

MONTGOMERY COUNTY PUBLIC SCHOOLS

Comprehensive Annual Financial Report

FOR THE FISCAL YEAR ENDED JUNE 30, 2004



Dr. Jerry D. Weast
Superintendent of Schools

Mr. Larry A. Bowers
Chief Operating Officer

Dr. Freida K. Lacey
Deputy Superintendent of Schools

Mr. John Q. Porter
Deputy Superintendent for Strategic Technologies and Accountability



ROCKVILLE, MARYLAND

Montgomery County Public Schools
Comprehensive Annual Financial Report
for the Fiscal Year
Ended June 30, 2004

Prepared by:

Office of the Chief Operating Officer

Larry A. Bowers, *Chief Operating Officer*
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Cover Photograph:

Glen Haven Elementary School

850 Hungerford Drive
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MONTGOMERY COUNTY PUBLIC SCHOOLS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
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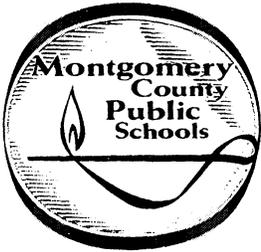
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INTRODUCTORY SECTION

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850 Hungerford Drive * Rockville, Maryland * 20850-1747

Telephone (301)

September 30, 2004

Members of the Board of Education:

Maryland State law requires that local education agencies publish at the close of each year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. In compliance with that requirement, we hereby submit the Comprehensive Annual Financial Report (CAFR) of the Montgomery County Public Schools (MCPS) for the fiscal year ended June 30, 2004.

This report has been prepared pursuant to Education Article Section 5-109 of the Annotated Code of Maryland. The report consists of management's representations concerning the finances of MCPS. Management assumes full responsibility for the completeness and reliability of all the information presented in this report. Management has established a comprehensive internal control framework. Internal accounting controls are designed to provide reasonable assurance that assets are properly safeguarded and accounted for, and to ensure the reliability of accounting information for preparing financial statements in conformity with GAAP. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

MCPS' financial statements have been audited by Ernst & Young LLP, an independent firm of certified public accountants. The independent auditor's report is presented as the first component of the financial section of this report. MCPS also is required to undergo a federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. In addition to reporting on the fair presentation of the financial statements, the single audit places special emphasis on internal controls and legal requirements involved in the administration of federal awards. These reports are available in MCPS' separately issued Single Audit Report.

Overview of the Report

The CAFR is divided into three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, a copy of the award Certificate of Excellence in Financial Reporting, a listing of officials, and the organization chart.

The financial section includes the report of independent auditors, Management's Discussion and Analysis (MD&A), the basic financial statements, and the combining and individual fund financial statements and supplementary data. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

MCPS Profile

The Board of Education of Montgomery County is the elected body, corporate and politic, established under Maryland law to provide public education in kindergarten through twelfth grade to children residing within the borders of Montgomery County, Maryland. The Board is composed of five district members, two at-large members, and one student member elected for a one-year term. The Board determines educational policy and employs a superintendent of schools to administer the school system. Primary funding is provided by Montgomery County from its general revenues. Funds also are received from state and federal sources for general school aid and specific purpose grants. The budget is approved by the Montgomery County Council. The Board of Education has no power to levy and collect taxes or increase the budget. Because of the relationship with Montgomery County, MCPS is considered a component unit of the county government, as defined by GAAP for governmental entities.

The general purpose financial statements and supplementary data in this report include all funds administered by MCPS in conjunction with its mission of providing elementary and secondary public education. The reporting entity also includes MCPS' component unit, the MCPS Educational Foundation, Inc. The Educational Foundation is legally separate from MCPS but included in the MCPS reporting entity because of the significance of its financial relationship with MCPS and because MCPS is considered financially accountable for the Foundation.

Factors Effecting Financial Condition

Local economy. MCPS receives approximately 76 percent of its operating budget from Montgomery County. The economic condition and outlook of the county, therefore, play substantial roles in the economic condition of MCPS.

For the Washington metropolitan area, most indicators reflect positive performance for the region's economy, with increases in employment and consumer confidence, and continued price stability. Employment has increased 3.1 percent in 2004. The region's unemployment rate has decreased from 3.6 percent in 2003 to 3.0 percent. Both the region's and the county's economies are expected to outperform the nation's economy due to the large presence of the federal government in the area. The federal government comprises approximately 30 percent of the County's economy.

Montgomery County's economy has experienced significant improvement in 2004. Resident employment in the county grew by 2.4 percent, and unemployment decreased from 2.6 percent in 2003 to 2.2 percent in 2004. County retail sales tax receipts increased 7.4 percent in 2004 compared to a 4.0 percent increase in 2003. Construction of non-residential property grew both in terms of square footage and in added value compared to 2003. The amount of new commercial real estate grew by 40 percent and the value of construction grew by 55 percent. Existing home sales have grown by 9.8 percent. Both median and average home prices in the county have increased by more than 20 percent this year, which will benefit the county's revenue outlook through higher residential property assessments. The sharp increase in home prices may in part be attributed to demand exceeding supply, with residential construction activity in the county experiencing a 20 percent decline during the first half of 2004 compared with the same period in 2003.

Multiyear budgeting. Six-year budget projections are updated each year, used as a starting point for discussion and planning, and revised each year to reflect trends and factors affecting enrollment. Preliminary projections for 2005 through 2010 indicate annual increases of at least \$104.0 million (6.5 percent). These projections do not include funds to address the initiatives planned in the MCPS strategic plan, *Our Call to Action: Pursuit of Excellence*, to raise the bar and close the achievement gap between ethnic groups. In addition, the projections for 2006 through 2010 do not include negotiated salary increases. Each one-percent salary increase will add \$12.3 million in 2006.

Negotiated agreements. In February 2001, the Board of Education reached a three-year contract with the Montgomery County Education Association (MCEA) that expired on June 30, 2004. Negotiations on a successor contract began in January 2004 and were completed in March 2004. All aspects of the contract were open to negotiation. The salary agreement calls for a 2.0 percent increase effective July 1,

Members of the Board of Education

2004, an additional 2.75 percent increase effective July 1, 2005, a 3.0 percent increase effective July 1, 2006, and a midyear increase of 1.0 percent during 2006-07. The agreement also allows for additional negotiations during FY 2005 and FY 2006 on several issues, including impacts of the "No Child Left Behind" Act and implementation of a Career Lattice plan.

In February 2003, MCPS completed negotiations with the Montgomery County Association of Administrative and Supervisory Personnel (MCAASP) on a three-year contract that took effect July 1, 2003, and runs through June 30, 2006. The agreement provided for reopened negotiations for salary and benefits for the second and third years of the agreement. Several leave of absence items and one additional Article at the option of each party also were open for negotiations. The negotiations resulted in a three-year agreement on salary and benefits, with the basic contract being extended one year, now expiring June 30, 2007. The salary agreement calls for a 2.0 percent increase effective October 2, 2004, an additional 2.0 percent increase effective July 1, 2005, and a 4.0 percent increase effective November 1, 2006. The salary schedule was restructured to be more uniform between lanes, and longevity increases for service as an administrator in MCPS were added. There will be negotiations next year on a limited number of issues, and more extensive negotiations during the fall and winter of 2005-2006 on language issues for the final year of the agreement.

In February 2003, MCPS also completed negotiations with SEIU Local 500 (representing supporting services employees), on a two-year contract that was effective July 1, 2003, and goes through June 30, 2005. This agreement also provided for reopened negotiations for salary and benefits for the second year of the agreement. The negotiations for salary and benefits for the second year resulted in a three-year agreement on salary and benefits and an extension of the contract through June 30, 2007. The salary agreement calls for a 2.0 percent increase effective July 1, 2004, an additional 2.75 percent increase effective July 1, 2005, a 3.0 percent increase effective July 1, 2006, and a midyear increase of 1.0 percent during 2006-07. There will be negotiations in the fall of 2004 on most contract language except salary and benefits.

During the fall of 2003, the three unions participated in joint negotiations regarding benefits for all employees. These negotiations resulted in agreement on benefits terms for the next three years. The results of those negotiations mean a reduction of about 20 percent in the projected increase in Board of Education health care benefits costs for active employees for the first year (FY 2005).

Enrollment increases. MCPS continues to experience enrollment growth. MCPS enrollment was 139,203 students in FY 2004, 312 more than in FY 2003. The September 30, 2004, enrollment is projected to be 140,492. To relieve overcrowding, accommodate more full-day kindergarten classes, and provide for increased enrollment, MCPS added 52 classrooms to six schools in FY 2004, reopened a high school and will add another 43 classrooms to six schools in FY 2006.

In 2005, salary and other costs of additional teachers and school-based personnel required for enrollment changes are projected to increase operating costs by \$9.7 million. Increased costs will result because of an increase at the high school level of 1,383 students, and a projected increase of 575 students requiring special education classes. There also will be an increase of \$2.1 million for transportation of these students. Employee benefits costing \$1.7 million will be required for the new employees needed for enrollment changes.

Cash management program. MCPS maintains a cash management program for the purpose of achieving maximum financial return on available funds. Temporary idle cash is invested on a daily basis in a money market mutual fund and in fully collateralized repurchase agreements. Investment earnings were \$174,387 in 2004. Excess cash during the year is invested by the Montgomery County Government for MCPS. MCPS does not benefit directly from the investment earnings derived from the county's cash management and investment programs.

Risk Management. Table 4 in the statistical section of this report presents the Montgomery County and Board of Education's Self-Insurance Fund. This fund was established in 1954 so that properties of the county, including schools, could be partially self-insured for fire insurance purposes. Effective July 1, 1978,

Members of the Board of Education

this fund was merged into an expanded self-insurance program to cover workers' compensation, general liability, boiler, and motor vehicle risks. It appears that, based upon experience, this fund is mutually beneficial for all participating agencies. Additional information on MCPS' risk management activity can be found in note 10 of the notes to the financial statements.

Accomplishments and Awards

SAT scores. The 2004 graduating class achieved the highest ever SAT scores. The systemwide average SAT score was 1102, an eight point improvement compared with 2003. The average included the highest ever mathematics score (561) and the highest average verbal score in 12 years (541). The higher SAT scores mark the achievements of the first graduating class taking the SAT who were exposed to the full range of ongoing high school reforms in MCPS.

Academic progress. MCPS students outperformed or matched all other school systems in the state in all but one subject area of the 2003 High School Assessments. The performance of MCPS African American and Hispanic students, while lower than their white and Asian classmates, nearly matched or outperformed some entire school system scores.

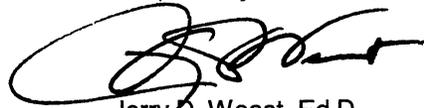
Maryland Quality Award. The Office of the Chief Operating Officer received the bronze medal in the Maryland Quality Award competition, administered by the University of Maryland Center for Quality and Productivity. The awards are based on the Baldrige Criteria for Performance Excellence.

Financial Reporting Award. For twenty-three consecutive years, MCPS has received the Association of School Business Officials (ASBO) Certificate of Excellence in Financial Reporting. This award, valid for one year, is granted only after an intensive review of the Comprehensive Annual Financial Report by an expert panel of certified public accountants and practicing school business officials. MCPS plans to submit the 2004 financial statements to ASBO and believes such statements also meet ASBO standards.

Acknowledgements

The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the entire Division of Controller staff. The high standard of conformity of this report reflects the professional competence of all individuals responsible for its preparation. We express our appreciation for a job well done.

Respectfully submitted,



Jerry D. Weast, Ed.D.
Superintendent of Schools



Larry A. Bowers
Chief Operating Officer



Susanne G. DeGraba
Chief Financial Officer

**ASSOCIATION OF SCHOOL BUSINESS OFFICIALS
INTERNATIONAL**



This Certificate of Excellence in Financial Reporting is presented to

MONTGOMERY COUNTY PUBLIC SCHOOLS

For its Comprehensive Annual Financial Report (CAFR)
For the Fiscal Year Ended June 30, 2003

Upon recommendation of the Association's Panel of Review which has judged the Report substantially conforms to principles and standards of ASBO's Certificate of Excellence Program

William F. Hall
President

Barbara Weller
Executive Director

**MONTGOMERY COUNTY PUBLIC SCHOOLS
LISTING OF OFFICIALS**

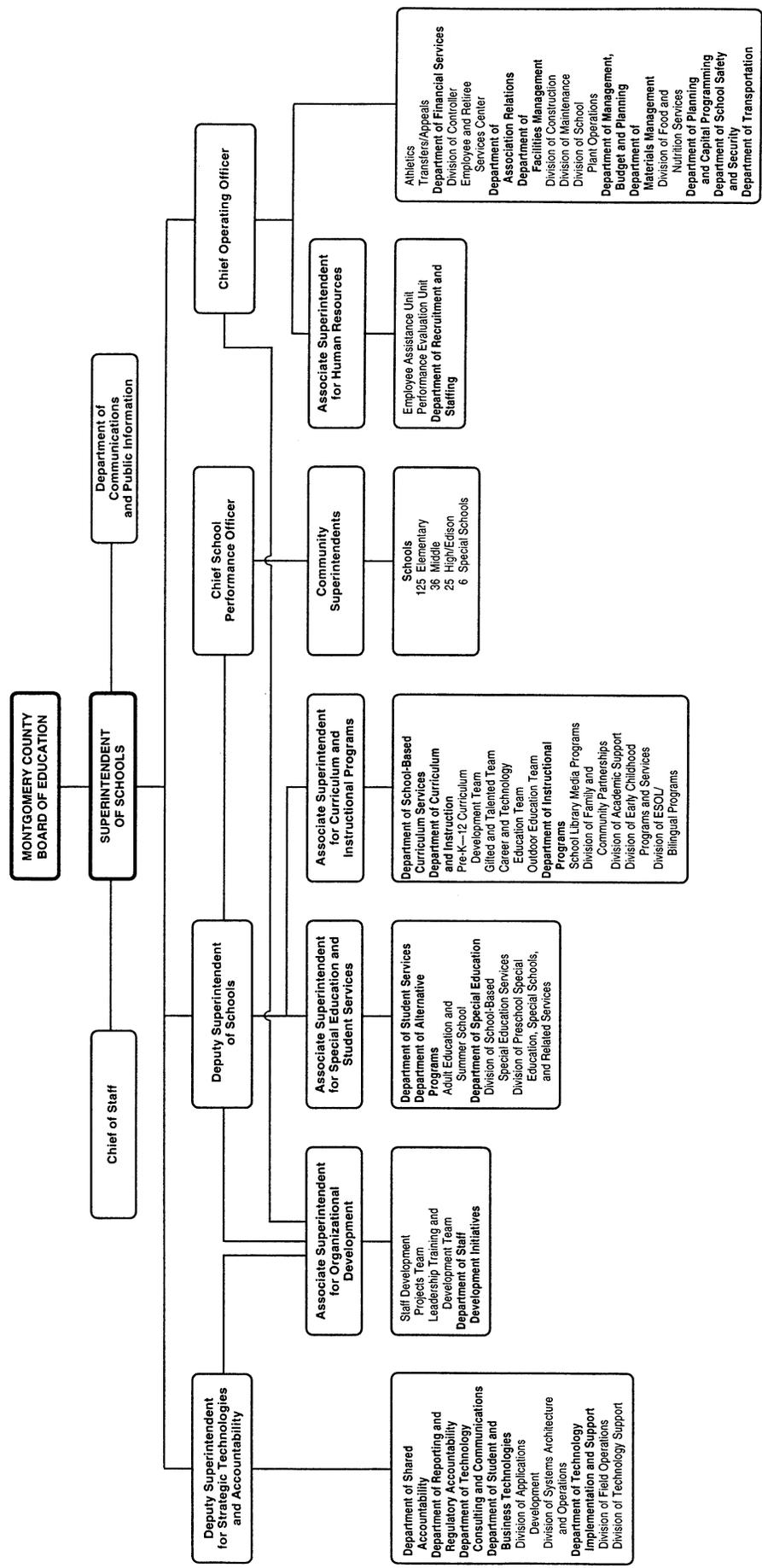
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EXECUTIVE STAFF

Jerry D. Weast (Dr.) Superintendent of Schools
Larry A. Bowers Chief Operating Officer
Frieda K. Lacey (Dr.) Deputy Superintendent of Schools
John Q. Porter Deputy Superintendent for Strategic Technologies and Accountability
Brian J. Porter Chief of Staff
Matthew Tronzano Associate Superintendent for Human Resources
Darlene Merry Associate Superintendent for Organizational Development
Dale E. Fulton Associate Superintendent for Curriculum and Instructional Programs
Carey Wright (Dr.) Associate Superintendent for Special Education
and Student Services
Donald H. Kress Chief School Performance Officer
Stephen L. Bedford Community Superintendent
Mark E. Kelsch Community Superintendent
Susan F. Marks Community Superintendent
Kevin M. Maxwell (Dr.) Community Superintendent
Cynthia A. Rattley Community Superintendent
Frank H. Stetson (Dr.) Community Superintendent

MONTGOMERY COUNTY PUBLIC SCHOOLS FY 2005 ORGANIZATION



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FINANCIAL SECTION

Independent Auditors' Report

To the Board of Education
of Montgomery County, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Montgomery County Public Schools (MCPS) as of and for the year ended June 30, 2004, which collectively comprise MCPS' basic financial statements as listed in the table of contents. These financial statements are the responsibility of MCPS' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

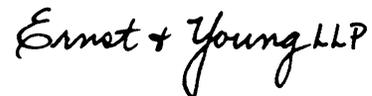
In our opinion, the financial statements referred to above present fairly, in all materials respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Montgomery County Public Schools as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2004 on our consideration of MCPS' 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.

Management's discussion and analysis on pages 12 through 20 and the Required Supplementary Information on page 53, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally

accepted in the United States. 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 MCPS' basic financial statements. The introductory section, supplementary data, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary data have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



September 30, 2004

Montgomery County Public Schools Management's Discussion and Analysis

This section of the Montgomery County Public Schools (MCPS) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of MCPS for the fiscal year ended June 30, 2004. Readers are encouraged to consider the information presented here in conjunction with additional information presented in the transmittal letter, which can be found on pages 1-4 of this report.

Financial Highlights

- The assets of MCPS exceeded its liabilities at June 30, 2004 by \$1,176.8 million, which represents its net assets.
- MCPS' net assets increased during the year by \$29.6 million.
- 97.0 percent of capital asset additions were directed toward instructional facilities, including the modernization of four schools.
- MCPS successfully realized its commitment to the Montgomery County Council to generate \$10.0 million in FY 2004 savings to be used to fund the FY 2005 operating budget.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the MCPS financial statements. MCPS' basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

District-Wide Financial Statements

The *district-wide financial statements* are designed to provide readers with a broad overview of MCPS' finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of MCPS' assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of MCPS is improving or deteriorating.

The *statement of activities* presents information showing how MCPS' net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., depreciation and earned but unused annual leave).

Both of the district-wide financial statements distinguish functions of MCPS that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of MCPS include most of the

district's basic services, such as regular and special education, transportation, and administration. The business-type activities of MCPS include food services and real estate management operations, adult education and summer school, field trip services, and entrepreneurial activities.

The district-wide financial statements include not only MCPS itself (known as the *primary government*), but also the MCPS Educational Foundation, Inc. for which MCPS is financially accountable. Financial information for the *component unit* is reported separately from the financial information presented for the primary government itself.

The district-wide financial statements can be found on pages 23-25 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. MCPS, like other governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of MCPS can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the district-wide financial statements. However, unlike the district-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the district-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the district-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

MCPS maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital projects fund, both of which are considered to be major funds, and the special revenue fund.

MCPS adopts annual appropriated budgets for its governmental funds. Budgetary comparison statements have been provided for the governmental funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 26-30 of this report.

Proprietary funds. MCPS maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the district-wide financial statements. MCPS uses enterprise funds to account for its food services, adult education and summer school, real estate management, field trips, and entrepreneurial activities. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among MCPS' various functions. MCPS uses an internal service fund to account for its

employee health benefit plan costs. Because this plan predominantly benefits governmental rather than business-type functions, it has been included within *governmental activities*.

Proprietary funds provide the same type of information as the district-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the food services operation which is considered to be a major fund of MCPS. Data for the other four proprietary funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for each of these nonmajor proprietary funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 31-33 of this report.

Fiduciary funds. MCPS is the trustee, or fiduciary, for assets that belong to others, such as the MCPS Retirement and Pension Plan and the student activities funds. MCPS is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. MCPS excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

The basic fiduciary fund financial statements can be found on pages 34-35 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 37-52 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor proprietary funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 56-65 of this report.

Montgomery County Public Schools Net Assets
(Amounts expressed in millions)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 102.5	\$ 114.8	\$.8	\$ 0.7	\$ 103.3	\$ 115.5
Capital assets	1,284.7	1,247.6	5.0	5.6	1,289.7	1,253.2
Total assets	1,387.2	1,362.4	5.8	6.3	1,393.0	1,368.7
Long-term liabilities outstanding	94.2	87.3	1.4	1.1	95.6	88.4
Other liabilities	118.2	131.4	2.4	1.7	120.6	133.1
Total liabilities	212.4	218.7	3.8	2.8	216.2	221.5
Net Assets:						
Invested in capital assets, net of related debt	1,265.3	1,224.2	4.8	5.1	1,270.1	1,229.3
Unrestricted	(90.5)	(80.5)	(2.8)	(1.6)	(93.3)	(82.1)
Total net assets	\$ 1,174.8	\$ 1,143.7	\$ 2.0	\$ 3.5	\$ 1,176.8	\$ 1,147.2

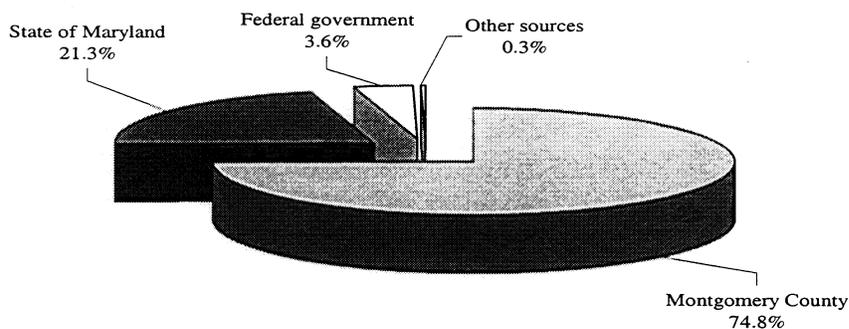
District-wide Financial Analysis

Net assets may serve as a useful indicator of a government's financial position. MCPS' net assets, the amount by which assets exceed liabilities, increased \$29.6 million to \$1,176.8 million. Most of the increase came from governmental activities, which increased by \$31.1 million to \$1,174.8 million. The largest portion of net assets reflects MCPS' investment in capital assets (e.g., land, school buildings, buses, and equipment), less any related outstanding debt used by MCPS to acquire those assets. Investment in capital assets, net of related debt increased \$40.8 million to \$1,270.1 million. These assets are used by MCPS in its instructional programs; consequently, these assets are not available for future spending.

