
Montgomery County, Maryland

**ANNUAL
INFORMATION
STATEMENT**

In Connection With Bonds and Other Obligations

Department of Finance



January 15, 2014

**MONTGOMERY COUNTY, MARYLAND
OFFICIAL ROSTER OF COUNTY OFFICIALS**

COUNTY EXECUTIVE

Isiah Leggett

COUNTY COUNCIL

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

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

*Resigned effective January 3, 2014.

APPOINTED OFFICIALS

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

BOND COUNSEL

McKennon Shelton & Henn LLP
Baltimore, Maryland

INDEPENDENT PUBLIC ACCOUNTANTS

CliftonLarsonAllen LLP
Baltimore, Maryland

DEBT MANAGEMENT AND DISCLOSURE INFORMATION

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ANNUAL INFORMATION STATEMENT IN CONNECTION WITH BONDS AND OTHER OBLIGATIONS

This Annual Information Statement (“the AIS”), dated January 15, 2014 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 2009-2013, 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 document is based upon the most recent available information unless otherwise specified. 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 document by the County does not in any way imply that the County has obligated itself to update the information herein.

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

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

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STATISTICAL HIGHLIGHTS

Debt as of June 30, 2013

General Obligation Bonds and Notes Outstanding	\$2,249,825,000
Total Assessed Value	\$161,877,309,598
Direct Debt (incl. Revenue Bonds)	\$2,908,190,000
Ratio of Direct Debt to Assessed Value	1.80%
Net Direct Debt	\$2,749,825,000
Ratio of Net Direct Debt to Assessed Value	1.70%

Budgets

Approved FY14 Operating Budget	\$4.8 billion
Approved FY13 General Fund Undesignated Surplus	\$143.9 million
FY13 General Fund Unassigned/Undesignated Balance	\$238.9 million
FY13 Revenue Stabilization Fund Balance	\$184.9 million
FY13-18 Amended Capital Improvements Program	\$4.4 billion

FY13 Major Revenues

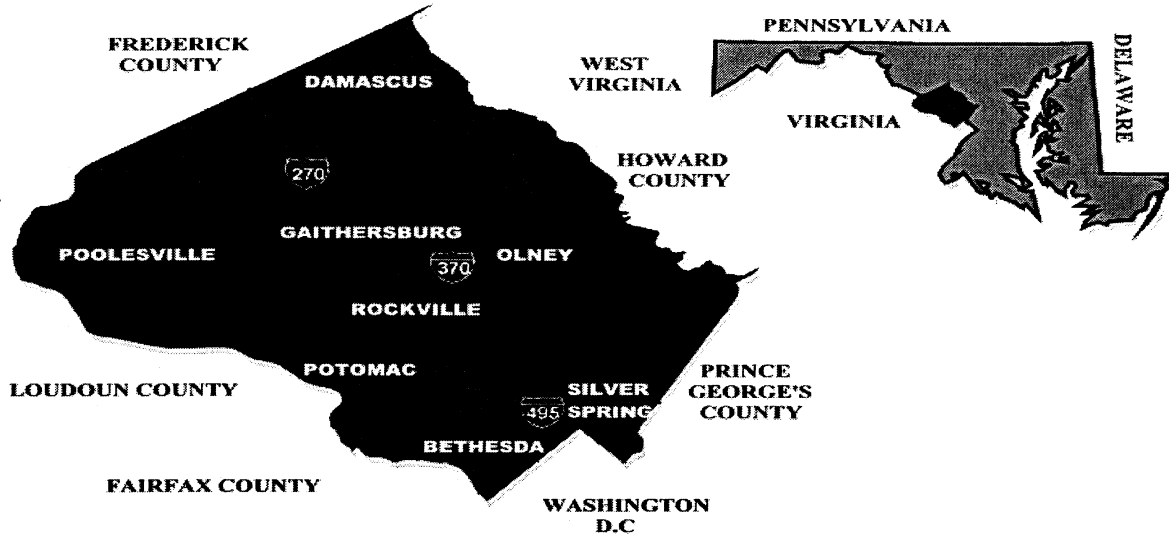
Income Tax	\$1,317.5 million
Property Tax (General Fund)	\$1,036.2 million
Transfer and Recordation Tax	\$142.0 million
Other Taxes	\$292.0 million

Demographics

Population 2012	1,004,709
Households 2012	361,116
Median Age 2010	38.5 years

Employment

Private Sector 2012	362,899
Public Sector 2012	87,981
Unemployment Rate (2013 Average monthly rate, first 10 months)	5.1%
Personal Income 2012	\$73.6 billion
Per Capita Income 2012	\$ 73,206
Average Household Income 2012 (est.)	\$203,677
MCPS K-12 Projected FY14 Enrollment	151,283
MCPS Per Pupil Operating Expenditures (FY14)	\$14,700
Montgomery College Enrollment (Fall 2013)	27,453



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 – Craig Rice

Craig Rice was first elected to the County Council in November 2010, becoming the youngest African American to ever serve on the nine-member Council and only the second African American man to serve in that role. In December 2013, his colleagues elected him to a one-year term as president of the Council. He was elected to the House of Delegates in 2006 and served until 2010. He served on the legislative body's prestigious and influential Ways and Means Committee. In 2010, he won election as the District 2 representative on the County Council. A resident of Germantown, he represents the sprawling Up-County region of Montgomery County's most geographically diverse district, as well as its fastest growing. Craig represents some of the County's most rural communities, including Damascus, Boyds and Hyattstown. However, with Germantown and Clarksburg in District 2, he also represents two of the most booming regions in Maryland. The district also includes Montgomery Village and part of North Potomac.

Mr. Rice serves on the Council's Education Committee and its Health and Human Services Committee. In addition, he is the Council's "Lead for Libraries," weighing in on issues that affect the County's library system. He also serves as the Council's representative to the Maryland Association of Counties in Annapolis. Mr. Rice received the 2008 Maryland Association of Youth Services Bureau "Advocacy in Action Legislator of the Year" award for his tireless efforts on behalf of the youth and families in Maryland. He is active in numerous organizations that benefit from his tenacious support including Youth Achieve, the American Council of Young Political Leaders, the Young Elected Officials Network, the Germantown Alliance, the Civil Air Patrol, the Black Rock Center for the Arts Board of Directors, and the NAACP. His interest in seeing the County improve its economic development strategies stems from his background of having worked with Fortune 500 companies like Marriott International and Aramark Corporation. He also served as a business development manager for the Government of Puerto Rico.

Chief Administrative Officer – Timothy L. Firestine

Timothy L. Firestine has worked in public sector management for over 35 years. In his latest public sector role, Mr. Firestine is the Chief Administrative Officer (CAO) for Montgomery County, Maryland, a position he was appointed to in November 2006. Prior to his appointment as CAO, Mr. Firestine was the County's Director of Finance for 15 years. Prior to that, he served for 12 years in various management positions in the County's Office of Management and Budget. Before coming to Montgomery County, Mr. Firestine was the Budget Officer for the Allegheny County, Pennsylvania, Controller's Office.

Mr. Firestine received his Bachelor of Arts in Political Science from Albright College in Reading, Pennsylvania and his Master of Public Administration from the University of Pittsburgh. He is currently President of the Government Finance Officers Association of the United States and Canada 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 Vice Chair.

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 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 (Montgomery County Revenue Authority, Montgomery County-Maryland National Parks and Planning, Washington Suburban Sanitary Commission, and the Housing Opportunities Commission), 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 generally 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.

(The remainder of this page has been left blank intentionally.)

Table 1
Statement of Direct and Overlapping Debt
As of June 30, 2013

Direct Debt:		
General Obligation Bonds Outstanding	\$2,149,825,000	
General Obligation Variable Rate Demand Obligations	100,000,000	
Short-Term BANS/Commercial Paper Outstanding	500,000,000	
Revenue Bonds Outstanding	<u>158,365,000</u>	
Total Direct Debt		\$2,908,190,000
Overlapping Debt:		
Gross Debt:		
Washington Suburban Sanitary Commission	1,276,640,000	
Applicable to Montgomery County		
Housing Opportunities Commission	669,408,769	
Montgomery County Revenue Authority	95,624,452	
Maryland-National Capital Park and Planning Commission		
Applicable to Montgomery County	33,904,922	
Kingsview Village Center Development District	1,695,000	
West Germantown Development District	13,890,000	
Towns, Cities and Villages within Montgomery County	<u>52,027,910</u>	
Total Overlapping Debt		<u>2,143,191,053</u>
Total Direct and Overlapping Debt		5,051,381,153
Less Self-Supporting Debt:		
County Government Revenue Bonds	158,365,000	
Washington Suburban Sanitary Commission		
Applicable to Montgomery County	1,276,640,000	
Housing Opportunities Commission	669,408,769	
Montgomery County Revenue Authority	95,624,452	
Maryland-National Capital Park and Planning Commission	<u>222,228</u>	
Applicable to Montgomery County		
Total Self-Supporting Debt		<u>(2,200,260,449)</u>
Net Direct and Overlapping Debt		<u>\$2,851,120,604</u>
Ratio of Debt to June 30, 2013 Assessed Valuation of (100% Assessment):		\$161,877,309,598
Direct Debt		1.80%
Net Direct Debt *		1.70%
Direct and Overlapping Debt		3.12%
Net Direct and Overlapping Debt		1.76%
Ratio of Debt to June 30, 2013 Market Value		\$173,973,510,879
Direct Debt		1.67%
Net Direct Debt *		1.58%
Direct and Overlapping Debt		2.90%
Net Direct and Overlapping Debt		1.64%

*Net Direct Debt of \$2,749,825,000 is derived by subtracting direct self-supporting debt, which consists only of County Government Revenue Bonds, from Total Direct Debt.

Table 1 A
Statement of Direct and Overlapping Debt
As of June 30, 2013
And Including 2013 General Obligation Bonds*

Direct Debt:	
General Obligation Bonds Outstanding	\$2,122,095,000
General Obligation Variable Rate Demand Obligations	100,000,000
Short-Term BANs/Commercial Paper Outstanding**	205,000,000
2013 General Obligation Bonds	295,000,000
2013 General Obligation Refunding Bonds	24,915,000
Revenue Bonds Outstanding	<u>158,365,000</u>
Total Direct Debt	\$2,905,375,000
Overlapping Debt as of June 30, 2013	
Washington Suburban Sanitary Commission	1,276,640,000
Applicable to Montgomery County	
Housing Opportunities Commission	669,408,769
Montgomery County Revenue Authority	95,624,452
Maryland-National Capital Park and Planning Commission	
Applicable to Montgomery County	33,904,922
Kingsview Village Center Development District	1,695,000
West Germantown Development District	13,890,000
Towns, Cities and Villages within Montgomery County	<u>52,027,910</u>
Total Overlapping Debt	<u>2,143,191,053</u>
Total Direct and Overlapping Debt	5,048,566,053
Less Self-Supporting Debt as of June 30, 2013	
County Government Revenue Bonds	158,365,000
Washington Suburban Sanitary Commission	
Applicable to Montgomery County	1,276,640,000
Housing Opportunities Commission	669,408,769
Montgomery County Revenue Authority	95,624,452
Maryland-National Capital Park and Planning Commission	<u>222,228</u>
Applicable to Montgomery County	
	<u>(2,200,260,449)</u>
Net Direct and Overlapping Debt	<u>\$2,848,305,604</u>
Ratio of Debt to June 30, 2013 Assessed Valuation of (100% Assessment):	\$161,877,309,598
Direct Debt	1.79%
Net Direct Debt ***	1.70%
Direct and Overlapping Debt	3.12%
Net Direct and Overlapping Debt	1.76%
Ratio of Debt to June 30, 2013 Market Value of:	\$173,973,510,879
Direct Debt	1.67%
Net Direct Debt ***	1.58%
Direct and Overlapping Debt	2.90%
Net Direct and Overlapping Debt	1.64%

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

** Net of amount retired with proceeds of General Obligation Bonds.

*** Net Direct Debt of \$2,747,010,000 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, 2013

June 30, 2013 Assessed Valuation – Real Property	\$158,272,830,848
Debt Limit (% of Assessed Valuation)	6%
Subtotal Limitation – Real Property	<u>\$ 9,496,369,851</u>
June 30, 2013 Assessed Valuation – Personal Property	\$ 3,604,478,750
Debt Limit (% of Assessed Valuation)	15%
Subtotal Limitation – Personal Property	<u>\$ 540,671,813</u>
 Total Assessed Valuation – Real and Personal Property	 \$161,877,309,598
Legal Limitation for the Borrowing of Funds and the Issuance of Bonds	\$10,037,041,664
 Less Amount of Debt Applicable to Debt Limit:	
General Obligation Bonds Outstanding	\$2,149,825,000
General Obligation Variable Rate Demand Obligations	100,000,000
Short-Term BANs/Commercial Paper	<u>500,000,000</u>
 Net Direct Debt	 <u>2,749,825,000</u>
Legal Debt Margin	<u>\$7,287,216,664</u>
 Net Direct Debt as a Percentage of Assessed Valuation	 <u>1.70%</u>

Table 2A
Statement of Legal Debt Margin
As of June 30, 2013
And Including 2013 General Obligation Bonds*

June 30, 2013 Assessed Valuation – Real Property	\$158,272,830,848
Debt Limit (% of Assessed Valuation)	<u>6%</u>
Subtotal Limitation – Real Property	<u>\$ 9,496,369,851</u>
June 30, 2013 Assessed Valuation – Personal Property	\$ 3,604,478,750
Debt Limit (% of Assessed Valuation)	<u>15%</u>
Subtotal Limitation – Personal Property	<u>\$ 540,671,813</u>
Total Assessed Valuation – Real and Personal Property	\$161,877,309,598
Legal Limitation for the Borrowing of Funds and the Issuance of Bonds	\$10,037,041,664
Less Amount of Debt Applicable to Debt Limit:	
General Obligation Bonds Outstanding	\$2,122,095,000
General Obligation Variable Rate Demand Obligations	100,000,000
2013 General Obligation Bonds	295,000,000
2013 General Obligation Refunding Bonds	24,915,000
Short-Term BANs/Commercial Paper	<u>205,000,000</u>
Net Direct Debt	<u>2,747,010,000</u>
Legal Debt Margin	<u>\$7,290,031,664</u>
Net Direct Debt as a Percentage of Assessed Valuation	<u>1.70%</u>

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

(The remainder of this page has been left blank intentionally.)

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 a maximum of 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
2004 – 2013

<u>Fiscal Year</u>	<u>Net Direct Debt to Market Value</u>	<u>GO Bond Debt Service to General Fund Expenditures</u>	<u>Net Direct Debt Per Capita</u>	<u>Net Direct Debt Per Capita to Per Capita Income</u>	<u>GO Bond Payout Ratio</u>
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	67.88
2013	1.58	8.88	2,737	3.74	68.33

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The County's general obligation indebtedness by issue is presented in Tables 4 and 4A. Annual debt service payments for the County's debt are 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, 2013. Also see Subsequent Events, Note 4 on page 19.

Table 4
General Obligation Debt of the County
As of June 30, 2013

<u>Issue</u>	<u>Dated Date</u>	<u>Original Issue Size</u>	<u>Original Coupon Rates</u>	<u>TIC*</u>	<u>Maturity</u>	<u>Principal Outstanding June 30, 2013</u>
GO Bonds	03/15/04	154,600,000	3.00-5.00	3.8290	2005-24	15,460,000
GO Refunding Bonds	08/15/04	97,690,000	3.00-5.25	3.7208	2008-17	74,895,000
GO Bonds	05/15/05	200,000,000	4.00-5.00	3.8806	2006-25	40,000,000
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	30,000,000
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	112,500,000
GO Refunding Bonds	03/12/08	70,295,000	2.75-5.00	2.8965	2009-15	10,150,000
GO Bonds	07/15/08	250,000,000	3.00-5.00	4.1809	2009-28	200,000,000
GO Bonds***	11/03/09	232,000,000	3.75-5.00	3.1774	2015-29	232,000,000
GO Refunding Bonds	11/03/09	161,755,000	2.00-5.00	2.6487	2011-20	147,915,000
GO Bonds	11/17/09	78,000,000	2.00-5.00	1.1823	2010-14	31,200,000
GO Bonds	07/08/10	195,000,000	2.00-5.00	2.2596	2011-22	162,500,000
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	304,000,000
GO Refunding Bonds	08/11/11	237,655,000	2.00-5.00	1.9896	2012-22	226,670,000
GO Bonds	10/24/12	295,000,000	2.50-5.00	2.2599	2013-32	295,000,000
GO Refunding Bonds	10/24/12	23,360,000	2.50-5.00	0.3812	2013-16	23,360,000
Total						<u>\$2,249,825,000</u>

* 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 and Includes Recovery Zone Economic Development Bonds \$23.7 million – Direct Pay

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Table 4 A
General Obligation Debt of the County
As of June 30, 2012 and June 30, 2013
And Including 2013 General Obligation Bonds (1)

<u>Issue</u>	<u>Dated Date</u>	<u>Original Issue Size</u>	<u>Coupon Rates</u>	<u>TIC⁽²⁾</u>	<u>Maturity</u>	<u>Outstanding June 30, 2012</u>	<u>Outstanding June 30, 2013</u>
GO Bonds	03/15/04	\$154,600,000	3.00-5.00%	3.8290	2005-24	\$23,190,000	\$7,730,000
GO Refunding	08/15/04	97,690,000	3.00-5.25	3.7208	2008-17	80,835,000	74,895,000
GO Bonds	05/15/05	200,000,000	4.00-5.00	3.8806	2006-25	50,000,000	20,000,000
GO Refunding	06/01/05	120,355,000	5.00	3.7817	2011-21	114,175,000	114,175,000
GO Bonds	05/01/06	100,000,000	4.25-5.00	3.8711	2007-16	40,000,000	30,000,000
GO VRDO ⁽³⁾	06/07/06	100,000,000	variable	variable	2017-26	100,000,000	100,000,000
GO Bonds	05/01/07	250,000,000	5.00	4.0821	2008-27	125,000,000	112,500,000
GO Refunding	03/12/08	70,295,000	2.75-5.00	2.8965	2009-15	21,090,000	10,150,000
GO Bonds	07/15/08	250,000,000	3.00-5.00	4.1809	2009-28	212,500,000	200,000,000
GO Bonds ⁽⁴⁾	11/03/09	232,000,000	3.75-5.00	3.1774	2015-29	232,000,000	232,000,000
GO Refunding	11/03/09	161,755,000	2.00-5.00	2.6487	2011-20	154,770,000	147,915,000
GO Bonds	11/17/09	78,000,000	2.00-5.00	1.1823	2010-14	46,800,000	31,200,000
GO Bonds	07/08/10	195,000,000	2.00-5.00	2.2596	2011-22	178,750,000	162,500,000
GO Bonds ⁽⁵⁾	07/08/10	130,000,000	4.75-5.40	5.0708	2023-30	130,000,000	130,000,000
GO Bonds	08/11/11	320,000,000	2.00-5.00	3.2268	2012-31	320,000,000	304,000,000
GO Refunding	08/11/11	237,655,000	2.00-5.00	1.9896	2012-22	237,655,000	226,670,000
GO Bonds	10/24/12	295,000,000	2.50-5.00	2.2599	2013-32	-	295,000,000
GO Refunding	10/24/12	23,360,000	2.50-5.00	0.3812	2013-16	-	23,360,000
GO Bonds	11/26/13	295,000,000	3.00-5.00	3.1270	2014-33	-	295,000,000
GO Refunding	11/26/13	24,915,000	5.00	2.7745	2023-24	-	24,915,000
Total							<u>\$2,542,010,000</u>

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

(2) True Interest Cost

(3) Variable Rate Demand Obligations

(4) Federally Taxable – Build America Bonds – Direct Pay

(5) Includes Federally Taxable – Build America Bonds \$106.3 million – Direct Pay and 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, 2013

<u>General Obligation Bonds</u>			
Fiscal Year	Principal	Interest*	Total
2014	\$ 171,510,000	\$ 97,721,004	\$ 269,231,004
2015	178,250,000	89,162,266	267,412,266
2016	173,570,000	80,147,860	253,717,860
2017	167,740,000	71,890,461	239,630,461
2018	156,795,000	64,248,769	221,043,769
2019	151,070,000	57,213,322	208,283,322
2020	145,160,000	50,438,625	195,598,625
2021	138,470,000	44,156,335	182,626,335
2022	131,320,000	37,642,503	168,962,503
2023	123,430,000	33,875,331	157,305,331
2024	115,195,000	28,773,475	143,968,475
2025	107,465,000	24,002,350	131,467,350
2026	97,470,000	19,482,431	116,952,431
2027	87,470,000	15,420,550	102,890,550
2028	74,970,000	11,399,956	86,369,956
2029	74,970,000	8,045,650	83,015,650
2030	62,470,000	4,922,300	67,392,300
2031	47,000,000	2,505,000	49,505,000
2032	30,750,000	983,750	31,733,750
2033	14,750,000	221,250	14,971,250
Totals	\$ <u>2,249,825,000</u>	\$ <u>742,253,188</u>	\$ <u>2,992,078,188</u>

*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, 2013

<u>Purpose</u>	<u>Chapter</u>	<u>Act</u>	<u>Authorized Amount</u>	<u>Amount Unissued</u>
General County, Parks, and Consolidated Fire Tax District	36	2008	\$ 68,200,000	\$ 6,890,000
	22	2009	58,700,000	58,700,000
	54	2010	341,600,000	341,600,000
	24	2011	65,400,000	65,400,000
	19	2012	<u>13,900,000</u>	<u>13,900,000</u>
			<u>547,800,000</u>	<u>486,490,000</u>
Road & Storm Drainage	54	2010	192,000,000	182,540,000
	19	2012	<u>38,700,000</u>	<u>38,700,000</u>
			<u>230,700,000</u>	<u>221,240,000</u>
Public Schools and Community College	22	2009	272,500,000	68,268,000
	54	2010	108,700,000	108,700,000
	24	2011	214,300,000	214,300,000
	19	2012	<u>187,400,000</u>	<u>187,400,000</u>
			<u>782,900,000</u>	<u>576,668,000</u>
Mass Transit	54	2010	32,600,000	4,605,000
	24	2011	<u>103,200,000</u>	<u>103,200,000</u>
			<u>135,800,000</u>	<u>107,805,000</u>
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	<u>46,400,000</u>	<u>46,400,000</u>
			<u>53,030,000</u>	<u>52,970,000</u>
Easements: Agricultural Facade	24	2011	2,000,000	2,000,000
	24	2011	<u>1,100,000</u>	<u>1,100,000</u>
			<u>3,100,000</u>	<u>3,100,000</u>
Parking District :Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	1,220,000	1,220,000
	19	2012	<u>20,115,000</u>	<u>1,193,000</u>
			<u>24,280,000</u>	<u>4,458,000</u>
Parking District: Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	<u>1,050,000</u>	<u>1,050,000</u>
			<u>9,150,000</u>	<u>4,865,000</u>
Total Parking Districts			<u>33,430,000</u>	<u>9,323,000</u>
Total General Obligation Bonds			<u>\$1,786,760,000</u>	<u>\$1,457,596,000</u>

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 nine years, and planned for substitution over the five years beginning FY14, are displayed below.

Table 7
PAYGO Substitutions
(Actual FY05-13, Budgeted FY14-18)

<u>Fiscal Year</u>	<u>PAYGO</u> <u>Amount</u>	<u>Fiscal Year</u>	<u>PAYGO</u> <u>Amount</u>
2005	\$ 7,275,000	2012	\$ 31,000,000
2006	11,737,000	2013	29,500,000
2007	27,500,000	2014	29,500,000
2008	27,500,000	2015	40,500,000
2009	5,406,000	2016	40,500,000
2010	1,316,000	2017	50,500,000
2011	--	2018	50,500,000

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, 2012 through June 30, 2013 are presented in Table 8 below. Also see Subsequent Events, Notes 1 and 4 on page 19.

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Table 8
Bond Anticipation Notes Outstanding
As of June 30, 2013

<u>Issue</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>BANs Issued</u>	<u>BANs Retired</u>	<u>Balance</u> <u>June 30, 2013</u>
BAN 2009-A	\$100,000,000	\$100,000,000	\$100,000,000	\$100,000,000
BAN 2009-B	100,000,000	100,000,000	100,000,000	100,000,000
BAN 2010-A	150,000,000	63,395,000	63,395,000	150,000,000
BAN 2010-B	<u>150,000,000</u>	<u>63,395,000</u>	<u>63,395,000</u>	<u>150,000,000</u>
Total	\$500,000,000	\$326,790,000	\$326,790,000	\$500,000,000

Revenue Bonds

County revenue bonds are authorized by the County to finance specific projects such as parking garages, Department of Liquor Control and Solid Waste facilities. The debt service is 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.

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

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, 2013. Also see Subsequent Events, Note 2 on page 16.

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Table 9
Revenue Bond Debt of the County
As of June 30, 2013*

<u>Issue Date</u>	<u>Dated</u>	<u>Original Issue Size</u>	<u>Original Coupon Rates</u>	<u>TIC**</u>	<u>Maturity</u>	<u>Principal Outstanding June 30, 2013</u>
Parking Revenue Bonds (Bethesda PLD)	08/31/05	\$16,495,000	3.62%-5.00%	4.0471%	2007-25	\$12,585,000
Parking Revenue Bonds (Bethesda PLD)	05/16/12	24,190,000	3.00%-5.00%	2.8367%	2015-23	24,190,000
Parking Revenue Refunding Bonds Bethesda PLD)	05/16/12	13,750,000	1.25%-1.93%	2.8367%	2013-17	12,455,000
Liquor Control Revenue Bonds	05/12/09	46,765,000	3.00%-5.00%	4.1195%	2010-29	41,195,000
Liquor Control Revenue Bonds	04/15/11	34,360,000	2.00%-5.00%	4.2826%	2012-31	32,020,000
Water Quality Protection Revenue Bonds	07/08/12	37,835,000	0.25%-5.00%	3.3148%	2013-32	36,920,000
Total						<u>\$158,365,000</u>

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

** True Interest Cost.

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Table 10
Summary of Revenue Bond Debt Service Requirements by Fiscal Year
As of June 30, 2013

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$6,325,000	\$7,056,039	\$13,381,039
2015	7,515,000	6,813,839	14,328,839
2016	7,855,000	6,483,617	14,338,617
2017	8,155,000	6,182,358	14,337,358
2018	8,525,000	5,808,770	14,333,770
2019	8,910,000	5,430,520	14,340,520
2020	9,300,000	5,031,070	14,331,070
2021	9,735,000	4,597,810	14,332,810
2022	8,300,000	4,120,120	12,420,120
2023	8,665,000	3,755,630	12,420,630
2024	9,050,000	3,375,437	12,425,437
2025	9,440,000	2,986,953	12,426,953
2026	9,865,000	2,552,101	12,417,101
2027	9,040,000	2,133,581	11,173,581
2028	9,460,000	1,714,431	11,174,431
2029	9,905,000	1,272,433	11,177,433
2030	6,695,000	820,781	7,515,781
2031	7,005,000	518,931	7,523,931
2032	<u>4,620,000</u>	<u>200,463</u>	<u>4,820,463</u>
Total	<u>\$158,365,000</u>	<u>\$70,854,884</u>	<u>\$229,219,884</u>

Table 11
Revenue Bonds Authorized – Unissued
As of June 30, 2013

			<u>Authorized</u> <u>Amount</u>	<u>Unissued</u> <u>Amount</u>
Parking Lot Districts	11-1383	1989	\$ 51,163,000	\$ 1,403,000
	14-921	2001	35,000,000	9,000,000
	17-403	2012	46,000,000	8,060,000
Solid Waste Disposal	12-1010	1993	56,635,000	6,255,000
Liquor Control & Transit	16-863	2009	138,000,000	56,875,000
Water Quality Protection	Bill 12-12	2012	<u>95,000,000</u>	<u>57,165,000</u>
Total Revenue Bonds			<u>\$421,798,000</u>	<u>\$ 138,758,000</u>

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, 2013.

