



*City of
Gaithersburg, Maryland*

Comprehensive Annual Financial Report

For the Fiscal Year Ended
June 30, 2007

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, 2007

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DIRECTOR OF FINANCE AND ADMINISTRATION
Harold W. Belton, CGFM

INDEPENDENT AUDITORS
Clifton Gunderson LLP

CITY OF GAITHERSBURG, MARYLAND
COMPREHENSIVE ANNUAL FINANCIAL
REPORT

Fiscal Year 2007
July 1, 2006 – June 30, 2007

Prepared by:

DIRECTOR OF FINANCE AND ADMINISTRATION
Harold W. Belton, CGFM

DEPARTMENT OF FINANCE AND ADMINISTRATION
Accounting Division

Tina Smith, CPA, Comptroller
Angela Woo, CPA, Chief Accountant
Sherry Lewis, Accounting Technician
Wesley Rhodes, Accounting Specialist
Denise Gantz, Administrative Assistant

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November 16, 2007

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, 2007. 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, 2007, 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 43 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 2007, the City made progress in all of the goal areas of the Strategic Plan. The City's tradition of award-winning programs was extended in a variety of ways:

- The City was awarded its 29th 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, 2006.
- A fifth 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, 2006.
- In 2007 the City of Gaithersburg received one of only eight Cultural Diversity Awards from the National League of Cities for its City World Market Program, which offers business development training to new arts and crafts entrepreneurs. The program also received the Maryland Economic Development Association's Economic Development Award in 2007.
- An employee in the City's animal control division was named the Maryland Municipal Employee of the Year by the Maryland City/County Management Association of the Maryland Municipal League.

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MAYOR
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COUNCIL MEMBERS
Jud Ashman
Cathy C. Drzyzgala
Henry F. Marraffa, Jr.
Ryan Spiegel
Michael A. Sesma

ACTING CITY MANAGER
James D. Arnold

To the Mayor and City Council

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November 16, 2007

- Members of the Gaithersburg Police Department and the Youth Services Division of the Department of Parks, Recreation and Culture were recognized with awards from Drawing the Line on Underage Drinking for efforts and initiatives to reduce adolescent access to alcohol and improve the lives of youth.
- In Fiscal Year 2007, The City's Cable TV staff received two national awards from the National Association of Telecommunications Officers and Advisors, one for a presentation made at the State of the City Dinner in February of 2006, and one for a promotional spot for the 2006 Memorial Day Observance.
- The City received three APEX Awards for Communication Excellence, one for a cable TV feature on Gaithersburg's first municipal green building, one for design work for the "Summer in the City" camp guide, and one for speech writing for the annual State of the City address.
- Gaithersburg received a Tree City USA designation by the National Arbor Day Foundation for the 18th consecutive year.

The City continues to strive for excellence in the community:

- The City adopted an affordable housing ordinance to ensure that those who want to live in Gaithersburg can continue to do so. The program includes a workforce housing initiative as well.
- Reinforcing its commitment to the environment, Gaithersburg switched its municipal fleet of vehicles to biodiesel fuel in FY 06, reducing diesel fuel consumption by 20%. The Mayor and City Council also signed the U.S. Mayor's Climate Protection Agreement, pledging to meet or exceed Kyoto Protocol targets for reducing global warming pollution.
- Fiscal Year 2007 saw the annexation of the 180 acre Crown Farm property, which anticipates a lively mix of residential and commercial developments that will incorporate a number of sustainable design features to help protect the environment.
- In response to several near-tragic incidents, Gaithersburg stepped-up its efforts to address the issues of overcrowding and illegal occupancy in our community. An informational video was produced, an anonymous tip line was established, fines were increased, additional code enforcement staff was hired, and outreach efforts continue to combat this public safety issue.
- Twenty nine active Committees, Boards and Commissions make recommendations to help the Mayor and City Council with many important City initiatives. In 2007 the City officially joined the National League of Cities' Inclusive Communities Partnership, helping to promote citizen participation and equal access and opportunity by all citizens.
- The City received \$1.6 million in grants to support community and economic development activities, homeless programs, police salaries and equipment, nutrition programs for seniors, and other important human service initiatives.

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

To the Mayor and City Council

Page 3 of 3

November 16, 2007

Plan, effective budget process and sound management principles will ensure that the City remains in strong financial condition.

Sincerely,

A handwritten signature in blue ink, appearing to read "James D. Arnoult". The signature is fluid and cursive, with a large initial "J" and "A".

James D. Arnoult
Acting City Manager



November 16, 2007

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, 2007.

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, 2007 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, 2007, 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. The City's grant expenditures during fiscal year 2007 met the threshold to require a Single Audit. These reports are available in the City of Gaithersburg, Maryland Single Audit Section of the CAFR.

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ACTING CITY MANAGER
James D. Arnault

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 60,736 as of January 2007.

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 2008. 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 2007 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 Gaithersburg Aquatic/Recreation Center, and Street reconstruction, for which \$2,505,890 and \$1,771,052 respectively was appropriated in fiscal year 2007.

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 35 retirees receiving benefits, which are financed on a pay-as-you-go basis.

Additional information on the City's retirement and other post employment 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, 2007, the City's financial assets consisted of \$623,165 cash and \$49,445,370 in the respective pools.

Interest earned on investments during fiscal year 2007 totaled \$2,627,160, which was \$701,586 more than the interest earned on investments in fiscal year 2006.

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.

ECONOMIC DEVELOPMENT REVENUE BONDS

(Asbury Methodist Village, Incorporated Facilities)

The City issued Economic Development Revenue Bonds, Series 2006 totaling \$130,565,000 which refunded 1993, 1997 and 2004 totaling \$35,460,000, \$42,935,000 and \$44,000,000 respectively. All bonds are used 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, 2006. 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.

November 16, 2007

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 29 consecutive years (fiscal years 1978-2006). 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, 2006. 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 fifth consecutive year (fiscal years 2003-2007). 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, 2006

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.

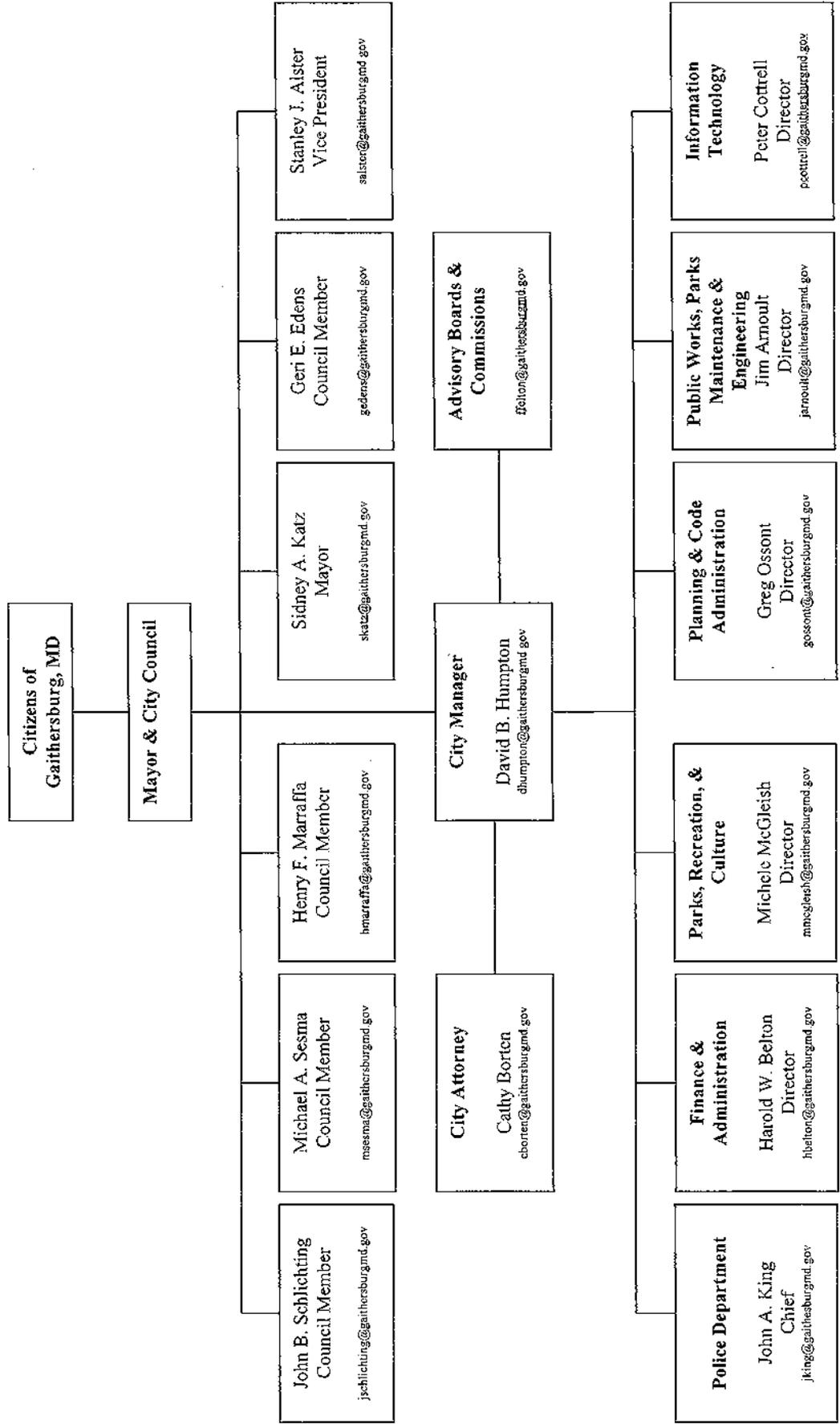


President

Executive Director

City of Gaithersburg

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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, 2007, 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, 2007, 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 November 16, 2007 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
November 16, 2007

