Montgomery County, Maryland

ANNUAL INFORMATION STATEMENT

In Connection With Bonds and Other Obligations

Department of Finance

January 12, 2007

MONTGOMERY COUNTY, MARYLAND
OFFICIAL ROSTER OF COUNTY OFFICIALS

COUNTY EXECUTIVE

Isiah Leggett

COUNTY COUNCIL

Marilyn J. Praisner	*President*
Michael Knapp	*Vice President*
Phil Andrews	
Roger Berliner	
Marc Elrich	
Valerie Ervin	
Nancy Floreen	
George L. Leventhal	
Duchy Trachtenberg	

The terms of the County Executive and all County Council members expire in December 2010.

APPOINTED OFFICIALS

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

BOND COUNSEL

Venable LLP
Baltimore, Maryland

INDEPENDENT PUBLIC ACCOUNTANTS

KPMG, LLP
Washington, D.C.

DEBT MANAGEMENT AND DISCLOSURE INFORMATION

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

ANNUAL INFORMATION STATEMENT
IN CONNECTION WITH BONDS AND OTHER OBLIGATIONS

This Annual Information Statement ("the AIS"), dated January 12, 2007, 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 1) County government, organizational structure and services, 2) financial information, 3) annual budgets, 4) results of fiscal years 2002-2006, 5) County retirement system, 6) County revenue sources, and 7) selected demographic and economic statistics, and information including population, employment and income.

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

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

Questions regarding information in the AIS should be directed to Jennifer E. Barrett, Acting 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

General Obligation Bonds and Notes Outstanding	$1,493,888,054
Total Assessed Value	$114,360,878,346
Direct Debt (incl. Revenue Bonds)	$1,664,508,054
Ratio of Direct Debt to Assessed Value	1.46%
Net Direct Debt	$1,593,888,054
Ratio of Net Direct Debt to Assessed Value	1.39%

Budgets

Approved FY07 Operating Budget	$3.882 billion
Approved FY07 General Fund Undesignated Surplus	$85.0 million
FY06 General Fund Unreserved Undesignated Balance	$107.3 million
FY06 Revenue Stabilization Fund Balance	$107.8 million
FY07-12 Capital Budget and Amendments	$2.968 billion

FY06 Major Revenues

Income Tax	$1.045 billion
Property Tax	$782.1 million
Transfer and Recordation Tax	$241.7 million
Other Taxes	$164.8 million

Demographics

Population 2006 (est.)	953,000
Households 2006 (est.)	351,000
Median Age 2000	36.8 years

Employment	
Private Sector 2005	380,722
Public Sector 2005	77,946
Unemployment Rate (Jan - Nov 2006)	2.8%
Personal Income 2006 (est.)	$58.9 billion
Per Capita Income 2006 (est.)	$61,800
Average Household Income 2006 (est.)	$167,000
MCPS K-12 Projected FY07 Enrollment	139,936
MCPS Per Pupil Operating Expenditures (FY07)	$13,231
Montgomery College Enrollment (Fall 2005)	22,263

DEBT SUMMARY

Overview

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

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

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

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

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

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

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

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Table 1
Statement of Direct and Overlapping Debt
As of June 30, 2006

Direct Debt:		
General Obligation Bonds Outstanding	$1,393,888,054	
General Obligation Variable Rate Demand Obligations	100,000,000	
Short-Term BANs/Commercial Paper Outstanding	100,000,000	
Revenue Bonds Outstanding	70,620,000	
Total Direct Debt		$1,664,508,054
Overlapping Debt:		
Gross Debt:		
Washington Suburban Sanitary Commission		
Applicable to Montgomery County	1,000,742,544	
Housing Opportunities Commission	632,182,259	
Montgomery County Revenue Authority	97,505,088	
Maryland-National Capital Park and Planning Commission		
Applicable to Montgomery County	49,658,042	
Kingsview Village Center Development District	2,260,000	
West Germantown Development District	15,600,000	
Towns, Cities and Villages within Montgomery County	50,900,127	
Total Overlapping Debt		1,848,848,060
Total Direct and Overlapping Debt		3,513,356,114
Less Self-Supporting Debt:		
County Government Revenue Bonds	70,620,000	
Washington Suburban Sanitary Commission		
Applicable to Montgomery County	1,000,742,544	
Housing Opportunities Commission	632,182,259	
Montgomery County Revenue Authority	97,505,088	
Maryland-National Capital Park and Planning Commission		
Applicable to Montgomery County	11,546,299	
Total Self-Supporting Debt		(1,812,596,190)
Net Direct and Overlapping Debt		$1,700,759,924
Ratio of Debt to June 30, 2006 Assessed Valuation of (100% Assessment):		$114,360,878,346
Direct Debt		1.46%
Net Direct Debt *		1.39%
Direct and Overlapping Debt		3.07%
Net Direct and Overlapping Debt		1.49%
Ratio of Debt to June 30, 2006 Market Value of:		$122,425,244,161
Direct Debt		1.36%
Net Direct Debt *		1.30%
Direct and Overlapping Debt		2.87%
Net Direct and Overlapping Debt		1.39%

*Net Direct Debt of $1,593,888,054 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, 2006

June 30, 2006 Assessed Valuation – Real Property		$110,529,249,116
Debt Limit (% of Assessed Valuation)		6%
Subtotal Limitation – Real Property		$ 6,631,754,946
June 30, 2006 Assessed Valuation – Personal Property		$3,831,629,230
Debt Limit (% of Assessed Valuation)		15%
Subtotal Limitation – Personal Property		$ 574,744,385
Total Assessed Valuation – Real and Personal Property		$114,360,878,346
Legal Limitation for the Borrowing of Funds and the Issuance of Bonds		$7,206,499,331
Less Amount of Debt Applicable to Debt Limit:		
General Obligation Bonds Outstanding	$1,393,888,054	
General Obligation Variable Rate Demand Obligations	100,000,000	
Short-Term BANs/Commercial Paper	100,000,000	
Net Direct Debt		1,593,888,054
Legal Debt Margin		$5,612,611,277
Net Direct Debt as a Percentage of Assessed Valuation		1.39%

Direct Debt

General Obligation Bonds

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

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

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

Table 3
General Obligation Bonded Debt Ratios
1997 – 2006

Fiscal Year	Net Direct Debt to Market Value	GO Bond Debt Service to General Fund Expenditures	Net Direct Debt Per Capita*	Net Direct Debt Per Capita to Per Capita Income**	GO Bond Payout Ratio
1997	1.47%	10.22%	$ 1,277	3.14%	71.39%
1998	1.66	9.71	1,433	3.32	72.58
1999	1.56	9.66	1,374	3.02	72.33
2000	1.64	9.17	1,473	3.11	72.06
2001	1.57	8.72	1,473	2.97	71.83
2002	1.55	8.32	1,516	3.03	71.32
2003	1.45	8.47	1,541	2.90	71.10
2004	1.45	7.98	1,591	2.88	70.94
2005	1.30	7.74	1,504	2.61	70.20
2006	1.30	7.77	1,672	2.71	69.75

* Amounts restated due to restatement of population data.
** Figures restated due to restatement of actual income in May 2001.

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The County's general obligation indebtedness by issue is presented in Table 4. Annual debt service payments for the County's debt is displayed in Table 5. Table 6 sets forth the amount of general obligation bonds authorized to be issued by the County as of June 30, 2006.

Table 4
General Obligation Debt of the County
As of June 30, 2006

Issue	Dated Date	Original Issue Size	Original Interest Rates	TIC*	Maturity	Principal Outstanding June 30, 2006
GO Refunding Bonds	07/01/92	$273,038,054	2.75-5.80%	5.7431%	1993-10	$ 67,148,054
GO Bonds	03/15/96	120,000,000	5.10-5.50	5.2946	1997-08	6,000,000
GO Bonds	04/15/97	115,000,000	5.00-5.375	5.3226	1998-17	11,500,000
GO Refunding Bonds	01/01/98	69,510,000	3.90-5.25	4.6400	2003-15	67,795,000
GO Bonds	04/01/98	115,000,000	4.875	4.7607	1999-18	17,250,000
GO Bonds	04/01/99	120,000,000	4.00-5.00	4.4764	2000-19	30,000,000
GO Bonds	01/01/00	130,000,000	5.00-6.00	5.4853	2001-13	32,500,000
GO Bonds	02/01/01	140,000,000	4.00-5.00	4.5447	2002-21	49,000,000
GO Refunding Bonds	11/15/01	146,375,000	3.60-5.25	4.5107	2003-19	132,705,000
GO Bonds	02/01/02	160,000,000	3.50-5.00	4.4619	2003-22	72,000,000
GO Refunding Bonds	11/15/02	93,595,000	2.75-5.25	3.2799	2005-13	91,250,000
GO Bonds	05/01/03	155,000,000	1.50-4.00	3.6304	2004-23	131,750,000
GO Refunding Bonds	05/01/03	49,505,000	2.00-5.00	2.2900	2004-11	37,805,000
GO Bonds	03/15/04	154,600,000	3.00-5.00	3.8290	2005-24	139,140,000
GO Refunding Bonds	08/15/04	97,690,000	3.00-5.25	3.7208	2008-17	97,690,000
GO Bonds	05/15/05	200,000,000	4.00-5.00	3.8806	2006-25	190,000,000
GO Refunding Bonds	06/01/05	120,355,000	5.00	3.7817	2011-21	120,355,000
GO Bonds	05/01/06	100,000,000	4.25-5.00	3.8711	2007-16	100,000,000
GO VRDO**	06/07/06	100,000,000	variable	variable	2017-26	100,000,000
Total						$1,493,888,054

* True Interest Cost
** Variable Rate Demand Obligations

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Table 5
Summary of General Obligation
Debt Service Requirements by Fiscal Year
As of June 30, 2006

Fiscal	General Obligation Bonds and Notes		
Year	Principal	Interest*	Total
2007	$ 131,210,000	$ 64,370,628	$ 195,580,628
2008	130,940,000	58,163,590	189,103,590
2009	109,786,683	64,498,882	174,285,565
2010	108,387,086	55,284,454	163,671,540
2011	105,244,285	45,109,205	150,353,490
2012	100,525,000	37,286,509	137,811,509
2013	97,385,000	32,618,758	130,003,758
2014	91,240,000	27,785,824	119,025,824
2015	86,230,000	23,425,393	109,655,393
2016	81,425,000	18,980,168	100,405,168
2017	75,220,000	15,284,737	90,504,737
2018	69,205,000	12,456,512	81,661,512
2019	63,255,000	9,917,600	73,172,600
2020	57,080,000	7,647,225	64,727,225
2021	50,365,000	5,568,862	55,933,862
2022	43,180,000	3,846,388	47,026,388
2023	35,480,000	2,476,713	37,956,713
2024	27,730,000	1,338,187	29,068,187
2025	20,000,000	500,000	20,500,000
2026	10,000,000	--	10,000,000
Total	$1,493,888,054	$486,559,635	$1,980,447,689

* Excludes monthly variable interest for general obligation notes issued on June 7, 2006.

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Table 6
General Obligation Bonds Authorized – Unissued
As of June 30, 2006

Purpose	Chapter	Act	Amount	Amount Unissued
General County, Parks, and	17	2001	$ 35,200,000	$ 7,290,000
Consolidated Fire Tax District	21	2002	4,700,000	4,700,000
	17	2003	63,600,000	63,600,000
	18	2004	31,200,000	31,200,000
	19	2005	44,100,000	44,100,000
			178,800,000	150,890,000
Road & Storm Drainage	18	2004	97,500,000	86,440,000
	19	2005	53,500,000	53,500,000
			151,000,000	139,940,000
Public Schools and	18	2004	145,000,000	100,168,000
Community College	19	2005	131,100,000	131,100,000
			276,100,000	231,268,000
Mass Transit	17	2001	6,700,000	5,205,000
	21	2002	1,600,000	1,600,000
	17	2003	900,000	900,000
			9,200,000	7,705,000
Public Housing	17	1981	2,650,000	2,590,000
	13	1982	995,000	995,000
	8	1983	230,000	230,000
	20	1985	900,000	900,000
	13	1986	855,000	855,000
			5,630,000	5,570,000
Parking Districts:				
Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	1,220,000	1,220,000
			4,165,000	3,265,000
Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	1,050,000	1,050,000
			9,150,000	4,865,000
Total Parking Districts			13,315,000	8,130,000
Total General Obligation Bonds			$634,045,000	$543,503,000

In addition to the above noted authority, the County has authority under the provisions of section 56-13 of the Montgomery County Code 1994, 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 11 years, and planned for substitution over the five years beginning FY07, are displayed below.

Table 7
PAYGO Substitutions
(Actual FY96-06, Budgeted FY07-11)

Fiscal Year	PAYGO Amount	Fiscal Year	PAYGO Amount
1996	$ 7,000,000	2004	$ 6,240,000
1997	3,925,000	2005	7,275,000
1998	13,000,000	2006	11,737,000
1999	13,400,000	2007	26,400,000
2000	24,600,000	2008	41,400,000
2001	40,705,000	2009	44,000,000
2002	40,155,000	2010	33,000,000
2003	17,374,000	2011	22,000,000

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, 2005 through June 30, 2006 are presented in Table 8 below.

Table 8
Bond Anticipation Notes Outstanding
As of June 30, 2006

Issue	Balance July 1, 2005	BANs Issued	BANs Retired	Balance June 30, 2006
BAN Series 2002-G	$ --	$150,000,000	$150,000,000	$ --
BAN Series 2002-H	--	50,000,000	50,000,000	--
BAN Series 2002-I	--	100,000,000	--	100,000,000
Total	$ --	$300,000,000	$200,000,000	$100,000,000

Long-Term Notes

In September 1998, the County entered into a $1,800,000 long-term loan agreement with the Maryland Industrial and Commercial Redevelopment Fund (MICRF) pursuant to the provisions of Sections 5-501 through 5-507 of Article 83A of the Annotated Code of Maryland. The loan was approved by the Maryland State Department of Business and Economic Development. In accordance with the terms of the loan, the proceeds of the loan were reloaned to a private corporation, for purposes of relocation to and renovation of facilities in the County. During FY06 the private corporation pre-paid the entire balance of the loan, thus relieving the County of this obligation.

Revenue Bonds

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

County revenue bonds are used in the Bethesda and Silver Spring Parking Districts, supported by parking fees and fines, together with parking district property taxes. County revenue bonds were also issued for County Solid Waste Management facilities, supported with the revenues of the Solid Waste Disposal System. County revenue bond indebtedness by issue is presented in Table 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, 2006.

Table 9
Revenue Bond Debt of the County
As of June 30, 2006

Issue	Dated Date	Original Issue Size	Original Interest Rates	TIC*	Maturity	Principal Outstanding June 30, 2006
Parking Refunding Revenue Bonds (Bethesda PLD)	05/01/02	$ 14,560,000	3.00%-5.00%	3.1941%	2003-09	$ 5,535,000
Parking Refunding Revenue Bonds (Silver Spring PLD)	05/01/02	12,130,000	3.00%-5.00%	3.1398%	2003-09	3,870,000
Parking Revenue Bonds (Bethesda PLD)	06/01/02	26,000,000	3.00%-4.75%	4.4231%	2003-21	21,955,000
Solid Waste Refunding Revenue Bonds	04/03/03	31,075,000	3.00%-5.00%	3.5982%	2004-13	22,765,000
Parking Revenue Bonds (Bethesda PLD)	08/01/05	16,495,000	3.625%-5.00%	4.0471%	2007-25	16,495,000
Total						$ 70,620,000

* True Interest Cost.

Table 10
Summary of Revenue Bond Debt Service Requirements by Fiscal Year
As of June 30, 2006

	Revenue Bonds		
Fiscal Year	Principal	Interest	Total
2007	$ 8,820,000	$ 3,026,323	$ 11,846,323
2008	7,115,000	2,624,073	9,739,073
2009	7,420,000	2,349,273	9,769,273
2010	5,260,000	2,018,335	7,278,335
2011	5,465,000	1,815,985	7,280,985
2012	5,685,000	1,596,885	7,281,885
2013	4,770,000	1,328,260	6,098,260
2014	2,180,000	1,105,025	3,285,025
2015	2,275,000	1,013,663	3,288,663
2016	2,375,000	918,003	3,293,003
2017	2,485,000	818,654	3,303,654
2018	2,595,000	711,541	3,306,541
2019	2,720,000	596,651	3,316,651
2020	2,845,000	474,551	3,319,551
2021	2,980,000	345,776	3,325,776
2022	1,035,000	210,889	1,245,889
2023	1,080,000	168,049	1,248,049
2024	1,125,000	122,706	1,247,706
2025	1,170,000	75,371	1,245,371
2026	1,220,000	25,620	1,245,620
Total	$ 70,620,000	$ 21,345,633	$ 91,965,633

Table 11
Revenue Bonds Authorized – Unissued
As of June 30, 2006

Purpose	Resolution No.	Year	Amount	Amount Unissued
Parking Lot Districts	11-1383	1989	$ 51,163,000	$ 42,088,000
	14-921	2001	35,000,000	9,000,000
	15-931	2005	18,000,000	1,505,000
			104,163,000	52,593,000
Solid Waste Disposal	12-1010	1993	56,935,000	6,255,000
Total Revenue Bonds			$161,098,000	$ 58,848,000

Overlapping Debt

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

Washington Suburban Sanitary Commission

The Washington Suburban Sanitary Commission (WSSC) issues general construction bonds to finance construction of small diameter water distribution and sewage collection lines, and required support facilities in Montgomery and Prince George's Counties. Generally, these are considered general obligation bonds because they are payable from unlimited ad valorem taxes upon all the assessable property in the WSSC district. They are actually paid through assessments on properties being provided service and are considered to be overlapping debt rather than direct debt of the County. WSSC Water Supply and Sewage Disposal Bonds, which finance major system improvements, including large diameter water distribution and sewage collection lines, are paid from non-tax sources including user charges collected through water and sewer rates, which also cover all system operating costs. They are backed by unlimited ad valorem taxes upon all the assessable property within the WSSC district in addition to mandated rates, fees, and charges sufficient to cover debt service. Pursuant to Section 4-101 of Article 29 of the Annotated Code of Maryland (2003 Replacement Volume and 2006 Cumulative Supplement), the County must guarantee payment of principal and interest on WSSC bonds, unless the WSSC waives such guarantee requirement in accordance with Section 4-103 of Article 29. WSSC has waived such guarantee requirement with respect to 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 Section 2-103 of Article 44A of the Annotated Code of Maryland. The County may by local law provide its full faith and credit as guarantee of bonds issued by HOC in principal amount not exceeding $50,000,000. Section 20-32 of the Montgomery County Code provides the method by which the County implemented the guarantee.

Montgomery County Revenue Authority

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

Maryland-National Capital Park and Planning Commission

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

Towns 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.

Special Taxing Districts

The County created three development districts: Kingsview Village Center, West Germantown, and Clarksburg Town Center. These development districts were created in accordance with Chapter 14 of the Montgomery County Code, the Montgomery County Development District Act enacted in 1994. The creation of these districts allows the

County to provide financing, refinancing, or reimbursement for the cost of infrastructure improvements necessary for the development of land in areas of the County with high priority for new development or redevelopment.

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

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

Pursuant to Section 2.07 (g) of the West Germantown bond indenture, upon the satisfaction of certain assessed value requirements which were met, the holders of the Junior Series 2002B bonds requested that the County issue Additional Bonds in exchange for the Junior Series 2002B bonds. The Additional Bonds are on a parity with the Series 2002A bonds (i.e., they are senior lien bonds) and will otherwise have the same terms and conditions as the Series 2002B bonds.

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

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County Facility Lease Obligations

The County leases building and office facilities and other equipment under non-cancelable operating leases. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet subsequent rental payments are not appropriated. Total costs for operating leases were approximately $12,430,000 for FY06. 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 FY07:

Payee	Location	Use	Total Rent For FY07
Eldridge, Inc.	255 Rockville Pike, Rockville	Various Agencies	$3,582,215
Maryland Economic Development Corp.	921 Wayne Avenue, Silver Spring	Parking Garage	3,407,038
Montgomery County Revenue Authority	Indoor Swim Centers	Recreation	3,060,306
Maryland Economic Development Corp.	801 Ellsworth Drive, Silver Spring	Parking Garage	2,510,835
Montgomery County Revenue Authority	5701 Marinelli Drive, Rockville	Conference Center	1,899,406
FP Gude LLC	7300 Calhoun Drive, Derwood	Juvenile Assessment Center	1,257,913
Argo Orchard Ridge, LC	101 Orchard Ridge Dr., Gaithersburg	DPWT	1,150,424
Alexandria Real Estate	1300 Quince Orchard Blvd., Gaithersburg	Emergency Communications Center	954,135
Investment Properties, Inc.	701-C Dover Road, Rockville	Fire & Rescue Warehouse	636,000
Montgomery County Revenue Authority	1301 Piccard Drive, Rockville	Health & Human Services	633,200
1335 Piccard LLC, c/o Wellstone Corp.	1335 Piccard Drive, Rockville	Health Center	592,738
The Gudelsky Comp.	8630 Fenton Street, Silver Spring	Health Center	496,793
Williamson, Harry E. and Helga R.	12500 Ardennes Avenue, Rockville	Corrections	442,853
Washington Real Estate Investment Trust	51 Monroe Street, Rockville	Various Agencies	440,683
Colonial Parking Inc.	111 Rockville Pike, Rockville	Dept. of Economic Development	430,322
401 North Washington, LLC	401 N. Washington Street, Rockville	Commission for Women	426,693
McShea Gaither Road Ltd. Partnership	9125 Gaither Road, Rockville	Police/S.O.D.	325,284
IGPF Shady Grove LLC	9210 Corporate Boulevard, Rockville	Police/S.I.D.	295,739
Betty B. Casey Trust	8536 Anniversary Circle, Rockville	Records Center/Warehouse	283,707
Washington Real Estate Investment Trust	600 East Jefferson St., Rockville	Community Use of Public Facilities	256,238
Daniel, Daniel & Daniel	2-1 & 2-4 Metropolitan Ct., Rockville	Libraries Materials Management	244,940
Tri Peaks Investors, LLC	18749 Frederick Road, Gaithersburg	Police/District 6	237,068
Investment Properties, Inc.	11 N. Washington Street, Rockville	Health & Human Services	207,400
FP Gateway 270, LLC	22610 Gateway Center, Clarksburg	Clarksburg Interim Fire Station	198,991
Various	Rockville Core	Parking	197,478
Milford Mill Limited Partnership	19627 Fisher Avenue, Poolesville	Poolesville Library	196,529
VMO Rockville, LLC	199 E. Montgomery Ave., Rockville	Sheriff's Office	174,327

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 $4,745,000 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.

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.

Lease – Department of Liquor Control Warehouse

The County entered into a lease financing arrangement on October 19, 2006 with Banc of America Public Capital Corporation to finance the construction of a temperature-controlled liquor warehouse for the County's Department of Liquor Control. The term of this financing arrangement is for eight years and total proceeds were $10,615,000. The proceeds are held by a trustee and are disbursed at the direction of the County under terms of a Trust Agreement.

The obligations of the County under this financing arrangement are payable from Department of Liquor Control revenues, and are subject to annual appropriation. The obligations do not constitute a pledge of the full faith and credit or of the taxing powers of the County.

Certificates of Participation – Equipment Acquisition Program

The County entered into a conditional purchase agreement dated June 1, 2001 for the purpose of borrowing $54,660,000 to purchase radio and mobile data equipment for use in the County's public safety programs and buses for use in the County's Ride-On Bus System. The certificates of participation matured on June 1, 2006.

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GENERAL FINANCIAL INFORMATION

Accounting System

The accounts of the County are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/net assets, revenues, and expenditures/expenses, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Montgomery 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 36 times and in 34 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 FY06 CAFR continues to meet the Certificate of Achievement Programs 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 Community College ("the College"), Montgomery County Revenue Authority, the Housing Opportunities Commission of Montgomery County, and the Bethesda Urban Partnership, Inc., as component units. Not included within the reporting entity are the Montgomery County portion of Maryland-National Capital Park and Planning Commission, Washington Suburban Sanitary Commission, Washington Suburban Transit Commission, Washington Metropolitan Area Transit Authority, Metropolitan Washington Council of Governments, and the Northeast Maryland Waste Disposal Authority. These entities are considered joint ventures and disclosure of the County's participation in these joint ventures is presented as a footnote to the County's financial statements included in its Basic Financial Statements (refer to Appendix A for statements as of June 30, 2006).

Basis of Accounting

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

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

ANNUAL BUDGETS

Operating Budget and Tax Rates

On May 25, 2006 the County Council approved the FY07 operating budget comprising the County Government, MCPS, the College, and M-NCPPC aggregating $3.882 billion. This budgetary level represents an increase of 9 percent over the adopted budget for FY06.

The FY07 operating budget provides the greatest share (50.7 percent) of total tax supported resources to Montgomery County Public Schools, including funding necessary to reduce class size in high schools, increase special education staffing, and other initiatives. Funds for Montgomery College are included for an increase greater than enrollment growth and to freeze tuition and fees at current levels for the first time since 1984. In addition, public safety and criminal justice, health and human services, public works, and transit are funded for important improvements in FY07, as well as compensation improvements.

The approved FY07 budget provided for an undesignated surplus of $85.0 million in the General Fund and $102.7 million across all tax supported funds. For FY07, the estimated effective real property tax rate for the County declined to $0.903 per $100 of assessed valuation from the actual effective real property tax rate of $0.953 per $100 of assessed valuation in FY06.

Capital Budget/Capital Improvements Program

The County Council approved the FY07 Capital Budget and FY07-12 Capital Improvements Program for the County government and the required agencies, except for WSSC, aggregating $2.968 billion for FY07-12. This approved program provided for County bond funding aggregating $1.434 billion over the FY07-12 approved six-year period. The Council approved a Capital Improvements Program for WSSC totaling $570.7 million for FY07-12.

Legal Framework for Budgeting

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

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

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

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

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

The Charter requires that County capital improvement projects which are estimated to cost in excess of an amount established by law, or which the County Council determines to possess unusual characteristics or to be of sufficient public importance, must be individually authorized by local law, which would be subject to referendum upon timely petition of five percent of the County's registered voters. The cost criterion for projects in the FY07 Capital Budget and the approved FY07-12 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.

GENERAL FUND AND MAJOR SOURCES OF REVENUE

Status of the General Fund

Montgomery County concluded the fiscal year ending June 30, 2006, with an unreserved undesignated balance for the General Fund of $107.3 million. The County's governmental funds reported combined ending fund balances of $606.2 million, an increase of $151.7 million over the prior year's ending fund balances. The Revenue Stabilization Fund (RSF), including related investment income, was $101.2 million at the close of FY05. Following the mandatory contribution requirement, half of actual General Fund receipts from the (i) income tax, (ii) transfer tax, (iii) recordation tax, and (iv) investment income above the budget estimate must be transferred to the RSF. Since actual revenues exceeded estimated revenues in FY06, there was a mandatory contribution made to the RSF of $6.6 million. Therefore, the amount in the fund increased to $107.8 million at the end of FY06.

General Fund Revenues

Actual revenues for the General Fund totaled $2,422.6 million and were 7 percent above the budget estimate for the fiscal year and 4.4 percent above actual revenues for FY05. The three largest contributors to the variance between the budget estimate and actual revenues were the income tax ($95.8 million above the budget estimate), followed by the transfer tax ($32.5 million above the budget estimate), and finally, the recordation tax ($25.2 million above the estimate). Revenues from excise taxes which include fuel/energy, telephone, hotel/motel, and admissions taxes, were $164.8 million in FY06. That amount was $2.3 million or 1.4 percent above the budget estimate. Investment income was approximately $3.6 million above the budget estimate. Some non-tax sources of revenue came in above the budget estimate. Such sources included licenses and permits (up 3.4%) and miscellaneous revenues (up 32.3%).

Intergovernmental revenues were 0.9 percent below the budget estimate. Such decrease was attributed to the state reimbursements which came in 4.4 percent below the budget estimate, and other intergovernmental revenues which were 28.3 percent below the budget estimate. Federal reimbursements, however, came in 15.5 percent above the budget estimate.

Major Sources of General Fund Revenue

Income Tax

For FY06, the largest revenue source in the General Fund was the local income tax. This tax, which is levied by the County Council and administered by the State, generated $1,044.6 million in FY06, or 46.8 percent of actual tax revenues and 43.1 percent of the total County General Fund operating revenues. Income tax receipts became the majority source of tax revenues in the General Fund when it surpassed the property tax in size in FY99. The dramatic shift in the reliance on the income tax as a major source of revenue can be attributed to two factors: the expanding employment base in the County and growth in capital gains. With a stock market that recovered in 2004 (up 26.4% in the S&P 500 index) after three consecutive years of decline between 2001 and 2003 (down 10.1%, 13%, and 23.4%, in the S&P 500 index, respectively) and meager growth in the County's payroll employment during the FY02-FY05 period, revenues increased 6.7 percent in FY02, 10.4 percent in FY04, and 8.2 percent in FY05. With strong employment growth and significant capital gains attributed to home sales and a rebound in the stock market, income taxes increased 11 percent in FY06 − the largest increase since FY99. With a significant improvement in employment and the stock market during calendar years 2005 and 2006, actual income tax revenues were up nearly $103.7 million in FY06 over FY05. Total quarterly distributions for withholding and estimated payments increased 5.8 percent in FY06, 12.7 percent in FY05, and 10.2 percent in FY04.

Property Tax

The local property tax remains the largest revenue source when measured by all Funds, and is the second largest source of revenue when measured by General Fund revenues. For FY06, the General County property tax levies were based on full cash value for all assessable property in the County at the rate of $1.698 per $100 of assessed personal property, and $0.679 per $100 of assessed real property valuation. The levies generated $782.1 million, or approximately 32.3 percent, of the total County General Fund operating requirements. Property tax collections were $0.4 million below the budget estimate and 1.3 percent below actual revenues in FY05. Actual property taxes, excluding penalty and interest and other items, were $781.1 million in FY06 – a decrease of 1.2 percent over last year. Collections from penalty and interest were $1.0 million, a decrease of 40.1 percent compared to FY05 actual revenues. The reason for the decline in property tax revenues compared to the budget estimate is attributed to a greater than expected decline in personal property taxable assessments and a lower than expected amount for penalties and interest. The modest decrease in property tax collections for the General Fund was also attributed to actions by the County to limit the amount of increase in real property taxes to the rate of inflation as required by the Charter Limit. Such actions by the County included a five cent reduction in the overall real property tax rate, an income tax offset to homeowners in the amount of $28.5 million, and a significantly enhanced County supplemental Homeowner's Tax Credit Program, both of which were applied to (deducted from) the General Fund.

The taxable assessments for real property increased 12.5 percent from FY05 to FY06. This was the largest increase in over 17 years. New construction, which added $1.5 billion to the base in FY06, was 7.6 percent lower than in FY05. The continued strong real estate market, particularly the annual double-digit price increases, fueled the dramatic increase in the reassessment rate from 21.8 percent to 65 percent for Cycle Two reassessments of the County's real property, which followed an increase in the rate from 13.5 percent to 51.8 percent for Cycle One reassessments in FY05 and from 6.4 percent to 36.3 percent for Cycle Three. However, because of the Homestead Credit, annual increases in homeowners' taxable assessments are limited to 10 percent per year although other property such as commercial and investment residential properties are not affected by this credit. Over 60 percent of the County's taxable assessment is capped by the credit. While there were dramatic increases in the reassessment rates, which added nearly $15.4 billion to the assessable base in FY06, such increases were limited by the Homestead Credit, which excluded $8.5 billion in assessments from taxation in FY06.

After their decline in FY98, assessments of personal property increased 2.8 percent in FY99, 3.2 percent in FY00, 5.1 percent in FY01, 3 percent in FY02, 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 Department of Assessments and Taxation. For the past three years, taxable assessments for personal property declined from a high of $4.2 billion in FY03 to $3.8 billion in FY06. Despite the weaker trend in personal property, the total taxable assessment grew 7.6 percent in FY04, 9.6 percent in FY05, and 11.9 percent in FY06.

Transfer / Recordation Tax

Following a two-year decline in tax collections, transfer and recordation taxes increased 40.1 percent in FY98 followed by a 12.1 percent increase in FY99, moderating in FY00 and FY01, then accelerating another 17.2 percent per year from FY01 to FY06. The increase between FY01 and FY06 was attributed to strong housing sales and significant price appreciations. Total transfer and recordation taxes in FY06 were $241.7 million. Collections from transfer tax revenues increased 8.8 percent in FY06 compared to recordation tax revenues (excluding School CIP), which increased 9.8 percent.

Revenues from the transfer tax experienced a slowdown in FY06 compared to the previous two fiscal years with total collections at $145.5 million, but still at an all-time high. The slowdown in the home sales, especially during the latter half of FY06, attributed to the deceleration in the rate of growth in the transfer and recordation taxes.

Because of the slowdown attributed to a dramatic reduction in sales in FY06 (15.7%), revenues from the residential sector were $121.6 million, an increase of only 6.4 percent over FY05 − the smallest annual increase since FY01. However, the strong commercial market helped offset the slowdown in the residential sector. Revenues from the non-residential sector were $23.9 million, an increase of 20.6 percent over FY05.

A closer examination of the trend in the transfer tax from FY98 to FY06 provides two different growth patterns between residential and non-residential transfer tax receipts. Except for FY01, transfer taxes from the residential real estate market exhibited exceptional growth rates over this period. Tax collections increased at an average annual rate of 14.4 percent from FY98 to FY06. In FY01, FY03, and FY06, the growth rates were below double-digit rates for the first time since FY97, but still remained positive (FY01: 1.6%; FY03: 7.8%; FY06: 6.8%). Because of such exceptional increases over these fiscal years, the transfer tax amount collected in FY06, $121.6 million, was an all-time high. The average residential transfer tax doubled during this period from $2,250 in FY98 to approximately $5,110 in FY06, representing an average annual growth rate of 10.3 percent and indicative of the jump in housing prices during FY04 and FY05.

The commercial or non-residential sector attained the highest level of collections ever in FY06. Revenues from that sector increased 20.6 percent compared to 6.8 percent for the residential sector. Over the previous six fiscal years, non-residential transfer tax revenues exhibited two distinct three-year cyclical patterns. For example, from FY98 to FY01, revenues decreased at an average annual rate of 13.5 percent, whereas from FY01 to FY06, revenues increased at an average annual rate of 18.2 percent.

Other Taxes

The remaining tax sources, consisting of hotel/motel, fuel/energy, telephone, and admissions and amusement taxes, totaled $164.8 million, and were approximately $2.3 million, or 1.4 percent, above the budget estimate. The opening of the Conference Center in North Bethesda in late calendar year 2004 continued to contribute to a healthy growth in revenues from the hotel/motel industry (21.9% percent above the budget estimate) during FY06. Revenues from the telephone tax were 0.1 percent above the budget estimate. The modest increase in telephone revenues was attributed to the growth in the use of cellular telephones which offset the decline in landlines. The increases in the hotel/motel and telephone taxes also offset the modest (0.2%) decline in the fuel/energy tax from the budget estimate, which was attributed to a mild winter and therefore a decline in revenues from non-electric energy products such as fuel oil (12.3%) and natural gas (6.5%); and the dramatic decrease in the admissions tax (12.3%) from the budget estimate, which was attributed to the decline in tax receipts from movie theaters (14.4%) and coin-operated amusements (27.6%).

Investment Income

In the General Fund, investment income increased from \$3.7 million in FY05 to \$8.7 million in FY06 and was 71.1 percent above the budget estimate. The dramatic increases in FY05 and FY06 followed declines in FY01 to FY04, which were the result of the accommodative policy of the Federal Open Market Committee (FOMC) of the Federal Reserve that reduced interest rates beginning in January 2001. From June 2004 to June 2006, the FOMC raised the target interest rate for federal funds 17 times from 1.25 percent to 5.25 percent. Because of this 400 basis point increase over a two-year period, short-term or money market rates increased as well, hence the average yield on cash equity for the County increased from 1.13 percent in FY04, to 2.19 percent in FY05, to 4.12 percent in FY06. Total pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was \$36.4 million or 134.5 percent above last fiscal year. That increase in revenues with a lesser rate of increase in spending is reflected in the daily portfolio balance which increased from \$710 million in FY05 to \$883.6 million in FY06.

General Fund Appropriations and Transfers

Expenditure savings in FY06 amounted to \$3.5 million. Savings occurred predominantly in departmental expenditures (\$2.4 million) compared to non-departmental expenditures (\$1.1 million). Even though all departmental and most non-departmental units recognized some savings this year, the majority of the savings occurred in lower than projected operating costs for the Board of Elections (\$0.4 million), Circuit Court (\$0.3 million), and the Office of the County Executive (\$0.3 million).

County law requires that half of General Fund receipts from the income tax, transfer and recordation taxes, and investment income above the budget estimate must be transferred to the Revenue Stabilization Fund. Because of greater than expected receipts, there was a mandatory contribution to the Revenue Stabilization Fund in FY06 of \$6.6 million.

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Table 12
Montgomery County, Maryland
Schedule of General Fund Revenues, Expenditures, & Transfers In (Out)
(Budgetary, Non-GAAP Basis)

	Fiscal Year Actual(1)				Fiscal Year Budget
	2003	2004	2005	2006	2007
Revenues:					
Taxes:					
Property, including interest & penalty	$ 695,354,478	$ 736,961,478	$ 792,149,705	$ 782,131,830	$ 784,658,495
Transfer tax and recordation tax	169,583,507	219,080,729	260,955,053	241,718,411	225,730,000
County income tax	787,997,740	869,667,887	940,858,931	1,044,561,989	1,079,350,000
Other taxes	47,630,238	116,892,853	162,073,381	164,792,549	174,306,000
Total Taxes	1,700,565,963	1,942,602,947	2,156,037,070	2,233,204,779	2,264,044,495
Licenses and permits	8,728,837	9,201,123	9,476,136	10,335,016	9,974,010
Intergovernmental revenue	111,611,635	117,131,716	118,353,371	137,164,714	137,180,412
Charges for services	10,389,923	14,141,153	15,600,267	12,814,029	12,894,160
Fines and forfeitures	7,383,288	7,404,248	7,726,337	9,381,741	13,506,210
Investment income	3,310,147	416,588	3,722,932	8,675,618	9,500,000
Miscellaneous	8,929,585	8,945,982	9,603,137	11,024,284	9,413,870
Total Revenues	1,850,919,378	2,099,843,757	2,320,519,250	2,422,600,181	2,456,513,157
Expenditures (including encumbrances):					
General County:					
General government	166,156,273	168,549,554	179,009,067	196,495,344	223,538,972
Public safety	212,829,090	225,634,585	251,608,042	281,263,093	312,837,681
Transportation and public works	41,130,164	45,659,148	44,628,602	47,335,525	45,716,266
Health and human services	157,251,684	163,006,801	173,813,810	197,337,883	215,981,556
Culture and recreation	43,455,404	41,611,491	44,333,319	46,412,919	51,590,743
Housing and community development	6,305,950	6,363,507	6,889,713	7,343,508	5,542,190
Environment	3,557,247	3,235,236	3,280,633	3,574,260	4,284,666
Total Expenditures	630,685,812	654,060,322	703,563,186	779,762,532	859,492,074
Transfers In (Out):					
Transfers In:					
Special Revenue Funds	12,555,270	13,203,740	12,538,500	12,448,820	13,751,290
Enterprise Funds	29,877,080	26,442,710	27,102,810	25,534,770	27,585,780
Component Units	626,360	328,420	1,010,826	601,158	328,420
Total Transfers In	43,058,710	39,974,870	40,652,136	38,584,748	41,665,490
Transfers Out:					
Special Revenue Funds	(22,374,913)	(31,243,064)	(23,733,932)	(18,657,868)	(13,739,650)
Debt Service Fund	(168,474,195)	(177,932,595)	(186,529,027)	(195,435,109)	(201,583,127)
Capital Projects Fund	(15,012,594)	(29,506,722)	(19,027,068)	(49,879,689)	(65,152,634)
Enterprise Funds	(2,368,780)	(2,721,418)	(2,700,331)	(2,702,365)	(4,164,550)
Internal Service Funds	(79,734)	(116,423)	(605,796)	(1,053,172)	(1,183,780)
Component Units	(1,163,343,950)	(1,222,246,998)	(1,350,046,288)	(1,387,791,173)	(1,489,501,808)
Total Transfers Out	(1,371,654,166)	(1,463,767,220)	(1,582,642,442)	(1,655,519,376)	(1,775,325,549)
Net Transfers In (Out)	(1,328,595,456)	(1,423,792,350)	(1,541,990,306)	(1,616,934,628)	(1,733,660,059)
Excess of revenues and operating transfers in over (under) expenditures, encumbrances and operating transfers out	(108,361,890)	21,991,085	74,965,758	25,903,021	(136,638,976)
Fund Balances, July 1 as previously stated	195,161,927	109,601,952	146,804,572	234,440,615	273,333,694
Adjustment for previous year encumbrances(2)	22,801,915	15,211,535	12,670,285	12,990,058	--
Fund Balances, July 1 restated	217,963,842	124,813,487	159,474,857	247,430,673	273,333,694
Equity transfers in (out)	--	--	--	--	--
Budgetary Fund Balance, June 30	$ 109,601,952	$ 146,804,572	$ 234,440,615	$ 273,333,694	$ 136,694,718

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

Table 13
General Fund
Schedule of Budgetary Fund Balance to
GAAP Fund Balance Reconciliation

	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006
Budgetary to GAAP Reconciliation:				
Budgetary Fund Balance as noted above	$109,601,952	$146,804,572	$234,440,615	$273,333,694
Plus encumbrances outstanding	16,783,091	13,840,682	13,899,185	19,184,118
Adjustment for prior year encumbrances	(2,555,941)	(1,571,556)	(1,170,407)	(909,010)
Unrealized investment gain (loss)	1,752,108	(1,740,797)	(2,338,309)	(4,788,474)
Net differences between beginning fund balances	842,960	1,603,295	1,718,083	1,966,087
GAAP Fund Balance as Reported	$126,424,170	$158,936,196	$246,549,167	$288,786,415
Elements of GAAP Fund Balance:				
Reservations	$ 22,540,476	$ 19,830,438	$ 5,971,759	$ 7,016,227
Designated for CIP Transfers	51,936,828	82,361,052	--	--
Designated for General Fund	--	--	99,507,092	155,304,163
Unreserved - Designated for Encumbrances	--	--	13,899,185	19,184,118
Designated for subsequent years expenditures	17,300,037	30,017,660	--	--
Unreserved / Undesignated	34,646,829	26,727,046	127,171,131	107,281,907
	$126,424,170	$158,936,196	$246,549,167	$288,786,415

Note: All amounts are audited, and are for fiscal years ended June 30.