Table 12
Conduit Debt of the County
As of June 30, 2013

<u>Purpose</u>	<u>Issuer</u>	<u>Principal Outstanding June 30, 2013</u>
Montgomery County Conference Center	Montgomery County Revenue Authority	\$8,395,000
Human Services Headquarters	Montgomery County Revenue Authority	2,295,000
Aquatic Centers	Montgomery County Revenue Authority	9,440,000
Solid Waste Disposal System	Northeast Maryland Waste Disposal Authority	<u>77,685,000</u>
TOTAL		<u>\$ 97,815,000</u>

Subsequent to June 30, 2013 Events

1. On July 2, and July 3, 2013, the County renewed agreements with State Street Bank and PNC Bank respectively to provide liquidity with respect to the 2010 Series BANs for \$150,000,000 each. The credit agreements expire on July 31, 2016.
2. On July 30, 2013, the County issued \$46,645,000 in Department of Liquor Control Revenue Bonds (Series 2013A) to finance and refinance the acquisition, construction, and equipping of warehouse facilities and the design, right-of-way acquisition, and construction of transportation projects within the County.
3. On October 1, 2013, the County entered into a 20 year lease purchase agreement with Banc of America Leasing & Capital, LLC in the amount of \$4.165 million to finance energy systems modernization at the County's Health and Human Services buildings. The project is to be implemented under an Energy Performance Contract. The lease purchase qualified as financing under the County's Qualified Energy Conservation Bond (QECB) allocation which provided a federal tax credit and will reduce the net effective interest rate to approximately 1.43%.
4. On November 13, 2013, the County issued General Obligation Bonds (Tax-Exempt Series A) in the amount of \$295,000,000 and General Obligation Refunding Bonds (Tax-Exempt Series B) in the amount of \$24,915,000. Subsequent to closing the County retired commercial paper bond anticipation notes (BAN's) totaling \$295,000,000.
5. On November 19, 2013, the County issued Taxable Limited Obligation Certificates (Series 2013) in the amount of \$38,015,000 for purposes of funding the County's Affordable Housing Program.

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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 \$25,157,200 for FY13. In addition, 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 FY13:

<u>Payee</u>	<u>Location</u>	<u>Use</u>	<u>Total Rent For FY13</u>
Eldridge, Inc.	255 Rockville Pike, Rockville	Various Agencies	\$5,548,938
GXS, Inc.	100 Edison Park Drive, Gaithersburg	Public Safety Headquarters	4,847,341
Maryland Economic Development Corp.	921 Wayne Avenue, Silver Spring	Parking Garage	2,821,460
Maryland Economic Development Corp.	801 Ellsworth Drive, Silver Spring	Parking Garage	2,249,187
Montgomery County Revenue Authority	Indoor Swim Centers	Recreation	252,775
Montgomery County Revenue Authority	5701 Marinelli Drive, Rockville	Conference Center	225,219
F.S. Peoples Realty Co.	14935 Southlawn Lane, Rockville	Fire & Rescue/Liquor Control	1,728,652
FP Gude LLC	7300 Calhoun Drive, Derwood	Juvenile Assessment Center	1,098,901
Alexandria Real Estate	1300 Quince Orchard Blvd., Gaithersburg	Emergency Communications Center	990,091
Washington Real Estate Investment Trust	600 East Jefferson St., Rockville	Community Use of Public facilities/Family Justice Center	777,902
Washington Real Estate Investment Trust	51 Monroe Street, Rockville	Various Agencies	857,350
Felland Limited Partnership	4901-43 Nicholson Ct., Kensington	DOT/Transit Services	813,365
Seneca Center II, LLC	18753 N. Frederick Ave.	Board of Elections	871,381
Fanaroff & Steppa c/o HBW Group	981 Rollins Avenue, Rockville	HHS-OAS Clinic	687,307
1335 Piccard LLC, c/o Wellstone Corp.	1335 Piccard Drive, Rockville	Health Center	678,950
Montgomery County Revenue Authority	1301 Piccard Drive, Rockville	Health & Human Services	636,870
Investment Properties, Inc.	701-C Dover Road, Rockville	Fire & Rescue Warehouse	530,180
The Gudelsky Company	8630 Fenton Street, Silver Spring	Health Center	454,978
Williamson, Harry E. and Helga R.	12500 Ardennes Avenue, Rockville	Corrections	593,566
Rockville Metro Plaza I, LLP	111 Rockville Pike, Rockville	Economic Development	474,663
Investment Properties, Inc.	11 North Washington St. 4 th Floor Rockville	HHS Community Support Network	380,964
C-W Gaither, LLC	9121-25 Gaither Road, Rockville	Police/S.O.D.	452,846
ARE 25/35/45 W. Watkins Corp.	45 West Watkins Mill Rd, Gaithersburg	Police-6 th District	377,685
PS Business Parks, Inc.	9210 Corporate Boulevard, Rockville	Police/S.I.D.	450,413
Betty B. Casey Trust	8516-40 Anniversary Circle, Rockville	Records Center/Warehouse	322,762
Halcyon Associates	8300-8434 Helgerman Court, Gaithersbg.	Police	217,357
Halcyon Associates	8663-73 Grovemont Circle, Gaithersbg.	Fire & Rescue	195,990

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 issued \$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.

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. Also see Subsequent Events Note 5 on page 19.

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 43 times and in 41 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 FY13 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, 2013).

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 position, 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 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.

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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 relationship 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 FY14 Capital Budget and the Amended 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 23, 2013 the County Council approved the FY14 operating budget comprising the County Government, MCPS, the College, and M-NCPPC aggregating \$4.811 billion. This budgetary level represents an increase of 4.3 percent over the adopted budget for FY13.

The FY14 operating budget provides the greatest share (49.7 percent) of total tax supported resources to Montgomery County Public Schools (MCPS). Funding for MCPS and Montgomery College accommodates enrollment growth. In addition, the budget includes funding to increase reserves and retiree health insurance pre-funding and provides for limited restoration of critical services, including public safety and services to vulnerable populations.

The approved FY14 budget provided for an undesignated surplus of \$143.9 million in the General Fund and \$169.5 million across all tax supported funds. For FY14, the estimated effective real property tax rate for the County is \$1.009 per \$100 of assessed value.

Capital Budget/Capital Improvements Program

The County Council approved the FY14 Capital Budget and FY13-18 Amended Capital Improvements Program (CIP) for the County government and the required agencies, except for WSSC, aggregating \$4.388 billion for Amended FY13-18. The Amended FY13-18 program provided for County bond funding aggregating \$1.770 billion over the Amended FY13-18 six-year period. The Council approved a Capital Improvements Program for WSSC totaling \$1.610 billion for FY14-17. (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

General Fund Revenues

Actual revenues for the General Fund totaled \$2,892.6 million and were 2.5 percent over the budget estimate for the fiscal year and 3.0 percent over actual tax revenues for FY2012. The three largest contributors to the variance in dollars between the budget estimate and actual revenues were the income tax which was an increase of \$53.9 million, the property tax, which had an increase of \$11.0 million, followed by the energy tax which reflected a decrease of \$9.8 million below the budget estimate. Revenues from the transfer and recordation taxes amounted to \$142.0 million, an increase of \$5.4 million, or 4.0 percent, over the budget estimate and 11.6 percent over actual tax revenues for FY2012. Revenues from consumption/excise taxes which include fuel/energy, telephone, hotel/motel, and admissions taxes, were \$292.0 million in FY2013. That amount was \$12.0 million or 4.0 percent below the budget estimate and that decline was driven by shortfalls across all excise taxes except for the admissions tax with the largest decline experienced by the fuel-energy tax with a decrease of \$9.8 million or 4.2% below the budget estimate. Investment income was approximately \$0.186 million below the budget estimate. Licenses and permits came in below budget estimates with a decrease of 5.5%, and charges for services came in above the budget estimate with an increase of 16.8%. Intergovernmental revenues were 20.0 percent over the budget estimate. This increase was attributed to federal and other (non-state) reimbursements, which came in 46.7 percent and 102.8 percent over budget estimates, respectively.

Major Sources 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 \$1,317.5 million and represented 47.3 percent of actual tax revenues in FY2013 and 45.5 percent of total actual revenues. The reliance on the income tax as a major source of revenue in recent years can be attributed to three factors: the expansion of the employment base in the County, the growth in capital gains, and significant property tax relief that reduced otherwise strong property tax revenue growth. However, the Standard & Poor's 500 index, representing a proxy for capital gains, experienced significant volatility over the past ten calendar years ranging from an increase of 26.4 percent in CY2004 to a decrease of 38.5 percent in CY2008, 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 CY2002-CY2006 period and a decline of -0.8 percent in CY2007, followed by an increase of 0.8 percent in CY2008, followed by a decrease of 1.8 percent in CY2009, and increases of 0.3 percent, 1.4 percent, and 1.0 percent in CY2010, CY2011, and CY2012, respectively. However, supporting trends are positive with employment growth occurring in CY2010, CY2011, and CY2012 coupled with strong positive growth in the S&P 500 index in CY2009 of 23.5%, CY2010 12.8%, and CY2012 13.4% – there was no growth in CY2011. Also total income tax revenues increased 5.0 percent in FY2013.

Property Tax

Property tax collections, which represent another major contributor of actual tax revenues to the General Fund and the second largest in FY2013, amounted to \$1,036.2 million in FY2013, which were \$11.0 million or 1.1% over the budget estimate but 0.6 percent below actual revenues in FY2012. Actual property taxes, excluding penalties and interest and other items, were \$1,033.9 million in FY2013 – a decrease of 0.8 percent from the previous fiscal year. Collections from penalties and interest and other items were \$2.3 million – a 352.2 percent increase over FY2012.

The taxable assessments for real property decreased 2.4 percent from FY2012 to FY2013. This was the second consecutive decrease in over twenty-three years. New construction, which added \$1.408 billion to the base in FY2013, was 140.4 percent higher than in FY2012. The real estate market, particularly the annual double-digit price increases during fiscal years (FY2003-FY2006), fueled the dramatic increases in the triennial reassessment rates beginning with Group Three, which increased from 36.3 percent in LY (levy year) 2003 to 63.3 percent in LY2006, and for Group One triennial reassessments were 51.8 percent and 43.3 percent in LY2004 and 2007, respectively. With the average sales price for an existing home declining 16.2 percent in FY2009 and 5.4 percent in FY2010, the reassessment rate for Group Two declined from 65.0 percent for LY2005 to 16.2 percent for LY2008, the rate for Group Three declined from 63.3 percent for LY2006 to -10.6 percent for LY2009, and the rate for Group One declined from 43.4 percent in LY2007 to -17.0 percent in LY2010. With the dramatic decline in average sales prices, the triennial reassessment rate for Group Two declined from 16.2 percent to a decrease of 14.5 percent for LY2011 and declined again for Group Three in LY2012 with a decrease of 8.6%.

However, the homestead tax credit limits annual increases in homeowners' taxable assessments to 10 percent per year although other taxable assessments such as commercial and investment residential properties are not limited by this credit. While there was a dramatic decrease in the reassessment rates for Groups One, Two and Three over the past four levy years, the remaining amount of the credit added \$229.4 million to the assessable base in FY2013 down from \$729.0 million added in FY2012.

Assessments of personal property increased 0.6 percent in FY2003, but declined 6.2 percent in FY2004 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 FY2005, and another 1.8 percent decline in FY2006. The declines in FY2005 and FY2006 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 FY2007 and a modest 0.5 percent in FY2008. However, because of declines in individual and corporate personal property and public utility tax assessments, total personal property assessments declined 1.3 percent in FY2009 rebounding in FY2010 with an increase of 5.2% attributed to increases in corporate and public utility assessments, but declined 6.5 percent in FY2011 and declined 3.6 percent in FY2012 to \$3.719 billion and declined in FY2013 to \$3.605 billion attributed to declines in corporate and utility personal property. For the previous five fiscal years (FY2008-FY2012), taxable assessments for personal property averaged \$3.918 billion ranging from a low of \$3.719 billion in FY2012 to a high of \$4.124 billion in FY2010.

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 FY2013 were \$142.0 million (excluding recordation tax revenues earmarked for CIP funding of school construction, rental assistance, and CIP funding for the County; and transfer tax revenues from condominium conversions). There was an increase in actual revenues in FY2013, and there was a 4.0 percent increase over the budget estimate. The total amount collected from these taxes increased from \$185.2 million in FY2004 to a peak of \$241.7 million in FY2006, before declining to \$107.2 million in FY2009. In FY2010, taxes from the combined transfer and recordation taxes rebounded to \$122.0 million, increased to \$129.5 million in FY2011, declined to \$127.3 million in FY2012, then increased to \$142.0 million in FY2013.

General Fund revenues from the transfer tax experienced an increase of 10.9 percent in FY2013 and a 12.6 percent increase in the recordation tax. Because of the increase attributed to an increase in home sales in FY2013, revenues from the residential sector for both taxes were \$92.8 million, an increase of 21.9 percent over FY2012. The number of residential transfers increased to 13,420 which was an 11.3 percent increase.

Based on the amount of revenues from the non-residential transfer tax, the commercial market declined in FY2013 with revenues at \$18.7 million – a decrease of 3.9 percent from FY2012. However, even with that decline, the amount of revenues in FY2013 was the third highest over the past ten fiscal years. The decrease in revenues from the commercial market was attributed to the decrease in the number of transfers (183) in FY2013 compared to 213 in FY2012.

Other Taxes

The remaining tax sources – consisting of fuel/energy, telephone, hotel/motel, and admissions and amusement taxes – totaled \$292.0 million and were approximately \$12.1 million, or 4.0 percent, below the budget estimate. Revenues from the telephone tax were 6.3 percent below the budget estimate and 1.7 percent below actual revenues in FY2012. Revenues from the hotel/motel industry of \$18.9 million in FY2013 were 0.7 percent below the budget estimate but 4.1 percent over actual revenues in FY2012. The admissions tax was 38.0 percent over the budget estimate and 25.7 percent over actual revenues in FY2012.

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Investment Income

In the General Fund, actual investment income increased from \$12,224 in FY12 to \$66,215 in FY13 an increase of 441.7% but was approximately \$186,000 or 95.2% lower than the budget estimate. The dramatic decrease in FY13 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 FY13. The justification for such a decrease was the significant global credit crisis that began in August 2007, the subsequent economic recession that ended in June 2009, and the European Community financial crisis of CY2012, and the FOMC's monetary policy of stimulating investment and reducing the national unemployment rate. Because of this low level of interest rates during FY13, short-term or money market rates remained at historic low levels as well, hence the average yield on cash equity for the County decreased from 0.22 percent in FY10, to 0.10 percent in FY11, to 0.02 percent in FY12, but increased slightly to 0.16 percent in FY13. With the decrease in investment income coupled with a spending restraint, the average daily portfolio balance decreased from \$187.9 million in FY12 to \$121.8 million in FY13.

General Fund Expenditures and Transfers

Expenditure savings in FY13 amounted to \$13.2 million. Savings occurred in both departmental expenditures (\$6.5 million) and non-departmental expenditures (\$6.7 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 Utilities – Operating (\$3.4 million) and Public Works and Transportation (\$2.1 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 FY13, there was a mandatory contribution of \$29,595,672, which is less than the amount needed to obtain a total reserve of 10 percent of the Adjusted Governmental Revenues \$440,261,875. As of June 30, 2013, this resulted in an ending fund balance in the Revenue Stabilization Fund of \$184,879,381.

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

Revenues:	Fiscal Year Actual				Fiscal Year
	2010	2011	2012	2013	Budget 2014
Taxes:					
Property, including interest & penalty	\$1,045,604,890	\$1,061,582,080	\$1,042,924,958	\$1,036,227,629	\$1,091,892,294
Transfer tax and recordation tax	122,041,019	129,534,809	127,296,778	142,027,055	142,327,874
County income tax	1,042,098,527	1,039,234,850	1,255,089,822	1,317,533,090	1,299,191,344
Other taxes	<u>205,594,301</u>	<u>304,004,588</u>	<u>293,532,105</u>	<u>292,007,596</u>	<u>276,649,982</u>
Total Taxes	2,415,338,737	2,534,356,327	2,718,843,663	2,787,795,370	2,810,061,494
Licenses and permits	9,542,255	10,372,597	9,877,007	9,703,745	10,281,670
Intergovernmental revenue	50,521,703	51,645,247	41,873,345	51,799,202	51,016,318
Charges for services	9,757,107	9,483,647	8,387,285	10,552,028	8,573,112
Fines and forfeitures	23,107,769	19,249,187	18,742,899	23,160,668	21,625,731
Investment income	(144,976)	12,206	12,224	66,215	39,300
Miscellaneous	<u>13,767,949</u>	<u>16,823,983</u>	<u>16,061,866</u>	<u>14,449,088</u>	<u>8,105,410</u>
Total Revenues	<u>2,521,890,544</u>	<u>2,641,943,194</u>	<u>2,813,798,289</u>	<u>2,897,526,316</u>	<u>2,909,703,035</u>
Expenditures (including encumbrances):					
General County:					
General government	222,489,761	224,132,215	276,824,927	348,045,020	389,999,846
Public safety	344,427,956	334,915,498	342,225,124	367,638,180	378,602,184
Transportation and public works	98,647,800	63,657,144	51,076,683	68,700,317	53,025,943
Health and human services	198,470,632	183,462,232	184,255,411	196,376,879	211,122,110
Culture and recreation	46,478,007	34,021,901	33,615,205	35,568,206	38,712,322
Housing and community development	4,448,701	3,860,221	3,374,938	4,439,750	10,906,383
Environment	<u>4,102,641</u>	<u>2,666,513</u>	<u>2,414,241</u>	<u>2,371,515</u>	<u>2,277,449</u>
Total Expenditures	<u>919,065,498</u>	<u>846,715,724</u>	<u>893,786,529</u>	<u>1,023,139,867</u>	<u>1,084,646,237</u>
Transfers In (Out):					
Transfers In:					
Special Revenue Funds	95,441,777	24,649,524	25,557,670	24,504,717	28,954,773
Enterprise Funds	39,859,930	37,771,540	30,993,350	28,400,910	28,253,518
Internal Service Funds	14,779,000	2,500,000	--	19,034,302	8,682,636
Capital Projects Fund	499,847	--	--	--	--
Component Units	<u>255,150</u>	<u>247,613</u>	<u>240,075</u>	<u>232,538</u>	<u>247,610</u>
Total Operating Transfers In (Out)	<u>150,835,704</u>	<u>65,168,677</u>	<u>56,791,095</u>	<u>72,172,467</u>	<u>66,138,537</u>
Transfers Out:					
Special Revenue Funds	(13,137,847)	(33,625,392)	(78,066,365)	(57,842,563)	(46,667,295)
Debt Service Fund	(210,865,864)	(220,150,085)	(235,553,941)	(252,311,377)	(267,510,270)
Capital Projects Fund	(18,625,802)	(21,567,200)	(40,384,588)	(45,695,781)	(-)
Enterprise Funds	(3,171,570)	(3,420,070)	(3,389,630)	(2,873,089)	(2,575,830)
Internal Service Funds	--	--	(884,147)	(1,597,958)	(-)
Component Units	<u>(1,568,829,854)</u>	<u>(1,532,153,074)</u>	<u>(1,484,536,407)</u>	<u>(1,547,788,358)</u>	<u>(1,551,536,866)</u>
Total Transfers Out	<u>(1,814,630,937)</u>	<u>(1,810,915,821)</u>	<u>(1,842,815,078)</u>	<u>(1,908,109,126)</u>	<u>(1,868,290,261)</u>
Net Transfers In (Out)	<u>(1,663,795,233)</u>	<u>(1,745,747,144)</u>	<u>(1,786,023,983)</u>	<u>(1,835,936,659)</u>	<u>(1,802,151,724)</u>
Excess of revenues and operating transfers in over/ (under) expenditures, encumbrances and operating transfers out	<u>(60,970,187)</u>	<u>49,480,326</u>	<u>133,987,777</u>	<u>38,449,690</u>	<u>22,905,074</u>
Fund Balances, July 1 as previously stated	86,905,675	39,657,640	93,078,794	235,497,305	289,598,811
Adjustment for previous year encumbrances	<u>13,722,152</u>	<u>3,940,828</u>	<u>8,430,734</u>	<u>15,651,816</u>	<u>(3,154,145)</u>
Fund Balances, July 1 restated	100,627,827	43,598,468	101,509,528	251,149,121	286,444,666
Equity transfers in (out)	--	--	--	--	--
Budgetary Fund Balance, June 30	<u>\$ 39,657,640</u>	<u>\$ 93,078,794</u>	<u>\$ 235,497,305</u>	<u>\$ 289,598,811</u>	<u>\$ 309,349,740</u>

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

	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013
Budgetary to GAAP Reconciliation:				
Budgetary Fund Balance as noted above (2)	\$ 39,657,640	\$ 93,078,794	\$ 235,497,305	\$ 289,598,811
Encumbrances outstanding	4,959,728	11,022,956	20,382,922	29,344,177
Cumulative Marriot Conference Center	2,692,824	3,416,052	4,332,672	4,719,357
Unrealized investment gain (loss) (1)	(300,511)	(272,792)	(277,552)	(301,087)
Net differences between beginning fund balances	<u>252,775</u>	<u>266,911</u>	<u>263,911</u>	<u>274,877</u>
GAAP Fund Balance as Reported	<u>\$ 47,262,456</u>	<u>\$ 107,511,921</u>	<u>\$ 260,199,258</u>	<u>\$ 323,636,135</u>
Elements of GAAP Fund Balance:				
Nonspendable	\$ 7,596,839	\$ 4,181,482	\$ 5,635,580	\$ 5,649,319
Committed	34,705,889	23,275,746	41,243,696	49,695,245
Assigned	4,959,728	11,022,956	20,382,922	29,344,177
Unassigned	<u>--</u>	<u>69,031,737</u>	<u>192,937,060</u>	<u>238,947,394</u>
Total Fund Balance	<u>\$47,262,456</u>	<u>\$ 107,511,921</u>	<u>\$ 260,199,258</u>	<u>\$ 323,636,135</u>

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, the mandatory contribution was \$60.7 million. This resulted in the amount in the Fund increased approximately to \$155.2 million. In FY11, the mandatory contribution was \$19.6 million and the fund balance was \$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.

In FY13, the fund balance in the Revenue Stabilization Fund (RSF) of \$155,255,188 was combined with the General Fund in the Comprehensive Annual Financial Report (CAFR). The required mandatory contribution for FY 13 was \$29,595,672. This amount was transferred to the RSF as required. As of June 30, 2013, the ending fund balance in the Revenue Stabilization Fund is \$184,879,381. This amount is reported as restricted fund balance in the General Fund for FY 13. The County is phasing in a 10 percent reserve requirement for Adjusted Governmental Revenues and expects to obtain this level (\$440,261,875) of funding in the Revenue Stabilization Fund by FY20.

Table 15
Revenue Stabilization Fund
Transfers In and Fund Balance

<u>Fiscal</u> <u>Year</u>	<u>Transfers</u> <u>(millions)</u>	<u>Fund</u> <u>Balance</u> <u>(millions)</u>
2013	\$29.6	\$184.9
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 2009 – 2013 are shown in the table below.

Table 16
Enterprise Funds Paying Debt Service
Results of Operations

<u>Fund</u>	<u>Fiscal Year</u>				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>Liquor Control</u>					
Operating Revenues	\$ 220,736,650	\$ 229,212,948	\$ 242,609,273	\$ 252,325,417	\$ 258,876,654
Operating Expenses	<u>194,787,124</u>	<u>203,062,862</u>	<u>214,184,399</u>	<u>218,758,812</u>	<u>224,306,626</u>
Operating Income	<u>\$ 25,949,526</u>	<u>\$ 26,150,086</u>	<u>\$ 28,424,874</u>	<u>\$ 33,566,605</u>	<u>\$ 34,570,028</u>
<u>Solid Waste Activities</u>					
Operating Revenues	\$ 100,040,196	\$ 103,254,833	\$ 105,997,778	\$ 107,772,792	\$ 108,248,910
Operating Expenses	<u>96,140,996</u>	<u>100,018,519</u>	<u>100,372,622</u>	<u>98,781,876</u>	<u>105,868,485</u>
Operating Income	<u>\$ 3,899,200</u>	<u>\$ 3,236,314</u>	<u>\$ 5,625,156</u>	<u>\$ 8,990,916</u>	<u>\$ 2,380,425</u>
<u>Parking Lot Districts</u>					
Operating Revenues	\$ 14,502,594	\$ 16,104,060	\$ 16,257,449	\$ 28,916,500	\$ 31,054,372
Operating Expenses	<u>11,796,219</u>	<u>12,806,038</u>	<u>12,755,410</u>	<u>28,436,826</u>	<u>28,750,317</u>
Operating Income	<u>\$ 2,706,375</u>	<u>\$ 3,298,022</u>	<u>\$ 3,502,039</u>	<u>\$ 479,674</u>	<u>\$ 2,304,055</u>

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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, 2014. 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 FY13 operations of the program is outlined below:

<u>Revenues:</u>	(\$000's)
Contributions from participating agencies	\$55,723
Interest on investments	16
Recovered losses	432
Other income	<u>372</u>
Total Revenues	<u>56,543</u>
 <u>Expenses:</u>	
Claims expense	39,603
Claims administration, loss control, external insurance and other administrative expenses	<u>13,855</u>
Total Expenses	<u>53,458</u>
 Net Gain	3,085
Retained earnings (loss), July 1, 2012	<u>(19,506)</u>
Equity (Loss) balance, June 30, 2013	<u>\$(16,421)</u>

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 FY13 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. Eight other agencies and political subdivisions elected to participate, including the: Montgomery County Revenue Authority, Housing Opportunities Commission of Montgomery County, 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, 2013 and 2012 was approximately \$396.0 million and \$398.5 million, respectively. The total payroll for Montgomery County Government in FY13 and FY12 was \$659.0 million and \$667.0 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, 2013 there were 171 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

		<u>Fiscal Year End</u>		
		<u>2011</u>	<u>2012</u>	<u>2013</u>
Net Position (billions)	\$	2.897	\$ 2.937	\$ 3.184
Actuarial Value (billions)	\$	2.869	\$ 2.891	\$ 3.013
Actuarial Liabilities (billions)	\$	3.745	\$ 3.769	\$ 3.821
Funded Ratio		76.6%	76.7%	78.8%
Participants:				
Active		5,515	5,554	5,606
Retired		6,110	6,237	6,319

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, 2013, the defined contribution plan had 4,336 participants with net position totaling \$236.1 million. As of June 30, 2012, the plan had 4,279 participants and net position of \$198.1 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, 2013 there were 3,426 participants in the County's DCP with \$303.9 million in net position.

Additional Information

Additional information on the County's retirement plans is available in the Montgomery County Comprehensive Annual Financial Report for FY13 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 FY13.

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, 2012. 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 FY14 annual required contribution (ARC) for the County and its tax supported agencies is \$330.1 million, and the related actuarial accrued liability (AAL) is \$3.5 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 \$148.1 million in its FY14 operating budget for the tax-supported agencies. This is in addition to the \$116.6 million, \$61.7 million, \$7.3 million, \$15.3 million, \$40.6 million and \$38.6 million appropriated and funded in FY13, FY12, FY11, FY10, FY09 and FY08, respectively.

The Board of Trustees is responsible for managing the investment program of the Consolidated Retiree Health Benefits Trust (CRHBT). 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 CRHBT 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, less than \$0.6 billion in FY12, and less than \$1.5 billion in FY13, coupled with a decline in the valuation of properties, the real property taxable base decreased at an average annual rate of 2.9 percent, measured from FY11 to FY13, compared to the average annual growth rate of 7.5 percent the previous five-year period (from FY07 to FY11). 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, grew 0.4 percent in FY11, then declined 3.3 percent in FY12 and 2.4 percent in FY13. Due to a decline in business investment in personal property between FY04 and FY13, attributed to an adjustment by the SDAT to assessments of individual personal property, the personal property base decreased at an average annual rate of 1.0 percent during the ten-year period (from FY04 to FY13).

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

<u>Fiscal Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total Assessed Value</u>	<u>Percent Change From Prior Year</u>	<u>Ratio of Assessment to Full Market Value</u>
2013	\$158,272,830,848	\$3,604,478,750	\$161,877,309,598	-2.43%	93.05%
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 FY13, such exemptions for real property owned by Federal, State, County, and other governmental units, and certain non-profit organizations totaled \$18.8 billion at the beginning of the fiscal year based on data from the State Department of Assessments and Taxation. Tax-exempt real property constitutes 10.7 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

<u>Fiscal Year</u>	<u>County Tax Levy</u>	<u>Revenue From Current Year Assessment</u>	<u>Ratio of Current Yr Revenue to Tax Levy</u>	<u>Revenue From Prior Year Assessment</u>	<u>Total Revenue</u>	<u>Ratio Of Total Revenue to Tax Levy</u>	<u>Accumulated Delinquent Taxes</u>	<u>Ratio of Accumulated Delinquent Taxes to Current Year Tax Levy</u>
2013	\$1,081,306,701	\$1,056,688,995	97.72%	(\$23,627,793)	\$1,033,061,202	95.54%	\$18,400,655	1.70%
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

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Table 20
Tax Rates and Tax Levies, by Purpose

Fiscal Year	General County		Transit		State		Total	
	Rate	Levy	Rate	Levy	Rate	Levy	Rate	Levy
2013	\$0.724	\$1,081,306,701	\$0.048	\$71,440,950	\$0.112	\$177,724,401	\$0.984	\$1,330,472,052
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

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 \$1.810 in FY13, \$1.783 in FY2012, \$1.747 in FY11, \$1.707 in FY10, \$1.652 in FY09, and \$1.567 in FY08; the personal property rate for Transit was \$0.120 in FY13, \$0.095 in FY12, \$0.092 in FY11, \$0.092 in FY10, \$0.100 in FY09, and \$0.145 in FY08 (the State does not tax personal property).

