MONTGOMERY COUNTY
MARYLAND

Comprehensive Annual Financial Report

Fiscal Year 2005

July 1, 2004 - June 30, 2005
Rockville, Maryland

MONTGOMERY COUNTY
MARYLAND

Comprehensive Annual Financial Report

Prepared by the
DEPARTMENT OF FINANCE

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Fiscal Year 2005
July 1, 2004 - June 30, 2005

Montgomery County, Maryland
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2005
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FINANCIAL SECTION

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Honorable County Council
of Montgomery County, Maryland:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montgomery County, Maryland (the County), as of and for the year ended June 30, 2005, 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 total assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the County's aggregate discretely presented component units financial statements, insofar as it relates to the amounts included for those discretely presented component units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montgomery County, Maryland, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note I (D) (10) to the basic financial statements, the County has implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures* and No. 46, *Net Assets Restricted by Enabling Legislation*.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 12, 2005, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 22 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining and individual fund financial statements and supplementary schedules listed as supplementary data in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary data has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information included in the introductory and statistical sections has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on such information.

KPMG LLP

December 12, 2005

Management's Discussion and Analysis

INTRODUCTION

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

FINANCIAL HIGHLIGHTS

- The government-wide assets of the County exceeded its liabilities at the close of FY05 by $1,809.8 million. That amount is net of a $405.3 million unrestricted deficit. The deficit occurs because the County issues debt to fund construction costs for Montgomery County Public Schools (MCPS) and Montgomery Community College (MCC), two of its component units, and for Maryland-National Capital Park and Planning Commission (M-NCPPC), a joint venture. Debt outstanding for these entities amounted to $786.8 million at June 30, 2005. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets of $381.4 million.

- The County's total government-wide net assets increased by $171.9 million.

- As of the close of FY05, the County's governmental funds reported combined ending fund balances of $454.4 million, an increase of $8.8 million over the prior year's ending fund balances. Of the total ending fund balances, $325.1 million is available for spending at the County's discretion.

- At the end of FY05, unreserved fund balance for the General Fund was $240.6 million, or 11.7 percent of total General Fund expenditures.

- The County's government-wide long-term debt decreased by $50.2 million during FY05. The key factors in this decrease are:
  - The issuance of: $200 million in general obligation (GO) bonds, $50 million in bond anticipation notes (BANS), and $21.9 million in capital leases.
  - The retirement of: $114.6 million in GO bonds, $200 million in BANS, $8.3 million in revenue bonds, $9.4 million in certificates of participation, and $7.1 million in capital leases.
  - The refunding of $218 million in GO bonds.

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:

<u>Governmental Funds</u> – Most of the County's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances remaining at year-end that are available for spending. The governmental funds financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, a reconciliation of the fund financial statements to the government-wide financial statements is presented immediately after the fund financial statements. For example, the fund financial statements will reflect bond proceeds and interfund transfers as other financing sources, as well as capital expenditures and bond principal payments as expenditures. The reconciliation will 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).

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

<u>Fiduciary Funds</u> – 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, 2005 and 2004:

Summary of Net Assets *
June 30, 2005 and 2004

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets:						
Current and other assets	$ 1,075,863,211	$ 986,468,128	$ 160,556,687	$ 172,997,180	$ 1,236,419,898	$ 1,159,465,308
Capital assets, net	2,457,984,150	2,363,793,826	220,863,626	208,555,761	2,678,847,776	2,572,349,587
Total Assets	3,533,847,361	3,350,261,954	381,420,313	381,552,941	3,915,267,674	3,731,814,895
Liabilities:						
Long-term liabilities outstanding	1,644,854,128	1,686,045,195	88,467,255	97,474,189	1,733,321,383	1,783,519,384
Other liabilities	334,802,038	278,678,649	37,365,374	31,734,846	372,167,412	310,413,495
Total Liabilities	1,979,656,166	1,964,723,844	125,832,629	129,209,035	2,105,488,795	2,093,932,879
Net assets:						
Invested in capital assets, net of related debt	1,747,572,143	1,597,253,419	158,430,251	137,937,194	1,859,401,883	1,735,190,613
Restricted	287,333,081	288,675,222	68,389,069	91,478,147	355,722,150	380,153,369
Unrestricted (deficit)	(480,714,029)	(500,390,531)	28,768,364	22,928,565	(405,345,154)	(477,461,966)
Total Net Assets	$ 1,554,191,195	$ 1,385,538,110	$ 255,587,684	$ 252,343,906	$ 1,809,778,879	$ 1,637,882,016

* Primary Government

The County's current and other assets increased by $77.1 million or 6.6 percent over FY04. The County's assets exceeded its liabilities at the close of FY05 by $1,809.8 million. By far the largest portion of the County's net assets reflects its investment in capital assets (e.g., land, buildings, improvements, furniture and equipment, infrastructure), less any related outstanding debt used to construct or acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. Governmental capital lease obligations of $46.6 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 $786.8 million at June 30, 2005. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets of $381.4 million. An additional portion of the County's net assets ($355.7 million or 19.7 percent) represents resources that are subject to restrictions on how they may be used. This amount includes $101.2 million in net assets restricted for revenue stabilization for periods of economic downturn.

Statement of Activities

The following table summarizes the County's change in net assets for the years ended June 30, 2005 and 2004:

Summary of Changes in Net Assets *
For the Fiscal Years Ended June 30, 2005 and 2004

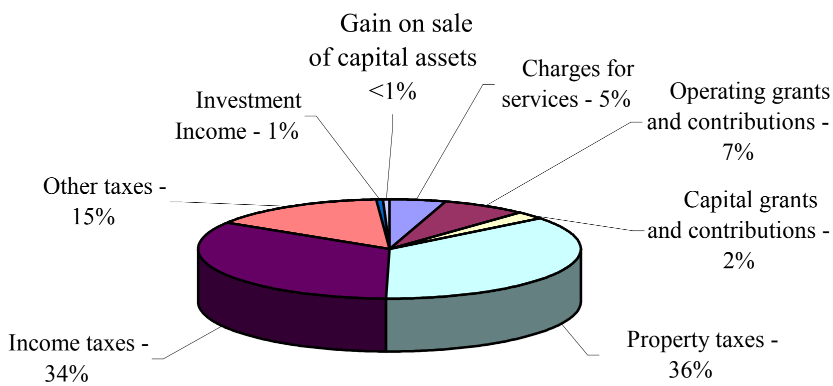
	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
REVENUES						
Program Revenues:						
Charges for services	$ 130,930,994	$ 101,159,195	$ 328,047,302	$ 316,912,133	$ 458,978,296	$ 418,071,328
Operating grants and contributions	206,409,600	212,715,817	-	51,952	206,409,600	212,767,769
Capital grants and contributions	66,118,819	82,500,765	-	-	66,118,819	82,500,765
General revenues:						
Property taxes	1,010,964,428	919,320,985	8,412,877	7,591,413	1,019,377,305	926,912,398
Income taxes	940,274,273	812,975,046	-	-	940,274,273	812,975,046
Other taxes	423,349,041	349,045,891	-	-	423,349,041	349,045,891
Investment income	15,806,293	5,759,893	3,557,676	1,821,746	19,363,969	7,581,639
Gain on sale of capital assets	13,112,218	-	-	2,528,262	13,112,218	2,528,262
Total Revenues	2,806,965,666	2,483,477,592	340,017,855	328,905,506	3,146,983,521	2,812,383,098
EXPENSES						
Governmental Activities:						
General government	227,211,859	211,957,281	-	-	227,211,859	211,957,281
Public safety	418,990,301	373,518,674	-	-	418,990,301	373,518,674
Public works and transportation	178,010,395	175,276,975	-	-	178,010,395	175,276,975
Health and human services	213,988,337	210,481,464	-	-	213,988,337	210,481,464
Culture and recreation	84,339,831	79,110,368	-	-	84,339,831	79,110,368
Community development and housing	19,915,566	19,970,947	-	-	19,915,566	19,970,947
Environment	8,664,457	8,310,848	-	-	8,664,457	8,310,848
Education	1,446,592,632	1,322,003,030	-	-	1,446,592,632	1,322,003,030
Interest on long-term debt	70,401,131	69,895,441	-	-	70,401,131	69,895,441
Business-type Activities:						
Liquor control	-	-	152,098,599	144,912,612	152,098,599	144,912,612
Solid waste activities	-	-	104,106,630	97,987,992	104,106,630	97,987,992
Parking lot districts	-	-	24,063,575	19,370,927	24,063,575	19,370,927
Permitting services	-	-	20,744,660	19,970,101	20,744,660	19,970,101
Community use of public facilities	-	-	5,958,685	5,918,985	5,958,685	5,918,985
Total Expenses	2,668,114,509	2,470,525,028	306,972,149	288,160,617	2,975,086,658	2,758,685,645
Increase in Net Assets Before Transfers	138,851,157	12,952,564	33,045,706	40,744,889	171,896,863	53,697,453
Transfers	29,801,928	(2,987,331)	(29,801,928)	2,987,331	-	-
Increase in Net Assets	168,653,085	9,965,233	3,243,778	43,732,220	171,896,863	53,697,453
Net Assets, beginning of year	1,385,538,110	1,375,572,877	252,343,906	208,611,686	1,637,882,016	1,584,184,563
Net Assets, end of year	$ 1,554,191,195	$ 1,385,538,110	$ 255,587,684	$ 252,343,906	$ 1,809,778,879	$ 1,637,882,016

* Primary Government

Governmental Activities

Revenues for the County's governmental activities were $2,807.0 million for FY05. Sources of revenue are comprised of the following items:

Revenues by Source - Governmental Activities
For the Fiscal Year Ended June 30, 2005



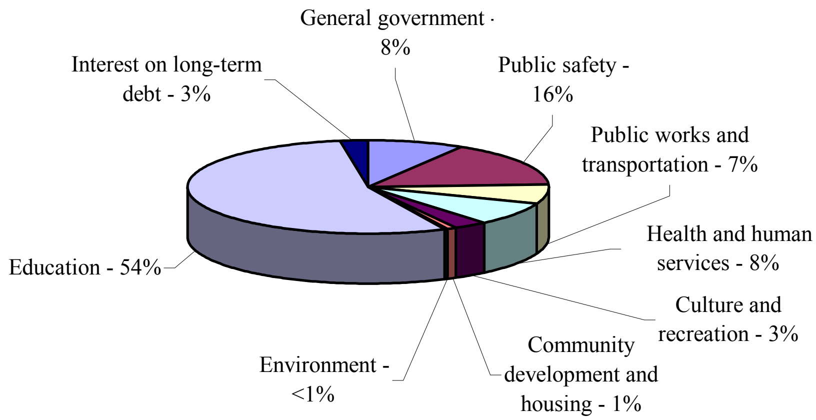
- Taxes constitute the largest source of County revenues, amounting to $2,374.6 million for FY05. Property and local income tax combined comprise 69.5 percent of all County revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 3.2 percent of the State taxable income for calendar years 2005 and 2004. 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 ($106.7 million or 52 percent), public works and transportation ($52.7 million or 26 percent) and public safety ($28.5 million or 14 percent).

A more detailed discussion of the County's revenue results for FY05 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 FY05 was $2,668.1 million. As the chart below indicates, education constitutes the County's largest program and highest priority; education expenses totaled $1.4 billion. Public safety expenses totaled $419.0 million, general government services totaled $227.2 million, and health and human services, the fourth largest expense for the County, totaled $214.0 million.

Expenses by Function - Governmental Activities
For the Fiscal Year Ended June 30, 2005



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, 2005 and 2004

	Expenses		Revenues		Net Cost of Services	
	2005	2004	2005	2004	2005	2004
Education	$ 1,446,592,632	$ 1,322,003,030	$ -	$ -	$ 1,446,592,632	$ 1,322,003,030
Public safety	418,990,301	373,518,674	57,680,645	56,302,171	361,309,656	317,216,503
General government	227,211,859	211,957,281	94,408,747	50,439,718	132,803,112	161,517,563
Health and human services	213,988,337	210,481,464	116,628,462	116,265,854	97,359,875	94,215,610
Public works and transportation	178,010,395	175,276,975	87,286,300	83,645,717	90,724,095	91,631,258
Culture and recreation	84,339,831	79,110,368	37,761,559	55,869,027	46,578,272	23,241,341
Other	98,981,154	98,177,236	9,693,700	16,369,294	89,287,454	81,807,942
Total	$ 2,668,114,509	$ 2,470,525,028	$ 403,459,413	$ 378,891,781	$ 2,264,655,096	$ 2,091,633,247

Some of the cost of governmental activities was paid by those who directly benefited from the programs ($130.9 million) and other governments and organizations that subsidized certain programs with grants and contributions ($272.5 million). General government revenues in FY05 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. Culture and recreation revenues declined in FY05 from FY04, primarily due to $23.6 million in State funding in FY04 towards the construction of the Music Center at Strathmore Hall.

Of the $2,264.7 million net cost of services, the amount that our taxpayers paid for these activities through County taxes was $2,374.6 million; the remainder was funded by investment income and gain on sale of capital assets. Increases in education expenses, which represent transfers to MCPS and MCC, relate to maintaining MCPS initiatives for class size reduction, full-day kindergarten, staff development curriculum improvements and special education improvements, along with contractual wage and benefit increases. Increases in expenses for public safety relate to funding two Fire and Rescue Services and two Police Officer recruit classes, increased staffing at two fire stations, enhanced staffing for the Emergency Communications Center, and implementation of Bill 25-03 relating to Fire Code Enforcement Services.

Business-type Activities

Highlights of the County's business-type activities for FY05 are as follows:

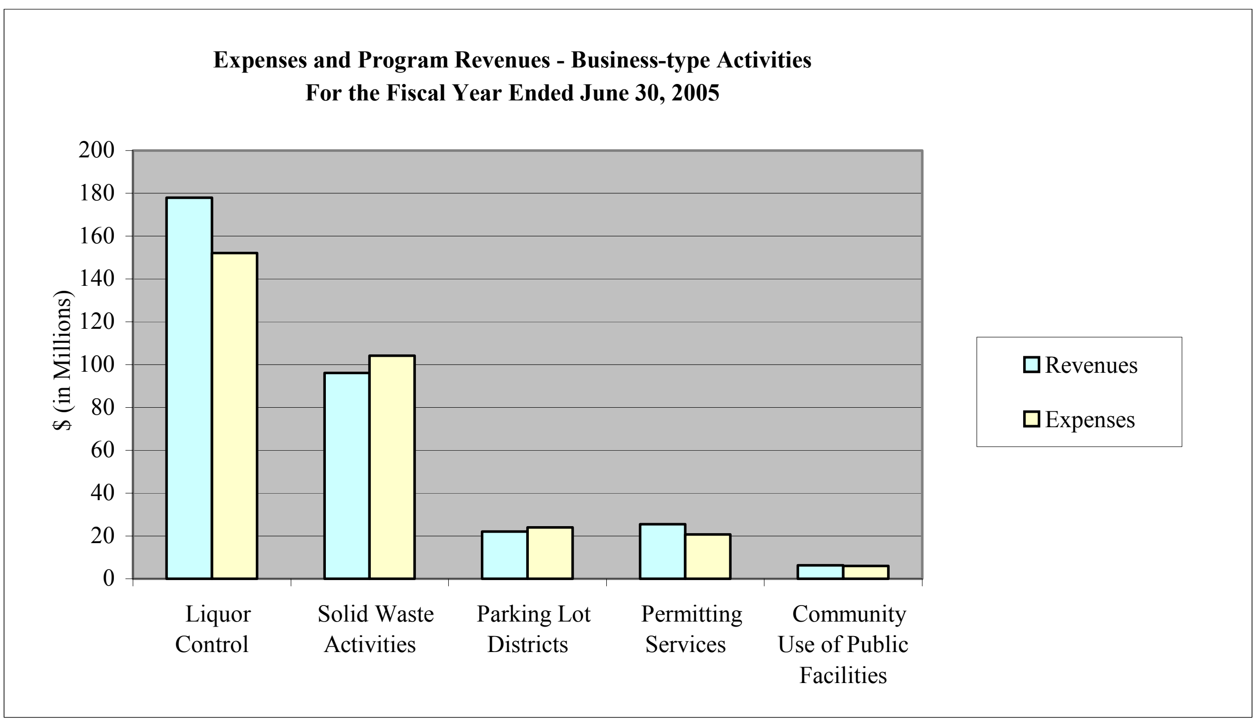
- Business-type activities experienced an increase in net assets of $3.2 million for FY05. However, this amount is reported after total net transfers out of $29.8 million. The most significant components of this amount include $5.9 million in transfers in from the General Fund to the Silver Spring Parking Lot District, representing the value of donated assets in the form of leased parking garages, netted against $20.5 million in FY05 Liquor Enterprise Fund profits transferred to the General Fund (see Note III-D). 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 96 percent of revenues, with $177.9 million (52 percent of charges for services revenue) attributable to liquor control operations and $96.2 million (28 percent) attributable to solid waste activities. The remaining charges for services are generated from operations relating to parking lot districts, permitting services, and community use of public facilities.

- Parking lot district property taxes of $8.4 million is the second largest source of revenue at only 2 percent.

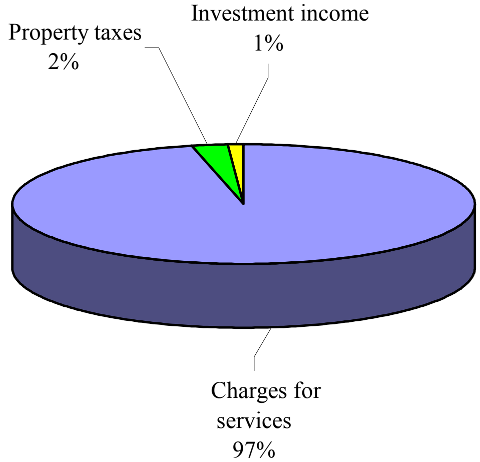
- Investment income of $3.6 million reflects an increase of $1.8 million (100 percent, after a 42 percent decrease in FY04), primarily because of the continuing increases in interest rates during the year.

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



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

Revenues by Source - Business-type Activities
For the Fiscal Year Ended June 30, 2005



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 FY05, the County's governmental funds reported combined ending fund balances of $454.4 million, an increase of $8.8 million from the end of FY04. Of the total ending fund balances, $325.1 million constitutes the unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of $129.3 million is unavailable for new spending because it has been reserved for prior period commitments and legal restrictions.

The General Fund is the primary operating fund of the County. At the end of FY05, unreserved and undesignated fund balance of the General Fund was $127.2 million, while total fund balance was $246.5 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 5.6 percent of the total General Fund expenditures and transfers out, while total fund balance represents 10.8 percent of the same amount.

The fund balance of the County's General Fund increased by $87.6 million during FY05, primarily due to higher than originally estimated income taxes, and transfer and recordation taxes.

The Capital Projects Fund has a total deficit of $37.1 million, which 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 FY05 amounted to $26.2 million, and operating income was $25.7 million. After a subsidy transfer to the General Fund of $20.5 million, the fund ended FY05 with an increase in net assets of $5.2 million.

The Solid Waste Activities Fund total net assets amounted to $53.7 million, of which the unrestricted net assets were $15.1 million. Restricted net assets of $31.2 million are attributable to required debt service reserve accounts for the Solid Waste Disposal revenue bonds.

The Parking Lot Districts Fund increase in net assets amounted to $2.7 million in FY05, resulting in total ending net assets of $164.2 million. Of this amount, $142.1 million (86.5 percent) is invested in capital net of related debt; $5.5 million (3.4 percent) is restricted for debt service on revenue bonds; and $16.6 million (10.1 percent) is unrestricted.

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

General Fund Budgetary Highlights

Revisions to the General Fund expenditure original budget (excluding transfers) to arrive at the final budget amounted to $16.5 million, which included County Council approved supplemental and special appropriations and County Executive supplemental appropriations. Major components of the appropriation increases include the following:

- $7.7 million for costs associated with storm cleanups;
- $5.6 million for overtime costs for corrections and police personnel; and
- $2.9 million for higher fuel costs.

Actual revenues were greater than budget amounts by $139.5 million, while actual expenditures and net transfers out were less than final budget by $5.2 million and $45.4 million, respectively. Highlights of the comparison of final budget to actual figures for expenditures and net transfers for the fiscal year-ended June 30, 2005, include the following:

- Actual expenditures of $703.6 million were $5.2 million less than the final budget, which represents .7 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 $46.3 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:

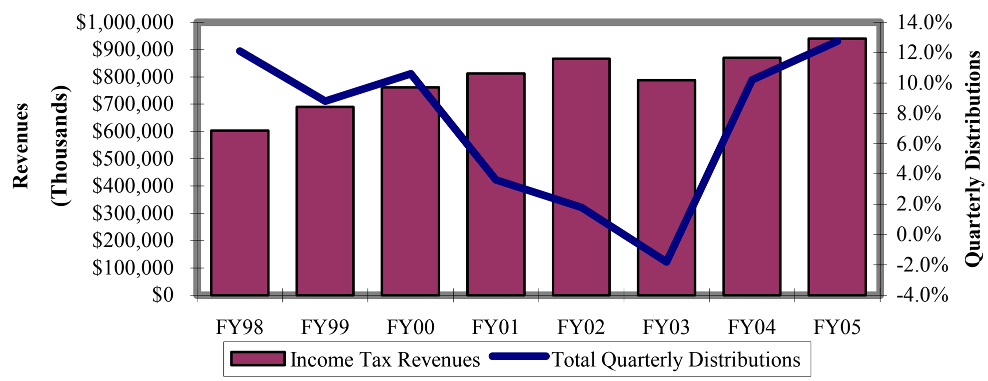
<u>Overview</u> - Actual revenues for the General Fund totaled $2,320.5 million and were 6.4 percent above the budget estimate for the fiscal year and 10.5 percent above actual revenues for FY04. The three largest contributors to the variance between the budget estimate and actual revenues were the income tax (↑ $47.9 million above the budget estimate), the recordation tax (↑ $67.2 million above the budget estimate), and finally, the transfer tax (↑ $39.7 million above the estimate). Revenues from excise taxes which include fuel/energy, telephone, hotel/motel, and admissions taxes, were $162.1 million in FY05. That amount was $2.7 million or 1.7 percent below the budget estimate. Investment income was approximately $140,000 above the budget estimate. Some non-tax sources of revenue came in above the budget estimate. Such sources included licenses and permits (↑ 2.6%); charges for services (↑ 1.4%), and miscellaneous sources (↑ 11.7%). Intergovernmental revenues were 7.1 percent below the budget estimate. Such decrease was attributed to the state reimbursements of $97.2 million which came in 8.4 percent below the budget estimate, federal reimbursements of $19.8 million were 1.3 percent above the budget estimate, and other intergovernmental revenues of $1.3 million were 24.1 percent below the budget estimate.

