



City of
Gaithersburg, Maryland
**Comprehensive Annual
Financial Report**
for the Fiscal Year

July 1, 2004 through June 30, 2005

Prepared by

The Department of Finance and Administration

Harold Belton, *Director*

CITY OF GAITHERSBURG, MARYLAND
COMPREHENSIVE ANNUAL FINANCIAL
REPORT

JUNE 30, 2005

MAYOR
Sidney A. Katz

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Geri E. Edens
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John B. Schlichting
Blanche Keller

CITY MANAGER
David B. Humpton

DIRECTOR OF FINANCE AND ADMINISTRATION
Harold W. Belton, CGFM

INDEPENDENT AUDITORS
McGladrey & Pullen, LLP

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COMPREHENSIVE ANNUAL FINANCIAL
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Fiscal Year 2005
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DEPARTMENT OF FINANCE AND ADMINISTRATION
Accounting Division
Tina Smith, Comptroller
Angela Woo, Senior Accountant
Sherry Lewis, Accounting Technician
Wesley Rhodes, Accounting Technician
Denise Gantz, Administrative Secretary

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September 16, 2005

To the Mayor and City Council
City of Gaithersburg, Maryland

This Comprehensive Annual Financial Report is issued for the City of Gaithersburg, Maryland, with respect to the fiscal year that ended June 30, 2005. The purpose of this report is to provide financial information of importance to the decision-making process of the Mayor and City Council, the citizens of Gaithersburg, oversight bodies, and creditors. This report is also a vehicle for City officials to gauge the extent to which sound financial management and reporting practices are being applied to protect the public interest.

A high priority of the City is to maintain a sound financial condition. We believe that our financial results for the year, which ended June 30, 2005, reflect our commitment to this objective:

- The City continues to provide facilities and services to its citizens while maintaining its pay-as-you-go philosophy and imposing no property tax rate increase for 41 years.
- The City's reserves continue to be adequate to support unexpected emergencies in order to provide the highest quality of City services.

During Fiscal Year 2005, the City made progress in all of the goal areas of the Strategic Plan. The City's tradition of award-winning programs was extended in a variety of ways:

- Gaithersburg was ranked number 17 on *Money Magazine's* Top 100 list of Best Places to Live in America.
- The City was awarded its 27th Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA) for the Comprehensive Annual Financial Report for the fiscal year that ended June 30, 2004.
- A second Distinguished Budget Presentation Award from the Government Finance Officers Association of the United States and Canada (GFOA) was received for the fiscal year that ended June 30, 2005.
- Gaithersburg's "Cops in Shops" collaborative initiative to curb over-service of alcohol and underage drinking received the Montgomery County Partnership Award.
- A Savvy Award was given to the City for the *Gaithersburg – In Touch with Tomorrow* video which debuted at the State of the City Dinner.

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CITY MANAGER
David B. Hampton

- Two APEX Awards of Excellence were given to the City for the *Gaithersburg – In Touch with Tomorrow* video and a promotional poster for the Gaithersburg Arts Barn.
- Gaithersburg received a Tree City USA designation by the National Arbor Day Foundation for the 16th consecutive year.

The City continues to strive for excellence in the community through accomplishments such as:

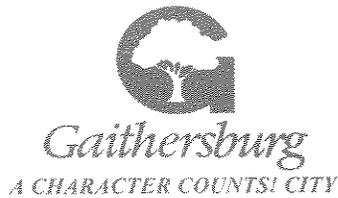
- Gaithersburg celebrated the grand opening of Lakelands Park, featuring lighted ball fields and a fully handicapped-accessible playground for young children.
- The Office of Environmental Affairs was budgeted as a separate item for the first time in Fiscal Year 2005, reflecting the City's commitment to sound environmental policy and planning.
- Construction began on the Robertson Youth Center, the City's first LEED-Certified Green Building.
- A new Art in Public Places sculpture was installed at the Arts Barn, bringing the City's total inventory of culturally-enriching public art to eleven pieces.
- The Olde Town Master Plan was adopted, incorporating concepts generated by the second Olde Towne Charrette. Work continues on other aspects of the Master Plan.
- Twenty nine active Committees, Boards and Commissions make recommendations to help the Mayor and City Council with many important City initiatives.
- \$400,000 in grant funding was secured from the State for relocation of the Olde Towne Youth Center.
- The City received \$1,187,230 in grants to support community and economic development activities, the City's Wells/Robertson homeless program, police equipment and new officer salaries, funds to support low-income families and children within the City, and State grants to offset increased storm-water management costs.

The City of Gaithersburg continues to provide important services to its citizens, while maintaining a strong, fiscally conservative approach to financial management. It is my belief that the City's Strategic Plan, effective budget process and sound management principles will ensure that the City remains in strong financial condition.

Sincerely,



David B. Humpton
City Manager



September 16, 2005

To the Citizens of the City of Gaithersburg, Maryland:

State law requires that all general purpose local governments publish, within four months of the close of each fiscal 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. Pursuant to that requirement, and the provisions of the City's Charter, Section 53, we hereby issue the Comprehensive Annual Financial Report (CAFR) for the City of Gaithersburg, Maryland, for the year which ended June 30, 2004.

This report consists of management's representations concerning the finances of the City of Gaithersburg. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Gaithersburg has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse, and to compile sufficient reliable information for the preparation of the City of Gaithersburg statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Gaithersburg's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Gaithersburg's financial statements have been audited by McGladrey and Pullen, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the basic financial statements of the City of Gaithersburg for the fiscal year that ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements; assessing the accounting principles used, and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Gaithersburg financial statements for the fiscal year ended that June 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the Financial Section of the CAFR.

The independent audit of the financial statements of the City of Gaithersburg, Maryland was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Gaithersburg, Maryland Single Audit Section of the CAFR.

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CITY MANAGER
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GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Gaithersburg's MD&A can be found immediately following the report of the independent auditor in the Financial Section of the CAFR.

The remainder of this letter provides an overview of local economic conditions and prospects for the future, provides a report on some of the City's current initiatives, and highlights the City's financial results.

REPORTING ENTITY

The City's financial statements include Casey Community Center operations, aquatic facility operations, Senior Center operations, and all departments and funds operated by the City. In addition, the Employees' Retirement Plan is included as a component unit of the reporting entity. The retirement plan activity is reported in the Pension Trust Fund in the accompanying financial statements.

The financial activities of the Montgomery County Board of Education and the Washington Suburban Sanitary Commission are not considered part of the City's reporting entity. These are separate entities over which the City exercises no control and are not included in this report.

ECONOMIC CONDITION AND OUTLOOK

Gaithersburg is centrally located in the heart of Montgomery County. The southeastern border lies 12 miles from the northwestern border of Washington, D.C., and 18.5 miles northwest of the U.S. Capitol Building. Gaithersburg occupies approximately 10 square miles, with a population of 58,689 as of January 2005.

The City continues to attract and maintain a dense concentration of high-technology companies along the Interstate 270 Technology Corridor which benefit from their proximity to the regulatory agencies in the National Capital region. Additionally, the residential tax base continues its strong growth. The current economic condition of the City is excellent, and we are confident that this can be maintained.

Gaithersburg's consistent strategy to attract biotechnology firms continues to reap substantial benefits. Construction of the headquarters facility for MedImmune, one of the 10 largest pharmaceutical companies in the world, has completed phase I; phase II is now under construction. MedImmune's neighbors include Digene, GenVec, Antex, Gene Logic, IBM and Lockheed Martin. According to *Expansion Management* magazine, Gaithersburg possesses many attributes these technology firms seek including a superior work force, good transportation infrastructure, quality of life, competitive operating costs and a pro-business government.

Real property tax revenue will post a significant increase, resulting in an expected rise in total revenues for FY 2006. This is attributable to strong growth in the real property assessable base. We expect the real property base to continue to grow for the next several years, but this growth will be offset by reductions in other revenue areas.

The City fiscal health is tied to revenues at the local, state and federal level, as well as sources such as interest income and permit fees that are susceptible to fluctuation due to changing economic conditions.

MAJOR INITIATIVES

In preparing the 2005 Budget, the government identified, through a strategic planning process, several major programs needed to meet citizens' requirements for services and to safeguard the environment, in conformity with applicable federal and state standards. These programs include:

- Ensure that all planning and development considers and responds to the City's environmental, transportation, economic, social and civic needs.
- Implement traffic and transportation management strategies to improve the safety, structure and function of streets, transit, bikeways and sidewalks within the City.
- Actively pursue Olde Towne Blueprint.
- Maintain and enhance priority City services.
- Pursue programs that preserve and improve current and future housing stock and mix (e.g., aging apartments).
- Maintain support of neighborhood Community Policing programs.
- Implement programs to enhance delivery of services that address the needs of the City's culturally diverse population.
- Implement the Master Plan for Parks, Recreation, Cultural, and Leisure Activities.
- Implement recommendations from ongoing evaluation of natural resources and encourage protection and enhancement of the environment (streams, parks, stormwater management, and other CIP projects).
- Actively pursue economic development programs and strategies.
- Continue communication activities and implement programs that promote citizen involvement.

The largest single capital project is the development of the Lakelands Recreation Center, for which \$1,167,994 was appropriated in fiscal year 2005.

RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS

The City sponsors a single employer non-contributory defined contribution pension plan covering all full-time employees. The City also has its own contributory savings plan authorized under Section 401(k) of the Internal Revenue Code covering all full-time employees. Additionally, the City has established a deferred compensation plan in accordance with Internal Revenue Code Section 457 which is available to all employees.

The City provides a Vantagecare Retirement Health Savings Plan. Under the adoption agreement of the plan, employees may make a one-time irrevocable election of the amount of Employer contributions of compensation made on his or her behalf.

The City also provides hospitalization, dental, and life insurance benefits for qualifying retirees and disabled employees. There are currently 27 retirees receiving benefits, which are financed on a pay-as-you-go basis.

Additional information on the City's retirement and other postemployment benefits can be found in Notes 8 and 9 to the basic financial statements.

CASH MANAGEMENT

Cash temporarily idle during the year was invested in the State of Maryland Local Government Investment Pool and in the Montgomery County Investment Pool. On June 30, 2005, the City's financial assets consisted of \$365,154 cash and \$42,299,301 in the respective pools.

Interest earned on investments during fiscal year 2005 totaled \$870,163 was \$445,398 more than the interest earned on investments in fiscal year 2004.

RISK MANAGEMENT

As of July 1, 1987, the City joined with other local governments and formed a self-insurance pool. In the 18 years since, this action has saved considerable money for all participants. The pool initially only provided liability coverage (in the amount of \$1,000,000); therefore, the City still had casualty coverage with a private carrier. Coverage has now been extended for all risks except Workers' Compensation, which is carried by the Montgomery County Self-Insurance Fund.

HOSPITAL FACILITIES REVENUE BONDS

On June 27, 1995, the City issued Hospital Facilities Revenue Bonds Series 1995, totaling \$67,375,000, which refinanced all previous bond obligations. An agreement was executed between the hospital and the City concurrently with the issuance of the bonds. Certain assets of the hospital facility secure the loan in full. The agreements provide for the hospital to repay the loan in installments in aggregate amounts sufficient to provide full and prompt payment of principal and interest on the bonds when due. The full faith and credit of the City have not been pledged in support of the bonds, and in event of default by the hospital, the City cannot be held liable.

ECONOMIC DEVELOPMENT REVENUE BONDS

(Asbury Methodist Village, Incorporated Facilities)

The City has issued Economic Development Revenue Bonds Series 1997 and 2004, totaling \$42,935,000 and \$44,000,000, respectively, to fund the acquisition, construction, equipping, and renovations of an Assisted Living Facility at Asbury Methodist Village. Agreements were executed between Asbury Methodist Village, Inc. and the City concurrently with the issuance of the bonds. Certain assets of Asbury Methodist Village, Inc. secure the loan in full. The agreements provide for Asbury Methodist Village, Inc. to repay the loan in installments in aggregate amounts sufficient to provide full and prompt payment of principal and interest on the bonds when due. The full faith and credit of the City have not been pledged in support of the bonds, and in event of default, the City cannot be held liable.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Gaithersburg for its Comprehensive Annual Financial Report for the year which ended June 30, 2004. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR), the contents of which conform to the program standards. Such Comprehensive Annual Financial Report must satisfy both GAAP and applicable legal requirements.

To the Citizens of the City of Gaithersburg, Maryland

Page 5

September 16, 2005

A Certificate of Achievement is valid for a period of one year only. The City of Gaithersburg has received a Certificate of Achievement for the last 27 consecutive years (fiscal years 1978-2004). We believe our current report continues to conform to Certificate of Achievement Program requirements and we are submitting it to the Government Finance Officers Association of the United States and Canada for review.

DISTINGUISHED BUDGET PRESENTATION

GFOA presented an award of Distinguished Presentation to the City of Gaithersburg for its annual budget for the fiscal year beginning July 1, 2004. In order to receive this award, a governmental unit must publish a document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device. The award is only valid for a period of one year. The City of Gaithersburg is proud to be the recipient of the award for the third year (2004 - 2005). It is our belief the current budget continues to conform to program requirements and submitted it to GFOA to determine its eligibility for another award.

ACKNOWLEDGMENTS

The preparation of this report in a timely basis could not be accomplished without the professional, efficient, and dedicated services of the entire staff of the Department of Finance and Administration, along with the various City staff that assisted and contributed to its preparation. Their hard work, professional dedication and continuing efforts to improve the quality of this report are a direct benefit to all who read and use it. A special thank you goes to the Public Information Office for their invaluable assistance. We also would like to acknowledge the cooperation and assistance of the City's departments throughout the year in the efficient administration of the City's financial operations.

In closing, we also would like to thank the Mayor, the members of the City Council, and the City Manager for their interest and support in planning and conducting the financial operation of the City in a responsible and progressive manner.