**CITY OF GAITHERSBURG, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007**

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, 2007. 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 2007

- The City's government-wide net assets increased by \$0.4 million.
- The General Fund, on a current financial resource basis, reported a deficiency of revenues over expenditures and other financing sources and uses of \$3.6 million after making a \$10.5 million transfer to the Capital Projects Fund and a \$2.6 million transfer to the Other Post Employment Benefits (OPEB) Trust.
- The City's financial position improved over the past year. Total governmental funds' fund balance increased by 4.3 percent to \$49.2 million.
- Interest income increased from \$1,925,574 to \$2,627,160, as a result of general market conditions.
- Capital Projects Fund expenditures of \$4.9 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 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.

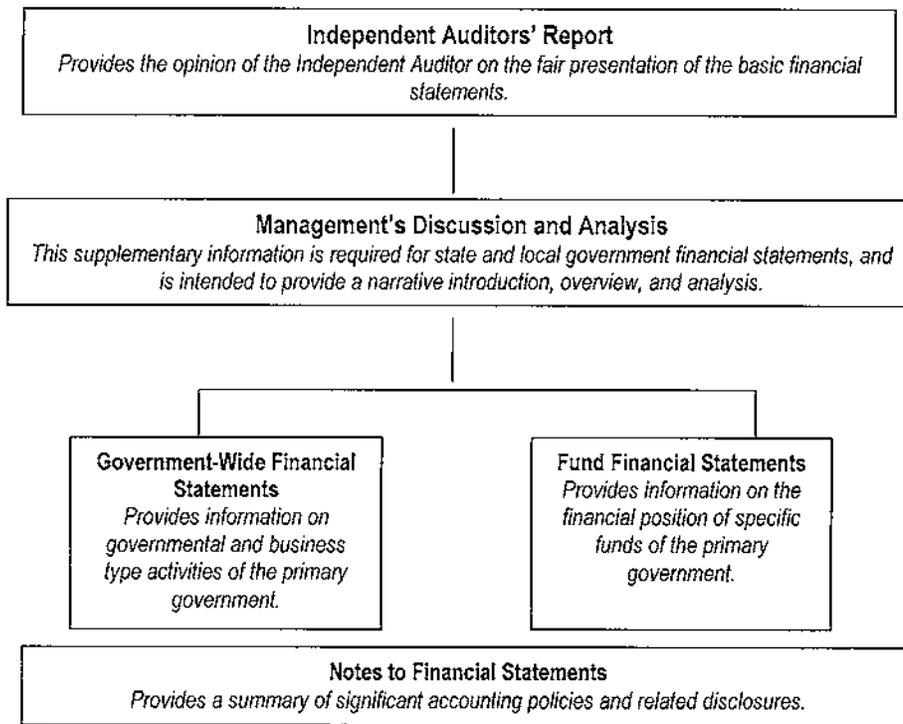
The basic financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the 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, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007**

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, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007**

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/outflow 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, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

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

**CITY OF GAITHERSBURG, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007**

maintains only two governmental funds, those being the General Fund and Capital Projects Fund.

- *Fiduciary funds:* The City is the trustee, or *fiduciary*, for assets that belong to its employees' pension plan, private purpose trusts, and agency funds. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. These activities are excluded from the government-wide financial statements because the assets cannot be used to finance operations.

Financial Analysis of the City as a Whole

Statement of Net Assets: The following table presents a summary of the Statement of Net Assets for the City as of June 30, 2007 with a FY 2006 comparative analysis:

Figure 3		
Condensed Statement of Net Assets		
	Total Governmental Activities	
	2007	2006
Assets:		
Current and other assets	\$ 56,390,563	\$ 53,644,260
Capital assets, net	<u>102,235,261</u>	<u>103,385,743</u>
Total Assets	<u>158,625,824</u>	<u>157,030,003</u>
Liabilities:		
Long-term liabilities outstanding	1,594,561	1,334,857
Other liabilities	<u>4,116,984</u>	<u>3,217,665</u>
Total Liabilities	<u>5,711,545</u>	<u>4,552,522</u>
Net assets:		
Invested in capital assets	102,235,261	103,385,743
Unrestricted	<u>50,679,018</u>	<u>49,091,738</u>
Total Net Assets	<u>\$ 152,914,279</u>	<u>\$ 152,477,481</u>

The City's assets exceeded its liabilities at the close of FY 2007 by \$152.9 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 \$42.7 million. Local property taxes funding amounted to \$16.5 million; intergovernmental funding, \$9.8 million; charges for services, \$6.4 million; operating grants and contributions, \$2.1 million; and capital grants and contributions, \$2.4 million. The remaining \$5.5 million came from investment earnings, gain on sale of capital assets and miscellaneous sources.

CITY OF GAITHERSBURG, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2007

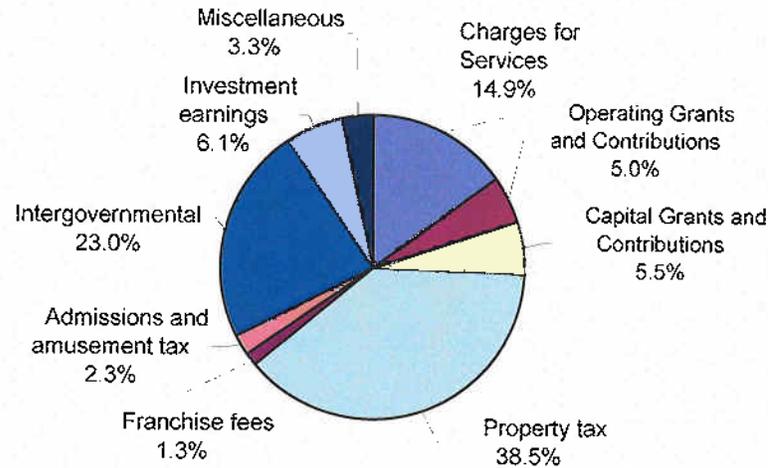
Figure 4

Condensed Statement of Activities

	Total Governmental Activities	
	2007	2006
Revenues		
Program revenues:		
Charges for services	\$ 6,380,368	\$ 6,796,511
Operating grants and contributions	2,141,875	1,481,013
Capital grants and contributions	2,364,816	2,386,066
General revenues:		
Property tax	16,454,046	14,114,464
Franchise fees	557,181	483,125
Admissions and amusement tax	985,453	1,165,087
Intergovernmental	9,808,731	8,859,757
Investment earnings	2,627,160	1,925,574
Gain on sale of capital assets	-	1,860,248
Miscellaneous	1,423,615	853,929
Total revenues	<u>42,743,245</u>	<u>39,925,774</u>
Expenses		
General government	8,745,788	8,210,925
Public safety	9,118,647	7,876,021
Public works	9,746,888	9,412,588
Parks and recreation	8,538,526	7,940,172
Community services and development	1,897,647	1,871,188
Miscellaneous	4,258,951	1,174,091
Total Expenses	<u>42,306,447</u>	<u>36,484,985</u>
Increase in Net Assets	436,798	3,440,789
Net Assets, beginning	<u>152,477,481</u>	<u>149,036,692</u>
Net Assets, ending	<u>\$ 152,914,279</u>	<u>\$ 152,477,481</u>

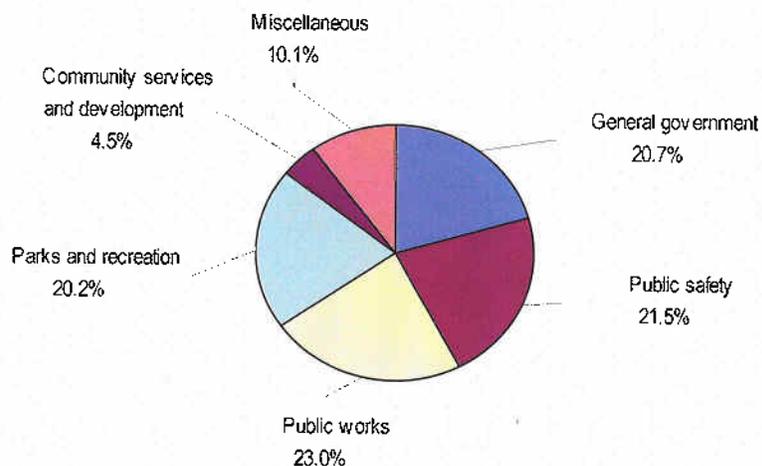
**CITY OF GAITHERSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007**

**Figure 5: Revenues by Source - Governmental Activities
For the Fiscal Year Ended June 30, 2007**



The cost of governmental activities for FY 2007 was \$42.3 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 \$9.1 million. Major cost increases in fiscal year 2007 were attributable to salary increases for City personnel.

