

Fiscal Year Ended June 30	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2010	$109,738,000	38.8 %	$180,712,589
2011	150,836,000	29.2	287,497,491
2012	161,060,000	42.1	380,693,810

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

Actuarial assumptions used in the actuarial valuation were:

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

REQUIRED SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
RSI-1

	Budget			Variance
	Original Budget	**Final Budget**	**Actual**	**Positive (Negative)**
Revenues:				
Taxes:				
Property	$ 1,059,710,726	$ 1,059,710,726	$ 1,042,404,354	$ (17,306,372)
Property - penalty and interest	1,476,848	1,476,848	520,604	(956,244)
Total Property Tax	1,061,187,574	1,061,187,574	1,042,924,958	(18,262,616)
County income tax	1,117,243,000	1,117,243,000	1,255,089,822	137,846,822
Other Local Taxes:				
Real property transfer	83,340,000	83,340,000	76,089,437	(7,250,563)
Recordation	60,198,000	60,198,000	51,207,341	(8,990,659)
Fuel energy	251,200,000	251,200,000	226,148,664	(25,051,336)
Hotel - motel	19,968,000	19,968,000	18,167,827	(1,800,173)
Telephone	51,528,000	51,528,000	46,470,315	(5,057,685)
Other	2,581,000	2,581,000	2,745,299	164,299
Total Other Local Taxes	468,815,000	468,815,000	420,828,883	(47,986,117)
Total Taxes	2,647,245,574	2,647,245,574	2,718,843,663	71,598,089
Licenses and Permits:				
Business	4,423,660	4,423,660	4,452,927	29,267
Non business	5,345,660	5,345,660	5,424,080	78,420
Total Licenses and Permits	9,769,320	9,769,320	9,877,007	107,687
Intergovernmental Revenue:				
State Aid and Reimbursements:				
DHR State reimbursement - HB669	22,500	22,500	22,547	47
Highway user revenue	1,718,300	1,718,300	1,937,903	219,603
Police protection	8,194,100	8,194,100	8,682,015	487,915
Health and human services programs	4,676,580	4,676,580	5,537,588	861,008
Public libraries	5,533,910	5,533,910	5,193,145	(340,765)
911 Emergency	6,849,290	6,849,290	5,109,945	(1,739,345)
Other	1,917,620	1,917,620	757,185	(1,160,435)
Total State Aid and Reimbursements	28,912,300	28,912,300	27,240,328	(1,671,972)
Federal Reimbursements:				
Federal financial participation	10,516,220	10,516,220	10,118,102	(398,118)
Other	1,921,700	1,921,700	1,535,955	(385,745)
Total Federal Reimbursements	12,437,920	12,437,920	11,654,057	(783,863)
Other Intergovernmental	2,861,210	2,861,210	2,978,960	117,750
Total Intergovernmental Revenue	44,211,430	44,211,430	41,873,345	(2,338,085)
Charges for Services:				
General government	1,250,220	1,250,220	817,253	(432,967)
Public safety	6,093,260	6,093,260	5,400,213	(693,047)
Health and human services	1,463,080	1,463,080	1,299,945	(163,135)
Culture and recreation	600	600	29,239	28,639
Environment	300,000	300,000	638,114	338,114
Public works and transportation:	225,000	225,000	202,521	(22,479)
Total Charges for Service	9,332,160	9,332,160	8,387,285	(944,875)
Fines and Forfeitures	19,508,240	19,508,240	18,742,899	(765,341)
Investment Income:				
Pooled investment income	99,100	99,100	11,820	(87,280)
Other interest income	80,000	80,000	404	(79,596)
Total Investment Income	179,100	179,100	12,224	(166,876)
Miscellaneous Revenue:				
Property rentals	5,114,970	5,114,970	5,577,138	462,168
Sundry	6,554,920	6,664,310	5,739,796	(924,514)
Total Miscellaneous Revenues:	11,669,890	11,779,280	11,316,934	(462,346)
Total Revenues	2,741,915,714	2,742,025,104	2,809,053,357	67,028,253
Expenditures:				
Departments or Offices:				
County Council:				
Personnel costs	7,812,520	7,944,575	7,934,569	10,006
Operating	929,850	875,306	574,458	300,848
Totals	8,742,370	8,819,881	8,509,027	310,854