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Table 21
Ten Highest Commercial Property Taxpayers' Assessable Base
As of June 30, 2013

<u>Taxpayer</u>	<u>Total</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Ratio: Taxpayer Base to Total Assessable Base</u>
Potomac Electric Power Co	\$714,754,210	\$ --	\$714,754,210	0.44%
Verizon Maryland Inc.	530,706,663	41,110,733	489,595,930	0.33
Montgomery Mall, LLC	280,682,610	280,115,000	567,610	0.17
Washington Gas Light Co.	258,719,080	---	258,719,080	0.16
Wheaton Plaza Reg Shopping Ctr.	213,403,400	212,858,800	544,600	0.13
Chevy Chase Land Co.	207,339,733	207,339,733	--	0.13
Camalier, Anne D. et al, Trustee	202,494,900	202,494,900	--	0.13
7501 Wisconsin Avenue LLC	200,029,560	200,000,000	29,560	0.12
Federal Realty Investment Trust	198,438,757	196,053,067	2,385,690	0.12
WP Project Developer LLC.	<u>165,434,493</u>	<u>165,371,263</u>	<u>63,230</u>	<u>0.10</u>
Total	<u>\$2,972,003,406</u>	<u>\$1,505,343,496</u>	<u>\$1,466,659,910</u>	<u>1.84%</u>
Assessable Base (June 30, 2013)	<u>\$161,877,309,598</u>			

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 either (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 tax 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	Transportation	Schools
<u>Year</u>	<u>Impact Tax</u>	<u>Impact Tax</u>
2013	\$13,179,898	\$27,907,753
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

(1) added Schools Impact tax

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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

	<u>Households</u>	<u>Population</u>	<u>Population Percent Change from Prior Census</u>
2015 (est.)	375,900	1,016,900	4.6%
2012	361,116	1,004,709	1.8
2011	359,496	991,645	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 from 2001 to 2012 from the Census Bureau, U.S. Department of Commerce and population estimate for 2015 from Metropolitan Washington Council of Government (MWCOG), Round 8.2. Data for households for 2001 and 2002 from *Sales and Marketing Management* issues of "Survey of Buying Power." Data for households from 2003 to 2012 from the Census Bureau and data for households in 2015 from MWCOG (Round 8.2).

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Table 24
Median Age

	<u>1950</u>	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2010</u>
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 80.5 percent of the total workforce in 2012, the latest available annual data. The following tables present the County's employment by industrial sector.

Table 25
Payroll Employment

	<u>2000</u>	<u>2011</u>	<u>2012</u>
TOTAL PRIVATE SECTOR	365,022	361,688	362,899
PUBLIC SECTOR EMPLOYMENT:			
Federal	39,615	46,460	47,080
State	1,100	1,186	1,232
Local	<u>33,084</u>	<u>38,450</u>	<u>39,669</u>
TOTAL PUBLIC SECTOR	<u>73,799</u>	<u>86,096</u>	<u>87,981</u>
GRAND TOTAL	<u>438,821</u>	<u>447,784</u>	<u>450,880</u>

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

	<u>2000</u>	<u>2011</u>	<u>2012</u>
TOTAL PRIVATE SECTOR	83.2%	80.8%	80.5%
PUBLIC SECTOR EMPLOYMENT:			
Federal	9.0	10.4	10.4
State	0.3	0.3	0.3
Local	<u>7.5</u>	<u>8.5</u>	<u>8.8</u>
TOTAL PUBLIC SECTOR	<u>16.8</u>	<u>19.2</u>	<u>19.5</u>
GRAND TOTAL	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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 2011 and 2012 based on the new classification system which shows that the County had a slight overall percentage gain in employment in 2012.

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Table 27
Payroll Employment
(NAICS Series)*

	<u>2011</u>	<u>2012</u>	<u>Difference</u>	<u>Percent Change</u>
TOTAL PRIVATE SECTOR	361,688	362,899	1,211	0.3%
GOODS-PRODUCING	35,832	35,091	(741)	-2.1%
Natural Resources and Mining	620	393	(227)	-36.6%
Construction	23,425	23,263	(162)	-0.7%
Manufacturing	11,787	11,435	(352)	-3.0%
SERVICE PROVIDING	325,856	327,802	1,946	0.6%
Trade, Transportation, and Utilities	57,440	58,193	753	1.3%
Information	12,634	12,232	(402)	-3.2%
Financial Activities	30,474	30,586	112	0.4%
Professional and Business Services	101,751	99,317	(2,434)	-2.4%
Education and Health Services	64,234	65,780	1,546	2.4%
Leisure and Hospitality	37,523	39,115	1,592	4.2%
Other Services	21,800	22,579	779	3.6%
UNCLASSIFIED	0	0	0	--
PUBLIC SECTOR EMPLOYMENT	83,096	87,981	1,885	2.2%
Federal Government	46,460	47,080	620	1.3%
State Government	1,186	1,232	46	3.9%
Local Government	38,450	39,669	1,219	3.2%
GRAND TOTAL	447,784	450,880	3,096	0.7%

* North American Industrial Classification System.

During calendar year 2012 the County's unemployment rate averaged 5.1 percent. Table 28 presents the County's labor force, employment and unemployment for the calendar years 2000 through 2013.

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

	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment</u>
2013*	538,288	510,657	27,631	5.1%
2012**	534,178	506,730	27,448	5.1%
2011**	529,997	501,697	28,300	5.3%
2010**	525,384	494,889	30,495	5.8%
2009**	522,875	493,501	29,374	5.6%
2008**	519,330	502,802	16,528	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).

* Based on the rate of change in the averages of the first ten months of 2012 and 2013.

** Data for 2008 through 2012 were revised by DLLR and BLS to incorporate intercensal population controls for 2000 and 2010.

Federal Government Employment

The County is home to important Federal agencies in which numerous civilians are employed. 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 2013.

Department of Health and Human Services (HHS)	28,000
National Institutes of Health	
Food and Drug Administration	
Department of Defense	13,000
Walter Reed National Military Center	
Carderock Naval Surface Warfare Center	
U.S. Army Research Laboratory	
Department of Commerce	5,500
National Oceanic & Atmospheric Administration	
National Institute of Standards & Technology	
Nuclear Regulatory Commission	2,700
Department of Energy	1,800

Source: Maryland Department of Business & Economic Development.

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.

<u>Name of Firm</u>	<u>Est. No. of Employees</u>
Marriott International, Inc. (Headquarters)	5,200
Adventist Hospital	5,000
Lockheed Martin	4,700
Holy Cross Hospital	3,000
Giant Food Corporation	3,000
Kaiser Permanente of the Mid-Atlantic States	3,000
Verizon	3,000
MedImmune/Astra Zeneca	2,000
Government Employee Insurance Company (GEICO)	2,000
Westat, Inc.	2,000
Suburban Hospital	2,000
Henry M. Jackson Foundation	2,000
Target Corporation	1,500

Note: The employee numbers are from the Maryland Department of Business and Economic Development.

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Personal Income

Actual personal income of County residents reached \$73.6 billion in calendar year 2012 which is an increase over the 2011 amount of \$71.7 billion. The County's total personal income experienced an increase of 2.6 percent in 2012, less than the nation's increase of 4.2 percent, and lower than the State's rate of 3.5 percent. The County's total personal income increase of 2.6 percent is less than the nine-year (2003-2011) annual average growth rate of 4.5 percent.

The County accounts for 23.2 percent of the State's personal income in 2012, which is a percentage that has ranged from a high of 23.8 percent in 2008 to a low of 23.2 percent.

Table 29
Total Personal Income
(\$ millions)

<u>Calendar Year</u>	<u>Montgomery County</u>	<u>Maryland</u>	<u>U.S.</u>	<u>Montgomery County as Percent of Maryland</u>
2012	\$73,551	\$316,682	\$13,729,063	23.2 %
2011	71,716	306,011	13,179,561	23.4
2010	67,991	289,653	12,423,332	23.5
2009	65,965	282,152	12,073,738	23.4
2008	67,379	283,053	12,429,284	23.8
2007	64,472	272,901	11,990,244	23.6
2006	62,252	261,067	11,376,460	23.8
2005	57,950	245,063	10,605,645	23.6
2004	54,232	232,067	10,043,284	23.4
2003	50,322	215,982	9,479,611	23.2

Notes: Data for 2003 to 2012 from U.S. Department of Commerce, Bureau of Economic Analysis, revised September 30, 2013 (County, State, and U.S.).

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Average Household and Per Capita Personal Income

According the Bureau of Economic Analysis, U.S. Department of Commerce, the County's total personal income reached \$73.6 billion in calendar year 2012, up from \$71.7 billion in 2011, while per capita income reached \$73,206 in 2012, up from \$72,320 in 2011. Average household income increased from \$192,340 in 2010 to \$203,677 in 2012.

Table 30
Per Capita and Average Household Income, 2012

<u>County</u>	<u>Per Capita Income</u>	<u>County</u>	<u>Average Household Income</u>
Marin, CA	\$93,407	Marin, CA	\$233,520
Arlington, VA	83,242	Fairfield, CT	226,485
Fairfield, CT	81,068	Westchester, NY	218,162
Westchester, NY	77,153	Nassau, NY	216,133
Somerset, NJ	75,863	San Mateo, CA	212,985
San Mateo, CA	74,582	Somerset, NJ	212,778
Morris, NJ	74,057	Fairfax, VA	211,462
Douglas, CO	73,516	Douglas, CO	208,708
Montgomery, MD	73,206	Morris, NJ	205,033
Fairfax, VA	71,607	Montgomery, MD	203,677
Nassau, NY	70,761	Santa Clara, CA	199,181
Howard, MD	70,533	Howard, MD	196,173
Bergen, NJ	69,919	Arlington, MD	192,936
Norfolk, VA	68,619	Bergen, NJ	190,727
Montgomery, PA	68,057	Norfolk, VA	181,132
Santa Clara, CA	66,535	Montgomery, PA	178,180
Middlesex, CT	64,914	Chester, PA	174,940
Chester, PA	63,741	Contra Costa, CA	174,933
Contra Costa, CA	61,638	Middlesex, MA	171,337
Monmouth, NJ	61,426	Monmouth, NJ	163,506

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 21, 2013, 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. Forty-three (43) percent of the County's 561 farms are farmed as a primary occupation. Cash grain farms are the predominant agricultural use in the County covering over 48,000 acres. There are 217 farms or thirty-eight (38) percent that produce table food crops-products for direct human consumption. 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 (72,479 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 assets acquired during the current fiscal year included approximately \$1.8 million for purchasing preservation easements on farmland in agricultural zones. These assets enhance the preservation of farmland protected by Transferable Development Rights easements (TDRs) including other agricultural lands not protected by agricultural easements. An additional \$2.0 million dollars is earmarked for pending FY14 easement settlements 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 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)**

<u>Federal Fiscal Year</u>	<u>Montgomery County</u>	<u>Washington MSA</u>	<u>U.S.</u>
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 FY12 and FY13, the number of new construction projects increased 70.3 percent. At the same time, the value of new construction added to the real property tax base increased 140.4 percent to \$1.408 billion. Over the prior nine-year period (from FY04 to FY12), the number of projects, both residential and non-residential decreased from over 2,758 to 875. However, during that same period, the value of new construction averaged \$1.4 billion between FY04 and FY12 and ranging from a high of \$1.668 billion in FY05 to a low of \$0.586 billion in FY12. 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)

<u>Fiscal Year</u>	<u>Construction Starts</u>	<u>Residential</u>	<u>Apartments</u>	<u>Condominiums</u>	<u>Commercial/Industrial</u>	<u>All Other</u>	<u>Total</u>
2013	1,497	\$537.2	\$91.9	\$123.8	\$651.8	\$3.0	\$1,407.6
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
10-Year Summary		\$ 7,310.1	\$363.7	\$1,381.8	\$3,576.0	\$337.2	\$12,968.7
Categories as Percent of Total		56.3%	2.8%	10.7%	27.6%	2.6%	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-served 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.

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 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 Universities at Shady Grove (USG), which offers degrees from 9 colleges throughout the State, continues its expansion. Design is underway for an additional parking garage, which will free up valuable land for USG's Academic Building #4.

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 will 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 Board 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 upon Congressional appropriations.

The consolidation of the U.S. Food & Drug Administration provides an opportunity for the County to re-examine its long-term goals and objectives for this area through the development of the White Oak Science Gateway Master Plan. This planning effort will determine how a new research and technology node that capitalizes on the growing presence of the FDA, complimented by mixed-use development, can be developed in the future. There are approximately 300 acres on two sites adjacent to the FDA – the 115-acre County-owned 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 currently being developed. Adventist HealthCare plans to build a hospital and medical campus on nearly 50 acres along Plum Orchard Drive.

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.

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. Penney department store, the Fillmore Silver Spring stemmed from a 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 an 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.

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.

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. Across the street (on Bonifant) will be a senior housing development with approximately 110 units. Just south of this area, the Studio Plaza, an 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 Company, 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. Significant activity in the area includes Radio-One and MedTech having 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. A new library will soon be finished, 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 facility planning for 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 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. A 148,000 square foot Costco Wholesale opened alongside the Westfield shopping mall this past year.

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 opened in 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. 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, Bethesda Row Landmark Theatre and Bethesda Blues and Jazz Super Club. These marquee entertainment organizations highlight classical plays, children’s theatre, live music 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 Leadership in Energy & Environmental Design or LEED Gold certification, started leasing in 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. Delivery is expected to begin in 2014. The project is the first trophy quality ground up office development in the Bethesda market in over ten years. The building has been 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.

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. 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.

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. 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.

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 2013

	<u>Total Inventory (Square Feet)</u>	<u>Direct Vacant (Square Feet)</u>	<u>Direct Vacancy Rate</u>	<u>Vacancy Rate w/Sublet</u>
<u>Montgomery County Market</u>				
Bethesda/Chevy Chase	15,843,986	1,150,393	7.3%	7.8%
Gaithersburg	21,802,280	1,881,329	8.6	8.0
Germantown	7,771,750	722,835	9.3	7.0
Kensington/Wheaton	6,800,594	677,995	10.0	9.0
North Bethesda/Potomac	17,250,954	2,044,711	11.9	11.0
North Rockville	22,717,153	2,514,382	11.1	10.0
North Silver Spring/Rt 29	8,917,842	753,766	8.5	7.0
Rockville	17,216,046	1,724,295	10.0	11.0
Silver Spring	11,644,232	936,631	8.0	7.0
Other Markets*	<u>6,514,781</u>	<u>1,153,631</u>	<u>15.3</u>	<u>15.3</u>
Total County	136,479,621	13,559,968	9.9	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.

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Office/Industrial Projects

Summary

A few large commercial projects continued in Montgomery County in 2012. Building III of the Nuclear Regulatory Commission in Bethesda was delivered in 2013, and construction began on 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, most notably the consolidated U.S. Food and Drug Administration (FDA) headquarters. Currently, the County is taking the property through the State's Voluntary Clean-Up Program; environmental remediation will be complete by early 2014.

Montgomery College-Germantown Science and Technology Park

The White Oak Science Gateway Master Plan is also being developed, which will provide a unique opportunity to capitalize on the presence of FDA, and transform this region of the County into a vibrant hub for technological advancement.

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 2014.

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 in August 2012, was renamed the William E. Hanna, Jr. Innovation Center at Shady Grove. 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 companies. 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 began in 2013 on a new mixed-use development project in Rockville Town Center. The \$100 million development will include approximately 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 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 continues to work with companies interested in starting-up, expanding, or relocating to the County. Highlights of this activity include:

- **Sodexo** – The company has committed to maintain its US headquarters in the County and renewed its lease in Gaithersburg for another 10 years. Over 560 jobs were retained and an additional 50 jobs will be added.
- **Social & Scientific Systems** – The company has committed to stay in Silver Spring for another 10 years and over 320 jobs were retained in the County.
- **Progressive Insurance** – added 6,000 square feet of space and is expected to create 10 new jobs in addition to its 30 existing jobs.
- **Data Design Corporation**– added 24,000 square feet of space and will create 10 new jobs in addition to its 40 existing jobs.
- **ActionNet** – signed a lease for over 26,000 square feet of space in the County; close to 120 jobs were retained and an additional 30 jobs will be created.
- **COSTCO Corporation** – COSTCO has built a new 145,000 square feet store in the Wheaton Mall creating 475 jobs.
- **Kohl's Corporation** – recently opened a new store in the Aspen Hill area with a projected 1,125 new jobs.
- **Tasly Pharmaceuticals** – Chinese biopharmaceutical company established a US presence of 24,757 square feet in Rockville. This business attraction is estimated to create 25 new jobs
 -
- **Notable Solutions** –relocated to Gaithers 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.

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Retail Sales

Retail sales, measured by sales tax data collected for the first nine months of 2013, increased in Maryland but declined in Montgomery County based on adjusted data for the rate increase. Compared to the prior year, when retail sales in the County increased 1.2 percent, sales declined a modest 0.5 percent during the first nine months of 2013 compared to the same period in 2012, attributed to declines in purchases of general merchandise which decreased 3.3% and furniture and appliances down 5.0%. These decreases were partially offset by increases in purchases of building and industrial supplies which increased 9.0% and hardware, machinery, and equipment which were up 3.2%. Purchases of nondurable goods decreased 0.6 percent during the first nine months of 2013 compared to the same period in 2012 while purchases of durable goods increased 2.0 percent during the same nine-month period.

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Table 34
Sales & Use Tax Receipts
by Principal Business Activity

	2011		2012		Montgomery County Jan.-Sept. 2013		Maryland Jan.-Sept. 2013	
	Pct. Chg (1)	Share of Total	Pct. Chg (2)	Share of Total	Pct. Chg.(3)	Share of Total	Pct. Chg.(3)	Share of Total
Food and Beverages	9.3%	30.8	3.7	31.5%	0.0%	32.1%	0.8%	24.9%
Apparel	3.5	6.2	1.4	6.2	1.4	6.1	1.2	4.5
General Merchandise	0.5	16.0	4.3	16.5	-3.3	15.2	1.7	17.1
Automotive	0.6	9.0	-0.9	8.8	-0.1	9.1	0.4	6.6
Furniture & Appliances	8.3	6.2	-1.1	6.1	-5.0	5.8	-8.0	7.2
Building & Industrial Supplies	-0.5	8.2	1.8	8.3	9.0	9.3	7.4	12.9
Utilities & Transportation	15.0	8.4	-2.3	8.1	0.3	8.3	3.5	8.8
Hardware, Machinery & Equipment	13.2	1.3	9.0	1.4	3.2	1.5	1.3	2.5
Miscellaneous	-3.5	13.6	-4.8	12.8	-2.5	12.4	3.7	15.3
Other	28.0	0.3	1.2	0.3	-61.1	0.2	-53.7	0.2
Total Retail Sales Tax	4.4%	100.0%	1.2%	100.0%	-0.5%	100.0%	1.4%	100.0%

(1) Percent change between the period 2010 and 2011.

(2) Percent change between the period 2011 and 2012.

(3) Percent change between the period January through September 2012 and January through September 2013.

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.

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 that includes Costco, which opened 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. In 2012, the Montgomery County Planning Board approved a sketch plan for a new mixed use development project on the mall site that will include millions of square feet of residential, office, retail, and other public uses.

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COUNTY GOVERNMENT SERVICES

Human Resources

As of November 2013, the County government employed approximately 8,362 full time and 781 part-time employees. Seven thousand one hundred ninety-four (7,194) 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

<u>Bargaining Unit</u>	<u>Number of Employees</u>	<u>Contract Expiration Date</u>
Service, Labor & Trades (MCGEO)	1,383	June 30, 2016
Office, Professional & Technical (MCGEO)	3,513	June 30, 2016
Police officers (FOP)	1,162	June 30, 2014
Firefighters/Rescuers (IAFF)	1,136	June 30, 2016

Public school teachers in the County are not County government employees, but are employed by the Montgomery County Board of Education (the “Board”). As of November 2013, the Board employed approximately 20,807 full-time equivalent (FTE) employees. This number includes 83 non-represented employees and 20,724 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

<u>Bargaining Unit</u>	<u>Number of FTE Employees</u>	<u>Contract Expiration Date</u>
Teachers & Other Professional (MCEA)	12,084	June 30, 2014
Administrative & Supervisory (MCAAP/MCBOA)	801	June 30, 2014
Support Services (SEIU Local 500)	7,922	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 Plum Gar Community Recreational Center, opened in the summer of 2013. Currently, the Scotland Community Center is closed for renovations and is 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 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 (EDF). Established in 1995, the EDF provides financial assistance to private employers who will either retain jobs in the County or create new jobs through the expansion of current businesses or relocation of new businesses to the County. The EDF is administered by the County's Department of Finance.

As of October 30, 2013, 180 offers for grants and loans totaling \$73.3 million were accepted under the Economic Development Fund Grant and Loan Program. The economic impact of these transactions is estimated to include: over 40,000 jobs retained, attracted and projected to be created, over \$1.7 billion in estimated private investment, and an estimated annual net revenue return of over \$45 million.

In addition to the original Economic Development Fund Grant and Loan Program, there are six other financial incentive programs. The Technology Growth Program (TGP) was developed to facilitate the growth of early-stage

technology-based companies located in or desiring to relocate 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 received a total of \$4.05 million in funding. The program became inactive in FY12 due to changing market conditions for early stage high-tech companies. 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. Twenty-seven companies have received funding totaling \$477,521 from this program since its inception.

The Biotech Tax Credit Supplement Program was created by the County Council as an EDF sub-program in March of 2010 to provide additional incentive for investors who invest in Montgomery County biotech companies. The program operates in conjunction with the State of Maryland Biotechnology Investment Tax Credit Program by offering an additional supplement to investors who have received a State Biotechnology Investment Tax Credit for their investment in a Montgomery County-based company. A total investment of \$10.9 million comprised of 85 transactions made in the County was eligible to receive the \$500,000 supplemental payment in FY12. All FY12 funds have been disbursed.

The Green Investor Incentive Program was created by the County Council as another EDF sub-program in 2013 which authorizes the County to provide financial incentives to qualified investors of green companies. The Green Investor Incentive Program is a unique approach to encourage investments in green companies in the County by reimbursing qualified investors with payments of up to \$50,000. A total funding of \$500,000 was approved for the Program for FY14. Investors and green companies will be qualified through an application process that officially opened on July 24, 2013. The final payments to qualified investors will be processed by the end of FY14.

The Cybersecurity Investment Tax Credit Supplement Program was created by the County Council as an EDF sub-program in 2013 to provide financial incentive for investors who invest in Montgomery County cybersecurity companies and receive the State Cybersecurity Investment Tax Credit. This local incentive program aims at spurring job and business growth in the ever-critical cybersecurity sector. Similar to the County's existing Biotech Tax Credit Supplement Program, the amount of the supplement will be determined by a formula that takes into account the number of companies that receive credits and the amount of funds appropriated during the annual budget. Unlike the Biotech Tax Credit Supplement Program, the Cybersecurity Investment Tax Credit Supplement Program goes to the companies, not the investors. Funding for this Program will be available starting FY15, as the State's Cybersecurity Investment Tax Credit begins its operation in January of 2014.

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 \$2.225 billion for FY14, a 3.0 percent increase over the prior year, and the amended FY13-18 Capital Improvement Program is \$1.365 billion, an increase of \$12.6 million over the previously approved CIP. The emphasis that County residents place on education is reflected in budgeted per pupil operating expenditures of \$14,700 in FY14, and in the high percentage of high school graduates who continue formal education. In FY14, projected enrollment is 151,283 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 excise, 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 FY13, the County managed an average of \$95.1 million in its pooled consolidated investment portfolio. During FY13 the County earned investment income of \$148,374, with an average rate of return of 0.16%.

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 FY13, library customers accessed services approximately 24.1 million times, including: 9.3 million books, media, e-books, and music files checked out; 1.5 million electronic data records downloaded; 2.3 million questions answered in-person or virtually; 1.1 million items used inside a library; 1.9 million computer or Wi-Fi sessions; 4.7 million visits to a branch; 3.0 million visits to the MCPL website or social media outlets; and 0.3 million attendances at programs, uses of meeting rooms, or other services accessed.

Library services to the public are provided at 20 library branches, plus the Montgomery County Correctional Facility Library, the Noyes Library for Young Children, the MCPLEExpress@Olney kiosk installation at the Longwood Community Center, and electronically through the library's website. Services include: a diverse collection of books, e-books, media, and electronic content; knowledgeable staff who answer questions, conduct outreach visits in the community, and provide community programming; computers with business productivity software and Internet access; free Internet access via Wi-Fi; individual and group meeting and collaboration space; specialized learning tools such as discovery rooms and early literacy digital learning workstations; materials and staff assistance available in multiple languages; and other services.

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 25 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 (FY09 through FY13) the Department transferred \$139.89 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 420 parks in the Montgomery Parks system, 313 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 components include fire suppression, emergency medical services, emergency communications, apparatus management, fire code compliance, fire and explosive investigations, community outreach, training and administration. The department is comprised of approximately 2,150 personnel, including 1,150 career uniformed employees, 100 civilian employees, 900 call active volunteers and 19 Local Fire and Rescue Departments. MCFRS operates 36 fire and rescue stations and 7 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. The new Germantown-Kingsview station opened in 2009 and the Germantown-Milestone station opened the following year. A newly constructed station in Travilah is scheduled to open in January 2014. In addition to building new stations, 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, in November 2013, a replacement station for Wheaton Rescue Squad opened near the location of the old station. In 2014, work is scheduled to begin on a replacement for the fire station in Glenmont. In subsequent years, an addition to the Kensington station is planned. 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 1,237 sworn officers and 666 civilian staff for a total complement of 1,903 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 2nd and 3rd police districts are scheduled to be replaced. The current County Animal Shelter has been replaced with a state-of-the-art facility 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 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 521 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 Council has approved Executive Regulation 7-12 which sets a new recycling goal for the County to recycle 70 percent of waste generated by 2020. The regulation specifies that the County will adopt the State of Maryland methodology per the Maryland Recycling Act to measure the County's recycling, and will include the Source Reduction Credit used to calculate the Waste Diversion Rate. As of July 1, 2013, the program included County-provided separate curbside collection from approximately 212,496 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 FY13, the County collected \$3.085 million in MRF material sales revenue that includes \$1.757 million in plastics sales revenue, \$1.376 million in metal sales revenue, and \$18,162 in recycled textiles sales revenue. Additionally, we collected \$1.158 million in other recycled metal sales revenue, \$43,218 in electronic recycling sales revenue, and \$40,026 in battery recycling sales revenue. The MRF now separates bulky rigid plastics and PET thermoform plastics. We began acceptance of bulky rigid plastics September 2013 and PET thermoform plastics since June 2012. 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 NRG Energy, Inc. 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, bypass, 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 78 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 FY13, approximately 26.6 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 14.5 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 service 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 FY13, the four districts collectively had in service 20 garages with approximately 16,021 parking spaces, 22 surface lots with 1,558 spaces, and 2,407 on-street metered spaces.

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OTHER SERVICES

Transportation Services

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 2012 the airport served approximately 19.7 million passengers on commercial, general aviation and commuter flights, a 4.8 percent increase from 2011. Reagan National far exceeded the industry average growth rate of 0.8 percent for passengers. The airport's popularity is fueled by its proximity to Washington, D.C. and its convenient access to Metrorail. In fact, Reagan National's Metrorail station has the highest usage of any airport rail stop in the country.

Dulles International Airport is located in adjacent Fairfax/Loudoun counties in Virginia and offers commercial, general aviation and commuter service. Dulles served 22.6 million passengers in 2012, a 2.6 percent decrease from 2011. This decrease is attributable to the capacity adjustments resulting from 2011's United Airlines – Continental Airlines merger and the shift of some domestic flights to Reagan National. The 16-mile Dulles Access Highway provides two dedicated lanes in each direction and a direct connection to Interstate 66 and the Capital Beltway. The Dulles Metrorail Phase I from East Falls Church to Wiehle Avenue in Reston is expected to open in January 2014 and Dulles Metrorail Phase II from Wiehle Avenue to Dulles and beyond to Ashburn, Virginia progressed with the completion of preliminary engineering. Furthermore, the Dulles Toll Road Infrastructure was improved. These transportation connections are expected to greatly improve transportation for the region.