<u>Income Taxes</u> - The largest revenue source for the General Fund is the County income tax. Revenues from the income tax were $940.9 million and represented 43.6 percent of total tax revenues and 40.5 percent of total revenues in FY05. 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 during fiscal years 1999 through 2001 and growth in capital gains during that same period. Even with a sluggish stock market 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. Such steady increases in the income tax revenues were interrupted in FY03, which experienced a decline of 9.1 percent attributed partly to the nearly 2 percent drop in withholdings and estimated payments. There are a number of factors that contributed to the increase in income tax revenues in FY04 and FY05. In FY04, the County Council increased the local income tax rate from 2.95% to 3.20%. Second, the

Maryland State Comptroller (Comptroller) implemented three administrative changes to the distribution of revenue collections to the County. First, a procedural change was implemented to expedite the submittal of withholding by employers. Previous to the change, the Comptroller received employers' withholdings on the fifteenth day of the subsequent month. The new procedure requires employers to submit their withholdings within three business days. As a result, the Comptroller accelerated the August distribution to the month of July, and therefore, the distribution was included in FY04 instead of the subsequent fiscal year. The second administrative change accelerated fifty percent of three years of unclaimed withholdings (tax years 2001, 2002, and 2003). The third and final administrative change modified the unallocated percentage with a three percentage point reduction resulting in an increase in quarterly distributions of withholdings and estimated payments. Partly because of the acceleration of the three years of unclaimed withholdings and the increase in the tax rate, revenues collected in FY04 reached nearly $870 million, which presented an increase of $81 million over FY03 and the largest one year increase since FY99.

With modest improvement in employment and the stock market during calendar year 2004 and with the Comptroller introducing an administrative change effective FY05 that accelerated the distribution of interest and penalties, income tax revenues were up nearly $71.2 million in FY05 over FY04. Secondly, the first adjustment by the Comptroller to the acceleration of the three-year unclaimed withholdings in FY04 yielded a higher than expected distribution at the end of FY05. As the chart below illustrates, total quarterly distributions for withholding and estimated payments increased 12.7 percent (FY05), compared to +10.6 percent (FY04), -1.8 percent (FY03), +1.8 percent (FY02), +3.6 percent (FY01), +10.6 percent (FY00), +8.8 percent (FY99), and +12.1 percent (FY98).

Income Tax Revenues and Percent Change in Total Quarterly Distribution Montgomery County

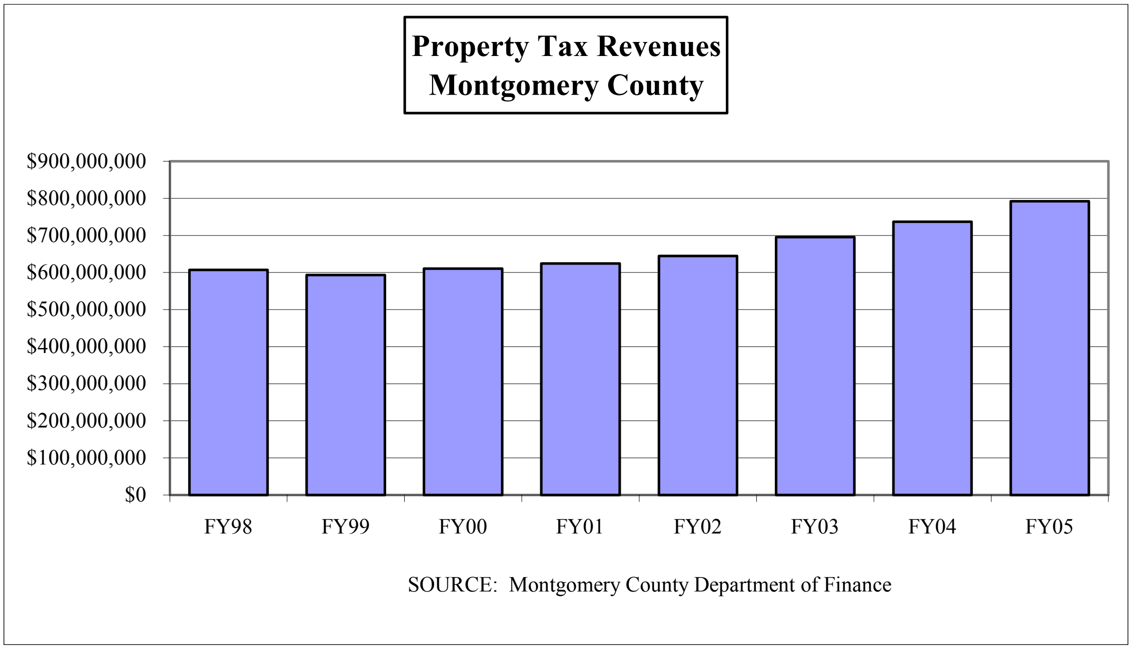


SOURCE: Montgomery County Department of Finance

Property Taxes - Property tax collections in the General Fund amounted to $792.1 million in FY05, which were $1.5 million higher than the budget estimate and 7.5 percent above actual revenues in FY04. Property taxes, excluding penalty and interest and other items, were $790.4 million in FY05 – an increase of 7.6 percent over last year. However, collections from penalty and interest were $1.8 million, a decrease of 22.0 percent compared to FY04 actual revenues.

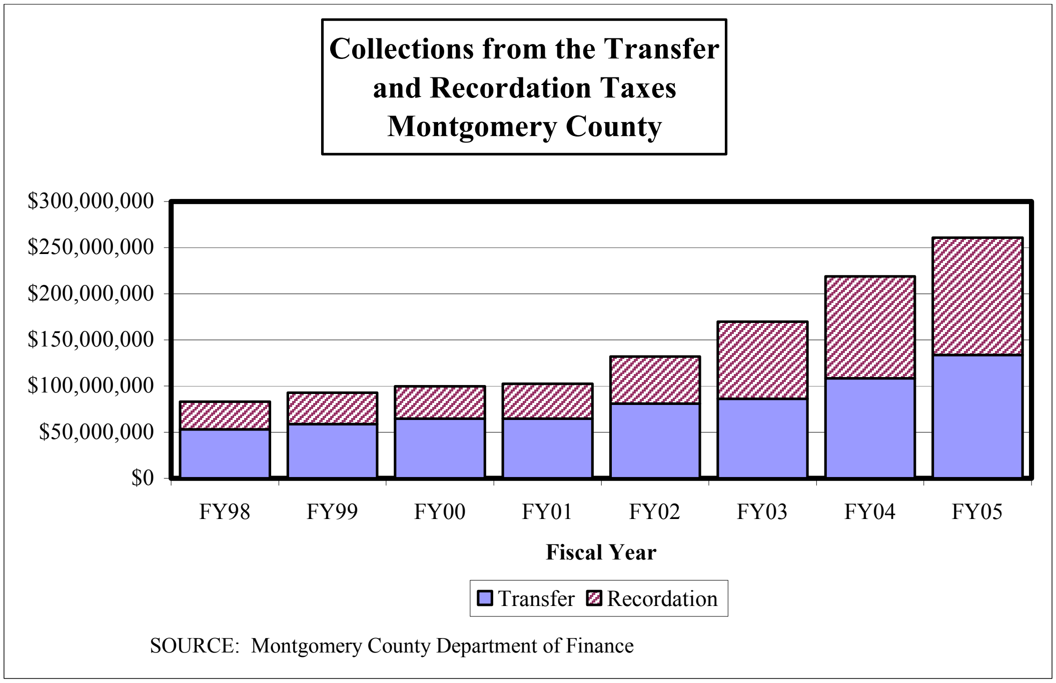
The increase in property tax collections was the result of a 10.1 percent increase in the assessable base for real property from FY04 to FY05. This was the largest increase in over nine years. New construction, which added $1.7 billion to the base in FY05, was 1.0 percent higher than FY04. The continued strong real estate market is fueling the dramatic increase in the reassessment rate from 13.5 percent to 51.8 percent for Cycle One reassessments of the

County's real property, which followed an increase in the rate from 2.7 percent to 21.8 percent for Cycle Two reassessments in FY03 and from 6.4 percent to 36.3 percent for Cycle Three in FY04. Because of the dramatic increases in the reassessment rates, such increases added nearly $9.8 billion to the assessable base in FY05. As a result, the 8.2 percent increase in tax-supported property tax revenues in FY05 was one of the highest increases during the last eight fiscal years.



After a 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 declines in all three categories: individual, public utility, and corporate, and another decline of 1.5 percent in FY05 attributed to the adjustment to individual personal property by the State Department of Assessments and Taxation and a decline in public utility personal property. Despite the weaker personal property trend, the total assessable base grew 5.9 percent in FY03, 7.6 percent in FY04, and 9.6 percent in FY05.

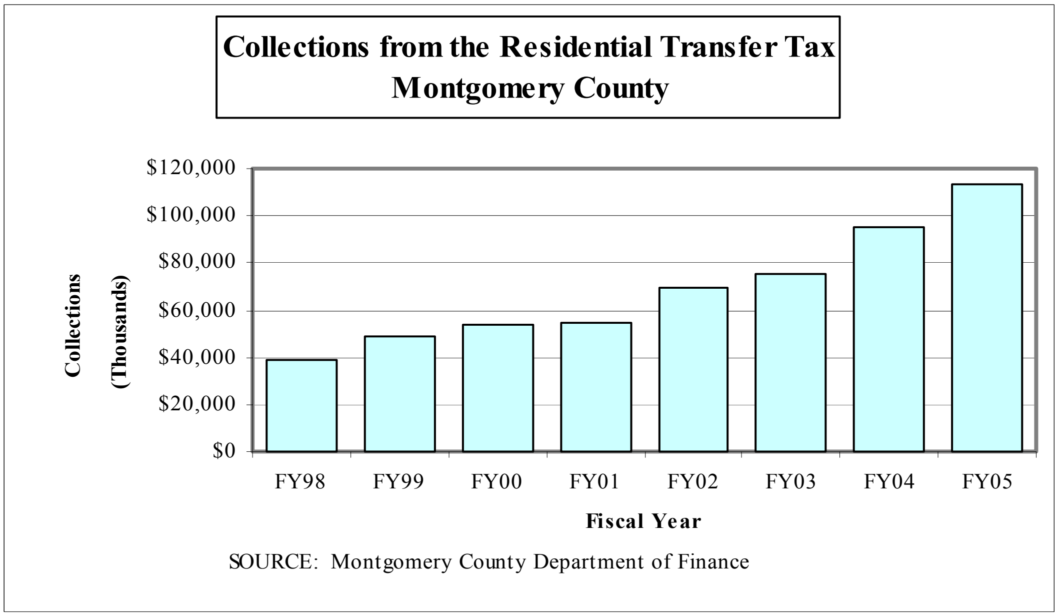
<u>Transfer and Recordation Taxes</u> - The third major category in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources were $261.0 million (including revenues earmarked for CIP funding of school construction), which was 69.4 percent above the budget estimate and 19.1 percent above FY04. Collections from transfer and recordation taxes continue to reach record highs. As the accompanying chart illustrates, the amount collected from these taxes increased from $83.0 million in FY98 to $261 million in FY05 ─ a threefold increase.



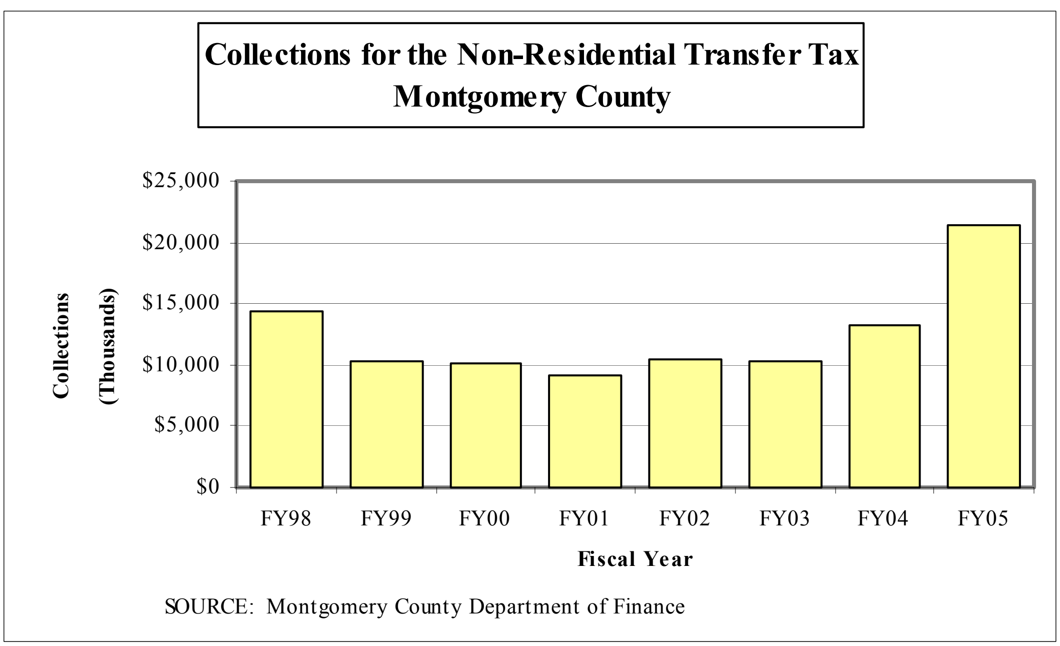
Following a two-year decline in tax collections, transfer and recordation taxes increased 40.1 percent in FY98 followed by a 12.1 percent increase in FY99, moderating in FY00 and FY01, then accelerating another 22.7 percent per year from FY02 through FY05. Collections from transfer tax revenues exhibited the larger increase in FY05, 23.4 percent, compared to recordation tax revenues, which increased 14.9 percent.

Revenues from the transfer tax were exceptionally strong in FY05 with total collections at $133.7 million for an all time record high. Revenues from the residential sector were $112.4 million, an increase of 18.4 percent over FY04, and revenues from the non-residential sector were $21.3 million, an increase of 59.5 percent. The continued surge of real estate activity in FY05, attributed to low mortgage interest rates and accelerating home prices, was the primary factor contributing to the underestimates of projected transfer and recordation tax revenues for FY05.

A closer examination of the trend in the transfer tax from FY98 to FY05 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 15.3 percent between FY98 and FY05. In FY01 and FY03, the growth rates were below double-digit rates for the first time since FY97 but still remained positive (FY01 ↑1.6%; FY03 ↑7.8%). Because of such exceptional increases over these fiscal years, the amount collected in FY05, $112.4 million, was a record. The average transfer tax nearly doubled during this period from $2,254 in FY98 to $4,390 in FY05, representing an average annual growth rate of 9.5 percent and indicative of the jump in housing prices and a shift towards larger and more expensive homes in the County.



Similar to the residential sector, the commercial or non-residential sector experienced a stellar performance in FY05. Revenues from that sector increased 59.5 percent compared to 18.4 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 14.5 percent, whereas from FY01 to FY04, revenues increased at an average annual rate of 11.9 percent. While the amount of collections from the commercial sector doubled in FY98, the decline during each of the next three fiscal years was attributed to a greater decline in the number of transfers from FY98 to FY01 (↓ 15.9% at an average annual rate) as opposed to the increase in the average tax (↑ 0.9 percent at an average annual rate).



Other Taxes - The remaining tax sources – consisting of hotel/motel, fuel/energy, telephone, and admissions and amusement taxes – totaled $162.1 million and were approximately $2.7 million, or 1.7 percent, below the budget estimate. The opening of the Conference Center in North Bethesda in late calendar year 2004 had a positive effect on revenues from the hotel/motel industry (↑ 3.5% above the budget estimate) during FY05. Fuel and energy taxes were at the budget estimate. The decline in revenues from the admissions tax and the telephone tax contributed to the overall loss of revenues from the excise taxes. Collections from the admissions tax declined 5.2 percent in FY05, attributed to a reduction in attendance at movie theaters (↓ 14.6%) and facilities providing video arcades and games (↓ 15.2%). Revenues from the telephone tax were 7.5 percent below the budget estimate and the decline was attributed to a continued reduction in landlines.

Investment Income - In the General Fund, investment income increased from less than one-half a million dollars ($417,000) in FY04 to $3.7 million in FY05. Investment income was 3.9 percent above the budget estimate. The dramatic increase in investment income follows declines in FY01, FY02, FY03, and FY04, which was the result of the accommodative policy of the Federal Open Market Committee (FOMC) of the Federal Reserve that began in January 2001. Since June 2004, the FOMC raised the target rate interest rate for federal funds eight times from 1.25 percent to 3.25 percent by June 2005. Because of this 200 basis point increase within a year, 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. Total pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was $15.6 million or 143.90 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 $566.0 million in FY04 to $710 million in FY05.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The County's investment in capital assets as of June 30, 2005, amounted to $2,678.8 million (net of accumulated depreciation and amortization), as summarized below:

Capital Assets, Net of Depreciation
June 30, 2005

	Governmental Activities	Business-type Activities	Total FY05	Total FY04 *
Land	$ 505,709,119	$ 52,777,663	$ 558,486,782	$ 538,679,046
Buildings	477,939,017	127,681,088	605,620,105	470,303,654
Improvements other than buildings	21,967,463	20,719,874	42,687,337	42,336,612
Furniture, fixtures, equipment and machinery	138,237,121	6,420,860	144,657,981	133,392,477
Leasehold improvements	7,874,792	-	7,874,792	6,906,354
Automobiles and trucks	79,264,552	983,825	80,248,377	83,220,623
Infrastructure	1,098,995,663	-	1,098,995,663	1,062,479,268
Other assets	1,004,099	-	1,004,099	1,212,072
Construction in progress	126,992,324	12,280,316	139,272,640	233,819,481
Total	$ 2,457,984,150	$ 220,863,626	$ 2,678,847,776	$ 2,572,349,587

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

Changes in the County's capital assets for FY05 are summarized as follows:

Change in Capital Assets
For the Fiscal Year Ended June 30, 2005

	Governmental Activities	Business-type Activities	Total FY05	Total FY04
Beginning Balance	$ 2,363,793,826	$ 208,555,761	$ 2,572,349,587	$ 2,427,495,699
Additions*	175,373,096	24,662,533	200,035,629	235,270,467
Retirements, net*	2,149,584	1,745,079	3,894,663	9,486,056
Depreciation expense	79,033,188	10,609,589	89,642,777	80,930,523
Ending Balance	$ 2,457,984,150	$ 220,863,626	$ 2,678,847,776	$ 2,572,349,587

* 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 include the following:

- In order to provide a multi-disciplinary education and performance center, the County invested an additional $11 million to complete construction of a Music Center, which was added to the existing Strathmore Hall and which was placed in service during FY05.
- Construction costs amounting to $10.3 million were incurred towards the construction of the Germantown Indoor Swim Center, which 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 $2.5 million, reported as construction-in-progress, related to the acquisition and development of a new warehouse management, accounting and point-of-sale system.
- Additional construction costs of $5.7 million were incurred to complete the Montgomery County Conference Center. In addition, a $19.7 million contribution from the Maryland Stadium Authority for its share of construction costs was capitalized during FY05 when the center was opened.
- Roads, including underlying land, valued at $11.8 million were transferred to the County by various developers.
- The County was the recipient of $10.4 million in major renovations and improvements to a closed school, whose ownership was transferred from MCPS to the County.
- The County incurred $8.5 million in construction costs towards restoration of the Bethesda Woodmont Corner garage.
- An additional $5.9 million in construction costs were incurred toward completion of the Town Square and Wayne Avenue garages in Silver Spring.

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

Long-Term Debt

The following is a summary of the County's gross outstanding long-term debt as of June 30, 2005:

Long-Term Debt
June 30, 2005

	Governmental Activities	Business-type Activities	Total FY05	Total FY04
General obligation bonds	$1,415,151,542	$ 56,512	$1,415,208,054	$1,329,778,054
Bond anticipation notes	-	-	-	150,000,000
Revenue bonds	-	62,655,000	62,655,000	70,915,000
Lease revenue bonds	41,275,000	-	41,275,000	37,880,000
Notes payable *	12,773,529	-	12,773,529	11,696,091
Certificates of participation	9,780,000	-	9,780,000	19,215,000
Capital leases	83,969,583	-	83,969,583	69,173,538
Compensated absences	51,333,184	3,925,357	55,258,541	51,362,675
Claims and judgements	1,200,000	-	1,200,000	5,246,000
Landfill closure costs	-	22,108,523	22,108,523	22,458,523
Total	$1,615,482,838	$88,745,392	$1,704,228,230	$1,767,724,881

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

At June 30, 2005, the County had outstanding general obligation (GO) bonds of $1,415.2 million, with no outstanding bond anticipation notes (BANs). Over the last ten years, the County issued its GO bonds once a year. The County adopted a policy in 1988 of initially financing capital construction with BANs. Montgomery County also issues bonds to finance the capital construction of MCPS, MCC, and M-NCPPC not otherwise financed by the State of Maryland. Since FY95, 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 averaged $141 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, 2005, Montgomery County is one of only seven 'Triple AAA' rated counties in the nation with a population greater than 800,000. According to Standard and Poor's, a deep, diverse, and growing economy; strong financial management; and a low debt burden are the hallmarks of counties rated 'AAA.' The rating category, by definition, represents extremely strong capacity to pay principal and interest. Typically, 'AAA' rated counties demonstrate an ability to weather all economic cycles by maintaining tight budgetary controls, articulating and executing well-designed capital plans, maintaining sufficient reserves, and planning for future contingencies.

Continuing Disclosure - For purposes of complying with the County's continuing disclosure undertakings, this Comprehensive Annual Financial Report is provided to each nationally recognized municipal securities information repository and to the state information depository, if any, established for Maryland. Individuals interested in the information to be provided pursuant to such continuing disclosure undertakings should refer to the A Exhibits and Notes to the Financial Statements, as well as Tables 4, 8, 9, 11, 14-18.

Significant bond-related debt activities during FY05 were:

- General Obligation Bonds – This latest installment of the County's annual issue, for $200 million in May 2005, 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 true interest cost on these bonds was the third-lowest cost of funds in over 30 years.

  In September 2004, the County issued GO refunding bonds in the amount of $97.7 million. Proceeds were used to refund $95.8 million in GO bonds previously issued at higher rates. This refunding issue resulted in net present value savings to the County of $3.3 million.

  In June 2005, the County issued GO refunding bonds in the amount of $120.4 million. Proceeds were used to refund $122.3 million in GO bonds previously issued at higher rates. This refunding issue resulted in net present value savings to the County of $4.6 million.

- Lease Revenue Bonds – In September 2004, the County issued lease revenue bonds in the amount of $4.7 million to complete construction of the Shady Grove and Grosvenor parking structures and related facilities.

- Bond Anticipation Notes (BANs) - The County issued $50 million of BANs in December 2004. The County issues commercial paper to initially fund its capital program and uses GO bond proceeds to retire the commercial paper.