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
RSI-1

	Budget			Variance
	Original Budget	**Final Budget**	**Actual**	**Positive (Negative)**
Board of Appeals:				
Personnel costs	$ 492,360	$ 498,916	$ 498,874	$ 42
Operating	57,284	53,484	51,929	1,555
Totals	549,644	552,400	550,803	1,597
Legislative Oversight:				
Personnel costs	1,186,510	1,208,838	1,125,982	82,856
Operating	42,350	42,350	27,001	15,349
Totals	1,228,860	1,251,188	1,152,983	98,205
Merit System Protection Board:				
Personnel costs	134,640	136,531	97,652	38,879
Operating	15,743	15,620	3,508	12,112
Totals	150,383	152,151	101,160	50,991
Zoning and Administrative Hearings:				
Personnel costs	477,090	480,881	428,781	52,100
Operating	96,412	96,412	81,035	15,377
Totals	573,502	577,293	509,816	67,477
Inspector General:				
Personnel costs	509,260	498,910	498,841	69
Operating	165,081	178,550	167,044	11,506
Totals	674,341	677,460	665,885	11,575
Circuit Court:				
Personnel costs	7,132,860	7,449,982	7,449,974	8
Operating	2,392,636	2,520,200	2,491,196	29,004
Totals	9,525,496	9,970,182	9,941,170	29,012
State's Attorney:				
Personnel costs	11,445,820	11,773,187	11,773,182	5
Operating	472,895	722,682	722,673	9
Totals	11,918,715	12,495,869	12,495,855	14
County Executive:				
Personnel costs	3,522,260	3,520,475	3,415,755	104,720
Operating	815,517	813,556	806,278	7,278
Totals	4,337,777	4,334,031	4,222,033	111,998
Community Engagement Cluster:				
Personnel costs	2,341,330	2,414,386	2,356,809	57,577
Operating	285,630	286,638	221,325	65,313
Totals	2,626,960	2,701,024	2,578,134	122,890
Commission for Women:				
Operating	9,527	-	-	-
Totals	9,527	-	-	-
Ethics Commission:				
Personnel costs	184,780	174,300	172,420	1,880
Operating	6,650	19,050	19,036	14
Totals	191,430	193,350	191,456	1,894
Intergovernmental Relations				
Personnel costs	728,900	733,919	670,313	63,606
Operating	86,580	86,579	80,563	6,016
Totals	815,480	820,498	750,876	69,622
Public Information:				
Personnel costs	3,628,470	3,759,782	3,759,782	-
Operating	1,290,985	1,395,785	1,395,781	4
Totals	4,919,455	5,155,567	5,155,563	4
Board of Elections:				
Personnel costs	2,560,190	2,760,917	2,760,916	1
Operating	2,737,771	2,735,128	2,622,205	112,923
Totals	5,297,961	5,496,045	5,383,121	112,924
County Attorney:				
Personnel costs	3,657,460	4,280,941	4,280,936	5
Operating	398,259	773,130	773,130	-
Totals	4,055,719	5,054,071	5,054,066	5

(Continued)