**Figure 6: Expenses by Function - Governmental Activities
For the Fiscal Year Ended June 30, 2007**



**CITY OF GAITHERSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007**

Governmental Activities

General revenues for the governmental activities were \$31.9 million, while total expenses, net of charges for services and grants, were \$31.4 million. The increase in net assets for governmental activities was \$0.4 million and can be largely attributed the following:

- Capital outlays of \$2.4 million offset by depreciation expense of \$3.5 million as accounted for in accordance with GASB 34,
- Property taxes increased by \$2.3 million 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 \$2.1 billion.
- 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 (\$8.6 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.

	2007			2008		
	Cost of Services	Program Revenues	Net Cost of Services	Cost of Services	Program Revenues	Net Cost of Services
General government	\$ 8,745,788	\$ 1,175,102	\$ (7,570,686)	\$ 8,210,925	\$ 1,649,170	\$ (6,561,755)
Public safety	9,118,647	1,316,200	(7,802,447)	7,876,021	1,583,874	(6,292,147)
Public works	9,746,888	3,389,759	(6,357,129)	9,412,588	3,648,374	(5,764,214)
Parks and recreation	8,538,526	3,097,777	(5,440,749)	7,940,172	3,007,367	(4,932,805)
Community services and development	1,897,647	1,908,221	10,574	1,871,188	855,236	(1,015,952)
Miscellaneous	4,258,951	-	(4,258,951)	1,174,091	-	(1,174,091)
Total	\$ 42,306,447	\$ 10,887,059	\$ (31,419,388)	\$ 36,484,985	\$ 10,744,021	\$ (25,740,964)

The cost of all governmental activities this year was \$42.3 million. Some of the cost of government activities was paid by those who directly benefited from the programs (\$6.4 million) and other governments and organizations that subsidized certain programs with grants and contributions (\$4.5 million). Of the \$31.4 million net cost of services, the amount that our taxpayers paid for the activities through City property taxes was \$16.5 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 \$49.2 million; an increase of \$2.0 million over last year's ending fund balance of \$47.2 million.

**CITY OF GAITHERSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007**

General Fund (Governmental): The general fund had less revenues than expenditures in 2007, thereby decreasing total fund balance to \$3.6 million. It is important to note that the net change in fund balance is \$(3.6 million). This figure is calculated on the modified accrual basis and is slightly different from the \$(4.1million) budgetary basis deficit. 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 \$5.6 million increase in fund balance. Capital Projects Funds' total fund balance of \$20.5 million represents authorized and funded projects that are not complete.

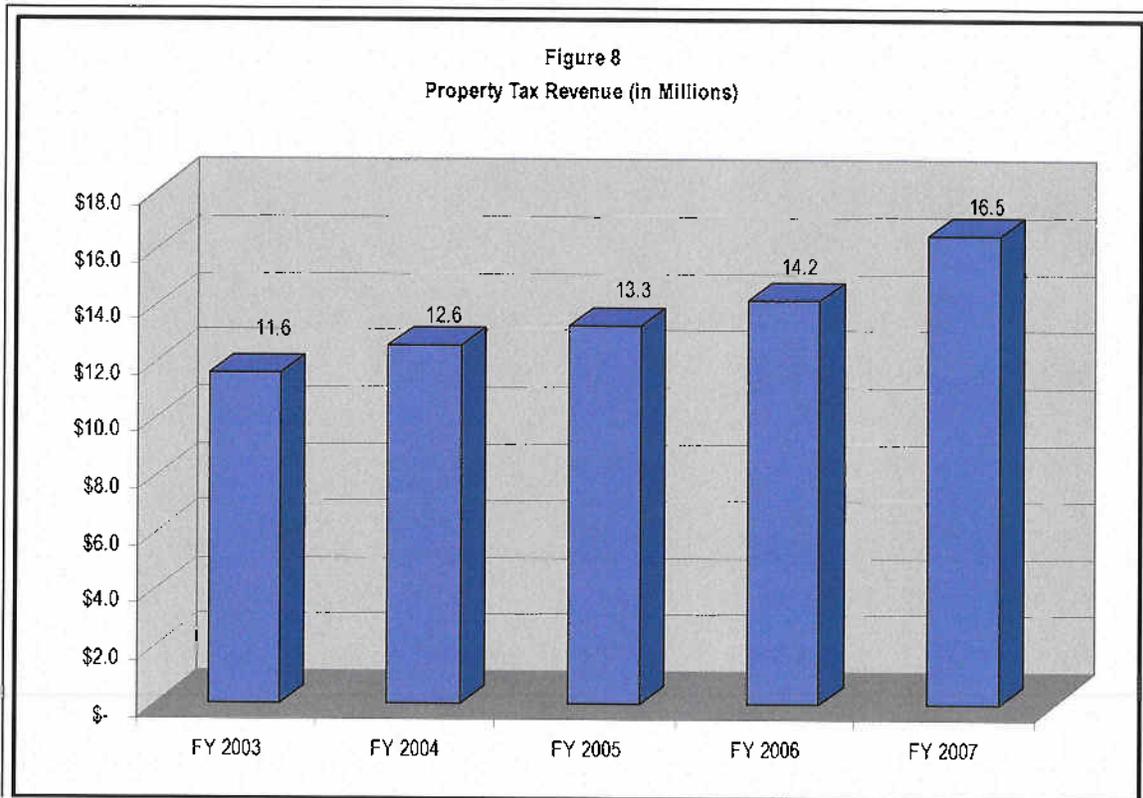
General Fund Budgetary Highlights

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. The resolution requires any changes to the budget exceeding the 25 percent to come before the Mayor and City Council for adoption. An ordinance was adopted by the Mayor and City Council in the amount of \$2.6 million for the transfer to the OPEB Trust which would have exceeded the 25% limitation. This ordinance increased the total budget to \$48.3 million. These budget amendments were completed between operating departments to prevent budget overruns, with no increase in the total budget of \$35.2 million.

Actual revenues exceeded budget amount by \$2.5 million, while actual expenditures and net transfers out were less than final budget by \$1.2 million. Actual expenditures of \$34.0 million were \$1.2 million less than budgeted due primarily to the concerted efforts of each department to generate savings in anticipation of FY 2008 revenue shortfalls. These savings are to be carried forward to FY 2008.

The largest revenue source for the General Fund is City property tax. In FY 2007, property tax revenues of \$16.5 million represented 38 percent of total revenues for the General Fund, and were 3.8 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 29.3 percent in FY 2007.

CITY OF GAITHERSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007



**CITY OF GAITHERSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007**

Capital Asset and Debt Administration

Capital Assets

By the end of 2007, the City had invested \$102.2 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 was \$3.5 million, while additions to buildings, infrastructure, improvements, and equipment and furniture amounted to \$2.4 million. More detailed information about capital assets can be found in Note 6 to the basic financial statements.

	Total Governmental Activities	
	2007	2006
Land	\$ 38,074,503	\$ 38,074,503
Buildings	20,629,965	21,288,320
Improvements other than buildings	3,819,057	4,020,551
Machinery and equipment	2,985,757	3,000,652
Infrastructure	36,388,149	36,989,682
Construction in progress	337,830	12,035
Total	<u>\$ 102,235,261</u>	<u>\$ 103,385,743</u>

The fiscal year 2007 capital projects spending amounted to \$4.9 million for capital projects, principally in four areas: completion of Market Square Park Plaza, annual expenditures for street resurfacing, street reconstruction, and sidewalk and handicapped ramps.

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	
	2007	2006
Accumulated unused compensated absences		
Vacation	\$ 1,145,021	\$ 968,663
Sick leave	449,540	366,194
Total	<u>\$ 1,594,561</u>	<u>\$ 1,334,857</u>

**CITY OF GAITHERSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007**

Factors Bearing on the City's Future

The following economic factors are reflected in the City's FY 2007 budget:

- The City's economic projections in the FY 2008 budget are based on the remaining amount of developable land. Development licenses and permits are projected at a 8% decrease from actual from FY 2007.
- 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 property assessments and income tax collections were factored into assumptions.
- Reductions in shared revenues and grants from Federal, State and County sources were factored into assumptions.
- A one time developer's contribution of \$5 million for the construction of the Aquatic Center (Miscellaneous Revenues) was 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.

