

MONTGOMERY COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF MONTGOMERY COUNTY, MARYLAND

**Comprehensive Annual
Financial Report**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006



Dr. Jerry D. Weast
Superintendent of Schools

Mr. Larry A. Bowers
Chief Operating Officer

Dr. Frieda K. Lacey
Deputy Superintendent of Schools

Mr. John Q. Porter
Deputy Superintendent for Information and Organizational Systems



ROCKVILLE, MARYLAND

Montgomery County Public Schools

GUIDING TENETS

CORE VALUES

- Every child can learn and succeed
- The pursuit of excellence is fundamental and unending
- An ethical school system requires fair treatment, honesty, openness, integrity, and respect
- A high-quality school system strives to be responsive and accountable to the customer

MISSION

To provide a high-quality, world-class education that ensures success for every student through excellence in teaching and learning.

VISION

A high-quality education is the fundamental right of every child. All children will receive the respect, encouragement, and opportunities they need to build the knowledge, skills, and attitudes to be successful, contributing members of a global society.

SYSTEM GOALS

- Ensure success for every student
- Provide an effective instructional program
- Strengthen productive partnerships for education
- Create a positive work environment in a self-renewing organization

BOARD OF EDUCATION ACADEMIC PRIORITIES

- Organize and optimize resources for improved academic results
- Align rigorous curriculum, delivery of instruction, and assessment for continuous improvement of student achievement
- Develop, expand, and deliver a literacy-based prekindergarten to Grade 2 initiative
- Use student, staff, school and system performance data to monitor and improve student achievement
- Foster and sustain systems that support and improve employee effectiveness, in partnership with MCPS employee organizations
- Strengthen family-school relationships and continue to expand civic, business, and community partnerships that support improved student achievement

CRITICAL QUESTIONS

- What do students need to know and be able to do?
- How will we know they have learned it?
- What will we do when they haven't?
- What will we do when they already know it?

Montgomery County Public Schools
A Component Unit of Montgomery County Maryland
Comprehensive Annual Financial Report
for the Fiscal Year
Ended June 30, 2006

Prepared by:

Office of the Chief Operating Officer

Larry A. Bowers, *Chief Operating Officer*
Susanne G. DeGraba, *Chief Financial Officer*
Robert J. Doody, *Controller*

Cover Photograph:

Clarksburg High School

850 Hungerford Drive
Rockville, MD 20850

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MONTGOMERY COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF MONTGOMERY COUNTY MARYLAND
COMPREHENSIVE ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION

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MONTGOMERY COUNTY PUBLIC SCHOOLS

www.montgomeryschoolsmd.org

MARYLAND

August 31, 2006

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, 2006.

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 Clifton Gunderson 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 separately in the MCPS 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, copies of awards for 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, 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, demographic, and operating information that is 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 Grade 12 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 a component unit of MCPS—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 75 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, D.C. metropolitan area, most indicators reflect positive performance for the region's economy, with increases in employment and continued price stability. According to the Center for Regional Analysis, the region's economy extended its three-year expansion and continued to generate jobs despite rising energy prices and a slowdown in new home construction. The region added approximately 77,000 new jobs over the past year. The Washington Coincident Index, a measure of the current state of the metropolitan economy, declined during the second quarter of 2006, after experiencing solid growth over the prior year. A decline of 0.81 percent in the Washington Leading Index suggests a slight moderation in the region's economic expansion in the next six to eight months. 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 mixed economic activity during the last year. Central to the county's mixed performance were declines in the growth of residential construction and a decline in housing sales. Although the value of new residential construction increased 9.6 percent, the number of residential building permits issued declined by 32 percent. The number of residential sales declined during the year by 20.1 percent.

The county experienced improvements in a number of economic indicators. The labor market showed strong performance, growing by 3.3 percent over the last six months. The county's unemployment rate of 3.2 percent is one of the lowest in the state. Although the increase in home prices has moderated, both median and average home prices in the county have increased by approximately 8 percent this year, which will benefit the county's revenue outlook through higher residential property assessments.

Long-term financial planning. 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 FY 2007 through FY 2012 indicate an annual increase for major known commitments of \$58.0 million (not including the result of collective bargaining agreements) for FY 2008, and

average projected increases of up to \$56.3 million for known commitments for FY 2009 through FY 2012. Each one-percent salary increase will add \$14.0 million in FY 2008. 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.

Negotiated agreements. In March 2004, the Board of Education reached a three-year contract with the Montgomery County Education Association (MCEA) that expires on June 30, 2007. The salary agreement calls for a 2.75 percent increase effective July 1, 2005, a 3.0 percent increase effective July 1, 2006, and a mid-year increase of 1.0 percent during 2006–2007. The agreement also allows for additional negotiations during FY 2007 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 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 was added.

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 was to expire on 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 new three-year agreement on salary and benefits, and an extension of the contract through June 30, 2007. The salary agreement calls for a 2.75 percent increase effective July 1, 2005, a 3.0 percent increase effective July 1, 2006, and a mid-year increase of 1.0 percent during 2006-07.

During fall 2003, the three unions participated in joint negotiations regarding benefits for all employees. These negotiations resulted in agreement on benefits terms for three years, through FY 2007. There will be negotiations with each of the three unions on economic issues, including salaries, during FY 2007, with new agreements to take effect on July 1, 2007.

Enrollment increases. MCPS has experienced rapid enrollment growth for more than 20 years. However, total enrollment has stabilized. MCPS enrollment was 139,387 students in FY 2006, 50 more than in FY 2005. Although the September 30, 2006, enrollment is projected to be 139,936, current estimates for the official FY 2007 enrollment are approximately 138,200 students. To relieve overcrowding, reduce the number of relocatable classrooms, and accommodate full-day kindergarten classes in all eligible elementary schools, MCPS added 79 classrooms to seven existing schools and opened/reopened two middle schools in FY 2006. In FY 2007, MCPS will add 89 classrooms to six existing schools and will open/reopen one high school and four elementary schools which will eliminate the need for 112 relocatable classrooms.

In FY 2008, salary and other costs of teachers and school-based personnel required for enrollment changes are projected to reduce operating costs by \$2.0 million for elementary and secondary instruction. Increased enrollment of special education students is projected to increase costs by \$2.9 million due to a projected increase of 150 students requiring special education classes. There also will be an increase of \$1.0 million for transportation of these students. The opening of one new school will add \$0.5 million to the FY 2008 operating budget.

Cash management program. MCPS maintains a cash management program for the purpose of achieving maximum financial return on available funds. Temporarily idle cash is invested on a daily basis in a money market mutual fund and in fully collateralized repurchase agreements. Investment earnings were

\$1,383,563 in FY 2006. Excess cash during the year is invested for MCPS by the Montgomery County Government. MCPS does not benefit directly from the investment earnings derived from the county's cash management and investment programs.

Risk management. Page 82 in the statistical section of this report presents the Montgomery County and Board of Education 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, this fund was merged into an expanded self-insurance program to cover workers' compensation, general liability, and 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 systemwide average SAT score in FY 2005 was 1101, with 76.5 percent of seniors taking the test. It was the second consecutive year that average scores exceeded 1100. The average included a mathematics score of 560 and an average verbal score of 541. SAT scores continue to show a significant gap between the average scores of White and Asian students and those of African American and Hispanic students.

Academic progress. Students at all levels are demonstrating improved academic achievement. In 2005, 44 percent of the school system's seniors scored a 3 or higher on Advanced Placement tests—more than three times the national average and double the average in Maryland. African American and Hispanic seniors in MCPS performed significantly better than their peers nationwide on Advanced Placement exams, with five times more African American students and twice as many Hispanic students scoring a 3 or better compared to their peers nationwide. Record numbers of kindergarten students are reading, 81 percent in 2005, which is an increase from 39 percent in 2001. The minority achievement gap at this level has narrowed dramatically with African American third grade students narrowing the gap with their White peers by 30 percent and Hispanic third grade students by 36 percent. Forty-eight percent of Grade 8 students successfully completed Algebra 1 in 2005 compared with the national average of 25 percent.

Maryland quality award. In 2005, MCPS won Maryland's most prestigious award for organizational performance—the U. S. Senate Productivity Award. The school system is the largest employer in Maryland and the only school system to win this level of award in the 41 states that give similar awards.

National Teacher of the Year. Ms. Kimberly Oliver, a kindergarten teacher at Broad Acres Elementary School, was named the 2006 National Teacher of the Year.

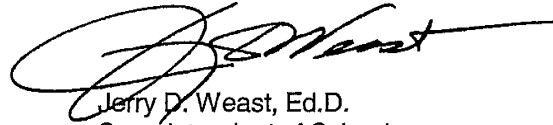
Financial reporting awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MCPS for its *Comprehensive Annual Financial Report* for the fiscal year that ended June 30, 2005. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program requirements. We are submitting it to the GFOA to determine its eligibility for another certificate.

For 25 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 2006 comprehensive annual financial report to ASBO and believes the report continues to meet ASBO certificate program requirements.

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

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Montgomery County Public Schools, Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Perry

President

Jeffrey R. Emer

Executive Director

**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, 2005

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

President

Interim Executive Director

MONTGOMERY COUNTY PUBLIC SCHOOLS LISTING OF OFFICIALS

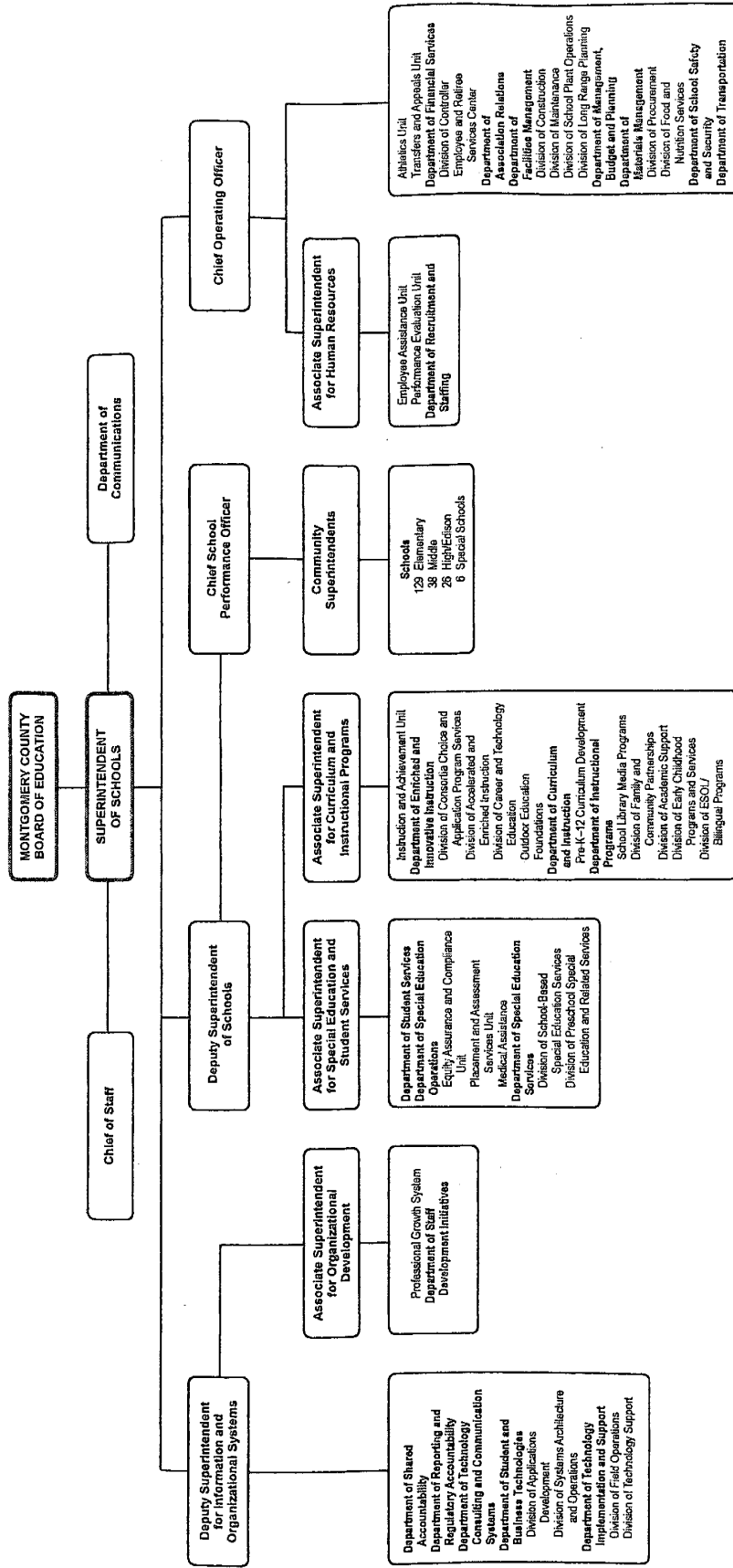
MEMBERS OF THE BOARD OF EDUCATION

Charles Haughey, President
Sharon Cox, Vice President
Steve Abrams
Valerie Ervin
Nancy Navarro
Patricia O'Neill
Gabriel Romero
Sarah Horvitz, Student Board Member

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 Information and Organizational Systems
Brian J. Porter Chief of Staff
Jody Leleck Associate Superintendent for Curriculum and Instructional Programs
Darlene Merry Associate Superintendent for Organizational Development
Susan F. Marks Associate Superintendent for Human Resources
Carey Wright (Dr.) Associate Superintendent for Special Education
and Student Services
Donald H. Kress Chief School Performance Officer
Stephen Bedford Assistant Chief School Performance Officer
Ursula Hermann (Dr.) Community Superintendent
Mark E. Kelsch Community Superintendent
LaVerne Kimball Community Superintendent
Heath Morrison (Dr.) Community Superintendent
Frank H. Stetson (Dr.) Community Superintendent
Adrian Talley Community Superintendent

MONTGOMERY COUNTY PUBLIC SCHOOLS FY 2007 ORGANIZATION



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FINANCIAL SECTION



Independent Auditor's Report

The Board of Education
of Montgomery County, Maryland
Rockville, 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 Montgomery County Public Schools, a component unit of Montgomery County, Maryland, as of and for the year ended June 30, 2006 which collectively comprise Montgomery County Public Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Montgomery County Public Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Montgomery County Public Schools as of June 30, 2006, 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 of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2006 on our consideration of Montgomery County Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Schedule of Funding Progress for Single Employer Defined Benefit Pension Plans as referenced in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Montgomery County Public Schools' basic financial statements. The accompanying supplementary information, such as the introductory section, combining and individual nonmajor fund and agency fund financial statements, capital assets schedule and statistical tables listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund and agency fund financial statements and capital asset schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical tables listed in the table of contents 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.

Clifton Gunderson LLP

Baltimore, Maryland
August 31, 2006

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, 2006. 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 1-5 of this report.

Financial Highlights

- The assets of MCPS exceeded its liabilities at June 30, 2006, by \$1,415.3 million, which represents its net assets.
- MCPS' net assets increased during the year by \$158.5 million.
- 96 percent of capital asset additions were directed toward instructional facilities, including the modernization of seven schools and the opening of two middle schools.
- MCPS successfully realized its commitment to the Montgomery County Council to generate \$3.9 million in FY 2006 savings to be used to fund the FY 2007 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, 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 25-27 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 28-32 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, 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 33-35 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 36-37 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 39-57 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 60-69 of this report.

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

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 154.6	\$ 141.0	\$ (0.4)	\$ 0.4	\$ 154.2	\$ 141.4
Capital assets	1,534.1	1,368.6	5.6	5.8	1,539.7	1,374.4
Total assets	1,688.7	1,509.6	5.2	6.2	1,693.9	1,515.8
Long-term liabilities outstanding	107.4	99.6	1.7	1.6	109.1	101.2
Other liabilities	167.7	155.6	1.8	2.1	169.5	157.7
Total liabilities	275.1	255.2	3.5	3.7	278.6	258.9
Net Assets:						
Invested in capital assets, net of related debt	1,509.7	1,347.3	5.1	5.2	1,514.8	1,352.5
Unrestricted	(96.1)	(92.9)	(3.4)	(2.7)	(99.5)	(95.6)
Total net assets	\$ 1,413.6	\$ 1,254.4	\$ 1.7	\$ 2.5	\$ 1,415.3	\$ 1,256.9

District-wide Financial Analysis

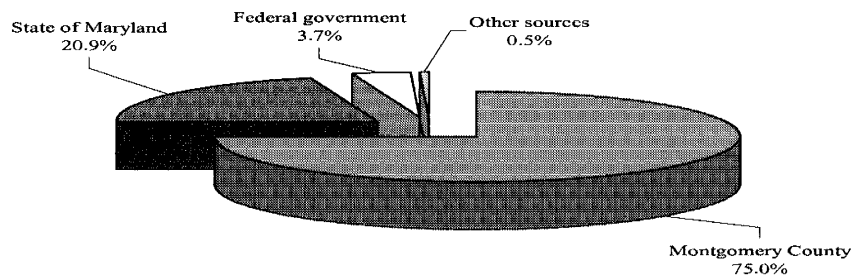
Net assets may serve as a useful indicator of a government's financial position. MCPS' net assets, the amount by which assets exceed liabilities, increased \$158.4 million to \$1,415.3 million. Most of the increase came from governmental activities, which increased by \$159.2 million to \$1,413.6 million. 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 \$162.3 million to \$1,514.8 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 \$3.9 million to a \$99.5 million deficit at June 30, 2006. The decrease in unrestricted net assets is primarily attributed to a \$6.2 million increase in the long-term liability for compensated absences, for which resources are accumulated only to liquidate current year liabilities.

The deficit in unrestricted net assets arises from the district's funding policies for its noncurrent liabilities, especially for compensated absences. The fiscal condition of MCPS remains strong, as intergovernmental revenues continue to grow sufficiently to meet its fiscal obligations and to fund its current operations.

Revenues by Source - Governmental Activities



Governmental activities. Total revenues for MCPS' governmental activities increased \$197.0 million (10.9 percent). Intergovernmental revenues increased \$193.9 million (11.6 percent), and operating program revenues increased \$2.6 million (2.1 percent). Intergovernmental revenues from Montgomery County increased \$142.2 million (10.8 percent) as required to fund the operating and capital budgets. Intergovernmental revenue from the State of Maryland increased \$50.8 million (14.1 percent), related principally to an increase of \$30.3 million in the unrestricted Bridge to Excellence funding.

Total expenses increased \$117.4 million (6.8 percent) to \$1,839.8 million. In 2006, instructional programs expenses accounted for 82.4 percent and support services accounted for 17.6 percent of total governmental activities expenses. Instruction expenses increased \$82.7 million (5.8 percent) to \$1,515.7 million. Regular instruction increased \$50.9 million (5.0 percent). There was a proportionately greater increase of 7.9 percent in special education, related to an increase in special education enrollment of 294 students.

Support services expenses increased \$34.7 million (11.9 percent) to \$324.1 million. Student transportation expenses increased 6.9 percent, due to increases in fuel prices. Plant operations expenses increased 9.7 percent due to substantial increases in utilities prices.