Montgomery County and the State of Maryland fund MCPS school construction projects through the issuance of general obligation bonds. These bonds are not reflected in MCPS' investment in capital assets, as the resources needed to repay these bonds must be provided by Montgomery County and the State.

Unrestricted net assets decreased \$11.2 million to a \$93.3 million deficit at June 30, 2004. The decrease in unrestricted net assets is primarily attributed to a \$7.2 million increase in long-term liabilities, especially compensated absences, for which resources are accumulated only to liquidate current year liabilities.

Revenues by Source - Governmental Activities



Governmental activities. Total revenues for MCPS' governmental activities increased \$109.1 million (7.1 percent). Intergovernmental revenues increased \$127.5 million (9.1 percent), while operating program revenues declined \$37.2 million (34.2 percent). The State of Maryland restructured state aid programs in 2004, resulting in a shift of approximately \$40.0 million to unrestricted basic state aid from restricted operating grants. Intergovernmental revenues from Montgomery County increased \$75.3 million (6.8 percent) as required to fund the operating budget.

Total expenses increased \$89.7 million (5.9 percent) to \$1,618.6 million. The increase in instructional programs accounted for \$81.3 million (90.3 percent) of the increase in total expenses. Regular instruction increased \$61.6 million (6.7 percent), and special education increased \$13.3 million (6.2 percent). In 2004, instructional programs expenses accounted for 83.3 percent and support services accounted for 16.7 percent of total governmental activities expenses. The proportion of instructional program expenses to total expenses increased by .4 percent in 2004, reflecting a continuing focus on maximizing resources available to the classroom.

Montgomery County Public Schools Changes in Net Assets
(Amounts expressed in millions)

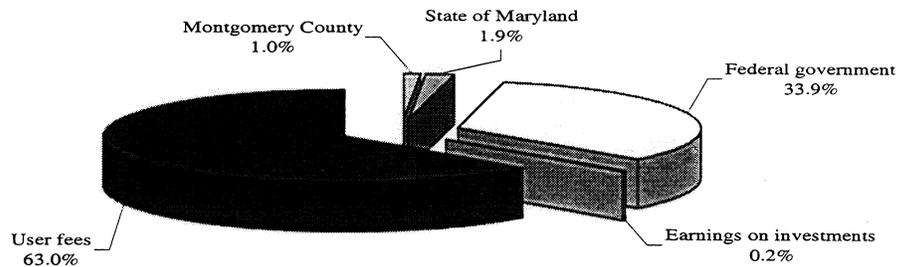
	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 2.6	\$ 2.6	\$ 27.7	\$ 26.6	\$ 30.3	\$ 29.2
Operating grants and contributions	71.6	108.8	15.7	14.9	87.3	123.7
Capital grants and contributions	50.6	31.2	0.5	0.4	51.1	31.6
General revenues:						
Intergovernmental	1,524.8	1,397.3			1,524.8	1,397.3
Other	0.1	0.7	0.1	0.2	0.2	0.9
Total revenues	<u>1,649.7</u>	<u>1,540.6</u>	<u>44.0</u>	<u>42.1</u>	<u>1,693.7</u>	<u>1,582.7</u>
Expenses:						
Regular instruction	983.8	922.2			983.8	922.2
Special education	226.5	213.2			226.5	213.2
School administration	126.6	123.3			126.6	123.3
Student personnel services	11.4	8.2			11.4	8.2
Health services	-	0.1			-	0.1
Student transportation	80.1	72.6			80.1	72.6
Operation of plant	102.9	99.9			102.9	99.9
Maintenance of plant	48.7	40.4			48.7	40.4
Administration	37.0	47.4			37.0	47.4
Community services	1.6	1.6			1.6	1.6
Food services			37.4	35.7	37.4	35.7
Adult education and summer school			4.1	4.0	4.1	4.0
Real estate management			1.5	1.6	1.5	1.6
Field trips			1.3	1.2	1.3	1.2
Entrepreneurial activities			1.2	1.1	1.2	1.1
Total expenses	<u>1,618.6</u>	<u>1,528.9</u>	<u>45.5</u>	<u>43.6</u>	<u>1,664.1</u>	<u>1,572.5</u>
Increase (decrease) in net assets	31.1	11.7	(1.5)	(1.5)	29.6	10.2
Net Assets - beginning	<u>1,143.7</u>	<u>1,132.0</u>	<u>3.5</u>	<u>5.0</u>	<u>1,147.2</u>	<u>1,137.0</u>
Net Assets - ending	<u>\$ 1,174.8</u>	<u>\$ 1,143.7</u>	<u>\$ 2.0</u>	<u>\$ 3.5</u>	<u>\$ 1,176.8</u>	<u>\$ 1,147.2</u>

Business-type activities. Business-type activities decreased MCPS' net assets by \$1.5 million, which is attributed to the food services operations. Revenues from the sale of food increased \$.8 million (4.4 percent) while nonoperating revenues rose \$1.2 million (8.1 percent). The number of reimbursable meals increased 242,000 (2.2 percent) to 11,174,000 during the year. Operating expenses increased \$1.7 million (4.9 percent). Increases in expenses were generally consistent

with the increase in revenues, except for fringe benefits which increased \$1.2 million (20.3 percent). The accelerated increase in fringe benefits resulted in a \$1.1 million decrease in food services net assets.

Other enterprise funds net assets decreased \$.4 million, due primarily to a decrease of \$.2 million in Entrepreneurial Fund science kit sales.

Revenues by Source - Business-type Activities



Financial Analysis of MCPS' Funds

MCPS uses fund accounting to ensure accountability and to demonstrate compliance with finance-related legal and contractual provisions.

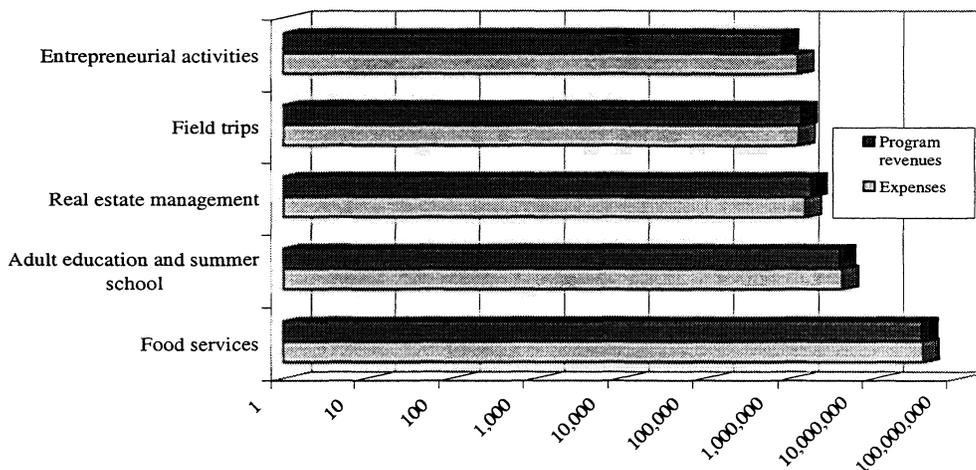
Governmental funds. The focus of MCPS' governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing MCPS' financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's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

As of the end of the current fiscal year, MCPS' governmental funds reported combined ending fund balance of \$.5 million, an increase of \$.4 million from the prior year. The unreserved, undesignated fund deficit of \$10.9 million was offset by reserved fund balance of \$11.4 million. Reserved fund balance is unavailable for new spending because it has already been reserved to liquidate prior period commitments.

The general fund is the principal operating fund of MCPS. At June 30, 2004, unreserved, undesignated fund deficit was \$.2 million and total fund balance was \$11.2 million. Unreserved, undesignated fund balance increased \$5.4 million, resulting from a plan to increase fund balance for use in funding MCPS' 2005 operating budget.

Capital projects fund deficit increased by \$2.7 million during 2004 to a deficit of \$10.8 million at June 30, 2004. The deficit reflects school construction funding reversions by the State occurring after the anticipated State funds had been expended.

Expenses and Program Revenues - Business-type Activities



Proprietary funds. MCPS' proprietary funds provide the same type of information found in the district-wide financial statements, but in more detail. Factors concerning the finances of those funds have already been addressed within the discussion of business-type activities.

General Fund Budgetary Highlights

The final amended budget for fiscal year 2004 was \$24.4 million higher than the original budget. The increases were a result of \$14.5 million in unexpended restricted program grants that carried forward to 2004, and \$9.9 million in supplemental appropriations for restricted program grants received during the year.

Actual budgetary fund balance increased by \$6.6 million. The increase in fund balance resulted from a plan that generated \$10.4 million in current year savings, offset by applying \$3.0 million in beginning fund balance toward funding the 2004 operating budget.

Actual revenues were \$19.7 million under budget for the year. Restricted revenues were \$18.1 million under budget, of which \$2.2 million comprised estimated restricted revenue that did not materialize and \$15.9 million in unrealized revenue for grants that carried forward into 2005.

Unrestricted revenues were \$1.5 million under budget. State aid for special education nonpublic placements was \$1.7 million under budget. Tuition assessed to nonresident students exceeded the budget by \$.5 million.

Actual expenditures were \$29.3 million under budget. Restricted expenditures were \$18.1 million less than the budget, which consisted of \$15.9 million in unspent funds for grants that carry forward into 2005 and \$2.2 million in grant authorizations expiring June 30, 2004.

Unrestricted expenditures were \$11.2 million under budget, due to a savings plan implemented during the year that, in agreement with the Montgomery County Council, would generate internal savings for use in funding 2005 budget initiatives. MCPS met its savings target.

Capital Asset and Debt Administration

Capital Assets. Capital assets include land and site improvements, schools and administrative buildings, school buses, and other vehicles and equipment. At June 30, 2004, MCPS' investment in capital assets for its governmental and business-type activities amounts to \$1,289.7 million, net of accumulated depreciation. This amount represents a net increase of \$36.5 million, or 2.9 percent from last year.

Montgomery County Public Schools Capital Assets

(Net of depreciation)

(amounts expressed in millions)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2004	2003	2004	2003	2004	2003
Land	\$ 66.5	\$ 66.2	\$ -	\$ -	\$ 66.5	\$ 66.2
Buildings	980.8	939.6			980.8	939.6
Site improvements	91.1	86.1			91.1	86.1
Vehicle and equipment	51.0	54.3	5.0	5.6	56.0	59.9
Construction in progress	95.3	101.4			95.3	101.4
Total	\$ 1,284.7	\$ 1,247.6	\$ 5.0	\$ 5.6	\$ 1,289.7	\$ 1,253.2

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

- Modernization of a middle school, a high school and an elementary school and replacement of a middle school were completed during 2004. Modernization of an elementary school was near completion and the school will reopen in the spring of 2005.
- A new gym was completed at an elementary school.
- New construction projects for two schools began during 2004.

Additional information about capital assets can be found in note 6 to the financial statements.

Long-term debt. At June 30, 2004, MCPS had \$35.5 million in capital leases outstanding. MCPS acquires school buses, instructional computers and furniture, other vehicles, and heavy equipment through a master lease agreement with a financial institution. New capital leases for school buses, instructional computers and other equipment amounted to \$17.1 million during 2004. Principal payments on existing capital leases were \$15.4 million during the current year.

Additional information on MCPS' long-term debt can be found in note 8 to the financial statements.

Factors Bearing on MCPS' Future

The transmittal letter presents certain information on the local economy and budgetary, enrollment, and negotiated agreements issues affecting MCPS. There are three additional initiatives that could significantly impact MCPS.

No Child Left Behind. In 2002 the United States Congress approved the No Child Left Behind (NCLB) Act. This marked the most fundamental revision of federal education legislation since the adoption of the Elementary and Secondary Education Act (ESEA) in 1965. The new law calls for rigorous standards in all states and compulsory testing of students in grades 3 through 8 and grade 10. MCPS has aligned its plans and outcome measures with the standards of the NCLBA with the goal of having all schools meet Annual Yearly Progress (AYP) targets and having all teachers meet “highly qualified” standards as established by the State of Maryland.

Bridge to Excellence. The 2002 Maryland General Assembly adopted ground-breaking legislation to reform the system of educational funding in the state. The Bridge to Excellence Act (S. B. 856) provides an additional \$1.3 billion statewide to assure the adequacy of educational resources while redirecting resources more equitably to meet the needs of students with disabilities. In 2005, MCPS will receive an increase of \$19.4 million as a result of this legislation. When fully implemented in FY 2008, Montgomery County can expect approximately \$147 million in additional state resources.

Master Plan. In accordance with the mandates of this new law, MCPS has submitted to the Maryland State Department of Education (MSDE) a five-year Master Plan to indicate how its schools will meet established goals for student achievement. The strategic plan for the school system, *Our Call to Action: Pursuit of Excellence*, forms the basis of the Master Plan and was reviewed extensively by community leaders and local officials. The Master Plan includes specific plans for the implementation of the requirements of NCLB. The MSDE approved the five-year Master Plan as calculated to meet student achievement goals. MCPS has submitted the annual required update of the plan.

Requests for Information

This financial report is designed to provide a general overview of MCPS’ finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Montgomery County Public Schools, 7361 Calhoun Place, Suite 190, Rockville, Maryland 20855.

BASIC FINANCIAL STATEMENTS

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MONTGOMERY COUNTY PUBLIC SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Primary Government			Component Unit Educational Foundation
	Governmental Activities	Business-Type Activities	Total	
Assets				
Equity in pooled cash and investments	\$ 11,176,083	\$ 1,147,066	\$ 12,323,149	\$ -
Cash and cash equivalents		4,242,267	4,242,267	12,423
Cash with escrow agent		329,327	329,327	
Investments - cash equivalents	15,597,169		15,597,169	
Investments			-	2,924,602
Accounts receivable:				
Montgomery County	24,683,281	322,955	25,006,236	
State of Maryland	15,191,535	32,483	15,224,018	
Federal	6,454,873	719,439	7,174,312	
Other	11,728,639	605,198	12,333,837	
Due from fiduciary funds	873,450		873,450	
Due from component unit	630,456		630,456	
Internal balances	7,852,825	(7,852,825)	-	
Inventories	7,427,359	1,031,775	8,459,134	
Prepays	84,134	194,499	278,633	
Due from employees	764,291		764,291	
Capital assets (net of accumulated depreciation):				
Land and site improvements	157,596,098		157,596,098	
Buildings and additions	980,800,233	9,807	980,810,040	
Construction in progress	95,288,745		95,288,745	
Vehicles and equipment	51,020,805	5,000,084	56,020,889	
Total assets	1,387,169,976	5,782,075	1,392,952,051	2,937,025
Liabilities				
Accounts payable and other current liabilities	95,457,042	227,878	95,684,920	
Due to primary government	216,871		216,871	630,456
Deferred revenue	2,205,884	2,109,489	4,315,373	
Noncurrent liabilities:				
Due within one year	20,273,606	98,995	20,372,601	
Due in more than one year	94,184,966	1,366,163	95,551,129	
Total liabilities	212,338,369	3,802,525	216,140,894	630,456
Net Assets				
Invested in capital assets, net of related debt	1,265,348,107	4,829,951	1,270,178,058	
Restricted for:				
Instructional Programs, Expendable				106,644
Unrestricted	(90,516,500)	(2,850,401)	(93,366,901)	2,199,925
Total net assets	\$ 1,174,831,607	\$ 1,979,550	\$ 1,176,811,157	\$ 2,306,569

The notes to the financial statements are an integral part of this statement.

MONTGOMERY COUNTY PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
Instruction:				
Regular instruction	\$ 983,787,947	\$ 2,216,394	\$ 35,939,061	\$ 27,264,760
Special education	226,446,611	191,089	26,164,271	145,902
School administration	126,636,268		5,218,772	
Student personnel services	11,411,475		622,527	
Health services	36,994			
Total instruction	<u>1,348,319,295</u>	<u>2,407,483</u>	<u>67,944,631</u>	<u>27,410,662</u>
Support services:				
Student transportation	80,078,067	253,887	805,947	90,068
Operation of plant	102,880,452		278,797	4,735,856
Maintenance of plant	48,730,155		1,170,000	16,823,911
Administration	37,010,469		124,406	1,534,715
Community services	1,641,493		1,325,721	
Total support services	<u>270,340,636</u>	<u>253,887</u>	<u>3,704,871</u>	<u>23,184,550</u>
Total governmental activities	<u>1,618,659,931</u>	<u>2,661,370</u>	<u>71,649,502</u>	<u>50,595,212</u>
Business-type activities:				
Food services	37,416,577	20,089,923	15,690,789	450,005
Adult education and summer school	4,110,281	3,770,253	35,953	
Real estate management	1,482,541	1,724,390		
Field trips	1,246,915	1,318,661		
Entrepreneurial activities	1,211,760	786,070		
Total business-type activities	<u>45,468,074</u>	<u>27,689,297</u>	<u>15,726,742</u>	<u>450,005</u>
Total primary government	<u>\$ 1,664,128,005</u>	<u>\$ 30,350,667</u>	<u>\$ 87,376,244</u>	<u>\$ 51,045,217</u>
Component Unit:				
Educational Foundation	<u>\$ 941,463</u>	<u>\$ -</u>	<u>\$ 1,073,012</u>	<u>\$ -</u>
General revenues:				
Intergovernmental:				
Montgomery County				
State of Maryland				
Federal government				
Investment earnings				
Loss on disposition of capital assets				
Other revenue				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Educational Foundation
\$ (918,367,732)	\$ -	\$ (918,367,732)	\$ -
(199,945,349)		(199,945,349)	
(121,417,496)		(121,417,496)	
(10,788,948)		(10,788,948)	
(36,994)		(36,994)	
<u>(1,250,556,519)</u>	<u>-</u>	<u>(1,250,556,519)</u>	<u>-</u>
(78,928,165)		(78,928,165)	
(97,865,799)		(97,865,799)	
(30,736,244)		(30,736,244)	
(35,351,348)		(35,351,348)	
(315,772)		(315,772)	
<u>(243,197,328)</u>	<u>-</u>	<u>(243,197,328)</u>	<u>-</u>
<u>(1,493,753,847)</u>	<u>-</u>	<u>(1,493,753,847)</u>	<u>-</u>
	(1,185,860)	(1,185,860)	
	(304,075)	(304,075)	
	241,849	241,849	
	71,746	71,746	
	<u>(425,690)</u>	<u>(425,690)</u>	
<u>-</u>	<u>(1,602,030)</u>	<u>(1,602,030)</u>	<u>-</u>
<u>(1,493,753,847)</u>	<u>(1,602,030)</u>	<u>(1,495,355,877)</u>	<u>-</u>
			131,549
1,183,680,350		1,183,680,350	
340,846,285		340,846,285	
262,516		262,516	
76,537	97,850	174,387	
(44,281)	(10,325)	(54,606)	
8,019		8,019	
16,584	(16,584)	-	
<u>1,524,846,010</u>	<u>70,941</u>	<u>1,524,916,951</u>	<u>-</u>
31,092,163	(1,531,089)	29,561,074	131,549
1,143,739,444	3,510,639	1,147,250,083	2,175,020
<u>\$ 1,174,831,607</u>	<u>\$ 1,979,550</u>	<u>\$ 1,176,811,157</u>	<u>\$ 2,306,569</u>

MONTGOMERY COUNTY PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Capital Projects	Other Governmental Fund - Special Revenue	Total Governmental Funds
Assets				
Equity in pooled cash and investments	\$ 11,082,320	\$ -	\$ 93,763	\$ 11,176,083
Accounts receivable:				
Montgomery County	24,683,281			24,683,281
State of Maryland	5,453,534	9,738,001		15,191,535
Federal	6,454,873			6,454,873
Other	11,910,912	43,614		11,954,526
Due from other funds	12,454,936			12,454,936
Due from fiduciary funds	873,450			873,450
Due from component unit	630,456			630,456
Inventories	7,427,359			7,427,359
Prepays	84,134			84,134
Due from employees	764,291			764,291
Total assets	<u>\$ 81,819,546</u>	<u>\$ 9,781,615</u>	<u>\$ 93,763</u>	<u>\$ 91,694,924</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 10,025,362	\$ 6,148,767	\$ 915	\$ 16,175,044
Retainage payable		9,616,720		9,616,720
Accrued salaries and withholdings	46,863,054			46,863,054
Due to primary government		216,871		216,871
Due to other funds	7,656,750	4,602,111		12,258,861
Deferred revenue	2,205,884			2,205,884
Compensated absences	3,860,178			3,860,178
Total liabilities	<u>70,611,228</u>	<u>20,584,469</u>	<u>915</u>	<u>91,196,612</u>
Fund Balances:				
Reserved for:				
Encumbrances	3,868,022		6,913	3,874,935
Inventories	7,427,359			7,427,359
Prepays	84,134			84,134
Unreserved, undesignated (deficit)	(171,197)	(10,802,854)	85,935	(10,888,116)
Total fund balances	<u>11,208,318</u>	<u>(10,802,854)</u>	<u>92,848</u>	<u>498,312</u>
Total liabilities and fund balances	<u>\$ 81,819,546</u>	<u>\$ 9,781,615</u>	<u>\$ 93,763</u>	<u>\$ 91,694,924</u>

The notes to the financial statements are an integral part of this statement.