Significant debt activities relating to capital lease agreements during FY05 were:

- Montgomery County Revenue Authority (MCRA) Germantown Indoor Swim Center Project – This issue was sold in March 2004 to fund the Germantown Indoor Swim Center Project. MCRA bonds are lease revenue bonds and are secured by the County's lease payments to MCRA which are sufficient to pay the debt service on the bonds. During FY05, $10.3 million in construction expenditures on this project, and therefore related capital lease obligation, was incurred and is recorded as construction in progress.

- MCRA Conference Center Project – This issue was sold in January 2003 to fund, in part, the Conference Center Project in North Bethesda. MCRA bonds were sold on the same schedule as the bonds sold by the Maryland Stadium Authority (MSA) to fund its contribution to the project. During FY05, $5.7 million in expenditures on this project, and therefore related capital lease obligation, was incurred and has been capitalized. In addition, the $19.7 million contribution to the project from the MSA has also been capitalized.

- Maryland Economic Development Corp. (MEDCO) Silver Spring Garages – These two issues were sold in September and October of 2002, to fund the construction of the Town Square and Wayne Avenue garages in Silver Spring. The bonds were issued by MEDCO and the proceeds are being used to construct the garages. The County will make lease payments to MEDCO sufficient to pay the debt service on the bonds. During FY05, $5.9 million in expenditures for the garages, and therefore related capital lease obligations, was incurred and has been capitalized.

The County also managed a debt transaction during FY05 which was outside the County's typical bonding activity. Below is a brief description.

- Conduit Debt – The Department of Finance administers and manages the County's Economic Development Revenue Bond program. In June 2005, the County issued bonds in the amount of $35 million on behalf of Georgetown Preparatory School. The proceeds will be used to finance construction and renovation projects on the school's campus.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following economic factors are reflected in the County's FY06 budget:

- The County's economic projections in the FY06 budget assume a continued modest economic expansion in FY06 with the County experiencing low unemployment and a slight improvement in total payroll employment.

- On a calendar year basis, total payroll employment increased 1.1 percent in CY04, 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 ─ the lowest three-year average during the last ten years. Following such weak growth in payroll employment, the County anticipates a modest improvement in payroll employment in CY06 with an estimated increase of 1.9 percent and moderating to 1.2 percent by CY11.

- The projection in the FY06 budget assumes that personal income will increase 5.0 percent in FY06. That rate is slightly above the estimated three-year annual average of 4.8 percent between FY03-FY05. Such an increase is attributed more to stronger growth in nominal wages and salaries rather than employment.

- On a calendar year basis, employment by Montgomery County residents, as opposed to payroll employment, is expected to increase 1.8 percent during CY06. The rate of growth in resident employment is estimated to steadily moderate to 1.4 percent by CY11. That estimate is consistent with the slower estimated growth in County population moderating to 0.8 percent annual growth by CY11.

- Inflation, as measured by the Consumer Price Index, is expected to increase 2.6 percent in FY06, which is the same rate as in FY05. Because of the recent policy directives by the Federal Open Market Committee of the Federal Reserve, the County's economic projections include an increase in the yield on its investments from 2.19 percent in FY05 to 3.00 percent for FY06.

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 Services (A-Z), Finance, Financial Reports).

BASIC FINANCIAL STATEMENTS

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2005
Exhibit A-1

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Total
ASSETS				
Equity in pooled cash and investments	$ 457,239,799	$ 85,081,270	$ 542,321,069	$ 44,976,858
Cash with fiscal agents	36,396,855	-	36,396,855	8,725,163
Cash	181,651	123,672	305,323	9,279,468
Investments-cash equivalents	-	-	-	86,349,487
Investments	5,331,177	-	5,331,177	40,535,186
Receivables (net of allowances for uncollectibles):				
Income taxes	225,150,291	-	225,150,291	-
Property taxes	38,445,380	1,593,854	40,039,234	-
Capital leases	41,275,000	-	41,275,000	36,785,490
Accounts	40,973,825	5,260,753	46,234,578	18,410,627
Special assessments	54,404	-	54,404	-
Notes	5,856,444	-	5,856,444	753,672
Parking violations	725,534	2,058,782	2,784,316	-
Mortgages receivable	96,046,270	-	96,046,270	251,187,408
Interest	60,110	-	60,110	3,528,066
Other	269,236	-	269,236	4,127,807
Net internal balance	2,199,825	(2,199,825)	-	-
Due from primary government	-	-	-	72,931,674
Due from component units	45,831,279	63,322	45,894,601	-
Due from other governments	66,259,059	338,076	66,597,135	18,601,440
Inventory of supplies	7,035,860	29,827,378	36,863,238	10,502,908
Prepaids	1,819,986	546,162	2,366,148	2,406,491
Deferred charges	4,711,226	1,032,501	5,743,727	858,454
Other assets	-	73,006	73,006	28,700,261
Restricted Assets:				
Equity in pooled cash and investments	-	33,542,530	33,542,530	-
Cash	-	-	-	505,221
Cash with fiscal agents	-	-	-	484,839
Investments - cash equivalents	-	-	-	101,852,033
Investments	-	3,215,206	3,215,206	218,645,758
Capital Assets:				
Nondepreciable assets	632,701,443	65,057,979	697,759,422	341,026,039
Depreciable assets, net	1,825,282,707	155,805,647	1,981,088,354	1,614,844,782
Total Assets	$ 3,533,847,361	$ 381,420,313	$ 3,915,267,674	$ 2,916,019,132

(Continued)

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS, CONCLUDED
JUNE 30, 2005
Exhibit A-1

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Total
LIABILITIES				
Accounts payable	$ 52,966,844	$ 21,570,763	$ 74,537,607	$ 64,482,398
Interest payable	22,188,055	92,064	22,280,119	14,802,763
Retainage payable	11,026,328	1,094,423	12,120,751	10,905,396
Accrued liabilities	46,659,130	10,298,032	56,957,162	63,702,882
Claims payable	80,363,503	-	80,363,503	20,356,643
Deposits	172,839	386,731	559,570	8,681,305
Due to primary government	-	-	-	45,984,982
Due to component units	72,362,415	569,259	72,931,674	-
Due to other governments	15,147,533	2,056,437	17,203,970	-
Deferred revenue	33,915,391	1,071,311	34,986,702	32,178,380
Other liabilities	-	226,354	226,354	9,680,377
Noncurrent Liabilities:				
Due within one year	181,974,443	13,208,636	195,183,079	49,700,218
Due in more than one year	1,462,879,685	75,258,619	1,538,138,304	907,562,274
Total Liabilities	1,979,656,166	125,832,629	2,105,488,795	1,228,037,618
NET ASSETS				
Invested in capital, net of related debt	1,747,572,143	158,430,251	1,859,401,883	1,602,469,646
Restricted for:				
Capital projects	-	-	-	2,555,499
Nonexpendable permanent fund - housing	5,911,631	-	5,911,631	-
General government	121,505,624	-	121,505,624	-
Public safety	8,881,022	-	8,881,022	-
Public works and transportation	21,629	68,389,069	68,410,698	-
Recreation	5,450,302	-	5,450,302	-
Community development and housing	105,117,909	-	105,117,909	-
Environment	1,640,956	-	1,640,956	-
Education	38,804,008	-	38,804,008	-
Debt service	-	-	-	46,866,013
Other purposes	-	-	-	18,445,582
Unrestricted (deficit)	(480,714,029)	28,768,364	(405,345,154)	17,644,774
Total Net Assets	$ 1,554,191,195	$ 255,587,684	$ 1,809,778,879	$ 1,687,981,514

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
Exhibit A-2

		Program Revenues		
Functions	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Government Activites:				
General government	$ 227,211,859	$ 54,138,552	$ 10,043,510	$ 30,226,685
Public safety	418,990,301	24,345,320	28,464,670	4,870,655
Public works and transportation	178,010,395	17,091,962	52,716,808	17,477,530
Health and human services	213,988,337	9,928,204	106,700,258	-
Culture and recreation	84,339,831	22,226,891	3,874,050	11,660,618
Community development and housing	19,915,566	224,834	4,608,273	1,751,192
Environment	8,664,457	2,975,231	2,031	132,139
Education	1,446,592,632	-	-	-
Interest on long-term debt	70,401,131	-	-	-
Total Governmental Activities	2,668,114,509	130,930,994	206,409,600	66,118,819
Business-type Activities:				
Liquor control	152,098,599	177,938,916	-	-
Solid waste disposal and collection	104,106,630	96,179,903	-	-
Parking lot districts	24,063,575	22,123,851	-	-
Permitting services	20,744,660	25,466,582	-	-
Community use of public facilities	5,958,685	6,338,050	-	-
Total Business-type Activities	306,972,149	328,047,302	-	-
Total Primary Government	$ 2,975,086,658	$ 458,978,296	$ 206,409,600	$ 66,118,819
Component Units:				
General government (BUPI)	$ 3,153,904	$ 2,822,087	$ 236,333	$ -
Culture and recreation (MCRA)	12,927,847	11,133,508	-	2,428,546
Community development and housing (HOC)	181,381,264	102,305,798	84,369,732	2,230,614
Education:				
Elementary and secondary education (MCPS)	1,769,019,880	32,978,084	97,484,420	42,518,178
Higher education (MCC)	192,128,403	61,864,557	19,874,636	2,810,686
Total Component Units	$ 2,158,611,298	$ 211,104,034	$ 201,965,121	$ 49,988,024

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
$ (132,803,112)	$ -	$ (132,803,112)	$ -
(361,309,656)	-	(361,309,656)	-
(90,724,095)	-	(90,724,095)	-
(97,359,875)	-	(97,359,875)	-
(46,578,272)	-	(46,578,272)	-
(13,331,267)	-	(13,331,267)	-
(5,555,056)	-	(5,555,056)	-
(1,446,592,632)	-	(1,446,592,632)	-
(70,401,131)	-	(70,401,131)	-
(2,264,655,096)	-	(2,264,655,096)	-
-	25,840,317	25,840,317	-
-	(7,926,727)	(7,926,727)	-
-	(1,939,724)	(1,939,724)	-
-	4,721,922	4,721,922	-
-	379,365	379,365	-
-	21,075,153	21,075,153	-
(2,264,655,096)	21,075,153	(2,243,579,943)	-
-	-	-	(95,484)
-	-	-	634,207
-	-	-	7,524,880
-	-	-	(1,596,039,198)
-	-	-	(107,578,524)
$ -	$ -	$ -	$ (1,695,554,119)
1,010,964,428	8,412,877	1,019,377,305	-
940,274,273	-	940,274,273	-
133,654,796	-	133,654,796	-
127,300,257	-	127,300,257	-
114,904,208	-	114,904,208	-
14,162,958	-	14,162,958	-
29,907,857	-	29,907,857	-
3,418,965	-	3,418,965	-
-	-	-	1,803,157,357
15,806,293	3,557,676	19,363,969	3,950,393
13,112,218	-	13,112,218	-
29,801,928	(29,801,928)	-	-
2,433,308,181	(17,831,375)	2,415,476,806	1,807,107,750
168,653,085	3,243,778	171,896,863	111,553,631
1,385,538,110	252,343,906	1,637,882,016	1,576,427,883
$ 1,554,191,195	$ 255,587,684	$ 1,809,778,879	$ 1,687,981,514

MONTGOMERY COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005
Exhibit A-3

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Equity in pooled cash and investments	$ 145,262,662	$ 849,550	$ 53,755,169	$ 165,932,922	$ 365,800,303
Cash with fiscal agents	271,178	29,731,939	6,393,738	-	36,396,855
Cash	149,126	-	-	32,225	181,351
Investments	-	-	-	5,331,177	5,331,177
Receivables (net of allowances for uncollectibles):					
Income taxes	225,150,291	-	-	-	225,150,291
Property taxes	31,022,367	-	-	7,423,013	38,445,380
Capital leases	-	41,275,000	-	-	41,275,000
Accounts	36,098,016	11,244	695,574	2,625,557	39,430,391
Special assessments	-	54,404	-	-	54,404
Notes	-	-	91,464	5,753,552	5,845,016
Parking violations	725,534	-	-	-	725,534
Mortgages receivable	197,550	-	300,000	95,548,720	96,046,270
Interest	-	-	-	60,110	60,110
Other	-	30	6,550	260,710	267,290
Due from other funds	104,277,711	-	-	4,397,415	108,675,126
Due from component units	4,556,091	-	13,257,693	27,673,177	45,486,961
Due from other governments	34,607,132	-	11,741,757	19,866,444	66,215,333
Inventory of supplies	3,663,666	-	668,526	-	4,332,192
Prepaids	577,871	-	2,239	847,595	1,427,705
Total Assets	$ 586,559,195	$ 71,922,167	$ 86,912,710	$ 335,752,617	$ 1,081,146,689
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 19,583,386	$ 123,531	$ 11,597,824	$ 14,043,089	$ 45,347,830
Retainage payable	20,099	-	11,006,229	-	11,026,328
Accrued liabilities	30,380,733	-	611,297	7,897,226	38,889,256
Deposits	-	-	-	172,839	172,839
Due to other funds	6,988,524	29,716,349	78,727,779	2,601,777	118,034,429
Due to component units	51,850,996	-	19,009,800	1,501,619	72,362,415
Due to other governments	2,341,377	-	1,438,392	11,267,138	15,046,907
Deferred revenue	228,844,913	42,082,287	1,635,853	53,275,374	325,838,427
Total Liabilities	340,010,028	71,922,167	124,027,174	90,759,062	626,718,431
Fund Balances:					
Reserved for:					
Legal debt restrictions	-	-	4,815,668	-	4,815,668
Long-term receivables	-	-	13,257,693	93,786,455	107,044,148
Inventory	3,663,666	-	668,526	-	4,332,192
Prepaids	577,871	-	2,239	845,799	1,425,909
Fire-Rescue Grant	-	-	-	1,487,399	1,487,399
Donor-specified purposes	-	-	-	1,120,926	1,120,926
Other purposes	1,730,222	-	1,499,614	5,911,631	9,141,467
Total Reserved	5,971,759	-	20,243,740	103,152,210	129,367,709
Unreserved, designated for, reported in:					
Encumbrances	13,899,185	-	-	5,743,910	19,643,095
General Fund	99,507,092	-	-	-	99,507,092
Special Revenue Funds	-	-	-	23,965,448	23,965,448
Unreserved, undesignated (deficit), reported in:					
General Fund	127,171,131	-	-	-	127,171,131
Capital Projects Fund	-	-	(57,358,204)	-	(57,358,204)
Special Revenue Funds	-	-	-	112,131,987	112,131,987
Total Unreserved (Deficit)	240,577,408	-	(57,358,204)	141,841,345	325,060,549
Total Fund Balances (Deficit)	246,549,167	-	(37,114,464)	244,993,555	454,428,258
Total Liabilities and Fund Balances	$ 586,559,195	$ 71,922,167	$ 86,912,710	$ 335,752,617	$ 1,081,146,689

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, 2005
Exhibit A-4

Total fund balance - governmental funds (see Exhibit A-3)		$ 454,428,258
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	$ 505,686,613	
Construction in progress	126,992,324	
Depreciable capital assets:		
Buildings	680,172,273	
Improvements other than buildings	44,400,526	
Furniture, fixtures, equipment and machinery	214,518,469	
Automobiles and trucks	96,839,558	
Infrastructure	1,443,446,162	
Other capital assets	2,079,731	
Total capital assets	3,114,135,656	
Less accumulated depreciation	(684,653,525)	2,429,482,131
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	(1,415,151,542)	
Lease revenue bonds payable	(41,275,000)	
Certificates of participation	(9,780,000)	
Accrued interest payable	(22,188,055)	
Capital leases payable	(83,969,583)	
Notes payable	(12,773,529)	
Compensated absences	(50,004,323)	
Claims and judgments	(1,200,000)	(1,636,342,032)
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	(62,619,258)	
Deferred amount on refunding	33,247,968	
Deferred issuance costs	4,711,226	(24,660,064)
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	101,031,150	
Capital assets	68,094,275	
Less accumulated depreciation	(39,592,256)	
Liabilities	(92,110,617)	
Cumulative loss for certain activities of internal service funds that is reported with business-type activities	1,878,820	39,301,372
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Income taxes	168,168,549	
Property taxes	32,231,828	
Intergovernmental revenue	38,643,096	
Other revenue	52,938,057	291,981,530
Net assets of governmental activities (see Exhibit A-1)		$ 1,554,191,195

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
Exhibit A-5

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	$ 2,156,037,070	$ -	$ 16,166,113	$ 208,735,990	$ 2,380,939,173
Licenses and permits	9,476,136	-	-	2,554,502	12,030,638
Intergovernmental	118,853,371	-	24,983,477	79,251,486	223,088,334
Charges for services	25,772,956	14,998	1,802,973	36,016,693	63,607,620
Fines and forfeitures	7,726,337	-	-	1,175,983	8,902,320
Investment income	3,346,367	5,277,509	242,457	4,781,476	13,647,809
Miscellaneous	9,443,555	-	2,079,302	4,530,422	16,053,279
Total Revenues	2,330,655,792	5,292,507	45,274,322	337,046,552	2,718,269,173
EXPENDITURES					
Current:					
General government	189,351,472	-	-	12,700,549	202,052,021
Public safety	250,126,504	-	-	150,988,112	401,114,616
Public works and transportation	45,026,185	-	-	87,291,609	132,317,794
Health and human services	171,300,833	-	-	40,260,073	211,560,906
Culture and recreation	40,416,802	-	-	31,657,498	72,074,300
Community development and housing	11,380,397	-	-	5,566,665	16,947,062
Environment	3,228,878	-	-	2,259,013	5,487,891
Education	1,345,450,958	-	-	-	1,345,450,958
Debt Service:					
Principal retirement:					
General obligation bonds	-	114,563,381	-	-	114,563,381
Bond anticipation notes	-	200,000,000	-	-	200,000,000
Other notes	-	604,653	-	-	604,653
Interest:					
General obligation bonds	-	59,549,930	-	-	59,549,930
Bond anticipation notes	-	2,883,383	-	-	2,883,383
Other notes	-	83,815	-	-	83,815
Leases and other obligations	-	26,593,959	-	-	26,593,959
Issuing costs	-	1,901,439	-	-	1,901,439
Capital projects	-	-	257,856,073	-	257,856,073
Total Expenditures	2,056,282,029	406,180,560	257,856,073	330,723,519	3,051,042,181
Excess (Deficiency) of Revenues over (under) Expenditures	274,373,763	(400,888,053)	(212,581,751)	6,323,033	(332,773,008)
OTHER FINANCING SOURCES (USES)					
Transfers in	37,436,930	201,771,227	26,641,991	33,864,406	299,714,554
Transfers (out)	(230,100,664)	(2,369,863)	-	(32,774,003)	(265,244,530)
Sale of property	-	-	7,172,174	7,930,099	15,102,273
Payment to refunded bond escrow agent	-	(238,509,132)	-	-	(238,509,132)
Debt Issued:					
General obligation bonds	-	200,000,000	-	-	200,000,000
Premium on general obligation bonds	-	411,500	14,227,800	-	14,639,300
Bond anticipation notes	-	-	50,000,000	-	50,000,000
Lease revenue bonds	5,902,942	125,737	4,606,625	-	10,635,304
Premium on lease revenue bonds	-	26,257	-	-	26,257
General obligation refunding bonds	-	218,045,000	-	-	218,045,000
Premium on general obligation refunding bonds	-	21,177,589	-	-	21,177,589
Capital lease financing	-	-	16,028,103	-	16,028,103
Total Other Financing Sources (Uses)	(186,760,792)	400,678,315	118,676,693	9,020,502	341,614,718
Net Change in Fund Balances	87,612,971	(209,738)	(93,905,058)	15,343,535	8,841,710
Fund Balances - Begining of Year	158,936,196	209,738	56,790,594	229,650,020	445,586,548
Fund Balances (Deficit) - End of Year	$ 246,549,167	$ -	$ (37,114,464)	$ 244,993,555	$ 454,428,258

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, 2005
Exhibit A-6

Net change in fund balances - total governmental funds (see Exhibit A-5)		$ 8,841,710
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	$ 138,082,649	
Depreciation expense	(72,813,561)	65,269,088
In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds all proceeds are reported as financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of capital assets sold.		(1,990,055)
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.		42,300,954
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	(584,658)	
Property taxes	(6,937,144)	
Intergovernmental revenues	26,321,773	
Other revenues	(7,459,993)	11,339,978
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	(214,639,300)	
General obligation refunding bonds	(239,222,588)	
Bond anticipation notes	(50,000,000)	
Leases payable	(4,745,000)	
Capital lease financing	(21,931,045)	
Notes payable	(6,091,376)	
Less issuance costs	1,381,431	
Principal repayments:		
General obligation bonds	114,563,381	
Bond anticipation notes	200,000,000	
Certificates of participation	9,435,000	
Leases payable	4,959,285	
Capital leases	7,135,000	
Notes payable	604,653	
Payment to escrow agent for refunding	238,509,133	39,958,574
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	(277,000)	
Compensated absences	(3,484,293)	
Claims and judgments	4,046,000	
Amortization	2,188,960	2,473,667
The current year loss for certain activities of internal service funds is reported with governmental activities.		459,169
Change in net assets of governmental activities (see Exhibit A-2)		$ 168,653,085