Baltimore-Washington International Thurgood Marshall Airport (BWI) is located in Anne Arundel County, Maryland. Approximately 22.68 million passengers used the airport in 2012, an increase of 1.3% percent over 2011. On July 12, 2013, Governor O'Malley announced a \$125 million three-year capital investment plan to enhance airport security. Also, BWI is currently working to complete a series of improvements near the center of the Airport terminal.

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. The opening of the first phase of the Silver Line in Virginia between West Falls Church and Reston Virginia is expected in early 2014.

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 and Commuter Bus

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

Water and Sewer Service

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 FY14 approved operating budget for WSSC totals \$698.8 million; the approved capital budget totals \$742.2 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 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 December 2014. 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 Water's conveyance facilities. Rockville is allocated 9.31 MGD of treatment capacity of WSSC's 170 MGD capacity at Blue Plains. The approved FY14 Operating Budget for Rockville totals \$12.0 million for the water fund and \$10.5 million for the sewer fund. The approved FY14 Capital Budget for Rockville totals \$12.2 million for the water fund and \$13.7 million for the sewer fund.

Rockville initiated water system upgrades and rehabilitation projects in FY09 including the systematic replacement of one percent of the approximately 175-mile water distribution system every year to help reduce the frequency of water main breaks, increase water flow for fire protection and improve overall water quality. This water main rehabilitation project accounts for \$3.6 million in capital projects for the water distribution system in FY14. 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 groundwater into the system. Rockville invested \$3.7 million in capital projects for the wastewater collection system in FY14.

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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 2015. 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. In 2013 the Town received a \$2.6 million loan to complete this effort. The Town's approved water and sewer operating budget in FY14 is just over \$1 million, while the planned CIP budget is \$297,000.

Utilities

The County is served by three electric distribution utilities the Potomac Electric Power Company (Pepco), Potomac Edison, and Baltimore Gas and Electric. In addition, Washington Gas and Light Company provide natural gas service, accessible to all major commercial and industrial corridors.

Both electricity and natural gas are deregulated and customers are free to choose from over two dozen suppliers to reduce costs or stabilize utility budgets. In addition, customers may opt for electricity supplied by clean energy sources such as solar or wind to voluntarily reduce the environmental impact of energy consumption.

Montgomery County utility customers also benefit from incentive programs created by the EmPower Maryland Act (Md. Public Utility Companies Code § 7-211) which directs all three electric utilities serving the County to offer incentive programs to help consumers reduce energy costs. These programs collectively provide incentives for a wide array of energy efficiency improvements allowing customers to limit exposure to utility costs by reducing consumption.

Financial Institutions

The State of Maryland is home to 125 FDIC insured financial institutions, which in turn operate 1,724 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 25 percent of the market. The County's financial institutions are comprised of 30 commercial banks, with 301 branch locations and five savings institutions with 14 branch locations. In addition to these FDIC institutions, the County has 17 national credit unions with an estimated \$2.1 billion in share deposits and a membership base of 231,571.

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Table 37
Summary of Market Share by Location
As of June 30, 2013

<u>City/County</u>	<u>Number of Branch Offices</u>	<u>Deposits</u>	<u>Market Share</u>
Montgomery	315	\$30,784,207	25%
Baltimore City	120	24,452,767	20
Baltimore	261	15,912,011	13
Anne Arundel	180	10,534,613	9
Prince George's	170	8,408,511	7
Howard	85	5,533,336	5
Frederick	84	4,008,610	3
Carroll	57	3,279,572	3
State Total	1,724	\$121,259,543	-

Table 38
FDIC Institutions Market Share
Montgomery County
As of June 30, 2013

<u>Institution Name</u>	<u>Number of Branch Offices</u>	<u>Deposits (000)</u>	<u>Market Share</u>
Capital One, N.A.	59	\$ 7,782,610	20.82%
Bank of America, N.A.	33	4,845,030	16.62%
SunTrust Bank.	37	4,006,642	12.75%
Wells Fargo Bank , N.A.	16	2,530,472	8.83%
Sandy Spring Bank	21	1,778,111	5.96%
EagleBank	7	1,597,703	5.14%
M & T Trust Company	27	1,406,633	4.91%
Citibank, N.A.	9	1,230,417	4.48%
PNC Bank, N.A.	28	1,226,014	4.00%
BB & T Company	17	900,410	3.01%
Subtotal	254	\$26,636,923	86.53%
All others	61	4,147,284	13.47%
Montgomery County Totals	315	\$30,784,207	100.00%

Source: FDIC Summary of Deposit Market Share Report for the State of Maryland

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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 Rockville, and MedStar Montgomery Medical Center in Olney. There is also a free-standing Shady Grove Adventist Emergency Center in Germantown with 21 emergency treatment beds. In addition, a military hospital, Walter Reed National Military Medical Center (a consolidation of the National Naval Medical Center and Walter Reed Army Medical Center), 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 Holy Cross Germantown Hospital is expected to open in 2014. On October 4, 2013 Adventist HealthCare applied to the Maryland Health Care Commission for a certificate of need for the construction of a replacement hospital facility to be located in the White Oak area of Silver Spring. This would be a relocation of most of the services of the Washington Adventist Hospital, while maintaining certain services at the current Takoma Park campus.

Higher Education

The 2012 American Community Survey 1-Year Estimates indicated that County residents, on average, are highly educated. County residents 25 years old or over completing four or more years of college was 56.9 percent according with the 2012 survey. Advanced degrees are held by 30.6 percent of the adult population. While high school graduates account for 91.1 percent of the County population aged 25 and over, an increase of .09 percent from 90.3 percent in 2000.

There are numerous colleges and universities offering degrees in various disciplines in and around Montgomery County. Many 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

<u>College</u>	<u>Student Enrollment</u>
American University, Washington, DC	13,165
Catholic University, Washington, DC	6,838
George Washington University, Washington, DC	25,000
Georgetown University, Washington, DC	15,318
Hood College, Frederick, MD	2,393
Howard University, Washington, DC	10,583
Johns Hopkins University, Baltimore, MD	13,660
Montgomery College, 3 campuses in County (2-year)*	27,453**
University of Maryland, College Park, MD	37,272

* Articulation agreements with 4-year institutions are available.

** Excludes enrollment in workforce development and continuing education classes.

Note: Most current data available for each institution.

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Travel and Tourism

According to the most recent report released (2012) by Tourism Economics, an Oxford Economics Company, the tourism industry in Montgomery County generated \$1.63 billion in expenditures in 2012 up from \$1.62 billion in 2011, or a 1% increase. Local room rental transient tax (7% levied) collections generated \$18,850,674 in FY13, up 4.2% from FY12. Lodging occupancy for 2012 was 64.4% which was down from 65.1% in 2011. The hotel average daily rate was \$122.65 in 2012, down slightly from the 2011 rate of \$123.06 per day. Montgomery County welcomed 3 million overnight visitors in 2012 and 4.2 million day trip visitors. In FY13, Tourism Sales Tax Code Collections were down -0.8% from FY 2012.

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 the entire hospitality community, the CVB 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, and 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 sporting events hosted at signature facilities like the Maryland SoccerPlex and Discovery Sports Center, Congressional Country Club, and other Maryland National Capital Park and Planning facilities. Marketing support is also provided for special events like the Silver Spring Jazz Festival, Heritage Days as well as special events held year-round like the AFI DOCS Film Festival.

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APPENDIX A

BASIC FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

The Honorable County Council
of Montgomery County, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montgomery County, Maryland (the County), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montgomery County, Maryland as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Arlington, Virginia
December 20, 2013

Management's Discussion and Analysis

INTRODUCTION

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

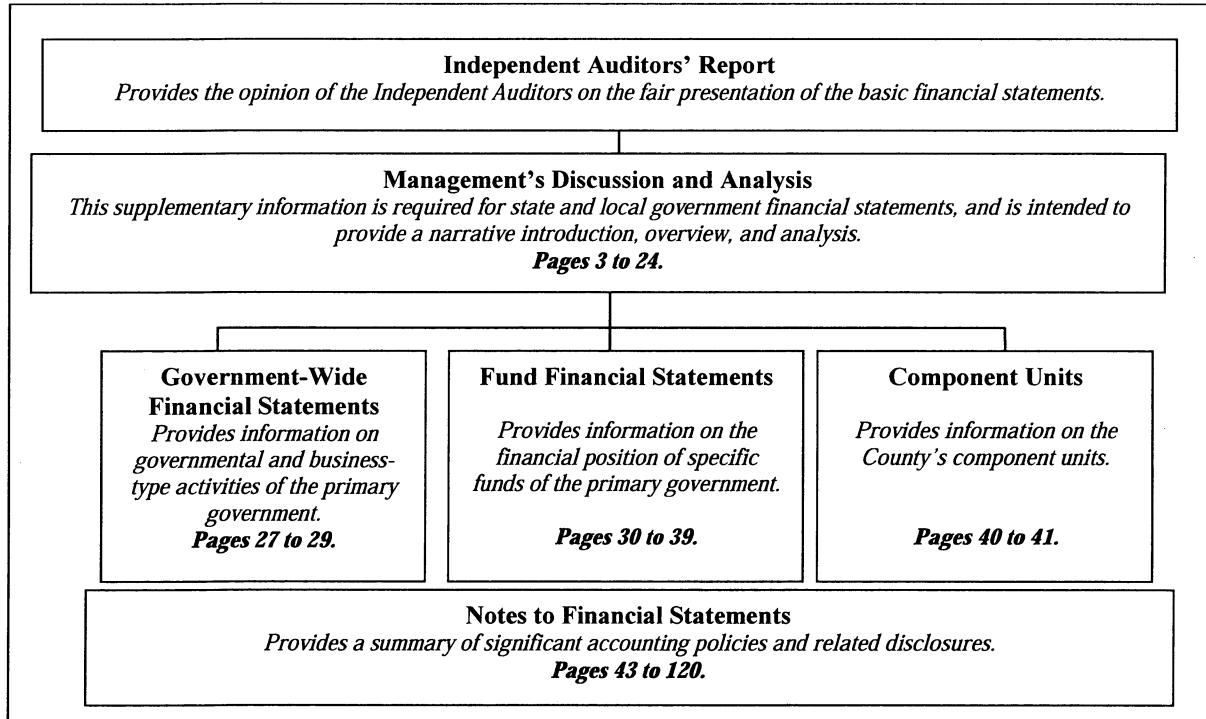
FINANCIAL HIGHLIGHTS

- The government-wide assets and deferred outflows of the County exceeded its liabilities at the close of FY13 by \$1,417.3 million. That amount is net of a \$1,097.4 million unrestricted deficit. The deficit occurs mainly because the County issues debt to fund construction costs for Montgomery County Public Schools (MCPS) and Montgomery College (MCC), two of its component units, and for Maryland-National Capital Park and Planning Commission (M-NCPPC), a joint venture. Debt outstanding for these entities amounted to \$1,471.3 million at June 30, 2013. Absent the effect of this relationship, the County would have reported government-wide unrestricted net position of \$373.9 million.
- The County's total government-wide net position increased by \$94.4 million.
- As of the close of FY13, the County's governmental funds reported combined ending fund balances of \$801.1 million; an increase of \$45.4 million over the prior year's ending fund balances. Of the total ending fund balances, \$234.9 million is available for spending at the County's discretion.
- At the end of FY13, unassigned fund balance for the General Fund was \$238.9 million, or 9.3 percent of total General Fund expenditures.
- The County's government-wide long-term debt and obligations increased by \$201.0 million during FY13. The key factors in this increase are:
 - The issuance of \$352.5 million in general obligation (GO) bonds, used to refund \$326.0 million in bond anticipation notes (BANS), and the issuance of an additional \$326.0 million in BANS
 - Net increase in Other Postemployment Benefits obligation of \$48.3 million
 - The retirement of \$164.3 million in GO bond principal.
 - Revenue Bonds were issued in the amount of \$43.3 million for Water Quality Protection.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Organization and Flow of Financial Section Information



Government-Wide Financial Statements

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

The first government-wide statement - the statement of net position- presents information on all of the County's assets, deferred outflows, liabilities, and deferred inflows, with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. Additionally, nonfinancial factors, such as a change in the County's property tax base or the condition of County facilities and infrastructure, should be considered to assess the overall health of the County.

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

The government-wide financial statements include not only the County itself (known as the Primary Government), but also legally separate entities known as Component Units. Component units, which are other governmental units

over which the County Council can exercise influence and/or may be obligated to provide financial subsidy, are presented as a separate column in the government-wide statements and as individual activities in the basic and fund financial statements. The County has five component units – Montgomery County Public Schools (MCPS), Housing Opportunities Commission (HOC), Montgomery College (MCC), Montgomery County Revenue Authority (MCRA), and Bethesda Urban Partnership, Inc. (BUPI).

Fund Financial Statements

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

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 five major governmental funds – General, Debt Service, 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 Position

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

Summary of Net Position *						
June 30, 2013 and 2012						
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets:						
Current and other assets	\$ 1,619,781,091	\$ 1,535,312,047	\$ 216,412,383	\$ 211,399,140	\$ 1,836,193,474	\$ 1,746,711,187
Capital assets, net	3,561,334,107	3,352,484,513	268,523,855	254,668,972	3,829,857,962	3,607,153,485
Total Assets	5,181,115,198	4,887,796,560	484,936,238	466,068,112	5,666,051,436	5,353,864,672
Liabilities:						
Long-term liabilities outstanding	3,780,160,937	3,574,662,183	115,002,675	119,427,445	3,895,163,612	3,694,089,628
Other liabilities	311,235,788	295,737,611	42,383,434	41,191,110	353,619,222	336,928,721
Total Liabilities	4,091,396,725	3,870,399,794	157,386,109	160,618,555	4,248,782,834	4,031,018,349
Net position:						
Net investment in capital assets	1,932,495,036	1,880,813,780	191,266,741	185,300,678	2,123,761,777	2,041,539,458
Restricted	296,564,191	502,059,858	94,329,133	93,254,622	390,893,324	595,314,480
Unrestricted (deficit)	(1,139,340,754)	(1,365,476,872)	41,954,255	26,894,257	(1,097,386,499)	(1,314,007,615)
Total Net Position	\$ 1,089,718,473	\$ 1,017,396,766	\$ 327,550,129	\$ 305,449,557	\$ 1,417,268,602	\$ 1,322,846,323
* Primary Government						

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

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

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

Statement of Activities

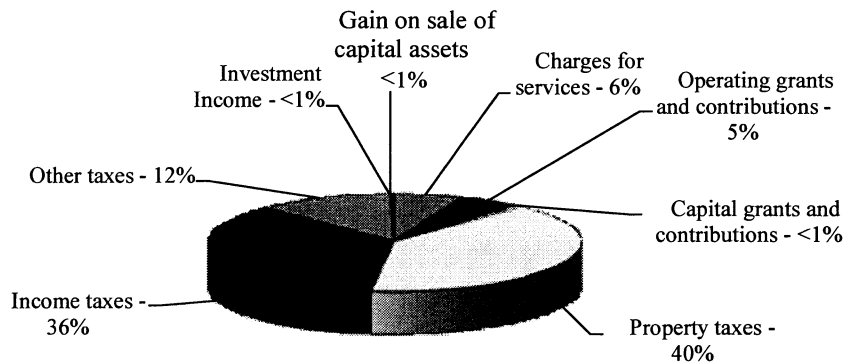
The following table summarizes the County's change in net position for the years ended June 30, 2013 and 2012:

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

Governmental Activities

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

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

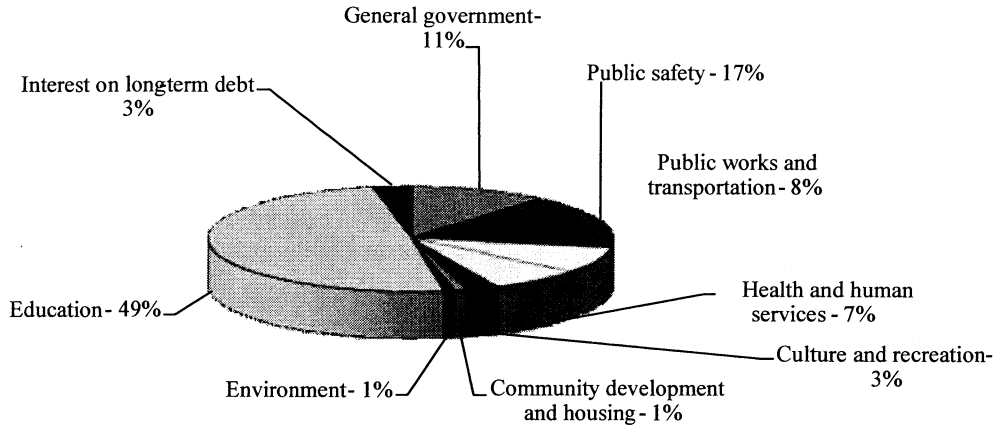


- Taxes constitute the largest source of County revenues, amounting to \$3,208.8 million for FY13.
- Property and local income tax combined comprise 75.8 percent of all County revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 3.2 percent of the State taxable income for calendar years 2013 and 2012. There is no local sales tax in the State of Maryland.
- Operating grants and contributions represent primarily grants from the Federal and State governments and State aid programs. The majority of such revenues are received to fund the following County programs: health and human services (\$105.2 million or 53.7 percent), public works and transportation (\$34.6 million or 17.7 percent) and public safety (\$37.5 million or 19.2 percent).

A more detailed discussion of the County's revenue results for FY13 as compared to what was budgeted can be found in the General Fund Budgetary Highlights section of this MD&A.

The cost of all governmental activities for FY13 was \$3,630.9 million. As the chart on the next page indicates, education constitutes the County's largest program and highest priority; education expenses totaled \$1,797.0 million. Public safety expenses totaled \$609.6 million, general government services totaled \$400.0 million, and Public Works and Transportation, the fourth largest expense for the County, totaled \$278.7 million.

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



For the Fiscal Years Ended June 30, 2013 and 2012						
	Expenses		Revenues		Net Cost of Services	
	2013	2012	2013	2012	2013	2012
Education	\$ 1,797,097,286	\$ 1,751,721,080	\$ -	\$ -	\$ 1,797,097,286	\$ 1,751,721,080
Public safety	609,565,746	600,877,545	84,302,734	70,831,963	525,263,012	530,045,582
General government	400,023,515	351,138,451	79,700,459	80,262,370	320,323,056	270,876,081
Public works and transportation	278,716,716	263,586,549	77,468,212	95,806,572	201,248,504	167,779,977
Health and human services	272,032,818	256,703,043	110,206,238	92,830,929	161,826,580	163,872,114
Culture and recreation	93,965,468	93,560,027	51,778,244	45,215,425	42,187,224	48,344,602
Other	179,575,983	191,137,661	33,369,468	40,165,385	146,206,515	150,972,276
Total	\$ 3,630,977,532	\$ 3,508,724,356	\$ 436,825,355	\$ 425,112,644	\$ 3,194,152,177	\$ 3,083,611,712

Of the total cost of governmental activities of \$3,630.9 million, \$436.8 million was paid by those who directly benefited from the programs (\$217.5 million) and other governments and organizations that subsidized certain programs with operating and capital grants and contributions (\$219.3 million). Of the \$3,194.1 million net cost of services, our taxpayers paid for these activities through County taxes which totaled \$3,208.8 million; also available to contribute towards such net costs were investment income and other contributions not restricted to a specific program.

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

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

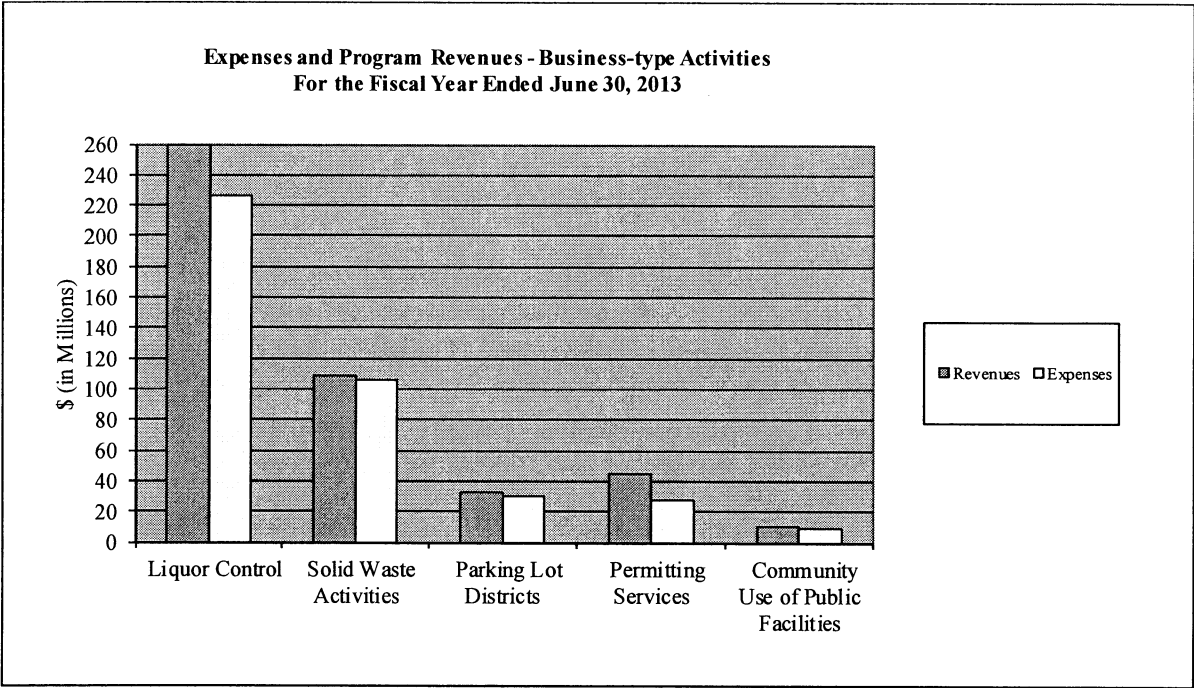
- Public Works and Transportation:
 - \$33.5 million decrease in public works and transportation resources primarily due to decreased capital grants and contributions
- General Government:
 - \$48.9 million increase in expenses due primarily to additional contributions to the County's consolidated retiree health trust
- Culture and Recreation:
 - \$6.5 million increase in culture and recreation revenues including a significant increase in operating grants and contributions

Business-type Activities

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

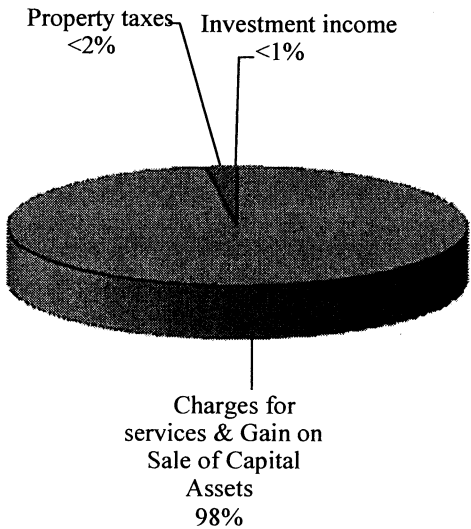
- Business-type activities experienced an increase in net position of \$22.1 million for FY13. This amount is reported after total net transfers out of \$44.7 million. The most significant components of the increase include:
 - \$7.4 million increase in net position related to liquor control; and
 - \$14.3 million increase in net position due to increase in fee revenue for licenses and permits.
- Charges for services to users comprise 97.8 percent of revenues, with \$259.3 million (56.9 percent of charges for services revenue) attributable to liquor control operations and \$108.8 million (23.9 percent) attributable to solid waste activities. The remaining charges for services are generated from operations relating to parking lot districts, permitting services, and community use of public facilities.
- Parking lot district property taxes of \$10.1 million is the second largest source of revenue at only 2.2 percent of total revenues.
- Investment income of \$0.05 million reflects an increase of \$0.009 million or 20.9 percent from FY12, primarily because of the increase in pooled cash and investments during the year.

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



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

Revenues by Source - Business-type Activities
For the Fiscal Year Ended June 30, 2013



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is valuable in assessing the County's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of FY13, the County's governmental funds reported combined ending fund balances of \$801.1 million, an increase of \$45.4 million from the end of FY12. Of the total ending fund balances, \$234.9 million constitutes the unassigned fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of \$566.1 million is unavailable for new spending because it has been reserved for prior period commitments and legal restrictions.

The General Fund is the primary operating fund of the County. At the end of FY13, the General Fund had \$238.9 million of unassigned fund balance and total fund balance was \$508.5 million. As a measure of the General Fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 19.9 percent of total General Fund expenditures.

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

The Housing Initiative Fund (HI) is used to account for the fiscal activity of financing, supplementing, and constructing affordable residential facilities for eligible participants. At the end of FY13, HI had a fund balance of \$230.7 million, which is entirely restricted for legal reasons. The HI fund balance represents an increase of \$37.8 million over FY12. Mortgage Receivables for this fund, which is a measure of its financing activities, increased \$24.4 million or 16.2 percent over FY12.

The Grants Fund is used to account for Federal and State grant-funded activities of the tax-supported General and special revenue funds. The Grants fund by design has no fund balance at the end of each fiscal year as revenues equal expenditures - that is, expenditures of this fund are either billable to one or more federal or state agencies or paid via a transfer from another County fund. The Grants fund received \$108.0 million in revenues for FY13. This is a \$5.4 million decrease over FY12.

The Debt Service Fund accumulates resources for the payment of general long-term debt principal, interest, and related costs. This fund does not maintain an unassigned fund balance; the restricted fund balance of \$6.3 million represents a debt service reserve account.

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

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

Proprietary Funds

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

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

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

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

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

General Fund Budgetary Highlights

Revisions to the General Fund expenditure original budget (excluding transfers) to arrive at the final budget amounted to \$13.5 million, which included County Council approved supplemental and special appropriations and the year-end County Council transfer and County Executive supplemental appropriations. Major components of the appropriation increases include the following:

- \$19.3 million increase in public works and transportation personnel and operating costs.
- \$5.4 million increase in general services to fund the clean-up costs of Super Storm Sandy.
- \$4.7 million decrease in health and human services personnel costs.

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

- Actual expenditures of \$1,023.1 million were \$13.2 million less than the final budget, which represents 1.2 percent of the final budget, and is attributable to savings achieved across numerous departments.
- Actual transfers to the Capital Projects Fund and component units for capital purposes were less than budgeted by \$49.6 million. This is due both to the multi-year nature of capital projects, and to time delays that can be encountered for certain projects.

