



*City of
Gaithersburg, Maryland*

Comprehensive Annual Financial Report

**For the Fiscal Year Ended
June 30, 2006**



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Gaithersburg, Maryland*

**Comprehensive
Annual Financial Report**

For the Fiscal Year Ended
June 30, 2006

Prepared by
The Department of Finance and Administration
Harold Belton, *Director*

CITY OF GAITHERSBURG, MARYLAND
COMPREHENSIVE ANNUAL FINANCIAL
REPORT

For the Fiscal Year Ended
June 30, 2006

MAYOR
Sidney A. Katz

COUNCIL
MEMBERS
Stanley J. Alster
Geri E. Edens
Henry F. Marraffa, Jr.
John B. Schlichting
Michael A. Sesma

CITY MANAGER
David B. Humpton

DIRECTOR OF FINANCE AND ADMINISTRATION
Harold W. Belton, CGFM

INDEPENDENT AUDITORS
Clifton Gunderson LLP

CITY OF GAITHERSBURG, MARYLAND
COMPREHENSIVE ANNUAL FINANCIAL
REPORT

Fiscal Year 2006
July 1, 2005 – June 30, 2006

Prepared by:

DIRECTOR OF FINANCE AND ADMINISTRATION
Harold W. Belton, CGFM

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 12, 2006

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, 2006. 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, 2006, 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 42 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 2006, the City made progress in all 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 two on the list of "Best Places to Raise Your Family: The Top 100 Affordable Communities in the U.S" published by Frommer's Guide.
- The City was awarded its 28th 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, 2005.
- 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.
- The Gaithersburg Police Department earned first place in its size category for the Maryland Chief's Challenge Seatbelt Campaign. These efforts contributed to a 91% seatbelt use rate in the state of Maryland.
- Gaithersburg Police Chief Mary Ann Viverette was installed as the first female president of the International Association of Chiefs of Police.
- Gregory Dennison, a Senior Plan Reviewer with the Gaithersburg Planning and Code Administration, received the Plan Reviewer of the Year Award from the Maryland Building Officials Association.
- The City received two APEX Awards for Communication Excellence, one for a cable TV commercial for the City's Memorial Day observance and one for promotional literature regarding the City's new emergency notification system.

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CITY MANAGER
David B. Hampton

To the Mayor and City Council
City of Gaithersburg, Maryland
Page 2
September 12, 2006

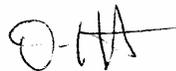
- Gaithersburg received a Tree City USA designation by the National Arbor Day Foundation for the 17th consecutive year.

The City continues to strive for excellence in the community:

- Gaithersburg celebrated the grand opening of the Youth Center at Robertson Park, the City's first LEED-Certified Green Building. The building received an environmental award from the Maryland Recreation and Parks Association and enjoys daily attendance of 50+ middle school students.
- Gaithersburg celebrated its 10th anniversary as a CHARACTER COUNTS! City, providing nearly 12,000 young people with a solid foundation for moral growth.
- Alert Gaithersburg, an emergency notification system which sends urgent messages via e-mail and text messaging to a variety of devices, was launched.
- In the aftermath of Hurricane Katrina, Gaithersburg re-fitted and donated four out-of-service police cruisers to Hancock County, Mississippi. A bus filled with donations accompanied the caravan. The City also assisted a local resident in collecting 2,000+ pairs of shoes for those living in Arkansas who had been displaced by Hurricane Katrina.
- Twenty-nine active Committees, Boards and Commissions make recommendations to help the Mayor and City Council with many important City initiatives, including a special advisory committee formed to make recommendations on the location of an employment center for day laborers.
- A new Art in Public Places sculpture was installed at the City's Dog Park, bringing the City's total inventory of culturally-enriching public art to fourteen pieces.
- \$300,000 in grant funding was secured from the State for relocation of the Olde Towne Youth Center.
- The City received \$958,090 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 a strong financial condition.

Sincerely,



David B. Humpton
City Manager



September 12, 2006

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, 2006.

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 Clifton Gunderson, 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, 2006 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, 2006, 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.

In prior years, 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. It was found that the City's grant expenditures during fiscal year 2006 did not meet the threshold to require a Single Audit.

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John B. Schuchling
Michael A. Sosna

CITY MANAGER
Edward B. Hoffman

To the Citizens of the City of Gaithersburg, Maryland
Page 2 of 5
September 12, 2006

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 59,282 as of January 2006.

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. MedImmune, one of the 10 largest pharmaceutical companies in the world, has sited its Headquarters in the City and continues to expand its complex annually. 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 2007. 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 2006 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:

- 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 capital projects are the development of the Lakelands Aquatic/Recreation Center, and the Youth Center in Olde Towne, for which \$1,352,972 and \$2,300,000 respectively was appropriated in fiscal year 2006.

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 31 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 7 and 8 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, 2006, the City's financial assets consisted of \$465,771 cash and \$47,183,938 in the respective pools.

Interest earned on investments during fiscal year 2006 totaled \$1,925,574, which was \$1,055,411 more than the interest earned on investments in fiscal year 2005.

RISK MANAGEMENT

As of July 1, 1987, the City joined with other local governments and formed a self-insurance pool. In the 19 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 to fund the construction and equipping of a privately owned hospital. An agreement was executed between the hospital and the City concurrently with the issuance of the bonds. The loan is secured in full by certain assets of the hospital facility. 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 was not pledged in support of the bonds, and in the event of default by the hospital, the City could not have been held liable. As of June 30, 2006, the entire issue was retired.

ECONOMIC DEVELOPMENT REVENUE BONDS (Asbury Methodist Village, Incorporated Facilities)

The City issued Economic Development Revenue Bonds, Series 1993, 1997 and 2004 totaling \$35,460,000, \$42,935,000 and \$44,000,000 respectively to fund the acquisition, construction and equipping of an assisted living facility at Asbury Methodist Village. An agreement was executed between Asbury Methodist Village, Incorporated and the City concurrently with the issuance of the bonds. Certain assets of Asbury Methodist Village, Incorporated secure the loan in full. The agreements provide for Asbury Methodist Village, Incorporated 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 the 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, 2005. 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 of 5
September 12, 2006

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 28 consecutive years (fiscal years 1978-2005). 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, 2005. 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 fourth consecutive year (fiscal years 2003-2006). 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, 2005

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



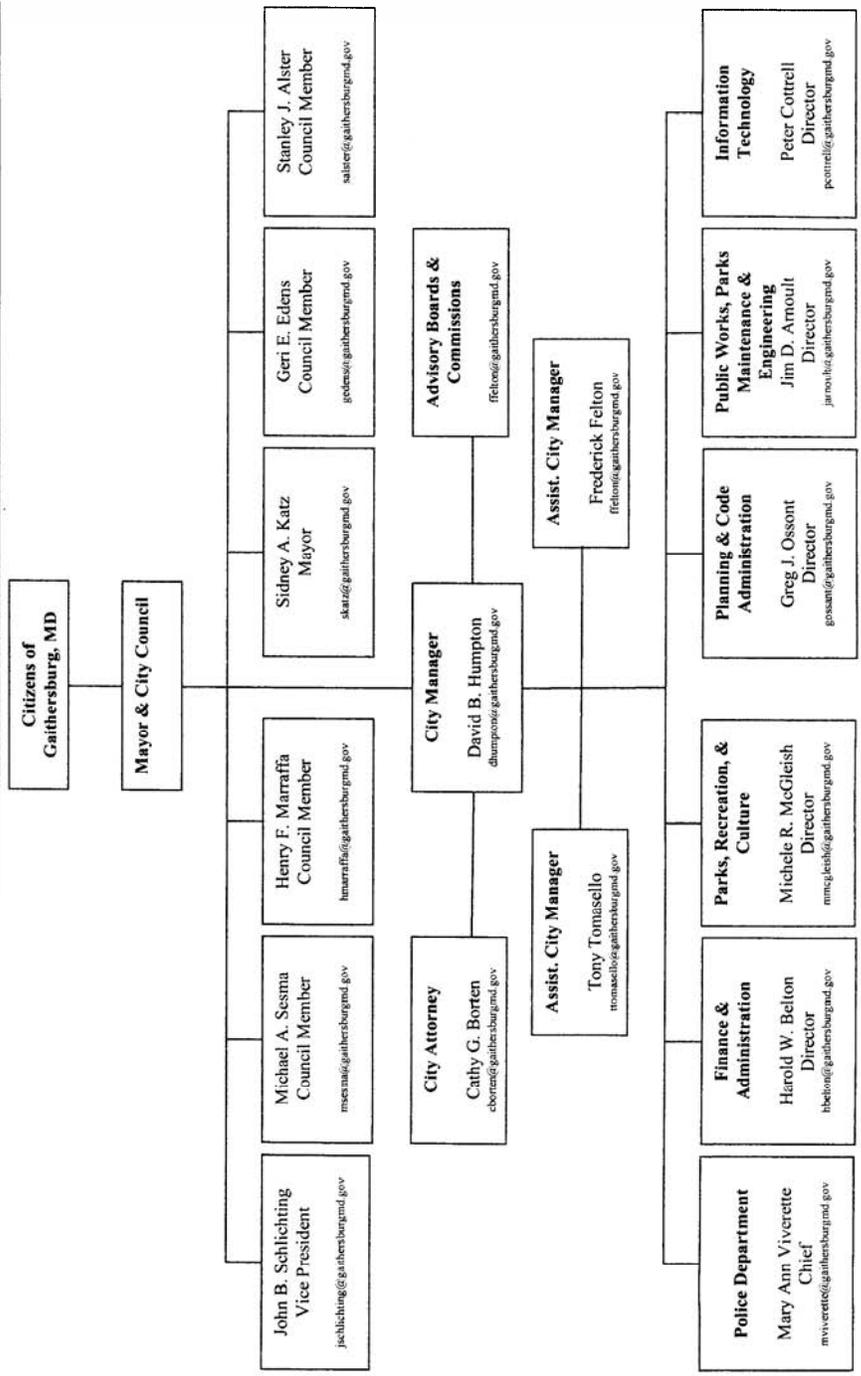
Carla E. Fudge

President

Jeffrey R. Egan

Executive Director

City of Gaithersburg



Independent Auditor's Report

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 (the City) as of and for the year ended June 30, 2006, 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'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 financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006, and the respective changes in financial position, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis as referenced in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of

measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City'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. 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 introductory and statistical tables listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Henderson LLP

Baltimore, Maryland
September 12, 2006

CITY OF GAITHERSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

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, 2006. 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 2006

- The City's government-wide net assets increased by \$3.4 million.
- The General Fund, on a current financial resource basis, reported revenues in excess of expenditures and other financing sources and uses by \$1.2 million after making a \$9.2 million transfer to the Capital Projects Fund.
- The City's financial position improved over the past year. Total governmental funds' fund balance increased by 11.9 percent to \$47.2 million.
- Interest income increased from \$870,163 to \$1,925,574, as a result of general market conditions.
- Capital Projects Fund expenditures of \$5.4 million included completion of storm water management projects, street resurfacing, the completion of the City's first "green building," Gaithersburg Youth Center at Robertson Park.

Overview of the Financial Statements

This Comprehensive Annual Financial Report (CAFR) consists of three sections. They are: Introductory, Financial, and Statistical. 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.

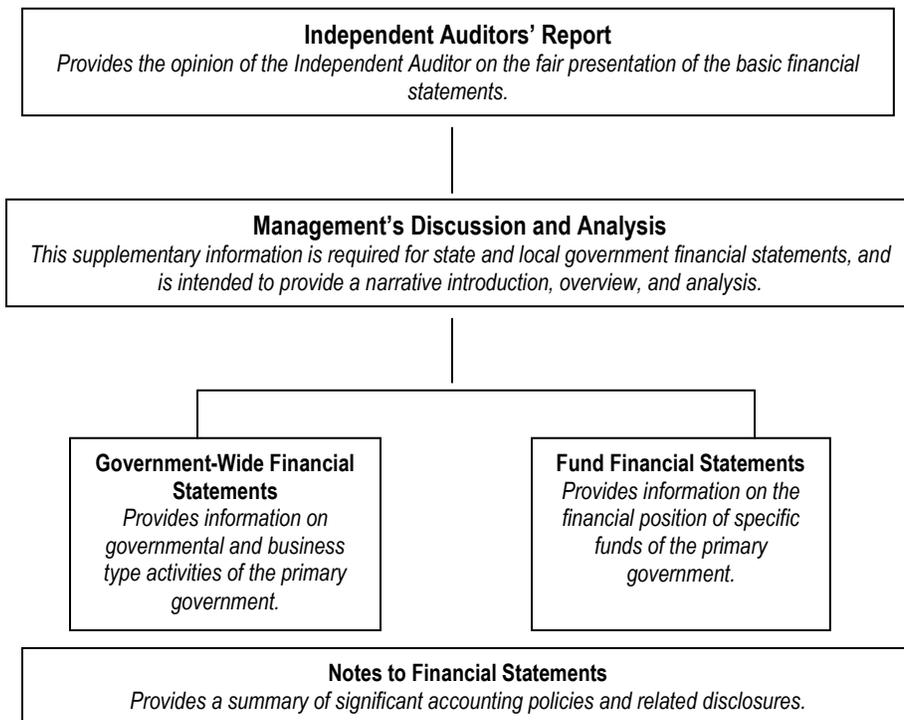
The basic financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the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

CITY OF GAITHERSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

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



**CITY OF GAITHERSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006**

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

CITY OF GAITHERSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

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.