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, the County established a Revenue Stabilization Fund effective July 1, 1994.

The Revenue Stabilization Fund (the "Fund") supplements the reserve or operating margin the County annually sets aside. The County's Charter, Section 310, sets a five percent annual limit on General Fund surplus. The State law authorizing counties to set up rainy day funds expressly prevails over any contrary County charter provision. Revenues in the Fund are allowed to go as high as 10 percent of the aggregate revenue from certain sources in the preceding three fiscal years. The Revenue Stabilization Fund provides a mechanism to level out the revenue stream and adjusts for year-to-year fluctuations beyond a certain baseline level. County law requires that 50 percent of the growth above the average of the six preceding fiscal years in certain taxes (income, property transfer, recordation, but not the property tax) and General Fund investment income be set aside in a restricted fund. Also, 50 percent of the annual revenue from these sources in excess of the Council's original projection in the budget resolution goes to the Fund.

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

As the result of higher than estimated income, transfer, and recordation tax revenues and investment income, a mandatory transfer of $6.6 million was made to the Fund at the end of FY06. There was a mandatory contribution of $5.2 million made to the Fund at the end of FY05 and $8.8 million at the end of FY04, but there was no mandatory contribution in FY03. Prior to FY03, mandatory transfers were made in FY97 ($18.7 million), FY98 ($21.4 million), FY99 ($5.5 million), FY00 ($8.4 million), FY01 ($8.9 million), and FY02 ($7.7 million) as well as the discretionary transfers made in FY95 ($10 million) and FY96 ($4.5 million). With earned interest, the Revenue Stabilization Fund reached its maximum allowable size of $107.8 million at the close of FY06. Since the Fund reached more than half of its maximum size, according to the County law that established the Fund, interest earned from the fund must be transferred to PAYGO. The interest transfer in FY06 was $4.2 million.

DEMOGRAPHICS

Population

The population of the County, according to the 2000 Census, was 878,545, an increase of 15.7 percent since the 1990 Census. The Maryland-National Capital Park and Planning Commission (M-NCPPC) population estimate shows 1,000,000 for the County by July 1, 2010.

Table 14
Households and Population

	Households	Population	Population Percent Change from Prior Census
2010	370,000	1,000,000	13.8%
2006	351,000	953,000	8.5
2005	348,100	942,000	7.2
2004	346,200	921,631	4.9
2003	341,300	916,073	4.3
2002	334,500	906,863	3.2
2001	329,000	893,927	1.8
2000 (U.S. Census)	324,565	878,545	15.7
1990 (U.S. Census)	283,400	759,600	31.2
1980 (U.S. Census)	207,195	579,053	10.8
1970 (U.S. Census)	156,674	522,809	53.3
1960 (U.S. Census)	92,433	340,928	107.4
1950 (U.S. Census)	45,264	164,401	--

Note: Data for total population for 2001 to 2004 from the Bureau of Economic Analysis, U.S. Department of Commerce. Data for households for 2001 to 2006 from *Sales and Marketing Management* issues of "Survey of Buying Power." Estimates and forecasts for households and population in 2005, 2006 and 2010 derived from the Demographic Forecast Model from M-NCPPC (Round 7.0).

Table 15
Median Age

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

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

Employment

The County's economic structure reveals a diversified economy with a strong service sector and an increasing reliance on the private sector. For example, the share of public-sector employment declined from 18.8 percent in 1990 to 17 percent in 2005. The service sector (trade, information services, financial activities, professional services, education and health, and hospitality) employed 73.1 percent of the total workforce in 2005, the latest available annual data. The following tables present the County's employment by industrial sector.

Table 16
Payroll Employment

	1990	2000	2005
TOTAL PRIVATE SECTOR	307,490	365,022	380,722
PUBLIC SECTOR EMPLOYMENT:			
Federal	42,713	39,615	39,968
State	1,634	1,100	1,043
Local	27,011	33,084	36,935
TOTAL PUBLIC SECTOR	71,358	73,799	77,946
GRAND TOTAL	378,848	438,821	458,668

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.

The Bureau of Labor Statistics, U.S. Department of Labor converted the industrial classification schedule from the Standard Industrial Classification (SIC) system to the North American Industrial Classification System (NAICS) in 2001. As a result, there is no breakout of the private sector because such data are not comparable for 2000 and 2005.

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

Table 17
Payroll Employment Shares by Industry

.	1990	2000	2005
TOTAL PRIVATE SECTOR	81.2%	83.2%	83.0%
PUBLIC SECTOR EMPLOYMENT:			
Federal	11.3	9.0	8.7
State	0.4	0.3	0.2
Local	7.1	7.5	8.1
TOTAL PUBLIC SECTOR	18.8	16.8	17.0
GRAND TOTAL	100.0%	100.0%	100.0%

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

Due to reclassification by the Bureau of Labor Statistics, U.S. Department of Commerce, of private-sector industrial categories from the U.S. Standard Industrial Classification (SIC) system to the North American Industrial Classification System (NAICS) beginning with the 2001 employment statistics, there is no longer a historical comparison available within the private sector employment categories for years prior to 2001. The table below provides a comparison of the payroll employment data for 2004 and 2005 based on the new classification system.

Table 18
Payroll Employment
(NAICS Series)*

	2004**	2005	Difference	Percent Change
TOTAL PRIVATE SECTOR	370,954	380,722	9,768	2.6%
GOODS-PRODUCING	45,262	44,867	(395)	-0.9%
Natural Resources and Mining	682	709	27	4.0%
Construction	29,117	29,444	327	1.1%
Manufacturing	15,463	14,714	(749)	-4.8%
SERVICE PROVIDING	325,046	335,237	10,191	3.1%
Trade, Transportation, and Utilities	64,367	64,990	623	1.0%
Information	14,832	15,105	273	1.8%
Financial Activities	34,598	36,127	1,529	4.4%
Professional and Business Services	96,406	101,111	4,705	4.9%
Education and Health Services	55,205	56,698	1,493	2.7%
Leisure and Hospitality	38,331	39,505	1,174	3.1%
Other Services	21,307	21,701	394	1.8%
UNCLASSIFIED	646	618	(28)	-4.3%
PUBLIC SECTOR EMPLOYMENT	77,828	77,946	118	0.2%
Federal Government	40,661	39,968	(693)	-1.7%
State Government	1,062	1,043	(19)	-1.8%
Local Government	36,105	36,935	830	2.3%
GRAND TOTAL	448,782	458,668	9,886	2.2%

* North American Industrial Classification System.
** Data for 2004 revised by the Maryland Department of Labor, Licensing and Regulation.

During first nine months of 2006, the County's unemployment rate averaged 2.8 percent. The following table presents the County's labor force, employment and unemployment for the calendar years 1997 through 2005, and for the first nine months of 2006.

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Table 19
Montgomery County's Resident Labor Force
Employment & Unemployment*

	Labor Force	Employment	Unemployment	Unemployment Rate
2006**	521,715	507,331	14,384	2.8%
2005	507,644	491,801	15,843	3.1
2004	497,616	481,647	15,969	3.2
2003	497,410	480,802	16,608	3.3
2002	495,669	478,377	17,292	3.5
2001	490,213	475,049	15,164	3.1
2000	489,050	476,197	12,853	2.6
1999	478,946	470,018	8,928	1.9
1998	472,944	462,620	10,324	2.2
1997	466,600	455,285	11,315	2.4

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

* Data for 2000 through 2005 were revised by DLLR and BLS to incorporate intercensal population controls for 2000.
** Based on the rate of change in the averages of the first nine months of 2005 and 2006.

Federal Government Employment

The County is home to 23 Federal agencies in which nearly 64,000 civilians are employed, including a significant number of non-Federal employees working as consultants or researchers. The National Institutes of Health in Bethesda (part of the Department of Health and Human Services) is one of the nation's centers of medical research. The following is a partial list of Federal agencies in the County and their estimated employment in 2005.

Department of Health and Human Services	39,000
National Institutes of Health	
Food and Drug Administration	
Other	
Department of Defense	13,670
David Taylor Research Center	
Naval Medical Command	
Defense Mapping Agency	
Army Laboratory Center	
Walter Reed Army Medical Center/Institute of Research	
Other	
Department of Commerce	6,678
National Institute of Standards & Technology	
National Oceanic & Atmospheric Administration	
Department of Energy	2,200
Nuclear Regulatory Commission	2,100
Consumer Product Safety Commission	329

Source: M-NCPPC Montgomery County Department of Park and Planning, Research and Technology Center (2005 data).

Private Sector Employment

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

Name of Firm	Est. No. of Employees
Adventist Healthcare*	6,951
Giant Food Corporation	4,900
Chevy Chase Bank	4,700
Lockheed Martin	3,900
Marriott International, Inc. (Headquarters)	3,500
Hughes Network Systems	3,200
IBM	3,400
Sodexho Marriott Services	3,000
Holy Cross Health	2,900
Red Coats, Inc.	2,700
Westat	2,170
Discovery Communications, Inc.	2,000
BAE Systems	1,820
Montgomery General Hospital	1,750
Safeway Stores, Inc.	1,700
Government Employees Insurance Company (GEICO)	1,650
Kaiser Foundation Health Plan	1,622
Aspen Systems	1,600
Bureau of National Affairs	1,600
Suburban Hospital	1,550
National Association of Securities Dealers	1,330
Mid-Atlantic Medical Services, Inc.	1,200
MedImmune	1,000
Miller & Long	1,000
Human Genome Sciences	1,000

*Includes Shady Grove and Washington Adventist Hospitals

Note: The employee numbers listed are best estimates taken during the 4th quarter of 2005 from various sources, including first-hand research by the County's Department of Economic Development, the Montgomery County Department of Park and Planning Research and Technology Center, CoStar Tenant, and company websites.

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Personal Income

Actual personal income of County residents approached $52.2 billion in calendar year 2004 and is estimated to total approximately $58.9 billion in 2006. Income in 2004 experienced strong growth of 7 percent, slightly higher than the nation's growth rate of 6.2 percent, but below the State's rate at 7.2 percent. By contrast, growth in 2005 is estimated to decelerate slightly to 6.7 percent, which is significantly above the nine-year annual average growth rate of 5.8 percent, and then moderate to 5.7 percent in 2006. Strong private-sector employment from 2004 to the first nine months of 2006, the latest date for which data are available, is the primary reason for the pickup in personal income growth.

The County, which accounts for just over 16 percent of the State's population, accounted for 23.6 percent of the State's total personal income in 2004, a share that remained virtually unchanged the past ten years.

Table 20
Total Personal Income
($ millions)

Calendar Year	Montgomery County	Maryland	U.S.	Montgomery County as Percent of Maryland
2006 (est.)	$58,900	$250,248	$10,745,422	23.5%
2005 (est.)	55,700	235,196	10,224,761	23.7
2004	52,221	221,284	9,717,173	23.6
2003	48,790	206,370	9,150,908	23.6
2002	47,042	198,823	8,872,521	23.7
2001	45,538	191,657	8,718,165	23.8
2000	43,575	181,957	8,422,074	23.9
1999	39,050	167,075	7,796,137	23.4
1998	36,587	157,784	7,415,709	23.2
1997	33,418	147,843	6,907,332	22.6

Notes: Actual data from U.S. Department of Commerce, Bureau of Economic Analysis, revised May 2006 (County).
Estimates for Montgomery County (2005-2006) by Montgomery County Department of Finance.
Estimates for Maryland (2005-2006) and the United States (2006) by State of Maryland, Bureau of Revenue Estimates and Montgomery Department of Finance.

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Average Household and Per Capita Personal Income

The County's total personal income is estimated to reach $58.9 billion in calendar year 2006, up from $52.2 billion in 2004, and per capita income is expected to reach $61,800 in 2006, up from $56,212 in 2004. Average household income is estimated to increase from $150,841 in 2004 to $167,800 in 2006.

Table 21
Per Capita and Average Household Income, 2004

County	Per Capita Income	County	Average Household Income
Marin, CA	$69,115	Fairfield, CT	$169,701
Fairfield, CT	62,979	Westchester, NY	162,574
Westchester, NY	58,952	Morris, NJ	159,986
Morris, NJ	58,817	Nassau, NY	159,329
Arlington, VA	58,310	Marin, CA	159,035
Fairfax, VA	58,266	Fairfax, VA	157,522
Somerset, NJ	57,033	Somerset, NJ	153,671
Montgomery, MD	**56,212**	**Montgomery, MD**	**150,841**
San Mateo, CA	54,807	San Mateo, CA	147,953
Bergen, NJ	53,131	Santa Clara, CA	144,100
Nassau, NY	52,899	Bergen, NJ	142,908
Norfolk, MA	51,627	Lake, IL	141,852
Montgomery, PA	51,207	Chester, PA	136,687
Oakland, MI	50,991	Norfolk, MA	134,370
Middlesex, MA	50,692	Rockland, NY	134,317
Chester, PA	49,743	Howard, MD	133,045
Howard, MD	49,186	Arlington, VA	132,967
Santa Clara, CA	49,132	Contra Costa, CA	130,077
Lake, IL	47,417	Middlesex, MA	129,531
DuPage, IL	47,254	Montgomery, PA	129,148

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 175,000 where income levels are considerably higher than in the central city and other jurisdictions in the area. These counties are primarily suburban in nature; no city or town accounts for 40 percent or more of the total population.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, "Survey of Current Business", May 2006, for total personal income and per capita data; the Department of Finance used data from the U.S. Department of Commerce, Bureau of the Census, *American Community Survey* for 2004, to derive the number of persons per household and divided the population figures in the BEA data by that result to determine 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 $251 million to the local economy. Over $84 million comes from the County's thriving equine industry, about $125 million from horticulture, and $42 million from traditional agriculture. There are more than 577 farms and 350 horticultural enterprises in the County. The majority of farms are family-run operations, most having been in the same family for several generations. The industry as a whole employs more than 10,000 residents. While the total market value of Maryland agricultural products sold has fallen since the last USDA Census, Montgomery's market value increased more than that of any other county in the State, rising more than 40 percent from 1997 to 2002.

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 over the past five years.

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). Over 68,000 acres of farmland, more acreage than in any other county in the nation, are protected through easements.

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

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

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

Federal Spending

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

The importance of Federal spending in the Washington metropolitan region and in Montgomery County in particular is exhibited in the percent of total Federal spending targeted to the Washington MSA. While total Federal spending in Federal fiscal year (FFY) 2004 amounted to $2,162.2 billion nationwide, the Washington MSA received $107.9 billion, a 5 percent share. Montgomery County received $15.3 billion, a 0.7 percent share of the total Federal spending and 14.2 percent of the region's share. Even though the overall share of regional compared to national spending has grown modestly to 5 percent, some categories of spending growth are far more significant. For example, the region receives nearly 15 percent of total Federal spending on salaries and wages, and services and goods in the private sector through the procurement process. While growth in total Federal spending is robust for all categories, by far the strongest growth is in procurement. As the table below shows, this category grew 8.1 percent annually nationwide since 1997, but 12.5 percent for the Washington MSA and 12.2 percent for the County. These data also show that Federal procurement spending in Montgomery County achieved significant gains in that period, closely tracking growth in the region as a whole. The more than $15.3 billion in total Federal spending in Montgomery County is estimated to represent approximately 30 percent of the gross county product as the Federal government boosts economic activity through salaries and wages, transfer payments, and purchases of goods and services with the County's private sector industries. Federal procurement for the County reached $7.5 billion in FFY04, an increase of 31.6 percent, which, based on available data, was the highest level for the County to date.

Table 22
Federal Procurement Trends
1997 – 2004*
($ billions)**

Federal Fiscal Year	Montgomery County	Washington MSA	U.S.
2004	$7.5	$52.8	$339.7
2003	5.7	44.2	327.4
2002	5.0	37.3	271.0
2001	3.9	32.3	246.2
2000	3.8	29.2	223.3
1999	3.4	26.2	208.1
1998	3.5	24.4	209.3
1997	3.2	22.0	193.0
Average Annual Percent Change 1997-2004	12.2%	12.5%	8.1%

* 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, FY 1997-2004.

New Construction

Between FY98 and FY02, the number of new construction projects increased each year at an average annual rate of 14.7 percent. At the same time the value of new construction added to the real property tax base increased at an average of 6.7 percent per year. However, such increases in new construction were not sustained from FY02 to FY06. In fact, two entirely different patterns occurred. The number of projects declined steadily at an annual average rate of 27.8 percent. Conversely, the value of new construction between FY02 and FY05 increased from $1.5 billion in FY02 to nearly $1.7 billion in FY05, an annual average increase of 3.4 percent, but declined 7.6 percent in FY06. While each category within the tax base exhibited volatility from year to year, such volatility did not affect the overall value of new construction, which increased each year although at a lower annual rate than the one experienced during the FY98-FY02 period.

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Table 23
New Construction Added to Real Property Tax Base
Montgomery County
($ millions)

Fiscal Year	Construction Starts	Residential	Apartments	Condominiums	Commercial/ Industrial	All Other	Total
2006	1,582	$978.3	$41.2	$132.9	$384.6	$4.8	$1,541.8
2005	2,077	874.2	82.5	121.2	588.4	1.7	1,668.0
2004	2,758	892.4	21.0	176.4	559.1	3.0	1,651.9
2003	4,062	1,023.5	49.9	133.2	426.9	1.2	1,634.7
2002	4,807	896.1	19.4	70.8	520.7	1.3	1,508.3
2001	4,555	878.5	53.7	88.2	276.0	4.4	1,300.8
2000	4,038	843.4	93.8	108.4	233.6	7.5	1,286.7
1999	3,329	787.4	11.0	55.9	287.1	24.5	1,165.9
1998	2,675	743.1	1.9	48.9	330.8	27.6	1,152.3
1997	2,826	725.9	7.9	56.0	182.9	6.0	978.7
10-Year Summary		$8,642.8	$382.3	$991.9	$3,790.1	$82.0	$13,889.1
Categories as Percent of Total		62.2%	2.8%	7.1%	27.3%	0.6%	100.0%

Notes: Property assessed at full cash value effective in FY2002 with prior years adjusted to full cash value.
Construction starts for fiscal year 2005 are revised.

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. Encompassing approximately 671 acres in an unincorporated area of Montgomery County, the district consists of two residential developments, which provide for the construction of 1,291 single-family and 102 multi-family units. A second district, Kingsview Village Center, was created on July 28, 1998. This district consists of a 112,000 square foot retail shopping center, and 236 multi-family housing units.

In separate actions in September 2000 and October 2001, the County Council approved resolutions initiating evaluation of three proposed new development districts located in Clarksburg: Clarksburg Town Center, Clarksburg Village and Clarksburg Skylark. The Clarksburg Town Center development district was created on March 4, 2003. Bonds have not yet been issued for Town Center. Upon completion of the three districts in Clarksburg, the most recent development plan consists of approximately 5,100 residential units and 195,000 square feet of retail space.

Economic Development Initiatives

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

Technology Corridors

The I-270 Technology Corridor is an internationally recognized life sciences and advanced technology center. It is home to over 500 biotechnology and advanced technology companies, including Human Genome Sciences, Lockheed Martin, MedImmune, IBM, and Hughes Network Systems. The corridor continues to grow with over 30 million square feet of additional commercial and industrial development in the pipeline.

The U.S. Route 29 Corridor in eastern Montgomery County continues its steady transformation into the County's other major technology and business center, with more than 100 major employers and counting. The $900 million FDA Headquarters Consolidation project is well underway, 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. There are already over 2,800 FDA employees located on the campus, which will house some 7,700 total employees by project completion in 2010.

Recognizing the economic importance of such a large Federal user like the FDA, the County is planning a new Science and Technology Center on a 115-acre site just northeast of the FDA campus. The East County Center for Science and Technology will feature 800,000 square feet of development, including laboratory and biotech manufacturing facilities, a technology business incubator, a higher education facility, a telecommuter facility, and several build-to-suit sites.

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 over $186 million for 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.

The redevelopment project includes 500,000 square feet of retail, restaurant and entertainment space, some 240,000 square feet of office space, a hotel, a community facility, and two new parking garages. The first phase was completed in 2000, and features some 100,000 square feet of retail space, including Fresh Fields Whole Foods Market, Strosniders Hardware, and a Sprint PCS Store. In 2001, the project was expanded to include Baja Fresh, Hollywood Video, Next Day Blinds, MotoPhoto, Interior Accents, Adega Wine Cellars, and Family Dry Cleaners.

Since the beginning of 2004, an array of new restaurants and shops were added, including Red Lobster, Panera Bread, Austin Grill, Macaroni Grill, Pier 1, Men's Wearhouse, Ann Taylor Loft, Starbucks, Washington Sports Club, and Borders Books and Music, among many others. The Majestic 20 movie theater with its 20 screens and 4,500 seats is, along with AFI, making downtown Silver Spring a significant entertainment destination.

Elsewhere in downtown Silver Spring, the Takoma Park campus of Montgomery College is in the midst of an $88 million expansion that will extend the campus into the heart of south Silver Spring. Two of the three expansion phases are completed. Construction on Phase I, the 98,000 square foot Health Sciences Center, began in the fall of 2002 and was completed in 2004. Phase II, the Student Life Center and Pedestrian Bridge, began construction in 2004, and opened in time for the fall 2006 semester. Phase III, the Cultural Arts Center, is in engineering and will begin construction in 2007, with completion expected by 2009. The 180,000 square foot Giant bakery building was acquired in 2002 for future expansion. Construction started in 2005 to house an expanded Art department and art studios to be named the Morris and Gwendolyn Cafritz Foundation Art Center. Construction of a new Civic Building and Veterans Plaza with ice skating rink will begin in 2007.

A new $193.6 million Transit Center mixed-use development project, including retail, residential, hotel, and restaurants alongside an inter-modal transportation hub linking bus, rail, and other transportation services, is currently in engineering. This expanded gateway to downtown Silver Spring should start construction in the spring of 2007.

The new $5.2 million Innovation Center, a business incubator facility, and the new $18.4 million District Courthouse opened in 2005; the new $13.3 million fire station, including a satellite police station and Urban District office, opened in 2006; and the acquisition of land for a new $13.6 million public library began in 2006.

New investment in downtown Silver Spring will top over $2.0 billion with more than 60 percent of the projects already completed or under construction. More than 75 percent of this new investment is privately funded. About 1,250 new units of residential development were recently completed or are under construction, adding to the existing base of 5,000 existing residential units in downtown. An additional 3,000 residential units are in various stages of planning.

Wheaton

Wheaton was designated as an Arts & Entertainment District by the State in December 2005. This, along with the Council's enactment in July 2006 of legislation amending the Wheaton Retail Preservation Overlay Zone, provides an opportunity to attract transit-oriented "smart growth" development to downtown Wheaton, with an emphasis on retaining small storefront businesses and attracting more arts-related entities at street level. The County hopes to retain the "Wheaton Marketplace" ambience at street level and to encourage more mixed-use developments to enhance the urban character of the area.

The HOC/Bozzuto air rights residential development is under construction and will include 175 multi-family housing units over the existing Wheaton Transit Station Kiss-and-Ride lot. Approximately 30 percent of the dwelling units proposed will be affordable housing. Construction is expected to take about two years and will also include street-level retail space fronting Georgia Avenue.

In July 2006, the Latino Economic Development Corporation (LEDC) opened a new office at the Gilchrist Center in Wheaton. Established in 1991 as a private, non-profit 501(c)3 entity to help small businesses through micro-loans, business training and technical assistance, they "re-branded" their identity for Montgomery County and are now known as Leading Economic Development in the Community (LEDC), and offer their programs and services to any small business in need of help. In addition, the County continues to work to develop strategies and plans for further assisting existing small businesses in downtown Wheaton, with the goal of helping these businesses stay competitive and successful through enhanced business practices as redevelopment continues.

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, 24/7 destination offering residents, visitors and its workforce alike multi-cultural dining, live theater, cinema, unique shops and numerous special events and festivals. Bethesda has a workforce of over 44,000, and includes employees who work for some of the region's largest and most notable employers, including Chevy Chase Bank, Clark Construction Group, CoStar Group, and U.S. Bureau of Primary Health Care.

In the past several years, Bethesda welcomed Round House Theatre, Imagination Stage and Bethesda Row Landmark Theatre as marquee entertainment organizations that highlight classical plays, children's theatre, and independent and foreign films. Also, in the near future Nederlander World Wide is expected to transform the landmark Art Deco Bethesda Theater into a showcase venue for Broadway-caliber productions.

Several new luxury apartment buildings including The Palisades, The Whitney, and the Residence at Rosedale Park opened, creating 1,500 new housing units in downtown Bethesda. More recent luxury condominium projects include Adagio on Wisconsin Avenue, Lionsgate at Woodmont Corner, and the Trillium Condo project at Wisconsin Avenue and Battery Lane.

Other development projects include Arlington East, the last component of redevelopment by Federal Reality Investment Trust in downtown Bethesda, which is a 180-unit apartment building with first floor retail. The project will include some 25 units of affordable housing and conceal an existing parking garage.

The County awarded development rights for Parking Garage 31 to PN Hoffman/Stonebridge joint venture firms. PN Hoffman/Stonebridge will construct two mixed-use buildings providing for 357,000 square feet of retail space. The project will provide 1,300 underground parking spaces.

Friendship Heights

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

The Friendship Heights area now boasts the first top-tier luxury shopping center on the east coast outside of New York City. The Collection at Chevy Chase, a 112,000 square foot project facing Wisconsin Avenue, was developed and is managed by The Chevy Chase Land Company of Montgomery County, Maryland. The Collection brought retailers such as Christian Dior, Jimmy Choo and Barney's New York Coop to this area for the first time. Tiffany & Company, Georgette Klinger and Cartier have been 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 component of Chevy Chase Center is 100,000 square feet of neighborhood-oriented retail, anchored by Giant Food and Pharmacy, which was an original tenant of the Center when it was first developed in the 1950s. Other tenants include Clyde's Restaurant, Sushi Ko Restaurant, Lacoste, Potomac Pizza, Giffords Ice Cream and many other familiar area and national retailers. The third component of the project is the 200,000 square foot office tower, leased in its entirety by the The Mills Corporation. In 2006, Mills relocated its headquarters from Arlington, Virginia to Friendship Heights, bringing over 100 jobs to Montgomery County.

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

Existing Office/R&D/Commercial Space

As of November 7, 2006, Montgomery County has over 133 million square feet of commercial real estate space (office, flex, R&D, industrial, retail). The weighted vacancy rate for the County dropped since November 2005 from 6.7 to 5 percent.

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 87 million square feet of commercial space. Notable buildings along the I-270 corridor include the 700,000 square foot Chevy Chase Bank headquarters in Bethesda, and the 260,000 square foot Tower Building in Rockville. The Route 29 corridor connects Silver Spring to Burtonsville and includes nearly 25 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 24
Office/Flex/Industrial/Commercial Space Availability by Submarket
As of November 7, 2006

Montgomery County Office Market	Total Inventory (Square Feet)	Direct Vacant (Square Feet)	Direct Vacancy Rate	Vacancy Rate w/ Sublet
Bethesda/Chevy Chase	14,421,653	849,344	5.89%	6.85%
Gaithersburg	22,352,142	1,129,508	5.05%	6.11%
Germantown	9,138,405	457,597	5.01%	5.33%
Kensington/Wheaton	9,122,490	99,513	1.09%	1.14%
North Bethesda/Potomac	16,431,105	1,142,933	6.96%	8.08%
North Rockville	20,467,804	1,490,821	7.28%	8.72%
North Silver Spring/Rt 29	11,431,089	264,280	2.31%	2.75%
Rockville	17,195,777	902,094	5.25%	5.69%
Silver Spring	13,184,688	340,827	2.59%	3.24%
Total County	133,745,153	6,676,917	4.99%	5.82%

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

Office/Industrial Projects

Summary

Throughout 2006, Montgomery County continued to make significant progress developing two strategic Science and Technology Centers. The County had continued success with its Incubator program, resulting in the opening of the new Wheaton Business Innovation Center and the groundbreaking of the Rockville Innovation Center (scheduled to open in 2007). Additionally, the County made significant progress on new "Town Center" projects in downtown Rockville and Silver Spring, and several private new office buildings and development projects were completed or started in 2006. Details on all of these projects appear below.

Public/Private Projects

East County Center for Science and Technology (ECCST)

The East County Center for Science and Technology (ECCST) is a public-private partnership among Montgomery County, the Washington Suburban Sanitary Commission (WSSC) and Republic Properties Corporation. Under the proposed arrangement, a 115-acre site owned by WSSC and located off Route 29 in eastern Montgomery County will be conveyed to the County, with the goal of developing and constructing a science and technology park modeled after the County-owned Shady Grove Life Sciences Center in Rockville. Republic Properties of Washington, D.C. was selected by the County to serve as the County's private development partner in the project. Republic is charged with developing a plan that focuses on eastern Montgomery County's needs for biotechnology and high technology development, along with public amenity needs in the area. Republic's preliminary plan calls for 800,000 square feet of development, including laboratory and biotech manufacturing facilities, a technology business incubator, a higher education facility, a telecommuter building, built-to-suit sites, and a daycare center. The County is currently finalizing the land transfer and development agreements with both WSSC and Republic. While these agreements are being finalized, Republic started on a number of pre-development tasks such as traffic studies and environmental assessments of the ECCST site. Once the final development agreements are in place, it is estimated that groundbreaking on the site will take place in 2007. The entire project is likely to take 10 years to reach full build-out.

Montgomery College-Germantown Science and Technology Park

In early 2003, Montgomery College settled on the purchase of a 20-acre site adjacent to the College's Germantown campus. This property will be combined with 20 acres of existing undeveloped land on the campus to form a 40-acre site on which a one million square foot science and technology center will be constructed. The purchase of the 20-acre site was made possible by a total of $6.1 million in funding appropriations to the College from the State and County. The preliminary plan for the science and technology center calls for primarily high technology research and development space, with a focus on the life sciences, which will complement the biotechnology programs and curriculum already offered at the Germantown campus. The plan also calls for facilities for incubator "graduates" as well as space for mature biotech and high technology companies. Once built out, the center could be home to nearly 4,000 employees. In early 2004, the College received several proposals for development plans and ultimately selected Foulger Pratt as its development partner. The project is scheduled to break ground in early 2007.

Downtown Silver Spring/Silver Triangle

The 22-acre downtown Silver Spring redevelopment is nearing completion as of the end of 2006. Discovery Communications' 550,000 square foot corporate headquarters, which houses over 2,000 employees, opened in late 2002. Downtown Silver Spring is also home to the AFI Silver Theater, and a new 20-screen Majestic movie theater. New office construction continues in the area as well, including the 150,000 square foot building at 8515 Georgia Avenue, which opened in 2005 and is home to the American Nurses Association and Worldspace.

Rockville Town Center

The first phase of the $352 million redevelopment of downtown Rockville broke ground in 2004. The 15-acre site is becoming a mix of retail, restaurant, cultural, entertainment, residential and office space. The first phase of the residential component and the County's new $26.3 million public library opened at the end of 2006. When the project is completed it will consist of approximately 630 residences, 175,000 square feet of retail and restaurants, three public parking garages, the new Rockville library, and several new office buildings. As of the end of 2006, most of the retail space was leased to tenants such as Starbucks, Austin Grill, and Gold's Gym. Rockville Town Center will also be home to the Rockville Innovation Center (RIC) which is the latest addition to the County's Business Incubator Network. The RIC is scheduled to open in the Spring of 2007.

Montgomery County Incubator Network

The Montgomery Incubator program successfully assisted start-up technology companies grow and expand in the County since the first facility, The Maryland Technology Development Center (MTDC), opened its doors in 1998. To date nearly 40 companies graduated from the County's incubators to lease nearly 400,000 square feet of private office space and create over 1,000 jobs in the County. The County opened a second incubator in 2004 in downtown Silver Spring called the Silver Spring Innovation Center (SSIC). The SSIC is fully leased to start-up information technology facilities. The success and demand for the incubator program spurred the County to develop five additional incubators. One new incubator in downtown Wheaton opened in 2006 and another one in downtown Rockville is scheduled to open in early 2007 (described below). Two others are proposed for the ECCST and Montgomery College – Germantown projects described above. The location and specific details for the fifth new incubator are currently being discussed by County officials.

Wheaton Business Innovation Center (WBIC)

The County opened the WBIC, its third business incubator, in the first quarter of 2006. The facility is located in nearly 10,000 square feet of leased office space in Wheaton. As of November 2006, the WBIC was 100% leased by over 20 small and start-up service-based businesses. Because of the quick success of the WBIC the County is in negotiations to expand the facility by leasing additional adjacent space in the building.

Rockville Innovation Center (RIC)

The County will be opening the RIC in the first quarter of 2007 in the newly re-developed downtown Rockville. The facility will be approximately 27,000 square feet of office condominium space that is to be purchased by Montgomery County. The purchase is to be subsidized by a $1 million grant from the Maryland Technology Development Corporation. The project will provide office space for businesses in the medical information technology sector as well as international companies seeking to establish a U.S. subsidiary in the region.

Private Real Estate Projects Delivered in 2006

Chevy Chase Center (5425 Wisconsin Avenue, Chevy Chase)

Chevy Chase Center is the latest building to be constructed in Montgomery County. Completed in June 2006, Chevy Chase Center is a 412,000 square foot mix of retail and office space located adjacent to the Friendship Heights Metro station. As of November 2006, the building is nearly 80% leased to tenants such as Choice Hotels, CapitalSource, and Giant Food.

1040 Spring Street (United Therapeutics)

United Therapeutics expanded their downtown Silver Spring headquarters by building this 50,000 square foot, $15 million ovarian cancer research lab and drug manufacturing facility on a site across the street from the headquarters building. The lab facility opened in June 2006.

9841 Washingtonian Blvd (Lakefront at Washingtonian), Gaithersburg

Washingtonian Lakefront broke ground in 2005 and delivered in September 2006. The building consists of 108,000 square feet of Class A office and first floor retail. This building is the final piece of the development plans for the Washingtonian Center project, which includes a mix of office, retail, restaurants, and theaters. Sigma Tau Pharmaceuticals is the first tenant to sign a lease in this building.

Seneca Meadows Corporate Center, Germantown

In the fourth quarter of 2006 the latest addition to the 156-acre Seneca Meadows Corporate Center delivered. The first phase of this building consists of a 92,000 square foot flex and laboratory building with a 15,000 square foot addition scheduled to open in early 2007.

Molecular Drive, Rockville

Building 1 and Building 2 at Molecular Drive, consisting of nearly 100,000 square feet of office space for lease and condo offices for sale, delivered in late 2006. This facility is within walking distance of the Traville Gateway Center and the Travilah Square Shopping Center, and all are directly adjacent to the 600,000 square foot Human Genome Science corporate headquarters building.

Office Projects Started in 2006

805 King Farm Blvd, Rockville

This 220,000 square foot Class A office building is scheduled for delivery in May 2007. This building will be the fourth office building in the 90-acre Irvington Centre office park with the 430-acre King Farm mixed use community.

2000 Tower Oaks Blvd., Rockville

This 200,000 square foot LEED (Leadership in Energy and Environmental Design) office building is scheduled for a January 2008 delivery. The building will be the latest addition to the 192-acre Tower Oaks mixed use community which will ultimately include up to two million square feet of office, two hotels, restaurants, and 275 residential units.

6720 Rockledge Drive, Bethesda (Opus Center)

6720 Rockledge Drive will be the first phase of Opus Center, a new office complex within Rock Spring Park in North Bethesda. This 187,000 square foot office building is scheduled for a January 2007 delivery.

655 Watkins Mill Road, Gaithersburg

655 Watkins Mill Road is the first building within the three-building, 33-acre Monument Corporate Center in Gaithersburg. All of the buildings in the campus will be LEED certified and will include Interstate 270 frontage. 655 Watkins Mill Road will be 200,000 square feet and is scheduled for delivery in July 2007.

New Business Additions and Expansions

Montgomery County's Department of Economic Development worked with over 300 companies in 2006 that were interested in expanding in or relocating to the County. The companies that signed commitments to locate or expand in Montgomery County in 2006 are projected to create nearly 4,000 jobs, lease or construct over one million square feet of office space, and generate nearly $250 million in capital investment over the next three to five years. Some highlights of the Department's efforts in 2006 include:

Worldspace

In 2005, Worldspace relocated its headquarters facility from Washington, D.C. to downtown Silver Spring when it signed a lease for 50,000 square feet at 8515 Georgia Avenue. Early in 2006, this satellite radio provider that broadcasts to markets in Asia and Africa increased its occupancy at 8515 Georgia Avenue by over 20,000 square feet, bringing its total occupied space in the building to 70,662 square feet. The company initially brought over 100 jobs to downtown Silver Spring, with further expansion promised over the next three to five years.

Aggregate Industries, Inc.

Aggregate Industries leased 31,841 square feet at 7529 Standish Place in Rockville, MD in early 2006, moving its corporate headquarters from Prince George's County. Aggregate is a producer of high quality construction materials and the relocation of its headquarters brought over 100 jobs to the Rockville office. The company also has offices in the United Kingdom, and the new Rockville location is its sixth location within the U.S.

Vanda Pharmaceuticals

Vanda Pharmaceuticals, a biotechnology company that develops drugs for psychiatric and sleep disorders, expanded its presence in Montgomery County significantly in 2006. Fueled by two drugs in late-stage development and $47 million raised from a team of investors, Vanda now occupies 21,000 square feet of new lab and office space at 9605 Medical Center Drive, a newly constructed building that is part of The Johns Hopkins University Montgomery County Campus in Rockville. Vanda employs over 30 individuals at this location and spent nearly $4 million in capital investment to build out the lab space in its new facility.

American Speech-Language Hearing Association (ASHA)

ASHA broke ground on its new headquarters facility at Research Blvd. and Gude Drive in Rockville in April 2006. The facility will be nearly 170,000 square feet, 130,000 of which will be occupied by ASHA, and will house nearly 250

ASHA employees. ASHA is the professional, scientific, and credentialing association for more than 120,000 members and affiliates who are audiologists, speech-language pathologists, and speech, language, and hearing scientists.

Development Alternatives, Inc. (DAI)

DAI, one of the 100 largest private companies in the D.C. metropolitan area, grew even larger in 2006. In July, DAI nearly doubled its size in Bethesda by moving into 90,000 square feet at 7600 Wisconsin Avenue. The company's work for the U.S. Agency for International Development and other clients focuses on advancing human prosperity and institutional effectiveness in some of the world's most challenging environments. DAI's worldwide employees number over 2,300, with several hundred located in Bethesda.

Cardiocore Labs

CardioCore Labs, a biotech company that performs testing and clinical trials, tripled its size in Montgomery County in 2006. The company moved into 20,000 square feet of office and lab space in 2006, employing 25 individuals. The company plans to add an additional 35 employees by the end of 2007.

Fidelis Security Systems

Fidelis Security Systems, a Bethesda software developer, nearly doubled its size in 2006. Fidelis Security Systems is a fast-growing, venture-backed software company that produces the only network security solution that prevents the unauthorized network transfer of sensitive information on gigabit-speed networks. The company employs 24 individuals in 14,000 square feet in Bethesda with plans to add an additional 25 employees by the end of 2008.

Wilcoxon

Wilcoxon moved into 33,000 square feet of expanded space in Germantown in 2006. The company employs 68 individuals with plans to add an additional 73 in the next three to five years. Wilcoxon manufactures vibration instrumentation equipment and houses a wide variety of modern manufacturing, assembly and test facilities, suitable for production runs of standard items as well as the development of custom designed products.

AEPCO, Inc.

In April 2006, Advanced Engineering & Planning Corp. Inc. (AEPCO), an engineering and research firm providing quality technology for government and private sector clients, relocated its headquarters from 15800 Crabbs Branch Way in Rockville to 555 Quince Orchard Road in Gaithersburg. AEPCO moved due to the firm's expansion of operations and committed to a 10-year lease agreement of 20,699 square feet on the fourth floor. AEPCO employs 130 individuals in Montgomery County.

HMS Host

HMS Host, recognized as a leader in retail, food and beverage concessions in travel venues, expanded its Bethesda corporate headquarters facility in 2006. The company employs over 500 people in Montgomery County.

Retail Sales

Retail sales measured by sales tax data collected for the first nine months of 2006, show strong growth in Maryland and a moderate increase in Montgomery County. Compared to the prior year, when retail sales in the County grew 5 percent, sales growth increased 4.5 percent during the first nine months of 2006 compared to the same period in 2005, showing the effect of the slowdown in housing sales (purchases of furniture and appliances declined 21.4 percent). With consumer confidence during this period lower in the region compared to the same nine-month period in 2005, retail sales are traditionally one of the first indicators to reflect changes in consumer behavior.

