

MONTGOMERY COUNTY PUBLIC SCHOOLS

A COMPONENT UNIT OF MONTGOMERY COUNTY MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2005



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, 2005

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:

Oak View Elementary 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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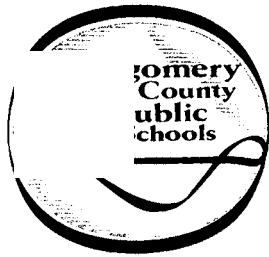
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INTRODUCTORY SECTION

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850 Hungerford Drive * Rockville, Maryland * 20850-1747

Telephone (301)

August 26, 2005

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, 2005.

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 in MCPS' separately issued Single Audit Report.

Overview of the Report

The CAFR is divided into three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, 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, and the combining and individual fund financial statements, and supplementary data. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

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

Members of the Board of Education

MCPS Profile

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

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

Factors Effecting Financial Condition

Local economy. MCPS receives approximately 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 metropolitan area, most indicators reflect positive performance for the region's economy, with increases in employment and consumer confidence, and continued price stability. The Washington Coincident Index, a measure of the current state of the metropolitan economy, increased 7.0 percent over the last year. Both the region's and the county's economies are expected to outperform the nation's economy due to the large presence of the federal government in the area. The federal government comprises approximately 30 percent of the county's economy.

Montgomery County's economy has experienced significant improvement in 2005. Resident employment in the county grew by 2.4 percent, and unemployment was at 3.4 percent. County retail sales tax receipts increased 5.3 percent in 2005 compared to a 6.7 percent increase in 2004. Existing home sales have grown by 3.2 percent. Both median and average home prices in the county have increased by nearly 20 percent this year, which will benefit the county's revenue outlook through higher residential property assessments.

Multiyear budgeting. Six-year budget projections are updated each year, used as a starting point for discussion and planning, and revised each year to reflect trends and factors affecting enrollment. Preliminary projections for FY 2007 through FY 2012 indicate an annual increase of up to \$111.5 million (6.5 percent) for FY 2007, and average projected increases of up to \$51.8 million for known commitments for FY 2008 through FY 2012. The FY 2007 projected increase includes approximately \$45.8 million for new schools and for negotiated salary increases. Each one-percent salary increase will add \$13.0 million in FY 2007. 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 midyear increase of 1.0 percent during 2006–07. The agreement also allows for additional negotiations during FY 2006 and FY 2007 on several issues, including impacts of the No Child Left Behind Act and implementation of a Career Lattice plan.

Members of the Board of Education

In January 2003, MCPS completed negotiations with the Montgomery County Association of Administrative 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 were added. There may be negotiations during the fall and winter of 2005–2006 on language issues for the final year of the agreement.

In February 2003, MCPS also completed negotiations with SEIU Local 500 (representing supporting services employees), on a two-year contract that was effective July 1, 2003, and 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 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 midyear increase of 1.0 percent during 2006-07. There may be negotiations during the fall and winter of 2005-2006 on language issues for the final year of the agreement.

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.

Enrollment increases. MCPS has experienced rapid enrollment growth for more than 20 years. However, total enrollment has stabilized. MCPS enrollment was 139,337 students in FY 2005, 134 more than in FY 2004. The September 30, 2005, enrollment is projected to be 139,477. To relieve overcrowding, accommodate more full-day kindergarten classes, and provide for increased enrollment, MCPS added 143 classrooms to six schools in FY 2005, including reopening a high school, and will add another 179 classrooms to ten schools in FY 2006, including two new schools.

In FY 2006, salary and other costs of additional teachers and school-based personnel required for enrollment changes are projected to increase operating costs by \$0.6 million for elementary and secondary instruction. Increased enrollment of special education students is projected to increase costs by \$9.1 million due to a projected increase of 775 students requiring special education classes. There also will be an increase of \$1.1 million for transportation of these students. Employee benefits costing \$1.4 million will be required for the new employees needed for enrollment changes. The opening of five new schools will add \$9.4 million to the FY 2007 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 \$522,443 in FY 2005. Excess cash during the year is invested by the Montgomery County Government for MCPS. MCPS does not benefit directly from the investment earnings derived from the county's cash management and investment programs.

Risk Management. Page 79 in the statistical section of this report presents the Montgomery County and Board of Education's Self-Insurance Fund. This fund was established in 1954 so that properties of the county, including schools, could be partially self-insured for fire insurance purposes. Effective July 1, 1978, 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 an increase of 7 percent in the number of seniors taking the test. It was the second consecutive year that average scores exceeded

Members of the Board of Education

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 2004, 39 percent of the school system's seniors scored a 3 or higher on Advanced Placement tests—three times the national average and double the average in Maryland. Of that group, African American and Hispanic students' achievement has increased by 111 percent since 2000. Record numbers of kindergarten students are reading, 71 percent in 2004, up from 39 percent in 2001. The minority achievement gap at this level has narrowed dramatically with 73 percent of African American students in the neediest schools now reading compared with 75 percent of White students from schools in more affluent areas.

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.

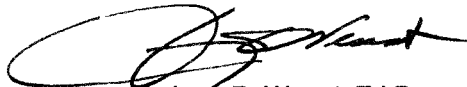
Financial Reporting Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MCPS for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. In order to be awarded 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's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

For 24 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 2005 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, 2004

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.



Nancy L. Zelle

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, 2004

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

James Tomback
President

Emmie Weller
Executive Director

**MONTGOMERY COUNTY PUBLIC SCHOOLS
LISTING OF OFFICIALS**

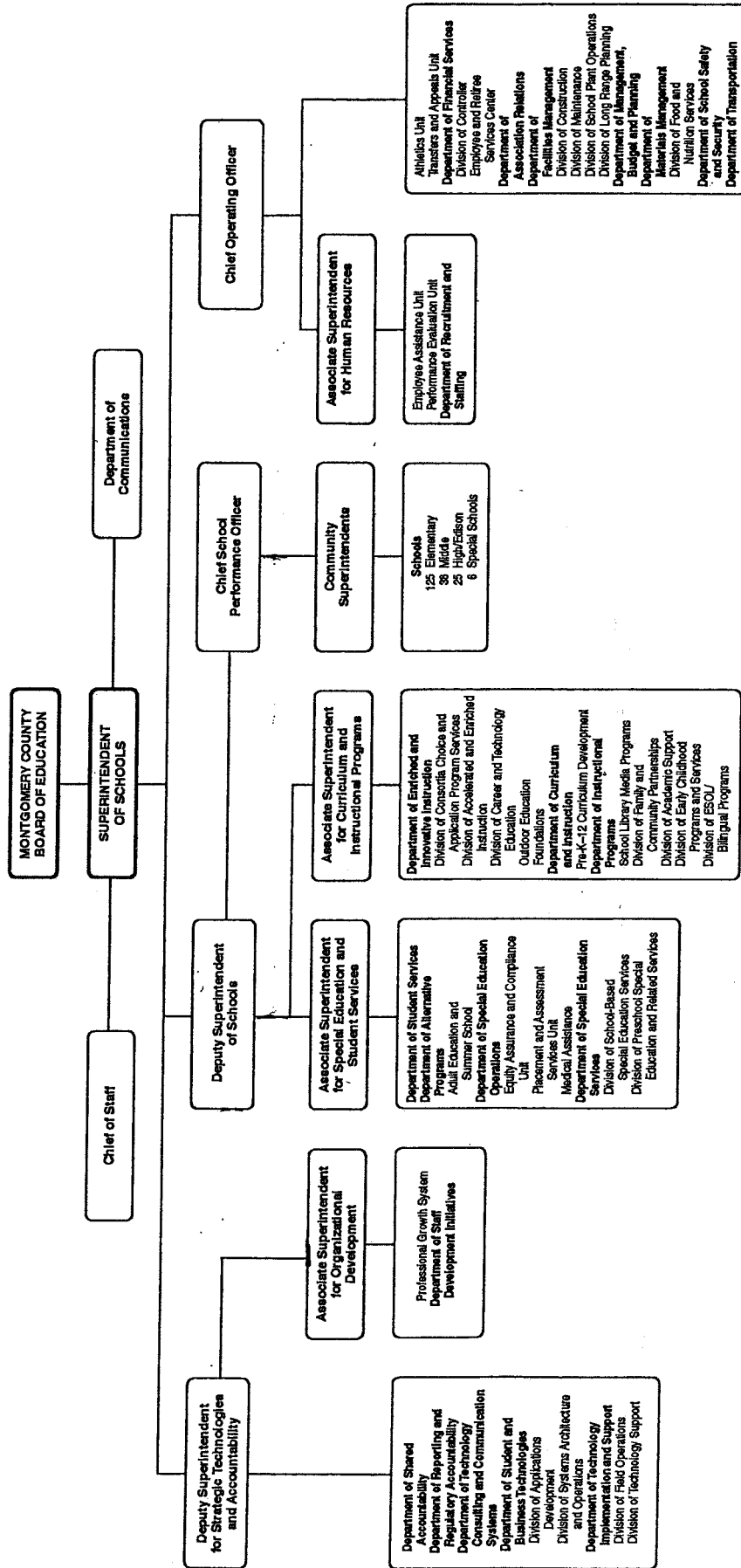
MEMBERS OF THE BOARD OF EDUCATION

Patricia B. O’Neill, President
Charles Haughey, Vice President
Steve Abrams
Sharon W. Cox
Valerie Ervin
Nancy Navarro
Gabriel Romero
Sebastian Johnson, 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. PorterChief of Staff
Jody Leleck Associate Superintendent for Curriculum and Instructional Programs
Darlene Merry Associate Superintendent for Organizational Development
Matthew Tronzano Associate Superintendent for Human Resources
Carey Wright (Dr.).....Associate Superintendent for Special Education
and Student Services
Donald H. Kress.....Chief School Performance Officer
Stephen L. Bedford Community Superintendent
Mark E. Kelsch Community Superintendent
LaVerne Kimball..... Community Superintendent
Susan F. Marks..... Community Superintendent
Kevin M. Maxwell (Dr.) Community Superintendent
Frank H. Stetson (Dr.)..... Community Superintendent

MONTGOMERY COUNTY PUBLIC SCHOOLS FY 2006 ORGANIZATION



FINANCIAL SECTION



Independent Auditor's Report

The Board of Education
of Montgomery County, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Montgomery County Public Schools (MCPS), as of and for the year ended June 30, 2005, which collectively comprise MCPS' basic financial statements as listed in the table of contents. These financial statements are the responsibility of MCPS' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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, 2005, 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 26, 2005 on our consideration of MCPS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Schedule of Funding Progress for Single Employer Defined Benefit Pension Plans as referenced in the table of contents are not required parts 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 MCPS' basic financial statements. The accompanying supplementary information, such as the introductory section, combining and individual nonmajor fund financial statements, and statistical tables 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 by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Gunderson LLP

Baltimore, Maryland
August 26, 2005

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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, 2005. Readers are encouraged to consider the information presented here in conjunction with additional information presented in the transmittal letter, which can be found on pages 1-4 of this report.

Financial Highlights

- The assets of MCPS exceeded its liabilities at June 30, 2005 by \$1,256.9 million, which represents its net assets.
- MCPS' net assets increased during the year by \$80.1 million.
- 96.3 percent of capital asset additions were directed toward instructional facilities, including the modernization of four schools.
- MCPS successfully realized its commitment to the Montgomery County Council to generate \$12.5 million in FY 2005 savings to be used to fund the FY 2006 operating budget.

Overview of the Financial Statements

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

District-Wide Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

Proprietary funds. MCPS maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the district-wide financial statements. MCPS uses enterprise funds to account for its food services, adult education, 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

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

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 37-54 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 58-67 of this report.

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

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 141.0	\$ 102.5	\$ 0.4	\$ 0.8	\$ 141.4	\$ 103.3
Capital assets	1,368.6	1,284.7	5.8	5.0	1,374.4	1,289.7
Total assets	1,509.6	1,387.2	6.2	5.8	1,515.8	1,393.0
Long-term liabilities outstanding	99.6	94.2	1.6	1.4	101.2	95.6
Other liabilities	155.6	118.2	2.1	2.4	157.7	120.6
Total liabilities	255.2	212.4	3.7	3.8	258.9	216.2
Net Assets:						
Invested in capital assets, net of related debt	1,347.3	1,265.3	5.2	4.8	1,352.5	1,270.1
Unrestricted	(92.9)	(90.5)	(2.7)	(2.8)	(95.6)	(93.3)
Total net assets	\$ 1,254.4	\$ 1,174.8	\$ 2.5	\$ 2.0	\$ 1,256.9	\$ 1,176.8

District-wide Financial Analysis

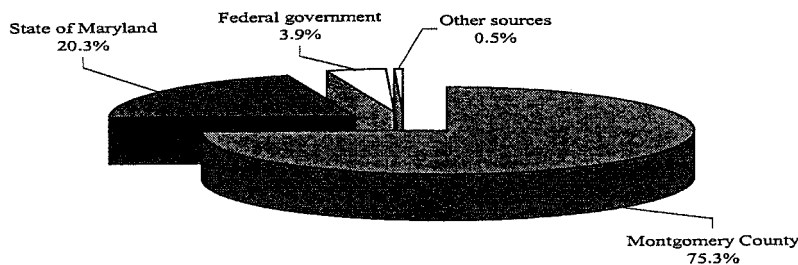
Net assets may serve as a useful indicator of a government's financial position. MCPS' net assets, the amount by which assets exceed liabilities, increased \$80.2 million to \$1,256.9 million. Most of the increase came from governmental activities, which increased by \$79.6 million to \$1,254.4 million. 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 \$82.4 million to \$1,352.5 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 \$2.3 million to a \$95.6 million deficit at June 30, 2005. The decrease in unrestricted net assets is primarily attributed to a \$2.6 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 \$152.3 million (9.2 percent). Intergovernmental revenues increased \$151.3 million (9.9 percent), and operating program revenues increased \$0.9 million (0.6 percent). Intergovernmental revenues from Montgomery County increased \$131.3 million (11.1 percent) as required to fund the operating and capital budgets. Intergovernmental revenue from the State of Maryland increased

1 million (5.9 percent), related principally to an increase of \$15.3 million in the unrestricted sensory education grant.

Total expenses increased \$103.8 million (6.4 percent) to \$1,722.4 million. In 2005, instructional programs expenses accounted for 83.2 percent and support services accounted for 16.8 percent of total governmental activities expenses. Instruction expenses increased \$85.0 million (6.3 percent) to \$1,433.3 million. Regular instruction increased \$54.3 million (5.5 percent). There was a proportionately greater increase of 9.2 percent in special education, related to an increase in special education enrollment of 412 students.

Support services expenses increased \$18.7 million (6.9 percent) to \$289.0 million. Student transportation expenses increased 13.7 percent, due to a substantial increase in fuel prices. Plant maintenance expenses decreased 2.2 percent.