MONTGOMERY COUNTY PUBLIC SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS
JUNE 30, 2004

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

Total fund balances - governmental funds	\$	498,312
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 1,878,690,763	
Accumulated depreciation is	<u>(593,984,882)</u>	
		1,284,705,881
An internal service fund is used to account for the employee health benefit plan costs. The assets and liabilities of the internal service fund are included with governmental activities.		
		463,548
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Capital leases payable	(35,222,813)	
Compensated absences	(69,406,325)	
Net pension obligation	(4,564,896)	
Technology investment loans	<u>(1,642,100)</u>	
		<u>(110,836,134)</u>
Total net assets - governmental activities	\$	<u>1,174,831,607</u>

The notes to the financial statements are an integral part of this statement.

MONTGOMERY COUNTY PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	General	Capital Projects	Other Governmental Fund - Special Revenue	Total Governmental Funds
Revenues:				
Montgomery County	\$ 1,132,069,738	\$ 101,441,310	\$ -	\$ 1,233,511,048
State of Maryland	333,993,581	16,937,598		350,931,179
Federal government	59,737,638			59,737,638
Other sources	3,731,886	137,075	1,102,000	4,970,961
Total revenues	<u>1,529,532,843</u>	<u>118,515,983</u>	<u>1,102,000</u>	<u>1,649,150,826</u>
Expenditures:				
Current:				
Administration	26,965,317			26,965,317
Mid-level administration	96,088,982			96,088,982
Instructional salaries and wages	654,152,515			654,152,515
Instructional textbooks and supplies	25,646,985			25,646,985
Other instructional costs	13,133,928			13,133,928
Special education	178,834,273			178,834,273
Student personnel services	8,623,619			8,623,619
Health services	32,474			32,474
Student transportation	59,958,528			59,958,528
Operation of plant	80,456,510			80,456,510
Maintenance of plant	25,714,753			25,714,753
Fixed charges	346,990,115			346,990,115
Community services	262,851		1,097,221	1,360,072
Debt service:				
Capital lease principal	9,784,719	5,339,398		15,124,117
Capital lease interest	1,148,374	176,617		1,324,991
Capital outlay		128,053,894		128,053,894
Total expenditures	<u>1,527,793,943</u>	<u>133,569,909</u>	<u>1,097,221</u>	<u>1,662,461,073</u>
Excess (deficiency) of revenues over expenditures	<u>1,738,900</u>	<u>(15,053,926)</u>	<u>4,779</u>	<u>(13,310,247)</u>
Other financing sources:				
Capital lease financing	4,398,502	12,385,019		16,783,521
Transfers in - enterprise funds	16,584			16,584
Payments from component unit	593,755			593,755
Total other financing sources	<u>5,008,841</u>	<u>12,385,019</u>	<u>-</u>	<u>17,393,860</u>
Net change in fund balances	6,747,741	(2,668,907)	4,779	4,083,613
Fund balances - beginning	<u>4,460,577</u>	<u>(8,133,947)</u>	<u>88,069</u>	<u>(3,585,301)</u>
Fund balances - ending	<u>\$ 11,208,318</u>	<u>\$ (10,802,854)</u>	<u>\$ 92,848</u>	<u>\$ 498,312</u>

The notes to the financial statements are an integral part of this statement.

MONTGOMERY COUNTY PUBLIC SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES
JUNE 30, 2004

Total net change in fund balances - governmental funds \$ 4,083,613

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlays for capital project assets (\$128,053,894 less non-capitalized items of \$50,847,060) plus capital outlays for general fund assets (\$5,680,815) exceed depreciation expense (\$45,845,529) in the current period. 37,042,120

The net effect of various miscellaneous transactions involving capital assets, such as the the loss on disposal of capital assets and the donation of land from developers is to decrease net assets. (9,071)

Some of the capital assets and assets below the capitalization threshold acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets. Also, expenditures for principal repayment of capital leases are measured by the amount of financial resources used by governmental funds and have no effect on net assets. (1,659,404)

In the statement of activities, certain operating expenses, such as compensated absences, are measured by the amounts accrued during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources expended. (8,735,199)

An internal service fund is used to charge the costs of the employee benefit plan to the individual funds. The net expense of the internal service fund is reported with governmental activities in the statement of activities. 370,104

Change in net assets of governmental activities \$ 31,092,163

The notes to the financial statements are an integral part of this statement.

MONTGOMERY COUNTY PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Montgomery County	\$ 1,133,352,359	\$ 1,132,069,738	\$ 1,132,069,738	\$ -
State of Maryland	252,486,404	259,750,775	256,702,224	(3,048,551)
Federal government	51,481,577	74,107,570	59,737,638	(14,369,932)
Other sources	10,129,994	5,974,933	3,731,886	(2,243,047)
Total revenues	1,447,450,334	1,471,903,016	1,452,241,486	(19,661,530)
Expenditures and encumbrances:				
Current:				
Administration	30,422,213	29,707,939	28,991,978	715,961
Mid-level administration	97,101,936	98,506,951	96,563,209	1,943,742
Instructional salaries and wages	659,173,480	666,222,409	653,701,888	12,520,521
Instructional textbooks and supplies	26,851,418	27,457,756	25,621,197	1,836,559
Other instructional costs	13,385,809	17,912,776	13,328,976	4,583,800
Special education	182,193,515	183,547,596	178,954,324	4,593,272
Student personnel services	8,409,167	8,975,856	8,623,231	352,625
Health services	45,638	45,638	32,474	13,164
Student transportation	60,881,535	64,928,257	64,219,600	708,657
Operation of plant	80,406,868	80,949,707	80,595,863	353,844
Maintenance of plant	25,505,626	25,505,626	25,329,850	175,776
Fixed charges	266,435,938	271,484,175	270,040,395	1,443,780
Community services	272,000	293,139	262,851	30,288
Total expenditures and encumbrances	1,451,085,143	1,475,537,825	1,446,265,836	29,271,989
Excess (deficiency) of revenues over expenditures and encumbrances	(3,634,809)	(3,634,809)	5,975,650	9,610,459
Other financing sources:				
Operating transfers from enterprise funds	-		16,584	16,584
Payments from component unit	595,000	595,000	593,755	(1,245)
Total other financing sources	595,000	595,000	610,339	15,339
Excess (deficiency) of revenues and other financing sources over expenditures and encumbrances	(3,039,809)	(3,039,809)	6,585,989	9,625,798
Fund balance - beginning	3,039,809	3,039,809	3,864,484	824,675
Fund balance - ending	\$ -	\$ -	\$ 10,450,473	\$ 10,450,473

The notes to the financial statements are an integral part of this statement.

MONTGOMERY COUNTY PUBLIC SCHOOLS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Food Services	Other Enterprise Funds	Total	
Assets				
Current assets:				
Equity in pooled cash and investments	\$ -	\$ 1,147,066	\$ 1,147,066	\$ -
Cash and cash equivalents	4,242,267		4,242,267	1,387,385
Cash with escrow agent	329,327		329,327	
Investments - cash equivalents				14,209,784
Accounts receivable:				
Montgomery County		322,955	322,955	
State of Maryland	32,483		32,483	
Federal government	719,439		719,439	
Other	213,838	391,360	605,198	11,853
Due from other funds				7,656,750
Inventories	1,031,775		1,031,775	
Prepays		194,499	194,499	
Total current assets	<u>6,569,129</u>	<u>2,055,880</u>	<u>8,625,009</u>	<u>23,265,772</u>
Noncurrent assets:				
Capital assets, net of accumulated depreciation:				
Buildings and improvements		9,807	9,807	
Machinery and equipment	4,995,262	4,822	5,000,084	
Total noncurrent assets	<u>4,995,262</u>	<u>14,629</u>	<u>5,009,891</u>	<u>-</u>
Total assets	<u>11,564,391</u>	<u>2,070,509</u>	<u>13,634,900</u>	<u>23,265,772</u>
Liabilities				
Current liabilities:				
Accounts payable	102,430	113,824	216,254	422,318
Claims payable				20,339,593
Accrued interest payable	11,624		11,624	
Due to employees, advance premium withholdings				2,040,313
Due to other funds	6,750,347	1,102,478	7,852,825	
Deferred revenue	1,023,003	1,086,486	2,109,489	
Capital leases - current	98,995		98,995	
Total current liabilities	<u>7,986,399</u>	<u>2,302,788</u>	<u>10,289,187</u>	<u>22,802,224</u>
Noncurrent liabilities:				
Capital leases payable	225,951		225,951	
Compensated absences	921,072	219,140	1,140,212	
Total noncurrent liabilities	<u>1,147,023</u>	<u>219,140</u>	<u>1,366,163</u>	<u>-</u>
Total liabilities	<u>9,133,422</u>	<u>2,521,928</u>	<u>11,655,350</u>	<u>22,802,224</u>
Net Assets				
Invested in capital assets, net of related debt	4,815,322	14,629	4,829,951	
Unrestricted	(2,384,353)	(466,048)	(2,850,401)	463,548
Total net assets	<u>\$ 2,430,969</u>	<u>\$ (451,419)</u>	<u>\$ 1,979,550</u>	<u>\$ 463,548</u>

The notes to the financial statements are an integral part of this statement.

MONTGOMERY COUNTY PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Food Services	Other Enterprise Funds	Total	
Operating revenues:				
Sale of food	\$ 20,089,923	\$ -	\$ 20,089,923	\$ -
Tuition and fees		7,599,374	7,599,374	
Employer's contributions				161,017,983
Members' contributions				29,291,752
Total operating revenues	<u>20,089,923</u>	<u>7,599,374</u>	<u>27,689,297</u>	<u>190,309,735</u>
Operating expenses:				
Salaries and wages	14,608,086	4,703,034	19,311,120	
Contracted services	644,144	706,369	1,350,513	
Supplies and materials	1,395,880	1,147,212	2,543,092	
Food purchases	9,821,621		9,821,621	
USDA commodities	2,035,632		2,035,632	
Other charges	7,828,970	1,489,884	9,318,854	726,662
Depreciation and amortization	1,070,620	4,998	1,075,618	
Benefits paid to plan members				131,932,806
Premiums paid to insurance companies				57,593,362
Total operating expenses	<u>37,404,953</u>	<u>8,051,497</u>	<u>45,456,450</u>	<u>190,252,830</u>
Operating income (loss)	<u>(17,315,030)</u>	<u>(452,123)</u>	<u>(17,767,153)</u>	<u>56,905</u>
Nonoperating revenues (expenses):				
National school lunch and other food programs:				
Federal funds	12,833,581		12,833,581	
State funds	821,576		821,576	
USDA commodities	2,035,632		2,035,632	
Other Federal grants		22,533	22,533	
Other State grants		13,420	13,420	
Interest expense	(11,624)		(11,624)	
Loss on sale of capital assets	(10,325)		(10,325)	
Investment income	81,266	16,584	97,850	313,199
Total nonoperating revenues (expenses)	<u>15,750,106</u>	<u>52,537</u>	<u>15,802,643</u>	<u>313,199</u>
Income (loss) before contributions and transfers	<u>(1,564,924)</u>	<u>(399,586)</u>	<u>(1,964,510)</u>	<u>370,104</u>
Capital contributions - equipment	450,005		450,005	
Transfers out		(16,584)	(16,584)	
Change in net assets	<u>(1,114,919)</u>	<u>(416,170)</u>	<u>(1,531,089)</u>	<u>370,104</u>
Total net assets - beginning	<u>3,545,888</u>	<u>(35,249)</u>	<u>3,510,639</u>	<u>93,444</u>
Total net assets - ending	<u>\$ 2,430,969</u>	<u>\$ (451,419)</u>	<u>\$ 1,979,550</u>	<u>\$ 463,548</u>

The notes to the financial statements are an integral part of this statement.

MONTGOMERY COUNTY PUBLIC SCHOOLS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Food Services	Other Enterprise Funds	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 20,113,600	\$ 8,128,501	\$ 28,242,101	\$ 30,290,014
Receipts from assessments made to other funds			-	161,924,239
Payments to suppliers	(17,001,693)	(1,592,371)	(18,594,064)	(60,501,106)
Payments to employees	(16,102,007)	(5,029,512)	(21,131,519)	
Payments for insurance claims			-	(132,548,251)
Payments for assessments made by other funds	(5,513,504)	(179,698)	(5,693,202)	
Payments for other operating expenses	(757,501)	(947,683)	(1,705,184)	(726,662)
Net cash provided by (used for) operating activities	<u>(19,261,105)</u>	<u>379,237</u>	<u>(18,881,868)</u>	<u>(1,561,766)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Nonoperating grants received	13,942,876	35,953	13,978,829	
Transfers to other funds		(16,584)	(16,584)	
Net cash provided by noncapital financing activities	<u>13,942,876</u>	<u>19,369</u>	<u>13,962,245</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from capital leases	24,756		24,756	
Purchases of capital assets	(85,779)		(85,779)	
Principal paid on capital leases	(264,648)		(264,648)	
Interest paid on capital leases	(14,540)		(14,540)	
Net cash (used for) capital and related financing activities	<u>(340,211)</u>	<u>-</u>	<u>(340,211)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends received	81,266	16,584	97,850	317,452
Net cash provided by investing activities	<u>81,266</u>	<u>16,584</u>	<u>97,850</u>	<u>317,452</u>
Net increase (decrease) in cash and cash equivalents	(5,577,174)	415,190	(5,161,984)	(1,244,314)
Cash and cash equivalents - beginning	9,819,441	731,876	10,551,317	16,841,483
Cash and cash equivalents - ending	<u>\$ 4,242,267</u>	<u>\$ 1,147,066</u>	<u>\$ 5,389,333</u>	<u>\$ 15,597,169</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (17,315,030)	\$ (452,123)	\$ (17,767,153)	\$ 56,905
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation and amortization	1,070,620	4,998	1,075,618	
USDA commodities used	2,035,632		2,035,632	
Change in assets and liabilities:				
Receivables	(79,038)	(26,987)	(106,025)	790,530
Due from other funds			-	906,256
Non USDA inventories	(11,799)		(11,799)	
Prepays		(138,859)	(138,859)	
Accounts payable	(2,504)	38,947	36,443	(2,907,744)
Claims payable			-	(615,445)
Advance premium withholdings			-	207,732
Due to other funds	(5,177,724)	361,190	(4,816,534)	
Deferred revenue	102,715	556,113	658,828	
Compensated absences	116,023	35,958	151,981	
Net cash provided by (used for) operating activities	<u>\$ (19,261,105)</u>	<u>\$ 379,237</u>	<u>\$ (18,881,868)</u>	<u>\$ (1,561,766)</u>
Noncash investing, capital and financing activities:				
Capital contributions of equipment	\$ 450,005	\$ -	\$ 450,005	\$ -
USDA commodities received	2,035,632		2,035,632	

The notes to the financial statements are an integral part of this statement.

MONTGOMERY COUNTY PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Retirement and Pension System	Agency Funds - Schools' Independent Activity Funds
ASSETS		
Cash	\$ -	\$ 2,733,687
Investments:		
Participation contract	23,427,799	
Domestic equities	301,824,027	
International equities	101,917,921	
Domestic fixed income	123,596,254	2,712,281
International fixed income	39,869,288	
Short-term investments	56,372,046	
Maryland Local Government investment pool		7,272,416
Montgomery County investment pool		807,877
Mortgages	34,107,500	
Real estate	36,201,156	
Total investments	<u>717,315,991</u>	<u>10,792,574</u>
Accounts receivable	2,583	1,343,010
Inventories		<u>305,026</u>
 Total assets	 <u>717,318,574</u>	 <u>15,174,297</u>
LIABILITIES		
Accounts payable		1,307,856
Due to general fund	873,450	
Liability for collateral received under securities lending agreements	42,985,964	
Due to student groups		<u>13,866,441</u>
 Total liabilities	 <u>43,859,414</u>	 <u>\$ 15,174,297</u>
NET ASSETS		
Held in trust for pension benefits	<u>\$ 673,459,160</u>	

The notes to the financial statements are an integral part of this statement.

MONTGOMERY COUNTY PUBLIC SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Retirement and Pension System
ADDITIONS	
Employer's contribution	\$ 19,866,733
Members' contributions	<u>4,520,946</u>
Total contributions	<u>24,387,679</u>
Investment earnings:	
Net appreciation in fair value of investments	74,547,736
Interest and dividends	17,186,022
Securities lending income	<u>287,576</u>
Total investment income	<u>92,021,334</u>
Less investment expense:	
Investment fees and other	(2,806,074)
Securities lending fees	<u>(233,997)</u>
Total investment expense	<u>(3,040,071)</u>
Net investment earnings	<u>88,981,263</u>
Total additions	<u>113,368,942</u>
DEDUCTIONS	
Benefits paid to plan members	37,956,887
Administrative expenses	<u>1,823,831</u>
Total deductions	<u>39,780,718</u>
Change in net assets	73,588,224
Net assets - beginning	<u>599,870,936</u>
Net assets - ending	<u><u>\$ 673,459,160</u></u>

The notes to the financial statements are an integral part of this statement.

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MONTGOMERY COUNTY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

Note 1	Summary of Significant Accounting Policies
Note 2	Budgetary Information
Note 3	Cash and Investments
Note 4	Interfund Receivables, Payables, and Transfers
Note 5	Due From Employees
Note 6	Capital Assets
Note 7	Payables
Note 8	Leases
Note 9	Long-Term Liabilities
Note 10	Risk Management
Note 11	Defined Benefit Pension Plans
Note 12	Other Postemployment Benefits
Note 13	Contingencies

1. Summary of Significant Accounting Policies

The financial statements of MCPS have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of MCPS are described below.

a) Reporting Entity

The Board of Education of Montgomery County is the elected body, corporate and politic, established under Maryland law to provide public education in kindergarten through twelfth grade to children residing within the borders of Montgomery County, Maryland. The Board determines educational policy and employs a superintendent of schools to administer the public school system known as Montgomery County Public Schools (MCPS). Primary funding is provided by Montgomery County from its general revenues. Funds also are received from state and federal sources for general school aid and specific purpose grants. The budget is approved by the Montgomery County Council. The Board of Education has no power to levy and collect taxes or to increase the budget. Because of the relationship with Montgomery County, MCPS is considered a component unit of the county government, as defined by GAAP for governmental entities.

The accompanying financial statements present the primary government, MCPS, and its discretely presented component unit, the Montgomery County Public Schools Educational Foundation, Inc. (Foundation). The Foundation is included in the reporting entity because of the financial benefits provided through it to MCPS and because MCPS is considered to be financially accountable. The Foundation is reported in a separate column in the district-wide financial statements to emphasize that it is legally separate from MCPS. The Foundation is presented as an enterprise fund type.

The Foundation accepts grants and contributions from private organizations and individuals. All such funds received are used to enhance MCPS educational programs and to provide student scholarships. Complete financial statements can be obtained from the Office of the Chief Operating Officer, Montgomery County Public Schools, 850 Hungerford Drive, Rockville, Maryland 20850.

b) Basis of Presentation

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of MCPS and its component unit except for fiduciary activities. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely primarily on fees and charges for support. Likewise, the primary government is reported separately from its legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers 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. Intergovernmental revenue and other items not properly included among program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor enterprise funds are aggregated and reported as nonmajor funds.

MCPS reports the following major governmental funds:

The general fund is the primary operating fund of MCPS. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The capital projects fund accounts for financial resources to be used in the acquisition or construction of school sites and buildings and other major capital facilities.

MCPS reports the following major proprietary fund:

The food services fund accounts for the operations of 191 cafeterias and the central production facility, providing for the preparation and sale of meals to students and other agencies and customers.

Additionally, MCPS reports the following fund types:

The special revenue fund accounts for the use of Cable TV franchise fees that are legally restricted to expenditure for specific purposes.

The internal service fund accounts for the financing of employee health benefits provided to other funds of the government on a cost reimbursement basis.

The pension trust fund accounts for the activities of the MCPS Employees' Retirement and Pension System, which accumulates resources for pension benefit payments to qualified MCPS employees.

The agency fund accounts for assets held by elementary and secondary schools for student groups. Agency funds are custodial in nature (i.e., assets equal liabilities) and do not involve measurement of results of operations.

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 Food Services enterprise fund, of the nonmajor enterprise funds, and of the internal service fund are charges to customers for sales and services. Operating expenses for enterprise funds and the internal service fund 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.

c) Measurement focus, basis of accounting

The district-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Revenue from USDA commodities is considered earned when the commodities are used. The value of unused commodities is reported as deferred revenue. Employee and employer contributions to the pension trust fund are recognized as revenue in the period that the contributions are due.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. All governmental fund revenues are considered available if the revenues are collected within ninety days after year-end. MCPS' primary sources of funding are intergovernmental revenues which are either unrestricted as to purpose of expenditure or are restricted to a specific purpose. Unrestricted funds are recorded as revenues at the time of receipt or earlier if they meet the availability criterion. Restricted funds are recognized as revenue when all eligibility requirements imposed by the provider have been met and the resources are available. Restricted funds received in excess of recorded expenditures are recorded as deferred revenue. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except for principal and interest on capital leases, and expenditures related to compensated

absences and claims and judgments, which are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from capital leases are reported as other financing sources.

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

When both restricted and unrestricted resources are available for use, it is MCPS' policy to use restricted resources first, then unrestricted resources as they are needed.

d) Cash and Investments

MCPS maintains an active pooled cash and investment program which is managed in accordance with the Annotated Code of Maryland. Overnight investments in repurchase agreements and money market investments are stated at amortized cost. Investment income is allocated to the various funds based on their average equity in the pool. The assignment of allocated investment income to the general fund is reported as an operating transfer.

Pension Trust Fund investments consist of a group pension immediate participation contract carried at contract value and separate funds carried at fair value. Equity and bond securities are valued at closing sales prices as reported on national or international securities exchanges at current exchange rates, or at closing bid prices as reported by investment dealers. The fair value of mortgages and real estate investments are based on independent appraisals.