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, 2005
Exhibit A-7

	Budget						
	Prior Year Carryover Encumbrances	**Current Year**	**Total Original**	**Revisions**	**Final**	**Actual**	**Variance Positive (Negative)**
Revenues:							
Taxes:							
Property	$ -	$ 788,072,400	$ 788,072,400	$ -	$ 788,072,400	$ 790,352,697	$ 2,280,297
Property - penalty and interest	-	2,572,720	2,572,720	-	2,572,720	1,758,287	(814,433)
Other	-	-	-	-	-	38,721	38,721
Total Property Tax	-	790,645,120	790,645,120	-	790,645,120	792,149,705	1,504,585
County Income Tax	-	892,970,000	892,970,000	-	892,970,000	940,858,931	47,888,931
Other Local Taxes:							
Real property transfer	-	93,980,000	93,980,000	-	93,980,000	133,654,796	39,674,796
Recordation	-	60,090,000	60,090,000	-	60,090,000	127,300,257	67,210,257
Fuel energy	-	115,494,760	115,494,760	-	115,494,760	114,904,208	(590,552)
Hotel - motel	-	13,690,000	13,690,000	-	13,690,000	14,162,958	472,958
Telephone	-	32,350,000	32,350,000	-	32,350,000	29,907,857	(2,442,143)
Other	-	3,270,000	3,270,000	-	3,270,000	3,098,358	(171,642)
Total Other Local Taxes	-	318,874,760	318,874,760	-	318,874,760	423,028,434	104,153,674
Total Taxes	-	2,002,489,880	2,002,489,880	-	2,002,489,880	2,156,037,070	153,547,190
Licenses and Permits:							
Business	-	4,660,470	4,660,470	-	4,660,470	4,800,464	139,994
Non business	-	4,578,620	4,578,620	-	4,578,620	4,675,672	97,052
Total Licenses and Permits	-	9,239,090	9,239,090	-	9,239,090	9,476,136	237,046
Intergovernmental Revenue:							
State Aid and Reimbursements:							
DHR State reimbursement - HB669	-	35,862,390	35,862,390	1,313,510	37,175,900	32,040,088	(5,135,812)
Highway user revenue	-	32,050,000	32,050,000	-	32,050,000	30,333,441	(1,716,559)
Police protection	-	14,511,000	14,511,000	-	14,511,000	12,950,067	(1,560,933)
Health and human services programs	-	6,161,520	6,161,520	-	6,161,520	6,516,258	354,738
Public libraries	-	3,857,000	3,857,000	-	3,857,000	3,747,689	(109,311)
911 Emergency	-	7,099,010	7,099,010	-	7,099,010	7,453,717	354,707
Electric regulation	-	2,766,000	2,766,000	-	2,766,000	2,765,553	(447)
Other	-	2,511,090	2,511,090	-	2,511,090	1,416,398	(1,094,692)
Total State Aid and Reimbursements	-	104,818,010	104,818,010	1,313,510	106,131,520	97,223,211	(8,908,309)
Federal Reimbursements:							
Federal financial participation	-	15,517,170	15,517,170	1,232,000	16,749,170	14,069,983	(2,679,187)
Other	-	3,930,160	3,930,160	(1,141,977)	2,788,183	5,728,837	2,940,654
Total Federal Reimbursements	-	19,447,330	19,447,330	90,023	19,537,353	19,798,820	261,467
Other Intergovennmental	-	1,753,030	1,753,030	-	1,753,030	1,331,340	(421,690)
Total Intergovernmental Revenue	-	126,018,370	126,018,370	1,403,533	127,421,903	118,353,371	(9,068,532)
Charges for Services:							
General government	-	1,756,660	1,756,660	-	1,756,660	1,432,384	(324,276)
Public safety	-	11,729,420	11,729,420	-	11,729,420	12,324,967	595,547
Health and human services	-	1,649,240	1,649,240	-	1,649,240	1,585,294	(63,946)
Culture and recreation	-	2,600	2,600	-	2,600	25,143	22,543
Environment	-	200,000	200,000	-	200,000	168,150	(31,850)
Public works and transportation	-	45,000	45,000	-	45,000	64,329	19,329
Total Charges for Services	-	15,382,920	15,382,920	-	15,382,920	15,600,267	217,347
Fines and forfeitures	-	14,335,520	14,335,520	-	14,335,520	7,726,337	(6,609,183)
Investment Income:							
Pooled investment income	-	3,242,820	3,242,820	-	3,242,820	3,716,626	473,806
Other interest income	-	340,000	340,000	-	340,000	6,306	(333,694)
Total Investment Income	-	3,582,820	3,582,820	-	3,582,820	3,722,932	140,112
Miscellaneous Revenue:							
Property rentals	-	3,800,650	3,800,650	-	3,800,650	4,608,336	807,686
Sundry	-	4,794,960	4,794,960	-	4,794,960	4,994,801	199,841
Total Miscellaneous Revenue	-	8,595,610	8,595,610	-	8,595,610	9,603,137	1,007,527
Total Revenues	-	2,179,644,210	2,179,644,210	1,403,533	2,181,047,743	2,320,519,250	139,471,507
Expenditures:							
Departments or Offices:							
County Council:							
Personnel	-	6,312,001	6,312,001	37,740	6,349,741	6,244,885	104,856
Operating	42,075	623,200	665,275	(15,640)	649,635	620,871	28,764
Totals	42,075	6,935,201	6,977,276	22,100	6,999,376	6,865,756	133,620
Board of Appeals:							
Personnel	-	424,262	424,262	3,470	427,732	414,865	12,867
Operating	690	78,780	79,470	(690)	78,780	45,502	33,278
Totals	690	503,042	503,732	2,780	506,512	460,367	46,145
Legislative Oversight:							
Personnel	-	685,259	685,259	5,820	691,079	665,865	25,214
Operating	1,000	45,050	46,050	(1,000)	45,050	30,868	14,182
Totals	1,000	730,309	731,309	4,820	736,129	696,733	39,396
Merit System Protection Board:							
Personnel	-	108,810	108,810	1,780	110,590	110,582	8
Operating	-	14,520	14,520	(1,450)	13,070	11,444	1,626
Totals	-	123,330	123,330	330	123,660	122,026	1,634

(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, 2005
Exhibit A-7

	Budget						
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final	Actual	Variance Positive (Negative)
Zoning and Administrative Hearings:							
Personnel	$ -	$ 372,271	$ 372,271	$ (37,220)	$ 335,051	$ 302,367	$ 32,684
Operating	-	82,210	82,210	51,460	133,670	133,666	4
Totals	-	454,481	454,481	14,240	468,721	436,033	32,688
Inspector General:							
Personnel	-	376,751	376,751	(33,085)	343,666	234,684	108,982
Operating	-	13,820	13,820	37,675	51,495	19,571	31,924
Totals	-	390,571	390,571	4,590	395,161	254,255	140,906
People's Counsel:							
Personnel	-	202,670	202,670	-	202,670	181,974	20,696
Operating	-	16,620	16,620	-	16,620	10,365	6,255
Totals	-	219,290	219,290	-	219,290	192,339	26,951
Circuit Court:							
Personnel	-	6,557,178	6,557,178	(132,110)	6,425,068	6,425,059	9
Operating	188,476	1,815,410	2,003,886	168,298	2,172,184	2,172,181	3
Capital outlay	-	-	-	3,550	3,550	3,544	6
Totals	188,476	8,372,588	8,561,064	39,738	8,600,802	8,600,784	18
State's Attorney:							
Personnel	-	9,056,968	9,056,968	59,120	9,116,088	9,116,082	6
Operating	116	380,830	380,946	132,629	513,575	513,575	-
Totals	116	9,437,798	9,437,914	191,749	9,629,663	9,629,657	6
County Executive:							
Personnel	-	3,761,004	3,761,004	8,260	3,769,264	3,685,329	83,935
Operating	10,769	288,050	298,819	198	299,017	298,952	65
Totals	10,769	4,049,054	4,059,823	8,458	4,068,281	3,984,281	84,000
Commission for Women:							
Personnel	-	831,860	831,860	30,610	862,470	862,461	9
Operating	-	108,500	108,500	(10,850)	97,650	96,006	1,644
Totals	-	940,360	940,360	19,760	960,120	958,467	1,653
Regional Service Centers:							
Personnel	-	2,528,153	2,528,153	9,400	2,537,553	2,445,100	92,453
Operating	9,743	448,630	458,373	26,785	485,158	485,148	10
Totals	9,743	2,976,783	2,986,526	36,185	3,022,711	2,930,248	92,463
Ethics Commission:							
Personnel	-	169,790	169,790	(2,180)	167,610	167,608	2
Operating	10,039	19,070	29,109	17,401	46,510	46,509	1
Totals	10,039	188,860	198,899	15,221	214,120	214,117	3
Intergovernmental Relations:							
Personnel	-	461,320	461,320	7,100	468,420	468,399	21
Operating	10,602	147,950	158,552	(7,266)	151,286	143,979	7,307
Totals	10,602	609,270	619,872	(166)	619,706	612,378	7,328
Board of Liquor License Commissioners:							
Personnel	-	835,170	835,170	5,860	841,030	790,892	50,138
Operating	4,073	135,250	139,323	(79)	139,244	134,838	4,406
Totals	4,073	970,420	974,493	5,781	980,274	925,730	54,544
Public Information:							
Personnel	-	875,381	875,381	22,740	898,121	898,113	8
Operating	21,069	163,380	184,449	60,810	245,259	245,257	2
Totals	21,069	1,038,761	1,059,830	83,550	1,143,380	1,143,370	10
Board of Elections:							
Personnel	-	1,989,598	1,989,598	451,890	2,441,488	2,441,488	-
Operating	34,171	1,869,680	1,903,851	(189,220)	1,714,631	1,192,385	522,246
Totals	34,171	3,859,278	3,893,449	262,670	4,156,119	3,633,873	522,246
County Attorney:							
Personnel	-	4,081,759	4,081,759	(59,460)	4,022,299	4,022,298	1
Operating	291,319	397,950	689,269	175,761	865,030	865,022	8
Capital outlay	-	-	-	5,500	5,500	5,500	-
Totals	291,319	4,479,709	4,771,028	121,801	4,892,829	4,892,820	9
Management and Budget:							
Personnel	-	3,191,910	3,191,910	(34,730)	3,157,180	3,055,149	102,031
Operating	6,407	148,670	155,077	50,000	205,077	183,781	21,296
Totals	6,407	3,340,580	3,346,987	15,270	3,362,257	3,238,930	123,327
Finance:							
Personnel	-	7,191,730	7,191,730	234,960	7,426,690	7,426,682	8
Operating	191,013	1,273,870	1,464,883	(327,995)	1,136,888	1,136,887	1
Totals	191,013	8,465,600	8,656,613	(93,035)	8,563,578	8,563,569	9
Human Resources:							
Personnel	-	4,205,651	4,205,651	84,850	4,290,501	4,290,497	4
Operating	286,078	2,176,390	2,462,468	(93,583)	2,368,885	2,353,346	15,539
Totals	286,078	6,382,041	6,668,119	(8,733)	6,659,386	6,643,843	15,543
Technology Services:							
Personnel	-	14,010,676	14,010,676	(65,550)	13,945,126	13,806,998	138,128
Operating	4,203,270	11,409,380	15,612,650	(136,634)	15,476,016	15,476,016	-
Capital outlay	-	152,630	152,630	56,510	209,140	209,138	2
Totals	4,203,270	25,572,686	29,775,956	(145,674)	29,630,282	29,492,152	138,130
Procurement:							
Personnel	-	2,420,138	2,420,138	(45,260)	2,374,878	2,220,959	153,919
Operating	22,329	228,260	250,589	27,745	278,334	278,332	2
Capital outlay	-	-	-	15,290	15,290	15,289	1
Totals	22,329	2,648,398	2,670,727	(2,225)	2,668,502	2,514,580	153,922

(Continued)

Exhibit A-7

	Budget						
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final	Actual	Variance Positive (Negative)
Corrections and Rehabilitation:							
Personnel	$ -	$ 41,848,393	$ 41,848,393	$ 1,891,850	$ 43,740,243	$ 43,740,243	$ -
Operating	27,353	6,355,340	6,382,693	1,190,401	7,573,094	7,366,407	206,687
Totals	27,353	48,203,733	48,231,086	3,082,251	51,313,337	51,106,650	206,687
Human Relations Commission:							
Personnel	-	1,838,336	1,838,336	10,950	1,849,286	1,736,264	113,022
Operating	222	119,980	120,202	-	120,202	99,703	20,499
Totals	222	1,958,316	1,958,538	10,950	1,969,488	1,835,967	133,521
Police:							
Personnel	-	140,035,334	140,035,334	3,911,493	143,946,827	143,946,827	-
Operating	764,028	23,969,670	24,733,698	(1,415,643)	23,318,055	23,318,050	5
Capital outlay	-	-	-	7,600	7,600	7,594	6
Totals	764,028	164,005,004	164,769,032	2,503,450	167,272,482	167,272,471	11
Sheriff:							
Personnel	-	12,432,938	12,432,938	177,047	12,609,985	12,609,978	7
Operating	27,676	1,566,890	1,594,566	217,991	1,812,557	1,812,544	13
Totals	27,676	13,999,828	14,027,504	395,038	14,422,542	14,422,522	20
Public Works and Transportation:							
Personnel	-	32,550,709	32,550,709	1,501,330	34,052,039	34,052,027	12
Operating	1,107,492	23,820,800	24,928,292	6,207,267	31,135,559	30,789,981	345,578
Capital outlay	-	-	-	26,505	26,505	26,499	6
Totals	1,107,492	56,371,509	57,479,001	7,735,102	65,214,103	64,868,507	345,596
Health and Human Services:							
Personnel	-	95,946,623	95,946,623	980,017	96,926,640	96,358,548	568,092
Operating	2,354,276	70,740,110	73,094,386	(3,520,222)	69,574,164	69,186,885	387,279
Totals	2,354,276	166,686,733	169,041,009	(2,540,205)	166,500,804	165,545,433	955,371
Libraries:							
Personnel	-	24,992,905	24,992,905	(302,495)	24,690,410	24,597,658	92,752
Operating	936,036	6,796,510	7,732,546	336,607	8,069,153	8,032,875	36,278
Totals	936,036	31,789,415	32,725,451	34,112	32,759,563	32,630,533	129,030
Housing and Community Affairs:							
Personnel	-	6,170,296	6,170,296	21,980	6,192,276	6,091,103	101,173
Operating	19,102	936,520	955,622	(23,594)	932,028	928,891	3,137
Totals	19,102	7,106,816	7,125,918	(1,614)	7,124,304	7,019,994	104,310
Economic Development:							
Personnel	-	3,169,473	3,169,473	28,630	3,198,103	3,196,262	1,841
Operating	52,000	2,118,560	2,170,560	(8,779)	2,161,781	2,121,509	40,272
Totals	52,000	5,288,033	5,340,033	19,851	5,359,884	5,317,771	42,113
Environmental Protection:							
Personnel	-	2,975,505	2,975,505	19,440	2,994,945	2,877,871	117,074
Operating	42,971	950,310	993,281	(2,977)	990,304	889,625	100,679
Totals	42,971	3,925,815	3,968,786	16,463	3,985,249	3,767,496	217,753
Total Departments	10,664,395	592,023,612	602,688,007	11,854,608	614,542,615	610,793,652	3,748,963
Nondepartmental:							
State retirement contribution - operating	-	769,830	769,830	-	769,830	769,825	5
Retirees group insurance - operating	-	16,512,900	16,512,900	-	16,512,900	16,512,900	-
State positions supplement - personnel	-	243,401	243,401	-	243,401	156,445	86,956
Judges special pension contribution - personnel	-	6,110	6,110	5,660	11,770	11,768	2
Compensation adjustment - personnel	-	1,287,939	1,287,939	(781,320)	506,619	506,611	8
Compensation adjustment - operating	1,125	312,140	313,265	29,050	342,315	342,309	6
Municipal tax duplication - operating	-	6,067,710	6,067,710	10	6,067,720	6,067,711	9
Tax grants to municipalities - operating	-	28,020	28,020	-	28,020	28,012	8
Rebate - Takoma Park police - operating	-	453,810	453,810	51,100	504,910	504,884	26
Rebate - Takoma Park library - operating	-	89,670	89,670	820	90,490	90,482	8
Homeowners' association roadways - operating	-	276,390	276,390	-	276,390	276,390	-
Contribution to risk management - operating	-	11,488,680	11,488,680	19	11,488,699	11,019,681	469,018
Support for the arts - operating	682,037	1,706,180	2,388,217	1,449,717	3,837,934	3,835,734	2,200
Historical activities - operating	-	311,770	311,770	-	311,770	311,770	-
Conference and Vistors Bureau - operating	70,160	634,650	704,810	(22,582)	682,228	682,228	-
Arts Council - operating	-	1,117,970	1,117,970	-	1,117,970	1,117,970	-
Community grants - operating	1,787,451	2,840,320	4,627,771	594,135	5,221,906	5,195,153	26,753
Conference Center - operating	-	1,260,270	1,260,270	-	1,260,270	1,242,158	18,112
County associations - operating	-	56,740	56,740	10	56,750	56,741	9
Metropolitan Washington C O G - operating	-	679,390	679,390	-	679,390	653,561	25,829
Public Technology, Inc. - operating	-	27,500	27,500	-	27,500	27,500	-
Independent audit - operating	50,469	290,380	340,849	(39,019)	301,830	301,830	-
Prisoner medical services - operating	-	14,000	14,000	-	14,000	1,558	12,442
Boards, committees and commissions - operating	-	5,000	5,000	-	5,000	4,678	322
Charter Review Commission - operating	-	400	400	-	400	125	275
Closing costs assistance - operating	-	132,740	132,740	-	132,740	123,180	9,560
Working families income supplement - operating	-	8,084,000	8,084,000	-	8,084,000	7,921,560	162,440
Interagency technology, policy and coordinating committee - operating	-	29,700	29,700	-	29,700	6,786	22,914
County Leases - operating	-	10,582,390	10,582,390	403,250	10,985,640	10,985,640	-
Rockville parking district - operating	-	130,000	130,000	-	130,000	130,000	-
Desktop computer modernizaton - operating	571,537	6,196,660	6,768,197	(904)	6,767,293	6,202,965	564,328
Utilities - operating	13,519	14,743,710	14,757,229	2,924,150	17,681,379	17,681,379	-
Total - Nondepartmental:	3,176,298	86,380,370	89,556,668	4,614,096	94,170,764	92,769,534	1,401,230
Total Expenditures	13,840,693	678,403,982	692,244,675	16,468,704	708,713,379	703,563,186	5,150,193
Excess of Revenues over (under) Expenditures	(13,840,693)	1,501,240,228	1,487,399,535	(15,065,171)	1,472,334,364	1,616,956,064	144,621,700

(Continued)

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	-	4,499,560	4,499,560	-	4,499,560	4,499,560	-
Mass Transit	-	5,272,360	5,272,360	-	5,272,360	5,272,360	-
Water Quality Protection	-	108,830	108,830	-	108,830	108,830	-
Urban Districts	-	277,670	277,670	-	277,670	277,670	-
Housing Activities	-	55,840	55,840	-	55,840	55,840	-
Cable TV	-	2,203,490	2,203,490	-	2,203,490	2,203,490	-
Total Special Revenue Funds	-	12,538,500	12,538,500	-	12,538,500	12,538,500	-
Enterprise Funds:							
Liquor	-	20,503,510	20,503,510	-	20,503,510	20,503,510	-
Parking Lot Districts	-	1,913,440	1,913,440	-	1,913,440	1,913,440	-
Solid Waste Activities	-	1,654,530	1,654,530	-	1,654,530	1,654,530	-
Community Use of Public Facilities	-	281,670	281,670	-	281,670	281,670	-
Permitting Services	-	2,749,660	2,749,660	-	2,749,660	2,749,660	-
Total Enterprise Funds	-	27,102,810	27,102,810	-	27,102,810	27,102,810	-
Total Transfers In	-	39,641,310	39,641,310	-	39,641,310	39,641,310	-
Transfers In - Component Units:							
Montgomery County Public Schools	-	328,420	328,420	-	328,420	328,420	-
Montgomery Community College	-	-	-	-	-	682,406	682,406
Total Transfers In - Component Units	-	328,420	328,420	-	328,420	1,010,826	682,406
Transfers (Out):							
Special Revenue Funds:							
Recreation	-	(1,210,800)	(1,210,800)	-	(1,210,800)	(1,210,800)	-
Urban Districts	-	(684,100)	(684,100)	-	(684,100)	(684,100)	-
Mass Transit	-	(509,950)	(509,950)	(2,750,000)	(3,259,950)	(3,259,950)	-
Revenue Stabilization	-	-	-	-	-	(5,235,889)	(5,235,889)
Fire Tax District	-	-	-	(795,980)	(795,980)	(795,980)	-
Housing Activities	-	(11,874,700)	(11,874,700)	-	(11,874,700)	(11,874,700)	-
Economic Development	-	(225,720)	(225,720)	-	(225,720)	(225,720)	-
Grants	-	-	-	(394,801)	(394,801)	(446,793)	(51,992)
Total Special Revenue Funds	-	(14,505,270)	(14,505,270)	(3,940,781)	(18,446,051)	(23,733,932)	(5,287,881)
Internal Service Funds:							
Motor Pool	-	(584,970)	(584,970)	(74,980)	(659,950)	(605,796)	54,154
Total Internal Service Funds	-	(584,970)	(584,970)	(74,980)	(659,950)	(605,796)	54,154
Enterprise Funds:							
Community Use of Public Facilities	-	(99,730)	(99,730)	-	(99,730)	(99,730)	-
Parking Lot Districts	(389,808)	-	(389,808)	-	(389,808)	(199,841)	189,967
Solid Waste Activities	-	(1,341,100)	(1,341,100)	-	(1,341,100)	(1,341,100)	-
Permitting Services	-	(1,059,660)	(1,059,660)	-	(1,059,660)	(1,059,660)	-
Total Enterprise Funds	(389,808)	(2,500,490)	(2,890,298)	-	(2,890,298)	(2,700,331)	189,967
Debt Service Fund	-	(189,032,700)	(189,032,700)	(232,117)	(189,264,817)	(186,529,027)	2,735,790
Capital Projects Fund	(26,296,270)	(54,691,340)	(80,987,610)	41,011,450	(39,976,160)	(19,027,068)	20,949,092
Total Transfers (Out)	(26,686,078)	(261,314,770)	(288,000,848)	36,763,572	(251,237,276)	(232,596,154)	18,641,122
Transfers (Out) - Component Units:							
Montgomery County Public Schools - operating	-	(1,209,195,760)	(1,209,195,760)	(3,300,952)	(1,212,496,712)	(1,211,773,321)	723,391
Montgomery County Public Schools - capital	(11,620,584)	(8,848,000)	(20,468,584)	(49,469,036)	(69,937,620)	(56,827,273)	13,110,347
Total Montgomery County Public Schools	(11,620,584)	(1,218,043,760)	(1,229,664,344)	(52,769,988)	(1,282,434,332)	(1,268,600,594)	13,833,738
Montgomery Community College - operating	-	(70,935,017)	(70,935,017)	(811,658)	(71,746,675)	(71,746,675)	-
Montgomery Community College - capital	(8,465,390)	(863,000)	(9,328,390)	(7,960,515)	(17,288,905)	(5,103,689)	12,185,216
Total Montgomery Community College	(8,465,390)	(71,798,017)	(80,263,407)	(8,772,173)	(89,035,580)	(76,850,364)	12,185,216
Housing Opportunity Commission - operating	-	(4,411,030)	(4,411,030)	-	(4,411,030)	(4,411,029)	1
Housing Opportunity Commission - capital	-	(250,000)	(250,000)	-	(250,000)	(184,301)	65,699
Total Housing Opportunity Commission	-	(4,661,030)	(4,661,030)	-	(4,661,030)	(4,595,330)	65,700
Total Transfers (Out) - Component Units	(20,085,974)	(1,294,502,807)	(1,314,588,781)	(61,542,161)	(1,376,130,942)	(1,350,046,288)	26,084,654
Total Other Financing Sources (Uses)	(46,772,052)	(1,515,847,847)	(1,562,619,899)	(24,778,589)	(1,587,398,488)	(1,541,990,306)	45,408,182
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(60,612,745)	(14,607,619)	(75,220,364)	(39,843,760)	(115,064,124)	74,965,758	190,029,882
Fund Balance - Begining of Year	60,612,745	100,032,520	160,645,265	(1,170,408)	159,474,857	159,474,857	-
Fund Balance - End of Year	$ -	$ 85,424,901	$ 85,424,901	$ (41,014,168)	$ 44,410,733	$ 234,440,615	$ 190,029,882