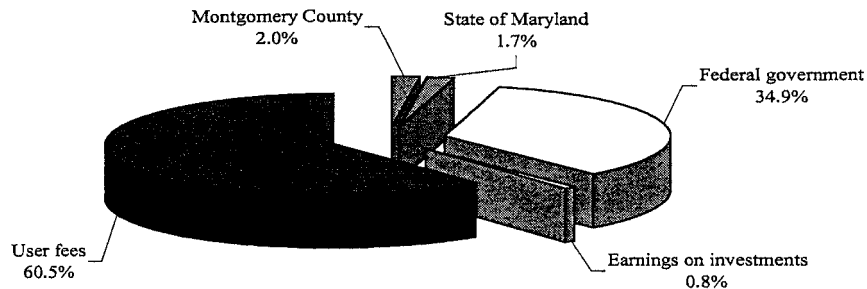
Montgomery County Public Schools Changes in Net Assets
(Amounts expressed in millions)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 5.0	\$ 2.6	\$ 27.9	\$ 27.7	\$ 32.9	\$ 30.3
Operating grants and contributions	79.1	71.6	16.9	15.7	96.0	87.3
Capital grants and contributions	41.6	50.6	0.9	0.5	42.5	51.1
General revenues:						
Intergovernmental	1,676.1	1,524.8			1,676.1	1,524.8
Other	0.2	0.1	0.4	0.1	0.6	0.2
Total revenues	1,802.0	1,649.7	46.1	44.0	1,848.1	1,693.7
Expenses:						
Regular instruction	1,038.1	983.8			1,038.1	983.8
Special education	247.3	226.5			247.3	226.5
School administration	135.7	126.6			135.7	126.6
Student personnel services	12.2	11.4			12.2	11.4
Health services	-	-			-	-
Student transportation	91.1	80.1			91.1	80.1
Operation of plant	109.6	102.9			109.6	102.9
Maintenance of plant	47.6	48.7			47.6	48.7
Administration	39.2	37.0			39.2	37.0
Community services	1.6	1.6			1.6	1.6
Food services			39.5	37.4	39.5	37.4
Adult education			1.9	4.1	1.9	4.1
Real estate management			1.5	1.5	1.5	1.5
Field trips			1.4	1.3	1.4	1.3
Entrepreneurial activities			1.3	1.2	1.3	1.2
Total expenses	1,722.4	1,618.6	45.6	45.5	1,768.0	1,664.1
Increase (decrease) in net assets	79.6	31.1	0.5	(1.5)	80.1	29.6
Net Assets - beginning	1,174.8	1,143.7	2.0	3.5	1,176.8	1,147.2
Net Assets - ending	\$ 1,254.4	\$ 1,174.8	\$ 2.5	\$ 2.0	\$ 1,256.9	\$ 1,176.8

Business-type activities. Business-type activities increased MCPS' net assets by \$0.5 million. Revenues from the sale of food increased \$1.1 million (5.5 percent) while non-operating revenues rose \$1.2 million (7.6 percent). The number of reimbursable meals increased 242,000 (2.2 percent) to 11,300,000 during the year. Food services operating expenses increased \$2.1 million (5.6 percent). Increases in expenses were generally consistent with the increase in revenues, except for fringe benefits which increased \$1.2 million (20.3 percent). A greater increase in fringe benefits resulted in a \$1.1 million decrease in food services net assets.

Other enterprise funds net assets increased \$0.5 million, due primarily to an increase of \$0.3 million in Real Estate Management Fund revenues.

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.

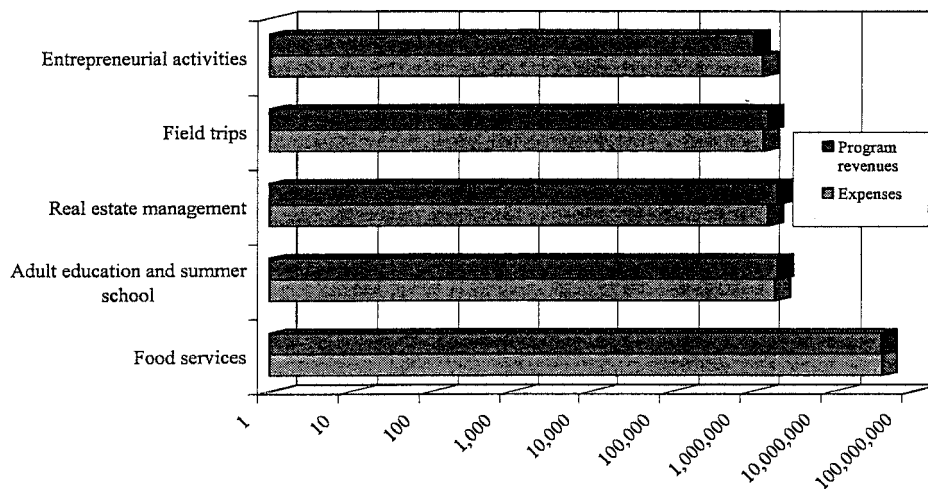
As of the end of the current fiscal year, MCPS' governmental funds reported combined ending fund balance of \$3.9 million, an increase of \$3.4 million from the prior year. The unreserved, undesignated fund deficit of \$9.3 million was offset by reserved fund balance of \$13.2 million. Reserved fund 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, 2005, unreserved, undesignated fund balance was \$3.3 million and total fund balance was \$16.5 million.

reserved, undesignated fund balance increased \$3.5 million, resulting from a plan to increase fund balance for use in funding MCPS' 2006 operating budget.

Capital projects fund deficit increased by \$1.8 million during 2005 to a deficit of \$12.6 million at June 30, 2005. 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.

Expenses and Program Revenues - Business-type Activities



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

General Fund Budgetary Highlights

The final amended budget for fiscal year 2005 was \$32.9 million higher than the original budget. The increases were a result of \$15.9 million in unexpended restricted program grants that carried forward to 2005, and \$17.0 million in supplemental appropriations primarily for restricted program grants received during the year.

Actual budgetary fund balance increased by \$2.8 million. The increase in fund balance resulted from a plan that generated \$12.5 million in current year savings, offset by applying \$9.2 million in beginning fund balance toward funding the 2005 operating budget.

Actual revenues were \$20.8 million under budget for the year. Restricted revenues were \$21.9 million under budget, of which \$5.7 million comprised estimated restricted revenue that did not materialize and \$16.2 million in unrealized revenue for grants that carried forward into 2006.

Unrestricted revenues were \$1.1 million over budget. State aid for special education nonpublic placements was \$0.8 million above budget. Tuition assessed to nonresident students exceeded the budget by \$0.3 million.

Actual expenditures were \$32.8 million under budget. Restricted expenditures were \$21.9 million less than the budget, which consisted of \$16.2 million in unspent funds for grants that carry forward into 2006 and \$5.7 million in grant authorizations expiring June 30, 2005.

Unrestricted expenditures were \$10.9 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 2006 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, 2005, MCPS’ investment in capital assets for its governmental and business-type activities amounts to \$1,374.3 million, net of accumulated depreciation. This amount represents a net increase of \$84.6 million, or 6.5 percent from last year. The net value of buildings increased \$42.3 million and construction in progress increased \$32.6 million.

Montgomery County Public Schools Capital Assets
(Net of depreciation)
(amounts expressed in millions)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 67.6	\$ 66.5	\$ -	\$ -	\$ 67.6	\$ 66.5
Buildings	1,023.1	980.8			1,023.1	980.8
Site improvements	94.9	91.1			94.9	91.1
Vehicle and equipment	55.0	51.0	5.8	5.0	60.8	56.0
Construction in progress	127.9	95.3			127.9	95.3
Total	\$ 1,368.5	\$ 1,284.7	\$ 5.8	\$ 5.0	\$ 1,374.3	\$ 1,289.7

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

- MCPS added 143 classrooms to six schools, including reopening of a high school.
- Engaged in the construction of an additional 179 classrooms during 2005, including two new middle schools. The new schools will formally open for the 2005-2006 school year.

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

Long-term debt. At June 30, 2005, MCPS had \$42.0 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 \$26.0 million during 2005. Principal payments on existing capital leases were \$19.5 million during the current year.

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

ors Bearing on MCPS' Future

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

No Child Left Behind. In 2002 the United States Congress approved the No Child Left Behind (NCLB) Act. This marked the most fundamental revision of federal education legislation since the adoption of the Elementary and Secondary Education Act (ESEA) in 1965. The new law calls for rigorous standards in all states and compulsory testing of students in grades 3 through 8 and grade 10. MCPS has aligned its plans and outcome measures with the standards of 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 2006, MCPS will receive an increase of \$30.6 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, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Educational Foundation
Assets				
Equity in pooled cash and investments	\$ 13,915,208	\$ 1,407,978	\$ 15,323,186	\$ -
Cash and cash equivalents		6,229,036	6,229,036	3,648
Cash with escrow agent		75,401	75,401	
Investments - cash equivalents	18,868,845		18,868,845	
Investments			-	3,318,533
Accounts receivable:				
Montgomery County	68,398,276	308,717	68,706,993	
State of Maryland	5,896,012	27,985	5,923,997	
Federal government	7,616,734	784,584	8,401,318	
Other	6,912,944	555,796	7,468,740	
Due from fiduciary funds	657,977		657,977	
Due from component unit	527,649		527,649	
Internal balances	10,388,483	(10,388,483)	-	
Inventories	7,241,491	1,226,494	8,467,985	
Prepays	10,629	121,861	132,490	
Due from employees	683,377		683,377	
Capital assets (net of accumulated depreciation):				
Land and site improvements	162,523,246		162,523,246	
Buildings and additions	1,023,123,659	8,024	1,023,131,683	
Construction in progress	127,906,464		127,906,464	
Vehicles and equipment	55,042,680	5,775,886	60,818,566	
Total assets	1,509,713,674	6,133,279	1,515,846,953	3,322,181
Liabilities				
Accounts payable and other current liabilities	124,831,185	337,595	125,168,780	
Due to primary government			-	527,649
Deferred revenue	7,522,393	1,571,262	9,093,655	
Noncurrent liabilities:				
Due within one year	23,295,776	193,909	23,489,685	
Due in more than one year	99,603,820	1,603,830	101,207,650	
Total liabilities	255,253,174	3,706,596	258,959,770	527,649
Net Assets				
Invested in capital assets, net of related debt	1,347,324,600	5,182,162	1,352,506,762	
Restricted for:				
Instructional Programs, Expendable				532,330
Unrestricted	(92,864,100)	(2,755,479)	(95,619,579)	2,262,202
Total net assets	\$ 1,254,460,500	\$ 2,426,683	\$ 1,256,887,183	\$ 2,794,532

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, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
Instruction:				
Regular instruction	\$ 1,038,043,643	\$ 4,675,822	\$ 42,254,626	\$ 20,672,851
Special education	247,338,455	75,616	29,195,709	
School administration	135,691,110		3,495,396	
Student personnel services	12,226,245		593,721	
Health services	39,433			
Total instruction	<u>1,433,338,886</u>	<u>4,751,438</u>	<u>75,539,452</u>	<u>20,672,851</u>
Support services:				
Student transportation	91,056,536	277,296	483,137	15,258
Operation of plant	109,613,171		153,885	4,763,106
Maintenance of plant	47,584,397		1,170,000	14,761,064
Administration	39,156,106		444,366	1,367,123
Community services	1,625,698		1,282,747	
Total support services	<u>289,035,908</u>	<u>277,296</u>	<u>3,534,135</u>	<u>20,906,551</u>
Total governmental activities	<u>1,722,374,794</u>	<u>5,028,734</u>	<u>79,073,587</u>	<u>41,579,402</u>
Business-type activities:				
Food services	39,511,622	21,240,579	16,876,746	938,776
Adult education	1,893,599	2,047,577	15,676	
Real estate management	1,537,420	2,019,558		
Field trips	1,355,538	1,547,519		
Entrepreneurial activities	1,316,459	1,023,446		
Total business-type activities	<u>45,614,638</u>	<u>27,878,679</u>	<u>16,892,422</u>	<u>938,776</u>
Total primary government	<u>\$ 1,767,989,432</u>	<u>\$ 32,907,413</u>	<u>\$ 95,966,009</u>	<u>\$ 42,518,178</u>
Component Unit:				
Educational Foundation	<u>\$ 1,030,448</u>	<u>\$ -</u>	<u>\$ 1,518,411</u>	<u>\$ -</u>
General revenues:				
Unrestricted intergovernmental:				
Montgomery County				
State of Maryland				
Federal government				
Investment earnings				
Other revenue				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Educational Foundation
\$ (970,440,344)	\$ -	\$ (970,440,344)	\$ -
(218,067,130)		(218,067,130)	
(132,195,714)		(132,195,714)	
(11,632,524)		(11,632,524)	
(39,433)		(39,433)	
<u>(1,332,375,145)</u>	<u>-</u>	<u>(1,332,375,145)</u>	<u>-</u>
(90,280,845)		(90,280,845)	
(104,696,180)		(104,696,180)	
(31,653,333)		(31,653,333)	
(37,344,617)		(37,344,617)	
(342,951)		(342,951)	
<u>(264,317,926)</u>	<u>-</u>	<u>(264,317,926)</u>	<u>-</u>
<u>(1,596,693,071)</u>	<u>-</u>	<u>(1,596,693,071)</u>	<u>-</u>
	(455,521)	(455,521)	
	169,654	169,654	
	482,138	482,138	
	191,981	191,981	
	<u>(293,013)</u>	<u>(293,013)</u>	
<u>-</u>	<u>95,239</u>	<u>95,239</u>	<u>-</u>
<u>(1,596,693,071)</u>	<u>95,239</u>	<u>(1,596,597,832)</u>	<u>-</u>
			487,963
1,314,971,597		1,314,971,597	
361,020,873		361,020,873	
88,274		88,274	
155,210	367,233	522,443	
70,671		70,671	
15,339	(15,339)	-	
<u>1,676,321,964</u>	<u>351,894</u>	<u>1,676,673,858</u>	<u>-</u>
79,628,893	447,133	80,076,026	487,963
1,174,831,607	1,979,550	1,176,811,157	2,306,569
<u>\$ 1,254,460,500</u>	<u>\$ 2,426,683</u>	<u>\$ 1,256,887,183</u>	<u>\$ 2,794,532</u>

MONTGOMERY COUNTY PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Capital Projects	Other Governmental Fund - Special Revenue	Total Governmental Funds
Assets				
Equity in pooled cash and investments	\$ 13,821,084	\$ -	\$ 94,124	\$ 13,915,208
Accounts receivable:				
Montgomery County	50,712,052	17,686,224		68,398,276
State of Maryland	3,436,937	2,459,075		5,896,012
Federal government	7,616,734			7,616,734
Other	6,959,813	135,679		7,095,492
Due from other funds	14,063,828			14,063,828
Due from fiduciary funds	657,977			657,977
Due from component unit	527,649			527,649
Inventories	7,241,491			7,241,491
Prepays	10,629			10,629
Due from employees	683,377			683,377
Total assets	<u>\$ 105,731,571</u>	<u>\$ 20,280,978</u>	<u>\$ 94,124</u>	<u>\$ 126,106,673</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 12,873,288	\$ 19,578,417	\$ 2,038	\$ 32,453,743
Retainage payable		9,631,448		9,631,448
Accrued salaries and withholdings	60,030,226			60,030,226
Due to other funds	5,355,620	3,675,345		9,030,965
Deferred revenue	7,522,393			7,522,393
Compensated absences	3,489,051			3,489,051
Total liabilities	<u>89,270,578</u>	<u>32,885,210</u>	<u>2,038</u>	<u>122,157,826</u>
Fund Balances:				
Reserved for:				
Encumbrances	5,945,116		5,053	5,950,169
Inventories	7,241,491			7,241,491
Prepays	10,629			10,629
Unreserved, undesignated (deficit)	3,263,757	(12,604,232)	87,033	(9,253,442)
Total fund balances	<u>16,460,993</u>	<u>(12,604,232)</u>	<u>92,086</u>	<u>3,948,847</u>
Total liabilities and fund balances	<u>\$ 105,731,571</u>	<u>\$ 20,280,978</u>	<u>\$ 94,124</u>	<u>\$ 126,106,673</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, 2005

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

Total fund balances - governmental funds	\$	3,948,847
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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	\$	2,004,430,666	
Accumulated depreciation is		<u>(635,834,617)</u>	
			1,368,596,049

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.