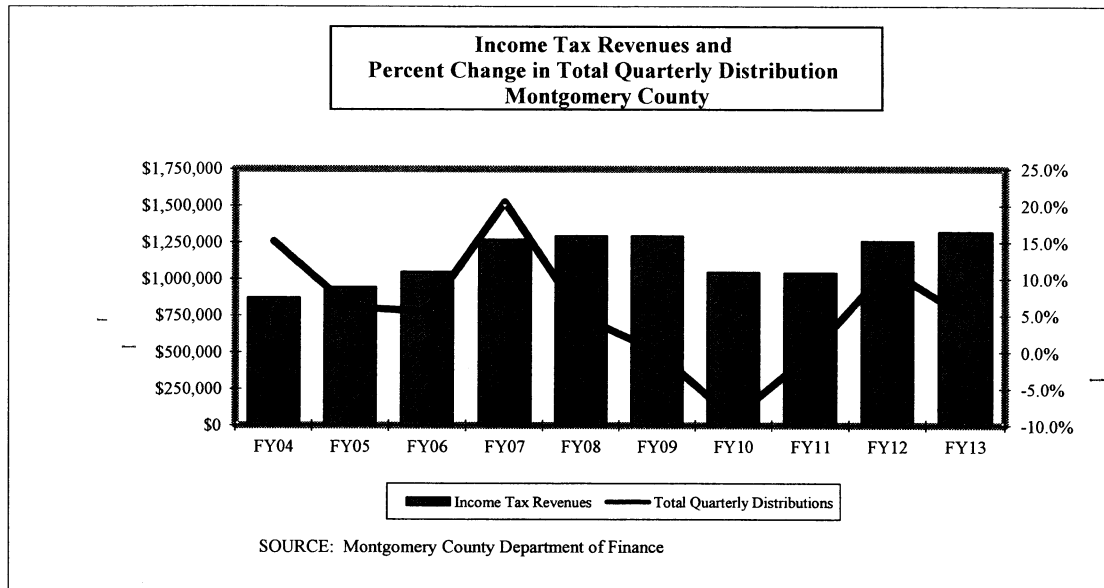
A more detailed comparison of final budget to actual figures for revenues is presented below:

Overview

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

Income Taxes

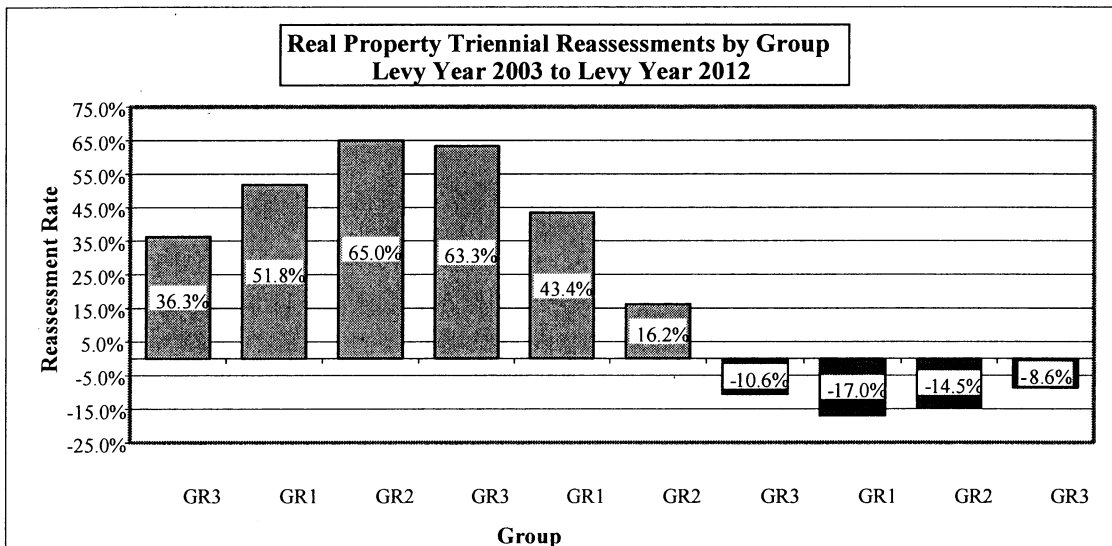
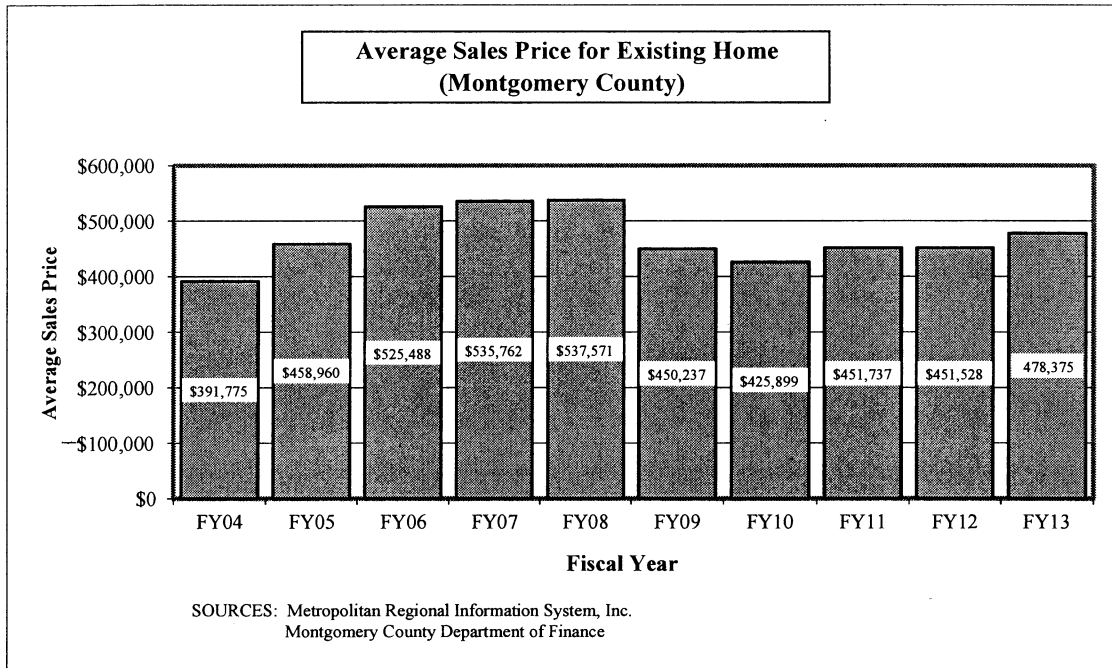
One of the largest revenue sources for the General Fund is the County income tax. Revenues from the income tax were \$1,317.5 million and represented 47.3 percent of actual tax revenues in FY13 and 45.5 percent of total actual revenues. The reliance on the income tax as a major source of revenue in recent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



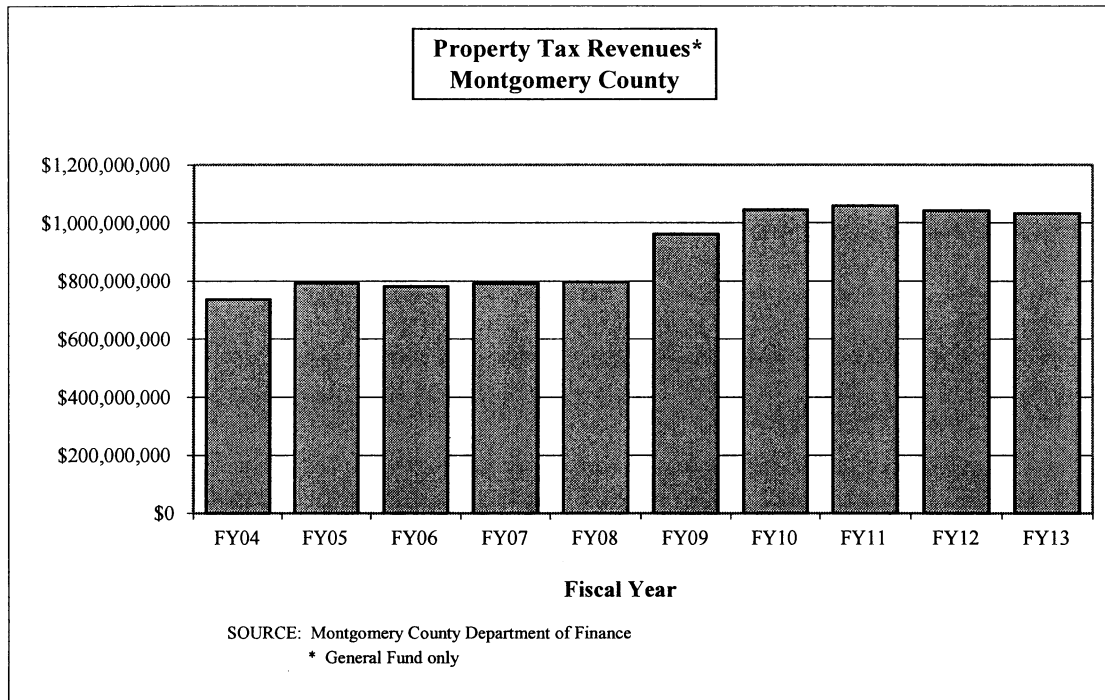
Property Taxes

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

The taxable assessments for real property decreased 2.4 percent from FY12 to FY13. This was the second consecutive decrease in over twenty-three years. New construction, which added \$1.408 billion to the base in FY13, was 140.4 percent higher than in FY12. The real estate market, particularly the annual double-digit price increases during fiscal years (FY03-FY06), fueled the dramatic increases in the triennial reassessment rates beginning with Group Three, which increased from 36.3 percent in levy year 2003 to 63.3 percent in levy year (LY) 2006 and for Group One triennial reassessments were 51.8 percent and 43.3 percent in levy years 2004 and 2007, respectively. With the average sales price for an existing home declining 16.2 percent in FY09 and 5.4 percent in FY10, the reassessment rate for Group Two declined from 65.0 percent for LY05 to 16.2 percent for LY08, the rate for Group Three declined from 63.3 percent for LY06 to -10.6 percent for LY09, and the rate for Group One declined from 43.4 percent in levy year 2007 to -17.0 percent in levy year 2010. With the dramatic decline in average sales prices, the triennial reassessment rate for Group Two declined from 16.2 percent to -14.5 percent for LY11 and declined again for Group Three in LY12 (↓8.6%).



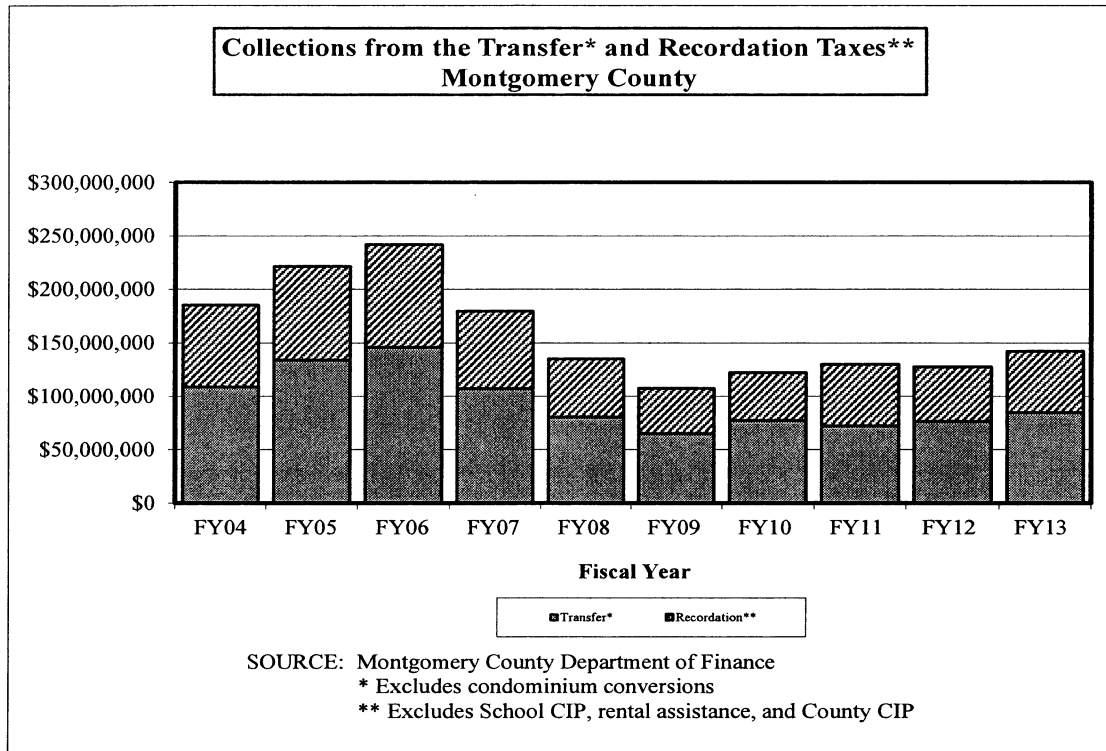
However, the homestead tax credit limits annual increases in homeowners' taxable assessments to 10 percent per year although other taxable assessments such as commercial and investment residential properties are not limited by this credit. While there was a dramatic decrease in the reassessment rates for Groups One, Two and Three over the past four levy years, the remaining amount of the credit added \$229.4 million to the assessable base in FY13 down from \$729.0 million in FY12.



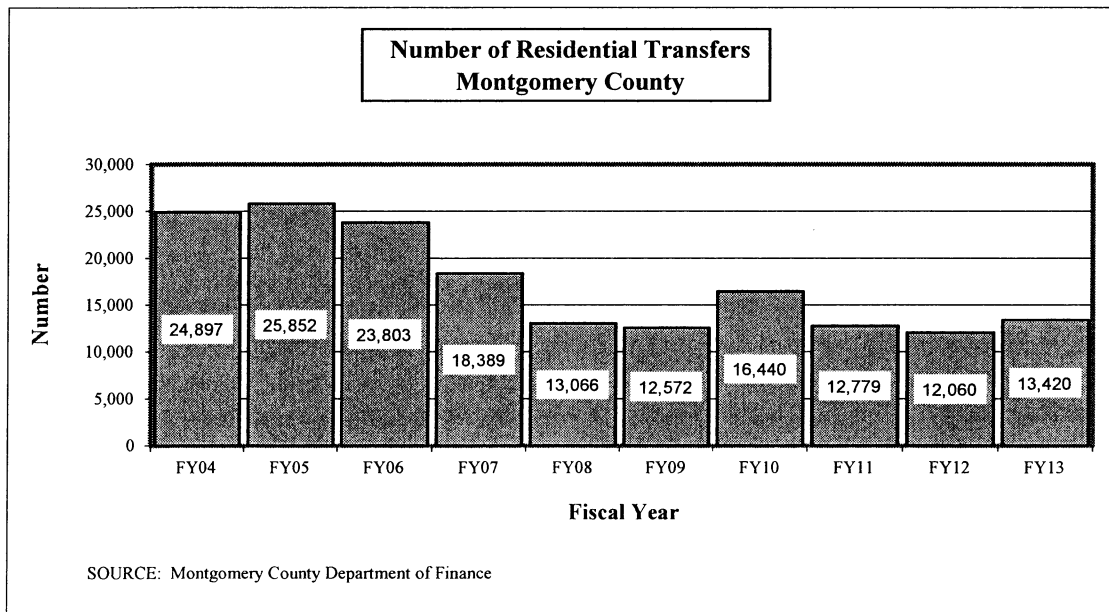
Assessments of personal property increased 0.6 percent in FY03, but declined 6.2 percent in FY04 primarily due to weaknesses in all three categories: individual, public utility, and corporate. Unfortunately, there was no rebound in the subsequent years as illustrated by a 1.5 percent decline in FY05, and another 1.8 percent decline in FY06. The declines in FY05 and FY06 were attributed to adjustments to individual personal property undertaken by the Maryland State Department of Assessments and Taxation (SDAT). Due to a rebound in personal property for public utilities, assessments increased 3.1 percent in FY07 and a modest 0.5 percent in FY08. However, because of declines in individual and corporate personal property and public utility tax assessments, total personal property assessments declined 1.3 percent in FY09 rebounding in FY10 (↑5.2%) attributed to increases in corporate and public utility assessments, but declined 6.5 percent in FY11 and declined 3.6 percent in FY12 to \$3.719 billion and declined in FY13 to \$3.605 billion attributed to declines in corporate and utility personal property. For the previous five fiscal years (FY08-FY12), taxable assessments for personal property averaged \$3.265 billion ranging from a low of \$3.719 billion in FY12 to a high of \$4.124 billion in FY10.

Transfer and Recordation Taxes

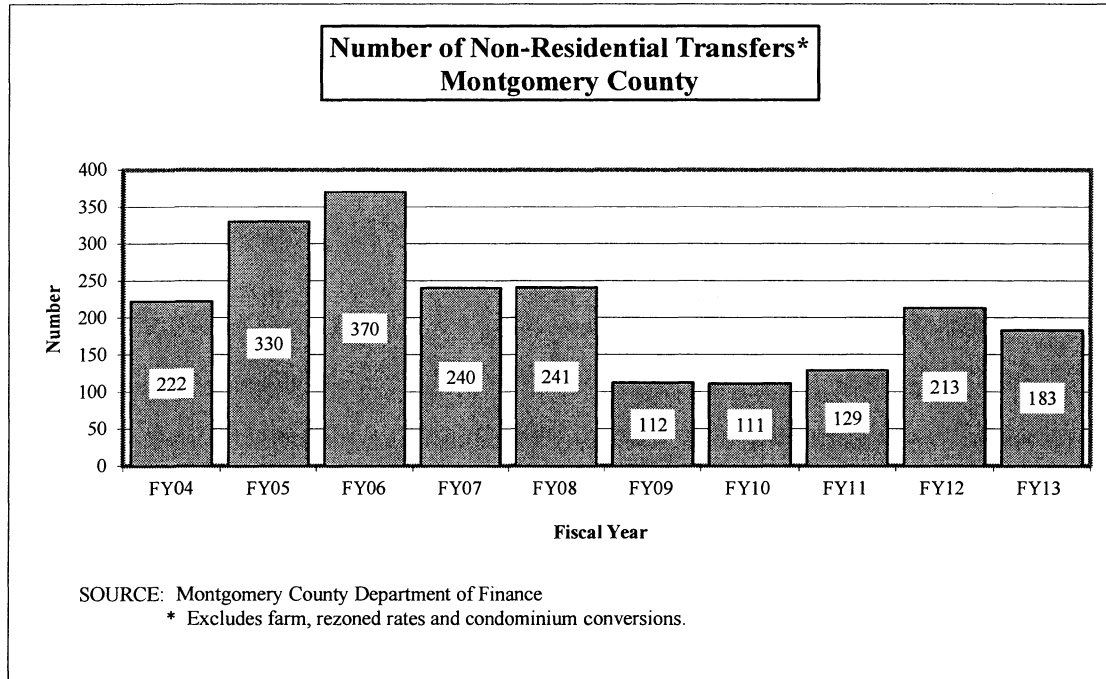
Another major tax revenue category in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources in FY13 were \$142.0 million (excluding recordation tax revenues earmarked for CIP funding of school construction, rental assistance, and CIP funding for the County; and transfer tax revenues from condominium conversions). With the increase in actual revenues in FY13, they were also 4.0 percent above the budget estimate. As the accompanying chart illustrates, the total amount collected from these taxes increased from \$185.2 million in FY04 to a peak of \$241.7 million in FY06, before declining to \$107.2 million in FY09. In FY10, taxes from the combined transfer and recordation taxes rebounded to \$122.0 million, increased to \$129.5 million in FY11, declined to \$127.3 million in FY12, then increased to \$142.0 million in FY13.



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



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



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

In the General Fund, actual investment income increased from \$12,224 in FY12 to \$66,215 in FY13 (↑441.7%) but was approximately \$186,000 lower than the budget estimate (↓73.8%). The dramatic decrease in FY13 over the budget estimate was the result of a continued accommodative policy of the Federal Open Market Committee (FOMC) of the Federal Reserve that reduced interest rates beginning in September 2007. From that time to December 2008, the FOMC decreased the target interest rate for federal funds from 5.25 percent to a range of between 0.00 and 0.25 percent – a decline of 500-525 basis points and remained at that historic low level throughout FY13. The justification for such a decrease was the significant global credit crisis that began in August 2007, the subsequent economic recession that ended in June 2009, and the European Community financial crisis of CY12, and the FOMC's monetary policy of stimulating investment and reducing the national unemployment rate. Because of this low level of interest rates during FY13 short-term or money market rates remained at historic low levels as well, hence the average yield on cash equity for the County decreased from 0.22 percent in FY10, to 0.10 percent in FY11, to 0.02 percent in FY12, but increased slightly to 0.16 percent in FY13. With the decrease in investment income coupled with a spending restraint, the average daily portfolio balance decreased from \$187.9 million in FY12 to \$121.8 million in FY13.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

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

Capital Assets, Net of Depreciation June 30, 2013				
	Governmental Activities	Business-type Activities	Total FY13	Total FY12
Land	\$ 799,206,085	\$ 59,639,134	\$ 858,845,219	\$ 855,290,969
Buildings	402,730,380	124,469,660	527,200,040	548,324,150
Improvements other than buildings	28,633,396	39,562,039	68,195,435	67,186,206
Furniture, fixtures, equipment and machinery	47,225,157	10,333,544	57,558,701	59,353,357
Leasehold improvements	6,163,085	-	6,163,085	6,638,513
Automobiles and trucks	100,671,107	691,656	101,362,763	118,729,667
Infrastructure	1,130,041,230	10,476	1,130,051,706	1,132,858,197
Other assets	33,472,612	-	33,472,612	37,613,553
Construction in progress	1,013,191,055	33,817,346	1,047,008,401	781,158,873
Total	\$ 3,561,334,107	\$ 268,523,855	\$ 3,829,857,962	\$ 3,607,153,485

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

Change in Capital Assets For the Fiscal Year Ended June 30, 2013				
	Governmental Activities	Business-type Activities	Total FY13	Total FY12
Beginning Balance	3,352,484,513	254,668,972	3,607,153,485	\$ 3,453,673,692
Additions*	299,871,790	27,815,696	327,687,486	260,085,048
Retirements, net*	6,372,137	64,913	6,437,050	3,793,075
Depreciation expense	84,650,059	13,895,900	98,545,959	102,812,180
Ending Balance	\$ 3,561,334,107	\$ 268,523,855	\$ 3,829,857,962	\$ 3,607,153,485
* Presented net of transfers from construction in progress; retirements are also net of related accumulated depreciation.				

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

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

- The Equipment Maintenance and Operations Center project accumulated \$45.86 million dollars in cost this fiscal year. The major components of the project consist of constructing administrative buildings for Transit Services, Fleet Management, Highway Services, developing a parking area for 200 buses, and construct a compressed natural gas fast-fill station.
- The Animal Services and Adoption Center project accumulated \$13.34 million dollars in cost this fiscal year. This project provides for the design and construction of a new animal shelter. The new shelter will replace the existing animal shelter, which currently does not meet operational needs.

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

Long-Term Debt:

The following is a summary of the County's gross outstanding long-term debt as of June 30, 2013:

Long-Term Debt June 30, 2013				
	Governmental Activities	Business-type Activities	Total FY13	Total FY12
General obligation bonds	\$2,149,825,000	\$ -	\$2,149,825,000	\$1,997,290,000
Variable rate demand obligation	100,000,000	-	100,000,000	100,000,000
Bond anticipation notes	500,000,000	-	500,000,000	500,000,000
Revenue bonds	76,711,610	81,653,390	158,365,000	128,940,000
Lease revenue bonds	31,240,000	-	31,240,000	33,100,000
Leases and Notes payable *	49,745,063	1,976,348	51,721,411	59,537,476
Certificates of participation	30,675,000	-	30,675,000	37,420,000
Capital leases	20,130,000	-	20,130,000	46,530,000
Taxable Ltd. Obligation Certificates	54,170,000	-	54,170,000	56,265,000
Compensated absences	70,745,510	5,436,291	76,181,801	79,650,557
Other Postemployment Benefits	425,092,824	3,965,222	429,058,046	380,693,812
Claims payable self-insurance	141,713,632	-	141,713,632	138,197,027
Claims and judgements	-	-	-	1,976,921
Landfill closure costs	-	17,329,214	17,329,214	16,999,682
Total	\$3,650,048,639	\$ 110,360,465	\$3,760,409,104	\$3,576,600,475
*Lease and Notes payable include equipment notes, HUD loan, WSSC note, ERP and Safety Equipment.				

At June 30, 2013, the County had outstanding general obligation (GO) bonds of \$2,149.8 million, with outstanding variable rate demand obligations (VRDOs) of \$100 million and bond anticipation notes (BANs) of \$500 million. Over the last ten years, the County issued its GO bonds once a year, with the exception of FY08, when no GO "new money" bonds were issued. The County adopted a policy in 1988 of initially financing capital construction with BANs. BANs are subsequently paid off by the issuance of the County's GO bonds. Montgomery County also issues bonds to finance the capital construction of MCPS, MCC, and M-NCPPC not otherwise financed by the State of Maryland. Since FY02, the County sold general obligation bond issues, exclusive of refundings, of up to \$325 million. Over the last ten fiscal years, the County's annual issues (including the June 2006 issue of \$100 million of VRDOs) averaged \$230 million.

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

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

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

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

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 FY13 were:

- Taxable Lease Revenue Refunding Bonds - the County issued a Purchase Agreement totaling \$8.4 million to advance refund outstanding taxable lease revenue refunding bonds for the Montgomery County Conference Center.
- General Obligation Bonds and Refunding Bonds - In October 2012, the County's annual general obligation bond issue was in the amount of \$295 million. The proceeds of this bond issue were used to pay off an equivalent amount of the County's BANs, which funded capital expenditures for transportation, education, and other County facilities. Concurrent with this annual bond sale, the County issued \$23.7 million of general obligation refunding bonds to refund outstanding County bonds for debt service savings.
- Bond Anticipation Notes (BANs) - Over the course of FY13, the County issued \$326.8 million in BANs and retired \$326.8 million with general obligation bond proceeds.
- Additional information pertaining to the County's long-term debt can be found in Notes to Financial Statements, Notes I-D7, III-E3, and III-F.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following economic factors are reflected in the County's FY14 budget with updates based on revised economic data subsequent to the approval of the County's budget:

- Montgomery County's economic performance improved during year (FY13). The major reasons for the improvement were a modest decrease in the unemployment rate, an increase in employment – both resident (labor force series) and payroll employment (establishment series), and an increase in the median prices for existing homes. Residential construction also picked up in FY13. The County's economic projections in the FY14 budget assume a mixed economic performance in FY14 with the County continuing to experience an elevated unemployment rate in calendar year (CY) 2013 but a modest revised increase (↑1.1% in CY13) in total resident employment.
- During the past thirteen years (CY00 – CY12), total payroll employment in Montgomery County, which is based on the survey of establishments, experienced three distinct cycles: modest growth from CY00 to CY06 at an average annual rate of 0.6 percent, a decline from CY06 to CY10 at an average annual rate of 0.9 percent, and an increase at a revised average annual rate of 0.9 percent from CY10 to CY12. The Department of Finance estimates that total payroll employment is expected to increase 1.2 percent in CY13.
- Resident employment in the County, which is based on a survey of County households, provides a slightly different picture of employment growth. For example, resident employment grew at an average annual rate of 0.9 percent between CY00 and CY06 (compared to the 0.6 percent for payroll employment). Between CY06 and CY10, resident employment in the County experienced a decrease at an annual rate of 0.4 percent while payroll employment declined at an annual rate of 0.9 percent. On a calendar year basis, resident employment in Montgomery County increased a revised 1.4 percent in CY11 and a revised 1.0 percent in CY12. Resident employment is expected to increase a revised 1.1 percent in CY13.
- The employment projection in the FY14 budget assumes that personal income will increase 2.6 percent in CY13 and 5.5 percent in CY14 and per capita income will increase 1.8 percent in CY13 and 4.7 percent in CY14. Income data for CY13 and CY14 are based on estimates derived by the Department of Finance.
- The estimated increase in employment and an estimated increase of 2.6 percent in personal income in CY13 are offset by the current elevated unemployment rate thereby reflecting a mixed performance in the County's economy.
- The Federal Open Market Committee (FOMC) of the Board of Governors of the Federal Reserve System is expected to maintain the targeted federal funds rate within the target range of 0.00-0.25 percent through CY14 – based on the policy statement of the FOMC dated July 31, 2013. Because of that policy by the FOMC, the County's budget projections include only a modest increase in the yield on its investments from 0.16 percent in FY13 to 0.19 percent in FY14.
- Inflation, as measured by the Consumer Price Index, is expected to increase 2.32 percent in FY14.
- As part of the State of Maryland's Budget Reconciliation and Financing Act of 2012, the State of Maryland (State) required Counties to appropriate in local school board's operating budgets in FY13-16, a set amount above the maintenance of effort level of funding. The local school boards were required to use this additional amount of funding to pay to the State for the normal costs of teacher pensions in those years. In FY17 the calculation of the local maintenance of effort will include the FY16 amount for the normal cost of

retirement for all qualifying employees. The State authorized certain additional revenues to offset the impact of this new obligation to contribute toward the pension cost of qualifying employees. In FY13, the County's contribution for school pensions was \$27.2 million.