Retail sales in Montgomery County reflect a slightly different spending pattern compared to the State. After retail sales in the County improved at a solid pace in the past few years, growing 6 percent (1999) and 7 percent (2000), with growth in 2000 reaching a six-year high, the growth rate declined to 3.8 percent in 2001, increased a modest 0.9 percent in 2002, grew 4 percent in 2003, and a robust 6.7 percent in 2004, then moderated to 5 percent in 2005. The growth during 2005 was attributed to an increase in purchases of building and industrial supplies. Retail sales through September 2006 were attributed to sales of nondurable goods, particularly apparel and general merchandise, and utilities and transportation. Sales of furniture and appliances, reflecting the weak housing market, decreased at a double-digit rate while purchases of building and industrial supplies grew only 4.7 percent, which were well below the double-digit growth rates in recent years.

Table 25
Sales & Use Tax Receipts
by Principal Business Activity

	Montgomery County						Maryland	
	2004		2005		Jan.-Sept. 2006		Jan.-Sept. 2006	
	Growth(1)	Share of Total	Growth(2)	Share of Total	Growth(3)	Share of Total	Growth(3)	Share of Total
Food and Beverages	6.7%	23.7%	7.6%	24.1%	3.6%	24.4%	5.7%	19.9%
Apparel	0.8	6.3	2.5	6.2	4.9	6.0	4.9	4.4
General Merchandise	5.4	17.5	5.3	17.6	3.3	16.2	4.4	16.3
Automotive	4.8	8.1	0.8	7.7	0.9	7.8	2.0	6.9
Furniture & Appliances	6.1	12.3	-5.7	11.1	-21.4	8.8	3.9	11.0
Building & Industrial Supplies	18.4	11.0	11.2	11.7	4.7	12.2	8.2	16.0
Utilities & Transportation	8.8	7.4	4.4	7.3	13.7	8.2	13.2	9.0
Hardware, Machinery & Equipment	8.1	1.7	-11.8	1.4	-1.5	1.4	4.4	2.6
Miscellaneous	2.2	11.4	13.6	12.3	30.6	14.4	6.0	13.1
Other	16.9	0.6	-21.5	0.6	18.9	0.6	55.6	0.8
Total Retail Sales Tax	6.7%	100.0%	5.0%	100.0%	4.5%	100.0%	6.3%	100.0%

(1) Growth between 2003 and 2004.
(2) Growth between 2004 and 2005.
(3) Growth between the period January through September 2005, and the same period in 2006.

Source: Maryland Comptroller of the Treasury, Revenue Administration Division.

Major Retail Centers

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

Lakeforest Mall, located along Maryland Route 355 and Montgomery Village Avenue near I-270, opened in 1978. This 1.1 million square foot mall features 185 stores, including four major department stores: Macy's, JC Penney, Lord & Taylor, and Sears Roebuck & Co.

Westfield Shoppingtown Montgomery, formerly known as Montgomery Mall, opened in 1968, and covers 1.6 million square feet of space. It features Nordstrom, Macy's, Macy's Home Store, Sears Roebuck & Co., 234 other stores, three parking garages, and is served by a Montgomery County Transit Center.

Westfield Shoppingtown Wheaton, formerly known as Wheaton Plaza, is located adjacent to the Wheaton Metro Center at the intersection of Georgia Avenue and Veirs Mill Road in the Wheaton CBD. This was the County's first shopping mall (opened in 1960) and was enclosed and remodeled in 1987. JC Penney, Macy's, and Target anchor the mall, which includes 252 other stores.

White Flint Mall, which is located east of Rockville Pike in North Bethesda close to the White Flint Metro Station, opened in 1977 and features three enclosed levels, luxury department stores such as Lord & Taylor and Bloomingdale's, plus 123 other stores. The 900,672 square foot mall also features a five-auditorium cinema, an office center with professional space, numerous kiosks and specialty pushcarts and a Border's Bookstore.

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 owners only, with payments due September 30 and December 31. Property tax bills issued after September 30 must be paid within 30 days without interest or penalty. Tax sales to recover delinquent real property taxes are held on the second Monday in June in the fiscal year 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 physically inspected and reassessed each year. Any increase in full cash value arising from such reassessment is phased in over the ensuing three taxable years in equal annual installments, although a decline in assessed valuation becomes fully effective in the first year.

Because of growth in new construction through 2005, and improved value of properties, the real property taxable base increased 49.1 percent over the last five years, measured through 2006. Due to a sluggish business investment in personal property the past three fiscal years and an adjustment by the SDAT to assessments of individual personal property, the personal property base decreased at an average annual rate of 3.3 percent in the last three years. However, because of the dramatic growth in the real property assessable base attributed to real estate price appreciation from the exceptionally strong housing market, the total assessed property value increased at an average annual rate of 7.6 percent during the five-year period.

Table 26
Assessed Value of All Taxable Property
by Class and Fiscal Year

Fiscal Year	Real Property	Personal Property	Total Assessed Value	Percent Change From Prior Year	Ratio of Assessment to Full Market Value
2006	$110,529,249,116	$3,831,629,230	$114,360,878,346	11.92%	93.41
2005	98,281,724,723	3,902,612,110	102,184,336,833	9.61	93.54
2004	89,263,005,267	3,963,801,610	93,226,806,877	7.61	91.35
2003	82,407,337,831	4,227,854,400	86,635,192,231	5.94	88.71
2002	77,574,947,550	4,201,344,590	81,776,292,140	4.57	92.48

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

Tax-exempt properties are excluded from the above figures. In FY06, such exemptions for real property owned by Federal, State, County, and other governmental units, and certain non-profit organizations totaled $11.5 billion. Tax-exempt real property constitutes 8.8 percent of the total assessable base, with 74.8 percent of the tax-exempt property in the combined Federal, State, local government sectors. 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 27
Tax Levies and Revenue

Fiscal Year	General County Tax Levy (including Education)	Revenue From Current Year Assessment	Ratio of Current Yr. Revenue to Tax Levy	Revenue From Prior Year Assessment	Total Revenue	Ratio of Total Revenue to Tax Levy	Accumulated Delinquent Taxes	Ratio of Accumulated Delinquent Taxes to Current Year Tax Levy
2006	$784,435,018	$788,440,342	100.51%	$ 1,053,372	$789,493,714	100.64%	$16,757,606	2.14%
2005	793,578,688	797,622,605	100.51	(2,576,941)	795,045,664	100.18	31,022,367	3.91
2004	738,731,341	738,902,755	100.02	(4,201,792)	734,700,963	99.45	32,220,479	4.36
2003	697,317,162	695,293,144	99.71	(3,999,325)	691,293,819	99.14	29,698,063	4.26
2002	650,352,383	646,920,262	99.47	2,843,239	649,763,501	99.91	21,377,781	3.29

Table 28
Tax Rates and Tax Levies, by Purpose

Fiscal	General County (including Education)		Transit		State		Total	
Year	Rate	Levy	Rate	Levy	Rate	Levy	Rate	Levy
2006	$0.679	$784,435,018	$.042	$50,359,821	$.132	$146,071,317	$0.853	$980,866,156
2005	0.734	793,578,688	.044	47,407,995	.132	130,281,662	0.910	971,268,345
2004	0.751	738,731,341	.044	43,265,229	.132	117,987,242	0.927	899,983,812
2003	0.754	697,317,162	.038	35,124,792	.084	69,531,736	0.876	801,973,690
2002	0.741	650,352,383	.050	43,984,425	.084	65,703,036	0.875	760,039,844

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 $1.698 in FY06, $1.835 in FY05, $1.878 in FY04, $1.885 in FY03, and $1.852 in FY02; the personal property rate for Transit was $.105 in FY06, $.110 in FY05, $.110 in FY04, $.095 in FY03, and $.125 in FY02 (the State does not tax personal property).

Table 29
Ten Highest Commercial Property Taxpayers' Assessable Base
As of June 30, 2006

Taxpayer	Total	Real Property	Personal Property	Ratio: Taxpayer Base to Total Assessable Base
Potomac Electric Power Co.	$ 725,549,880	$ 6,582,100	$ 718,967,780	0.63%
Verizon	638,664,976	31,447,466	607,217,510	0.56
Westfield Shoppingtown Montgomery	272,112,660	271,420,100	692,560	0.24
Washington Gas Light Co.	222,128,000	--	222,128,000	0.19
Mirant Mid-Atlantic LLC	199,484,536	72,347,066	127,137,470	0.17
7501 Wisconsin Ave. LLC	182,805,833	182,805,833	--	0.16
Bryant F. Foulger, Trustee	167,030,698	167,030,698	--	0.15
Westfield Shoppingtown Wheaton	165,827,404	165,301,244	526,160	0.15
Camalier, Anne D et al, Trustee	145,656,253	145,656,253	--	0.13
Democracy Associates	139,800,000	139,800,000	--	0.12
Total	$ 2,859,060,240	$1,182,390,760	$1,676,669,480	2.50%
Assessable Base (June 30, 2006)	$114,360,878,346			

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

Impact Tax

Significant 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), nearly all 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. The tax is imposed prior to the issuance of a building permit.

The original impact tax law was enacted in 1990, was applied for transportation improvements only, and affected two outlying geographic areas of the County—Germantown, in the northern section of the County, and "Eastern Montgomery 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.

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

Table 30
Impact Tax Collections

Fiscal Year	Transportation Impact Tax	Schools Impact Tax
2006	$6,252,060	$6,960,032
2005	8,471,000	7,695,000
2004 (1)	5,245,000	435,000
2003 (2)	1,790,000	--
2002 (3)	1,990,000	--
2001	3,100,000	--
2000	990,000	--
1999	1,400,000	--
1998	1,020,000	--
1997	1,280,000	--

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

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MONTGOMERY COUNTY - HISTORY AND GOVERNMENT

Location

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

History

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

Government

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

The County Executive, who must 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. 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 has taught since 1975. He served as the law school's assistant dean from 1979 to 1986.

A native of Alexandria, Louisiana, Mr. Leggett earned a Bachelor of Arts degree from Southern University in Baton Rouge, Louisiana, a Master of Arts degree and a law degree from Howard University, and a Master of Laws degree from George Washington University. He graduated from Southern University in 1967 as a Distinguished Military Graduate. He was elected student body president and was a local leader of the civil rights movement.

President, County Council – Marilyn J. Praisner

Marilyn J. Praisner was elected to her fifth term on the Montgomery County Council on November 7, 2006, and was recently elected Council president by her colleagues. She previously served as Council President in 1993 and 1997, and as Council Vice-President in 1992 and 1996. Mrs. Praisner chairs the Council's Planning, Housing and Economic Development Committee and is a member of the Management and Fiscal Policy Committee.

Prior to her election to the Council, Mrs. Praisner was twice elected to the Montgomery County Board of Education, serving as its president in 1984 and 1987. She is past president of the Maryland Association of Counties and a member of the board of directors of the National Association of Counties, where she is chair of its Telecommunications and Technology Steering Committee.

Before serving in elective political office, Mrs. Praisner spent 16 years at the Central Intelligence Agency, including service as an intelligence analyst, branch chief, and staff member for the Deputy Director of Intelligence. She is a graduate of Douglass College at Rutgers University, with a degree in journalism.

Chief Administrative Officer - Timothy L. Firestine

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

Mr. Firestine received his Bachelor of Arts Degree from Albright College and his Master of Public Administration Degree from the University of Pittsburgh. He is a member of the Government Finance Officers Association and is vice chair of its Committee on Debt. Mr. Firestine served as President of the Maryland Government Finance Officers Association and on the Board of Trustees for Suburban Health Care System, Inc., in Bethesda, Maryland. Since 2004, Mr. Firestine has been an adjunct professor at the University of Maryland, Graduate School of Public Policy where he teaches Public Finance.

COUNTY GOVERNMENT SERVICES

Human Resources

The County government employs approximately 8,536 full- and part-time employees. Approximately 6,368 employees are in bargaining unit positions and are represented by one of the three labor organizations that are certified under County law to bargain over the wages, fringe benefits, and working conditions of bargaining unit employees. The table below summarizes the current status of County labor agreements.

Table 31
County Bargaining Units

Bargaining Unit	Number of Employees	Contract Expiration Date
Service, Labor & Trades (MCGEO)	1,124	June 30, 2007
Office, Professional & Technical (MCGEO)	3,239	June 30, 2007
Police officers (FOP)	1,058	June 30, 2007
Firefighters/Rescuers (IAFF)	947	June 30, 2008

The County reached a three-year term agreement with the Montgomery County Career Fire Fighters Association, IAFF, Local 1664, which went in to effect on July 1, 2005. All other contracts remain in effect until June 30, 2007.

Public school teachers in the County are not County government employees, but are employed by the Montgomery County Board of Education (the "Board"). The Board employs approximately 20,715 full-time equivalent (FTE) employees. This number includes 200 non-represented employees and 20,515 employees in bargaining units. The Board bargains collectively with employees on matters concerning wages, hours and other conditions of employment. There are three bargaining units, which are comprised of teachers, professional/administrative and support/maintenance employees, as presented in the table below.

Table 32
Board of Education Bargaining Units

Bargaining Unit	Number of FTE Employees	Contract Expiration Date
Teachers (MCEA)	11,790	June 30, 2007
Professional/Administrative (MCAASP)	683	June 30, 2007
Support Services (SEIU Local 500)	8,042	June 30, 2007

Employees' Retirement Systems

The Employees' Retirement Systems (Systems) consist of two pension programs sponsored by the County: a single-employer defined benefit plan and a defined contribution plan (initiated in FY95). Other agencies or political subdivisions have the right to elect participation. Substantially all employees of the Montgomery County Government, the Montgomery County Revenue Authority, the Housing Opportunities Commission of Montgomery County, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., the Washington Suburban Transit Commission, certain employees of the State Department of Assessments and Taxation, and the District Court of Maryland are provided retirement benefits under the Systems. The Systems, established under Chapter 33 of the County Code, are contributory plans with employees contributing a percentage of their base annual salary depending on their group classification, which determines retirement eligibility. The payroll for employees covered by the Systems for the year ended June 30, 2006 was approximately $507.5 million. The total payroll for Montgomery County Government in FY06 was $568.8 million.

All covered full-time employees of the County and participating agencies must become members of the Systems as a condition of employment. All covered career part-time employees of the County and participating agencies may become members on an individual basis. Non-public safety employees hired on or after October 1, 1994 enroll in the defined contribution plan. All other employees enroll in the defined benefit plan. At the end of FY06, the defined benefit plan covered approximately 5,362 active participants and 5,333 retirees and inactive participants, with total liabilities amounting to approximately $2.92 billion. At the same time, the defined contribution plan had 4,371 participants with liabilities totaling $90.2 million.

Legislation enacted by the County Council in November 1999 required the Chief Administrative Officer to establish Deferred Retirement Option Plans or DROP plans, that allow any employee who is a member of a specified membership group or bargaining unit, and who meets certain eligibility requirements, to elect to "retire", but continue to work for a specified time period, during which pension payments are deferred. When the member's participation in the DROP Plan ends, the member must stop working for the County, draw a pension benefit based on the member's credited service and earnings as of the date that the member began to participate in the DROP Plan, and receive the value of the DROP Plan payoff. These DROP plans became effective during FY00.

The Board of Investment Trustees is responsible for managing the investment programs of the Montgomery County Employees' Retirement Systems. Investments in the defined benefit plan amounted to $2.641 billion as of June 30, 2006. The defined benefit plan assets are invested in a diversified portfolio of equities, bonds, real estate and short-term instruments. The defined contribution plan assets are invested in a diversified group of mutual funds pursuant to participant direction.

Employees of the County may participate in the Montgomery County Deferred Compensation Plan, which was established pursuant to Section 457 of the Internal Revenue Code of 1986, as amended. Under the Plan, contributions are sent to contracted investment vendors for 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.

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

Arts and Leisure

The 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 18 community centers that facilitate leisure activity, social interaction, family participation, and neighborhood civic involvement. An additional 12 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. Three new community centers are proposed for development within the next six years. The Department operates the Charles W. Gilchrist Center for Cultural Diversity, a unique facility that serves as a cultural and community focal point. The Department also funds the Gaithersburg Senior Center and the Takoma Park Community Center through significant grants.

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

The Music Center at Strathmore was originally located in the historic Corby Mansion, which also housed the Strathmore Hall Foundation. The Center's original structure underwent a $3 million addition and renovation, and is used for art shows and dramatic readings. Significant improvements were made at the Center with the construction of a multi-disciplinary education and performance center on a five-acre site adjacent to the Center. The new 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 mission of the Montgomery County Department of Economic Development (DED) is to develop strategies and implement programs that will maintain and expand the County's economic base, promote business growth, generate employment opportunities, and increase tax revenues.

To achieve this mission, DED provides services to help existing businesses expand, new businesses to locate in the County, small and minority-owned businesses grow, promote high technology development, attract foreign investments, expand the County's export base, preserve farmland, and enhance the viability of the agricultural industry. DED's responsibilities also include initiatives to enhance the presence of higher education in the County, to oversee the continued development of public/private science and technology parks (including the County-owned Shady Grove Life Sciences Center), and to operate and expand the County technology business incubator program, which consists of five existing facilities: the Maryland Technology Development Center, Silver Spring Innovation Center, Wheaton Business Innovation Center, Rockville Innovation Center, and Germantown Innovation Center, as well as two additional incubators in the pipeline. In addition, DED oversees the County training and employment programs through its Division of Workforce Investment Services, tourism promotion programs operated by the Montgomery County Conference and Visitor's Bureau, and the small and minority business services provided by the Department's newly established Division of Business Empowerment.

Economic Development Services and Programs

Existing and prospective new businesses receive an array of professional assistance from DED. This assistance can take the form of site searches (DED maintains an inventory listing of available office, R&D and industrial space in the County), information on zoning, comparative tax data, socioeconomic statistics, and permit expediting.

Economic Development Fund and Other Financial Incentives

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

As of October 15, 2006, 136 offers for grants and loans totaling $22.77 million were accepted under the Economic Development Fund Grant/Loan Program. The economic impact of these transactions is estimated to include: over 32,000 jobs retained or gained, over $1.37 billion in private investment, and an annual net revenue return of over $38 million.

In addition to the original Economic Development Fund program, four other financial incentive programs were added. The Technology Growth Program (TGP) was developed to facilitate the growth of early-stage technology-based companies located or desiring to locate in the County. The Program is aimed at leveraging private sector financing and State Challenge and Equity Investment funds. Since the beginning of the TGP in 1999, 40 companies received funding for a total of $2.4 million. The Small Business Revolving Loan Program was created to help small business concerns in the County and to finance economic development projects that cannot be financed through traditional private and public sources. Since the beginning of this Program, 19 small businesses received loans totaling $1.27 million. The Demolition Loan Program is administered by the Department of Housing and Community Affairs. This innovative program provides assistance to owners of obsolete, underutilized commercial buildings to demolish buildings and clear the land to ready it for redevelopment. In FY 05, the Impact Assistance Program was created to help mitigate any adverse impacts small businesses might experience due to County initiated and funded development, redevelopment, or renovation projects. Thirteen companies received funding totaling $123,900 from this program since its inception. Through all of these programs, DED works to develop offers of assistance, frequently in close cooperation and coordination with the State of Maryland, as well as frequently leveraging additional offers of assistance from other State sources.

Economic Advisory Council (EAC)

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

Shady Grove Life Sciences Center

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

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

Education

The 2005 Census Update Survey indicated that County residents, on average, continue to be highly educated. The proportion of County residents 25 years old or over completing four or more years of college increased from 33.2 percent in 1970 to 63.6 percent in 2005. Advanced degrees are held by 35 percent of the adult population. High school graduates account for 92.2 percent of the County population aged 25 and over, above the 79.5 percent proportion in 1970, the 87.3 percent in 1980, and the 90.3 percent in 2000.

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

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Table 33
Secondary Education

School	Student Enrollment
American University, Washington, DC	11,224
Catholic University, Washington, DC	6,130
Hood College, Frederick, MD	2,121
Howard University, Washington, DC	10,930
Johns Hopkins University, Baltimore, MD	20,311
Montgomery College, Rockville, MD (2-year)*	22,263**
University of Maryland, College Park, MD	56,666

* 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.

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 199 elementary and secondary schools. The operating budget is $1.852 billion for FY07, a 7.3 percent increase over the prior year, and the FY07-12 capital improvements budget is $1.173 billion. The emphasis that County residents place on education is reflected in per pupil operating expenditures of $13,231 in FY07 and in the high percentage of high school graduates who continue formal education. In FY07, projected enrollment is 139,936 students.

Finance

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

At June 30, 2006, the County managed $848.8 million in its pooled consolidated investment portfolio. During FY06 the County earned investment income of $36.4 million, with an average rate of return of 4.12%.

Risk Management

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

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

The County Finance Department, Division of Risk Management operates the Self-Insurance Program for the County and other participating agencies: Montgomery County Public Schools, Montgomery College, M-NCPPC, various independent fire Corporations, City of Rockville, Montgomery County Revenue Authority, Housing Opportunities Commission of Montgomery County, Rockville Housing Enterprises, Town of Somerset, Village of Martin's Additions, Village of Drummond, Village of Friendship Heights, and the Bethesda Urban Partnership. The City of Takoma Park and the City of Gaithersburg also participate 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. Periodically, depending on insurance market conditions, Commercial Excess Liability insurance is purchased. However, since 2002, Risk Management was unable to obtain this coverage at an acceptable cost. The purchase of this coverage will be evaluated as insurance market conditions change.

A summary of FY06 operations of the program is outlined below:

	($000's)
Revenues:	
Contributions from participating agencies	$48,099
Interest on investments	4,782
Recovered losses	839
Other income	40
Total Revenues	53,760
Expenses:	
Claims expense	29,193
Claims administration, loss control, external insurance, and other administrative expenses	9,803
Total Expenses	38,996
Net income	14,764
Retained earnings, July 1, 2005	(896)
Equity balance, June 30, 2006	$13,868

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 FY06 operations for these two elements of the insurance program are not reflected above.

Libraries

There are 21 libraries located throughout the County. During FY06 the collection was nearly 3 million volumes and total circulation was approximately 11.5 million. Per capita circulation of 12.2 books is among the highest in Maryland and nationally. In addition, a bookmobile provides limited book selections to numerous small communities, and a library is also operated at the County Detention Center. For the fifth consecutive year, Montgomery County Public

Libraries (MCPL) is ranked in the top 10 among the nation's public libraries serving populations greater than 500,000, according to Hennen's American Public Library Ratings 2006.

The centerpiece of the County library system is the new Rockville library, which opened in December 2006. In addition to the collection of approximately 140,000 volumes, which moved from the previous library site, an additional 60,000 items will be purchased for the new library over the next three years.

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; a warehouse that distributes beverage alcohol to the County stores and to over 900 licensed establishments, including beer and wine stores, restaurants, and clubs; inspections of licensed premises, and community outreach. The Department is a self-supporting business enterprise with all operating requirements included in the Department's annual budget. Income in excess of departmental needs is transferred to the General Fund to pay for general governmental services. Since January 2000 the Department transferred $119 million to the General Fund.

Parks

The Maryland-National Capital Park and Planning Commission administers more than 33,300 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 401 parks in the Montgomery Parks system, 303 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. Also, 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) manages all components of the County's emergency medical services and fire suppression systems, including training, planning, field emergency medical services, fire suppression, apparatus management, emergency communications, fire code enforcement, community outreach and administration. MCFRS is comprised of 1,071 uniformed career employees, 75 civilian employees, and approximately 900 volunteers, operating from 34 fire and rescue stations, and 12 worksites. MCFRS is a consolidated fire and rescue service which includes County career firefighters and 19 local volunteer departments.

The Fire and Rescue Service is an active partner in the Public Safety Communication System (PSCS), a multi-departmental effort to create a mobile and wireless architecture and framework system to gather, process, analyze, synthesize and disseminate "real time" information for operational and management functions. The simultaneous integration of computer-aided dispatch, mapping, automatic vehicle locators and route planning systems, pre-incident location planning, computer accessibility of the apparatus, and access to the Department of Homeland Security's Office of Emergency Management's hazardous materials database are cornerstones of this project. MCFRS is actively planning for additional resources based on population growth, call demand and demographic changes in the County. This proactive support and commitment to the future of fire and rescue services in Montgomery County is intended to provide the infrastructure where and when it is needed, staffed by trained career and volunteer personnel.

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 is adding four additional stations to serve the up County area: Germantown-East Fire Station (FS34), Germantown-West Fire Station (FS22), Travilah Fire Station (FS32), and Clarksburg Fire Station (FS35). An interim fire station to serve the Clarksburg area was opened in November 2005. Takoma Park Station (FS2) will be rebuilt at its current location. Construction on Germantown-West, Travilah and Takoma Park stations are scheduled to begin in calendar year 2007. The existing station in Wheaton (RS2) is scheduled to be replaced. Stations in Rockville (FS3), Cabin John (FS30), Glen Echo (FS11) are scheduled to be renovated, as well as an addition to the Burtonsville Station (FS15). The relocated Silver Spring Station (FS1) was completed and became operational in early 2006. In addition, there are several on-going projects to replace and/or update major building systems (roof, HVAC, exterior resurfacing) at other fire/rescue facilities to ensure that these facilities are properly maintained and meet current standards.

Police Department

The Montgomery County Police Department (MCPD) is a highly-trained merit system force of 1,162 sworn officers and 593 civilian staff for a total complement of 1,755 personnel. MCPD operates over 30 facilities, including six district police stations and is accredited by the Commission for the Accreditation of Law Enforcement Agencies (ALEA). In coordination with other County agencies, the Department is a major participant in the County's Public Safety Communication System (PSCS) project. This $150 million effort is aimed at developing a complete mobile data system for the participating agencies and includes: laptop computers in public safety vehicles, an upgraded computer-aided dispatch system, in-car report writing, and a new 800-MHz radio system. This system became operational in the summer of 2003. The project also includes a record management system, an automated vehicle location system, and mapping features anticipated to be operational in early 2007. Additionally, a new Emergency Communications Center was established to house the major components of the PSCS system in 2003.

A major capital project involving the renovation of the Public Safety Training Academy (PSTA) is currently in the permitting and preparation of bid documents anticipated to be completed in late 2006. Construction phase of this project is scheduled to begin in spring 2007. The Driver Training Track located in the PSTA campus is also projected to be completed in spring 2007.

In addition, renovations, replacements, and/or upgrades at several other facilities are planned for the Department, including a replacement for the Vehicle Recovery Facility at the abandoned vehicle lot. This facility includes a forensics garage for the examination of vehicles used in a crime and/or vehicles involved in fatal collisions. The project is in the bid stage. There are approved projects for four district stations, the 1st, 2nd, 3rd, and 6th police districts, to replace the existing stations. A new police sub-station as part of Fire Station No. 1 was established in downtown Silver Spring in early 2006, and a satellite facility was opened in 2006 in the Piney Branch-Flower Avenue area. There is also an approved project to replace the current County Animal Shelter with a state-of-the-art facility to be located in Gaithersburg. Future capital projects include the renovations and expansion of the Outdoor Firing Range.

Several department initiatives begun in recent years are now in various stages of operation, including the Educational Facilities Officer (EFO) program, which now has 32 police officers assigned to the school clusters throughout the County. The Montgomery County Gang Task Force was established to comprehensively address the increased concerns about gang-related criminal activity, gang members and their associates, and a new deployment strategy has been initiated to reduce the span of supervision for Police Beat Teams.

The Department is expanding the Automated Traffic Enforcement Unit for FY07. The Unit operates the Photo Red Light Enforcement Program, with 45 automated cameras currently in operation. The expansion of this Unit includes the introduction of the Photo Speed Camera Enforcement Program, recently enacted into law by the Maryland General Assembly. This Program will utilize fixed and mobile camera units throughout the County primarily on roadways where schools are located and in communities where speed limits are 35 mph or less. Implementation is slated for January 2007.

Department of Correction and Rehabilitation

The Department of Correction and Rehabilitation (DOCR) personnel complement includes 569 approved positions in FY07 for correctional officers, program staff, and other professionals who provide progressive and comprehensive correctional services through a wide variety of detention and community supervision programs. The Department operates three facilities for incarceration and intensive community re-entry planning: the Montgomery County Detention Center (MCDC), the Montgomery County Correctional Facility (MCCF), and the Pre-Release Center. The Department also operates pre-trial and diversion programs that supervise over 1,670 defendants in the community on a daily basis. The Detention Center, located in Rockville, is a 200-bed, 72-hour holding facility for detainees who are subject to an initial court appearance, and handles all arrest booking, initial assessment of arrestees, maintenance of all inmate records, and release of all inmates. The Circuit Court Commissioners who handle bail and bond hearings are also housed in this facility. The Montgomery County Correctional Facility, a 1,029-bed facility located in Clarksburg, houses and provides programs for adult men and women serving sentences up to 18 months, or awaiting trial or sentencing.

In FY06, the local inmate average daily population was approximately 158 at the Detention Center and 645 at MCCF. A combined average population of approximately 46 Federal inmates was being held in both detention facilities. The average population was 135 residents at the Pre-Release Center and 30 in the non-residential, pre-release home confinement program. The average local inmate population is projected to grow to over 1,000 by the year 2020.

The County is engaged to renovate the MCDC to improve the criminal justice process. The MCDC Reuse capital project provides for the planning, design, and renovation of the MCDC for use primarily as a short-term holding and central processing facility. Other proposed uses for MCDC include: DOCR training; District Court Commissioners' area; Department of Health and Human Services - Mental Health Assessment and Placement Unit; Pre-trial Services Assessment Unit; Public Defenders Unit; and the Police Warrants and Fugitive Unit.

Public Works

The Division of Operations, in the Department of Public Works and Transportation, ensures the safe and convenient movement of pedestrians and vehicles on County roads, operates the traffic system in a safe and efficient manner, and maintains the County's road system, bridges, storm drains, sidewalks, curbs, gutters, alleys, bikeways, streetlights, traffic signals, facilities and related equipment. The Division's services include bridge maintenance, road resurfacing, roadway and related maintenance, snow removal and storm services, trail maintenance, tree maintenance, urban streetscaping, facility engineering, facility maintenance and operations, parking, street lighting, traffic planning, traffic and pedestrian safety, traffic signs and marking, traffic signals and the Advanced Transportation Management System, and transportation management and operations. Administrative services include document duplication, archiving and mail operations, recycling, warehousing, food services, and moving services. For FY07, the Division has a General Fund operating budget of $60.8 million and staff of 422; an Internal Services Fund budget of $5.1 million and staff of 30; and a Parking Activities budget of $24.7 million and staff of 47.

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 continues to strive to meet its aggressive goal of achieving a source reduction and recycling rate of 50 percent. As of July 1, 2006, the program included County provided separate curbside collection from 207,679 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 FY06, the County collected $2.8 million in MRF material sales revenue, plus $916,512 in other recycled metal sales revenue. To assure the processing and marketing of all County residential mixed paper collected, the County utilizes a long-term agreement with Office Paper Systems (OPS), which began in July 2002. The County also enacted mandatory multi-family and commercial recycling regulations, and conducts technical outreach and enforcement in this connection.

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

Transportation

Ride-On Bus System

The County Ride-On bus system operates on 82 routes and is designed to complement the service provided by other transit operators in the County. All of those routes serve one or more of the 12 Metrorail Red Line Stations in the County. In FY06, approximately 27 million passenger trips took place on the County system. The entire fleet consists of 257 buses owned and operated by the County, and 96 smaller buses owned by the County and operated by a contractor.

Parking Districts

There are four parking lot districts in the major urbanized areas of the County. Prior to 1987, general obligation bonds were issued by the County to finance the construction of parking facilities in these areas. In 1987, the County began using parking revenue bonds. A special ad valorem tax is levied on certain commercial and residential property located within each district to pay debt used to finance parking facilities within the district, the maintenance and operation of such facilities, and capital construction projects within each district. Other significant sources of revenue used to finance the parking program are meter collections, fees from off-street lots and parking garages, and parking fines. The County issued parking revenue bonds in the amount of $97.6 million for land acquisition, construction, repair and renovation of parking facilities. During FY06, the four districts collectively had in service 18 garages with a total of approximately 17,234 parking spaces, 23 surface lots with 1,999 spaces, and 2,282 on-street metered spaces.

OTHER SERVICES

Transportation

Airports

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

Ronald Reagan Washington National Airport is located in Arlington County, Virginia, across the Potomac River from Washington, D.C. Reagan National is accessible to Montgomery County by Metrorail. In 2005, the airport served approximately 17.8 million passengers on commercial, general aviation and commuter flights, a 12 percent increase from 2004.

Dulles International Airport is located in adjacent Fairfax/Loudoun counties in Virginia and offers commercial, general aviation and commuter service. Dulles served over 27 million passengers in 2005, with over 4.9 million of those passengers on international flights. The 16-mile Dulles Access Highway provides two dedicated lanes in each direction and a direct connection to Interstate 66 and the Capital Beltway.

Baltimore-Washington International Thurgood Marshall Airport (BWI) is located in Anne Arundel County, Maryland. Over 19.7 million passengers used the airport in 2005. As part of a recently completed five-year expansion program, BWI added a new terminal facility, parking garages, multiple skywalks, and a new rental car facility.

Metrorail Transit System

Services of the Washington Metropolitan Area Transit Authority (Metro) are the backbone of the County transit system. Providing service to the County are 12 rapid rail stations with 13,368 parking spaces and additional service by 150 Metrobuses. With the opening of the final Metrorail station in the County (Glenmont) in July 1998, the system includes 18.4 miles of rail service operating in the County. Each weekday approximately 160,000 trips are made on Metrorail in Montgomery County.

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

Metrobus

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

MARC Rail

The Maryland Mass Transit Administration operates MARC commuter rail service with 10 stations in the County. County residents make approximately 2,500 trips on MARC each weekday. There are also privately operated commuter bus services into Montgomery County from Hagerstown, Frederick, and Columbia, Maryland, subsidized by the Maryland Department of Transportation, connecting to Metrorail stations in the County.

Water and Sewer Service

Operation and maintenance of the public water and sewer systems in the County (exclusive of 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 FY07 approved operating budget for WSSC totals $502.1 million; the approved capital budget totals $255 million.

The Potomac and Patuxent Rivers are WSSC's two major sources of raw water supply, with filtration plants located in Potomac and Laurel, respectively. WSSC has 14 billion gallons of water supply storage and an effective filtration capacity of 320 million gallons per day (MGD). 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 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 WASA 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. The County's Water and Sewer Plan allows for an ultimate capacity of 26 MGD at the Seneca Plant, if needed. WSSC also operates two smaller treatment plants in the County which serve the communities of Damascus and Hyattstown.

The City of Rockville operates its own water and wastewater system, which serves approximately 90 percent of the City. The City's Sandy Landing Road Water Treatment Plant in Potomac draws raw water from the Potomac River. Rockville invested $15 million to upgrade its Water Treatment System to meet three objectives: rehabilitate major system components, including three storage tanks, and rehabilitate the 45-year old plant, including raw and finished water pumps, to reduce maintenance requirements; upgrade the treatment process to meet stricter environmental standards; and expand the production capability to meet future demand.

The Town of Poolesville also operates its own water and wastewater systems, which serve the majority of the Town. Raw water for the Town's system is supplied by nine groundwater wells, with an average daily demand of approximately 0.6 MGD. The Town and potential developers drilled several new wells to supplement its supply for existing and future residents. The Town upgraded and expanded its wastewater treatment plant. The upgrade enhanced the level of treatment to meet the Biological Nutrient Removal limits of the State.

Utilities

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

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

PEPCO took advantage of the Customer Choice and Competition Act regarding the disposition of its generation assets by selling these assets in 2000 to the Mirant Corporation, which now runs the generating units in the Dickerson area of the County. PEPCO continues to own and operate its transmission and distribution system. Baltimore Gas and Electric restructured in 1996 under the name Constellation Energy Group (CEG), with BGE owning and operating the transmission and distribution system and various other CEG entities owning the generation assets. Potomac Edison, which does business as Allegheny Power, is the regulated transmission and distribution utility for Allegheny Energy Supply Company, LLC, which owns the company's generation assets. As of November 2006, there were 24 companies licensed as electricity suppliers to Montgomery County residents, but only six of them were actively seeking new customers.

Financial Institutions

The State of Maryland is home to 146 FDIC insured financial institutions, which in turn operate 1,749 branch banking locations with an estimated $93 billion in deposits. Montgomery County houses 36 of these institutions and dominates the majority market share of these deposits with an estimated $23 billion in deposits. The financial institutions in the County include 24 federal and state chartered banks with 209 branch locations, and 12 federal savings and loan banks with 93 branch locations; in total these offices represent 17.2% of the total branch locations within the State. In addition to these FDIC institutions, the County has 20 national credit unions with an estimated $1.83 billion in share deposits and a membership base of over 283,000.

Table 34
Summary of Market Share
by County
As of June 30, 2006

City/County	Number of Branch Offices	Deposits (000)	Market Share
Montgomery	302	$23,448,158	25%
Baltimore	306	15,196,236	16
Baltimore City	114	13,892,174	15
Prince George's	169	7,611,387	8
Anne Arundel	170	7,335,957	8
Frederick	78	3,130,344	3

Table 35
FDIC Institutions Market Share
As of June 30, 2006

Institution Name	Number of Branch Offices	Deposits (000)	Market Share
Chevy Chase FSB	65	$5,974,547	25%
Bank of America, NA	32	3,116,315	13
SunTrust Bank	40	3,079,282	13
Wachovia Bank, NA	13	2,905,270	12

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

Healthcare

There are five accredited hospitals located within the County: Holy Cross Hospital in Silver Spring, Suburban Hospital in Bethesda, Washington Adventist Hospital in Takoma Park, Shady Grove Adventist Hospital, near Gaithersburg, and Montgomery General Hospital in Olney. A military hospital, Bethesda Naval Hospital, is located in the County 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; nine hospitals in the District of Columbia; and 10 hospitals in Northern Virginia.

Travel and Tourism

According to a new study released by Global Insight in partnership with D.K. Shifflet & Associates, Ltd., travel and tourism in 2005 generated $1.44 billion in travel-related expenditures, $525 million in payroll and 34,000 jobs in the County. State and local tax receipts (excluding hotel/bed taxes) in 2005 were in excess of $146 million. Local hotel/bed tax collections generated nearly $15 million.

The Conference and Visitors Bureau of Montgomery County, Maryland, Inc. (CVB) is a public-private non-profit membership organization dedicated to the promotion of travel and tourism to the County. The CVB serves as a subcontractor to the Montgomery County Department of Economic Development. On behalf of its membership, the Bureau participates in travel industry trade shows across the country, sponsors familiarization tours for tour operators, travel agents and travel writers, implements a $200,000 advertising campaign annually, manages a direct sales initiative for the meetings, group tour and sports markets, and manages a Visitor Information Center.

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APPENDIX A

BASIC FINANCIAL STATEMENTS

TABLE OF CONTENTS

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The County Council of Montgomery County, Maryland

The Honorable County Council
of Montgomery County, Maryland:

We have audited the accompanying 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, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montgomery County Public Schools, the Housing Opportunities Commission, the Montgomery Community College, the Montgomery County Revenue Authority, and the Bethesda Urban Partnership, Inc., which represent 100% of the total assets, revenues and net assets of the aggregate, discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion insofar as it relates to the amounts included for those presented component units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Montgomery County, Maryland, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 (E) to the basic financial statements, the County has implemented Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries* and No. 47, *Accounting for Termination Benefits.*

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

KPMG LLP

December 11, 2006

Management's Discussion and Analysis

INTRODUCTION

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

FINANCIAL HIGHLIGHTS

- The government-wide assets of the County exceeded its liabilities at the close of FY06 by $1,946.5 million. That amount is net of a $349.7 million unrestricted deficit. The deficit occurs because the County issues debt to fund construction costs for Montgomery County Public Schools (MCPS) and Montgomery Community College (MCC), two of its component units, and for Maryland-National Capital Park and Planning Commission (M-NCPPC), a joint venture. Debt outstanding for these entities amounted to $902.2 million at June 30, 2006. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets of $552.6 million.

- The County's total government-wide net assets increased by $136.7 million.

- As of the close of FY06, the County's governmental funds reported combined ending fund balances of $606.2 million, an increase of $151.7 million over the prior year's ending fund balances. Of the total ending fund balances, $407.6 million is available for spending at the County's discretion.

- At the end of FY06, unreserved fund balance for the General Fund was $281.8 million, or 13 percent of total General Fund expenditures.

- The County's government-wide long-term debt increased by $184.9 million during FY06. The key factors in this increase are:
  - The issuance of: $100 million in general obligation (GO) bonds, $100 million in variable rate demand obligations (VRDO's), $300 million in bond anticipation notes (BANS), and $10.1 million in capital leases.
  - The retirement of: $121.3 million in GO bonds, $200 million in BANS, $9.8 million in certificates of participation, and $7 million in capital leases.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Organization and Flow of Financial Section Information

Independent Auditors' Report
Provides the opinion of the Independent Auditors on the fair presentation of the basic financial statements.

Management's Discussion and Analysis
This supplementary information is required for state and local government financial statements, and is intended to provide a narrative introduction, overview, and analysis.
Pages 3 to 22.

Government-Wide Financial Statements
Provides information on governmental and business-type activities of the primary government.
Pages 24 to 27.

Fund Financial Statements
Provides information on the financial position of specific funds of the primary government.
Pages 28 to 40.

Component Units
Provides information on the County's component units.
Pages 41 to 42.

Notes to Financial Statements
Provides a summary of significant accounting policies and related disclosures.
Pages 43 to 108.