Respectfully submitted,



Harold W. Belton, CGFM
Director of Finance and Administration

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Gaithersburg,
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. Zielke

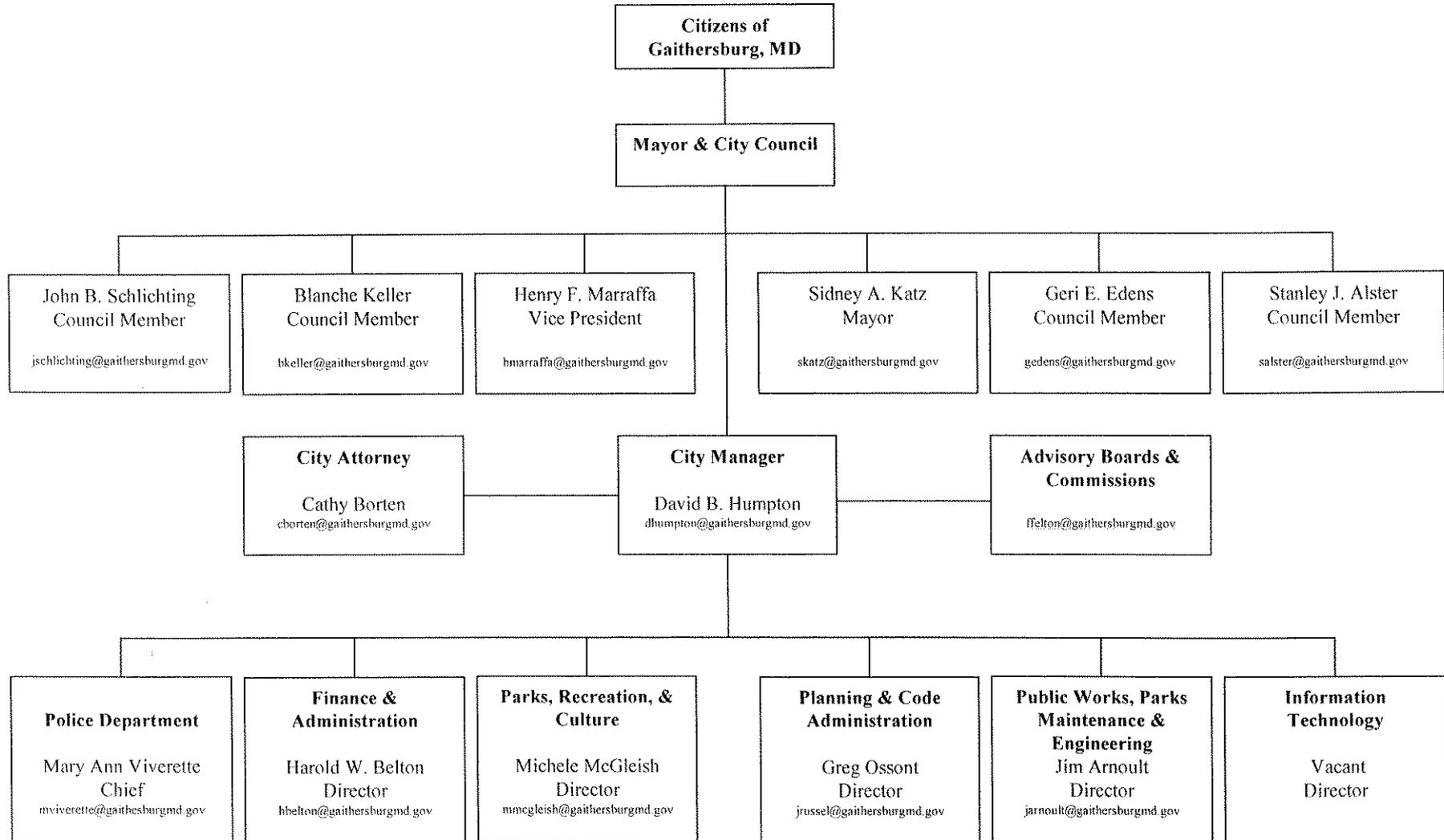
President

Jeffrey R. Emer

Executive Director

City of Gaithersburg

www.gaithersburgmd.gov



McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor and City Council
City of Gaithersburg, Maryland

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Gaithersburg, Maryland, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gaithersburg's 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Gaithersburg, Maryland as of June 30, 2005, and the respective changes in financial position 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 a report dated September 16, 2005, on our consideration of the City of Gaithersburg, Maryland's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 12 through 22 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gaithersburg, Maryland's basic financial statements. The combining and individual fund financial statements and other schedules, listed in the Table of Contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Frederick, Maryland
September 16, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Introduction

This section of the City of Gaithersburg's annual financial report presents a discussion and analysis, prepared by the City's senior management, of the financial performance for the fiscal year ended June 30, 2005. The MD&A is best understood if read in conjunction with the Transmittal Letter and the City's basic financial statements.

Financial Highlights For FY 2005

- The General Fund, on a current financial resource basis, reported revenues in excess of expenditures and other financing sources and uses by \$2.9 million after making a \$5.2 million transfer to the Capital Projects Fund.
- The City's financial position improved over the past year. Total governmental funds' fund balance increased by 5.2 percent to \$42.2 million.
- Interest income increased for the first time in three years, from \$424,765 to \$870,163, as a result of general market conditions.
- Capital Projects Fund expenditures of \$6.0 million included completion of storm water management projects, street resurfacing, Lakelands Park and the construction of the Gaithersburg Youth Center at Robertson Park.

Overview of the Financial Statements

This Comprehensive Annual Financial Report (CAFR) consists of four sections. They are: Introductory, Financial, Statistical, and Single Audit. The basic financial statements in the financial section include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the City's *overall* financial status. The Statement of Net Assets and the Statement of Activities, which are the government-wide statements, report information about the City as a whole and about its activities. The government-wide financial statements were a new requirement in fiscal year 2003 and were not provided prior to June 30, 2003.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the City, reporting the operations in *more detail* than the government-wide statements.
The City's fund financial statements include:
 - *Governmental funds statements* that tell how basic services were financed in the *short-term* as well as what remains for future spending.
 - *Fiduciary funds statements* that provide information about the financial relationships in which the City acts solely as a *trustee* or *agent* for the benefit of others.

The basic financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the City's budget for the year. Figure 1 shows how the various parts of this annual report are arranged and related to one another.

The chart below summarizes the major features of the City's financial statements, including the portion of the activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure 1

Organization and Flow of Financial Section Information

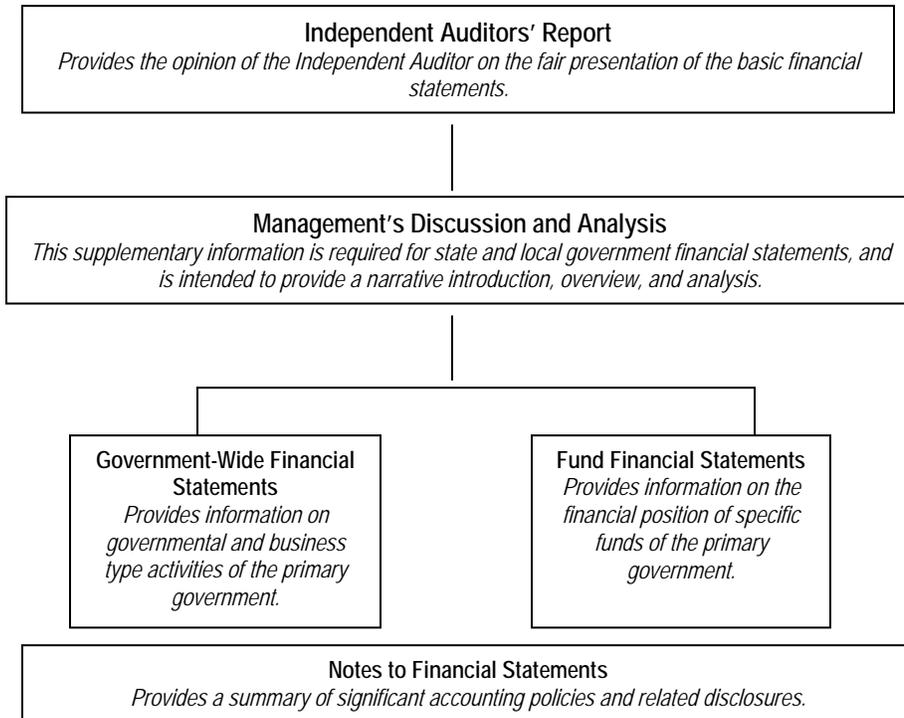


Figure 2: Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire City (except fiduciary funds)	The activities of the City that are not proprietary or fiduciary, such as Police, Parks, Recreation & Culture, and general administration.	Instances in which the City administers resources on behalf of someone else, such as scholarship programs and...
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/out-flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liabilities are due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Government-Wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets is designed to provide bottom line results for the City's governmental activities. This statement, reports governmental funds' current financial resources (i.e., short-term spendable resources) with capital assets and long-term obligations. All infrastructure assets built or purchased by the City, and infrastructure dedicated by developers, are included in the accompanying government-wide financial statements. The difference between the City's assets and liabilities is reported as net assets.

- Over time, increases or decreases in the system's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the City's overall health, you need to consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's infrastructure.

The statement of activities is focused on both the gross and net cost of various functions. This is intended to summarize and simplify the users' analysis of the cost of various governmental services. In the government-wide financial statements, the activities of the City is maintained within one category:

- *Governmental activities:* The City's basic services are reported here: Public Works, Police, Planning and Code, Parks, Recreation and Culture, and General Government. Property taxes, other state, county, and local taxes, and state and federal grants finance these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's funds, focusing on its most significant or "major" funds, not the City as a whole. Funds are accounting devices used to keep track of specific sources of funding and spending on particular programs. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the City can be divided into two categories:

- Governmental funds, and
- Fiduciary funds.
- *Governmental funds:* The City's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided in a reconciliation of the governmental funds balance sheet to the statement of net assets and a separate reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balances to the statement of activities. The City of Gaithersburg maintains only two governmental funds, those being the General Fund and Capital Projects Fund.
- *Fiduciary funds:* The City is the trustee, or *fiduciary*, for assets that belong to its employees' pension plan, private purpose trusts, and agency funds. The City 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. These activities are excluded from the government-wide financial statements because the assets cannot be used to finance operations.

Financial Analysis of the City as a Whole

Statement of Net Assets: The following table presents a summary of the Statement of Net Assets for the City as of June 30, 2005 with a FY 2004 comparative analysis:

Figure 3		
Condensed Statement of Net Assets		
	Total Governmental Activities	
	2005	2004
Assets:		
Current and other assets	\$ 46,198,051	\$ 43,880,876
Capital assets, net	105,089,489	104,360,134
Total Assets	151,287,540	148,241,010
Liabilities:		
Long-term liabilities outstanding	1,172,303	1,192,011
Other liabilities	3,723,839	3,516,926
Total Liabilities	4,896,142	4,708,937
Net assets:		
Invested in capital assets	105,089,489	104,360,134
Unrestricted	41,301,909	39,171,939
Total Net Assets	\$ 146,391,398	\$ 143,532,073

The City's assets exceeded its liabilities at the close of FY 2005 by \$146.4 million. By far the largest portion of the City's net assets reflects its investment in capital assets, (e.g., land, buildings, improvements, furniture and equipment, infrastructure). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

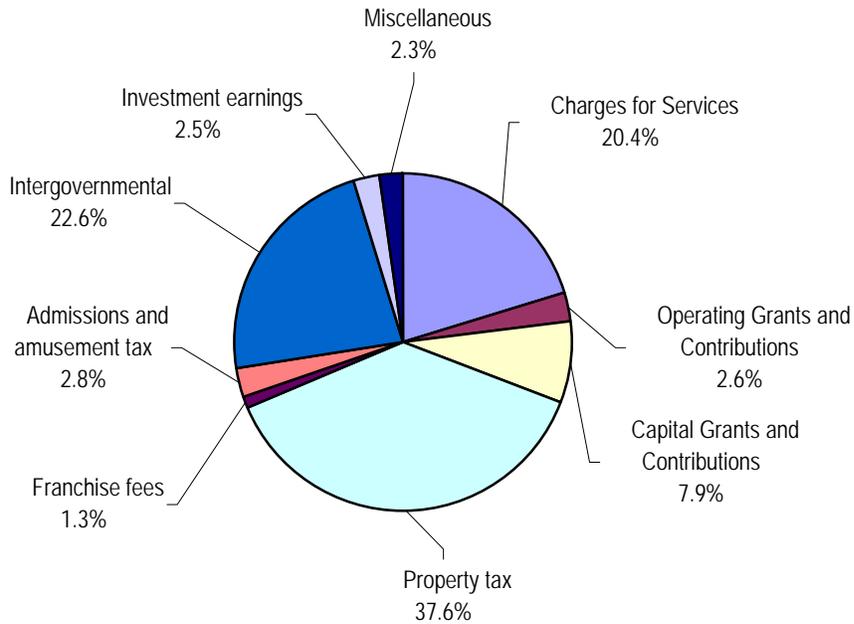
Statement of Activities: The City's total revenues were \$35.4 million. Local property taxes funding amounted to \$13.3 million; intergovernmental funding, \$8.0 million; charges for services, \$7.2 million; operating grants and contributions, \$900 thousand; and capital grants and contributions, \$2.8 million. The remaining \$3.2 million came from investment earnings and miscellaneous sources.

Figure 4

Condensed Statement of Activities

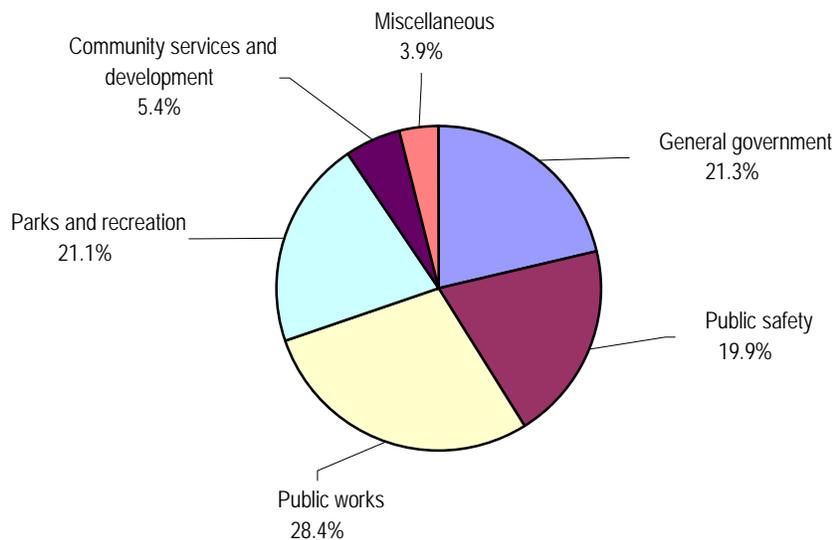
	Total Governmental Activities	
	2005	2004
Revenues		
Program revenues:		
Charges for services	\$ 7,222,728	\$ 6,329,587
Operating grants and contributions	938,266	1,103,083
Capital grants and contributions	2,789,941	3,794,716
General revenues:		
Property tax	13,310,028	12,538,737
Franchise fees	444,881	440,892
Admissions and amusement tax	1,008,836	887,000
Intergovernmental	8,008,710	7,900,819
Investment earnings	870,163	424,765
Miscellaneous	810,903	778,015
Total revenues	35,404,456	34,197,614
Expenses		
General government	6,929,027	6,978,070
Public safety	6,479,474	5,976,365
Public works	9,237,552	9,222,580
Parks and recreation	6,858,152	6,591,139
Community services and development	1,777,491	1,582,419
Miscellaneous	1,263,435	642,433
Total Expenses	32,545,131	30,993,006
Increase in Net Assets	2,859,325	3,204,608
Net Assets, beginning	143,532,073	140,327,465
Net Assets, ending	\$ 146,391,398	\$ 143,532,073

**Figure 5: Revenues by Source - Governmental Activities
For the Fiscal Year Ended June 30, 2005**



The cost of governmental activities for FY 2005 was \$32.5 million. As the chart below indicates, General Government and Public Works are the two largest programs; however, the highest priority is placed on Public Safety, for which current year expenses totaled \$6.5 million. Major cost increases in fiscal year 2005 were attributable to salary increases for City personnel.