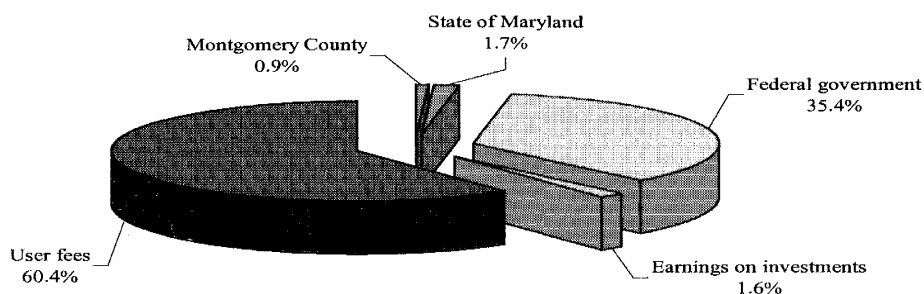
Montgomery County Public Schools Changes in Net Assets
(Amounts expressed in millions)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 5.2	\$ 5.0	\$ 28.1	\$ 27.9	\$ 33.3	\$ 32.9
Operating grants and contributions	81.3	79.1	17.3	16.9	98.6	96.0
Capital grants and contributions	41.8	41.6	0.3	0.9	42.1	42.5
General revenues:						
Intergovernmental	1,870.0	1,676.1			1,870.0	1,676.1
Other	0.7	0.2	0.7	0.4	1.4	0.6
Total revenues	<u>1,999.0</u>	<u>1,802.0</u>	<u>46.4</u>	<u>46.1</u>	<u>2,045.4</u>	<u>1,848.1</u>
Expenses:						
Regular instruction	1,088.6	1,037.7			1,088.6	1,037.7
Special education	266.9	247.4			266.9	247.4
School administration	146.8	135.7			146.8	135.7
Student personnel services	13.4	12.2			13.4	12.2
Health services	0.0	0.0			0.0	0.0
Student transportation	96.8	90.4			96.8	90.4
Operation of plant	120.2	109.6			120.2	109.6
Maintenance of plant	48.9	47.6			48.9	47.6
Administration	54.7	38.9			54.7	38.9
Community services	2.1	1.6			2.1	1.6
Interest on capital leases	1.4	1.3			1.4	1.3
Food services			40.7	39.5	40.7	39.5
Adult education			1.5	1.9	1.5	1.9
Real estate management			2.1	1.5	2.1	1.5
Field trips			1.6	1.4	1.6	1.4
Entrepreneurial activities			1.3	1.3	1.3	1.3
Total expenses	<u>1,839.8</u>	<u>1,722.4</u>	<u>47.2</u>	<u>45.6</u>	<u>1,887.0</u>	<u>1,768.0</u>
Increase (decrease) in net assets	159.2	79.6	(0.8)	0.5	158.4	80.1
Net Assets - beginning	<u>1,254.4</u>	<u>1,174.8</u>	<u>2.5</u>	<u>2.0</u>	<u>1,256.9</u>	<u>1,176.8</u>
Net Assets - ending	<u>\$ 1,413.6</u>	<u>\$ 1,254.4</u>	<u>\$ 1.7</u>	<u>\$ 2.5</u>	<u>\$ 1,415.3</u>	<u>\$ 1,256.9</u>

Business-type activities. Business-type activities decreased MCPS' net assets by \$0.8 million. Revenues from the sale of food were flat when compared to 2005, while non-operating revenues increased \$0.7 million (4.4 percent). The number of reimbursable meals increased 825,000 (7.3 percent) to 12,125,000 during the year. An increase in lower-priced regular meal sales was offset by a decrease in higher-priced ala carte sales. Food services operating expenses increased \$1.2 million (3.1 percent). Increases in expenses were generally consistent, except for supplies and materials which increased \$0.4 million (24.9 percent). The increase in supplies and materials is attributed to price increases in petroleum-based disposable products and to acquisition of updated cash registers. The greater increase in supplies and materials contributed to a \$1.0 million decrease in food services net assets.

Non-major enterprise funds net assets increased \$0.3 million, due primarily to an increase of \$0.2 million in Entrepreneurial Fund operating income.

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.

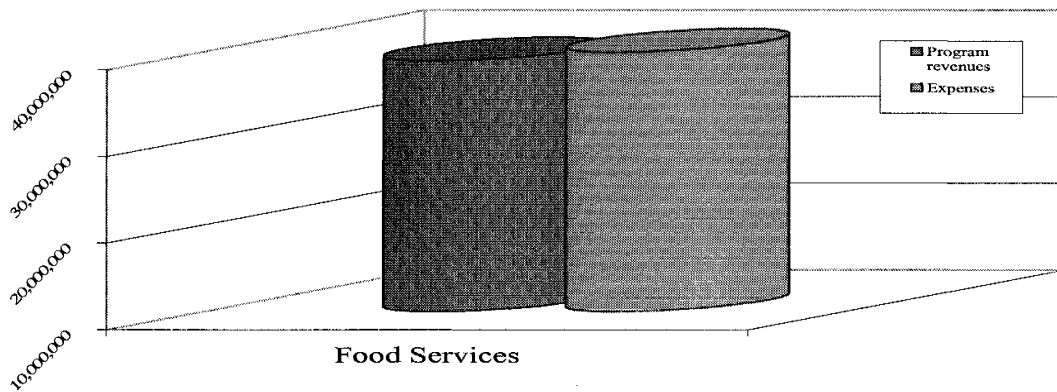
Governmental funds. The focus of MCPS' governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing MCPS' financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's 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 \$5.6 million, an increase of \$1.7 million from the prior year. The unreserved, undesignated fund deficit of \$16.4 million was offset by reserved fund balance of \$22.0 million. Reserved fund balance is unavailable for new spending because it has already been reserved to liquidate prior period commitments.

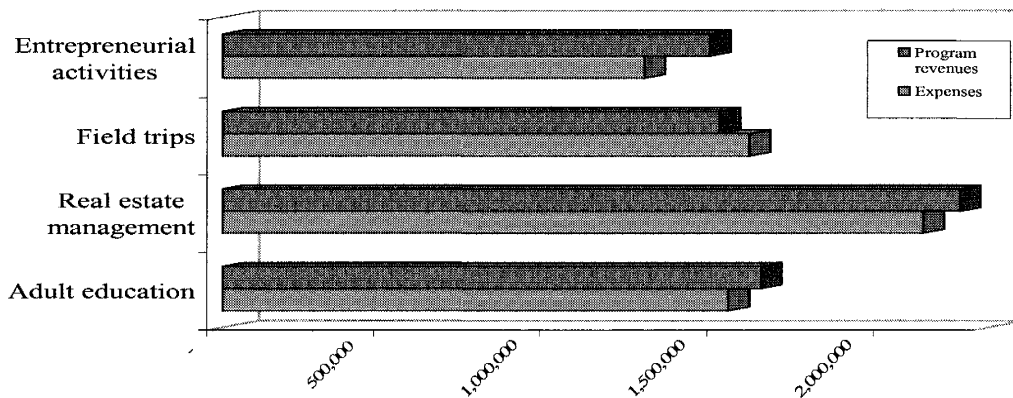
The general fund is the principal operating fund of MCPS. At June 30, 2006, unreserved, undesignated fund balance was a deficit of \$3.0 million and total fund balance was \$18.9 million. Unreserved, undesignated fund balance decreased \$6.3 million, resulting primarily from an increase in reserved fund balance necessary to cover an increase of \$8.3 million in encumbrances outstanding at June 30, 2006.

Capital projects fund deficit increased by \$0.9 million during 2006 to a deficit of \$13.5 million at June 30, 2006. The deficit reflects school construction funding reversions by the State occurring after the anticipated State funds had been expended. The deficit will be eliminated as Montgomery County adjusts revenue sources from state to local funding for the affected projects.

**Program Revenues and Expenses - Major Fund
Business-type Activities**



**Program Revenues and Expenses - Non-Major Fund
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 2006 was \$38.9 million higher than the original budget. The increases were a result of \$16.2 million in unexpended restricted program grants that carried forward to 2006, and \$22.7 million in supplemental appropriations – \$13.0 million for restricted program grants received during the year and \$9.7 million for unrestricted programs. Unrestricted supplemental appropriations included \$8.0 million for implementation of a new financial management system.

Actual budgetary fund balance decreased by \$5.9 million. The decrease in fund balance resulted from a plan that generated \$6.7 million in current year savings, offset by applying \$12.6 million in beginning fund balance toward funding the 2007 operating budget.

Actual revenues were \$19.1 million under budget for the year. Restricted revenues were \$20.2 million under budget, of which \$4.5 million comprised estimated restricted revenue that did not arise, 0.4 million in grant authorizations expiring June 30, 2006, and \$15.3 million in unrealized revenue for grants that carried forward into 2006.

Unrestricted revenues were \$1.1 million above budget. Tuition assessed to nonresident students was \$0.9 million above budget.

Actual expenditures were \$25.7 million under budget. Restricted expenditures were \$20.2 million less than the budget, which consisted of \$15.3 million in unspent funds for grants that carry forward into 2007, \$4.5 million in estimated restricted revenue that did not arise, and \$0.4 million in grant authorizations expiring June 30, 2006.

Unrestricted expenditures were \$5.5 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 2007 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, 2006, MCPS' investment in capital assets for its governmental and business-type activities amounts to \$1,539.6 million, net of accumulated depreciation. This amount represents a net increase of \$165.3 million, or 12.0 percent from last year. The net value of buildings increased \$61.2 million and construction in progress increased \$91.4 million.

Montgomery County Public Schools Capital Assets

(Net of depreciation)

(amounts expressed in millions)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Land	\$ 68.0	\$ 67.6	\$ -	\$ -	\$ 68.0	\$ 67.6
Buildings	1,084.3	1,023.1	-	-	1,084.3	1,023.1
Site improvements	103.5	94.9			103.5	94.9
Vehicle and equipment	58.9	55.0	5.6	5.8	64.5	60.8
Construction in progress	219.3	127.9			219.3	127.9
Total	\$ 1,534.0	\$ 1,368.5	\$ 5.6	\$ 5.8	\$ 1,539.6	\$ 1,374.3

To relieve overcrowding, reduce the number of relocateable classrooms, and accommodate full-day kindergarten, MCPS added in FY 2006, 79 classrooms to seven existing schools and also opened two middle schools. In FY 2007, MCPS will add 89 classrooms to six existing schools and also will open/reopen one high school and four elementary schools, resulting in a decrease of 112 relocateable classrooms.

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

Long-term debt. At June 30, 2006, MCPS had \$45.1 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 \$25.9 million during 2006. Principal payments on existing capital leases were \$22.8 million during the current year.

Additional information on MCPS' long-term debt can be found in notes 8 and 9 to the financial statements.

Factors Bearing on MCPS' Future

The transmittal letter presents certain information on the local economy and long-term financial planning, enrollment, and negotiated agreement issues affecting MCPS. There are four additional initiatives that significantly impact MCPS.

Post-employment Healthcare Benefits. The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefit Plans Other Than Pension Plans* (OPEB) in June 2004. The Statement is effective in FY 2008 for MCPS. The Statement establishes standards for the measurement, recognition and reporting of OPEB expenditures and related liabilities. MCPS currently recognizes and funds the cost of post-employment healthcare for its retirees on a pay-as-you-go basis. The Statement will require MCPS to recognize an expenditure for OPEB during the period of active service for its employees, and, to the extent not currently funded, to recognize a liability for unfunded OPEB costs.

Implementation of Statement No. 45 is expected to have a substantial impact on the MCPS financial statements. In preparation for the July 1, 2007 implementation date, MCPS has participated with the county and other county agencies for the purpose of developing a common approach toward reporting and funding OPEB that will be acceptable to the Montgomery County Council, our funding authority.

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 NCLB 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, limited English proficient students, and students impacted by poverty. In 2007, MCPS will receive an increase of \$30.2 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 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, and 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

MONTGOMERY COUNTY PUBLIC SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Primary Government			Component Unit Educational Foundation
	Governmental Activities	Business-Type Activities	Total	
Assets				
Equity in pooled cash and investments	\$ 14,656,184	\$ 1,356,479	\$ 16,012,663	\$
Cash and cash equivalents		6,051,889	6,051,889	38,511
Investments - cash equivalents	21,508,581		21,508,581	
Investments				4,718,000
Accounts receivable:				
Montgomery County	59,909,173	580,864	60,490,037	
State of Maryland	9,310,147	4,842	9,314,989	
Federal government	13,504,915	765,738	14,270,653	
Other	14,463,702	591,576	15,055,278	
Due from fiduciary funds	1,103,713		1,103,713	
Due from component unit	673,681		673,681	
Internal balances	11,116,987	(11,116,987)	-	
Inventories	7,721,732	1,204,268	8,926,000	
Prepays	37,167	88,775	125,942	
Due from employees	642,952		642,952	
Capital assets (net of accumulated depreciation):				
Land and site improvements	171,482,321		171,482,321	
Buildings and additions	1,084,335,398	6,241	1,084,341,639	
Construction in progress	219,314,700		219,314,700	
Vehicles and equipment	58,938,375	5,640,283	64,578,658	
Total assets	1,688,719,728	5,173,968	1,693,893,696	4,756,511
Liabilities				
Accounts payable and other current liabilities	140,767,062	290,513	141,057,575	
Due to primary government				673,681
Deferred revenue	2,526,269	1,298,663	3,824,932	
Noncurrent liabilities:				
Due within one year	24,419,816	199,969	24,619,785	
Due in more than one year	107,358,463	1,687,307	109,045,770	
Total liabilities	275,071,610	3,476,452	278,548,062	673,681
Net Assets				
Invested in capital assets, net of related debt	1,509,775,923	5,052,458	1,514,828,381	
Restricted for:				
Instructional Programs, Expendable				725,216
Scholarships, Non-Expendable				821,862
Unrestricted	(96,127,805)	(3,354,942)	(99,482,747)	2,535,752
Total net assets	\$ 1,413,648,118	\$ 1,697,516	\$ 1,415,345,634	\$ 4,082,830

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, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
Instruction:				
Regular instruction	\$ 1,088,588,014	\$ 4,771,074	\$ 45,468,371	\$ 10,494,693
Special education	266,912,970	112,226	27,293,294	
School administration	146,798,786		3,619,197	
Student personnel services	13,416,179		1,055,541	
Health services	42,357			
Total instruction	<u>1,515,758,306</u>	<u>4,883,300</u>	<u>77,436,403</u>	<u>10,494,693</u>
Support services:				
Student transportation	96,768,183	281,249	474,602	345,890
Operation of plant	120,228,320		122,892	7,389,751
Maintenance of plant	48,872,594		1,026,117	14,160,731
Administration	54,688,573		520,240	9,411,889
Community services	2,110,374		1,763,601	
Interest on capital leases	1,372,132			
Total support services	<u>324,040,176</u>	<u>281,249</u>	<u>3,907,452</u>	<u>31,308,261</u>
Total governmental activities	<u>1,839,798,482</u>	<u>5,164,549</u>	<u>81,343,855</u>	<u>41,802,954</u>
Business-type activities:				
Food services	40,757,291	21,314,053	17,268,485	415,248
Adult education	1,516,881	1,614,777		
Real estate management	2,102,497	2,212,736		
Field trips	1,579,472	1,491,097		
Entrepreneurial activities	1,266,811	1,461,574		
Total business-type activities	<u>47,222,952</u>	<u>28,094,237</u>	<u>17,268,485</u>	<u>415,248</u>
Total primary government	<u>\$ 1,887,021,434</u>	<u>\$ 33,258,786</u>	<u>\$ 98,612,340</u>	<u>\$ 42,218,202</u>
Component Unit:				
Educational Foundation	<u>\$ 929,815</u>	<u>\$ -</u>	<u>\$ 2,218,113</u>	<u>\$ -</u>

General revenues:
 Unrestricted intergovernmental:
 Montgomery County
 State of Maryland
 Federal government
 Investment earnings
 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
\$ (1,027,853,876)	\$ -	\$ (1,027,853,876)	\$ -
(239,507,450)		(239,507,450)	
(143,179,589)		(143,179,589)	
(12,360,638)		(12,360,638)	
(42,357)		(42,357)	
<u>(1,422,943,910)</u>	<u>-</u>	<u>(1,422,943,910)</u>	<u>-</u>
(95,666,442)		(95,666,442)	
(112,715,677)		(112,715,677)	
(33,685,746)		(33,685,746)	
(44,756,444)		(44,756,444)	
(346,773)		(346,773)	
(1,372,132)		(1,372,132)	
<u>(288,543,214)</u>	<u>-</u>	<u>(288,543,214)</u>	<u>-</u>
<u>(1,711,487,124)</u>	<u>-</u>	<u>(1,711,487,124)</u>	<u>-</u>
	(1,759,505)	(1,759,505)	
	97,896	97,896	
	110,239	110,239	
	(88,375)	(88,375)	
	194,763	194,763	
<u>-</u>	<u>(1,444,982)</u>	<u>(1,444,982)</u>	<u>-</u>
<u>(1,711,487,124)</u>	<u>(1,444,982)</u>	<u>(1,712,932,106)</u>	<u>-</u>
			1,288,298
1,457,150,730		1,457,150,730	
411,828,686		411,828,686	
1,027,578		1,027,578	
632,532	751,031	1,383,563	
35,216	(35,216)	-	
<u>1,870,674,742</u>	<u>715,815</u>	<u>1,871,390,557</u>	<u>-</u>
159,187,618	(729,167)	158,458,451	1,288,298
1,254,460,500	2,426,683	1,256,887,183	2,794,532
<u>\$ 1,413,648,118</u>	<u>\$ 1,697,516</u>	<u>\$ 1,415,345,634</u>	<u>\$ 4,082,830</u>

MONTGOMERY COUNTY PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Other Governmental Fund - Special Revenue	Total Governmental Funds
Assets				
Equity in pooled cash and investments	\$ 14,558,277	\$ -	\$ 97,907	\$ 14,656,184
Accounts receivable:				
Montgomery County	41,939,957	17,969,216		59,909,173
State of Maryland	5,021,729	4,288,418		9,310,147
Federal government	13,504,915			13,504,915
Other	13,274,022	167,318		13,441,340
Due from other funds	19,726,986			19,726,986
Due from fiduciary funds	1,103,713			1,103,713
Due from component unit	673,681			673,681
Inventories	7,721,732			7,721,732
Prepays	37,167			37,167
Due from employees	642,952			642,952
Total assets	<u>\$ 118,205,131</u>	<u>\$ 22,424,952</u>	<u>\$ 97,907</u>	<u>\$ 140,727,990</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 25,459,661	\$ 13,003,971	\$ 3,196	\$ 38,466,828
Retainage payable		14,283,244		14,283,244
Accrued salaries and withholdings	61,739,939			61,739,939
Due to other funds	6,155,236	8,609,999		14,765,235
Deferred revenue	2,526,269			2,526,269
Compensated absences	3,381,524			3,381,524
Total liabilities	<u>99,262,629</u>	<u>35,897,214</u>	<u>3,196</u>	<u>135,163,039</u>
Fund Balances:				
Reserved for:				
Encumbrances	14,230,646		3,473	14,234,119
Inventories	7,721,732			7,721,732
Prepays	37,167			37,167
Unreserved, undesignated (deficit), reported in:				
General Fund	(3,047,043)			(3,047,043)
Capital Projects Fund		(13,472,262)		(13,472,262)
Special Revenue Fund			91,238	91,238
Total unreserved, undesignated (deficit)	<u>(3,047,043)</u>	<u>(13,472,262)</u>	<u>91,238</u>	<u>(16,428,067)</u>
Total fund balances	<u>18,942,502</u>	<u>(13,472,262)</u>	<u>94,711</u>	<u>5,564,951</u>
Total liabilities and fund balances	<u>\$ 118,205,131</u>	<u>\$ 22,424,952</u>	<u>\$ 97,907</u>	<u>\$ 140,727,990</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, 2006