Internal Service Fund investments are stated at fair value. For purposes of the statement of cash flows, the Internal Service Fund and the Food Services Fund consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

The cash in the Agency Fund represents the independent activity fund cash balances in the separate bank accounts of individual schools and other groups. The bank accounts are maintained by each of the locations. The administrator at each location is required, under MCPS policy, to deposit any funds in excess of current needs with a federally or state insured financial institution or in the MCPS Centralized Investment Fund. All such funds earn market rate interest and are available to the schools on a demand basis.

The Agency Fund and the component unit invest in certain external investment pools. The Maryland Local Government Investment Pool consists of funds from local governments placed in the custody of the state and funds from the state. Oversight responsibility for the pool resides with the state treasurer. The Montgomery County investment pool invests funds for itself and participating agencies pursuant to the Annotated Code of Maryland, County Code and the county's short-term investment policy as approved by the County Council. The fair value of MCPS' position in the aforementioned pools is the same as the value of pool shares.

e) Inventories and Prepaid Items

Inventories are stated at the lower of cost or market. For supplies, instructional materials, food, and food related inventories, cost is determined by the average cost method; for transportation supplies, cost is determined by the first-in, first-out method. Commodities received from the U.S. Department of Agriculture (USDA) are stated at fair market value. Unused USDA commodities in inventory at year end are reported as deferred revenue as title does not pass to MCPS until the commodities are used. The cost of all inventories is recorded as an expenditure/expense at the time the individual inventory items are consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both district-wide and fund financial statements.

f) Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the district-wide financial statements. Capital assets are defined by MCPS as assets with an initial, individual cost of more than \$5,000 (\$600 for the Food Services Fund) for equipment and \$200,000 for buildings and structural additions, and an estimated useful life in excess of one year. Purchased or constructed capital assets are valued at cost where historic records exist and at estimated historic cost where no historic records exist. Donated capital assets are valued at estimated fair market value at the date received.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend asset lives are not capitalized.

Property, plant, and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Land and building improvements	20
Portable classrooms	15
Furniture, heavy equipment and vehicles	12
Technology, light equipment and vehicles	5

g) Compensated Absences

MCPS employees are permitted to accumulate earned but unused annual and sick leave benefits. It is MCPS policy to pay employees who separate from service with MCPS the accumulated amount of earned but unused annual leave and, for employees with at least five years credited service, one quarter of vested, accumulated sick leave. Administrators with thirty or more years credited service receive 30 percent of vested, accumulated sick leave. All annual and vested sick leave is accrued when incurred in the district-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only at the time of employee resignations and retirements.

h) Long-Term Obligations

Long-term obligations are reported as liabilities in the district-wide and proprietary fund financial statements. Only the portion of long-term obligations expected to be paid from expendable available financial resources is reported as a liability in the governmental fund financial statements and the face amount of capital lease issuances is reported as other financing sources.

i) Fund Equity

Governmental funds, in the fund financial statements, 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. Designations of fund balance represent tentative management plans that are subject to change.

2. Budgetary Information

a) Overview

The majority of current funding for MCPS is provided by Montgomery County, the State of Maryland, and the federal government. Under Maryland school statutes, the MCPS annual budget is presented to the Montgomery County Council no later than March 1 and is to be adopted by the Council by May 31. In general, the county is then responsible to fund the budget so adopted, to the extent that funds are not raised from other sources (state and federal governments, etc.). The

Board of Education has no power to levy taxes or to spend funds not appropriated by the Montgomery County Council.

Formal budgetary integration, including encumbrance accounting, is employed as a management control device during the year for the governmental and proprietary fund types. Management is authorized to transfer funds within major categories of expenditure (i.e., administration, instructional salaries, etc.) up to \$100,000. Transfers in excess of \$100,000 require the approval of the superintendent and the Board of Education; transfers between major categories require the approval of the Montgomery County Council. By state law, major categories of expenditure may not exceed budgeted amounts for the year ending June 30.

The budgeted amounts reflected in the accompanying financial statements recognize budget revisions made during the year, all of which were properly reported and/or approved, as applicable. During 2004, supplemental appropriations increasing the operating budget by \$9,873,057 and increasing the capital budget by \$5,119,680 were approved.

Encumbrances outstanding at year-end in the governmental funds are reported in accordance with GAAP as reservations of fund balance since they do not constitute expenditures or liabilities. Encumbrances outstanding for the proprietary funds are eliminated for financial statement presentation. Annual appropriations that are not spent, encumbered, or designated at year-end lapse. Outstanding encumbrances at year-end are reappropriated in the subsequent year.

Capital projects are funded primarily by Montgomery County and by the state. Funds are budgeted and appropriated on a project basis and on an annual basis. Capital projects funds do not lapse at the end of each year, but may be expended until project completion.

b) Budgetary Presentation

The general fund statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual has been prepared on the legally prescribed budgetary basis of accounting to demonstrate compliance with the legally adopted budget. The budgetary basis of accounting employs the modified accrual basis plus encumbrances, except for compensated absence expenditures that are reported on a cash basis.

The basis used to prepare the legally adopted budget differs from GAAP as follows:

- Encumbrances outstanding are charged to budgetary appropriations in the current period.
- Expenditures for compensated absences are accounted for on a cash basis.
- State of Maryland retirement contributions made on behalf of MCPS employees are a legal obligation of the State, and so are not included in the MCPS budget.
- Capital lease financing is accounted for as other financing sources for GAAP purposes.

Adjustments to reconcile the budgetary statement to the GAAP fund statement are as follows:

	<u>Revenues</u>	<u>Expenditures and Encumbrances</u>	<u>Other Financing Sources</u>	<u>Effect on Fund Balance</u>
As reported - budgetary basis	\$ 1,452,241,486	\$ 1,446,265,836	\$ 610,339	\$ 6,585,989
Reconciling items:				
2004 Encumbrances outstanding		(3,868,022)		3,868,022
Expenditures of prior year encumbrances		3,221,172		(3,221,172)
Increase in compensated absences		485,098		(485,098)
State of Maryland retirement contributions	77,291,357	77,291,357		-
Capital lease financing		4,398,502	4,398,502	-
As reported - GAAP basis	<u>\$ 1,529,532,843</u>	<u>\$ 1,527,793,943</u>	<u>\$ 5,008,841</u>	<u>\$ 6,747,741</u>

Capital Projects Fund encumbrances of \$41,081,777 are not reflected in the governmental fund balance sheet as the offsetting revenues are not available until the expenditures on a GAAP basis

are incurred.

Beginning June 15 of each fiscal year, MCPS issues purchase orders and begins shipment of inventory to various locations for items such as supplies, textbooks, and construction contracts that will be charged to the budget of the next fiscal year. These obligations and warehouse shipments are not reflected in the accompanying financial statements. At June 30, 2004, \$14,557,961 of such purchase orders had been issued.

c) Deficit Fund Equity

The Capital Projects Fund had an unreserved, undesignated fund deficit of \$10,802,854. The deficit reflects school construction funding reversions by the State of Maryland that occurred after the anticipated funds had been spent. The Entrepreneurial Activities Fund had a deficit in unrestricted net assets of \$1,156,327 at June 30, 2004. It is anticipated that the deficit will be eliminated as the level of fund activity expands and cost cutting measures take effect. The Adult Education Fund had a deficit in unrestricted net assets of \$280,966 at June 30, 2004, due to discontinuation of a \$300,000 tuition subsidy by the Montgomery County Council after tuition rates for 2004 had been established. Tuition rates have been restructured to reflect the elimination of this annual subsidy.

Net assets of the Internal Service Fund represent equity reserved for future claim losses and benefits under the employee benefit plan.

3. Cash and Investments

a) Authorization and Balances

Cash and investments at June 30, 2004, are summarized as follows:

	Primary Government	Component Unit
Equity in pooled cash and investments	\$ 12,323,149	\$
Cash and cash equivalents	4,242,267	12,423
Cash with escrow agent	329,327	
Cash-fiduciary funds	2,733,687	
Investments – cash equivalents	15,597,169	
Investments	-	2,924,602
Investments-fiduciary funds	728,108,565	
Total	\$ 763,334,164	\$ 2,937,025
Deposits and Investments Summary:		
Deposits	\$ 7,631,657	\$ 12,423
Investments	755,362,646	2,924,602
Cash on hand, escrow agent	339,861	
Total	\$ 763,334,164	\$ 2,937,025

MCPS is required, in accordance with a lease agreement with the Montgomery County Revenue Authority, to maintain an operations and maintenance fund which is to be used only to support the food services operations. The agreement requires the fund to maintain a balance of \$1,000,000. Withdrawals from the fund, which may be made at any time, must be restored to the fund within twelve months of the date of withdrawal. No withdrawals were made from the fund during 2004. The balance in the operations and maintenance fund at June 30, 2004, was \$1,010,241.

The Annotated Code of Maryland requires that funds on deposit with a financial institution be fully secured by deposit insurance, surety bonds, obligations of the United States or its agencies, obligations of the State of Maryland or any of its agencies, or obligations of a county, other governmental authority, or municipal corporation in the State of Maryland. Deposits throughout the year were fully insured or collateralized.

The Annotated Code of Maryland authorizes MCPS to invest in obligations for which the United States has pledged its faith and credit for the payment of principal and interest, in obligations issued by a federal agency in accordance with an act of Congress, in repurchase agreements collateralized at not less than 102 percent of the principal amount by obligations of the United States and its agencies, in money market mutual funds operated in accordance with SEC Rule 2A-

7, or in any investment portfolio created under the Maryland Local Government Investment Pool. MCPS was in compliance with the above mentioned investment statutes throughout the fiscal year.

The Pension Trust Fund and the Internal Service Fund are authorized to invest in domestic and foreign equities, obligations of the United States and its agencies, securities issued or guaranteed by a foreign government, marketable corporate bonds, collateralized obligations, commercial paper, bankers' acceptances, money market funds, and pooled real estate investments. Fixed income investments are to be made primarily in issues rated "A" or better by Moody's and "A" or better by Standard & Poor's rating agencies.

The Annotated Code of Maryland allows the MCPS Employees' Retirement and Pension System (Pension Trust) to participate in securities lending transactions. The Pension Trust, in October 2002, entered into a Securities Lending Authorization Agreement with the Northern Trust Company (Northern) to lend its securities to broker-dealers and banks pursuant to a form of borrowing agreement.

During 2004, Northern lent Pension Trust securities for which it is custodian. Pension Trust securities not under the custodianship of Northern are not part of the Securities Lending Authorization Agreement. Northern receives from borrowers both cash and non-cash collateral. Non-cash collateral includes United States government securities and irrevocable letters of credit. Northern does not have the ability to pledge or sell collateral unless the borrower is in default under the agreement. Borrowers are required to deliver cash and/or non-cash collateral having a market value of not less than 102 percent (105 percent if the borrowed securities and collateral are denominated in non-U.S. currencies) of the market value of the borrowed securities. The Pension Trust did not impose any restriction during 2004 on the amount of securities Northern may lend.

Northern indemnifies the Pension Trust against any losses, damages or expenses it may incur if Northern is unable to recover the borrowed securities, and distributions made with respect to those securities, as a result of Northern's failure to make a reasoned determination of borrower creditworthiness or to demand adequate and appropriate collateral. During 2004, there were no losses resulting either from borrower default or investment losses in collateral pools. The Pension Trust and the borrowers maintain the right to terminate all securities lending transactions on demand.

The cash collateral is invested in the Northern Core USA Collateral Section (Fund). Fund investments include United States government securities, domestic and foreign bankers' acceptances, certificates of deposit and time deposits, and U.S. dollar denominated obligations issued or guaranteed by foreign governments. The fund is accounted for on an amortized cost basis. The fund is not registered with the Securities and Exchange Commission, but operates in accordance with the requirements of SEC Rule 2a-7. Northern believes that the value of the Pension Trust's position in the Fund on an amortized cost basis approximates the valuation of the Fund if valued at fair value.

The market value of Pension Trust securities on loan at June 30, 2004 was \$52,522,356. Collateral held was \$53,836,429, including cash collateral of \$42,985,964. Because loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. At June 30, 2004, the Pension trust had no credit risk exposure to borrowers.

b) Deposits

At year-end, the reported balance of MCPS' deposits was \$7,631,657 and the bank balance was \$19,018,935. Of the bank balance, \$19,018,935 was covered by federal depository insurance or by collateral held by MCPS' agent in MCPS' name.

The reported balance of the Educational Foundation, the discreetly presented component unit, was \$12,423 and the bank balance was \$18,543. All of the bank balance was covered by federal depository insurance.

c) Investments By Category of Risk

Investments are categorized below to give an indication of the level of risk assumed by MCPS at year-end. Category "1" includes investment securities that are insured or registered or held by MCPS or its agent in MCPS' name. Category "2" includes uninsured and unregistered investment securities held by the counterparty's trust department or agent in MCPS' name. Category "3" includes uninsured and unregistered investment securities held by a counterparty, or by its trust department or agent but not in MCPS' name. There were no unusual variations in form or amounts of investments or deposits, including insurance and location of collateral, throughout the fiscal year, except when significantly higher cash flows at certain times during the year, would increase the amount of investments in repurchase agreements.

	Category 1	Category 2	Category 3	Carrying Amount/ Fair Value
Pension Trust investments:				
Common stock:				
Not on securities loan	\$ 146,822,590	\$ -	\$ -	\$ 146,822,590
On securities loan	26,023,977			26,023,977
U.S. Government securities:				
Not on securities loan	41,351,011			41,351,011
On securities loan	22,815,192			22,815,192
Corporate bonds:				
Not on securities loan	15,903,249			15,903,249
On securities loan	3,683,187			3,683,187
Mortgage-backed securities	24,868,405			24,868,405
Commercial mortgage-backed securities	4,205,249			4,205,249
Asset-backed securities	3,428,780			3,428,780
Short-term investments	1,992,973			1,992,973
Other investments:				
U.S. Government securities	2,712,281			2,712,281
Repurchase agreements	512,797			512,797
	<u>\$ 294,319,691</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 294,319,691</u>
Pooled investments:				
Pension Trust investments:				
Commingled and mutual funds				\$ 312,926,758
Real estate				70,308,656
Securities lending short-term collateral investment pool				42,985,964
Other investments:				
Mutual funds				26,741,284
Maryland Local Government Investment Pool				7,272,416
Montgomery County investment pool				807,877
Total investments				<u>\$ 755,362,646</u>
Component unit:				
Montgomery County investment pool				<u>\$ 2,924,602</u>

d) Cash on Hand and with Escrow Agent

At year-end, the primary government had \$339,861, of which \$10,534 is on hand in petty cash accounts, and \$329,327 is cash with an escrow agent held for approximately one day in U.S. Government obligations that are not in MCPS' name (Category 3).

4. Interfund Receivables, Payables and Transfers

Balances due to/from other funds at June 30, 2004, consist of the following:

Due to the general fund from other governmental funds representing advances of pooled cash	\$ 4,602,111
Due to the general fund from enterprise funds representing advances of pooled cash	7,852,825
Due to the internal service fund from the general fund for employee benefit plan expenditures	<u>7,656,750</u>
Total	\$ <u>20,111,686</u>

Following is a summary of balances due from other funds reported in fund financial statements:

Due from other funds, Balance Sheet-Governmental Funds	\$ 12,454,936
Due from other funds, Statement of Net Assets-Proprietary Funds	<u>7,656,750</u>
Total	\$ <u>20,111,686</u>

Interfund balances are repaid currently from reimbursable expenditures and proceeds from the sale of goods and services.

Transfers to/from other funds consist of the following:

From non-major enterprise funds to the general fund to assign allocated investment income to the general fund	\$ <u>16,584</u>
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5. Due From Employees

The \$764,291 reported as due from employees arose from past transition to a unified pay cycle calendar for twelve-month employees. Repayment is made from final paychecks when employees separate from active employment with MCPS.

6. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Nondepreciable capital assets:				
Land	\$ 66,207,419	\$ 340,180	\$ -	\$ 66,547,599
Construction in Progress	101,449,370	82,439,873	88,600,498	95,288,745
Total nondepreciable capital assets	<u>167,656,789</u>	<u>82,780,053</u>	<u>88,600,498</u>	<u>161,836,344</u>
Depreciable capital assets:				
Buildings and improvements	1,410,935,727	75,631,835	1,306,909	1,485,260,653
Site improvements	105,692,987	7,595,502		113,288,489
Vehicles and equipment	114,298,251	5,725,151	1,718,125	118,305,277
Total depreciable capital assets	<u>1,630,926,965</u>	<u>88,952,488</u>	<u>3,025,034</u>	<u>1,716,854,419</u>
Less accumulated depreciation for:				
Buildings and improvements	471,288,847	34,313,634	1,142,061	504,460,420
Site improvements	19,639,012	2,600,978		22,239,990
Vehicles and equipment	59,983,063	8,975,253	1,673,844	67,284,472
Total accumulated depreciation	<u>550,910,922</u>	<u>45,889,865</u>	<u>2,815,905</u>	<u>593,984,882</u>
Total depreciable capital assets, net	<u>1,080,016,043</u>	<u>43,062,623</u>	<u>209,129</u>	<u>1,122,869,537</u>
Government activities capital assets, net	<u>\$ 1,247,672,832</u>	<u>\$ 125,842,676</u>	<u>\$ 88,809,627</u>	<u>\$ 1,284,705,881</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Depreciable capital assets:				
Buildings	\$ 17,831	\$	\$	\$ 17,831
Vehicles and equipment	16,171,563	535,784	93,952	16,613,395
Total depreciable capital assets	<u>16,189,394</u>	<u>535,784</u>	<u>93,952</u>	<u>16,631,226</u>
Less accumulated depreciation for:				
Buildings	6,241	1,783		8,024
Vehicles and equipment	10,623,103	1,073,835	83,627	11,613,311
Total accumulated depreciation	<u>10,629,344</u>	<u>1,075,618</u>	<u>83,627</u>	<u>11,621,335</u>
Business-type activities capital assets, net	<u>\$ 5,560,050</u>	<u>\$ (539,834)</u>	<u>\$ 10,325</u>	<u>\$ 5,009,891</u>

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

Governmental activities:

Regular instruction	\$ 37,766,348
Special education	229,089
School administration	24,682
Student transportation	6,064,101
Operation of plant	187,857
Maintenance of plant	407,831
Administration	1,165,621
Total depreciation expense-governmental activities	<u>\$ 45,845,529</u>

Business-type activities:

Food services	\$ 1,070,620
Real estate management	4,998
Total depreciation expense—business-type activities	<u>\$ 1,075,618</u>

The increase in governmental-activities accumulated depreciation, in addition to depreciation expense, included accumulated depreciation of \$44,336 on capital assets transferred from Food Services. Commitments for ongoing construction in progress at June 30, 2004, were \$32,342,345.

7. Payables

Accounts payable and other current liabilities of the governmental and business-type activities at June 30, 2004 are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Accounts payable	\$ 16,597,362	\$ 216,254	\$ 16,813,616
Retainage payable	9,616,720		9,616,720
Accrued salaries and withholdings	46,863,054		46,863,054
Claims payable	20,339,593		20,339,593
Due to employees-advance premium withholding	2,040,313		2,040,313
Accrued interest payable		11,624	11,624
Total accounts payable and other current liabilities	<u>\$ 95,457,042</u>	<u>\$ 227,878</u>	<u>\$ 95,684,920</u>

8. Leases

a) Operating Leases

Expenditures under lease agreements for office space and equipment were approximately \$2,550,000 in 2004. Commitments for fiscal year 2005 under lease agreements are approximately

\$1,262,000. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet rental payments are not appropriated.

The Montgomery County Revenue Authority (MCRA) issued \$6,750,000 of Lease Revenue Bonds in 1994 to finance the renovation and expansion of the MCPS food services centralized production facility. The MCPS leases the facility from MCRA for a period of fifteen years. The Lease Revenue Bonds are payable from the lease payments. The lease payments are payable by the Food Services Fund solely from revenues deposited in the Pledged Revenue account. Pledged revenues include all receipts, revenues, and income of the Food Services Fund, excluding amounts received from the state, the county, or the federal government. Monthly lease payments, which totaled \$669,938 in 2004, continue through March 1, 2008. Annual lease payment obligations are as follows:

	<u>Total</u>
Fiscal year ending June 30:	
2005	\$ 669,625
2006	671,750
2007	672,375
2008	504,000
Total	<u>\$ 2,517,750</u>

MCPS has the option to prepay the lease at the lease payment price, plus an additional amount equal to the bond redemption premium if applicable. The MCRA will convey ownership of the facility to Montgomery County on expiration of the lease agreement. Among other things, the lease agreement requires MCPS to set fees, as necessary, so that each fiscal year total revenues of the Food Services Fund, plus excess cash, will be at least equal to total expenditures, as defined; and that the Food Services Fund shall not sustain a cumulative deficit of \$1,000,000 or more of total expenditures, as defined, over total revenues over any period of four successive fiscal years and fail to restore the operations and maintenance fund by the end of each successive four year period. MCPS is in compliance with the covenants of the lease agreement.

b) Capital Leases

Under a master lease arrangement, MCPS acquires school buses, vehicles, technology and other equipment under noncancellable capital leases that expire at various times through fiscal year 2009. Lease payments, including interest, in fiscal year 2004 were \$10,933,093 for the General Fund, \$5,516,015 for the Capital Projects Fund and \$279,188 for the Food Services Fund.

Assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Food Services Fund</u>
Vehicles and equipment	\$ 50,638,922	\$ 192,562
Less: accumulated depreciation	(18,204,199)	(50,221)
Total	<u>\$ 32,434,723</u>	<u>\$ 142,341</u>

Future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2004, were as follows:

Fiscal year ending June 30	<u>Governmental Activities</u>	<u>Food Services Fund</u>
2005	\$ 15,403,343	\$ 110,620
2006	12,067,834	110,620
2007	7,962,757	64,690
2008	1,517,730	64,690
2009	727,367	-
Total minimum lease payments	37,679,031	350,620
Less : Amount representing interest	(2,456,218)	(25,674)
Present value of future minimum lease payments	<u>\$ 35,222,813</u>	<u>\$ 324,946</u>

\$19,357,775 of outstanding capital lease obligations for governmental activities at June 30, 2004, were used to acquire capital assets.