**Figure 6: Expenses by Function - Governmental Activities
For the Fiscal Year Ended June 30, 2005**



Governmental Activities

General revenues for the governmental activities were \$24.4 million, while total expenses, net of charges for services and grants, were \$21.8 million. The increase in net assets for governmental activities was \$2.9 million and can be largely attributed the following:

- Capital outlays of \$4.7 million offset by depreciation expense of \$3.5 million as accounted for in accordance with GASB 34,
- Property taxes increased by \$771 thousand during the year. This increase is based on the assessments of new growth, and increased property values, as determined by the State of Maryland Department of Assessments and Taxation, of approximately \$418.3 million,
- Intergovernmental represent primarily grants and aid from the Federal, State and County governments. The majority of such revenues was received from the State for Income Tax (\$7.0 million), and
- Overall, expenditures remained relatively constant compared to the prior year.

The following table, presents the cost and program revenues of each of the seven City activities: general government, public safety, public works, parks and recreation, community services and development, miscellaneous, and capital outlay. This table also shows each activity's *net cost* (total cost less fees generated by the activities and program specific intergovernmental aid). The *net cost* shows the financial burden placed upon local taxpayers for each of these functions.

	2005			2004		
	Cost of Services	Program Revenues	Net Cost of Services	Cost of Services	Program Revenues	Net Cost of Services
General government	\$ 6,929,027	\$ 2,343,286	\$ (4,585,741)	\$ 6,978,070	\$ 1,880,197	\$ (5,097,873)
Public safety	6,479,474	1,507,339	(4,972,135)	5,976,365	1,422,241	(4,554,124)
Public works	9,237,552	2,623,364	(6,614,188)	9,222,580	4,453,406	(4,769,174)
Parks and recreation	6,858,152	2,946,167	(3,911,985)	6,591,139	2,815,100	(3,776,039)
Community services and development	1,777,491	1,530,779	(246,712)	1,582,419	656,442	(925,977)
Miscellaneous	1,263,435	-	(1,263,435)	642,433	-	(642,433)
Total	\$ 32,545,131	\$ 10,950,935	\$ (21,594,196)	\$ 30,993,006	\$ 11,227,386	\$ (19,765,620)

The cost of all governmental activities this year was \$32.5 million. Some of the cost of government activities was paid by those who directly benefited from the programs (\$7.2 million) and other governments and organizations that subsidized certain programs with grants and contributions (\$3.8 million). Of the \$21.6 million net cost of services, the amount that our taxpayers paid for the activities through City taxes was \$14.6 million.

Financial Analysis of The City's Funds

The strong financial performance of the City as a whole is reflected in its governmental funds as well. At year-end, the governmental funds reported combined fund balances of \$42.2 million; an increase of \$2.1 million over last year's ending fund balance of \$40.1million.

General Fund (Governmental): The general fund had more revenues than expenditures in 2005, thereby increasing total fund balance to \$30.8 million. It is important to note that the net change in fund balance is \$2.9 million. This figure is calculated on the modified accrual basis and is slightly different from the \$2.8 million budgetary basis excess. This difference is due to the treatment of prior and current year encumbrances and the usage of prior year's fund balance.

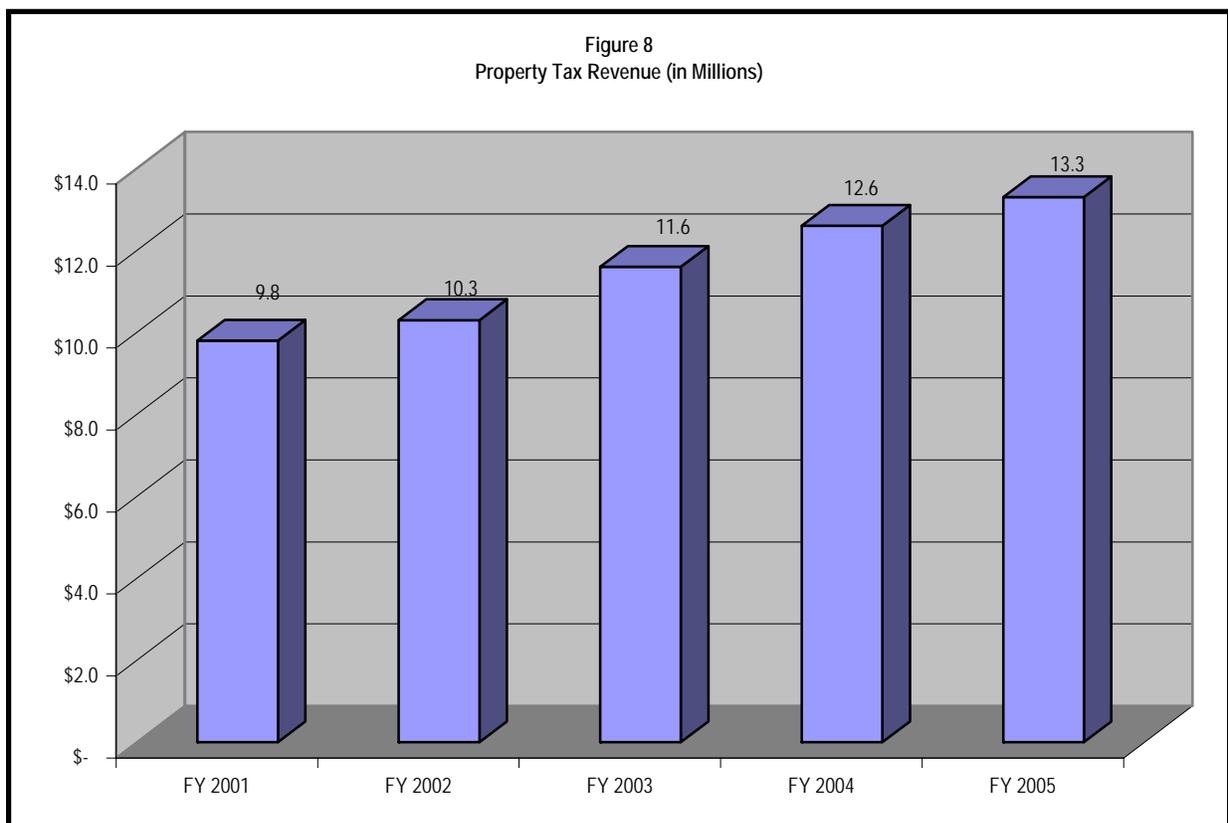
Capital Projects Fund (Governmental): The Capital Projects Fund showed a \$858 thousand decrease in fund balance. Capital Projects Funds' total fund balance of \$11.1 million represents authorized and funded projects that are not complete.

General Fund Budgetary Highlights

In accordance with a Resolution of the Mayor and City Council, the City Manager is authorized to make transfers only after May 31st of each year so long as no activity budget is increased more than 25 percent. These budget amendments were completed between operating departments to prevent budget overruns, with no increase in the total budget of \$29.5 million.

Actual revenues exceeded budget amount by \$681 thousand, while actual expenditures and net transfers out were less than final budget by \$1.7 million. Actual expenditures of \$27.8 were \$1.7 million less than budgeted due primarily to the concerted efforts of each department to generate savings in anticipation of FY 2006 revenue shortfalls. These savings are to be carried forward to FY 2006.

The largest revenue source for the General Fund is City property tax. In FY 2005, property tax revenues of \$13.3 million represented 37.6 percent of total revenues for the General Fund, and were 0.4 percent less than the budget estimate. As a result of continued increases in assessed values in both real and personal property, the total assessable base grew 7.8 percent in FY 2005.



Capital Asset and Debt Administration

Capital Assets

By the end of 2005, the City had invested \$105.1 million (net of depreciation) in a broad range of capital assets, including buildings, athletic facilities, computers, and vehicles and equipment. Total depreciation expense for the year exceeded \$3.5 million, while additions to buildings, infrastructure, improvements, and equipment and furniture amounted to \$4.7 million. More detailed information about capital assets can be found in Note 6 to the basic financial statements.

Figure 9 Capital Assets, Net of Depreciation	Total Governmental Activities	
	2005	2004
Land	\$ 38,244,929	\$ 38,388,026
Buildings	19,208,061	19,883,685
Improvements other than buildings	4,050,894	1,331,054
Machinery and equipment	3,337,621	3,101,524
Infrastructure	38,101,681	39,032,133
Construction in progress	2,146,303	2,623,712
Total	\$ 105,089,489	\$ 104,360,134

- The fiscal year 2005 capital projects spending amounted to \$6.0 million for capital projects, principally in four areas: completion of storm water management projects, street resurfacing, Lakelands Park and the construction of the Gaithersburg Youth Center at Robertson Park.

Debt

The City of Gaithersburg is a strong proponent of the “pay-as-you-go” methodology, and proud of the fact that the City has no outstanding debt obligations. The City’s debt consists only of compensated absences payable. More detailed information about debt can be found in Note 7 to the basic financial statements.

Figure 10 Long-Term Liabilities	Total Governmental Activities	
	2005	2004
Accumulated unused compensated absences		
Vacation	\$ 823,981	\$ 854,853
Sick leave	348,322	337,158
Total	\$ 1,172,303	\$ 1,192,011

Factors Bearing on the City's Future

The following economic factors are reflected in the City's FY 2006 budget:

- The City's economic projections in the FY 2006 budget are based on the remaining amount of developable land. Development licenses and permits are projected at a 25 percent reduction from actual FY 2005.
- The economy in the City appears to have avoided a recession. This is partly due to a limited presence of manufacturing and high-technology industries.
- Increases in Real property assessments and income tax collections were factored into assumptions.
- Reductions in shared revenues and grants from both the State and County were factored into assumptions.

Contacting the City's Financial Management

This financial report is designed to provide the citizens, taxpayers, customers, creditors, and employees of the City of Gaithersburg with a general overview of the City's finances and to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Department of Finance and Administration, City Hall, 31 South Summit Avenue, Gaithersburg, MD 20877, telephone 301-258-6320, fax 301-258-6326, or visit the City's web site at www.gaithersburgmd.gov.

City Of Gaithersburg, Maryland

Statement Of Net Assets
June 30, 2005

	Primary Government <hr/> Governmental Activities
Assets	
Cash and cash equivalents	\$ 365,154
Investments	42,299,301
Receivables:	
Property taxes, net	275,068
Recycling collections	1,293
Due from other governments	2,296,978
Other, net	832,164
Inventory	19,837
Prepays	108,256
Capital assets:	
Land	38,244,929
Buildings	26,689,602
Improvements other than buildings	7,612,188
Machinery and equipment	9,468,895
Infrastructure	62,979,478
Construction in progress	2,146,303
Less: accumulated depreciation	(42,051,906)
Total assets	<hr/> 151,287,540 <hr/>
Liabilities	
Accounts payable	1,009,106
Accrued liabilities	778,435
Deposits	1,936,298
Non-current liabilities:	
Due within one year:	
Accumulated unused compensated absences	378,625
Due in more than one year:	
Accumulated unused compensated absences	793,678
Total liabilities	<hr/> 4,896,142 <hr/>
Net Assets	
Invested in capital assets	105,089,489
Unrestricted	41,301,909
Total net assets	<hr/> \$ 146,391,398 <hr/>

See Notes To Basic Financial Statements.

City Of Gaithersburg, Maryland

Statement Of Activities
Year Ended June 30, 2005

Functions / Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Primary Governmental Activities
Governmental Activities:					
General government	\$ 6,929,027	\$ 2,343,286	\$ -	\$ -	\$ (4,585,741)
Public safety	6,479,474	950,677	556,662	-	(4,972,135)
Public works	9,237,552	999,598	-	1,623,766	(6,614,188)
Parks and recreation	6,858,152	2,929,167	17,000	-	(3,911,985)
Community services and development	1,777,491	-	364,604	1,166,175	(246,712)
Miscellaneous	1,263,435	-	-	-	(1,263,435)
Total governmental activities	\$ 32,545,131	\$ 7,222,728	\$ 938,266	\$ 2,789,941	(21,594,196)
General Revenues:					
Property tax					13,310,028
Franchise fees					444,881
Admissions and amusement tax					1,008,836
Intergovernmental not restricted to specific programs					8,008,710
Investment earnings					870,163
Miscellaneous					810,903
Total general revenues					24,453,521
					Change in net assets
					2,859,325
Net Assets:					
Beginning					143,532,073
Ending					\$ 146,391,398

See Notes To Basic Financial Statements.

City Of Gaithersburg, Maryland

Balance Sheet - Governmental Funds
June 30, 2005

	General Fund	Capital Projects Fund	Total Governmental Funds
Assets			
Cash	\$ 365,154	\$ -	\$ 365,154
Investments	42,299,301	-	42,299,301
Taxes receivable, net	275,068	-	275,068
Recycling collections receivable	1,293	-	1,293
Prepays	108,256	-	108,256
Inventory	19,837	-	19,837
Due from other funds	-	11,507,185	11,507,185
Due from other governments	2,296,978	-	2,296,978
Other receivables	832,164	-	832,164
Total assets	\$ 46,198,051	\$ 11,507,185	\$ 57,705,236
Liabilities And Fund Balances			
Liabilities:			
Accounts payable	\$ 521,426	\$ 389,399	\$ 910,825
Accruals	778,435	-	778,435
Deposits	1,936,298	-	1,936,298
Deferred revenue	273,272	-	273,272
Due to other funds	11,605,466	-	11,605,466
Total liabilities	15,114,897	389,399	15,504,296
Fund Balances			
Reserved for:			
Encumbrances	461,714	3,375,847	3,837,561
Long-term receivables	446,394	-	446,394
Prepaid expenditures	108,257	-	108,257
Inventory	19,837	-	19,837
Unreserved:			
Designated for:			
Vehicle and equipment replacement	4,051,232	-	4,051,232
Subsequent years' expenditures	4,097,870	7,741,939	11,839,809
Group insurance funding	2,833,203	-	2,833,203
Self-insurance	67,059	-	67,059
Training	50,000	-	50,000
Economic development	299,249	-	299,249
Emergency and disaster	500,000	-	500,000
Unreserved and undesignated	18,148,339	-	18,148,339
Total fund balances	31,083,154	11,117,786	42,200,940
Total liabilities and fund balances	\$ 46,198,051	\$ 11,507,185	\$ 57,705,236

See Notes To Basic Financial Statements.