FINANCIAL STATEMENTS

CITY OF GAITHERSBURG, MARYLAND
STATEMENT OF NET ASSETS
June 30, 2007

	<u>Governmental Activities</u>
ASSETS	
ASSETS	
Cash and cash equivalents	\$ 623,165
Investments	49,445,370
Receivables:	
Property taxes, net	98,134
Due from other governments	5,775,098
Other, net	367,864
Inventory	25,594
Prepays	55,338
Capital assets:	
Land	38,074,503
Buildings	29,476,617
Improvements other than buildings	8,150,366
Machinery and equipment	10,214,202
Infrastructure	64,178,333
Construction in progress	337,830
Less: accumulated depreciation	<u>(48,196,590)</u>
TOTAL ASSETS	\$ <u>158,625,824</u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable	\$ 1,535,311
Accrued liabilities	1,206,944
Deposits	1,374,729
Non-current liabilities:	
Due within one year:	
Accumulated unused compensated absences	473,039
Due in more than one year:	
Accumulated unused compensated absences	<u>1,121,522</u>
Total liabilities	<u>5,711,545</u>
NET ASSETS	
Invested in capital assets	102,235,261
Unrestricted	<u>50,679,018</u>
Total net assets	<u>152,914,279</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>158,625,824</u>

The accompanying notes are an integral part of the financial statements.

CITY OF GAITHERSBURG, MARYLAND
STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 8,745,788	\$ 1,175,102	\$ -	\$ -	\$ (7,570,686)
Public safety	9,118,647	799,743	516,457	-	(7,802,447)
Public works	9,746,888	1,333,515	-	2,056,244	(6,357,129)
Parks and recreation	8,538,526	3,072,008	25,769	-	(5,440,749)
Community services and development	1,897,647	-	1,599,649	308,572	10,574
Miscellaneous	4,258,951	-	-	-	(4,258,951)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 42,306,447	\$ 6,380,368	\$ 2,141,875	\$ 2,364,816	(31,419,388)
General revenues:					
Property taxes					16,454,046
Franchise fees					557,181
Admissions and amusement tax					985,453
Intergovernmental not restricted to specific programs					9,808,731
Investment earnings					2,627,160
Miscellaneous					1,423,615
Total general revenues					31,856,186
CHANGE IN NET ASSETS					436,798
NET ASSETS, BEGINNING OF YEAR					152,477,481
NET ASSETS, END OF YEAR					\$ 152,914,279

The accompanying notes are an integral part of the financial statements.

CITY OF GAITHERSBURG, MARYLAND
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2007

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
ASSETS			
Cash	\$ 623,165	\$ -	\$ 623,165
Investments	49,445,370	-	49,445,370
Taxes receivable, net	98,134	-	98,134
Prepays	55,338	-	55,338
Inventory	25,594	-	25,594
Due from other funds	-	21,430,024	21,430,024
Due from other governments	5,775,098	-	5,775,098
Other receivables	367,864	-	367,864
	<u>\$ 56,390,563</u>	<u>\$ 21,430,024</u>	<u>\$ 77,820,587</u>
TOTAL ASSETS			
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 648,948	\$ 886,363	\$ 1,535,311
Accruals	1,116,144	-	1,116,144
Deposits	1,374,729	-	1,374,729
Deferred revenue	3,044,692	-	3,044,692
Due to other funds	21,520,824	-	21,520,824
Total liabilities	<u>27,705,337</u>	<u>886,363</u>	<u>28,591,700</u>
FUND BALANCES			
Reserved for:			
Encumbrances	950,378	3,993,897	4,944,275
Prepaid expenditures	55,338	-	55,338
Inventory	25,594	-	25,594
Unreserved:			
Designated for:			
Vehicle and equipment replacement	4,931,944	-	4,931,944
Subsequent years' expenditures	3,677,660	16,549,764	20,227,424
Group insurance funding	42,697	-	42,697
Self-insurance	204,243	-	204,243
Training	45,683	-	45,683
Economic development	296,249	-	296,249
Emergency and disaster	400,000	-	400,000
Unreserved and undesignated	18,055,440	-	18,055,440
Total fund balances	<u>28,685,226</u>	<u>20,543,661</u>	<u>49,228,887</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 56,390,563</u>	<u>\$ 21,430,024</u>	<u>\$ 77,820,587</u>

The accompanying notes are an integral part of the financial statements.

CITY OF GAITHERSBURG, MARYLAND
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2007

Total fund balance - total governmental funds	\$ 49,228,887
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	\$ 150,431,851
Accumulated depreciation	<u>(48,196,590)</u>
	102,235,261
Certain assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
	3,044,692
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
	<u>(1,594,561)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 152,914,279</u>

The accompanying notes are an integral part of the financial statements.

CITY OF GAITHERSBURG, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
Year Ended June 30, 2007

	General Fund	Capital Projects Fund	Total Governmental Funds
REVENUES			
Taxes and special assessments	\$ 17,563,444	\$ -	\$ 17,563,444
Licenses and permits	2,350,832	-	2,350,832
Intergovernmental	14,365,733	-	14,365,733
Charges for services	4,421,041	-	4,421,041
Fines and forfeitures	165,676	-	165,676
Investment earnings	2,627,160	-	2,627,160
Miscellaneous	1,421,317	-	1,421,317
Total revenues	<u>42,915,203</u>	<u>-</u>	<u>42,915,203</u>
EXPENDITURES			
Current:			
General government	7,428,673	-	7,428,673
Public safety	8,402,909	-	8,402,909
Public works	6,339,144	-	6,339,144
Parks and recreation	7,698,543	-	7,698,543
Community services and development	1,883,026	-	1,883,026
Miscellaneous	1,693,749	-	1,693,749
Capital outlay	-	4,914,067	4,914,067
Total expenditures	<u>33,446,044</u>	<u>4,914,067</u>	<u>38,360,111</u>
Excess (deficiency) of revenues over expenditures	<u>9,469,159</u>	<u>(4,914,067)</u>	<u>4,555,092</u>
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	18,199	-	18,199
Transfers in	-	10,515,055	10,515,055
Transfers out	(10,515,055)	-	(10,515,055)
Transfers to GASB 43 Trust	(2,552,050)	-	(2,552,050)
Total other financing sources (uses)	<u>(13,048,906)</u>	<u>10,515,055</u>	<u>(2,533,851)</u>
NET CHANGE IN FUND BALANCES	(3,579,747)	5,600,988	2,021,241
FUND BALANCE, BEGINNING OF YEAR	<u>32,264,973</u>	<u>14,942,673</u>	<u>47,207,646</u>
FUND BALANCE, END OF YEAR	<u>\$ 28,685,226</u>	<u>\$ 20,543,661</u>	<u>\$ 49,228,887</u>

The accompanying notes are an integral part of the 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, 2007**

Total net change in fund balances - total governmental funds \$ 2,021,241

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	\$ 2,353,897	
Depreciation	<u>(3,488,480)</u>	(1,134,583)

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 \$536,343, less any accumulated depreciation of \$520,445.

(15,898)

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).

(174,258)

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.

(259,704)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 436,798**

The accompanying notes are an integral part of the 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, 2007

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance With Amended Budget
	Original	Amended		Positive (Negative)
REVENUES				
Taxes and special assessments	\$ 16,851,230	\$ 16,851,230	\$ 17,563,444	\$ 712,214
Licenses and permits	2,978,765	2,978,765	2,350,832	(627,933)
Intergovernmental	15,073,225	15,073,225	14,365,733	(707,492)
Charges for services	3,982,300	3,982,300	4,421,041	438,741
Fines and forfeitures	320,500	320,500	165,676	(154,824)
Investment earnings	950,000	950,000	2,627,160	1,677,160
Miscellaneous	292,597	292,597	1,421,317	1,128,720
Total revenues	<u>40,448,617</u>	<u>40,448,617</u>	<u>42,915,203</u>	<u>2,466,586</u>
EXPENDITURES				
General government	7,979,471	7,761,471	7,355,620	405,851
Public safety	8,399,049	8,619,549	8,433,823	185,726
Public works	6,842,369	6,772,369	6,495,021	277,348
Parks and recreation	7,996,716	7,906,716	7,691,463	215,253
Community services and development	2,059,349	2,051,849	2,015,477	36,372
Miscellaneous	1,972,351	2,137,351	2,024,258	113,093
Total expenditures	<u>35,249,305</u>	<u>35,249,305</u>	<u>34,015,662</u>	<u>1,233,643</u>
Excess of revenues over expenditures	<u>5,199,312</u>	<u>5,199,312</u>	<u>8,899,541</u>	<u>3,700,229</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(10,515,055)	(13,067,105)	(13,067,105)	-
Sale of capital assets	2,000,000	2,000,000	18,199	(1,981,801)
Total other financing sources (uses)	<u>(8,515,055)</u>	<u>(11,067,105)</u>	<u>(13,048,906)</u>	<u>(1,981,801)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (3,315,743)</u>	<u>\$ (5,867,793)</u>	<u>(4,149,365)</u>	<u>\$ 1,718,428</u>
Adjustments to conform with generally accepted accounting principles			569,618	
FUND BALANCE, BEGINNING OF YEAR			<u>32,264,973</u>	
FUND BALANCE, END OF YEAR			<u>\$ 28,685,226</u>	

The accompanying notes are an integral part of the financial statements.