**CITY OF GAITHERSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006**

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, 2006 with a FY 2005 comparative analysis:

	Total Governmental Activities	
	2006	2005
Assets:		
Current and other assets	\$ 53,644,260	\$ 46,198,051
Capital assets, net	103,385,743	105,089,489
Total Assets	157,030,003	151,287,540
Liabilities:		
Long-term liabilities outstanding	1,334,857	1,172,303
Other liabilities	3,217,665	3,723,839
Total Liabilities	4,552,522	4,896,142
Net assets:		
Invested in capital assets	103,385,743	105,089,489
Unrestricted	49,091,738	41,301,909
Total Net Assets	\$ 152,477,481	\$ 146,391,398

The City's assets exceeded its liabilities at the close of FY 2006 by \$152.5 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 \$39.9 million. Local property taxes funding amounted to \$14.1 million; intergovernmental funding, \$8.8 million; charges for services, \$6.8 million; operating grants and contributions, \$1.6 million; and capital grants and contributions, \$2.4 million. The remaining \$6.2 million came from investment earnings, gain on sale of capital assets and miscellaneous sources.

CITY OF GAITHERSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

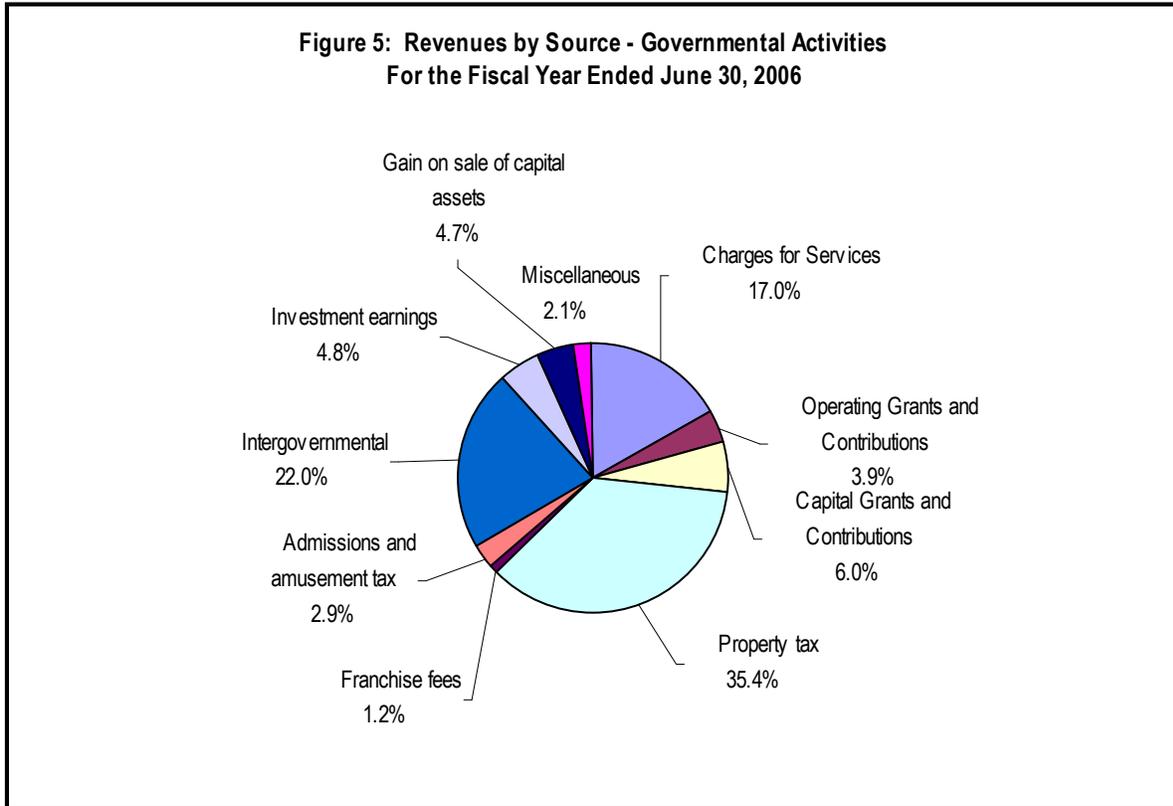
Figure 4

Condensed Statement of Activities

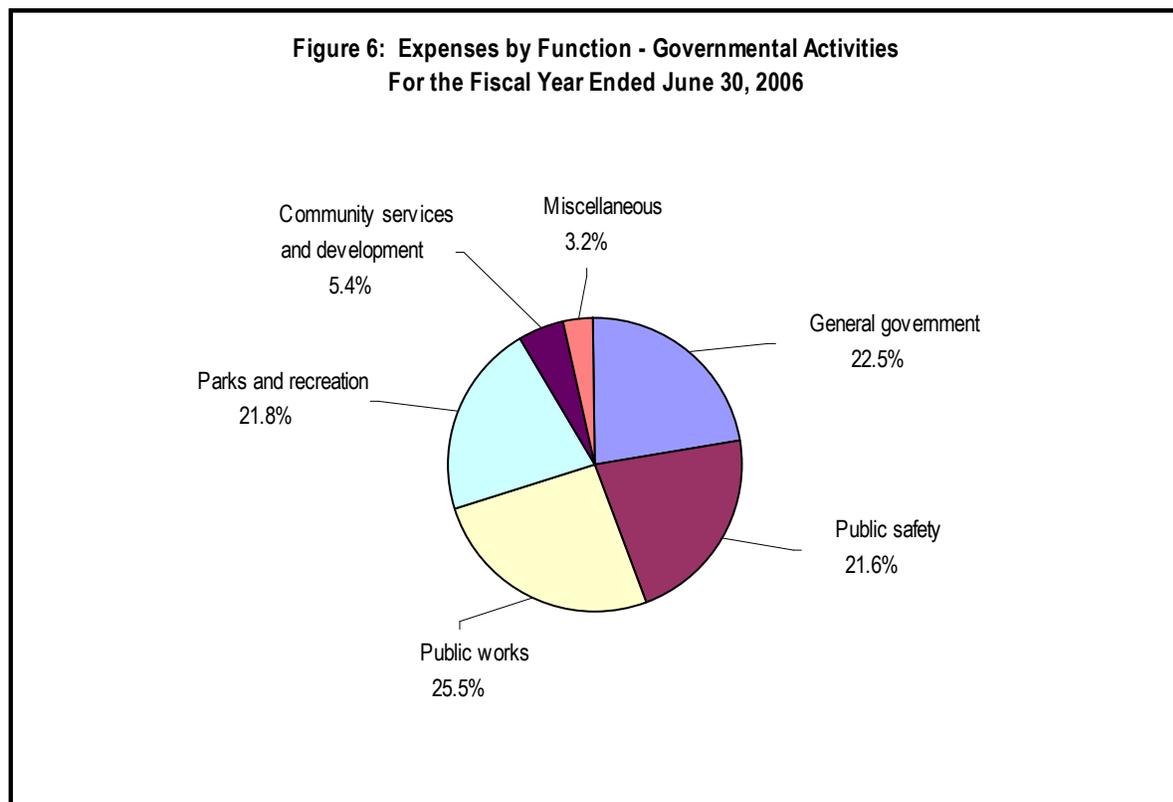
	Total Governmental Activities	
	2006	2005
Revenues		
Program revenues:		
Charges for services	\$ 6,796,511	\$ 7,222,728
Operating grants and contributions	1,561,444	938,266
Capital grants and contributions	2,386,066	2,789,941
General revenues:		
Property tax	14,114,464	13,310,028
Franchise fees	483,125	444,881
Admissions and amusement tax	1,165,087	1,008,836
Intergovernmental	8,779,326	8,008,710
Investment earnings	1,925,574	870,163
Gain on sale of capital assets	1,860,248	-
Miscellaneous	853,929	810,903
Total revenues	39,925,774	35,404,456
Expenses		
General government	8,210,925	6,929,027
Public safety	7,876,021	6,479,474
Public works	9,412,588	9,237,552
Parks and recreation	7,940,172	6,858,152
Community services and development	1,871,188	1,777,491
Miscellaneous	1,174,091	1,263,435
Total Expenses	36,484,985	32,545,131
Increase in Net Assets	3,440,789	2,859,325
Net Assets, beginning - as restated	149,036,692	143,532,073
Net Assets, ending	\$ 152,477,481	\$ 146,391,398

**CITY OF GAITHERSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006**

The cost of governmental activities for FY 2006 was \$36.5 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 \$8.0 million. Major cost increases in fiscal year 2006 were attributable to salary increases for City personnel.



**CITY OF GAITHERSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006**

Governmental Activities

General revenues for the governmental activities were \$29.2million, while total expenses, net of charges for services and grants, were \$25.7 million. The increase in net assets for governmental activities was \$3.5 million and can be largely attributed the following:

- Capital outlays of \$2.2 million offset by depreciation expense of \$3.6 million as accounted for in accordance with GASB 34,
- Property taxes increased by \$804 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 \$574.9 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 (\$7.3 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.

	Net Cost of Governmental Activities					
	2006			2005		
	Cost of Services	Program Revenues	Net Cost of Services	Cost of Services	Program Revenues	Net Cost of Services
General government	\$ 8,210,925	\$ 1,649,170	\$ (6,561,755)	\$ 6,929,027	\$ 2,343,286	\$ (4,585,741)
Public safety	7,876,021	1,583,874	(6,292,147)	6,479,474	1,507,339	(4,972,135)
Public works	9,412,588	3,648,374	(5,764,214)	9,237,552	2,623,364	(6,614,188)
Parks and recreation	7,940,172	3,007,367	(4,932,805)	6,858,152	2,946,167	(3,911,985)
Community services and development	1,871,188	855,236	(1,015,952)	1,777,491	1,530,779	(246,712)
Miscellaneous	1,174,091	-	(1,174,091)	1,263,435	-	(1,263,435)
Total	<u>\$ 36,484,985</u>	<u>\$ 10,744,021</u>	<u>\$ (25,740,964)</u>	<u>\$ 32,545,131</u>	<u>\$ 10,950,935</u>	<u>\$ (21,594,196)</u>

The cost of all governmental activities this year was \$36.5 million. Some of the cost of government activities was paid by those who directly benefited from the programs (\$6.8 million) and other governments and organizations that subsidized certain programs with grants and contributions (\$3.9 million). Of the \$25.7 million net cost of services, the amount that our taxpayers paid for the activities through City property taxes was \$14.1 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 \$47.2 million; an increase of \$5.0 million over last year's ending fund balance of \$42.2 million.

CITY OF GAITHERSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

General Fund (Governmental): The general fund had more revenues than expenditures in 2006, thereby increasing total fund balance to \$32.3 million. It is important to note that the net change in fund balance is \$1.2 million. This figure is calculated on the modified accrual basis and is slightly different from the \$1.3 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.

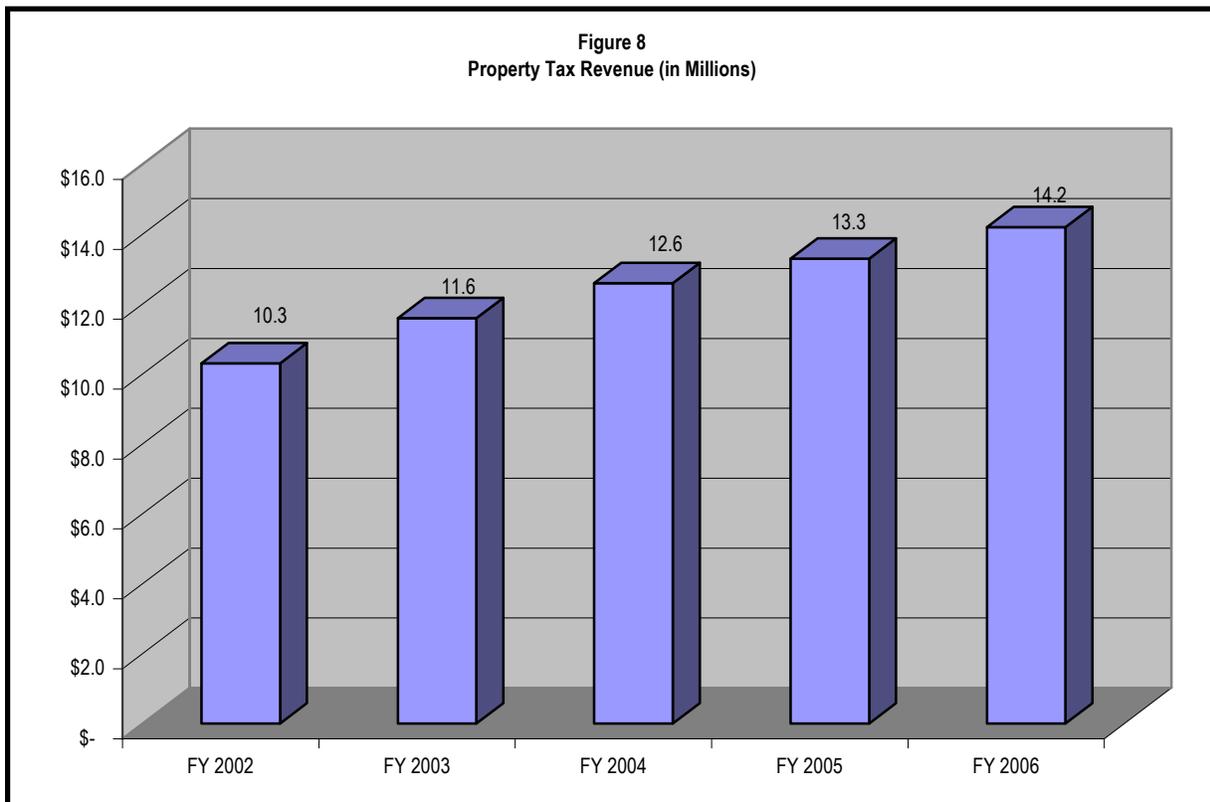
Capital Projects Fund (Governmental): The Capital Projects Fund showed a \$3.8 million increase in fund balance. Capital Projects Funds' total fund balance of \$14.9 million represents authorized and funded projects that are not complete.

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 \$31.9 million.

Actual revenues exceeded budget amount by \$4.2 million, while actual expenditures and net transfers out were less than final budget by \$2.5 million. Actual expenditures of \$29.4 were \$2.5 million less than budgeted due primarily to the concerted efforts of each department to generate savings in anticipation of FY 2007 revenue shortfalls. These savings are to be carried forward to FY 2007.