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005
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	$ 9,160,601	$ 43,605,446	$ 15,627,108	$ 16,688,115	$ 85,081,270	$ 91,439,496
Cash	34,150	3,000	86,472	50	123,672	300
Receivables (net of allowances for uncollectibles):						
Property taxes	-	-	1,593,854	-	1,593,854	-
Accounts	2,548,017	2,671,035	7,056	34,645	5,260,753	1,543,434
Notes	-	-	-	-	-	11,428
Parking violations	-	-	2,058,782	-	2,058,782	-
Due from other funds	-	4,544	-	-	4,544	4,552,499
Due from component units	-	63,322	-	-	63,322	344,318
Due from other governments	-	144,712	193,364	-	338,076	43,726
Inventory of supplies	29,827,378	-	-	-	29,827,378	2,703,668
Prepaids	530,977	3,352	9,654	2,179	546,162	392,281
Other assets	73,006	-	-	-	73,006	-
Total Current Assets	42,174,129	46,495,411	19,576,290	16,724,989	124,970,819	101,031,150
Noncurrent Assets:						
Restricted Assets:						
Equity in pooled cash and equivalents	-	28,013,581	5,528,949	-	33,542,530	-
Investments	-	3,215,206	-	-	3,215,206	-
Restricted Assets	-	31,228,787	5,528,949	-	36,757,736	-
Unamortized bond costs	-	473,264	559,237	-	1,032,501	-
Capital Assets:						
Land, improved and unimproved	481,430	17,834,755	34,461,478	-	52,777,663	22,506
Improvements other than buildings	-	72,607,727	39,657,812	-	112,265,539	268,565
Buildings	7,388,354	23,515,099	166,168,502	-	197,071,955	315,732
Furniture, fixtures, equipment, and machinery	5,213,026	9,971,739	298,874	2,665,878	18,149,517	4,393,945
Automobiles and trucks	3,048,041	423,444	91,763	66,886	3,630,134	63,093,527
Construction in progress	2,526,436	272,298	9,481,582	-	12,280,316	-
Subtotal	18,657,287	124,625,062	250,160,011	2,732,764	396,175,124	68,094,275
Less: Accumulated depreciation	9,949,778	91,583,755	71,249,977	2,527,988	175,311,498	39,592,256
Total Capital Assets (net of accumulated depreciation)	8,707,509	33,041,307	178,910,034	204,776	220,863,626	28,502,019
Total Noncurrent Assets	8,707,509	64,743,358	184,998,220	204,776	258,653,863	28,502,019
Total Assets	50,881,638	111,238,769	204,574,510	16,929,765	383,624,682	129,533,169
LIABILITIES						
Current Liabilities:						
Accounts payable	12,453,794	7,097,349	1,838,988	180,632	21,570,763	7,619,015
Interest payable	-	92,064	-	-	92,064	-
Retainage payable	-	99,989	994,434	-	1,094,423	-
Deposits	359,981	-	26,750	-	386,731	-
Claims payable	-	-	-	-	-	80,363,503
Accrued liabilities	1,810,248	963,119	359,734	9,748,473	12,881,574	3,042,788
Due to other funds	248,634	101,057	33,780	302,554	686,025	593,976
Due to component units	-	-	-	569,259	569,259	-
Due to other governments	752,196	1,295,628	8,613	-	2,056,437	100,626
Deferred revenue	-	-	-	1,071,311	1,071,311	58,494
General obligation bonds payable	-	51,618	-	-	51,618	-
Revenue bonds payable	-	2,920,000	5,610,000	-	8,530,000	-
Landfill closure costs	-	1,683,000	-	-	1,683,000	-
Other liabilities	-	-	226,354	-	226,354	-
Total Current Liabilities	15,624,853	14,303,824	9,098,653	11,872,229	50,899,559	91,778,402
Noncurrent Liabilities:						
General obligation bonds payable	-	4,894	-	-	4,894	-
Revenue bonds payable	-	22,672,052	31,174,811	-	53,846,863	-
Landfill closure costs	-	20,425,523	-	-	20,425,523	-
Compensated absences	364,578	158,867	67,620	390,274	981,339	332,215
Total Noncurrent Liabilities	364,578	43,261,336	31,242,431	390,274	75,258,619	332,215
Total Liabilities	15,989,431	57,565,160	40,341,084	12,262,503	126,158,178	92,110,617
NET ASSETS						
Invested in capital, net of related debt	8,707,509	7,392,743	142,125,223	204,776	158,430,251	28,502,019
Restricted for debt service	-	31,228,787	5,528,949	-	36,757,736	-
Unrestricted	26,184,698	15,052,079	16,579,254	4,462,486	62,278,517	8,920,533
Total Net Assets	$ 34,892,207	$ 53,673,609	$ 164,233,426	$ 4,667,262	257,466,504	$ 37,422,552

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	(1,878,820)
Net assets of business-type activities	$ 255,587,684

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, 2005
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	$ 177,911,175	$ -	$ -	$ -	$ 177,911,175	$ -
Charges for services	15,240	96,056,499	14,941,946	8,595,810	119,609,495	202,928,597
Licenses and permits	-	9,920	-	23,086,112	23,096,032	-
Fines and penalties	-	26,505	7,140,091	122,710	7,289,306	-
Claim recoveries	-	-	-	-	-	3,061,039
Total Operating Revenues	177,926,415	96,092,924	22,082,037	31,804,632	327,906,008	205,989,636
OPERATING EXPENSES						
Cost of goods sold	125,226,878	-	-	-	125,226,878	-
Personnel costs	17,492,428	9,240,559	2,827,139	19,386,229	48,946,355	17,318,921
Postage	46,839	44,605	3,020	40,876	135,340	1,547,990
Self-insurance incurred and estimated claims	-	-	-	-	-	114,409,371
Insurance	748,080	766,029	80,090	14,560	1,608,759	19,371,768
Supplies and materials	480,877	4,493,249	417,616	264,099	5,655,841	17,086,208
Contractual services	1,744,681	82,378,665	4,922,624	3,375,112	92,421,082	11,848,160
Communications	322,059	240,426	129,963	354,463	1,046,911	161,343
Transportation	455,225	1,608,969	164,626	508,372	2,737,192	189,367
Public utility services	587,879	97,441	1,839,208	625,760	3,150,288	659,378
Rentals	3,590,841	21,578	1,429,481	1,256,248	6,298,148	461,758
Maintenance	474,549	267,236	1,562,643	737,741	3,042,169	7,898,657
Depreciation	737,777	2,602,717	7,217,465	51,630	10,609,589	6,219,627
Landfill closure expense	-	650,000	-	-	650,000	-
Other	362,149	476,659	52,302	110,892	1,002,002	190,080
Total Operating Expenses	152,270,262	102,888,133	20,646,177	26,725,982	302,530,554	197,362,628
Operating Income (Loss)	25,656,153	(6,795,209)	1,435,860	5,078,650	25,375,454	8,627,008
NONOPERATING REVENUES (EXPENSES)						
Property taxes	-	-	8,412,877	-	8,412,877	-
Intergovermental	-	-	-	-	-	41,035
Gain (loss) on disposal of capital assets	(15,082)	8,359	(1,719,526)	(10,472)	(1,736,721)	198,007
Investment income	53,613	2,298,811	877,847	327,405	3,557,676	2,410,352
Interest expense	-	(1,264,996)	(1,718,541)	-	(2,983,537)	-
Other revenue	12,500	86,979	41,814	-	141,293	1,737,074
Total Nonoperating Revenues (Expenses)	51,031	1,129,153	5,894,471	316,933	7,391,588	4,386,468
Income (Loss) Before Capital Contributions and Transfers	25,707,184	(5,666,056)	7,330,331	5,395,583	32,767,042	13,013,476
Capital Contributions	-	-	5,902,942	-	5,902,942	-
Transfers In (Out):						
Transfers in	-	-	199,841	5,000	204,841	1,234,846
Transfers out	(20,503,510)	(1,654,530)	(10,706,668)	(3,045,003)	(35,909,711)	(40,500)
Total Transfers In (Out)	(20,503,510)	(1,654,530)	(10,506,827)	(3,040,003)	(35,704,870)	1,194,346
Change in Net Assets	5,203,674	(7,320,586)	2,726,446	2,355,580	2,965,114	14,207,822
Total Net Assets - Beginning of Year	29,688,533	60,994,195	161,506,980	2,311,682		23,214,730
Total Net Assets - End of Year	$ 34,892,207	$ 53,673,609	$ 164,233,426	$ 4,667,262		$ 37,422,552
Adjustment to reflect the consolidation of internal service fund activities relating to enterprise funds					278,664	
Change in net assets of business-type activities					$ 3,243,778	

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, 2005
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	$ 181,095,928	$ 95,149,213	$ 22,079,223	$ 30,736,676	$ 329,061,040	$ 204,631,798
Payments to suppliers	(136,822,256)	(91,426,279)	(9,164,963)	(6,798,441)	(244,211,939)	(56,642,085)
Payments to employees	(17,232,182)	(9,343,132)	(2,757,234)	(19,141,398)	(48,473,946)	(17,153,948)
Internal activity - operating payments from other funds	-	2,112,950	-	1,059,660	3,172,610	-
Claims paid	-	-	-	-	-	(109,169,103)
Other revenue	12,500	86,979	41,814	1,149,147	1,290,440	1,737,075
Net Cash Provided (Used) by Operating Activities	27,053,990	(3,420,269)	10,198,840	7,005,644	40,838,205	23,403,737
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Property tax collections	-	-	8,090,110	-	8,090,110	-
Operating subsidies and transfers from other funds	-	-	199,841	5,000	204,841	-
Operating subsidies and transfers to other funds	(20,503,510)	(1,654,530)	(10,706,668)	(3,045,003)	(35,909,711)	(40,500)
Intergovernmental revenue	-	-	-	-	-	41,035
Net Cash Provided (Used) by Noncapital Financing Activities	(20,503,510)	(1,654,530)	(2,416,717)	(3,040,003)	(27,614,760)	535
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from sale of capital assets	-	8,359	-	-	8,359	344,960
Purchases of capital assets	(2,768,589)	(1,761,431)	(14,185,083)	(44,491)	(18,759,594)	(6,289,637)
Repayment of notes receivable	-	-	-	-	-	3,611
Principal paid on capital debt	-	(3,686,619)	(5,425,000)	-	(9,111,619)	-
Interest paid on capital debt	-	(1,194,722)	(1,694,191)	-	(2,888,913)	-
Internal activity - payments from other funds	-	-	-	-	-	1,234,846
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,768,589)	(6,634,413)	(21,304,274)	(44,491)	(30,751,767)	(4,706,220)
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment income from pooled investments	53,613	2,180,658	877,847	327,405	3,439,523	2,384,247
Investment income from nonpooled investments	-	26,180	-	-	26,180	26,105
Net Cash Provided (Used) by Investing Activities	53,613	2,206,838	877,847	327,405	3,465,703	2,410,352
Net Increase (Decrease) in Cash and Cash Equivalents	3,835,504	(9,502,374)	(12,644,304)	4,248,555	(14,062,619)	21,108,404
Balances - Beginning of Year	5,359,247	81,124,401	33,886,833	12,439,610	132,810,091	70,331,393
Balances - End of Year	$ 9,194,751	$ 71,622,027	$ 21,242,529	$ 16,688,165	$ 118,747,472	$ 91,439,797
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	$ 25,656,153	$ (6,795,209)	$ 1,435,860	$ 5,078,650	$ 25,375,454	$ 8,627,008
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	737,777	2,602,717	7,217,465	51,630	10,609,589	6,219,627
Other revenue	12,500	86,979	41,814	-	141,293	1,737,074
Changes in assets and liabilities:						
Receivables, net	(459,646)	1,105,973	379,895	35,169	1,061,391	(1,343,873)
Inventories, prepaids and other assets	(2,041,747)	146	1,114	1,601	(2,038,886)	(92,361)
Accounts payable and other liabilities	2,938,399	(287,054)	517,450	497,595	3,666,390	8,151,480
Accrued expenses	210,554	(133,821)	605,242	1,340,999	2,022,974	104,781
Net Cash Provided (Used) by Operating Activities	$ 27,053,990	$ (3,420,269)	$ 10,198,840	$ 7,005,644	$ 40,838,205	$ 23,403,736
Noncash investing, capital and financing activities:						
Capital asset disposals	$ 15,082	$ -	$ 1,719,526	$ 10,473	$ 1,745,081	$ 51,341
Assets acquired through transfers from governmental activities	-	-	5,902,942	-	5,902,942	-
Change in fair value of investments that are not cash equivalents	-	91,973	-	-	91,973	-

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005
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	$ 1,047,513	$ 24,273,778	$ 2,050,131	$ 52,707,279
Cash	-	-	-	299,594
Investments:				
U.S. Government and agency obligations	342,255,205	-	-	-
Asset-backed securities	30,034,502	-	-	-
Municipal/Provincial bonds	1,143,116	-	-	-
Corporate bonds	274,681,642	-	-	-
Collateralized mortgage obligations	9,603,250	-	-	-
Commercial mortgage-backed securities	13,576,170	-	-	-
Common and preferred stock	1,387,747,640	-	-	-
Mutual and commingled funds	257,376,349	-	-	-
Short-term investments	53,478,063	-	-	-
Cash collateral received under securities lending agreements	270,825,841	-	-	-
Real estate holdings	681,790	-	-	-
Alternative investments	21,090,370	-	-	-
Total investments	2,662,493,938	-	-	-
Receivables (net of allowances for uncollectibles):				
Dividends receivable and accrued interest	7,124,154	-	-	-
Property taxes	-	-	-	8,122,997
Accounts	104,530	-	-	84,492
Other	-	-	-	575
Due from other funds	6,084,739	-	-	-
Due from component units	90,381	-	-	-
Due from other governments	52,888	-	-	-
Prepaids	705	-	-	-
Total Current Assets	2,676,998,848	24,273,778	2,050,131	61,214,937
Total Assets	2,676,998,848	24,273,778	2,050,131	$ 61,214,937
LIABILITIES				
Current Liabilities:				
Accounts payable	273,213,194	-	7,640	7,595
Accrued liabilities	181,809	-	-	-
Deposits	-	-	-	929,197
Due to other funds	2,478	-	-	-
Due to other governments	-	-	-	1,829,162
Uncollected property taxes due to other governments	-	-	-	7,799,087
Undistributed taxes and refunds	-	-	-	16,522,496
Deferred revenue	127,593	-	-	-
Tax sale surplus and redemptions payable	-	-	-	3,627,587
Other liabilities	-	-	-	30,499,813
Total Current Liabilities	273,525,074	-	7,640	61,214,937
Noncurrent Liabilities:				
Compensated absences	42,366	-	-	-
Total Liabilities	273,567,440	-	7,640	$ 61,214,937
NET ASSETS				
Held in trust for pension benefits, external investment pool participants, and other purposes	$ 2,403,431,408	$ 24,273,778	$ 2,042,491	

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, 2005
Exhibit A-12

	Pension and Other Employee Benefit Trusts	Investment Trust	Private-Purpose Trusts
ADDITIONS			
Contributions:			
Employers	$ 83,413,891	$ -	$ -
Members	40,074,356	-	120,283
Share purchases	-	18,557,929	-
Total Contributions	123,488,247	18,557,929	120,283
Investment income	229,442,926	592,859	31,364
Less: Investment expenses	12,929,314	-	-
Net Investment Income	216,513,612	592,859	31,364
Other income - forfeitures	175,080	-	-
Total Additions, net	340,176,939	19,150,788	151,647
DEDUCTIONS			
Benefits:			
Annuities:			
Retirees	102,641,063	-	-
Survivors	2,086,755	-	-
Disability	10,906,765	-	-
Total Benefits	115,634,583	-	-
Share redemptions	-	15,535,000	-
Member refunds	13,419,600	-	-
Program expenses	-	-	242,306
Administrative expenses	2,104,113	-	-
Movement of member account asset balances	77,837,950	-	-
Total Deductions	208,996,246	15,535,000	242,306
Net Increase (Decrease)	131,180,693	3,615,788	(90,659)
Net Assets - Beginning of Year	2,272,250,715	20,657,990	2,133,150
Net Assets - End of Year	$ 2,403,431,408	$ 24,273,778	$ 2,042,491

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2005
Exhibit A-13

	MCPS	HOC	Nonmajor Component Units	Total
ASSETS				
Equity in pooled cash and investments	$ 15,323,186	$ 5,250,410	$ 24,403,262	$ 44,976,858
Cash with fiscal agents	75,401	8,615,607	34,155	8,725,163
Cash	6,232,684	15,791	3,030,993	9,279,468
Investments-cash equivalents	18,868,845	51,960,807	15,519,835	86,349,487
Investments	3,318,533	-	37,216,653	40,535,186
Receivables (net of allowances for uncollectibles):				
Capital leases	-	-	36,785,490	36,785,490
Accounts	9,577,497	4,659,701	4,173,429	18,410,627
Notes	-	1,809	751,863	753,672
Mortgages receivable	-	251,187,408	-	251,187,408
Interest	-	3,528,066	-	3,528,066
Other	1,211,026	1,874,841	1,041,940	4,127,807
Due from primary government	67,256,213	654,042	5,021,419	72,931,674
Due from other governments	14,325,315	461,462	3,814,663	18,601,440
Inventory of supplies	8,467,985	371,896	1,663,027	10,502,908
Prepaids	132,490	1,774,280	499,721	2,406,491
Deferred charges	-	-	858,454	858,454
Other assets	-	26,447,151	2,253,110	28,700,261
Restricted Assets:				
Cash	-	-	505,221	505,221
Cash with fiscal agents	-	484,839	-	484,839
Investments - cash equivalents	-	87,262,339	14,589,694	101,852,033
Investments	-	218,645,758	-	218,645,758
Capital Assets:				
Nondepreciable assets	195,551,712	84,978,006	60,496,321	341,026,039
Depreciable assets, net	1,178,828,247	266,085,768	169,930,767	1,614,844,782
Total Assets	1,519,169,134	1,014,259,981	382,590,017	2,916,019,132
LIABILITIES				
Accounts payable	34,268,178	16,371,546	13,842,674	64,482,398
Interest payable	16,819	13,951,817	834,127	14,802,763
Retainage payable	9,631,448	-	1,273,948	10,905,396
Accrued liabilities	60,030,226	3,263,622	409,034	63,702,882
Claims payable	20,356,643	-	-	20,356,643
Deposits	-	8,623,983	57,322	8,681,305
Due to primary government	1,393,115	42,701,198	1,890,669	45,984,982
Deferred revenue	9,093,655	18,759,868	4,324,857	32,178,380
Other liabilities	-	9,648,308	32,069	9,680,377
Noncurrent Liabilities:				
Due within one year	23,489,685	21,277,776	4,932,757	49,700,218
Due in more than one year	101,207,650	708,407,818	97,946,806	907,562,274
Total Liabilities	259,487,419	843,005,936	125,544,263	1,228,037,618
NET ASSETS				
Invested in capital, net of related debt	1,352,506,762	48,723,423	201,239,461	1,602,469,646
Restricted for:				
Capital projects	-	-	2,555,499	2,555,499
Debt service	-	43,598,584	3,267,429	46,866,013
Other purposes	532,330	3,704,144	14,209,108	18,445,582
Unrestricted (deficit)	(93,357,377)	75,227,894	35,774,257	17,644,774
Total net assets	$ 1,259,681,715	$ 171,254,045	$ 257,045,754	$ 1,687,981,514

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, 2005
Exhibit A-14

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
Functions	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**MCPS**	**HOC**	**Nonmajor Component Units**	**Total**
Component units:								
General government	$ 3,153,904	$ 2,822,087	$ 236,333	$ -	$ -	$ -	$ (95,484)	$ (95,484)
Culture and recreation	12,927,847	11,133,508	-	2,428,546	-	-	634,207	634,207
Community development and housing	181,381,264	102,305,798	84,369,732	2,230,614	-	7,524,880	-	7,524,880
Education:								
Secondary education	1,769,019,880	32,978,084	97,484,420	42,518,178	(1,596,039,198)	-	-	(1,596,039,198)
Higher education	192,128,403	61,864,557	19,874,636	2,810,686	-	-	(107,578,524)	(107,578,524)
Total component units	$ 2,158,611,298	$ 211,104,034	$ 201,965,121	$ 49,988,024	(1,596,039,198)	7,524,880	(107,039,801)	(1,695,554,119)
General revenues:								
Grants and contributions not restricted to specific programs					1,676,080,744	-	127,076,613	1,803,157,357
Investment income					522,443	1,173,736	2,254,214	3,950,393
Total general revenues					1,676,603,187	1,173,736	129,330,827	1,807,107,750
Change in net assets					80,563,989	8,698,616	22,291,026	111,553,631
Net assets - beginning					1,179,117,726	162,555,429	234,754,728	1,576,427,883
Net assets - ending					$ 1,259,681,715	$ 171,254,045	$ 257,045,754	$ 1,687,981,514

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

MONTGOMERY COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A BUDGETARY INFORMATION
B DEFICIT FUND EQUITY

NOTE III – DETAILED NOTES ON ALL FUNDS

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

NOTE IV – OTHER INFORMATION

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

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 PrimaryGovernment 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 the Strathmore Hall Foundation, court appointed guardians, and others, and must be expended in accordance with their designated purposes.

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

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

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

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

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

D) Assets, Liabilities, and Net Assets or Equity

1) Cash and Investments

Pooled Cash and Investments – The County sponsors an external investment pool. Participants in the pool include the County, certain component unit agencies, and other legally separate entities. The portion of pooled cash and investments applicable to other legally separate entities (not included in the County reporting entity) is accounted for in a separate Investment Trust Fund. During the year, investments are stated at cost plus accrued interest and are adjusted for amortization of premiums and accretion of discounts. At year-end, investments in the pool are adjusted to fair value. 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 FY05, investments in derivatives included asset-backed securities, collateralized mortgage obligations, bond index future contracts, forward currency contracts, and floating rate securities. The System entered into these investments either to increase earnings or to hedge against potential losses, but these investments were not used to leverage the portfolio. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the credit worthiness of the related parties to the contracts. The System also participates in securities lending transactions (see Note III-A).

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

2) Receivables and Payables

Due From/To Other Funds and Internal Balances – Activity between funds that are representative of lending/borrowing arrangements 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

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, 2005, the County has reported outstanding general obligation debt related to MCPS, MCC, and M-NCPPC amounting to $786,773,722. Absent the effect of this relationship, the County would have reported positive unrestricted net assets of governmental activities in the amount of $381,428,568.

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 $48,634,805 in capital assets acquired by the Silver Spring Parking Lot District. Since the related capital lease liability of $46,600,511 at June 30, 2005, 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.

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 FY05. 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 2004 (i.e., FY05) exceeded 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.

10) Accounting Changes

The County has adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*. The primary impact of the Statement to the County's financial statements is increased disclosure of the following investment risks and policies related to such risks: interest rate, credit, custodial credit, concentration of credit, and foreign currency (see Note III-A).