CITY OF GAITHERSBURG, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS –
FIDUCIARY FUNDS
June 30, 2007

	Pension Trust Fund	Private- Purpose Trust Fund	Retiree Benefit Trust Fund	Agency Funds
ASSETS				
ASSETS				
Investments:				
Open-end mutual funds	\$ 36,901,532	\$ -	\$ 2,529,050	\$ -
Certificate of deposit	-	12,651	-	-
Due from other funds	25,774	-	-	65,026
TOTAL ASSETS	\$ 36,927,306	\$ 12,651	\$ 2,529,050	\$ 65,026
LIABILITIES AND NET ASSETS				
LIABILITIES				
Deposits	\$ -	\$ -	\$ -	\$ 65,026
NET ASSETS				
Held in trust for pension benefits and other purposes	36,927,306	12,651	2,529,050	-
TOTAL LIABILITIES AND NET ASSETS	\$ 36,927,306	\$ 12,651	\$ 2,529,050	\$ 65,026

The accompanying notes are an integral part of the financial statements.

CITY OF GAITHERSBURG, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
Year Ended June 30, 2007

	<u>Pension Trust Fund</u>	<u>Private- Purpose Trust Fund</u>	<u>Retiree Benefit Trust Fund</u>
ADDITIONS			
Contributions:			
Employee	\$ 931,493	\$ -	\$ -
Employer	1,912,363	-	2,552,050
Interest and gains (losses)	4,887,908	446	(23,000)
Other	<u>161,196</u>	<u>-</u>	<u>-</u>
Total additions	<u>7,892,960</u>	<u>446</u>	<u>2,529,050</u>
DEDUCTIONS			
Benefits and withdrawals	<u>1,908,519</u>	<u>-</u>	<u>-</u>
Total deductions	<u>1,908,519</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	5,984,441	446	2,529,050
NET ASSETS, BEGINNING OF YEAR	<u>30,942,865</u>	<u>12,205</u>	<u>-</u>
NET ASSETS, END OF YEAR	<u>\$ 36,927,306</u>	<u>\$ 12,651</u>	<u>\$ 2,529,050</u>

The accompanying notes are an integral part of the financial statements.

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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.

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.

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (continued)

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:

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.

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (continued)

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.

Retiree Benefit Trust Funds: Retiree benefit 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 Retiree Benefit Fund is included as such and accounts for the contributions made by the City and its employees to finance future other postemployment benefit payments. The plan is administered by a committee appointed by the City.

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, Private-Purpose Trust, and Retiree Benefit Trust funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting (continued)

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, 2007, 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.

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.

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 at the time of purchase.

Investments

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, 2007, the aggregate of property tax accounts, delinquent three years or more, was \$603,963. At June 30, 2007, the aggregate of police ticket receivables, delinquent one year or more, was \$185,986. 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.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2007, 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.

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Inter-Fund Transactions

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

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

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

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

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inter-Fund Transactions (continued)

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 represent tentative management plans that are subject to change.

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, 2007, 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, 2007

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 programs, then 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.

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	\$ 42,915,203	\$ 34,015,662	\$ 13,048,906	\$ (4,149,365)
Prior year encumbrances outstanding, June 30, 2006	-	(380,760)	-	(380,760)
Current year encumbrances outstanding, June 30, 2007	-	950,378	-	950,378
GAAP Basis	<u>\$ 42,915,203</u>	<u>\$ 33,446,044</u>	<u>\$ 13,048,906</u>	<u>\$ (3,579,747)</u>

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

Deposits

Custodial credit risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Maryland State Law prescribes that local government units such as the City must deposit its cash in banks transacting business in the State of Maryland, and that such banks must secure any deposits in excess of Federal Deposit Insurance Corporation insurance levels with collateral whose market value is at least equal to the deposits. As of June 30, 2007 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, 2007:

	<u>General Fund</u>	<u>Pension Trust Fund</u>	<u>Private- Purpose Trust Fund</u>	<u>Retiree Benefit Trust Fund</u>
State Treasurer's Investment Pool	\$ 27,227,857	\$ -	\$ -	\$ -
Montgomery County's General Investment Fund	21,924,377	-	-	-
Certificates of deposit	293,136	-	12,651	-
Open-end mutual funds	-	<u>36,901,532</u>	-	<u>2,529,050</u>
Total	<u>\$ 49,445,370</u>	<u>\$ 36,901,532</u>	<u>\$ 12,651</u>	<u>\$ 2,529,050</u>

Credit risk

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

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Investments (continued)

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 trust funds 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, 2007. For purposes of risk exposure, certificates of deposit are treated as deposits, which was previously discussed above.

NOTE 4 – RECEIVABLES

Receivables at June 30, 2007, consist of the following:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Activities</u>
Due from other governments:			
County	\$ 1,096,846	\$ -	\$ 1,096,846
State	4,520,240	-	4,520,240
Federal	<u>158,012</u>	<u>-</u>	<u>158,012</u>
Total	<u>\$ 5,775,098</u>	<u>\$ -</u>	<u>\$ 5,775,098</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Activities</u>
Other receivables:			
Cable TV fees	\$ 158,696	-	158,696
Police tickets and fines, net	111,805	-	111,805
Olde Towne Bell Tower	50,000	-	50,000
Miscellaneous	<u>47,363</u>	<u>-</u>	<u>47,363</u>
Total	<u>\$ 367,864</u>	<u>\$ -</u>	<u>\$ 367,864</u>

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivable and payable balances at June 30, 2007, are as follows:

	Due to Other Funds
Due to other funds	
Capital Projects Fund	\$ 21,430,024
Pension Trust Fund	25,774
Agency Fund	65,026
Total	\$ 21,520,824

The balance of \$21,520,824 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, 2007, consisted of a transfer in the City's normal course of business from the General Fund to the Capital Fund in the amount of \$10,515,055. \$2,552,050 was transferred to the Retiree Benefit Trust Fund from the General Fund for prefunding of other post-employment benefit obligations.

\$2,552,050 was transferred from the General Fund to the Retiree Benefit Trust for prefunding of other post-employment benefit obligations.

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, consisted of the following:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2007</u>
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 38,074,503	\$ -	\$ -	\$ -	\$ 38,074,503
Construction in progress	<u>12,035</u>	<u>325,795</u>	<u>-</u>	<u>-</u>	<u>337,830</u>
	<u>38,086,538</u>	<u>325,795</u>	<u>-</u>	<u>-</u>	<u>38,412,333</u>
Capital assets being depreciated:					
Buildings	29,464,822	11,796	-	-	29,476,617
Improvements other than buildings	7,974,465	175,901	-	-	8,150,366
Machinery and equipment	9,709,914	1,020,393	(516,105)	-	10,214,202
Infrastructure	<u>63,378,559</u>	<u>820,012</u>	<u>(20,238)</u>	<u>-</u>	<u>64,178,333</u>
	<u>110,527,760</u>	<u>2,028,102</u>	<u>(536,343)</u>	<u>-</u>	<u>112,019,518</u>
Less accumulated depreciation for:					
Buildings	(8,176,502)	(670,150)	-	-	(8,846,652)
Improvements other than buildings	(3,953,914)	(377,395)	-	-	(4,331,309)
Machinery and equipment	(6,709,262)	(1,031,793)	512,610	-	(7,228,445)
Infrastructure	<u>(26,388,877)</u>	<u>(1,409,142)</u>	<u>7,835</u>	<u>-</u>	<u>(27,790,184)</u>
	<u>(45,228,555)</u>	<u>(3,488,480)</u>	<u>520,445</u>	<u>-</u>	<u>(48,196,590)</u>
Capital assets, net	<u>\$ 103,385,743</u>	<u>\$ (1,134,583)</u>	<u>\$ (15,898)</u>	<u>\$ -</u>	<u>\$ 102,235,261</u>

Depreciation expense was charged to governmental functions for the year ended June 30, 2007, as follows:

General government	\$ 726,361
Public safety	375,161
Public works	1,936,985
Parks and recreation	<u>449,973</u>
Total	<u>\$ 3,488,480</u>

NOTE 7 – LONG-TERM LIABILITIES

At June 30, 2007, 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, 2007:

	<u>Balance June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>	<u>Amounts Due Within One Year</u>
Accumulated unused compensated absences:					
Vacation	\$ 968,663	\$ 300,646	\$ 124,288	\$ 1,145,021	\$ 340,782
Sick leave	<u>366,194</u>	<u>156,653</u>	<u>73,307</u>	<u>449,540</u>	<u>132,527</u>
Total	<u>\$ 1,334,857</u>	<u>\$ 457,299</u>	<u>\$ 197,595</u>	<u>\$ 1,594,561</u>	<u>\$ 473,039</u>

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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 27 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, 2007 and 2006, was approximately \$193,453 and \$163,173 respectively.