City Of Gaithersburg, Maryland

Reconciliation Of The Balance Sheet Of Governmental Funds
To The Statement Of Net Assets
June 30, 2005

Total fund balance - total governmental funds		\$	42,200,940
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Cost of capital assets	\$	147,141,395	
Accumulated depreciation		<u>(42,051,906)</u>	105,089,489
Long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Property taxes			273,272
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Accumulated unused compensated absences			<u>(1,172,303)</u>
Net assets of governmental activities		\$	<u>146,391,398</u>

See Notes To Basic Financial Statements.

City Of Gaithersburg, Maryland

Statement Of Revenues, Expenditures, And Changes
In Fund Balances - Governmental Funds
Year Ended June 30, 2005

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues:			
Taxes and special assessments	\$ 14,288,983	\$ -	\$ 14,288,983
Licenses and permits	3,546,026	-	3,546,026
Intergovernmental	11,736,917	-	11,736,917
Charges for services	3,851,601	-	3,851,601
Fines and forfeitures	269,982	-	269,982
Investment earnings	870,163	-	870,163
Miscellaneous	810,903	-	810,903
Total revenues	35,374,575	-	35,374,575
Expenditures:			
Current:			
General government	6,272,714	-	6,272,714
Public safety	6,573,228	-	6,573,228
Public works	5,051,478	-	5,051,478
Parks and recreation	6,713,263	-	6,713,263
Community services and development	1,777,491	-	1,777,491
Miscellaneous	1,283,143	-	1,283,143
Capital outlay	-	6,049,046	6,049,046
Total expenditures	27,671,317	6,049,046	33,720,363
Excess (deficiency) of revenues over expenditures	7,703,258	(6,049,046)	1,654,212
Other Financing Sources (Uses):			
Sale of fixed assets	426,169	-	426,169
Transfers in	-	5,190,555	5,190,555
Transfers out	(5,190,555)	-	(5,190,555)
Total other financing sources (uses)	(4,764,386)	5,190,555	426,169
Net change in fund balances	2,938,872	(858,491)	2,080,381
Fund balance at beginning of year	28,144,282	11,976,277	40,120,559
Fund balance at end of year	\$ 31,083,154	\$ 11,117,786	\$ 42,200,940

See Notes To Basic Financial Statements.

City Of Gaithersburg, Maryland

Reconciliation Of The Statement Of Revenues, Expenditures, And Changes
In Fund Balances Of Governmental Funds To The Statement Of Activities
Year Ended June 30, 2005

Total net change in fund balances - total governmental funds	\$	2,080,381
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period.

Capital outlays	\$	4,674,292	
Depreciation		<u>(3,503,514)</u>	1,170,778

In the statement of activities, only the gain/loss on the disposition of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balances by costs of the capital assets disposed of \$839,424, less any accumulated depreciation of \$398,001.

(441,423)

A certain amount of property tax revenues in the statement of activities does not provide current financial resources and is not reported as revenue in the governmental funds. This is amount by which deferred revenue increased (decreased).

29,881

Some expenses in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. This is the amount by which accumulated unused compensated absences (increased) decreased.

19,708

Change in net assets of governmental activities	\$	<u>2,859,325</u>
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See Notes To Basic Financial Statements.

City Of Gaithersburg, Maryland

Statement Of Revenues, Expenditures, And Changes In Fund Balance -
Budget (Budgetary Basis) And Actual - General Fund
Year Ended June 30, 2005

	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Amended Budget Positive (Negative)
	Original	Amended		
Revenues:				
Taxes and special assessments	\$ 13,986,900	\$ 13,986,900	\$ 14,288,983	\$ 302,083
Licenses and permits	2,300,153	2,300,153	3,546,026	1,245,873
Intergovernmental	11,254,545	11,254,545	11,736,917	482,372
Charges for services	3,568,400	3,568,400	3,851,601	283,201
Fines and forfeitures	119,000	119,000	269,982	150,982
Investment earnings	324,000	324,000	870,163	546,163
Miscellaneous	3,140,572	3,140,572	810,903	(2,329,669)
Total revenues	34,693,570	34,693,570	35,374,575	681,005
Expenditures:				
General government	6,814,745	6,860,745	6,230,864	629,881
Public safety	6,739,377	6,768,377	6,692,021	76,356
Public works	5,412,392	5,412,392	5,059,971	352,421
Parks and recreation	6,989,593	6,882,993	6,716,551	166,442
Community services and development	1,795,106	1,894,812	1,854,644	40,168
Miscellaneous	1,751,802	1,683,696	1,257,560	426,136
Total expenditures	29,503,015	29,503,015	27,811,611	1,691,404
Excess of revenues over expenditures	5,190,555	5,190,555	7,562,964	2,372,409
Other Financing Sources (Uses):				
Transfers out	(5,190,555)	(5,190,555)	(5,190,555)	-
Sale of fixed assets	-	-	426,169	426,169
	(5,190,555)	(5,190,555)	(4,764,386)	426,169
Net change in fund balance	\$ -	\$ -	2,798,578	\$ 2,798,578
Adjustments to conform with generally accepted accounting principles			140,294	
Fund balance at beginning of year			28,144,282	
Fund balance at end of year			\$ 31,083,154	

See Notes To Basic Financial Statements.

City Of Gaithersburg, Maryland

Statement Of Fiduciary Net Assets - Fiduciary Funds
June 30, 2005

	Pension Trust Fund	Private-Purpose Trust Fund	Agency Funds
Assets			
Investments	\$ 26,808,941	\$ 11,868	\$ -
Due from other funds	25,774	-	72,507
Total assets	<u>\$ 26,834,715</u>	<u>\$ 11,868</u>	<u>\$ 72,507</u>
Liabilities			
Deposits	\$ -	\$ -	\$ 72,507
Total liabilities	<u>-</u>	<u>-</u>	<u>\$ 72,507</u>
Net Assets			
Held in trust for pension benefits and other purposes	<u>\$ 26,834,715</u>	<u>\$ 11,868</u>	

See Notes To Basic Financial Statements.

City Of Gaithersburg, Maryland

Statement Of Changes In Fiduciary Net Assets - Fiduciary Funds
Year Ended June 30, 2005

	Pension Trust Fund	Private-Purpose Trust Fund
Additions:		
Contributions:		
Employee	\$ 765,052	\$ -
Employer	1,253,700	-
Interest and gains (losses)	1,153,910	164
Other	232,236	-
Total additions	<u>3,404,898</u>	<u>164</u>
Deductions:		
Benefits and withdrawals	<u>954,119</u>	-
Total deductions	<u>954,119</u>	-
Change in net assets	2,450,779	164
Net assets at beginning of year	24,383,936	11,704
Net assets at end of year	<u>\$ 26,834,715</u>	<u>\$ 11,868</u>

See Notes To Basic Financial Statements.

City Of Gaithersburg, Maryland

Notes To Basic Financial Statements

Note 1. Overview and Summary of Significant Accounting Policies

The City of Gaithersburg was incorporated in 1878 under the provisions of Maryland law. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: general government, public safety, public works, parks and recreation, and community development. Schools, libraries, social services, and fire protection are provided by Montgomery County and the Board of Education.

A. Financial Reporting Entity

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, the basic financial statements include all funds, organizations, agencies, boards, commissions, and authorities for which the City is financially accountable. The City has also considered all other potential organizations for which the nature and significance of their relationships with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a majority of an organization's governing body, and 1) the ability of the City to impose its will on that organization, or 2) the potential for that organization to provide specific benefits to or impose specific financial burdens on the City. Based on these criteria, there are no other organizations or agencies, which should be included in these basic financial statements.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements: The government-wide financial statements report information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Currently, the City has no business-type activities.

Statement of Net Assets: This statement is designed to display the financial position of the City as of year-end. Governmental activities are reported on a consolidated basis and are reported on a full accrual, economic resources basis, which recognizes all long-term assets, including infrastructure, as well as long-term debt and obligations. The City's net assets are reported in three categories – 1) invested in capital assets, net of related debt; 2) restricted; and, 3) unrestricted.

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

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

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

Note 1. Overview and Summary of Significant Accounting Policies (Continued)

C. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise assets, liabilities, reserves, fund balance/net assets, revenues, and expenditures or expenses, as appropriate. The City has the following funds:

Governmental Fund Types: Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "fund balance." The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following comprise the City's major governmental funds:

General Fund: The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Many of the more important activities of the City, including operation of the City's general service departments; street and highway maintenance; public safety, parks and recreation programs, are accounted for in this fund.

Capital Projects Fund: The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of capital facilities.

Fiduciary Fund Types: Fiduciary fund types are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds.

Pension Trust Funds: Pension trust funds are accounted for in essentially the same manner as proprietary fund types; that is, the measurement focus is upon income determination, financial position, and cash flows. The City's Pension Fund is included as such and accounts for the contributions made by the City and its employees to finance future pension payments.

Private Purpose Trust Funds: Private purpose trust funds are used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments and are accounted for in essentially the same manner as proprietary funds. The City's Sam and Claire Rosen Trust Fund is included as such and accounts for recreational sports scholarships financed by the interest earnings of the fund.

Agency Funds: Agency funds are custodial in nature (assets equal liabilities), and do not involve the measurement of results of operations. The agency funds function primarily as a clearing mechanism for cash resources, which are collected, held as such for a brief period, and then disbursed to authorized recipients. The City's Forest Conservation Fund is included as such and accounts for monies held on behalf of developers for reforestation.

Note 1. Overview and Summary of Significant Accounting Policies (Continued)

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are fund financial statements for the Pension Trust and Private-Purpose Trust funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded and the availability criteria. In the other, monies are virtually unrestricted as to purpose of expenditure, and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier, if the susceptible to accrual criteria are met.

Licenses and permits, fines and forfeitures, charges for sales and services, and miscellaneous revenues are generally recorded as revenue when received in cash, because they are generally not measurable until actually received. In the category of use of money and property, property rentals are recorded as revenue when received in cash, but investment earnings are recorded as earned, since they are measurable and available.

Property taxes are recognized as a receivable at the time they are levied. The City's property tax is levied on property values as assessed on January 1, billed on July 1, and payable either by September 30, or in two equal installments on September 30 and December 31. Property taxes are attached as an enforceable lien on the underlying properties as of the succeeding June 1, and are thereafter sold at public auction. Montgomery County, Maryland bills and collects property taxes for the City and remits cash collections to the City once a month. Property taxes are considered available if received within 31 days of year-end. Delinquent tax receivables not received within 31 days of year-end are reflected as deferred revenue and are recognized at date of receipt. The City's tax rate for the collection year ended June 30, 2005, was \$.212 per \$100 of assessed valuation.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Note 1. Overview and Summary of Significant Accounting Policies (Continued)

E. Encumbrances

Appropriations in the governmental funds are charged for encumbrances when commitments are made. Fund balances are reserved for outstanding encumbrances, which serve as authorizations for expenditures in the subsequent year.

F. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

G. Cash and Cash Equivalents

To facilitate effective management of the City's resources, substantially all operating cash is combined in one pooled account and reported in the General Fund. Cash equivalents include highly liquid deposits, including repurchase agreements, that have a maturity of three months or less.

H. Investments

General Fund, Pension Trust Fund, and Private-Purpose Trust Fund investments are stated at fair value.

I. Receivables

Receivables are carried at original invoice amount less an estimate made for doubtful accounts. It is management's policy to use the aggregate of all accounts that are delinquent three years or more on property taxes and one year or more on police tickets as the basis and determination of the allowance for doubtful accounts. At June 30, 2005, the aggregate of property tax accounts, delinquent three years or more, was \$594,492. At June 30, 2005, the aggregate of police ticket receivables, delinquent one year or more, was \$256,395. Receivables are written off when deemed uncollectible and recoveries of receivables previously written off are recorded when received.

J. Inventory

Inventory is maintained on a consumption basis of accounting and is valued at cost on a first-in, first-out basis. Inventory consists of gasoline held for consumption in City owned vehicles and equipment.

K. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are reported as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which services are consumed.

Notes To Basic Financial Statements

Note 1. Overview and Summary of Significant Accounting Policies (Continued)

L. Capital Assets

Capital assets, including land, buildings, improvements, equipment, and infrastructure (roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems) are reported in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and initial useful life of one year or greater. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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 the asset or materially extend the life of the asset are not capitalized.

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

<u>Assets</u>	<u>Years</u>
Buildings	15 - 40
Improvements other than buildings	15
Machinery and equipment	5 - 10
Infrastructure	15 - 50

M. Deferred Revenues

Deferred revenues in the governmental funds represent amounts due, which are measurable, but not available.

N. Inter-fund Transactions

Transactions among City funds that would be treated as revenues and expenditures or expenses if they involved organizations external to City government, are accounted for as revenues and expenditures or expenses in the funds involved.

Transactions which constitute reimbursements to a fund for expenditures initially made from it, which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

Transactions, which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended, are separately reported in the respective funds' operating statements.

Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Noncurrent portions of long-term inter-fund loan receivables are offset by a fund balance reserve account, which indicates that they do not constitute expendable available financial resources, and therefore, are not available for appropriation.

Note 1. Overview and Summary of Significant Accounting Policies (Continued)

O. Compensated Absences

Full-time employees earn 1¼ days of sick leave for each month of service. Sick leave may be accumulated with no maximum balance. Upon retirement from service, the employee is paid one day's pay for every four days of sick leave accumulated. An employee may apply day-for-day accumulated sick leave in order to meet the age and service retirement requirements.

Employees earn annual vacation leave at the rate of 12 days per year from one to three years of service; 15 days per year for three to six years of service; 18 days per year for six to nine years of service; 21 days per year for nine to twelve years of service; and 24 days per year after twelve years of service. At the City Manager's discretion, employees may receive payment for unused vacation under unusual circumstances. All outstanding vacation is payable upon separation of service.

For governmental fund types, the amount of accumulated unpaid vacation and sick leave which is payable from available resources is recorded as a liability of the respective fund only if they have matured, for example, as a result of employee retirements and resignations. As of June 30, 2005, no accumulated unpaid vacation or sick leave had matured, resulting in them being maintained separately and being a reconciling item between the fund and government-wide financial statement presentations.

P. Fund Balance

Reservations of fund balance represent amounts that are not appropriated or are legally segregated for a specific purpose. Restrictions of net assets are limited to outside third-party restrictions or those restrictions imposed by law through constitutional provisions or enabling legislation. Designations of fund balance represents tentative management plans that are subject to change.