Government-Wide Financial Statements

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

The statement of activities is focused on both the gross and net cost of various functions, including governmental and business-type activities. This is intended to summarize and simplify the users' analysis of the cost of various governmental services and/or subsidy to various business-type activities. The governmental activities included reflect the County's basic services, including general government, public safety, public works and transportation, health and human services, and others. Taxes, including the property and income tax, license and permit fees, intergovernmental revenues, charges for services, fines and forfeitures, and investment income finance the majority of these services. The business-type activities reflect private sector-type operations, including: liquor control, solid waste 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 Community College (MCC), Montgomery County Revenue Authority (MCRA), and Bethesda Urban Partnership, Inc. (BUPI).

Fund Financial Statements

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

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

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

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

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

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

Statement of Net Assets

The following presents a summary of the Statements of Net Assets for the County as of June 30, 2006 and 2005:

Summary of Net Assets *

June 30, 2006 and 2005

	Governmental Activities		Business-type Activities		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Assets:						
Current and other assets	$ 1,304,315,737	$ 1,075,863,211	$ 173,615,035	$ 160,556,687	$ 1,477,930,772	$ 1,236,419,898
Capital assets, net	2,543,442,004	2,457,984,150	222,822,767	220,863,626	2,766,264,771	2,678,847,776
Total Assets	3,847,757,741	3,533,847,361	396,437,802	381,420,313	4,244,195,543	3,915,267,674
Liabilities:						
Long-term liabilities outstanding	1,821,440,093	1,644,854,128	96,784,732	88,467,255	1,918,224,825	1,733,321,383
Other liabilities	343,543,337	334,802,038	35,920,200	37,365,374	379,463,537	372,167,412
Total Liabilities	2,164,983,430	1,979,656,166	132,704,932	125,832,629	2,297,688,362	2,105,488,795
Net assets:						
Invested in capital assets, net of related debt	1,769,233,330	1,747,572,143	152,244,454	158,430,251	1,876,884,699	1,859,401,883
Restricted	338,811,955	287,333,081	80,486,538	68,389,069	419,298,493	355,722,150
Unrestricted (deficit)	(425,270,974)	(480,714,029)	31,001,878	28,768,364	(349,676,011)	(405,345,154)
Total Net Assets	$ 1,682,774,311	$ 1,554,191,195	$ 263,732,870	$ 255,587,684	$ 1,946,507,181	$ 1,809,778,879

* Primary Government

The County's current and other assets increased by $241.5 million or 19.5 percent over FY05. The County's assets exceeded its liabilities at the close of FY06 by $1,946.5 million. By far the largest portion of the County's net assets reflects its investment in capital assets (e.g., land, buildings, improvements, furniture and equipment, infrastructure), less any related outstanding debt used to construct or acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. Governmental capital lease obligations of $44.6 million, related to business-type activity capital assets, are classified as a component of unrestricted net assets for governmental activities purposes, but reclassified to invested in capital, net of related debt, for total primary government purposes.

It is also important to note that although counties in the state of Maryland issue debt for the construction of schools, those school buildings are owned by each county's Board of Education. The County also funds projects for MCC and M-NCPPC. Therefore, while the County's financial statements include this outstanding debt, they do not include the capital assets funded by the debt. Debt outstanding for these entities amounted to $902.2 million at June 30, 2006. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets of $552.6 million. An additional portion of the County's net assets ($419.3 million or 21.5 percent) represents resources that are subject to restrictions on how they may be used. This amount includes $107.8 million in net assets restricted for revenue stabilization for periods of economic downturn.

Statement of Activities

The following table summarizes the County's change in net assets for the years ended June 30, 2006 and 2005:

Summary of Changes in Net Assets * For the Fiscal Years Ended June 30, 2006 and 2005	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
REVENUES						
Program Revenues:						
Charges for services**	$ 142,122,486	$ 125,190,526	$ 348,690,179	$ 328,047,302	$ 490,812,665	$ 453,237,828
Operating grants and contributions**	222,187,806	212,150,068	-	-	222,187,806	212,150,068
Capital grants and contributions	44,270,838	66,118,819	-	-	44,270,838	66,118,819
General revenues:						
Property taxes	1,064,737,107	1,010,964,428	9,199,581	8,412,877	1,073,936,688	1,019,377,305
Income taxes	1,117,543,440	940,274,273	-	-	1,117,543,440	940,274,273
Other taxes	420,485,598	423,349,041	-	-	420,485,598	423,349,041
Investment income	29,769,889	15,806,293	6,267,935	3,557,676	36,037,824	19,363,969
Gain on sale of capital assets	5,187,736	13,112,218	-	-	5,187,736	13,112,218
Total Revenues	3,046,304,900	2,806,965,666	364,157,695	340,017,855	3,410,462,595	3,146,983,521
EXPENSES						
Governmental Activities:						
General government	257,586,189	227,211,859	-	-	257,586,189	227,211,859
Public safety	473,624,268	418,990,301	-	-	473,624,268	418,990,301
Public works and transportation	192,228,591	178,010,395	-	-	192,228,591	178,010,395
Health and human services	235,394,838	213,988,337	-	-	235,394,838	213,988,337
Culture and recreation	93,460,648	84,339,831	-	-	93,460,648	84,339,831
Community development and housing	19,280,438	19,915,566	-	-	19,280,438	19,915,566
Environment	9,157,156	8,664,457	-	-	9,157,156	8,664,457
Education	1,595,747,791	1,446,592,632	-	-	1,595,747,791	1,446,592,632
Interest on long-term debt	73,675,523	70,401,131	-	-	73,675,523	70,401,131
Business-type Activities:						
Liquor control	-	-	168,325,049	152,098,599	168,325,049	152,098,599
Solid waste activities	-	-	99,911,970	104,106,630	99,911,970	104,106,630
Parking lot districts	-	-	26,568,228	24,063,575	26,568,228	24,063,575
Permitting services	-	-	21,962,821	20,744,660	21,962,821	20,744,660
Community use of public facilities	-	-	6,810,783	5,958,685	6,810,783	5,958,685
Total Expenses	2,950,155,442	2,668,114,509	323,578,851	306,972,149	3,273,734,293	2,975,086,658
Increase in Net Assets Before Transfers	96,149,458	138,851,157	40,578,844	33,045,706	136,728,302	171,896,863
Transfers	32,433,658	29,801,928	(32,433,658)	(29,801,928)	-	-
Increase in Net Assets	128,583,116	168,653,085	8,145,186	3,243,778	136,728,302	171,896,863
Net Assets, beginning of year	1,554,191,195	1,385,538,110	255,587,684	252,343,906	1,809,778,879	1,637,882,016
Net Assets, end of year	$ 1,682,774,311	$ 1,554,191,195	$ 263,732,870	$ 255,587,684	$ 1,946,507,181	$ 1,809,778,879

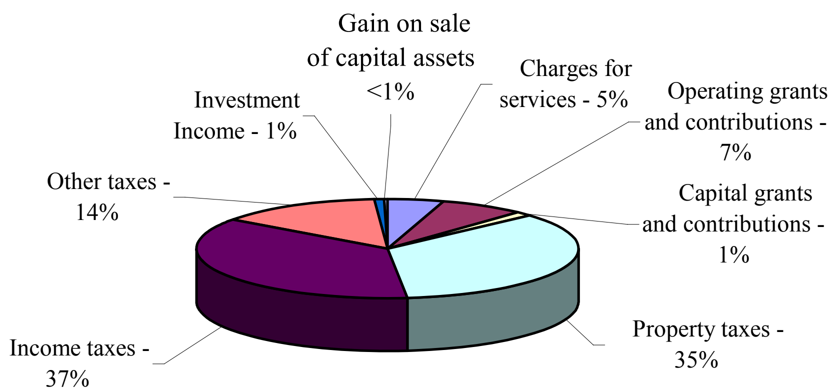
* Primary Government

* *Certain FY05 amounts have been reclassified to conform with the current year's presentation

Governmental Activities

Revenues for the County's governmental activities were $3,046.3 million for FY06. Sources of revenue are comprised of the following items:

Revenues by Source - Governmental Activities
For the Fiscal Year Ended June 30, 2006



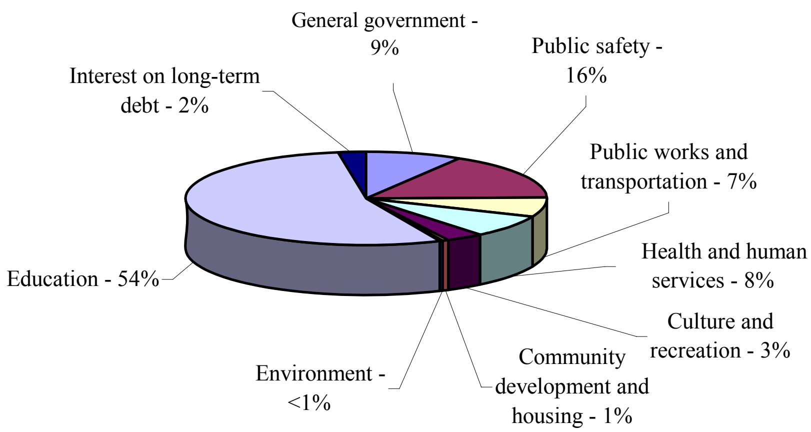
- Taxes constitute the largest source of County revenues, amounting to $2,602.8 million for FY06. Property and local income tax combined comprise 71.6 percent of all County revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 3.2 percent of the State taxable income for calendar years 2006 and 2005. 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 ($100.8 million or 45.4 percent), public works and transportation ($65.8 million or 29.6 percent) and public safety ($33.7 million or 15.2 percent).

A more detailed discussion of the County's revenue results for FY06 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 FY06 was $2,950.2 million. As the chart below indicates, education constitutes the County's largest program and highest priority; education expenses totaled $1.6 billion. Public safety expenses totaled $473.6 million, general government services totaled $257.6 million, and health and human services, the fourth largest expense for the County, totaled $235.4 million.

Expenses by Function - Governmental Activities
For the Fiscal Year Ended June 30, 2006



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

Net Cost of County's Governmental Activities
For the Fiscal Years Ended June 30, 2006 and 2005

	Expenses		Revenues		Net Cost of Services	
	2006	2005	2006	2005	2006	2005
Education	$ 1,595,747,791	$ 1,446,592,632	$ -	$ -	$ 1,595,747,791	$ 1,446,592,632
Public safety	473,624,268	418,990,301	59,085,387	57,680,645	414,538,881	361,309,656
General government	257,586,189	227,211,859	80,005,768	94,408,747	177,580,421	132,803,112
Health and human services	235,394,838	213,988,337	104,579,161	116,628,462	130,815,677	97,359,875
Public works and transportation	192,228,591	178,010,395	108,418,998	87,286,300	83,809,593	90,724,095
Culture and recreation	93,460,648	84,339,831	37,427,297	37,761,559	56,033,351	46,578,272
Other	102,113,117	98,981,154	19,064,519	9,693,700	83,048,598	89,287,454
Total	$ 2,950,155,442	$ 2,668,114,509	$ 408,581,130	$ 403,459,413	$ 2,541,574,312	$ 2,264,655,096

Of the total cost of governmental activities of $2,950.2 million, $408.6 million was paid by those who directly benefited from the programs ($142.1 million) and other governments and organizations that subsidized certain programs with operating and capital grants and contributions ($266.5 million). Of the $2,541.6 million net cost of services, our taxpayers paid for these activities through County taxes which totaled $2,602.8 million; also available to contribute towards such net costs were investment income and gain on sale of capital assets.

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

- General government expense includes:
  - $6 million in financial incentives paid through the Economic Development Fund to assist in building a parking garage at Westfield Shoppingtown Wheaton, in support of the Wheaton Central Business District; and

  - Approximately $8 million in additional expenses relating to the operation of the Conference Center in North Bethesda.
- Public safety expense includes:
  - $1.9 million in lease costs for an interim fire station in Clarksburg, and approximately $3.9 million to provide fire and rescue services; and
  - $1.3 million for Hurricane Katrina relief efforts.

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

- General government – Capital grants and contributions declined by $29.6 million, because FY05 amounts included $19.7 million in State funding towards construction of the Montgomery County Conference Center and $10.4 million from MCPS in the form of major renovations and improvements to a closed school, whose ownership was transferred from MCPS to the County. Charges for services include approximately $9 million in increased revenues from the operation of the Conference Center in North Bethesda.
- Health and human services – Operating grants and contributions decreased by $11.6 million due in large part to retroactive federal claims in prior years.
- Public works and transportation – Capital grants and contributions increases include $10.7 million in Federal and state funding for bus purchases. Operating grants and contributions include an increase in highway user revenues of approximately $6 million.
- Other – Community development and housing operating grants and contributions include approximately $4.1 million in increased condominium transfer taxes, which are restricted for housing purposes. Environment capital grants and contributions increased $3.5 million due primarily to additional state aid for the County's agricultural land preservation easement program.

Business-type Activities

Highlights of the County's business-type activities for FY06 are as follows:

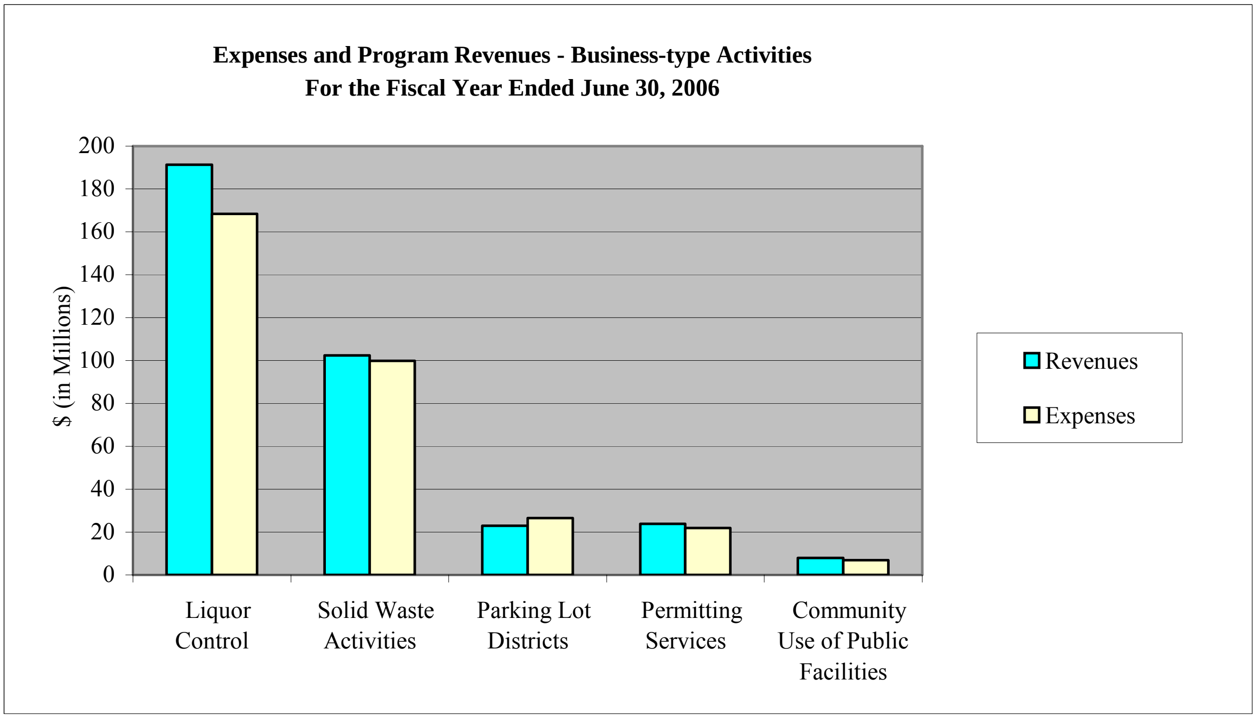
- Business-type activities experienced an increase in net assets of $8.1 million for FY06. However, this amount is reported after total net transfers out of $32.4 million. The most significant components of this amount include:
  - $1.7 million in transfers in from the General Fund to the Silver Spring Parking Lot District, representing the value of donated assets in the form of leased parking garages; netted against
  - $8.7 million in transfers of parking fees from the Parking Lot Districts to the Mass Transit Fund and Urban Districts; and
  - $20.7 million in FY06 Liquor Enterprise Fund profits transferred to the General Fund. Under State law, the Montgomery County Department of Liquor Control has a monopoly on the sale of alcoholic beverages within the County.

- Charges for services to users comprise 95.7 percent of revenues, with $191.4 million (54.9 percent of charges for services revenue) attributable to liquor control operations and $102.4 million (29.4 percent) attributable to solid waste activities. The remaining charges for services are generated from operations relating to parking lot districts, permitting services, and community use of public facilities.

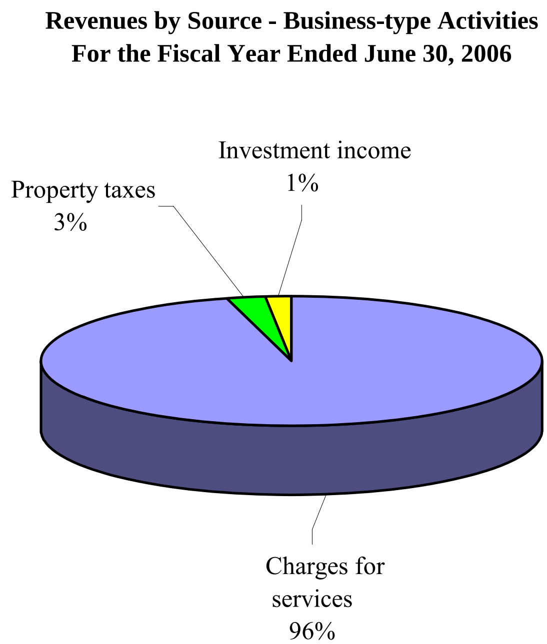
- Parking lot district property taxes of $9.2 million is the second largest source of revenue at only 2.5 percent.

- Investment income of $6.3 million reflects an increase of $2.7 million or 76.2 percent, primarily because of the continuing increases in interest rates during the year.

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



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



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

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

At the end of FY06, the County's governmental funds reported combined ending fund balances of $606.2 million, an increase of $151.7 million from the end of FY05. Of the total ending fund balances, $407.6 million constitutes the unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of $198.5 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 FY06, unreserved and undesignated fund balance of the General Fund was $107.3 million, while total fund balance was $288.8 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved and undesignated fund balance and total fund balance to total fund expenditures. Unreserved and undesignated fund balance represents 4.4 percent of the total General Fund expenditures and transfers out, while total fund balance represents 11.9 percent of the same amount.

The fund balance of the County's General Fund increased by $42.2 million during FY06, primarily due to higher than originally estimated income taxes, and transfer and recordation taxes.

The Capital Projects Fund has a total fund balance of $34.7 million. The unreserved fund deficit of $33.9 million results primarily from recordation and impact tax collections on hand that are legally restricted for use on projects of other component unit and municipality governments. The unreserved fund deficit represents the excess of expenditures incurred over proceeds of bonds issued, and reimbursements from federal, state, and other agencies. To help fund such expenditures, the General Fund advances funds to the Capital Projects Fund.

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

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

Proprietary Funds

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

Unrestricted net assets of the Liquor Fund at the end of FY06 amounted to $27.1 million, and operating income was $22.7 million. After a subsidy transfer to the General Fund of $20.7 million, the fund ended FY06 with an increase in net assets of $2.1 million.

The Solid Waste Activities Fund total net assets amounted to $58.5 million, of which the unrestricted net assets were $17.2 million. Restricted net assets of $32.8 million are attributable to required debt service reserve accounts for the Solid Waste Disposal revenue bonds.

The Parking Lot Districts Fund decrease in net assets amounted to $.2 million in FY06, resulting in total ending net assets of $164 million. Of this amount, $133.5 million (81.4 percent) is invested in capital net of related debt; $7.2 million (4.4 percent) is restricted for debt service on revenue bonds; and $23.3 million (14.2 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 $10.6 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:

- $6 million for snow removal operations, relating to nine snow events with total snow accumulation of approximately 17.5 inches, and for wind and rain storm clean up;

- $1.7 million in overtime costs for correction officers to backfill employees on military, sick, and disability leave;

- $1 million for emergency tree maintenance, allowing an existing backlog to be reduced by approximately one half;

- $.7 million for increased cost of a custodial contract for County facilities; and

- $.6 million relating to the addition of a Juvenile Division courtroom, including court support staff, prosecutors, Sheriff's deputies to secure the courtroom, and building related costs.

Actual revenues were greater than budget amounts by $159 million, while actual expenditures and net transfers out were less than final budget by $3.5 million and $14.1 million, respectively. Highlights of the comparison of final budget to actual figures for expenditures and net transfers for the fiscal year-ended June 30, 2006, include the following:

- Actual expenditures of $779.8 million were $3.5 million less than the final budget, which represents .4 percent of the final budget, and is attributable to savings achieved across numerous departments.

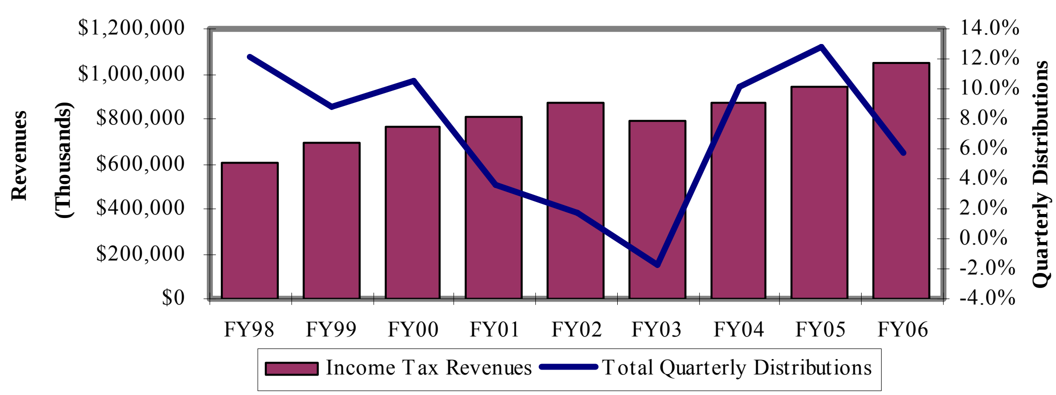
- Actual transfers to the Capital Projects Fund and component units for capital purposes were less than budgeted by $48.3 million. This is due both to the multi-year nature of capital projects, and to time delays that can be encountered for certain projects.

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

<u>Overview</u> - Actual revenues for the General Fund totaled $2,422.6 million and were 7.0 percent above the budget estimate for the fiscal year and 4.4 percent above actual revenues for FY05. The three largest contributors to the variance between the budget estimate and actual revenues were the income tax (↑ $95.8 million above the budget

estimate), followed by the transfer tax (↑ $32.5 million above the budget estimate), and finally, the recordation tax (↑ $25.2 million above the estimate). Revenues from excise taxes which include fuel/energy, telephone, hotel/motel, and admissions taxes, were $164.8 million in FY06. That amount was $2.3 million or 1.4 percent above the budget estimate. Investment income was approximately $3.6 million above the budget estimate. Some non-tax sources of revenue came in above the budget estimate. Such sources included licenses and permits (↑ 3.4%) and miscellaneous revenues (↑ 32.3%). Intergovernmental revenues were 0.9 percent below the budget estimate. Such decrease was attributed to the state reimbursements which came in 4.4 percent below the budget estimate, and other intergovernmental revenues which were 28.3 percent below the budget estimate. Federal reimbursements, however, came in 15.5 percent above the budget estimate.

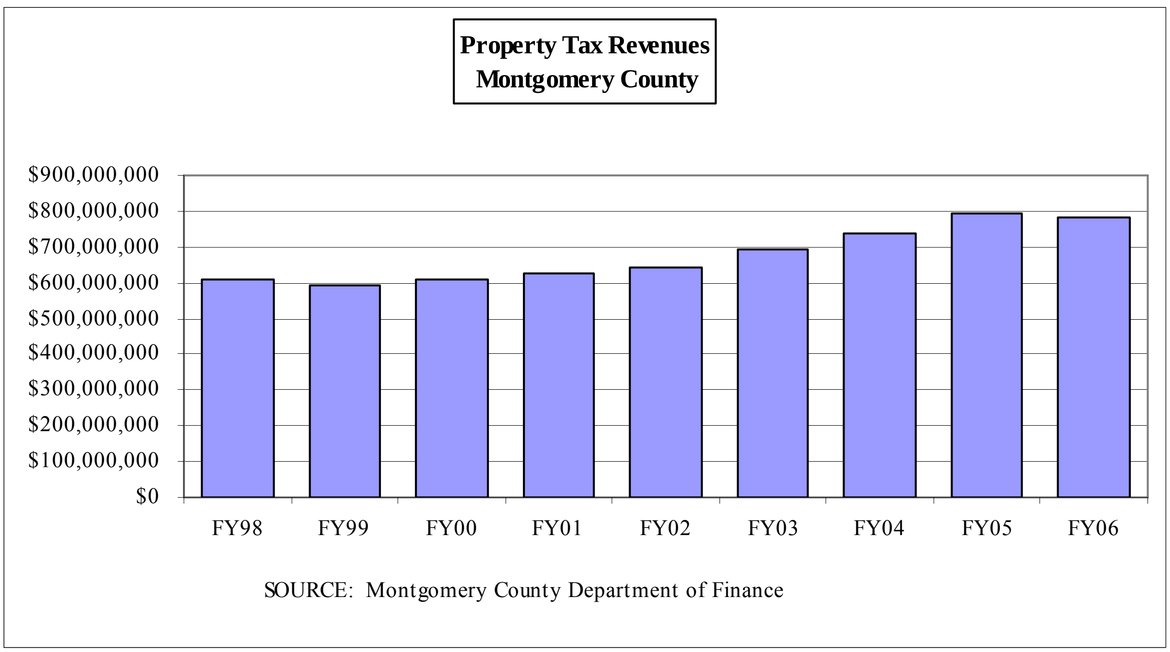
Income Taxes - The largest revenue source for the General Fund is the County income tax. Revenues from the income tax were $1,044.6 million and represented 46.8 percent of actual tax revenues and 43.1 percent of total actual revenues in FY06. Income tax receipts became the majority source of tax revenues in the General Fund when it surpassed the property tax in size in FY99. The dramatic shift in the reliance on the income tax as a major source of revenue can be attributed to two factors: the expanding employment base in the County and growth in capital gains. With a stock market that recovered in 2004 (↑ 26.4% in the S&P 500 index) after three consecutive years of decline between 2001 and 2003 (↓ 10.1%, ↓ 13.0%, and ↓ 23.4%, in the S&P 500 index, respectively) and meager growth in the County's payroll employment during the FY2002-2005 period, revenues increased 6.7 percent in FY02, 10.4 percent in FY04, and 8.2 percent in FY05. With strong employment growth and significant capital gains attributed to home sales and a rebound in the stock market, income taxes increased 11.0 percent in FY06 − the largest increase since FY99. With a significant improvement in employment and the stock market during calendar year 2005 and 2006, actual income tax revenues were up nearly $103.7 million in FY06 over FY05. As the chart below illustrates, total quarterly distributions for withholding and estimated payments increased 5.8 percent (FY06), +12.7 percent (FY05), and +10.2 percent (FY04).



SOURCE: Montgomery County Department of Finance

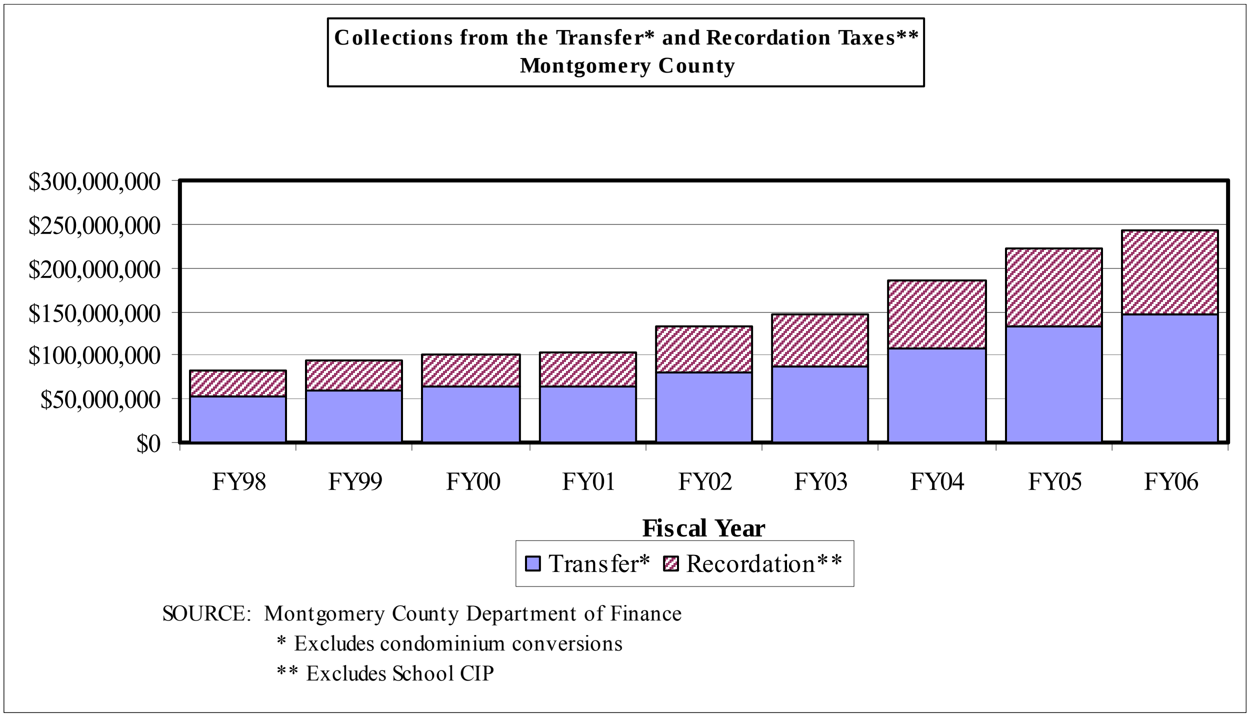
Property Taxes - Property tax collections in the General Fund amounted to $782.1 million in FY06, which were $0.4 million below the budget estimate and 1.3 percent below actual revenues in FY05. Actual property taxes, excluding penalty and interest and other items, were $781.1 million in FY06 – a decrease of 1.2 percent over last year**.** Collections from penalty and interest were $1.0 million, a decrease of 40.1 percent compared to FY05 actual revenues. The reason for the decline in property tax revenues compared to the budget estimate is attributed to a greater than expected decline in personal property taxable assessments and a lower than expected amount for penalties and interest. The modest decrease in property tax collections for the General Fund was also attributed to actions by the County to limit the amount of increase in real property taxes to the rate of inflation as required by the Charter Limit. Such actions by the County included a 5 cent reduction in the overall real property tax rate, an income tax offset to homeowners in the amount of $28.5 million, and a significantly enhanced County supplemental Homeowner's Tax Credit Program, both of which were applied to (deducted from) the General Fund.

The taxable assessments for real property increased 12.5 percent from FY05 to FY06. This was the largest increase in over seventeen years. New construction, which added $1.5 billion to the base in FY06, was 7.6 percent lower than in FY05. The continued strong real estate market, particularly the annual double-digit price increases, fueled the dramatic increase in the reassessment rate from 21.8 percent to 65.0 percent for Cycle Two reassessments of the County's real property, which followed an increase in the rate from 13.5 percent to 51.8 percent for Cycle One reassessments in FY05 and from 6.4 percent to 36.3 percent for Cycle Three. However, because of the homestead credit, annual increases in homeowners' taxable assessments are limited to 10 percent per year although other property such as commercial and investment residential properties are not affected by this credit. Over 60 percent of the County's taxable assessment is capped by the credit. While there were dramatic increases in the reassessment rates, which added nearly $15.4 billion to the assessable base in FY06, such increases were limited by the homestead credit, which excluded $8.5 billion in assessments from taxation in FY06.



After their decline in FY98, assessments of personal property increased 2.8 percent in FY99, 3.2 percent in FY00, 5.1 percent in FY01, 3.0 percent in FY02, 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 Department of Assessments and Taxation. For the past three years, taxable assessments for personal property declined from a high of $4.2 billion in FY03 to $3.8 billion in FY06. Despite the weaker trend in personal property, the total taxable assessment grew 7.6 percent in FY04, 9.6 percent in FY05, and 11.9 percent in FY06.

Transfer and Recordation Taxes - The third major category in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources were $241.7 million (excluding recordation tax revenues earmarked for CIP funding of school construction and transfer tax revenues from condominium conversions), and 31.4 percent above the budget estimate and 9.8 percent above actual revenues in FY05. Collections from transfer and recordation taxes continue to remain at record levels. As the accompanying chart illustrates, the amount collected from these taxes increased from $83.0 million in FY98 to $241.7 million in FY06 – a nearly threefold increase.

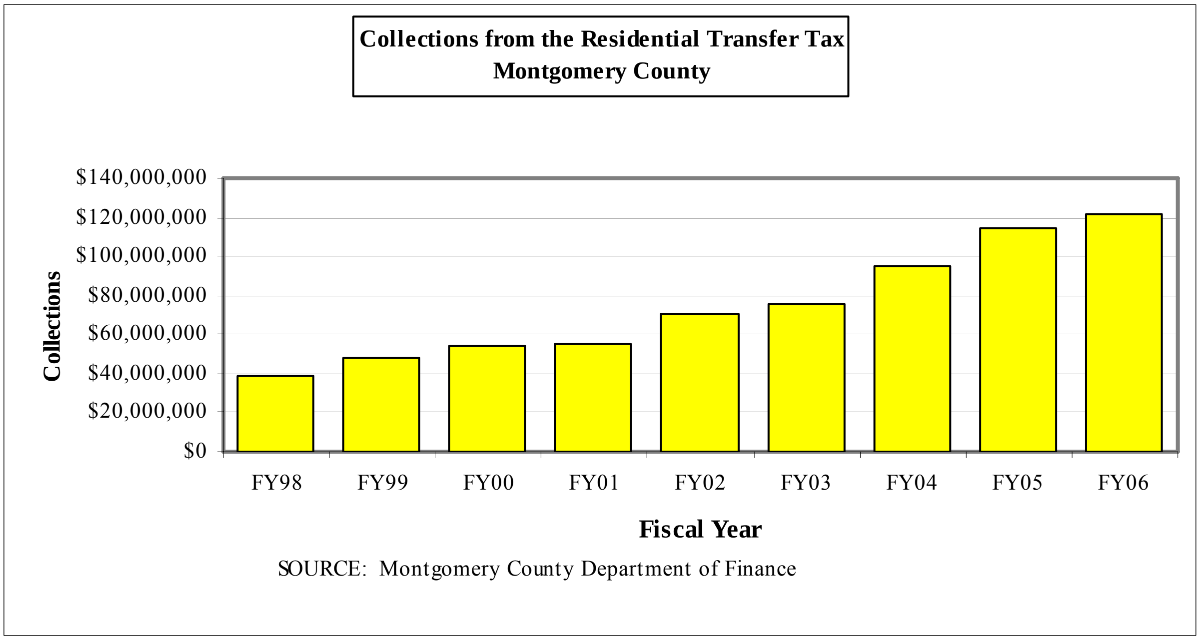


Following a two-year decline in tax collections, transfer and recordation taxes increased 40.1 percent in FY98 followed by a 12.1 percent increase in FY99, moderating in FY00 and FY01, then accelerating another 17.2 percent per year from FY01 to FY06. The increase between FY01 and FY06 was attributed to a strong housing sales and significant price appreciations. Collections from transfer tax revenues increased 8.8 percent in FY06 compared to recordation tax revenues (excluding School CIP), which increased 9.8 percent.

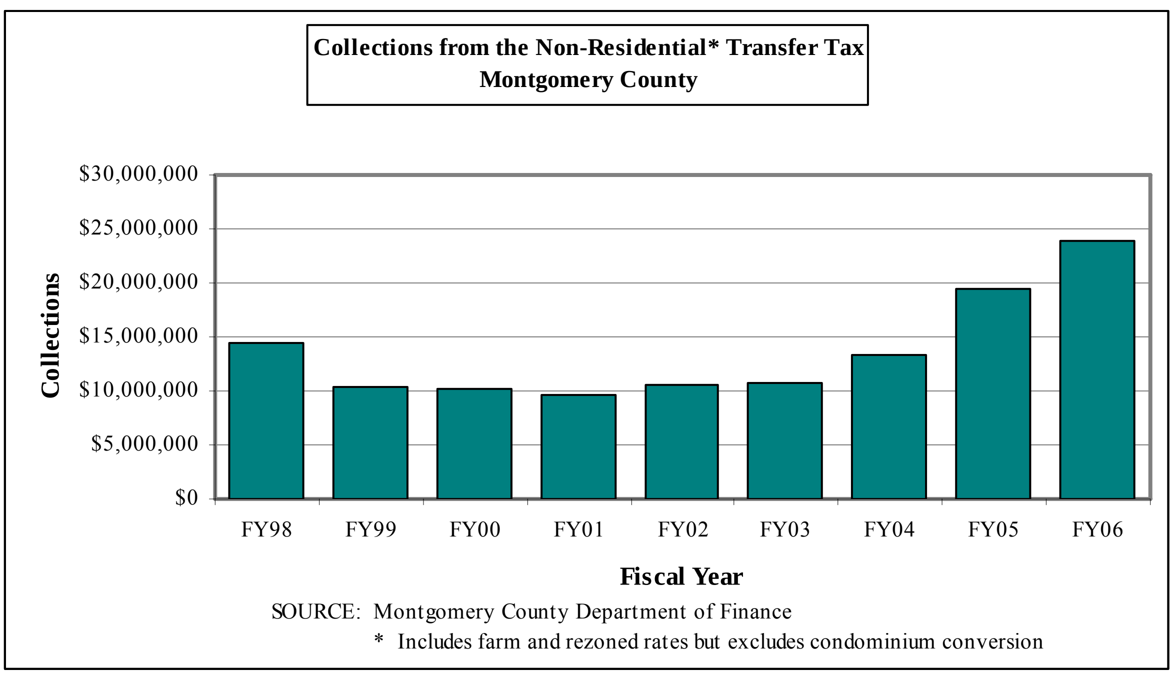
Revenues from the transfer tax experienced a slowdown in FY06 compared to the previous two fiscal years with total collections at $145.5 million but still at an all time high. The slowdown in the home sales, especially during the latter half of FY06, attributed to the deceleration in the rate of growth in the transfer and recordation taxes. Because of the slowdown attributed to a dramatic reduction in sales in FY06 (↓15.7%), revenues from the residential sector were $121.6 million, an increase of only 6.4 percent over FY05 – the smallest annual increase since FY01. However, the strong commercial market helped offset the slowdown in the residential sector. Revenues from the non-residential sector were $23.9 million, an increase of 20.6 percent over FY05.

A closer examination of the trend in the transfer tax from FY98 to FY06 provides two different growth patterns between residential and non-residential transfer tax receipts. Except for FY01, transfer taxes from the residential real estate market exhibited exceptional growth rates over this period. Tax collections increased at an average annual rate of 14.4 percent from FY98 to FY06. In FY01, FY03, and FY06, the growth rates were below double-digit rates for the first time since FY97 but still remained positive (FY01: ↑1.6%; FY03: ↑7.8%; FY06: ↑6.8%). Because of such exceptional increases over these fiscal years, the transfer tax amount collected in FY06, $121.6

million, was a record. The average residential transfer tax doubled during this period from $2,250 in FY98 to approximately $5,110 in FY06, representing an average annual growth rate of 10.3 percent and indicative of the jump in housing prices during FY04 and FY05.



The commercial or non-residential sector attained the highest level of collections ever in FY06. Revenues from that sector increased 20.6 percent compared to 6.8 percent for the residential sector. Over the previous six fiscal years, non-residential transfer tax revenues exhibited two distinct three-year cyclical patterns. For example, from FY98 to FY01, revenues decreased at an average annual rate of 13.5 percent, whereas from FY01 to FY06, revenues increased at an average annual rate of 18.2 percent.



Other Taxes - The remaining tax sources – consisting of hotel/motel, fuel/energy, telephone, and admissions and amusement taxes – totaled $164.8 million and were approximately $2.3 million, or 1.4 percent, above the budget estimate. The opening of the Conference Center in North Bethesda in late calendar year 2004 continued to contribute to a healthy growth in revenues from the hotel/motel industry (↑ 21.9% percent above the budget estimate) during FY06. Revenues from the telephone tax were 0.1 percent above the budget estimate. The modest increase in telephone revenues was attributed to the growth in the use of cellular telephones which offset the decline in landlines. The increases in the hotel/motel and telephone taxes also offset the modest decline in the fuel/energy tax (↓ 0.2%) from the budget estimate, which was attributed to a mild winter and therefore a decline in revenues from non-electric energy products such as fuel oil (↓ 12.3%) and natural gas (↓ 6.5%); and the dramatic decrease in the admissions tax (↓ 12.3%) from the budget estimate, which was attributed to the decline in tax receipts from movie theaters (↓ 14.4%) and coin-operated amusements (↓ 27.6%).