	Budget			Variance
	Original Budget	**Final Budget**	**Actual**	**Positive (Negative)**
Management and Budget:				
Personnel costs	$ 3,272,390	$ 3,276,135	$ 3,133,084	$ 143,051
Operating	119,272	137,010	122,472	14,538
Total Management & Budget	3,391,662	3,413,145	3,255,556	157,589
Finance:				
Personnel costs	8,447,810	7,796,648	7,319,612	477,036
Operating	1,828,857	2,712,065	2,712,065	-
Totals	10,276,667	10,508,713	10,031,677	477,036
Human Resources:				
Personnel costs	4,046,440	4,491,782	4,491,773	9
Operating	2,121,021	1,910,617	1,712,772	197,845
Totals	6,167,461	6,402,399	6,204,545	197,854
Technology Services				
Personnel costs	13,716,280	14,663,943	14,643,939	20,004
Operating	13,643,793	12,776,892	12,043,959	732,933
Totals	27,360,073	27,440,835	26,687,898	752,937
General Services:				
Personnel costs	12,349,600	13,693,664	13,693,664	-
Operating	9,617,073	13,991,757	13,991,755	2
Totals	21,966,673	27,685,421	27,685,419	2
Consumer Protection				
Personnel costs	1,747,060	1,915,267	1,915,262	5
Operating	201,260	181,134	92,319	88,815
Totals	1,948,320	2,096,401	2,007,581	88,820
Corrections and Rehabilitation:				
Personnel costs	54,809,650	56,629,866	56,629,858	8
Operating	6,599,390	6,647,442	6,647,442	-
Totals	61,409,040	63,277,308	63,277,300	8
Human Rights Commission:				
Personnel costs	824,580	803,190	751,872	51,318
Operating	67,447	109,562	99,561	10,001
Totals	892,027	912,752	851,433	61,319
Police:				
Personnel costs	198,527,800	196,308,279	196,308,241	38
Operating	35,022,177	35,034,060	35,034,008	52
Totals	233,549,977	231,342,339	231,342,249	90
Sheriff:				
Personnel costs	17,566,240	18,429,807	18,429,799	8
Operating	2,201,109	2,405,867	2,405,860	7
Totals	19,767,349	20,835,674	20,835,659	15
Homeland Security				
Personnel costs	993,790	987,878	604,503	383,375
Operating	331,550	349,696	339,697	9,999
Totals	1,325,340	1,337,574	944,200	393,374
Public Works and Transportation:				
Personnel costs	17,585,860	20,047,272	20,047,263	9
Operating	20,729,741	21,526,767	21,193,859	332,908
Totals	38,315,601	41,574,039	41,241,122	332,917
Health and Human Services:				
Personnel costs	99,953,300	95,749,618	95,749,537	81
Operating	73,108,907	75,870,365	75,667,465	202,900
Totals	173,062,207	171,619,983	171,417,002	202,981
Libraries:				
Personnel costs	22,867,700	23,660,552	23,660,552	-
Operating	6,155,958	6,048,519	6,048,519	-
Totals	29,023,658	29,709,071	29,709,071	-
Housing and Community Affairs:				
Personnel costs	2,826,470	2,829,646	2,813,749	15,897
Operating	502,237	581,188	561,190	19,998
Totals	3,328,707	3,410,834	3,374,939	35,895

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
RSI-1

	Budget			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Economic Development:				
Personnel costs	$ 3,232,590	$ 3,238,259	$ 3,238,259	$ -
Operating	2,780,656	3,537,831	3,537,821	10
Totals	6,013,246	6,776,090	6,776,080	10
Environmental Protection:				
Personnel costs	1,273,980	1,370,575	1,370,568	7
Operating	409,628	370,035	304,562	65,473
Totals	1,683,608	1,740,610	1,675,130	65,480
Total Departments	695,099,236	708,334,198	704,578,809	3,755,389
Nondepartmental:				
State retirement contribution - operating	1,081,690	1,081,690	1,081,690	-
Retirees group insurance - operating	32,462,450	32,462,450	32,462,450	-
Consolidated Retiree Health Benefits Trust (MCPS)	20,000,000	20,000,000	20,000,000	-
Consolidated Retiree Health Benefits Trust (MC)	1,000,000	1,000,000	1,000,000	-
State positions supplement - personnel	77,270	90,000	89,999	1
Judges special pension contribution - personnel	3,000	3,000	-	3,000
Retiree Health Benefits Trust	26,075,000	26,075,000	26,075,000	-
Compensation adjustment - personnel	12,707,170	105,206	105,200	6
Compensation adjustment - operating	631,281	823,391	823,385	6
Municipal tax duplication - operating	6,772,310	6,781,270	6,781,263	7
Tax grants to municipalities - operating	28,020	28,020	28,012	8
Rebate - Takoma Park police - operating	922,170	922,170	897,493	24,677
Rebate - Takoma Park library - operating	95,900	95,900	95,900	-
Homeowners' association roadways - operating	25,600	25,600	25,600	-
Contribution to risk management - operating	17,127,290	17,127,290	16,934,125	193,165
Historical activities - operating	287,090	287,090	287,090	-
Conference and Visitors Bureau - operating	789,982	750,832	750,832	-
Arts Council - operating	3,729,147	3,717,984	3,619,044	98,940
Community grants - operating	4,844,196	4,453,076	4,306,373	146,703
Conference Center - personnel	115,460	115,460	76,235	39,225
Conference Center - operating	502,050	502,050	348,042	154,008
English literacy - operating	681,960	681,960	681,960	-
County associations - operating	72,710	72,710	72,709	1
Metropolitan Washington C O G - operating	742,940	742,940	742,928	12
Public Technology, Inc. - operating	17,000	17,000	17,000	-
Independent audit - operating	429,820	420,820	329,366	91,454
Prisoner medical services - operating	50,000	50,000	14,121	35,879
State property tax services - operating	5,339,430	5,339,430	5,336,844	2,586
Boards, committees and commissions - operating	22,950	22,950	22,665	285
Charter Review Commission - operating	1,150	1,150	-	1,150
Working families income supplement - operating	12,910,200	12,910,200	12,838,409	71,791
Interagency technology, policy & coordinating committee - opera	4,250	4,250	3,679	571
County leases - personnel	-	108,210	88,213	19,997
County leases - operating	23,427,456	21,304,604	21,304,520	84
Rockville Parking District - operating	373,640	376,750	376,749	1
Desktop computer modernization - operating	5,003,311	4,996,692	4,811,350	185,342
Utilities - operating	28,590,447	26,779,477	26,779,474	3
Snow removal and storm cleanup	5,884,990	7	-	7
Total - Nondepartmental	212,829,330	190,276,629	189,207,720	1,068,909
Total Expenditures	907,928,566	898,610,827	893,786,529	4,824,298
Excess of Revenues over (under) Expenditures	1,833,987,148	1,843,414,277	1,915,266,828	71,852,551