9. Long-Term Liabilities

a) Technology Loans

MCPS received non-interest bearing technology loans from Montgomery County of \$3,116,320, that were used to replace certain business information systems. The loans are to be repaid from the General Fund over a period of eight years. Loan repayments in 2004 were \$428,465.

Annual technology loan payments are as follows:

	<u>Amount</u>
2005	\$ 328,420
2006	328,420
2007	328,420
2008	328,420
2009	328,420
Total	<u>\$ 1,642,100</u>

b) Changes in Long-Term Liabilities

Long-term liability activities during 2004 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Capital leases	\$ 33,563,409	\$ 16,783,521	\$ 15,124,117	\$ 35,222,813	\$ 14,143,796
Compensated absences	64,259,099	14,377,570	5,607,906	73,028,763	5,801,390
Net pension obligation	3,923,538	955,241	313,883	4,564,896	-
Technology loans payable	2,070,565	-	428,465	1,642,100	328,420
Total	<u>\$ 103,816,611</u>	<u>\$ 32,116,332</u>	<u>\$ 21,474,371</u>	<u>\$ 114,458,572</u>	<u>\$ 20,273,606</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-Type Activities:					
Capital leases	\$ 286,156	\$ 303,438	\$ 264,648	\$ 324,946	\$ 98,995
Compensated absences	988,232	155,090	3,110	1,140,212	-
Total	<u>\$ 1,274,388</u>	<u>\$ 458,528</u>	<u>\$ 267,758</u>	<u>\$ 1,465,158</u>	<u>\$ 98,995</u>

Compensated absences and net pension obligation for the governmental activities are generally liquidated by the General Fund.

10. Risk Management

MCPS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees or students; natural disasters; and employer health benefits. MCPS participates in the Montgomery County Liability and Property Coverage Self-Insurance Program. Under this program, MCPS receives coverage for general liability, workers' compensation, public official liability, property and motor vehicle risks, generally up to a maximum of \$100,000 per claim. MCPS' premium payments to the fund are based upon actuarially determined funding rates for the covered risks. MCPS purchases commercial insurance for claims in excess of coverage by the self-insurance program and for other risks not covered by the program. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

The employee health benefits plan is financed through an internal service fund, the Employee Benefit Trust Fund. The Employee Benefit Trust Fund provides plan coverage under contracts with

several health maintenance organizations (HMO's) and through a point of service plan. MCPS funds participating in the plan make payments to the Employee Benefit Fund in amounts sufficient to cover plan costs, which are comprised of premiums paid to HMO's and actuarial estimates of amounts needed to pay prior- and current-year claims and to establish a reserve for incurred but not reported claims (IBNR). The claims payable of \$20,339,593 reported in the Internal Service Fund at June 30, 2004, is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the Internal Service Fund's claims payable for fiscal years 2003 and 2004 are reflected below.

	Beginning Payable	Incurred Claims (Including IBNR)	Claim Payments	Ending Payable
2003	\$ 24,437,715	\$ 118,967,009	\$ (122,449,686)	\$ 20,955,038
2004	20,955,038	131,932,806	(132,548,251)	20,339,593

11. Defined Benefit Pension Plans

Substantially all of MCPS' employees working at least 4 hours a day in an approved job classification are covered under one of three mandatory defined benefit retirement plans. Two of these are multi-employer plans administered by the Maryland State Retirement System (MSRS); and one is a single-employer plan, the MCPS Employees' Retirement and Pension System, administered by MCPS.

State Plans

a) Plan Description

MCPS professional and administrative employees participate in one of two state plans, the State Teachers' Retirement System or the State Teachers' Pension System, the costs of which are borne by the state. Effective July 1, 1980, new MCPS teacher and administrative personnel became members of the State Teachers' Pension System. Members in the existing State Teachers' Retirement System have the option to transfer from the old to the new plan. Benefits at retirement are based upon years of service and the average earned compensation of an eligible employee during any three consecutive years that provide the highest average earned compensation. Benefits vest after five years of creditable service.

The financial statements of the State Teachers' Retirement System and the State Teachers' Pension System are included in the comprehensive annual financial report of the Maryland State Retirement System. A copy of that report may be obtained by writing to The Maryland State Retirement System, 120 East Baltimore Street, Baltimore, Maryland 21202.

b) Funding Policy

Covered employees are, by statute, required to contribute to these plans. MCPS is not required to contribute. The employer's share of contributions to these two plans for MCPS employees, which amounted to \$77,291,357 in 2004, is the legal responsibility of the state. MCPS has recognized in the governmental fund statements revenue and expenditures in the amount equal to the state's contribution payment.

MCPS Plan

a) Plan Description

The MCPS Employees' Retirement and Pension System is funded and administered as a single plan with two separate benefit structures, the retirement system and the pension system. Retirement system benefits cover employees hired prior to January 1, 1980. The retirement system provides retirement benefits, as well as death and disability benefits, to employees who are not members of the State Teachers' Retirement System and supplements the state benefits to

members of the State Teachers' Retirement System. Benefits at retirement are based on years of service and the average earned compensation of an eligible employee during any three years that provide the highest average earned compensation, and are adjusted for changes in the consumer price index after retirement. Benefits at early retirement are reduced by an early retirement factor. Benefits vest after five years of creditable service.

Pension system benefits cover employees hired after January 1, 1980. Members in the retirement system may elect to participate in the pension system, in which case their excess contributions are refunded. The pension system provides retirement benefits, as well as death and disability benefits, to employees who are not members of the State Teachers' Pension System and supplements the state benefits to members of the State Teachers' Pension System. Benefits are based on years of service and a percentage of the average earned compensation of an eligible employee during any three consecutive years that provide the highest average earned compensation and are adjusted for changes in the consumer price index after retirement of not more than 3 percent per year. Benefits at early retirement are reduced by an early retirement factor. Benefits vest after five years of creditable service.

At July 1, 2003, the date of the latest actuarial report, MCPS' plan membership consisted of:

Retirees and beneficiaries currently receiving benefits	8,661
Terminated plan members entitled to benefits but not yet receiving them	3,158
Active plan members	<u>20,123</u>
Total	<u>31,942</u>

b) Contributions

Plan members are required by resolution to contribute to the plan. Covered teachers and other members of the retirement system contribute .5 percent and 5.5 percent, respectively, of their salary to the plan. Covered teachers and other members of the pension system contribute .1 and 2.1 percent of their salary to the plan. MCPS is required by resolution to contribute the remaining actuarially determined amounts necessary to finance the combined coverage of plan members. Benefits and contribution provisions are established and may be amended only by the Board of Education. Administrative costs are financed through investment earnings.

c) Investment Concentrations

The following investments represented 5 percent or more of plan net assets at June 30, 2004:

Northern Trust Quantitative S&P 500 Index Fund	\$ 80,704,042
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d) Annual Pension Cost and Net Pension Obligation

MCPS' annual pension cost and net pension obligation to the plan for the current year were as follows:

Annual required contribution	\$ 20,540,668
Interest on net pension obligation	313,883
Adjustment to annual required contribution	<u>(346,460)</u>
Annual pension cost	20,508,091
Contributions made	<u>19,866,733</u>
Increase in net pension obligation	641,358
Net pension obligation beginning of year	<u>3,923,538</u>
Net pension obligation end of year	<u><u>\$ 4,564,896</u></u>

The annual required contribution for the current year was determined as part of the July 1, 2002 actuarial valuation using the projected unit credit cost method and actuarial assumptions shown in e) below.

e) Actuarial Information

Additional information as of the latest actuarial valuation follows:

Valuation date	7/1/03
Actuarial cost method	Projected unit credit
Amortization method	Increasing 3.5% per year. Open for gains/losses. Closed for other changes.
Remaining amortization period	Weighted average of 15 years
Asset valuation method	5-year, smoothed market
Actuarial Assumptions:	
Investment rate of return	8%
Projected salary increases	3.5 – 8%
Cost of living adjustments	3.5%

12. Other Postemployment Benefits

Employees receiving a Board of Education approved retirement are eligible, in accordance with bargaining agreements between the Board of Education and employee associations, for continued MCPS Employee Benefit Plan health care coverage if they have been covered under the MCPS Employee Benefit Plan for at least five years. Employees covered less than five years under the plan may continue plan coverage at higher premium rates. Currently, approximately 6,200 retirees meet those eligibility requirements. Effective July 1, 2003, the percent of MCPS and retiree contributions to the cost for health care, including dental, vision and prescription drugs, and life insurance benefits for retirees and their dependents, are being adjusted annually from a 70/30 percent split to a 64/36 percent split by July 1, 2006. The benefits that are provided for retired employees under the MCPS Employee Benefit Plan are subject to the extent of assets in the Employee Benefit Trust Fund and to the extent of the annual budgetary appropriation. MCPS contributions are financed on a pay-as-you-go basis and postretirement benefits are not accrued over the service life of employees.

During the year, expenditures of \$43,288,974 were recognized by the Internal Service Fund for postretirement health care and life insurance benefits. There is a deficit of \$233,519 in net assets available for future postretirement benefit payments at June 30, 2004. In 2004, MCPS contributed \$29,871,655 towards the costs of these benefits.

13. Contingencies

a) Litigation

MCPS, in the normal course of its operations, is subject to lawsuits and claims. While the outcome of these matters are uncertain, MCPS believes that any losses not otherwise covered by insurance, which may ultimately be incurred as a result of lawsuits and claims, will not have a material adverse effect on MCPS' financial condition. Additionally, it is the opinion of counsel that under current law, MCPS would have governmental immunity in non-contractual matters for any individual judgments in excess of \$100,000, except for civil rights cases.

b) Supported Projects

Certain programs, referred to as supported projects, serving specific needs and purposes of the school system and the welfare of the students, are funded by special federal and state grants and are included in the General Fund and the Enterprise Funds. Grant activities are subject to audit by the granting agencies.

c) In the opinion of management, the ultimate resolution of any of these matters will not be material to the basic financial statements of MCPS.

REQUIRED SUPPLEMENTARY INFORMATION

MCPS EMPLOYEES' RETIREMENT AND PENSION SYSTEM

Schedule of Funding Progress
(000's omitted)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)(b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/1998	\$ 586,842	\$ 597,701	\$ 10,859	98.2	\$ 655,906	1.7
7/1/1999	653,017	653,446	429	99.9	700,491	0.06
7/1/2000	716,842	704,649	(12,193)	101.7	788,731	-
7/1/2001	755,175	743,506	(11,669)	101.6	837,390	-
7/1/2002	760,003	744,324	(15,679)	102.1	954,867	-
7/1/2003	740,515	793,043	52,528	93.4	993,454	5.3

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Net Pension Obligation
1999	\$ 17,554,933	101	\$ 4,366,155
2000	15,670,956	100	4,284,633
2001	16,286,769	101	3,989,247
2002	16,335,239	100	3,943,137
2003	17,652,634	100	3,923,538
2004	20,540,668	97	4,564,896

INTENTIONALLY BLANK

SUPPLEMENTARY DATA

GOVERNMENTAL FUNDS

June 30, 2004

Capital Projects Fund — The Capital Projects Fund is used to account for financial resources used in the acquisition or construction of school sites and buildings and other major capital facilities.

Special Revenue Fund (nonmajor) — The Special Revenue Fund is used to account for the receipt and expenditure of Cable TV franchise fees that are restricted as to purpose and use.

MONTGOMERY COUNTY PUBLIC SCHOOLS
 CAPITAL PROJECTS FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Montgomery County	\$ 73,801,000	\$ 116,953,761	\$ 78,144,891	\$ (38,808,870)
State of Maryland	10,584,000	13,266,002	6,805,427	(6,460,575)
Other sources	215,000	336,680	175,555	(161,125)
Total revenues	<u>84,600,000</u>	<u>130,556,443</u>	<u>85,125,873</u>	<u>(45,430,570)</u>
Expenditures and encumbrances:				
Capital outlay	<u>84,600,000</u>	<u>130,556,443</u>	<u>87,794,780</u>	<u>42,761,663</u>
Total expenditures and encumbrances	<u>84,600,000</u>	<u>130,556,443</u>	<u>87,794,780</u>	<u>42,761,663</u>
Excess (deficiency) of revenues over expenditures and encumbrances	-	-	(2,668,907)	(2,668,907)
Fund balance - beginning	-	-	(8,133,947)	(8,133,947)
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (10,802,854)</u>	<u>\$ (10,802,854)</u>

**MONTGOMERY COUNTY PUBLIC SCHOOLS
CAPITAL PROJECTS FUND
SCHEDULE OF CONSTRUCTION IN PROGRESS
June 30, 2004**

Project Name	Project Authorization	Expended to June 30, 2004	Committed	Available for Future Expenditure
Germantown Elementary	\$ 350,000	\$ 85,965	\$ -	\$ 264,035
Seneca Valley High	500,000	57,709	14,000	428,291
Richard Montgomery High	2,795,000	2,558,749	128,485	107,766
Lakewood Elementary	12,030,000	11,923,181	45,483	61,336
Farmland Elementary	310,000	-	-	310,000
College Gardens Elementary	600,000	80,132	498,348	21,520
Rockville High	44,056,508	37,446,688	4,886,508	1,723,312
Robert Frost Middle	5,535,000	5,535,000	-	-
Northwest High School	16,378,000	5,778,746	166,870	10,432,384
Clarksburg High	1,836,000	1,175,574	649,206	11,220
Broad Acres Elementary	380,000	299,847	5,078	75,075
Northeast Consortium Elementary#16	600,000	179,709	402,791	17,500
Page (William Tyler) Elementary	11,247,000	11,247,000	-	-
Clarksburg/Damascus Elementary #7	700,000	169,273	450,151	80,576
Northwest Elementary #7	700,000	372,895	309,605	17,500
Somerset Elementary	12,536,680	4,891,974	6,431,161	1,213,545
Bethesda-Chevy Chase High	54,142,000	59,677,770	94,452	(5,630,222) *
Westland Middle	85,000	25,510	58,874	616
Walter Johnson High	21,932,950	21,004,401	515,998	412,551
Thomas Pyle Middle	130,000	59,770	60,230	10,000
Greenwood Elementary	2,945,000	2,919,488	13,861	11,651
Quince Orchard Middle #2	22,915,000	6,274,111	14,465,924	2,174,965
Spark Matsunaga Elementary	100,000	49,349	24,100	26,551
Gaithersburg High	1,413,000	480,679	171,767	760,554
Gaithersburg Elementary	470,000	473,980	-	(3,980)
Rosemont Elementary	400,000	299,339	51,399	49,262
Montgomery Village Middle	19,959,854	19,393,550	121,239	445,065
Watkins Mill Elementary	250,000	61,898	188,102	-
South Lake Elementary	425,000	6,078	270,463	148,459
Rocky Hill Middle Replacement	24,443,440	18,565,448	2,838,728	3,039,264
Seven Locks Elementary	250,000	24,204	2,395	223,401
Damascus High	3,643,000	1,131,855	2,941	2,508,204
John T Baker Middle	4,380,000	384,274	106,658	3,889,068
Oak View Elementary	3,885,000	823,032	59,759	3,002,209
Glen Haven Elementary	14,224,509	14,161,928	10,972	51,609
Oakland Terrace Elementary	1,845,000	1,763,415	-	81,585
Kensington Parkwood Elementary	735,000	680,093	67,124	(12,217) *
Northwood (Refugee Training) Ctr	1,600,000	1,005,138	269,576	325,286
Forest Knolls Elementary	270,000	223,475	43,555	2,970
Earle B Wood Middle	17,417,199	17,341,734	5,120	70,345
Various County-Wide Projects	<u>106,613,237</u>	<u>71,657,313</u>	<u>7,650,854</u>	<u>27,305,070</u>
Total Open & Interim Projects	415,028,377	320,290,274	41,081,777	53,656,326
Capitalized Land, Equipment and furniture, and items not capitalized	(49,739,845)	(42,018,483)	(7,721,362)	-
Interim Closing of Open Projects **	(186,146,040)	(185,127,970)	(1,018,070)	-
Residual building value transfer ***	-	<u>2,144,924</u>	-	-
Total Construction in Progress	<u>\$ 179,142,492</u>	<u>\$ 95,288,745</u>	<u>\$ 32,342,345</u>	<u>\$ 53,656,326</u>

* Appropriations for school modernizations are approved by the Montgomery County Council in the aggregate as one project, although MCPS separately accounts for each modernization. The school modernization project, in the aggregate, does not exceed the legally appropriated project authorization at June 30, 2004.

** Represents expenditures for projects that are in use but not formally closed out.

*** Represents undepreciated residue value of building transfer to construction.

MONTGOMERY COUNTY PUBLIC SCHOOLS
SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Cable TV franchise fees	\$ 1,102,000	\$ 1,102,000	\$ 1,102,000	\$ -
Total revenues	<u>1,102,000</u>	<u>1,102,000</u>	<u>1,102,000</u>	<u>-</u>
Expenditures and encumbrances:				
Community services	<u>1,102,000</u>	<u>1,102,000</u>	<u>1,098,698</u>	<u>3,302</u>
Total expenditures and encumbrances	<u>1,102,000</u>	<u>1,102,000</u>	<u>1,098,698</u>	<u>3,302</u>
Excess of revenues over expenditures and encumbrances	-	-	3,302	3,302
Fund balance - beginning	<u>-</u>	<u>-</u>	<u>82,633</u>	<u>82,633</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	85,935	<u>\$ 85,935</u>
Reconciliation to GAAP fund balance:				
2004 encumbrances outstanding			<u>6,913</u>	
Fund balance - GAAP basis			<u>\$ 92,848</u>	

NONMAJOR ENTERPRISE FUNDS

June 30, 2004

Adult Education and Summer School – Accounts for all activities related to the adult education program and the self-supporting portion of the summer school program.

Real Estate Management – Accounts for the rental of surplus space in school buildings for complementary programs such as child care and for the administration of potential future school sites.

Field Trip – Accounts for the operation of transportation services for student field trips and for external organizations.

Entrepreneurial Activities – Provides supplemental funding for the instructional program through the sale of MCPS expertise, services and products.

MONTGOMERY COUNTY PUBLIC SCHOOLS
 COMBINING STATEMENT OF NET ASSETS
 NONMAJOR ENTERPRISE FUNDS
 JUNE 30, 2004

	Adult Education and Summer School	Real Estate Management	Field Trip	Entrepreneurial	Total Nonmajor Enterprise Funds
Assets					
Current assets:					
Equity in pooled cash and investments	\$ 497,902	\$ 356,766	\$ 292,398	\$ -	\$ 1,147,066
Accounts receivable:					
Montgomery County	239,339			83,616	322,955
Other	35,637	82,718	273,005		391,360
Prepays	148,874	45,625			194,499
Total current assets	<u>921,752</u>	<u>485,109</u>	<u>565,403</u>	<u>83,616</u>	<u>2,055,880</u>
Noncurrent assets:					
Capital assets, net of accumulated depreciation:					
Buildings and improvements		9,807			9,807
Machinery and equipment		4,822			4,822
Total noncurrent assets	<u>-</u>	<u>14,629</u>	<u>-</u>	<u>-</u>	<u>14,629</u>
Total assets	<u>921,752</u>	<u>499,738</u>	<u>565,403</u>	<u>83,616</u>	<u>2,070,509</u>
Liabilities					
Current liabilities:					
Accounts payable	74,767	20,659		18,398	113,824
Due to other funds				1,102,478	1,102,478
Deferred revenue	1,065,822			20,664	1,086,486
Total current liabilities	<u>1,140,589</u>	<u>20,659</u>	<u>-</u>	<u>1,141,540</u>	<u>2,302,788</u>
Noncurrent liabilities:					
Compensated absences	62,129	34,180	24,428	98,403	219,140
Total noncurrent liabilities	<u>62,129</u>	<u>34,180</u>	<u>24,428</u>	<u>98,403</u>	<u>219,140</u>
Total liabilities	<u>1,202,718</u>	<u>54,839</u>	<u>24,428</u>	<u>1,239,943</u>	<u>2,521,928</u>
Net Assets					
Invested in capital assets, net of related debt		14,629			14,629
Unrestricted	(280,966)	430,270	540,975	(1,156,327)	(466,048)
Total net assets	<u>\$ (280,966)</u>	<u>\$ 444,899</u>	<u>\$ 540,975</u>	<u>\$ (1,156,327)</u>	<u>\$ (451,419)</u>

MONTGOMERY COUNTY PUBLIC SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 NONMAJOR ENTERPRISE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2004

	Adult Education and Summer School	Real Estate Management	Field Trip	Entrepreneurial	Total Nonmajor Enterprise Funds
Operating revenues:					
Tuition and fees	\$ 3,770,253	\$ 1,724,390	\$ 1,318,661	\$ 786,070	\$ 7,599,374
Total operating revenues	<u>3,770,253</u>	<u>1,724,390</u>	<u>1,318,661</u>	<u>786,070</u>	<u>7,599,374</u>
Operating expenses:					
Salaries and wages	2,998,977	326,433	797,226	580,398	4,703,034
Contracted services	424,294	238,957	29,720	13,398	706,369
Supplies and materials	284,859	11,710	347,170	503,473	1,147,212
Other charges	402,151	900,443	72,799	114,491	1,489,884
Depreciation		4,998			4,998
Total operating expenses	<u>4,110,281</u>	<u>1,482,541</u>	<u>1,246,915</u>	<u>1,211,760</u>	<u>8,051,497</u>
Operating income (loss)	<u>(340,028)</u>	<u>241,849</u>	<u>71,746</u>	<u>(425,690)</u>	<u>(452,123)</u>
Nonoperating revenues:					
Federal grants	22,533				22,533
State grants	13,420				13,420
Investment income		4,355	12,229		16,584
Total nonoperating revenues	<u>35,953</u>	<u>4,355</u>	<u>12,229</u>	<u>-</u>	<u>52,537</u>
Income (loss) before transfers	(304,075)	246,204	83,975	(425,690)	(399,586)
Transfers out		(4,355)	(12,229)		(16,584)
Change in net assets	(304,075)	241,849	71,746	(425,690)	(416,170)
Total net assets - beginning	23,109	203,050	469,229	(730,637)	(35,249)
Total net assets - ending	<u>\$ (280,966)</u>	<u>\$ 444,899</u>	<u>\$ 540,975</u>	<u>\$ (1,156,327)</u>	<u>\$ (451,419)</u>

MONTGOMERY COUNTY PUBLIC SCHOOLS
 COMBINING STATEMENT OF CASH FLOWS
 NONMAJOR ENTERPRISE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2004

	Adult Education and Summer School	Real Estate Management	Field Trip	Entrepreneurial	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 4,277,320	\$ 1,695,360	\$ 1,317,622	\$ 838,199	\$ 8,128,501
Payments to suppliers	(779,960)	(275,922)	(376,890)	(159,599)	(1,592,371)
Payments to employees	(3,205,855)	(364,158)	(845,025)	(614,474)	(5,029,512)
Payments for assessments made by other funds	(57,206)	(37,799)	(20,567)	(64,126)	(179,698)
Payments for other operating expenses	(119,654)	(828,029)			(947,683)
Net cash provided by operating activities	<u>114,645</u>	<u>189,452</u>	<u>75,140</u>	<u>-</u>	<u>379,237</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Nonoperating grants received	35,953				35,953
Transfers to other funds		(4,355)	(12,229)		(16,584)
Net cash provided by (used for) noncapital financing activities	<u>35,953</u>	<u>(4,355)</u>	<u>(12,229)</u>	<u>-</u>	<u>19,369</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received		4,355	12,229		16,584
Net cash provided by investing activities	<u>-</u>	<u>4,355</u>	<u>12,229</u>	<u>-</u>	<u>16,584</u>
Net increase in cash and cash equivalents	150,598	189,452	75,140	-	415,190
Cash and cash equivalents - beginning	347,304	167,314	217,258	-	731,876
Cash and cash equivalents - ending	<u>\$ 497,902</u>	<u>\$ 356,766</u>	<u>\$ 292,398</u>	<u>\$ -</u>	<u>\$ 1,147,066</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ (340,028)	\$ 241,849	\$ 71,746	\$ (425,690)	\$ (452,123)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation		4,998			4,998
Change in assets and liabilities:					
Receivables	(28,382)	(29,031)	(1,039)	31,465	(26,987)
Prepays	(119,955)	(18,904)			(138,859)
Accounts payable	49,148	(6,351)		(3,850)	38,947
Due to other funds				361,190	361,190
Deferred revenue	535,449			20,664	556,113
Compensated absences	18,413	(3,109)	4,433	16,221	35,958
Net cash provided by operating activities	<u>\$ 114,645</u>	<u>\$ 189,452</u>	<u>\$ 75,140</u>	<u>\$ -</u>	<u>\$ 379,237</u>

AGENCY FUNDS

Individual Fund Financial Statements

June 30, 2004

Agency funds are used to account for assets held as an agent for organizations or other governmental units. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency Funds account for independent activity funds held by elementary and secondary schools for student groups.