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

Total fund balances - governmental funds	\$	5,564,951
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	\$ 2,214,216,496	
Accumulated depreciation is	<u>(680,145,702)</u>	
		1,534,070,794
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.		
		2,646,868
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	(44,475,334)	
Compensated absences	(78,667,436)	
Net pension obligation	(4,506,465)	
Technology investment loans	<u>(985,260)</u>	
		<u>(128,634,495)</u>
Total net assets - governmental activities	\$	<u>1,413,648,118</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, 2006

	General	Capital Projects	Other Governmental Fund - Special Revenue	Total Governmental Funds
Revenues:				
Montgomery County	\$ 1,283,070,185	\$ 215,275,164	\$ -	\$ 1,498,345,349
State of Maryland	389,100,348	27,913,469		417,013,817
Federal government	74,573,378			74,573,378
Other sources	7,654,140	106,860	1,238,000	8,999,000
Total revenues	<u>1,754,398,051</u>	<u>243,295,493</u>	<u>1,238,000</u>	<u>1,998,931,544</u>
Expenditures:				
Current:				
Administration	36,625,851			36,625,851
Mid-level administration	109,442,018			109,442,018
Instructional salaries and wages	719,934,184			719,934,184
Instructional textbooks and supplies	33,245,147			33,245,147
Other instructional costs	16,855,159			16,855,159
Special education	207,149,010			207,149,010
Student personnel services	9,936,670			9,936,670
Health services	36,530			36,530
Student transportation	79,509,617			79,509,617
Operation of plant	92,411,740			92,411,740
Maintenance of plant	28,718,901			28,718,901
Fixed charges	419,075,926			419,075,926
Community services	495,884		1,235,375	1,731,259
Debt service:				
Capital lease principal	11,468,692	11,128,729		22,597,421
Capital lease interest	890,344	481,788		1,372,132
Capital outlay		244,402,835		244,402,835
Total expenditures	<u>1,765,795,673</u>	<u>256,013,352</u>	<u>1,235,375</u>	<u>2,023,044,400</u>
Excess (deficiency) of revenues over expenditures	<u>(11,397,622)</u>	<u>(12,717,859)</u>	<u>2,625</u>	<u>(24,112,856)</u>
Other financing sources:				
Capital lease financing	13,843,915	11,849,829		25,693,744
Transfers in - enterprise funds	35,216			35,216
Total other financing sources	<u>13,879,131</u>	<u>11,849,829</u>	<u>-</u>	<u>25,728,960</u>
Net change in fund balances	2,481,509	(868,030)	2,625	1,616,104
Fund balances - beginning	<u>16,460,993</u>	<u>(12,604,232)</u>	<u>92,086</u>	<u>3,948,847</u>
Fund balances - ending	<u>\$ 18,942,502</u>	<u>\$ (13,472,262)</u>	<u>\$ 94,711</u>	<u>\$ 5,564,951</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, 2006

Total net change in fund balances - governmental funds	\$	1,616,104
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 (\$260,341,614 less non-capitalized items of \$58,050,813) plus capital outlays for general fund assets (\$13,825,279) exceed depreciation expense (\$50,628,385) in the current period.		165,487,695
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.		(12,950)
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.		(3,096,323)
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.		(5,889,887)
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.		<u>1,082,979</u>
Change in net assets of governmental activities	\$	<u>159,187,618</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 BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Montgomery County	\$ 1,273,230,590	\$ 1,283,255,260	\$ 1,283,070,185	\$ (185,075)
State of Maryland	302,654,736	305,150,318	304,805,999	(344,319)
Federal government	63,953,913	87,721,540	74,573,378	(13,148,162)
Other sources	10,430,804	13,071,377	7,654,140	(5,417,237)
Total revenues	1,650,270,043	1,689,198,495	1,670,103,702	(19,094,793)
Expenditures and encumbrances:				
Current:				
Administration	34,702,057	43,222,703	42,276,712	945,991
Mid-level administration	108,619,614	110,577,529	109,434,308	1,143,221
Instructional salaries and wages	724,732,056	732,063,406	720,034,070	12,029,336
Instructional textbooks and supplies	32,565,013	34,084,696	33,369,390	715,306
Other instructional costs	19,199,841	24,348,918	19,261,405	5,087,513
Special education	212,245,728	212,223,339	208,211,238	4,012,101
Student personnel services	9,925,571	10,208,365	9,928,117	280,248
Health services	45,378	45,378	36,530	8,848
Student transportation	72,898,601	75,408,365	74,977,660	430,705
Operation of plant	90,270,601	94,010,149	93,926,597	83,552
Maintenance of plant	29,053,682	29,591,679	29,526,632	65,047
Fixed charges	328,439,901	335,149,491	334,569,418	580,073
Community services	172,000	864,477	498,388	366,089
Total expenditures and encumbrances	1,662,870,043	1,701,798,495	1,676,050,465	25,748,030
Excess (deficiency) of revenues over expenditures and encumbrances	(12,600,000)	(12,600,000)	(5,946,763)	6,653,237
Other financing sources:				
Operating transfers from enterprise funds	-	-	35,216	35,216
Total other financing sources	-	-	35,216	35,216
Excess (deficiency) of revenues and other financing sources over expenditures and encumbrances	(12,600,000)	(12,600,000)	(5,911,547)	6,688,453
Fund balance - beginning	12,600,000	12,600,000	13,254,927	654,927
Fund balance - ending	\$ -	\$ -	\$ 7,343,380	\$ 7,343,380

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, 2006

	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	\$ -	\$ 1,356,479	\$ 1,356,479	\$ -
Cash and cash equivalents	6,051,889		6,051,889	
Investments - cash equivalents				21,508,581
Accounts receivable:				
Montgomery County		580,864	580,864	
State of Maryland	4,842		4,842	
Federal government	765,738		765,738	
Other	154,627	436,949	591,576	1,260,102
Due from other funds				6,155,236
Inventories	1,142,811	61,457	1,204,268	
Prepays		88,775	88,775	
Total current assets	<u>8,119,907</u>	<u>2,524,524</u>	<u>10,644,431</u>	<u>28,923,919</u>
Noncurrent assets:				
Capital assets, net of accumulated depreciation:				
Buildings and improvements		6,241	6,241	
Machinery and equipment	5,578,473	61,810	5,640,283	
Total noncurrent assets	<u>5,578,473</u>	<u>68,051</u>	<u>5,646,524</u>	<u>-</u>
Total assets	<u>13,698,380</u>	<u>2,592,575</u>	<u>16,290,955</u>	<u>28,923,919</u>
Liabilities				
Current liabilities:				
Accounts payable	87,166	180,316	267,482	79,408
Claims payable				23,919,394
Accrued interest payable	23,031		23,031	
Due to employees, advance premium withholdings				2,278,249
Due to other funds	9,554,145	1,562,842	11,116,987	
Deferred revenue	1,173,388	125,275	1,298,663	
Capital leases - current	182,967	17,002	199,969	
Total current liabilities	<u>11,020,697</u>	<u>1,885,435</u>	<u>12,906,132</u>	<u>26,277,051</u>
Noncurrent liabilities:				
Capital leases payable	373,010	35,931	408,941	
Compensated absences	1,021,021	257,345	1,278,366	
Total noncurrent liabilities	<u>1,394,031</u>	<u>293,276</u>	<u>1,687,307</u>	<u>-</u>
Total liabilities	<u>12,414,728</u>	<u>2,178,711</u>	<u>14,593,439</u>	<u>26,277,051</u>
Net Assets				
Invested in capital assets, net of related debt	5,037,340	15,118	5,052,458	
Unrestricted	<u>(3,753,688)</u>	<u>398,746</u>	<u>(3,354,942)</u>	<u>2,646,868</u>
Total net assets	<u>\$ 1,283,652</u>	<u>\$ 413,864</u>	<u>\$ 1,697,516</u>	<u>\$ 2,646,868</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, 2006

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Food Services	Other Enterprise Funds	Total	
Operating revenues:				
Sale of food	\$ 21,314,053	\$ -	\$ 21,314,053	\$ -
Tuition and fees		6,780,184	6,780,184	
Employer's contributions				196,106,287
Members' contributions				37,545,139
Total operating revenues	<u>21,314,053</u>	<u>6,780,184</u>	<u>28,094,237</u>	<u>233,651,426</u>
Operating expenses:				
Salaries and wages	15,489,147	2,666,011	18,155,158	
Contracted services	687,487	835,234	1,522,721	
Supplies and materials	2,014,183	1,008,964	3,023,147	
Food purchases	10,406,020		10,406,020	
USDA commodities	1,991,972		1,991,972	
Other charges	9,137,207	1,934,402	11,071,609	1,198,043
Depreciation and amortization	1,008,244	21,050	1,029,294	
Benefits paid to plan members				163,218,173
Premiums paid to insurance companies				70,370,247
Total operating expenses	<u>40,734,260</u>	<u>6,465,661</u>	<u>47,199,921</u>	<u>234,786,463</u>
Operating income (loss)	<u>(19,420,207)</u>	<u>314,523</u>	<u>(19,105,684)</u>	<u>(1,135,037)</u>
Nonoperating revenues (expenses):				
National school lunch and other food programs:				
Federal funds	14,474,673		14,474,673	
State funds	801,840		801,840	
USDA commodities	1,991,972		1,991,972	
Interest expense	(23,031)		(23,031)	
Investment income	715,815	35,216	751,031	2,218,016
Total nonoperating revenues (expenses)	<u>17,961,269</u>	<u>35,216</u>	<u>17,996,485</u>	<u>2,218,016</u>
Income (loss) before contributions and transfers	<u>(1,458,938)</u>	<u>349,739</u>	<u>(1,109,199)</u>	<u>1,082,979</u>
Capital contributions - equipment	415,248		415,248	
Transfers out		(35,216)	(35,216)	
Change in net assets	<u>(1,043,690)</u>	<u>314,523</u>	<u>(729,167)</u>	<u>1,082,979</u>
Total net assets - beginning	<u>2,327,342</u>	<u>99,341</u>	<u>2,426,683</u>	<u>1,563,889</u>
Total net assets - ending	<u>\$ 1,283,652</u>	<u>\$ 413,864</u>	<u>\$ 1,697,516</u>	<u>\$ 2,646,868</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, 2006

	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	\$ 21,397,259	\$ 6,389,162	\$ 27,786,421	\$ 37,684,994
Receipts from assessments made to other funds			-	195,306,671
Payments to suppliers	(12,630,240)	(1,865,595)	(14,495,835)	(70,511,570)
Payments to employees	(17,207,159)	(2,807,846)	(20,015,005)	
Payments for insurance claims			-	(159,655,422)
Payments for assessments made by other funds	(6,566,781)	(296,706)	(6,863,487)	
Payments for other operating expenses	(785,791)	(1,454,124)	(2,239,915)	(1,198,043)
Net cash provided by (used for) operating activities	<u>(15,792,712)</u>	<u>(35,109)</u>	<u>(15,827,821)</u>	<u>1,626,630</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Nonoperating grants received	15,302,826		15,302,826	
Transfers to other funds		(35,216)	(35,216)	
Net cash provided by (used for) noncapital financing activities	<u>15,302,826</u>	<u>(35,216)</u>	<u>15,267,610</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from capital leases	246,259		246,259	
Purchases of capital assets	(476,660)		(476,660)	
Principal paid on capital leases	(231,257)	(16,390)	(247,647)	
Interest paid on capital leases	(16,819)		(16,819)	
Net cash (used for) capital and related financing activities	<u>(478,477)</u>	<u>(16,390)</u>	<u>(494,867)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends received	715,815	35,216	751,031	1,013,106
Net cash provided by investing activities	<u>715,815</u>	<u>35,216</u>	<u>751,031</u>	<u>1,013,106</u>
Net increase in cash and cash equivalents	(252,548)	(51,499)	(304,047)	2,639,736
Cash and cash equivalents - beginning	6,304,437	1,407,978	7,712,415	18,868,845
Cash and cash equivalents - ending	<u>\$ 6,051,889</u>	<u>\$ 1,356,479</u>	<u>\$ 7,408,368</u>	<u>\$ 21,508,581</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (19,420,207)	\$ 314,523	\$ (19,105,684)	\$ (1,135,037)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation and amortization	1,008,244	21,050	1,029,294	
USDA commodities used	1,991,972		1,991,972	
Effects of changes in assets and liabilities:				
Receivables	(10,077)	(282,175)	(292,252)	
Due from other funds			-	(799,616)
Non USDA inventories	(173,351)	(61,457)	(234,808)	
Prepays		33,086	33,086	
Accounts payable	(100,633)	47,339	(53,294)	(141,323)
Claims payable			-	3,562,751
Advance premium withholdings			-	139,855
Due to other funds	751,434	(22,930)	728,504	
Deferred revenue	93,283	(108,848)	(15,565)	
Compensated absences	66,623	24,303	90,926	
Net cash provided by (used for) operating activities	<u>\$ (15,792,712)</u>	<u>\$ (35,109)</u>	<u>\$ (15,827,821)</u>	<u>\$ 1,626,630</u>
Noncash investing, capital and financing activities:				
Capital contributions of equipment	\$ 415,248	\$ -	\$ 415,248	\$ -
USDA commodities received	(1,991,972)		(1,991,972)	

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, 2006

	Retirement and Pension System	Agency Funds - Schools' Independent Activity Funds
ASSETS		
Cash	\$ -	\$ 3,135,780
Investments:		
Common and preferred stocks	462,197,746	
Short-term investments	23,580,928	
U.S. government and agency securities	38,034,426	3,627,013
Fixed income securities	177,831,643	
Real estate	71,849,642	
Participation contract	12,721,823	
Securities lending short-term investment pool	38,457,861	
Maryland local government investment pool		6,192,485
Montgomery county investment pool		860,476
Total investments	<u>824,674,069</u>	<u>10,679,974</u>
Accounts receivable		1,624,599
Inventories		<u>288,845</u>
Total assets	<u>824,674,069</u>	<u>\$ 15,729,198</u>
LIABILITIES		
Accounts payable		1,742,960
Due to general fund	1,103,713	
Liability for collateral received under securities lending agreements	38,457,861	
Due to student groups		<u>13,986,238</u>
Total liabilities	<u>39,561,574</u>	<u>\$ 15,729,198</u>
NET ASSETS		
Held in trust for pension benefits	<u>\$ 785,112,495</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, 2006

	Retirement and Pension System
ADDITIONS	
Employer's contribution	\$ 36,817,620
Members' contributions	<u>4,908,325</u>
Total contributions	<u>41,725,945</u>
Investment earnings:	
Net appreciation in fair value of investments	46,131,807
Interest and dividends	18,814,907
Securities lending income	<u>2,369,078</u>
Total investment income	<u>67,315,792</u>
Less investment expense:	
Investment fees and other	(2,827,943)
Securities lending fees	<u>(2,280,549)</u>
Total investment expense	<u>(5,108,492)</u>
Net investment earnings	<u>62,207,300</u>
Total additions	<u>103,933,245</u>
DEDUCTIONS	
Benefits paid to plan members	44,689,076
Administrative expenses	<u>2,026,018</u>
Total deductions	<u>46,715,094</u>
Change in net assets	57,218,151
Net assets - beginning	<u>727,894,344</u>
Net assets - ending	<u>\$ 785,112,495</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, 2006

Note 1	Summary of Significant Accounting Policies
Note 2	Budgetary Information
Note 3	Deposits 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. For the most part, 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 204 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 certain fiduciary (pension trust) fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Agency funds, which have no measurement focus, also use the accrual basis of accounting to recognize assets and liabilities. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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. Pension benefits expense and refunds are recognized when due and payable.

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 a 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, transportation parts, food, and food related inventories, cost is determined by the average cost method; for transportation fuels, 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. Employees 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 2006, supplemental appropriations increasing the operating budget by \$22,713,728 and increasing the capital budget by \$36,705,000 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. Generally, the budgetary basis of accounting employs the modified accrual basis plus encumbrances. 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	\$ 1,670,103,702	\$ 1,676,050,465	\$ 35,216	\$ (5,911,547)
Reconciling items:				
2006 Encumbrances outstanding		(14,230,646)		14,230,646
Expenditures of prior year encumbrances		5,945,116		(5,945,116)
Decrease in compensated absences		(107,526)		107,526
State of Maryland retirement contributions	84,294,349	84,294,349		-
Capital lease financing		13,843,915	13,843,915	-
As reported - GAAP basis	<u>\$ 1,754,398,051</u>	<u>\$ 1,765,795,673</u>	<u>\$ 13,879,131</u>	<u>\$ 2,481,509</u>

Capital Projects Fund encumbrances of \$115,681,117 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, 2006, \$6,150,942 of such purchase orders had been issued.

c) Deficit Fund Equity

The Capital Projects Fund had an unreserved, undesignated fund deficit of \$13,472,262. The deficit reflects school construction funding reversions by the State of Maryland that occurred after the anticipated funds had been spent. The deficit will be eliminated as Montgomery County applies adjustments to revenue sources from state to local funding for the affected capital projects. The Entrepreneurial Activities Fund reduced its deficit by \$194,763, to a deficit in net assets of \$1,254,577 at June 30, 2006. Staffing for the Taylor Science Center, within the Fund, was reduced by 50 percent in FY 2006. 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 \$13,416 at June 30, 2006. This deficit will be eliminated during FY 2007.

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

3. Deposits and Investments

Cash and investments at June 30, 2006, are summarized as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
Equity in pooled cash and investments	\$ 16,012,663	\$
Cash and cash equivalents	6,051,889	38,511
Cash-fiduciary funds	3,135,780	
Investments – cash equivalents	21,508,581	
Investments	-	4,718,000
Investments-fiduciary funds	835,354,043	
Total	<u>\$ 882,062,956</u>	<u>\$ 4,756,511</u>
Deposits and Investments Summary:		
Deposits	\$ (4,068,889)	\$ 38,511
Investments	886,048,159	4,718,000
Cash on hand, escrow agent	83,686	
Total	<u>\$ 882,062,956</u>	<u>\$ 4,756,511</u>

a) Deposits

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 2006. The balance in the operations and maintenance fund at June 30, 2006, was \$1,064,186.

Custodial credit risk. In the case of deposits, this is the risk that in the event of a bank failure, MCPS' deposits may not be returned to it. 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.

At June 30, 2006, the reported balance of MCPS' deposits was \$(4,068,889) and the bank balance was \$9,858,193. Of the bank balance, \$9,858,193 was collateralized by federal depository insurance or by collateral held by MCPS' agent in MCPS' name.

b) Investments

Investments as of June 30, 2006, are as follows:

<u>Investment Type</u>	<u>Fair Value</u>
Pension Trust Investments:	
Common and preferred stocks	\$ 462,197,746
Short-term investments	23,580,928
U.S. Government and agency securities	38,034,426
Fixed income securities	177,831,643
Real estate	71,849,642
Participation contract	12,721,823
Securities lending short-term investment pool	38,457,861
Subtotal Pension Trust Investment	<u>824,674,069</u>
Other Investments:	
U.S. Government and agency securities	3,627,013
Repurchase agreements	4,112,849
Mutual funds	46,581,267
Maryland Local Government Investment Pool	6,192,485
Montgomery County investment pool	860,476
Total investments	<u>\$ 886,048,159</u>

Securities lending transactions. The Annotated Code of Maryland allows the MCPS Employees' Retirement and Pension System (Pension Trust) to participate in securities lending transactions. The Pension Trust uses the Northern Trust Company (Northern), its custodial bank, to lend its securities to broker-dealers and banks pursuant to a form of borrowing agreement.