1,563,889

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	(41,379,011)	
Compensated absences	(72,388,566)	
Net pension obligation	(4,567,028)	
Technology investment loans	<u>(1,313,680)</u>	
		<u>(119,648,285)</u>

Total net assets - governmental activities	\$	<u>1,254,460,500</u>
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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, 2005

	General	Capital Projects	Other Governmental Fund - Special Revenue	Total Governmental Funds
Revenues:				
Montgomery County	\$ 1,210,596,321	\$ 145,439,196	\$ -	\$ 1,356,035,517
State of Maryland	357,243,312	9,309,454		366,552,766
Federal government	70,605,126			70,605,126
Other sources	6,970,875	46,819	1,177,000	8,194,694
Total revenues	<u>1,645,415,634</u>	<u>154,795,469</u>	<u>1,177,000</u>	<u>1,801,388,103</u>
Expenditures:				
Current:				
Administration	28,439,926			28,439,926
Mid-level administration	101,729,773			101,729,773
Instructional salaries and wages	686,486,182			686,486,182
Instructional textbooks and supplies	28,751,450			28,751,450
Other instructional costs	22,110,271			22,110,271
Special education	193,353,038			193,353,038
Student personnel services	9,111,032			9,111,032
Health services	34,127			34,127
Student transportation	71,323,679			71,323,679
Operation of plant	85,739,412			85,739,412
Maintenance of plant	26,776,709			26,776,709
Fixed charges	388,327,283			388,327,283
Community services	148,806		1,177,762	1,326,568
Debt service:				
Capital lease principal	11,222,907	8,077,726		19,300,633
Capital lease interest	895,959	366,710		1,262,669
Capital outlay		159,336,986		159,336,986
Total expenditures	<u>1,654,450,554</u>	<u>167,781,422</u>	<u>1,177,762</u>	<u>1,823,409,738</u>
Excess (deficiency) of revenues over expenditures	<u>(9,034,920)</u>	<u>(12,985,953)</u>	<u>(762)</u>	<u>(22,021,635)</u>
Other financing sources:				
Capital lease financing	14,272,256	11,184,575		25,456,831
Transfers in - enterprise funds	15,339			15,339
Total other financing sources	<u>14,287,595</u>	<u>11,184,575</u>	<u>-</u>	<u>25,472,170</u>
Net change in fund balances	5,252,675	(1,801,378)	(762)	3,450,535
Fund balances - beginning	<u>11,208,318</u>	<u>(10,802,854)</u>	<u>92,848</u>	<u>498,312</u>
Fund balances - ending	<u>\$ 16,460,993</u>	<u>\$ (12,604,232)</u>	<u>\$ 92,086</u>	<u>\$ 3,948,847</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, 2005

Total net change in fund balances - governmental funds	\$	3,450,535
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 (\$159,336,986 less non-capitalized items of \$41,471,278) plus capital outlays for general fund assets (\$13,113,387) exceed depreciation expense (\$47,543,567) in the current period.		83,435,528
The net effect of various miscellaneous transactions involving capital assets, such as the loss on disposal of capital assets and the donation of land from developers is to decrease net assets.		454,640
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.		(6,156,198)
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.		(2,655,953)
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>1,100,341</u>
Change in net assets of governmental activities	\$	<u><u>79,628,893</u></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, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Montgomery County	\$ 1,208,018,760	\$ 1,210,701,687	\$ 1,210,596,321	\$ (105,366)
State of Maryland	270,694,331	275,249,108	275,305,973	56,865
Federal government	60,386,961	84,689,220	70,195,126	(14,494,094)
Other sources	11,878,160	13,280,509	6,970,875	(6,309,634)
Total revenues	1,550,978,212	1,583,920,524	1,563,068,295	(20,852,229)
Expenditures and encumbrances:				
Current:				
Administration	31,903,168	32,298,450	31,613,207	685,243
Mid-level administration	100,724,745	102,878,987	101,250,378	1,628,609
Instructional salaries and wages	693,555,885	700,323,626	686,830,936	13,492,690
Instructional textbooks and supplies	29,048,982	30,924,742	29,825,200	1,099,542
Other instructional costs	14,684,389	25,061,177	17,364,800	7,696,377
Special education	199,798,730	199,522,750	193,923,456	5,599,294
Student personnel services	9,258,951	9,417,087	9,117,440	299,647
Health services	45,378	45,378	34,127	11,251
Student transportation	67,041,418	69,695,366	68,777,242	918,124
Operation of plant	84,309,397	87,880,808	87,729,799	151,009
Maintenance of plant	27,371,900	27,371,900	27,327,303	44,597
Fixed charges	302,159,062	307,223,173	306,336,486	886,687
Community services	272,000	472,873	148,806	324,067
Total expenditures and encumbrances	1,560,174,005	1,593,116,317	1,560,279,180	32,837,137
Excess (deficiency) of revenues over expenditures and encumbrances	(9,195,793)	(9,195,793)	2,789,115	11,984,908
Other financing sources:				
Operating transfers from enterprise funds			15,339	15,339
Total other financing sources	-	-	15,339	15,339
Excess (deficiency) of revenues and other financing sources over expenditures and encumbrances	(9,195,793)	(9,195,793)	2,804,454	12,000,247
Fund balance - beginning	9,195,793	9,195,793	10,450,473	1,254,680
Fund balance - ending	\$ -	\$ -	\$ 13,254,927	\$ 13,254,927

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, 2005

	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	\$ -	\$ 1,407,978	\$ 1,407,978	\$ -
Cash and cash equivalents	6,229,036		6,229,036	
Cash with escrow agent	75,401		75,401	
Investments - cash equivalents				18,868,845
Accounts receivable:				
Montgomery County		308,717	308,717	
State of Maryland	27,985		27,985	
Federal government	768,908	15,676	784,584	
Other	144,550	411,246	555,796	55,192
Due from other funds				5,355,620
Inventories	1,226,494		1,226,494	
Prepays		121,861	121,861	
Total current assets	<u>8,472,374</u>	<u>2,265,478</u>	<u>10,737,852</u>	<u>24,279,657</u>
Noncurrent assets:				
Capital assets, net of accumulated depreciation:				
Buildings and improvements		8,024	8,024	
Machinery and equipment	5,694,809	81,077	5,775,886	
Total noncurrent assets	<u>5,694,809</u>	<u>89,101</u>	<u>5,783,910</u>	<u>-</u>
Total assets	<u>14,167,183</u>	<u>2,354,579</u>	<u>16,521,762</u>	<u>24,279,657</u>
Liabilities				
Current liabilities:				
Accounts payable	187,799	132,977	320,776	220,731
Claims payable				20,356,643
Accrued interest payable	16,819		16,819	
Due to employees, advance premium withholdings				2,138,394
Due to other funds	8,802,711	1,585,772	10,388,483	
Deferred revenue	1,337,139	234,123	1,571,262	
Capital leases - current	177,518	16,391	193,909	
Total current liabilities	<u>10,521,986</u>	<u>1,969,263</u>	<u>12,491,249</u>	<u>22,715,768</u>
Noncurrent liabilities:				
Capital leases payable	363,457	52,932	416,389	
Compensated absences	954,398	233,043	1,187,441	
Total noncurrent liabilities	<u>1,317,855</u>	<u>285,975</u>	<u>1,603,830</u>	<u>-</u>
Total liabilities	<u>11,839,841</u>	<u>2,255,238</u>	<u>14,095,079</u>	<u>22,715,768</u>
Net Assets				
Invested in capital assets, net of related debt	5,162,384	19,778	5,182,162	
Unrestricted	(2,835,042)	79,563	(2,755,479)	1,563,889
Total net assets	<u>\$ 2,327,342</u>	<u>\$ 99,341</u>	<u>\$ 2,426,683</u>	<u>\$ 1,563,889</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, 2005

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Food Services	Other Enterprise Funds	Total	
Operating revenues:				
Sale of food	\$ 21,240,579	\$ -	\$ 21,240,579	\$ -
Tuition and fees		6,638,100	6,638,100	
Employer's contributions				181,095,548
Members' contributions				31,945,358
Total operating revenues	<u>21,240,579</u>	<u>6,638,100</u>	<u>27,878,679</u>	<u>213,040,906</u>
Operating expenses:				
Salaries and wages	15,141,193	2,731,536	17,872,729	
Contracted services	644,165	819,352	1,463,517	
Supplies and materials	1,612,148	1,091,897	2,704,045	
Food purchases	10,228,618		10,228,618	
USDA commodities	2,106,458		2,106,458	
Other charges	8,745,359	1,446,403	10,191,762	1,360,372
Depreciation and amortization	1,016,862	13,828	1,030,690	
Benefits paid to plan members				147,232,485
Premiums paid to insurance companies				64,302,354
Total operating expenses	<u>39,494,803</u>	<u>6,103,016</u>	<u>45,597,819</u>	<u>212,895,211</u>
Operating income (loss)	<u>(18,254,224)</u>	<u>535,084</u>	<u>(17,719,140)</u>	<u>145,695</u>
Nonoperating revenues (expenses):				
National school lunch and other food programs:				
Federal funds	13,972,421		13,972,421	
State funds	797,867		797,867	
USDA commodities	2,106,458		2,106,458	
Other Federal grants		15,676	15,676	
Interest expense	(16,819)		(16,819)	
Investment income	351,894	15,339	367,233	954,646
Total nonoperating revenues (expenses)	<u>17,211,821</u>	<u>31,015</u>	<u>17,242,836</u>	<u>954,646</u>
Income (loss) before contributions and transfers	<u>(1,042,403)</u>	<u>566,099</u>	<u>(476,304)</u>	<u>1,100,341</u>
Capital contributions - equipment	938,776		938,776	
Transfers out		(15,339)	(15,339)	
Change in net assets	<u>(103,627)</u>	<u>550,760</u>	<u>447,133</u>	<u>1,100,341</u>
Total net assets - beginning	2,430,969	(451,419)	1,979,550	463,548
Total net assets - ending	<u>\$ 2,327,342</u>	<u>\$ 99,341</u>	<u>\$ 2,426,683</u>	<u>\$ 1,563,889</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, 2005

	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	\$ 21,405,832	\$ 5,764,413	\$ 27,170,245	\$ 32,043,439
Receipts from assessments made to other funds			-	183,396,678
Payments to suppliers	(10,323,746)	(1,348,124)	(11,671,870)	(64,503,941)
Payments to employees	(16,843,661)	(2,926,326)	(19,769,987)	
Payments for insurance claims			-	(147,215,435)
Payments for assessments made by other funds	(6,047,974)	(250,101)	(6,298,075)	
Payments for other operating expenses	(961,591)	(975,649)	(1,937,240)	(1,360,372)
Net cash provided by (used for) operating activities	<u>(12,771,140)</u>	<u>264,213</u>	<u>(12,506,927)</u>	<u>2,360,369</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Nonoperating grants received	14,725,317	15,676	14,740,993	
Transfers to other funds		(15,339)	(15,339)	
Net cash provided by noncapital financing activities	<u>14,725,317</u>	<u>337</u>	<u>14,725,654</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from capital leases	400,654	88,300	488,954	
Purchases of capital assets	(523,707)	(88,300)	(612,007)	
Principal paid on capital leases	(184,625)	(18,977)	(203,602)	
Interest paid on capital leases	(11,624)	-	(11,624)	
Net cash (used for) capital and related financing activities	<u>(319,302)</u>	<u>(18,977)</u>	<u>(338,279)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends received	351,894	15,339	367,233	911,307
Net cash provided by investing activities	<u>351,894</u>	<u>15,339</u>	<u>367,233</u>	<u>911,307</u>
Net increase in cash and cash equivalents	1,986,769	260,912	2,247,681	3,271,676
Cash and cash equivalents - beginning	4,242,267	1,147,066	5,389,333	15,597,169
Cash and cash equivalents - ending	<u>\$ 6,229,036</u>	<u>\$ 1,407,978</u>	<u>\$ 7,637,014</u>	<u>\$ 18,868,845</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (18,254,224)	\$ 535,084	\$ (17,719,140)	\$ 145,695
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation and amortization	1,016,862	13,828	1,030,690	
USDA commodities used	2,106,458		2,106,458	
Change in assets and liabilities:				
Receivables	69,288	(21,325)	47,963	
Due from other funds			-	2,301,130
Non USDA inventories	23,452		23,452	
Prepays		72,638	72,638	
Accounts payable	85,369	19,153	104,522	(201,587)
Claims payable			-	17,050
Advance premium withholdings			-	98,081
Due to other funds	2,052,364	483,294	2,535,658	
Deferred revenue	95,965	(852,363)	(756,398)	
Compensated absences	33,326	13,904	47,230	
Net cash provided by (used for) operating activities	<u>\$ (12,771,140)</u>	<u>\$ 264,213</u>	<u>\$ (12,506,927)</u>	<u>\$ 2,360,369</u>
Noncash investing, capital and financing activities:				
Capital contributions of equipment	\$ 938,776	\$ -	\$ 938,776	\$ -
USDA commodities received	(2,106,458)		(2,106,458)	

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, 2005

	Retirement and Pension System	Agency Funds - Schools' Independent Activity Funds
ASSETS		
Cash	\$ -	\$ 2,965,799
Investments:		
Common and preferred stocks	438,835,278	
Short-term investments	15,466,802	
U.S. government and agency securities	68,446,920	3,617,031
Fixed income securities	125,369,241	
Real estate	62,871,197	
Participation contract	17,561,672	
Securities lending short-term investment pool	68,638,233	
Maryland local government investment pool		5,917,705
Montgomery county investment pool		825,687
Total investments	797,189,343	10,360,423
Accounts receivable	1,211	1,640,887
Inventories		269,523
Total assets	797,190,554	15,236,632
LIABILITIES		
Accounts payable		1,312,381
Due to general fund	657,977	
Liability for collateral received under securities lending agreements	68,638,233	
Due to student groups		13,924,251
Total liabilities	69,296,210	\$ 15,236,632
NET ASSETS		
Held in trust for pension benefits	\$ 727,894,344	

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, 2005

	Retirement and Pension System
ADDITIONS	
Employer's contribution	\$ 28,871,207
Members' contributions	<u>4,811,344</u>
Total contributions	<u>33,682,551</u>
Investment earnings:	
Net appreciation in fair value of investments	48,185,726
Interest and dividends	18,440,844
Securities lending income	<u>1,295,452</u>
Total investment income	<u>67,922,022</u>
Less investment expense:	
Investment fees and other	(2,878,340)
Securities lending fees	<u>(1,216,021)</u>
Total investment expense	<u>(4,094,361)</u>
Net investment earnings	<u>63,827,661</u>
Total additions	<u>97,510,212</u>
DEDUCTIONS	
Benefits paid to plan members	41,090,497
Administrative expenses	<u>1,984,531</u>
Total deductions	<u>43,075,028</u>
Change in net assets	54,435,184
Net assets - beginning	<u>673,459,160</u>
Net assets - ending	<u>\$ 727,894,344</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, 2005**

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. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely primarily on fees and charges for support. Likewise, the primary government is reported separately from its legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Intergovernmental revenue and other items not properly included among program revenues are reported as general revenues.