MONTGOMERY COUNTY PUBLIC SCHOOLS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Assets				
Cash and investments	\$ 13,499,665	\$ 31,905,517	\$ 31,878,921	\$ 13,526,261
Accounts receivable	1,186,902	1,343,010	1,186,902	1,343,010
Inventories	<u>278,895</u>	<u>305,026</u>	<u>278,895</u>	<u>305,026</u>
Total assets	<u>\$ 14,965,462</u>	<u>\$ 33,553,553</u>	<u>\$ 33,344,718</u>	<u>\$ 15,174,297</u>
Liabilities				
Accounts payable	\$ 1,416,691	\$ 1,307,856	\$ 1,416,691	\$ 1,307,856
Due to student groups	<u>13,548,771</u>	<u>32,245,697</u>	<u>31,928,027</u>	<u>13,866,441</u>
Total liabilities	<u>\$ 14,965,462</u>	<u>\$ 33,553,553</u>	<u>\$ 33,344,718</u>	<u>\$ 15,174,297</u>

**CAPITAL ASSETS
USED IN THE OPERATION
OF GOVERNMENTAL FUNDS**

MONTGOMERY COUNTY PUBLIC SCHOOLS
 CAPITAL ASSETS USED IN THE OPERATON OF GOVERNMENTAL FUNDS
 SCHEDULE BY SOURCE
 JUNE 30, 2004

Governmental funds capital assets:	
Land	\$ 66,547,599
Buildings and improvements	1,485,260,653
Site Improvements	113,288,489
Vehicles and equipment	118,305,277
Construction in progress	<u>95,288,745</u>
 Total governmental funds capital assets	 \$ <u><u>1,878,690,763</u></u>

Investments in governmental funds capital assets by source:	
General fund revenues	\$ 108,095,311
Federal grants	723,975
State grants	28,869
Capital projects fund -	
Principally general obligation bonds	1,756,921,170
Contributions	<u>12,921,438</u>
 Total governmental funds capital assets	 \$ <u><u>1,878,690,763</u></u>

MONTGOMERY COUNTY PUBLIC SCHOOLS
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
JUNE 30, 2004

Function and Activity	Land	Buildings and Improvements	Site Improvements	Vehicles and Equipment	Construction in Progress	Total
Regular instruction	\$ 65,051,952	\$ 1,442,054,580	\$ 113,230,704	\$ 12,359,843	\$ 95,288,745	\$ 1,727,985,824
Special education instruction		12,412,168	57,785	643,123		13,113,076
School administration				303,863		303,863
Student transportation	1,447,990	13,862,191		78,423,527		93,733,708
Operation of plant				1,828,387		1,828,387
Maintenance of plant				7,456,084		7,456,084
Administration	47,657	16,931,714		17,290,450		34,269,821
Total governmental funds capital assets	<u>\$ 66,547,599</u>	<u>\$ 1,485,260,653</u>	<u>\$ 113,288,489</u>	<u>\$ 118,305,277</u>	<u>\$ 95,288,745</u>	<u>\$ 1,878,690,763</u>

MONTGOMERY COUNTY PUBLIC SCHOOLS
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Function and Activity	Governmental Fund Capital Assets			Governmental Fund Capital Assets
	July 1, 2003	Additions	Deductions	June 30, 2004
Regular instruction	\$ 1,654,572,912	\$ 163,653,006	\$ 90,240,094	\$ 1,727,985,824
Special education instruction	9,431,217	3,689,854	7,995	13,113,076
School administration	324,025	30,485	50,647	303,863
Student transportation	90,440,451	3,536,128	242,871	93,733,708
Operation of plant	1,817,310	155,900	144,823	1,828,387
Maintenance of plant	7,653,256	56,484	253,656	7,456,084
Administration	34,344,583	610,684	685,446	34,269,821
Total governmental funds capital assets	<u>\$ 1,798,583,754</u>	<u>\$ 171,732,541</u>	<u>\$ 91,625,532</u>	<u>\$ 1,878,690,763</u>

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STATISTICAL SECTION

STATISTICAL SECTION
(Unaudited)

Selected statistical information is presented to give report users a better perspective of the school system. The MCPS statistical tables 1-3 differ from financial statements in that they include prior years' information and other nonaccounting data.

Table 4 reflects the financial operations of the Montgomery County and Board of Education Self-Insurance Fund. The fund provides partial self-insurance for fire, workers' compensation, general liability, boiler, and motor vehicle risks.

Table 5 describes MCPS' insurance in force for various risk categories.

Since MCPS' revenues are primarily provided by Montgomery County, trend data on the county's overall revenues, expenditures, debt, and tax levies is also relevant to an understanding of MCPS' financial condition and resources. Such data is presented in Tables 6 - 20.

Table 1

MONTGOMERY COUNTY PUBLIC SCHOOLS
GENERAL REVENUES BY SOURCES
LAST TEN FISCAL YEARS

Fiscal Year Ended	From the County	From the State		Federal Funds	Federal Funds	Sale of Lunches	Other Sources	Total (1)
		State Funds	Federal Funds					
1995	\$ 751,301,429	\$ 115,622,298	\$ 24,308,709	\$ 6,039,826	\$ 11,721,666	\$ 5,816,890	\$ 914,810,818	
1996	819,178,339	127,975,415	23,891,362	6,734,630	11,546,539	7,378,353	996,704,638	
1997	855,952,758	159,527,672	25,638,589	5,942,827	12,461,990	10,164,745	1,069,688,581	
1998	833,310,401	180,535,362	29,851,258	5,085,405	13,033,581	10,322,443	1,072,138,450	
1999	878,607,447	187,414,931	32,351,061	5,910,837	13,908,187	10,537,454	1,128,729,917	
2000	992,777,758	209,118,228	37,955,362	7,482,313	15,573,833	12,436,524	1,275,344,018	
2001	1,019,449,825	220,624,359	40,903,690	7,534,150	17,709,029	13,978,511	1,320,199,564	
2002	1,152,881,720	248,570,249	50,199,030	6,740,603	19,382,234	11,501,772	1,489,275,608	
2003	1,230,791,116	268,716,164	63,138,615	6,923,143	19,244,297	13,697,789	1,602,511,124	
2004	1,210,214,629	264,342,647	70,033,449	4,595,935	20,089,923	13,300,420	1,582,577,003	

Notes:

(1) Governmental Funds(Budgetary Basis) and Enterprise Funds

Table 2

MONTGOMERY COUNTY PUBLIC SCHOOLS
EXPENDITURES, ENCUMBRANCES AND EXPENSES BY AREA OF RESPONSIBILITY OR FUND
LAST TEN FISCAL YEARS

General Fund									
Fiscal Year Ended	Elementary and Secondary Schools	Special & Alternative Education	Personnel Services	Instructional and Pupil Services	Supportive Services	General Administration	Board of Education	Programs Supported By Federal, State of Other Grants	
1995	\$ 401,877,872	\$ 92,152,611	\$ 3,941,345	\$ 29,630,991	\$ 244,837,167	\$ 6,095,140	\$ 659,253	\$ 30,185,741	
1996	417,202,228	93,183,458	4,623,112	36,651,093	261,050,969	5,683,389	612,203	32,264,990	
1997	433,406,407	98,289,628	4,872,032	39,012,730	271,767,902	6,043,081	635,345	33,613,612	
1998	450,445,679	104,345,523	3,880,990	43,055,909	287,176,600	7,147,469	699,170	42,137,327	
1999	480,842,390	112,476,934	4,001,439	40,940,342	298,199,208	8,470,913	716,325	54,817,822	
2000	515,782,560	118,405,731	4,127,012	42,939,011	313,933,620	9,229,402	717,765	68,060,420	
2001	570,428,545	128,957,048	4,670,638	45,683,680	344,601,009	11,647,034	731,378	75,074,839	
2002	620,686,556	139,507,866	6,098,190	46,523,281	360,955,633	15,740,638	652,944	89,214,597	
2003	651,133,869	150,059,350	6,459,426	49,376,407	389,434,885	17,159,787	707,932	107,740,399	
2004	688,079,818	153,109,824	5,204,973	72,787,752	439,014,672	16,776,908	744,388	70,547,502	
Fiscal Year Ended	Enterprise Funds	Capital Projects Fund	Special Revenue Fund	Total					
1995	\$ 28,177,166	\$ 77,582,493	\$	\$ 915,139,779					
1996	29,296,590	117,472,745		998,040,777					
1997	31,225,857	150,594,588		1,069,461,182					
1998	32,024,554	103,760,557		1,074,673,778					
1999	34,315,967	95,061,541		1,129,842,881					
2000	36,102,805	165,957,891		1,275,256,217					
2001	40,123,600	105,177,572	927,706	1,328,023,049					
2002	42,739,017	159,269,979	1,003,179	1,482,391,880					
2003	43,544,096	128,647,493	1,023,785	1,545,287,429					
2004	45,478,399	87,794,780	1,098,698	1,580,637,714					

Note: The Special Revenue Fund was created in 2001 to account for activities of the Instructional TV Unit.

MONTGOMERY COUNTY PUBLIC SCHOOLS
 COST PER PUPIL AND ENROLLMENT
 FOR GENERAL AND DEBT SERVICE
 YEAR ENDING JUNE 30, 2004

	Expenditures***	Cost Per Pupil Based On:		
		ADA*	ANB**	Enrollment September 30
General Fund Expenditure				
Distribution:				
Kindergarten	\$ 50,403,341	\$ 5,745.80	\$ 5,434	\$ 5,670
Grades 1 to 6	549,417,356	9,246.94	8,857	8,791
Grades 7 to 12	739,798,008	11,994.58	11,383	11,288
Total	\$ <u>1,339,618,705</u>	\$ 10,315.39	\$ 9,828	\$ 9,784
Debt Service Distribution:				
Kindergarten	\$ 7,545,218	\$ 860.13	\$ 813	\$ 848
Grades 1 to 6	70,258,037	1,182.47	1,132	1,124
Grades 7 to 12	73,679,198	1,194.58	1,133	1,124
Total	\$ <u>151,482,453</u>	\$ 1,166.45	\$ 1,111	\$ 1,106
Grand Totals:				
Kindergarten	\$ 57,948,559	\$ 6,605.93	\$ 6,247	\$ 6,519
Grades 1 to 6	619,675,393	10,429.42	9,989	9,916
Grades 7 to 12	813,477,206	13,189.16	12,517	12,412
Total	\$ <u>1,491,101,158</u>	\$ 11,481.84	\$ 10,940	\$ 10,890
Enrollment:				
Kindergarten		8,772.2	9,275.5	8,889.0
Grades 1 to 6		59,416.1	62,031.1	62,492.0
Grades 7 to 12		61,677.7	64,989.0	65,535.0
Total		<u>129,866.0</u>	<u>136,295.6</u>	<u>136,916.0</u>

* Average daily attendance

** Average number belonging

*** Summer school, programs financed through federal, state or private grants, community services, tuition for handicapped students in private placement, and revolving management accounts are excluded from cost of regular day school operations

MONTGOMERY COUNTY PUBLIC SCHOOLS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
 MONTGOMERY COUNTY AND BOARD OF EDUCATION SELF-INSURANCE FUND
 YEAR ENDED JUNE 30, 2003 *

Table 4

Operating revenues:	
Contributions by other agencies	\$ 16,973,873
Contributions by the Board of Education	<u>9,323,300</u>
Total Operating Revenues	<u>\$ 26,297,173</u>
Operating expenses:	
Self-insurance losses, net of recoveries	25,464,623
Other costs at risk	3,570,718
Commercial insurance	1,979,588
Other operating expenses	<u>2,935,886</u>
Total Operating Expenses	<u>33,950,815</u>
Operating (loss)	<u>(7,653,642)</u>
Nonoperating income :	
Interest on investments	<u>907,687</u>
Total nonoperating income	<u>907,687</u>
Net (loss)/Change in retained earnings	(6,745,955)
Retained earnings (deficit), Beginning	<u>(3,527,528)</u>
Retained earnings (deficit), Ending	<u>\$ (10,273,483)</u>

* Date of the most current available information.

Table 5

MONTGOMERY COUNTY PUBLIC SCHOOLS
SCHEDULE OF INSURANCE IN FORCE
as of June 30, 2004

Type of Coverage	Name of Company	Policy Number	Policy Period		Coverage
			From	To	
Comprehensive General Liability Comprehensive Auto Liability	Montgomery County – Board of Education Self- Insurance Program	N/A	07/01/04	07/01/05	\$100,000
Workers' Compensation	Montgomery County – Board of Education Self- Insurance Program	N/A	07/01/03	07/01/05	As required by Maryland Statutes plus \$100,000 Insurance Fund
Boiler and Machinery	FM Global	LP396	07/01/03	07/01/05	\$40,000 property Extra expense \$5,000 deductible
Property All Risk Coverage	FM Global	LP396	07/01/03	07/01/05	Replacement costs less \$100,000 deductible per occurrence including Flood and Earthquake \$500,000,000 per occurrence
Bus, Truck and Auto Fleet Fire, Theft and Comprehensive	FM Global	LP396	07/01/03	07/01/05	Same as above
Commercial Crime Policy Bond Coverage - all employees	Kemper Ins. Co.	3F929440-00	07/01/03	06/30/04	\$1,000,000 per loss \$500,000 forgery/alteration
Public Official Bond	Kemper Ins. Co.	BS929537-00	07/01/03	06/30/05	\$10,000
Tackle Football for Students	Mutual of Omaha	N/A	08/15/03	08/15/05	\$100,000 medical expense After 52 weeks after accident - \$2,500 death
Catastrophe/Liability for School Athletics	Mutual of Omaha	MOCO644808-19	08/01/03	08/01/05	\$10,000,000 Medical expense benefit with a \$25,000 retention
Public Official Liability	Montgomery County – Board of Education Self- Insurance Program	N/A	07/01/03	07/01/05	No limit

N/A -- Not Applicable

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF LONG-TERM INDEBTEDNESS (PUBLIC SCHOOLS)
YEAR ENDED JUNE 30, 2004 *

Description of Bonds and Purpose of Issue	Interest Rate	Date of		Amount of General Tax Bonds	
		Bond Issue	Maturity	Issued	Outstanding June 30, 2004
General bonded indebtedness:					
Consolidated Public Improvement	9.0 - 9.75	6/1/1984	1985-04	\$ 12,360,000	\$ -
Consolidated Public Improvement	7.6 - 8.6	5/1/1985	1986-05	22,500,000	1,125,000
Consolidated Public Improvement	5.8 - 6.3	4/1/1986	1987-06	14,070,000	1,410,000
Consolidated Public Improvement Refunding	2.75 - 5.8	7/1/1992	1993-10	124,229,500	55,537,432
Consolidated Public Improvement	5.0 - 5.75	10/1/1992	1993-12	40,000,000	-
Consolidated Public Improvement Refunding	2.5 - 5.0	8/15/1993	1994-11	31,064,127	-
Consolidated Public Improvement	4.4 - 4.9	10/1/1993	1994-13	63,000,000	3,150,000
Consolidated Public Improvement	5.2 - 6.125	10/1/1994	1995-14	82,600,000	8,260,000
Consolidated Public Improvement	5.10 - 5.50	3/15/1996	1997-16	55,000,000	8,250,000
Consolidated Public Improvement	5.0 - 5.375	4/15/1997	1998-17	27,500,000	9,625,000
Consolidated Public Improvement Refunding	3.9 - 5.25	1/1/1998	2003-15	39,634,602	39,192,697
Consolidated Public Improvement	4.875	4/1/1998	1999-18	80,100,000	48,060,000
Consolidated Public Improvement	4.0 - 5.0	4/1/1999	2000-19	66,200,000	46,340,000
Consolidated Public Improvement	5.0 - 6.0	1/1/2000	2001-20	67,000,000	26,800,000
Consolidated Public Improvement	4.0 - 5.0	2/1/2001	2002-21	74,978,422	63,731,659
Consolidated Public Improvement Refunding	3.6 - 5.25	11/15/2002	2003-19	61,667,788	60,890,489
Consolidated Public Improvement	3.0 - 5.0	2/1/2001	2003-22	76,000,000	68,400,000
Consolidated Public Improvement Refunding	2.75 - 5.25	11/15/2002	2005-13	58,187,994	58,187,994
Consolidated Public Improvement	1.50 - 4.0	5/1/2003	2004-23	86,500,000	82,175,000
Consolidated Public Improvement Refunding	2.0 - 5.0	5/1/2003	2004-11	25,633,689	25,633,689
Consolidated Public Improvement	3.0 - 5.0	3/15/2004	2005-24	62,800,000	62,800,000
Total				\$ <u>1,171,026,122</u>	\$ <u>669,568,960</u>

* These general obligation bonds issued for public purposes are liabilities of, and the debt service is paid by, Montgomery County

Table 7

MONTGOMERY COUNTY, MARYLAND
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

Fiscal Year	Tax Levy	Current Year's Taxes Collected During Year	Percentage of Levy Collected During Year	Prior Years' Taxes Collected During Year	Total Collections	Percentage of Total Collections to Tax Levy	Accumulated Delinquent Taxes	Percentage of Accumulated Delinquent Taxes to Current Year's Tax Levy
1995	\$ 753,222,145	\$ 741,831,487	98.49 %	\$ 1,408,365	\$ 743,239,852	98.67 %	\$ 27,005,084	3.59 %
1996	763,521,098	756,274,836	99.05	6,091,893	762,366,729	99.85	21,945,764	2.87
1997	726,034,855	716,728,175	98.72	7,932,587	724,660,762	99.81	22,952,675	3.16
1998	740,356,969	731,962,325	98.87	2,232,648	734,194,973	99.17	24,949,824	3.37
1999	738,861,799	731,482,875	99.00	5,711,062	737,193,937	99.77	26,165,483	3.54
2000	762,239,449	754,198,902	98.95	6,347,893	760,546,795	99.78	25,594,965	3.36
2001	784,285,708	777,057,655	99.08	(306,928)	776,750,727	99.04	27,898,488	3.56
2002	821,038,153	805,329,587	98.09	1,838,998	807,168,585	98.31	38,729,260	4.72
2003	867,011,819	861,862,819	99.41	(2,205,173)	859,657,646	99.15	37,558,922	4.33
2004	927,789,542	924,992,688	99.70	(4,849,829)	920,142,858	99.18	39,576,871	4.27

NOTES:

This table includes data for all property taxes billed applicable to all funds for Montgomery County, Maryland to include General, Special Revenue, Debt Service, and Enterprise Funds. Property taxes billed for the State of Maryland, various municipalities and development districts, the Washington Suburban Sanitary Commission, and, beginning in 1997, the Maryland-National Capital Park and Planning Commission, are excluded.