The largest revenue source for the General Fund is City property tax. In FY 2006, property tax revenues of \$14.2 million represented 35.4 percent of total revenues for the General Fund, and were 13.8 percent more than the budget estimate. As a result of continued increases in assessed values in both real and personal property, the total assessable base grew 8.6 percent in FY 2006.



**CITY OF GAITHERSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006**

Capital Asset and Debt Administration

Capital Assets

By the end of 2006, the City had invested \$103.4 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 \$3.6 million, while additions to buildings, infrastructure, improvements, and equipment and furniture amounted to \$2.1 million. More detailed information about capital assets can be found in Note 6 to the basic financial statements.

	Total Governmental Activities	
	2006	2005
Figure 9 Capital Assets, Net of Depreciation		
Land	\$ 38,074,503	\$ 38,244,929
Buildings	21,288,320	19,208,061
Improvements other than buildings	4,020,551	4,050,894
Machinery and equipment	3,000,652	3,337,621
Infrastructure	36,989,682	38,101,681
Construction in progress	12,035	2,146,303
Total	\$ 103,385,743	\$ 105,089,489

The fiscal year 2006 capital projects spending amounted to \$5.4 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.

	Total Governmental Activities	
	2006	2005
Figure 10 Long-Term Liabilities		
Accumulated unused compensated absences		
Vacation	\$ 968,663	\$ 823,981
Sick leave	366,194	348,322
Total	\$ 1,334,857	\$ 1,172,303

**CITY OF GAITHERSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006**

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 2007 budget are based on the remaining amount of developable land. Development licenses and permits are projected at a 29 percent increase from actual FY 2006.
- 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, 2006

	Governmental Activities
ASSETS	
ASSETS	
Cash and cash equivalents	\$ 465,771
Investments	47,183,938
Receivables:	
Property taxes, net	3,218,948
Due from other governments	1,823,966
Other, net	892,768
Inventory	30,902
Prepays	27,967
Capital assets:	
Land	38,074,503
Buildings	29,464,822
Improvements other than buildings	7,974,465
Machinery and equipment	9,709,914
Infrastructure	63,378,559
Construction in progress	12,035
Less: accumulated depreciation	<u>(45,228,555)</u>
TOTAL ASSETS	<u><u>\$ 157,030,003</u></u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable	\$ 659,765
Accrued liabilities	1,058,054
Deposits	1,499,846
Non-current liabilities:	
Due within one year:	
Accumulated unused compensated absences	366,194
Due in more than one year:	
Accumulated unused compensated absences	968,663
Total liabilities	<u>4,552,522</u>
NET ASSETS	
Invested in capital assets	103,385,743
Unrestricted	49,091,738
Total net assets	<u>152,477,481</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 157,030,003</u></u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to financial statements.

CITY OF GAITHERSBURG, MARYLAND
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
General government	\$ 8,210,925	\$ 1,649,170	\$ -	\$ -	\$ (6,561,755)
Public safety	7,876,021	782,440	801,434	-	(6,292,147)
Public works	9,412,588	1,375,813	-	2,272,561	(5,764,214)
Parks and recreation	7,940,172	2,989,088	18,279	-	(4,932,805)
Community services and development	1,871,188	-	741,731	113,505	(1,015,952)
Miscellaneous	1,174,091	-	-	-	(1,174,091)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 36,484,985</u>	<u>\$ 6,796,511</u>	<u>\$ 1,561,444</u>	<u>\$ 2,386,066</u>	<u>(25,740,964)</u>
General revenues:					
Property taxes					14,114,464
Franchise fees					483,125
Admissions and amusement tax					1,165,087
Intergovernmental not restricted to specific programs					8,779,326
Investment earnings					1,925,574
Miscellaneous					853,929
Gain on sale of capital assets					1,860,248
Total general revenues					<u>29,181,753</u>
CHANGE IN NET ASSETS					3,440,789
NET ASSETS, BEGINNING OF YEAR - AS RESTATED					<u>149,036,692</u>
NET ASSETS, END OF YEAR					<u>\$ 152,477,481</u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to financial statements.

CITY OF GAITHERSBURG, MARYLAND
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2006

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
ASSETS			
Cash	\$ 465,771	\$ -	\$ 465,771
Investments	47,183,938	-	47,183,938
Taxes receivable, net	3,218,948	-	3,218,948
Prepays	27,967	-	27,967
Inventory	30,902	-	30,902
Due from other funds	-	15,030,736	15,030,736
Due from other governments	1,823,966	-	1,823,966
Other receivables	892,768	-	892,768
	<u>\$ 53,644,260</u>	<u>\$ 15,030,736</u>	<u>\$ 68,674,996</u>
TOTAL ASSETS	<u>\$ 53,644,260</u>	<u>\$ 15,030,736</u>	<u>\$ 68,674,996</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 571,702	\$ 88,063	\$ 659,765
Accruals	927,051	-	927,051
Deposits	1,499,848	-	1,499,848
Deferred revenue	3,218,948	-	3,218,948
Due to other funds	15,161,738	-	15,161,738
Total liabilities	<u>21,379,287</u>	<u>88,063</u>	<u>21,467,350</u>
FUND BALANCES			
Reserved for:			
Encumbrances	380,760	1,686,943	2,067,703
Long-term receivables	241,082	-	241,082
Prepaid expenditures	27,967	-	27,967
Inventory	30,902	-	30,902
Unreserved:			
Designated for:			
Vehicle and equipment replacement	4,803,994	-	4,803,994
Subsequent years' expenditures	3,315,743	13,255,730	16,571,473
Group insurance funding	2,805,554	-	2,805,554
Self-insurance	86,223	-	86,223
Training	46,475	-	46,475
Economic development	299,249	-	299,249
Emergency and disaster	400,000	-	400,000
Unreserved and undesignated	19,827,024	-	19,827,024
Total fund balances	<u>32,264,973</u>	<u>14,942,673</u>	<u>47,207,646</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 53,644,260</u>	<u>\$ 15,030,736</u>	<u>\$ 68,674,996</u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to financial statements.

CITY OF GAITHERSBURG, MARYLAND
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2006

Total fund balance - total governmental funds		\$ 47,207,646
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	\$ 148,614,298	
Accumulated depreciation	<u>(45,228,555)</u>	103,385,743
Certain assets are not available to pay for current period expenditures and therefore are deferred in the funds.		3,218,948
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		<u>(1,334,856)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 152,477,481</u></u>

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

CITY OF GAITHERSBURG, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes and special assessments	\$ 15,329,572	\$ -	\$ 15,329,572
Licenses and permits	2,839,355	-	2,839,355
Intergovernmental	12,376,203	-	12,376,203
Charges for services	4,255,294	-	4,255,294
Fines and forfeitures	184,987	-	184,987
Investment earnings	1,925,574	-	1,925,574
Miscellaneous	853,929	-	853,929
Total revenues	<u>37,764,914</u>	<u>-</u>	<u>37,764,914</u>
EXPENDITURES			
Current:			
General government	6,778,533	-	6,778,533
Public safety	7,163,130	-	7,163,130
Public works	5,492,217	-	5,492,217
Parks and recreation	7,006,072	-	7,006,072
Community services and development	1,860,500	-	1,860,500
Miscellaneous	1,168,330	-	1,168,330
Capital outlay	-	5,401,735	5,401,735
Total expenditures	<u>29,468,782</u>	<u>5,401,735</u>	<u>34,870,517</u>
Excess (deficiency) of revenues over expenditures	<u>8,296,132</u>	<u>(5,401,735)</u>	<u>2,894,397</u>
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	2,112,309	-	2,112,309
Transfers in	-	9,226,622	9,226,622
Transfers out	(9,226,622)	-	(9,226,622)
Total other financing sources (uses)	<u>(7,114,313)</u>	<u>9,226,622</u>	<u>2,112,309</u>
NET CHANGE IN FUND BALANCES	1,181,819	3,824,887	5,006,706
FUND BALANCE, BEGINNING OF YEAR	<u>31,083,154</u>	<u>11,117,786</u>	<u>42,200,940</u>
FUND BALANCE, END OF YEAR	<u>\$ 32,264,973</u>	<u>\$ 14,942,673</u>	<u>\$ 47,207,646</u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to 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, 2006

Total net change in fund balances - total governmental funds \$ 5,006,706

Amounts reported for governmental 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 useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period.

Capital outlays	\$ 2,166,131	
Depreciation	<u>(3,617,816)</u>	(1,451,685)

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 \$693,228, less any accumulated depreciation of \$441,167

(252,061)

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 the amount by which deferred revenue increased (decreased).

300,383

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.

(162,554)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 3,440,789

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to financial statements.

CITY OF GAITHERSBURG, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL -
GENERAL FUND (BUDGETARY BASIS)
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance With Amended Budget Positive (Negative)</u>
	<u>Original</u>	<u>Amended</u>		
REVENUES				
Taxes and special assessments	\$ 14,852,000	\$ 14,852,000	\$ 15,329,572	\$ 477,572
Licenses and permits	2,673,450	2,673,450	2,839,355	165,905
Intergovernmental	12,469,022	12,469,022	12,376,203	(92,819)
Charges for services	3,699,220	3,699,220	4,255,294	556,074
Fines and forfeitures	213,300	213,300	184,987	(28,313)
Investment earnings	500,000	500,000	1,925,574	1,425,574
Miscellaneous	237,550	237,550	853,929	616,379
Total revenues	<u>34,644,542</u>	<u>34,644,542</u>	<u>37,764,914</u>	<u>3,120,372</u>
EXPENDITURES				
General government	7,301,391	7,351,891	6,762,063	589,828
Public safety	7,137,957	7,307,257	7,093,808	213,449
Public works	5,933,622	5,873,822	5,470,660	403,162
Parks and recreation	7,515,729	7,535,729	7,016,664	519,065
Community services and development	1,992,776	1,992,776	1,734,569	258,207
Miscellaneous	2,048,315	1,868,315	1,315,345	552,970
Total expenditures	<u>31,929,790</u>	<u>31,929,790</u>	<u>29,393,109</u>	<u>2,536,681</u>
Excess of revenues over expenditures	<u>2,714,752</u>	<u>2,714,752</u>	<u>8,371,805</u>	<u>5,657,053</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(9,226,622)	(9,226,622)	(9,226,622)	-
Sale of capital assets	1,900,000	1,900,000	2,112,309	212,309
Total other financing sources (uses)	<u>(7,326,622)</u>	<u>(7,326,622)</u>	<u>(7,114,313)</u>	<u>212,309</u>
NET CHANGE IN FUND BALANCE	<u>\$ (4,611,870)</u>	<u>\$ (4,611,870)</u>	1,257,492	<u>\$ 5,869,362</u>
Adjustments to conform with generally accepted accounting principles			(75,673)	
FUND BALANCE, BEGINNING OF YEAR			<u>31,083,154</u>	
FUND BALANCE, END OF YEAR			<u>\$ 32,264,973</u>	

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to financial statements.

CITY OF GAITHERSBURG, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS –
FIDUCIARY FUNDS
Year Ended June 30, 2006

	<u>Pension Trust Fund</u>	<u>Private- Purpose Trust Fund</u>	<u>Agency Funds</u>
ASSETS			
ASSETS			
Investments:			
Open-end mutual funds	\$ 30,917,091	\$ -	\$ -
Certificate of deposit	-	12,205	-
Due from other funds	<u>25,774</u>	<u>-</u>	<u>105,228</u>
TOTAL ASSETS	<u><u>\$ 30,942,865</u></u>	<u><u>\$ 12,205</u></u>	<u><u>\$ 105,228</u></u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Deposits	\$ -	\$ -	\$ 105,228
NET ASSETS			
Held in trust for pension benefits and other purposes	<u>30,942,865</u>	<u>12,205</u>	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 30,942,865</u></u>	<u><u>\$ 12,205</u></u>	<u><u>\$ 105,228</u></u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to financial statements.

CITY OF GAITHERSBURG, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
Year Ended June 30, 2006

	Pension Trust Fund	Private- Purpose Trust Fund
	<u> </u>	<u> </u>
ADDITIONS		
Contributions:		
Employee	\$ 828,616	\$ -
Employer	1,654,876	-
Interest and gains (losses)	2,575,067	337
Other	190,231	-
	<u>5,248,790</u>	<u>337</u>
DEDUCTIONS		
Benefits and withdrawals	<u>1,140,640</u>	<u>-</u>
	<u>1,140,640</u>	<u>-</u>
CHANGE IN NET ASSETS	4,108,150	337
NET ASSETS, BEGINNING OF YEAR	<u>26,834,715</u>	<u>11,868</u>
NET ASSETS, END OF YEAR	<u><u>\$ 30,942,865</u></u>	<u><u>\$ 12,205</u></u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to financial statements.

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 – 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 services and development. Schools, libraries, social services, and fire protection are provided by Montgomery County and the Board of Education.

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.

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.

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (continued)

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.

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:

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (continued)

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. The plans are administered by a committee appointed by the City.

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.

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.

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting (continued)

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, 2006, 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.

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Use of Estimates in Preparing Financial Statements

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.

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.

Investments

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

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, 2006, the aggregate of property tax accounts, delinquent three years or more, was \$490,553. At June 30, 2006, the aggregate of police ticket receivables, delinquent one year or more, was \$313,960. Receivables are written off when deemed uncollectible and recoveries of receivables previously written off are recorded when received.

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.

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, 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.

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

Deferred Revenues

Deferred revenues in the governmental funds represent amounts due, which are measurable, but not available. The general fund balance includes \$2,995,927 related to the income tax reserve held by the State of Maryland as of June 30, 2006. No balance was reflected for this income tax reserve at June 30, 2005. See Note 15.

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.

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inter-Fund Transactions (Continued)

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 fiduciary funds are reported in the government-wide financial statements as "accrued liabilities."