On April 1, 2007, the City established a 115 Trust account (the "Trust") for the purpose of prefunding a portion of retiree insurance costs in the future. Per the Trust agreement, the City may elect to contribute additional amounts as deemed necessary to meet its benefit costs. The City is not required to make additional contributions unless obligated to do so by resolution, and the Trust account has not been funded based on actuarial information. The City's 2008 budget includes contributions to the 115 Trust based on actuarial information. The City's intent is to phase in from pay-as-you-go funding in the years through FY 2007 to full funding of the Actuarially Required Contribution (ARC).

Actuarial Methods for Retiree Health Care Benefits Plans – The actuarial value of assets is the fair value of the investments. This year's asset value is based on the July 1, 2005 actuarial valuation.

The Projected Unit Credit Cost method is used, with level percentage of pay amortization of the unfunded actuarial liabilities over an open 30 year amortization period.

The actuarial accrued liability was estimated as part of an actuarial valuation performed as of July 1, 2005. Significant actuarial assumptions used in the valuation are as follows:

Rate of Return – The assumed rate of return in the investment of present and future assets is 8.0% a year compounded annually based on full funding of the ARC.

Salary Increases – Salary increases of 3.5% a year are projected for calculating the level percentage of pay.

Healthcare Cost Trend Rates – The expected rate of increase for healthcare costs in 2005 was estimated at 10% for prescription drugs and medical costs. Declining rates of increase were used, with 2009 and later rates at 6% for prescription and medical.

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 8 – POSTRETIREMENT HEALTHCARE AND LIFE INSURANCE (CONTINUED)

The funded status of the plan as of the most recent actuarial date, July 1, 2005 is as follows:

Actuarial Valuation of Plan Assets	\$ -
Actuarial Accrued Liability	9,788,000
Funded Ratio	0.00%
Unfunded Actuarial Accrued Liability	9,788,000
Annual Covered Payroll	11,752,939
Unfunded Actuarial Liability as a Percentage of Covered Payroll	83.28%

Required Supplementary Information required to be disclosed presenting multi-year trend information and a schedule of employer contributions is not presented since the July 1, 2005 actuarial valuation was the initial valuation. The City's initial contribution of \$2,552,050 was made to the Trust during FY 2007.

The 115 Trust is reported by the City as a pension trust fund, the Retiree Benefit Trust Fund.

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. Employees are eligible to participate immediately upon hire. Participants vest over five years in the City's contribution to the plan. The amount of the City's covered payroll was \$15,272,675 and its total payroll for all employees was \$17,643,412. Required employer contributions of \$1,500,956 or 9.83% of covered payroll were made to the plan during fiscal year 2007. 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 immediately upon hire. Employees can contribute up to the maximum limit established annually by the Internal Revenue Service. During fiscal year 2007, employees made contributions to the Plan totaling \$931,943 or 6.10% 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 \$418,666 or 2.74% of covered payroll were made to the Plan during fiscal year 2007.

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.

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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

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

NOTE 10 – COMMITMENTS AND CONTINGENCIES

The City is committed under various contracts pertaining to street resurfacing, storm water management, traffic signalization, and other capital improvement program projects totaling \$3,993,897 at June 30, 2007. All contracts binding as of June 30, 2007, 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 2007, the City paid premiums of \$294,762 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.

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 11 – RISK MANAGEMENT (CONTINUED)

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 2007, the City paid premiums of \$158,590 to Montgomery County.

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, 2007 was \$130,565,000 and consists of the following:

The City issued Economic Development Revenue Bonds, Series 2006 totaling \$130,565,000 which refunded 1993, 1997 and 2004 totaling \$35,460,000, \$42,935,000 and \$44,000,000 respectively. All bonds are used 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.

CITY OF GAITHERSBURG, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 14 – CONDUIT DEBT OBLIGATION (CONTINUED)

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.

NOTE 15 – NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STANDARD

The Governmental Accounting Standards Board (GASB) has issued pronouncements prior to the year ended June 30, 2007, that have effective dates that will impact future financial presentations.

Management will implement the following for FY 2008 and is in process of determining the impact implementation will have on the financial statements of the City:

- 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 of the City electing to early implement, this Statement will be effective for the City beginning with its year ending June 30, 2008. 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.

SUPPLEMENTAL INFORMATION

CITY OF GAITHERSBURG, MARYLAND
SCHEDULE OF REVENUES – BUDGET AND ACTUAL
(BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2007 (With Comparative Totals for 2006)

	2007				
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)	2006 Actual
Taxes and Special Assessments					
Real estate taxes	\$ 13,550,000	\$ 13,550,000	\$ 14,790,624	\$ 1,240,624	\$ 12,628,456
Personal property taxes	1,591,230	1,591,230	1,689,086	97,856	1,646,860
Prior year's taxes	700,000	700,000	(100,669)	(800,669)	(92,156)
Penalties and interest	10,000	10,000	198,950	188,950	(18,675)
Admissions and amusement tax	1,000,000	1,000,000	985,453	(14,547)	1,165,087
Total taxes and special assessments	16,851,230	16,851,230	17,563,444	712,214	15,329,572
Licenses and Permits					
Street permits	52,000	52,000	158,213	106,213	224,469
Telecommunications/utility permits	500	500	-	(500)	-
Amusement licenses	23,000	23,000	21,770	(1,230)	22,675
Traders license	50,000	50,000	105,635	55,635	148,798
Hawkers/peddlers licenses	4,000	4,000	5,500	1,500	4,770
Electricians licenses	24,000	24,000	18,260	(5,740)	60,070
Rental housing licenses	483,390	483,390	530,970	47,580	442,240
Bus shelter franchise fee	9,905	9,905	17,085	7,180	14,443
CATV franchise	440,000	440,000	540,096	100,096	468,682
Animal licenses	18,000	18,000	18,030	30	17,276
Pet shop/commercial kennel	1,250	1,250	500	(750)	1,000
Building permits	1,237,430	1,237,430	552,178	(685,252)	688,755
Electrical permits	143,380	143,380	78,853	(64,527)	93,468
Occupancy permits	74,275	74,275	45,900	(28,375)	53,420
Sign permits	9,500	9,500	12,987	3,487	10,758
Mechanical permits	78,350	78,350	48,646	(29,704)	47,653
Grading permits	119,160	119,160	27,592	(91,568)	297,597
On site improvements	23,800	23,800	88,030	64,230	113,617
Fire protection permits	185,225	185,225	77,717	(107,508)	128,504
Special events permits	1,500	1,500	2,750	1,250	1,000
Home occupation permits	100	100	120	20	160
Total licenses and permits	2,978,765	2,978,765	2,350,832	(627,933)	2,839,355

CITY OF GAITHERSBURG, MARYLAND
SCHEDULE OF REVENUES – BUDGET AND ACTUAL
(BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2007 (With Comparative Totals for 2006)

(Continued)

	2007				
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)	2006 Actual
Intergovernmental					
State-shared taxes:					
Highway user	\$ 2,161,000	\$ 2,161,000	\$ 2,056,244	\$ (104,756)	\$ 1,966,561
Stormwater management	-	-	-	-	306,000
County grants and shared taxes:					
Financial corporations	2,645	2,645	2,645	-	2,645
County revenue sharing	1,200,000	1,200,000	1,230,181	30,181	1,203,404
Income tax	7,100,000	7,100,000	8,628,861	1,528,861	7,305,720
County Construction Contribution	1,000,000	1,000,000	1,000,000	-	-
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
Nutrition program	45,000	45,000	39,717	(5,283)	46,967
MCPS	1,000	1,000	3,856	2,856	20,004
Miscellaneous	5,000	5,000	19,909	14,909	24,569
State grants:					
Police	508,195	508,195	495,722	(12,473)	486,713
Homeless program	6,300	6,300	6,317	17	6,317
Arts	17,000	17,000	25,769	8,769	18,279
Youth	-	-	-	-	-
Miscellaneous	1,000	1,000	283,273	282,273	301,122
Open space grant	1,505,890	1,505,890	130,713	(1,375,177)	-
Olde Towne revitalization	75,000	75,000	84,797	9,797	-
Olde Towne Youth Center (Bond bill)	300,000	300,000	-	(300,000)	-
Department of Justice- Police Equipment	50,000	50,000	-	(50,000)	-
Federal grants:					
Community development	465,450	465,450	308,572	(156,878)	113,505
Transitional housing	128,245	128,245	128,248	3	128,247
Department of Justice - COPS	75,000	75,000	20,735	(54,265)	314,721
Housing opportunity	15,720	15,720	724,297	708,577	16,050
Transportation enhancement program	190,400	190,400	66,358	(124,042)	-
Department of Transportation - Mini Bus	110,880	110,880	-	(110,880)	-
Total intergovernmental	15,073,225	15,073,225	15,365,733	292,508	12,376,203