OTHER SIGNIFICANT MATTERS

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

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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

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

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

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

Functions	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities				
General government	\$ 400,023,515	\$ 67,955,551	\$ 4,746,333	\$ 6,998,575
Public safety	609,565,746	44,887,666	37,548,290	1,866,778
Public works and transportation	278,716,716	31,024,303	34,642,383	11,801,526
Health and human services	272,032,818	4,976,188	105,230,050	-
Culture and recreation	93,965,468	37,693,903	12,344,981	1,739,360
Community development and housing	37,821,686	7,882,996	738,299	1,008,236
Environment	28,913,062	23,115,938	623,999	-
Education	1,797,097,286	-	-	-
Interest on long term debt	112,841,235	-	-	-
Total Governmental Activities	<u>3,630,977,532</u>	<u>217,536,545</u>	<u>195,874,335</u>	<u>23,414,475</u>
Business-type Activities				
Liquor control	225,759,582	259,327,227	-	-
Solid waste disposal and collection	106,039,038	108,780,916	-	-
Parking lot districts	30,321,385	31,980,146	-	-
Permitting services	27,534,056	45,231,452	-	-
Community use of public facilities	9,533,241	10,555,506	-	-
Total Business-type Activities	<u>399,187,302</u>	<u>455,875,247</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 4,030,164,834</u>	<u>\$ 673,411,792</u>	<u>\$ 195,874,335</u>	<u>\$ 23,414,475</u>
Component Units:				
General government (BUPI)	\$ 4,471,400	\$ 4,311,405	\$ 218,782	\$ -
Culture and recreation (MCRA)	18,495,505	16,690,212	-	398,778
Community development and housing (HOC)	231,494,325	114,581,672	110,901,827	5,186,386
Education:				
Elementary and secondary education (MCPS)	2,516,248,649	28,777,818	112,121,707	67,675,374
Higher education (MCC)	288,337,005	76,977,267	15,171,127	319,724
Total Component Units	<u>\$ 3,059,046,884</u>	<u>\$ 241,338,374</u>	<u>\$ 238,413,443</u>	<u>\$ 73,580,262</u>
General Revenues:				
Property taxes				
County income taxes				
Real property transfer taxes				
Recordation taxes				
Fuel energy taxes				
Hotel-motel taxes				
Telephone taxes				
Other taxes				
Grants and contributions not restricted to specific programs				
Investment income				
Gain on sale of capital assets				
Transfers				
Total General Revenues and Transfers				
Change in Net Position				
Net Position - Beginning				
Net Position - Ending				

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

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

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

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

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

MONTGOMERY COUNTY, MARYLAND
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013
Exhibit A-4

Total fund balance - governmental funds (see Exhibit A-3) \$ 801,055,896

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental fund activities are not financial resources and therefore not reported in the funds:

Nondepreciable capital assets:

Land	\$ 799,183,579	
Construction in progress	1,012,499,753	

Depreciable capital assets:

Buildings	763,410,300	
Improvements other than buildings	51,417,703	
Furniture, fixtures, equipment and machinery	233,822,379	
Automobiles and trucks	170,626,963	
Infrastructure	1,745,897,233	
Other capital assets	43,489,147	

Total capital assets	4,820,347,057	
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Less accumulated depreciation	(1,280,429,655)	3,539,917,402
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Long-term liabilities related to governmental fund activities are not due and payable in the current period and therefore not reported in the funds:

General obligation bonds payable	(2,149,825,000)	
Variable rate demand obligations	(100,000,000)	
Bond anticipation notes payable	(500,000,000)	
Lease revenue bonds payable	(31,240,000)	
Accrued interest payable	(32,863,056)	
Capital leases payable	(20,130,000)	
Taxable limited obligation	(54,170,000)	
Certificates of participation	(30,675,000)	
Notes payable	(49,745,063)	
Revenue bonds	(76,711,610)	
Other postemployment benefits	(423,951,611)	
Compensated absences	(68,662,015)	(3,537,973,355)

Costs incurred from the issuance of long-term debt are recognized as expenditures in the fund statements, but are deferred in the government-wide statements:

Unamortized premiums	(157,787,372)	
Unrecognized amount on refunding	27,675,074	
Unamortized bond issuance costs	7,719,303	(122,392,995)

Internal service funds are used by management to provide certain goods and services to governmental funds. The assets and liabilities of internal service funds are included in the government-wide statement of net position:

Assets:

Current and non current assets	182,891,318	
Capital assets	79,767,331	
Less accumulated depreciation	(58,350,626)	

Liabilities	(159,675,816)	
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Cumulative gain/loss for certain activities of internal service funds that is reported with business-type activities	(319,748)	44,312,459
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Income taxes	282,781,321	
Property taxes	22,542,383	
Intergovernmental revenue	12,855,940	
Other revenue	46,619,422	364,799,066

Net position of governmental activities (See Exhibit A-1)	\$ 1,089,718,473
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MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
Exhibit A-5

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

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

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

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

Net change in fund balances - total governmental funds (see Exhibit A-5) \$ 45,370,552

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of these assets is allocated over their estimated
lives and reported as depreciation expense:

Capital outlay	\$ 296,596,760	
Depreciation expense	(78,495,159)	218,101,601

In the statement of activities, only the gain or loss on capital assets is reported. However,
in the governmental funds, all proceeds or losses are reported as financial resources.
Thus, the change in net position differs from the change in fund balance by the capital
assets value.

	(6,372,137)	(6,372,137)
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Donations of capital assets increase net position in the statement of activities but do not
appear in the governmental funds because they are not financial resources.

	4,795,380	4,795,380
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Some revenues will not be collected for several months after the fiscal year ends. As
such, these revenues are not considered "available" revenues and are deferred in the
governmental funds. Unearned revenues increased (decreased) this year, as follows:

Income taxes	(6,371,618)	
Property taxes	2,737,790	
Intergovernmental revenues	10,310,522	
Other revenues	6,996,618	13,673,312

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources
to governmental funds, while the repayment of the principal of long-term debt
consumes current financial resources of governmental funds. Neither transaction,
however, has any effect on net position. Also, governmental funds report the effect of
issuance costs, premiums, discounts, and similar items when debt is first issued,
whereas these amounts are deferred and amortized in the statement of activities:

Debt issued or incurred:

General obligation bonds	(352,574,598)	
Bond anticipation notes	(326,790,000)	
Notes payable	(367,569)	
Capital lease financing	(8,452,288)	
Revenue bonds	(43,313,155)	
Less issuance costs	729,095	

Principal repayments:

General obligation bonds	165,825,000	
Bond anticipation notes	326,790,000	
Taxable Limited Obligation Certificates	2,095,000	
Leases payable	1,903,000	
Capital leases	34,795,000	
Certificates of participation	6,745,000	
Notes payable	10,116,982	
Revenue bonds	2,388,500	(180,110,033)

Some expenses, representing the change in long-term liabilities or assets, reported in the
statement of activities do not require the use of current financial resources and,
therefore, are not reported as expenditures in governmental funds:

Accrued interest payable	2,714,101	
Compensated absences	3,404,165	
Other postemployment benefits	(48,364,234)	
Amortization	20,954,675	(21,291,293)

The current year gain for certain activities of internal service funds is reported with
governmental activities.

		(1,845,675)
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Change in net position of governmental activities (see Exhibit A-2)

	\$ 72,321,707	
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MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013
Exhibit A-7

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

Notes to Financial Statements are an integral part of this statement

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

	Business-Type Activities - Enterprise Funds					Governmental Activities- Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds	Totals	
LIABILITIES						
Current Liabilities:						
Accounts payable	13,333,382	3,958,029	2,018,399	391,238	19,701,048	8,509,879
Interest payable	-	-	328,706	-	328,706	-
Retainage payable	1,193,300	-	291,664	-	1,484,964	-
Deposits	536,292	-	273,078	9,506,645	10,316,015	-
Claims payable	-	-	-	-	-	37,366,897
Accrued liabilities	2,254,793	1,360,460	3,106,450	2,263,629	8,985,332	3,090,264
Due to other funds	275,549	132,299	49,789	306,615	764,252	4,359,920
Due to component units	-	-	655	724,237	724,892	-
Due to other governments	809,230	969,839	-	-	1,779,069	2,306
Equipment notes payable	257,112	-	-	-	257,112	298,909
Unearned revenue	4,618	-	-	2,724,494	2,729,112	36,049
Revenue bonds payable	1,370,128	-	2,100,000	-	3,470,128	-
Landfill closure costs	-	1,131,251	-	-	1,131,251	-
Other liabilities	-	-	411,514	-	411,514	-
Total Current Liabilities	20,034,404	7,551,878	8,580,255	15,916,858	52,083,395	53,664,224
Noncurrent Liabilities:						
Claims payable	-	-	-	-	-	104,346,735
Equipment note payable	1,626,452	-	-	92,784	1,719,236	-
Revenue bonds payable	32,601,966	-	50,223,506	-	82,825,472	-
Landfill closure costs	-	16,197,963	-	-	16,197,963	-
Compensated absences	480,493	259,327	81,332	537,921	1,359,073	523,643
Other postemployment benefits	1,838,263	477,232	229,800	1,419,926	3,965,221	1,141,214
Total Noncurrent Liabilities	36,547,174	16,934,522	50,534,638	2,050,631	106,066,965	106,011,592
Total Liabilities	56,581,578	24,486,400	59,114,893	17,967,489	158,150,360	159,675,816
NET POSITION						
Net investment in capital assets	19,368,164	39,972,235	131,725,191	201,151	191,266,741	21,117,796
Restricted for debt service	2,249,608	-	10,905,750	-	13,155,358	-
Unrestricted	14,032,891	39,055,089	44,368,294	25,991,504	123,447,778	23,514,411
Total Net Position	\$ 35,650,663	\$ 79,027,324	\$ 186,999,235	\$ 26,192,655	\$ 327,869,877	\$ 44,632,207
ADJUSTMENTS						
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(319,748)	
Net position of business-type activities					\$ 327,550,129	

Notes to Financial Statements are an integral part of this statement

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
Exhibit A-8

	Business-Type Activities - Enterprise Funds					Governmental Activities- Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds	Totals	
OPERATING REVENUES						
Sales - net	\$ 256,880,993	\$ -	\$ -	\$ -	\$ 256,880,993	\$ -
Charges for services	19,800	108,208,593	23,546,672	14,574,184	146,349,249	271,925,844
Licenses and permits	1,743,362	17,853	-	40,775,893	42,537,108	-
Fines and penalties	232,499	22,464	7,507,700	65,311	-	-
Claim recoveries	-	-	-	-	-	1,676,703
Total Operating Revenues	258,876,654	108,248,910	31,054,372	55,415,388	445,767,350	273,602,547
OPERATING EXPENSES						
Cost of goods sold	181,941,516	-	-	-	181,941,516	-
Personnel costs	25,227,365	13,023,931	4,165,434	23,379,203	65,795,933	25,203,087
Other post employment contributions	3,074,750	803,850	522,500	2,110,120	6,511,220	2,411,570
Postage	10,102	61,113	9,443	11,140	91,798	1,200,958
Self-insurance incurred and estimated claims	-	-	-	-	-	155,293,741
Insurance	704,059	754,460	21,610	149,420	1,629,549	6,764,313
Supplies and materials	401,729	1,027,399	366,396	611,874	2,407,398	30,848,960
Contractual services	1,761,188	85,538,060	6,541,625	4,621,703	98,462,576	11,982,203
Communications	464,209	167,682	213,251	256,162	1,101,304	617,808
Transportation	1,013,835	1,722,637	275,147	692,767	3,704,386	269,538
Public utility services	906,361	132,380	2,184,458	1,895,027	5,118,226	1,044,480
Rentals	6,436,345	21,096	1,330,285	2,509,013	10,296,739	1,826,010
Maintenance	443,722	260,982	2,508,703	596,201	3,809,608	12,278,895
Depreciation	1,547,073	1,693,169	10,603,482	52,176	13,895,900	6,154,900
Landfill closure expense	-	329,532	-	-	329,532	-
Other	374,372	332,194	7,983	126,742	841,291	96,549
Total Operating Expenses	224,306,626	105,868,485	28,750,317	37,011,548	395,936,976	255,993,012
Operating Income (Loss)	34,570,028	2,380,425	2,304,055	18,403,840	57,658,348	17,609,535
NONOPERATING REVENUES (EXPENSES)						
Property taxes	-	-	10,063,874	-	10,063,874	-
Gain (loss) on disposal of capital assets	(10,869)	5,446	(199)	-	(5,622)	96,220
Investment income	278	25,631	15,136	10,807	51,852	26,333
Interest expense	(1,442,087)	(170,553)	(1,570,869)	-	(3,183,509)	(11,367)
Miscellaneous	-	-	-	(55,749)	(55,749)	-
Other revenue	26,337	330,053	873,487	15,737	1,245,614	2,567,924
Insurance recoveries	-	23,881	2,949	-	26,830	374,278
Total Nonoperating Revenues (Expenses)	(1,426,341)	214,458	9,384,378	(29,205)	8,143,290	3,053,388
Income (Loss) Before Capital Contributions and Transfers	33,143,687	2,594,883	11,688,433	18,374,635	65,801,638	20,662,923
Transfers In (Out):						
Transfers in	-	-	71,674	125,000	196,674	1,597,958
Transfers out	(25,729,463)	(2,080,440)	(13,676,710)	(3,413,160)	(44,899,773)	(19,034,302)
Total Transfers In (Out)	(25,729,463)	(2,080,440)	(13,605,036)	(3,288,160)	(44,703,099)	(17,436,344)
Change in Net Position	7,414,224	514,443	(1,916,603)	15,086,475	21,098,539	3,226,579
Total Net Position - Beginning of Year	28,236,439	78,512,881	188,915,838	11,106,180	-	41,405,628
Total Net Position - End of Year	\$ 35,650,663	\$ 79,027,324	\$ 186,999,235	\$ 26,192,655	-	\$ 44,632,207
ADJUSTMENTS						
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					1,002,033	
Change in net position of business-type activities					\$ 22,100,572	

Notes to Financial Statements are an integral part of this statement

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
Exhibit A-9

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

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013
Exhibit A-10

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

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

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

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

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

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

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

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, 2013
Exhibit A-13

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

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

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MONTGOMERY COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A REPORTING ENTITY
- B GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
- C MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL
STATEMENT PRESENTATION
- D ASSETS, LIABILITIES, AND NET POSITION OR EQUITY
- E ACCOUNTING CHANGES

NOTE II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

- A BUDGETARY INFORMATION
- B DEFICIT FUND EQUITY
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NOTE III – DETAILED NOTES ON ALL FUNDS

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- B RECEIVABLES
- C CAPITAL ASSETS
- D INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS
- E LEASES
- F LONG-TERM DEBT
- G SEGMENT INFORMATION
- H FUND EQUITY
- I SIGNIFICANT TRANSACTIONS WITH DISCRETELY PRESENTED
COMPONENT UNITS

NOTE IV – OTHER INFORMATION

- A RISK MANAGEMENT
- B SIGNIFICANT COMMITMENTS AND CONTINGENCIES
- C SUBSEQUENT EVENTS
- D JOINT VENTURES
- E EMPLOYEE BENEFITS
- F PENSION PLAN OBLIGATIONS
- G OTHER POSTEMPLOYMENT BENEFITS

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, 4 th Floor Rockville, MD 20850
Housing Opportunities Commission of Montgomery County, Maryland 10400 Detrick Avenue Kensington, MD 20895-2484	Bethesda Urban Partnership, Inc. 7700 Old Georgetown Road Bethesda, MD 20814	

Joint Ventures

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

Maryland-National Capital Park and Planning Commission 6611 Kenilworth Avenue Riverdale, MD 20737	Washington Suburban Sanitary Commission 14501 Sweitzer Lane Laurel, MD 20707	Washington Suburban Transit Commission 4351 Garden City Drive, Suite 305 Hyattsville, MD 20785
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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 Position – This statement is designed to display the financial position of the reporting entity as of year-end. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Position and report depreciation expense – the cost of “using up” capital assets – in the Statement of Activities. Net position is divided into three categories – 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

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

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

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

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

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

Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Financial Statement Presentation

The County reports the following major governmental funds:

General Fund – This fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund. For financial reporting purposes, the General Fund also includes amounts maintained in a legally separate Revenue Stabilization Fund. (See Note II. C.)

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

Grants Fund – This fund accounts for the Federal and State grant-funded activities of the tax supported General Fund and special revenue funds. These grant funds must be spent according to the restrictions prescribed by the respective funding agencies.

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

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

The County reports the following major enterprise funds:

Liquor Enterprise Fund – This fund accounts for the operations of twenty-three liquor stores and two Montgomery County liquor warehouses. Under State law, the Montgomery County Department of Liquor Control has a monopoly on the distribution of alcoholic beverages, and the sale of spirits, within the County.

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

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

Additionally, the County reports the following fund types:

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

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

The County reports the following fiduciary fund types:

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

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

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

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

In the process of aggregating data for the Statement of Net Position and the Statement of Activities, some amounts reported as interfund activity and balances in the funds should be eliminated or reclassified. As a general rule the effect of interfund activity has been eliminated from the government-wide financial

statements. Assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Position. The effect of interfund services provided and used between functions has not been eliminated in the Statement of Activities, since to do so would distort the direct costs and program revenues reported for the various functions concerned.

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

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

D) Assets, Liabilities, and Net Position or Equity

1) Cash and Investments

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

Non-pooled Investments:

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

Pension and Other Employee Benefit Trust Fiduciary Fund Type – Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2013. Fair value for private investments funds, including private equity, and private real assets, is determined using unit values supplied by the fund managers, which are based upon the fund managers' appraisals of the funds' underlying holdings. Such values involve subjective judgment and may differ from amounts which would be realized if such holdings were actually sold. The fair value of limited partnership investments are based on valuations of the underlying assets of the limited partnerships as reported by the general partner. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

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

equivalents” in the Statement of Cash Flows includes the following: “Equity in pooled cash and investments,” “Cash,” “Cash with fiscal agents,” and “Restricted Equity in pooled cash and investments.”

2) **Receivables and Payables**

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

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

3) **Inventories and Prepaids**

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

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

4) **Restricted Assets**

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

5) **Capital Assets**

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

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

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

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

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

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

6) Compensated Absences

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

7) Long-Term Obligations

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

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

8) Fund Equity/Net Position

In the government-wide financial statements, the County has reported negative unrestricted net position. This is due to the fact that the County issues general obligation bonded debt for purposes of capital construction on behalf of MCPS, MCC, and M-NCPPC. The related capital assets are reported on the financial statements of these governments. For MCPS and MCC, component units of the County, this amount is also classified as net position invested in capital, net of related debt (of which there is none) in the Component Units column of the government-wide Statement of Net position (Exhibit A-1). For Primary Government purposes, since the issuance of such debt has not resulted in a capital asset, the effect of this debt is reflected in unrestricted net position (deficit) in the Governmental Activities column of the government-wide Statement of Net Position. At June 30, 2013, the County has reported outstanding general obligation bond, variable rate demand obligation, and bond anticipation note debt related to MCPS, MCC, and M-NCPPC amounting to \$1,471,314,322. Absent the effect of this relationship, the County would have reported a surplus in unrestricted net position of governmental activities in the amount of \$336,053,039.

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

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

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

9) Property Taxes

Real and personal property taxes are levied at rates enacted by the County Council in the tax levy resolution on the assessed value as determined by the Maryland State Department of Assessments and Taxation. State law stipulates that the constant yield tax rate furnished by the Maryland State

Department of Assessments and Taxation cannot be exceeded without public notice of the intent to exceed, and only after public hearings. The general property tax rate was levied below the constant yield rate for FY13. Following the Fairness in Taxation (FIT) legislation, the County Charter requires an affirmative vote of nine members of the Council to increase the real property tax rate to a level that will produce total revenues exceeding the total revenue produced by the tax on real property in the preceding year, plus 100 percent of any increase in the Consumer Price Index with exemptions for revenue from newly constructed, rezoned property and development district tax to fund capital improvement projects. The tax rate adopted for LY12 (i.e., FY13), in conjunction with a one-time income tax offset credit, generated revenues below the Charter limit for that year.

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

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

E) New Accounting Standards

The County has adopted GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* which was issued to improve financial reporting by addressing issues related to service concession arrangements. This statement did not have any impact on the County’s financial statements as the County currently does not participate in any service concession arrangements.

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

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

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

NOTE II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A) Budgetary Information

Overview

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

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

Approval

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

The County Executive has authority to transfer appropriations within departments up to 10 percent of the original appropriation. Transfers between departments are also limited to 10 percent of original appropriation and require County Council action. During the operating year the County Council may adopt a supplemental appropriation if recommended by the County Executive and after holding a public hearing. Supplemental appropriations enacted during the first half of the fiscal year require: five Councilmember votes if they are to avail the County of, or put into effect the provision of Federal, State, or local legislation or regulation; or six Councilmember votes for any other purpose. During the operating year the County

Council may also adopt, with six Councilmember votes, special appropriations to meet an unforeseen disaster or other emergency or to act without delay in the public interest. Special appropriations require only public notice by news release. During FY13, the County Council increased the operating budget through supplemental and special appropriations by \$37.7 million. In addition, supplemental appropriations increased the CIP budget by \$116.3 million.

Presentation

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

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

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

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

B) Deficit Fund Equity

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

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

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

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C) Fund Consolidation

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

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

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

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

<p>Montgomery County, MD Revenue Stabilization Fund (RSF) Condensed Schedule of Revenues, Expenditures, and Changes in Fund Balance For the Fiscal Year Ended June 30, 2013</p>	
Fund Balance - Beginning of Year	<u>\$ 155,255,188</u>
Investment Income	28,521
FY 13 Statutory contribution	<u>29,595,672</u>
Fund Balance - End of Year	<u><u>\$ 184,879,381</u></u>

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

<p style="text-align: center;">Montgomery County, MD White Flint Special Taxing District (WFSTD) Condensed Schedule of Revenues, Expenditures, and Changes in Fund Balance For the Fiscal Year Ended June 30, 2013</p>	
Fund Balance - Beginning of Year	\$ -
Property Taxes	942,070
Investment Income	152
Fund Balance - End of Year	\$ 942,222

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NOTE III. DETAILED NOTES ON ALL FUNDS

A) Cash and Investments

1) Overview

The Montgomery County reporting entity total cash and investments as of June 30, 2013, totaled \$5,757,587,388 of which \$5,233,922,985 is related to the Primary Government, as presented below and in the government-wide financial statements. These funds are held in several pools, various non-pooled investments, and cash funds. The following is a schedule of total cash and investments:

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

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

Government-wide	\$ 954,210,167
Fiduciary funds	<u>4,279,712,818</u>
Total	<u>\$ 5,233,922,985</u>

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:

	Primary Government	Component Units	Total Reporting Entity
<u>Balance Sheet Amounts:</u>			
Equity in pooled cash and investments	\$ 896,645,802	\$ 680,829	\$ 897,326,631
Restricted equity in pooled cash and investments	34,772,653	-	34,772,653
Total	<u>\$ 931,418,455</u>	<u>\$ 680,829</u>	<u>\$ 932,099,284</u>
<u>Deposit and Investment Summary:</u>			
Deposits	\$ 703,935,674	\$ -	\$ 703,935,674
Investments, including accrued interest	227,482,781	680,829	228,163,610
Total	<u>\$ 931,418,455</u>	<u>\$ 680,829</u>	<u>\$ 932,099,284</u>

Deposits:

Custodial Credit Risk

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

Deposits typically include bank accounts and non-negotiable certificates of deposit; at year-end the County held no non-negotiable certificates of deposit. Deposits at financial institutions were fully

insured or collateralized at year-end. Therefore, the County has no significant exposure to custodial credit risk.

Investments:

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

The Maryland Local Government Investment Pool (MLGIP) provides all local government units of the State a safe investment vehicle for the short-term investment of funds. The State Legislature created the Maryland Local Government Investment Pool within the Annotated Code of Maryland. The Pool's purpose is to assist the public finance officer by providing an investment medium in which the participants may invest their idle balances. A pooled fund strategy is utilized creating a money market fund for municipalities that is a very safe, highly efficient, programmed approach to investing. Participants are provided professional money management, a well-diversified portfolio and reduced cost. The MLGIP is rated "AAA^m" 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.

<u>Investment Type:</u>	<u>Fair Value</u>	<u>Principal</u>	<u>Maturity Range</u>	<u>Interest Range</u>
U.S. Government Securities	\$ 74,947,147	\$ 74,930,581	September 13-June 14	0.13%-0.19%
Commercial paper	22,448,586	22,448,586	August 13-December 13	0.30%-0.43%
Money market mutual funds	20,148,847	20,148,847	n/a	0.07%-0.35%
State pool	110,571,163	110,571,163	n/a	0.20%
Total	<u>\$ 228,115,743</u>	<u>\$ 228,099,177</u>		

Interest Rate Risk

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

As of June 30, 2013, the County's investment maturities are as follows:

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

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:

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

N/R - Not Rated

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

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

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

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

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

Custodial Credit Risk

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

County and State statutes require that securities underlying repurchase agreements have a market value of at least 102 percent of the cost of the investment. County policies require that a third party custodian hold investment securities and the collateral underlying all repurchase agreements. At June 30, 2013, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

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

<u>Diversification by Investment Type</u>	<u>Maximum percent of Portfolio*</u>
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

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

* At time of purchase

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

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

External Investment Pool Condensed Financial Statements:

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

Statement of Net Position
June 30, 2013

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

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

Investment Income *	\$ 126,229
Distributions to participants:	
Distributions paid and payable	(126,229)
Share transactions at net position value of \$1.00 per share:	
Purchase of units	\$ 114,981,095 *
Redemption of units	<u>(23,628,620)</u>
Net increase (decrease) in net position and shares resulting from share transactions	<u>91,352,475 *</u>
Total increase (decrease) in net position	<u>91,352,475 *</u>
Net position, July 1, 2012	<u>840,746,809</u>
Net position, June 30, 2013	<u>\$ 932,099,284</u>
* The pool has no expenses.	

3) Major and Nonmajor Fund Deposit and Investment Risks

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

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

Debt Service Fund – Cash with fiscal agents of \$6,930,270 represents lease revenue bond debt service reserve funds which are held in money market mutual funds and U.S Government securities.

Capital Projects Fund – Cash with fiscal agents of \$35,002,324 is held in money market mutual funds for the purpose of reimbursing construction expenditures incurred for various capital projects in the County.

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

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

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

4) Fiduciary Funds

Employees' Retirement System:

Investment Overview

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

Credit Risk/Concentration of Credit Risk

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

account. The System does not have investments (other than those issued or explicitly guaranteed by the U.S. Government or pooled investments) in any one company that represents five percent or more of net position held in trust for pension benefits.

The quality ratings of investments in fixed income securities as described by nationally recognized rating organizations as of June 30, 2013, are as follows:

Type of Investment	Quality Rating	Fair Value	Percentage of Portfolio
U.S. Government Obligations*	AAA	\$ 79,437,489	8.03 %
Foreign Government Obligations	AAA	1,646,938	0.16
	AA	347,468	0.04
	A	7,226,770	0.73
	BBB	5,909,844	0.60
	BB	1,949,738	0.20
	Unrated	1,235,066	0.12
Asset-Backed Securities	AAA	3,212,480	0.32
Collateralized Mortgage Obligations	B	25,117	0.00
Municipal/Provincial Bonds	AAA	5,456,529	0.55
	AA	10,074,437	1.02
	A	7,393,411	0.75
Corporate Bonds	AAA	3,330,563	0.34
	AA	29,345,558	2.96
	A	147,530,472	14.91
	BBB	92,810,428	9.38
	BB	61,195,343	6.18
	B	92,892,719	9.39
	CCC	58,932,444	5.95
	CC	1,588,733	0.16
	C	149,625	0.02
	D	209,125	0.02
	Unrated	27,300,113	2.76
Fixed Income Pooled Funds	Unrated	275,800,459	27.87
Short-term Investments and Other	Unrated	74,571,534	7.54
Total Fixed Income Securities		<u>\$ 989,572,403</u>	<u>100.00 %</u>

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

Interest Rate Risk

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

As of June 30, 2013, the System's fixed income portfolio had the following sensitivity to changes in interest rates:

Type of Investment	Effective Duration in Years	Fair Value	Percentage of Portfolio
U.S. Government Obligations	15.70	\$ 79,437,489	8.03 %
Foreign Government Obligations	1.72	18,315,824	1.85
Asset-Backed Securities	13.81	3,212,480	0.32
Collateralized Mortgage Obligations	3.97	25,117	0.00
Municipal/Provincial Obligations	15.53	22,924,377	2.32
Corporate Bonds	8.44	515,285,123	52.07
Fixed Income Pooled Funds	N/A	275,800,459	27.87
Short-term Investments and Other	N/A	74,571,534	7.54
Total Fixed Income Securities		<u>\$ 989,572,403</u>	<u>100.00 %</u>

Foreign Currency Risk

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

International Securities	Equity	Fixed Income	Short-term and Other	Total Non-U.S. Dollar
European Currency Unit	\$ 136,868,124	\$ 7,848,238	\$ 102,869,688	\$ 247,586,050
British Pound Sterling	66,222,859	-	46,142,487	112,365,346
Japanese Yen	112,789,888	-	(4,373,507)	108,416,381
Hong Kong Dollar	15,599,744	-	4	15,599,748
Norwegian Krone	2,552,418	-	10,829,229	13,381,647
Danish Krone	8,732,325	-	-	8,732,325
Mexican Peso	-	5,007,271	-	5,007,271
South Korean Won	4,911,741	-	(55,996)	4,855,745
Philippine Peso	544,058	2,219,499	-	2,763,557
Brazilian Real	-	2,119,539	-	2,119,539
Other Currencies	54,806,423	2,268,497	(212,510,474)	(155,435,554)
Total International Securities	<u>\$ 403,027,580</u>	<u>\$ 19,463,044</u>	<u>\$ (57,098,569)</u>	<u>\$ 365,392,055</u>

Derivatives

In accordance with the Board's Statement of Investment Policy and Objectives, the System regularly invests in derivative financial instruments in the normal course of its investing activities to manage exposure to certain risks within the fund. During FY13, the System invested directly in various derivatives including, exchange-traded future contracts, forward currency contracts, and swaps. Investment managers are prohibited from purchasing securities on margin or using leverage unless specifically permitted within the investment manager's guidelines. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the creditworthiness of the related parties to the contracts. The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Board's Statement of Investment Policy and Objectives seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual and commingled funds which may hold derivative financial instruments. The system is not a dealer, but an end-user of these instruments.