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.

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 the leave is payable for anticipated employee retirements and resignations.

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.

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2006, 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 FINANCIAL STATEMENTS
June 30, 2006

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

- 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.
- Public hearings are conducted at City Hall to obtain taxpayer comments.
- Prior to July 1, the budget for the General Fund is legally enacted through passage of an ordinance.
- 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.
- 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.
- 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.

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

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:

	<u>Revenues</u>	<u>Expenditures and Encumbrances</u>	<u>Other Financing Sources (Uses)</u>	<u>Current Year Effect on Fund Balance</u>
General Fund				
Budgetary basis	\$ 37,764,914	\$ 29,393,109	\$ (7,114,313)	\$ 1,257,492
Prior year encumbrances outstanding, June 30, 2005	-	456,433	-	(456,433)
Current year encumbrances outstanding, June 30, 2006	-	(380,760)	-	380,760
GAAP Basis	<u>\$ 37,764,914</u>	<u>\$ 29,468,782</u>	<u>\$ (7,114,313)</u>	<u>\$ 1,181,819</u>

NOTE 3 – CASH AND INVESTMENTS DEPOSITS

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, 2006 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, 2006:

	<u>General Fund</u>	<u>Pension Trust Fund</u>	<u>Private- Purpose Trust Fund</u>
State Treasurer's Investment Pool	\$ 28,350,493	\$ -	\$ -
Montgomery County's General Investment Fund	18,552,203	-	-
Certificates of deposit	281,242	-	12,205
Open-end mutual funds	-	30,917,091	-
Total	<u>\$ 47,183,938</u>	<u>\$ 30,917,091</u>	<u>\$ 12,205</u>

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3 – CASH AND INVESTMENTS DEPOSITS (CONTINUED)

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. Pension trust funds are invested in pooled mutual funds which are unrated.

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. A portion of the pension trust fund mutual funds are invested in bond funds. These funds consist of debt instruments with varying maturities.

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, 2006. For purposes of risk exposure, certificates of deposit are treated as deposits, which was previously discussed above.

NOTE 4 – RECEIVABLES AND PAYABLES

Receivables at June 30, 2006, consist of the following:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Activities</u>
Due from other governments:			
County	\$ 49,833	\$ -	\$ 49,833
State	1,596,403	-	1,596,403
Federal	<u>177,730</u>	<u>-</u>	<u>177,730</u>
Total	<u>\$ 1,823,966</u>	<u>\$ -</u>	<u>\$ 1,823,966</u>

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 4 – RECEIVABLES AND PAYABLES (CONTINUED)

	General Fund	Capital Projects Fund	Total Governmental Activities
Other receivables:			
Corporate note receivable :	\$ 276,082	\$ -	\$ 276,082
Danac Tyler-Donagan, Inc.	150,000	-	150,000
Cable TV fees	143,615	-	143,615
Police tickets and fines, net	122,976	-	122,976
Olde Towne Bell Tower	50,000	-	50,000
Interest receivable	109,023	-	109,023
Miscellaneous	41,072	-	41,072
Total	\$ 892,768	\$ -	\$ 892,768

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 \$241,082, 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, 2006, consist of the following:

	General Fund	Capital Projects Fund	Total Governmental Activities
Accounts payable:			
Vendors	\$ 571,702	\$ 88,063	\$ 659,765
Accrued liabilities:			
Payroll and payroll taxes	\$ 927,051	\$ -	\$ 929,935

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivable and payable balances at June 30, 2006, are as follows:

	Due to Fund General Fund
Due from fund	
Capital Projects Fund	\$ 15,030,736
Pension Trust Fund	25,774
Agency Fund	105,228
Total	\$ 15,161,738

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS
(CONTINUED)

The balance of \$15,030,736 is 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, 2006, consisted of a transfer in the City’s normal course of business from the General Fund to the Capital Fund in the amount of \$9,226,622.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, consisted of the following:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2006</u>
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 38,244,929	\$ -	\$ (170,426)	\$ -	\$ 38,074,503
Construction in progress	<u>2,146,303</u>	<u>776,513</u>	<u>-</u>	<u>(2,910,781)</u>	<u>12,035</u>
	<u>40,391,232</u>	<u>776,513</u>	<u>(170,426)</u>	<u>(2,910,781)</u>	<u>38,086,538</u>
Capital assets being depreciated:					
Buildings	26,689,602	92,500	(44,074)	2,726,794	29,464,822
Improvements other than buildings	7,612,188	178,290	-	183,987	7,974,465
Machinery and equipment	9,468,895	645,652	(404,633)	-	9,709,914
Infrastructure	<u>62,979,478</u>	<u>473,176</u>	<u>(74,095)</u>	<u>-</u>	<u>63,378,559</u>
	<u>106,750,163</u>	<u>1,389,618</u>	<u>(522,802)</u>	<u>2,910,781</u>	<u>110,527,760</u>
Less accumulated depreciation for:					
Buildings	(7,481,541)	(704,051)	9,090	-	(8,176,502)
Improvements other than buildings	(3,561,294)	(392,620)	-	-	(3,953,914)
Machinery and equipment	(6,131,274)	(982,302)	404,314	-	(6,709,262)
Infrastructure	<u>(24,877,797)</u>	<u>(1,538,843)</u>	<u>27,763</u>	<u>-</u>	<u>(26,388,877)</u>
	<u>(42,051,906)</u>	<u>(3,617,816)</u>	<u>441,167</u>	<u>-</u>	<u>(45,228,555)</u>
Capital assets, net	<u>\$ 105,089,489</u>	<u>\$ (1,451,685)</u>	<u>\$ (252,061)</u>	<u>\$ -</u>	<u>\$ 103,385,743</u>

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 6 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to governmental functions for the year ended June 30, 2006, as follows:

General government	\$ 736,522
Public safety	355,120
Public works	2,053,483
Parks and recreation	<u>472,691</u>
Total	<u>\$3,617,816</u>

NOTE 7 – LONG-TERM LIABILITIES

At June 30, 2006, 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, 2006:

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>	<u>Amounts Due Within One Year</u>
Accumulated unused compensated absences:					
Vacation	\$ 823,981	\$ 334,587	\$ 189,905	\$ 968,663	\$ -
Sick leave	<u>348,322</u>	<u>88,111</u>	<u>70,239</u>	<u>366,194</u>	<u>366,194</u>
Total	<u>\$ 1,172,303</u>	<u>\$ 422,698</u>	<u>\$ 260,144</u>	<u>\$ 1,334,857</u>	<u>\$ 366,194</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, 2006 and 2005, was approximately \$163,173 and \$125,823 respectively.

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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 \$12,750,843 and its total payroll for all employees was \$15,852,959. Required employer contributions of \$1,309,822 or 10.3% of covered payroll were made to the plan during fiscal year 2006. 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 2006, employees made contributions to the Plan totaling \$828,616 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 \$367,677 or 2.9% of covered payroll were made to the Plan during fiscal year 2006.

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

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 9 – RETIREMENT, SAVINGS, AND DEFERRED COMPENSATION PLANS
(CONTINUED)

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 \$1,686,943 at June 30, 2006. All contracts binding as of June 30, 2006, 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 2006, the City paid premiums of \$254,290 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 2006, the City paid premiums of \$263,920 to Montgomery County.

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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.
- 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, 2006 was \$89,930,000 and consists of the following:

The City has issued Economic Development Revenue Bonds Series 1993, 1997 and 2004, totaling \$35,460,000, \$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 \$27,080,000, \$37,595,000 and \$25,255,000, respectively, at June 30, 2006.

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 15 – PRIOR PERIOD RESTATEMENT

In accordance with Statement No. 33 of the Government Accounting Standards Board, the City has restated Net assets as of July 1, 2005 in the Statement of Net Assets to reflect the income tax reserve held by the State of Maryland on behalf of the City in the amount of \$2,645,294. This restatement does not affect the General Fund Balance as the amount is reflected as a receivable and deferred revenue on the modified accrual basis.

NOTE 16 – NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STANDARD

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2006, 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. 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. 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.

This information is an integral part of the
accompanying financial statements.

SUPPLEMENTAL INFORMATION

CITY OF GAITHERSBURG, MARYLAND
SCHEDULE OF REVENUES – BUDGET AND ACTUAL
(BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2006 (With Comparative Totals for 2005)

	2006				2005 Actual
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)	
Taxes and Special Assessments					
Real estate taxes	\$ 12,000,000	\$ 12,000,000	\$ 12,628,456	\$ 628,456	\$ 11,629,366
Personal property taxes	1,900,000	1,900,000	1,646,860	(253,140)	1,713,724
Prior year's taxes	-	-	(92,156)	(92,156)	(115,597)
Penalties and interest	65,000	65,000	(18,675)	(83,675)	52,654
Admissions and amusement tax	887,000	887,000	1,165,087	278,087	1,008,836
	<u>14,852,000</u>	<u>14,852,000</u>	<u>15,329,572</u>	<u>477,572</u>	<u>14,288,983</u>
Licenses and Permits					
Street permits	-	-	224,469	224,469	200,412
Telecommunications/utility permits	500	500	-	(500)	-
Amusement licenses	24,000	24,000	22,675	(1,325)	23,115
Traders license	50,000	50,000	148,798	98,798	144,202
Hawkers/peddlers licenses	1,500	1,500	4,770	3,270	5,020
Electricians licenses	58,000	58,000	60,070	2,070	31,055
Rental housing licenses	459,900	459,900	442,240	(17,660)	450,050
Bus shelter franchise fee	12,460	12,460	14,443	1,983	8,881
CATV franchise	419,000	419,000	468,682	49,682	436,000
CATV access fees	-	-	-	-	-
Animal licenses	17,500	17,500	17,276	(224)	16,526
Pet shop/commercial kennel	1,250	1,250	1,000	(250)	1,000
Building permits	959,415	959,415	688,755	(270,660)	1,468,422
Electrical permits	96,880	96,880	93,468	(3,412)	147,639
Occupancy permits	23,040	23,040	53,420	30,380	69,091
Sign permits	9,500	9,500	10,758	1,258	14,710
Mechanical permits	78,000	78,000	47,653	(30,347)	63,894
Grading permits	293,230	293,230	297,597	4,367	122,505
On site improvements	7,800	7,800	113,617	105,817	140,551
Fire protection permits	161,375	161,375	128,504	(32,871)	202,593
Special events permits	-	-	1,000	1,000	-
Home occupation permits	100	100	160	60	360
	<u>2,673,450</u>	<u>2,673,450</u>	<u>2,839,355</u>	<u>165,905</u>	<u>3,546,026</u>

CITY OF GAITHERSBURG, MARYLAND
SCHEDULE OF REVENUES – BUDGET AND ACTUAL
(BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2006 (With Comparative Totals for 2005)

(Continued)

	2006				2005 Actual
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)	
Intergovernmental					
State-shared taxes:					
Highway user	\$ 2,008,000	\$ 2,008,000	\$ 1,966,561	\$ (41,439)	\$ 1,600,823
Stormwater management	-	-	306,000	306,000	-
County grants and shared taxes:					
Financial corporations	2,645	2,645	2,645	-	2,645
County revenue sharing	850,000	850,000	1,203,404	353,404	943,477
Income tax	7,000,000	7,000,000	7,305,720	305,720	6,958,212
Family Resource Center	-	-	-	-	-
Homeless program	9,500	9,500	9,519	19	9,519
Seniors program	100,000	100,000	100,000	-	100,000
Stars program	-	-	5,860	5,860	22,166
Nutrition program	45,000	45,000	46,967	1,967	48,659
MCPS	138,000	138,000	20,004	(117,996)	49,696
Chesapeake Bay Grant	-	-	-	-	-
Miscellaneous	-	-	24,569	24,569	3,985
State grants:					
Police	501,465	501,465	486,713	(14,752)	466,860
Homeless program	6,300	6,300	6,317	17	6,317
Arts	17,000	17,000	18,279	1,279	17,000
Youth	-	-	-	-	-
Miscellaneous	467,800	467,800	301,122	(166,678)	100,391
Open space grant	504,972	504,972	-	(504,972)	-
Olde Towne revitalization	-	-	-	-	22,943
Smart Growth Transit Grant	-	-	-	-	-
Department of Environment	-	-	-	-	-
Federal grants:					
Community development	517,150	517,150	113,505	(403,645)	867,945
Transitional housing	128,250	128,250	128,247	(3)	128,247
Department of Justice - COPS	157,400	157,400	314,721	157,321	89,802
Housing opportunity	15,540	15,540	16,050	510	-
Economic development initiative	-	-	-	-	298,230
Miscellaneous	-	-	-	-	-
Total intergovernmental	12,469,022	12,469,022	\$ 12,376,203	\$ (92,819)	\$ 11,736,917

CITY OF GAITHERSBURG, MARYLAND
SCHEDULE OF REVENUES – BUDGET AND ACTUAL
(BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2006 (With Comparative Totals for 2005)

(Continued)