MONTGOMERY COUNTY, MARYLAND
 ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS

Fiscal Year	Real Property (1)		Business Personal Property				Ratio of Total Assessed to Total Estimated Actual Value
	Assessed Value	Estimated Market Value	Individuals		Corporations		
			Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1995	\$ 25,796,030,374	\$ 67,107,259,037	\$ 154,222,820	\$ 154,222,820	\$ 1,767,457,170	\$ 1,767,457,170	
1996	26,057,528,520	66,677,401,535	162,752,880	162,752,880	1,793,263,300	1,793,263,300	
1997	26,603,652,341	68,284,528,596	104,524,000	104,524,000	2,059,702,720	2,059,702,720	
1998	27,274,641,135	69,295,328,087	96,721,710	96,721,710	1,885,477,810	1,885,477,810	
1999	27,906,079,996	71,480,737,695	96,677,815	96,677,815	1,904,977,610	1,904,977,610	
2000	28,674,553,821	74,907,402,876	92,953,790	92,953,790	2,125,024,140	2,125,024,140	
2001	29,649,012,878	79,021,889,334	93,025,460	93,025,460	2,261,403,430	2,261,403,430	
2002	77,574,947,550	84,229,041,857	99,954,320	99,954,320	2,486,081,540	2,486,081,540	
2003	82,407,337,831	93,432,355,817	85,622,460	85,622,460	2,421,490,420	2,421,490,420	
2004	89,263,005,267	98,091,214,579	83,269,110	83,269,110	2,272,890,000	2,272,890,000	

Fiscal Year	Public Utility				Total (1)		Ratio of Total Assessed to Total Estimated Actual Value
	Operating Property		Domestic Shares		Assessed Value	Estimated Actual Value	
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value			
1995	\$ 1,298,425,550	\$ 1,298,425,550	\$ 156,845,190	\$ 156,845,190	\$ 29,172,981,104	\$ 70,484,209,767	41.39 %
1996	1,415,476,210	1,415,476,210	145,983,580	145,983,580	29,575,004,490	70,194,877,505	42.13
1997	1,463,056,510	1,463,056,510	161,940,450	161,940,450	30,392,876,021	72,073,752,276	42.17
1998	1,503,028,070	1,503,028,070	169,223,380	169,223,380	30,929,092,105	72,949,779,057	42.40
1999	1,431,418,620	1,431,418,620	325,472,510	325,472,510	31,664,626,551	75,239,284,250	42.09
2000	1,250,855,220	1,250,855,220	410,469,840	410,469,840	32,553,856,811	78,786,705,866	41.32
2001	1,270,848,870	1,270,848,870	452,570,330	452,570,330	33,726,860,968	83,099,737,424	40.59
2002	1,169,749,990	1,169,749,990	445,558,740	445,558,740	81,776,292,140	88,430,386,447	92.48
2003	1,187,075,200	1,187,075,200	533,666,320	533,666,320	86,635,192,231	97,660,210,217	88.71
2004	1,116,419,190	1,116,419,190	491,223,310	491,223,310	93,226,806,877	102,055,016,189	91.35

NOTES:

- * Exempt and nontaxable property are not included in this table.
- * The following classes of property are not taxed: 1) personal property not used in a trade, business, or profession, and 2) business inventories.
- * Intangible personal property is exempt from taxation except in two instances: shares of stock in certain domestic utilities and oil pipeline corporations (shown above) and intangible personal property of corporations under a contract with the State, granted charter exemptions from property taxation.
- * Property owned by the Federal government, the State, or a subdivision or agency of either, is exempt. Also exempt are real and personal property used for religious, educational, or charitable purposes. Specific exemptions involve historical property, societies and museums, conservation property, cemeteries, certain fraternal and service organizations, continuing care facilities for the aged, nonprofit housing property, and dwelling houses of disabled veterans and blind persons.

(1) Fiscal Year 2002 is the first year that all real property in the State of Maryland is assessed at 100 percent of full assessed value instead of the previous 40 percent assessment method.

Source: State of Maryland, Department of Assessments and Taxation.

MONTGOMERY COUNTY, MARYLAND
TAX RATES AND TAX LEVIES
LAST TEN FISCAL YEARS
(TAXES APPLICABLE TO ENTIRE COUNTY AND M-NCPPC)

Fiscal Year	County	State	Transit District	Total	Maryland-National Capital Park and Planning Commission		
					Regional District	Metropolitan District	Advance Land Acquisition
TAX RATES (Per \$100 of Assessed Value)							
1995	\$ 1.937	\$.21	\$.108	\$ 2.255	\$.065	\$.150	\$.003
1996	1.998	.21	.077	2.285	.061	.146	.004
1997	1.990	.21	.078	2.278	.063	.154	.004
1998	1.962	.21	.091	2.263	.061	.153	.004
1999	1.923	.21	.102	2.235	.061	.153	.004
2000	1.863	.21	.102	2.175	.062	.154	.003
2001	1.857	.21	.100	2.167	.060	.160	.003
2002	.741 (1.852)	.084 (n/a)	.050 (.125)	.875 (1.977)	.024 (.059)	.066 (.165)	.001 (.002)
2003	.754 (1.885)	.084 (n/a)	.038 (.095)	.876 (1.980)	.023 (.058)	.063 (.158)	.001 (.003)
2004	.751 (1.878)	.132 (n/a)	.044 (.110)	.927 (1.988)	.021 (.053)	.059 (.148)	.001 (.003)
TAX LEVIES							
1995	\$ 564,588,398	\$ 55,692,779	\$ 31,506,822	\$ 651,787,999	\$ 16,487,409	\$ 38,048,170	\$ 875,210
1996	590,169,499	56,326,281	22,765,618	669,261,398	15,704,761	37,588,430	1,183,008
1997	604,170,465	57,564,804	23,704,917	685,440,186	16,669,423	40,747,461	1,215,713
1998	606,876,834	59,093,497	28,155,852	694,126,183	16,507,935	41,405,132	1,237,619
1999	596,405,657	60,227,585	32,297,945	688,931,187	16,897,835	42,383,093	1,266,583
2000	606,243,611	61,359,955	33,074,129	700,677,695	17,516,999	43,509,903	971,379
2001	621,488,986	62,605,672	33,566,325	717,660,983	17,510,210	46,693,772	1,006,990
2002	650,352,383	65,703,036	43,984,425	760,039,844	18,226,404	50,217,033	858,717
2003	697,317,162	69,531,736	35,124,792	801,973,690	18,339,293	50,208,615	945,213
2004	738,731,341	117,987,242	43,265,229	899,983,812	17,799,100	49,986,642	1,002,754

NOTES (County taxes only):

- * There are no limits on State or County tax rates.
- * Taxes are due July 1 and become delinquent the following October 1.
- * Certain homeowners may elect to pay their real property taxes on a semi-annual basis by September 30 and January 31.
- * No discounts are allowed.
- * There is interest and penalty at 20 percent for tax bills that become delinquent from October 1, 1982.
- * For tax bills that became delinquent prior to October 1, 1982, there is interest of 8 percent until October 1, 1982, and 20 percent thereafter.
Tax bills based upon certifications received after September 1 may be paid within thirty days without interest.
- * Costs of tax sale, which vary, are added to tax bills. The last sale cost \$25 per parcel.
- * Taxes on real property are collected by sale. Taxes on personal property are enforced by legal action. Corporations may lose charter for failure to pay taxes.
- * Tax sale date: second Monday in June.
- * Taxes collected for other fiscal units are remitted based on actual collections.
- * Tax rates for FY02, FY03, and FY04 are for real property only (personal property rates are presented in parenthesis). Real property rates are based on 40 percent of real property assessments. The rates for personal property remain the same (based on 100 percent of the property assessment).
The levy amounts include both real and personal property.

MONTGOMERY COUNTY, MARYLAND
TAX RATES AND TAX LEVIES
LAST TEN FISCAL YEARS
(TAXES APPLICABLE TO SPECIAL TAXING DISTRICTS)

Fiscal Year	Suburban District (1)	Parking Lot Districts (2)					Recreation	Storm Drainage
		Silver Spring	Bethesda	Wheaton	Montgomery Hills			
TAX RATES (Per \$100 of Assessed Value)								
1995	\$.064	\$.70	\$.70	\$.60	\$.60	\$.60	\$.051	\$.01
1996	.028	.70	.70	.60	.60	.60	.047	.01
1997	-	.70	.70	.60	.60	.60	.049	.01
1998	-	.70	.70	.60	.60	.60	.054	.01
1999	-	.70	.70	.60	.60	.60	.062	.01
2000	-	.70	.70	.60	.60	.60	.067	.01
2001	-	.70	.70	.60	.60	.60	.069	.01
2002	-	.28 (.70)	.28 (.70)	.24 (.60)	.24 (.60)	.24 (.60)	.027 (.068)	.003 (.007)
2003	-	.28 (.70)	.28 (.70)	.24 (.60)	.24 (.60)	.24 (.60)	.020 (.050)	.003 (.008)
2004	-	.28 (.70)	.28 (.70)	.24 (.60)	.24 (.60)	.24 (.60)	.022 (.055)	.003 (.008)

TAX LEVIES

1995	\$ 6,230,187	\$ 3,086,795	\$ 2,795,141	\$ 324,803	\$ 57,174	\$ 13,002,924	\$ 2,482,349
1996	2,722,169	2,912,296	2,800,390	322,827	55,927	12,161,286	2,520,812
1997	-	2,947,928	2,767,884	326,339	56,513	13,033,292	2,591,912
1998	-	2,963,082	2,794,859	340,287	59,203	14,692,360	2,638,964
1999	-	2,852,479	2,899,145	343,446	49,423	17,266,258	2,702,563
2000	-	2,843,088	3,020,402	336,576	49,709	19,034,101	2,782,768
2001	-	3,136,079	3,390,866	346,466	54,640	20,246,365	2,848,776
2002	-	3,055,911	3,562,543	343,874	56,651	20,669,808	2,209,865
2003	-	3,261,597	3,443,038	335,267	56,954	16,015,422	2,344,149
2004	-	3,599,166	3,586,445	349,424	56,378	18,728,642	2,491,332

Fiscal Year	Urban Districts			Noise Abatement Districts		Fire Tax District	Development District	
	Silver Spring	Bethesda	Wheaton	Bradley	Cabin John		Kingsview	West Germantown
TAX RATES (Per \$100 of Assessed Value)								
1995	\$.075	\$.040	\$.05	\$.245	\$.45	\$.250	\$ -	\$ -
1996	.075	.040	.05	.250	.45	.243	-	-
1997	.075	.040	.05	.300	.40	.249	-	-
1998	.075	.040	.05	.350	.40	.262	-	-
1999	.075	.040	.05	.400	.40	.263	-	-
2000	.075	.040	.05	.450	.40	.290	-	-
2000	.075	.040	.05	.450	.40	.293	.285	-
2002	.030 (.075)	.016 (.04)	.02 (.05)	.160 (.40)	.18 (.45)	.109 (.273)	.092 (n/a)	-
2003	.030 (.075)	.016 (.04)	.02 (.05)	.160 (.40)	.18 (.45)	.117 (.293)	.108 (n/a)	.224 (n/a)
2004	.030 (.075)	.016 (.04)	.02 (.05)	.145 (.363)	.175 (.438)	.118 (.295)	.101 (n/a)	.213 (n/a)

TAX LEVIES

1995	\$ 417,594	\$ 280,628	\$ 75,491	\$ 21,304	\$ 8,811	\$ 72,932,935	\$ -	-
1996	388,743	272,470	73,434	20,946	8,811	71,849,671	-	-
1997	388,062	271,535	68,730	25,432	7,972	75,673,874	-	-
1998	390,436	275,653	67,208	30,018	8,125	81,064,088	-	-
1999	375,393	285,012	66,526	31,685	8,278	83,277,989	-	-
2000	391,669	314,906	69,747	36,766	8,037	94,033,940	-	-
2001	405,666	336,355	70,384	37,411	8,061	98,349,328	9,962	-
2002	403,537	382,527	66,878	34,476	9,097	95,906,178	18,734	-
2003	409,363	385,004	66,986	35,887	10,216	108,205,982	33,807	474,387
2004	446,987	396,164	68,379	33,879	11,206	116,024,971	37,264	730,674

NOTES:

* Tax rates for FY02, FY03, and FY04 are for real property only (personal property rates are presented in parenthesis). Real property rates are based on 40 percent of real property assessments. The rates for personal property remain the same (based on 100 percent of the property assessment). The levy amounts include both real and personal property.

(1) As of July 1, 1995, the Suburban District became the Urban Maintenance Tax. As of July 1, 1996, the Urban Maintenance Tax became part of the General Fund.

(2) Parking Lot Districts also carry a tax rate of one-half the amount shown which applies to property zoned commercial but not used as such.

Table 11

MONTGOMERY COUNTY, MARYLAND
TAX RATES AND TAX LEVIES
LAST TEN FISCAL YEARS
(TAXES APPLICABLE TO TOWNS AND CITIES)

Fiscal Year	Barnesville	Brookeville	Gaithersburg	Garrett Park	Glen Echo	Kensington
TAX RATES (Per \$100 of Assessed Value)						
1995	\$.20	\$.35	\$.53	\$.22	\$.35	\$.50
1996	.20	.35	.53	.39	.35	.50
1997	.20	.35	.53	.55	.36	.50
1998	.20	.45	.53	.55	.36	.50
1999	.20	.45	.53	.55	.36	.50
2000	.20	.45	.53	.55	.36	.50
2001	.20	.45	.53	.50	.35	.50
2002	.08 (.20)	.20 (.45)	.212 (.53)	.20 (.50)	.14 (.80)	.20 (.50)
2003	.08 (.20)	.20 (.45)	.212 (.53)	.20 (.50)	.14 (.80)	.193 (.50)
2004	.078 (.20)	.20 (.45)	.212 (.53)	.20 (.50)	.14 (.80)	.187 (.50)

TAX LEVIES

1995	\$ 9,193	\$ 11,703	\$ 8,467,147	\$ 81,216	\$ 38,568	\$ 585,130
1996	9,171	11,995	8,452,993	148,118	40,010	561,515
1997	9,437	12,902	8,727,250	210,630	42,494	543,811
1998	9,707	17,542	8,590,707	216,973	45,720	628,967
1999	9,783	18,719	8,918,388	224,834	46,686	540,855
2000	9,748	20,067	9,448,893	234,070	48,399	560,215
2001	10,020	20,347	10,215,422	219,021	48,931	579,025
2002	10,331	21,524	10,801,425	230,990	50,392	598,290
2003	11,300	65,164	12,102,881	308,218	53,271	609,498
2004	12,409	26,346	13,133,823	336,002	59,591	614,938

Fiscal Year	Laytonsville	Poolesville	Rockville	Somerset	Takoma Park	Washington Grove
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TAX RATES (Per \$100 of Assessed Value)

1995	\$.35	\$.68	\$.8200	\$.38	\$ 1.792	\$.64
1996	.35	.68	.8200	.38	1.817	.63
1997	.35	.67	.8200	.34	1.760	.63
1998	.35	.66	.8200	.31	1.535	.63
1999	.35	.65	.8150	.28	1.580	.60
2000	.33	.63	.8050	.25	1.580	.60
2001	.31	.60	.8050	.22	1.605	.60
2002	.125 (.31)	.24 (.60)	.3220 (.805)	.05 (.22)	.642 (1.605)	.235 (.60)
2003	.132 (.33)	.24 (.60)	.3220 (.805)	.05 (.22)	.660 (1.605)	.235 (.60)
2004	.160 (.35)	.24 (.60)	.3220 (.805)	.05 (.22)	.660 (1.650)	.217 (.60)

TAX LEVIES

1995	\$ 35,272	\$ 757,570	\$ 17,059,245	\$ 240,602	\$ 3,115,354	\$ 83,005
1996	40,945	785,395	17,206,694	236,528	3,035,391	85,110
1997	40,740	802,456	17,495,431	231,553	3,139,369	86,935
1998	36,800	825,533	17,201,841	220,280	4,582,477 (1)	94,187
1999	45,531	828,140	17,218,483	199,457	4,648,376	94,520
2000	36,233	819,678	17,569,656	183,804	4,655,125	95,931
2001	41,121	828,353	18,696,967	167,847	5,297,663	103,599
2002	40,717	847,220	20,461,655	106,592	5,644,759	108,415
2003	52,744	894,812	22,145,596	114,073	6,099,273	138,199
2004	58,407	916,185	23,258,825	122,540	6,666,332	140,737

NOTES:

* Tax rates for FY02, FY03, and FY04 are for real property only (personal property rates are presented in parenthesis). Real property rates are based on 40 percent of real property assessments. The rates for personal property remain the same (based on 100 percent of the property assessment). The levy amounts include both real and personal property.

(1) Effective July 1, 1997, the citizens of Takoma Park, which was located partly in Montgomery County and partly in Prince George's County, voted by referendum to have the City located entirely in Montgomery County. This consolidation explains the significant increase in the Takoma Park tax levies between years 1997 and 1998.

Table 12

MONTGOMERY COUNTY, MARYLAND
TAX RATES AND TAX LEVIES
LAST TEN FISCAL YEARS
(TAXES APPLICABLE TO VILLAGES)

Fiscal Year	Battery Park	Chevy Chase Section 3	Chevy Chase Section 5	Chevy Chase View	Chevy Chase Village	Village of Drummond
TAX RATES (Per \$100 of Assessed Value)						
1995	\$.11	\$.24	\$.12	\$.08	\$.37	\$.15
1996	.11	.22	.10	.08	.37	.15
1997	.11	.22	.09	.08	.37	.15
1998	.125	.20	.04	.08	.27	.12
1999	.125	.18	.00	.08	.25	.12
2000	.125	.09	.00	.08	.25	.12
2001	.125	.05	.00	.08	.25	.12
2002	.050 (.125)	.02 (.05)	- (-)	.03 (-)	.10 (.10)	.048 (.12)
2003	.050 (.125)	.02 (.05)	- (-)	.03 (-)	.12 (.50)	.048 (.12)
2004	.050 (.125)	.02 (.05)	- (-)	.025 (-)	.14 (.50)	.048 (.12)

TAX LEVIES

1995	36,276	89,301	43,861	32,006	667,456	12,292
1996	35,347	83,602	37,685	31,437	682,316	12,402
1997	35,196	88,725	33,586	32,188	678,378	12,544
1998	39,378	85,490	15,376	32,721	505,453	10,132
1999	40,056	81,730	1,512	33,803	476,688	10,345
2000	40,433	40,930	-	34,920	492,022	10,723
2001	41,484	22,630	-	36,181	509,276	11,250
2002	45,288	23,466	-	35,353	511,952	12,453
2003	47,707	32,288	-	37,975	716,360	13,671
2004	50,243	19,555	-	32,056	863,174	14,969

Fiscal Year	Friendship Heights	Martin's Additions to Chevy Chase	North Chevy Chase	Oakmont	Town of Chevy Chase
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TAX RATES (Per \$100 of Assessed Value)

1995	\$.25	\$.24	\$.13	\$.15	\$.22
1996	.23	.20	.13	.15	.20
1997	.23	.20	.13	.15	.19
1998	.28	.19	.13	.15	.18
1999	.28	.19	.13	.15	.16
2000	.25	.15	.13	.15	.16
2001	.22	.02	.13	.15	.13
2002	.08 (.08)	.008 (.008)	.052 (.13)	.10 (.10)	.04 (.10)
2003	.07 (.07)	.008 (.008)	.052 (.13)	.10 (.10)	.037 (.10)
2004	.06 (.06)	.008 (.008)	.052 (.13)	.06 (.06)	.035 (.10)

TAX LEVIES

1995	\$ 516,032	\$ 104,957	\$ 28,655	\$ 9,272	\$ 337,027
1996	469,720	91,312	28,836	9,544	312,491
1997	474,965	91,635	29,511	10,245	307,768
1998	599,297	89,812	30,282	10,627	303,032
1999	613,604	89,485	31,475	10,760	278,867
2000	565,728	73,390	32,044	10,863	280,184
2001	496,677	10,185	33,767	10,928	233,270
2002	461,709	10,380	35,283	20,619	187,196
2003	456,164	11,334	36,424	22,050	238,615
2004	411,806	12,359	39,405	13,995	242,716

NOTES:

- * Tax rates for FY02, FY03, and FY04 are for real property only (personal property rates are presented in parenthesis). Real property rates are based on 40 percent of real property assessments. The rates for personal property remain the same (based on 100 percent of the property assessment). The levy amounts include both real and personal property.

MONTGOMERY COUNTY, MARYLAND
 RATIO OF NET DIRECT DEBT
 TO ASSESSED VALUE AND NET DIRECT DEBT PER CAPITA
 LAST TEN FISCAL YEARS

Fiscal Year	Population (1)	Assessed Value End of Period (2)	Net Direct Debt (3,4,5)	Ratio of Net Direct Debt to Assessed Value	Net Direct Debt per Capita
1995	804,600	\$ 29,172,981,104	\$ 942,693,054	3.23 %	\$ 1,172
1996	814,100	29,575,004,490	1,138,948,054	3.85	1,399
1997	827,200	30,392,876,021	1,059,288,054	3.49	1,281
1998	841,500	30,929,092,105	1,207,463,054	3.90	1,435
1999	855,000	31,664,626,551	1,173,366,079	3.71	1,372
2000	873,341	32,553,856,811	1,293,522,607	3.97	1,481
2001	886,000	33,726,860,968	1,305,332,232	3.87	1,473
2002	903,000	81,776,292,140	1,368,962,005	1.67	1,516
2003	918,000	86,635,192,231	1,414,634,260	1.63	1,541
2004	931,000	93,226,806,877	1,481,048,978	1.59	1,591

NOTES:

- (1) Source: Maryland-National Capital Park and Planning Commission, Research and Technology Center. Round 6.4 Cooperative Estimates. Data are for January on a calendar year basis except for 2000 which is for April.
- (2) Fiscal Year 2002 is the first year that all real property in the State of Maryland is assessed at 100 % of actual value instead of the previous 40% assessment method.
- (3) Source: Montgomery County Department of Finance, "Debt Service Program Bonded Debt Fiscal Year."
- (4) All County general obligation debt matures serially. All County general obligation debt is backed by a general tax guarantee and therefore is included in this table regardless of the source of funds actually used for the payment. Also included are Short-Term BANs/Commercial Paper Outstanding and Long-Term Notes Payable.
- (5) Net direct debt is the same as general bonded debt.