Investment Income - In the General Fund, investment income increased from $3.7 million in FY05 to $8.7 million in FY06 and was 71.1 percent above the budget estimate. The dramatic increases in FY05 and FY06 followed declines in FY01, FY02, FY03, and FY04, which were the result of the accommodative policy of the Federal Open Market Committee (FOMC) of the Federal Reserve that reduced interest rates beginning in January 2001. From June 2004 to June 2006, the FOMC raised the target interest rate for federal funds seventeen times from 1.25 percent to 5.25 percent. Because of this 400 basis point increase over a two-year period, short-term or money market rates increased as well, hence the average yield on cash equity for the County increased from 1.13 percent in FY04, to 2.19 percent in FY05, to 4.12 percent in FY06. Total pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was $36.4 million or 134.5 percent above last fiscal year. That increase in revenues with a lesser rate of increase in spending is reflected in the daily portfolio balance which increased from $710.0 million in FY05 to $883.6 million in FY06.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets as of June 30, 2006, amounted to $2,766.3 million (net of accumulated depreciation and amortization), as summarized below:

Capital Assets, Net of Depreciation
June 30, 2006

	Governmental Activities	Business-type Activities	Total FY06	Total FY05
Land	$ 544,279,988	$ 52,777,663	$ 597,057,651	$ 558,486,782
Buildings*	482,335,453	135,707,565	618,043,018	596,384,141
Improvements other than buildings*	29,956,012	22,788,714	52,744,726	49,833,925
Furniture, fixtures, equipment and machinery*	123,146,358	6,001,509	129,147,867	144,687,057
Leasehold improvements	10,765,782	-	10,765,782	7,874,792
Automobiles and trucks*	93,544,480	1,007,402	94,551,882	80,236,514
Infrastructure*	1,112,270,123	-	1,112,270,123	1,101,067,826
Other assets	796,126	-	796,126	1,004,099
Construction in progress	146,347,682	4,539,914	150,887,596	139,272,640
Total	$ 2,543,442,004	$ 222,822,767	$ 2,766,264,771	$ 2,678,847,776

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

Changes in the County's capital assets for FY06 are summarized as follows:

Change in Capital Assets
For the Fiscal Year Ended June 30, 2006

	Governmental Activities	Business-type Activities	Total FY06	Total FY05
Beginning Balance	$ 2,457,984,150	$ 220,863,626	$ 2,678,847,776	$ 2,572,349,587
Additions*	177,797,922	14,972,910	192,770,832	200,035,629
Retirements, net*	223,997	1,714,856	1,938,853	3,894,663
Depreciation expense	92,116,071	11,298,913	103,414,984	89,642,777
Ending Balance	$ 2,543,442,004	$ 222,822,767	$ 2,766,264,771	$ 2,678,847,776

* 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:

- Construction costs of $7.8 million were incurred, related to the Germantown Indoor Swim Center which opened during FY06 and will meet the needs of the currently underserved Germantown area as well as serve the needs of 12 schools in this region.
- The Department of Liquor Control incurred $1.6 million, reported as construction-in-progress, related to the acquisition and development of a new warehouse management, accounting and point-of-sale system.
- Roads, including underlying land, valued at $10.5 million were transferred to the County by various developers.
- In order to provide congestion relief and improve safe turning movement onto Montrose Road, as well as reduce neighborhood cut-through traffic in neighborhoods abutting Montrose Road, an additional $25.3 million was spent to construct Montrose Parkway West. This will be a new four-lane road from Montrose Road traveling east to 'old' Old Georgetown Road.
- Construction costs of $15 million were incurred, related to the new Rockville Regional Library which will include the Rockville Regional Library, and the Department of Public Libraries Administrative and Technology Management offices. The new facility will allow for increased collection size, additional public meeting and study space, as well as provide adequate staff spaces.
- The County incurred $4.5 million in construction costs towards restoration of the Bethesda Woodmont Corner Garage.

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, 2006:

Long-Term Debt
June 30, 2006

	Governmental Activities	Business-type Activities	Total FY06	Total FY05
General obligation bonds	$ 1,393,883,160	$ 4,894	$1,393,888,054	$1,415,208,054
Variable rate demand obligation	100,000,000	-	100,000,000	-
Bond anticipation notes	100,000,000	-	100,000,000	-
Revenue bonds	-	70,620,000	70,620,000	62,655,000
Lease revenue bonds	39,790,000	-	39,790,000	41,275,000
Notes payable *	13,980,419	-	13,980,419	12,773,529
Certificates of participation	-	-	-	9,780,000
Capital leases	87,086,843	-	87,086,843	83,969,583
Compensated absences	55,274,147	4,055,496	59,329,643	55,258,541
Claims and judgements	-	-	-	1,200,000
Landfill closure costs	-	22,150,923	22,150,923	22,108,523
Total	$ 1,790,014,569	$ 96,831,313	$1,886,845,882	$1,704,228,230

* Notes payable include equipment notes, State MICRF loan, taxable term loans, and HUD loan.

At June 30, 2006, the County had outstanding general obligation (GO) bonds of $1,393.9 million, with outstanding variable rate demand obligations (VRDOs) of $100 million and bond anticipation notes (BANs) of $100 million. Over the last ten years, the County issued its GO bonds once a year. The County adopted a policy in 1988 of initially financing capital construction with BANs. The County also issues bonds to finance the capital construction of MCPS, MCC, and M-NCPPC not otherwise financed by the State of Maryland. Since FY96, the County sold general obligation bond issues, exclusive of refundings, of up to $200 million. Over the last ten fiscal years, the County's annual issues (including the June 2006 issue of $100 million of VRDOs) averaged $149 million.

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

As of June 30, 2006, Montgomery County is one of only eight 'Triple AAA' rated counties in the nation with a population greater than 800,000. According to Standard and Poor's, a deep, diverse, and growing economy; strong financial management; and a low debt burden are the hallmarks of counties rated 'AAA.' The rating category, by definition, represents extremely strong capacity to pay principal and interest. Typically, 'AAA' rated counties demonstrate an ability to weather all economic cycles by maintaining tight budgetary controls, articulating and executing well-designed capital plans, maintaining sufficient reserves, and planning for future contingencies.

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. The County is currently satisfying its disclosure requirements via electronic filings with the Texas Municipal Advisory Council at http://www.disclosureusa.org. 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, 17-21.

Significant bond-related debt activities during FY06 were:

- General Obligation Bonds – This latest installment of the County's annual issue, for $100 million in May 2006, funds capital expenditures for roads, schools, and government facilities. The proceeds of this bond issue were used to pay off an equivalent amount of the County's BANs. Notable with this sale was that the average maturity of these bonds was approximately five years; previous County GO issues have an average maturity of about ten years.

- Variable Rate Demand Obligations – In June 2006, the County for the first time issued long-term variable rate demand obligations in the amount of $100 million. The proceeds of this issue were used to pay off an equivalent amount of the County's BANs. The variable rate demand obligations mature in 20 years, with equal sinking fund payments required in years 2017 through 2026.

- Parking System Revenue Bonds – In August 2005, the County issued revenue bonds in the amount of $16.5 million to fund renovations of public parking facilities in the Bethesda Parking Lot District.

- Bond Anticipation Notes (BANs) – During FY06, the County issued BANs in the amounts of $150 million in July, $50 million in December, and $100 million in April.

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 FY07 budget:

- The County's economic projections in the FY07 budget assume a continued modest economic expansion in FY07 with the County experiencing low unemployment and an increase in total payroll employment.

- On a calendar year basis, total payroll employment increased 2.2 percent in CY05, the latest year for which data are available. That rate followed an average annual increase of slightly more than 0.4 percent between CY01 and CY03 and 1.1 percent in CY04. Following such a strong performance in payroll employment during CY05, the County anticipates a slight slowdown in the growth of payroll employment in CY06 and CY07 with an estimated increase of 1.5 percent and 1.4 percent, respectively, and moderating further to 1.2 percent by CY12.

- The projection in the FY07 budget assumes that personal income will increase 5.6 percent in CY06 and 4.9 percent in CY07. That rate is below the estimated two-year annual average of 7.4 percent between CY04-CY05. However, the deceleration in the growth of personal income estimated for CY06 and CY07 reflects a moderation in the growth of employment.

- On a calendar year basis, employment in Montgomery County based on the labor force series as opposed to payroll employment, is expected to increase 1.7 percent in CY06 and decelerate to 1.2 percent in CY07. The rate of growth in resident employment is estimated to remain steady at an annual rate of 1.1-1.2 percent between CY07 and CY12. That estimate is consistent with the slower estimated growth in County population moderating to 0.8 percent annual growth rate by CY12.

- The deceleration in the growth of employment in FY07 and personal income reflects the estimated slowdown in the national economy. That slowdown is attributed to the efforts of the Federal Open Market Committee (FOMC) of the Board of Governors of the Federal Reserve System (Federal Reserve) to reduce the rate of inflation through seventeen consecutive increases in the target rate for federal funds.

- Inflation, as measured by the Consumer Price Index, is expected to increase 2.6 percent in FY07 which follows a 4.1 percent increase in FY06. Because of the recent policy directives by the FOMC of the Federal Reserve, the County's economic projections include an increase in the yield on its investments from 4.12 percent in FY06 to 4.55 percent for FY07.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions,* (GASB 45) addresses how state and local governments should account for and report their costs and obligations related to other postemploymenrt 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 anticipates implementing GASB 45 as required in FY08.

In November 2006, the County obtained actuarial valuation information addressing the extent of the County's liability to its retirees for OPEB as of July 1, 2006. 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 FY08 annual required contribution (ARC) for the County and its tax supported agencies is $240.0 million, and the related actuarial accrued liability (AAL) is $2.6 billion. Assuming a five-year phase-in approach to full prefunding, the budgetary impact in FY08 for the tax supported agencies would be $38.9 million. This includes $31.9 million to meet the OPEB phase-in obligation and $7.0 million related to increased retiree benefit costs.

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2006
Exhibit A-1

	Primary Government			Component Units
	Governmental Activities	**Business-type Activities**	**Total**	**Total**
ASSETS				
Equity in pooled cash and investments	$ 623,040,181	$ 94,843,832	$ 717,884,013	$ 43,606,235
Cash with fiscal agents	33,197,083	-	33,197,083	8,624,362
Cash	181,776	165,400	347,176	8,612,733
Investments-cash equivalents	-	-	-	89,847,173
Investments	4,946,796	-	4,946,796	54,093,982
Receivables (net of allowances for uncollectibles):				
Income taxes	297,176,999	-	297,176,999	-
Property taxes	21,500,022	1,665,903	23,165,925	-
Capital leases	39,790,000	-	39,790,000	41,170,427
Accounts	42,307,445	4,762,820	47,070,265	29,587,918
Special assessments	13,606	-	13,606	-
Notes	5,156,272	-	5,156,272	33,553,434
Parking violations	609,817	2,070,871	2,680,688	-
Mortgages receivable	110,363,343	-	110,363,343	244,114,007
Interest	60,110	-	60,110	5,436,900
Other	260,482	-	260,482	4,905,276
Net internal balance	1,600,841	(1,600,841)	-	-
Due from primary government	-	-	-	64,162,537
Due from component units	55,053,234	344,219	55,397,453	-
Due from other governments	53,932,174	165,615	54,097,789	28,372,089
Inventory of supplies	8,408,337	29,599,588	38,007,925	11,187,661
Prepaids	1,908,801	399,937	2,308,738	2,034,695
Deferred charges	4,808,418	1,119,012	5,927,430	734,856
Other assets	-	84,209	84,209	33,788,264
Restricted Assets:				
Equity in pooled cash and investments	-	35,523,586	35,523,586	-
Cash	-	-	-	258,811
Cash with fiscal agents	-	-	-	31,872,415
Investments - cash equivalents	-	-	-	82,621,743
Investments	-	4,470,884	4,470,884	216,383,100
Capital Assets:				
Nondepreciable assets	690,627,670	57,317,577	747,945,247	431,264,102
Depreciable assets, net	1,852,814,334	165,505,190	2,018,319,524	1,727,846,577
Total Assets	$ 3,847,757,741	$ 396,437,802	$ 4,244,195,543	$ 3,194,079,297

(Continued)

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS, CONCLUDED
JUNE 30, 2006
Exhibit A-1

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Total
LIABILITIES				
Accounts payable	$ 57,454,679	$ 19,185,986	$ 76,640,665	$ 60,696,614
Interest payable	20,817,644	479,089	21,296,733	16,537,697
Retainage payable	6,146,636	727,324	6,873,960	15,443,154
Accrued liabilities	50,634,789	10,812,244	61,447,033	66,400,038
Claims payable	88,977,285	-	88,977,285	23,919,394
Deposits	167,944	339,030	506,974	7,543,335
Due to primary government	-	-	-	55,764,544
Due to component units	63,553,336	609,201	64,162,537	-
Due to other governments	16,738,703	2,704,024	19,442,727	206,622
Unearned revenue	39,052,321	771,888	39,824,209	29,536,063
Other liabilities	-	291,414	291,414	10,705,999
Noncurrent Liabilities:				
Due within one year	285,278,355	12,946,069	298,224,424	100,189,506
Due in more than one year	1,536,161,738	83,838,663	1,620,000,401	939,711,996
Total Liabilities	2,164,983,430	132,704,932	2,297,688,362	1,326,654,962
NET ASSETS				
Invested in capital, net of related debt	1,769,233,330	152,244,454	1,876,884,699	1,783,628,138
Restricted for:				
Capital projects	54,191,514	-	54,191,514	1,069,895
Nonexpendable permanent fund - housing	5,536,573	-	5,536,573	-
General government	128,354,639	-	128,354,639	-
Public safety	11,641,476	-	11,641,476	-
Public works and transportation	3,789,579	80,486,538	84,276,117	-
Recreation	8,791,058	-	8,791,058	-
Community development and housing	123,705,355	-	123,705,355	-
Environment	2,801,761	-	2,801,761	-
Debt service	-	-	-	41,453,636
Other purposes	-	-	-	22,530,980
Unrestricted (deficit)	(425,270,974)	31,001,878	(349,676,011)	18,741,686
Total Net Assets	$ 1,682,774,311	$ 263,732,870	$ 1,946,507,181	$ 1,867,424,335

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
Exhibit A-2

		Program Revenues		
Functions	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Government Activites:				
General government	$ 257,586,189	$ 70,760,591	$ 8,624,075	$ 621,102
Public safety	473,624,268	21,261,849	33,672,335	4,151,203
Public works and transportation	192,228,591	17,417,455	65,846,601	25,154,942
Health and human services	235,394,838	3,733,918	100,845,243	-
Culture and recreation	93,460,648	24,180,695	4,284,853	8,961,749
Community development and housing	19,280,438	201,156	8,905,322	1,703,776
Environment	9,157,156	4,566,822	9,377	3,678,066
Education	1,595,747,791	-	-	-
Interest on long-term debt	73,675,523	-	-	-
Total Governmental Activities	2,950,155,442	142,122,486	222,187,806	44,270,838
Business-type Activities:				
Liquor control	168,325,049	191,351,999	-	-
Solid waste disposal and collection	99,911,970	102,432,416	-	-
Parking lot districts	26,568,228	22,978,890	-	-
Permitting services	21,962,821	23,949,256	-	-
Community use of public facilities	6,810,783	7,977,618	-	-
Total Business-type Activities	323,578,851	348,690,179	-	-
Total Primary Government	$ 3,273,734,293	$ 490,812,665	$ 222,187,806	$ 44,270,838
Component Units:				
General government (BUPI)	$ 3,296,351	$ 3,060,245	$ 267,796	$ -
Culture and recreation (MCRA)	14,650,557	13,527,180	-	127,470
Community development and housing (HOC)	182,539,606	87,884,426	83,070,936	10,431,854
Education:				
Elementary and secondary education (MCPS)	1,887,951,249	33,258,786	100,830,453	42,218,202
Higher education (MCC)	212,513,635	65,802,118	23,307,560	1,028,931
Total Component Units	$ 2,300,951,398	$ 203,532,755	$ 207,476,745	$ 53,806,457

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 Assets
Net Assets - Beginning
Net Assets - Ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (177,580,421)	$ -	$ (177,580,421)	$ -
(414,538,881)	-	(414,538,881)	-
(83,809,593)	-	(83,809,593)	-
(130,815,677)	-	(130,815,677)	-
(56,033,351)	-	(56,033,351)	-
(8,470,184)	-	(8,470,184)	-
(902,891)	-	(902,891)	-
(1,595,747,791)	-	(1,595,747,791)	-
(73,675,523)	-	(73,675,523)	-
(2,541,574,312)	-	(2,541,574,312)	-
-	23,026,950	23,026,950	-
-	2,520,446	2,520,446	-
-	(3,589,338)	(3,589,338)	-
-	1,986,435	1,986,435	-
-	1,166,835	1,166,835	-
-	25,111,328	25,111,328	-
(2,541,574,312)	25,111,328	(2,516,462,984)	-
-	-	-	31,690
-	-	-	(995,907)
-	-	-	(1,152,390)
-	-	-	(1,711,643,808)
-	-	-	(122,375,026)
-	-	-	(1,836,135,441)
1,064,737,107	9,199,581	1,073,936,688	-
1,117,543,440	-	1,117,543,440	-
145,478,479	-	145,478,479	-
96,239,932	-	96,239,932	-
117,381,196	-	117,381,196	-
15,869,779	-	15,869,779	-
29,176,263	-	29,176,263	-
16,339,949	-	16,339,949	-
-	-	-	2,005,157,958
29,769,889	6,267,935	36,037,824	10,436,946
5,187,736	-	5,187,736	33,358
32,433,658	(32,433,658)	-	-
2,670,157,428	(16,966,142)	2,653,191,286	2,015,628,262
128,583,116	8,145,186	136,728,302	179,492,821
1,554,191,195	255,587,684	1,809,778,879	1,687,931,514
$ 1,682,774,311	$ 263,732,870	$ 1,946,507,181	$ 1,867,424,335

MONTGOMERY COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006
Exhibit A-3

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Equity in pooled cash and investments	$ 219,194,105	$ 776,805	$ 103,671,506	$ 176,921,721	$ 500,564,137
Cash with fiscal agents	59,476	28,817,249	4,320,358	-	33,197,083
Cash	151,576	-	-	29,900	181,476
Investments	-	-	-	4,946,796	4,946,796
Receivables (net of allowances for uncollectibles):					
Income taxes	297,176,999	-	-	-	297,176,999
Property taxes	16,757,606	-	-	4,742,416	21,500,022
Capital leases	-	39,790,000	-	-	39,790,000
Accounts	36,600,232	18,600	572,175	2,519,576	39,710,583
Special assessments	-	13,606	-	-	13,606
Notes	-	-	91,465	5,053,379	5,144,844
Parking violations	609,817	-	-	-	609,817
Mortgages receivable	190,142	-	300,000	109,873,201	110,363,343
Interest	-	-	-	60,110	60,110
Other	-	-	3,829	255,436	259,265
Due from other funds	79,513,795	-	-	3,089,573	82,603,368
Due from component units	3,939,383	-	13,584,187	36,762,896	54,286,466
Due from other governments	23,637,594	-	7,596,224	22,434,032	53,667,850
Inventory of supplies	4,542,264	-	828,573	-	5,370,837
Prepaids	532,173	-	1,335	825,803	1,359,311
Total Assets	$ 682,905,162	$ 69,416,260	$ 130,969,652	$ 367,514,839	$ 1,250,805,913
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 25,182,492	$ 521,778	$ 12,308,083	$ 12,867,825	$ 50,880,178
Retainage payable	18,860	-	6,080,192	47,584	6,146,636
Accrued liabilities	31,056,440	-	643,718	9,387,582	41,087,740
Deposits	-	-	-	167,944	167,944
Due to other funds	8,275,567	28,771,304	53,986,924	3,324,836	94,358,631
Due to component units	42,799,201	-	18,991,247	1,550,396	63,340,844
Due to other governments	2,162,999	-	1,810,413	12,400,252	16,373,664
Deferred revenue	284,623,188	40,123,178	2,454,122	45,089,769	372,290,257
Total Liabilities	394,118,747	69,416,260	96,274,699	84,836,188	644,645,894
Fund Balances:					
Reserved for:					
Legal debt restrictions	-	-	4,211,706	-	4,211,706
Long-term receivables	-	-	13,584,187	113,845,883	127,430,070
Inventory	4,542,264	-	828,573	-	5,370,837
Prepaids	532,173	-	1,335	824,331	1,357,839
Fire-Rescue Grant	-	-	-	1,512,354	1,512,354
Donor-specified purposes	-	-	-	1,192,950	1,192,950
Other purposes	1,941,790	-	49,979,808	5,536,573	57,458,171
Total Reserved	7,016,227	-	68,605,609	122,912,091	198,533,927
Unreserved, designated for, reported in:					
Encumbrances	19,184,118	-	-	13,771,457	32,955,575
General Fund	155,304,163	-	-	-	155,304,163
Special Revenue Funds	-	-	-	17,506,449	17,506,449
Unreserved, undesignated (deficit), reported in:					
General Fund	107,281,907	-	-	-	107,281,907
Capital Projects Fund	-	-	(33,910,656)	-	(33,910,656)
Special Revenue Funds	-	-	-	128,488,654	128,488,654
Total Unreserved (Deficit)	281,770,188	-	(33,910,656)	159,766,560	407,626,092
Total Fund Balances	288,786,415	-	34,694,953	282,678,651	606,160,019
Total Liabilities and Fund Balances	$ 682,905,162	$ 69,416,260	$ 130,969,652	$ 367,514,839	$ 1,250,805,913

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

MONTGOMERY COUNTY, MARYLAND
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006
Exhibit A-4

Total fund balance - governmental funds (see Exhibit A-3)		$ 606,160,019
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental fund activities are not financial resources and therefore not reported in the funds:		
Nondepreciable capital assets:		
Land	$ 544,257,482	
Construction in progress	146,347,682	
Depreciable capital assets:		
Buildings	708,096,616	
Improvements other than buildings	44,080,705	
Furniture, fixtures, equipment and machinery	223,571,713	
Automobiles and trucks	116,093,480	
Infrastructure	1,497,802,708	
Other capital assets	2,079,731	
Total capital assets	3,282,330,117	
Less accumulated depreciation	(768,941,770)	2,513,388,347
Long-term liabilities related to governmental fund activities are not due and payable in the current period and therefore not reported in the funds:		
General obligation bonds payable	(1,393,883,160)	
Variable rate demand obligations	(100,000,000)	
Bond anticipation notes payable	(100,000,000)	
Lease revenue bonds payable	(39,790,000)	
Accrued interest payable	(20,817,644)	
Capital leases payable	(87,086,843)	
Notes payable	(13,980,419)	
Compensated absences	(53,889,623)	(1,809,447,689)
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	(60,555,745)	
Deferred amount on refunding	29,130,221	
Deferred issuance costs	4,808,418	(26,617,106)
Internal service funds are used by management to provide certain goods and services to governmental funds. The assets and liabilities of internal service funds are included in the government-wide statement of net assets:		
Assets:		
Current assets	134,932,961	
Capital assets	71,121,613	
Less accumulated depreciation	(41,067,956)	
Liabilities	(102,482,074)	
Cumulative loss for certain activities of internal service funds that is reported with business-type activities	1,236,032	63,740,576
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Income taxes	241,150,000	
Property taxes	18,163,000	
Intergovernmental revenue	26,017,586	
Other revenue	50,219,578	335,550,164
Net assets of governmental activities (see Exhibit A-1)		$ 1,682,774,311

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
Exhibit A-5

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	$ 2,233,204,779	$ -	$ 58,073,018	$ 254,629,055	$ 2,545,906,852
Licenses and permits	10,335,016	-	-	1,690,077	12,025,093
Intergovernmental	137,164,714	-	19,555,194	109,065,569	265,785,477
Charges for services	31,369,420	40,798	787,887	45,005,918	77,204,023
Fines and forfeitures	9,381,741	-	-	923,436	10,305,177
Investment income	6,225,453	7,018,823	2,323,949	9,264,049	24,832,274
Miscellaneous	10,716,432	-	777,212	3,151,521	14,645,165
Total Revenues	2,438,397,555	7,059,621	81,517,260	423,729,625	2,950,704,061
EXPENDITURES					
Current:					
General government	207,807,654	-	-	20,861,784	228,669,438
Public safety	279,363,380	-	-	176,070,111	455,433,491
Public works and transportation	45,747,862	-	-	107,089,990	152,837,852
Health and human services	194,695,778	-	-	39,271,443	233,967,221
Culture and recreation	43,134,361	-	-	35,352,176	78,486,537
Community development and housing	11,837,295	-	-	5,459,959	17,297,254
Environment	3,328,077	-	-	3,124,394	6,452,471
Education	1,382,898,458	-	-	-	1,382,898,458
Debt Service:					
Principal retirement:					
General obligation bonds	-	121,268,382	-	-	121,268,382
Bond anticipation notes	-	200,000,000	-	-	200,000,000
Other notes	-	2,915,915	-	-	2,915,915
Interest:					
General obligation bonds	-	62,992,561	-	-	62,992,561
Variable rate demand obligations	-	253,302	-	-	253,302
Bond anticipation notes	-	4,675,356	-	-	4,675,356
Other notes	-	243,311	-	-	243,311
Leases and other obligations	-	26,245,116	-	-	26,245,116
Issuing costs	-	1,044,430	-	-	1,044,430
Capital projects	-	-	382,096,212	-	382,096,212
Total Expenditures	2,168,812,865	419,638,373	382,096,212	387,229,857	3,357,777,307
Excess (Deficiency) of Revenues over (under) Expenditures	269,584,690	(412,578,752)	(300,578,952)	36,499,768	(407,073,246)
OTHER FINANCING SOURCES (USES)					
Transfers in	35,719,620	217,169,994	59,491,660	27,730,474	340,111,748
Transfers (out)	(265,144,094)	(4,719,842)	(814,828)	(36,624,738)	(307,303,502)
Sale of property	-	-	3,750	5,201,674	5,205,424
Financing under notes and leases payable	329,459	-	-	4,877,918	5,207,377
Debt Issued:					
General obligation bonds	-	100,000,000	-	-	100,000,000
Premium on general obligation bonds	-	128,600	5,328,100	-	5,456,700
Bond anticipation notes	-	-	300,000,000	-	300,000,000
Lease revenue bonds	1,747,573	-	-	-	1,747,573
Variable rate demand obligations	-	100,000,000	-	-	100,000,000
Capital lease financing	-	-	8,379,687	-	8,379,687
Total Other Financing Sources (Uses)	(227,347,442)	412,578,752	372,388,369	1,185,328	558,805,007
Net Change in Fund Balances	42,237,248	-	71,809,417	37,685,096	151,731,761
Fund Balances (Deficit) - Beginning of Year	246,549,167	-	(37,114,464)	244,993,555	454,428,258
Fund Balances - End of Year	$ 288,786,415	$ -	$ 34,694,953	$ 282,678,651	$ 606,160,019

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

MONTGOMERY COUNTY, MARYLAND
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
Exhibit A-6

Net change in fund balances - total governmental funds (see Exhibit A-5)		$ 151,731,761
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense:		
Capital outlay	$ 160,950,327	
Depreciation expense	(85,779,536)	75,170,791
In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds all proceeds are reported as financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of capital assets sold.		(17,688)
Donations of capital assets increase net assets in the statement of activities but do not appear in the governmental funds because they are not financial resources.		11,769,234
Some revenues will not be collected for several months after the fiscal year ends. As such, these revenues are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased (decreased) this year, as follows:		
Income taxes	72,981,451	
Property taxes	(14,068,828)	
Intergovernmental revenues	(14,110,510)	
Other revenues	(2,870,256)	41,931,857
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:		
Debt issued or incurred:		
General obligation bonds	(105,456,700)	
Variable rate demand obligations	(100,000,000)	
Bond anticipation notes	(300,000,000)	
Capital lease financing	(8,379,687)	
Lease revenue bonds	(1,747,573)	
Notes payable	(5,207,377)	
Less issuance costs	408,569	
Principal repayments:		
General obligation bonds	121,268,382	
Bond anticipation notes	200,000,000	
Certificates of participation	9,780,000	
Leases payable	2,568,463	
Capital leases	7,010,000	
Notes payable	2,915,915	(176,840,008)
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	1,370,411	
Compensated absences	(3,885,301)	
Claims and judgments	1,200,000	
Amortization	3,085,840	1,770,950
The current year gain for certain activities of internal service funds is reported with governmental activities.		23,066,219
Change in net assets of governmental activities (see Exhibit A-2)		$ 128,583,116

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

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
Exhibit A-7

	Budget						
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final	Actual	Variance Positive (Negative)
Revenues:							
Taxes:							
Property	$ -	$ 777,849,280	$ 777,849,280	$ -	$ 777,849,280	$ 781,090,696	$ 3,241,416
Property - penalty and interest	-	4,635,720	4,635,720	-	4,635,720	1,040,917	(3,594,803)
Other	-	-	-	-	-	217	217
Total Property Tax	-	782,485,000	782,485,000	-	782,485,000	782,131,830	(353,170)
County Income Tax	-	948,720,000	948,720,000	-	948,720,000	1,044,561,989	95,841,989
Other Local Taxes:							
Real property transfer	-	112,950,000	112,950,000	-	112,950,000	145,478,479	32,528,479
Recordation	-	71,070,000	71,070,000	-	71,070,000	96,239,932	25,169,932
Fuel energy	-	117,600,000	117,600,000	-	117,600,000	117,381,196	(218,804)
Hotel - motel	-	13,020,000	13,020,000	-	13,020,000	15,869,779	2,849,779
Telephone	-	29,140,000	29,140,000	-	29,140,000	29,176,263	36,263
Other	-	2,698,000	2,698,000	-	2,698,000	2,365,311	(332,689)
Total Other Local Taxes	-	346,478,000	346,478,000	-	346,478,000	406,510,960	60,032,960
Total Taxes	-	2,077,683,000	2,077,683,000	-	2,077,683,000	2,233,204,779	155,521,779
Licenses and Permits:							
Business	-	5,404,120	5,404,120	(2,720)	5,401,400	5,695,489	294,089
Non business	-	4,615,870	4,615,870	-	4,615,870	4,639,527	23,657
Total Licenses and Permits	-	10,019,990	10,019,990	(2,720)	10,017,270	10,335,016	317,746
Intergovernmental Revenue:							
State Aid and Reimbursements:							
DHR State reimbursement - HB669	-	36,474,990	36,474,990	-	36,474,990	34,453,164	(2,021,826)
Highway user revenue	-	38,566,658	38,566,658	-	38,566,658	36,623,789	(1,942,869)
Police protection	-	13,000,000	13,000,000	-	13,000,000	13,125,433	125,433
Health and human services programs	-	6,260,060	6,260,060	-	6,260,060	6,559,748	299,688
Public libraries	-	3,844,310	3,844,310	-	3,844,310	3,853,987	9,677
911 Emergency	-	7,099,010	7,099,010	-	7,099,010	6,873,027	(225,983)
Electric regulation	-	2,766,000	2,766,000	-	2,766,000	2,765,553	(447)
Other	-	2,711,610	2,711,610	-	2,711,610	1,617,059	(1,094,551)
Total State Aid and Reimbursements	-	110,722,638	110,722,638	-	110,722,638	105,871,760	(4,850,878)
Federal Reimbursements:							
Federal financial participation	-	22,816,790	22,816,790	-	22,816,790	26,795,733	3,978,943
Other	-	3,290,640	3,290,640	-	3,290,640	3,359,981	69,341
Total Federal Reimbursements	-	26,107,430	26,107,430	-	26,107,430	30,155,714	4,048,284
Other Intergovennmental	-	1,586,540	1,586,540	-	1,586,540	1,137,240	(449,300)
Total Intergovernmental Revenue	-	138,416,608	138,416,608	-	138,416,608	137,164,714	(1,251,894)
Charges for Services:							
General government	-	1,574,440	1,574,440	4,834	1,579,274	1,452,980	(126,294)
Public safety	-	10,413,920	10,413,920	-	10,413,920	9,678,730	(735,190)
Health and human services	-	1,768,560	1,768,560	-	1,768,560	1,422,214	(346,346)
Culture and recreation	-	2,600	2,600	-	2,600	29,767	27,167
Environment	-	200,000	200,000	-	200,000	96,808	(103,192)
Public works and transportation	-	49,000	49,000	-	49,000	133,530	84,530
Total Charges for Services	-	14,008,520	14,008,520	4,834	14,013,354	12,814,029	(1,199,325)
Fines and forfeitures	-	10,014,710	10,014,710	44,720	10,059,430	9,381,741	(677,689)
Investment Income:							
Pooled investment income	-	5,060,000	5,060,000	-	5,060,000	8,649,379	3,589,379
Other interest income	-	10,000	10,000	-	10,000	26,239	16,239
Total Investment Income	-	5,070,000	5,070,000	-	5,070,000	8,675,618	3,605,618
Miscellaneous Revenue:							
Property rentals	-	3,863,150	3,863,150	-	3,863,150	4,218,705	355,555
Sundry	-	4,384,790	4,384,790	84,240	4,469,030	6,805,579	2,336,549
Total Miscellaneous Revenue	-	8,247,940	8,247,940	84,240	8,332,180	11,024,284	2,692,104
Total Revenues	-	2,263,460,768	2,263,460,768	131,074	2,263,591,842	2,422,600,181	159,008,339
Expenditures:							
Departments or Offices:							
County Council:							
Personnel	-	6,778,863	6,778,863	42,150	6,821,013	6,626,485	194,528
Operating	77,966	772,840	850,806	(43,710)	807,096	771,139	35,957
Totals	77,966	7,551,703	7,629,669	(1,560)	7,628,109	7,397,624	230,485
Board of Appeals:							
Personnel	-	441,501	441,501	14,870	456,371	456,364	7
Operating	5,162	81,530	86,692	(4,030)	82,662	82,658	4
Totals	5,162	523,031	528,193	10,840	539,033	539,022	11
Legislative Oversight:							
Personnel	-	913,892	913,892	5,060	918,952	894,250	24,702
Operating	4,579	61,610	66,189	(1,706)	64,483	37,095	27,388
Totals	4,579	975,502	980,081	3,354	983,435	931,345	52,090
Merit System Protection Board:							
Personnel	-	122,090	122,090	-	122,090	118,550	3,540
Operating	-	15,160	15,160	-	15,160	9,186	5,974
Totals	-	137,250	137,250	-	137,250	127,736	9,514
Zoning and Administrative Hearings:							
Personnel	-	377,591	377,591	-	377,591	360,950	16,641
Operating	136	92,710	92,846	(136)	92,710	91,754	956
Totals	136	470,301	470,437	(136)	470,301	452,704	17,597

(Continued)

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
Exhibit A-7

	Budget						
	Prior Year Carryover Encumbrances	**Current Year**	**Total Original**	**Revisions**	**Final**	**Actual**	**Variance Positive (Negative)**
Inspector General:							
Personnel	$ -	$ 428,111	$ 428,111	$ -	$ 428,111	$ 422,765	$ 5,346
Operating	-	55,620	55,620	-	55,620	15,860	39,760
Totals	-	483,731	483,731	-	483,731	438,625	45,106
People's Counsel:							
Personnel	-	203,780	203,780	-	203,780	201,906	1,874
Operating	305	18,380	18,685	(305)	18,380	7,601	10,779
Totals	305	222,160	222,465	(305)	222,160	209,507	12,653
Circuit Court:							
Personnel	-	7,020,900	7,020,900	27,420	7,048,320	6,704,666	343,654
Operating	325,720	2,081,340	2,407,060	122,159	2,529,219	2,529,000	219
Capital outlay	-	90,000	90,000	9,160	99,160	99,155	5
Totals	325,720	9,192,240	9,517,960	158,739	9,676,699	9,332,821	343,878
State's Attorney:							
Personnel	-	9,678,523	9,678,523	141,810	9,820,333	9,820,326	7
Operating	9,558	471,790	481,348	47,586	528,934	528,925	9
Totals	9,558	10,150,313	10,159,871	189,396	10,349,267	10,349,251	16
County Executive:							
Personnel	-	3,958,474	3,958,474	50,920	4,009,394	3,717,790	291,604
Operating	-	323,130	323,130	-	323,130	297,373	25,757
Totals	-	4,281,604	4,281,604	50,920	4,332,524	4,015,163	317,361
Commission for Women:							
Personnel	-	944,022	944,022	(1,140)	942,882	938,820	4,062
Operating	-	123,730	123,730	10,280	134,010	134,008	2
Totals	-	1,067,752	1,067,752	9,140	1,076,892	1,072,828	4,064
Regional Service Centers:							
Personnel	-	2,772,229	2,772,229	(187,680)	2,584,549	2,584,545	4
Operating	28,465	706,401	734,866	(75,196)	659,670	658,030	1,640
Totals	28,465	3,478,630	3,507,095	(262,876)	3,244,219	3,242,575	1,644
Ethics Commission:							
Personnel	-	178,218	178,218	20,770	198,988	198,988	-
Operating	365	32,050	32,415	(3,565)	28,850	19,099	9,751
Totals	365	210,268	210,633	17,205	227,838	218,087	9,751
Intergovernmental Relations:							
Personnel	-	542,350	542,350	(19,970)	522,380	504,841	17,539
Operating	8,286	123,760	132,046	15,534	147,580	147,575	5
Totals	8,286	666,110	674,396	(4,436)	669,960	652,416	17,544
Board of Liquor License Commissioners:							
Personnel	-	918,860	918,860	8,360	927,220	900,276	26,944
Operating	3,070	133,970	137,040	(3,070)	133,970	126,907	7,063
Totals	3,070	1,052,830	1,055,900	5,290	1,061,190	1,027,183	34,007
Public Information:							
Personnel	-	963,747	963,747	(1,260)	962,487	962,482	5
Operating	29,171	177,970	207,141	44,264	251,405	251,402	3
Totals	29,171	1,141,717	1,170,888	43,004	1,213,892	1,213,884	8
Board of Elections:							
Personnel	-	1,839,570	1,839,570	121,660	1,961,230	1,961,225	5
Operating	2,386	1,676,470	1,678,856	(112,980)	1,565,876	1,143,001	422,875
Totals	2,386	3,516,040	3,518,426	8,680	3,527,106	3,104,226	422,880
County Attorney:							
Personnel	-	4,392,821	4,392,821	(98,790)	4,294,031	4,294,019	12
Operating	127,590	483,380	610,970	99,914	710,884	710,878	6
Totals	127,590	4,876,201	5,003,791	1,124	5,004,915	5,004,897	18
Management and Budget:							
Personnel	-	3,406,076	3,406,076	(64,770)	3,341,306	3,199,586	141,720
Operating	8,231	169,100	177,331	89,625	266,956	219,161	47,795
Totals	8,231	3,575,176	3,583,407	24,855	3,608,262	3,418,747	189,515
Finance:							
Personnel	-	7,887,854	7,887,854	(53,080)	7,834,774	7,825,297	9,477
Operating	319,413	1,581,840	1,901,253	(340,567)	1,560,686	1,520,679	40,007
Totals	319,413	9,469,694	9,789,107	(393,647)	9,395,460	9,345,976	49,484
Human Resources:							
Personnel	-	4,809,882	4,809,882	32,020	4,841,902	4,840,197	1,705
Operating	547,770	2,261,590	2,809,360	(33,309)	2,776,051	2,776,050	1
Totals	547,770	7,071,472	7,619,242	(1,289)	7,617,953	7,616,247	1,706
Technology Services:							
Personnel	-	15,615,915	15,615,915	(325,680)	15,290,235	15,251,125	39,110
Operating	2,870,541	11,629,480	14,500,021	116,137	14,616,158	14,616,143	15
Capital outlay	-	152,630	152,630	57,950	210,580	210,571	9
Totals	2,870,541	27,398,025	30,268,566	(151,593)	30,116,973	30,077,839	39,134
Procurement:							
Personnel	-	2,532,452	2,532,452	(5,170)	2,527,282	2,455,325	71,957
Operating	62,019	199,610	261,629	(264)	261,365	261,003	362
Totals	62,019	2,732,062	2,794,081	(5,434)	2,788,647	2,716,328	72,319
Corrections and Rehabilitation:							
Personnel	-	46,499,672	46,499,672	1,494,880	47,994,552	47,994,552	-
Operating	31,213	6,658,660	6,689,873	818,465	7,508,338	7,508,338	-
Capital outlay	-	-	-	13,220	13,220	13,220	-
Totals	31,213	53,158,332	53,189,545	2,326,565	55,516,110	55,516,110	-
Human Relations Commission:							
Personnel	-	1,964,681	1,964,681	7,530	1,972,211	1,915,961	56,250
Operating	500	153,320	153,820	-	153,820	149,035	4,785
Totals	500	2,118,001	2,118,501	7,530	2,126,031	2,064,996	61,035

(Continued)