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

MCPS reports the following major governmental funds:

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

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

MCPS reports the following major proprietary fund:

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

Additionally, MCPS reports the following fund types:

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

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

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

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

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

c) Measurement focus, basis of accounting

The district-wide, proprietary, and 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 an operating transfer.

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

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

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

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

e) Inventories and Prepaid Items

Inventories are stated at the lower of cost or market. For supplies, instructional materials, 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. Administrators with thirty or more years credited service receive 30 percent of vested, accumulated sick leave. All annual and vested sick leave is accrued when incurred in the district-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only at the time of employee resignations and retirements.

h) Long-Term Obligations

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

i) Fund Equity

Governmental funds, in the fund financial statements, report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

j) GASB Pronouncements

In March 2003, the GASB issued Statement No. 40 "Deposit and Investment Risk Disclosure," which is effective for MCPS for FY 2005. This statement addresses requirements for deposit and investment risks related to credit risk, interest rate risk and foreign currency risk. MCPS adopted this statement on July 1, 2004.

In May 2004, the GASB issued Statement No. 44 "Economic Condition Reporting: The Statistical Section," which is effective for MCPS for FY 2006. This statement improves the understandability and usefulness of the statistical section and incorporates new information presented by governments as a result of GASB Statement No. 34. MCPS has elected to implement this statement early for FY 2005.

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 2005, supplemental appropriations increasing the operating budget by \$17,080,241 and increasing the capital budget by \$21,000,000 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.
- Grant pass-through activity is not budgeted by MCPS, since the activity is included in the Montgomery College budget that is legally adopted by the County Council.

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	\$ 1,563,068,295	\$ 1,560,279,180	\$ 15,339	\$ 2,804,454
Reconciling items:				
2005 Encumbrances outstanding		(5,945,116)		5,945,116
Expenditures of prior year encumbrances		3,868,022		(3,868,022)
Decrease in compensated absences		(371,127)		371,127
Grant pass-through activity	410,000	410,000		-
State of Maryland retirement contributions	81,937,339	81,937,339		-
Capital lease financing		14,272,256	14,272,256	-
As reported - GAAP basis	<u>\$ 1,645,415,634</u>	<u>\$ 1,654,450,554</u>	<u>\$ 14,287,595</u>	<u>\$ 5,252,675</u>

Capital Projects Fund encumbrances of \$135,878,495 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, 2005, \$7,207,654 of such purchase orders had been issued.

c) Deficit Fund Equity

The Capital Projects Fund had an unreserved, undesignated fund deficit of \$12,604,232. 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 had a deficit in unrestricted net assets of \$1,449,340 at June 30, 2005. Staffing for the Taylor Science Center, within the Fund, has been 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 \$111,312 at June 30, 2005. The restructuring of tuition rates has reduced the deficit by 60 percent since the discontinuation of a \$300,000 tuition subsidy by the Montgomery County Council.

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, 2005, are summarized as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
Equity in pooled cash and investments	\$ 15,323,186	\$
Cash and cash equivalents	6,229,036	3,648
Cash with escrow agent	75,401	
Cash-fiduciary funds	2,965,799	
Investments – cash equivalents	18,868,845	
Investments	-	3,318,533
Investments-fiduciary funds	807,549,765	
Total	<u>\$ 851,012,032</u>	<u>\$ 3,322,181</u>
Deposits and Investments Summary:		
Deposits	\$ 10,379,956	\$ 3,648
Investments	840,550,113	3,318,533
Cash on hand, escrow agent	81,963	
Total	<u>\$ 851,012,032</u>	<u>\$ 3,322,181</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 2005. The balance in the operations and maintenance fund at June 30, 2005, was \$1,029,386.

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, 2005, the reported balance of MCPS' deposits was \$10,379,956 and the bank balance was \$20,032,080. Of the bank balance, \$20,032,080 was collateralized by federal depository insurance or by collateral held by MCPS' agent in MCPS' name.

b) Investments

Investments as of June 30, 2005, are as follows:

<u>Investment Type</u>	<u>Fair Value</u>
Pension Trust Investments:	
Common and preferred stocks	\$ 438,835,278
Short-term investments	15,466,802
U.S. Government and agency securities	68,446,920
Fixed income securities	125,369,241
Real estate	62,871,197
Participation contract	17,561,672
Securities lending short-term investment pool	68,638,233
Subtotal Pension Trust Investment	<u>797,189,343</u>
Other Investments:	
U.S. Government and agency securities	3,617,031
Repurchase agreements	243,522
Mutual funds	32,756,825
Maryland Local Government Investment Pool	5,917,705
Montgomery County investment pool	825,687
Total investments	<u>\$ 840,550,113</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 2005, 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 2005 on the amount of securities Northern may lend.

The following represents the balances relating to securities lending transactions at June 30, 2005.

Securities Lent	Underlying Securities	Securities Collateral Value	Cash Collateral Investment Value
Lent for cash collateral:			
U.S. Government and agency securities	\$ 31,213,879	\$	\$ 31,922,380
Domestic equities	25,569,721		26,232,669
International equities	7,434,516		7,800,010
Domestic fixed-income securities	2,614,983		2,683,174
Lent for securities collateral:			
U.S. Government securities	440,703	450,349	
Domestic fixed income securities	251,530	257,001	
Domestic equities	56,547	57,899	
Total	<u>\$ 67,525,332</u>	<u>\$ 765,249</u>	<u>\$ 68,638,233</u>

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 2005, 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, 2005, 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, 2005, 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	\$ 53,178,570	\$ 1,455,497	\$ 29,489,327	\$ 10,008,830	\$ 11,674,340
U.S. agencies	15,268,350		12,476,290	2,141,060	651,000
Asset-backed securities	13,129,455		8,043,754	87,175	954,067
Mortgage-backed	25,206,596		8,914,000	4,531,000	16,337,937
Corporate bonds	42,041,094	17,871	24,956,634	4,722,908	11,290,705
Government mortgage-backed securities	44,992,096	931	35,978,153	99,820	4,673,936
Short-term	15,466,802	15,466,802			
Sub-total Pension Trust Investments	209,282,963	16,941,101	119,858,158	21,590,793	45,581,985
Other Investments:					
U.S. Government	3,617,031	1,507,000	2,110,031		
Repurchase agreements	243,522	243,522			
Money market funds	32,756,825	32,756,825			
Maryland Local Government Investment Pool	5,917,705	5,917,705			
Montgomery County investment pool	825,687	825,687			
Total	\$ 252,643,733	\$ 58,191,840	\$ 121,968,189	\$ 21,590,793	\$ 45,581,985

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, 2005, had the following credit risk characteristics:

S&P/Moody's Quality Rating	Percent of Fixed-Income Investments	Fair Value
AAA to A	71 %	\$ 136,051,221
BBB to B	8	15,040,522
Not rated	6	11,759,351
Total	84 %	\$ 162,851,094

Pension Trust investments include \$30,072,912 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 Poors, 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, 2005, is as follows:

Currency	Equities	Fixed Income	Total Fair Value
European Euro	\$ 20,291,190	\$ 298,291	\$ 20,589,481
U.K. Pound	11,215,185	1,040,704	12,255,889
Swiss Franc	6,187,301		6,187,301
Japanese Yen	5,426,790	205,271	5,632,061
Australian Dollar	2,631,826		2,631,826
Hong Kong Dollar	2,396,450		2,396,450
Canadian Dollar	2,345,894	433,758	2,779,652
Denmark Drone	966,684		966,684
Swedish Krona	825,229		825,229
Finnish	1,054,976	35,585	1,090,561
Isreali	1,298,538	197,612	1,496,150
Mexican Peso		633,107	633,107
Luxembourg		364,046	364,046
Cayman Islands		65,787	65,787
Norway		36,765	36,765
Total	\$ 54,640,063	\$ 2,946,880	\$ 57,586,943

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 \$81,963, of which \$6,562 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, 2005, consist of the following:

Due to the general fund from other governmental funds representing advances of pooled cash	\$ 3,675,345
Due to the general fund from enterprise funds representing advances of pooled cash	10,388,483
Due to the internal service fund from the general fund for employee benefit plan expenditures	5,355,620
Total	\$ 19,419,448

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

Due from other funds, Balance Sheet-Governmental Funds	\$ 14,063,828
Due from other funds, Statement of Net Assets-Proprietary Funds	5,355,620
Total	\$ 19,419,448

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 \$ 15,339

5. Due From Employees

The \$683,377 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, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Nondepreciable capital assets:				
Land	\$ 66,547,599	\$ 1,127,605	\$ 29,956	\$ 67,645,248
Construction in progress	<u>95,288,745</u>	<u>113,842,370</u>	<u>81,224,651</u>	<u>127,906,464</u>
Total nondepreciable capital assets	<u>161,836,344</u>	<u>114,969,975</u>	<u>81,254,607</u>	<u>195,551,712</u>
Depreciable capital assets:				
Buildings and improvements	1,483,260,653	78,337,886	1,272,809	1,562,325,730
Site improvements	113,288,489	6,569,500		119,857,989
Vehicles and equipment	<u>118,305,277</u>	<u>13,113,387</u>	<u>4,723,429</u>	<u>126,695,235</u>
Total depreciable capital assets	<u>1,716,854,419</u>	<u>98,020,773</u>	<u>5,996,238</u>	<u>1,808,878,954</u>
Less accumulated depreciation for:				
Buildings and improvements	504,460,420	35,857,658	1,116,007	539,202,071
Site improvements	22,239,990	2,740,001		24,979,991
Vehicles and equipment	<u>67,284,472</u>	<u>8,945,908</u>	<u>4,577,825</u>	<u>71,652,555</u>
Total accumulated depreciation	<u>593,984,882</u>	<u>47,543,567</u>	<u>5,693,832</u>	<u>635,834,617</u>
Total depreciable capital assets, net	<u>1,122,869,537</u>	<u>50,477,206</u>	<u>302,406</u>	<u>1,173,044,337</u>
Government activities capital assets, net	<u>\$ 1,284,705,881</u>	<u>\$ 165,447,181</u>	<u>\$ 81,557,013</u>	<u>\$ 1,368,596,049</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Depreciable capital assets:				
Buildings	\$ 17,831	\$ 1,807,182	\$ 42,568	\$ 17,831
Vehicles and equipment	<u>16,613,395</u>	<u>1,807,182</u>	<u>42,568</u>	<u>18,378,009</u>
Total depreciable capital assets	<u>16,631,226</u>	<u>1,807,182</u>	<u>42,568</u>	<u>18,395,840</u>
Less accumulated depreciation for:				
Buildings	8,024	1,783		9,807
Vehicles and equipment	<u>11,613,311</u>	<u>1,028,907</u>	<u>40,095</u>	<u>12,602,123</u>
Total accumulated depreciation	<u>11,621,335</u>	<u>1,030,690</u>	<u>40,095</u>	<u>12,611,930</u>
Business-type activities capital assets, net	<u>\$ 5,009,891</u>	<u>\$ 776,492</u>	<u>\$ 2,473</u>	<u>\$ 5,783,910</u>

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

Governmental Activities:

Regular instruction	\$ 39,485,723
Special education	297,203
School administration	31,187
Student personnel services	1,936
Student transportation	6,087,767
Operation of plant	185,081
Maintenance of plant	460,931
Administration	993,739
Total depreciation expense-governmental activities	<u>\$ 47,543,567</u>

Business-Type Activities:

Food services	\$ 1,016,862
Adult education and summer entrepreneurial	8,830
Real estate management	4,998
Total depreciation expense-business-type activities	<u>\$ 1,030,690</u>

Commitments for ongoing construction in progress at June 30, 2005, were \$126,165,695.

7. Payables

Accounts payable and other current liabilities of the governmental and business-type activities at June 30, 2005 are as follows:

	Governmental Activities	Business-Type Activities	Total
Accounts payable	\$ 32,674,474	\$ 320,776	\$ 32,995,250
Retainage payable	9,631,448		9,631,448
Accrued salaries and withholdings	60,030,226		60,030,226
Claims payable	20,356,643		20,356,643
Due to employees-advance premium withholding	2,138,394		2,138,394
Accrued interest payable		16,819	16,819
Total accounts payable and other current liabilities	<u>\$ 124,831,185</u>	<u>\$ 337,595</u>	<u>\$ 125,168,352</u>

8. Leases

a) Operating Leases

Expenditures under lease agreements for office space and equipment were approximately \$2,620,000 in 2005. Commitments for fiscal year 2006 under lease agreements are approximately \$1,535,000. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet rental payments are not appropriated.

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

totaled \$669,625 in 2005, continue through March 1, 2008. Annual lease payment obligations are as follows:

	<u>Total</u>
Fiscal year ending June 30:	
2006	\$ 671,750
2007	672,375
2008	504,000
Total	<u>\$ 1,848,125</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 2010. Lease payments, including interest, in fiscal year 2005 were \$12,118,867 for the General Fund, \$8,444,436 for the Capital Projects Fund and \$215,226 for the Enterprise Fund.

Capital lease borrowings are essential to the ongoing existence of governmental programs. Accordingly, \$1,262,669 of interest expense is included as part of governmental program expenses.

Assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Enterprise Fund</u>
Vehicles and equipment	\$ 48,404,294	\$ 935,442
Less: accumulated depreciation	(14,252,649)	(117,289)
Total	<u>\$ 34,151,645</u>	<u>\$ 818,153</u>

Future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2005, were as follows:

Fiscal year ending June 30	<u>Governmental Activities</u>	<u>Enterprise Fund</u>
2006	\$ 18,020,753	\$ 215,227
2007	13,985,143	169,298
2008	7,540,115	169,298
2009	3,419,030	104,607
2010	1,200,604	-
Total minimum lease payments	44,165,645	658,430
Less : Amount representing interest	(2,786,636)	(48,131)
Present value of future minimum lease payments	<u>\$ 41,379,009</u>	<u>\$ 610,299</u>

\$21,271,449 of outstanding capital lease obligations for governmental activities at June 30, 2005, 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 2005 were \$328,420.