During 2006, 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 2006 on the amount of securities Northern may lend.

The following represents the balances relating to securities lending transactions at June 30, 2006.

Securities Lent	Underlying Securities	Securities Collateral Value	Cash Collateral Investment Value
Lent for cash collateral:			
U.S. Government and agency securities	\$ 5,796,879	\$	\$ 5,882,627
Domestic equities	23,911,570		24,298,324
International equities	5,516,027		5,652,334
Domestic fixed-income securities	2,582,171		2,624,576
Lent for securities collateral:			
Domestic fixed income securities	25,620	26,038	
Domestic equities	2,667,864	2,714,666	
	\$ 40,500,131	\$ 2,740,704	\$ 38,457,861
Total			

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 2006, 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.

Because loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. At June 30, 2006, the Pension trust had no credit risk exposure to borrowers.

Interest rate risk. MCPS manages its exposure to fair value losses arising from increasing interest rates by limiting the duration of its investment portfolios. Internal pooled investments duration is limited to less than six months. The investment policy of the Centralized Investment Fund limit duration to three years or less. The Pension Trust investment policy specifies that domestic fixed-income portfolio duration should not exceed plus or minus one year from the Lehman Brothers Aggregate Bond Index; and that international fixed-income portfolio duration should not exceed plus or minus two years from the Citigroup Non-U.S. Government Bond Index.

The following represents fixed-income investments held at June 30, 2006, with related maturity schedule.

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1 year	1 to 5 years	6 to 10 years	More than 10 years
Pension Trust Investments:					
U.S. Government	\$ 32,276,101	\$ -	\$ 23,858,838	\$ 4,132,042	\$ 4,285,221
U.S. agencies	5,758,325	29,438	4,165,124	787,514	776,249
Asset-backed securities	12,641,864	165,342	10,885,949	617,041	973,532
Mortgage-backed	43,455,182	11,366,956	11,176,298	6,302,000	14,609,928
Corporate bonds	49,784,419	736,386	20,910,710	9,819,282	18,318,041
Government mortgage-backed securities	71,950,178	24,257	20,885,320	26,307,157	24,733,444
Short-term	23,580,928	23,580,928			
Sub-total Pension Trust Investments	239,446,997	35,903,307	91,882,239	47,965,036	63,696,415
Other Investments:					
U.S. Government	3,627,013	3,627,013			
Repurchase agreements	4,112,849	4,112,849			
Money market funds	46,581,267	46,581,267			
Maryland Local Government Investment Pool	6,192,485	6,192,485			
Montgomery County investment pool	860,476	860,476			
Total	\$ 300,821,087	\$ 97,277,397	\$ 91,882,239	\$ 47,965,036	\$ 63,696,415

Credit risk. 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.

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.

Pension Trust fixed-income investments at June 30, 2006, had the following credit risk characteristics:

S&P/Moody's Quality Rating	Percent of Fixed-Income Investments	Fair Value
AAA	46 %	\$ 98,788,953
AA	5	11,518,945
A	8	16,985,447
BBB	6	13,109,849
Not rated	3	7,475,444
Total	69 %	\$ 147,878,638

Pension Trust investments include \$67,987,431 in U.S. Government and agency securities that are not rated as they are guaranteed by the U.S. Government.

Other MCPS investments are rated AAA by Standard and Poor's, except the Montgomery County investment pool which is not rated by the rating agencies.

Concentration of credit risk. The investment policy of the Pension Trust limits the equity holdings in any one company to not more than five percent of the value of assets within a portfolio. Not more than ten percent of the market value of a fixed-income portfolio shall be invested in securities of any one issuer, except U.S. Government and agency obligations.

Foreign currency risk. The Pension Trust's exposure to foreign currency risk derived from its positions in foreign currency denominated investments. The systems foreign currency risk at June 30, 2006, is as follows:

Currency	Total Fair Value-Equities
European Euro	\$ 30,012,351
British Pound Sterling	21,614,159
Swiss Franc	10,364,417
Japanese Yen	17,232,607
Hong Kong Dollar	3,472,444
Canadian Dollar	3,907,317
Denmark Krone	1,377,063
Swedish Krona	1,840,635
Other Currencies	1,329,779
Total	\$ <u>91,150,772</u>

The investment policy of the Pension Trust provides guidance for the amount of investments made in foreign currency-denominated securities. The target allocation for foreign currency-denominated investments is 18 percent.

c) Cash on Hand and with Escrow Agent

At year-end, the primary government had \$83,686, of which \$8,285 is on hand in petty cash accounts, and \$75,401 is cash with an escrow agent held for approximately one day in U.S. Government obligations that are not in MCPS' name.

4. Interfund Receivables, Payables and Transfers

Balances due to/from other funds at June 30, 2006, consist of the following:

Due to the general fund from other governmental funds representing advances of pooled cash	\$ 8,609,999
Due to the general fund from enterprise funds representing advances of pooled cash	11,116,987
Due to the internal service fund from the general fund for employee benefit plan expenditures	<u>6,155,236</u>
Total	\$ <u>25,882,222</u>

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

Due from other funds, Balance Sheet-Governmental Funds	\$ 19,726,986
Due from other funds, Statement of Net Assets-Proprietary Funds	<u>6,155,236</u>
Total	\$ <u>25,882,222</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>35,216</u>
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5. Due From Employees

The \$642,952 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, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Nondepreciable capital assets:				
Land	\$ 67,645,248	\$ 321,821	\$	\$ 67,966,869
Construction in progress	127,906,464	195,686,219	104,227,983	219,314,700
Total nondepreciable capital assets	<u>195,551,712</u>	<u>196,007,840</u>	<u>104,227,983</u>	<u>287,281,569</u>
Depreciable capital assets:				
Buildings and improvements	1,562,325,730	99,040,636	1,462,834	1,659,903,532
Site improvements	119,857,989	11,539,648		131,397,637
Vehicles and equipment	126,695,235	13,825,279	4,886,756	135,633,758
Total depreciable capital assets	<u>1,808,878,954</u>	<u>124,405,563</u>	<u>6,349,590</u>	<u>1,926,934,927</u>
Less accumulated depreciation for:				
Buildings and improvements	539,202,071	37,828,897	1,462,834	575,568,134
Site improvements	24,979,991	2,902,194		27,882,185
Vehicles and equipment	71,652,555	9,897,294	4,854,466	76,695,383
Total accumulated depreciation	<u>635,834,617</u>	<u>50,628,385</u>	<u>6,317,300</u>	<u>680,145,702</u>
Total depreciable capital assets, net	<u>1,173,044,337</u>	<u>73,777,178</u>	<u>32,290</u>	<u>1,246,789,225</u>
Government activities capital assets, net	<u>\$ 1,368,596,049</u>	<u>\$ 269,785,018</u>	<u>\$ 104,310,273</u>	<u>\$ 1,534,070,794</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Depreciable capital assets:				
Buildings	\$ 17,831	\$	\$	\$ 17,831
Vehicles and equipment	18,378,009	891,908	51,422	19,218,495
Total depreciable capital assets	<u>18,395,840</u>	<u>891,908</u>	<u>51,422</u>	<u>19,236,326</u>
Less accumulated depreciation for:				
Buildings	9,807	1,783		11,590
Vehicles and equipment	12,602,123	1,027,511	51,422	13,578,212
Total accumulated depreciation	<u>12,611,930</u>	<u>1,029,294</u>	<u>51,422</u>	<u>13,589,802</u>
Business-type activities capital assets, net	<u>\$ 5,783,910</u>	<u>\$ (137,386)</u>	<u>\$ -</u>	<u>\$ 5,646,524</u>

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

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

Commitments for ongoing construction in progress at June 30, 2006, were \$102,061,447.

7. Payables

Accounts payable and other current liabilities of the governmental and business-type activities at June 30, 2006 are as follows:

	Governmental Activities	Business-Type Activities	Total
Accounts payable	\$ 38,546,236	\$ 267,482	\$ 38,813,718
Retainage payable	14,283,244		14,283,244
Accrued salaries and withholdings	61,739,939		61,739,939
Claims payable	23,919,394		23,919,394
Due to employees-advance premium withholding	2,278,249		2,278,249
Accrued interest payable		23,031	23,031
Total accounts payable and other current liabilities	<u>\$ 140,767,062</u>	<u>\$ 290,513</u>	<u>\$ 141,057,575</u>

8. Leases

a) Operating Leases

Expenditures under lease agreements for office space and equipment were approximately \$4,516,000 in 2006. Commitments for fiscal year 2007 under lease agreements are approximately \$2,760,000. 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

totalled \$671,750 in 2006, continue through March 1, 2008. Annual lease payment obligations are as follows:

Fiscal year ending June 30:	<u>Total</u>
2007	\$ 672,375
2008	504,000
Total	<u>\$ 1,176,375</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 2011. Lease payments, including interest, in fiscal year 2006 were \$12,359,036 for the General Fund, \$11,610,517 for the Capital Projects Fund and \$264,466 for the Enterprise Fund.

Assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Enterprise Fund</u>
Vehicles and equipment	\$ 51,432,422	\$ 1,013,895
Less: accumulated depreciation	(14,075,202)	(134,523)
Total	<u>\$ 37,357,220</u>	<u>\$ 879,372</u>

Future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006, were as follows:

Fiscal year ending June 30	<u>Governmental Activities</u>	<u>Enterprise Fund</u>
2007	\$ 19,933,916	\$ 223,037
2008	13,488,888	223,037
2009	9,367,803	158,346
2010	3,537,269	53,740
2011	1,830,700	-
Total minimum lease payments	48,158,576	658,160
Less : Amount representing interest	(3,683,242)	(49,250)
Present value of future minimum lease payments	<u>\$ 44,475,334</u>	<u>\$ 608,910</u>

\$24,294,871 of outstanding capital lease obligations for governmental activities at June 30, 2006, was 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 2006 were \$328,420.

Annual technology loan payments are as follows:

	<u>Amount</u>
2007	\$ 328,420
2008	328,420
2009	328,420
Total	<u>\$ 985,260</u>

b) Changes in Long-Term Liabilities

Long-term liability activities during 2006 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	\$ 41,379,011	\$ 25,693,744	\$ 22,597,421	\$ 44,475,334	\$ 18,191,841
Compensated absences	75,639,877	11,504,033	5,332,690	81,811,220	5,899,555
Net pension obligation	4,567,028	304,799	365,362	4,506,465	-
Technology loans payable	1,313,680	-	328,420	985,260	328,420
Total	<u>\$ 122,899,596</u>	<u>\$ 37,502,576</u>	<u>\$ 28,623,893</u>	<u>\$ 131,778,279</u>	<u>\$ 24,419,816</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	\$ 610,298	\$ 246,259	\$ 247,647	\$ 608,910	\$ 199,969
Compensated absences	1,187,441	90,925	-	1,278,366	-
Total	<u>\$ 1,797,739</u>	<u>\$ 337,184</u>	<u>\$ 247,647</u>	<u>\$ 1,887,276</u>	<u>\$ 199,969</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 employee 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 \$23,919,394 reported in the Internal Service

Fund at June 30, 2006, 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 2005 and 2006 are reflected below.

		Beginning Payable		Incurred Claims (Including IBNR)		Claim Payments		Ending Payable
2005	\$	20,339,593	\$	147,232,485	\$	(147,215,435)	\$	20,356,643
2006		20,356,643		163,218,173		(159,655,422)		23,919,394

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 cost-sharing multi-employer type 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 January 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 0.5 percent and 5 to 7 percent 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 \$84,294,349, \$81,937,339 and \$77,291,357 in 2006, 2005 and 2004, respectively, 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, 2005, the date of the latest actuarial report, MCPS' plan membership consisted of:

Retirees and beneficiaries currently receiving benefits	9,417
Terminated plan members entitled to benefits but not yet receiving them	3,062
Active plan members	<u>20,795</u>
Total	<u>33,274</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) Annual Pension Cost and Net Pension Obligation

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

Year Ended June 30	Annual Pension Cost	Annual Contribution	Net Pension Obligation
2004	\$ 20,508,091	\$ 19,866,733	\$ 4,564,896
2005	28,873,339	28,871,207	4,567,028
2006	36,757,057	36,817,620	4,506,465

The annual required contribution for the current year was determined as part of the July 1, 2004 actuarial valuation using the projected unit credit cost method and the following actuarial assumptions:

Amortization method	Level of percentage of projected payroll. Increasing 3% 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 –8.0%
Cost of living adjustments	3.5%

d) Actuarial Information

Additional information as of the latest actuarial valuation follows:

Valuation date	7/1/05
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of projected payroll. Increasing 3% per year. Open for gains/losses. Closed for other changes.
Remaining amortization period	15 years
Asset valuation method	5-year, smoothed market
Actuarial Assumptions:	
Investment rate of return	7.5%
Projected salary increases	4 –6.5%
Cost of living adjustments	3%

The actuarial assumptions from the July 1, 2005 valuation will be used for determining the FY 2007 annual required contribution.

e) Subsequent Plan Changes

State Plans

During April 2006, the State of Maryland amended the State Teachers' Pension System to improve pension benefits for plan members who retire on or after July 1, 2006. The State increased the "multiplier" in the benefit formula for all service after July 1, 1998, from 1.4 percent to 1.8 percent. At the same time, the State modified the funding policy for the State Teachers' Pension System to increase required employee contributions from 2 percent to 3 percent on July 1, 2006, to 4 percent on July 1, 2007, and to 5 percent on July 1, 2008 and thereafter.

MCPS Plan

On May 9, 2006, the Board of Education amended the MCPS Employees' Retirement and Pension System to improve benefits for members of the pension system. The "multiplier" in the benefit formula for core benefits was increased for service after July 1, 1998, from 1.4 percent to 1.8 percent and the supplemental benefit "multiplier" was set at 0.2 percent for all members of the pension system. Employee contributions for the supplemental benefit and the combined core and supplemental benefit were increased from 0.1 percent and 2.1 percent, respectively, to 0.3 percent and 3.3 percent on July 1, 2006, to 0.4 percent and 4.4 percent on July 1, 2007, and 0.5 percent and 5.5 percent on July 1, 2008.

The additional cost resulting from the pension system benefit improvements will be amortized over 30 years. The benefit improvements will increase the employer contribution for FY 2007 by approximately \$13.2 million.

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 7,000 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 \$53,686,176 were recognized by the Internal Service Fund for postretirement health care and life insurance benefits. Net assets available for future postretirement benefit payments were \$3,472,513 at June 30, 2006. In 2006, MCPS contributed \$36,257,862 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 is 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)
7/1/2000	\$ 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
7/1/2004	729,596	840,751	111,155	86.8	1,026,480	10.8
7/1/2005	729,231	905,339	176,108	80.5	1,080,319	16.3

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Net Pension Obligation
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
2005	29,911,241	100	4,567,028
2006	36,794,977	100	4,506,465

SUPPLEMENTARY DATA

GOVERNMENTAL FUNDS

June 30, 2006

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, 2006

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Montgomery County	\$ 177,257,000	\$ 229,450,294	\$ 191,511,308	\$ (37,938,986)
State of Maryland	30,431,000	30,906,654	28,874,793	(2,031,861)
Other sources	-	159,125	34,000	(125,125)
Total revenues	<u>207,688,000</u>	<u>260,516,073</u>	<u>220,420,101</u>	<u>(40,095,972)</u>
Expenditures and encumbrances:				
Capital outlay	<u>207,688,000</u>	<u>260,516,073</u>	<u>221,288,131</u>	<u>39,227,942</u>
Total expenditures and encumbrances	<u>207,688,000</u>	<u>260,516,073</u>	<u>221,288,131</u>	<u>39,227,942</u>
Excess (deficiency) of revenues over expenditures and encumbrances	-	-	(868,030)	(868,030)
Fund balance - beginning	-	-	(12,604,232)	(12,604,232)
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (13,472,262)</u>	<u>\$ (13,472,262)</u>

**MONTGOMERY COUNTY PUBLIC SCHOOL
SCHEDULE OF CONSTRUCTION IN PROGRESS
June 30, 2006**

Project Name	Project Authorization	Expended to June 30,2006	Committed	Available for Future expenditure
RICHARD MONTGOMERY HS	\$ 70,294,000	\$ 24,470,965	\$ 44,808,556	\$ 1,014,479 *
GARRETT PARK ES	4,496,000	3,058,444	577,044	860,512
FARMLAND ES	6,244,000	4,839,930	800,467	603,603
COLLEGE GARDENS ES	942,869	735,450	203,591	3,828 *
ROCKVILLE HS	46,606,508	45,522,502	1,049,368	34,638 *
NORTH WEST HS	14,966,064	11,231,673	2,003,861	1,730,530
CLARKSBURG HS	51,666,516	44,675,529	5,896,921	1,094,066
BROAD ACRES ES	8,326,000	7,349,667	392,166	584,167
NORTHEAST CONSORTIUM ES#16(BROOKVIEW ES)	20,303,000	17,455,931	2,038,688	808,381
KEY MS (FRANCIS SCOTT KEY MS)	1,288,000	140,654	1,139,887	7,459
CLARKSBURG/DAMASCUS ES #7	17,812,000	15,864,224	990,988	956,788
NORTHWEST ES #7	19,256,000	17,194,180	1,429,260	632,560
SOMERSET ES	12,916,680	11,938,815	651,565	326,300 *
BETHESDA CHEVY CHASE HS	54,142,000	56,185,095	-	(2,043,095) *
WESTLAND MS	85,000	26,369	58,015	616
WALTER JOHNSON HS	7,646,000	735,990	129,052	6,780,958 *
THOMAS PYLE MS	130,000	59,770	60,230	10,000
SHERWOOD HS	668,000	511,040	156,997	(37)
SILVER SPRING INTERNATIONAL MS/SLIGO CREEK ES AI	232,000	102,396	39,171	90,433
QUINCE ORCHARD MS #2 (Lake Lands Park MS)	23,171,000	22,740,121	126,493	304,386
GAITHERSBURG HS	10,272,000	7,653,741	1,404,085	1,214,174
GAITHERSBURG ES	9,395,000	8,323,087	757,363	314,550
ROSEMONT ES	7,487,000	6,544,594	158,345	784,061
WATKINS MILL ES	9,451,000	8,221,444	482,144	747,412
SOUTHLAKE ES	6,802,000	6,370,739	272,842	158,419
FIELDS ROAD ES	677,000	247,251	265,148	164,601
ROCKY HILL MS REPLACEMENT	23,243,440	22,989,371	159,226	94,843
SEVEN LOCKS ES	13,324,000	827,855	-	12,496,145
JOHN T BAKER MS	4,458,000	4,024,513	26,229	407,258
OAK VIEW ES	6,618,000	6,478,630	10,368	129,002
WELLER ROAD ES	5,193,000	148,995	368,637	4,675,368
KENSINGTON PARKWOOD ES	15,989,000	14,475,147	819,174	694,679 *
ALBERT EINSTEIN	3,174,000	237,332	88,101	2,848,567
NORTHWOOD (REFUGEE TRAINING) CTR	23,196,000	22,813,579	245,079	137,342
FOREST KNOLLS ES	4,918,035	4,387,012	286,615	244,408
PARKLAND MS	30,685,000	8,501,131	22,040,531	143,338 *
Various County-wide Projects	138,418,305	84,278,673	25,744,909	28,394,723
Total Open & Interim Projects	674,492,417	491,361,839	115,681,116	67,449,462
Capitalized land, equipment and furniture, and items not capitalized	(64,083,487)	(55,245,142)	(8,838,345)	-
Interim closing of open projects **	(221,583,321)	(216,801,997)	(4,781,324)	-
Residual building value transfer ***		-		
Total construction in progress	\$ 388,825,609	\$ 219,314,700	\$ 102,061,447	\$ 67,449,462