Q. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. As of June 30, 2005, the City had no debt associated with acquisition of capital assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriation.

The City first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

City Of Gaithersburg, Maryland

Notes To Basic Financial Statements

Note 2. Stewardship, Compliance, and Accountability

The City follows these procedures in establishing the operating and capital budgetary data reflected in the financial statements:

- 1) Prior to May 2, the City Manager submits to the City Council a proposed operating and capital budget at the program level within each department for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Expenditures may not legally exceed budgeted appropriations at the department level.
- 2) Public hearings are conducted at City Hall to obtain taxpayer comments.
- 3) Prior to July 1, the budget for the General Fund is legally enacted through passage of an ordinance.
- 4) The City Council is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be presented at a public hearing prior to adoption by the City Council. The City Manager is authorized to make transfers in the operating budget so long as no activity area budget is increased more than twenty-five percent.
- 5) Formal budgetary integration is employed as a management control device during the year for the General Fund. Project-length financial plans are adopted for the Capital Projects Fund.
- 6) The policy established by the Mayor and Council of the City of Gaithersburg with respect to the City Budget (budgetary basis) does not conform with accounting principles generally accepted in the United States of America (GAAP basis) in certain respects. The primary differences between budgetary and GAAP basis is that under the budgetary basis encumbrances are recorded as the equivalent of expenditures. Budgeted amounts are as originally adopted, and as amended by the City Council and the City Manager. Unencumbered appropriations of the operating budget lapse at the end of each fiscal year. Appropriations in the capital budget continue as authority for subsequent period expenditures, and lapse in the year of completion of the capital project.

Adjustments necessary to convert the excess of revenues and other sources over expenditures and other uses from the budgetary basis to the GAAP basis are as follows:

General Fund	Revenues	Expenditures and Encumbrances	Other Financing Sources (Uses)	Current Year Effect on Fund Balance
Budgetary basis	\$ 35,374,575	\$ 27,811,611	\$ (4,764,386)	\$ 2,798,578
Prior year encumbrances outstanding, 6/30/04	-	321,420	-	(321,420)
Current year encumbrances outstanding, 6/30/05	-	(461,714)	-	461,714
GAAP basis	<u>\$ 35,374,575</u>	<u>\$ 27,671,317</u>	<u>\$ (4,764,386)</u>	<u>\$ 2,938,872</u>

City Of Gaithersburg, Maryland

Notes To Basic Financial Statements

Note 3. Cash and Investments

Deposits:

Custodial credit risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Maryland State Law prescribes that local government units such as the City must deposit its cash in banks transacting business in the State of Maryland, and that such banks must secure any deposits in excess of Federal Deposit Insurance Corporation insurance levels with collateral whose market value is at least equal to the deposits. As of June 30, 2005 all of the City's deposits were either covered by federal depository insurance or were covered by collateral held by the City's agent in the City's name.

Investments:

The City's investments consist of the following at June 30, 2005:

Investment Type	General Fund	Pension Trust Fund	Private-Purpose Trust Fund
State Treasurer's Investment Pool	\$ 24,264,039	-	-
Montgomery County's General Investment Fund	17,762,894	-	-
Certificates of deposit	272,368	-	11,868
Open-end mutual funds	-	26,808,941	-
	<u>\$ 42,299,301</u>	<u>\$ 26,808,941</u>	<u>\$ 11,868</u>

Credit risk

The Mayor and Council of Gaithersburg recognize that their authority to invest the public funds of the City derives from Section 6-222 of the State of Maryland's Finance and Procurement Article, as well as Article 95, Section 22-22N of the annotated Code of Maryland. Authority to invest City funds in compliance with provisions of these State statutes is delegated to the Director of Finance. Consequently, the City invests in the Maryland Local Government Investment Pool (MLGIP), which is under the administrative control of the Maryland State Treasurer's Office and the Montgomery County General Investment Fund, which is under the administrative control of the Montgomery County Department of Finance. These investment pools invest only in securities allowed by Maryland State statutes. The fair value of these pools is the same as the value of the respective pool share. The investment pools seek to maintain a constant value of \$1 per share. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating) and the Montgomery County General Investment Fund is not rated.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments in the MLGIP are highly liquid and consist of money market funds. Investments in the Montgomery County General Investment Fund consist of various instruments with varying maturities, majority of which are less than one year with no maturities greater than two years. Certificates of deposit have maturities less than one year.

Custodial credit risk

Custodial credit risk for investments is the risk that in the event of failure of the counterparty to a transaction, the City will not recover the value of the investment or collateral securities that are in the possession of an outside party. Except for the certificates of deposit, the remaining investments of the City were not exposed to custodial credit risk at June 30, 2005. For purposes of risk exposure, certificates of deposit are treated as deposits, which was previously discussed above.

City Of Gaithersburg, Maryland

Notes To Basic Financial Statements

Note 4. Receivables and Payables

Receivables at June 30, 2005, consist of the following:

	General Fund	Capital Projects Fund	Total Governmental Activities
Due from other governments:			
County	\$ 304,600	\$ -	\$ 304,600
State	1,277,373	-	1,277,373
Federal	715,005	-	715,005
	<u>\$ 2,296,978</u>	<u>\$ -</u>	<u>\$ 2,296,978</u>
Other receivables:			
Corporate note receivable - Danac	\$ 481,394	\$ -	\$ 481,394
Cable TV fees	129,803	-	129,803
Police tickets and fines, net	157,642	-	157,642
Olde Towne Bell Tower	50,000	-	50,000
Miscellaneous	13,325	-	13,325
	<u>\$ 832,164</u>	<u>\$ -</u>	<u>\$ 832,164</u>

The corporate note receivable from Danac is being repaid through a participation in net cash flows of the subject property. Accordingly, not all of the above balance is expected to be collected within the next year. The amount estimated not to be collected within the next year, of \$396,394, has been reserved in the General fund balance. In addition, the Olde Towne Bell Tower receivable is not expected to be collected within the next year and has also been reserved in the General fund balance.

Payables at June 30, 2005, consist of the following:

	General Fund	Capital Projects Fund	Total Governmental Activities
Accounts payable:			
Vendors	\$ 521,426	\$ 389,399	\$ 910,825
Due from General Fund to Fiduciary Fund Types reclassified in Statement of Net Assets	-	-	98,281
	<u>\$ 521,426</u>	<u>\$ 389,399</u>	<u>\$ 1,009,106</u>
Accrued liabilities:			
Payroll and payroll taxes	<u>\$ 778,435</u>	<u>\$ -</u>	<u>\$ 778,435</u>

City Of Gaithersburg, Maryland

Notes To Basic Financial Statements

Note 5. Interfund Receivables, Payables, and Transfers

Interfund receivable and payable balances at June 30, 2005, are as follows:

Due From Fund	Due To Fund General Fund
Capital Projects Fund	\$ 11,507,185
Pension Trust Fund	25,774
Agency Fund	72,507
	<u>\$ 11,605,466</u>

The balance of \$11,507,185, due to the Capital Projects Fund from the General Fund, results from all operating cash and investments being reported in the General Fund to facilitate effective management of the City's resources.

Remaining interfund balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Interfund receivables and payables are non interest-bearing and are normally settled in the subsequent period.

Interfund transfers for the year ended June 30, 2005, consisted of a transfer in the City's normal course of business from the General Fund to the Capital Projects Fund in the amount of \$5,190,555.

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2005, consisted of the following:

Governmental Activities	Balance July 1, 2004	Additions	Deletions	Transfers	Balance June 30, 2005
Capital assets not being depreciated:					
Land	\$ 38,388,026	\$ -	\$ (143,097)	\$ -	\$ 38,244,929
Construction in progress	2,623,712	2,378,256	-	(2,855,665)	2,146,303
	<u>41,011,738</u>	<u>2,378,256</u>	<u>(143,097)</u>	<u>(2,855,665)</u>	<u>40,391,232</u>
Capital assets being depreciated:					
Buildings	26,696,502	-	(6,900)	-	26,689,602
Improvements other than buildings	4,663,061	93,462	-	2,855,665	7,612,188
Machinery and equipment	8,672,158	1,153,384	(356,647)	-	9,468,895
Infrastructure	62,263,068	1,049,190	(332,780)	-	62,979,478
	<u>102,294,789</u>	<u>2,296,036</u>	<u>(696,327)</u>	<u>2,855,665</u>	<u>106,750,163</u>
Less accumulated depreciation for:					
Buildings	(6,812,817)	(671,370)	2,646	-	(7,481,541)
Improvements other than buildings	(3,332,007)	(229,287)	-	-	(3,561,294)
Machinery and equipment	(5,570,634)	(897,831)	337,191	-	(6,131,274)
Infrastructure	(23,230,935)	(1,705,026)	58,164	-	(24,877,797)
	<u>(38,946,393)</u>	<u>(3,503,514)</u>	<u>398,001</u>	<u>-</u>	<u>(42,051,906)</u>
Capital assets, net	<u>\$ 104,360,134</u>	<u>\$ 1,170,778</u>	<u>\$ (441,423)</u>	<u>\$ -</u>	<u>\$ 105,089,489</u>

Depreciation expense was charged to governmental functions for the year ended June 30, 2005, as follows:

General government	\$ 746,626
Public safety	310,812
Public works	2,157,171
Parks and recreation	288,905
	<u>\$ 3,503,514</u>

Notes To Basic Financial Statements

Note 7. Long-Term Liabilities

At June 30, 2005, the City's long-term liabilities consist of accumulated unused compensated absences. The entire compensated absences liability will be liquidated solely by the General Fund. The following is a summary of changes in the City's long-term liabilities for the year ended June 30, 2005:

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005	Amounts Due Within One Year
Accumulated unused compensated absences:					
Vacation	\$ 854,853	\$ 82,022	\$ (112,894)	\$ 823,981	\$ 378,625
Sick leave	337,158	66,769	(55,605)	348,322	-
	<u>\$ 1,192,011</u>	<u>\$ 148,791</u>	<u>\$ (168,499)</u>	<u>\$ 1,172,303</u>	<u>\$ 378,625</u>

Note 8. Postretirement Healthcare and Life Insurance

The City has a plan, which provides hospitalization, dental, and life insurance benefits for qualifying retirees and disabled employees. The personnel ordinance requires that the City pay 100% of the life insurance premiums and 85% of the hospitalization and dental premiums. To be eligible for General Retirement, retirees must meet certain age and service requirements. The sum of the retiree's age and number of service years must be at least 75 with a minimum age of 50 and a minimum of 15 years of service. There are currently 24 retirees eligible currently receiving benefits. To retire under the Early Retirement Plan, the employee must be at least 46 years of age and have a minimum of 20 years of service. Employees retiring under the Early Retirement Plan pay an additional 5% of the health care premium cost of the lowest HMO offered at the time of retirement. All other benefits afforded to a retiree at the time of retirement remain the same whether an employee retires under the General Retirement Plan or the Early Retirement Plan. On the budgetary basis of accounting, funding of these costs is provided through the earnings generated on the monies set aside as designated for group insurance funding, and the cost of these benefits is recognized as a reduction of the group insurance designated fund balance as claims are paid. The total cost of providing this benefit for the years ended June 30, 2005 and 2004, was approximately \$125,823 and \$94,186 respectively.

Note 9. Retirement, Savings, and Deferred Compensation Plans

The City has its own (single employer) non-contributory defined contribution pension plan covering all full-time employees. The City contributes 8.0% of annual salary for participating employees. In addition, the City contributes health insurance premium benefits waived by employees and an amount equal to 5.7% of employee salaries in excess of the FICA base. Employees are eligible to participate beginning the first quarter after completing one year of service. Participants vest over five years in the City's contribution to the plan. The amount of the City's covered payroll was \$11,752,939 and its total payroll for all employees was \$14,730,142. Required employer contributions of \$940,235 or 8.0% of covered payroll were made to the plan during fiscal year 2005. The plan is administered by a committee appointed by the City. ICMA Retirement Corporation serves as trustee of the plan.

The City also has its own contributory savings plan covering all full-time employees. This plan is authorized under Section 401(k) of the Internal Revenue Code. Employees are eligible to participate beginning the first quarter after completing one year of service. Employees can contribute up to the maximum limit established annually by the Internal Revenue Service. During fiscal year 2005, employees made contributions to the Plan totaling \$765,050 or 6.5% of covered payroll. The City will match employees' contributions in an amount equal to 60% of employees' contributions up to a maximum of 5% of the employees' annual salary. Required employer contributions of \$318,098 or 2.7% of covered payroll were made to the Plan during fiscal year 2005.

Notes To Basic Financial Statements

Note 9. Retirement, Savings, and Deferred Compensation Plans (Continued)

The City has established a deferred compensation plan in accordance with Internal Revenue Code Section 457, and administered by ICMA. All City employees may participate in the plan and defer a portion of their salary, subject to limitations imposed by the Internal Revenue Service. In November 1996, the City amended the plan in accordance with the provisions of IRC Section 457(g). The requirements of the IRC Section prescribes that the City no longer owns the amounts deferred by employees, including the related income on those amounts. Accordingly, the assets and the liability for the deferred compensation plan participants, including earnings on plan assets, are not included in the City's financial statements. The plan assets will not be subject to the claims of the public entity's creditors during financial crises.

The City has established a Retirement Health Savings (RHS) plan. Employees are eligible to participate immediately upon hire in the first year that an employee opts out of medical and/or dental coverage from the City. He or she may make a one-time irrevocable election for this contribution to his or her RHS account equal to the amount of the premium that would be paid by the City for single medical coverage and/or single dental coverage. Once an employee has made such an election, in any succeeding year that he or she opts out of medical and/or dental coverage from the City, a contribution must be made to his or her RHS account as required above. The employee shall not have the ability to revise or revoke this election once made. Also, in the event that an employee is terminated by the City for any reason, the employee may make a one-time irrevocable election for a contribution to his or her RHS account equal to up to 100% of the severance pay that the City would otherwise pay to the employee. Additionally, no later than the calendar year prior to retirement an employee can make a one-time irrevocable election to have the City contribute up to 25% of the employee's accrued sick leave and up to 100% of the employee's accrued vacation leave, not to exceed 30 days, into his or her RHS account. Similar to the deferred compensation plan, the RHS plan assets will not be subject to the claims of the public entity's creditors during financial crises and the City no longer owns the amounts contributed by employees or by the City under the elections discussed above, including the related income on those amounts. Accordingly, the assets and the liability for the RHS plan participants, including earnings on plan assets, are not included in the City's financial statements.

Note 10. Commitments and Contingencies

The City is committed under various contracts pertaining to street resurfacing, storm water management, traffic signalization, and other capital improvement program projects totaling \$3,375,847 at June 30, 2005. All contracts binding as of June 30, 2005, are appropriately included on the governmental funds' balance sheet as a reservation of fund balance for encumbrances in the Capital Projects Fund.