Annual technology loan payments are as follows:

	<u>Amount</u>
2006	328,420
2007	328,420
2008	328,420
2009	328,420
Total	<u>\$ 1,313,680</u>

b) Changes in Long-Term Liabilities

Long-term liability activities during 2005 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	\$ 35,222,813	\$ 25,456,832	\$ 19,300,634	\$ 41,379,011	\$ 16,648,648
Compensated absences	73,028,763	8,408,626	5,797,512	75,639,877	6,318,708
Net pension obligation	4,564,896	367,324	365,192	4,567,028	-
Technology loans payable	1,642,100	-	328,420	1,313,680	328,420
Total	<u>\$ 114,458,572</u>	<u>\$ 34,232,782</u>	<u>\$ 25,791,758</u>	<u>\$ 122,899,596</u>	<u>\$ 23,295,776</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	\$ 324,946	\$ 488,954	\$ 203,602	\$ 610,298	\$ 193,909
Compensated absences	1,140,212	61,684	14,455	1,187,441	-
Total	<u>\$ 1,465,158</u>	<u>\$ 550,638</u>	<u>\$ 218,057</u>	<u>\$ 1,797,739</u>	<u>\$ 193,909</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 \$20,356,643 reported in the Internal Service Fund at June 30, 2005, 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 2004 and 2005 are reflected below.

		Beginning Payable		Incurred Claims (Including IBNR)		Claim Payments		Ending Payable
2004	\$	20,955,038	\$	131,932,806	\$	(132,548,251)	\$	20,339,593
2005		20,339,593		147,232,485		(147,215,435)		20,356,643

11. Defined Benefit Pension Plans

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

State Plans

a) Plan Description

MCPS professional and administrative employees participate in one of two state plans, the State Teachers' Retirement System or the State Teachers' Pension System, the costs of which are borne by the state. Effective 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 \$81,937,339, \$77,291,357 and \$70,813,522 in 2005, 2004 and 2003, 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, 2004, the date of the latest actuarial report, MCPS' plan membership consisted of:

Retirees and beneficiaries currently receiving benefits	9,006
Terminated plan members entitled to benefits but not yet receiving them	3,322
Active plan members	<u>20,338</u>
Total	<u>32,666</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 were as follows:

Annual required contribution	\$ 29,911,241
Interest on net pension obligation	365,192
Adjustment to annual required contribution	<u>(403,094)</u>
Annual pension cost	28,873,339
Contributions made	<u>28,871,207</u>
Increase in net pension obligation	2,132
Net pension obligation beginning of year	<u>4,564,896</u>
Net pension obligation end of year	<u>\$ 4,567,028</u>

The annual required contribution for the current year was determined as part of the July 1, 2003 actuarial valuation using the projected unit credit cost method and actuarial assumptions shown in d) below.

d) Actuarial Information

Additional information as of the latest actuarial valuation follows:

Valuation date	7/1/04
Actuarial cost method	Projected unit credit
Amortization method	Increasing 3.5% per year. Open for gains/losses. Closed for other changes.
Remaining amortization period	Weighted average of 15 years
Asset valuation method	5-year, smoothed market
Actuarial Assumptions:	
Investment rate of return	8%
Projected salary increases	3.5 – 8%
Cost of living adjustments	3.5%

12. Other Postemployment Benefits

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

During the year, expenditures of \$47,717,396 were recognized by the Internal Service Fund for postretirement health care and life insurance benefits. Net assets available for future postretirement benefit payments were \$1,080,652 at June 30, 2005. In 2005, MCPS contributed \$33,037,142 towards the costs of these benefits.

13. Contingencies

a) Litigation

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

b) Supported Projects

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

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

REQUIRED SUPPLEMENTARY INFORMATION

MCPS EMPLOYEES' RETIREMENT AND PENSION SYSTEM

Schedule of Funding Progress
(000's omitted)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)(b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/1999	\$ 653,017	\$ 653,446	\$ 429	99.9 %	\$ 700,491	0.06 %
7/1/2000	716,842	704,649	(12,193)	101.7	788,731	-
7/1/2001	755,175	743,506	(11,669)	101.6	837,390	-
7/1/2002	760,003	744,324	(15,679)	102.1	954,867	-
7/1/2003	740,515	793,043	52,528	93.4	993,454	5.3
7/1/2004	729,596	840,751	111,155	86.8	1,026,480	10.8

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Net Pension Obligation
2000	\$ 15,670,956	100 %	\$ 4,284,633
2001	16,286,769	101	3,989,247
2002	16,335,239	100	3,943,137
2003	17,652,634	100	3,923,538
2004	20,540,668	97	4,564,896
2005	28,911,515	100	4,567,028

INTENTIONALLY BLANK

SUPPLEMENTARY DATA

GOVERNMENTAL FUNDS

June 30, 2005

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, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Montgomery County	\$ 212,332,000	\$ 268,106,270	\$ 239,402,719	\$ (28,703,551)
State of Maryland	9,313,638	11,718,064	8,827,554	(2,890,510)
Other sources	-	159,125	-	(159,125)
Total revenues	<u>221,645,638</u>	<u>279,983,459</u>	<u>248,230,273</u>	<u>(31,753,186)</u>
Expenditures and encumbrances:				
Capital outlay	<u>221,645,638</u>	<u>279,983,459</u>	<u>250,031,651</u>	<u>29,951,808</u>
Total expenditures and encumbrances	<u>221,645,638</u>	<u>279,983,459</u>	<u>250,031,651</u>	<u>29,951,808</u>
Excess (deficiency) of revenues over expenditures and encumbrances	-	-	(1,801,378)	(1,801,378)
Fund balance - beginning	-	-	(10,802,854)	(10,802,854)
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (12,604,232)</u>	<u>\$ (12,604,232)</u>

**MONTGOMERY COUNTY PUBLIC SCHOOL
SCHEDULE OF CONSTRUCTION IN PROGRESS
June 30, 2005**

Project Name	Project Authorization	Expended to June 30,2005	Committed	Available for Future expenditure
SENECA VALLEY HS	\$ 1,500,000	\$ 1,219,822	\$ 144,390	\$ 135,788
RICHARD MONTGOMERY HS	2,795,000	2,732,011	126,279	(63,290) *
GARRETT PARK ES	413,000	224,178	58,600	130,222
FARMLAND ES	829,000	327,435	72,135	429,430
COLLEGE GARDENS ES	600,000	234,552	344,388	21,060 *
ROCKVILLE HS	44,056,508	43,341,907	424,398	290,203 *
NORTHWEST HIGH	11,142,064	652,597	127,718	10,361,749
CLARKSBURG HS	50,166,516	14,381,323	34,885,157	900,036
BROAD ACRES ES	626,000	410,971	20,577	194,452
NORTHEAST CONSORTIUM ES#16	18,128,000	1,390,916	16,355,587	381,497
GALWAY ES	-	-	-	- *
CLARKSBURG/DAMASCUS ES #7	16,762,000	1,940,297	14,230,160	591,543
NORTHWEST ES #7	18,206,000	1,860,403	15,885,471	460,126
SOMERSET ES	12,916,680	11,357,926	747,146	811,608 *
BETHESDA CHEVY CHASE HS	54,142,000	56,173,775	99,425	(2,131,200) *
WESTLAND MS	85,000	25,509	58,875	616
WALTER JOHNSON HS	1,100,000	370,652	420,540	308,808 *
THOMAS PYLE MS	130,000	59,770	60,230	10,000
CASHELL ES	-	-	-	- *
LAKELANDS PARK MS	23,171,000	20,223,568	1,628,372	1,319,060
MATSUNAGA ES	1,407,000	1,233,045	3,825	170,130
GAITHERSBURG HS	1,413,000	615,552	161,407	636,041
GAITHERSBURG ES	9,395,000	6,106,638	2,836,688	451,674
ROSEMONT ES	7,487,000	4,976,234	1,532,684	978,082
MONTGOMERY VILLAGE MS	19,821,674	19,736,802	6,105	78,767 *
WATKINS MILL ES	1,066,000	444,042	112,207	509,751
SOUTHLAKE ES	6,802,000	5,104,643	1,490,810	206,547
ROCKY HILL MS REPLACEMENT	23,243,440	21,808,400	255,007	1,180,033
SEVEN LOCKS ES	1,068,000	447,824	400,688	219,488
DAMASCUS HS	1,703,725	1,667,630	24,973	11,122
JOHN T BAKER MS	4,458,000	3,303,928	394,953	759,119
OAK VIEW ES	6,618,000	5,868,685	273,299	476,016
GLEN HAVEN ES	14,558,267	14,533,077	22,179	3,011 *
OAKLAND TERRACE ES	1,845,000	1,862,817	(67,813)	49,996
WELLER ROAD ES	566,000	-	338,635	227,365
KENSINGTON PARKWOOD ES	15,339,000	11,027,402	3,169,987	1,141,611 *
NORTHWOOD HS	23,196,000	13,559,542	8,830,328	806,130
FOREST KNOLLS ES	4,918,035	2,144,571	2,295,892	477,572
PARKLAND MS	1,429,000	635,571	784,654	8,775 *
Various County-wide Projects	109,873,389	60,060,717	27,322,539	22,490,133
Total Open & Interim Projects	512,976,298	332,064,732	135,878,495	45,033,071
Capitalized land, equipment and furniture, and items not capitalized	(55,073,390)	(46,162,397)	(8,910,993)	-
Interim closing of open projects **	(159,119,328)	(158,317,521)	(801,807)	-
Residual building value transfer ***		321,650		
Total construction in progress	\$ 298,783,580	\$ 127,906,464	\$ 126,165,695	\$ 45,033,071

* 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, 2005.

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

*** Represents undepreciated residual 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, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Cable TV franchise fees	\$ 1,177,000	\$ 1,177,000	\$ 1,177,000	\$ -
Total revenues	<u>1,177,000</u>	<u>1,177,000</u>	<u>1,177,000</u>	<u>-</u>
Expenditures and encumbrances:				
Community services	<u>1,177,000</u>	<u>1,177,000</u>	<u>1,175,902</u>	<u>1,098</u>
Total expenditures and encumbrances	<u>1,177,000</u>	<u>1,177,000</u>	<u>1,175,902</u>	<u>1,098</u>
Excess of revenues over expenditures and encumbrances	-	-	1,098	1,098
Fund balance - beginning	<u>-</u>	<u>-</u>	<u>85,935</u>	<u>85,935</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	87,033	<u>\$ 87,033</u>
Reconciliation to GAAP fund balance:				
2005 encumbrances outstanding			<u>5,053</u>	
Fund balance - GAAP basis			<u>\$ 92,086</u>	

NONMAJOR ENTERPRISE FUNDS

June 30, 2005

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

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

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

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

MONTGOMERY COUNTY PUBLIC SCHOOLS
 COMBINING STATEMENT OF NET ASSETS
 NONMAJOR ENTERPRISE FUNDS
 JUNE 30, 2005

	Adult Education	Real Estate Management	Field Trip	Entrepreneurial	Total Nonmajor Enterprise Funds
Assets					
Current assets:					
Equity in pooled cash and investments	\$ -	\$ 989,525	\$ 418,453	\$ -	\$ 1,407,978
Accounts receivable:					
Montgomery County	249,305			59,412	308,717
Federal	15,676				15,676
Other	12,557	57,141	341,548		411,246
Prepays	121,861				121,861
Total current assets	<u>399,399</u>	<u>1,046,666</u>	<u>760,001</u>	<u>59,412</u>	<u>2,265,478</u>
Noncurrent assets:					
Capital assets, net of accumulated depreciation:					
Buildings and improvements		8,024			8,024
Machinery and equipment		1,607		79,470	81,077
Total noncurrent assets	<u>-</u>	<u>9,631</u>	<u>-</u>	<u>79,470</u>	<u>89,101</u>
Total assets	<u>399,399</u>	<u>1,056,297</u>	<u>760,001</u>	<u>138,882</u>	<u>2,354,579</u>
Liabilities					
Current liabilities:					
Accounts payable	32,668	85,735		14,574	132,977
Due to other funds	275,815			1,309,957	1,585,772
Deferred revenue	154,554			79,569	234,123
Capital lease-current				16,391	16,391
Total current liabilities	<u>463,037</u>	<u>85,735</u>	<u>-</u>	<u>1,420,491</u>	<u>1,969,263</u>
Noncurrent liabilities:					
Capital lease payable				52,932	52,932
Compensated absences	47,674	43,525	27,045	114,799	233,043
Total noncurrent liabilities	<u>47,674</u>	<u>43,525</u>	<u>27,045</u>	<u>167,731</u>	<u>285,975</u>
Total liabilities	<u>510,711</u>	<u>129,260</u>	<u>27,045</u>	<u>1,588,222</u>	<u>2,255,238</u>
Net Assets					
Invested in capital assets, net of related debt		9,631		10,147	19,778
Unrestricted	(111,312)	917,406	732,956	(1,459,487)	79,563
Total net assets	<u>\$ (111,312)</u>	<u>\$ 927,037</u>	<u>\$ 732,956</u>	<u>\$ (1,449,340)</u>	<u>\$ 99,341</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, 2005

	Adult Education	Real Estate Management	Field Trip	Entrepreneurial	Total Nonmajor Enterprise Funds
Operating revenues:					
Tuition and fees	\$ 2,047,577	\$ 2,019,558	\$ 1,547,519	\$ 1,023,446	\$ 6,638,100
Total operating revenues	<u>2,047,577</u>	<u>2,019,558</u>	<u>1,547,519</u>	<u>1,023,446</u>	<u>6,638,100</u>
Operating expenses:					
Salaries and wages	1,022,717	374,844	727,761	606,214	2,731,536
Contracted services	552,469	170,557	66,411	29,915	819,352
Supplies and materials	85,873	11,257	485,319	509,448	1,091,897
Other charges	232,540	975,764	76,047	162,052	1,446,403
Depreciation	4,998	4,998	8,830	8,830	13,828
Total operating expenses	<u>1,893,599</u>	<u>1,537,420</u>	<u>1,355,538</u>	<u>1,316,459</u>	<u>6,103,016</u>
Operating income (loss)	<u>153,978</u>	<u>482,138</u>	<u>191,981</u>	<u>(293,013)</u>	<u>535,084</u>
Nonoperating revenues:					
Federal grants	15,676				15,676
Investment income	6,407	5,013	3,919		15,339
Total nonoperating revenues	<u>22,083</u>	<u>5,013</u>	<u>3,919</u>	<u>-</u>	<u>31,015</u>
Income (loss) before transfers	176,061	487,151	195,900	(293,013)	566,099
Transfers out	<u>(6,407)</u>	<u>(5,013)</u>	<u>(3,919)</u>		<u>(15,339)</u>
Change in net assets	169,654	482,138	191,981	(293,013)	550,760
Total net assets - beginning	<u>(280,966)</u>	<u>444,899</u>	<u>540,975</u>	<u>(1,156,327)</u>	<u>(451,419)</u>
Total net assets - ending	<u>\$ (111,312)</u>	<u>\$ 927,037</u>	<u>\$ 732,956</u>	<u>\$ (1,449,340)</u>	<u>\$ 99,341</u>