* 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, 2006

** 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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Cable TV franchise fees	\$ 1,214,516	\$ 1,238,000	\$ 1,238,000	\$ -
Total revenues	1,214,516	1,238,000	1,238,000	-
Expenditures and encumbrances:				
Community services	1,214,516	1,238,000	1,233,795	4,205
Total expenditures and encumbrances	1,214,516	1,238,000	1,233,795	4,205
Excess of revenues over expenditures and encumbrances	-	-	4,205	4,205
Fund balance - beginning	-	-	87,033	87,033
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	91,238	<u>\$ 91,238</u>
Reconciliation to GAAP fund balance:				
2006 encumbrances outstanding			<u>3,473</u>	
Fund balance - GAAP basis			<u>\$ 94,711</u>	

NONMAJOR ENTERPRISE FUNDS

June 30, 2006

Adult Education – Accounts for all activities related to the adult education 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, 2006

	Adult Education	Real Estate Management	Field Trip	Entrepreneurial	Total Nonmajor Enterprise Funds
Assets					
Current assets:					
Equity in pooled cash and investments	\$ -	\$ 1,072,324	\$ 284,155	\$ -	\$ 1,356,479
Accounts receivable:					
Montgomery County	283,663			297,201	580,864
Other		40,844	396,105		436,949
Inventories				61,457	61,457
Prepays		88,775			88,775
Total current assets	<u>283,663</u>	<u>1,201,943</u>	<u>680,260</u>	<u>358,658</u>	<u>2,524,524</u>
Noncurrent assets:					
Capital assets, net of accumulated depreciation:					
Buildings and improvements		6,241			6,241
Machinery and equipment				61,810	61,810
Total noncurrent assets	<u>-</u>	<u>6,241</u>	<u>-</u>	<u>61,810</u>	<u>68,051</u>
Total assets	<u>283,663</u>	<u>1,208,184</u>	<u>680,260</u>	<u>420,468</u>	<u>2,592,575</u>
Liabilities					
Current liabilities:					
Accounts payable	15,288	120,625		44,403	180,316
Due to other funds	209,402			1,353,440	1,562,842
Deferred revenue	21,830			103,445	125,275
Capital lease-current				17,002	17,002
Total current liabilities	<u>246,520</u>	<u>120,625</u>	<u>-</u>	<u>1,518,290</u>	<u>1,885,435</u>
Noncurrent liabilities:					
Capital lease payable				35,931	35,931
Compensated absences	50,559	50,283	35,679	120,824	257,345
Total noncurrent liabilities	<u>50,559</u>	<u>50,283</u>	<u>35,679</u>	<u>156,755</u>	<u>293,276</u>
Total liabilities	<u>297,079</u>	<u>170,908</u>	<u>35,679</u>	<u>1,675,045</u>	<u>2,178,711</u>
Net Assets					
Invested in capital assets, net of related debt		6,241		8,877	15,118
Unrestricted	(13,416)	1,031,035	644,581	(1,263,454)	398,746
Total net assets	<u>\$ (13,416)</u>	<u>\$ 1,037,276</u>	<u>\$ 644,581</u>	<u>\$ (1,254,577)</u>	<u>\$ 413,864</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, 2006

	Adult Education	Real Estate Management	Field Trip	Entrepreneurial	Total Nonmajor Enterprise Funds
Operating revenues:					
Tuition and fees	\$ 1,614,777	\$ 2,212,736	\$ 1,491,097	\$ 1,461,574	\$ 6,780,184
Total operating revenues	<u>1,614,777</u>	<u>2,212,736</u>	<u>1,491,097</u>	<u>1,461,574</u>	<u>6,780,184</u>
Operating expenses:					
Salaries and wages	689,227	405,273	973,215	598,296	2,666,011
Contracted services	525,805	244,268	50,150	15,011	835,234
Supplies and materials	60,091	14,058	466,102	468,713	1,008,964
Other charges	241,758	1,435,508	90,005	167,131	1,934,402
Depreciation		3,390		17,660	21,050
Total operating expenses	<u>1,516,881</u>	<u>2,102,497</u>	<u>1,579,472</u>	<u>1,266,811</u>	<u>6,465,661</u>
Operating income (loss)	<u>97,896</u>	<u>110,239</u>	<u>(88,375)</u>	<u>194,763</u>	<u>314,523</u>
Nonoperating revenues:					
Investment income	-	23,054	12,162		35,216
Total nonoperating revenues	<u>-</u>	<u>23,054</u>	<u>12,162</u>	<u>-</u>	<u>35,216</u>
Income (loss) before transfers	97,896	133,293	(76,213)	194,763	349,739
Transfers out	<u>-</u>	<u>(23,054)</u>	<u>(12,162)</u>		<u>(35,216)</u>
Change in net assets	97,896	110,239	(88,375)	194,763	314,523
Total net assets - beginning	(111,312)	927,037	732,956	(1,449,340)	99,341
Total net assets - ending	<u>\$ (13,416)</u>	<u>\$ 1,037,276</u>	<u>\$ 644,581</u>	<u>\$ (1,254,577)</u>	<u>\$ 413,864</u>

MONTGOMERY COUNTY PUBLIC SCHOOLS
 COMBINING STATEMENT OF CASH FLOWS
 NONMAJOR ENTERPRISE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2006

	Adult Education	Real Estate Management	Field Trip	Entrepreneurial	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 1,475,928	\$ 2,229,033	\$ 1,436,540	\$ 1,247,661	\$ 6,389,162
Payments to suppliers	(547,828)	(327,858)	(516,252)	(473,657)	(1,865,595)
Payments to employees	(758,432)	(431,399)	(1,028,290)	(589,725)	(2,807,846)
Payments for assessments made by other funds	(68,430)	(57,072)	(26,297)	(144,907)	(296,706)
Payments for other operating expenses	(101,238)	(1,329,905)	1	(22,982)	(1,454,124)
Net cash provided by (used for) operating activities	<u>-</u>	<u>82,799</u>	<u>(134,298)</u>	<u>16,390</u>	<u>(35,109)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers to other funds	<u>-</u>	(23,054)	(12,162)	<u>-</u>	(35,216)
Net cash provided by (used for) noncapital financing activities	<u>-</u>	<u>(23,054)</u>	<u>(12,162)</u>	<u>-</u>	<u>(35,216)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal paid on capital leases	<u>-</u>	<u>-</u>	<u>-</u>	(16,390)	(16,390)
Net cash (used for) capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,390)</u>	<u>(16,390)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	<u>-</u>	23,054	12,162	<u>-</u>	35,216
Net cash provided by investing activities	<u>-</u>	<u>23,054</u>	<u>12,162</u>	<u>-</u>	<u>35,216</u>
Net increase (decrease) in cash and cash equivalents	-	82,799	(134,298)	-	(51,499)
Cash and cash equivalents - beginning	-	989,525	418,453	-	1,407,978
Cash and cash equivalents - ending	<u>\$ -</u>	<u>\$ 1,072,324</u>	<u>\$ 284,155</u>	<u>\$ -</u>	<u>\$ 1,356,479</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ 97,896	\$ 110,239	\$ (88,375)	\$ 194,763	\$ 314,523
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation		3,390		17,660	21,050
Effects of changes in assets and liabilities:					
Receivables	(6,125)	16,296	(54,557)	(237,789)	(282,175)
Inventories				(61,457)	(61,457)
Prepays	121,861	(88,775)			33,086
Accounts payable	(17,380)	34,890		29,829	47,339
Due to other funds	(66,413)			43,483	(22,930)
Deferred revenue	(132,724)			23,876	(108,848)
Compensated absences	2,885	6,759	8,634	6,025	24,303
Net cash provided by operating activities	<u>\$ -</u>	<u>\$ 82,799</u>	<u>\$ (134,298)</u>	<u>\$ 16,390</u>	<u>\$ (35,109)</u>

AGENCY FUNDS

Individual Fund Financial Statements

June 30, 2006

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, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Assets				
Cash and investments	\$ 13,326,221	\$ 36,584,430	\$ 36,094,897	\$ 13,815,754
Accounts receivable	1,640,888	1,624,599	1,640,888	1,624,599
Inventories	<u>269,523</u>	<u>288,845</u>	<u>269,523</u>	<u>288,845</u>
Total assets	\$ <u>15,236,632</u>	\$ <u>38,497,874</u>	\$ <u>38,005,308</u>	\$ <u>15,729,198</u>
Liabilities				
Accounts payable	\$ 1,312,381	\$ 1,742,960	\$ 1,312,381	\$ 1,742,960
Due to student groups	<u>13,924,251</u>	<u>36,754,914</u>	<u>36,692,927</u>	<u>13,986,238</u>
Total liabilities	\$ <u>15,236,632</u>	\$ <u>38,497,874</u>	\$ <u>38,005,308</u>	\$ <u>15,729,198</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, 2006

Governmental funds capital assets:	
Land	\$ 67,966,869
Buildings and improvements	1,659,903,532
Site Improvements	131,397,637
Vehicles and equipment	135,633,758
Construction in progress	<u>219,314,700</u>
 Total govermental funds capital assets	 \$ <u>2,214,216,496</u>

Investments in governmental funds capital assets by source:	
General fund revenues	\$ 125,423,506
Federal grants	798,617
State grants	28,869
Capital projects fund -	
Principally general obligation bonds	2,074,872,366
Contributions	<u>13,093,138</u>
 Total governmental funds capital assets	 \$ <u>2,214,216,496</u>

MONTGOMERY COUNTY PUBLIC SCHOOLS
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
 SCHEDULE BY FUNCTION AND ACTIVITY
 JUNE 30, 2006

Function and Activity	Land	Buildings and Improvements	Site Improvements	Vehicles and Equipment	Construction in Progress	Total
Regular instruction	\$ 66,471,222	\$ 1,616,367,776	\$ 131,339,852	\$ 14,534,420	\$ 219,314,700	\$ 2,048,027,970
Special education instruction		12,412,169	57,785	797,109		13,267,063
School administration				442,219		442,219
Student personnel				27,341		27,341
Student transportation	1,447,990	14,191,873		88,346,558		103,986,421
Operation of plant				2,047,025		2,047,025
Maintenance of plant				9,652,561		9,652,561
Administration	47,657	16,931,714		19,786,525		36,765,896
Total governmental funds capital assets	<u>\$ 67,966,869</u>	<u>\$ 1,659,903,532</u>	<u>\$ 131,397,637</u>	<u>\$ 135,633,758</u>	<u>\$ 219,314,700</u>	<u>\$ 2,214,216,496</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, 2006

Function and Activity	Governmental Fund Capital Assets July 1, 2005	Additions	Deductions	Governmental Fund Capital Assets June 30, 2006
Regular instruction	\$ 1,846,422,664	\$ 307,346,123	\$ 105,740,817	\$ 2,048,027,970
Special education instruction	13,259,083	7,980		13,267,063
School administration	372,167	70,052		442,219
Student personnel	19,361	7,980		27,341
Student transportation	99,384,290	9,488,888	4,886,756	103,986,422
Operation of plant	2,036,296	10,728		2,047,024
Maintenance of plant	8,080,729	1,571,832		9,652,561
Administration	34,856,076	1,909,820		36,765,896
Total governmental funds capital assets	<u>\$ 2,004,430,666</u>	<u>\$ 320,413,403</u>	<u>\$ 110,627,573</u>	<u>\$ 2,214,216,496</u>

STATISTICAL SECTION

STATISTICAL SECTION

This section of MCPS' Comprehensive Annual Financial Report presents detailed information for understanding what the information in the financial statements, note disclosures, and required supplementary information says about MCPS' overall financial health.

Contents	Page
Financial Trends These schedules provide trend information to help the reader understand how MCPS' financial performance and well-being have changed over time.	76-82
Revenue Capacity Since MCPS revenues are primarily provided by Montgomery County, these schedules on the county's revenue sources are relevant to an understanding of Montgomery County's most significant local revenue source, the property tax.	83-89
Debt Capacity Since MCPS construction funding is primarily provided by Montgomery County, these schedules of the county's debt capacity assist the reader in assessing the affordability of Montgomery County's current levels of outstanding debt and Montgomery County's ability to issue additional debt in the future.	90-98
Demographic and Economic Information Details found in these schedules offer demographic and economic indicators to aid the reader in understanding the environment within which MCPS' financial activities take place.	99-100
Operating Information These schedules contain select operating indicators to help the reader understand how the information in MCPS' financial report relates to the services MCPS provides and the activities it performs.	101-104

MONTGOMERY COUNTY PUBLIC SCHOOLS
NET ASSETS BY COMPONENT
LAST FIVE FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental Activities:					
Invested in capital assets, net of related det	\$ 1,181,888,032	\$ 1,224,194,974	\$ 1,265,348,107	\$ 1,347,324,600	\$ 1,509,775,923
Unrestricted	<u>(49,845,395)</u>	<u>(80,455,530)</u>	<u>(90,516,500)</u>	<u>(92,864,100)</u>	<u>(96,127,805)</u>
Total governmental activities net assets	<u>\$ 1,132,042,637</u>	<u>\$ 1,143,739,444</u>	<u>\$ 1,174,831,607</u>	<u>\$ 1,254,460,500</u>	<u>\$ 1,413,648,118</u>
Business-type activities:					
Invested in capital assets, net of related det	\$ 5,629,503	\$ 5,137,266	\$ 4,829,951	\$ 5,182,162	\$ 5,052,458
Unrestricted	<u>(581,616)</u>	<u>(1,626,627)</u>	<u>(2,850,401)</u>	<u>(2,755,479)</u>	<u>(3,354,942)</u>
Total business-type activities net assets	<u>\$ 5,047,887</u>	<u>\$ 3,510,639</u>	<u>\$ 1,979,550</u>	<u>\$ 2,426,683</u>	<u>\$ 1,697,516</u>
Primary government:					
Invested in capital assets, net of related deb	\$ 1,187,517,535	\$ 1,229,332,240	\$ 1,270,178,058	\$ 1,352,506,762	\$ 1,514,828,381
Unrestricted	<u>(50,427,011)</u>	<u>(82,082,157)</u>	<u>(93,366,901)</u>	<u>(95,619,579)</u>	<u>(99,482,747)</u>
Total primary government net assets	<u>\$ 1,137,090,524</u>	<u>\$ 1,147,250,083</u>	<u>\$ 1,176,811,157</u>	<u>\$ 1,256,887,183</u>	<u>\$ 1,415,345,634</u>

Note:

Information prior to FY 2002 is not available, due to the FY 2002 implementation of GASB 34.

MONTGOMERY COUNTY PUBLIC SCHOOLS
CHANGE IN NET ASSETS
LAST FIVE FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year				
	2002	2003	2004	2005	2006
Expenses					
Governmental activities					
Instruction:					
Regular instruction	\$ 871,885,283	\$ 922,271,680	\$ 983,832,228	\$ 1,038,043,643	\$ 1,088,588,014
Special education	193,069,034	213,237,600	226,446,611	247,338,455	266,912,970
School administration	113,093,534	123,298,343	126,636,268	135,691,110	146,798,786
Student personnel services	7,535,210	8,160,848	11,411,475	12,226,245	13,416,179
Health services	46,267	107,432	36,994	39,433	42,357
Total instruction	<u>1,185,629,328</u>	<u>1,267,075,903</u>	<u>1,348,363,576</u>	<u>1,433,338,886</u>	<u>1,515,758,306</u>
Support services:					
Student transportation	70,499,355	72,604,228	80,078,067	91,056,536	96,768,183
Operation of plant	97,192,269	99,932,932	102,880,452	109,613,171	120,228,320
Maintenance of plant	45,531,248	40,384,443	48,730,155	47,584,397	48,872,594
Administration	41,111,824	47,359,900	37,010,469	39,156,106	54,688,573
Community services	1,467,006	1,584,350	1,641,493	1,625,698	2,110,374
Interest on capital leases					1,372,132
Total support services	<u>255,801,702</u>	<u>261,865,853</u>	<u>270,340,636</u>	<u>289,035,908</u>	<u>324,040,176</u>
Total governmental activities expenses	<u>1,441,431,030</u>	<u>1,528,941,756</u>	<u>1,618,704,212</u>	<u>1,722,374,794</u>	<u>1,839,798,482</u>
Business-type activities					
Food services	35,363,644	35,681,700	37,426,902	39,511,622	40,757,291
Adult education	3,823,273	4,007,829	4,110,281	1,893,599	1,516,881
Real estate management	1,292,137	1,586,720	1,482,541	1,537,420	2,102,497
Field trips	1,402,789	1,205,665	1,246,915	1,355,538	1,579,472
Entrepreneurial activities	857,174	1,062,282	1,211,760	1,316,459	1,266,811
Total business-type activities expenses	<u>42,739,017</u>	<u>43,544,096</u>	<u>45,478,399</u>	<u>45,614,638</u>	<u>47,222,952</u>
Total primary government expenses	<u>\$ 1,484,170,047</u>	<u>\$ 1,572,485,852</u>	<u>\$ 1,664,182,611</u>	<u>\$ 1,767,989,432</u>	<u>\$ 1,887,021,434</u>
Program Revenue					
Governmental activities					
Instruction:					
Regular instruction	\$ 82,256,178	\$ 90,165,424	\$ 65,420,215	\$ 67,603,299	\$ 60,734,138
Special education	18,293,975	23,313,058	26,501,262	29,271,325	27,405,520
School administration	4,461,631	5,201,181	5,218,772	3,495,396	3,619,197
Student personnel services	116,586	162,436	622,527	593,721	1,055,541
Health services	-	96,782	-	-	-
Total instruction	<u>105,128,370</u>	<u>118,938,881</u>	<u>97,762,776</u>	<u>100,963,741</u>	<u>92,814,396</u>
Support services:					
Student transportation	568,707	885,539	1,149,902	775,691	1,101,741
Operation of plant	9,383,177	5,817,414	5,014,653	4,916,991	7,512,643
Maintenance of plant	10,993,352	10,321,971	17,993,911	15,931,064	15,186,848
Administration	5,679,270	5,359,630	1,659,121	1,811,489	9,932,129
Community services	1,290,660	1,297,602	1,325,721	1,282,747	1,763,601
Total support services	<u>27,915,166</u>	<u>23,682,156</u>	<u>27,143,308</u>	<u>24,717,982</u>	<u>35,496,962</u>
Total governmental activities program revenues	<u>133,043,536</u>	<u>142,621,037</u>	<u>124,906,084</u>	<u>125,681,723</u>	<u>128,311,358</u>
Business-type activities					
Food services	34,262,117	34,114,949	36,230,717	39,056,101	38,997,786
Adult education	3,725,954	4,097,427	3,806,206	2,063,253	1,614,777
Real estate management	1,528,157	1,451,483	1,724,390	2,019,558	2,212,736
Field trips	1,359,469	1,226,062	1,318,661	1,547,519	1,491,097
Entrepreneurial activities	791,968	934,043	786,070	1,023,446	1,461,574
Total business-type activities program revenues	<u>41,667,665</u>	<u>41,823,964</u>	<u>43,866,044</u>	<u>45,709,877</u>	<u>45,777,970</u>
Total primary government program revenues	<u>\$ 174,711,201</u>	<u>\$ 184,445,001</u>	<u>\$ 168,772,128</u>	<u>\$ 171,391,600</u>	<u>\$ 174,089,328</u>
Net (expense)/revenue					
Governmental activities	(1,308,387,494)	(1,386,320,719)	(1,493,798,128)	(1,596,693,071)	(1,711,487,124)
Business-type activities	(1,071,352)	(1,720,132)	(1,612,355)	95,239	(1,444,982)
	<u>(1,309,458,846)</u>	<u>(1,388,040,851)</u>	<u>(1,495,410,483)</u>	<u>(1,596,597,832)</u>	<u>(1,712,932,106)</u>
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Intergovernmental:					
Montgomery County	\$ 1,113,445,525	\$ 1,108,394,374	\$ 1,183,680,350	\$ 1,314,971,597	\$ 1,457,150,730
State of Maryland	259,442,972	288,603,570	340,846,285	361,020,873	411,828,686
Federal government	218,319	296,773	262,516	88,274	1,027,578
Investment Earnings	326,041	146,555	76,537	155,210	632,532
Other revenue	219,607	562,402	8,019	70,671	(0)
Transfers	16,332	13,852	16,584	15,339	35,216
Total government activities	<u>1,373,668,796</u>	<u>1,398,017,526</u>	<u>1,524,890,291</u>	<u>1,676,321,964</u>	<u>1,870,674,742</u>
Business-type activities					
Investment Earnings	298,960	196,736	97,850	367,233	751,031
Other revenue	-	-	-	-	-
Transfers	(16,332)	(13,852)	(16,584)	(15,339)	(35,216)
Total business-type activities	<u>282,628</u>	<u>182,884</u>	<u>81,266</u>	<u>351,894</u>	<u>715,815</u>
Total primary government	<u>\$ 1,373,951,424</u>	<u>\$ 1,398,200,410</u>	<u>\$ 1,524,971,557</u>	<u>\$ 1,676,673,858</u>	<u>\$ 1,871,390,557</u>
Change in Net Assets					
Governmental activities	65,281,302	11,696,807	31,092,163	79,628,893	159,187,618
Business-type activities	(788,724)	(1,537,248)	(1,531,089)	447,133	(729,167)
Total primary government	<u>\$ 64,492,578</u>	<u>\$ 10,159,559</u>	<u>\$ 29,561,074</u>	<u>\$ 80,076,026</u>	<u>\$ 158,458,451</u>

Note: Information prior to FY 2002 is not available, due to the FY 2002 implementation of GASB 34.