	2006				2005 Actual
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)	
Charges for Services					
Zoning fees	\$ 28,000	\$ 28,000	\$ 106,289	\$ 78,289	\$ 110,668
Casey Community Center	180,000	180,000	203,153	23,153	210,032
Pool	265,000	265,000	307,021	42,021	276,757
Gaithersburg Aquatic Center	184,800	184,800	168,381	(16,419)	213,749
Miniature golf revenue	88,000	88,000	103,685	15,685	107,747
Group picnics	45,000	45,000	54,701	9,701	48,793
Recreation fees	1,109,000	1,109,000	1,153,479	44,479	1,121,150
Winter lights	235,000	235,000	239,324	4,324	235,202
Gaithersburg Arts Barn	70,000	70,000	82,028	12,028	76,315
Council of the Arts	20,000	20,000	15,943	(4,057)	10,059
Gaithersburg Youth Center	30,000	30,000	40,001	10,001	27,997
Teen Center	8,500	8,500	-	(8,500)	11,431
Kentlands Mansion	155,000	155,000	169,675	14,675	152,880
Special events	45,000	45,000	42,872	(2,128)	47,606
Community events	-	-	2,839	2,839	1,526
Senior Center revenue	68,000	68,000	52,225	(15,775)	49,058
Stormwater management fees	10,000	10,000	206,009	196,009	41,853
Recycling collections	689,000	689,000	685,681	(3,319)	595,529
Rental - Senior Center	16,500	16,500	35,022	18,522	22,536
Membership fee - dog exercise	12,500	12,500	8,433	(4,067)	10,526
Activity Center programs	245,000	245,000	267,020	22,020	260,867
Food services	3,300	3,300	3,300	-	6,600
Skate park	50,000	50,000	48,419	(1,581)	48,862
Environmental fees	600	600	10,477	9,877	3,156
Water quality protection	141,020	141,020	249,177	108,157	158,648
Miscellaneous	-	-	140	140	2,054
Total charges for services	3,699,220	3,699,220	4,255,294	556,074	3,851,601
Fines and Forfeitures					
Ordinance fines	213,300	213,300	184,987	(28,313)	269,982

CITY OF GAITHERSBURG, MARYLAND
SCHEDULE OF REVENUES – BUDGET AND ACTUAL
(BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2006 (With Comparative Totals for 2005)

(Continued)

	2006				2005 Actual
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)	
Investment Earnings	\$ 500,000	\$ 500,000	\$ 1,925,574	\$ 1,425,574	\$ 870,163
Miscellaneous Revenue					
Rents	128,200	128,200	219,196	90,996	163,729
Miscellaneous	11,050	11,050	19,147	8,097	24,163
Sale of materials	16,000	16,000	220	(15,780)	111
Bus shelters	22,500	22,500	-	(22,500)	-
Contributions	3,000	3,000	65,418	62,418	92,858
Passports	45,000	45,000	34,350	(10,650)	43,560
Community promotion	3,000	3,000	1,419	(1,581)	1,480
Expenditure reimbursement	8,800	8,800	179	(8,621)	14,502
Sale of property	1,900,000	1,900,000	2,112,309	212,309	
Reappropriations	514,000	514,000	514,000	-	470,500
Total miscellaneous	2,651,550	2,651,550	2,966,238	314,688	810,903
TOTAL REVENUE - BUDGETARY BASIS	37,058,542	37,058,542	39,877,223	2,818,681	35,374,575
Adjustments to conform with generally accepted accounting principles	-	-	-	-	-
TOTAL REVENUE - GAAP BASIS	<u>\$ 37,058,542</u>	<u>\$ 37,058,542</u>	<u>\$ 39,877,223</u>	<u>\$ 2,818,681</u>	<u>\$ 35,374,575</u>

CITY OF GAITHERSBURG, MARYLAND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES – BUDGET AND ACTUAL
(BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2006 (With Comparative Totals for 2005)

	2006				2005 Actual
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)	
General Government					
Mayor and City Council	\$ 180,212	\$ 178,631	\$ 164,780	\$ 13,851	\$ 150,109
City Manager	626,028	601,028	538,541	62,487	538,773
Economic and Community Development	488,542	473,542	431,895	41,647	431,046
Environmental affairs	156,395	156,395	130,825	25,570	126,295
Registration and elections	24,800	26,381	26,178	203	-
Finance and administration	664,337	679,337	672,127	7,210	623,097
Legal	204,278	194,278	171,140	23,138	186,893
Planning	1,031,255	1,031,255	914,448	116,807	939,591
Information technology	710,677	710,677	613,088	97,589	494,550
Human resources	453,933	503,933	499,600	4,333	408,566
General services	120,830	120,830	78,778	42,052	65,686
Facilities management	480,235	480,235	460,897	19,338	420,753
Building and grounds:					
City Hall	162,570	192,570	189,393	3,177	157,516
Police	62,470	62,470	59,728	2,742	70,583
Public Services	106,800	107,800	107,080	720	95,091
Kentlands Firehouse	4,600	4,600	241	4,359	199
Gaithersburg Arts Barn	69,275	80,275	79,477	798	68,626
Traing Station	34,930	34,930	24,026	10,904	20,684
Kentlands Mansion	61,165	64,665	64,066	599	56,977
Mills House	-	-	-	-	578
Senior Center	68,470	58,470	56,543	1,927	66,369
Casey Community Center	164,072	182,072	181,075	997	191,157
Old Towne Pavilion	33,700	49,700	38,468	11,232	9,632
Teen Center	24,950	21,950	13,142	8,808	17,737
Activity Center at Bohrer Park	278,051	267,551	263,110	4,441	277,819
Water Park	119,895	137,895	136,118	1,777	90,103
Miniature Golf Course	30,600	27,600	17,187	10,413	23,264
Skate Park	9,200	6,700	2,386	4,314	2,766
Parking Facility	140,640	118,640	106,207	12,433	97,844
Gaithersburg Youth Center	43,400	52,400	51,130	1,270	-
Public information	498,300	488,300	444,936	43,364	363,013
Cable television - Channel 54	246,781	236,781	225,453	11,328	235,547
Total general government	7,301,391	7,351,891	6,762,063	589,828	6,230,864

CITY OF GAITHERSBURG, MARYLAND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES – BUDGET AND ACTUAL
(BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2006 (With Comparative Totals for 2005)

(Continued)

	2006			Variance with Amended Budget Positive (Negative)	2005 Actual
	Original Budget	Amended Budget	Actual		
Public Safety					
Police	\$ 4,872,191	\$ 5,037,191	\$ 4,874,522	\$ 162,669	\$ 4,565,407
Building and Code Administration	1,731,515	1,729,185	1,699,321	29,864	1,640,440
Traffic Engineering	206,811	211,111	192,551	18,560	168,200
Animal Control	327,440	329,770	327,414	2,356	317,974
	<u>7,137,957</u>	<u>7,307,257</u>	<u>7,093,808</u>	<u>213,449</u>	<u>6,692,021</u>
Public Works					
Public Works Administration	593,986	593,986	562,770	31,216	558,347
Engineering services	237,673	237,673	222,572	15,101	220,240
Streets and special projects	1,018,470	991,470	830,978	160,492	780,013
Fleet maintenance	394,350	394,350	370,403	23,947	352,622
Street lighting	571,400	567,100	541,426	25,674	426,543
Landscaping and forestry	850,296	821,796	801,700	20,096	794,709
Mowing and bulk pick-up	1,563,947	1,563,947	1,467,110	96,837	1,349,054
Recycling	703,500	703,500	673,701	29,799	578,443
	<u>5,933,622</u>	<u>5,873,822</u>	<u>5,470,660</u>	<u>403,162</u>	<u>5,059,971</u>

CITY OF GAITHERSBURG, MARYLAND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES – BUDGET AND ACTUAL
(BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2006 (With Comparative Totals for 2005)

(Continued)

	2006				2005 Actual
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)	
Parks, Recreation and Culture					
Administration	\$ 498,590	\$ 525,590	\$ 517,783	\$ 7,807	\$ 498,089
Municipal Parks Maintenance	1,495,609	1,495,609	1,345,535	150,074	1,397,614
Recreation Programs and Sports	727,763	727,763	726,435	1,328	645,050
Special events	592,261	592,261	585,140	7,121	514,358
Summer programs	618,449	608,449	527,801	80,648	536,554
Gaithersburg Youth Center	184,533	184,533	142,801	41,732	83,023
Skate Park	49,803	49,803	41,879	7,924	43,017
Recreation classes	314,486	307,486	301,531	5,955	298,278
Casey Community Center	331,824	331,824	291,590	40,234	310,794
Water Park	337,025	337,025	320,012	17,013	295,777
Aquatic facilities	274,596	269,096	202,564	66,532	223,209
Picnic pavilions	22,648	22,648	18,646	4,002	17,695
Gaithersburg Arts Barn	159,687	159,687	142,317	17,370	149,085
Kentlands Mansion	328,944	348,944	344,750	4,194	298,232
Winter Lights	225,745	230,245	228,198	2,047	214,353
Miniature Golf Course	83,529	83,529	71,156	12,373	78,353
Cultural Arts programs	264,182	265,182	263,282	1,900	250,169
Youth services	596,326	586,326	579,361	6,965	506,361
Activities Center at Bohrer Park	404,729	404,729	365,883	38,846	357,540
Food service	5,000	5,000	-	5,000	-
Total parks, recreation and culture	7,515,729	7,535,729	7,016,664	519,065	6,717,551
Community Services and Development					
Senior Program	597,324	597,324	484,033	113,291	589,711
Human Services	1,050,465	1,048,465	908,558	139,907	952,929
Homeless Assistance	344,987	346,987	341,978	5,009	312,004
Total community services and development	1,992,776	1,992,776	1,734,569	258,207	1,854,644
Miscellaneous					
Non-departmental	2,048,315	1,868,315	1,315,345	552,970	1,257,560
Total expenditures and encumbrances - budgetary basis	\$ 31,929,790	\$ 31,929,790	29,393,109	\$ 2,536,681	27,812,611
Adjustments to conform with generally accepted accounting principles			75,673		(140,294)
Total expenditures - GAAP basis			\$ 29,468,782		\$ 27,672,317

CITY OF GAITHERSBURG, MARYLAND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUND
Year Ended June 30, 2006

	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>
ASSETS				
Investments	<u>\$ 72,507</u>	<u>\$ 105,228</u>	<u>\$ (72,507)</u>	<u>\$ 105,228</u>
LIABILITIES				
Deposits	<u>\$ 72,507</u>	<u>\$ 105,228</u>	<u>\$ (72,507)</u>	<u>\$ 105,228</u>

STATISTICAL SECTION

This part of the City of Gaithersburg, Maryland's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<u>Contents</u>	<u>Page(s)</u>
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	60-66
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue sources, the property tax and the room tax.	67-71
Debt Capacity These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	72-73
Economic and Demographic Information These schedules offer economic and demographic indicators to help the reader understand the environment within which the City's financial activities take place.	74-75
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	76-84

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement 34 in 2003 schedules presenting government-wide information include information beginning that year.

CITY OF GAITHERSBURG, MARYLAND
NET ASSETS BY COMPONENT
Last Four Fiscal Years
(accrual basis of accounting)
June 30, 2006

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Governmental Activities				
Invested in Capital Assets	\$ 103,385,743	\$ 105,089,489	\$ 104,360,134	\$ 102,590,615
Unrestricted	<u>49,091,738</u>	<u>41,301,909</u>	<u>39,171,939</u>	<u>37,736,850</u>
<i>Total Governmental Activities Net Assets</i>	<u>\$ 152,477,481</u>	<u>\$ 146,391,398</u>	<u>\$ 143,532,073</u>	<u>\$ 140,327,465</u>

CITY OF GAITHERSBURG, MARYLAND
CHANGES IN NET ASSETS
Last Four Fiscal Years
(accrual basis of accounting)
June 30, 2006

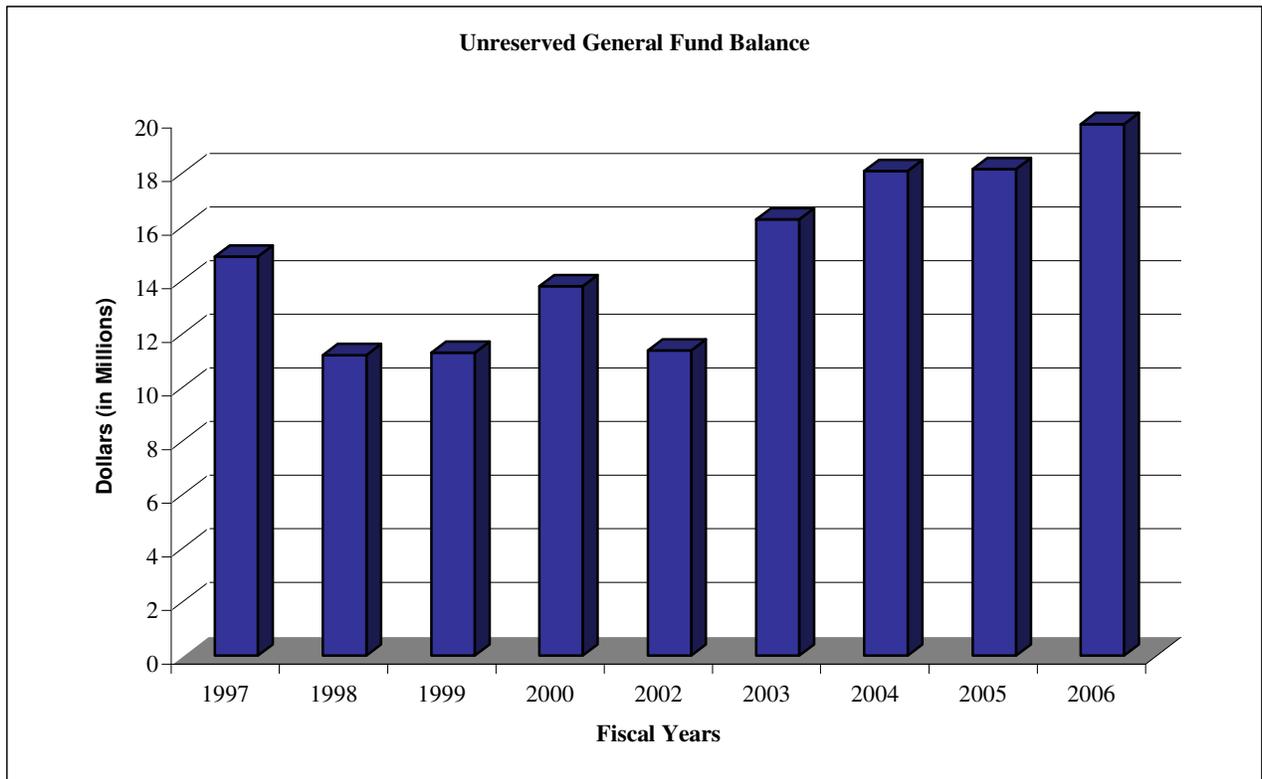
	2006	2005	2004	2003
Expenses				
Governmental Activities:				
General Government	\$ 8,210,925	\$ 6,929,027	\$ 6,978,070	\$ 6,605,324
Public Safety	7,876,021	6,479,474	5,976,365	5,545,727
Public Works	9,412,588	9,237,552	9,222,580	5,946,142
Park, Recreation & Culture	7,940,172	6,858,152	6,591,139	6,332,747
Community Services & Development	1,871,188	1,777,491	1,582,419	1,499,289
Miscellaneous	1,174,091	1,263,435	642,433	1,039,064
<i>Total Governmental Activities Expenses</i>	<u>\$ 36,484,985</u>	<u>\$ 32,545,131</u>	<u>\$ 30,993,006</u>	<u>\$ 26,968,293</u>
Program Revenues				
Governmental Activities:				
Charges for Services:				
General Government	\$ 1,649,170	\$ 2,343,286	\$ 1,880,197	\$ 148,008
Public Safety	782,440	950,677	906,313	110,452
Public Works	1,375,813	999,598	738,210	899,183
Park, Recreation & Culture	2,989,088	2,929,167	2,084,867	2,605,305
Operating Grants and Contributions	1,561,444	938,266	1,103,083	3,766,654
Capital Grants and Contributions	2,386,066	2,789,941	3,794,716	5,485,835
<i>Total Governmental Activities Program Revenues</i>	<u>\$ 10,744,021</u>	<u>\$ 10,950,935</u>	<u>\$ 10,507,386</u>	<u>\$ 13,015,437</u>