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONCLUDED
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
RSI-1

	Budget			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Other Financing Sources (Uses):				
Transfers In:				
Special Revenue Funds:				
Consolidated Fire Tax District	$ 120,750	$ 120,750	$ 120,750	$ -
Recreation	4,020,360	4,020,360	4,020,360	-
Mass Transit	8,103,120	8,103,120	8,103,120	-
Water Quality Protection	816,690	816,690	816,690	-
Urban Districts	401,320	401,320	401,320	-
Housing Activities	205,060	205,060	205,060	-
Grants	632,480	633,040	633,000	(40)
Cable TV	11,143,770	11,200,570	11,257,370	56,800
Total Special Revenue Funds	25,443,550	25,500,910	25,557,670	56,760
Enterprise Funds:				
Liquor	25,066,800	25,066,800	25,066,800	-
Parking Lot Districts	595,780	595,780	595,780	-
Solid Waste Activities	2,177,180	2,177,180	2,177,180	-
Community Use of Public Facilities	330,740	330,740	330,740	-
Permitting Services	2,822,850	2,822,850	2,822,850	-
Total Enterprise Funds	30,993,350	30,993,350	30,993,350	-
Total Transfers In	56,436,900	56,494,260	56,551,020	56,760
Component Units:				
Montgomery College	247,610	247,610	240,075	(7,535)
Total Transfers In - Component Units	247,610	247,610	240,075	(7,535)
Transfers (Out):				
Special Revenue Fund:				
Recreation	(1,009,700)	(1,009,700)	(1,009,700)	-
Urban Districts	(1,008,090)	(1,008,090)	(1,008,090)	-
Mass Transit	(531,310)	(531,310)	(531,310)	-
Revenue Stabilization	(20,233,084)	(45,020,638)	(60,716,985)	(15,696,347)
Housing Activities	(9,573,290)	(9,573,290)	(9,573,290)	-
Economic Development	(4,726,990)	(5,226,990)	(5,226,990)	-
Total Special Revenue Funds	(37,082,464)	(62,370,018)	(78,066,365)	(15,696,347)
Internal Service Fund:				
Motor Pool	(817,770)	(901,209)	(884,147)	17,062
Total Internal Service Funds	(817,770)	(901,209)	(884,147)	17,062
Enterprise Funds:				
Community Use of Public Facilities	(154,370)	(154,370)	(154,370)	-
Parking Lot Districts	(80,340)	(80,340)	-	80,340
Solid Waste Activities	(2,081,490)	(2,081,490)	(2,081,490)	-
Permitting Services	(1,153,770)	(1,153,770)	(1,153,770)	-
Total Enterprise Funds	(3,469,970)	(3,469,970)	(3,389,630)	80,340
Debt Service Fund	(254,054,490)	(254,210,622)	(235,553,941)	18,656,681
Capital Projects Fund	(46,768,000)	(61,129,839)	(40,384,588)	20,745,251
Total Transfers (Out)	(342,192,694)	(382,081,658)	(358,278,671)	23,802,987
Transfers (Out) - Component Units / Joint Ventures:				
Montgomery County Public Schools - Operating	(1,371,526,480)	(1,371,526,480)	(1,371,526,480)	-
Montgomery County Public Schools - Capital	(6,023,000)	(15,225,427)	(3,741,708)	11,483,719
Total Montgomery County Public Schools	(1,377,549,480)	(1,386,751,907)	(1,375,268,188)	11,483,719
Montgomery College - Operating	(96,248,755)	(96,248,755)	(96,248,755)	-
Montgomery College - Capital	(10,897,000)	(13,762,401)	(6,740,674)	7,021,727
Total Montgomery College	(107,145,755)	(110,011,156)	(102,989,429)	7,021,727
Housing Opportunities Commission - Operating	(5,513,840)	(5,513,840)	(5,493,790)	20,050
Housing Opportunities Commission - Capital	(1,125,000)	(1,912,659)	-	1,912,659
Total Housing Opportunities Commission	(6,638,840)	(7,426,499)	(5,493,790)	1,932,709
Maryland National Capital Park and Planning - Operating	(785,000)	(785,000)	(785,000)	-
Total Transfers (Out) - Component Units / Joint Ventures	(1,492,119,075)	(1,504,974,562)	(1,484,536,407)	20,438,155
Total Other Financing Sources (Uses)	(1,777,627,259)	(1,830,314,350)	(1,786,023,983)	44,290,367
Excess of Revenues and Other Financing Sources over (under) Expenditures & Other Financing Uses	56,359,889	13,099,927	129,242,845	116,142,918
Fund Balance - Beginning of Year	104,824,978	102,232,756	102,232,756	-
Fund Balance - End of Year	$ 161,184,867	$ 115,332,683	$ 231,475,601	$ 116,142,918