Note 11. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; personal injury; and natural disasters. The City is a member of the Local Government Insurance Trust (LGIT) sponsored by the Maryland Municipal League (MML), and the Maryland Association of Counties. The LGIT is a self-insured public entity risk pool offering general liability, excess liability, business auto liability, police legal liability, public official liability, environmental liability, and property coverage.

LGIT is capitalized at an actuarially determined level to provide financial stability for its local government members to reduce the possibility of assessments. The trust is owned by the participating counties and cities and managed by a Board of Trustees elected by the members. Annual premiums are assessed for the various policy coverages. During fiscal year 2005, the City paid premiums of \$190,331 to the trust. The agreement for the formation of the LGIT provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$5 million for each insured event.

The City also participates in a similar risk sharing pool for its workers' compensation coverage. The City is one of twelve local governmental entities covered by the Montgomery County Self-Insurance Program. Each member's annual premium is calculated using an actuarial study and an estimate of incurred but not reported losses. During fiscal year 2005, the City paid premiums of \$263,920 to Montgomery County.

Notes To Basic Financial Statements

Note 12. Senior Citizens Center Agreement

On June 6, 1990, the City entered into an agreement to acquire, jointly with the Housing Opportunities Commission of Montgomery County, property containing a five-story motel, outdoor swimming pool and parking areas. Under this agreement, a portion of the property was converted into a senior citizens' center to be operated by the City and the remainder of the property into a rental housing facility to be operated by the Housing Opportunities Commission. Under the agreement, the City was required to pay \$500,000 for their portion of the total purchase price of \$5,200,000. The Housing Opportunities Commission holds legal title to the property. The City has an equity interest in the property and upon sale of the property the proceeds, to the extent available after certain other considerations are paid, as noted in the agreement, will be distributed in the following manner:

- 1) The City will be paid the amount of their contribution to the purchase price;
- 2) The City will be paid an amount equal to the expenditures they paid for the design and renovations in the City use area and joint use areas; and
- 3) The City will be paid 30% of the proceeds which remain.

The City's share of the costs of acquiring and renovating the property are included in capital assets in the amount of \$608,600. The costs of operations of the senior citizens' center are accounted for in the General Fund of the City.

Note 13. Litigation

There are several pending lawsuits in which the City is involved. The City Attorney estimates that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the basic financial statements of the City.

Note 14. Conduit Debt Obligation

The total conduit debt outstanding at June 30, 2005 was \$124,225,000 and consists of the following:

On September 1, 1991, the City issued Hospital Facilities Revenue Bonds Series 1991 totaling \$68,470,000 to fund the construction and equipping of a privately-owned hospital. On June 27, 1995, the City issued Hospital Facilities Revenue Bonds Series 1995, totaling \$67,375,000, which refinanced all previous bond obligations. An agreement was executed between the hospital and the City concurrently with the issuance of the bonds. Certain assets of the hospital facility secure the loan in full. The agreements provide for the hospital to repay the loan in installments in aggregate amounts sufficient to provide full and prompt payment of principal and interest on the bonds when due. The full faith and credit of the City have not been pledged in support of the bonds, and in event of default by the hospital, the City cannot be held liable. The hospital had \$42,455,000 of conduit debt outstanding at June 30, 2005.

The City has issued Economic Development Revenue Bonds Series 1997 and 2004, totaling \$42,935,000 and \$44,000,000, respectively, to fund the acquisition, construction, equipping, and renovations of an Assisted Living Facility at Asbury Methodist Village. Agreements were executed between Asbury Methodist Village, Inc. and the City concurrently with the issuance of the bonds. Certain assets of Asbury Methodist Village, Inc. secure the loan in full. The agreements provide for Asbury Methodist Village, Inc. to repay the loan in installments in aggregate amounts sufficient to provide full and prompt payment of principal and interest on the bonds when due. The full faith and credit of the City have not been pledged in support of the bonds, and in event of default, the City cannot be held liable. Asbury Methodist Village, Inc. had conduit debt outstanding of \$37,770,000 and \$44,000,000, respectively, at June 30, 2005.

Notes To Basic Financial Statements

Note 15. New Governmental Accounting Standards Board (GASB) Standard

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2005, that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statement of the City:

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, will be effective for the City beginning with its year ending June 30, 2006. This Statement requires governments to report the effects of capital asset impairment in their financial statements when it occurs and requires all governments to account for insurance recoveries in the same manner.
- GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, will be implemented in phases using the same criteria applied in the implementation of the new governmental reporting model. As a result, this Statement will be effective for the City beginning with its year ending June 30, 2008. This statement establishes uniform financial reporting standards for other postemployment benefit plans (OPEB plans) and supersedes existing guidance.
- GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, will be effective for the City beginning with its year ending June 30, 2006. This Statement updates and modifies portions of previous guidance related to the preparation of a statistical section when presented as a required part of a comprehensive annual financial report.
- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, will be implemented in phases using the same criteria applied in the implementation of the new governmental reporting model. As a result, this Statement will be effective for the City beginning with its year ending June 30, 2009. This Statement will require governments to recognize an expense under the accrual basis for annual required OPEB contributions, regardless of amounts paid. The cumulative difference between amounts expensed and paid will create a liability (asset) similar to net pension obligations.
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation, an Amendment of GASB Statement No. 34*, will be effective for the City beginning with its year ending June 30, 2006. This statement provides further clarification on the legally enforceable requirement for classifying restricted net assets.

City Of Gaithersburg, Maryland

Schedule Of Revenues - Budget And Actual (Budgetary Basis) - General Fund
 Year Ended June 30, 2005 (With Comparative Totals For 2004)

	2005			Variance With Amended Budget Positive (Negative)	2004 Actual
	Original Budget	Amended Budget	Actual		
Taxes and Special Assessments:					
Real estate taxes	\$ 11,000,000	\$ 11,000,000	\$ 11,629,366	\$ 629,366	\$ 10,685,385
Personal property taxes	1,650,000	1,650,000	1,713,724	63,724	1,962,840
Prior year's taxes	671,900	671,900	(115,597)	(787,497)	(108,852)
Penalties and interest	15,000	15,000	52,654	37,654	71,059
Admissions and amusement tax	650,000	650,000	1,008,836	358,836	887,000
Total taxes and special assessments	13,986,900	13,986,900	14,288,983	302,083	13,497,432
Licenses and Permits:					
Street permits	90,000	90,000	200,412	110,412	2,664
Telecommunications/utility permits	1,000	1,000	-	(1,000)	-
Amusement licenses	12,000	12,000	23,115	11,115	21,505
Traders licenses	50,000	50,000	144,202	94,202	168,431
Hawkers/peddlers licenses	1,000	1,000	5,020	4,020	4,250
Electricians licenses	21,000	21,000	31,055	10,055	64,980
Rental housing licenses	486,540	486,540	450,050	(36,490)	455,610
Bus shelter franchise fee	-	-	8,881	8,881	6,230
CATV franchise	350,000	350,000	436,000	86,000	434,662
CATV access fees	175,000	175,000	-	(175,000)	-
Animal licenses	15,500	15,500	16,526	1,026	16,384
Pet shop/commercial kennel	700	700	1,000	300	1,040
Building permits	630,811	630,811	1,468,422	837,611	1,076,449
Electrical permits	58,917	58,917	147,639	88,722	155,284
Occupancy permits	26,378	26,378	69,091	42,713	67,605
Sign permits	7,500	7,500	14,710	7,210	12,809
Mechanical permits	67,496	67,496	63,894	(3,602)	66,376
Grading permits	140,000	140,000	122,505	(17,495)	55,280
On site improvements	42,800	42,800	140,551	97,751	85,285
Fire protection permits	123,411	123,411	202,593	79,182	151,202
Home occupation permits	100	100	360	260	140
Total licenses and permits	2,300,153	2,300,153	3,546,026	1,245,873	2,846,186

(Continued)

City Of Gaithersburg, Maryland

Schedule Of Revenues - Budget And Actual (Budgetary Basis) - General Fund (Continued)
 Year Ended June 30, 2005 (With Comparative Totals For 2004)

	2005			Variance With	2004 Actual
	Original Budget	Amended Budget	Actual	Amended Budget Positive (Negative)	
Intergovernmental:					
State-shared taxes:					
Highway user	1,200,000	1,200,000	1,600,823	400,823	1,255,469
Stormwater management	50,000	50,000	-	(50,000)	-
County grants and shared taxes:					
Financial corporations	2,645	2,645	2,645	-	2,645
County revenue sharing	683,600	683,600	943,477	259,877	683,619
Income tax	6,400,000	6,400,000	6,958,212	558,212	6,732,747
Family Resource Center	-	-	-	-	350
Homeless program	9,130	9,130	9,519	389	10,839
Seniors program	100,000	100,000	100,000	-	100,000
Stars program	30,000	30,000	22,166	(7,834)	30,000
Nutrition program	45,000	45,000	48,659	3,659	39,424
MCPS	138,000	138,000	49,696	(88,304)	130,274
Chesapeake Bay Grant	5,000	5,000	-	(5,000)	26,680
Miscellaneous	-	-	3,985	3,985	234,980
State grants:					
Police	458,400	458,400	466,860	8,460	445,820
Homeless program	6,300	6,300	6,317	17	6,317
Arts	10,500	10,500	17,000	6,500	10,233
Youth	550,000	550,000	-	(550,000)	-
Miscellaneous	-	-	100,391	100,391	205,312
Open space grant	152,000	152,000	-	(152,000)	-
Olde Towne revitalization	40,000	40,000	22,943	(17,057)	32,999
Smart Growth Transit Grant	-	-	-	-	115,000
Department of Environment	306,000	306,000	-	(306,000)	104,431
Federal grants:					
Community development	545,000	545,000	867,945	322,945	210,631
Transitional housing	128,240	128,240	128,247	7	128,607
Department of Justice - COPS	78,730	78,730	89,802	11,072	70,108
National Fish and Wildlife	-	-	-	-	41,516
Economic development initiative	300,000	300,000	298,230	(1,770)	-
Miscellaneous	16,000	16,000	-	(16,000)	-
Total intergovernmental	11,254,545	11,254,545	11,736,917	482,372	10,618,001

(Continued)

City Of Gaithersburg, Maryland

Schedule Of Revenues - Budget And Actual (Budgetary Basis) - General Fund (Continued)
 Year Ended June 30, 2005 (With Comparative Totals For 2004)

	2005			Variance With	2004 Actual
	Original Budget	Amended Budget	Actual	Amended Budget Positive (Negative)	
Charges for Services:					
Zoning fees	47,500	47,500	110,668	63,168	101,297
Casey Community Center	170,000	170,000	210,032	40,032	198,652
Pool	263,000	263,000	276,757	13,757	271,833
Gaithersburg Aquatic Center	184,800	184,800	213,749	28,949	202,024
Miniature golf revenue	88,000	88,000	107,747	19,747	99,964
Group picnics	45,000	45,000	48,793	3,793	49,048
Recreation fees	1,095,000	1,095,000	1,121,150	26,150	1,075,775
Winter lights	230,000	230,000	235,202	5,202	211,205
Gaithersburg Arts Barn	70,000	70,000	76,315	6,315	69,755
Council of the arts	28,000	28,000	10,059	(17,941)	28,877
Gaithersburg Youth Center	4,000	4,000	27,997	23,997	-
Teen Center	8,000	8,000	11,431	3,431	2,047
Kentlands Mansion	155,000	155,000	152,880	(2,120)	160,936
Special events	45,000	45,000	47,606	2,606	47,450
Community events	1,700	1,700	1,526	(174)	1,610
Senior Center revenue	65,000	65,000	49,058	(15,942)	56,432
Stormwater management fees	2,000	2,000	41,853	39,853	16,600
Recycling collections	605,900	605,900	595,529	(10,371)	574,752
Rental - Senior Center	16,000	16,000	22,536	6,536	24,805
Membership fee - dog exercise	13,000	13,000	10,526	(2,474)	11,216
Activity Center programs	238,000	238,000	260,867	22,867	252,725
Food services	2,000	2,000	6,600	4,600	2,300
Skate park	50,000	50,000	48,862	(1,138)	49,429
Environmental fees	500	500	3,156	2,656	3,174
Water quality protection	141,000	141,000	158,648	17,648	141,020
Miscellaneous	-	-	2,054	2,054	506
Total charges for services	3,568,400	3,568,400	3,851,601	283,201	3,653,432
Fines and Forfeitures:					
Ordinance fines	119,000	119,000	269,982	150,982	270,861

(Continued)

City Of Gaithersburg, Maryland

Schedule Of Revenues - Budget And Actual (Budgetary Basis) - General Fund (Continued)
 Year Ended June 30, 2005 (With Comparative Totals For 2004)

	2005			Variance With Amended Budget Positive (Negative)	2004 Actual
	Original Budget	Amended Budget	Actual		
Investment Earnings	324,000	324,000	870,163	546,163	424,765
Miscellaneous Revenue:					
Rents	162,920	162,920	163,729	809	295,324
Miscellaneous	36,730	36,730	24,163	(12,567)	19,165
Sale of materials	16,500	16,500	111	(16,389)	2,246
Bus shelters	17,000	17,000	-	(17,000)	7,500
Contributions	41,000	41,000	92,858	51,858	61,158
Passports	45,000	45,000	43,560	(1,440)	97,590
Community promotion	3,000	3,000	1,480	(1,520)	2,071
Expenditure reimbursement	76,000	76,000	14,502	(61,498)	105,961
Reappropriations	2,742,422	2,742,422	470,500	(2,271,922)	187,000
Total miscellaneous	3,140,572	3,140,572	810,903	(2,329,669)	778,015
Total revenue - budgetary basis	\$ 34,693,570	\$ 34,693,570	35,374,575	\$ 681,005	32,088,692
Adjustments to conform with generally accepted accounting principles			-		-
Total revenue - GAAP basis			\$ 35,374,575		\$ 32,088,692

City Of Gaithersburg, Maryland

Schedule Of Expenditures And Encumbrances - Budget And Actual
(Budgetary Basis) - General Fund
Year Ended June 30, 2005 (With Comparative Totals For 2004)