MONTGOMERY COUNTY PUBLIC SCHOOLS
 COMBINING STATEMENT OF CASH FLOWS
 NONMAJOR ENTERPRISE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2005

	Adult Education	Real Estate Management	Field Trip	Entrepreneurial	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 1,133,747	\$ 2,045,135	\$ 1,478,976	\$ 1,106,555	\$ 5,764,413
Payments to suppliers	(377,612)	(82,326)	(551,730)	(336,456)	(1,348,124)
Payments to employees	(1,127,622)	(395,326)	(773,502)	(629,876)	(2,926,326)
Payments for assessments made by other funds	(59,116)	(43,295)	(27,689)	(120,001)	(250,101)
Payments for other operating expenses	(82,975)	(891,429)	-	(1,245)	(975,649)
Net cash provided by (used for) operating activities	<u>(513,578)</u>	<u>632,759</u>	<u>126,055</u>	<u>18,977</u>	<u>264,213</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Nonoperating grants received	15,676	-	-	-	15,676
Transfers to other funds	(6,407)	(5,013)	(3,919)	-	(15,339)
Net cash provided by (used for) noncapital financing activities	<u>9,269</u>	<u>(5,013)</u>	<u>(3,919)</u>	<u>-</u>	<u>337</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from capital leases	-	-	-	88,300	88,300
Purchases of capital assets	-	-	-	(88,300)	(88,300)
Principal paid on capital leases	-	-	-	(18,977)	(18,977)
Net cash (used for) capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,977)</u>	<u>(18,977)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	6,407	5,013	3,919	-	15,339
Net cash provided by investing activities	<u>6,407</u>	<u>5,013</u>	<u>3,919</u>	<u>-</u>	<u>15,339</u>
Net increase (decrease) in cash and cash equivalents	(497,902)	632,759	126,055	-	260,912
Cash and cash equivalents - beginning	497,902	356,766	292,398	-	1,147,066
Cash and cash equivalents - ending	<u>\$ -</u>	<u>\$ 989,525</u>	<u>\$ 418,453</u>	<u>\$ -</u>	<u>\$ 1,407,978</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ 153,978	\$ 482,138	\$ 191,981	\$ (293,013)	\$ 535,084
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	-	4,998	-	8,830	13,828
Change in assets and liabilities:					
Receivables	(2,562)	25,576	(68,543)	24,204	(21,325)
Prepays	27,013	45,625	-	-	72,638
Accounts payable	(42,099)	65,076	-	(3,824)	19,153
Due to other funds	275,815	-	-	207,479	483,294
Deferred revenue	(911,268)	-	-	58,905	(852,363)
Compensated absences	(14,455)	9,346	2,617	16,396	13,904
Net cash provided by operating activities	<u>\$ (513,578)</u>	<u>\$ 632,759</u>	<u>\$ 126,055</u>	<u>\$ 18,977</u>	<u>\$ 264,213</u>

AGENCY FUNDS

Individual Fund Financial Statements

June 30, 2005

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, 2005

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Assets				
Cash and investments	\$ 13,526,261	\$ 34,403,091	\$ 34,603,131	\$ 13,326,221
Accounts receivable	1,343,010	1,640,887	1,343,009	1,640,888
Inventories	<u>305,026</u>	<u>269,523</u>	<u>305,026</u>	<u>269,523</u>
Total assets	\$ <u>15,174,297</u>	\$ <u>36,313,501</u>	\$ <u>36,251,166</u>	\$ <u>15,236,632</u>
Liabilities				
Accounts payable	\$ 1,307,856	\$ 1,312,380	\$ 1,307,855	\$ 1,312,381
Due to student groups	<u>13,866,441</u>	<u>35,001,121</u>	<u>34,943,311</u>	<u>13,924,251</u>
Total liabilities	\$ <u>15,174,297</u>	\$ <u>36,313,501</u>	\$ <u>36,251,166</u>	\$ <u>15,236,632</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, 2005

Governmental funds capital assets:

Land	\$ 67,645,248
Buildings and improvements	1,562,325,730
Site Improvements	119,857,989
Vehicles and equipment	126,695,235
Construction in progress	<u>127,906,464</u>
 Total governmental funds capital assets	 \$ <u><u>2,004,430,666</u></u>

Investments in governmental funds capital assets by source:

General fund revenues	\$ 116,536,579
Federal grants	798,617
State grants	28,869
Capital projects fund -	
Principally general obligation bonds	1,873,973,463
Contributions	<u>13,093,138</u>
 Total governmental funds capital assets	 \$ <u><u>2,004,430,666</u></u>

MONTGOMERY COUNTY PUBLIC SCHOOLS
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
JUNE 30, 2005

Function and Activity	Land	Buildings and Improvements	Site Improvements	Vehicles and Equipment	Construction in Progress	Total
Regular instruction	\$ 66,149,601	\$ 1,518,789,974	\$ 119,800,204	\$ 13,776,421	\$ 127,906,464	\$ 1,846,422,664
Special education instruction		12,412,168	57,785	789,129		13,259,082
School administration				372,167		372,167
Student personnel				19,361		19,361
Student transportation	1,447,990	14,191,874		83,744,426		99,384,290
Operation of plant				2,036,297		2,036,297
Maintenance of plant				8,080,729		8,080,729
Administration	47,657	16,931,714		17,876,705		34,856,076
Total governmental funds capital assets	<u>\$ 67,645,248</u>	<u>\$ 1,562,325,730</u>	<u>\$ 119,857,989</u>	<u>\$ 126,695,235</u>	<u>\$ 127,906,464</u>	<u>\$ 2,004,430,666</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, 2005

Function and Activity	Governmental Fund Capital Assets July 1, 2004	Additions	Deductions	Governmental Fund Capital Assets June 30, 2005
Regular instruction	\$ 1,727,985,824	\$ 204,924,901	\$ 86,488,061	\$ 1,846,422,664
Special education instruction	13,113,076	210,561	64,554	13,259,083
School administration	303,863	75,599	7,295	372,167
Student personnel		19,361		19,361
Student transportation	93,733,708	5,949,996	299,414	99,384,290
Operation of plant	1,828,387	207,909		2,036,296
Maintenance of plant	7,653,256	56,484	253,656	7,456,084
Administration	34,269,821	690,037	103,782	34,856,076
Total governmental funds capital assets	\$ 1,878,690,763	\$ 212,990,748	\$ 87,250,845	\$ 2,004,430,666

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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.	75-79
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.	80-86
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.	87-94
Demographic and Economic Information Detail found in these schedules offer demographic and economic indicators to aid the reader in understanding the environment within which MCPS' financial activities take place.	95-96
Operating Information This schedule contains 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.	97-98

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. MCPS implemented GASB statement No.34 in 2002. Schedules presenting government-wide information include information beginning in that year. Operating indicators are presented for the last two fiscal years; the year for which such information is available.

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

	Fiscal Year			
	2002	2003	2004	2005
Governmental Activities:				
Invested in capital assets, net of related debt	\$ 1,181,888,032	\$ 1,224,194,974	\$ 1,265,348,107	\$1,347,324,600
Unrestricted	(49,845,395)	(80,455,530)	(90,516,500)	(92,864,100)
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>
Business-type activities:				
Invested in capital assets, net of related debt	\$ 5,629,503	\$ 5,137,266	\$ 4,829,951	\$5,182,162
Unrestricted	(581,616)	(1,626,627)	(2,850,401)	(2,755,479)
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>
Primary government:				
Invested in capital assets, net of related debt	\$ 1,187,517,535	\$ 1,229,332,240	\$ 1,270,178,058	\$1,352,506,762
Unrestricted	(50,427,011)	(82,082,157)	(93,366,901)	(95,619,579)
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>

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

	Fiscal Year			
	2002	2003	2004	2005
Expenses				
Governmental activities				
Instruction:				
Regular instruction	\$ 871,885,283	\$ 922,271,680	\$ 983,832,228	\$ 1,038,043,643
Special education	193,069,034	213,237,600	226,446,611	247,338,455
School administration	113,093,534	123,298,343	126,636,268	135,691,110
Student personnel services	7,535,210	8,160,848	11,411,475	12,226,245
Health services	46,267	107,432	38,994	39,433
Total instruction	<u>1,185,629,328</u>	<u>1,267,075,903</u>	<u>1,348,363,576</u>	<u>1,433,338,866</u>
Support services:				
Student transportation	70,499,355	72,604,228	80,078,067	91,056,536
Operation of plant	97,192,269	99,932,932	102,880,452	109,613,171
Maintenance of plant	45,531,248	40,384,443	48,730,155	47,584,397
Administration	41,111,824	47,359,900	37,010,469	39,156,106
Community services	1,467,006	1,584,350	1,641,493	1,625,698
Total support services	<u>255,801,702</u>	<u>261,865,853</u>	<u>270,340,636</u>	<u>289,035,908</u>
Total government 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>
Business-type activities				
Food services	35,363,644	35,681,700	37,426,902	39,511,622
Adult education	3,823,273	4,007,829	4,110,281	1,893,599
Real estate management	1,292,137	1,586,720	1,482,541	1,537,420
Field trips	1,402,789	1,205,565	1,246,915	1,355,538
Entrepreneurial activities	857,174	1,062,282	1,211,760	1,316,459
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>
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>
Program Revenue				
Governmental activities				
Instruction:				
Regular instruction	\$ 82,256,178	\$ 90,165,424	\$ 65,420,215	\$ 67,603,299
Special education	18,293,975	23,313,058	26,501,262	29,271,325
School administration	4,461,631	5,201,181	5,218,772	3,495,396
Student personnel services	116,586	162,436	622,527	593,721
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>
Support services:				
Student transportation	568,707	885,539	1,149,902	775,691
Operation of plant	9,383,177	5,817,414	5,014,653	4,916,991
Maintenance of plant	10,993,352	10,321,971	17,993,911	15,931,064
Administration	5,679,270	5,359,630	1,659,121	1,811,489
Community services	1,290,660	1,297,602	1,325,721	1,282,747
Total support services	<u>27,915,166</u>	<u>23,682,156</u>	<u>27,143,308</u>	<u>24,717,982</u>
Total government activities program revenues	<u>133,043,536</u>	<u>142,621,037</u>	<u>124,906,084</u>	<u>125,681,723</u>
Business-type activities				
Food services	34,262,117	34,114,949	36,230,717	39,056,101
Adult education	3,725,954	4,097,427	3,806,206	2,063,253
Real estate management	1,528,157	1,451,483	1,724,390	2,019,558
Field trips	1,359,469	1,226,062	1,318,661	1,547,519
Entrepreneurial activities	791,968	934,043	786,070	1,023,446
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>
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>
Net (expense)/revenue				
Governmental activities	(1,308,387,494)	(1,386,320,719)	(1,493,798,128)	(1,596,693,071)
Business-type activities	(1,071,352)	(1,720,132)	(1,612,355)	95,239
	<u>(1,309,458,846)</u>	<u>(1,388,040,851)</u>	<u>(1,495,410,483)</u>	<u>(1,596,597,832)</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
State of Maryland	259,442,972	288,603,570	340,846,285	361,020,873
Federal government	218,319	296,773	262,516	88,274
Investment Earnings	326,041	146,555	76,537	155,210
Other revenue	219,607	562,402	8,019	70,671
Transfers	16,332	13,852	16,584	15,339
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>
Business-type activities				
Investment Earnings	298,960	196,736	97,850	387,233
Other revenue	-	-	-	-
Transfers	(16,332)	(13,852)	(16,584)	(15,339)
Total business-type activities	<u>282,628</u>	<u>182,884</u>	<u>81,266</u>	<u>351,894</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>
Change in Net Assets				
Governmental activities	65,281,302	11,696,807	31,092,163	79,628,893
Business-type activities	(788,724)	(1,537,248)	(1,531,089)	447,133
Total primary government	<u>\$ 64,492,578</u>	<u>\$ 10,159,559</u>	<u>\$ 29,561,074</u>	<u>\$ 80,076,026</u>

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

	Fiscal Year			
	2002	2003	2004	2005
General Fund:				
Reserved	\$ 12,536,487	\$ 10,086,228	\$ 11,379,515	\$ 13,197,236
Unreserved	5,447,168	(5,625,651)	(171,197)	3,263,757
Total general fund	<u>\$ 17,983,655</u>	<u>\$ 4,460,577</u>	<u>\$ 11,208,318</u>	<u>\$ 16,460,993</u>
All other governmental funds				
Reserved	\$ 82,777	\$ 5,436	\$ 6,913	\$ 5,053.00
Unreserved, reported in:				
Special revenue funds	17,115	82,633	85,935	87,033
Capital projects funds	(7,768,903)	(8,133,947)	(10,802,854)	(12,604,232)
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>

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

	Fiscal Year			
	2002	2003	2004	2005
Revenues				
Intergovernmental:				
Montgomery County	\$ 1,148,280,914	\$ 1,137,558,192	\$ 1,233,511,048	\$ 1,356,035,517
State of Maryland	305,836,841	339,814,082	350,931,179	366,552,766
Federal Government	43,866,688	56,379,262	59,737,638	70,605,126
Other	4,332,529	4,827,458	4,970,961	8,194,694
Total Revenue	<u>\$ 1,502,318,972</u>	<u>\$ 1,538,578,994</u>	<u>\$ 1,649,150,826</u>	<u>\$ 1,801,388,103</u>
Expenditures				
Current:				
Administration	28,106,692	27,666,368	26,965,317	28,439,926
Mid-level administration	86,442,046	93,633,242	96,088,892	101,729,773
Instructional salaries and wages	594,976,886	635,877,265	654,152,515	686,486,182
Instructional textbooks and supplies	25,094,764	25,599,461	25,646,985	28,751,450
Other instructional costs	19,113,591	13,014,528	13,133,928	22,110,271
Special education	155,739,680	170,576,458	178,834,273	193,353,038
Student personnel services	5,814,326	6,227,216	8,623,619	9,111,032
Health services	37,150	104,058	32,474	34,127
Student transportation	58,249,923	56,900,115	59,958,528	71,323,679
Operation of plant	73,460,791	77,846,881	80,456,510	85,739,412
Maintenance of plant	24,929,368	25,833,275	25,714,753	26,776,709
Fixed charges	272,754,398	305,913,265	346,990,115	388,327,283
Community services	1,246,430	1,324,417	1,360,072	1,328,568
Debt service:				
Capital lease principal	11,358,196	11,841,404	15,124,117	19,300,633
Capital lease interest	1,801,781	1,027,855	1,324,991	1,262,669
Capital outlay	148,902,723	113,557,576	128,053,894	159,336,986
	<u>1,508,028,745</u>	<u>1,566,943,384</u>	<u>1,662,460,983</u>	<u>1,823,409,738</u>
Excess of Revenues over (under) expenditures	\$ (5,711,773)	\$ (28,364,390)	\$ (13,310,157)	\$ (22,021,635)
Other financing sources(uses)				
Capital lease financing	16,377,140	13,447,873	16,783,521	25,456,831
Technology loans from Montgomery County	85,857	12,836	-	-
Transfers in	538,515	13,852	16,584	15,339
Transfers out	-	629,884	593,755	-
Total other financing sources(uses)	<u>17,001,512</u>	<u>14,104,445</u>	<u>17,393,860</u>	<u>25,472,170</u>
Net change in fund balances	<u>\$ 11,289,739</u>	<u>\$ (14,259,945)</u>	<u>\$ 4,083,703</u>	<u>\$ 3,450,535</u>
Debt service as a percentage of noncapital expenditures	1.0%	0.8%	1.1%	1.3%

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, 2004*

Operating revenues:	
Contributions by other agencies	\$ 22,559,122
Contributions by the Board of Education	10,521,320
Total Operating Revenues	<u>\$ 33,080,442</u>
Operating expenses:	
Self-insurance losses, net of recoveries	26,594,893
Other costs at risk	3,734,419
Commercial insurance	2,535,727
Other operating expenses	2,676,763
Total Operating Expenses	<u>35,541,802</u>
Operating (loss)	<u>(2,461,360)</u>
Nonoperating income :	
Interest on investments	802,591
Other revenue	<u>88,368</u>
Total nonoperating income	<u>890,959</u>
Net (loss)/Change in retained earnings	(1,570,401)
Retained earnings (deficit), Beginning	<u>(10,273,483)</u>
Retained earnings (deficit), Ending	<u>\$ (11,843,884)</u>

* Date of the most current available information.