MONTGOMERY COUNTY PUBLIC SCHOOLS
 FUND BALANCES OF GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year				
	1997	1998	1999	2000	2001
General Fund:					
Reserved	\$ 5,647,554	\$ 12,327,531	\$ 12,644,216	\$ 10,900,430	\$ 11,221,140
Unreserved	(3,490,089)	(6,067,530)	(5,308,716)	(4,360,507)	(4,651,246)
Total general fund	<u>\$ 2,157,465</u>	<u>\$ 6,260,001</u>	<u>\$ 7,335,500</u>	<u>\$ 6,539,923</u>	<u>\$ 6,569,894</u>
All other governmental funds					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ 41,510
Unreserved, reported in:					
Special revenue funds	-	-	-	-	16,294
Capital projects funds	-	-	-	-	(7,602,793)
Total all other governmental funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (7,544,989)</u>
	2002	2003	2004	2005	2006
General Fund:					
Reserved	\$ 12,536,487	\$ 10,086,228	\$ 11,379,515	\$ 13,197,236	\$ 21,989,545
Unreserved	5,447,168	(5,625,651)	(171,197)	3,263,757	(3,047,043)
Total general fund	<u>\$ 17,983,655</u>	<u>\$ 4,460,577</u>	<u>\$ 11,208,318</u>	<u>\$ 16,460,993</u>	<u>\$ 18,942,502</u>
All other governmental funds					
Reserved	\$ 82,777	\$ 5,436	\$ 6,913	\$ 5,053	\$ 3,473
Unreserved, reported in:					
Special revenue funds	17,115	82,633	85,935	87,033	91,238
Capital projects funds	(7,768,903)	(8,133,947)	(10,802,854)	(12,604,232)	(13,472,262)
Total all other governmental funds	<u>\$ (7,669,011)</u>	<u>\$ (8,045,878)</u>	<u>\$ (10,710,006)</u>	<u>\$ (12,512,146)</u>	<u>\$ (13,377,551)</u>

INTENTIONALLY BLANK

MONTGOMERY COUNTY PUBLIC SCHOOLS
CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST NINE FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year			
	1998	1999	2000	2001
Revenues				
Intergovernmental:				
Montgomery County	\$ 851,421,873	\$ 903,618,593	\$ 955,247,100	\$ 1,041,378,917
State of Maryland	262,570,216	262,852,213	269,819,680	297,395,004
Federal Government	23,723,869	26,854,697	33,724,378	36,547,569
Other	3,805,318	3,757,220	4,899,686	6,387,329
Total Revenue	<u>1,141,521,276</u>	<u>1,197,082,723</u>	<u>1,263,690,844</u>	<u>1,381,708,819</u>
Expenditures				
Current:				
Administration	26,064,353	28,140,149	32,477,440	32,279,103
Mid-level administration	56,777,290	65,408,765	73,554,442	81,091,469
Instructional salaries and wages	423,611,283	449,914,787	484,167,089	544,038,808
Instructional textbooks and supplies	17,545,315	21,286,541	23,980,877	23,841,371
Other instructional costs	12,228,543	20,461,729	12,647,927	13,344,517
Special education	111,330,263	120,667,222	129,606,867	141,404,178
Student personnel services	3,654,705	4,073,102	4,427,513	5,123,414
Health services	20,481	28,978	35,889	37,938
Student transportation	45,471,730	47,843,343	50,266,568	55,606,074
Operation of plant	57,858,587	60,481,975	64,883,944	67,824,772
Maintenance of plant	23,316,282	25,085,800	24,077,892	24,835,900
Fixed charges	239,330,320	241,235,425	248,363,181	264,617,039
Community services	619,727	655,148	742,768	986,926
Debt service:				
Capital lease principal	5,516,613	5,772,275	6,974,098	8,743,607
Capital lease interest	532,798	847,120	958,318	1,136,580
Capital outlay	121,980,892	118,576,313	117,047,191	136,115,527
	<u>1,145,859,182</u>	<u>1,210,478,672</u>	<u>1,274,212,004</u>	<u>1,401,027,223</u>
Excess of Revenues over (under) expenditures	(4,337,906)	(13,395,949)	(10,521,160)	(19,318,404)
Other financing sources(uses)				
Capital lease financing	7,791,983	13,614,110	8,558,368	11,401,958
Technology loans from Montgomery County		361,086	547,066	22,500
Transfers in	648,459	496,252	620,149	378,928
Transfers out				
Total other financing sources(uses)	<u>8,440,442</u>	<u>14,471,448</u>	<u>9,725,583</u>	<u>11,803,386</u>
Net change in fund balances	<u>\$ 4,102,536</u>	<u>\$ 1,075,499</u>	<u>\$ (795,577)</u>	<u>\$ (7,515,018)</u>
Debt service as a percentage of noncapital expenditures	0.6%	0.6%	0.7%	0.8%

Note: Information prior to FY 1998 is not available, due to the reorganization of functions in FY 1998.

2002	2003	2004	2005	2006
\$ 1,148,280,914	\$ 1,137,558,192	\$ 1,233,511,048	\$ 1,356,035,517	\$ 1,498,345,349
305,836,841	339,814,082	350,931,179	366,552,766	417,013,817
43,866,688	56,379,262	59,737,638	70,605,126	74,573,378
4,332,529	4,827,458	4,970,961	8,194,694	8,999,000
<u>1,502,316,972</u>	<u>1,538,578,994</u>	<u>1,649,150,826</u>	<u>1,801,388,103</u>	<u>1,998,931,544</u>
28,106,692	27,666,368	26,965,317	28,439,926	36,625,851
86,442,046	93,633,242	96,088,892	101,729,773	109,442,018
594,976,886	635,877,265	654,152,515	686,486,182	719,934,184
25,094,764	25,599,461	25,646,985	28,751,450	33,245,147
19,113,591	13,014,528	13,133,928	22,110,271	16,855,159
155,739,680	170,576,458	178,834,273	193,353,038	207,149,010
5,814,326	6,227,216	8,623,619	9,111,032	9,936,670
37,150	104,058	32,474	34,127	36,530
58,249,923	56,900,115	59,958,528	71,323,679	79,509,617
73,460,791	77,846,881	80,456,510	85,739,412	92,411,740
24,929,368	25,833,275	25,714,753	26,776,709	28,718,901
272,754,398	305,913,265	346,990,115	388,327,283	419,075,926
1,246,430	1,324,417	1,360,072	1,326,568	1,731,259
11,358,196	11,841,404	15,124,117	19,300,633	22,597,421
1,801,781	1,027,855	1,324,991	1,262,669	1,372,132
148,902,723	113,557,576	128,053,894	159,336,986	244,402,835
<u>1,508,028,745</u>	<u>1,566,943,384</u>	<u>1,662,460,983</u>	<u>1,823,409,738</u>	<u>2,023,044,400</u>
(5,711,773)	(28,364,390)	(13,310,157)	(22,021,635)	(24,112,856)
16,377,140	13,447,873	16,783,521	25,456,831	25,693,744
85,857	12,836			
538,515	13,852	16,584	15,339	35,216
	629,884	593,755		
<u>17,001,512</u>	<u>14,104,445</u>	<u>17,393,860</u>	<u>25,472,170</u>	<u>25,728,960</u>
<u>\$ 11,289,739</u>	<u>\$ (14,259,945)</u>	<u>\$ 4,083,703</u>	<u>\$ 3,450,535</u>	<u>\$ 1,616,104</u>
1.0%	0.8%	1.1%	1.3%	1.4%

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, 2005 *

Operating revenues:	
Contributions by other agencies	\$ 30,462,956
Contributions by the Board of Education	<u>13,589,130</u>
Total Operating Revenues	<u>44,052,086</u>
Operating expenses:	
Self-insurance losses, net of recoveries	25,920,669
Other costs at risk	3,827,794
Commercial insurance	2,615,937
Other operating expenses	<u>2,781,930</u>
Total Operating Expenses	<u>35,146,330</u>
Operating (loss)	<u>8,905,756</u>
Nonoperating income :	
Interest on investments	<u>2,042,173</u>
Total nonoperating income	<u>2,042,173</u>
Net (loss)/Change in retained earnings	10,947,929
Retained earnings (deficit), Beginning	<u>(11,843,884)</u>
Retained earnings (deficit), Ending	<u>\$ (895,955)</u>

Notes:

* Date of the most current available information.

Source: Montgomery County, Maryland FY 2005 *Comprehensive Annual Financial Report*

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

Fiscal Year	Tax Levy			Collected within the Fiscal Year of the Levy		Collections in Subsequent Years (2)	Total Collections to Date	
	Total Original Levy for Fiscal Year	Adjustments in Subsequent Years (1)	Total Adjusted Levy	Amount (2)	Percentage of Original Levy		Amount	Percentage of Adjusted Levy
1997	\$ 726,034,855	\$ (252,809)	\$ 725,782,046	\$ 716,728,175	98.72 %	\$ 30,595	\$ 716,758,770	98.76 %
1998	740,356,969	(3,124)	740,353,845	731,962,325	98.87	44,310	732,006,635	98.87
1999	738,861,799	(5,431)	738,856,368	731,482,875	99.00	187,343	731,670,218	99.03
2000	762,239,449	(555,882)	761,683,567	754,198,902	98.95	(1,207,019)	752,991,883	98.86
2001	784,285,708	(413,868)	783,871,840	777,057,655	99.08	(1,947,199)	775,110,456	98.88
2002	821,038,153	(872,392)	820,165,761	805,329,587	98.09	(2,950,820)	802,378,767	97.83
2003	867,011,819	(1,864,478)	865,147,341	861,862,819	99.41	(3,238,433)	858,624,386	99.25
2004	927,789,542	(1,671,368)	926,118,174	924,992,688	99.70	1,891,688	926,884,376	100.08
2005	1,006,556,130	(730,595)	1,005,825,535	1,005,935,155	99.94	665,366	1,006,600,521	100.08
2006	1,034,743,418	-	1,034,743,418	1,034,479,885	99.97	-	1,034,479,885	99.97

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 the Maryland-National Capital Park and Planning Commission, are excluded.

(1) Adjustment data was available and is reported in this schedule beginning with adjustments processed in FY05.

(2) Amounts represent collections received, including overpayments, net of refunds made.

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

Fiscal Year	Real Property (1)						Total Direct Tax Rate (4)
	Residential (2)		Commercial/Other		Total		
	Assessed Value	Estimated Market Value	Assessed Value	Estimated Market Value	Assessed Value	Estimated Market Value	
1997	\$20,171,480,061	\$51,774,846,151	\$ 6,432,172,280	\$16,509,682,445	\$26,603,652,341	\$68,284,528,596	\$ 2.538
1998	20,725,567,731	52,656,422,083	6,549,073,404	16,638,906,004	27,274,641,135	69,295,328,087	2.533
1999	21,215,428,694	54,342,798,907	6,690,651,302	17,137,938,788	27,906,079,996	71,480,737,695	2.506
2000	21,704,462,278	56,699,222,252	6,970,091,543	18,208,180,624	28,674,553,821	74,907,402,876	2.474
2001	22,267,739,672	59,348,986,333	7,381,273,206	19,672,903,001	29,649,012,878	79,021,889,334	2.473
2002	57,865,511,378	62,829,002,582	19,709,436,172	21,400,039,275	77,574,947,550	84,229,041,857	0.991
2003	61,732,348,676	69,991,325,030	20,674,989,155	23,441,030,787	82,407,337,831	93,432,355,817	0.996
2004	67,348,233,048	74,009,047,305	21,914,772,219	24,082,167,274	89,263,005,267	98,091,214,579	0.994
2005	74,808,909,028	80,181,038,615	23,472,815,695	25,158,430,541	98,281,724,723	105,339,469,156	0.981
2006	84,762,150,340	90,946,513,240	25,767,098,776	27,647,101,691	110,529,249,116	118,593,614,931	0.939

Fiscal Year	Personal Property (3)					Total Direct Tax Rate (4)	Real (1) and Personal Property Total		Ratio of Total Assessed to Total Estimated Actual Value
	Business		Public Utility		Total		Assessed Value	Estimated Actual Value	
	Individuals	Corporations	Operating Property	Domestic Shares					
1997	\$ 104,524,000	\$ 2,059,702,720	\$ 1,463,056,510	\$ 161,940,450	\$ 3,789,223,680	\$ 2.538	\$30,392,876,021	\$ 72,073,752,276	42.17 %
1998	96,721,710	1,885,477,810	1,503,028,070	169,223,380	3,654,450,970	2.533	30,929,092,105	72,949,779,057	42.40
1999	96,677,815	1,904,977,610	1,431,418,620	325,472,510	3,758,546,555	2.506	31,664,626,551	75,239,284,250	42.09
2000	92,953,790	2,125,024,140	1,250,855,220	410,469,840	3,879,302,990	2.474	32,553,856,811	78,786,705,866	41.32
2001	93,025,460	2,261,403,430	1,270,848,870	452,570,330	4,077,848,090	2.473	33,726,860,968	83,099,737,424	40.59
2002	99,954,320	2,486,081,540	1,169,749,990	445,558,740	4,201,344,590	2.476	81,776,292,140	88,430,386,447	92.48
2003	85,622,460	2,421,490,420	1,187,075,200	533,666,320	4,227,854,400	2.492	86,635,192,231	97,660,210,217	88.71
2004	83,269,110	2,272,890,000	1,116,419,190	491,223,310	3,963,801,610	2.487	93,226,806,877	102,055,016,189	91.35
2005	45,777,000	2,290,059,500	1,097,481,440	469,294,170	3,902,612,110	2.454	102,184,336,833	109,242,081,266	93.54
2006	39,858,300	2,275,916,200	1,046,842,820	469,011,910	3,831,629,230	2.349	114,360,878,346	122,425,244,161	93.41

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 was the first year that all real property in the State of Maryland was assessed at 100 percent of full assessed value; prior to 2002, real property was assessed at 40 percent of full assessed value. Real property tax rates were changed in fiscal year 2002 to reflect this change in methodology.
- (2) Residential real property includes single-family homes, townhouses, and condominiums but excludes apartment dwellings which are included under the Commercial/Other category.
- (3) For personal property, the assessed value and estimated actual value are the same.
- (4) See "Real and Personal Property Tax Rates - County Direct Rate" for real and personal property direct tax rates.

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

MONTGOMERY COUNTY, MARYLAND
REAL AND PERSONAL PROPERTY TAX RATES - COUNTY DIRECT RATE
LAST TEN FISCAL YEARS

Fiscal Year	County Direct Rate						Total
	County	Fire Tax District	Transit District	M-NCPPC (2)			
				Regional District	Metropolitan District	Advance Land Acquisition	
Real Property:							
1997	\$ 1.990	\$.249	\$.078	\$.063	\$.154	\$.004	\$ 2.538
1998	1.962	.262	.091	.061	.153	.004	2.533
1999	1.923	.263	.102	.061	.153	.004	2.506
2000	1.863	.290	.102	.062	.154	.003	2.474
2001	1.857	.293	.100	.060	.160	.003	2.473
2002 (1)	.741	.109	.050	.024	.066	.001	0.991
2003	.754	.117	.038	.023	.063	.001	0.996
2004	.751	.118	.044	.021	.059	.001	0.994
2005	.734	.123	.044	.020	.059	.001	0.981
2006	.679	.134	.042	.022	.061	.001	0.939
Personal Property:							
1997	\$ 1.990	\$.249	\$.078	\$.063	\$.154	\$.004	\$ 2.538
1998	1.962	.262	.091	.061	.153	.004	2.533
1999	1.923	.263	.102	.061	.153	.004	2.506
2000	1.863	.290	.102	.062	.154	.003	2.474
2001	1.857	.293	.100	.060	.160	.003	2.473
2002	1.852	.273	.125	.059	.165	.002	2.476
2003	1.885	.293	.095	.058	.158	.003	2.492
2004	1.878	.295	.110	.053	.148	.003	2.487
2005	1.835	.308	.110	.050	.148	.003	2.454
2006	1.698	.335	.105	.055	.153	.003	2.349

NOTES:

* The charter requires that revenues from real property taxes cannot exceed last year's revenues adjusted by the rate of inflation excluding revenues from new construction. The Council can adopt tax rates that exceed this limit by a supermajority of seven out of nine councilmember's.

* No discounts are allowed.

* Taxes are levied as of July 1, are due by September 30, and become delinquent the following October 1.

* Unless homeowners elect to pay their real property taxes annually, taxes are paid on a semi-annual basis with payment due by September 30 and December 31.

* Interest and penalty at 20 percent are assessed on delinquent tax bills.

* Revised tax bills based upon certifications from the State received after September 1 may be paid within thirty days without interest.

* Delinquent 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.

* Costs of tax sale, which vary, are added to tax bills. The last sale cost \$25 per parcel.

* Tax sale date: second Monday in June.

* Personal property tax rates are applied to 100 percent of the property assessment.