CITY OF GAITHERSBURG, MARYLAND
SCHEDULE OF REVENUES – BUDGET AND ACTUAL
(BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2007 (With Comparative Totals for 2006)

(Continued)

	2007				
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)	2006 Actual
Charges for Services					
Zoning fees	\$ 75,000	\$ 75,000	\$ 166,409	\$ 91,409	\$ 106,289
Casey Community Center	180,000	180,000	202,113	22,113	203,153
Pool	268,000	268,000	342,336	74,336	307,021
Gaithersburg Aquatic Center	186,000	186,000	178,813	(7,187)	168,381
Miniature golf revenue	95,000	95,000	101,979	6,979	103,685
Group picnics	48,000	48,000	58,566	10,566	54,701
Recreation fees	1,100,000	1,100,000	1,120,425	20,425	1,153,479
Winter lights	240,000	240,000	250,614	10,614	239,324
Gaithersburg Arts Barn	70,000	70,000	103,346	33,346	82,028
Council of the Arts	20,000	20,000	16,179	(3,821)	15,943
Gaithersburg Youth Center	40,000	40,000	49,376	9,376	40,001
Teen Center	25,000	25,000	20,533	(4,467)	-
Kentlands Mansion	155,000	155,000	159,655	4,655	169,675
Special events	50,000	50,000	69,691	19,691	42,872
Community events	500	500	2,574	2,074	2,839
Senior Center revenue	70,000	70,000	50,552	(19,448)	52,225
Stormwater management fees	50,000	50,000	105,609	55,609	206,009
Recycling collections	737,000	737,000	722,195	(14,805)	685,681
Rental - Senior Center	18,000	18,000	35,409	17,409	35,022
Membership fee - dog exercise	12,500	12,500	6,850	(5,650)	8,433
Activity Center programs	250,000	250,000	261,592	11,592	267,020
Food services	3,300	3,300	3,300	-	3,300
Skate park	38,000	38,000	44,955	6,955	48,419
Environmental fees	1,000	1,000	11,162	10,162	10,477
Water quality protection	250,000	250,000	336,336	86,336	249,177
Miscellaneous	-	-	472	472	140
Total charges for services	<u>3,982,300</u>	<u>3,982,300</u>	<u>4,421,041</u>	<u>438,741</u>	<u>4,255,294</u>
Fines and Forfeitures					
Ordinance fines	<u>320,500</u>	<u>320,500</u>	<u>165,676</u>	<u>(154,824)</u>	<u>184,987</u>

CITY OF GAITHERSBURG, MARYLAND
SCHEDULE OF REVENUES – BUDGET AND ACTUAL
(BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2007 (With Comparative Totals for 2006)

(Continued)

	2007				2006 Actual
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)	
Investment Earnings	\$ 950,000	\$ 950,000	\$ 2,627,160	\$ 1,677,160	\$ 1,925,574
Miscellaneous Revenue					
Rents	127,900	127,900	94,562	(33,338)	219,196
Miscellaneous	39,897	39,897	79,501	39,604	19,147
Sale of materials	1,700	1,700	2,787	1,087	220
Bus shelters	15,000	15,000	10,000	(5,000)	-
Contributions	66,000	66,000	73,998	7,998	65,418
Passports	40,000	40,000	43,920	3,920	34,350
Community promotion	2,000	2,000	1,010	(990)	1,419
Expenditure reimbursement	100	100	115,539	115,439	179
Total miscellaneous	<u>292,597</u>	<u>292,597</u>	<u>421,317</u>	<u>128,720</u>	<u>339,929</u>
TOTAL REVENUE - BUDGETARY BASIS	<u>\$ 40,448,617</u>	<u>\$ 40,448,617</u>	<u>\$ 42,915,203</u>	<u>\$ 2,466,586</u>	<u>\$ 37,250,914</u>

CITY OF GAITHERSBURG, MARYLAND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES – BUDGET AND ACTUAL
(BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2007 (With Comparative Totals for 2006)

	2007				
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)	2006 Actual
General Government					
Mayor and City Council	\$ 187,401	\$ 169,041	\$ 163,923	\$ 5,118	\$ 164,780
City Manager	651,537	626,537	612,192	14,345	538,541
Economic and Community Development	473,030	463,030	442,352	20,678	431,895
Environmental affairs	203,008	193,008	182,746	10,262	130,825
Registration and elections	5,000	5,000	69	4,931	26,178
Finance and administration	710,866	710,866	704,162	6,704	672,127
Legal	232,614	250,974	245,469	5,505	171,140
Planning	1,054,928	1,000,928	920,845	80,083	914,448
Information technology	781,242	756,742	714,591	42,151	613,088
Human resources	480,103	590,103	569,609	20,494	499,600
General services	132,095	106,595	73,932	32,663	78,778
Facilities management	758,241	783,741	775,282	8,459	460,897
Building and grounds:					
City Hall	187,250	181,250	176,742	4,508	189,393
Police	77,730	71,230	62,232	8,998	59,728
Public Services	115,015	115,015	109,418	5,597	107,080
Kentlands Firehouse	4,000	2,300	219	2,081	241
Gaithersburg Arts Barn	84,495	79,495	69,072	10,423	79,477
Training Station	35,950	30,450	22,867	7,583	24,026
Kentlands Mansion	66,845	59,845	58,820	1,025	64,066
Senior Center	80,070	73,070	69,412	3,658	56,543
Casey Community Center	135,240	115,240	112,706	2,534	181,075
Old Towne Pavilion	42,520	37,520	29,280	8,240	38,468
Teen Center	24,250	19,250	13,440	5,810	13,142
Activity Center at Bohrer Park	295,320	271,320	264,306	7,014	263,110
Water Park	129,550	119,550	100,424	19,126	136,118
Miniature Golf Course	40,300	30,300	28,805	1,495	17,187
Skate Park	6,200	6,200	4,293	1,907	2,386
Parking Facility	122,650	117,650	111,618	6,032	106,207
Gaithersburg Youth Center	45,650	58,850	57,264	1,586	51,130
Miscellaneous	2,400	2,400	-	2,400	-
Public information	556,345	481,345	459,484	21,861	444,936
Cable television - Channel 54	257,626	232,626	200,046	32,580	225,453
Total general government	<u>7,979,471</u>	<u>7,761,471</u>	<u>7,355,620</u>	<u>405,851</u>	<u>6,762,063</u>

CITY OF GAITHERSBURG, MARYLAND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES – BUDGET AND ACTUAL
(BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2007 (With Comparative Totals for 2006)

(Continued)

	2007				
	Original	Amended	Actual	Variance with	2006 Actual
	Budget	Budget		Amended	
			Budget Positive		
			(Negative)		
Public Safety					
Police	\$ 5,816,647	\$ 6,170,647	\$ 6,092,140	\$ 78,507	\$ 4,874,522
Building and Code Administration	1,990,840	1,875,840	1,822,903	52,937	1,699,321
Traffic Engineering	231,535	213,035	187,015	26,020	192,551
Animal Control	360,027	360,027	331,765	28,262	327,414
	<u>8,399,049</u>	<u>8,619,549</u>	<u>8,433,823</u>	<u>185,726</u>	<u>7,093,808</u>
Public Works					
Public Works Administration	616,633	616,633	614,552	2,081	562,770
Engineering services	400,868	305,868	241,452	64,416	222,572
Streets and special projects	1,095,895	1,265,895	1,262,315	3,580	830,978
Fleet maintenance	436,533	428,533	413,863	14,670	370,403
Street lighting	649,000	604,000	597,333	6,667	541,426
Landscaping and forestry	1,042,119	1,022,619	997,207	25,412	801,700
Mowing and bulk pick-up	1,851,821	1,804,321	1,655,575	148,746	1,467,110
Recycling	749,500	724,500	712,724	11,776	673,701
	<u>6,842,369</u>	<u>6,772,369</u>	<u>6,495,021</u>	<u>277,348</u>	<u>5,470,660</u>
Parks, Recreation and Culture					
Administration	550,831	545,831	506,706	39,125	517,783
Municipal parks maintenance	1,636,761	1,599,261	1,587,054	12,207	1,345,535
Recreation programs and sports	784,425	779,425	777,114	2,311	726,435
Special events	694,611	694,611	680,682	13,929	585,140
Summer programs	610,076	574,826	545,268	29,558	527,801
Gaithersburg Youth Center	199,025	207,525	205,970	1,555	142,801
Skate Park	49,045	52,545	51,235	1,310	41,879
Recreation classes	323,510	316,010	309,517	6,493	301,531
Casey Community Center	339,916	329,916	323,765	6,151	291,590
Water Park	351,094	351,094	346,627	4,467	320,012
Aquatic facilities	283,920	243,920	203,481	40,439	202,564
Picnic pavilions	23,901	23,901	21,699	2,202	18,646
Gaithersburg Arts Barn	212,787	220,287	219,074	1,213	142,317
Kentlands Mansion	321,603	321,603	311,662	9,941	344,750
Winter Lights	242,243	242,243	238,932	3,311	228,198
Miniature golf course	98,370	93,370	82,135	11,235	71,156
Cultural arts programs	236,290	226,290	214,366	11,924	263,282
Youth services	442,145	482,145	479,992	2,153	579,361
Activities Center at Bohrer Park	422,177	412,177	403,301	8,876	365,883
Olde Towne Youth Center	168,986	184,736	182,883	1,853	-
Food service	5,000	5,000	-	5,000	-
	<u>7,996,716</u>	<u>7,906,716</u>	<u>7,691,463</u>	<u>215,253</u>	<u>7,016,664</u>