	2005			Variance With	2004 Actual
	Original Budget	Amended Budget	Actual	Amended Budget Positive (Negative)	
General Government:					
Mayor and City Council	\$ 157,746	\$ 157,746	\$ 150,109	\$ 7,637	\$ 140,569
City Manager	602,284	602,284	538,773	63,511	653,635
Economic and Community Development	470,695	470,695	431,046	39,649	399,706
Environmental Affairs	117,653	145,653	126,295	19,358	-
Registration and Elections	3,000	3,000	-	3,000	17,457
Finance and Administration	626,611	626,611	623,097	3,514	608,167
Legal	167,601	193,601	186,893	6,708	219,245
Planning	991,574	962,574	939,591	22,983	1,045,997
Information Technology	678,818	678,818	494,550	184,268	563,019
Human Resources	392,695	413,695	408,566	5,129	380,951
General Services	101,385	101,385	65,686	35,699	68,483
Facilities Management	467,567	449,367	420,753	28,614	358,133
Building and Grounds:					
City Hall	156,100	162,500	157,516	4,984	138,998
Police	72,700	72,700	70,583	2,117	49,837
Public Services	103,055	98,055	95,091	2,964	76,838
Kentlands Firehouse	5,250	5,250	199	5,051	1,633
Gaithersburg Arts Barn	61,450	71,450	68,626	2,824	54,843
Train Station	30,210	25,210	20,684	4,526	17,952
Kentlands Mansion	55,960	60,960	56,977	3,983	52,306
Mills House	3,400	3,400	578	2,822	1,075
Senior Center	86,807	76,456	66,369	10,087	74,824
Casey Community Center	154,259	192,259	191,157	1,102	159,682
Old Towne Pavilion	7,600	11,751	9,632	2,119	2,487
Teen Center	24,100	24,100	17,737	6,363	13,651
Activity Center at Bohrer Park	261,836	277,836	277,819	17	225,727
Water Park	106,350	94,350	90,103	4,247	76,133
Golf Course	29,700	29,700	23,264	6,436	14,437
Skate Park	8,900	8,900	2,766	6,134	1,711
Parking Facility	130,750	101,750	97,844	3,906	102,390
Gaithersburg Youth Center	5,470	5,470	-	5,470	-
Public Information	442,513	442,513	363,013	79,500	364,726
Cable Television - Channel 54	290,706	290,706	235,547	55,159	234,298
Total general government	6,814,745	6,860,745	6,230,864	629,881	6,118,910

(Continued)

City Of Gaithersburg, Maryland

Schedule Of Expenditures And Encumbrances - Budget And Actual
 (Budgetary Basis) - General Fund (Continued)
 Year Ended June 30, 2005 (With Comparative Totals For 2004)

	2005			Variance With Amended Budget Positive (Negative)	2004 Actual
	Original Budget	Amended Budget	Actual		
Public Safety:					
Police	4,603,615	4,603,615	4,565,407	38,208	4,248,033
Building and Code Administration	1,645,748	1,645,748	1,640,440	5,308	1,518,325
Traffic Engineering	192,394	192,394	168,200	24,194	153,023
Animal Control	297,620	326,620	317,974	8,646	277,563
Total public safety	6,739,377	6,768,377	6,692,021	76,356	6,196,944
Public Works					
Public Works Administration	564,271	564,271	558,347	5,924	547,347
Engineering Services	229,489	229,489	220,240	9,249	219,941
Streets and Special Projects	836,922	836,922	780,013	56,909	911,595
Fleet Maintenance	387,052	387,052	352,622	34,430	392,511
Street Lighting	526,900	488,900	426,543	62,357	382,853
Landscaping and Forestry	781,302	819,302	794,709	24,593	639,624
Mowing and Bulk Pick-up	1,467,076	1,467,076	1,349,054	118,022	1,407,772
Recycling	619,380	619,380	578,443	40,937	570,565
Total public works	5,412,392	5,412,392	5,059,971	352,421	5,072,208

(Continued)

City Of Gaithersburg, Maryland

Schedule Of Expenditures And Encumbrances - Budget And Actual
(Budgetary Basis) - General Fund (Continued)
Year Ended June 30, 2005 (With Comparative Totals For 2004)

	2005			Variance With Amended Budget Positive (Negative)	2004 Actual
	Original Budget	Amended Budget	Actual		
Parks, Recreation and Culture:					
Administration	476,832	498,632	498,089	543	455,723
Municipal Parks Maintenance	1,408,007	1,408,007	1,397,614	10,393	1,356,936
Recreation Programs and Sports	671,371	661,371	645,050	16,321	642,885
Special Events	523,645	523,645	514,358	9,287	495,337
Summer Programs	566,325	544,325	536,554	7,771	521,740
Gaithersburg Youth Center	96,974	86,974	83,023	3,951	-
Skate Park	50,064	47,564	43,017	4,547	47,073
Recreation Classes	306,434	306,434	298,278	8,156	267,704
Casey Community Center	316,137	316,137	310,794	5,343	291,124
Water Park	318,844	306,844	295,777	11,067	275,079
Aquatic Facilities	263,778	246,278	223,209	23,069	229,377
Picnic Pavilions	22,446	22,446	17,695	4,751	16,319
Gaithersburg Arts Barn	151,576	151,576	149,085	2,491	132,612
Kentlands Mansion	309,695	309,695	298,232	11,463	264,312
Winter Lights	218,773	218,773	213,353	5,420	213,192
Miniature Golf Course	79,452	79,452	78,353	1,099	68,015
Cultural Arts Programs	257,464	257,464	250,169	7,295	215,780
Youth Services	568,689	534,289	506,361	27,928	527,540
Activities Center at Bohrer Park	378,087	358,087	357,540	547	353,032
Food Service	5,000	5,000	-	5,000	-
Total parks, recreation and culture	6,989,593	6,882,993	6,716,551	166,442	6,373,780
Community Services and Development:					
Senior Program	509,170	615,770	589,711	26,059	418,542
Human Services	970,179	963,285	952,929	10,356	890,718
Homeless Assistance	315,757	315,757	312,004	3,753	304,798
Total community services and development	1,795,106	1,894,812	1,854,644	40,168	1,614,058
Miscellaneous:					
Non-Departmental	1,751,802	1,683,696	1,257,560	426,136	713,697
Total expenditures and encumbrances - budgetary basis	\$ 29,503,015	\$ 29,503,015	27,811,611	\$ 1,691,404	26,089,597
Adjustments to conform with generally accepted accounting principles			(140,294)		(69,360)
Total expenditures - GAAP basis			\$ 27,671,317		\$ 26,020,237

City Of Gaithersburg, Maryland

Statement Of Changes in Assets and Liabilities - Agency Fund
Year Ended June 30, 2005

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
Assets				
Due from other funds	\$ 1,169	\$ 72,507	\$ (1,169)	\$ 72,507
Liabilities				
Deposits	\$ 1,169	\$ 72,507	\$ (1,169)	\$ 72,507

TABLE I

City of Gaithersburg, Maryland

GOVERNMENT-WIDE EXPENSES BY FUNCTION

June 30, 2005

Fiscal Year Ended June 30	Total	General Government	Public Safety	Public Works	Parks and Recreation	Community Services and Development	Miscellaneous
2003*	\$26,968,293	\$6,605,324	\$5,545,727	\$5,946,142	\$6,332,747	\$1,499,289	\$1,039,064
2004	30,993,006	6,978,070	5,976,365	9,222,580	6,591,139	1,582,419	642,433
2005	32,545,131	6,929,027	6,479,474	9,237,552	6,858,152	1,777,491	1,263,435

*This is the first year of GASB 34 required compliance.

City of Gaithersburg, Maryland
GOVERNMENT-WIDE REVENUES

June 30, 2005

PROGRAM REVENUES

Fiscal Year Ended June 30	Total	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
2003*	\$34,267,379	\$5,775,971	\$1,753,631	\$5,485,835
2004	34,197,614	6,329,587	1,103,083	3,794,716
2005	35,404,456	7,222,728	938,266	2,789,941

GENERAL REVENUES

Property Tax	Franchise Fees	Admissions and Amusement Tax	Intergovernmental	Investment Earnings	Miscellaneous
\$11,151,698	\$380,807	\$672,731	\$7,413,523	\$527,717	\$1,105,466
12,538,737	440,892	887,000	7,900,819	424,765	778,015
13,310,028	444,881	1,008,836	8,008,710	870,163	810,903

⌘ *This is the first year of GASB 34 required compliance.

TABLE III

City of Gaithersburg, Maryland

GENERAL FUND REVENUE BY SOURCE (GAAP BASIS) -
LAST TEN FISCAL YEARS

June 30, 2005

Fiscal Year Ended June 30	Total	Taxes and Special Assessments	Licenses and Permits	Intergovernmental Revenue	Charges for Services	Fines and Forfeitures	Miscellaneous
1996	\$21,278,542	\$9,268,796	\$1,552,908	\$6,449,155	\$2,128,165	\$75,306	\$1,804,212
1997	23,959,283	11,269,738	1,750,621	6,461,769	2,410,018	80,409	1,986,728
1998	23,459,346	7,116,675	3,009,671	8,494,182	2,718,361	56,713	2,063,744
1999	28,302,867	9,108,111	3,185,504	10,115,906	3,199,280	138,741	2,555,325
2000	32,977,655	9,520,070	2,766,428	15,186,630	3,399,369	119,043	1,986,115
2001	31,186,572	10,338,771	3,231,719	11,985,809	3,039,498	204,358	2,386,417
2002	29,219,579	11,044,580	3,342,405	9,949,156	3,457,067	197,949	1,228,422
2003	34,742,099	12,299,149	2,393,830	14,652,989	3,664,998	97,950	1,633,183
2004	32,088,692	13,497,432	2,846,186	10,618,001	3,653,432	270,861	1,202,780
2005	35,374,575	14,288,983	3,546,026	11,736,917	3,851,601	269,982	1,681,066

TABLE IV

City of Gaithersburg, Maryland

GENERAL FUND EXPENDITURES BY FUNCTION
(GAAP BASIS) - LAST TEN FISCAL YEARS

June 30, 2005

Fiscal Year Ended June 30	Total	General Government	Public Safety	Public Works	Parks and Recreation	Community Services and Development	Non-Departmental
1996	\$15,408,807	\$3,858,680	\$3,335,936	\$2,993,572	\$4,634,945	-	\$585,674
1997	16,253,211	3,331,630	3,418,972	2,674,413	4,738,140	-	2,090,056
1998	18,343,287	4,125,128	3,869,850	3,082,390	5,292,607	-	1,973,312
1999	20,702,221	5,015,200	4,307,106	3,566,936	5,397,229	-	2,415,750
2000	21,478,569	5,440,656	4,626,937	3,791,244	5,583,393	-	2,036,339
2001	22,231,627	5,683,711	4,944,825	3,869,722	5,719,980	-	2,013,389
2002	26,084,324	5,530,902	5,090,247	4,149,430	9,122,557	1,425,842	765,346
2003	24,691,941	5,780,224	5,584,233	4,777,453	6,023,875	1,487,092	1,039,064
2004	26,020,237	6,111,467	6,201,423	5,059,108	6,384,575	1,582,419	681,245
2005	27,671,317	6,272,714	6,573,228	5,051,478	6,713,263	1,777,491	1,283,143

TABLE V

City of Gaithersburg, Maryland

**GENERAL FUND REVENUE BY SOURCE
(BUDGETARY BASIS) - LAST TEN FISCAL YEARS**

June 30, 2005

Fiscal Year Ended June 30	Total	Taxes and Special Assessments	Licenses and Permits	Intergovernmental Revenue	Charges for Services	Fines and Forfeitures	Miscellaneous
1996	\$21,227,950	\$9,268,796	\$1,552,908	\$6,449,155	\$2,128,165	\$75,306	\$1,753,620
1997	23,959,283	11,269,738	1,750,621	6,461,769	2,410,018	80,409	1,986,728
1998	23,459,346	7,116,675	3,009,671	8,494,182	2,718,361	56,713	2,063,744
1999	28,302,867	9,108,111	3,185,504	10,115,906	3,199,280	138,741	2,555,325
2000	32,977,655	9,520,070	2,766,428	15,186,630	3,399,369	119,043	1,986,115
2001	31,586,572	10,338,771	3,231,719	11,985,809	3,039,498	204,358	2,386,417
2002	29,219,579	11,044,580	3,342,405	9,949,156	3,457,067	197,949	1,228,422
2003	34,791,649	12,299,149	2,393,830	14,652,989	3,664,998	97,950	1,682,733
2004	32,088,692	13,497,432	2,846,186	10,618,001	3,653,432	270,861	1,202,780
2005	35,374,575	14,288,983	3,546,026	11,736,917	3,851,601	269,982	1,681,066

TABLE VI

City of Gaithersburg, Maryland

GENERAL FUND EXPENDITURES BY FUNCTION
(BUDGETARY BASIS) - LAST TEN FISCAL YEARS

June 30, 2005

Fiscal Year Ended June 30	Total	General Government	Public Safety	Public Works	Parks and Recreation	Community Services and Development	Non-departmental
1996	\$15,495,969	\$3,808,420	\$3,306,516	\$3,009,972	\$4,835,978	-	\$535,083
1997	16,345,532	4,362,849	3,478,807	2,659,384	5,029,793	-	814,699
1998	18,596,665	4,151,895	3,836,878	3,102,253	5,328,567	-	2,177,072
1999	20,593,246	5,041,432	4,280,996	3,527,113	5,346,475	-	2,397,230
2000	21,314,790	5,455,871	4,632,815	3,798,479	5,591,904	-	1,835,721
2001	22,109,251	5,585,371	4,941,837	3,844,574	5,751,415	-	1,986,054
2002	22,777,565	5,538,881	5,096,538	4,165,052	5,756,577	1,416,019	804,498
2003	24,630,015	5,769,052	5,600,849	4,766,168	5,994,771	1,495,700	1,003,475
2004	26,089,597	6,118,910	6,196,944	5,072,208	6,373,780	1,614,058	713,697
2005	27,811,611	6,230,864	6,692,021	5,059,971	6,716,551	1,854,644	1,257,560

City of Gaithersburg, Maryland

PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

June 30, 2005

Fiscal Year Ended June 30	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Prior Year's Taxes Collected During Year	Total Tax Collections	Total Collection as Percent of Current Levy	Accumulated Delinquent Taxes	Percentage of Accumulated Delinquent Taxes to Current Levy
1996	\$8,031,849	\$7,963,494	99.15%	\$519,262	\$8,482,756	105.61%	\$218,782	2.72%
1997	8,727,250	8,726,711	100.00	417,432	9,144,143	104.78	166,709	2.00
1998	8,588,136	8,239,922	95.94	(1,818,284)*	6,421,638	74.77	401,891	4.68
1999	8,395,483	7,775,006	92.61	7,509	7,482,515	89.13	327,051	3.90
2000	9,239,261	9,053,770	97.99	(297,881)	8,755,889	94.77	361,194	3.90
2001	10,237,743	9,891,868	96.62	74,617	9,966,485	97.35	826,498	8.07
2002	10,951,176	10,547,730	96.32	(32,447)	10,515,283	96.02	1,202,198	10.98
2003	11,478,573	11,351,057	98.89	22,345	11,373,402	99.08	770,176	6.71
2004	12,640,534	12,533,437	99.15	114,394	12,647,831	100.06	762,878	6.04
2005	13,382,365	13,276,970	99.21	(1,286)	13,275,684	99.20	869,560	6.50

*In FY 1998, the State of Maryland provided tax exemptions and abated prior years outstanding taxes on high-tech companies involved in R&D.