Source: Montgomery County Maryland Comprehensive Annual Financial Report 2004.

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

Fiscal Year Ended June 30	Tax Levy			Collected within the Fiscal Year of the Levy		Collections in Subsequent Years (1)	Total Collections to Date	
	Total Original Levy for Fiscal Year	Adjustments in Subsequent Years	Total Adjusted Levy	Amount (1)	Percentage of Original Levy		Amount	Percentage of Adjusted Levy
1996	\$ 763,521,098	\$ (110,160)	\$ 764,410,938	\$ 756,274,836	99.05 %	\$ 6,076,044	\$ 762,350,880	99.73 %
1997	726,034,855	(252,809)	725,782,046	716,728,175	98.72	7,956,155	724,684,330	99.85
1998	740,356,969	(3,124)	740,353,845	731,962,325	98.87	2,274,366	734,236,691	99.17
1999	738,861,799	(5,431)	738,856,368	731,482,875	99.00	5,868,466	737,351,341	99.80
2000	762,239,449	(553,596)	761,685,853	754,198,902	98.95	5,084,522	759,283,424	99.68
2001	784,285,708	(395,579)	783,890,129	777,057,655	99.08	(2,290,436)	774,767,219	98.84
2002	821,038,153	(647,172)	820,390,981	805,329,587	98.09	463,306	805,792,893	98.22
2003	867,011,819	(1,372,707)	865,639,112	861,862,819	99.41	(3,609,717)	858,253,102	99.15
2004	927,789,542	(601,182)	927,188,360	924,992,688	99.70	314,188	925,306,876	99.80
2005	1,006,566,130	-	1,006,566,130	1,005,930,553	99.94	-	1,005,930,553	99.94

NOTES:

(1) Amounts represent collections received net of refunds made.

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

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

Fiscal Year	Real Property (1)						Total Direct Tax Rate
	Residential (2)		Commercial/Other		Total		
	Assessed Value	Estimated Market Value	Assessed Value	Estimated Market Value	Assessed Value	Estimated Market Value	
1996	\$ 19,668,918,784	\$ 50,329,884,299	\$ 6,388,609,736	\$ 16,347,517,236	\$ 26,057,528,520	\$ 66,677,401,535	\$ 2.318
1997	20,171,480,061	51,774,846,151	6,432,172,281	16,509,682,445	26,603,652,341	68,284,528,596	2.317
1998	20,725,567,731	52,656,422,083	6,549,073,403	16,638,906,004	27,274,641,135	69,295,328,087	2.315
1999	21,215,428,694	54,342,798,907	6,690,651,303	17,137,938,788	27,906,079,996	71,480,737,695	2.288
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	2.255
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	2.250
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	0.900
2003	61,732,348,676	69,991,325,030	20,674,989,154	23,441,030,787	82,407,337,831	93,432,355,817	0.909
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	0.913
2005	74,808,909,028	80,181,038,615	23,472,815,696	25,158,430,542	98,281,724,723	105,339,469,157	0.901

Fiscal Year	Personal Property (3)					Real (1) and Personal Property Total		Ratio of Total Assessed to Total Estimated Actual Value	
	Business		Public Utility		Total	Total Direct Tax Rate	Assessed Value		Estimated Actual Value
	Individuals	Corporations	Operating Property	Domestic Shares					
1996	\$ 162,752,880	\$ 1,793,263,300	\$ 1,415,476,210	\$ 145,983,580	\$ 3,517,475,970	\$ 2.318	\$ 29,575,004,490	\$ 70,194,877,505	42.13 %
1997	104,524,000	2,059,702,720	1,463,056,510	161,940,450	3,789,223,680	2.317	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	2.315	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	2.288	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	2.255	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	2.250	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	2.250	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	2.273	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	2.283	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	2.253	102,184,336,833	109,242,081,267	93.54

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.

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			
	County	Fire Tax District	Transit District	Total
REAL PROPERTY:				
1996	\$ 1.998	\$.243	\$.077	\$ 2.318
1997	1.990	.249	.078	2.317
1998	1.962	.262	.091	2.315
1999	1.923	.263	.102	2.288
2000	1.863	.290	.102	2.255
2001	1.857	.293	.100	2.250
2002 (1)	.741	.109	.050	0.900
2003	.754	.117	.038	0.909
2004	.751	.118	.044	0.913
2005	.734	.123	.044	0.901

PERSONAL PROPERTY:

1996	\$ 1.998	\$.243	\$.077	\$ 2.318
1997	1.990	.249	.078	2.317
1998	1.962	.262	.091	2.315
1999	1.923	.263	.102	2.288
2000	1.863	.290	.102	2.255
2001	1.857	.293	.100	2.250
2002	1.852	.273	.125	2.250
2003	1.885	.293	.095	2.273
2004	1.878	.295	.110	2.283
2005	1.835	.308	.110	2.253

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.

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

Fiscal Year	Urban (1)		Storm Drainage	Parking Lot Districts (2)			Urban Districts			Noise Abatement Districts		Development Districts		
	Maintenance	Recreation		Silver Spring	Bethesda	Wheaton	Silver Spring	Bethesda	Wheaton	Bradley	Cabin John	Kingsview	West Germantown	
1996	\$ 0.028	\$.047	\$.01	\$.70	\$.70	\$.60	\$.60	\$.075	\$.04	\$.05	\$.250	\$.45	\$ -	\$ -
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	-	.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

PERSONAL PROPERTY:

1996	\$ 0.028	\$.047	\$.01	\$.70	\$.70	\$.60	\$.60	\$.075	\$.04	\$.05	\$.250	\$.45	\$ -	\$ -
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	-	-

NOTES:

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

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

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

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

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

Fiscal Year	Cities			Towns									
	Gaithersburg	Rockville	Takoma Park	Barnesville	Brookeville	Chevy Chase	Garrett Park	Glen Echo	Kensington	Laytonsville	Poolesville	Somerset	Washington Grove
REAL PROPERTY:													
1996	\$.53	\$.82	\$ 1.817	\$.20	\$.35	\$.20	\$.39	\$.35	\$.50	\$.35	\$.68	\$.38	\$.63
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	.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
PERSONAL PROPERTY:													
1996	\$.53	\$.82	\$ 1.817	\$.20	\$.35	\$.20	\$.39	\$.35	\$.50	\$.35	\$.68	\$.38	\$.63
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

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.

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

Fiscal Year	Villages										M-NCPPC		
	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	Regional District	Metropolitan District	Advance Land Acquisition
REAL PROPERTY:													
1996	\$.11	\$.22	\$.10	\$.08	\$.37	\$.15	\$.23	\$.20	\$.13	\$.15	\$.061	\$.146	\$.004
1997	.11	.22	.09	.08	.37	.15	.23	.20	.13	.15	.063	.154	.004
1998	.125	.20	.04	.08	.27	.12	.28	.19	.13	.15	.061	.153	.004
1999	.125	.18	-	.08	.25	.12	.28	.19	.13	.15	.061	.153	.004
2000	.125	.09	-	.08	.25	.12	.25	.15	.13	.15	.062	.154	.003
2001	.125	.05	-	.08	.25	.12	.22	.02	.13	.15	.060	.160	.003
2002	.05	.02	-	.03	.10	.048	.08	.008	.052	.10	.024	.066	.001
2003	.05	.02	-	.03	.12	.048	.07	.008	.052	.10	.023	.063	.001
2004	.05	.02	-	.025	.14	.048	.06	.008	.052	.06	.021	.059	.001
2005	.05	.02	-	.025	.14	.048	.06	.008	.052	.06	.020	.059	.001
PERSONAL PROPERTY:													
1996	\$.11	\$.22	\$.10	\$.08	\$.37	\$.15	\$.23	\$.20	\$.13	\$.15	\$.061	\$.146	\$.004
1997	.11	.22	.09	.08	.37	.15	.23	.20	.13	.15	.063	.154	.004
1998	.125	.20	.04	.08	.27	.12	.28	.19	.13	.15	.061	.153	.004
1999	.125	.18	-	.08	.25	.12	.28	.19	.13	.15	.061	.153	.004
2000	.125	.09	-	.08	.25	.12	.25	.15	.13	.15	.062	.154	.003
2001	.125	.05	-	.08	.25	.12	.22	.02	.13	.15	.060	.160	.003
2002	.125	.05	-	-	.10	.12	.08	.008	.13	.10	.059	.165	.002
2003	.125	.05	-	-	.50	.12	.07	.008	.13	.10	.058	.158	.003
2004	.125	.05	-	-	.50	.12	.06	.008	.13	.06	.053	.148	.003
2005	.125	.05	-	-	.60	.12	.06	.008	.13	-	.050	.148	.003

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.

MONTGOMERY COUNTY, MARYLAND
TEN HIGHEST COMMERCIAL PROPERTY TAXPAYERS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Assessable Base			Ratio:
	Total	Real Property	Personal Property	Taxpayer Base to Total Assessable Base
Potomac Electric Power Co.	\$ 729,757,190	\$ 6,494,600	\$ 723,262,590	0.71 %
Verizon/Bell Atlantic	624,939,880	27,035,000	597,904,880	0.61
Montgomery Mall	227,088,280	226,747,100	341,180	0.22
Washington Gas Light Co.	222,288,330	69,374,800	152,913,530	0.22
Mirant Mid-Atlantic LLC	215,907,220	-	215,907,220	0.21
Bryant F. Foulger, Trustee	161,269,999	161,269,999	-	0.16
7501 Wisconsin Avenue LLC	155,000,000	155,000,000	-	0.15
Camalier, Anne D et al, Trustee	141,546,032	141,546,032	-	0.14
Democracy Associates	137,200,000	137,200,000	-	0.13
Bethesda ARC LLC	130,405,710	130,345,900	59,810	0.13
Total	\$ 2,745,402,641	\$ 1,055,013,431	\$ 1,690,389,210	2.69 %
Total Assessable Base	\$ 102,184,336,833			100 %

For the Fiscal Year Ended June 30, 1996

	Assessable Base			Ratio:
	Total	Real Property	Personal Property	Taxpayer Base to Total Assessable Base
Potomac Electric Power Co.	\$ 925,090,830	\$ 30,161,000	\$ 894,929,830	3.13 %
Bell Atlantic - Washington D.C. Inc.	493,578,470	27,916,130	465,662,340	1.67
Washington Gas Light Company	138,393,500	6,385,480	132,008,020	0.47
International Business Machines	118,397,700	30,249,550	88,148,150	0.40
Montgomery Mall	71,302,050	71,302,050	-	0.24
Wheaton Plaza Regional Shopping Center	63,266,850	63,266,850	-	0.21
Government Employees Insurance Company	57,311,900	23,781,730	33,530,170	0.19
Woodward & Lothrop	56,091,770	22,344,430	33,747,340	0.19
Albert & R. Abramson, et.al.	54,697,880	54,697,880	-	0.18
Lake Forest Associates	53,299,360	53,299,360	-	0.18
Total	\$ 2,031,430,310	\$ 383,404,460	\$ 1,648,025,850	6.86 %
Total Assessable Base	\$ 29,575,004,490			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	Per Capita
	General Obligation Bonds (2)		
1996	\$ 983,948,054	1.40 %	\$ 1,209
1997	1,019,288,054	1.41	1,232
1998	1,057,463,054	1.45	1,257
1999	1,091,613,054	1.45	1,277
2000	1,131,833,054	1.44	1,296
2001	1,178,708,034	1.42	1,330
2002	1,242,553,054	1.41	1,376
2003	1,288,293,054	1.32	1,403
2004	1,329,778,054	1.30	1,428
2005	1,415,208,054	1.30	1,502

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.

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

	1996	1997	1998	2000
Assessed Value				
Real property (1)	\$ 26,057,528,520	\$ 26,603,652,341	\$ 27,274,641,135	\$ 28,674,553,821
Personal property	3,517,475,970	3,789,223,680	3,654,450,970	3,879,302,990
Total Assessed Value	<u>\$ 29,575,004,490</u>	<u>\$ 30,392,876,021</u>	<u>\$ 30,929,092,105</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)	\$ 3,908,629,278	\$ 3,990,547,851	\$ 4,091,196,170	\$ 4,301,183,073
For personal property at 15%	<u>527,621,396</u>	<u>568,383,552</u>	<u>548,167,646</u>	<u>581,895,449</u>
Legal Limitation for the Borrowing of Funds and the Issuance of Bonds	<u>4,436,250,674</u>	<u>4,558,931,403</u>	<u>4,639,363,816</u>	<u>4,883,078,522</u>
Debt Applicable to Limit:				
General obligation bonds	983,948,054	1,019,288,054	1,057,463,054	1,131,833,054
Bond anticipation notes	155,000,000	40,000,000	150,000,000	160,000,000
Long-term notes payable	-	-	-	1,689,553
Total Debt Applicable to Limit	<u>1,138,948,054</u>	<u>1,059,288,054</u>	<u>1,207,463,054</u>	<u>1,293,522,607</u>
Legal Debt Margin	<u>\$ 3,297,302,620</u>	<u>\$ 3,499,643,349</u>	<u>\$ 3,431,900,762</u>	<u>\$ 3,589,555,915</u>
Legal Debt Margin as a Percentage of Debt Limit	74%	77%	74%	74%

NOTES:

(1) 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 basis 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 basis (presented at 100 percent) of real property of the County and 15 percent of the County's assessable basis of personal property and operating real property.