The County has also adopted, earlier than required, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an Amendment of GASB Statement No. 34*. The primary impact of this Statement to the County's financial statements is to add a disclosure of the portion of total net assets that is restricted by enabling legislation (see Note III-H2).

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 FY05, the County Council increased the operating budget through supplemental and special appropriations by $30.9 million. In addition, supplemental appropriations increased the CIP budget by $7.6 million.

Presentation

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

- Encumbrances outstanding are charged to budgetary appropriations and considered expenditures of the current period; any cancellations of such encumbrances in a subsequent year are classified with miscellaneous revenue for budgetary purposes.
- Certain activity, such as unrealized gains (losses), is not budgeted due to its nature.
- Certain interfund revenues/expenditures are classified as transfers for budget purposes.
- Mortgages and loans made and related repayments are generally accounted for as expenditures/other financial uses and revenues/other financing sources, respectively.
- Proceeds under certain capital lease financing.
- 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	$ 2,320,519,250	$ 703,563,186	$ (1,541,990,306)	$ 74,965,758
Reconciling items:				
Cancellation of prior year encumbrances	(1,170,407)	-	-	(1,170,407)
Elimination of encumbrances outstanding	-	(13,899,185)	-	13,899,185
Unrealized gains (losses)	(376,565)	-	-	(376,565)
Financing under capital lease	-	5,902,942	5,902,942	-
Conference Center activity	7,968,308	7,673,308	-	295,000
Contribution and disposition of capital asset	500,000	500,000	-	-
Interfund activities budgeted as transfers:				
Recreation facility maintenance costs	2,204,380	-	(2,204,380)	-
Public agency permits	-	1,059,660	1,059,660	-
Solid waste tipping fees	-	1,341,100	1,341,100	-
Community use of public facilities for elections	-	94,730	94,730	-
Component Unit activities budgeted as transfers:				
Component Units - Transfer in	1,010,826	-	(1,010,826)	-
Component Units - Transfer out	-	1,350,046,288	1,350,046,288	-
As reported - GAAP basis	$ 2,330,655,792	$ 2,056,282,029	$ (186,760,792)	$ 87,612,971

B) Deficit Fund Equity

Capital Projects – The $37,114,464 deficit in the Capital Projects Fund represents a timing difference between the construction of capital assets and the planned FY06 issuance of debt to fund that construction.

Mass Transit Facilities – The $2,400,789 unreserved deficit in the Mass Transit Facilities Special Revenue Fund is caused by a delay in receiving FY05 state aid amounting to $6.9 million for the County's Ride-On program. This amount, which is reflected as a receivable and deferred revenue in the accompanying financial statements, was received in August 2005.

Liability and Property Coverage Self-Insurance - The $898,420 unrestricted deficit in the Liability and Property Coverage Self-Insurance Internal Service Fund is primarily caused by an unanticipated increase both in claims incurred and paid during the past years, and in incurred but not reported claims as determined by the actuary. Actions have been taken by management to adjust the rates beginning in FY03, to recover this deficit over an originally planned timeframe of three years. The deficit will be recovered by continuing to charge participating agencies higher insurance premium rates in future years; however higher than originally anticipated claims in FY04, have resulted in an extended timeframe for recovery, through FY06.

Central Duplicating - The $641,914 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. Effective FY06, charges for services have been aligned to all expenses within this fund to include expenses associated with records management/imaging services; and therefore, no further deficit is anticipated beyond FY05. Further, the deficit realized in FY05, will be recovered in FY06 through a one-time per employee fee that is built into all County departments' budgets.

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, 2005, totaled $3,875,338,406, of which $3,363,984,393 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	$ 622,399,770	$ 44,976,858	$ 667,376,628
Cash with fiscal agents	36,396,855	8,725,163	45,122,018
Cash	604,917	9,279,468	9,884,385
Investments - cash equivalents	-	86,349,487	86,349,487
Investments	2,667,825,115	40,535,186	2,708,360,301
Restricted equity in pooled cash and investments	33,542,530	-	33,542,530
Restricted cash with fiscal agents	-	484,839	484,839
Restricted cash	-	505,221	505,221
Restricted investments - cash equivalents	-	101,852,033	101,852,033
Restricted investments	3,215,206	218,645,758	221,860,964
Total	$ 3,363,984,393	$ 511,354,013	$ 3,875,338,406
Deposit and Investment Summary:			
Deposits	$ 35,870,174	$ 12,056,975	$ 47,927,149
Investments	3,291,112,447	364,476,842	3,655,589,289
Cash on hand, fiscal agents, safe deposit escrow	37,001,772	134,820,196	171,821,968
Total	$ 3,363,984,393	$ 511,354,013	$ 3,875,338,406

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

Government-wide	$ 621,112,160
Fiduciary funds	2,742,872,233
Total	$ 3,363,984,393

PRIMARY GOVERNMENT

2) External Investment Pool

Overview:

The County maintains an external investment pool that is subject to oversight by the County's 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) has been recorded in the General Fund, since this amount is not material.

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

Balance Sheet Amounts:	Primary Government	Component Units	Total Reporting Entity
Equity in pooled cash and investments	$ 622,399,770	$ 9,385,020	$ 631,784,790
Restricted equity in pooled cash and investments	33,542,530	-	33,542,530
Total	$ 655,942,300	$ 9,385,020	$ 665,327,320
Deposit and Investment Summary:			
Deposits	$ 35,870,174	$ -	$ 35,870,174
Investments	620,072,126	9,385,020	629,457,146
Total	$ 655,942,300	$ 9,385,020	$ 665,327,320

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. With the exception of $3,960,131 at Wachovia Bank, of which only $793,082 was collected, deposits at financial institutions were fully insured or collateralized at year-end. The under-collateralized position at Wachovia resulted from a deposit received late in the business day on June 30, 2005, and was remedied on July 1, 2005. In addition to improving the daily monitoring of collateral balances, the County will now require that its depository banks post collateral in excess of historical average balances.

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	$ 139,986,860	$ 140,000,000	July 05	3.08 - 3.40 %
U. S. Government securities	289,790,852	290,244,671	July 05 - June 07	2.02 - 3.80
Commercial paper	31,193,470	31,129,338	July - August 05	3.16 - 3.35
Bankers' acceptances	83,920,018	83,751,924	July - December 05	3.06 - 3.49
Money market mutual funds	84,565,946	84,565,946	n/a	3.10 - 3.31
Total	$ 629,457,146	$ 629,691,879		

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, 2005, the County's investment maturities are as follows:

		Investment Maturities (in Years)	
Investment Type:	Fair Value	Less than 1	1-2
Repurchase agreements	$ 139,986,860	$ 139,986,860	$ -
U. S. Government securities	289,790,852	279,790,852	10,000,000
Commercial paper	31,193,470	31,193,470	-
Bankers' acceptances	83,920,018	83,920,018	-
Money market mutual funds	84,565,946	84,565,946	-
Total	$ 629,457,146	$ 619,457,146	$ 10,000,000

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 banker's 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, 2005, 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 are 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, 2005, 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, 2005, 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
Federal Home Loan Bank	$ 146,650,234
Federal Home Loan Mortgage Corp	46,785,673
Federal National Mortgage Association	81,371,745
JP Morgan	37,341,109
Morgan Stanley	160,632,001
UBS	49,995,342

External Investment Pool Condensed Financial Statements:

The condensed financial statements of the County's external investment pool at June 30, 2005, are as follows:

Statement of Net Assets
June 30, 2005

Assets:	
Investment in securities, at fair value	$629,457,146
Cash	35,870,174
Total assets and net assets	$665,327,320
Net assets consist of:	
Internal participants' units outstanding ($1.00 par)	$641,053,542
External participants' units outstanding ($1.00 par)	24,273,778
Net assets	$665,327,320
Participants net asset value, offering price and redemption price per share ($665,327,320 / 667,678,183 units)	$ 1.00

Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2005

Investment Income *		$ 13,181,581
Distributions to participants:		
Distributions paid and payable		(13,181,581)
Share transactions at net asset value of $1.00 per share:		
Purchase of units	$13,582,300,590	
Redemption of units	(13,470,458,230)	
Net increase in net assets and shares resulting from share transactions		111,842,360
Total increase in net assets		111,842,360
Net assets, July 1, 2004		553,484,960
Net assets, June 30, 2005		$665,327,320

* 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 $29,731,939 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 $6,393,738 is held in money market mutual funds.

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, 2005, are as follows:

Type of Investment	Quality Rating	Fair Value	Percentage of Portfolio
U.S. Government Obligations*	AAA	$165,585,072	22.83 %
	Unrated	26,892,496	3.71
Foreign Government Obligations	AAA	89,503,655	12.34
	AA	16,383,306	2.26
	A	1,477,406	0.20
	BBB	7,041,913	0.97
	BB	4,015,682	0.55
	B	420,920	0.06
	Unrated	30,934,755	4.26
Asset-Backed Securities	AAA	28,996,110	4.00
	AA	363,634	0.05
	A	674,758	0.09
Commercial Mortgage-Backed Securities	AAA	13,173,740	1.82
	AA	402,430	0.06
Collateralized Mortgage Obligations	AAA	7,016,865	0.97
	Unrated	2,586,385	0.36
Municipal /Provincial Bonds	Unrated	1,143,116	0.16
Corporate Bonds	AAA	9,099,732	1.25
	AA	13,383,469	1.85
	A	29,184,742	4.02
	BBB	32,293,552	4.45
	BB	41,178,112	5.68
	B	37,228,186	5.13
	CCC	467,500	0.06
	Unrated	9,114,964	1.26
Fixed Income Pooled Funds	AA	102,731,385	14.16
Short-term Investments and Other	AA	465,000	0.06
	NA	53,620,750	7.39
Total Fixed Income Securities		$725,379,635	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, 2005, 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	4.54	$ 192,477,568	26.53 %
Foreign Government Obligations	9.74	149,777,637	20.65
Asset-Backed Securities	1.19	30,034,502	4.14
Commercial Mortgage-Backed Securities	3.19	13,576,170	1.87
Collateralized Mortgage Obligations	1.38	9,603,250	1.32
Municipal /Provincial Bonds	N/A	1,143,116	0.16
Corporate Bonds	5.03	171,950,257	23.71
Fixed Income Pooled Funds	1.18	102,731,385	14.16
Short-term Investments and Other	N/A	54,085,750	7.46
Total Fixed Income Securities		$ 725,379,635	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	$ 70,719,983	$ -	$ 12,433,716	$ 83,153,699
British Pound Sterling	48,623,164	23,566,631	(14,380,620)	57,809,175
European Currency Unit	71,355,117	43,943,211	(64,101,543)	51,196,785
Swiss Franc	14,014,394	139,376	1,432,306	15,586,076
Australian Dollar	5,545,464	-	8,015,308	13,560,772
Hong Kong Dollar	10,439,142	-	-	10,439,142
Swedish Krona	7,629,866	19,090,677	(18,488,880)	8,231,663
Canadian Dollar	6,411,014	17,800,624	(19,696,645)	4,514,993
South African Rand	3,934,220	-	-	3,934,220
Thai Baht	3,372,338	-	4	3,372,342
Other Currencies	15,118,491	2,329,169	(2,139,162)	15,308,498
Total International Securities	$257,163,193	$106,869,688	$ (96,925,516)	$ 267,107,365

Derivatives

The System invests in derivative instruments on a limited basis in accordance with the Board's policy. During FY05, the System invested directly in various derivatives including asset-backed securities, collateralized mortgage obligations, exchanged-traded future contracts, forward currency contracts, 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. At June 30, 2005, direct investments in derivatives represented 13.8 percent of the total fair value of the System's portfolio. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual 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 interest rate swaps. An exchange-traded financial futures contract is a legally-binding agreement to buy or sell a financial instrument in a designated future month at a price agreed upon by the buyer and seller at initiation of the contract. Futures contracts are standardized according to quality, quantity and delivery time. Exchange-traded financial futures are used to adjust asset class exposures to achieve target allocations to U.S. fixed income in the form of U.S. Treasury securities. Futures provide a means to achieve these exposures in a more efficient way and at lower transaction costs. To maintain the target level of exposure to fixed income, U.S. Treasury futures contracts are purchased and sold. As of June 30, 2005, the System held the following futures contracts:

Type	Notional Value	Maturity
Foreign Currency	$ 35,190,535	September 2005
	66,762,107	December 2005
	47,890,659	March 2006
	3,599,813	June 2006
Interest Rate	51,925,323	August 2005
	(19,698,733)	September 2005
	(13,540,671)	December 2005
	13,244,696	March 2006
	1,189,122	June 2006
	(21,835,450)	September 2006
U.S. Government Bond	(34,720,537)	September 2005
	5,630,469	December 2005
Foreign Government Bond	45,183,627	September 2005

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, 2005, the fair value of securities on loan was $300,036,600. Cash received as collateral and the related liability of $270,825,841 as of June 30, 2005, 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 $6,289,677 and $5,695,038, 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, 2005:

Securities Lent	Underlying Securities	Non-Cash Collateral Value	Cash Collateral Investment Value
Lent for Cash Collateral:			
U.S. Government Obligations	$ 85,420,501	$ -	$ 87,193,042
Foreign Government Obligations	3,767,570	-	3,935,356
Corporate Bonds	29,065,015	-	29,785,063
Equities	145,250,343	-	149,912,380
Lent for Non-Cash Collateral:			
U.S. Government Obligations	31,527,130	32,311,419	-
Corporate Bonds	2,433,840	2,486,781	-
Equities	2,572,201	2,637,005	-
Total	$300,036,600	$ 37,435,205	$ 270,825,841

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, 2005, 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, 2005, the fair value of the mutual and commingled investment funds was $69,986,937. The fair value of the investments in international mutual funds was $1,720,879.

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, 2005, the fair value of the mutual and commingled investment funds was $186,691,687. The fair value of the investments in international mutual funds included in the County Plan was $8,849,337.

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, 2005, 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, 2005, HOC had the following cash, cash equivalents, investments and maturities:

Cash Equivalents	Fair Value	Less than 1 year
Cash Equivalents:		
General Fund:		
Repurchase agreements	$ 8,000,000	$ 8,000,000
Investment in MLGIP	6,210,370	6,210,370
Money market accounts	5,718,669	5,718,669
Opportunity Housing Fund:		
Investment in County external investment pool	5,250,410	5,250,410
Investment in MLGIP	436,425	436,425
Money market accounts	24,308,519	24,308,519
Public Fund:		
Money market accounts	3,947,717	3,947,717
Investment in MLGIP	4,740,781	4,740,781
Multi-Family Fund - Money market accounts	48,768,232	48,768,232
Single Family Fund - Money market accounts	41,797,669	41,797,669
Total	$149,178,792	$149,178,792
Short-term Investments:		
Opportunity Housing Fund - U.S. Treasury bond	90,483	90,483
Multi-Family Fund - GNMA pool	593,130	593,130
Total	$ 683,613	$ 683,613

Long-Term Investments	Fair Value	1-5 Years	Long-Term	Rating
Long-term Investments:				
Multi-Family Fund:				
U.S. Treasuries	$ 7,964,587	$ -	$ 7,964,587	AAA
Fannie Mae	4,050,980	-	4,050,980	AAA
GNMA pool	84,071,268	46,617,680	37,453,588	AAA
SSB repurchase agreement	2,602,247	-	2,602,247	AAA
Bank One investment agreement	591,525	-	591,525	AA/Aa2
Trinity Plus investment agreement	3,172,670	3,172,670	-	AAA
Freddie Mac	2,654,830	470,645	2,184,185	AAA
Single Family Fund:				
Federal Farm Credit Banks	12,386,421	-	12,386,421	AAA
Federal Home Loan Banks	4,363,400	1,491,747	2,871,653	AAA
U.S. Treasuries	12,288,387	-	12,288,387	AAA
Fannie Mae	1,668,527	-	1,668,527	AAA
Solomon repurchase agreement	2,345,800	-	2,345,800	AA1
Trinity Plus investment agreement	63,942,270	63,942,270	-	AAA
TransAmercia	15,859,233	15,859,233	-	A+
Total	217,962,145	131,554,245	86,407,900	
Cash balances	602,319			
Total cash, cash equivalents and investments	$368,426,869			

B) Receivables

1) Accounts Receivable

The allowance for doubtful accounts at June 30, 2005, reported in the enterprise funds, amounted to:

Liquor	$ 323,700
Solid Waste Activities	48,358
Parking Lot Districts	6,776,091
	$ 7,148,149

2) Due from/to Component Units

The balances at June 30, 2005, were:

Due from Component Units / Due to Primary Government: Due from Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due to Primary Government:						
General	$ 1,316,837	$ 1,800,000	$ 60,513	$ 1,378,741	$ -	$ 4,556,091
Capital Projects	-	-	-	13,257,693	-	13,257,693
Solid Waste Activities Enterprise	61,849	471	-	1,002	-	63,322
Nonmajor governmental	-	-	-	27,673,177	-	27,673,177
Internal Service	14,429	6,765	3,589	309,041	10,494	344,318
Fiduciary	-	-	8,837	81,544	-	90,381
Total Due to Primary Government	$ 1,393,115	$ 1,807,236	$ 72,939	$ 42,701,198	$ 10,494	$ 45,984,982

Due to Component Units / Due from Primary Government: Due to Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due from Primary Government:						
General	$ 51,269,480	$ 62,015	$ -	$ 519,501	$ -	$ 51,850,996
Capital Projects	14,069,441	4,931,144	-	9,215	-	19,009,800
Nonmajor governmental	1,348,033	16,502	-	125,326	11,758	1,501,619
Nonmajor Enterprise	569,259	-	-	-	-	569,259
Total Due from Primary Government	$ 67,256,213	$ 5,009,661	$ -	$ 654,042	$ 11,758	$ 72,931,674

In the nonmajor governmental funds, $21,180,563 due from HOC to the Housing Initiative Special Revenue Fund represents mortgage loans, which are generally repayable based on project cash flows, specified future dates, or sales of the respective properties. Included in this amount is a loan of $2,213,324, for which payments are based on cash flows. Terms of the note stipulate that the balance of the note will be forgiven at the termination of the ground lease in December 2035. To date the project has not generated cash flows. This loan is offset by deferred revenue. Also included in the amount above is a ground lease, upon which is located affordable housing owned by HOC. The ground lease provides for lease payments from HOC for $1 per year for 83 years. Fund balance has been reserved for the remaining loans.

3) Due From Other Governments

The total amount due from other governments at June 30, 2005, was comprised of the following:

	General	Capital Projects	Solid Waste Activities	Parking Lot Districts	Nonmajor Governmental	Internal Service	Fiduciary	Total
Federal government	$ -	$ 1,410,213	$ 687	$ -	$ 1,519,960	$ 336	$ -	$ 2,931,196
State of Maryland	34,399,560	9,636,384	5,683	-	18,158,687	23,504	43,677	62,267,495
Other	207,572	695,160	138,342	193,364	187,797	19,886	9,211	1,451,332
Total	$ 34,607,132	$ 11,741,757	$ 144,712	$ 193,364	$ 19,866,444	$ 43,726	$ 52,888	$ 66,650,023

B) Capital Assets

PRIMARY GOVERNMENT

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance July 1, 2004 *	Increases	Decreases	Balance June 30, 2005
Governmental Activities				
Nondepreciable Capital Assets:				
Land	$ 485,901,383	$ 20,536,815	$ 729,079	$ 505,709,119
Construction in progress	233,804,099	108,029,846	214,841,621	126,992,324
Total Nondepreciable Capital Assets	719,705,482	128,566,661	215,570,700	632,701,443
Depreciable Capital Assets:				
Buildings	528,404,040	154,886,754	2,802,789	680,488,005
Improvements other than buildings	45,742,635	634,624	1,708,168	44,669,091
Furniture, fixtures, equipment and machinery	180,835,341	29,797,342	310,557	210,322,126
Leasehold improvements	7,221,582	1,368,706	-	8,590,288
Automobiles and trucks	157,167,181	9,460,821	6,694,917	159,933,085
Infrastructure	1,377,946,353	65,499,809	-	1,443,446,162
Other assets	2,079,731	-	-	2,079,731
Total Capital Assets being Depreciated	2,299,396,863	261,648,056	11,516,431	2,549,528,488
Less Accumulated Depreciation for:				
Buildings	187,600,517	17,373,801	2,425,330	202,548,988
Improvements other than buildings	22,181,848	1,419,642	899,862	22,701,628
Furniture, fixtures, equipment and machinery	53,746,062	18,604,753	265,810	72,085,005
Leasehold improvements	315,228	400,268	-	715,496
Automobiles and trucks	75,130,120	12,043,337	6,504,924	80,668,533
Infrastructure	315,467,085	28,983,414	-	344,450,499
Other assets	867,659	207,973	-	1,075,632
Total Accumulated Depreciation	655,308,519	79,033,188	10,095,926	724,245,781
Total Depreciable Assets, net	1,644,088,344	182,614,868	1,420,505	1,825,282,707
Governmental Activities Capital Assets, net	$ 2,363,793,826	$ 311,181,529	$ 216,991,205	$ 2,457,984,150
Business-Type Activities				
Nondepreciable Capital Assets:				
Land	$ 52,777,663	$ -	$ -	$ 52,777,663
Construction in progress	15,382	22,812,762	10,547,828	12,280,316
Total Nondepreciable Capital Assets	52,793,045	22,812,762	10,547,828	65,057,979
Depreciable Capital Assets:				
Buildings	194,588,225	6,126,995	3,643,265	197,071,955
Improvements other than buildings	108,697,664	4,792,340	1,224,465	112,265,539
Furniture, fixtures, equipment and machinery	17,980,417	1,436,030	1,266,930	18,149,517
Automobiles and trucks	3,665,921	42,234	78,021	3,630,134
Total Capital Assets being Depreciated	324,932,227	12,397,599	6,212,681	331,117,145
Less Accumulated Depreciation for:				
Buildings	65,040,927	6,323,986	1,974,046	69,390,867
Improvements other than buildings	89,969,006	2,750,820	1,174,161	91,545,665
Furniture, fixtures, equipment and machinery	11,677,219	1,303,284	1,251,846	11,728,657
Automobiles and trucks	2,482,359	231,499	67,549	2,646,309
Total Accumulated Depreciation	169,169,511	10,609,589	4,467,602	175,311,498
Total Depreciable Assets, net	155,762,716	1,788,010	1,745,079	155,805,647
Business-Type Activities Capital Assets, net	$ 208,555,761	$ 24,600,772	$ 12,292,907	$ 220,863,626

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

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

Governmental activities:	
General government	$ 8,744,639
Public safety	24,238,249
Public works and transportation	37,924,354
Health and human services	1,111,843
Culture and recreation	5,373,163
Community development and housing	1,420,438
Environment	220,502
Total depreciation expense-governmental activities	$ 79,033,188
Business-type activities:	
Liquor	$ 737,777
Solid waste activities	2,602,717
Parking lot districts	7,217,465
Permitting services	51,630
Total depreciation expense-business-type activities	$ 10,609,589

Construction commitments as of June 30, 2005, are as follows:

General government	$ 12,906,173
Public safety	12,002,406
Public works and transportation	28,277,354
Culture and recreation	24,812,457
Community development and housing	9,072,613
Environment	2,852,639
Total	$ 89,923,642

COMPONENT UNITS

Capital assets of MCPS, amounting to $1,374,379,959 at June 30, 2005, are significant in relation to the total component unit capital assets.