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS
REVENUE STABILIZATION SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
RSI-2

	Budget			**Variance**
	Original Budget	**Final Budget**	**Actual**	**Positive (Negative)**
Revenues - Investment income	$ 194,950	$ 194,950	$ 615	$ (194,335)
Expenditures:	-	-	-	-
Excess of Revenues over (under) Expenditures	194,950	194,950	615	(194,335)
Other Financing Sources (Uses):				
Transfers In (Out):				
From General Fund	23,233,084	45,020,638	60,716,985	15,696,347
Total Other Financing Sources (Uses)	23,233,084	45,020,638	60,716,985	15,696,347
Excess of Revenues and other Sources over (under) Expenditures and Other Financing Uses	23,428,034	45,215,588	60,717,600	15,502,012
Fund Balance - Beginning of Year	94,537,588	94,537,588	94,537,588	-
Fund Balance - End of Year	$ 117,965,622	$ 139,753,176	$ 155,255,188	$ 15,502,012

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

	Total
Budgetary - Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	$ 60,717,600
Reconciling item - N/A	-
GAAP - Net Change in Fund Balance	$ 60,717,600

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
HOUSING INITIATIVE SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
RSI-3

	Budget			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Revenues:				
Taxes - transfer	$ 750,000	$ 750,000	$ 1,088,744	$ 338,744
Investment Income:				
Pooled investment income	20,000	20,000	56	(19,944)
Other interest income	360,000	360,000	1,060,035	700,035
Total Investment Income	380,000	380,000	1,060,091	680,091
Miscellaneous:				
Property rentals, MPDU and other contributions	546,730	618,456	414,199	(204,257)
Total Miscellaneous	546,730	618,456	414,199	(204,257)
Total Revenues	1,676,730	1,748,456	2,563,034	814,578
Expenditures:				
Personnel	1,514,880	1,531,107	1,383,330	147,777
Operating	23,753,901	24,305,759	22,606,909	1,698,850
Total Expenditures	25,268,781	25,836,866	23,990,239	1,846,627
Excess of Revenues over (under) Expenditures	(23,592,051)	(24,088,410)	(21,427,205)	2,661,205
Other Financing Sources (Uses):				
Transfers In (Out):				
From Capital Projects Fund	9,573,290	9,573,290	9,573,290	-
From General Fund	9,903,021	9,903,021	9,903,021	-
To Capital Projects	-	-	(10,731,869)	(10,731,869)
To General Fund	(205,060)	(205,060)	(205,060)	-
To Debt Service Fund	(4,619,190)	(4,719,742)	(4,157,962)	561,780
Mortgage repayment	1,750,000	1,750,000	9,390,888	7,640,888
Sale of property	2,000,000	2,000,000	1,032,256	(967,744)
Total Other Financing Sources (Uses)	18,402,061	18,301,509	14,804,564	(3,496,945)
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(5,189,990)	(5,786,901)	(6,622,641)	(835,740)
Fund Balance - Beginning of Year	5,189,990	2,897,105	2,897,105	-
Fund Balance - End of Year	$ -	$ (2,889,796)	$ (3,725,536)	$ (835,740)