(1) Fiscal year 2002 was the first year that all real property in the State of Maryland was assessed at 100 percent of full assessed value; prior to 2002, real property was assessed at 40 percent of full assessed value. Real property tax rates were changed in fiscal year 2002 to reflect this change in methodology.

(2) M-NCPPC County property tax rates are included in the County's direct rate since the County Council has the power to set, modify, or approve these tax rates for this joint venture organization.

MONTGOMERY COUNTY, MARYLAND
REAL AND PERSONAL PROPERTY TAX RATES - COUNTY SPECIAL TAXING DISTRICTS
LAST TEN FISCAL YEARS

Fiscal Year	Parking Lot Districts (1)					Urban Districts			Noise Abatement Districts		Development Districts		
	Recreation	Storm Drainage	Silver Spring	Bethesda	Wheaton	Montgomery Hills	Silver Spring	Bethesda	Wheaton	Bradley	Cabin John	Kingsview	West Germantown
Real Property:													
1997	\$.049	\$.01	\$.70	\$.70	\$.60	\$.60	\$.075	\$.04	\$.05	\$.30	\$.40	\$ -	\$ -
1998	.054	.01	.70	.70	.60	.60	.075	.04	.05	.35	.40	-	-
1999	.062	.01	.70	.70	.60	.60	.075	.04	.05	.40	.40	-	-
2000	.067	.01	.70	.70	.60	.60	.075	.04	.05	.45	.40	-	-
2001	.069	.01	.70	.70	.60	.60	.075	.04	.05	.45	.40	.285	-
2002 (2)	.027	.003	.28	.28	.24	.24	.030	.016	.02	.16	.18	.092	-
2003	.020	.003	.28	.28	.24	.24	.030	.016	.02	.16	.18	.108	.224
2004	.022	.003	.28	.28	.24	.24	.030	.016	.02	.145	.18	.101	.213
2005	.025	.003	.28	.28	.24	.24	.030	.016	.02	.145	.175	.098	.192
2006	.025	.003	.28	.28	.24	.24	.024	.016	.03	.145	.185	.089	.187
Personal Property:													
1997	\$.049	\$.01	\$.70	\$.70	\$.60	\$.60	\$.075	\$.04	\$.05	\$.30	\$.40	\$ -	\$ -
1998	.054	.01	.70	.70	.60	.60	.075	.04	.05	.35	.40	-	-
1999	.062	.01	.70	.70	.60	.60	.075	.04	.05	.40	.40	-	-
2000	.067	.01	.70	.70	.60	.60	.075	.04	.05	.45	.40	-	-
2001	.069	.01	.70	.70	.60	.60	.075	.04	.05	.45	.40	-	-
2002	.068	.007	.70	.70	.60	.60	.075	.04	.05	.40	.45	-	-
2003	.050	.008	.70	.70	.60	.60	.075	.04	.05	.40	.45	-	-
2004	.055	.008	.70	.70	.60	.60	.075	.04	.05	.363	.438	-	-
2005	.063	.008	.70	.70	.60	.60	.075	.04	.05	.363	.438	-	-
2006	.063	.008	.70	.70	.60	.60	.060	.04	.075	.363	.463	-	-

NOTES:

* Tax rates are per \$100 of assessed value.

* Personal property tax rates are applied to 100 percent of the property assessment.

(1) 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.

(2) See Note (1) on "Real and Personal Property Tax Rates - County Direct Rate"

MONTGOMERY COUNTY, MARYLAND
REAL AND PERSONAL PROPERTY TAX RATES - OVERLAPPING GOVERNMENTS - CITIES AND TOWNS
LAST TEN FISCAL YEARS

Fiscal Year	Cities			Towns									Washington Grove
	Gaithersburg	Rockville	Takoma Park	Barnesville	Brookeville	Chevy Chase	Garrett Park	Glen Echo	Kensington	Laytonsville	Poolesville	Somerset	
Real Property:													
1997	\$.53	\$.82	\$ 1.760	\$.20	\$.35	\$.19	\$.55	\$.36	\$.50	\$.35	\$.67	\$.34	\$.63
1998	.53	.82	1.535 (1)	.20	.45	.18	.55	.36	.50	.35	.66	.31	.63
1999	.53	.815	1.580	.20	.45	.16	.55	.36	.50	.35	.65	.28	.60
2000	.53	.805	1.580	.20	.45	.16	.55	.36	.50	.33	.63	.25	.60
2001	.53	.805	1.605	.20	.45	.13	.50	.35	.50	.31	.60	.22	.60
2002 (2)	.212	.322	.642	.08	.20	.04	.20	.14	.20	.125	.24	.05	.235
2003	.212	.322	.660	.08	.20	.037	.20	.14	.193	.132	.24	.05	.235
2004	.212	.322	.660	.078	.20	.035	.20	.14	.187	.160	.24	.05	.217
2005	.212	.322	.660	.072	.20	.033	.20	.13	.170	.160	.23	.05	.217
2006	.212	.322	.630	.065	.15	.029	.20	.12	.155	.160	.221	.045	.202
Personal Property:													
1997	\$.53	\$.82	\$ 1.760	\$.20	\$.35	\$.19	\$.55	\$.36	\$.50	\$.35	\$.67	\$.34	\$.63
1998	.53	.82	1.535 (1)	.20	.45	.18	.55	.36	.50	.35	.66	.31	.63
1999	.53	.815	1.580	.20	.45	.16	.55	.36	.50	.35	.65	.28	.60
2000	.53	.805	1.580	.20	.45	.16	.55	.36	.50	.33	.63	.25	.60
2001	.53	.805	1.605	.20	.45	.13	.50	.35	.50	.31	.60	.22	.60
2002	.53	.805	1.605	.20	.45	.10	.50	.80	.50	.31	.60	.22	.60
2003	.53	.805	1.605	.20	.45	.10	.50	.80	.50	.33	.60	.22	.60
2004	.53	.805	1.650	.20	.45	.10	.50	.80	.50	.35	.60	.22	.60
2005	.53	.805	1.650	.20	.45	.10	.50	.80	.50	.35	.60	.22	.60
2006	.53	.805	1.575	.20	.45	.10	1.000	.80	.50	.35	.60	.22	.60

NOTES:

* Tax rates are per \$100 of assessed value.

* Personal property tax rates are applied to 100 percent of the property assessment.

* Taxes collected by the County for other fiscal units, including overlapping governments, are remitted based on actual collections.

(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.

(2) See Note (1) on "Real and Personal Property Tax Rates - County Direct Rate"

MONTGOMERY COUNTY, MARYLAND
REAL AND PERSONAL PROPERTY TAX RATES - OVERLAPPING GOVERNMENTS - VILLAGES
LAST TEN FISCAL YEARS

Fiscal Year	Villages									
	Battery Park	Chevy Chase Section 3	Chevy Chase Section 5	Chevy Chase View	Chevy Chase Village	Drummond	Friendship Heights	Martin's Additions to Chevy Chase	North Chevy Chase	Oakmont
Real Property:										
1997	\$.11	\$.22	\$.09	\$.08	\$.37	\$.15	\$.23	\$.20	\$.13	\$.15
1998	.125	.20	.04	.08	.27	.12	.28	.19	.13	.15
1999	.125	.18	-	.08	.25	.12	.28	.19	.13	.15
2000	.125	.09	-	.08	.25	.12	.25	.15	.13	.15
2001	.125	.05	-	.08	.25	.12	.22	.02	.13	.15
2002 (1)	.05	.02	-	.03	.10	.048	.08	.008	.052	.10
2003	.05	.02	-	.03	.12	.048	.07	.008	.052	.10
2004	.05	.02	-	.025	.14	.048	.06	.008	.052	.06
2005	.05	.02	-	.025	.14	.048	.06	.008	.052	.06
2006	.05	.02	-	.023	.13	.048	.05	.008	.052	.06
Personal Property:										
1997	\$.11	\$.22	\$.09	\$.08	\$.37	\$.15	\$.23	\$.20	\$.13	\$.15
1998	.125	.20	.04	.08	.27	.12	.28	.19	.13	.15
1999	.125	.18	-	.08	.25	.12	.28	.19	.13	.15
2000	.125	.09	-	.08	.25	.12	.25	.15	.13	.15
2001	.125	.05	-	.08	.25	.12	.22	.02	.13	.15
2002	.125	.05	-	-	.10	.12	.08	.008	.13	.10
2003	.125	.05	-	-	.50	.12	.07	.008	.13	.10
2004	.125	.05	-	-	.50	.12	.06	.008	.13	.06
2005	.125	.05	-	-	.60	.12	.06	.008	.13	-
2006	.125	.05	-	-	.60	.12	.05	.008	.13	.10

NOTES:

- * Tax rates are per \$100 of assessed value.
- * Personal property tax rates are applied to 100 percent of the property assessment.
- * Taxes collected by the County for other fiscal units, including overlapping governments, are remitted based on actual collections.

(1) See Note (1) on "Real and Personal Property Tax Rates - County Direct Rate"

MONTGOMERY COUNTY, MARYLAND
TEN HIGHEST COMMERCIAL PROPERTY TAXPAYERS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

For the Fiscal Year Ended June 30, 1997

	Assessable Base			Ratio: Taxpayer Base to Total Assessable Base
	Total	Real Property	Personal Property	
Potomac Electric Power Co.	\$ 968,026,310	\$ 28,477,400	\$ 939,548,910	3.19 %
Bell Atlantic - Washington D.C. Inc.	563,884,550	24,114,410	539,770,140	1.86
Washington Gas Light Company	149,520,200	6,385,480	143,134,720	0.49
International Business Machines	99,537,750	30,249,490	69,288,260	0.33
Montgomery Mall	76,068,600	76,068,600	-	0.25
May Department Stores	63,183,360	24,259,950	38,923,410	0.21
Lake Forest Associates	53,999,990	53,999,990	-	0.18
Albert & R. Abramson, et.al.	53,791,690	53,791,690	-	0.18
Marbeth Partnership	52,000,000	52,000,000	-	0.17
Wheaton Plaza Regional Shopping Center	49,772,150	49,772,150	-	0.16
Total	\$ 2,129,784,600	\$ 399,119,160	\$ 1,730,665,440	7.02 %
Total Assessable Base	\$ 30,392,876,021			100 %

Source: State of Maryland Department of Assessments and Taxation

MONTGOMERY COUNTY, MARYLAND
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

Fiscal Year	<u>General Bonded Debt Outstanding (1)</u>	Percentage of Estimated Actual Taxable Value of Property (3)	Per Capita (4)
	General Obligation Bonds (2)		
1997	\$ 1,019,288,054	1.41 %	\$ 1,220
1998	1,057,463,054	1.45	1,248
1999	1,091,613,054	1.45	1,266
2000	1,131,833,054	1.44	1,288
2001	1,178,708,034	1.42	1,319
2002	1,242,553,054	1.41	1,370
2003	1,288,293,054	1.32	1,406
2004	1,329,778,054	1.30	1,443
2005	1,415,208,054	1.30	1,502
2006	1,493,888,054	1.22	1,568

NOTES:

- (1) General Bonded Debt includes all general obligation debt, regardless of purpose or repayment source, and other bonded debt financed with general government resources. Governmental lease revenue bonds and business-type revenue bonds are excluded because they are repayable from specific resources other than general governmental resources. Other debt is excluded because it is not in the form of bonds.
- (2) General Obligation Bonds is comprised of both governmental and business-type activities.
- (3) See "Assessed and Estimated Actual Value of Taxable Property " for estimated actual value of taxable property data.
- (4) See "Demographic Statistics for population data.

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MONTGOMERY COUNTY, MARYLAND
COMPUTATION OF LEGAL DEBT MARGIN
LAST TEN FISCAL YEARS

	1997	1998	1999	2000
Assessed Value				
Real property (1, 3)	\$ 26,603,652,341	\$ 27,274,641,135	\$ 27,906,079,996	\$ 28,674,553,821
Personal property (2)	3,789,223,680	3,654,450,970	3,758,546,555	3,879,302,990
Total Assessed Value	<u>\$ 30,392,876,021</u>	<u>\$ 30,929,092,105</u>	<u>\$ 31,664,626,551</u>	<u>\$ 32,553,856,811</u>
Legal Debt Margin				
Debt Limit - Percentage of Assessable Base:				
For real property at 6% (15% for 2001 and prior) (2)	3,990,547,851	4,091,196,170	4,185,911,999	4,301,183,073
For personal property at 15%	<u>568,383,552</u>	<u>548,167,646</u>	<u>563,781,983</u>	<u>581,895,449</u>
Legal Limitation for the Borrowing of Funds and the Issuance of Bonds	<u>4,558,931,403</u>	<u>4,639,363,816</u>	<u>4,749,693,983</u>	<u>4,883,078,522</u>
Debt Applicable to Limit:				
General obligation bonds	1,019,288,054	1,057,463,054	1,091,613,054	1,131,833,054
Bond anticipation notes	40,000,000	150,000,000	80,000,000	160,000,000
Long-term notes payable	-	-	1,753,025	1,689,553
Total Debt Applicable to Limit	<u>1,059,288,054</u>	<u>1,207,463,054</u>	<u>1,173,366,079</u>	<u>1,293,522,607</u>
Legal Debt Margin	<u>\$ 3,499,643,349</u>	<u>\$ 3,431,900,762</u>	<u>\$ 3,576,327,904</u>	<u>\$ 3,589,555,915</u>
Legal Debt Margin as a Percentage of Debt Limit	77%	74%	75%	74%

NOTES:

- (1) See (1) on "Assessed and Estimated Actual Value of Taxable Property"
- (2) See (3) on "Assessed and Estimated Actual Value of Taxable Property"
- (3) 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 percent of the assessable base (real and personal property) of the County. During that time, the assessable base for real property was 40 percent of the full assessed value. Effective June 1, 2001, real property in the State of Maryland began being assessed at 100 percent of full assessed value instead of the previous 40 percent 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 percent of the assessable base (presented at 100 percent) of real property of the County and 15 percent of the County's assessable base of personal property and operating real property.

2001	2002	2003	2004	2005	2006
\$ 29,649,012,878	\$ 77,574,947,550	\$ 82,407,337,831	\$ 89,263,005,267	\$ 98,281,724,723	\$ 110,529,249,116
4,077,848,090	4,201,344,590	4,227,854,400	3,963,801,610	3,902,612,110	3,831,629,230
<u>\$ 33,726,860,968</u>	<u>\$ 81,776,292,140</u>	<u>\$ 86,635,192,231</u>	<u>\$ 93,226,806,877</u>	<u>\$ 102,184,336,833</u>	<u>\$ 114,360,878,346</u>
4,447,351,932	4,654,496,853	4,944,440,270	5,355,780,316	5,896,903,483	6,631,754,947
<u>611,677,214</u>	<u>630,201,689</u>	<u>634,178,160</u>	<u>594,570,242</u>	<u>585,391,817</u>	<u>574,744,385</u>
<u>5,059,029,146</u>	<u>5,284,698,542</u>	<u>5,578,618,430</u>	<u>5,950,350,558</u>	<u>6,482,295,300</u>	<u>7,206,499,332</u>
1,178,708,054	1,242,553,054	1,288,293,054	1,329,778,054	1,415,208,054	1,493,888,054
125,000,000	125,000,000	125,000,000	150,000,000	-	100,000,000
1,625,240	1,408,951	1,341,206	1,270,924	1,198,385	-
<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>1,416,406,439</u>	<u>1,593,888,054</u>
<u>\$ 3,753,695,852</u>	<u>\$ 3,915,736,537</u>	<u>\$ 4,163,984,170</u>	<u>\$ 4,469,301,580</u>	<u>\$ 5,065,888,861</u>	<u>\$ 5,612,611,278</u>
74%	74%	75%	75%	78%	78%

MONTGOMERY COUNTY, MARYLAND
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT (1)
FOR THE YEAR ENDED JUNE 30, 2006

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Overlapping Debt:			
Towns, Cities, and Villages: (2, 3)			
Brookeville - bank loans	\$ 125,000	100.00 %	\$ 125,000
Garrett Park:			
Bonds	686,200	100.00	686,200
Certificates or notes	19,691	100.00	19,691
Poolesville:			
Bonds	1,189,534	100.00	1,189,534
Certificates or notes	20,677	100.00	20,677
Bank loans	419,344	100.00	419,344
Rockville - bonds	41,911,464	100.00	41,911,464
Takoma Park:			
Bonds	4,265,000	100.00	4,265,000
Certificates or notes	177,260	100.00	177,260
Capital leases	192,752	100.00	192,752
Bank loans	1,893,205	100.00	1,893,205
Component Units (2, 3):			
MCPS - capital leases	44,475,334	100.00	44,475,334
MCC - capital leases	27,470	100.00	27,470
Joint Venture - M-NCPPC (3, 4):			
Park acquisition and development bonds	139,792,578	23.80	33,266,743
Advance land acquisition bonds	6,350,000	76.30	4,845,000
Development Districts (2):			
Kingsview Village Center - bonds	2,260,000	100.00	2,260,000
West Germantown - bonds	15,600,000	100.00	15,600,000
Total Overlapping Debt			151,374,674
Montgomery County direct debt			1,724,519,978
Total Direct and Overlapping Debt			<u>\$ 1,875,894,652</u>

NOTES:

- (1) Direct debt relating to the governmental activities of the County includes general obligation bonds, bond anticipation notes, notes payable, lease revenue bonds, and capital leases. 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, capital leases, and bank loans.
- (2) Entities are wholly within Montgomery County.
- (3) Unaudited information provided by entities.
- (4) Overlapping debt percentage is based on the debt relating to the County.