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

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

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specified financial instrument at a predetermined date and price. Gains and losses on future contracts are settled daily. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay. As of June 30, 2013, the System held 143 long US Treasury futures contracts with a fair value of \$20,366,094 and 559 short US Treasury futures contracts with a fair value of (\$79,338,453).

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. Foreign exchange contracts contain market risk resulting from fluctuations in currency rates. The credit risk is associated with the creditworthiness of the related parties to the contracts. As of June 30, 2013, the System held \$216,526,562 buy foreign exchange contracts and (\$290,955,095) sell foreign exchange contracts. The unrealized gain on the System's contracts was \$919,827.

Securities Lending

Board policy permits the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodian is the agent in lending the System's securities for collateral of 102 percent for domestic and 105 percent for international securities. The custodian receives cash, securities or irrevocable bank letters of credit as collateral. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral received from the borrower is invested by the lending agent, as an agent for the System, in a short-term investment pool in the name of the System, with guidelines approved by the Board. Such investments are considered a collateralized investment pool. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of securities loans made by other plan entities that invest cash

collateral in the investment pool, which the System cannot determine. The System records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of net position. The agent indemnifies the System by agreeing to purchase replacement securities, or return the cash collateral thereof, in the event a borrower fails to return loaned securities or pay distributions thereon. There were no such failures by any borrower during the fiscal year, nor were there any losses during the period resulting from a default of the borrower or lending agent.

As of June 30, 2013, the fair value of securities on loan was \$297,121,590. Cash received as collateral and the related liability of \$291,568,717 as of June 30, 2013, is shown on the Statement of Plan Net Position. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the collateral securities absent borrower default. Securities lending revenues and expenses amounting to \$1,186,186 and (\$285,825), respectively, have been classified with investment income and investment expenses, respectively, in the accompanying financial statements.

The following represents the balances relating to the securities lending transactions at June 30, 2013:

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

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

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2013, there were no funds held by a counterparty that was acting as the System's agent in securities lending transactions.

Employees' Retirement Savings Plan:

Section 33-125 of the Code authorizes the Board to establish a diversified slate of mutual and commingled investment funds from which participants may select an option. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2013, the fair value of the mutual and commingled investment funds was \$234,672,571. The fair value of the investments in international mutual funds was \$45,999,788.

Employees' Deferred Compensation Plan:

The Board is required to establish a diversified slate of mutual and commingled funds from which participants may select investment options. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2013, the fair value of the mutual and commingled investment funds was \$303,302,906. The fair value of the investments in international mutual funds included in the County Plan was \$42,187,291.

Consolidated Retiree Health Benefits Trust:

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

As of June 30, 2013, the fair value of the mutual and commingled investment funds was \$235,901,106. The fair value of the investments in international mutual funds was \$64,685,487.

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COMPONENT UNITS

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, 2013, were entirely insured or collateralized with securities held by HOC's agent in HOC's name. HOC's investments are subject to interest rate, credit, and custodial risk as described below:

Interest Rate Risk

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

Credit Risk

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

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

Custodial Risk

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

General Fund, Housing Opportunity Fund and Public Fund are in bank money market accounts and interest bearing accounts. These amounts are unrated by an independent rating agency. The Moody's rating for PNC Bank short-term deposits as of June 30, 2013 was P-1.

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

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

Long-Term Investments	Fair Value	1-5 years	6-10 years	Greater than 10 years	Rating
<u>Long-term Investments:</u>					
Multi-Family Fund:					
U. S. Treasuries	\$ 2,825,645	\$ -	\$ 2,164,355	\$ 661,290	AAA
Fannie Mae	3,035,008	-	-	3,035,008	AAA
Freddie Mac	848,403	-	-	848,403	AAA
Federal Farm Credit Banks	860,894	-	-	860,894	AAA
Federal Home Loan Banks	905,317	-	-	905,317	AAA
Israel ST Bonds	447,160	-	-	447,160	AAA
Federal Home Loan Mortgage	541,036			541,036	AAA
Bank One Investment Agreement	591,525			591,525	AA/Aa2
Single Family Fund:					
Federal Farm Credit Banks	6,631,759			6,631,759	AAA
Federal Home Loan Banks	8,735,527	-	-	8,735,527	Aaa
Federal Home Loan Mtg Corp	1,605,593			1,605,593	AAA
Fannie Mae	1,027,182	-	-	1,027,182	AAA
GNMA Pass-through certificates	8,479,931			8,479,931	AAA
Solomon Repurchase Agreement	2,345,800	2,345,800	-	-	AAA
U. S. Treasuries	8,777,795	2,618,983	4,875,696	1,283,116	N/A
Tennessee Valley Authority	6,447,318	2,577,296	-	3,870,022	Aaa
Total long-term investments	<u>54,105,893</u>	<u>\$ 7,542,079</u>	<u>\$ 7,040,051</u>	<u>\$ 39,523,763</u>	
Cash balances	<u>72,165,067</u>				
Total Cash, Cash Equivalents and Investments	<u>\$ 266,112,647</u>				

B) Receivables

1) Accounts Receivable

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

Liquor	\$ 47,624
Parking Lot Districts	1,753,637
	<u>\$ 1,801,261</u>

2) Due from/to Component Units

The balances at June 30, 2013, were:

Due from Component Units / Due to Primary Government:

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

Due to Component Units / Due from Primary Government:

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

In the major governmental funds, \$49,403,664 due from HOC to the Housing Initiative Special Revenue Fund represents mortgage loans, which are generally repayable based on project cash flows, specified future dates, or sales of the respective properties. Included in this amount is a loan of \$1,953,403, for which payments are based on cash flows. Terms of the note stipulate that the balance of the note will be forgiven at the termination of the ground lease in December 2035. To date the project has not generated cash flows. Also included in the amount above is a ground lease, upon which is located affordable housing owned by HOC. The ground lease provides for lease payments from HOC for \$1 per year for 83 years, amounting to \$59 at year-end. These two loans are offset by unearned revenue. Fund balance has been reserved for the remaining loans.

3) Due From Other Governments

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

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

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C) **Capital Assets**

PRIMARY GOVERNMENT

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

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

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

Governmental Activities:

General Government	\$ 6,983,739
Public Safety	9,681,161
Public Works and Transportation	57,700,425.00
Health and Human Services	2,168,955
Culture and Recreation	7,050,495.00
Community Development and Housing	885,885
Environment	179,399
Total depreciation expense for governmental activities	<u>\$ 84,650,059</u>

Business-type activities:

Liquor	\$ 1,547,073
Solid Waste Activities	1,693,169
Parking Lot Districts	10,603,482
Permitting Services	44,970
Community Use of Public Facilities	7,206
Total depreciation expense business-type activities	<u>\$ 13,895,900</u>

Construction commitments as of June 30, 2013 are as follows:

General Government	\$ 167,352,957
Public Safety	1,079,474
Public Works and Transportation	84,304,309
Health and Human Services	1,306,594
Culture and Recreation	56,893
Community Development and Housing	1,267,987
Environment	23,831,791
Total	<u>\$ 279,200,005</u>

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COMPONENT UNITS

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

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

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

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

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

D) Interfund Receivables, Payables, and Transfers

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

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

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

- \$7.5 million to the Grants Special Revenue Fund to cover vendor payments prior to revenues being received from other government agencies; and
- \$42.6 million to the Capital Projects Fund to cover construction payments, due primarily to the timing of reimbursements from Federal, State and other agencies, and to lag time between programming and collection of certain impact taxes.
- \$0.4 million to the Central Duplicating Internal Service Fund to offset cash deficits.

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

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

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

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

Primary activities include:

- Transfers from major and non-major governmental funds to the Debt Service Fund to provide funding for debt service principal and interest payments;
- Transfers of current receipts and pay-go from the General Fund to the Capital Projects Fund;
- Transfer of Liquor Enterprise Fund profits to the General Fund; and
- Transfers from Capital Projects to Housing Initiative to build multi-family housing.

E) **Leases**

1) **Operating Leases**

The County leases buildings and office facilities and other equipment under non-cancelable operating leases. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet subsequent rental payments are not appropriated. Total costs for operating leases were approximately \$25,157,200 for FY13. Future minimum lease payments under significant non-cancelable operating leases are as follows:

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

2) **Capital Lease Receivable**

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

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

The composition of the capital lease receivable is as follows:

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

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

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

3) Capital Lease Obligations

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

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

Land	\$ 13,449,033
Land improvements	1,673,621
Buildings	53,783,181
Furniture, fixtures, equipment and machinery	159,291
Subtotal	<u>69,065,126</u>
Less accumulated depreciation	<u>(27,309,233)</u>
Total asset value under capital leases	<u>\$ 41,755,893</u>

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

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

Included in the preceding schedules are amounts relating to the Montgomery County Conference Center, which was opened during FY05. The Maryland Stadium Authority (MSA) also participated in financing the construction through the issuance of long-term debt. The County recognized the MSA contribution of \$19,719,328 as revenue when the Conference Center opened. The ownership of the Conference Center will transfer to the County at the end of the MCRA lease term. During FY13, the County entered into a new capital lease with MCRA related to the October 18, 2012 refunding of Montgomery County Revenue Authority Taxable Lease Revenue bonds issued for the construction of the Conference Center.

F) Long-Term Debt

PRIMARY GOVERNMENT

1) General Obligation Bonds Payable

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

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

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

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

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

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

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

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

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

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

Dated			Originally	Balance	Unamortized	Unamortized	Carrying Value
Date	Maturity	Interest Rate	Issued	June 30, 2013	Premium	Deferred Difference	June 30, 2013
03/15/04	2005-24	3.0 - 5.0	154,600,000	\$ 15,460,000	\$ 784,446	\$ -	\$ 16,244,446
08/15/04*	2008-17	3.0 - 5.25	97,690,000	74,895,000	1,228,886	(1,504,495)	74,619,391
05/15/05	2006-25	4.0 - 5.0	200,000,000	40,000,000	2,582,760	-	42,582,760
06/01/05*	2005-16	3.781	120,355,000	114,175,000	5,436,687	(4,462,983)	115,148,704
05/01/06	2006-17	3.871	100,000,000	30,000,000	545,761	-	30,545,761
06/07/06	2017-26	Variable	100,000,000	100,000,000	-	-	100,000,000
05/01/07	2007-27	4.082	250,000,000	112,500,000	7,411,637	-	119,911,637
3/12/08*	2009-15	2.750 - 5.0	70,295,000	10,150,000	214,064	(94,068)	10,269,996
07/15/08	2009-29	3.0 - 5.0	250,000,000	200,000,000	4,608,451	-	204,608,451
11/03/09*	2011-20	2.0 - 5.0	161,755,000	147,915,000	11,264,529	(6,147,455)	153,032,074
11/03/09	2015-29	3.75 - 5.5	232,000,000	232,000,000	1,333,996	-	233,333,996
11/17/09*	2010-14	2.0 - 5.0	78,000,000	31,200,000	863,823	-	32,063,823
07/26/10	2011-22	2.0 - 5.0	195,000,000	162,500,000	15,525,294	-	178,025,294
07/26/10	2023-30	4.75 - 5.4	106,320,000	106,320,000	173,524	-	106,493,524
07/26/10	2023-30	4.75 - 5.4	23,680,000	23,680,000	38,648	-	23,718,648
08/11/11	2012-31	2.00 - 5.0	320,000,000	304,000,000	30,952,135	-	334,952,135
08/11/11*	2012-22	2.00 - 5.0	237,655,000	226,670,000	31,770,137	(13,913,493)	244,526,644
10/24/12	2013-32	2.50 - 5.0	295,000,000	295,000,000	30,157,467	-	325,157,467
10/24/12*	2013-16	2.50 - 5.0	23,360,000	23,360,000	1,442,153	(53,993)	24,748,160
Total			<u>\$ 3,015,710,000</u>	<u>\$ 2,249,825,000</u>	<u>\$ 146,334,398</u>	<u>\$ (26,176,487)</u>	<u>\$ 2,369,982,911</u>

* Issue represents refunding bonds.

Changes in general obligation bonds during FY13 are as follows:

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

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

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

Article 25A, Section 5(P), of the Annotated Code of Maryland, authorizes borrowing of funds and issuance of bonds to a maximum of 6 percent of the assessable base of real property and 15 percent of the assessable base of personal property and operating real property. The legal debt margin as of June 30, 2013 is \$7,181,853,539.

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

Purpose	Authority		Amount	Amount Unissued
	Chapter	Act		
General County, Parks, and Consolidated Fire Tax District	36	2008	\$ 68,200,000	\$ 6,890,000
	22	2009	58,700,000	58,700,000
	54	2010	341,600,000	341,600,000
	24	2011	65,400,000	65,400,000
	19	2012	13,900,000	13,900,000
			<u>547,800,000</u>	<u>486,490,000</u>
Roads and Storm Drainage	54	2010	192,000,000	182,540,000
	19	2012	38,700,000	38,700,000
			<u>230,700,000</u>	<u>221,240,000</u>
Public Schools and Community College	22	2009	272,500,000	66,268,000
	54	2010	108,700,000	108,700,000
	24	2011	214,300,000	214,300,000
	19	2012	187,400,000	187,400,000
			<u>782,900,000</u>	<u>576,668,000</u>
Mass Transit	54	2010	32,600,000	4,605,000
	24	2011	103,200,000	103,200,000
			<u>135,800,000</u>	<u>107,805,000</u>
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
			<u>53,030,000</u>	<u>52,970,000</u>
Agricultural Eastments	24	2011	2,000,000	2,000,000
Facade Eastments	24	2011	1,100,000	1,100,000
			<u>3,100,000</u>	<u>3,100,000</u>
Parking Districts:				
Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	1,220,000	1,220,000
	19	2012	20,115,000	1,193,000
			<u>24,280,000</u>	<u>4,458,000</u>
Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	1,050,000	1,050,000
			<u>9,150,000</u>	<u>4,865,000</u>
Total Parking Districts			<u>33,430,000</u>	<u>9,323,000</u>
Total General Obligation Bonds			<u>\$ 1,786,760,000</u>	<u>\$ 1,457,596,000</u>

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

2) Variable Rate Demand Obligations

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

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

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

VRDOs outstanding as of June 30, 2013, are as follows:

<u>Dated Date</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Originally Issued</u>	<u>Balance June 30, 2013</u>
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			<u>\$ 100,000,000</u>	<u>\$ 100,000,000</u>

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

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Changes in VRDOs during FY13 are as follows:

	Balance July 1, 2012	VRDOs Issued	VRDOs Retired	Balance June 30, 2013
Governmental Activities:				
General County	\$ 2,500,000	\$ -	\$ -	\$ 2,500,000
Roads and Storm Drainage	26,000,000	-	-	26,000,000
Parks	1,000,000	-	-	1,000,000
Public Schools	64,000,000	-	-	64,000,000
Community College	4,000,000	-	-	4,000,000
Consolidated Fire Tax District	2,100,000	-	-	2,100,000
Mass Transit	400,000	-	-	400,000
Total	<u>\$ 100,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,000,000</u>

VRDO requirements to maturity are as follows:

Fiscal Year Ending June 30	Variable Rate Demand Obligation Requirements		
	Principal	Interest*	Total
2014	\$ -	\$ 600,000	\$ 600,000
2015	-	600,000	600,000
2016	-	600,000	600,000
2017	10,000,000	600,000	10,600,000
2018	10,000,000	540,000	10,540,000
2019-2023	50,000,000	1,620,000	51,620,000
2024-2026	30,000,000	240,000	30,240,000
Total	<u>\$ 100,000,000</u>	<u>\$ 4,800,000</u>	<u>\$ 104,800,000</u>

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

3) Revenue Bonds Payable

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

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

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

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

The pledged net revenues recognized during FY13 for the payment of the outstanding principal and interest of the revenue bonds are as follows:

	Net Available Revenue for Debt Service	Debt Service		
		Principal	Interest	Total
Parking Lot District:				
Bethesda Parking Lot District	\$ 12,195,271	\$ 2,020,000	\$ 2,030,369	\$ 4,050,369
Silver Spring Parking Lot District	10,683,649	-	-	-
Solid Waste Disposal Fund	4,300,009	2,685,000	134,250	2,819,250
Liquor Control Fund	36,143,713	2,790,000	3,561,750	6,351,750
Water Quality Protection	8,364,596	915,000	1,207,601	2,122,601

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

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

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

Changes in revenue bond principal during FY13 are as follows:

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

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

Revenue bond debt service requirements to maturity are as follows:

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

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

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

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

Restricted assets related to these revenue bonds, classified as “Investments” or “Equity in Pooled Cash and Investments” for statement of net asset purposes, include the following:

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

In lieu of Debt Service Reserve Accounts, the 2002 Series Parking Refunding Bonds and the 2002 Series A Parking Revenue Bonds are being secured with a municipal bond insurance policy. The County is in compliance with all significant financial bond covenants.

4) **Bond Anticipation Notes Payable**

Commercial paper bond anticipation notes (BANs) are authorized, issued, and outstanding as financing sources for capital construction and improvements. Changes in BANs during FY13 are as follows:

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

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

BANs totaling \$326.8 million were issued during FY13; \$126.8 million Series 2010 and \$200 million Series 2009 respectively. BANs are issued at varying maturities to a maximum of 270 days, under a program whose authority was adopted on September 15, 2009, as amended, to consolidate additional authority to borrow money and incur indebtedness. The County reissued the notes upon maturity and continues to do so, until they are replaced with long-term bonds. The County will issue long-term bonds in FY14, and intends to use a portion of the proceeds to replace short-term notes that were issued to fund capital construction and improvements.

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

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

5) **Certificates of Participation**

In April 2010, the County issued Certificates of Participation (certificates) for Equipment Acquisition in the public transportation Program dated April 7, 2010, in the amount of \$23.0 million. In October 2007, the County issued certificates for its Equipment Acquisition in the fire and rescue Program dated October 24, 2007, in the amount of \$33.58 million. The certificates represent proportionate interest in a Conditional Purchase Agreement (CPA) between the County, as purchaser and U.S. Bank National Association, as the seller. The CPA requires the County, as purchaser; to make periodic purchase installments in amounts sufficient to pay the scheduled debt service on the certificates until the County pays the entire price necessary to acquire the equipment, which shall be equal to the amount necessary to pay the principal and

interest on all outstanding certificates. The ability of the County, as purchaser, to pay the purchase installments due under the CPA depends upon sufficient funds being appropriated each year by the County Council for such purpose. The County Council is under no obligation to make any appropriation with respect to the CPA. The CPA is not a general obligation of the County and does not constitute an indebtedness of the County within the meaning of any constitutional or statutory limitation or charge against the general credit or taxing powers of the County.

The Certificates were issued at interest rates ranging from 2.4 to 5.0 percent and have maturity schedules as follows:

Fiscal Year Ending June 30	Certificates of Participation		
	Principal	Interest	Total
2014	\$ 6,370,000	\$ 1,212,600	\$ 7,582,600
2015	6,620,000	923,600	7,543,600
2016	6,885,000	640,000	7,525,000
2017	7,155,000	289,100	7,444,100
2018	3,645,000	145,800	3,790,800
Total	<u>\$ 30,675,000</u>	<u>\$ 3,211,100</u>	<u>\$ 33,886,100</u>

6) Master Lease/Equipment Notes

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

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

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

The County has entered into purchase agreements to provide financing for the acquisition of capital asset equipment. The agreements have terms of two to five years with interest rates identified in the agreements. Arrangements provide that proceeds are to be held by a trustee and disbursed to vendors. If assets are acquired prior to the note agreement, the trustee reimburses the County.

The following is a schedule by fiscal year for the agreements as of June 30, 2013:

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

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

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

7) WSSC Promissory Note

In April 2007, the county entered into a Purchase and Sale Contract with Washington Suburban Sanitary Commission (WSSC) to acquire property for \$10,000,000. On January 15, 2009, the County signed a promissory note evidencing its obligation to fulfill the terms of the Contract. The note has a term of 15 years; interest accrues at a rate of 4.43%, commencing six months after the execution of the promissory note. Under the provisions of the promissory note, the minimum annual payment by the County is \$400,000 and is due on July 15 each year. The County must make additional payments equal to the net of proceeds of parcels sold in a given year; payments should be allocated first to interest then to principal. If in a given year, net proceeds for the sale of parcels equal or exceed the debt service payment, the County will not be required to make a separate debt service payment. The minimum annual loan payment is less than the interest accrued during the fiscal period; the difference between the interest and the debt service paid is added to the total principal amount owed. Consequently, a negative balance is shown on the principal column of the amortization schedule.

The note will mature upon its 15th anniversary when all unpaid principal and accrued interest shall be due and payable by the County or upon the date of the "Payment Event" for the last parcel for which an additional annual payment is due to WSSC.

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

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

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.

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

The bonds are payable from and secured by a pledge of revenues from WMATA's lease payments and certain reserve funds. The approximate amount of the pledge is \$42,188,975. WMATA's obligation to make payments under the leases is payable solely from amounts held in a Surcharge Reserve Account which is funded by revenues from a surcharge on the parking facilities.

In the event that the County's Reserve Subfund of \$3,125,664, included in Debt Service Fund cash with fiscal agents in the accompanying financial statements, is less than the required amount, the County Executive is obligated to include, in the next subsequent appropriation request to the County Council, a request for sufficient resources to reimburse the Reserve Subfund. The Lease Revenue Bonds are not a debt of the County within the meaning of any constitutional, compact, charter or statutory debt limit or restriction. Neither the faith and credit nor the taxing power of the County is pledged to the payment of the bonds.

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

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

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

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

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

9) Taxable Limited Obligation Certificates

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

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

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

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

10) HUD Loan

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

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11) Changes in Long-Term Liabilities

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

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

Funding Source for Other Non-debt Related Liabilities

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

12) Conduit Debt Obligations

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

As of June 30, 2013, there were 24 issues of Industrial Revenue Bonds and Economic Development Revenue Bonds outstanding. Of these, 9 were issued prior to July 1, 1996. The aggregate principal amount payable at June 30, 2013, for bonds issued prior to July 1, 1996, could not be determined; however, their original issue amounts totaled \$158,695,000. The principal amount payable at June 30, 2013, for bonds issued after July 1, 1996, totaled \$330,579,274.

13) Special Taxing Districts

The County has three special taxing districts: Kingsview Village Center, West Germantown, and White Flint. Kingsview Village Center and West Germantown were created in accordance with Chapter 14 of the Montgomery County Code, the Montgomery County Development District Act enacted in 1994. The White Flint Taxing District was created in accordance with Chapter 68C of the Montgomery County Code, which was enacted in 2010. The creation of these districts allows the County to provide financing, refinancing, or reimbursement for the cost of infrastructure improvements necessary for the development of land in areas of the County with high priority for new development or redevelopment.

Pursuant to Chapter 14 and 68C, special taxes and/or special assessments may be levied to fund the costs of bonds or other obligations issued on behalf of the respective districts. Any bond issued under Chapter 14 and 68C is not an indebtedness of the County within the meaning of Section 312 of the Charter. Additionally, any bond issued must not pledge the full faith and credit of the County, and must state that the full faith and credit is not pledged to pay its principal, interest, or premium, if any. Any bonds issued are not considered liabilities of the County and are not reported in the County's financial statements. However, unlike the Kingsview Village Center and West Germantown development districts, the County may issue financing or provide funding for certain infrastructure projects within the White Flint Taxing District that are not derived under the authority of 68C.

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

COMPONENT UNITS

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

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

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

<u>Purpose</u>	
Multi-Family Mortgage Purchase Program Fund	\$ 328,648,259
Single Family Mortgage Purchase Program Fund	281,393,715
Total	<u>\$ 610,041,974</u>

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

Pursuant to Section 15 of Article 44A of the Annotated Code of Maryland, the County may, by local law, provide its full faith and credit as guarantee of bonds issued by HOC in principal amount not exceeding \$50,000,000. Section 20-32 of the Montgomery County Code provides the method by which the County has implemented the guarantee.

The debt service requirements by fiscal year for the HOC debt guaranteed by the Primary Government are as follows:

Fiscal Year Ending June 30	Guaranteed Revenue Bond Requirements		
	Principal	Interest	Total
2014	\$ 385,000	\$ 446,500	\$ 831,500
2015	405,000	427,834	832,834
2016	425,000	407,590	832,590
2017	445,000	385,840	830,840
2018	465,000	363,090	828,090
2019-2023	2,710,000	1,431,249	4,141,249
2024-2028	3,465,000	656,879	4,121,879
2029-2033	800,000	20,200	820,200
Total	<u>\$ 9,100,000</u>	<u>\$ 4,139,182</u>	<u>\$ 13,239,182</u>

The total debt service requirements for HOC revenue bonds, which include the portion guaranteed by the Primary Government (presented above), are as follows:

Fiscal Year Ending June 30	Total Revenue Bond Requirements		
	Principal	Interest	Total
2014	\$ 15,906,304	\$ 19,804,608	\$ 35,710,912
2015	21,938,199	19,371,919	41,310,118
2016	22,370,300	18,886,431	41,256,731
2017	23,112,645	18,312,104	41,424,749
2018	23,905,266	17,659,723	41,564,989
2019-2023	105,152,548	75,732,812	180,885,360
2024-2028	114,435,741	51,366,831	165,802,572
2029-2033	106,530,000	29,606,732	136,136,732
2034-2038	88,610,000	13,203,276	101,813,276
2039-2043	70,920,000	3,210,069	74,130,069
2044-2048	12,300,000	94,658	12,394,658
2049-2053	1,975,000	-	1,975,000
Unamortized Bond Discount	2,885,971	-	2,885,971
Total	<u>\$ 610,041,974</u>	<u>\$ 267,249,163</u>	<u>\$ 877,291,137</u>

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

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

* Includes accretions and bond discounts.

HOC has issued a number of individual bonds for financing multi-family developments for which HOC has no legal liability for repayment or administration (conduit debt), and accordingly, the bonds are not included in the accompanying financial statements. HOC participates in such issuances in order to increase the availability of affordable housing in the County. The bonds outstanding are summarized below:

Bonds outstanding, July 1, 2012	\$ 191,962,190
Issuances during the year	8,400,000
Redemptions during the year	(36,709,943)
Bonds outstanding, June 30, 2013	<u>\$ 163,652,247</u>

The County is not liable in any manner for the remaining debt of HOC or any debt of MCPS, MCC, or MCRA. BUPI has no long-term debt.