CITY OF GAITHERSBURG, MARYLAND
CHANGES IN NET ASSETS
Last Four Fiscal Years
(accrual basis of accounting)
June 30, 2006
(continued)

	2006	2005	2004	2003
Net (Expense)/Revenue				
Governmental Activities	\$ (25,740,964)	\$ (21,594,196)	\$ (19,765,620)	\$ (13,952,856)
<i>Total Government Net Expense</i>	<u>\$ (25,740,964)</u>	<u>\$ (21,594,196)</u>	<u>\$ (19,765,620)</u>	<u>\$ (13,952,856)</u>
General Revenues and Other Changes in Net Assets				
Governmental Activities:				
Property Taxes	\$ 14,114,464	\$ 13,310,028	\$ 12,538,737	\$ 11,151,698
Franchise Fees	483,125	444,881	440,892	380,807
Admissions and Amusement Tax	1,165,087	1,008,836	887,000	672,731
Intergovernmental not Restricted to Specific Programs	8,779,326	8,008,710	7,900,819	7,413,523
Investment Earnings	1,925,574	870,163	424,765	527,717
Gain (loss) on Sale of Capital Assets	1,860,248	-	-	-
Miscellaneous	853,929	810,903	778,015	1,105,466
<i>Total Governmental Activities</i>	<u>\$ 29,181,753</u>	<u>\$ 24,453,521</u>	<u>\$ 22,970,228</u>	<u>\$ 21,251,942</u>
<i>Total Government Change in Net Assets</i>	<u>\$ 3,440,789</u>	<u>\$ 2,859,325</u>	<u>\$ 3,204,608</u>	<u>\$ 7,299,086</u>

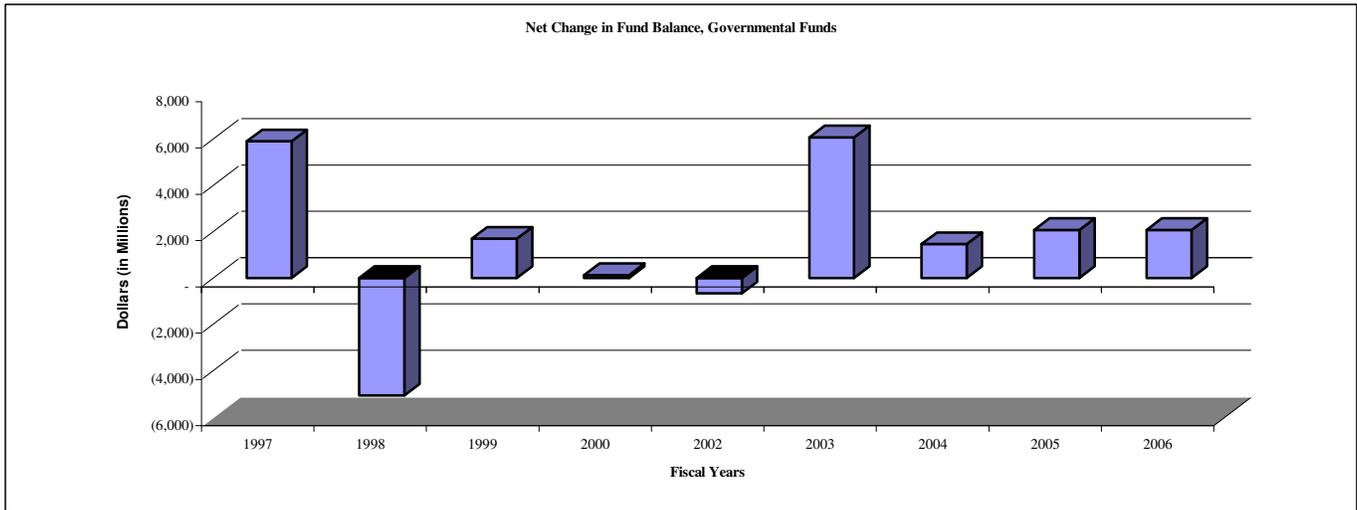
CITY OF GAITHERSBURG, MARYLAND
FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)
June 30, 2006

	2006	2005	2004	2003
General Fund				
Reserved for Encumbrances and Other	\$ 12,437,949	\$ 12,934,815	\$ 10,068,026	\$ 9,544,154
Unreserved	19,827,024	18,148,339	18,076,256	16,271,512
<i>Total General Fund</i>	<u>\$ 32,264,973</u>	<u>\$ 31,083,154</u>	<u>\$ 28,144,282</u>	<u>\$ 25,815,666</u>
Capital Projects Fund				
Reserved for Encumbrances	\$ 1,686,943	\$ 3,375,847	\$ 4,592,300	\$ 3,937,907
Designated	13,255,730	7,741,939	7,383,977	8,899,014
<i>Total Capital Projects Fund</i>	<u>14,942,673</u>	<u>11,117,786</u>	<u>11,976,277</u>	<u>12,836,921</u>
<i>Total Governmental Funds</i>	<u>\$ 47,207,646</u>	<u>\$ 42,200,940</u>	<u>\$ 40,120,559</u>	<u>\$ 38,652,587</u>
Unreserved General Fund Balance as a Percentage of Expenditures	67.3%	65.6%	69.5%	65.9%



CITY OF GAITHERSBURG, MARYLAND
FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)
June 30, 2006

	2002	2001	2000	1999	1998	1997
General Fund						
Reserved for Encumbrances and Other	\$ 8,806,011	\$ 9,330,420	\$ 7,562,679	\$ 8,321,254	\$ 12,268,423	\$ 7,452,072
Unreserved	<u>11,385,958</u>	<u>11,708,168</u>	<u>13,780,144</u>	<u>10,299,483</u>	<u>11,211,868</u>	<u>14,886,160</u>
Total General Fund	<u>\$ 20,191,969</u>	<u>\$ 21,038,588</u>	<u>\$ 21,342,823</u>	<u>\$ 18,620,737</u>	<u>\$ 23,480,291</u>	<u>\$ 22,338,232</u>
Capital Projects Fund						
Reserved for Encumbrances	\$ 2,509,092	\$ 4,573,523	\$ 5,302,410	\$ 1,217,130	\$ 2,537,564	\$ 5,647,306
Designated	<u>9,868,484</u>	<u>7,621,150</u>	<u>7,064,519</u>	<u>13,748,475</u>	<u>5,869,666</u>	<u>8,975,380</u>
Total Capital Projects Fund	<u>12,377,576</u>	<u>12,194,673</u>	<u>12,366,929</u>	<u>14,965,605</u>	<u>8,407,230</u>	<u>14,622,686</u>
Total Governmental Funds	<u>\$ 32,569,545</u>	<u>\$ 33,233,261</u>	<u>\$ 33,709,752</u>	<u>\$ 33,586,342</u>	<u>\$ 31,887,521</u>	<u>\$ 36,960,918</u>
 Unreserved General Fund Balance as a Percentage of Expenditures	43.7%	52.7%	64.2%	49.8%	61.1%	91.6%



See pages 65-66 for additional information on change in fund balance.

CITY OF GAITHERSBURG, MARYLAND
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)
June 30, 2006

	2006	2005	2004	2003	2002
Revenues					
Taxes and special assessments	\$ 15,329,572	\$ 14,288,983	\$ 13,497,432	\$ 12,299,149	\$ 11,044,580
Licenses and Permits	2,839,355	3,546,026	2,846,186	2,393,830	3,342,405
Intergovernment	12,376,203	11,736,917	10,618,001	14,652,989	9,949,156
Charges for Services	4,255,294	3,851,601	3,653,432	3,664,998	3,457,067
Fines and Forfeitures	184,987	269,982	270,861	97,950	197,949
Investment earnings	1,925,574	870,163	424,765	527,717	831,396
Miscellaneous	853,929	810,903	2,958,632	1,105,466	397,026
<i>Total Revenues</i>	<u>\$ 37,764,914</u>	<u>\$ 35,374,575</u>	<u>\$ 34,269,309</u>	<u>\$ 34,742,099</u>	<u>\$ 29,219,579</u>
Expenditures					
Current:					
General Government	\$ 6,778,533	\$ 6,272,714	\$ 6,111,467	\$ 5,780,224	\$ 5,530,902
Public Safety	7,163,130	6,573,228	6,201,423	5,584,233	5,090,247
Public Works	5,492,217	5,051,478	5,059,108	4,777,453	4,149,430
Parks, Recreation and Culture	7,006,072	6,713,263	6,384,575	6,023,875	9,122,557
Community Services and Development	* 1,860,500	1,777,491	1,582,419	1,487,092	-
Miscellaneous	1,168,330	1,283,143	681,245	1,039,064	2,191,188
Capital Outlay	5,401,735	6,049,046	6,796,200	3,985,566	7,846,247
<i>Total Expenditures</i>	<u>\$ 34,870,517</u>	<u>\$ 33,720,363</u>	<u>\$ 32,816,437</u>	<u>\$ 28,677,507</u>	<u>\$ 33,930,571</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>\$ 2,894,397</u>	<u>\$ 1,654,212</u>	<u>\$ 1,452,872</u>	<u>\$ 6,064,592</u>	<u>\$ (4,710,992)</u>
Other Financing Sources (Used)					
Sales of fixed assets	\$ 2,112,309	\$ 426,169	\$ 15,100	\$ 18,450	\$ 4,047,276
Transfers In	\$9,226,622	5,190,555	3,920,537	4,444,911	8,029,150
Transfers out	(\$9,226,622)	(5,190,555)	(3,920,537)	(4,444,911)	(8,029,150)
<i>Total Other Financing Sources (Uses)</i>	<u>\$ 2,112,309</u>	<u>\$ 426,169</u>	<u>\$ 15,100</u>	<u>\$ 18,450</u>	<u>\$ 4,047,276</u>
Adjustments to Reclassify Liabilities	-	-	-	-	-
<i>Net Change in Fund Balances</i>	<u>\$ 5,006,706</u>	<u>\$ 2,080,381</u>	<u>\$ 1,467,972</u>	<u>\$ 6,083,042</u>	<u>\$ (663,716)</u>

* Fiscal Year 2003 is the first year of required GASB 34 compliance, whereby the reporting of expenditures was expanded to include Community Services and Development.