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

	Total
Budgetary - Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	$ (6,622,641)
Reconciling items:	
Elimination of encumbrances outstanding	95,855
Increase in mortgages receivable	2,475,784
GAAP - Net Change in Fund Balance	$ (4,051,002)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GRANTS SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
RSI-4

	Budget			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Revenues:				
Intergovernmental:				
Federal grants	$ 39,856,206	$ 75,286,991	$ 77,968,401	$ 2,681,410
State grants	83,567,974	107,533,966	45,000,521	(62,533,445)
Other non-state and non-federal reimbursements	567,763	2,560,107	-	(2,560,107)
Total Intergovernmental	123,991,943	185,381,064	122,968,922	(62,412,142)
Investment income:				
Other interest income	-	-	246,088	246,088
Total Investment Income	-	-	246,088	246,088
Miscellaneous	1,019,802	1,008,748	399,316	(609,432)
Total Revenues	125,011,745	186,389,812	123,614,326	(62,775,486)
Expenditures:				
General Government:				
Circuit Court:				
Personnel costs	2,232,553	529,805	180,679	349,126
Operating	188,040	2,664,601	2,152,577	512,024
Totals	2,420,593	3,194,406	2,333,256	861,150
Office of State's Attorney:				
Personnel costs	527,530	804,310	423,543	380,767
Operating	64,878	63,951	37,026	26,925
Totals	592,408	868,261	460,569	407,692
Office of the County Executive:				
Personnel costs	111,740	383,568	115,812	267,756
Operating	14,880	241,618	20,549	221,069
Totals	126,620	625,186	136,361	488,825
Regional Service Centers:				
Personnel costs	-	5,617	5,617	-
Operating	-	60,104	51,089	9,015
Totals	-	65,721	56,706	9,015
Intergovernmental Relations:				
Operating	30,670	30,672	30,666	6
Totals	30,670	30,672	30,666	6
Community Engagement Cluster:				
Personnel costs	163,788	163,788	67,252	96,536
Operating	51,737	51,737	22,408	29,329
Totals	215,525	215,525	89,660	125,865
Department of Technology Services:				
Operating	300	575,057	300	574,757
Totals	300	575,057	300	574,757
Total General Government	3,386,116	5,574,828	3,107,518	2,467,310
Public Safety:				
Department of Corrections and Rehabilitation:				
Personnel costs	105,000	122,878	96,529	26,349
Operating	230,417	323,461	238,118	85,343
Totals	335,417	446,339	334,647	111,692
Department of Fire and Rescue Services:				
Personnel costs	2,182,710	3,629,231	2,683,634	945,597
Operating	966,838	6,095,156	3,195,918	2,899,238
Totals	3,149,548	9,724,387	5,879,552	3,844,835
Department of Police:				
Personnel costs	2,279,053	3,090,566	1,402,255	1,688,311
Operating	6,254,731	10,820,492	8,296,784	2,523,708
Totals	8,533,784	13,911,058	9,699,039	4,212,019
Office of the County Sheriff:				
Personnel costs	1,327,821	1,977,062	691,247	1,285,815
Operating	425,617	936,202	285,299	650,903
Totals	1,753,438	2,913,264	976,546	1,936,718
Office of Emergency Management & Homeland Security:				
Personnel costs	703,600	1,368,335	429,635	938,700
Operating	1,440,305	3,480,638	3,480,637	1
Totals	2,143,905	4,848,973	3,910,272	938,701
Total Public Safety	15,916,092	31,844,021	20,800,056	11,043,965
Transportation:				
Department of Transportation:				
Personnel costs	1,872,925	2,086,734	1,660,535	426,199
Operating	6,303,697	10,446,893	4,722,695	5,724,198
Total Transportation	8,176,622	12,533,627	6,383,230	6,150,397
Department of Economic Development:				
Personnel costs	-	1,558,573	-	1,558,573
Operating	3,554,050	3,889,664	3,796,430	93,234
Total Economic Development	3,554,050	5,448,237	3,796,430	1,651,807