G) Segment Information

The County has issued revenue bonds to finance activities relating to Solid Waste Disposal operations, including recycling, and the Silver Spring and Bethesda Parking Lot districts (PLDs). The Solid Waste Disposal operations and the Silver Spring and Bethesda PLDs are accounted for within the Solid Waste Activities Fund and the Parking Lot Districts Fund, respectively. However, investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for each activity as of and for the year ended June 30, 2013, is presented below:

Condensed Statements of Net Position

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

* Includes Solid Waste Leafing

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

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

Condensed Statements of Cash Flows

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

* Includes Solid Waste Leafing

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H) Fund Equity

1) Governmental Fund Balances

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

	<u>General</u>	<u>Housing Initiative</u>	<u>Grants</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Non-Major Governmental Funds</u>
Fund Balances:						
Nonspendable:						
Inventory	\$ 5,337,288	\$ -	\$ -	\$ -	\$ -	\$ -
Prepays	312,031	-	-	-	-	102,478
Restricted for:						
Debt service	-	-	-	6,337,410	-	-
General government	-	-	-	-	-	613,234
Public safety	-	-	-	-	-	5,100,786
Public works and transportation	-	-	-	-	-	11,426,058
Health and human services	-	-	-	-	-	1,021,628
Culture and recreation	-	-	-	-	-	3,644,378
Community development and housing	-	226,089,283	-	-	-	12,717,466
Environment	-	-	-	-	-	6,293,710
Revenue stabilization	184,879,381	-	-	-	-	-
Committed to:						
Public safety	-	-	-	-	-	1,708,706
Public works and transportation	94,030	-	-	-	-	1,051,831
Culture and recreation	5,939,309	-	-	-	-	4,261,758
Community development and housing	3,892,658	4,620,813	-	-	-	335,253
Environment	-	-	-	-	-	5,356,186
Education	18,531,086	-	-	-	-	-
Capital Projects	21,238,162	-	-	-	-	5,883,213
Assigned to:						
General government	8,133,337	-	-	-	-	-
Public safety	8,494,728	-	-	-	-	-
Public works and transportation	4,051,596	-	-	-	-	-
Health and human services	7,371,555	-	-	-	-	-
Community development and housing	84,534	-	-	-	-	-
Environment	37,149	-	-	-	-	-
Education	1,171,278	-	-	-	-	-
Unassigned:						
Total fund balances	238,947,394	-	-	-	(4,023,811)	-
	<u>\$ 508,515,516</u>	<u>\$ 230,710,096</u>	<u>\$ -</u>	<u>\$ 6,337,410</u>	<u>\$ (4,023,811)</u>	<u>\$ 59,516,685</u>
 Summary of fund balances:	 General Fund	 Initiative	 Grants	 Debt Service	 Capital Projects	 Governmental
Nonspendable	\$ 5,649,319	\$ -	\$ -	\$ -	\$ -	\$ 102,478
Restricted	184,879,381	226,089,283	-	6,337,410	-	40,817,260
Committed	49,695,245	4,620,813	-	-	-	18,596,947
Assigned	29,344,177	-	-	-	-	-
Unassigned	238,947,394	-	-	-	(4,023,811)	-
Total fund balances	<u>\$ 508,515,516</u>	<u>\$ 230,710,096</u>	<u>\$ -</u>	<u>\$ 6,337,410</u>	<u>\$ (4,023,811)</u>	<u>\$ 59,516,685</u>

2) **Encumbrances**

Encumbrance accounting is employed as part of the budgetary integration for all governmental funds. As of June 30, 2013, certain amounts which were available for specific purposes have been encumbered in the governmental funds. Encumbrances are included in the County's governmental fund balances as follows:

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

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:

<u>Governmental Fund</u>	Encumbrances not included in <u>Fund Balance</u>
Grants	\$ 10,391,718
Debt Service	983,195
Capital Projects	278,578,045
Fire Tax District	<u>1,496,976</u>
Total Governmental Funds	<u>\$ 291,449,934</u>

3) **Net Position Restricted by Enabling Legislation**

Net position restricted by enabling legislation represent legislative restrictions that a party external to the government can compel the government to honor. For the County, such amounts represent primarily accumulated net position attributed to revenue streams, such as taxes or fees, which are restricted for specified purposes in the County Code. This generally includes Capital Project Fund recordation and impact tax collections on hand for a component unit and municipal governments, ending fund balances of substantially all special revenue funds, and ending unrestricted net position of the Solid Waste Activities and Parking Lot Districts enterprise funds. Such amounts, which are included with restricted net position in the government-wide Statement of Net Position, are as follows at year-end:

Governmental activities	\$ 288,588,248
Business-type activities	<u>83,423,383</u>
Total	<u>\$ 372,011,631</u>

I) Significant Transactions with Discretely Presented Component Units

1) Operating and Capital Funding

Expenditures incurred for operating and capital funding of discretely presented component units amounted to the following for the year ended June 30, 2013:

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

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

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

2) Other Transactions

BUPI charges for services revenue includes \$4,124,551 earned under contracts with the County. For capital leases with MCRA, see Note III-E3. For mortgages receivable due from HOC, see Note III-B2.

NOTE IV. OTHER INFORMATION

A) Risk Management

The County, for itself and certain component units and other governments, maintains two self-insurance internal service funds. County management believes it is more economical to manage its risks internally and set aside assets for claim settlements in these internal service funds.

One fund is maintained for Liability and Property Coverage under which participants share the costs of workers' compensation, comprehensive general, automobile and professional liability (errors and omissions), property coverage including fire and theft, and other selected areas which require coverage. Commercial insurance is purchased for claims in excess of coverage provided by the self-insurance fund and for other risks not covered by the fund. In addition to all funds of the County, participants in this program include MCPS, HOC, MCC, MCRA, BUPI, M-NCPPC, the independent fire/rescue corporations, the Bethesda-Chevy Chase Rescue Squad, the Rockville Housing Enterprises, the Town of Somerset, the City of Gaithersburg, the Village of Drummond, and the Village of Friendship Heights. The liability for claims with respect to all participants transfers to the self-insurance fund, except for M-NCPPC which retains ultimate liability for its own claims.

The second fund is maintained for Employee Health Benefits under which participants share medical, prescription, dental, vision, and life insurance. While the majority of coverage is self-insured, certain fully insured plan options, including health maintenance organizations (HMO's), are offered to participants.

WSTC, BUPI, Montgomery Community Television, the Strathmore Hall Foundation, Inc., Arts and Humanities Council of Montgomery County, Montgomery County Volunteer Fire & Rescue Association, and certain employees of the State of Maryland in addition to some of the participants in the Liability and Property Coverage Program, participate in this program.

Both internal service funds use the accrual basis of accounting. Payments to the Liability and Property Coverage Self-Insurance Fund by participants and recognition of the fund's liability for unpaid claims including those incurred but not reported are based on actuarial estimates. For the Employee Health Benefits Fund, charges to participants are based on actuarial estimates. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported which incorporate incremental claims adjustment expenses incurred only because of the claim, but do not include nonincremental claims adjustment expenses such as internal salary costs. Because actual claims liabilities depend on complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. During the year, there were no significant reductions in commercial insurance coverage in the Liability and Property Coverage Self-Insurance Fund from the prior year. For the past three years, no insurance settlements exceeded commercial insurance coverage in either fund.

Changes in the balances of Claims Payable for the self-insurance funds for FY13 and FY12 are as follows:

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

1 Includes non-monetary settlements.

2 Includes incurred but not reported (IBNR) claims of \$63,511,068 and \$14,661,904 for the Liability and Property Coverage and the Employee Health Benefits Self-Insurance Funds, respectively.

3 Life Insurance is covered by a third-party provider, but the County is required to hold a reserve with the provider proportionate to claims incurred. The decrease in Life Insurance IBNR of \$213,080 is not reflected in the schedule. Claims payable including the effect of the decrease in Life IBNR is \$14,661,904.

B) Significant Commitments and Contingencies

1) Landfill

The County, in its effort to provide for estimated landfill capping and post closure maintenance costs, accrues such costs and recognizes those costs as expenses as the landfill is utilized. The October 9,

1991 U.S. Environmental Protection Agency (EPA) rule, "Solid Waste Disposal Criteria," established closure requirements for all municipal solid waste landfills (MSWLFs) that receive waste after October 9, 1991. The County has been accruing closure expenses since FY91 in an attempt to match the costs of closure against the revenues associated with the use of the landfill. The Oaks Landfill closed on October 22, 1997, and the County began using out-of-County waste hauling during FY98. At the time the landfill was closed, total cumulative capacity used was 6,990,437 tons. The total closure and postclosure costs are estimated at \$63,867,853, which have been fully accrued through June 30, 2013. Of the total amount accrued, \$45,709,318 in actual costs have been paid out in prior years, and \$829,321 was paid in FY13, resulting in a net liability of \$17,329,214 at June 30, 2013. The current and non-current portions of the adjusted liability at year-end are estimated at \$1,131,251 and \$16,197,963 respectively. These costs are subject to change based on cost differences, changes in technology, or applications of laws and regulations. The County plans to use primarily operating cash to pay for these closure and post closure costs as they are incurred in the future.

2) Pollution Remediation

The County has a contingent liability with respect to the Gude Landfill. This landfill was used for the disposal of County municipal solid waste from 1965 to 1982. The landfill received approximately 4.8 million tons of municipal waste from 1965 until the site was closed in 1982. A contingent liability currently exists because the Gude Landfill has been identified as a site which will require pollution remediation or additional post-closure costs due to ground water and surface water contamination. The County reached a consent agreement with the State in FY13. The consent agreement requires the County to recommend a remediation plan to the State for the Gude Landfill site. The County plans to submit its corrective measures report to the State on January 31, 2014. The county has employed an independent contractor to help it develop an estimate of the cost of its proposal. As of June 30, 2013, no plan had been agreed to on estimated costs.

3) Litigation

In addition to those suits in which claims for liability are adequately covered by insurance, the County may be a defendant in various suits involving tort claims, violations of civil rights, breach of contract, inverse condemnation, and other suits arising in the normal course of business. In the opinion of the County Attorney, the estimated liability of the County in the resolution of these cases will not exceed \$1,471,376 plus any applicable interest. In accordance with general accepted accounting principles, none of this amount has been reflected as a liability in the accompanying financial statements, as the County's liability on none of the claims are determined to be probable.

4) Grants, Entitlements, and Shared Revenues

The County participates in a number of Federal and State assisted grant, entitlement, and/or reimbursement programs, principal of which are the Community Development Block Grant, the Head Start Grant, Community Mental Health Grant, and the Medical Assistance Grant. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of most of these programs for, or including, the year-ended June 30, 2013, have not yet been completed. In accordance with the provisions of the Single Audit Act of 1984 and Circular A-133, issued by the U.S. Office of Management and Budget, the County participates in single audits of federally assisted programs. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although management does not believe amounts ultimately disallowed, if any, would be material.

5) Other Commitments

County proprietary funds have entered into contract commitments that remain uncompleted as of year-end. The amounts of outstanding commitments at June 30, 2013, are as follows:

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

As of June 30, 2013, the County has \$40,210,150 in outstanding offers of loans and/or grants that have been extended to various companies under its Economic Development Fund programs. To help fund such offers, the designated fund balance of the Economic Development Special Revenue Fund at the end of the year is typically reappropriated in the following year.

C) Subsequent Events

On July 2, and July 3, 2013, the County renewed agreements with State Street Bank and PNC Bank respectively to provide liquidity with respect to the 2010 Series BANs for \$150,000,000 each. The credit agreements expire on July 31, 2016.

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

On October 1, 2013, the County entered into a 20 year lease purchase agreement with Banc of America Leasing & Capital, LLC in the amount of \$4.165 million to finance energy systems modernization at one of

the County's Health and Human Services buildings. The project is to be implemented under an Energy Performance Contract. The lease purchase qualified as financing under the County's Qualified Energy Conservation Bond (QECB) allocation which provided a federal tax credit and will reduce the net effect interest rate to approximately 1.43%.

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

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

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

D) Joint Ventures

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

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

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

At June 30, 2013, M-NCPPC had outstanding notes payable and bonds payable in the amount of \$81,630,273, of which \$222,228 was self-supporting. Of the total amount payable, \$10,964,203 represented debt due within one year. Generally, debt of M-NCPPC is payable from its resources; however, the participating counties must guarantee payment of interest and principal on the debt that is not self-supporting. Montgomery County's contingent liability for non self-supporting M-NCPPC debt at June 30, 2013, is \$33,904,922, which represents general obligation bonds outstanding for the Montgomery County jurisdiction at year-end.

Washington Suburban Sanitary Commission (WSSC)

WSSC is a bi-county instrumentality of the State of Maryland created to provide water supply and sewage disposal services for Montgomery and Prince George's Counties. The two participating counties share equal control over WSSC in the selection of the six-member governing body, budgeting authority, and financing responsibility.

At June 30, 2013, WSSC had outstanding notes payable and bonds payable in the amount of \$1,906,856,000, which was fully self-supporting. Of the total amount payable, \$282,290,000 represented debt due within one year. Pursuant to Section 4-101 of Article 29 of the Annotated Code of Maryland, the

County must guarantee payment of principal and interest on WSSC bonds, unless WSSC waives such guarantee requirement in accordance with Section 4-103 of Article 29. WSSC has waived such guarantee requirement with respect to all outstanding WSSC bonds. At June 30, 2013, all WSSC debt relating to the County is self-supporting.

Washington Suburban Transit Commission (WSTC)

The Washington Suburban Transit District (WSTD), encompassing Prince George's and Montgomery Counties, Maryland, was chartered by the State of Maryland in 1965 to coordinate and participate in the formulation of the transit plan of the Washington Metropolitan Area Transit Authority for WSTD. The WSTD is governed by the Washington Suburban Transit Commission (WSTC), which is composed of three representatives each from Prince George's and Montgomery Counties and one representative from the Maryland Department of Transportation. One commissioner from each county is appointed by the Governor of the State of Maryland, and the other two commissioners are appointed by the chief executive officer of the organizations they represent. The two participating counties have equal budgetary authority and financial responsibility for WSTC; however, both are required to act in consultation with the Maryland Department of Transportation. WSTC's liabilities are limited to funds payable from the participating counties and the State under outstanding grant agreements and State legislation. Montgomery County made an operating contribution totaling \$104,280 to WSTC during FY13.

Washington Metropolitan Area Transit Authority (WMATA)

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

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

Under State statutes, the State of Maryland is required to cover its related 100 percent of the combined operating deficit of WMATA and County Ride-On operations (that began on or after June 30, 1989), assuming that 35 percent (effective in FY09) of gross operating costs are recovered by revenues.

A summary reflecting WMATA's expenditures incurred for the County's share of WMATA's activities for FY13, which are fully funded by the State and not reflected in the accompanying financial statements, is as follows:

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

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

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 13 percent of the total funding for COG, with state and Federal grants and private contributions providing the remainder. COG does not utilize debt financing. As a participating government in COG, the County paid FY13 membership dues and fees for services amounting to \$767,173.

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. On February 28, 2013, NEMWDA issued \$77,685,000 in Series 2013 bonds to refund the Series 2003 bonds. On April 1, 2013, \$113,720,000 were redeemed pursuant to an advanced refunding. At June 30, 2013, NEMWDA had outstanding bonds payable in the amount of \$77,685,000 of which \$20,715,000 represented debt due within one year. These bonds are limited obligations of NEMWDA, payable solely from the Project revenues and other sources. Since the Project is owned and operated by NEMWDA, the bonds and related activities are included in the financial statements of NEMWDA.

This Project became operational in August 1995. NEMWDA has entered into a service contract with the County under which the County pays a waste disposal fee calculated in accordance with the agreement. The

waste disposal fee is comprised of an amount equal to debt service, facility fees, alternative disposal costs, NEMWDA administrative costs, operating costs, and NEMWDA component revenue. Waste disposal fee expense incurred by the Solid Waste Activities Enterprise Fund during FY13 amounted to \$40,824,393.

E) Employee Benefits

1) Deferred Compensation

During FY05, the Montgomery County Council passed legislation enabling the County to establish and maintain one or more additional deferred compensation plans for employees covered by a collective bargaining agreement. All county non-represented employees, those County represented employees who elected to participate, and employees who were retired at the time of transfer, continue to participate in the Montgomery County Deferred Compensation Plan administered by the County (the County Plan). County represented employees who elected and all represented employees hired after March 1, 2005 participate in the newly created Montgomery County Union Employees Deferred Compensation Plan (the Union Plan) administered by the bargaining units. The purpose of these Plans is to extend to employees deferred compensation plans pursuant to Section 457 of the Internal Revenue Code of 1986, as amended.

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

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

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

2) Annual, Sick Leave, and Other Compensated Absences

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

leave is not paid. Sick leave is paid only in the event of employee illness, at which time the payments will be made from current resources.

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

F) 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. Montgomery County Employee Retirement Plans has the exclusive authority to manage the assets of the System. The Board consists of thirteen trustees and functions as part of the County. A publicly available annual report that includes financial statements and required supplementary information for the System, the Defined Contribution Plan (see Note IV-F2), and the Deferred Compensation Plan (see Note IV-E1), can be accessed on the County's website at <http://www.montgomerycountymd.gov/mcerp>, or can be obtained by writing the Montgomery County Employee Retirement Plans, 101 Monroe Street, Rockville, Maryland 20850.

This Plan is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and GRIP participants. Substantially all employees hired prior to October 1, 1994, of the County, MCRA, HOC, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., WSTC, Montgomery County Employees Federal Credit Union, certain employees of the State Department of Assessments and Taxation, and the District Court of Maryland are provided retirement benefits under the System. The System, established under Section 33 of Montgomery County Code, 2001, as amended, is a contributory plan with employees contributing a percentage of their base annual salary, depending on their group classification which determines retirement eligibility.

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

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

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

For members of the GRIP, employee contributions vest immediately and employer contributions are vested after three years of service or upon death, disability, or reaching retirement age. Members are fully vested upon reaching normal retirement (age 62) regardless of years of service. At separation, a participant’s benefit is determined based upon the account balance which includes contributions and earnings.

Funding Policy - Required employee contribution rates varying from 4 to 11.25 percent of regular earnings are fixed and specified under Section 33-39 (a) of the Montgomery County Code of 2001, as amended. The County and each participating agency are required to contribute the remaining amounts necessary to fund the System, using the actuarial basis as specified in Section 33-40 of the Montgomery County Code of 2001, as amended. Under the current procedures, an actuarial valuation is performed to determine the employer contribution rate for the System. The contribution rate developed is a percentage of active member payroll. The dollar amount of each year’s employer contribution is determined by applying the contribution rate to the actual payroll for each year. Funding of the System during the period is the sum of the normal costs and amortization of the unfunded accrued liability over a forty-year period.

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

Annual Pension Cost and Net Pension Obligation - The annual required contributions (ARC) for FY13 were based on an actuarial valuation as of June 30, 2011, the latest valuation available on the date the County Council was required to approve the appropriation resolution. The ARC, or annual pension cost (APC), were the same as contributions actually made.

The APC and the net pension obligation (NPO) of the County and the participating agencies and political subdivisions for FY13 were as follows:

Fiscal Year	APC	Percentage of APC		NPO
		Contributed		
2011	\$ 109,343,933	100 %	\$	-
2012	107,855,595	100		-
2013	127,887,620	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 8 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively. Employee contributions are always vested under this Plan and employer contributions are vested after 3 years of service or upon death, disability, or retirement age of the employee. Members are fully vested upon reaching normal retirement age (62) regardless of years of service. At separation, a participant's benefit is determined based upon the account balance, which includes contributions and investment gains or losses. The Board of Investment Trustees monitors the Plan and offers investment options to the participating employees. Required employer and employee contributions to this Plan for FY13 were \$15,628,750 and \$8,273,565, respectively.

The Montgomery County Council passed legislation in FY09 enabling the County to establish and maintain a Guaranteed Retirement Income Plan (GRIP), a cash balance plan that is part of the Employees' Retirement System, for employees. During FY10, eligible County employees who were members of the Retirement Savings Plan (Plan) were granted the option to elect to participate in the

GRIP and to transfer their Plan member account balance to the GRIP and cease being a member of the Plan.

3) Other

The County contributed \$1,135,590 during FY13 for pension costs for a limited number of employees/retirees who elected to remain in the State plan. This amount includes the current service costs plus an amount sufficient to amortize the prior service cost over a forty-year period ending June 30, 2020.

4) Length of Service Award Program (LOSAP)

Under Section 21-21 of the Montgomery County Code, the County has established a Length of Service Award Program (LOSAP) for the County's Department of Fire and Rescue Service volunteers who meet certain age and service criteria. Benefit expenditures amounting to \$1,166,461 in FY13 also include disability and survivor annuities and lump-sum death benefits, and are reported in the Fire Tax District Special Revenue Fund on a "pay-as-you-go" basis. There were 518 recipients comprising former volunteers and their beneficiaries at the end of FY13. Based on the latest available valuation, the unfunded actuarial accrued liability for the LOSAP plan is \$20,740,159.

G) Other Postemployment Benefits (OPEB)

Plan Description – During FY08, the Montgomery County Council enacted legislation (Bill No. 28-07) to establish a new trust effective July 1, 2007 to fund certain County retiree benefit plans. Effective July 1, 2011, the Montgomery County Council enacted legislation (Bill No. 17-11) to change the name to Consolidated Retiree Health Benefits Trust (CRHBT) due to the addition of County-funded agency retiree benefits plans. The County-funded agencies are MCPS and MCC, both component units of the reporting entity. During FY13, the County contributed \$58,853,092 and \$1,779,914 to the CRHBT on behalf of MCPS and MCC for the health benefits of their retirees, respectively. The CRHBT is a cost-sharing multiple-employer defined benefit healthcare plan sponsored by the County. Other agencies and political subdivisions have the right to elect participation. The Board of Trustees (Board) has the exclusive authority to manage the assets of the CRHBT. The Board consists of nineteen trustees and functions as part of the County. Separate financial statements are not issued for the CRHBT.

Substantially all retirees of the County, MCRA, HOC, the independent fire/rescue corporations, WSTC, the Strathmore Hall Foundation, Inc., the Village of Friendship Heights, Montgomery County Employees Federal Credit Union and certain retirees of the State Department of Assessments and Taxation, are provided postemployment benefits such as medical, life, dental, vision, and prescription coverage under the Montgomery County Group Insurance Plan (Plan). Retirees may also elect coverage for their eligible dependents. A member of the Employees' Retirement System of Montgomery County, who retires under a normal, early, disability or discontinued service retirement, is eligible for group insurance benefits under the Plan. However, the member is not eligible for group insurance benefits if the member leaves County service prior to retirement eligibility with a deferred vested benefit payable upon member's retirement date. A member of the Employees' Retirement Savings Plan or the GRIP is eligible for group insurance upon separation from service based upon the member's age and credited service at the time of separation. Postemployment benefit provisions and eligibility requirements for retirees are described under the Montgomery County Group Insurance Summary Plan Description.

Plan membership at June 30, 2012, the most recent actuarial valuation, consisted of the following:

Retirees and beneficiaries receiving benefits	7,224
Active plan members	9,511
Total	<u>16,735</u>

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

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

Contributions – The County Council has the authority to establish and amend contribution requirements of the plan members and the County. The Plan is a contributory plan in which the County and the retired members and beneficiaries contribute, based on an actuarial valuation, certain amounts toward the current cost of healthcare benefits. During FY13, plan members and beneficiaries receiving benefits contributed \$19,569,393 (approximately 35 percent of current contributions). The County and other contributing entities contributed \$88,441,893, including \$35,649,327 (approximately 65 percent of current contributions) for current premiums, claims and administrative expenses, and \$52,792,566 toward prefunding future benefits.

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

The actuarial valuation of the Plan involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. The actuarially determined amounts regarding the funded status of the Plan and the annual required contributions (ARC) of the County and other participating agencies are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

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

During FY08, the County Council adopted Resolution No. 16-555, expressing its intent to phase in to full funding of the difference between pay-as-you-go contributions and the ARC over eight years. The prefunding contributions reflected in the accompanying financial statements represent the sixth year of that eight-year phase in.

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

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

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

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

<u>Fiscal Year Ended June 30</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
2011	\$150,836,000	29.2 %	\$ 287,497,491
2012	161,060,000	42.1	380,693,810
2013	138,891,000	65.2	429,058,044

Actuarial Methods and Assumptions – The calculations of projected benefits are based on the terms of the Plan in effect at the time of valuation and on the pattern of sharing costs between the employer and plan members to that point. The actuarial calculations reflect a long-term perspective and actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in the actuarial accrued liability and the actuarial value of assets.

Actuarial assumptions used in the actuarial valuation were:

Valuation date	June 30, 2012
Actuarial method	Projected unit credit
Amortization method	Level percentage of projected payroll
Amortization period	30 years (open period)
Investment rate of return	7.50%
Salary scale	3.00%
Inflation rate	3.00%
Mortality	RP 2000 projected 30 years, separate tables for males and females
Health care cost trend rates:	(initial, ultimate)
Medical (excluding Indemnity plan) pre-65	8.52%, 5.54%
Medical (excluding Indemnity plan) post-65	7.03%, 5.19%
Medical (Indemnity plan)	8.00%, 5.48%
Medical (Indemnity plan) post-65	8.00%, 5.18%
Dental	5.50%, 4.50%

REQUIRED SUPPLEMENTARY INFORMATION



MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
RSI-1

	Budget		Actual	Variance Positive (Negative)
	Original Budget	Final Budget		
Revenues:				
Taxes:				
Property	\$ 1,025,203,222	\$ 1,025,203,222	\$ 1,033,873,492	\$ 8,670,270
Property - penalty and interest	-	-	2,354,137	2,354,137
Total Property Tax	1,025,203,222	1,025,203,222	1,036,227,629	11,024,407
County income tax	1,263,585,546	1,263,585,546	1,317,533,090	53,947,544
Other Local Taxes:				
Real property transfer	80,650,000	80,650,000	84,391,394	3,741,394
Recordation	55,947,220	55,947,220	57,635,661	1,688,441
Fuel energy	233,790,000	233,790,000	223,948,716	(9,841,284)
Hotel - motel	19,051,600	19,051,600	18,910,872	(140,728)
Telephone	48,749,000	48,749,000	45,696,525	(3,052,475)
Other	2,501,000	2,501,000	3,451,483	950,483
Total Other Local Taxes	440,688,820	440,688,820	434,034,651	(6,654,169)
Total Taxes	2,729,477,588	2,729,477,588	2,787,795,370	58,317,782
Licenses and Permits:				
Business	4,497,365	4,497,365	4,022,738	(474,627)
Non business	5,773,280	5,773,280	5,681,007	(92,273)
Total Licenses and Permits	10,270,645	10,270,645	9,703,745	(566,900)
Intergovernmental Revenue:				
State Aid and Reimbursements:				
DHR State reimbursement - HB669	22,500	22,500	45,620	23,120
Highway user revenue	3,347,550	3,347,550	2,767,466	(580,084)
Police protection	8,683,265	8,683,265	8,682,015	(1,250)
Health and human services programs	4,697,276	4,697,276	4,712,015	14,739
Public libraries	5,339,000	5,339,000	4,687,092	(651,908)
911 Emergency	5,420,000	5,420,000	5,110,854	(309,146)
Other	1,837,164	1,837,164	736,444	(1,100,720)
Total State Aid and Reimbursements	29,346,755	29,346,755	26,741,506	(2,605,249)
Federal Reimbursements:				
Federal financial participation	9,295,158	9,295,158	13,629,923	4,334,765
Other	1,892,036	2,900,036	8,105,347	5,205,311
Total Federal Reimbursements	11,187,194	12,195,194	21,735,270	9,548,076
Other Intergovernmental	1,638,160	1,638,160	3,322,426	1,684,266
Total Intergovernmental Revenue	42,172,109	43,180,109	51,799,202	8,619,093
Charges for Services:				
General government	989,404	989,404	715,429	(273,975)
Public safety	6,085,050	6,085,050	5,783,885	(301,165)
Health and human services	1,375,868	1,375,868	1,381,824	5,956
Culture and recreation	600	600	29,725	29,125
Environment	269,250	269,250	2,268,332	1,999,082
Public works and transportation:	284,024	310,274	372,833	62,559
Total Charges for Service	9,004,196	9,030,446	10,552,028	1,521,582
Fines and Forfeitures	20,461,110	20,461,110	23,160,668	2,699,558
Investment Income:				
Pooled investment income	172,250	172,250	(17,539)	(189,789)
Other interest income	80,000	80,000	83,754	3,754
Total Investment Income	252,250	252,250	66,215	(186,035)
Miscellaneous Revenue:				
Property rentals	5,114,970	5,114,970	4,879,923	(235,047)
Sundry	3,103,440	3,187,496	4,569,165	1,381,669
Total Miscellaneous Revenues:	8,218,410	8,302,466	9,449,088	1,146,622
Total Revenues	2,819,856,308	2,820,974,614	2,892,526,316	71,551,702
Expenditures:				
Departments or Offices:				
County Council:				
Personnel costs	8,398,900	8,464,540	8,451,412	13,128
Operating	943,683	869,293	620,295	248,998
Totals	9,342,583	9,333,833	9,071,707	262,126
Board of Appeals:				
Personnel costs	521,176	521,176	504,199	16,977
Operating	57,064	56,510	51,439	5,071
Totals	578,240	577,686	555,638	22,048
Legislative Oversight:				
Personnel costs	1,290,727	1,290,727	1,237,707	53,020
Operating	40,410	40,410	37,503	2,907
Totals	1,331,137	1,331,137	1,275,210	55,927

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
RSI-1

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

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
RSI-1

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

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
RSI-1

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

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONCLUDED
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
RSI-1

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

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
HOUSING INITIATIVE SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
RSI-2

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

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

	Total
Budgetary - Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	\$ 38,650,674
Reconciling items:	
Elimination of encumbrances outstanding	233,064
Increase in mortgages receivable	(1,086,661)
GAAP - Net Change in Fund Balance	\$ 37,797,077

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GRANTS SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
RSI-3

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

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONCLUDED
GRANTS SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
RSI-3

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

Reconciliation of Budgetary Schedule to GAAP Basis

Statement of Revenues, Expenditures, and Changes in Fund Balances:

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

REQUIRED SUPPLEMENTARY INFORMATION**CONSOLIDATED RETIREE HEALTH BENEFITS TRUST**

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

SCHEDULE OF FUNDING PROGRESS

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

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

SCHEDULE OF EMPLOYER AND OTHER CONTRIBUTING ENTITIES' CONTRIBUTIONS

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