2001	2002	2003	2004	2005
\$ 29,649,012,878	\$ 77,574,947,550	\$ 82,407,337,831	\$ 89,263,005,267	\$ 98,281,724,723
4,077,848,090	4,201,344,590	4,227,854,400	3,963,801,610	3,902,612,110
<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>
\$ 4,447,351,932	\$ 4,654,496,853	\$ 4,944,440,270	\$ 5,355,780,316	\$ 5,896,903,483
611,677,214	630,201,689	634,178,160	594,570,242	585,391,817
<u>5,059,029,145</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>
1,178,708,054	1,242,553,054	1,288,293,054	1,329,778,054	1,415,208,054
125,000,000	125,000,000	125,000,000	150,000,000	-
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>1,481,048,978</u>
<u>\$ 3,753,695,851</u>	<u>\$ 3,915,736,537</u>	<u>\$ 4,163,984,170</u>	<u>\$ 4,469,301,580</u>	<u>\$ 5,001,246,322</u>
74%	74%	75%	75%	77%

MONTGOMERY COUNTY, MARYLAND
 COMPUTATION OF NET DIRECT AND OVERLAPPING DEBT (1)
 AS OF JUNE 30, 2005

Name of Jurisdiction	District Number	Gross Debt	Percentage of Debt Applicable to this Jurisdiction	Jurisdiction's Share of Debt
Montgomery County:				
County Government		\$ 1,479,061,439		\$ 1,479,061,439
Less: Self supporting debt (2)		<u>62,655,000</u>		<u>62,655,000</u>
County Government - net		\$ 1,416,406,439	100.00 %	\$ 1,416,406,439
Total Net Direct Debt		<u>1,416,406,439</u>	<u>100.00</u>	<u>1,416,406,439</u>
Overlapping Areas:				
M-NCPPC		168,364,140		51,344,940
Less: Self supporting debt (2)		<u>15,909,140</u>		<u>14,194,940</u>
M-NCPPC - net		152,455,000	24.37	37,150,000
MCRA		68,780,082		68,780,082
Less: Self supporting debt (2)		<u>68,780,082</u>		<u>68,780,082</u>
MCRA - net		-	-	-
HOC		649,747,536		649,747,536
Less: Self supporting debt (2)		<u>649,747,536</u>		<u>649,747,536</u>
HOC - net		-	-	-
WSSC		1,454,125,311		1,008,216,728
Less: Self supporting debt (2)		<u>1,450,880,311</u>		<u>1,008,216,728</u>
WSSC - net		3,245,000	-	-
Kingsview Village Center Development District		2,305,000	100.00	2,305,000
West Germantown Development District		15,730,000	100.00	15,730,000
Towns, Cities, and Villages: (3)				
Brookeville	8	140,000	100.00	140,000
Garrett Park	4	739,300	100.00	739,300
Oakmont	7	30,000	100.00	30,000
Poolesville	3	1,710,223	100.00	1,710,223
Rockville	4	65,667,817	100.00	65,667,817
Takoma Park	13	2,609,162	100.00	2,609,162
Washington Grove	9	15,000	100.00	15,000
Total Net Overlapping Debt		<u>244,646,502</u>	<u>51.54</u>	<u>126,096,502</u>
Total Net Direct and Overlapping Debt		<u>\$ 1,661,052,941</u>	<u>92.86 %</u>	<u>\$ 1,542,502,941</u>

NOTES:

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

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

INTENTIONALLY BLANK

MONTGOMERY COUNTY, MARYLAND
REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS

Fiscal Year	Revenue (2)	Current Expenses (3)	Net Revenue Available for Debt Service	Debt Service Requirement (4)	Debt Service Coverage %	Rate Covenant Requirement %	Excess Coverage %
Bethesda Parking Lot District (1)							
1995	\$ 8,783,400	\$ 2,092,413	\$ 6,690,987	\$ 3,396,365	197.00 %	125 %	72.00 %
1996	9,226,176	2,466,734	6,759,442	3,371,538	200.49	125	75.49
1997	9,146,659	2,901,510	6,245,149	3,340,057	186.98	125	61.98
1998	10,879,885	3,082,433	7,797,452	3,327,258	234.35	125	109.35
1999	11,390,091	3,580,878	7,809,213	3,307,087	236.14	125	111.14
2000	11,511,966	3,475,533	8,036,433	3,261,988	246.37	125	121.37
2001	12,704,175	3,491,674	9,212,501	3,037,267	303.32	125	178.32
2002	15,784,467	3,929,577	11,854,890	3,037,908	390.23	125	265.23
2003	17,234,513	4,538,272	12,696,241	5,049,381	251.44	125	126.44
2004	17,493,200	5,306,639	12,186,561	4,699,278	259.33	125	134.33
Silver Spring Parking Lot District (1)							
1995	\$ 9,161,823	\$ 5,108,666	\$ 4,053,157	\$ 2,725,758	148.70 %	125 %	23.70 %
1996	9,537,027	4,557,035	4,979,992	2,698,843	184.52	125	59.52
1997	8,966,658	4,793,670	4,172,988	2,691,922	155.02	125	30.02
1998	9,294,406	4,470,865	4,823,541	2,679,103	180.04	125	55.04
1999	9,533,119	4,413,037	5,120,082	2,690,302	190.32	125	65.32
2000	9,941,924	4,639,724	5,302,200	2,685,578	197.43	125	72.43
2001	10,191,417	4,184,387	6,007,030	2,599,218	231.11	125	106.11
2002	9,418,078	5,190,147	4,227,931	2,581,158	163.80	125	38.80
2003	10,951,677	5,521,236	5,430,441	2,541,128	213.70	125	88.70
2004	11,151,362	5,473,519	5,677,843	2,408,388	235.75	125	110.75

NOTES:

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

(Continued)

GOMERY COUNTY, MARYLAND
 BOND COVERAGE, CONCLUDED
 TEN FISCAL YEARS

Fiscal Year (5)	Cash and Revenue (2)	Operating Expenses (3)	Net Cash and Revenue Available for Debt Service	Debt Service Requirement (4)	Debt Service Coverage %	Rate Covenant Requirement %	Excess Coverage %
<u>Solid Waste Disposal (1)</u>							
2000	\$ 116,414,685	\$ 46,949,571	\$ 69,465,114	\$ 40,309,962	172 %	110 %	62
2001	115,935,048	48,468,127	67,466,921	39,962,084	169	110	59
2002	103,712,766	51,179,767	52,532,999	39,947,469	132	110	22
2003	111,150,845	52,617,828	58,533,017	38,893,389	150	110	40
2004	117,196,533	62,830,971	54,365,562	37,189,799	146	110	36

NOTES:

- (1) Per the Solid Waste Disposal Master Authorization section 5.13 "Rates and Charges; Rate Covenant", the County must charge rates such that revenues when combined with up to 25 percent of certain cash balances held by the fund will, in each fiscal year, at least equal the sum of 100 percent of operating expenses plus 110 percent of debt service.
- (2) "Revenues" means all monies in the Solid Waste Disposal Fund, all rents, rates, fees, service charges, user charges, etc., received by or imposed by the County in connection with the Disposal System.
- (3) "Operating Expenses" means and includes the reasonable or necessary costs and expenses of the County (not including long-term expenses) of operating, maintaining, repairing, insuring, and administering the Disposal System or providing Disposal Services.
- (4) Includes debt service payments made on bonds issued by Northeast Maryland Waste Disposal Authority.
- (5) Data is not readily available for 1995 - 1999.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF LONG-TERM INDEBTEDNESS (PUBLIC SCHOOLS)
YEAR ENDED JUNE 30, 2005 *

Description of Bonds and Purpose of Issue	Interest Rate	Date of		Amount of General Tax Bonds	
		Bond Issue	Maturity	Issued	Outstanding June 30, 2005
General bonded indebtedness:					
Consolidated Public Improvement	7.6 - 8.6	5/1/1985	1986-05	22,500,000	
Consolidated Public Improvement	5.8 - 6.3	4/1/1986	1987-06	14,070,000	705,000
Consolidated Public Improvement Refunding	2.75 - 5.8	7/1/1992	1993-10	124,229,500	43,004,741
Consolidated Public Improvement	4.4 - 4.9	10/1/1993	1994-13	63,000,000	
Consolidated Public Improvement	5.2 - 6.125	10/1/1994	1995-14	82,600,000	4,130,000
Consolidated Public Improvement	5.10 - 5.50	3/15/1996	1997-16	55,000,000	5,500,000
Consolidated Public Improvement	5.0 - 5.375	4/15/1997	1998-17	27,500,000	4,125,000
Consolidated Public Improvement Refunding	3.9 - 5.25	1/1/1998	2003-15	39,634,602	38,930,405
Consolidated Public Improvement	4.875	4/1/1998	1999-18	80,100,000	16,020,000
Consolidated Public Improvement	4.0 - 5.0	4/1/1999	2000-19	66,200,000	19,860,000
Consolidated Public Improvement	5.0 - 6.0	1/1/2000	2001-20	67,000,000	20,100,000
Consolidated Public Improvement	4.0 - 5.0	2/1/2001	2002-21	74,978,422	29,991,369
Consolidated Public Improvement Refunding	3.6 - 5.25	11/15/2002	2003-19	61,667,788	58,390,073
Consolidated Public Improvement	3.0 - 5.0	2/1/2001	2003-22	76,000,000	38,000,000
Consolidated Public Improvement Refunding	2.75 - 5.25	11/15/2002	2005-13	58,187,994	58,187,994
Consolidated Public Improvement	1.50 - 4.0	5/1/2003	2004-23	86,500,000	77,850,000
Consolidated Public Improvement Refunding	2.0 - 5.0	5/1/2003	2004-11	25,633,689	23,332,068
Consolidated Public Improvement	3.0 - 5.0	3/15/2004	2005-24	62,800,000	59,660,000
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	66,550,000
Consolidated Public Improvement Refunding	5.0	6/1/2005	2011-21	62,464,240	62,464,240
Total				\$ 1,269,466,524	\$ 679,651,179

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

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	Average Registered Number of Pupils (Fiscal Year)(6)
1996	814,100	\$ 32,177,000	\$ 39,525	468,606	456,078	2.7 %	120,291
1997	827,200	33,089,000	40,001	466,600	455,285	2.4	122,505
1998	841,500	36,323,000	43,165	472,944	462,620	2.2	125,035
1999	855,000	38,717,000	45,283	478,946	470,018	1.9	127,852
2000	873,341	43,359,000	49,647	487,251	474,484	2.6	130,689
2001	886,000	45,174,000	50,986	489,015	473,928	3.1	134,180
2002	903,000	46,684,000	51,699	495,062	477,812	3.5	136,832
2003	918,000	48,520,000	52,854	501,389	488,339	2.6	138,891
2004	931,000	51,391,000	55,200	497,217	481,555	3.1	139,203
2005	942,000	54,071,000	57,400	507,020	489,344	3.5	140,902

NOTES:

- (1) Source: Maryland-National Capital Park and Planning Commission, Research and Technology Center. Round 7 Cooperative Estimates. Estimates are restated and are for January except for 2000 which are for April.
- (2) Source: Bureau of Economic Analysis (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 1996-2003 were revised by BEA and data for 2004 and 2005 are estimates.
- (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 1996 - 2003 and estimated for 2004. Please note: BLS undertook significant revisions to the County's civilian labor force data during the summer of 2005 for calendar years 1990 through 2004.
- (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.
- (6) Source: Office of Management and Budget, Montgomery County.

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

Employer	Fiscal Year 2005			Fiscal Year 1996		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
U.S. Department of Health and Human Services	38,800	1	8.58 %	21,500	1	5.70
Montgomery County Public Schools	20,987	2	4.64	14,380	2	3.82
U.S. Department of Defense	13,800	3	3.05	11,000	3	2.92
Montgomery County Government	8,272	4	1.83	7,385	5	1.96
U.S. Department of Commerce	6,200	5	1.37	5,500	6	1.46
Adventist Healthcare	6,000	6	1.33	3,800	10	1.01
Giant Food Corporation	4,900	7	1.08	4,500	8	1.19
Verizon (1)	4,700	8	1.04	*		-
Chevy Chase Bank	4,700	8	1.04	*		-
Lockheed Martin	3,900	10	0.86	*		-
IBM	*		-	8,000	4	2.12
Marriott International, Inc. (Headquarters)	*		-	5,000	7	1.33
Chesapeake and Potomac Telephone Company	*		-	4,500	8	1.19
TOTAL	112,259		24.82 %	85,565		22.70

NOTES:

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

(1) Verizon was formed in 2000 by the merger of Bell Atlantic and GTE. Bell Atlantic was previously created by the merger of the Chesapeake and Potomac Telephone Company with other mid-Atlantic telephone companies.

Source: Montgomery County Department of Economic Development

**MONTGOMERY COUNTY PUBLIC SCHOOLS
OPERATING INDICATORS
LAST TWO FISCAL YEARS**

	<u>Fiscal Year</u>	
	<u>2004</u>	<u>2005</u>
Student enrollment	139,203	139,337
ESOL student enrollment	12,843	13,308
Students receiving special education services	17,334	17,627
Students receiving Free and Reduced-price Meals	22.9%	23.7%
Cost per pupil	\$ 9,999	\$ 10,777
Number of employees	20,326	20,746
Number of teachers	10,748	10,845
Number of schools	191	192
Square footage	21.2 million	21.9 million
Number of buses	1,201	1,230
Student transported	96,000	96,000
School meals served	10.3 million	11.3 million
Average SAT score	1094	1102
Seniors taking SAT	81%	80%

Source: Our call to Action: Pursuit of Excellence. The strategic plan for the Montgomery County Public Schools

MONTGOMERY COUNTY PUBLIC SCHOOLS
SCHEDULE OF INSURANCE IN FORCE
as of June 30, 2005

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	07/01/05-07/01/06		\$100,000
Workers' Compensation	Montgomery County – Board of Education Self- Insurance Program	N/A	07/01/05-07/01/06		As required by Maryland Statutes plus \$100,000 Insurance Fund
Boiler and Machinery	FM Global	LP550	07/01/05-07/01/06		Extra expense \$25,000 deductible
Property All Risk Coverage	FM Global	LP550	07/01/05-07/01/06		Replacement costs less \$100,000 deductible per occurrence including Flood and Earthquake \$500,000,000 per occurrence
Bus, Truck and Auto Fleet Fire, Theft and Comprehensive	FM Global	LP550	07/01/03-07/01/06		Same as above
Commercial Crime Policy Bond Coverage - all employees	Fidelity & Deposit Co. of Maryland	CCP00510340	07/01/04-06/30/06		\$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	Mutual of Omaha	N/A	08/15/05-08/15/06		\$100,000 medical expense After 52 weeks after accident - \$2,500 death
Catastrophe/Liability for School Athletics	Mutual of Omaha	MOCO644808-19	08/01/05-08/01/06		\$10,000,000 Medical expense benefit with a \$25,000 retention
Public Official Liability	Montgomery County – Board of Education Self- Insurance Program	N/A	07/01/03-06/30/07		No limit
Fiduciary Liability	Travelers	103790777	07/01/04-06/30/06		\$5,000,000
N/A -- Not Applicable					