Exhibit A-7

	Budget						
	Prior Year Carryover Encumbrances	**Current Year**	**Total Original**	**Revisions**	**Final**	**Actual**	**Variance Positive (Negative)**
Police:							
Personnel	$ -	$ 155,351,269	$ 155,351,269	$ 459,530	$ 155,810,799	$ 155,810,795	$ 4
Operating	494,781	26,401,055	26,895,836	624,825	27,520,661	27,520,661	-
Capital outlay	-	-	-	8,000	8,000	8,000	-
Totals	494,781	181,752,324	182,247,105	1,092,355	183,339,460	183,339,456	4
Sheriff:							
Personnel	-	13,865,596	13,865,596	40,643	13,906,239	13,906,232	7
Operating	218,677	1,683,640	1,902,317	505,903	2,408,220	2,408,216	4
Totals	218,677	15,549,236	15,767,913	546,546	16,314,459	16,314,448	11
Homeland Security:							
Personnel	-	4,260,604	4,260,604	72,840	4,333,444	4,333,430	14
Operating	-	761,900	761,900	(76,190)	685,710	594,682	91,028
Capital outlay	-	27,000	27,000	(26,360)	640	-	640
Totals	-	5,049,504	5,049,504	(29,710)	5,019,794	4,928,112	91,682
Public Works and Transportation:							
Personnel	-	31,829,736	31,829,736	1,504,680	33,334,416	33,334,416	-
Operating	1,668,055	25,689,100	27,357,155	7,301,464	34,658,619	34,658,619	-
Totals	1,668,055	57,518,836	59,186,891	8,806,144	67,993,035	67,993,035	-
Health and Human Services:							
Personnel	-	103,997,240	103,997,240	168,230	104,165,470	104,165,467	3
Operating	2,513,001	80,162,620	82,675,621	(169,174)	82,506,447	82,506,447	-
Capital outlay	-	-	-	33,912	33,912	33,912	-
Totals	2,513,001	184,159,860	186,672,861	32,968	186,705,829	186,705,826	3
Libraries:							
Personnel	-	26,935,931	26,935,931	107,660	27,043,591	26,921,712	121,879
Operating	1,546,759	7,255,980	8,802,739	(73,350)	8,729,389	8,728,547	842
Totals	1,546,759	34,191,911	35,738,670	34,310	35,772,980	35,650,259	122,721
Housing and Community Affairs:							
Personnel	-	6,592,878	6,592,878	(104,810)	6,488,068	6,330,271	157,797
Operating	104,663	901,850	1,006,513	123,403	1,129,916	1,129,916	-
Totals	104,663	7,494,728	7,599,391	18,593	7,617,984	7,460,187	157,797
Economic Development:							
Personnel	-	3,747,715	3,747,715	(251,550)	3,496,165	3,492,109	4,056
Operating	145,336	2,818,230	2,963,566	269,675	3,233,241	3,233,235	6
Totals	145,336	6,565,945	6,711,281	18,125	6,729,406	6,725,344	4,062
Environmental Protection:							
Personnel	-	3,257,138	3,257,138	(303,390)	2,953,748	2,882,661	71,087
Operating	51,808	948,570	1,000,378	32,197	1,032,575	1,032,564	11
Totals	51,808	4,205,708	4,257,516	(271,193)	3,986,323	3,915,225	71,098
Total Departments	11,205,526	652,008,197	663,213,723	12,283,504	675,497,227	673,118,029	2,379,198
Nondepartmental:							
State retirement contribution - personnel	-	38,300	38,300	(3,830)	34,470	-	34,470
State retirement contribution - operating	-	769,830	769,830	38,300	808,130	808,129	1
Retirees group insurance - operating	-	21,587,860	21,587,860	-	21,587,860	21,587,860	-
State positions supplement - personnel	-	168,380	168,380	-	168,380	153,802	14,578
Judges special pension contribution - personnel	-	3,740	3,740	-	3,740	3,740	-
Compensation adjustment - personnel	-	1,464,230	1,464,230	(455,520)	1,008,710	1,008,704	6
Compensation adjustment - operating	-	415,240	415,240	(38,350)	376,890	376,885	5
Municipal tax duplication - operating	-	7,306,890	7,306,890	-	7,306,890	7,306,887	3
Tax grants to municipalities - operating	-	28,020	28,020	-	28,020	28,012	8
Rebate - Takoma Park police - operating	-	504,880	504,880	59,790	564,670	564,669	1
Rebate - Takoma Park library - personnel	-	-	-	130	130	128	2
Rebate - Takoma Park library - operating	-	89,670	89,670	13,910	103,580	103,573	7
Homeowners' association roadways - operating	-	276,390	276,390	53,430	329,820	329,812	8
Contribution to risk management - operating	-	13,254,760	13,254,760	(351,120)	12,903,640	12,886,810	16,830
Support for the arts - operating	280,463	-	280,463	-	280,463	280,271	192
Historical activities - operating	-	329,510	329,510	-	329,510	329,510	-
Conference and Vistors Bureau - operating	89,627	478,100	567,727	-	567,727	567,727	-
Arts Council - operating	40,368	3,963,600	4,003,968	(40,368)	3,963,600	3,963,600	-
Community grants - operating	1,778,712	5,548,070	7,326,782	(33,983)	7,292,799	7,258,186	34,613
Conference Center - personnel	-	80,810	80,810	-	80,810	69,001	11,809
Conference Center - operating	270,214	525,000	795,214	(267,155)	528,059	278,346	249,713
County associations - operating	-	62,180	62,180	-	62,180	62,173	7
Metropolitan Washington C O G - operating	-	697,080	697,080	-	697,080	673,097	23,983
Public Technology, Inc. - operating	-	27,500	27,500	-	27,500	25,000	2,500
Independent audit - operating	5,925	313,640	319,565	(5,925)	313,640	290,129	23,511
Prisoner medical services - operating	-	10,000	10,000	-	10,000	647	9,353
Boards, committees and commissions - operating	-	15,000	15,000	4,880	19,880	19,874	6
Charter Review Commission - operating	-	1,000	1,000	-	1,000	624	376
Closing costs assistance - operating	-	136,830	136,830	-	136,830	132,270	4,560
Working families income supplement - operating	-	10,518,000	10,518,000	98,200	10,616,200	10,262,024	354,176
Interagency tech, policy & coord comm - operating	578	30,000	30,578	(13)	30,565	3,350	27,215
County Leases - personnel	-	-	-	6,320	6,320	6,318	2
County Leases - operating	46,175	12,745,120	12,791,295	(42,359)	12,748,936	12,482,535	266,401
Rockville parking district - operating	130,000	130,000	260,000	-	260,000	260,000	-
Desktop computer modernizaton - operating	30,828	6,016,660	6,047,488	-	6,047,488	6,047,146	342
Utilities - operating	20,652	19,124,190	19,144,842	(671,170)	18,473,672	18,473,664	8
Total - Nondepartmental:	2,693,542	106,660,480	109,354,022	(1,634,833)	107,719,189	106,644,503	1,074,686
Total Expenditures	13,899,068	758,668,677	772,567,745	10,648,671	783,216,416	779,762,532	3,453,884
Excess of Revenues over (under) Expenditures	(13,899,068)	1,504,792,091	1,490,893,023	(10,517,597)	1,480,375,426	1,642,837,649	162,462,223

(Continued)

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL, CONCLUDED
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
Exhibit A-7

	Budget						
	Prior Year Carryover Encumbrances	**Current Year**	**Total Original**	**Revisions**	**Final**	**Actual**	**Variance Positive (Negative)**
Other Financing Sources (Uses):							
Transfers In:							
Special Revenue Funds:							
Fire Tax District	$ -	$ 120,750	$ 120,750	$ -	$ 120,750	$ 120,750	$ -
Recreation	-	4,474,530	4,474,530	-	4,474,530	4,474,530	-
Mass Transit	-	4,995,810	4,995,810	-	4,995,810	4,995,810	-
Water Quality Protection	-	111,850	111,850	-	111,850	111,850	-
Urban Districts	-	313,740	313,740	-	313,740	313,740	-
Housing Activities	-	81,040	81,040	-	81,040	81,040	-
Cable TV	-	2,351,100	2,351,100	-	2,351,100	2,351,100	-
Total Special Revenue Funds	-	12,448,820	12,448,820	-	12,448,820	12,448,820	-
Enterprise Funds:							
Liquor	-	20,698,760	20,698,760	-	20,698,760	20,698,760	-
Parking Lot Districts	-	400,370	400,370	-	400,370	400,370	-
Solid Waste Activities	-	1,582,840	1,582,840	-	1,582,840	1,582,840	-
Community Use of Public Facilities	-	254,560	254,560	-	254,560	254,560	-
Permitting Services	-	2,598,240	2,598,240	-	2,598,240	2,598,240	-
Total Enterprise Funds	-	25,534,770	25,534,770	-	25,534,770	25,534,770	-
Internal Service Funds:							
Central Duplicating	-	551,430	551,430	(551,430)	-	-	-
Total Internal Service Funds	-	551,430	551,430	(551,430)	-	-	-
Total Transfers In	-	38,535,020	38,535,020	(551,430)	37,983,590	37,983,590	-
Transfers In - Component Units:							
Montgomery County Public Schools	-	328,420	328,420	-	328,420	328,420	-
Montgomery Community College	-	-	-	-	-	272,738	272,738
Total Transfers In - Component Units	-	328,420	328,420	-	328,420	601,158	272,738
Transfers (Out):							
Special Revenue Funds:							
Recreation	-	(1,261,600)	(1,261,600)	(168,260)	(1,429,860)	(1,429,860)	-
Urban Districts	-	(962,490)	(962,490)	-	(962,490)	(962,490)	-
Mass Transit	-	(513,010)	(513,010)	-	(513,010)	(513,010)	-
Revenue Stabilization	-	-	-	-	-	(6,609,329)	(6,609,329)
Housing Activities	-	(8,229,560)	(8,229,560)	-	(8,229,560)	(8,229,560)	-
Economic Development	-	(530,680)	(530,680)	-	(530,680)	(530,680)	-
Grants	-	(4,215)	(4,215)	(394,460)	(398,675)	(382,939)	15,736
Total Special Revenue Funds	-	(11,501,555)	(11,501,555)	(562,720)	(12,064,275)	(18,657,868)	(6,593,593)
Internal Service Funds:							
Motor Pool	-	(17,400)	(17,400)	(1,144,960)	(1,162,360)	(1,053,172)	109,188
Total Internal Service Funds	-	(17,400)	(17,400)	(1,144,960)	(1,162,360)	(1,053,172)	109,188
Enterprise Funds:							
Community Use of Public Facilities	-	(25,000)	(25,000)	-	(25,000)	(25,000)	-
Parking Lot Districts	(189,967)	-	(189,967)	-	(189,967)	(93,255)	96,712
Solid Waste Activities	-	(1,484,820)	(1,484,820)	-	(1,484,820)	(1,484,820)	-
Permitting Services	-	(1,099,290)	(1,099,290)	-	(1,099,290)	(1,099,290)	-
Total Enterprise Funds	(189,967)	(2,609,110)	(2,799,077)	-	(2,799,077)	(2,702,365)	96,712
Debt Service Fund	-	(198,736,870)	(198,736,870)	(557,558)	(199,294,428)	(195,435,109)	3,859,319
Capital Projects Fund	(20,949,092)	(13,993,680)	(34,942,772)	(7,563,019)	(42,505,791)	(49,879,689)	(7,373,898)
Total Transfers (Out)	(21,139,059)	(226,858,615)	(247,997,674)	(9,828,257)	(257,825,931)	(267,728,203)	(9,902,272)
Transfers (Out) - Component Units and Joint Ventures:							
Montgomery County Public Schools - operating	-	(1,274,468,590)	(1,274,468,590)	(9,809,670)	(1,284,278,260)	(1,284,278,185)	75
Montgomery County Public Schools - capital	(13,110,347)	(4,460,000)	(17,570,347)	(10,214,000)	(27,784,347)	(14,175,738)	13,608,609
Total Montgomery County Public Schools	(13,110,347)	(1,278,928,590)	(1,292,038,937)	(20,023,670)	(1,312,062,607)	(1,298,453,923)	13,608,684
Montgomery Community College - operating	-	(78,948,374)	(78,948,374)	-	(78,948,374)	(78,948,374)	-
Montgomery Community College - capital	(12,185,216)	(758,000)	(12,943,216)	(2,000,001)	(14,943,217)	(5,496,162)	9,447,055
Total Montgomery Community College	(12,185,216)	(79,706,374)	(91,891,590)	(2,000,001)	(93,891,591)	(84,444,536)	9,447,055
Housing Opportunity Commission - operating	-	-	-	(4,964,070)	(4,964,070)	(4,332,612)	631,458
Housing Opportunity Commission - capital	-	(315,699)	(315,699)	-	(315,699)	(310,102)	5,597
Total Housing Opportunity Commission	-	(315,699)	(315,699)	(4,964,070)	(5,279,769)	(4,642,714)	637,055
M-NCPPC - operating	-	-	-	(250,000)	(250,000)	(250,000)	-
Total Transfers (Out) - Component Units and JV	(25,295,563)	(1,358,950,663)	(1,384,246,226)	(27,237,741)	(1,411,483,967)	(1,387,791,173)	23,692,794
Total Other Financing Sources (Uses)	(46,434,622)	(1,546,945,838)	(1,593,380,460)	(37,617,428)	(1,630,997,888)	(1,616,934,628)	14,063,260
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(60,333,690)	(42,153,747)	(102,487,437)	(48,135,025)	(150,622,462)	25,903,021	176,525,483
Fund Balance - Beginning of Year	60,333,690	188,005,993	248,339,683	(909,010)	247,430,673	247,430,673	-
Fund Balance - End of Year	$ -	$ 145,852,246	$ 145,852,246	$ (49,044,035)	$ 96,808,211	$ 273,333,694	$ 176,525,483

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006
Exhibit A-8

	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	$ 9,212,722	$ 45,493,803	$ 22,161,362	$ 17,975,945	$ 94,843,832	$ 122,476,044
Cash	34,450	3,000	127,900	50	165,400	300
Receivables (net of allowances for uncollectibles):						
Property taxes	-	-	1,665,903	-	1,665,903	-
Accounts	2,079,989	2,665,022	4,216	13,593	4,762,820	2,596,862
Notes	-	-	-	-	-	11,428
Parking violations	-	-	2,070,871	-	2,070,871	-
Due from other funds	-	5,230	-	-	5,230	5,370,245
Due from component units	-	67,839	276,380	-	344,219	766,768
Due from other governments	-	165,615	-	-	165,615	264,324
Inventory of supplies	29,599,588	-	-	-	29,599,588	3,037,500
Prepaids	388,455	2,268	7,812	1,402	399,937	409,490
Other assets	84,209	-	-	-	84,209	-
Total Current Assets	41,399,413	48,402,777	26,314,444	17,990,990	134,107,624	134,932,961
Noncurrent Assets:						
Restricted Assets:						
Equity in pooled cash and equivalents	-	29,534,688	5,988,898	-	35,523,586	-
Investments	-	3,290,441	1,180,443	-	4,470,884	-
Restricted Assets	-	32,825,129	7,169,341	-	39,994,470	-
Unamortized bond costs	-	412,197	706,815	-	1,119,012	-
Capital Assets:						
Land, improved and unimproved	481,430	17,834,755	34,461,478	-	52,777,663	22,506
Improvements other than buildings	-	72,667,565	44,297,904	-	116,965,469	268,565
Buildings	7,388,354	23,515,099	178,639,081	-	209,542,534	315,732
Furniture, fixtures, equipment, and machinery	5,236,330	10,479,878	298,874	2,818,363	18,833,445	4,299,665
Automobiles and trucks	3,221,061	463,196	91,763	131,254	3,907,274	66,215,145
Construction in progress	4,166,252	327,808	45,854	-	4,539,914	-
Subtotal	20,493,427	125,288,301	257,834,954	2,949,617	406,566,299	71,121,613
Less: Accumulated depreciation	10,670,775	94,116,020	76,432,553	2,524,184	183,743,532	41,067,956
Total Capital Assets (net of accumulated depreciation)	9,822,652	31,172,281	181,402,401	425,433	222,822,767	30,053,657
Total Noncurrent Assets	9,822,652	64,409,607	189,278,557	425,433	263,936,249	30,053,657
Total Assets	51,222,065	112,812,384	215,593,001	18,416,423	398,043,873	164,986,618
LIABILITIES						
Current Liabilities:						
Accounts payable	10,813,948	5,925,108	1,854,981	591,949	19,185,986	6,574,501
Interest payable	-	83,901	395,188	-	479,089	-
Retainage payable	-	56,334	670,990	-	727,324	-
Deposits	339,030	-	-	-	339,030	-
Claims payable	-	-	-	-	-	88,977,285
Accrued liabilities	1,958,471	970,156	357,090	10,145,176	13,430,893	3,583,701
Due to other funds	284,240	117,326	38,762	352,685	793,013	250,697
Due to component units	-	-	-	609,201	609,201	212,492
Due to other governments	503,459	2,178,629	21,936	-	2,704,024	365,039
Unearned revenue	3,467	-	-	768,421	771,888	2,172,228
General obligation bonds payable	-	2,447	-	-	2,447	-
Revenue bonds payable	-	3,005,000	5,815,000	-	8,820,000	-
Landfill closure costs	-	1,082,000	-	-	1,082,000	-
Other liabilities	-	-	291,414	-	291,414	-
Total Current Liabilities	13,902,615	13,420,901	9,445,361	12,467,432	49,236,309	102,135,943
Noncurrent Liabilities:						
General obligation bonds payable	-	2,447	-	-	2,447	-
Revenue bonds payable	-	19,688,001	42,065,418	-	61,753,419	-
Landfill closure costs	-	21,068,923	-	-	21,068,923	-
Compensated absences	373,437	164,721	66,706	409,009	1,013,873	346,131
Total Noncurrent Liabilities	373,437	40,924,092	42,132,124	409,009	83,838,662	346,131
Total Liabilities	14,276,052	54,344,993	51,577,485	12,876,441	133,074,971	102,482,074
NET ASSETS						
Invested in capital, net of related debt	9,822,652	8,474,386	133,521,983	425,433	152,244,454	30,053,657
Restricted for debt service	-	32,825,129	7,169,341	-	39,994,470	-
Unrestricted	27,123,361	17,167,876	23,324,192	5,114,549	72,729,978	32,450,887
Total Net Assets	$ 36,946,013	$ 58,467,391	$ 164,015,516	$ 5,539,982	264,968,902	$ 62,504,544
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(1,236,032)	
Net assets of business-type activities					$ 263,732,870	

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
Exhibit A-9

	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	$ 191,333,415	$ -	$ -	$ -	$ 191,333,415	$ -
Charges for services	16,050	102,110,339	15,685,638	10,072,217	127,884,244	233,777,794
Licenses and permits	-	10,025	-	21,749,464	21,759,489	-
Fines and penalties	-	36,553	6,651,860	105,193	6,793,606	-
Claim recoveries	-	-	-	-	-	1,764,035
Total Operating Revenues	191,349,465	102,156,917	22,337,498	31,926,874	347,770,754	235,541,829
OPERATING EXPENSES						
Cost of goods sold	139,296,435	-	-	-	139,296,435	-
Personnel costs	19,081,940	10,483,766	3,008,948	20,623,534	53,198,188	17,991,724
Postage	52,889	25,781	2,102	42,882	123,654	1,670,552
Self-insurance incurred and estimated claims	-	-	-	-	-	129,594,724
Insurance	916,640	787,860	68,500	14,680	1,787,680	19,419,608
Supplies and materials	495,651	530,938	387,133	460,647	1,874,369	22,204,619
Contractual services	1,693,297	80,525,209	5,313,386	3,558,871	91,090,763	11,391,700
Communications	402,002	248,287	130,259	362,085	1,142,633	216,263
Transportation	606,972	1,741,550	237,185	570,454	3,156,161	206,955
Public utility services	661,707	98,141	2,118,168	1,300,000	4,178,016	680,979
Rentals	3,819,496	23,627	1,459,359	1,571,169	6,873,651	512,702
Maintenance	546,479	215,864	2,004,618	217,807	2,984,768	7,978,728
Depreciation	760,178	2,685,225	7,784,011	69,499	11,298,913	6,336,535
Landfill closure expense	-	1,076,000	-	-	1,076,000	-
Other	327,643	428,423	27,579	144,706	928,351	107,210
Total Operating Expenses	168,661,329	98,870,671	22,541,248	28,936,334	319,009,582	218,312,299
Operating Income (Loss)	22,688,136	3,286,246	(203,750)	2,990,540	28,761,172	17,229,530
NONOPERATING REVENUES (EXPENSES)						
Property taxes	-	-	9,199,581	-	9,199,581	-
Intergovermental	-	-	-	-	-	379,442
Gain (loss) on disposal of capital assets	(4,223)	27,475	(1,710,633)	-	(1,687,381)	130,791
Investment income	66,119	3,960,333	1,531,503	709,980	6,267,935	5,727,395
Interest expense	-	(1,169,691)	(2,354,985)	-	(3,524,676)	-
Other revenue	2,534	275,499	641,392	-	919,425	201,131
Insurance recoveries	-	-	-	-	-	40,718
Total Nonoperating Revenues (Expenses)	64,430	3,093,616	7,306,858	709,980	11,174,884	6,479,477
Income (Loss) Before Capital Contributions and Transfers	22,752,566	6,379,862	7,103,108	3,700,520	39,936,056	23,709,007
Capital Contributions	-	-	1,747,573	-	1,747,573	-
Transfers In (Out):						
Transfers in	-	-	93,255	25,000	118,255	1,372,985
Transfers out	(20,698,760)	(1,586,080)	(9,161,846)	(2,852,800)	(34,299,486)	-
Total Transfers In (Out)	(20,698,760)	(1,586,080)	(9,068,591)	(2,827,800)	(34,181,231)	1,372,985
Change in Net Assets	2,053,806	4,793,782	(217,910)	872,720	7,502,398	25,081,992
Total Net Assets - Beginning of Year	34,892,207	53,673,609	164,233,426	4,667,262		37,422,552
Total Net Assets - End of Year	$ 36,946,013	$ 58,467,391	$ 164,015,516	$ 5,539,982		$ 62,504,544
Adjustment to reflect the consolidation of internal service fund activities relating to enterprise funds					642,788	
Change in net assets of business-type activities					$ 8,145,186	

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, 2006
Exhibit A-10

	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	$ 195,335,921	$ 100,003,267	$ 22,247,075	$ 30,820,905	$ 348,407,168	$ 233,021,737
Payments to suppliers	(153,888,995)	(85,993,525)	(12,007,832)	(8,064,136)	(259,954,488)	(63,140,735)
Payments to employees	(18,884,854)	(10,641,685)	(3,003,798)	(20,405,154)	(52,935,491)	(17,833,249)
Internal activity - operating payments from other funds	-	2,323,070	-	1,099,290	3,422,360	-
Internal activity - operating payments to other funds	-	-	-	-	-	(369,000)
Other operating payments	-	-	-	(4,913,274)	(4,913,274)	-
Other operating receipts	-	-	-	5,158,175	5,158,175	-
Claims paid	-	-	-	-	-	(120,606,494)
Other revenue	2,534	275,499	641,392	-	919,425	201,131
Net Cash Provided (Used) by Operating Activities	22,564,606	5,966,626	7,876,837	3,695,806	40,103,875	31,273,390
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Property tax collections	-	-	9,127,533	-	9,127,533	-
Operating subsidies and transfers from other funds	-	-	93,255	25,000	118,255	-
Operating subsidies and transfers to other funds	(20,698,760)	(1,586,080)	(9,161,846)	(2,852,800)	(34,299,486)	-
Intergovernmental revenue	-	-	-	-	-	379,442
Net Cash Provided (Used) by Noncapital Financing Activities	(20,698,760)	(1,586,080)	58,942	(2,827,800)	(25,053,698)	379,442
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from capital debt	-	-	15,161,861	-	15,161,861	-
Proceeds from sale of capital assets	-	27,475	-	-	27,475	377,818
Purchases of capital assets	(1,879,544)	(816,198)	(10,239,439)	(290,156)	(13,225,337)	(8,094,482)
Principal paid on capital debt	-	(2,971,618)	(5,610,000)	-	(8,581,618)	-
Interest paid on capital debt	-	(1,095,838)	(1,811,679)	-	(2,907,517)	-
Internal activity - payments from other funds	-	-	-	-	-	1,372,985
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,879,544)	(4,856,179)	(2,499,257)	(290,156)	(9,525,136)	(6,343,679)
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment income from pooled investments	66,119	3,858,381	1,597,383	709,980	6,231,863	5,713,444
Investment income from nonpooled investments	-	26,716	1,726	-	28,442	13,951
Net Cash Provided (Used) by Investing Activities	66,119	3,885,097	1,599,109	709,980	6,260,305	5,727,395
Net Increase (Decrease) in Cash and Cash Equivalents	52,421	3,409,464	7,035,631	1,287,830	11,785,346	31,036,548
Balances - Beginning of Year	9,194,751	71,622,027	21,242,529	16,688,165	118,747,472	91,439,796
Balances - End of Year	$ 9,247,172	$ 75,031,491	$ 28,278,160	$ 17,975,995	$ 130,532,818	$ 122,476,344
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	$ 22,688,136	$ 3,286,246	$ (203,750)	$ 2,990,540	$ 28,761,172	$ 17,229,530
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	760,178	2,685,225	7,784,011	69,499	11,298,913	6,336,535
Other revenue	2,534	275,499	641,392	-	919,425	201,131
Changes in assets and liabilities:						
Receivables, net	468,027	121,498	(92,271)	21,053	518,307	(2,514,222)
Inventories, prepaids and other assets	359,109	1,085	1,843	777	362,814	(351,041)
Accounts payable and other liabilities	(1,645,096)	(226,304)	(250,831)	150,688	(1,971,543)	9,816,628
Accrued expenses	(68,282)	(176,623)	(3,557)	463,249	214,787	554,829
Net Cash Provided (Used) by Operating Activities	$ 22,564,606	$ 5,966,626	$ 7,876,837	$ 3,695,806	$ 40,103,875	$ 31,273,390
Noncash investing, capital and financing activities:						
Capital asset disposals	$ 4,223	$ -	$ 1,710,633	$ -	$ 1,714,856	$ 822
Assets acquired through transfers from governmental activities	-	-	1,747,573	-	1,747,573	-
Change in fair value of investments that are not cash equivalents	-	(49,803)	(67,606)	-	(117,409)	-

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006
Exhibit A-11

	Pension and Other Employee Benefit Trusts	Investment Trust	Private-Purpose Trusts	Agency Funds
ASSETS				
Current Assets:				
Equity in pooled cash and investments	$ 865,827	$ 26,991,702	$ 1,560,266	$ 56,015,829
Cash	-	-	-	63,513
Investments:				
U.S. Government and agency obligations	232,995,778	-	-	-
Asset-backed securities	64,293,203	-	-	-
Municipal/Provincial bonds	1,254,177	-	-	-
Corporate bonds	290,400,350	-	-	-
Collateralized mortgage obligations	14,495,328	-	-	-
Commercial mortgage-backed securities	17,596,302	-	-	-
Common and preferred stock	1,476,304,775	-	-	-
Mutual and commingled funds	301,787,514	-	-	-
Short-term investments	147,756,147	-	-	-
Cash collateral received under securities lending agreements	336,590,875	-	-	-
Real estate holdings	5,600,193	-	-	-
Alternative investments	44,610,809	-	-	-
Total investments	2,933,685,451	-	-	-
Receivables (net of allowances for uncollectibles):				
Dividends and accrued interest	8,361,260	-	-	-
Property taxes	-	-	-	6,017,962
Accounts	129,932	-	-	172,164
Due from other funds	7,425,340	-	-	-
Due from component units	367,091	-	-	-
Due from other governments	48,780	-	-	-
Total Current Assets	2,950,883,681	26,991,702	1,560,266	62,269,468
Total Assets	2,950,883,681	26,991,702	1,560,266	$ 62,269,468
LIABILITIES				
Current Liabilities:				
Accounts payable	339,419,522	-	-	5,758
Accrued liabilities	171,294	-	-	-
Deposits	-	-	-	977,648
Due to other funds	1,842	-	-	-
Due to other governments	-	-	-	5,235,393
Uncollected property taxes due to governments	-	-	-	5,693,476
Undistributed taxes and refunds	-	-	-	20,268,169
Unearned revenue	114,846	-	-	-
Tax sale surplus and redemptions payable	-	-	-	3,234,873
Other liabilities	-	-	-	26,854,151
Total Current Liabilities	339,707,504	-	-	62,269,468
Noncurrent Liabilities:				
Compensated absences	36,752	-	-	-
Total Liabilities	339,744,256	-	-	$ 62,269,468
NET ASSETS				
Held in trust for pension benefits, external investment pool participants, and other purposes	$ 2,611,139,425	$ 26,991,702	$ 1,560,266	

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
Exhibit A-12

	Pension and Other Employee Benefit Trusts	Investment Trust	Private-Purpose Trusts
ADDITIONS			
Contributions:			
Employers	$ 97,621,349	$ -	$ -
Members	38,507,690	-	1,136,616
Share purchases	-	17,542,580	-
Total Contributions	136,129,039	17,542,580	1,136,616
Investment income	234,753,236	1,175,344	41,530
Less: Investment expenses	20,087,481	-	-
Net Investment Income	214,665,755	1,175,344	41,530
Other income - forfeitures	1,061,073	-	-
Total Additions, net	351,855,867	18,717,924	1,178,146
DEDUCTIONS			
Benefits:			
Annuities:			
Retirees	112,210,585	-	-
Survivors	1,483,035	-	-
Disability	12,124,706	-	-
Total Benefits	125,818,326	-	-
Share redemptions	-	16,000,000	-
Member refunds	16,166,442	-	-
Program expenses	-	-	491,631
Return of trust assets	-	-	1,168,740
Administrative expenses	2,163,082	-	-
Total Deductions	144,147,850	16,000,000	1,660,371
Net Increase (Decrease)	207,708,017	2,717,924	(482,225)
Net Assets - Beginning of Year	2,403,431,408	24,273,778	2,042,491
Net Assets - End of Year	$ 2,611,139,425	$ 26,991,702	$ 1,560,266

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2006
Exhibit A-13

	MCPS	HOC	Nonmajor Component Units	Total
ASSETS				
Equity in pooled cash and investments	$ 16,012,663	$ 5,860,673	$ 21,732,899	$ 43,606,235
Cash with fiscal agents	-	6,632,229	1,992,133	8,624,362
Cash	6,090,400	17,658	2,504,675	8,612,733
Investments-cash equivalents	21,508,581	57,350,796	10,987,796	89,847,173
Investments	4,718,000	-	49,375,982	54,093,982
Receivables (net of allowances for uncollectibles):				
Capital leases	-	-	41,170,427	41,170,427
Accounts	17,178,683	6,431,193	5,978,042	29,587,918
Notes	-	3,434	33,550,000	33,553,434
Mortgages receivable	-	244,114,007	-	244,114,007
Interest	-	5,436,900	-	5,436,900
Other	1,316,633	2,420,340	1,168,303	4,905,276
Due from primary government	59,470,345	736,170	3,956,022	64,162,537
Due from other governments	23,585,642	629,021	4,157,426	28,372,089
Inventory of supplies	8,926,000	434,223	1,827,438	11,187,661
Prepaids	125,942	1,244,024	664,729	2,034,695
Deferred charges	-	-	734,856	734,856
Other assets	-	31,023,429	2,764,835	33,788,264
Restricted Assets:				
Cash	-	-	258,811	258,811
Cash with fiscal agents	-	1,005,636	30,866,779	31,872,415
Investments - cash equivalents	-	75,887,782	6,733,961	82,621,743
Investments	-	216,383,100	-	216,383,100
Capital Assets:				
Nondepreciable assets	287,281,569	83,081,812	60,900,721	431,264,102
Depreciable assets, net	1,252,435,749	291,239,899	184,170,929	1,727,846,577
Total Assets	1,698,650,207	1,029,932,326	465,496,764	3,194,079,297
LIABILITIES				
Accounts payable	40,652,738	5,466,362	14,577,514	60,696,614
Interest payable	23,031	15,496,788	1,017,878	16,537,697
Retainage payable	14,283,244	-	1,159,910	15,443,154
Accrued liabilities	61,739,939	4,104,755	555,344	66,400,038
Claims payable	23,919,394	-	-	23,919,394
Deposits	-	7,529,499	13,836	7,543,335
Due to primary government	1,112,910	52,995,416	1,656,218	55,764,544
Due to other governments	-	-	206,622	206,622
Unearned revenue	3,824,932	20,533,899	5,177,232	29,536,063
Other liabilities	-	10,705,999	-	10,705,999
Noncurrent Liabilities:				
Due within one year	24,619,785	70,025,738	5,543,983	100,189,506
Due in more than one year	109,045,770	670,522,668	160,143,558	939,711,996
Total Liabilities	279,221,743	857,381,124	190,052,095	1,326,654,962
NET ASSETS				
Invested in capital, net of related debt	1,514,828,381	57,402,587	211,397,170	1,783,628,138
Restricted for:				
Capital projects	-	-	1,069,895	1,069,895
Debt service	-	36,944,920	4,508,716	41,453,636
Other purposes	1,547,078	3,190,335	17,793,567	22,530,980
Unrestricted (deficit)	(96,946,995)	75,013,360	40,675,321	18,741,686
Total Net Assets	$ 1,419,428,464	$ 172,551,202	$ 275,444,669	$ 1,867,424,335

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, 2006
Exhibit A-14

Functions	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: MCPS	HOC	Nonmajor Component Units	Total
Component units:								
General government	$ 3,296,351	$ 3,060,245	$ 267,796	$ -	$ -	$ -	$ 31,690	$ 31,690
Culture and recreation	14,650,557	13,527,180	-	127,470	-	-	(995,907)	(995,907)
Community development and housing	182,539,606	87,884,426	83,070,936	10,431,854	-	(1,152,390)	-	(1,152,390)
Education:								
Secondary education	1,887,951,249	33,258,786	100,830,453	42,218,202	(1,711,643,808)	-	-	(1,711,643,808)
Higher education	212,513,635	65,802,118	23,307,560	1,028,931	-	-	(122,375,026)	(122,375,026)
Total component units	$ 2,300,951,398	$ 203,532,755	$ 207,476,745	$ 53,806,457	(1,711,643,808)	(1,152,390)	(123,339,243)	(1,836,135,441)
General revenues:								
Grants and contributions not restricted to specific programs					1,870,006,994	-	135,150,964	2,005,157,958
Investment income					1,383,563	2,449,547	6,603,836	10,436,946
Gain (loss) on sale of capital assets					-	-	33,358	33,358
Total general revenues					1,871,390,557	2,449,547	141,788,158	2,015,628,262
Change in net assets					159,746,749	1,297,157	18,448,915	179,492,821
Net assets - beginning					1,259,681,715	171,254,045	256,995,754	1,687,931,514
Net assets - ending					$ 1,419,428,464	$ 172,551,202	$ 275,444,669	$ 1,867,424,335

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

MONTGOMERY COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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 are elected by the voters. (One nonvoting student member is elected by secondary students.) However, MCPS is fiscally dependent upon the Primary Government because the Primary Government approves the budget, levies taxes to provide the majority of the fiscal support, and issues debt for construction of school facilities.

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

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

Housing Opportunities Commission of Montgomery County (HOC) is governed by seven commissioners who are appointed by the County Executive with the approval of the County Council. In addition, the County Council provides for a subsidy to the operating budget of HOC and guarantees a relatively small portion of its debt (up to $50,000,000). The HOC operating budget approval occurs on a project basis, with the County Council having authority to approve project budgets that include County funding. HOC presents its proposed budget to the Council for review and comment only, as required by Article 44A, Section 2 of the Annotated Code of Maryland. Even though there is a large dependence on the 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, a not-for-profit corporation, is to execute service contracts for the benefit of one of the Primary Government's special taxing districts (Bethesda Urban District). Substantially all of BUPI’s funding is granted through the Primary Government's operating budget. The County Council annually approves the BUPI operating budget and is able to modify it in a manner similar to the way Primary Government agency budgets are modified.

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

Montgomery County Public Schools
850 Hungerford Drive
Rockville, MD 20850

Montgomery Community College
900 Hungerford Drive
Rockville, MD 20850

Montgomery County Revenue Authority
101 Monroe Street, 4th Floor
Rockville, MD 20850

Housing Opportunities Commission
of Montgomery County, Maryland
10400 Detrick Avenue
Kensington, MD 20895-2484

Bethesda Urban Partnership, Inc.
7700 Old Georgetown Road
Bethesda, MD 20814

Joint Ventures

The following organizations are considered joint ventures of the County: Maryland-National Capital Park and Planning Commission (M-NCPPC), Washington Suburban Sanitary Commission (WSSC), Washington Suburban Transit Commission (WSTC), Washington Metropolitan Area Transit Authority (WMATA), Metropolitan Washington Council of Governments (COG), and Northeast Maryland Waste Disposal Authority (NEMWDA). Disclosure of the County's participation in these joint ventures is presented in Note IV-D. Complete financial statements can be obtained at the joint ventures’ 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 20707-5902

Washington Suburban Transit
Commission
8720 Georgia Avenue, Suite 904
Silver Spring, MD 20910

Washington Metropolitan Area
Transit Authority
600 Fifth Street, NW
Washington, DC 20001

Metropolitan Washington Council
of Governments
777 N. Capitol Street, NE, #300
Washington, DC 20002-4290

Northeast Maryland Waste
Disposal Authority
100 South Charles St, Tower II-Suite 402
Baltimore, MD 21201-3330

B) Government-Wide and Fund Financial Statements

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

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

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

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

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

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

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

Measurement Focus and Basis of Accounting

Full Accrual Basis Financial Statements - The government-wide, 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. 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.

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

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

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

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

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

Financial Statement Presentation

The County reports the following major governmental funds:

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

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

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

The County reports the following major enterprise funds:

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

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

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

Additionally, the County reports the following fund types:

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

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

The County reports the following fiduciary fund types:

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

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

Private-Purpose Trust Funds - These funds 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. During FY06, the County returned the Strathmore Hall Trust Fund to the Strathmore Hall Foundation, Inc., for the foundation to independently manage and invest, in accordance with the terms of the trust; therefore the Strathmore Hall Private Purpose Trust Fund was closed as of year-end.

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

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

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

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

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

D) Assets, Liabilities, and Net Assets or Equity

1) Cash and Investments

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

Non-pooled Investments:

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

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

Pension and Other Employee Benefit Trust Fiduciary Fund Type – Investments are stated at fair value determined primarily on the basis of market quotations. If the quotations are not readily available then investments may be valued by another method which reflects fair value. Pension investments are comprised of an actively managed pool of equities, bonds, real estate commingled funds, and short-term securities, and passively managed index funds, managed by professional investment advisory firms under contract with the Board of Investment Trustees. Commingled funds are pooled investment vehicles. The Employees' Retirement System Pension and Other Employee Benefit Trust Fund (System) invests in derivatives, in accordance with the policy of the Board of Investment Trustees. The policy prohibits the investment in derivatives for the purpose of leveraging its investment portfolio. During FY06, investments in derivatives included asset-backed securities, collateralized mortgage obligations, bond index future contracts, forward currency contracts, interest rate swaps, and floating rate securities. The System entered into these investments either to increase earnings or to hedge against potential losses, but these investments were not used to leverage the portfolio. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the credit worthiness of the related parties to the contracts. The System also participates in securities lending transactions (see Note III-A).

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

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

4) Restricted Assets

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

5) Capital Assets

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

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

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

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

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

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, 75 percent and 25 percent of such accrued leave is classified as current and long-term, respectively. In the proprietary fund financial statements, the current portion of compensated absences is classified as accrued liabilities. Such amounts have been reclassified to non-current liabilities (due within one year and due in more than one year) in the government-wide financial statements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

7) Long-Term Obligations

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

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

8) Fund Equity

In the government-wide financial statements, the County has reported negative unrestricted net assets. This is due to the fact that the County issues general obligation bonded debt for purposes of capital construction on behalf of MCPS, MCC, and M-NCPPC. The capital assets related to component units are reported on the financial statements of MCPS and MCC, and this amount is also classified as net assets invested in capital, net of related debt (of which there is none) in the Component Units column of the government-wide Statement of Net Assets (Exhibit A-1). For Primary Government purposes, since the issuance of such debt has not resulted in a capital asset, the effect of this debt is reflected in unrestricted net assets (deficit) in the Governmental Activities column of the government-wide Statement of Net Assets. At June 30, 2006, the County has reported outstanding general obligation bond and variable rate demand obligation debt related to MCPS, MCC, and M-NCPPC amounting to $902,249,062. Absent the effect of this relationship, the County would have reported positive unrestricted net assets of governmental activities in the amount of $552,573,051.

In the government-wide Statement of Net Assets (Exhibit A-1), the amount reported in the Business-type Activities column for net assets invested in capital, net of related debt, includes $54,695,044 in capital assets acquired by the Silver Spring Parking Lot District. Since the related capital lease liability of $44,593,085 at June 30, 2006, is an obligation of the Governmental Activities (see Note III-E3), and the debt does not relate to a governmental capital asset, the impact of such debt is reported in the unrestricted portion of net assets in the Governmental Activities column. However, in the Total Primary Government column, the impact of such debt as been reclassified and reflected with the associated capital asset, in net assets invested in capital, net of related debt.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. However, long-term receivables in the Grants Special Revenue Fund, a nonmajor governmental fund, have not met the “available” criteria for revenue recognition, and are, therefore, offset by deferred revenue rather than reserved fund balance. In the Capital Projects Fund, fund balance reserved for other purposes represents recordation and impact tax collections on hand that are legally restricted for use on projects of other component unit and municipality governments.

Designations of fund balances represent tentative management plans that are subject to change, which are described more fully in Note III-H.

9) Property Taxes

Real and personal property taxes are levied at rates enacted by the County Council in the tax levy resolution on the assessed value as determined by the Maryland State Department of Assessments and Taxation. State law stipulates that the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation cannot be exceeded without public notice of the intent to exceed, and only after public hearings. The general property tax rate was levied above the constant yield rate for FY06. Following the Fairness in Taxation (FIT) legislation, the County Charter requires an affirmative vote of seven members of the Council to increase the real property tax rate to a level that will produce total revenues exceeding the total revenue produced by the tax on real property in the preceding year, plus 100 percent of any increase in the Consumer Price Index with exemptions for revenue from newly constructed, rezoned property and development district tax to fund capital improvement projects. The tax rate adopted for levy year 2005 (i.e., FY06), in conjunction with an enhanced homeowner’s tax credit program and a one-time income tax offset credit, met the Charter limit for that year.

Generally, property taxes are levied as of July 1 and become delinquent on October 1. Interest and penalty amounts are assessed annually at 20 percent on delinquent tax bills. Owner-occupied residential 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) Accounting Changes

The County has adopted GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* The primary impact of the Statement to the County's financial statements relates to the classification of insurance recoveries from external insurance companies.