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MONTGOMERY COUNTY, MARYLAND
DEBT CAPACITY - PLEDGED - REVENUE COVERAGE
LAST TEN FISCAL YEARS

Fiscal Year	Gross Revenues (2)	Less: Operating Expenses (3)	Net Available Revenue for Debt Service	Debt Service (4)			Coverage %
				Principal	Interest	Total	
Bethesda Parking Lot District (1):							
1996	\$ 9,060,275	\$ 3,225,580	\$ 5,834,695	\$ 1,250,000	\$ 1,444,088	\$ 2,694,088	216.57 %
1997	9,860,961	3,704,717	6,156,244	1,315,000	1,381,588	2,696,588	228.30
1998	10,473,491	4,013,533	6,459,958	1,405,000	1,313,208	2,718,208	237.66
1999	11,542,133	4,243,424	7,298,709	1,495,000	1,237,337	2,732,337	267.12
2000	11,460,424	4,400,300	7,060,124	1,585,000	1,155,112	2,740,112	257.66
2001	12,925,815	4,534,938	8,390,877	1,670,000	1,064,768	2,734,768	306.82
2002	16,445,984	4,436,394	12,009,590	1,785,000	967,908	2,752,908	436.25
2003	16,149,547	4,929,120	11,220,427	3,135,000	1,646,881	4,781,881	234.64
2004	17,228,514	5,160,881	12,067,633	3,190,000	1,509,278	4,699,278	256.80
2005	17,317,168	5,447,448	11,869,720	3,315,000	1,386,603	4,701,603	252.46
Silver Spring Parking Lot District (1):							
1996	\$ 9,093,993	\$ 5,642,926	\$ 3,451,067	\$ 1,170,000	\$ 1,262,223	\$ 2,432,223	141.89 %
1997	9,069,251	5,208,487	3,860,764	1,235,000	1,203,723	2,438,723	158.31
1998	9,387,880	5,403,014	3,984,866	1,300,000	1,139,503	2,439,503	163.35
1999	12,939,292 (a)	5,552,587	7,386,705	1,395,000	1,069,302	2,464,302	299.75
2000	9,526,984	6,326,478	3,200,506	1,480,000	992,578	2,472,578	129.44
2001	15,060,379 (b)	6,059,478	9,000,901	1,570,000	908,218	2,478,218	363.20
2002	9,331,496	5,752,439	3,579,057	1,650,000	817,158	2,467,158	145.07
2003	11,170,551	5,923,323	5,247,228	1,950,000	484,128	2,434,128	215.57
2004	12,815,999	5,443,131	7,372,868	2,020,000	388,388	2,408,388	306.13
2005	12,472,095	6,972,166	5,499,929	2,110,000	307,588	2,417,588	227.50
Solid Waste Disposal (1):							
1996	(5) \$ -	\$ -	\$ -	\$ -	\$ -	\$ -	- %
1997	(5) -	-	-	-	-	-	-
1998	85,622,526	74,431,661	11,190,865	1,810,000	2,481,401	4,291,401	260.77
1999	96,173,895 (c)	74,918,714	21,255,181	1,900,000	2,394,521	4,294,521	494.94
2000	93,198,853	75,359,998	17,838,855	1,995,000	2,299,521	4,294,521	415.39
2001	92,669,945	76,597,308	16,072,637	2,095,000	2,199,771	4,294,771	374.24
2002	80,977,037 (d)	78,748,230	2,228,807	2,205,000	2,090,831	4,295,831	51.88 (6)
2003	88,331,791	80,007,807	8,323,984	2,320,000	1,973,966	4,293,966	193.85 (6)
2004	93,065,778	88,366,006	4,699,772	2,555,000	1,456,033	4,011,033	117.17 (6)
2005	92,697,769	94,957,279	(2,259,510)	2,835,000	1,177,350	4,012,350	(56.31) (6)

MONTGOMERY COUNTY, MARYLAND
DEBT CAPACITY - PLEDGED - REVENUE COVERAGE
LAST TEN FISCAL YEARS

Fiscal Year	Gross Revenues (2)	Less: Operating Expenses (3)	Net Available Revenue for Debt Service	Debt Service (4)			Coverage %
				Principal	Interest	Total	
Metrorail Garage Project (1):							
2003	\$ 1,682,005	\$ -	\$ 1,682,005	\$ -	\$ 1,682,005	\$ 1,682,005	100.00 %
2004	1,682,005	-	1,682,005	-	1,682,005	1,682,005	100.00
2005	3,158,382	-	3,158,382	1,350,000	1,808,382	3,158,382	100.00

NOTES:

- (1) Table includes debt that is secured by a pledge of a specific revenue stream, and is designed to reflect whether the County had to use general (unpledged) revenues to repay debt that was intended to be self-supporting.
 - (2) Gross revenues include non-operating investment income. Gross revenues for the parking lot district bonds include all revenues of the district and consist primarily of parking fee charges for services, parking fines, and dedicated property taxes. Gross revenues for the metrorail garage project lease revenue bonds include lease payments from WMATA.
 - (3) Operating expenses do not include interest, depreciation, or amortization expenses.
 - (4) Debt service consists of amounts relating to revenue or lease revenue bonds; amounts relating to general obligation bonds are excluded.
 - (5) Data for 1996 and 1997 are not readily available since during those years all Solid Waste Activities were combined in the financial statements.
 - (6) Since 2002, the Solid Waste Disposal Fund has been deliberately using fund net assets (not general unpledged revenues) to fund expenditures in an attempt to reduce the accumulated fund net assets. Over the next several years, the goal is to reduce excess cash to a point where the cash plus investments in excess of reserve requirements is no more than \$1 million. During FY06, towards this end, cash plus investments should decrease by another \$10 million.
- (a) Silver Spring Parking Lot District revenue increase is due to revenue received from the sale of Lot #19 to a third party in connection with the Silver Spring revitalization project.
 - (b) Silver Spring Parking Lot District revenue increase is due to state aid intergovernmental revenue for the purchase of land in connection with the Silver Spring revitalization project.
 - (c) Solid Waste Disposal revenue increase is due primarily to a decrease in the landfill closure liability.
 - (d) Solid Waste Disposal revenue decrease is due to write offs of accounts receivables.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF LONG-TERM INDEBTEDNESS (PUBLIC SCHOOLS)
YEAR ENDED JUNE 30, 2006*

Description of Bonds and Purpose of Issue	Interest Rate	Date of		Amount of General Tax Bonds	
		Bond Issue	Maturity	Issued	Outstanding June 30, 2006
General bonded indebtedness:					
Consolidated Public Improvement	5.8 - 6.3	4/1/1986	1987-06	\$ 14,070,000	\$ -
Consolidated Public Improvement Refunding	2.75 - 5.8	7/1/1992	1993-10	124,229,500	30,551,673
Consolidated Public Improvement	5.2 - 6.125	10/1/1994	1995-14	82,600,000	-
Consolidated Public Improvement	5.10 - 5.50	3/15/1996	1997-16	55,000,000	2,750,000
Consolidated Public Improvement	5.0 - 5.375	4/15/1997	1998-17	27,500,000	2,750,000
Consolidated Public Improvement Refunding	3.9 - 5.25	1/1/1998	2003-15	39,634,602	38,656,709
Consolidated Public Improvement	4.875	4/1/1998	1999-18	80,100,000	12,015,000
Consolidated Public Improvement	4.0 - 5.0	4/1/1999	2000-19	66,200,000	16,550,000
Consolidated Public Improvement	5.0 - 6.0	1/1/2000	2001-20	67,000,000	16,750,000
Consolidated Public Improvement	4.0 - 5.0	2/1/2001	2002-21	74,978,422	26,242,448
Consolidated Public Improvement Refunding	3.6 - 5.25	11/15/2002	2003-19	61,667,788	55,908,616
Consolidated Public Improvement	3.0 - 5.0	2/1/2001	2003-22	76,000,000	34,200,000
Consolidated Public Improvement Refunding	2.75 - 5.25	11/15/2002	2005-13	58,187,994	56,730,110
Consolidated Public Improvement	1.50 - 4.0	5/1/2003	2004-23	86,500,000	73,525,000
Consolidated Public Improvement Refunding	2.0 - 5.0	5/1/2003	2004-11	25,633,689	19,575,429
Consolidated Public Improvement	3.0 - 5.0	3/15/2004	2005-24	62,800,000	56,520,000
Consolidated Public Improvement Refunding	3.0 - 5.25	8/15/2004	2008-17	52,850,289	52,850,289
Consolidated Public Improvement	4.0 - 5.0	5/15/2005	2006-25	66,550,000	63,222,500
Consolidated Public Improvement Refunding	5.0	6/1/2005	2011-21	62,464,240	62,464,240
Consolidated Public Improvement	4.2 - 5.0	5/1/2006	2007-16	50,000,000	50,000,000
Consolidated Public Improvement	Variable	6/1/2005	2017-26	64,000,000	64,000,000
Total				\$ <u>1,297,966,524</u>	\$ <u>735,262,014</u>

Note:

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

Source: Montgomery County, Maryland *Debt Service Program, Direct Debt, Issues Through June 30, 2006*

MONTGOMERY COUNTY, MARYLAND
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS

Calendar Year	Population (1)	Personal Income (\$ thousands) (2)	Per Capita Income (3)	Civilian Labor Force (4)	Resident Employment (5)	Unemployment Rate (6)		Average Registered Number of Pupils (Fiscal Year)(7)
1997	835,432	\$ 33,418,247	\$ 40,001	466,600	455,285	2.4	%	122,505
1998	847,596	36,586,455	43,168	472,944	462,620	2.2		125,035
1999	862,350	39,049,711	45,283	478,946	470,018	1.9		127,852
2000	878,545	43,575,224	49,599	489,050	476,197	2.6		130,689
2001	893,927	45,537,627	50,941	490,213	475,049	3.1		134,180
2002	906,863	47,041,902	51,873	495,669	478,377	3.5		136,832
2003	916,073	48,789,893	53,260	497,410	480,802	3.3		138,891
2004	921,631	52,221,138	56,662	497,616	481,647	3.2		139,203
2005	942,000	55,800,000	59,236	507,644	491,801	3.1		139,337
2006	953,000	58,900,000	61,805	521,858	508,030	2.8		139,387

NOTES:

- (1) Sources: Data for 1997-2004 from the Bureau of Economic Analysis (BEA), U.S. Department Commerce. Data for 2005-2006 from the Maryland-National Capital Park and Planning Commission, Research and Technology Center. Round 7 Cooperative Estimates. Estimates for 1997-2004 revised by BEA on May 2006.
- (2) Source: BEA, U.S. Department of Commerce. Personal income includes money income from wages and salaries; transfer payments such as social security and public assistance; income from rent, interest and dividends. Data for 1997-2003 were revised by BEA and data for 2004 is a preliminary estimate from BEA. Data for 2005-2006 are estimates derived by the Montgomery County Department of Finance.
- (3) Per capita income is derived by dividing personal income by population.
- (4) Source: Bureau of Labor Statistics (BLS), U.S. Department of Labor. Civilian labor force data include all persons in the civilian noninstitutional population classified as either employed or unemployed and counted by place of residence and are revised for 1997 - 2003 and estimated for 2004. Please note: BLS undertook significant changes to the County's civilian labor force data during 2006 for calendar years 2000 through 2005. Data for 2006 is an estimate derived by the Montgomery County Department of Finance.
- (5) Source: BLS, U.S. Department of Labor. Resident employment includes all persons who during the survey week (a) did any work as paid employees, worked in their own business or profession or on their own farm, or worked 15 hours or more as unpaid workers in an enterprise operated by a member of their family, or (b) were not working but who had jobs from which they were temporarily absent because of vacation, illness, bad weather etc. Each employed person is counted only once, even if he or she holds more than one job and is counted by place of residence and not by place of employment. Please note: BLS undertook significant changes to the County's resident employment data during 2006 for calendar years 2000 through 2005. Data for 2006 is an estimate derived by the Montgomery County Department of Finance.
- (6) The unemployment rate for 2006 is the average of the unemployments rates for the first half of calendar year 2006.
- (7) Source: Office of Management and Budget, Montgomery County.

MONTGOMERY COUNTY, MARYLAND
PRINCIPAL EMPLOYERS
CURRENT FISCAL YEAR AND NINE YEARS AGO

Employer	Fiscal Year 2006			Fiscal Year 1997		
	Employees (1)	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
U.S. Department of Health and Human Services	39,000	1	8.50 %	27,970	1	7.24 %
Montgomery County Public Schools	20,132	2	4.39	14,469	2	3.74
U.S. Department of Defense	13,670	3	2.98	14,200	3	3.67
Montgomery County Government	8,536	4	1.86	7,600	5	1.97
Adventist Healthcare	6,951	5	1.52	3,800	10	0.98
U.S. Department of Commerce	6,678	6	1.46	7,410	6	1.92
Giant Food Corporation	4,900	7	1.07	4,500	8	1.16
Chevy Chase Bank	4,700	8	1.02	*		-
Lockheed Martin	3,900	9	0.85	8,000	4	2.07
Marriott International, Inc. (Headquarters)	3,500	10	0.76	5,000	7	1.29
Chesapeake and Potomac Telephone Company	*		-	4,500	8	1.16
Total	<u>111,967</u>		<u>24.41 %</u>	<u>97,449</u>		<u>25.22 %</u>

NOTES:

* Employer is not one of the ten largest employers during the year noted.

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

Source: Montgomery County Department of Economic Development

MONTGOMERY COUNTY PUBLIC SCHOOLS
OPERATING INDICATORS BY FUNCTION
LAST THREE FISCAL YEARS

	Fiscal Year		
	2004	2005	2006
Governmental Activities:			
Instruction:			
Total enrollment ⁽⁴⁾	139,203	139,337	139,387
Regular students ⁽⁴⁾	130,852	130,601	130,444
ESOL students ⁽²⁾	12,200	12,905	13,200
Special education students ⁽⁴⁾	8,114	8,520	8,645
Cost per pupil (accrual basis) ⁽⁵⁾	\$ 11,628	\$ 8,520	\$ 13,199
Number of teaching stations ⁽³⁾	6,430	6,598	6,817
Average teacher salary ⁽²⁾	\$ 61,962	\$ 62,608	\$ 65,173
Student / Teacher ratio ⁽⁴⁾	14:1	14:1	14:1
Average SAT score ⁽²⁾	1,094	1,102	1,102
Seniors taking SAT ⁽²⁾	81 %	80 %	77 %
Building capacity used ⁽³⁾	99 %	93 %	96 %
Support services:			
Student transportation:			
Number of buses	1,202	1,230	1,252
Students transported ⁽¹⁾	96,000	93,845	95,962
Operation of plant:			
School buildings ⁽²⁾	191	192	194
Square footage ⁽³⁾	21.2 million	21.6 million	22.4 million
Number of rooms ⁽³⁾	6,961	7,140	7,357
Maintenance of plant:			
Work orders	58,172	58,885	64,550
Average building age (years) ⁽³⁾	31	31	31
Administration:			
Payments issued	61,458	62,909	67,125
Purchased orders issued	42,621	46,843	48,343
Business-Type Activities:			
Food Service:			
Meals served	10.9 million	11.4 million	12.1 million
Free & Reduced meals	31,518	31,419	30,720
Adult Education:			
Students	8,706	8,332	6,116
Number of tours	45	39	42
Real Estate Management:			
Square footage under lease	98,114	84,618	104,426
Average annual rental months	11	10	11
Field Trip:			
Number of trips run	NA	NA	1,106
Trip miles	NA	19,944,093	20,463,899
Entrepreneurial activities:			
Science kits sold	3,239	3,922	4,356

Notes:

NA - Data not readily available.

Data for FY 1997 - 2003 is not readily available.

Sources:

(1) Our Call to Action: Pursuit of Excellence. The Strategic Plan for the Montgomery County Public Schools

(2) The Citizens Budget FY2007

(3) FY2007 Educational Facilities Master Plan and the FY2007-2012 Capital Improvements Program

(4) The Superintendent's FY2007 Operating Budget Summary and Personnel Complement

(5) Total governmental-activities expense from the Statement of Activities divided by total enrollment.

Various MCPS departments where not otherwise noted

MONTGOMERY COUNTY PUBLIC SCHOOLS
EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS

	Fiscal Year				
	1997	1998	1999	2000	2001
Governmental Activities:					
Instruction					
Regular instruction:					
Teachers	6,927	7,054	7,477	7,884	8,490
Other staff	1,302	1,346	1,360	1,467	1,467
Total Regular instruction	<u>8,229</u>	<u>8,400</u>	<u>8,837</u>	<u>9,351</u>	<u>9,957</u>
Special education:					
Teachers	1,191	1,294	1,410	1,485	1,538
Other staff	613	674	800	896	921
Total Special education	<u>1,804</u>	<u>1,968</u>	<u>2,210</u>	<u>2,381</u>	<u>2,459</u>
School administration	1,181	1,233	1,288	1,336	1,383
Student personnel services	63	64	69	72	77
Total Instruction	<u>11,277</u>	<u>11,665</u>	<u>12,404</u>	<u>13,140</u>	<u>13,876</u>
Support services:					
Student transportation	1,269	1,309	1,379	1,429	1,459
Operation of plant	1,100	1,095	1,125	1,163	1,189
Maintenance of plant	339	366	369	373	373
Administration	322	320	322	331	326
Total Support services	<u>3,030</u>	<u>3,090</u>	<u>3,195</u>	<u>3,296</u>	<u>3,347</u>
Special Revenue:					
Instruction TV *	8	9	9	11	13
Business-Type Activities:					
Food Service	425	437	455	487	503
Adult Education	8	8	8	8	7
Real Estate Management	3	3	3	3	4
Field Trips	3	3	3	3	3
Entrepreneurial activities	<u>-</u>	<u>-</u>	<u>3</u>	<u>3</u>	<u>5</u>
Position Grand total	<u>14,754</u>	<u>15,215</u>	<u>16,080</u>	<u>16,951</u>	<u>17,758</u>

Notes:

* Instructional TV employees were reported in the General Fund under community services, prior to FY2001, when the Special Revenue fund was established.

Source:

The Superintendent's Operating Budget Summary and Personnel Complement

2002	2003	2004	2005	2006
8,974	9,197	9,257	9,302	9,546
<u>1,488</u>	<u>1,400</u>	<u>1,343</u>	<u>1,354</u>	<u>1,354</u>
<u>10,462</u>	<u>10,597</u>	<u>10,600</u>	<u>10,656</u>	<u>10,900</u>
1,587	1,665	1,708	1,775	1,867
<u>1,052</u>	<u>1,117</u>	<u>1,166</u>	<u>1,206</u>	<u>1,269</u>
<u>2,639</u>	<u>2,782</u>	<u>2,874</u>	<u>2,981</u>	<u>3,136</u>
1,432	1,486	1,498	1,543	1,610
88	89	121	121	122
<u>14,621</u>	<u>14,954</u>	<u>15,093</u>	<u>15,301</u>	<u>15,768</u>
1,503	1,522	1,620	1,688	1,728
1,243	1,272	1,280	1,285	1,322
371	368	363	380	389
<u>337</u>	<u>321</u>	<u>326</u>	<u>334</u>	<u>345</u>
<u>3,454</u>	<u>3,483</u>	<u>3,589</u>	<u>3,687</u>	<u>3,784</u>
13	14	14	14	14
520	545	575	577	590
6	8	8	6	5
4	4	4	4	5
3	3	3	3	3
<u>5</u>	<u>6</u>	<u>7</u>	<u>9</u>	<u>9</u>
<u>18,626</u>	<u>19,017</u>	<u>19,293</u>	<u>19,601</u>	<u>20,178</u>

MONTGOMERY COUNTY PUBLIC SCHOOLS
SCHEDULE OF INSURANCE IN FORCE
as of June 30, 2006

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	07/01/06	07/01/07	\$100,000
Workers' Compensation	Montgomery County – Board of Education Self- Insurance Program	N/A	07/01/06	07/01/07	As required by Maryland Statutes plus \$100,000 Insurance Fund
Boiler and Machinery	FM Global	LP550	07/01/06	07/01/07	Extra expense \$25,000 deductible
Property All Risk Coverage	FM Global	LP550	07/01/06	07/01/07	Replacement costs less \$250,000 deductible per occurrence including Flood and Earthquake \$500,000,000 per occurrence
Bus, Truck and Auto Fleet Fire, Theft and Comprehensive	FM Global	LP550	07/01/06	07/01/07	Same as above
Commercial Crime Policy Bond Coverage - all employees	Fidelity & Deposit Co. of Maryland	CCP00510340	07/01/06	06/30/07	\$1,000,000 per loss \$500,000 forgery/alteration
Public Official Bond	Travelers	103962416	07/01/03	06/30/07	\$10,000
Tackle Football for Students	Mega Life & Health Insurance Company	N/A	08/15/06	08/15/07	\$100,000 medical expense After 52 weeks after accident - \$2,500 death
Catastrophe/Liability for School Athletics	Mutual of Omaha	MOCO644808-19	08/01/06	08/01/07	\$5,000,000 Medical expense benefit with a \$25,000 retention
Public Official Liability	Montgomery County – Board of Education Self- Insurance Program	N/A	07/01/03	06/30/07	No limit
Fiduciary Liability	National Union Fire	006731215	07/01/06	06/30/07	\$5,000,000
N/A -- Not Applicable					

Source: Department of Financial Services



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