CITY OF GAITHERSBURG, MARYLAND
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)
June 30, 2006

	2001	2000	1999	1998	1997
Revenues					
Taxes and special assessments	\$ 10,338,771	\$ 9,520,070	\$ 9,108,112	\$ 7,116,675	\$ 11,269,738
Licenses and Permits	3,231,719	2,766,428	3,185,504	3,009,671	1,750,621
Intergovernment	11,985,809	15,186,630	10,115,907	8,498,656	6,508,032
Charges for Services	3,039,498	3,399,369	3,199,280	2,718,361	2,410,018
Fines and Forfeitures	204,358	119,043	138,741	56,713	80,409
Investment earnings	1,837,086	1,864,106	1,382,239	1,761,211	1,828,338
Miscellaneous	549,331	122,009	1,173,084	302,533	669,390
<i>Total Revenues</i>	<u>\$ 31,186,572</u>	<u>\$ 32,977,655</u>	<u>\$ 28,302,867</u>	<u>\$ 23,463,820</u>	<u>\$ 24,516,546</u>
Expenditures					
Current:					
General Government	\$ 5,683,711	\$ 5,440,656	\$ 5,015,200	\$ 4,125,128	\$ 3,331,630
Public Safety	4,944,825	4,626,937	4,307,106	3,869,850	3,418,972
Public Works	3,869,722	3,791,244	3,566,936	3,082,390	2,674,413
Parks, Recreation and Culture	5,719,980	5,583,393	5,397,229	5,292,607	4,738,140
Community Services and Development	* -	-	-	-	-
Miscellaneous	2,013,389	2,036,339	2,415,750	1,973,312	2,090,056
Capital Outlay	8,806,856	11,375,676	5,901,825	10,193,930	2,425,735
<i>Total Expenditures</i>	<u>\$ 31,038,483</u>	<u>\$ 32,854,245</u>	<u>\$ 26,604,046</u>	<u>\$ 28,537,217</u>	<u>\$ 18,678,946</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>\$ 148,089</u>	<u>\$ 123,410</u>	<u>\$ 1,698,821</u>	<u>\$ (5,073,397)</u>	<u>\$ 5,837,600</u>
Other Financing Sources (Used)					
Sales of fixed assets	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers In	8,634,600	8,777,000	12,460,200	3,974,000	3,868,046
Transfers out	(8,634,600)	(8,777,000)	(12,460,200)	(3,974,000)	(3,868,046)
<i>Total Other Financing Sources (Uses)</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Adjustments to Reclassify Liabilities	-	-	-	-	70,903
<i>Net Change in Fund Balances</i>	<u>\$ 148,089</u>	<u>\$ 123,410</u>	<u>\$ 1,698,821</u>	<u>\$ (5,073,397)</u>	<u>\$ 5,908,503</u>

CITY OF GAITHERSBURG, MARYLAND
TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)
June 30, 2006

Year	Property Taxes	Amusement Taxes *	Income Taxes	Total
2006	\$ 14,183,160	\$ 1,165,087	\$ 7,305,720	\$ 22,653,967
2005	13,227,493	1,008,836	6,958,212	21,194,541
2004	12,539,373	887,000	6,732,747	20,159,120
2003	11,564,983	672,731	6,484,421	18,722,135
2002	10,281,266	710,998	6,330,861	17,323,125
2001	9,718,500	545,637	7,016,500	17,280,637
2000	8,941,380	528,879	7,437,894	16,908,153
1999	8,461,754	620,399	4,739,044	13,821,197
1998	6,406,637	643,953	4,557,834	11,608,424
1997	10,551,130	666,474	4,165,365	15,382,969
Change 1997-2006	34.4%	74.8%	75.4%	47.3%

CITY OF GAITHERSBURG, MARYLAND
ASSESSED VALUATION AND ESTIMATED ACTUAL VALUES OF TAXABLE PROPERTY
Last Ten Fiscal Years
June 30, 2006

Year	Real Property	Personal Property	Corporate Personal Property	Total	Estimated Actual Values of Taxable Property	Percentage of Change from Prior Year
2006	\$ 7,010,239,417	\$ 2,951,000	\$ 224,084,580	\$ 7,237,274,997	\$ 7,237,274,997	8.6%
2005	6,435,021,700	3,139,070	225,612,110	6,663,772,880	6,663,772,880	23.7%
2004	5,005,439,589	4,090,190	221,531,600	5,231,061,379	5,388,270,239	11.2%
2003	4,464,294,558	3,791,490	225,771,450	4,693,857,498	4,844,344,068	5.2%
2002	4,288,476,868	3,924,140	239,989,990	4,532,390,998	4,602,994,028	7.6%
2001	1,619,152,641	4,172,590	227,587,400	1,850,912,631	4,279,641,593	1.2%
2000	1,608,896,520	5,765,830	198,864,170	1,813,526,520	4,226,871,300	5.4%
1999	1,513,122,510	6,439,580	221,482,870	1,741,044,960	4,010,728,725	11.8%
1998	1,349,941,261	5,930,100	207,487,360	1,563,358,721	3,588,270,613	-0.7%
1997	1,365,564,080	5,420,112	193,585,707	1,564,569,899	3,612,916,019	12.2%

* Fiscal Year 2002 is the first year that all real property in the State of Maryland is assessed at 100 percent of actual values instead of the previous 40 percent assessment method.
All Personal Property has always been valued at 100 percent of actual value.

CITY OF GAITHERSBURG, MARYLAND
ASSESSED VALUATION AND ESTIMATED ACTUAL VALUES OF TAXABLE PROPERTY
Last Ten Fiscal Years
June 30, 2006

<u>Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Current Tax Collections To Tax Levy</u>	<u>Delinquent Tax Collections</u>	<u>#</u>	<u>Total Tax Collections*</u>	<u>#</u>	<u>Percent of Total Tax Collections To Tax Levy</u>	<u>%</u>
2006	\$ 14,507,688	\$ 14,275,316	98.40	%	\$ (92,156)	\$ 14,183,160		97.76	%
2005	13,642,246	13,311,314	97.67	(1,286)		13,310,028		97.56	
2004	12,640,534	12,533,437	99.15	114,394		12,647,831		100.06	
2003	11,478,573	11,351,057	98.89	22,345		11,373,402		99.08	
2002	10,951,176	10,547,730	96.32	(32,447)		10,515,283		96.02	
2001	10,237,743	9,891,868	96.62	74,617		9,966,485		97.35	
2000	9,239,261	9,053,770	97.99	(297,881)		8,755,889		94.77	
1999	8,395,483	7,775,006	92.61	7,509		7,482,515		89.13	
1998	8,588,136	8,239,922	95.94	(1,818,284)	*	6,421,638		74.77	
1997	8,727,250	8,726,711	100.00	417,432		9,144,143		104.78	

* "Total Tax Levy" and "Current Tax Collections" represent the Original tax levy, less real property tax credits for State of Maryland Homeowners Tax Credit program.

CITY OF GAITHERSBURG, MARYLAND
PRINCIPAL TAXPAYERS
Current Fiscal Year and Nine Years Ago
June 30, 2006

Taxpayer	2006	
	Property Assessed Valuation (1)	Percentage of Total Assessed Valuation
ARE LLC	\$ 158,965,095	2.47 %
Asbury Methodist Home, Inc.	134,764,191	2.09
Lake Forest Associates	128,852,466	2.00
Medimmune, Inc	87,972,166	1.37
Saul Holdings LTD Partnership	73,387,965	1.14
Federal Realty Investment Trust	67,623,332	1.05
CHI Two Washingtonian LLC	66,695,766	1.04
893 Clopper Road Investors	65,358,765	1.02
9801 Washington Office, Inc	60,232,366	0.94
SFHI LLC	57,475,600	0.89
	<u>\$ 901,327,712</u>	<u>12.86 %</u>
<i>Total Assessed Valuation</i>	<u>\$ 7,010,239,417</u>	

Taxpayer	1997	
	Property Assessed Valuation (1)	Percentage of Total Assessed Valuation
Lake Forest Associates	\$ 50,096,840	3.67 %
IBM Corporation	29,634,717	2.17
Loral Federal Systems Co.	27,046,792	1.98
AETNA Life Insurance	19,976,290	1.46
Gaithersburg Assoc. Ltd. Partnership	17,391,908	1.27
Asbury Methodist Home	16,369,812	1.20
Federal Realty Investment Trust	16,166,226	1.18
Great Seneca Development Corp.	15,398,302	1.13
Kentlands Limited Partnership	14,946,227	1.09
Saul Holdings LTD Partnership	12,439,530	0.91
	<u>\$ 219,466,644</u>	<u>16.07 %</u>
<i>Total Assessed Valuation</i>	<u>\$ 1,365,564,080</u>	

(1) Assessed valuation based on the valuation of property for taxes collected in 2006 and 1997 respectively, and a review of the 10 largest taxpayers for the City.

Source: City of Gaithersburg Finance Department

CITY OF GAITHERSBURG, MARYLAND
REAL PROPERTY TAX RATES – DIRECT AND OVERLAPPING GOVERNMENTS
(Per \$100 of Assessed Valuation*)
Last Ten Fiscal Years
June 30, 2006

Year	Direct Rate		Overlapping Rates			Total
	City of Gaithersburg	Montgomery County	State of Maryland	Service Areas & Transit		
2006	\$ 0.212	\$ 0.679	\$ 0.132	\$ 0.177	\$ 1.200	
2005	0.212	0.734	0.132	0.167	1.245	
2004	0.212	0.751	0.132	0.125	1.220	
2003	0.212	0.754	0.132	0.125	1.223	
2002	* 0.212	0.741	0.084	0.141	1.178	
2001	0.530	1.857	0.084	0.323	2.794	
2000	0.530	1.863	0.210	0.321	2.924	
1999	0.530	1.923	0.210	0.320	2.983	
1998	0.530	1.962	0.210	0.309	3.011	
1997	0.530	1.990	0.210	0.299	3.029	

- NOTES:
- Taxes are levied as of July 1, are due by September 30, and become delinquent the following October 1.
 - Unless homeowners elect to pay their real property taxes annually, taxes are paid on a semi-annual basis with payments due by September 30 and December 31.
 - Interest and penalty at 20 percent are assessed on delinquent tax bills.

Source: City of Gaithersburg, Maryland Department of Finance & Administration, State Department of Assessments and Taxation, and Montgomery County Department of Finance.

* 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.

**CITY OF GAITHERSBURG, MARYLAND
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
June 30, 2006**

Jurisdiction	Total Debt Outstanding	Percentage Applicable to City (1)	Amount Applicable to City of Gaithersburg
Direct			
City of Gaithersburg	\$ 0	0.0%	\$ 0
Overlapping			
Montgomery County	1,795,144,872	0.0%	0
Total Direct and Overlapping Debt	\$ 1,795,144,872	0.0%	\$ 0

Source: Montgomery County Department of Financa

**CITY OF GAITHERSBURG, MARYLAND
COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2006**

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

CITY OF GAITHERSBURG, MARYLAND
DEMOGRAPHIC STATISTICS
Last Ten Fiscal Years
June 30, 2006

Year	(1) Population	(2) Per Capita Income	(2) Montgomery County Personal Income	Median Age	(3) Montgomery County Avg. School Enrollment	(4) Montgomery County Unemployment Rate	%
2006	59,282	\$ 61,805	58,900,000	N/A	139,387	2.8	
2005	58,459	59,236	55,800,000	N/A	139,337	3.1	
2004	56,141	56,662	52,221,138	N/A	139,203	3.1	
2003	55,912	53,260	48,789,893	N/A	138,891	2.6	
2002	54,018	51,873	47,041,902	N/A	136,832	3.5	
2001	53,972	50,941	45,537,627	N/A	134,180	3.1	
2000	* 52,613	49,599	43,575,224	33.6	130,689	2.6	
1999	49,819	45,283	39,049,711	N/A	127,852	1.9	
1998	49,500	43,165	36,586,455	N/A	125,035	2.2	
1997	49,126	40,001	33,418,247	35.9	122,505	2.4	

Source:

- (1) City of Gaithersburg, Department of Planning & Code Administration
- (2) Bureau of Economic Analysis (BEA), U. S. Department of Commerce
- (3) Office of Management and Budget, Montgomery County Government
- (4) Montgomery County Department of Finance

N/A Not Available

* U.S. Census Bureau

CITY OF GAITHERSBURG, MARYLAND
PRINCIPAL EMPLOYERS
Current Fiscal Year
Number of employees for quarter ending June 30, 2006

2006		
Employer	Employees	Percentage of Total City Employment
National Institute of Standards and Technology	2,100	1.88 %
IBM	1,100	0.98
MedImmune	1,000	0.90
Sodexo USA	1,000	0.89
Asbury Methodist Village	867	0.77
The Gazette Newspaper	428	0.38
Gene Logic	362	0.32
Broadsoft, Inc.	200	0.18
Digene	280	0.25
Airline Foods	187	0.17
Total	7,524	6.72 %
Total Montgomery County Employees	111,967	

(Data for total employees available for county only)

Source: City of Gaithersburg Department of Economic and Community Development & Department of Finance and Administration. Amounts are estimates generated from correspondence with the companies. Data for 1997 is unavailable.

CITY OF GAITHERSBURG, MARYLAND
FULL-TIME CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
Last Ten Fiscal Years
June 30, 2006

<u>Function/Program</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
General Government:					
Mayor and City Council	1	1	1	1	1
Legal Services	-	-	-	-	-
Registrations & Elections	-	-	-	-	-
Office of the City Manger	6	6	7	6	6
Economic & Community Development	2	2.5	2	2	2
Environmental Affairs	2	1.5	-	-	-
Human Resources	4	3	3	3	3
Finance & Administration	6	6	6	6	6
Information Technology	5	5	4	4	5
Facilities Management	5	5	4	5	5
Buildings and Grounds	2	2	2	2	2
General Services	-	-	-	-	-
Public Information	4	4	4	4	4
Cable Television Channel 13	2	3	3	3	3
Planning	12	11	11	11	12
Public Safety					
Police Services	47	45	41	39	39
Code Administration	15	17	17	17	17
Traffic Engineering	2	2	2	2	2
Animal Control	4	4	4	4	4
Public Works					
Public Works Administration	5	5	6	6	6
Streets & Special Projects	9	7	6	6	7
Fleet Maintenance	5	5	5	5	5
Landscaping & Forestry	11	11	11	11	10
Mowing & Bulk Pick-Up	18	18	17	17	18
Recycling	-	-	-	-	-
Engineering Services	1	1	1	1	1
Street Lighting	-	-	-	-	-
Parks, Recreation & Culture					
Parks, Recreation & Culture	5	5	7	7	6
Parks Maintenance Division	17	16	16	14	13
Recreation Programs & Sports	5	4	4	4	5
Recreation Classes	1	1	1	1	1
Youth Services	4	4	4	4	4
Summer Programs	-	-	-	-	-
Gaithersburg Youth Center	-	1	-	-	-
Olde Towne Youth Center	1	-	-	-	-
Casey Community Center	2	2	2	2	2
Water Park	1	1	1	1	1
Gaithersburg Arts Barn	0.5	0.5	0.5	1.5	1
Kentlands Mansion	1.5	1.5	1.5	1.5	1
Cultural Arts Programs	1	1	1	1	1
Special Events	4	4	4	4	2
Gaithersburg Aquatic Center	1	1	1	1	1
Picnic Pavilions	-	-	-	-	-
Winter Lights	1	1	1	1	1
Miniature Golf Course	-	-	-	-	-
Activity Center	4	4	2	2	3
Skate Park	-	-	-	-	-
Food Service	-	-	-	-	-
Community Services and Development					
Seniors Program	5	4	4	4	4
Human Services	3	3	2	2	2
Homeless Assistance	3	2	2	2	2
Full-Time Employee Totals:	228.0	221.0	211.0	208.0	208.0
Employment Agreement Employee Totals:	17.6	18.7	19.6	16.6	19.1
Part-Time Employee Totals:	113.4	108.6	105.3	102.2	110.6
Total Employees	359.0	348.3	335.9	326.8	337.7

Source: City of Gaithersburg, Maryland 1997-2006 Adopted Budgets
Method: Using 1.0 for each full-time employee (FTE).