The County early adopted GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an Amendment of GASB Statement No. 34,* in FY05 (see Note III – H2).

The County has also adopted GASB Statement No. 47, *Accounting for Termination Benefits*, which did not have a significant impact on 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, 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 a designation of fund balance because they do not constitute expenditures or liabilities. In the proprietary funds, encumbrances are eliminated for GAAP financial statement presentation since neither goods nor services have been provided. For GAAP purposes, all encumbrances are charged to expenditures/expenses in the period in which goods or services are received.

Approval

Pursuant to the Montgomery County Charter, the Capital Improvements Program (CIP), is presented to the County Council by January 15 in even numbered years. An Amended CIP is presented to the County Council by January 15 in odd numbered years. The annual capital budget, with the CIP or Amended CIP, is presented to the County Council by January 15 of every year and the operating budget is presented to the County Council by March 15 of every year. The County Council holds public hearings and, pursuant to the County Charter, an annual appropriation resolution must be passed by the County Council by June 1. This resolution becomes effective for the one-year period beginning the following July 1. For the operating budget, the annual resolution provides the spending authority at the department level in three major categories (personnel costs, operating, and capital outlay) with the unencumbered appropriation authority expiring the following June 30. Encumbered appropriations are reappropriated and carried forward to the subsequent fiscal year. With the exception of the Grants Special Revenue Fund (see Note III-H1), such encumbrances are designated as part 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 FY06, the County Council increased the operating budget through supplemental and special appropriations by $55.5 million. In addition, supplemental appropriations increased the CIP budget by $56.9 million.

Presentation

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

- Encumbrances outstanding are charged to budgetary appropriations and considered expenditures of the current period; any cancellations of such encumbrances in a subsequent year are classified with miscellaneous revenue for budgetary purposes.
- Certain activity, such as unrealized gains (losses), is not budgeted due to its nature.
- Certain interfund revenues/expenditures are classified as transfers for budget purposes.
- Proprietary fund budgets do not include depreciation and bad debts, however they do include debt service payments and capital outlay.
- Year-end incurred but not reported (IBNR) adjustments in the self-insurance internal service funds are not budgeted for, as they are incorporated into the budget preparation process of the following fiscal year.

- Mortgages and loans made and related repayments are generally accounted for as expenditures/other financial uses and revenues/other financing sources, respectively.
- Retirement of commercial paper bond anticipation notes through the issuance of general obligation bonds is not budgeted.
- Proceeds under certain capital lease financing are not budgeted.
- Certain activity is not budgeted by the County, since it is included in the budget of a component unit that is legally adopted by the County Council, such as certain pass-through expenditures, and bond proceeds and related transfers to MCPS and MCC.

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

	Revenues	Expenditures and Encumbrances	Other Financing Sources (Uses)	Effect on Fund Balance
General Fund:				
As reported - budgetary basis	$ 2,422,600,181	$ 779,762,532	$ (1,616,934,628)	$ 25,903,021
Reconciling items:				
Cancellation of prior year encumbrances	(909,010)	-	-	(909,010)
Elimination of encumbrances outstanding	-	(19,184,118)	-	19,184,118
Unrealized gains (losses)	(2,450,165)	-	-	(2,450,165)
Financing under capital lease	-	1,747,573	1,747,573	-
Financing under notes payable	-	329,459	329,459	-
Conference Center activity	16,291,421	15,782,137	-	509,284
Interfund activities budgeted as transfers:				
Recreation facility maintenance costs	2,263,970	-	(2,263,970)	-
Public agency permits	-	1,099,289	1,099,289	-
Solid waste tipping fees	-	1,484,820	1,484,820	-
Component Unit activities budgeted as transfers:				
Component Units - Transfer in	601,158	-	(601,158)	-
Component Units - Transfer out	-	1,387,791,173	1,387,791,173	-
As reported - GAAP basis	$ 2,438,397,555	$ 2,168,812,865	$ (227,347,442)	$ 42,237,248

B) <u>Deficit Fund Equity</u>

<u>Capital Projects</u> – The $33,910,656 unreserved deficit in the Capital Projects Fund represents a timing difference between the construction of capital assets and the planned FY07 issuance of debt to fund that construction.

<u>Central Duplicating</u> - The $238,827 unrestricted deficit in the Central Duplicating Internal Service Fund results primarily from a revenue shortfall in covering expenses associated with records management/imaging services which started in FY05. Revenue adjustments implemented in FY06 reduced the fund's unrestricted deficit from $641,914 to $238,827. While these adjustments were expected to fully recover the deficit, additional adjustments are still required. County actions subsequent to year-end include implementation of a policy requiring substantially all printing services to be performed through Central Duplicating, and implementing future rate adjustments. These additional actions are anticipated to recover the existing unrestricted deficit by the end of FY09.

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, 2006, totaled $4,351,472,680, of which $3,815,552,126 is related to the Primary Government, as presented below and in the government-wide financial statements. These funds are held in several pools, various non-pooled investments, and cash funds. The following is a schedule of total cash and investments:

Statement of Net Asset Amounts:	Primary Government	Component Units	Total Reporting Entity
Equity in pooled cash and investments	$ 803,317,637	$ 43,606,235	$ 846,923,872
Cash with fiscal agents	33,197,083	8,624,362	41,821,445
Cash	410,689	8,612,733	9,023,422
Investments - cash equivalents	-	89,847,173	89,847,173
Investments	2,938,632,247	54,093,982	2,992,726,229
Restricted equity in pooled cash and investments	35,523,586	-	35,523,586
Restricted cash with fiscal agents	-	31,872,415	31,872,415
Restricted cash	-	258,811	258,811
Restricted investments - cash equivalents	-	82,621,743	82,621,743
Restricted investments	4,470,884	216,383,100	220,853,984
Total	$ 3,815,552,126	$ 535,920,554	$ 4,351,472,680
Deposit and Investment Summary:			
Deposits	$ 94,788,890	$ (1,005,795)	$ 93,783,095
Investments	3,687,155,464	403,922,453	4,091,077,917
Cash on hand, fiscal agents, safe deposit escrow	33,607,772	133,003,896	166,611,668
Total	$ 3,815,552,126	$ 535,920,554	$ 4,351,472,680

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

Government-wide	$ 796,369,538
Fiduciary funds	3,019,182,588
Total	$ 3,815,552,126

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 "2a-7 like." The fair value of U. S. Government securities, commercial paper and bankers' acceptances are provided by the County's custodian, which are based on various industry standard pricing sources. Fair value of investments in repurchase agreements are estimated based on an industry accepted index, with comparable collateral or credit quality, as appropriate. For interest-bearing investments, market value quotations did not include accrued interest. However, for reporting purposes, immaterial amounts of accrued interest have been classified with the fair value of investments in the accompanying financial statements.

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

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

Balance Sheet Amounts:	Primary Government	Component Units	Total Reporting Entity
Equity in pooled cash and investments	$ 803,317,637	$ 11,465,816	$ 814,783,453
Restricted equity in pooled cash and investments	35,523,586	-	35,523,586
Total	$ 838,841,223	$ 11,465,816	$ 850,307,039
Deposit and Investment Summary:			
Deposits	$ 94,788,890	$ -	$ 94,788,890
Investments	744,052,333	11,465,816	755,518,149
Total	$ 838,841,223	$ 11,465,816	$ 850,307,039

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 include bank accounts and non-negotiable certificates of deposit. Deposits at financial institutions were fully insured or collateralized at year-end.

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

Investment Type:	Fair Value	Principal	Maturity Range	Interest Rate Range
Repurchase agreements	$ 146,978,051	$ 147,000,000	July 06	5.20 %
U. S. Government securities	376,863,040	376,537,530	July 06 - June 08	4.04 - 5.54
Commercial paper	38,801,650	38,500,861	July - August 06	4.97 - 5.31
Bankers' acceptances	163,764,023	162,611,239	July - December 06	4.82 - 5.54
Money market mutual funds	29,111,385	29,111,385	n/a	5.05 - 5.25
Total	$ 755,518,149	$ 753,761,015		

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, 2006, the County's investment maturities are as follows:

		Investment Maturities (in Years)	
Investment Type:	Fair Value	Less than 1	1-2
Repurchase agreements	$ 146,978,051	$ 146,978,051	$ -
U. S. Government securities	376,863,040	332,074,872	44,788,168
Commercial paper	38,801,650	38,801,650	-
Bankers' acceptances	163,764,023	163,764,023	-
Money market mutual funds	29,111,385	29,111,385	-
Total	$ 755,518,149	$ 710,729,981	$ 44,788,168

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 Maryland Local Government Investment Pool (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.

As of June 30, 2006, the County's investments were rated as follows:

	Ratings		
Investment Type	Standard & Poor's	Fitch	Moody's
Repurchase agreements [1]	N/R	N/R	N/R
U.S. Government securities [2]:			
Agency discounts	A-1+	F1+	P-1
Federal Agricultural Mortgage Corp discount notes	N/R	N/R	N/R
Federal National Mortgage Association mortgage backed securities discount notes	N/R	N/R	N/R
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
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.

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, 2006, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the County's investment in a single issuer. It is the County's policy to diversify by investment type and institution in order to avoid unreasonable risks, with maximum limits as follows:

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

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

* At time of purchase

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

As of June 30, 2006, five percent or more of the County's investments, excluding amounts issued or explicitly guaranteed by the U.S. Government, mutual funds, and pooled investments, are invested in:

Issuer	Fair Value
Bank of America	$ 71,302,128
Federal Home Loan Bank	139,833,702
Federal Home Loan Mortgage Corp	108,313,564
Federal National Mortgage Association	103,775,575
Morgan Stanley	174,705,689
Wachovia	63,991,800

External Investment Pool Condensed Financial Statements:

The condensed financial statements of the County's external investment pool at June 30, 2006, are as follows:

Statement of Net Assets
June 30, 2006

Assets:	
Investment in securities, at fair value	$755,518,149
Cash	94,788,890
Total assets and net assets	$850,307,039
Net assets consist of:	
Internal participants' units outstanding ($1.00 par)	$823,315,337
External participants' units outstanding ($1.00 par)	26,991,702
Net assets	$850,307,039
Participants net asset value, offering price and redemption price per share ($850,307,039 / 855,006,071 units)	$ 1.00

Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2006

Investment Income *		$ 34,074,524
Distributions to participants:		
Distributions paid and payable		(34,074,524)
Share transactions at net asset value of $1.00 per share:		
Purchase of units	$12,460,139,467	
Redemption of units	(12,275,159,748)	
Net increase in net assets and shares resulting from share transactions		184,979,719
Total increase in net assets		184,979,719
Net assets, July 1, 2005		665,327,320
Net assets, June 30, 2006		$850,307,039

* The pool has no expenses.

3) Major and Nonmajor Fund Deposit and Investment Risks

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

Debt Service Fund - Cash with fiscal agents of $28,817,249 is held for approximately one day in bank accounts that are not in the County's name and are not collateralized. Per the Montgomery County Code, banks receiving County funds in trust, for the purpose of paying principal and interest on bonds or other County obligations, need not furnish security for those funds.

Capital Projects Fund – Cash with fiscal agents of $4,320,358 is held in money market mutual funds and 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 33-61 of the County Code (Code), authorizes the Board of Investment Trustees (Board) (see Note IV-F) to purchase investments 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 shall 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. Investments in real property are limited to a pooled investment arrangement in which the Board has no power or right to manage the real estate property, provided that the pooled arrangement does not invest more than 10 percent of its assets in real property located in 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 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 organization that represent 5 percent or more of net assets held in trust for pension benefits.

The quality ratings of investments in fixed income securities as described by nationally recognized rating organizations as of June 30, 2006, are as follows:

Type of Investment	Quality Rating	Fair Value	Percentage of Portfolio
U.S. Government Obligations*	AAA	$116,952,530	15.21 %
Foreign Government Obligations	AAA	82,287,034	10.70
	AA	16,157,351	2.10
	A	1,991,858	0.26
	BBB	7,493,455	0.97
	BB	7,439,364	0.97
	B	292,125	0.04
	Unrated	382,061	0.05
Asset-Backed Securities	AAA	22,607,162	2.94
	A	1,519,518	0.20
	B	7,411,314	0.96
	CCC	2,447,178	0.32
	Unrated	29,641,756	3.85
Commercial Mortgage-Backed Securities	AAA	5,245,121	0.68
	A	2,718,512	0.35
	BBB	7,641,936	0.99
	BB	1,707,005	0.22
	B	283,728	0.04
Collateralized Mortgage Obligations	BBB	515,278	0.07
	BB	5,721,305	0.74
	B	5,857,788	0.76
	CCC	2,400,957	0.31
Municipal /Provincial Bonds	AA	838,739	0.11
	A	133,663	0.02
	Unrated	281,775	0.04
Corporate Bonds	AAA	11,231,603	1.46
	AA	15,027,048	1.95
	A	29,793,929	3.87
	BBB	26,650,229	3.47
	BB	30,191,753	3.93
	B	56,201,257	7.31
	CCC	10,711,252	1.39
	CC	208,000	0.03
	Unrated	21,313,423	2.77
Fixed Income Pooled Funds	AAA	1,824,431	0.24
	AA	87,913,700	11.43
Short-term Investments and Other	AAA	12,945,472	1.68
	AA	7,906,364	1.03
	BBB	3,017,387	0.39
	BB	10,432,714	1.36
	B	14,445,466	1.88
	NA	99,263,367	12.91
Total Fixed Income Securities		$769,045,908	100.00 %

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

Interest Rate Risk

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

As of June 30, 2006, 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	7.3	$ 116,952,530	15.21 %
Foreign Government Obligations	11.06	116,043,248	15.09
Asset-Backed Securities	9.54	63,626,928	8.27
Commercial Mortgage-Backed Securities	13.91	17,596,302	2.29
Collateralized Mortgage Obligations	16.04	14,495,328	1.88
Municipal /Provincial Bonds	9.88	1,254,177	0.16
Corporate Bonds	5.85	201,328,494	26.18
Fixed Income Pooled Funds	0.03	89,738,131	11.67
Short-term Investments and Other	N/A	148,010,770	19.25
Total Fixed Income Securities		$ 769,045,908	100.00 %

Foreign Currency Risk

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

International Securities	Equity	Fixed Income	Short-term and Other	Total Non-U.S. Dollar
Japanese Yen	$ 83,136,499	$ 26,487,775	$ 3,497,985	$ 113,122,259
British Pound Sterling	52,418,559	13,289,160	10,919,405	76,627,124
European Currency Unit	101,060,891	36,242,935	(92,156,543)	45,147,283
Swiss Franc	20,121,433	-	9,114,517	29,235,950
Australian Dollar	3,496,303	-	3,977,009	7,473,312
Hong Kong Dollar	21,862,860	-	-	21,862,860
Swedish Krona	5,080,777	21,765,318	(18,984,138)	7,861,957
Canadian Dollar	2,653,337	19,392,650	(10,350,599)	11,695,388
Chinese Yuan Renminbi	-	-	13,104,458	13,104,458
Thai Baht	4,172,714	-	-	4,172,714
Other Currencies	19,096,123	5,115,268	586,458	24,797,849
Total International Securities	$313,099,496	$122,293,106	$ (80,291,448)	$ 355,101,154

Derivatives

The System invests in derivative instruments on a limited basis in accordance with the Board's Derivatives Policy. During FY06, the System invested directly in various derivatives including asset-backed securities, collateralized mortgage obligations, exchanged-traded future contracts, forward currency contracts, swaps, and floating rate securities. Investment managers are specifically prohibited from purchasing securities on margin or leverage. The System entered into these investments either to increase earnings or to hedge against potential losses. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the creditworthiness of the related parties to the contracts. The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Board's Derivatives Policy seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual and commingled funds which may hold derivative financial instruments.

As permitted by the Board's policies, the System holds off-financial statement derivatives in the form of exchange-traded financial futures and options. The futures and options with fair values of approximately $354,579,000 are held for investment purposes and included within the financial statements at June 30, 2006. Gains and losses on futures and options are determined based upon fair market values and recorded in the Statements of Changes in Plan Net Assets.

Interest rate swaps and forward foreign currency exchange contracts are held for investment purposes. At June 30, 2006, the System had approximately $11,165,000 negative net exposure in interest rate swaps and $61,876,000 negative net exposure in forward foreign currency exchange contracts.

Securities Lending

Board policy permits the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodian is the agent in lending the System's securities for collateral of 102 percent for domestic and 105 percent for international securities. The custodian receives cash, securities or irrevocable bank letters of credit as collateral. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral received from the borrower is invested by the lending agent, as an agent for the System, in a short-term investment pool in the name of the System, with guidelines approved by the Board. Such investments are considered a collateralized investment pool. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool, which the System cannot determine. The System records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of net assets. The Board does not restrict the amount of loans the lending agent may make on its behalf. 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, 2006, the fair value of securities on loan was $348,649,181. Cash received as collateral and the related liability of $336,590,875 as of June 30, 2006, is shown on the Statement of Plan Net Assets. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the collateral securities absent borrower default. Securities lending revenues and expenses amounting to $12,706,126 and $12,089,748, 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, 2006:

Securities Lent	Underlying Securities	Non-Cash Collateral Value	Cash Collateral Investment Value
Lent for Cash Collateral:			
U.S. Government Obligations	$ 85,095,468	$ -	$ 86,540,889
Foreign Government Obligations	15,508,692	-	15,987,460
Corporate Bonds	49,566,798	-	50,368,911
Equities	179,902,319	-	183,693,615
Lent for Non-Cash Collateral:			
U.S. Government Obligations	4,989,819	5,073,665	-
Corporate Bonds	5,590,013	5,681,162	-
Equities	7,996,072	8,180,718	-
Total	$348,649,181	$ 18,935,545	$ 336,590,875

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, 2006, 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, 2006, the fair value of the mutual and commingled investment funds was $88,570,836. The fair value of the investments in international mutual funds was $3,110,779.

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, 2006, the fair value of the mutual and commingled investment funds was $212,366,121. The fair value of the investments in international mutual funds included in the County Plan was $15,957,962.

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, 2006, were entirely insured or collateralized with securities held by HOC's agent in HOC's name. HOC's investments are subject to interest rate, credit, and custodial risk as described below:

Interest Rate Risk

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

Credit Risk

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

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

Custodial Risk

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

At June 30, 2006, HOC had the following cash, cash equivalents, investments and maturities:

Cash Equivalents	Fair Value	Less than 1 year
Cash Equivalents:		
General Fund:		
Repurchase Agreement	$ 6,197,732	$ 6,197,732
Money Market Accounts	6,215,963	6,215,963
U. S. Treasury Bills	7,028,404	7,028,404
Opportunity Housing Fund:		
Investment in County External Investment Pool	5,860,674	5,860,674
Investment in MLGIP	466,221	466,221
Money Market Accounts	20,894,284	20,894,284
Public Fund:		
Investment in MLGIP	4,911,957	4,911,957
Money Market Accounts	8,522,196	8,522,196
Multi-Family Fund - Money Market Accounts	30,400,235	30,400,235
Single Family Fund - Money Market Accounts	44,059,000	44,059,000
Total	$ 134,556,666	$ 134,556,666
Short-term Investments:		
Opportunity Housing Fund-U. S.		
Treasury Money Market	87,524	87,524
Multi-Family Fund - GNMA Pool	436,055	436,055
Single Family Fund:		
TransAmerica	540,292	540,292
Society General Repurchase Agreement	14,415,762	14,415,762
Federal Home Loan Banks	49,128,625	49,128,625
Total	$ 64,608,258	$ 64,608,258

Long-Term Investments	Fair Value	1-5 years	Long-Term	Rating
Long-term Investments:				
Multi-Family Fund:				
Bank One Investment Agreement	$ 591,525	$ -	$ 591,525	AA/Aa2
Freddie Mac	3,852,439	1,046,948	2,805,491	AAA
Fannie Mae	3,526,514	-	3,526,514	AAA
GNMA Pool	73,961,265	-	73,961,265	AAA
SSB Repurchase Agreement	2,602,247	-	2,602,247	AAA
Societe Generale/GIC	2,993,410	2,993,410	-	AAA
U. S. Treasury Bond	5,179,041	204,930	4,974,111	AAA
Single Family Fund:				
Federal Farm Credit Banks	10,794,804	-	10,794,804	AAA
Federal Home Loan Banks	3,107,736	755,361	2,352,375	AAA
Fannie Mae	1,455,808	-	1,455,808	AAA
Solomon Repurchase Agreement	2,345,800	-	2,345,800	AA1, AA-
Trinity Plus Investment Agreement	30,539,384	30,539,384	-	AAA
U. S. Treasury Bond	10,824,869	-	10,824,869	AAA
Total	151,774,842	35,540,033	116,234,809	
Cash balances	844,666			
Total Cash, Cash Equivalents and Investments	$ 351,784,432			

B) Receivables

1) Accounts Receivable

The allowance for doubtful accounts at June 30, 2006, reported in the enterprise funds, amounted to:

Liquor	$ 567,785
Solid Waste Activities	48,162
Parking Lot Districts	1,892,552
	$ 2,508,499

2) Due from/to Component Units

The balances at June 30, 2006, were:

Due from Component Units /
Due to Primary Government:

Due from Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due to Primary Government:						
General	$ 985,642	$ 1,575,000	$ -	$ 1,378,741	$ -	$ 3,939,383
Capital Projects	-	-	-	13,584,187	-	13,584,187
Solid Waste Activities Enterprise	66,666	561	-	612	-	67,839
Nonmajor governmental	-	-	-	36,762,896	-	36,762,896
Major Enterprise	-	-	-	276,380	-	276,380
Internal Service	60,602	6,424	45,288	643,849	10,605	766,768
Fiduciary	-	-	18,340	348,751	-	367,091
Total Due to Primary Government	$ 1,112,910	$ 1,581,985	$ 63,628	$ 52,995,416	$ 10,605	$ 55,764,544

Due to Component Units /
Due from Primary Government:

Due to Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due from Primary Government:						
General	$ 42,226,323	$ 79,762	$ -	$ 493,116	$ -	$ 42,799,201
Capital Projects	15,022,557	3,858,264	-	110,426	-	18,991,247
Nonmajor governmental	1,399,772	-	-	132,628	17,996	1,550,396
Nonmajor Enterprise	609,201	-	-	-	-	609,201
Internal Service	212,492	-	-	-	-	212,492
Total Due from Primary Government	$ 59,470,345	$ 3,938,026	$ -	$ 736,170	$ 17,996	$ 64,162,537

In the nonmajor governmental funds, $28,132,326 due from HOC to the Housing Initiative Special Revenue Fund represents mortgage loans, which are generally repayable based on project cash flows, specified future dates, or sales of the respective properties. Included in this amount is a loan of $2,213,324, for which payments are based on cash flows. Terms of the note stipulate that the balance of the note will be forgiven at the termination of the ground lease in December 2035. To date the project has not generated cash flows. This loan is offset by deferred revenue. Also included in the amount above is a ground lease, upon which is located affordable housing owned by HOC. The ground lease provides for lease payments from HOC for $1 per year for 83 years. Fund balance has been reserved for the remaining loans. During FY06, approximately $800,000 in loans to HOC was forgiven by the County.

3) Due From Other Governments

The total amount due from other governments at June 30, 2006, was comprised of the following:

	General	Capital Projects	Solid Waste Activities	Nonmajor Governmental	Internal Service	Fiduciary	Total
Federal government	$ 231,177	$ 38,016	$ 1,609	$ 15,750,945	$ 216,485	$ -	$ 16,238,232
State of Maryland	23,175,249	6,825,039	7,683	6,499,087	19,624	39,320	36,566,002
Other	231,168	733,169	156,323	184,000	28,215	9,460	1,342,335
Total	$ 23,637,594	$ 7,596,224	$ 165,615	$ 22,434,032	$ 264,324	$ 48,780	$ 54,146,569

C) Capital Assets

PRIMARY GOVERNMENT

Capital asset activity for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Governmental Activities				
Nondepreciable Capital Assets:				
Land	$ 505,709,119	$ 38,570,869	$ -	$ 544,279,988
Construction in progress	126,992,324	106,685,125	87,329,767	146,347,682
Total Nondepreciable Capital Assets	632,701,443	145,255,994	87,329,767	690,627,670
Depreciable Capital Assets:				
Buildings	680,488,005	27,924,343	-	708,412,348
Improvements other than buildings*	42,596,928	1,752,342	-	44,349,270
Furniture, fixtures, equipment and machinery	210,322,126	6,143,777	667,098	215,798,805
Leasehold improvements	8,590,288	3,482,285	-	12,072,573
Automobiles and trucks	159,933,085	28,284,565	5,909,025	182,308,625
Infrastructure*	1,445,518,325	52,284,383	-	1,497,802,708
Other assets	2,079,731	-	-	2,079,731
Total Capital Assets being Depreciated	2,549,528,488	119,871,695	6,576,123	2,662,824,060
Less Accumulated Depreciation for:				
Buildings*	211,827,488	14,249,407	-	226,076,895
Improvements other than buildings*	13,423,128	970,130	-	14,393,258
Furniture, fixtures, equipment and machinery	72,085,005	21,224,902	657,460	92,652,447
Leasehold improvements	715,496	591,295	-	1,306,791
Automobiles and trucks	80,668,533	12,824,484	4,728,872	88,764,145
Infrastructure	344,450,499	42,047,880	965,794	385,532,585
Other assets	1,075,632	207,973	-	1,283,605
Total Accumulated Depreciation	724,245,781	92,116,071	6,352,126	810,009,726
Total Depreciable Assets, net	1,825,282,707	27,755,624	223,997	1,852,814,334
Governmental Activities Capital Assets, net	$ 2,457,984,150	$ 173,011,618	$ 87,553,764	$ 2,543,442,004
Business-Type Activities				
Nondepreciable Capital Assets:				
Land	$ 52,777,663	$ -	$ -	$ 52,777,663
Construction in progress	12,280,316	14,013,370	21,753,772	4,539,914
Total Nondepreciable Capital Assets	65,057,979	14,013,370	21,753,772	57,317,577
Depreciable Capital Assets:				
Buildings	197,071,955	14,983,209	2,512,630	209,542,534
Improvements other than buildings	112,265,538	6,499,370	1,799,439	116,965,469
Furniture, fixtures, equipment and machinery	18,149,518	953,593	269,666	18,833,445
Automobiles and trucks	3,630,134	277,140	-	3,907,274
Total Capital Assets being Depreciated	331,117,145	22,713,312	4,581,735	349,248,722
Less Accumulated Depreciation for:				
Buildings*	69,348,331	6,735,801	2,249,163	73,834,969
Improvements other than buildings*	91,605,413	2,923,615	352,273	94,176,755
Furniture, fixtures, equipment and machinery*	11,699,582	1,397,797	265,443	12,831,936
Automobiles and trucks*	2,658,172	241,700	-	2,899,872
Total Accumulated Depreciation	175,311,498	11,298,913	2,866,879	183,743,532
Total Depreciable Assets, net	155,805,647	11,414,399	1,714,856	165,505,190
Business-Type Activities Capital Assets, net	$ 220,863,626	$ 25,427,769	$ 23,468,628	$ 222,822,767

*Beginning balance has been reclassified to conform with current year presentation.

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

Governmental activities:		
General government	$	10,595,343
Public safety		25,471,950
Public works and transportation		45,419,723
Health and human services		1,845,128
Culture and recreation		7,112,557
Community development and housing		1,463,178
Environment		208,192
Total depreciation expense-governmental activities	$	92,116,071
Business-type activities:		
Liquor	$	760,178
Solid waste activities		2,685,225
Parking lot districts		7,784,011
Permitting services		67,545
Community use of public facilities		1,954
Total depreciation expense-business-type activities	$	11,298,913

Construction commitments as of June 30, 2006, are as follows:

General government	$	11,564,902
Public safety		13,915,198
Public works and transportation		52,159,641
Culture and recreation		6,703,749
Community development and housing		7,527,217
Environment		1,930,674
Total	$	93,801,381

COMPONENT UNITS

Capital assets of MCPS, amounting to $1,539,717,318 at June 30, 2006, are significant in relation to the total component unit capital assets.

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Governmental Activities:				
Nondepreciable capital assets:				
Land	$ 67,645,248	$ 321,621	$ -	$ 67,966,869
Construction in progress	127,906,464	195,686,219	104,277,983	219,314,700
Total nondepreciable capital assets	195,551,712	196,007,840	104,277,983	287,281,569
Depreciable capital assets:				
Buildings and improvements	1,562,325,730	99,040,636	1,462,834	1,659,903,532
Land improvements	119,857,989	11,539,648	-	131,397,637
Machinery and equipment	126,695,235	13,825,279	4,886,756	135,633,758
Total depreciable capital assets	1,808,878,954	124,405,563	6,349,590	1,926,934,927
Less accumulated depreciation for:				
Buildings and improvements	539,202,071	37,828,897	1,462,834	575,568,134
Land improvements	24,979,991	2,902,194	-	27,882,185
Machinery and equipment	71,652,555	9,897,294	4,854,466	76,695,383
Total accumulated depreciation	635,834,617	50,628,385	6,317,300	680,145,702
Total depreciable capital assets, net	1,173,044,337	73,777,178	32,290	1,246,789,225
Government activities capital assets, net	$ 1,368,596,049	$ 269,785,018	$ 104,310,273	1,534,070,794
Business-Type Activities				
Depreciable capital assets:				
Buildings	$ 17,831	$ -	$ -	17,831
Machinery and equipment	18,378,009	891,908	51,422	19,218,495
Total depreciable capital assets	18,395,840	891,908	51,422	19,236,326
Less accumulated depreciation for:				
Buildings	9,807	1,783	-	11,590
Machinery and equipment	12,602,123	1,027,511	51,422	13,578,212
Total accumulated depreciation	12,611,930	1,029,294	51,422	13,589,802
Business-type activities capital assets, net	$ 5,783,910	$ (137,386)	$ -	5,646,524
Total MCPS government-wide capital assets				$ 1,539,717,318

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

Governmental activities:	
Regular instruction	$ 41,887,016
Special education	293,521
School administration	43,217
Student personnel services	4,670
Student transportation	6,578,637
Operation of plant	161,316
Maintenance of plant	650,001
Administration	1,010,007
Total depreciation expense-governmental activities	$ 50,628,385
Business-type activities:	
Food services	$ 1,008,244
Adult education and summer entrepreneurial	17,660
Real estate management	3,390
Total depreciation expense-business type activities	$ 1,029,294

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

The composition of interfund receivables and payables as of June 30, 2006, is as follows:

	Due From Fund					
Due To Fund	General	Solid Waste Activities	Nonmajor Governmental	Internal Service	Fiduciary	Total
General	$ -	$ 1,241	$ -	$ 3,425,623	$ 4,848,703	$ 8,275,567
Debt Service	27,619,265	-	1,152,039	-	-	28,771,304
Capital Projects	51,894,530	-	1,937,534	76,384	78,476	53,986,924
Liquor	-	1,606	-	153,431	129,203	284,240
Solid Waste Activities	-	-	-	52,164	65,162	117,326
Parking Lot Districts	-	2,133	-	18,397	18,232	38,762
Nonmajor Governmental	-	250	-	1,368,099	1,956,487	3,324,836
Nonmajor Enterprise	-	-	-	142,308	210,377	352,685
Internal Service	-	-	-	132,622	118,075	250,697
Fiduciary	-	-	-	1,217	625	1,842
Total	$ 79,513,795	$ 5,230	$ 3,089,573	$ 5,370,245	$ 7,425,340	$ 95,404,183

Included in the amounts presented above are the following short-term loans from the General Fund that were or will be repaid during FY07:

- $11.6 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; and
- $28.8 million to the Debt Service Fund relating to a debt service payment due on the first day of the next fiscal year, that must be remitted to the County's fiscal agent one working day prior to the debt service due date.

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

Interfund transfers for the year ended June 30, 2006, consisted of the following:

Transfers Out Fund	Transfers In Fund General	Debt Service	Capital Projects	Parking Lot Districts	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
General	$ -	$ 195,435,109	$ 49,879,690	$ 1,840,828	$ 18,657,868	$ 25,000	$ 1,053,172	$ 266,891,667
Debt Service	-	-	4,719,842	-	-	-	-	4,719,842
Capital Projects	-	814,828	-	-	-	-	-	814,828
Liquor	20,698,760	-	-	-	-	-	-	20,698,760
Solid Waste Activities	1,582,840	-	-	-	-	-	3,240	1,586,080
Parking Lot Districts	400,370	-	29,419	-	8,732,057	-	-	9,161,846
Nonmajor Governmental	10,184,850	20,920,057	4,862,709	-	340,549	-	316,573	36,624,738
Nonmajor Enterprise	2,852,800	-	-	-	-	-	-	2,852,800
Total	$ 35,719,620	$ 217,169,994	$ 59,491,660	$ 1,840,828	$ 27,730,474	$ 25,000	$ 1,372,985	$ 343,350,561

Primary activities include:

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

Included in the amounts above is $8,229,560 contributed by the General Fund to the Housing Initiative Special Revenue Fund to provide supplemental funding to the program.

Transfers at the government-wide financial statement level include $1,747,573 associated with the General Fund and Silver Spring Parking Lot District (SSPLD) relating to general governmental capital lease obligations for capital assets accounted for in the SSPLD. At the fund level, such transfers are classified as capital contributions in the SSPLD, and expenditures and an other financing source in the General Fund, in accordance with generally accepted accounting principles (see Note III-E3).

E) Leases

1) Operating Leases

The County leases building and office facilities and other equipment under non-cancelable operating leases. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet subsequent rental payments are not appropriated. Total costs for operating leases were approximately $12,430,000 for FY06. Future minimum lease payments under significant non-cancelable operating leases are as follows:

Fiscal Year Ending June 30	
2007	$14,793,000
2008	13,325,000
2009	12,447,000
2010	10,755,000
2011	8,495,000
2012 - 2016	17,236,000
Total	$77,051,000

2) Capital Lease Receivable

Pursuant to the issue of the 2002 Lease Revenue Bonds and 2004 Lease Revenue Bonds (See Note III-F6), 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.

The composition of the capital lease receivable is as follows:

	Shady Grove	Grosvenor	Total
Minimum lease payments receivable	$ 29,946,515	$29,447,951	$ 59,394,466
Unearned lease income	(9,879,344)	(9,725,122)	(19,604,466)
Net investment in direct financing leases	$ 20,067,171	$19,722,829	$ 39,790,000

At June 30, 2006, the minimum future lease payments due under the direct financing capital lease agreements are as follows:

Fiscal Year Ending June 30	
2007	$ 3,294,214
2008	3,292,339
2009	3,295,276
2010	3,294,214
2011	3,292,008
Later years	42,926,415
Total minimum lease payments	$ 59,394,466

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	997,516
Buildings	53,783,180
Furniture, fixtures, equipment and machinery	159,291
Subtotal	68,389,020
Less accumulated depreciation	(16,270,131)
Total asset value under capital leases	$ 52,118,889

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006, are as follows:

Fiscal Year Ending June 30	
2007	$ 5,597,097
2008	5,577,714
2009	5,194,454
2010	5,203,800
2011	4,859,932
2012-2016	19,223,592
2017-2021	11,125,090
2022-2023	1,990,900
Total minimum lease payments	58,772,579
Less: amount representing interest	(16,047,579)
Present value of minimum lease payments	$ 42,725,000

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

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

The assets acquired through this capital lease are as follows:

	Town Square	Wayne Avenue	Total
Buildings	$29,422,571	$ 28,907,554	$58,330,125
Less accumulated depreciation	(1,735,864)	(1,899,217)	(3,635,081)
Total asset value under capital leases	$27,686,707	$ 27,008,337	$54,695,044

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006, are as follows:

Fiscal Year Ending June 30	Town Square	Wayne Ave	Total
2007	$ 2,485,804	$ 3,376,563	$ 5,862,367
2008	2,482,246	3,108,763	5,591,009
2009	2,477,591	3,075,925	5,553,516
2010	2,476,851	3,113,475	5,590,326
2011	2,470,554	3,073,775	5,544,329
2012-2016	12,278,107	15,514,255	27,792,362
2017	2,442,178	3,094,144	5,536,322
Total minimum lease payments	27,113,331	34,356,900	61,470,231
Less: amount representing interest	(5,393,331)	(7,801,900)	(13,195,231)
Present value of minimum lease payments	$ 21,720,000	$ 26,555,000	$ 48,275,000

F) Long-Term Debt

PRIMARY GOVERNMENT

1) General Obligation Bonds Payable

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

General obligation bonds that are reported in the Solid Waste Activities Enterprise Fund are payable first from revenues of that fund.

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

In November 2001, $143,000,000 in general obligation bonds, which mature in FY09 and beyond, were defeased. In November 2002, $95,750,000 in general obligation bonds, which mature in FY07 and beyond, were defeased. These defeasances were affected by placing the proceeds of general obligation refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements. As of June 30, 2006, $74,250,000, and $29,750,000 respectively, in general obligation bonds referred to above are considered to be defeased.

General obligation bond issues outstanding as of June 30, 2006, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2006	Unamortized Premium **	Unamortized Deferred Difference	Carrying Value June 30, 2006
07/01/92 *	1993-10	2.75 - 5.8	$ 273,038,054	$ 67,148,054	$ -	$ -	$ 67,148,054
03/15/96	1997-16	5.1 - 5.5	120,000,000	6,000,000	-	-	6,000,000
04/15/97	1998-17	5.0 - 5.375	115,000,000	11,500,000	-	-	11,500,000
01/01/98 *	2003-15	3.9 - 5.25	69,510,000	67,795,000	-	-	67,795,000
04/01/98	1999-18	4.875	115,000,000	17,250,000	-	-	17,250,000
04/01/99	2000-19	4.0 - 5.0	120,000,000	30,000,000	-	-	30,000,000
01/01/00	2001-20	5.0 - 6.0	130,000,000	32,500,000	-	-	32,500,000
02/01/01	2002-21	4.0 - 5.0	140,000,000	49,000,000	-	-	49,000,000
11/15/01 *	2003-19	3.6 - 5.25	146,375,000	132,705,000	5,369,709	(6,878,813)	131,195,896
02/01/02	2003-22	3.0 - 5.0	160,000,000	72,000,000	1,601,018	-	73,601,018
11/15/02 *	2005-13	2.75 - 5.25	93,595,000	91,250,000	4,968,502	(3,756,078)	92,462,424
05/01/03	2004-23	1.5 - 4.0	155,000,000	131,750,000	1,007,207	-	132,757,207
05/01/03*	2004-11	2.0 - 5.0	49,505,000	37,805,000	1,875,740	(848,932)	38,831,808
03/15/04	2005-24	3.0 - 5.0	154,600,000	139,140,000	8,513,565	-	147,653,565
08/15/04*	2008-17	3.0 - 5.25	97,690,000	97,690,000	5,662,450	(6,932,395)	96,420,055
05/15/05	2006-25	4.0 - 5.0	200,000,000	190,000,000	13,080,031	-	203,080,031
06/01/05*	2005-16	3.781	120,355,000	120,355,000	13,051,509	(10,714,003)	122,692,506
05/01/06	2006-17	3.871	100,000,000	100,000,000	5,291,362	-	105,291,362
Total			$ 2,359,668,054	$ 1,393,888,054	$ 60,421,093	$ (29,130,221)	$ 1,425,178,926

* Issue represents refunding bonds.

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

Changes in general obligation bonds during FY06 are as follows:

	Balance July 1, 2005	Bonds Issued	Bonds Retired	Bonds Refunded	Balance June 30, 2006
Governmental Activities:					
General County	$ 234,378,971	$ 16,500,000	$ 18,485,645	$ -	$ 232,393,326
Roads and Storm Drainage	356,423,586	20,000,000	32,426,787	-	343,996,799
Parks	53,218,967	3,500,000	4,080,101	-	52,638,866
Public Schools	679,651,179	50,000,000	58,389,165	-	671,262,014
Community College	53,903,576	6,000,000	3,555,394	-	56,348,182
Consolidated Fire Tax District	21,433,328	4,000,000	1,773,004	-	23,660,324
Mass Transit	15,291,272	-	2,311,956	-	12,979,316
Public Housing	850,663	-	246,330	-	604,333
	1,415,151,542	100,000,000	121,268,382	-	1,393,883,160
Business-Type Activities/Enterprise Funds:					
Solid Waste Activities:					
General County	56,512	-	51,618	-	4,894
	56,512	-	51,618	-	4,894
Total	$ 1,415,208,054	$ 100,000,000	$ 121,320,000	$ -	$ 1,393,888,054

For the general obligation bonds carried in the enterprise funds, $4,894 from the Solid Waste Activities Fund is classified as a current liability.

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

Fiscal Year Ending June 30	General Obligation Bond Requirements Principal	Interest	Total
2007	$ 131,210,000	$ 64,370,628	$ 195,580,628
2008	130,940,000	58,163,590	189,103,590
2009	109,786,683	64,498,882	174,285,565
2010	108,387,086	55,284,454	163,671,540
2011	105,244,285	45,109,205	150,353,490
2012-2016	456,805,000	140,096,652	596,901,652
2017-2021	265,125,000	50,874,936	315,999,936
2022-2026	86,390,000	8,161,288	94,551,288
Total	$ 1,393,888,054	$ 486,559,635	$1,880,447,689

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, 2006, is $5,612,611,278.