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Governmental Activities				
Nondepreciable capital assets:				
Land	$ 66,547,599	$ 1,127,605	$ 29,956	$ 67,645,248
Construction in progress	95,288,745	113,842,370	81,224,651	127,906,464
Total nondepreciable capital assets	161,836,344	114,969,975	81,254,607	195,551,712
Depreciable capital assets:				
Buildings and improvements	1,485,260,653	78,337,886	1,272,809	1,562,325,730
Site improvements	113,288,489	6,569,500	-	119,857,989
Vehicles and equipment	118,305,277	13,113,387	4,723,429	126,695,235
Total depreciable capital assets	1,716,854,419	98,020,773	5,996,238	1,808,878,954
Less accumulated depreciation for:				
Buildings and improvements	504,460,420	35,857,658	1,116,007	539,202,071
Site improvements	22,239,990	2,740,001	-	24,979,991
Vehicles and equipment	67,284,472	8,945,908	4,577,825	71,652,555
Total accumulated depreciation	593,984,882	47,543,567	5,693,832	635,834,617
Total depreciable capital assets, net	1,122,869,537	50,477,206	302,406	1,173,044,337
Governmental activities capital assets, net	$1,284,705,881	$165,447,181	$ 81,557,013	1,368,596,049
Business-Type Activities				
Depreciable capital assets:				
Buildings	$ 17,831	$ -	$ -	17,831
Vehicles and equipment	16,613,395	1,807,182	42,568	18,378,009
Total depreciable capital assets	16,631,226	1,807,182	42,568	18,395,840
Less accumulated depreciation for:				
Buildings	8,024	1,783	-	9,807
Vehicles and equipment	11,613,311	1,028,907	40,095	12,602,123
Total accumulated depreciation	11,621,335	1,030,690	40,095	12,611,930
Business-type activities capital assets, net	$ 5,009,891	$ 776,492	$ 2,473	5,783,910
Total MCPS government-wide capital assets				$ 1,374,379,959

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

Governmental activities:	
Regular instruction	$ 39,485,723
Special education	297,203
School administration	31,187
Student personnel services	1,936
Student transportation	6,087,767
Operation of plant	185,081
Maintenance of plant	460,931
Administration	993,739
Total depreciation expense-governmental activities	$ 47,543,567
Business-type activities:	
Food services	$ 1,016,862
Adult education and summer entrepreneurial	8,830
Real estate management	4,998
Total depreciation expense-business type activities	$ 1,030,690

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

The composition of interfund receivables and payables as of June 30, 2005, is as follows:

	Due From Fund					
Due To Fund	General	Solid Waste Activities	Nonmajor Governmental	Internal Service	Fiduciary	Total
General	$ -	$ 1,268	$ -	$ 2,920,801	$ 4,066,455	$ 6,988,524
Debt Service	28,526,469	-	1,189,880	-	-	29,716,349
Capital Projects	75,382,242		3,207,535	66,372	71,630	78,727,779
Liquor	-	2,137	-	137,874	108,623	248,634
Solid Waste Activities	-	-	-	46,364	54,693	101,057
Parking Lot Districts	-	954	-	15,927	16,899	33,780
Nonmajor Governmental	-	185	-	1,121,074	1,480,518	2,601,777
Nonmajor Enterprise	-	-	-	122,293	180,261	302,554
Internal Service	369,000	-	-	119,848	105,128	593,976
Fiduciary	-	-	-	1,946	532	2,478
Total	$ 104,277,711	$ 4,544	$ 4,397,415	$ 4,552,499	$ 6,084,739	$ 119,316,908

Included in the amounts presented above are the following short-term loans from the General Fund that were or will be repaid during FY06:

- $28.0 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;
- $28.5 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; and
- $.369 million to the Central Duplicating Internal Service Fund to offset cash deficits.

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

Interfund transfers for the year ended June 30, 2005, 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	$ -	$ 186,529,027	$ 19,027,068	$ 6,102,783	$ 23,733,932	$ 5,000	$ 605,796	$ 236,003,606
Debt Service	-	-	2,369,863	-	-	-	-	2,369,863
Liquor	20,503,510	-	-	-	-	-	-	20,503,510
Solid Waste Activities	1,654,530	-	-	-	-	-	-	1,654,530
Parking Lot Districts	1,913,440	-	5,827	-	8,787,401	-	-	10,706,668
Nonmajor Governmental	10,334,120	15,242,200	5,239,233	-	1,343,073	-	615,377	32,774,003
Nonmajor Enterprise	3,031,330	-	-	-	-	-	13,673	3,045,003
Internal Service Funds	-	-	-	-	40,500	-	-	40,500
Total	$ 37,436,930	$ 201,771,227	$ 26,641,991	$ 6,102,783	$ 33,904,906	$ 5,000	$ 1,234,846	$ 307,097,683

Primary activities include:

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

Included in the amounts above is $11,874,700 contributed by the General Fund to the Housing Initiative Special Revenue Fund to provide supplemental funding to the program.

Nonmajor governmental transfers in, include $40,500 in capital asset contributions to the Mass Transit program (a special revenue fund) of the general government. Such amounts are treated as governmental transfers for government-wide purposes. At the fund level, the contribution is reported as a transfer out in the Motor Pool Internal Service Fund, but is not reported in the Mass Transit Special Revenue Fund, in accordance with generally accepted accounting principles. Therefore, nonmajor governmental transfers in reported in the schedule above will not agree to the Other Governmental Funds transfers in reported in the accompanying financial statements.

Transfers at the government-wide financial statement level include $5,902,942 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 $10,852,000 for FY05. Future minimum lease payments under significant non-cancelable operating leases are as follows:

Fiscal Year Ending June 30	
2006	$12,578,000
2007	10,415,000
2008	9,777,000
2009	8,872,000
2010	7,890,000
2011 - 2015	18,836,000
2016	466,000
Total	$68,834,000

2) Capital Lease Receivable

Pursuant to the issue of the 2002 Lease Revenue Bonds and 2004 Lease Revenue Bonds (See Note III-F5), the County is obligated to lease the Shady Grove and Grosvenor Metrorail Garage Projects to WMATA at amounts calculated to be sufficient in both time and amount to pay, when due, the principal of and interest on the bonds. 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	$ 31,608,026	$31,079,198	$ 62,687,224
Unearned lease income	(10,790,416)	(10,621,808)	(21,412,224)
Net investment in direct financing leases	$ 20,817,610	$20,457,390	$ 41,275,000

At June 30, 2005, the minimum future lease payments due under the direct financing capital lease agreements are as follows:

Fiscal Year Ending June 30	
2006	$ 3,292,757
2007	3,294,214
2008	3,292,339
2009	3,295,276
2010	3,294,214
Later years	46,218,424
Total minimum lease payments	$ 62,687,224

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	182,516
Buildings	34,302,177
Furniture, fixtures, equipment and machinery	159,291
Subtotal	48,093,017
Less accumulated depreciation	(14,575,912)
Total asset value under capital leases	$ 33,517,105

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2005, are as follows:

Fiscal Year Ending June 30	
2006	$ 3,794,725
2007	3,763,272
2008	3,745,638
2009	3,359,503
2010	3,369,600
2011-2015	11,436,539
2016-2020	6,267,275
2021-2023	2,985,500
Total minimum lease payments	38,722,052
Less: amount representing interest	(11,397,052)
Present value of minimum lease payments	$ 27,325,000

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 also entered into a lease agreement as lessee with MCRA to lease from MCRA the Germantown Indoor Swim Center. The construction of the Germantown Swim Center, which is still in progress, is being funded through the issuance of lease revenue bonds by MCRA. The ownership of the Germantown Swim Center will transfer to the County at the end of the MCRA lease term. Bond funded costs incurred as of year-end totaling $11,916,313 are recorded as construction-in-progress.

Since construction of the Germantown Swim Center is not yet complete, the asset and liability presented in the Statement of Net Assets do not equal the total present value of minimum lease payments presented below.

Fiscal Year Ending June 30	
2006	$ 1,833,075
2007	1,833,825
2008	1,832,075
2009	1,834,950
2010	1,834,200
2011-2015	9,173,400
2016-2019	7,336,800
Total minimum lease payments	25,678,325
Less: amount representing interest	(7,023,325)
Present value of minimum lease payments	$18,655,000

The County has entered into a lease agreement as lessee with the Maryland Economic Development Corporation (MEDCO) to lease from MEDCO the Town Square Garage 61 and Wayne Avenue Garages, located in the Silver Spring Parking Lot District (SSPLD). The construction of these garages is being funded through the issuance of lease revenue bonds by MEDCO. The ownership of the garages will transfer to the County at the end of the lease term. Although this capital lease is a general governmental obligation, the asset is reflected in the SSPLD, as required by law, 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	$24,409,836	$ 25,976,677	$50,386,513
Less accumulated depreciation	(813,661)	(938,047)	(1,751,708)
Total asset value under capital leases	$23,596,175	$ 25,038,630	$48,634,805

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2005, are as follows:

Fiscal Year Ending June 30	Town Square	Wayne Ave	Total
2006	$ 2,485,201	$ 3,373,788	$ 5,858,989
2007	2,485,804	3,376,563	5,862,367
2008	2,482,246	3,108,763	5,591,009
2009	2,477,591	3,075,925	5,553,516
2010	2,476,852	3,113,475	5,590,327
2011-2015	12,303,993	15,494,669	27,798,662
2016-2017	4,886,845	6,187,505	11,074,350
Total minimum lease payments	29,598,532	37,730,688	67,329,220
Less: amount representing interest	(6,218,532)	(9,080,688)	(15,299,220)
Present value of minimum lease payments	$ 23,380,000	$ 28,650,000	$ 52,030,000

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.

On September 28, 2004, the County issued $97,690,000 in general obligation refunding bonds dated August 15, 2004. These bonds were issued with a true interest cost of 3.72%, to current refund $95,750,000 of general obligation (GO) refunding bonds that were previously issued. A detailed listing of these refunded bonds is as follows:

	Dated Date	Original Maturity	True Interest Cost	Originally Issued	Years Refunded	Amount Refunded
GO Bonds	4/15/97	1998-17	5.3226%	$ 115,000,000	2009 2016-17	$ 17,250,000
GO Bonds	4/1/98	1999-18	4.7607%	115,000,000	2010 2013-17	34,500,000
GO Bonds	4/1/99	2000-19	4.4760%	120,000,000	2012 2014-18	36,000,000
GO Bonds	2/1/02	2003-22	4.4619%	160,000,000	2018	8,000,000
				$ 510,000,000		$ 95,750,000

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

The reacquisition price exceeded the net carrying amount of the old debt by $8,494,368. This amount is being netted against the new debt and amortized over the remaining life of the new debt.

Fiscal Year	Refunded Debt Service Requirements	Refunding Debt Service Requirements	Debt Service Savings
2005	$ 4,549,062	$ 1,879,488	$ 2,669,574
2006	4,749,063	4,422,325	326,738
2007	4,749,063	4,422,325	326,738
2008	4,749,063	4,422,325	326,738
2009	10,499,062	8,717,200	1,781,862
2010	10,190,000	10,185,950	4,050
2011	4,159,687	4,157,725	1,962
2012	10,159,687	10,157,100	2,587
2013	9,624,688	9,620,075	4,613
2014	15,344,375	15,343,700	675
2015	14,779,063	14,776,363	2,700
2016	19,963,750	19,963,650	100
2017	19,089,375	19,085,987	3,388
2018	14,700,000	14,695,788	4,212
Total	$147,305,938	$ 141,850,001	$ 5,455,937

The present value of the above debt service savings (or economic gain) is $3,325,787.

On June 28, 2005, the County issued $120,355,000 in general obligation refunding bonds dated June 1, 2005. These bonds were issued with a true interest cost of 3.78%, to current refund $122,250,000 of general obligation (GO) refunding bonds that were previously issued. A detailed listing of these refunded bonds is as follows:

	Dated Date	Original Maturity	True Interest Cost	Originally Issued	Years Refunded	Amount Refunded
GO Bonds	4/1/98	1999-18	4.7607%	$ 115,000,000	2018	$ 5,750,000
GO Bonds	4/1/99	2000-19	4.4760%	120,000,000	2019	6,000,000
GO Bonds	1/1/00	2001-20	5.4850%	130,000,000	2012	6,500,000
GO Bonds	2/1/01	2002-21	4.5447%	140,000,000	2014-21	56,000,000
GO Bonds	2/1/02	2003-22	4.4619%	160,000,000	2016-17	48,000,000
					2019-22	
				$ 665,000,000		$ 122,250,000

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

The reacquisition price exceeded the net carrying amount of the old debt by $11,689,066. This amount is being netted against the new debt and amortized over the remaining life of the new debt.

Fiscal Year	Refunded Debt Service Requirements	Refunding Debt Service Requirements	Debt Service Savings
2005	$ -	$ (451,331)	$ 451,331
2006	6,051,563	3,510,354	2,541,209
2007	6,051,563	6,017,750	33,813
2008	6,051,563	6,017,750	33,813
2009	6,051,562	6,017,750	33,812
2010	6,051,562	6,017,750	33,812
2011	6,051,562	6,017,750	33,812
2012	12,551,563	12,043,250	508,313
2013	5,710,312	5,708,750	1,562
2014	12,710,313	12,202,250	508,063
2015	12,377,812	11,869,250	508,562
2016	20,045,313	19,541,000	504,313
2017	19,312,812	18,807,250	505,562
2018	16,330,313	15,825,625	504,688
2019	23,950,000	23,444,875	505,125
2020	16,900,000	16,391,500	508,500
2021	16,150,000	15,642,125	507,875
2022	8,400,000	7,892,500	507,500
Total	$ 200,747,813	$192,516,148	$ 8,231,665

The present value of the above debt service savings (or economic gain) is $4,591,792.

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, 2005, $122,250,000, and $35,750,000 respectively, in general obligation bonds referred to above are considered to be defeased.

General obligation bond issues outstanding as of June 30, 2005, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2005	Unamortized Premium **	Unamortized Deferred Difference	Carrying Value June 30, 2005
04/01/86	1987-06	5.8 - 6.3	$ 50,000,000	$ 2,500,000	$ -	$ -	$ 2,500,000
07/01/92 *	1993-10	2.75 - 5.8	273,038,054	94,518,054	-	-	94,518,054
10/01/94	1995-08	5.2 - 6.125	100,000,000	5,000,000	-	-	5,000,000
03/15/96	1997-16	5.1 - 5.5	120,000,000	12,000,000	-	-	12,000,000
04/15/97	1998-17	5.0 - 5.375	115,000,000	17,250,000	-	-	17,250,000
01/01/98 *	2003-15	3.9 - 5.25	69,510,000	68,275,000	-	-	68,275,000
04/01/98	1999-18	4.875	115,000,000	23,000,000	-	-	23,000,000
04/01/99	2000-19	4.0 - 5.0	120,000,000	36,000,000	-	-	36,000,000
01/01/00	2001-20	5.0 - 6.0	130,000,000	39,000,000	-	-	39,000,000
02/01/01	2002-21	4.0 - 5.0	140,000,000	56,000,000	-	-	56,000,000
11/15/01 *	2003-19	3.6 - 5.25	146,375,000	138,595,000	6,122,645	(7,843,355)	136,874,290
02/01/02	2003-22	3.0 - 5.0	160,000,000	80,000,000	1,746,565	-	81,746,565
11/15/02 *	2005-13	2.75 - 5.25	93,595,000	93,595,000	6,323,427	(4,780,371)	95,138,056
05/01/03	2004-23	1.5 - 4.0	155,000,000	139,500,000	1,126,811	-	140,626,811
05/01/03*	2004-11	2.0 - 5.0	49,505,000	45,060,000	2,708,019	(1,225,801)	46,542,218
03/15/04	2005-24	3.0 - 5.0	154,600,000	146,870,000	9,472,432	-	156,342,432
08/15/04*	2008-17	3.0 - 5.25	97,690,000	97,690,000	6,358,360	(7,784,380)	96,263,980
05/15/05	2006-25	4.0 - 5.0	200,000,000	200,000,000	14,465,092	-	214,465,092
06/01/05*			120,355,000	120,355,000	14,147,935	(11,614,061)	122,888,874
Total			$ 2,409,668,054	$ 1,415,208,054	$ 62,471,286	$ (33,247,968)	$ 1,444,431,372

* 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 FY05 are as follows:

	Balance July 1, 2004	Bonds Issued	Bonds Retired	Bonds Refunded	Balance June 30, 2005
Governmental Activities:					
General County	$ 210,124,080	$ 77,587,027	$ 16,705,311	$ 36,626,825	$ 234,378,971
Roads and Storm Drainage	330,186,668	107,839,607	30,930,689	50,672,000	356,423,586
Parks	43,290,733	18,931,200	3,559,291	5,443,675	53,218,967
Public Schools	669,568,960	181,864,529	56,510,941	115,271,369	679,651,179
Community College	42,008,469	20,059,440	2,843,202	5,321,131	53,903,576
Consolidated Fire Tax District	17,059,709	9,016,955	1,513,336	3,130,000	21,433,328
Mass Transit	16,332,736	2,746,242	2,252,706	1,535,000	15,291,272
Public Housing	1,098,568	-	247,905	-	850,663
	1,329,669,923	418,045,000	114,563,381	218,000,000	1,415,151,542
Business-Type Activities/Enterprise Funds:					
Solid Waste Activities:					
General County	108,131	-	51,619	-	56,512
	108,131	-	51,619	-	56,512
Total	$ 1,329,778,054	$ 418,045,000	$ 114,615,000	$ 218,000,000	$ 1,415,208,054

For the general obligation bonds carried in the enterprise funds, $51,618 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
2006	$ 121,320,000	$ 62,996,099	$ 184,316,099
2007	121,210,000	59,445,627	180,655,627
2008	120,940,000	53,663,590	174,603,590
2009	99,786,683	60,498,882	160,285,565
2010	98,387,086	51,784,454	150,171,540
2011-2015	430,624,285	156,225,687	586,849,972
2016-2020	296,185,000	63,786,243	359,971,243
2021-2025	126,755,000	13,730,152	140,485,152
Total	$ 1,415,208,054	$ 522,130,734	$1,937,338,788

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, 2005, is $5,065,888,861.

General obligation bonds authorized and unissued as of June 30, 2005, are as follows:

Purpose	Authority Chapter	Authority Act	Authority Amount	Amount Unissued
General County, Parks, and	22	2000	$ 78,300,000	$ 1,690,000
Consolidated Fire Tax District	17	2001	35,200,000	35,200,000
	21	2002	4,700,000	4,700,000
	17	2003	63,600,000	63,600,000
	18	2004	31,200,000	31,200,000
			213,000,000	136,390,000
Roads and Storm Drainage	21	2002	34,800,000	33,240,000
	17	2003	1,700,000	1,700,000
	18	2004	97,500,000	97,500,000
			134,000,000	132,440,000
Public Schools and	21	2002	104,800,000	26,768,000
Community College	17	2003	52,400,000	52,400,000
	18	2004	145,000,000	145,000,000
			302,200,000	224,168,000
Mass Transit	17	2001	6,700,000	5,605,000
	21	2002	1,600,000	1,600,000
	17	2003	900,000	900,000
			9,200,000	8,105,000
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			$ 677,345,000	$ 514,803,000

In addition to this bond authority, the County has authority under the provisions of Section 56-13 of the 1994 Montgomery County Code, as amended, to issue County bonds within statutory debt limits to finance approved urban renewal projects.

2) Revenue Bonds Payable

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

Revenue bond issues outstanding as of June 30, 2005, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2005	Unamortized Premium/ (Discount)	Unamortized Deferred Difference	Carrying Value June 30, 2005
Parking Revenue Refunding 2002:								
Bethesda Parking Lot District	05/01/02	2003-09	3.00 - 5.00	$ 14,560,000	$ 7,925,000	$ 98,203	$ (203,341)	$ 7,819,862
Silver Spring Parking Lot District	05/01/02	2003-09	3.00 - 5.00	12,130,000	6,050,000	88,243	(148,016)	5,990,227
Parking Revenue 2002A:								
Bethesda Parking Lot District	06/01/02	2003-21	3.00 - 4.75	26,000,000	22,995,000	(20,278)	-	22,974,722
Solid Waste Refunding 2003A	04/03/03	2004-13	3.00 - 5.00	31,075,000	25,685,000	980,573	(1,073,521)	25,592,052
Total				$ 83,765,000	$ 62,655,000	$ 1,146,741	$ (1,424,878)	$ 62,376,863

Changes in revenue bond principal during FY05 are as follows:

`	Balance July 1, 2004	Bonds Issued	Bonds Retired	Balance June 30, 2005
Bethesda Parking Lot District	$ 34,235,000	$ -	$ 3,315,000	$ 30,920,000
Silver Spring Parking Lot District	8,160,000	-	2,110,000	6,050,000
Solid Waste Disposal	28,520,000	-	2,835,000	25,685,000
Total	$ 70,915,000	$ -	$ 8,260,000	$ 62,655,000

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
2006	$ 3,430,000	$ 1,282,102	$ 2,180,000	$ 244,288
2007	3,550,000	1,168,027	2,265,000	173,438
2008	2,595,000	1,043,778	780,000	60,187
2009	2,730,000	930,678	825,000	30,937
2010	1,200,000	821,478	-	-
2011-2015	6,830,000	3,338,707	-	-
2016-2020	8,600,000	1,711,170	-	-
2021	1,985,000	94,288	-	-
Total	$30,920,000	$ 10,390,228	$ 6,050,000	$ 508,850

Fiscal Year Ending June 30	Solid Waste Disposal		Total Revenue Bond Requirements		
	Principal	Interest	Principal	Interest	Total
2006	$ 2,920,000	$ 1,092,300	$ 8,530,000	$ 2,618,690	$ 11,148,690
2007	3,005,000	1,004,700	8,820,000	2,346,165	11,166,165
2008	3,160,000	854,450	6,535,000	1,958,415	8,493,415
2009	3,255,000	751,750	6,810,000	1,713,365	8,523,365
2010	3,420,000	589,000	4,620,000	1,410,478	6,030,478
2011-2015	9,925,000	913,750	16,755,000	4,252,457	21,007,457
2016-2020	-	-	8,600,000	1,711,170	10,311,170
2021	-	-	1,985,000	94,288	2,079,288
Total	$25,685,000	$ 5,205,950	$ 62,655,000	$ 16,105,028	$ 78,760,028

Revenue bonds authorized and unissued as of June 30, 2005, are as follows:

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

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

Purpose	Bethesda Parking Lot District	Silver Spring Parking Lot District	Solid Waste Disposal
Operation and Maintenance Account - Available to pay current expenses	$ 830,117	$ 1,104,133	$ -
Debt Service Account - Used to pay debt service on bonds	392,675	202,024	-
Debt Service Reserve Account (including accrued interest) - Available to pay debt service on bonds if there is insufficient money available in the Debt Service Account	-	-	3,215,206
Renewal and Renovation Account - Available for payment of renewals, replacements, renovations, and unusual and extraordinary repairs	1,500,000	1,500,000	2,445,501
Rate Covenant Cash Reserve - Available to fund operating activities for a minimum of three months	-	-	22,819,080
Rate Stabilization Account - In case of short-term extraordinary expenses	-	-	2,749,000
Total	$ 2,722,792	$ 2,806,157	$ 31,228,787

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

3) Bond Anticipation Notes Payable

Commercial paper bond anticipation notes (BANs) are authorized, issued, and outstanding as financing sources for capital construction and improvements. Changes in BANs during FY05 are as follows:

	Balance July 1, 2004	BANs Issued	BANs Retired	Balance June 30, 2005
BAN Series 2002-D	$ 35,000,000	$ -	$ 35,000,000	$ -
BAN Series 2002-E	115,000,000	-	115,000,000	-
BAN Series 2002-F	-	50,000,000	50,000,000	-
Total	$ 150,000,000	$ 50,000,000	$ 200,000,000	$ -

BAN Notes, Series 2002-D, Series 2002-E, and Series 2002-F, totaling $200,000,000 were retired on May 26, 2005 with proceeds from general obligation bonds dated May 15, 2005.