Table 14

MONTGOMERY COUNTY, MARYLAND
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS

	Fiscal Year			
	1995	1996	1997	1998
Assessed Value				
Real property (1, 2)	\$ 25,796,030,374	\$ 26,057,528,520	\$ 26,603,652,341	\$ 27,274,641,135
Personal property	3,376,950,730	3,517,475,970	3,789,223,680	3,654,450,970
Total Assessed Value	<u>\$ 29,172,981,104</u>	<u>\$ 29,575,004,490</u>	<u>\$ 30,392,876,021</u>	<u>\$ 30,929,092,105</u>
Legal Debt Margin				
Debt Limit - Percentage of Assessable Base:				
For real property at 6% (15% for 2001 and prior) (2)	3,869,404,556	3,908,629,278	3,990,547,851	4,091,196,170
For personal property at 15%	<u>506,542,610</u>	<u>527,621,396</u>	<u>568,383,552</u>	<u>548,167,646</u>
Legal Limitation for the Borrowing of Funds and the Issuance of Bonds	<u>4,375,947,166</u>	<u>4,436,250,674</u>	<u>4,558,931,403</u>	<u>4,639,363,816</u>
Debt Applicable to Limit:				
General obligation bonds	942,693,054	983,948,054	1,019,288,054	1,057,463,054
Bond anticipations notes	-	155,000,000	40,000,000	150,000,000
Long-term notes payable	-	-	-	-
Total Debt Applicable to Limit	<u>942,693,054</u>	<u>1,138,948,054</u>	<u>1,059,288,054</u>	<u>1,207,463,054</u>
Legal Debt Margin	<u>\$ 3,433,254,112</u>	<u>\$ 3,297,302,620</u>	<u>\$ 3,499,643,349</u>	<u>\$ 3,431,900,762</u>
Legal Debt Margin as a Percentage of Debit Limit	78%	74%	77%	74%

(1) Fiscal Year 2002 is the first year that all real property in the State of Maryland is assessed at 100 percent of full assessed value instead of the previous 40 percent assessment method.

(2) As a Charter County, the legal debt limit is provided by Article 25A, Section 5(P), of the Annotated Code of Maryland. Prior to June 1, 2001, the legal debt limit was 15% of the assessable base (real and personal property) of the County. During that time, the assessable basis for real property was 40% of the full assessed value. Effective June 1, 2001, real property in the State of Maryland began being assessed at 100% of full assessed value instead of the previous 40% assessment method. Also effective June 1, 2001, the section of the Code referred to above was amended in conjunction with the real property assessment change. Under the amendment, the legal debt margin is a total of 6% of the assessable basis (presented at 100%) of real property of the County and 15% of the County's assessable basis of personal property and operating real property.

Table 14

MONTGOMERY COUNTY, MARYLAND
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS

Fiscal Year					
1999	2000	2001	2002	2003	2004
\$ 27,906,079,996	\$ 28,674,553,821	\$ 29,649,012,878	\$ 77,574,947,550	\$ 82,407,337,831	\$ 89,263,005,267
3,758,546,555	3,879,302,990	4,077,848,090	4,201,344,590	4,227,854,400	3,963,801,610
<u>\$ 31,664,626,551</u>	<u>\$ 32,553,856,811</u>	<u>\$ 33,726,860,968</u>	<u>\$ 81,776,292,140</u>	<u>\$ 86,635,192,231</u>	<u>\$ 93,226,806,877</u>
4,185,911,999	4,301,183,073	4,447,351,932	4,654,496,853	4,944,440,270	5,355,780,316
563,781,983	581,895,449	611,677,214	630,201,689	634,178,160	594,570,242
<u>4,749,693,983</u>	<u>4,883,078,522</u>	<u>5,059,029,145</u>	<u>5,284,698,542</u>	<u>5,578,618,430</u>	<u>5,950,350,558</u>
1,091,613,054	1,131,833,054	1,178,708,054	1,242,553,054	1,288,293,054	1,329,778,054
80,000,000	160,000,000	125,000,000	125,000,000	125,000,000	150,000,000
1,753,025	1,689,553	1,625,240	1,408,951	1,341,206	1,270,924
<u>1,173,366,079</u>	<u>1,293,522,607</u>	<u>1,305,333,294</u>	<u>1,368,962,005</u>	<u>1,414,634,260</u>	<u>1,481,048,978</u>
<u>\$ 3,576,327,904</u>	<u>\$ 3,589,555,915</u>	<u>\$ 3,753,695,851</u>	<u>\$ 3,915,736,537</u>	<u>\$ 4,163,984,170</u>	<u>\$ 4,469,301,580</u>
75%	74%	74%	74%	75%	75%

MONTGOMERY COUNTY, MARYLAND
COMPUTATION OF NET DIRECT AND OVERLAPPING DEBT (1)
AS OF JUNE 30, 2004

Name of Jurisdiction	District Number	Gross Debt	Percentage of Debt Applicable to this Jurisdiction	Jurisdiction's Share of Debt
Montgomery County:				
County Government		\$ 1,551,963,978		\$ 1,551,963,978
Less: Self supporting debt (2)		<u>70,915,000</u>		<u>70,915,000</u>
County Government - net		<u>\$ 1,481,048,978</u>	<u>100.00 %</u>	<u>\$ 1,481,048,978</u>
Total Net Direct Debt		<u>1,481,048,978</u>	<u>100.00</u>	<u>1,481,048,978</u>
Overlapping Areas:				
M-NCPPC		172,628,885		46,988,885
Less: Self supporting debt (2)		<u>14,883,885</u>		<u>13,353,885</u>
M-NCPPC - net		157,745,000	21.34	33,635,000
MCRA		74,975,000		74,975,000
Less: Self supporting debt (2)		<u>74,975,000</u>		<u>74,975,000</u>
MCRA - net		-	-	-
HOC		623,452,969		623,452,969
Less: Self supporting debt (2)		<u>623,452,969</u>		<u>623,452,969</u>
HOC - net		-	-	-
WSSC		1,465,114,838		1,007,358,466
Less: Self supporting debt (2)		<u>1,460,574,838</u>		<u>1,007,358,466</u>
WSSC - net		4,540,000	-	-
Kingsview Village Center Development District		2,345,000	100.00	2,345,000
West Germantown Development District		15,835,000	100.00	15,835,000
Towns, Cities, and Villages: (3)				
Brookeville	8	180,000	100.00	180,000
Garrett Park	4	744,800	100.00	744,800
Poolesville	3	659,542	100.00	659,542
Rockville	4	68,812,035	100.00	68,812,035
Takoma Park	13	2,741,845	100.00	2,741,845
Washington Grove	9	<u>30,000</u>	<u>100.00</u>	<u>30,000</u>
Total Net Overlapping Debt		<u>253,633,222</u>	<u>49.28</u>	<u>124,983,222</u>
Total Net Direct and Overlapping Debt		<u>\$ 1,734,682,200</u>	<u>92.58 %</u>	<u>\$ 1,606,032,200</u>

NOTES:

- (1) Net direct debt of the County includes general obligation bonds, commercial paper bond anticipation notes, and long-term notes payable. Overlapping debt is the debt of other governmental entities in the County that is payable in whole or in part by taxpayers of the County. It includes general obligation bonds, revenue bonds, mortgages payable, notes payable, commercial paper bond anticipation notes, certificates of participation, and bank loans.
- (2) Self supporting debt is payable solely from the earnings of the enterprise for whose construction or improvement the debt was issued.
- (3) Entities are wholly within Montgomery County.

M-NCPPC - Maryland-National Capital Park and Planning Commission
MCRA - Montgomery County Revenue Authority
HOC - Housing Opportunities Commission of Montgomery County
WSSC - Washington Suburban Sanitary Commission

MONTGOMERY COUNTY, MARYLAND
 RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL BONDED DEBT
 TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
 LAST TEN FISCAL YEARS

Fiscal Year	General Bonded Debt Principal	General Bonded Debt Interest	Total Debt Service(1)	Total General Governmental Expenditures(2)	Ratio of Debt Service to General Governmental Expenditures
1994	\$ 64,163,797	\$ 54,264,374	\$ 118,428,171	\$ 1,389,021,043	8.5 %
1995	70,457,054	54,914,987	125,372,041	1,458,019,717	8.6
1996	75,842,241	55,423,777	131,266,018	1,530,281,569	8.6
1997	78,030,212	59,281,223	137,311,435	1,559,212,528	8.8
1998	80,441,346	58,845,803	139,287,149	1,646,083,407	8.5
1999	84,727,525	61,488,395	146,215,920	1,771,696,929	8.3
2000	88,790,765	61,540,447	150,331,212	1,845,363,746	8.1
2001	92,685,151	63,211,281	155,896,432	1,970,383,252	7.9
2002	99,090,151	61,454,727	160,544,878	2,142,582,211	7.5
2003	106,665,149	62,472,728	169,137,877	2,261,517,883	7.5

NOTES:

(1) For FY03, excludes expenditures relating to long-term equipment notes, other lease and long-term notes, and issuing costs, which totaled \$21,183,621. Also excludes BANs retired through issuance of general obligation bonds amounting to \$155,000,000. In prior years, also excluded: a) WMATA debt service participation, b) participation in State of Maryland General Public School Construction Loans subsequent to June 30, 1967, not included as general bonded debt pursuant to State law, c) debt service related to closed schools, and d) State reimbursement for college audit findings.

(2) Includes General, Special Revenue, Debt Service, and beginning in FY02, Permanent Funds. Prior to FY02, also includes General Fund operating transfers to component units for purposes of education; such amounts are classified as education expenditures beginning in FY02. Beginning in FY97, excludes BANs retired through issuance of general obligation bonds. See Table 1.

MONTGOMERY COUNTY, MARYLAND
REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS

Fiscal Year	Revenue (2)	Current Expenses (3)	Net Revenue Available for Debt Service	Debt Service Requirement (4)	Debt Service Coverage %	Rate Covenant Requirement %	Excess Coverage %
<u>Bethesda Parking Lot District (1)</u>							
1994	\$ 9,062,255	\$ 2,437,274	\$ 6,624,981	\$ 3,495,997	189.50 %	125 %	64.50 %
1995	8,783,400	2,092,413	6,690,987	3,396,365	197.00	125	72.00
1996	9,226,176	2,466,734	6,759,442	3,371,538	200.49	125	75.49
1997	9,146,659	2,901,510	6,245,149	3,340,057	186.98	125	61.98
1998	10,879,885	3,082,433	7,797,452	3,327,258	234.35	125	109.35
1999	11,390,091	3,580,878	7,809,213	3,307,087	236.14	125	111.14
2000	11,511,966	3,475,533	8,036,433	3,261,988	246.37	125	121.37
2001	12,704,175	3,491,674	9,212,501	3,037,267	303.32	125	178.32
2002	15,784,467	3,929,577	11,854,890	3,037,908	390.23	125	265.23
2003	17,234,513	4,538,272	12,696,241	5,049,381	251.44	125	126.44
<u>Silver Spring Parking Lot District (1)</u>							
1994	\$ 10,303,492	\$ 4,814,147	\$ 5,489,345	\$ 2,766,765	198.40 %	125 %	73.40 %
1995	9,161,823	5,108,666	4,053,157	2,725,758	148.70	125	23.70
1996	9,537,027	4,557,035	4,979,992	2,698,843	184.52	125	59.52
1997	8,966,658	4,793,670	4,172,988	2,691,922	155.02	125	30.02
1998	9,294,406	4,470,865	4,823,541	2,679,103	180.04	125	55.04
1999	9,533,119	4,413,037	5,120,082	2,690,302	190.32	125	65.32
2000	9,941,924	4,639,724	5,302,200	2,685,578	197.43	125	72.43
2001	10,191,417	4,184,387	6,007,030	2,599,218	231.11	125	106.11
2002	9,418,078	5,190,147	4,227,931	2,581,158	163.80	125	38.80
2003	10,951,677	5,521,236	5,430,441	2,541,128	213.70	125	88.70

NOTES:

- (1) The debt service requirements noted are for the Bethesda and Silver Spring Parking Lot Districts and will be payable solely from the revenues of the Bethesda and Silver Spring Parking Lot Districts.
- (2) "Revenues" means the parking fee revenues, parking fine revenues and parking tax revenues of a district and interest income (excluding income earned from the investment of the proceeds and the investment proceeds of the bonds, any additional bonds and any general obligation bonds of the County payable from unlimited ad valorem taxes in addition to net revenues of a district).
- (3) "Current Expenses" shall mean and include the reasonable and necessary costs of operating, maintaining, repairing and insuring the facilities within or operated by a district. This includes, without limitation, salaries and wages, annually appropriated lease payments and costs of materials, supplies and services, but excluding depreciation, principal of and the interest payments on the bonds and any additional bonds.
- (4) Includes debt service related to general obligation bonds.

(Continued)

MONTGOMERY COUNTY, MARYLAND
REVENUE BOND COVERAGE, CONCLUDED
LAST TEN FISCAL YEARS

Fiscal Year (5)	Cash and Revenue (2)	Operating Expenses (3)	Net Cash and Revenue Available for Debt Service	Debt Service Requirement (4)	Debt Service Coverage %	Rate Covenant Requirement %	Excess Coverage %
<u>Solid Waste Disposal (1)</u>							
2000	\$ 116,414,685	\$ 46,949,571	\$ 69,465,114	\$ 40,309,962	172 %	110 %	62 %
2001	115,935,048	48,468,127	67,466,921	39,962,084	169	110	59
2002	103,712,766	51,179,767	52,532,999	39,947,469	132	110	22
2003	111,150,845	52,617,828	58,533,017	38,893,389	150	110	40

NOTES:

- (1) Per the Solid Waste Disposal Master Authorization section 5.13 "Rates and Charges; Rate Covenant", the County must charge rates such that revenues when combined with up to 25 percent of certain cash balances held by the fund will, in each fiscal year, at least equal the sum of 100 percent of operating expenses plus 110 percent of debt service.
- (2) "Revenues" means all monies in the Solid Waste Disposal Fund, all rents, rates, fees, service charges, user charges, etc., received by or imposed by the County in connection with the Disposal System.
- (3) "Operating Expenses" means and includes the reasonable or necessary costs and expenses of the County (not including long term expenses) of operating, maintaining, repairing, insuring, and administering the Disposal System or providing Disposal Services.
- (4) Includes debt service payments made on bonds issued by Northeast Maryland Waste Disposal Authority.
- (5) Data is not readily available for 1994 - 1999.

MONTGOMERY COUNTY, MARYLAND
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS

Calendar Year	Population (1)	Civilian Labor Force (2)	Personal Income (thousands of dollars)	Per Capita Income (3)	Median Age (4)	Average Registered Number of Pupils (Fiscal Year)(5)	Unemployment Rate (2)
1995	804,600	461,263	\$ 30,718,000	\$ 38,178	35.6 yrs.	117,082	2.9 %
1996	814,100	473,312	32,177,000	39,525	35.8	120,291	2.6
1997	827,200	464,854	33,089,000	40,001	35.9	122,505	2.6
1998	841,500	465,649	36,323,000	43,165	N/A	125,035	2.3
1999	855,000	474,359	38,717,000	45,283	N/A	127,852	1.8
2000	873,341	481,950	43,354,000	49,642	N/A	130,689	1.9
2001	886,000	490,617	44,888,000	50,664	N/A	134,180	2.3
2002	903,000	502,917	46,730,000	51,750	N/A	136,832	2.8
2003	918,000	505,535	49,480,000	53,900	N/A	138,891	2.6
2004	931,000	515,505	51,484,000	55,300	N/A	139,203	2.4

NOTES:

- (1) Source: Maryland-National Capital Park and Planning Commission, Research and Technology Center. Round 6.4 Cooperative Estimates. Estimates are restated and are for January except for 2000 which is for April.
- (2) Source: State of Maryland, Department of Labor, Licensing and Regulation. Civilian labor force data are by place of residence and restated for 1995 - 2003 and estimated for 2004. Unemployment rates are restated for 2003 and estimated for 2004.
- (3) Source: U.S. Department of Commerce, Bureau of Economic Analysis. Data for 1995 - 2002 are restated and data for 2003 and 2004 are estimates.
- (4) Source: Sales and Marketing Management's, "Survey of Buying Power," 1994-1997.
- (5) Source: Office of Management and Budget, Montgomery County. Data are restated for 2002 and 2003 and estimated for 2004.

MONTGOMERY COUNTY, MARYLAND
 BUILDING PERMITS, ASSESSED VALUE OF NEW CONSTRUCTION ADDED TO TAXABLE REAL PROPERTY TAX BASE,--
 COMMERCIAL BANK DEPOSITS, AND ESTIMATED MARKET VALUE OF TAXABLE REAL PROPERTY
 LAST TEN FISCAL YEARS
 (Dollars in Millions)

Fiscal Year	Total Number of Building Permits (3)	Assessed Value of New Construction Added to the Taxable Real Property Tax Base (1)					Total (6)	Commercial Bank Deposits (2) as of June 30th
		Residential	Apartments	Condo-miniums	Commercial and Industrial	All Other (4)		
1995	13,500	\$ 582.8	\$ 3.2	\$ 23.0	\$ 70.0	\$ 5.9	\$ 684.9	\$ 7,709.8
1996	12,677	764.5	25.2	51.6	116.2	53.9	1,011.4	7,993.6
1997	13,837	725.9	7.9	56.0	182.9	6.0	978.7	7,973.0
1998	14,162	743.1	1.9	48.9	330.8	27.6	1,152.2	8,375.6
1999	15,130	787.4	11.0	55.9	287.1	24.5	1,165.9	8,966.5
2000	20,205	843.4	93.8	108.4	233.6	7.5	1,286.7	9,350.9
2001	14,599	878.6	53.7	88.2	276.0	4.4	1,300.9	10,646.4
2002	15,696	896.1	19.4	70.8	520.7	1.3	1,508.4	11,623.7
2003	15,969	1,023.5	49.9	133.2	426.9	1.2	1,634.7	13,531.3
2004	15,141	892.4	21.0	176.4	559.1	3.0	1,651.9	N/A

Fiscal Year	Estimated Market Value of Taxable Real Property (5)					Total (6)
	Residential	Apartments and Condominiums	Commercial and Industrial	All Other		
1995	\$ 45,967.7	\$ 7,931.2	\$ 11,507.5	\$ 1,700.9	\$ 67,107.3	
1996	46,113.7	7,783.7	11,079.1	1,700.8	66,677.4	
1997	47,494.0	7,831.7	11,319.4	1,639.5	68,284.5	
1998	48,412.1	7,802.6	11,437.3	1,643.3	69,295.3	
1999	49,960.3	7,950.2	12,249.6	1,320.6	71,480.7	
2000	52,089.4	8,417.0	13,287.6	1,113.4	74,907.4	
2001	54,509.7	8,823.5	14,532.7	1,156.0	79,021.8	
2002	57,762.2	9,223.0	16,054.6	1,189.3	84,229.0	
2003	64,332.1	10,084.1	17,753.8	1,262.4	93,432.4	
2004	67,835.3	10,679.7	18,317.7	1,258.6	98,091.2	

NOTES:

- (1) Source: State of Maryland, Department of Assessments and Taxation. Data from Fiscal Year 1994 through Fiscal Year 2001 adjusted to 100% of assessed value instead of the 40% assessment method.
- (2) Source: Federal Deposit Insurance Corporation, Annual "2003 Bank & Thrift Branch Office Data Book Summary of Deposits: Northeast Region."
- (3) Source: Montgomery County Government Department of Permitting Services.
- (4) Includes three primarily nonresidential categories (nonconforming, special exception, and plural zoned) along with farm property.
- (5) Source: State of Maryland, Department of Assessments and Taxation and Montgomery County Government Department of Finance.
- (6) Total may not equal sum of components due to rounding.

Table 20

MONTGOMERY COUNTY, MARYLAND
TEN HIGHEST COMMERCIAL PROPERTY TAXPAYERS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Assessable Base			Ratio:
	Total	Real Property	Personal Property	Taxpayer Base to Total Assessable Base
Potomac Electric Power Co.	\$ 766,285,986	\$ 5,860,436	\$ 760,425,550	0.82 %
Verizon/Bell Atlantic	629,743,666	27,223,826	602,519,840	0.68
Montgomery Mall	224,504,932	224,144,332	360,600	0.24
Washington Gas Light Co.	206,249,370	-	206,249,370	0.22
Mirant Mid-Atlantic LLC	205,747,732	69,733,532	136,014,200	0.22
Bryant F. Foulger, Trustee	155,509,300	155,509,300	-	0.17
7501 Wisconsin Avenue LLC	155,000,000	155,000,000	-	0.17
Camalier, Anne D et al, Trustee	139,042,168	139,042,168	-	0.15
Democracy Associates	137,266,666	137,266,666	-	0.15
Marbeth Partnership	129,021,000	129,021,000	-	0.14
Total	\$ 2,748,370,820	\$ 1,042,801,260	\$ 1,705,569,560	2.95 %
Total Assessable Base	\$ 93,226,806,877			100 %

For the Fiscal Year Ended June 30, 1995

	Assessable Base			Ratio:
	Total	Real Property	Personal Property	Taxpayer Base to Total Assessable Base
Potomac Electric Power Co.	\$ 839,521,559	\$ 30,551,839	\$ 808,969,720	2.88 %
Bell Atlantic - Maryland	461,109,680	26,508,490	434,601,190	1.58
International Business Machines	182,024,370	30,249,490	151,774,880	0.62
Washington Gas Light Co.	132,449,590	6,385,680	126,063,910	0.45
Montgomery Mall	58,960,680	58,960,680	-	0.20
Government Employees Insurance Company	58,889,190	23,781,730	35,107,460	0.20
Woodward & Lothrop	54,236,910	22,568,900	31,668,010	0.19
Marbeth Partnership	54,000,000	54,000,000	-	0.19
Albert & R. Abramson, et.al.	52,421,430	52,421,430	-	0.18
Lake Forest Associates	52,409,860	52,409,860	-	0.18
Total	\$ 1,946,023,269	\$ 357,838,099	\$ 1,588,185,170	6.67 %
Total Assessable Base	\$ 29,172,981,104			100 %

Source: State of Maryland Department of Assessments and Taxation



850 Hungerford Drive
Rockville, Maryland 20850

Published by the
Department of Communications and Public Information
for the
Office of the Chief Operating Officer • Division of Controller

0941-05T • ELECTRONIC GRAPHICS  & PUBLISHING SERVICES • 10/04 • 240