General obligation bonds authorized and unissued as of June 30, 2006, are as follows:

Purpose	Authority Chapter	Authority Act	Authority Amount	Amount Unissued
General County, Parks, and	17	2001	$ 35,200,000	$ 7,290,000
Consolidated Fire Tax District	21	2002	4,700,000	4,700,000
	17	2003	63,600,000	63,600,000
	18	2004	31,200,000	31,200,000
	19	2005	44,100,000	44,100,000
			178,800,000	150,890,000
Roads and Storm Drainage	18	2004	97,500,000	86,440,000
	19	2005	53,500,000	53,500,000
			151,000,000	139,940,000
Public Schools and	18	2004	145,000,000	100,168,000
Community College	19	2005	131,100,000	131,100,000
			276,100,000	231,268,000
Mass Transit	17	2001	6,700,000	5,205,000
	21	2002	1,600,000	1,600,000
	17	2003	900,000	900,000
			9,200,000	7,705,000
Public Housing	17	1981	2,650,000	2,590,000
	13	1982	995,000	995,000
	8	1983	230,000	230,000
	20	1985	900,000	900,000
	13	1986	855,000	855,000
			5,630,000	5,570,000
Parking Districts:				
Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	1,220,000	1,220,000
			4,165,000	3,265,000
Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	1,050,000	1,050,000
			9,150,000	4,865,000
Total Parking Districts			13,315,000	8,130,000
Total General Obligation Bonds			$634,045,000	$ 543,503,000

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

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

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

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

In connection with these obligations, the County entered into a standby note purchase agreement on June 7, 2006 with Dexia Credit Local, acting through its New York Branch. Under the agreement, Dexia is obligated to purchase, through the registrar and paying agent, obligations that are tendered by their owners and have not been remarketed by the remarketing agent. The standby note purchase agreement will expire on June 7, 2011. 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 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, 2006, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2006
06/07/06	2017-26	Variable	$ 50,000,000	$ 50,000,000
06/07/06	2017-26	Variable	50,000,000	50,000,000
Total			$ 100,000,000	$ 100,000,000

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

Changes in VRDOs during FY06 are as follows:

	Balance July 1, 2005	VRDOs Issued	VRDOs Retired	Balance June 30, 2006
Governmental Activities:				
General County	$ -	$ 2,500,000	$ -	$ 2,500,000
Roads and Storm Drainage	-	26,000,000	-	26,000,000
Parks	-	1,000,000	-	1,000,000
Public Schools	-	64,000,000	-	64,000,000
Community College	-	4,000,000	-	4,000,000
Consolidated Fire Tax District	-	2,100,000	-	2,100,000
Mass Transit	-	400,000	-	400,000
Total	$ -	$ 100,000,000	$ -	$ 100,000,000

VRDO requirements to maturity are as follows:

Fiscal Year Ending June 30	Variable Rate Demand Obligation Requirements		
	Principal	Interest*	Total
2007	$ -	$ 4,020,000	$ 4,020,000
2008	-	4,020,000	4,020,000
2009	-	4,020,000	4,020,000
2010	-	4,020,000	4,020,000
2011	-	4,020,000	4,020,000
2012-2016	-	20,100,000	20,100,000
2017-2021	50,000,000	16,080,000	66,080,000
2022-2026	50,000,000	6,030,000	56,030,000
Total	$ 100,000,000	$ 62,310,000	$ 162,310,000

* Includes interest on VRDOs at estimated rates of 4.05 percent for Series A and 3.99 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 rates at year-end.

3) Revenue Bonds Payable

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

Revenue bond issues outstanding as of June 30, 2006, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2006	Unamortized Premium/ (Discount)	Unamortized Deferred Difference	Carrying Value June 30, 2006
Parking Revenue Refunding 2002:								
Bethesda Parking Lot District	05/01/02	2003-09	3.00 - 5.00	$ 14,560,000	$ 5,535,000	$ 54,686	$ (113,234)	$ 5,476,452
Silver Spring Parking Lot District	05/01/02	2003-09	3.00 - 5.00	12,130,000	3,870,000	44,528	(74,690)	3,839,838
Parking Revenue 2002A:								
Bethesda Parking Lot District	06/01/02	2003-21	3.00 - 4.75	26,000,000	21,955,000	(18,116)	-	21,936,884
Solid Waste Refunding 2003A	04/03/03	2004-13	3.00 - 5.00	31,075,000	22,765,000	759,560	(831,559)	22,693,001
Parking Revenue 2005:								
Bethesda Parking Lot District	08/31/05	2007-25	3.62 - 5.00	16,495,000	16,495,000	132,244	-	16,627,244
Total				$ 100,260,000	$ 70,620,000	$ 972,902	$ (1,019,483)	$ 70,573,419

Changes in revenue bond principal during FY06 are as follows:

`	Balance July 1, 2005	Bonds Issued	Bonds Retired	Balance June 30, 2006
Bethesda Parking Lot District	$ 30,920,000	$ 16,495,000	$ 3,430,000	$ 43,985,000
Silver Spring Parking Lot District	6,050,000	-	2,180,000	3,870,000
Solid Waste Disposal	25,685,000	-	2,920,000	22,765,000
Total	$ 62,655,000	$ 16,495,000	$ 8,530,000	$ 70,620,000

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Bethesda Parking Lot District		Silver Spring Parking Lot District	
	Principal	Interest	Principal	Interest
2007	$ 3,550,000	$ 1,848,185	$ 2,265,000	$ 173,438
2008	3,175,000	1,709,435	780,000	60,188
2009	3,340,000	1,566,585	825,000	30,938
2010	1,840,000	1,429,335	-	-
2011	1,915,000	1,355,235	-	-
2012-2016	10,910,000	5,508,836	-	-
2017-2021	13,625,000	2,947,173	-	-
2022-2026	5,630,000	602,635	-	-
Total	$43,985,000	$ 16,967,419	$ 3,870,000	$ 264,564

Fiscal Year Ending June 30	Solid Waste Disposal		Total Revenue Bond Requirements		
	Principal	Interest	Principal	Interest	Total
2007	$ 3,005,000	$ 1,004,700	$ 8,820,000	$ 3,026,323	$ 11,846,323
2008	3,160,000	854,450	7,115,000	2,624,073	9,739,073
2009	3,255,000	751,750	7,420,000	2,349,273	9,769,273
2010	3,420,000	589,000	5,260,000	2,018,335	7,278,335
2011	3,550,000	460,750	5,465,000	1,815,985	7,280,985
2012-2016	6,375,000	453,000	17,285,000	5,961,836	23,246,836
2017-2021	-	-	13,625,000	2,947,173	16,572,173
2022-2026	-	-	5,630,000	602,635	6,232,635
Total	$22,765,000	$ 4,113,650	$ 70,620,000	$ 21,345,633	$ 91,965,633

Revenue bonds authorized and unissued as of June 30, 2006, are as follows:

Purpose	Resolution Number	Year	Amount Authorized	Amount Unissued
Parking Lot Districts	11-1383	1989	$ 51,163,000	$ 25,593,000
Parking Lot Districts	14-921	2001	35,000,000	9,000,000
Solid Waste Disposal	12-1010	1993	56,935,000	6,255,000
Total			$143,098,000	$ 40,848,000

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

Purpose	Bethesda Parking Lot District	Silver Spring Parking Lot District	Solid Waste Disposal
Operation and Maintenance Account - Available to pay current expenses	$ 1,126,622	$ 1,209,224	$ -
Debt Service Account - Used to pay debt service on bonds	449,849	203,203	-
Debt Service Reserve Account (including accrued interest) - Available to pay debt service on bonds if there is insufficient money available in the Debt Service Account	1,180,443	-	3,290,441
Renewal and Renovation Account - Available for payment of renewals, replacements, renovations, and unusual and extraordinary repairs	1,500,000	1,500,000	2,958,398
Rate Covenant Cash Reserve - Available to fund operating activities for a minimum of three months	-	-	22,802,740
Rate Stabilization Account - In case of short-term extraordinary expenses	-	-	3,773,550
Total	$ 4,256,914	$ 2,912,427	$ 32,825,129

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 FY06 are as follows:

	Balance July 1, 2005	BANs Issued	BANs Retired	Balance June 30, 2006
BAN Series 2002-G	$ -	$ 150,000,000	$ 150,000,000	$ -
BAN Series 2002-H	-	50,000,000	50,000,000	-
BAN Series 2002-I	-	100,000,000	-	100,000,000
Total	$ -	$ 300,000,000	$ 200,000,000	$ 100,000,000

BAN Notes, Series 2002-G and Series 2002-H totaling $200,000,000 were retired with proceeds from general obligation bonds and variable rate demand obligations. On May 23, 2006, the County retired $100,000,000 of Series 2002-G BANS and on June 7, 2006, the remaining $100,000,000 balance, $50,000,000 of Series 2002-G and $50,000,000 of Series 2002-H, was retired.

The interest rate changes based on market conditions. During FY06, the rate of interest varied from 2.25 to 3.65 percent. Interest earned on BAN proceeds totaled $2,941,977 during FY06, which was accounted for in the Debt Service Fund.

BANs totaling $300 million were issued during FY06 at varying maturities to a maximum of 270 days, under a program whose authority was adopted on June 11, 2002, and was amended on July 16, 2002, July 29, 2003, July 27, 2004, and July 26, 2005, to consolidate additional authority to borrow money and incur indebtedness. The County reissued the notes upon maturity and will continue to do so, until they are replaced with long-term bonds. The County will issue long-term bonds in FY07, and intends to use the proceeds for capital construction and improvements. In connection with these BANs, the County entered into a line of credit agreement on June 15, 2005, with Fortis Bank S.A./N.V., acting through its Connecticut branch, under which the County may borrow, on a revolving basis, up to $300 million to pay the principal on the notes, and up to $22,191,781 to pay the interest. Any principal advances under the line of credit must be repaid in semi-annual installments over five years after the advance occurs. No amounts were advanced against this line of credit. Because the County entered into a financing agreement that ensures the BANs can be refinanced on a long-term basis, these BANs are classified as noncurrent liabilities at year-end.

Per Resolution No. 14-1307 dated June 11, 2002, Resolution No. 14-1374 dated July 16, 2002, Resolution No. 15-318 dated July 29, 2003, Resolution No. 15-729 dated July 27, 2004 and Resolution No. 15-1124 dated July 26, 2005, the amount of BANs authorized and unissued as of June 30, 2006, is $433,103,000.

5) <u>Certificates of Participation</u>

In June 2001, the County issued Certificates of Participation (certificates) for its Equipment Acquisition Program dated June 1, 2001, in the amount of $54.66 million. The certificates represented proportionate interests in a Conditional Purchase Agreement (CPA) between the County, as purchaser, and Wachovia Bank (formerly First Union National Bank), as seller, for the acquisition of certain equipment to be used in the public safety and public transportation programs of the County. The CPA required the County, as purchaser, to make periodic purchase installments in amounts sufficient to pay the scheduled debt service on the certificates until the County paid the entire price necessary to acquire the equipment, which was 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 was dependent upon sufficient funds being appropriated each year by the County Council for such purpose. The County could terminate the CPA at the end of the last fiscal year or earlier date for which an appropriation was available if sufficient funds were not appropriated for any fiscal year. The County Council was under no obligation to make any appropriation with respect to the CPA. The CPA was not a general obligation of the County and did not constitute an indebtedness of the County within the meaning of any constitutional or statutory limitation or a charge against the general credit or taxing powers of the County. During FY06, the County made the final purchase installments due under the CPA.

6) Lease Revenue Bonds

In June 2002, the County issued Lease Revenue Bonds dated June 1, 2002, in the amount of $37.88 million for its Metrorail garage projects. These bonds were issued to finance the costs of the planning, design, construction, and placing into commercial operation, of garages at the Shady Grove and Grosvenor Metrorail Stations. The County has leased these metrorail garage projects to the Washington Metropolitan Area Transit Authority (WMATA). The bonds are payable from and secured by a pledge of revenues from WMATA's lease payments and certain reserve funds. WMATA's obligation to make payments under the leases are payable solely from amounts held in a Surcharge Reserve Account which is funded by revenues from a surcharge on the parking facilities. WMATA is not obligated to pay the principal or interest on the bonds. In the event that the County's Reserve Subfund of $3,346,319, included in Capital Projects Fund cash with fiscal agents in the accompanying financial statements, is less that the required amount, the County Executive is obligated to include, in the next subsequent appropriation request to the County Council, a request for sufficient resources to reimburse the Reserve Subfund. The Lease Revenue Bonds are not a debt of the County within the meaning of any constitutional, compact, charter or statutory debt limit or restriction. Neither the faith and credit nor the taxing power of the County is pledged to the payment of the bonds.

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 in June 1, 2024.

Lease Revenue Bonds outstanding as of June 30, 2006, are as follows:

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

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2006	Unamortized Premium	Carrying Value June 30, 2006
Lease Revenue Bonds	06/01/02	2005-24	4.6064%	$ 37,880,000	$ 35,375,000	$ 112,494	$ 35,487,494
Lease Revenue Bonds	09/01/04	2005-24	3.7908%	4,745,000	4,415,000	22,158	4,437,158
Total				$ 42,625,000	$ 39,790,000	$ 134,652	$ 39,924,652

Fiscal Year Ending June 30	Lease Revenue Bond Requirements Principal	Interest	Total
2007	$ 1,535,000	$ 1,759,214	$ 3,294,214
2008	1,585,000	1,707,339	3,292,339
2009	1,645,000	1,650,276	3,295,276
2010	1,705,000	1,589,214	3,294,214
2011	1,770,000	1,522,008	3,292,008
2012-2016	10,055,000	6,457,045	16,512,045
2017-2021	12,595,000	4,043,635	16,638,635
2022-2024	8,900,000	875,735	9,775,735
Total	$ 39,790,000	$19,604,466	$59,394,466

7) State MICRF Loan

In September 1998, the County entered into a $1,800,000 long-term loan agreement with the Maryland Industrial and Commercial Redevelopment Fund (MICRF). In accordance with terms of the loan, the proceeds were reloaned to a private corporation for purposes of renovation and relocation of facilities to the County. After fulfilling the necessary requirements, $150,000 of the loan was converted to a State grant during FY02. In January 2006, the loan was paid in full.

8) Taxable Term Loans

During FY04, the County entered into two taxable term loan agreements with Wachovia Bank. The first term loan of $4,000,000, which commenced on February 2, 2004, was used to finance the purchase of the Kay property in Germantown, which will be used for development of a biotechnology and information technology business park. The repayment period is 5 years, requiring semi-annual payments of principal and interest at 3.24 percent. The second term loan of $1,332,000, which commenced on March 30, 2004, was used to purchase kitchen and audio-visual equipment to be used in the County's conference center project which opened in November 2004. The repayment period is 5 years, requiring semi-annual payments of principal and interest at 2.91 percent. On November 15, 2005, the County borrowed an additional $95,432 for conference center furniture which was combined with the first term loan above. All other terms of the first term loan remain unchanged. The principal amount payable at June 30, 2006, under the taxable term loans is $3,370,684.

9) 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, 2006, for this loan is $784,000.

10) Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

Governmental Activities	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due within one year
Bonds and Notes Payable:					
General obligation bonds	$ 1,415,151,542	$ 100,000,000	$ (121,268,382)	$ 1,393,883,160	$ 131,270,553
Variable rate demand obligations	-	100,000,000	-	100,000,000	-
Bond anticipation notes	-	300,000,000	(200,000,000)	100,000,000	100,000,000
Lease revenue bonds	41,275,000	-	(1,485,000)	39,790,000	1,535,000
State MICRF loan	1,198,385	-	(1,198,385)	-	-
Equipment notes	6,432,429	5,111,945	(1,718,639)	9,825,735	2,619,417
Taxable term loans	4,315,715	95,432	(1,040,463)	3,370,684	1,084,775
HUD loan	827,000	-	(43,000)	784,000	43,000
Subtotal	1,469,200,071	505,207,377	(326,753,869)	1,647,653,579	236,552,745
Add remaining original issue premium	62,619,258	5,456,700	(7,520,213)	60,555,745	-
Less deferred amount on refundings	(33,247,968)	-	4,117,747	(29,130,221)	-
Total Bonds and Notes Payable	1,498,571,361	510,664,077	(330,156,335)	1,679,079,103	236,552,745
Other Liabilities:					
Certificates of participation	9,780,000	-	(9,780,000)	-	-
Compensated absences	51,333,184	41,619,430	(37,678,467)	55,274,147	41,455,610
Capital leases	83,969,583	10,127,260	(7,010,000)	87,086,843	7,270,000
Claims and judgments	1,200,000	-	(1,200,000)	-	-
Total Other Liabilities	146,282,767	51,746,690	(55,668,467)	142,360,990	48,725,610
Governmental Activities Long-Term Liabilities	$ 1,644,854,128	$ 562,410,767	$ (385,824,802)	$ 1,821,440,093	$ 285,278,355
Business-Type Activities					
General Obligation Bonds:					
Solid waste disposal	$ 56,512	$ -	$ (51,618)	$ 4,894	$ 2,447
Revenue Bonds:					
Parking revenue bonds	36,970,000	16,495,000	(5,610,000)	47,855,000	5,815,000
Solid waste disposal revenue refunding bonds	25,685,000	-	(2,920,000)	22,765,000	3,005,000
Subtotal	62,711,512	16,495,000	(8,581,618)	70,624,894	8,822,447
Add remaining original issue premium	1,167,019	134,075	(310,076)	991,018	-
Less remaining original issue discount	(20,278)	-	2,162	(18,116)	-
Less deferred amount on refundings	(1,424,878)	-	405,395	(1,019,483)	-
Total General Obligation and Revenue Bonds	62,433,375	16,629,075	(8,484,137)	70,578,313	8,822,447
Other Liabilities:					
Compensated absences	3,925,357	133,790	(3,651)	4,055,496	3,041,622
Landfill closure costs	22,108,523	1,076,000	(1,033,600)	22,150,923	1,082,000
Total Other Liabilities	26,033,880	1,209,790	(1,037,251)	26,206,419	4,123,622
Business-Type Activities Long-Term Liabilities	$ 88,467,255	$ 17,838,865	$ (9,521,388)	$ 96,784,732	$ 12,946,069

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, $1,384,524 ($1,038,393 due within one year and $346,131 due in more than one year) of internal service fund compensated absences are included in the above amounts. Also, for the governmental activities, compensated absences and claims and judgments are generally liquidated by the governmental fund to which the liability relates.

11) Conduit Debt Obligations

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

As of June 30, 2006, there were 41 issues of Industrial Revenue Bonds and Economic Development Revenue Bonds outstanding. Of these, 24 were issued prior to July 1, 1996. The aggregate principal amount payable at June 30, 2006, for bonds issued prior to July 1, 1996, could not be determined; however, their original issue amounts totaled $189,350,000. The principal amount payable at June 30, 2006, for bonds issued after July 1, 1996, totaled $331,041,701.

12) Special Taxing Districts

The County has 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, Montgomery County Development District Act enacted in 1994. The creation of these districts allows the County to provide financing, refinancing, or reimbursement for the cost of infrastructure improvements necessary for the development of land in areas with high priority for new development or redevelopment.

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

In December 1999, the County issued $2.4 million in special obligation bonds for the Kingsview Village Center Development District. Special taxes and assessment were levied beginning in FY01 to repay this debt. In April 2002, the County issued two series of special obligation bonds for the West Germantown Development District. The County issued $11,600,000 of Senior Series 2002A bonds and $4,315,000 of Junior Series 2002B bonds to finance the construction of infrastructure in the development district. Special taxes and assessments were levied beginning in FY03 to repay this debt. Bonds have not yet been issued for the Clarksburg Town Center development district.

Pursuant to Section 2.07 (g) of the West Germantown Bond Indenture, upon the satisfaction of certain assessed value requirements which were met, the holders of the Junior Series 2002B bonds requested that the County issue additional bonds in exchange for the Junior Series 2002B bonds. The additional bonds, which were issued in FY05, are on a parity with the Series 2002A bonds (i.e., they are senior lien bonds) and have the same terms and conditions as the Series 2002B bonds.

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

COMPONENT UNITS

At June 30, 2006, HOC's noncurrent liabilities are comprised of the following:

	Due within one year	Long-Term	Total
Revenue bonds payable	$ 65,672,365	$527,991,796	$ 593,664,161
Capital leases payable	76,160	20,264,223	20,340,383
Notes payable	4,277,213	122,266,649	126,543,862
Total	$ 70,025,738	$670,522,668	$ 740,548,406

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

Purpose	
Multi-Family Mortgage Purchase Program Fund	$ 354,377,125
Single Family Mortgage Purchase Program Fund	239,287,036
Total	$ 593,664,161

Interest rates on the HOC Multi-Family and Single Family Mortgage Purchase Program Fund bonds ranged from 1.15 to 11.25 percent and 1.35 to 8.5 percent, respectively, as of June 30, 2006.

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

Fiscal	Guaranteed Revenue Bond Requirements		
Ending	Principal	Interest	Total
2007	$ 290,000	$ 560,043	$ 850,043
2008	300,000	548,670	848,670
2009	310,000	536,647	846,647
2010	325,000	523,987	848,987
2011	340,000	510,490	850,490
2012-2016	1,515,000	2,314,969	3,829,969
2017-2021	2,880,000	2,091,075	4,971,075
2022-2026	-	1,443,075	1,443,075
2027-2031	5,430,000	959,753	6,389,753
Total	$11,390,000	$ 9,488,709	$20,878,709

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
2007	$ 65,672,365	$ 21,588,771	$ 87,261,136
2008	10,898,381	19,857,144	30,755,525
2009	11,994,355	19,607,331	31,601,686
2010	42,771,089	19,320,373	62,091,462
2011	12,791,640	19,017,574	31,809,214
2012-2016	62,841,820	89,990,234	152,832,054
2017-2021	63,286,306	83,428,900	146,715,206
2022-2026	62,699,402	76,665,941	139,365,343
2027-2031	113,029,589	56,508,818	169,538,407
2032-2036	100,094,911	22,340,463	122,435,374
2037-2041	22,785,000	9,208,917	31,993,917
2042-2046	18,165,000	5,008,790	23,173,790
2047-2049	9,030,000	95,520	9,125,520
Unamortized Bond Discount	(2,395,697)	-	(2,395,697)
Total	$593,664,161	$442,638,776	$1,036,302,937

Changes in the HOC revenue bonds during FY06 are as follows:

Purpose	Balance July 1, 2005	Bonds Issued*	Bonds Retired	Balance June 30, 2006
Multi-Family Mortgage Purchase Program Fund	$ 393,065,386	$ 50,226,739	$ 88,915,000	$ 354,377,125
Single Family Mortgage Purchase Program Fund	217,428,100	90,364,068	68,505,132	239,287,036
Total	$ 610,493,486	$ 140,590,807	$ 157,420,132	$ 593,664,161

* 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, 2005	$ 293,994,000
Issuances during the year	38,000,000
Redemptions during the year	(325,000)
Bonds outstanding, June 30, 2006	$ 331,669,000

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

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, 2006, is presented below:

Condensed Statements of Net Assets

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
ASSETS			
Current assets	$ 46,392,645	$ 3,766,568	$ 19,160,175
Due from component units	67,839	-	276,380
Other assets	33,237,326	2,964,382	4,911,774
Capital assets	31,153,067	91,546,963	83,132,952
Total Assets	110,850,877	98,277,913	107,481,281
LIABILITIES			
Current liabilities	12,811,711	4,016,546	5,301,884
Due to other funds	108,204	14,837	21,241
Long-term liabilities	40,897,301	1,607,462	40,519,251
Total Liabilities	53,817,216	5,638,845	45,842,376
NET ASSETS			
Invested in capital assets, net of related debt	8,455,172	87,707,125	39,092,372
Restricted for debt service	32,825,129	2,912,427	4,256,914
Unrestricted	15,753,360	2,019,516	18,289,619
Total Net Assets	$ 57,033,661	$ 92,639,068	$ 61,638,905

* Includes Solid Waste Leafing

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

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
OPERATING REVENUES (EXPENSES):			
Operating Revenues:			
Charges for services	$ 96,361,017	$ 6,577,895	$ 8,360,068
Licenses and permits	10,025	-	-
Fines and penalties	36,553	1,893,556	4,273,736
Total Operating Revenues (pledged against bonds)	96,407,595	8,471,451	12,633,804
Depreciation	2,680,609	3,857,494	3,558,326
Other operating expenses	90,819,590	7,753,608	5,959,821
Operating Income (Loss)	2,907,396	(3,139,651)	3,115,657
NONOPERATING REVENUES (EXPENSES):			
Property taxes	-	4,750,157	3,867,618
Gain (loss) on disposal of capital assets	27,475	-	(1,710,633)
Investment income	3,855,506	321,468	1,051,184
Interest expense	(1,169,691)	(306,166)	(2,048,819)
Other revenue	275,499	26,287	615,105
Capital contributions	-	1,747,573	-
Transfers in	-	93,255	-
Transfers out	(1,451,660)	(1,954,690)	(5,962,113)
Change in Net Assets	4,444,525	1,538,233	(1,072,001)
Beginning Net Assets	52,589,136	91,100,835	62,710,906
Ending Net Assets	$ 57,033,661	$ 92,639,068	$ 61,638,905

Condensed Statements of Cash Flows

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
Net Cash Provided (Used) By:			
Operating activities	$ 5,557,909	$ 1,312,833	$ 6,415,681
Noncapital financing activities	(1,451,660)	2,490,677	(1,760,426)
Capital and related financing activities	(4,836,303)	(4,827,222)	2,588,508
Investing activities	3,780,270	321,468	1,118,790
Net Increase (Decrease)	3,050,216	(702,244)	8,362,553
Beginning Cash and Cash Equivalents	70,051,836	5,211,266	12,586,159
Ending Cash and Cash Equivalents	$ 73,102,052	$ 4,509,022	$ 20,948,712

* Includes Solid Waste Leafing

H) Fund Equity

1) Designated Fund Balances

Designated fund balances include amounts encumbered at year-end, which are reported separately in the accompanying financial statements. Designated fund balances also include committed amounts which have been appropriated as part of the next year's original budget where the source of funds is the fund balance as of the end of the current year, and amounts appropriated but unexpended in the Capital Projects Fund where the source of funds is current receipts in the governmental funds. Such amounts are as follows at June 30, 2006:

	General	Special Revenue	Total
Designated for next year's budget	$107,008,263	$ 10,355,078	$ 117,363,341
Designated for transfers to Capital Projects Fund	48,295,900	7,151,371	55,447,271
Total	$155,304,163	$ 17,506,449	$ 172,810,612

Designated fund balance does not include the following commitments, which otherwise meet the criteria for designation, but for which unrestricted fund balance is not available to designate:

	Debt Service	Capital Projects	Special Revenue	Total
Encumbrances *	$ 317,524	$ 93,801,382	$11,542,932	$105,661,838
Next year's budget	-	-	112,840	112,840
Transfers to Capital Projects Fund	-	-	2,470,831	2,470,831
Total	$ 317,524	$ 93,801,382	$14,126,603	$108,245,509

* Encumbrances relating to special revenue funds include $9,682,498 relating to the Grants Fund, where appropriation and spending on Federal and State grants is contingent on receipt of the grant funds. When the expenditure occurs in the subsequent year, revenue will be earned based on the grant agreements, and resources will then be made available.

2) Net Assets Restricted by Enabling Legislation

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

Governmental activities	$ 327,870,726
Business-type activities	40,492,068
Total	$ 368,362,794

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, 2006:

	General Fund			Capital	
	Operating	Capital *	Total	Projects	Total
MCPS	$1,284,278,185	$ 14,175,738	$1,298,453,923	$ 201,777,377	$1,500,231,300
MCC	78,948,374	5,496,162	84,444,536	11,071,957	95,516,493
HOC	4,332,612	310,102	4,642,714	-	4,642,714
Total	$1,367,559,171	$ 19,982,002	$1,387,541,173	$ 212,849,334	$1,600,390,507

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

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

2) Other Transactions

BUPI charges for services revenue includes $2,861,772 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 City of Rockville, the independent fire/rescue corporations, the Bethesda-Chevy Chase Rescue Squad, the Rockville Housing Enterprises, the Town of Somerset, the Village of Martin's Additions, the City of Gaithersburg, the Village of Drummond, the City of Takoma Park, 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 FY06 and FY05 are as follows:

	Liability and Property Coverage	Employee Health Benefits
Balance July 1, 2004	$64,206,000	$ 11,470,902
Claims and changes in estimates	27,205,036	101,891,704
Claim payments *	(20,524,036)	(103,886,103)
Balance June 30, 2005	70,887,000	9,476,503
Claims and changes in estimates	29,159,586	115,374,182
Claim payments *	(20,336,586)	(115,583,400)
Balance June 30, 2006 **	$79,710,000	$ 9,267,285

* Includes non-monetary settlements.

** Includes incurred but not reported claims of $45,146,000 and $9,267,285, for the Liability and Property Coverage and the Employee Health Benefits Self-Insurance Funds, respectively.

B) Significant Commitments and Contingencies

1) Landfill

The County, in its effort to provide for estimated landfill capping and postclosure maintenance costs, accrues such costs and recognizes those costs as expenses as the landfill is utilized. The October 9, 1991 U.S. Environmental Protection Agency (EPA) rule, "Solid Waste Disposal Criteria," established closure requirements for all municipal solid waste landfills (MSWLFs) that receive waste after October 9, 1991. The County has been accruing closure expenses since FY91 in an attempt to match the costs of closure against the revenues associated with the use of the landfill. GASB Statement No. 18, issued in August 1993, expanded the items considered in the original EPA calculation of closure costs. The expanded requirements include postclosure care for thirty years for landfills accepting refuse materials after October 1991. The Oaks Landfill closed on October 22, 1997, and the County began using out-of-County waste hauling during FY98. At the time the landfill was closed, total cumulative capacity used was 6,990,437 tons. The total closure and postclosure costs are estimated at $55,117,000, which has been fully accrued through June 30, 2006. Of the total amount accrued, $31,932,477 in actual costs has been paid out in prior years, and $1,033,600 was paid in FY06, resulting in a net liability of $22,150,923 at June 30, 2006. The current and non-current portions of the adjusted liability at year-end are estimated at $1,082,000 and $21,068,923 respectively. These costs are subject to change based on cost differences, changes in technology, or applications of laws and regulations. The County plans to use primarily operating cash to pay for these closure and postclosure costs as they are incurred in the future.

2) Litigation

In addition to those suits in which claims for liability are adequately covered by insurance, the County is a defendant in various suits involving tort claims, violations of civil rights, breach of contract, inverse condemnation, and other suits arising in the normal course of business. In the opinion of the County Attorney, the estimated liability of the County in the resolution of these cases will not exceed $15,066,000. 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 appears to be probable.

3) Grants, Entitlements, and Shared Revenues

The County participates in a number of Federal and State assisted grant, entitlement, and/or reimbursement programs, principal of which are the Community Development Block Grant, the Head Start Grant, Community Mental Health Grant, and the Medical Assistance Grant. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of most of these programs for, or including, the year-ended June 30, 2006, have not yet been completed. In accordance with the provisions of the Single Audit Act of 1984 and Circular A-133, issued by the U.S. Office of Management and Budget, the County participates in single audits of federally assisted programs. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although management does not believe amounts ultimately disallowed, if any, would be material.

4) Other Commitments

County proprietary funds have entered into contract commitments that remain uncompleted as of year-end. The amount of outstanding commitments at June 30, 2006, are as follows:

Enterprise Funds:	Operating	Capital	Inventory	Total
Major Funds:				
Liquor	$ 3,922,936	$ -	$ 8,160,162	$ 12,083,098
Solid Waste Activities:				
Disposal operations	5,013,175	240,000	-	5,253,175
Collection operations	16,530	-	-	16,530
Leafing operations	3,775	-	-	3,775
Parking Lot Districts:				
Silver Spring	537,197	2,727,498	-	3,264,695
Bethesda	558,937	4,308,814	-	4,867,751
Wheaton	165,762	163,513	-	329,275
Montgomery Hills	12,832	-	-	12,832
Subtotal	10,231,144	7,439,825	8,160,162	25,831,131
Nonmajor Funds:				
Permitting Services	125,405	-	-	125,405
Subtotal	125,405	-	-	125,405
Total Enterprise Funds	10,356,549	7,439,825	8,160,162	25,956,536
Internal Service Funds:				
Motor Pool	3,042,690	-	6,241,028	9,283,718
Central Duplicating	166,622	-	-	166,622
Liability and Property Coverage Self-Insurance	177,785	-	-	177,785
Employee Health Benefits Self-Insurance	436,553	-	-	436,553
Total Internal Service Funds	3,823,650	-	6,241,028	10,064,678
Total Proprietary Funds	$ 14,180,199	$ 7,439,825	$ 14,401,190	$ 36,021,214

As of June 30, 2006, the County has $2,445,000 in outstanding offers of loans and/or grants that have been extended to various companies under its Economic Development Fund programs. To help fund such offers, the designated fund balance of the Economic Development Special Revenue Fund at the end of the year is typically reappropriated in the following year.

C) Subsequent Events

On September 28, 2006, HOC issued $36,350,000 of bonds guaranteed by the full faith and credit of the County to build public housing. On October 19, 2006, the County entered into an arrangement with Banc of America Public Capital Corporation to finance the construction of a temperature-controlled liquor warehouse for the County's Department of Liquor Control. The term of this financing arrangement is for eight years, and total proceeds were $10,615,000. On October 27, 2006, the County issued $20,000,000 in variable rate Economic Development Revenue Bonds (conduit debt obligations) on behalf of the Heights School. The bonds constitute conduit debt obligations of the County (see Note III-F11). On November 16, 2006, the County issued commercial paper bond anticipation notes (BANS) amounting to $150,000,000. On November 28, 2006, the County Council approved legislation to increase the level of authorized general obligation bond principal by an additional $315,800,000.

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, 2006, M-NCPPC had outstanding notes payable and bonds payable in the amount of $146,142,578, of which $13,042,133 was self-supporting. Of the total amount payable, $14,121,640 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, 2006, is $38,111,743, 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, 2006, WSSC had outstanding notes payable and bonds payable in the amount of $1,430,566,000, of which $1,427,911,000 was self-supporting. Of the total amount payable, $243,563,000 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, 2006, all WSSC debt relating to the County is self-supporting.

Washington Suburban Transit Commission (WSTC)

The Washington Suburban Transit District (WSTD), encompassing Prince George's and Montgomery Counties, Maryland, was chartered by the State of Maryland in 1965 to, among other things, coordinate and participate in the formulation of the transit plan of the Washington Metropolitan Area Transit Authority for WSTD. The WSTD is governed by the WSTC, which is composed of three representatives each from Prince George's and Montgomery Counties and one representative from the Maryland Department of Transportation. One commissioner from each county is appointed by the Governor of the

State of Maryland, and the other two commissioners are appointed by the chief executive officer of the organizations they represent. The two participating counties have equal budgetary authority and financial responsibility for WSTC; however, both are required to act in consultation with the State Department of Transportation. WSTC's liabilities are limited to funds payable from the participating counties and the State under outstanding grant agreements and State legislation. Montgomery County made an operating contribution totaling $89,688 to WSTC during FY06. The FY06 WSTC Annual Financial Report was not available when this report was published.

Washington Metropolitan Area Transit Authority (WMATA)

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

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

Under State statutes, the State of Maryland is required to cover 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 40 percent (effective in FY01) 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 FY06, which are fully funded by the State and not reflected in the accompanying financial statements, is as follows:

Bus operating subsidy	$ 38,243,052
Rail operating subsidy	25,326,581
Americans with Disabilities Act service	13,516,946
Metrobus and Metrorail capital replacement	35,683,426
Debt service on WMATA revenue bonds	4,867,500
Local bus program	27,898,724
Total	$145,536,229

At June 30, 2006, WMATA had outstanding debt of $203,481,000, of which $23,865,000 represented debt due within one year. All of this debt is payable from resources of WMATA.

Metropolitan Washington Council of Governments (COG)

COG is a multi-governmental regional planning organization in which local governments work together, in partnership with state and federal government agencies, to create and implement solutions to regional issues. The County is a COG member along with other Washington metropolitan area governments. The governing body of COG is a Board of Directors. Each participating governmental unit is allotted a member or members on the Board in accordance with a specified population formula. Budgetary authority rests with the Board. Member dues finance approximately 12 percent of the total funding for COG, with state and Federal grants and private contributions providing the remainder. COG does not utilize debt financing. As a participating government in COG, the County paid FY06 membership dues and fees for services amounting to $673,097.

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, Baltimore County, Anne Arundel County, Frederick County, Harford County, Howard County, Carroll County, and City of Baltimore. The Maryland Environmental Service is an ex-officio member.

NEMWDA issued bonds in 1993 to fund the construction of the Montgomery County Resource Recovery Project (Project). In April 2003, NEMWDA refinanced $205,078,908 of the 1993 bonds. At June 30, 2006, NEMWDA had outstanding bonds payable in the amount of $259,590,000 of which $21,130,000 represented debt due within one year. Of these amounts, $236,785,000 related to the Project, $16,440,000 of which represented debt due within one year. These bonds are limited obligations of NEMWDA, payable solely from the Project revenues and other sources. Since the Project is owned and operated by NEMWDA, the bonds and related activities are included in the financial statements of NEMWDA.

This Project became operational in August 1995. NEMWDA has entered into a service contract with the County under which the County pays a waste disposal fee calculated in accordance with the agreement. The waste disposal fee is comprised of an amount equal to debt service, facility fees, alternative disposal costs, NEMWDA administrative costs, operating costs, and NEMWDA component revenue. Waste disposal fee expense incurred by the Solid Waste Activities Enterprise Fund during FY06 amounted to $40,216,143.

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. 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 did not elect to continue to participate in the County Plan may 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.

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 FY06, the County and its employees contributed $71,517,683 and $19,432,169, respectively. Employees of MCRA, HOC, and BUPI participate in the comprehensive insurance program of the County. Employer contributions totaled $357,006, $2,718,065, and $47,437 for these component units, respectively, for FY06.

4) Postemployment Benefits

In addition to the pension benefits described in Note IV-F, the County, by authority of various Montgomery County Council resolutions, provides certain postemployment health and life insurance benefits to all employees who retire under the Employees' Retirement System and the Employees' Retirement Savings Plan. Prior to 1987, the County plan offered retirees the opportunity to contribute 20 percent toward the cost of group insurance benefits, with the County contributing 80 percent of the cost. Under this arrangement, the County contribution continues for a length of time equal to the time the retiree was eligible for group insurance with the County. After that, the individual is required to pay the full cost of the insurance. All employees hired after January 1, 1987, are covered by a different cost sharing arrangement. Under this plan, the County's contribution to group insurance ranges from 50 percent to 70 percent depending on the employees' years of eligibility under the County's group insurance program. Under this arrangement, employees have a lifetime insurance cost share. Currently, 4,493 retirees meet those eligibility requirements for postemployment benefits. Postemployment benefits, accounted for in the Employee Health Benefits Self-Insurance Internal Service Fund, are funded by an appropriation in a non-departmental account of the General Fund, dividends, and pre-funded contributions from active employees. Expenses are recognized as retirees report claims, with an amount included to provide for incurred but not reported claims. The employer contributions were $21,587,860 for FY06; retired employee contributions were $10,684,500.

Under Section 21-21 of the Montgomery County Code, the County has established a Length of Service Award Program (LOSAP) for the County's fire and rescue department volunteers who meet certain age and service criteria. Benefit expenditures amounting to $1,086,848 in FY06 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 446 recipients comprising former volunteers and their beneficiaries at the end of FY06.

F) Pension Plan Obligations

1) Defined Benefit Pension Plan

Plan Description - The Employees' Retirement System of Montgomery County (System) is a cost-sharing multiple-employer defined benefit pension plan sponsored by the County. Other agencies and political subdivisions have the right to elect participation. The Board of Investment Trustees (Board) has the exclusive authority to manage the assets of the System. The Board consists of thirteen trustees and functions as part of the County. A publicly available annual report that includes financial statements and required supplementary information for the System, the Defined Contribution Plan (see Note IV-F2), and the Deferred Compensation Plan (see Note IV-E1), can be accessed on the County's website at http://www.montgomerycountymd.gov/bit, or can be obtained by writing the Board of Investment Trustees, Montgomery County Government, 101 Monroe Street, Rockville, Maryland 20850.

This Plan is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees. Substantially all employees hired prior to October 1, 1994, of the County, MCRA, HOC, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., WSTC, 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 a member terminates employment before his retirement date and after completion of five years of credited service, he may elect to leave his member contributions in the System and receive a pension upon reaching his normal retirement date, based on the amount of his normal retirement pension that has accrued to the date of termination. Vested benefits and eligibility requirements are described under Section 33-45 of the Montgomery County Code of 2001, as amended. A member who terminates employment prior to five years of credited service is refunded his accumulated contributions with interest.

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

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

Annual Pension Cost and Net Pension Obligation - The annual required contributions (ARC) for FY06 were based on an actuarial valuation as of June 30, 2004, 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 FY06 were as follows:

Fiscal Year	APC	Percentage of APC Contributed	NPO
2004	$ 61,927,029	100 %	$ -
2005	74,655,371	100	-
2006	88,184,159	100	-

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

2) Defined Contribution Plan

Plan Description - Employees' Retirement Savings Plan (Plan) is a cost-sharing multiple-employer defined contribution plan established by the County under 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. 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., and WSTC. Employees covered under the defined benefit plan may make an irrevocable decision to move into this Plan, provided they are unrepresented employees, or represented by a collective bargaining agreement that allows for participation in this Plan.

Under this Plan, employees contribute 3 percent of regular earnings up to Social Security wage base and 6 percent above Social Security wage base. The employer contributes 6 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively. The employee and employer contribution rates are established under Section 33-116 and 33-117 of the County Code, respectively. The employer also contributes an additional .10 percent of regular earnings to defray expenses of the Plan. 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 FY06 were $10,237,190 and $5,860,277, respectively. In accordance with IRS 457 regulations and the County Code, $800,000 in accumulated revenue was used to reduce employer contributions to $9,437,190 for FY06.

3) Other

The County contributed $808,129 during FY06 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.