The interest rate changes based on market conditions. During FY05, the rate of interest varied from 1.04 to 3.05 percent. Interest earned on BAN proceeds totaled $882,283 during FY05, which was accounted for in the Debt Service Fund.

BANs totaling $50 million were issued during FY05 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, and July 27, 2004 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 FY06, 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, and Resolution No. 15-729 dated July 27, 2004, the amount of BANs authorized and unissued as of June 30, 2005, is $504,403,000.

4) <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 represent 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 requires the County, as purchaser, to make periodic purchase installments in amounts sufficient to pay the scheduled debt service on the certificates until the County pays the entire price necessary to acquire the equipment, which shall be equal to the amount necessary to pay the principal and interest on all outstanding certificates. The ability of the County, as purchaser, to pay the purchase installments due under the CPA depends upon sufficient funds being appropriated each year by the County Council for such purpose. The County may terminate the CPA at the end of the last fiscal year or earlier date for which an appropriation is available if sufficient funds are not appropriated for any fiscal year. The County Council is under no obligation to make any appropriation with respect to the CPA. The CPA is not a general obligation of the County and does not constitute an indebtedness of the County within the meaning of any constitutional or statutory limitation or a charge against the general credit or taxing powers of the County.

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

Fiscal Year Ending June 30	Certificates of Participation		
	Principal	Interest	Total
2006	$ 9,780,000	$ 440,100	$ 10,220,100

5) Lease Revenue Bonds

In June 2002, the County issued Lease Revenue Bonds dated June 1, 2002, in the amount of $37.88 million for its Metrorail garage projects. These bonds were issued to finance the costs of the planning, design, construction, and placing into commercial operation, of garages at the Shady Grove and Grosvenor Metrorail Stations. The County has leased these metrorail garage projects to the Washington Metropolitan Area Transit Authority (WMATA). The bonds are payable from and secured by a pledge of revenues from WMATA's lease payments and certain reserve funds. WMATA's obligation to make payments under the leases are payable solely from amounts held in a Surcharge Reserve Account which is funded by revenues from a surcharge on the parking facilities. WMATA is not obligated to pay the principal or interest on the bonds. In the event that the County's Reserve Subfund of $3,349,477, 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, 2005, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2005	Unamortized Premium	Carrying Value June 30, 2005
Lease Revenue Bonds	06/01/02	2005-24	4.6064%	$ 37,880,000	$ 36,680,000	$ 123,503	$ 36,803,503
Lease Revenue Bonds	09/01/04	2005-24	3.7908%	4,745,000	4,595,000	24,469	4,619,469
Total				$ 42,625,000	$ 41,275,000	$ 147,972	$ 41,422,972

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

Fiscal Year Ending June 30	Lease Revenue Bond Requirements Principal	Interest	Total
2006	$ 1,485,000	$ 1,807,758	$ 3,292,758
2007	1,535,000	1,759,214	3,294,214
2008	1,585,000	1,707,339	3,292,339
2009	1,645,000	1,650,277	3,295,277
2010	1,705,000	1,589,214	3,294,214
2011-2015	9,640,000	6,856,319	16,496,319
2016-2020	12,015,000	4,594,255	16,609,255
2021-2024	11,665,000	1,447,850	13,112,850
Total	$ 41,275,000	$21,412,226	$62,687,226

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

In September 1998, the County entered into a $1,800,000 long-term loan agreement with the Maryland Industrial and Commercial Redevelopment Fund (MICRF). In accordance with terms of the loan, the proceeds have been reloaned to a private corporation for purposes of renovation and relocation of facilities to the County. After fulfilling the necessary requirements, $150,000 of the loan was converted to a State grant during FY02. Although it is expected that the County's loan with MICRF will be repaid by loan repayments received from the private user, through the Economic Development Special Revenue Fund, the County's loan is a full faith and credit obligation of the County. The principal amount payable at June 30, 2005, for this loan is $1,198,385.

7) <u>Taxable Term Loans</u>

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. The principal amount payable at June 30, 2005, for this loan is $4,315,715.

8) <u>HUD Loan</u>

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, 2005, for this loan is $827,000.

9) <u>Due to Component Unit – HOC Loan</u>

On March 31, 2003, with the assistance of HOC, the County acquired the former Econo Lodge in Gaithersburg to convert it to a facility providing housing for eligible families and individuals. A portion of the funding for the acquisition, $2.55 million, came from the HOC MPDU/Property Acquisition Fund. The County used this interim financing source until a permanent financing source could be identified. The County repaid HOC in June 2005.

10) Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

Governmental Activities	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Due within one year
Bonds and Notes Payable:					
General obligation bonds	$ 1,329,669,923	$ 418,045,000	$ (332,563,381)	$ 1,415,151,542	$ 121,268,382
Bond anticipation notes	150,000,000	50,000,000	(200,000,000)	-	-
Lease revenue bonds	37,880,000	4,745,000	(1,350,000)	41,275,000	1,485,000
State MICRF loan	1,270,924	-	(72,539)	1,198,385	75,250
Equipment notes	873,167	6,091,376	(532,114)	6,432,429	1,584,818
Taxable term loans	5,332,000	-	(1,016,285)	4,315,715	1,028,105
HUD loan	870,000	-	(43,000)	827,000	43,000
Subtotal	1,525,896,014	478,881,376	(535,577,319)	1,469,200,071	125,484,555
Add remaining original issue premium	32,545,879	35,843,146	(5,769,767)	62,619,258	-
Less deferred amount on refundings	(16,346,812)	(20,183,434)	3,282,278	(33,247,968)	-
Total Bonds and Notes Payable	1,542,095,081	494,541,088	(538,064,808)	1,498,571,361	125,484,555
Other Liabilities:					
Certificates of participation	19,215,000	-	(9,435,000)	9,780,000	9,780,000
Due to component units - HOC loan	2,550,000	-	(2,550,000)	-	-
Compensated absences	47,765,576	38,645,017	(35,077,409)	51,333,184	38,499,888
Capital leases	69,173,538	21,931,045	(7,135,000)	83,969,583	7,010,000
Claims and judgments	5,246,000	-	(4,046,000)	1,200,000	1,200,000
Total Other Liabilities	143,950,114	60,576,062	(58,243,409)	146,282,767	56,489,888
Governmental Activities Long-Term Liabilities	$ 1,686,045,195	$ 555,117,150	$ (596,308,217)	$ 1,644,854,128	$ 181,974,443
Business-Type Activities					
General Obligation Bonds:					
Solid waste disposal	$ 108,131	$ -	$ (51,619)	$ 56,512	$ 51,618
Revenue Bonds:					
Parking revenue bonds	42,395,000	-	(5,425,000)	36,970,000	5,610,000
Solid waste disposal revenue refunding bonds	28,520,000	-	(2,835,000)	25,685,000	2,920,000
Subtotal	71,023,131	-	(8,311,619)	62,711,512	8,581,618
Add remaining original issue premium	1,529,343	-	(362,324)	1,167,019	-
Less remaining original issue discount	(22,535)	-	2,257	(20,278)	-
Less deferred amount on refundings	(1,911,372)	-	486,494	(1,424,878)	-
Total General Obligation and Revenue Bonds	70,618,567	-	(8,185,192)	62,433,375	8,581,618
Other Liabilities:					
Compensated absences	3,597,099	366,592	(38,334)	3,925,357	2,944,018
Notes payable	800,000	-	(800,000)	-	-
Landfill closure costs	22,458,523	650,000	(1,000,000)	22,108,523	1,683,000
Total Other Liabilities	26,855,622	1,016,592	(1,838,334)	26,033,880	4,627,018
Business-Type Activities Long-Term Liabilities	$ 97,474,189	$ 1,016,592	$ (10,023,526)	$ 88,467,255	$ 13,208,636

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, $1,328,861 ($996,646 due within one year, and $332,215 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, 2005, 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, 2005, for bonds issued prior to July 1, 1996, could not be determined; however, their original issue amounts totaled $210,850,000. The principal amount payable at June 30, 2005, for bonds issued after July 1, 1996, totaled $335,324,191.

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, 2005, HOC's noncurrent liabilities are comprised of the following:

	Due within one year	Long-Term	Total
Revenue bonds payable	$ 14,373,626	$596,119,860	$ 610,493,486
Capital leases payable	1,712	19,976,234	19,977,946
Notes payable	6,902,438	92,311,724	99,214,162
Total	$ 21,277,776	$708,407,818	$ 729,685,594

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	$ 393,065,386
Single Family Mortgage Purchase Program Fund	217,428,100
Total	$ 610,493,486

Interest rates on the HOC Multi-Family and Single Family Mortgage Purchase Program Fund bonds ranged from 1.0 to 11.25 percent and 1.1 to 8.5 percent, respectively, as of June 30, 2005.

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

Fiscal Year	Guaranteed Revenue Bond Requirements		
Ending June 30	Principal	Interest	Total
2006	$ 290,000	$ 565,542	$ 855,542
2007	300,000	554,542	854,542
2008	310,000	542,798	852,798
2009	325,000	530,498	855,498
2010	340,000	517,478	857,478
2011-2015	1,515,000	2,357,612	3,872,612
2016-2020	2,880,000	2,091,075	4,971,075
2021-2025	-	1,371,065	1,371,065
2026-2030	5,430,000	822,639	6,252,639
Total	$ 11,390,000	$ 9,353,249	$ 20,743,249

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

Fiscal Year	Total Revenue Bond Requirements		
Ending June 30	Principal	Interest	Total
2006	$ 14,373,626	$ 23,399,289	$ 37,772,915
2007	9,892,483	23,447,059	33,339,542
2008	11,256,619	23,167,600	34,424,219
2009	11,765,644	22,867,183	34,632,827
2010	12,339,560	22,519,549	34,859,109
2011-2015	129,823,935	106,778,701	236,602,636
2016-2020	57,828,241	98,147,973	155,976,214
2021-2025	73,894,269	88,558,047	162,452,316
2026-2030	83,984,353	69,792,924	153,777,277
2031-2035	122,429,877	29,290,379	151,720,256
2036-2040	42,155,000	10,647,186	52,802,186
2041-2045	39,865,000	5,586,370	45,451,370
2046-2048	4,360,000	314,147	4,674,147
Unamortized Bond Discount	(3,475,121)	-	(3,475,121)
Total	$ 610,493,486	$524,516,407	$ 1,135,009,893

Changes in the HOC revenue bonds during FY05 are as follows:

Purpose	Balance July 1, 2004	Bonds Issued *	Bonds Retired	Balance June 30, 2005
Multi-Family Mortgage Purchase Program Fund	$ 356,955,046	$ 51,480,340	$ 15,370,000	$ 393,065,386
Single Family Mortgage Purchase Program Fund	223,391,233	104,554,533	110,517,666	217,428,100
Total	$ 580,346,279	$ 156,034,873	$ 125,887,666	$ 610,493,486

* 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, 2004	$ 329,344,000
Redemptions during the year	7,800,000
New issuances during the year	(43,150,000)
Bonds outstanding, June 30, 2005	$ 293,994,000

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, 2005, is presented below:

Condensed Statements of Net Assets

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
ASSETS			
Current assets	$ 44,849,432	$ 4,383,822	$ 11,505,027
Due from component units	63,322	-	-
Other assets	31,702,051	2,875,926	3,212,260
Capital assets	33,037,352	91,253,951	80,825,948
Total Assets	109,652,157	98,513,699	95,543,235
LIABILITIES			
Current liabilities	13,735,276	3,555,518	5,421,090
Due to other funds	93,111	14,059	17,578
Long-term liabilities	43,234,634	3,843,287	27,393,661
Total Liabilities	57,063,021	7,412,864	32,832,329
NET ASSETS			
Invested in capital assets, net of related debt	7,388,788	85,263,724	50,031,364
Restricted for debt service	31,228,787	2,806,157	2,722,792
Unrestricted	13,971,561	3,030,954	9,956,750
Total Net Assets	$ 52,589,136	$ 91,100,835	$ 62,710,906

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	$ 90,316,979	$ 5,627,056	$ 8,549,874
Licenses and permits	9,920	-	-
Fines and penalties	26,505	2,032,915	4,789,248
Total Operating Revenues (pledged against bonds)	90,353,404	7,659,971	13,339,122
Depreciation	2,597,445	3,396,403	3,483,417
Other operating expenses	94,957,279	6,972,166	5,447,448
Operating Income (Loss)	(7,201,320)	(2,708,598)	4,408,257
NONOPERATING REVENUES (EXPENSES):			
Property taxes	-	4,567,337	3,407,443
Gain (loss) on disposal of capital assets	8,359	(1,719,526)	-
Investment income	2,249,027	242,790	530,787
Interest expense	(1,264,996)	(340,058)	(1,378,483)
Other revenue	86,979	1,997	39,816
Capital contributions	-	5,902,942	-
Transfers in	-	199,841	-
Transfers out	(1,527,350)	(3,787,528)	(5,954,741)
Change in Net Assets	(7,649,301)	2,359,197	1,053,079
Beginning Net Assets	60,238,437	88,741,638	61,657,827
Ending Net Assets	$ 52,589,136	$ 91,100,835	$ 62,710,906

Condensed Statements of Cash Flows

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
Net Cash Provided (Used) By:			
Operating activities	$ (3,734,702)	$ 1,064,950	$ 9,052,227
Noncapital financing activities	(1,527,350)	564,208	(2,452,150)
Capital and related financing activities	(6,634,413)	(5,881,526)	(15,077,765)
Investing activities	2,157,054	242,790	530,787
Net Increase (Decrease)	(9,739,411)	(4,009,578)	(7,946,901)
Beginning Cash and Cash Equivalents	79,791,247	9,220,844	20,533,060
Ending Cash and Cash Equivalents	$ 70,051,836	$ 5,211,266	$ 12,586,159

* Includes Solid Waste Leafing

H) Fund Equity

PRIMARY GOVERNMENT

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, 2005:

	General	Special Revenue	Total
Designated for next year's budget	$ 27,029,039	$ 19,420,816	$ 46,449,855
Designated for transfers to Capital Projects Fund	72,478,053	4,544,632	77,022,685
Total	$ 99,507,092	$ 23,965,448	$ 123,472,540

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

	Debt Service	Capital Projects	Special Revenue	Total
Encumbrances *	$ 220,880	$89,923,642	$17,491,414	$107,635,936
Transfers to Capital Projects Fund	-	-	2,680,715	2,680,715
Total	$ 220,880	$89,923,642	$20,172,129	$110,316,651

* Encumbrances relating to special revenue funds include $14,196,623 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. 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	$ 241,496,516
Business-type activities	31,631,333
Total	$ 273,127,849

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, 2005:

	General Fund			Capital	
	Operating	Capital *	Total	Projects	Total
MCPS	$1,211,773,321	$ 56,827,273	$1,268,600,594	$ 88,670,798	$1,357,271,392
MCC	71,746,675	5,103,689	76,850,364	12,470,877	89,321,241
HOC	4,411,029	184,301	4,595,330	-	4,595,330
Total	$1,287,931,025	$ 62,115,263	$1,350,046,288	$ 101,141,675	$1,451,187,963

* 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 $2,644,574 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., 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 FY05 and FY04 are as follows:

	Liability and Property Coverage	Employee Health Benefits
Balance July 1, 2003	$57,736,000	$ 8,828,246
Claims and changes in estimates	27,320,388	96,047,483
Claim payments *	(20,850,388)	(93,404,827)
Balance June 30, 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

* Includes non-monetary settlements.
** Includes incurred but not reported claims of $40,916,000 and $9,476,503, 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 $54,041,000, which has been fully accrued through June 30, 2005. Of the total amount accrued, $30,932,477 in actual costs has been paid out in prior years, and $1,000,000 was paid in FY05, resulting in a net liability of $22,108,523 at June 30, 2005. The current and non-current portions of the adjusted liability at year-end are estimated at $1,683,000 and $20,425,523 respectively. These costs are subject to change based on cost differences, changes in technology, or applications of laws and regulations. The County plans to use primarily operating cash to pay for these closure and postclosure costs as they are incurred in the future.

2) <u>Litigation</u>

In addition to those suits in which claims for liability are adequately covered by insurance, the County is a defendant in various suits involving tort claims, violations of civil rights, breach of contract, inverse condemnation, and other suits arising in the normal course of business. In the opinion of the County Attorney, the estimated liability of the County in the resolution of these cases will not exceed $17,140,000. Of this amount, $1,200,000 has been reflected as a liability in the accompanying governmental activities financial statements, as the County's liability on certain claims appears to be probable.

3) <u>Grants, Entitlements, and Shared Revenues</u>

The County participates in a number of Federal and State assisted grant, entitlement, and/or reimbursement programs, principal of which are the Community Development Block Grant, the Head Start Grant, Community Mental Health Grant, and the Medical Assistance Grant. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of most of these programs for, or including, the year-ended June 30, 2005, 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, 2005, are as follows:

Enterprise Funds:	Operating	Capital	Inventory	Total
Major Funds:				
Liquor	$ 5,071,285	$ -	$ 7,616,098	$ 12,687,383
Solid Waste Activities:				
Disposal operations	3,724,088	48,054	-	3,772,142
Collection operations	44,679	-	-	44,679
Leafing operations	2,061	-	-	2,061
Parking Lot Districts:				
Silver Spring	458,041	1,598,936	-	2,056,977
Bethesda	487,985	6,156,988	-	6,644,973
Wheaton	118,295	107,298	-	225,593
Montgomery Hills	16,369	-	-	16,369
Subtotal	9,922,803	7,911,276	7,616,098	25,450,177
Nonmajor Funds:				
Permitting Services	97,741	-	-	97,741
Subtotal	97,741	-	-	97,741
Total Enterprise Funds	10,020,544	7,911,276	7,616,098	25,547,918
Internal Service Funds:				
Motor Pool	2,938,422	-	6,760,354	9,698,776
Central Duplicating	122,118	-	-	122,118
Liability and Property Coverage Self-Insurance	192,960	-	-	192,960
Employee Health Benefits Self-Insurance	506,195	-	-	506,195
Total Internal Service Funds	3,759,695	-	6,760,354	10,520,049
Total Proprietary Funds	$ 13,780,239	$ 7,911,276	$ 14,376,452	$ 36,067,967

As of June 30, 2005, the County has $7,105,000 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

Commercial paper bond anticipation notes (BANS) amounting to $150,000,000 were issued on July 7, 2005. The County issued an additional $50,000,000 in BANS on December 6, 2005.

On July 12, 2005, the County Council introduced, and subsequently approved, legislation to increase the level of authorized general obligation bond principal by an additional $228,700,000, effective August 4, 2005.

The County issued $16,495,000 in parking system revenue bonds on August 10, 2005, to finance a portion of the costs of renovating public parking facilities in the Bethesda Parking Lot District. The bonds were delivered on August 31, 2005.

D) Joint Ventures

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

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

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

At June 30, 2005, M-NCPPC had outstanding notes payable and bonds payable in the amount of $168,364,140, of which $15,909,140 was self-supporting. Of the total amount payable, $14,687,005 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, 2005, is $37,150,000, which represents general obligation bonds outstanding for the Montgomery County jurisdiction at year-end.

Washington Suburban Sanitary Commission (WSSC)

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

At June 30, 2005, WSSC had outstanding notes payable and bonds payable in the amount of $1,459,371,472, of which $1,456,126,472 was self-supporting. Of the total amount payable, $238,196,000 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, 2005, 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 $84,273 to WSTC during FY05. The FY05 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 FY05, which are fully funded by the State and not reflected in the accompanying financial statements, is as follows:

Bus operating subsidy	$ 34,225,218
Rail operating subsidy	23,469,453
Americans with Disabilities Act service	14,552,639
Metrobus and Metrorail capital replacement	35,075,735
Debt service on WMATA revenue bonds	4,867,500
Local bus program	40,353,402
Total	$152,543,947

At June 30, 2005, WMATA had outstanding debt of $227,900,000, of which $23,040,000 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 11 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 FY05 membership dues and fees for services amounting to $653,561.

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, 2005, NEMWDA had outstanding bonds payable in the amount of $279,555,000, of which $19,965,000 represented debt due within one year. Of these amounts, $252,310,000 related to the Project, $15,525,000 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 FY05 amounted to $43,199,150.

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.

For represented employees who elected to participate in the Union Plan, the $77.8 million transfer of their account balances from the County Plan to the Union Plan has been reported as Movement of Member Account Asset Balances in the accompanying Statement of Changes in Fiduciary Net Assets.

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 FY05, the County and its employees contributed $63,032,534 and $17,270,948, respectively. Employees of MCRA, HOC, and BUPI participate in the comprehensive insurance program of the County. Employer contributions totaled $345,257, $2,328,366, and $41,488 for these component units, respectively, for FY05.

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, 4,270 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 $16,512,900 for FY05; retired employee contributions were $9,731,406.

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 $886,794 in FY05 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 425 recipients comprising former volunteers and their beneficiaries at the end of FY05.

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 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 FY05 were based on an actuarial valuation as of June 30, 2003, 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 FY05 were as follows:

Fiscal Year	APC	Percentage of APC Contributed	NPO
2003	$ 55,205,855	100 %	$ -
2004	61,927,029	100	-
2005	74,655,371	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. 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 FY05 were $8,758,520 and $4,819,587, respectively.

3) Other

The County contributed $769,825 during FY05 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.

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* POEB = Pension and Other Employee Benefit