City of Gaithersburg, Maryland

ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS

June 30, 2005

Fiscal Year Ended June 30	Real Property		Personal Property		Total		Ratio of Total Assessed Value to Total Estimated Actual Value
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1996	\$1,252,356,521	\$3,130,891,303	\$263,086,698	\$263,068,698	\$1,515,443,219	\$3,393,978,001	44.7%
1997	1,365,564,080	3,557,668,905	239,989,290	239,989,290	1,605,553,370	3,797,658,195	42.3
1998	1,349,941,261	3,374,853,153	270,461,820	270,461,820	1,620,403,081	3,645,314,973	44.5
1999	1,513,122,510	3,782,885,741	229,717,400	229,717,400	1,742,839,910	4,012,603,141	43.4
2000	1,608,896,520	4,022,241,300	207,311,830	207,311,830	1,816,208,350	4,229,553,130	42.9
2001	1,619,152,641	4,047,881,603	312,496,940	312,496,940	1,931,649,581	4,360,378,543	44.3
2002	(A) 4,288,476,868	4,288,476,868	314,517,160	314,517,160	4,602,994,028	4,602,994,028	100.0
2003	4,464,294,558	4,464,294,558	380,049,510	380,049,510	4,844,344,068	4,844,344,068	100.0
2004	5,005,439,589	5,005,439,589	382,830,650	382,830,650	5,388,270,239	5,388,270,239	100.0
2005	5,469,387,224	5,469,387,224	337,219,700	337,219,700	5,806,606,924	5,806,606,924	100.0

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

Source: State Department of Assessments and Taxation
Montgomery County Department of Finance

TABLE IX

City of Gaithersburg, Maryland

**PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS
(PER \$100 OF ASSESSED VALUATION)
June 30, 2005**

Fiscal Year Ended June 30	City	General County	State	Special Service Areas (Includes Transit Comm.)	Total Tax Rate
1996	0.53	1.998	0.21	0.288	3.026
1997	0.53	1.990	0.21	0.299	3.029
1998	0.53	1.962	0.21	0.309	3.011
1999	0.53	1.923	0.21	0.320	2.983
2000	0.53	1.863	0.21	0.321	2.924
2001	0.53	1.857	0.21	0.323	2.920
2002	0.212	0.741	0.084	0.141	1.178
2003	0.212	0.754	0.084	0.125	1.175
2004	0.212	0.751	0.132	0.125	1.220
2005	0.212	0.734	0.132	0.168	1.246

City of Gaithersburg, Maryland

SPECIAL ASSESSMENT COLLECTIONS - LAST TEN FISCAL YEARS

June 30, 2005

Fiscal Year Ended June 30	Current Assessments Due	Current Assessments Collected (Including Prepayments)	Percent of Collections to Amount Due	Total Assessments Outstanding
1996	-	-	-	-
1997	-	-	-	-
1998	-	-	-	-
1999	-	-	-	-
2000	-	-	-	-
2001	-	-	-	-
2002	-	-	-	-
2003	-	-	-	-
2004	-	-	-	-
2005	-	-	-	-

City of Gaithersburg, Maryland

RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUE AND NET
BONDED DEBT PER CAPITA - LAST TEN FISCAL YEARS

June 30, 2005

As of June 30	Population	Total Assessed Value	Gross Bonded Debt	Less Debt Service Funds	Net Bonded Debt	Percent of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
1995	47,055 (A)	\$1,463,132,785	-	-	-	-	-
1996	48,402 (A)	1,515,443,219	-	-	-	-	-
1997	49,126 (A)	1,605,553,370	-	-	-	-	-
1998	49,500 (A)	1,620,403,081	-	-	-	-	-
1999	49,819 (A)	1,742,839,910	-	-	-	-	-
2000	50,454 (A)	1,816,208,350	-	-	-	-	-
2001	53,972 (B)	1,931,649,581	-	-	-	-	-
2002 (C)	54,018 (A)	4,602,994,028	-	-	-	-	-
2003	55,912 (A)	4,844,344,068	-	-	-	-	-
2004	56,141 (A)	5,388,270,239	-	-	-	-	-
2005	58,659 (A)	5,806,606,924	-	-	-	-	-

Notes: (A) Estimated

(B) U.S. Census Data

(C) Fiscal Year 2002 is the first year that all real property in the State of Maryland is assessed at 100

City of Gaithersburg, Maryland
STATEMENT OF LEGAL DEBT MARGIN
June 30, 2005

Neither state law nor the City Charter mandates a limit on the amount of municipal debt that may be issued.

City of Gaithersburg, Maryland

COMPUTATION OF DIRECT AND OVERLAPPING DEBT

June 30, 2005

Jurisdiction	Net Debt Outstanding	Percentage of Debt Applicable to the City	Amount Applicable to The City
City of Gaithersburg - all Funds	\$ -	-	\$ -
Montgomery County, Maryland	1,661,052,941	-	-
Washington Suburban Sanitary Commission - Montgomery County Portion: Gross Debt	1,008,216,728	-	-
Less - Self-Supporting Debt	1,008,216,728	-	-
Tax Supported Debt	-	-	-
Total Direct and Overlapping Debt	1,661,052,941	-	-

Source: Montgomery County Department of Finance

City of Gaithersburg, Maryland

RATIO OF ANNUAL DEBT SERVICE FOR GENERAL BONDED DEBT
TO TOTAL GENERAL EXPENDITURES - LAST TEN FISCAL YEARS

June 30, 2005

Fiscal Year Ended June 30	Principal	Interest	Total Debt Service on General Bonded Debt	Total General Expenditures (A)	Ratio of Debt Service to Expenditures (percent)
1996	-	-	-	\$15,495,969	-
1997	-	-	-	16,345,532	-
1998	-	-	-	18,596,665	-
1999	-	-	-	20,593,246	-
2000	-	-	-	21,314,790	-
2001	-	-	-	21,109,251	-
2002	-	-	-	22,777,565	-
2003	-	-	-	24,630,015	-
2004	-	-	-	26,089,597	-
2005	-	-	-	27,811,611	-

Notes: (A) Includes general fund only. Data presented is on budgetary basis.

City of Gaithersburg, Maryland

DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS

June 30, 2005

Fiscal Year (Unless Otherwise Stated)	Population (A)		Per Capita Income (D)	Median Age (E)	Unemployment Rate (E)
1996	48,402	(B)	\$39,525	35.8	2.7%
1997	49,126	(B)	40,001	35.9	2.4
1998	49,500	(B)	43,165	N/A	2.2
1999	49,819	(B)	45,283	N/A	1.9
2000	50,454	(B)	49,647	N/A	2.6
2001	53,972	(C)	50,986	N/A	3.1
2002	54,018	(B)	51,699	N/A	3.5
2003	55,912	(B)	52,854	N/A	2.6
2004	56,141	(B)	55,200	N/A	3.1
2005	58,689	(B)	57,400	N/A	3.5

- Notes:
- (A) The data on population is for the City of Gaithersburg; all other data is for Montgomery County
 - (B) Estimated
 - (C) U.S. Census Data
 - (D) Sources: U.S. Department of Commerce, Bureau of Economic Analysis. Data for 2003 and 2004 are estimates.
 - (E) Source: Montgomery County Government

City of Gaithersburg, Maryland

PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS
LAST TEN FISCAL YEARS

June 30, 2005

Fiscal Year Ended June 30	New Commercial Construction (1)		New Residential Construction (1)		Bank Deposits	Estimated Actual Value of Taxable Real Property
	Number of Units	Cost of Construction	Number of Housing Units	Cost of Construction		
1996	10	\$12,350,000	199	\$19,845,375	N/A	\$3,130,891,303
1997	16	43,708,000	190	24,102,554	N/A	3,557,668,905
1998	26	41,500,322	469	51,944,481	N/A	3,374,853,153
1999	24	42,781,899	946	69,519,820	N/A	3,782,885,741
2000	23	36,242,000	689	54,335,424	N/A	4,022,241,300
2001	33	30,682,045	528	49,461,795	N/A	4,047,881,603
2002	27	54,780,856	544	55,905,501	N/A	4,288,476,868
2003	23	11,687,500	273	26,728,478	N/A	4,464,294,558
2004	11	14,620,215	399	10,400,000	N/A	5,005,439,589
2005	17	50,777,532	94	23,536,000	N/A	5,469,387,224

(1) Private construction only.

Source: Monthly reports of City Department of Planning and Code Administration

TABLE XVII

City of Gaithersburg, Maryland

PRINCIPAL TAXPAYERS (REAL PROPERTY TAX)

June 30, 2005

*Principal Taxpayers		Real Municipal Property Taxes	Assessed Valuation	Percentage Total Valuation
(1)	ARE - 19 LLC	\$279,532	\$131,854,900	2.41%
(2)	LakeForest Accociates	256,213	120,855,300	2.21
(3)	Asbury Methodist Home, Inc	251,331	118,552,480	2.17
(4)	Saul Holdings LTD Partnership	144,084	67,964,300	1.24
(5)	Federal Realty Investment Trust	128,388	60,560,300	1.11
(6)	9801 Washington Office, Inc.	119,804	56,511,500	1.03
(7)	SFHI LLC	114,463	54,076,900	0.99
(8)	Washingtonian Associates LC	113,194	53,393,600	0.98
(9)	893 Clopper Road Investors	112,149	52,900,600	0.97
(10)	Medimmune, Inc	97,459	45,974,300	0.84

* Ten largest taxpayers in the City of Gaithersburg.

City of Gaithersburg, Maryland
MISCELLANEOUS STATISTICS
June 30, 2005

Date of Incorporation:

1878

Date Present Charter Adopted:

February 16, 1970

Form of Government:

Council/Manager

Area - Square Miles:

1995	9.94
1996	9.98
1997	9.99
1998	9.99
1999	9.99
2000	10.01
2001	10.01
2002	10.01
2003	10.01
2004	10.01
2005	10.01

Miles of Streets in City:

State	17.54
County	5.32
City	88.24
Private	<u>4.28</u>
Total	<u>115.38</u> miles

Motor Vehicle Registrations:

(12/04) 40,037

Parkland Acreage Owned by the City:

853.477 acres

Facilities:

Parks	25
Museums	3
Performance Pavilions	1
Skate Park	1
Swimming Pools	2
Miniature Golf	1
Community Centers	5
Performance Arts	1

City Employees as of June 30, 2005:

Non-Exempt	131
Exempt	<u>71</u>
Total	<u>202</u>
Part-time (full-time equivalents)	<u>108.6</u>

Number of Registered Voters in 2003 Election:

25,936

Number of Votes Cast in 2003 Municipal Election:

2,324

Percentage of Registered Voters Voting in 2003**Municipal Election:**

8.96%

Population (U.S. Census Figures):

1980	26,424
1990	39,542
1997	49,126
2000	50,454
2001	53,972
2002	54,018
2003	55,912
2004	56,141
2005	58,689

(City Update Jan. 2005)

Police Protection (City Only):

<u>Employees</u>	
Police Chief	1
Police Officers	44
Clerks	3

Number of Patrol Units:

Vehicular	47
Motorcycle	3

(County police also provide police protection to the City)

McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report On Internal Control
Over Financial Reporting And On Compliance And Other
Matters Based On An Audit Of Financial Statements
Performed In Accordance With *Government Auditing Standards***

To the Honorable Mayor and City Council
City of Gaithersburg, Maryland

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Gaithersburg, Maryland ("City"), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 16, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Mayor, the City Council, the City's management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Frederick, Maryland
September 16, 2005

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133

To the Honorable Mayor and City Council
City of Gaithersburg, Maryland

Compliance

We have audited the compliance of City of Gaithersburg, Maryland ("City") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Mayor, the City Council, the City's management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Frederick, Maryland
September 16, 2005

City Of Gaithersburg, Maryland

Schedule Of Expenditures Of Federal Awards
Year Ended June 30, 2005

Program	CFDA Number	Pass-Through Entity Identifying Number	FY '05 Revenue Recognized & Expenditures
<u>U.S. Department of Housing and Urban Development:</u>			
<u>Direct Program:</u>			
Supporting Housing for Persons with Disabilities	14.181	N/A	\$ 128,247
Community Development Block Grant	14.218	N/A	867,945
Economic Development Initiative	14.246	N/A	298,230
Total U.S. Department of Housing and Urban Development			<u>1,294,422</u>
<u>U.S. Department of Justice:</u>			
<u>Direct Program:</u>			
Cops Universal Hiring	16.710	N/A	89,802
Total U.S. Department of Justice			<u>89,802</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,384,224</u></u>

See Notes To Schedule Of Expenditures Of Federal Awards.

City of Gaithersburg, Maryland

Notes To The Schedule Of Expenditures Of Federal Awards

Note 1. Single Audit Overview

The Single Audit is the performance of a uniform audit of all the City's federal grants in conjunction with the annual audit of the basic financial statements. The adoption of such a procedure was formalized by the Federal Office of Management and Budget (OMB) in Circular A-133. The Single Audit fulfills all the Federal agencies' audit requirements which include financial, compliance and the adequacy of internal control.

Note 2. Fiscal Period Audited

Single audit testing procedures were performed for transactions occurring during the fiscal year ended June 30, 2005.

Note 3. Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards has been prepared on the modified accrual basis of accounting. Grant revenues are recorded for financial reporting purposes when expenditures are made in accordance with the requirements of the respective grants.

Note 4. Subgrantees

The Community Development Block Grant program has subgrantees that received \$139,240 in subawards during the year ended June 30, 2005

City of Gaithersburg, Maryland

Schedule Of Findings And Questioned Costs
Year Ended June 30, 2005

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:

unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified that are
not considered to be material weakness(es)?

_____ yes X none reported

Noncompliance material to financial statements
noted?

_____ yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified that are
not considered to be material weakness(es)?

_____ yes X none reported

Type of auditor’s report issued on compliance
for major programs:

unqualified

Any audit findings disclosed that are required
to be reported in accordance with section 510(a)
of Circular A-133?

_____ yes X no

Identification of major programs:

CFDA Number(s)

14.218

Name of Federal Program or Cluster

Community Development Block Grant

Dollar threshold used to distinguish
between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

_____ yes X no

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.



**Summary Schedule Of Prior Audit Findings
Year Ended June 30, 2005**

No matters were reported in the prior year

City of Gaithersburg • 31 South Summit Avenue, Gaithersburg, Maryland 20878-2098
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