CITY OF GAITHERSBURG, MARYLAND
FULL-TIME CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
Last Ten Fiscal Years
June 30, 2006
(continued)

<u>Function/Program</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
General Government:					
Mayor and City Council	1	1	1	2	2
Legal Services	-	-	-	-	-
Registrations & Elections	-	-	-	-	-
Office of the City Manger	6	8	7	7	8
Economic & Community Development	2	2.0	2	1	-
Environmental Affairs	-	-	-	-	-
Human Resources	3	2	2	1	1
Finance & Administration	6	5	6	6	5
Information Technology	4	4	4	4	3
Facilities Management	5	5	5	3	2
Buildings and Grounds	2	2	2	2	-
General Services	-	-	-	-	-
Public Information	4	4	4	2	2
Cable Television Channel 13	2	2	2	2	1
Planning	12	12	11	11	11
Public Safety					
Police Services	39	39	37	34	33
Code Administration	17	18	17	17	17
Traffic Engineering	2	2	2	2	2
Animal Control	3	3	3	2	2
Public Works					
Public Works Administration	6	5	5	4	4
Streets & Special Projects	8	8	8	8	12
Fleet Maintenance	5	5	5	5	3
Landscaping & Forestry	10	9	9	9	5
Mowing & Bulk Pick-Up	16	16	16	16	12
Recycling	2	2	2	2	2
Engineering Services	1	1	1	1	1
Street Lighting	-	-	-	-	-
Parks, Recreation & Culture					
Parks, Recreation & Culture	6	7	7	3	3
Parks Maintenance Division	12	12	11	11	15
Recreation Programs & Sports	5	5	5	12	11
Recreation Classes	1	1	1	-	-
Youth Services	3	3	3	-	-
Summer Programs	-	-	-	-	-
Gaithersburg Youth Center	-	-	-	-	-
Olde Towne Youth Center	-	-	-	1	1
Casey Community Center	2	2	2	2	4
Water Park	1	1	1	1	3
Gaithersburg Arts Barn	1	-	-	-	-
Kentlands Mansion	1.0	1.0	1.0	1.0	1
Cultural Arts Programs	1.0	1.0	1.0	1.0	1
Special Events	2	2	2	-	-
Gaithersburg Aquatic Center	1	1	1	-	-
Picnic Pavilions	-	-	-	-	-
Winter Lights	1	1	1	-	-
Miniature Golf Course	-	-	-	-	-
Activity Center	3	3	3	2	-
Skate Park	-	-	-	-	-
Food Service	-	-	-	-	-
Community Services and Development					
Seniors Program	4	3	3	2.0	2.0
Human Services	2	2	2	2	2
Homeless Assistance	2	2	2	2	2
Full-Time Employee Totals:	204	202	197	181	173
Employment Agreement Employee Totals:	23.3	21.3	25.0	-	-
Part-Time Employee Totals:	119.5	114.4	137.1	123.1	114.3
Total Employees	346.8	337.7	359.1	304.1	287.3

Source: City of Gaithersburg, Maryland 1997-2006 Adopted Budgets
Method: Using 1.0 for each full-time employee (FTE).

CITY OF GAITHERSBURG, MARYLAND
OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years
June 30, 2006

Function/Program	2006	2005	2004	2003	2002
General Information					
Population	\$ 59,282	\$ 58,459	\$ 56,141	\$ 55,912	\$ 54,018
Registered Voters	25,936	25,936	25,936	25,936	24,631
General Government					
Commercial Constructions Permits Issued	9	17	11	13	27
Residential Construction Permits Issued	134	94	77	273	544
Estimated Value of Construction	40,815,382	74,313,532	25,020,215	38,415,978	110,686,357
Transitional Housing to Permanent Housing	8	6	8	9	10
Public Safety					
Police Officers	45	43	39	36	36
Traffic Citations	7,818	7,066	4,699	8,733	8,033
Calls for Service	17,844	30,995	28,643	24,431	25,145
Fire Marshall	1	1	1	1	1
Animal Control Officers	3	3	3	3	3
Fire Marshall Inspections	1,527	1,302	2,118	2,313	2,222
Animal Licenses	2,454	2,472	2,624	2,498	2,249
Solid Waste					
Co-Mingled (tons)	804	972	745	831	699
Newspaper (tons)	1,407	2,013	1,812	1,873	1,525
Yard Waste (tons)	902	967	1,322	888	543

CITY OF GAITHERSBURG, MARYLAND
OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years
June 30, 2006
(continued)

2001	2000	1999	1998	1997
\$ 53,972	\$ 52,613	\$ 49,819	\$ 49,500	\$ 49,126
24,631	24,631	20,766	20,341	21,495
33	23	24	26	16
389	466	387	145	194
80,143,840	94,577,424	112,301,719	93,444,803	67,810,554
7	6	10	8	8
36	36	34	32	31
9,367	5,994	5,017	4,429	3,549
23,311	22,550	21,000	21,960	22,501
1	1	1	1	1
3	3	2	2	2
2,546	2,424	2,552	1,110	438
2,164	2,132	1,761	2,349	2,073
667	656	673	706	718
1,561	1,677	1,616	1,257	1,333
497	438	422	414	305

**CITY OF GAITHERSBURG, MARYLAND
 COMBINED SCHEDULE OF CASH AND INVESTMENTS -
 BY FINANCIAL INSTITUTIONS
 June 30, 2006**

<u>Description</u>	<u>Total</u>
Bank of America	\$325,773
Sandy Spring Bank	\$56,758
Mercantile Potomac Bank	\$65,994
Mercantile Potomac Bank Certificate of Deposit	\$281,242
Total Financial Institutions	<u>\$729,767</u>
Petty Cash, Change Funds, Trust Funds and Safe Deposit Escrow:	
General Fund	\$17,246
Pension Trust Fund	\$30,917,091
Private-Purpose Trust Fund	\$12,205
Total Petty Cash, Change Funds, and Safe Deposit Escrow	<u>\$30,946,542</u>
Total Cash Deposits in Financial Institutions and on Hand	<u>\$31,676,309</u>
Investments, State Treasurer's Investment Pool	\$28,350,493
Montgomery County's General Investment Fund	\$18,552,203
Total Investments	<u>\$46,902,696</u>
Total Cash and Investments	<u><u>\$78,579,005</u></u>

CITY OF GAITHERSBURG, MARYLAND
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Fiscal Years
June 30, 2006

Function/Program	2006	2005	2004	2003	2002
General Information					
Area in Square Miles	10.04	10.04	10.01	10.01	10.01
Public Safety - Police					
Stations	1	1	1	1	1
Number of Patrol Units	57	50	47	47	34
Highways and Streets					
City Streets (miles)	87.95	88.24	87.61	84.92	82.17
County Streets (miles)	5.75	5.34	5.34	5.32	5.25
State Streets (miles)	17.54	17.54	17.54	17.61	19.01
Private Streets (miles)	3.98	4.28	4.93	4.93	4.93
Street Lights	3,550	3,350	3,150	2,950	2,775
Recreation and Culture					
Park Acreage	853.48	853.48	853.48	853.48	853.48
Parks	25	25	24	23	22
Museums	1	1	1	-	-
Performance Pavilions	1	1	1	1	-
Skate Parks	1	1	1	1	-
Swimming Pools	2	2	2	2	2
Miniature Golf	1	1	1	1	1
Community Centers	5	4	4	4	4
Performance Arts	1	1	1	1	-
Tennis Courts	12	12	12	12	12

CITY OF GAITHERSBURG, MARYLAND
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Fiscal Years
June 30, 2006
(continued)

2001	2000	1999	1998	1997
10.01	10.01	9.99	9.99	9.99
1	1	1	1	1
47	45	41	37	35
87.61	77.58	77.09	71.88	71.88
5.32	5.70	5.70	6.65	6.65
17.54	14.15	13.91	14.83	14.83
4.93	1.06	1.06	1.06	1.06
2,500	2,430	2,250	1,850	1,702
777.71	743.73	716.30	716.30	716.30
21	21	21	21	21
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
2	2	2	2	2
1	1	1	1	1
4	4	4	4	4
-	-	-	-	-
12	12	12	12	12

CITY OF GAITHERSBURG, MARYLAND
SCHEDULE OF CUMULATIVE APPROPRIATIONS, EXPENDITURES,
AND ENCUMBRANCES – CAPITAL PROJECTS
From Project Inception Through June 30, 2006

Project Number	Project Name	Cumulative Appropriation	Cumulative Expenditures Plus Encumbrances	Variance Positive (Negative)
CITY FACILITY:				
70-2	City Hall	\$ 4,018,852	\$ 4,012,886	\$ 5,966
72-2	Public Service Facility	3,278,894	3,158,527	120,367
86-3	Latitude Observatory	362,168	187,659	174,509
91-5	Gaithersburg Arts Barn	2,742,989	2,717,054	25,935
92-1	Americans With Disabilities Act	478,000	439,777	38,223
93-1	Technology Projects	2,043,000	1,715,171	327,829
98-1	Facilities Projects	1,120,300	1,105,253	15,047
01-1	Wells/Robertson House Addition	305,959	305,959	-
01-2	Kentlands Mansion	192,600	191,737	863
02-1	Kentlands Firehouse	20,000	-	20,000
Total City Facility		14,562,762	13,834,023	728,739
COMMUNITY ENHANCEMENT				
71-2	Street Lighting	1,711,406	1,470,094	241,312
79-5	Olde Towne Revitalization	3,455,339	3,014,393	440,946
81-4	Property Acquisition and Disposition	16,592,161	16,465,193	126,968
82-3	Landscape Improvement	1,279,233	1,162,821	116,412
86-2	Community Development Black Grant Projects	3,258,651	3,258,651	-
94-1	North Summit Avenue/Park Avenue Redevelopment	18,415	18,415	-
99-4	Olde Towne Park Bell Tower	685,000	274,236	410,764
99-6	Neighborhood Amenities Program	455,000	432,220	22,780
00-1	West Diamond Avenue Sector Program	13,395,000	12,817,127	577,873
02-4	Historic District Improvements	356,585	274,226	82,359
04-1	Community Development Block Grant - HUD	1,047,150	585,850	461,300
00-0	Contingency and Future Projects	2,752,963	1,895,121	857,842
Total Community Enhancement		45,006,903	41,668,347	3,338,556
TRANSPORTATION/ENVIRONMENT				
79-3	Sidewalks, Handicapped Ramps & Bike Pathways	1,642,750	1,381,924	260,826
82-1	Stormwater Management and Storm Drainage	6,473,308	5,944,045	529,263
83-1	Street Resurfacing	12,990,000	12,586,565	403,435
91-3	Street Reconstruction	1,899,609	1,824,275	75,334
92-2	Traffic Calming and Signalization	1,122,536	1,043,457	79,079
98-7	Transit Enhancements	173,800	139,308	34,492
99-1	North Frederick Avenue Corridor Plan Implementation	295,000	125,457	169,543
99-2	City Entrance Featured and Signs	56,013	56,013	-
Total Transportation/Environment		24,653,016	23,101,044	1,551,972

CITY OF GAITHERSBURG, MARYLAND
SCHEDULE OF CUMULATIVE APPROPRIATIONS, EXPENDITURES,
AND ENCUMBRANCES – CAPITAL PROJECTS
From Project Inception Through June 30, 2006
(Continued)

Project Number	Project Name	Cumulative Appropriation	Cumulative Expenditures Plus Encumbrances	Variance Positive (Negative)
RECREATION/LEISURE				
83-2	Bohrer Park at Summit Hall Farm	\$ 12,101,514	\$ 11,898,650	\$ 202,864
85-3	Blohm Park	424,738	424,738	-
87-3	Recreation Courts Renovation	584,000	574,003	9,997
93-2	Ballfield Projects	464,314	401,639	62,675
97-2	Victory Farm Park	36,605	36,605	-
98-2	Winter Lights	193,555	129,585	63,970
98-3	Lakelands Park	2,875,985	2,821,911	54,074
98-4	Art In Public Places	341,509	283,193	58,316
98-5	Gaithersburg Aquatic Center	99,617	94,206	5,411
99-7	School Playground Match Program	60,000	40,000	20,000
00-2	Casey Community Center Renovations	524,861	486,778	38,083
00-3	Gaithersburg Youth Center At Robertson Park	2,129,135	2,087,054	42,081
00-4	Renovation/Improvements Of Existing Parks	270,000	239,625	30,375
00-5	Skate Park	142,054	142,054	-
01-3	Malcolm King Park Improvements	311,750	114,188	197,562
02-2	Parks and Facility Signage	81,388	72,860	8,528
02-3	Youth Center in Olde Towne	146,685	146,685	-
03-1	Gaithersburg Aquatic/Recreation Center	5,638,442	14,923	5,623,519
06-1	Gaithersburg Youth Center in Olde Towne	2,300,000	33,532	2,266,468
06-2	Market Square Park Plaza	250,000	68,534	181,466
06-3	Gaithersburg UpCounty Senior Center	500,000	41,983	458,017
Total Recreation/Leisure		<u>29,476,152</u>	<u>20,152,746</u>	<u>9,323,406</u>
Grand Total		<u>\$ 113,698,833</u>	<u>\$ 98,756,160</u>	<u>\$ 14,942,673</u>

**Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on 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 governmental activities, each major fund and the aggregate remaining fund information of the City of Gaithersburg, Maryland (the City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 12, 2006. 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 opinion on the financial statements and not to provide an opinion 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 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. We noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated September 12, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, 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, City Council, the City's management and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gundersen LLP

Baltimore, Maryland
September 12, 2006



Gaithersburg
A CHARACTER COUNTS! CITY

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