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONCLUDED
GRANTS SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
RSI-4

	Budget			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Health and Human Services:				
Department of Health and Human Services:				
Personnel costs	$ 41,802,016	$ 46,628,161	$ 41,034,730	$ 5,593,431
Operating	35,501,442	42,497,915	29,969,852	12,528,063
Total Health and Human Services	77,303,458	89,126,076	71,004,582	18,121,494
Culture and Recreation:				
Department of Libraries:				
Personnel costs	110,290	118,327	105,769	12,558
Operating	12,000	15,371	2,174	13,197
Total Libraries	122,290	133,698	107,943	25,755
Department of Recreation:				
Personnel costs	-	71,227	71,227	-
Operating	-	32,890	26,314	6,576
Total Recreation	-	104,117	97,541	6,576
Total Culture and Recreation	122,290	237,815	205,484	32,331
Housing:				
Department of Housing and Community Affairs:				
Personnel costs	2,026,060	3,549,319	3,040,436	508,883
Operating	8,937,704	24,063,921	11,846,350	12,217,571
Total Housing and Community Affairs	10,963,764	27,613,240	14,886,786	12,726,454
Environment:				
Department of Environmental Protection:				
Personnel costs	-	160,765	154,427	6,338
Operating	603,546	3,820,577	3,820,577	-
Total Environmental Protection	603,546	3,981,342	3,975,004	6,338
Department of Liquor Control:				
Personnel costs	8,263	14,245	-	14,245
Operating	-	25,235	1,433	23,802
Total Liquor Control	8,263	39,480	1,433	38,047
Nondepartmental:				
NDA Historical Activities - Operating	4,107,536	11,045,708	192,373	10,853,335
Future Grants - Personnel	870,008	870,008	-	870,008
Total Nondepartmental	4,977,544	11,915,716	192,373	11,723,343
Total Expenditures	125,011,745	188,314,382	124,352,896	63,961,486
Excess of Revenues over (under) Expenditures	-	(1,924,570)	(738,570)	(1,186,000)
Other Financing Sources (Uses):				
Transfers In:				
Mass Transit Special Revenue Fund	-	1,674,570	1,121,570	(553,000)
Fire Tax District Special Revenue Fund	-	250,000	250,000	-
Total Transfers In	-	1,924,570	1,371,570	(553,000)
Transfers Out - General Fund	-	-	(633,000)	(633,000)
Total Transfers Out	-	-	(633,000)	(633,000)
Total Other Financing Sources (Uses)	-	1,924,570	738,570	(1,186,000)
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	-	-	-	-
Fund Balance - Beginning of Year	-	-	-	-
Fund Balance - End of Year	$ -	$ -	$ -	$ -

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

	Revenues	Expenditures & Encumbrances	Other Financing Sources (Uses)	Effect on Fund Balance
As reported - Budgetary basis	$ 123,614,326	$ 124,352,896	$ 738,570	$ -
Reconciling items:				
Elimination of encumbrances outstanding	(9,621,878)	(9,621,878)	-	-
Loan expenditures	(6,352,154)	(6,352,154)	-	-
Indirect costs	(901,699)	(901,699)	-	-
Pass-through expenditures	6,606,791	6,606,791	-	-
As reported - GAAP basis	$ 113,345,386	$ 114,083,956	$ 738,570	$ -

REQUIRED SUPPLEMENTARY INFORMATION

CONSOLIDATED RETIREE HEALTH BENEFITS TRUST

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

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll ((b-a)/c)
6/30/2007	$ -	$ 1,176,000,000	$ 1,176,000,000	0 %	$ 602,006,000	195.3 %
6/30/2008	35,279,000	1,161,222,000	1,125,943,000	3.0	667,400,000	168.7
6/30/2010	47,962,000	1,859,450,000	1,811,488,000	2.6	694,040,000	261.0

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

SCHEDULE OF EMPLOYER AND OTHER CONTRIBUTING ENTITIES CONTRIBUTIONS

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

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