CITY OF GAITHERSBURG, MARYLAND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES – BUDGET AND ACTUAL
(BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2007 (With Comparative Totals for 2006)

(Continued)

	2007			Variance with Amended Budget Positive (Negative)	2006 Actual
	Original Budget	Amended Budget	Actual		
Community Services and Development					
Senior Program	\$ 764,354	\$ 756,854	\$ 747,641	\$ 9,213	\$ 484,033
Human Services	955,984	950,984	931,858	19,126	908,558
Homeless Assistance	339,011	344,011	335,978	8,033	341,978
Total community services and development	<u>2,059,349</u>	<u>2,051,849</u>	<u>2,015,477</u>	<u>36,372</u>	<u>1,734,569</u>
Miscellaneous					
Contingency	808,050	808,050	421,507	386,543	-
Non-departmental	1,164,301	1,329,301	1,602,751	(273,450)	1,315,345
Total miscellaneous	<u>1,972,351</u>	<u>2,137,351</u>	<u>2,024,258</u>	<u>113,093</u>	<u>1,315,345</u>
Total expenditures and encumbrances - budgetary basis	<u>\$ 35,249,305</u>	<u>\$ 35,249,305</u>	34,015,662	<u>\$ 1,233,643</u>	29,393,109
Adjustments to conform with generally accepted accounting principles			(569,618)		<u>75,673</u>
Total expenditures - GAAP basis			<u>\$ 33,446,044</u>		<u>\$ 29,468,782</u>

CITY OF GAITHERSBURG, MARYLAND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUND
Year Ended June 30, 2007

	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2007</u>
ASSETS				
Investments	<u>\$ 105,228</u>	<u>\$ -</u>	<u>\$ (40,202)</u>	<u>\$ 65,026</u>
LIABILITIES				
Deposits	<u>\$ 105,228</u>	<u>\$ -</u>	<u>\$ (40,202)</u>	<u>\$ 65,026</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.	62-68
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.	69-73
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.	74-75
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.	76-77
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.	78-86

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 Five Fiscal Years
(accrual basis of accounting)
June 30, 2007

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Governmental Activities					
Invested in Capital Assets	\$ 102,235,261	\$ 103,385,743	\$ 105,089,489	\$ 104,360,134	\$ 102,590,615
Unrestricted	<u>50,679,018</u>	<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>\$ 152,914,279</u>	<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 Five Fiscal Years
(accrual basis of accounting)
 June 30, 2007

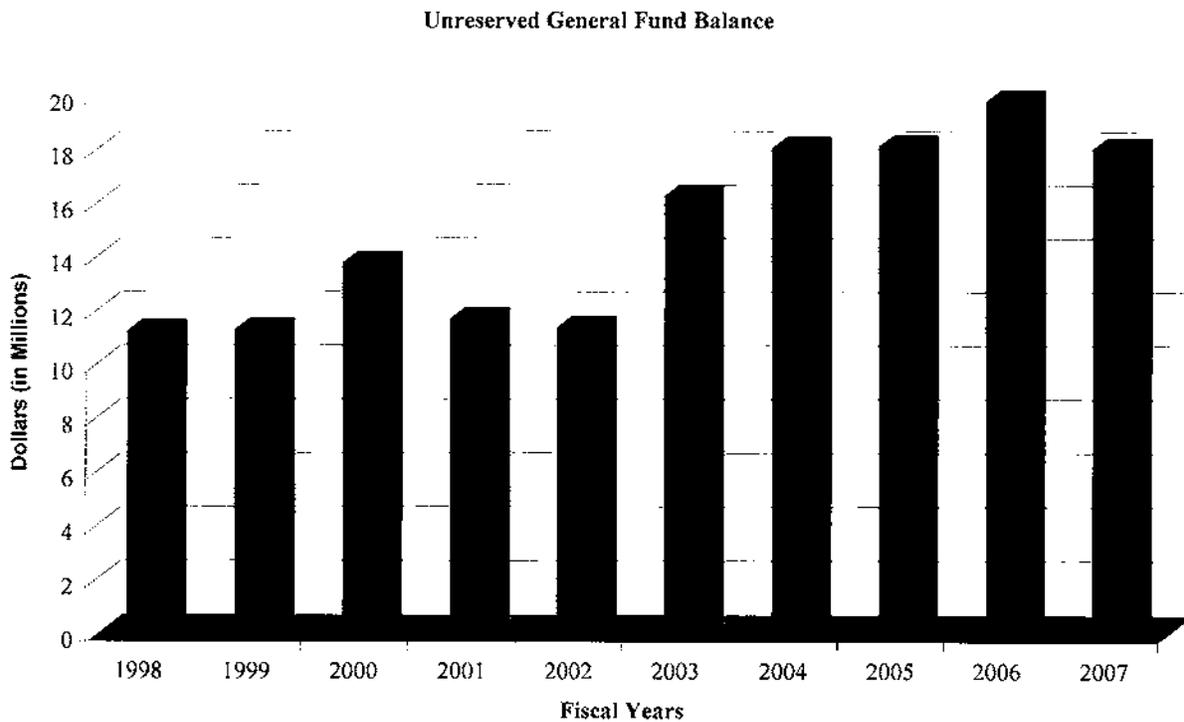
	2007	2006	2005	2004	2003
Expenses					
Governmental Activities:					
General Government	\$ 8,745,788	\$ 8,210,925	\$ 6,929,027	\$ 6,978,070	\$ 6,605,324
Public Safety	9,118,647	7,876,021	6,479,474	5,976,365	5,545,727
Public Works	9,746,888	9,412,588	9,237,552	9,222,580	5,946,142
Park, Recreation & Culture	8,538,526	7,940,172	6,858,152	6,591,139	6,332,747
Community Services & Development	1,897,647	1,871,188	1,777,491	1,582,419	1,499,289
Miscellaneous	4,258,951	1,174,091	1,263,435	642,433	1,039,064
Total Governmental Activities Expenses	42,306,447	36,484,985	32,545,131	30,993,006	26,968,293
Program Revenues					
Governmental Activities:					
Charges for Services:					
General Government	\$ 1,175,102	\$ 1,649,170	\$ 2,343,286	\$ 1,880,197	\$ 148,008
Public Safety	799,743	782,440	950,677	906,313	110,452
Public Works	1,333,515	1,375,813	999,598	738,210	899,183
Park, Recreation & Culture	3,072,008	2,989,088	2,929,167	2,084,867	2,605,305
Operating Grants and Contributions	2,141,875	1,561,444	938,266	1,103,083	3,766,654
Capital Grants and Contributions	2,364,816	2,386,066	2,789,941	3,794,716	5,485,835
Total Governmental Activities Program Revenues	\$ 10,867,059	\$ 10,744,021	\$ 10,950,935	\$ 10,507,386	\$ 13,015,437

CITY OF GAITHERSBURG, MARYLAND
CHANGES IN NET ASSETS
 Last Five Fiscal Years
(accrual basis of accounting)
 June 30, 2007
 (continued)

	2007	2006	2005	2004	2003
Net (Expense)/Revenue					
Governmental Activities	\$ (31,419,388)	\$ (25,740,964)	\$ (21,594,196)	\$ (19,765,620)	\$ (13,952,856)
Total Primary Government Net Expense	<u>\$ (31,419,388)</u>	<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	\$ 16,454,046	\$ 14,114,464	\$ 13,310,028	\$ 12,538,737	\$ 11,151,698
Franchise Fees	557,181	483,125	444,881	440,892	380,807
Admissions and Amusement Tax	985,453	1,165,087	1,008,836	887,000	672,731
Intergovernmental not Restricted to Specific Programs	9,808,731	8,779,326	8,008,710	7,900,819	7,413,523
Investment Earnings	2,627,160	1,925,574	870,163	424,765	527,717
Gain (loss) on Sale of Capital Assets	-	1,860,248	-	-	-
Miscellaneous	1,423,615	853,929	810,903	778,015	1,105,466
Total Governmental Activities	<u>\$ 31,856,186</u>	<u>\$ 29,181,753</u>	<u>\$ 24,453,521</u>	<u>\$ 22,970,228</u>	<u>\$ 21,251,942</u>
Total Primary Government Change in Net Assets	<u>\$ 436,798</u>	<u>\$ 3,440,789</u>	<u>\$ 2,859,325</u>	<u>\$ 3,204,608</u>	<u>\$ 7,299,086</u>

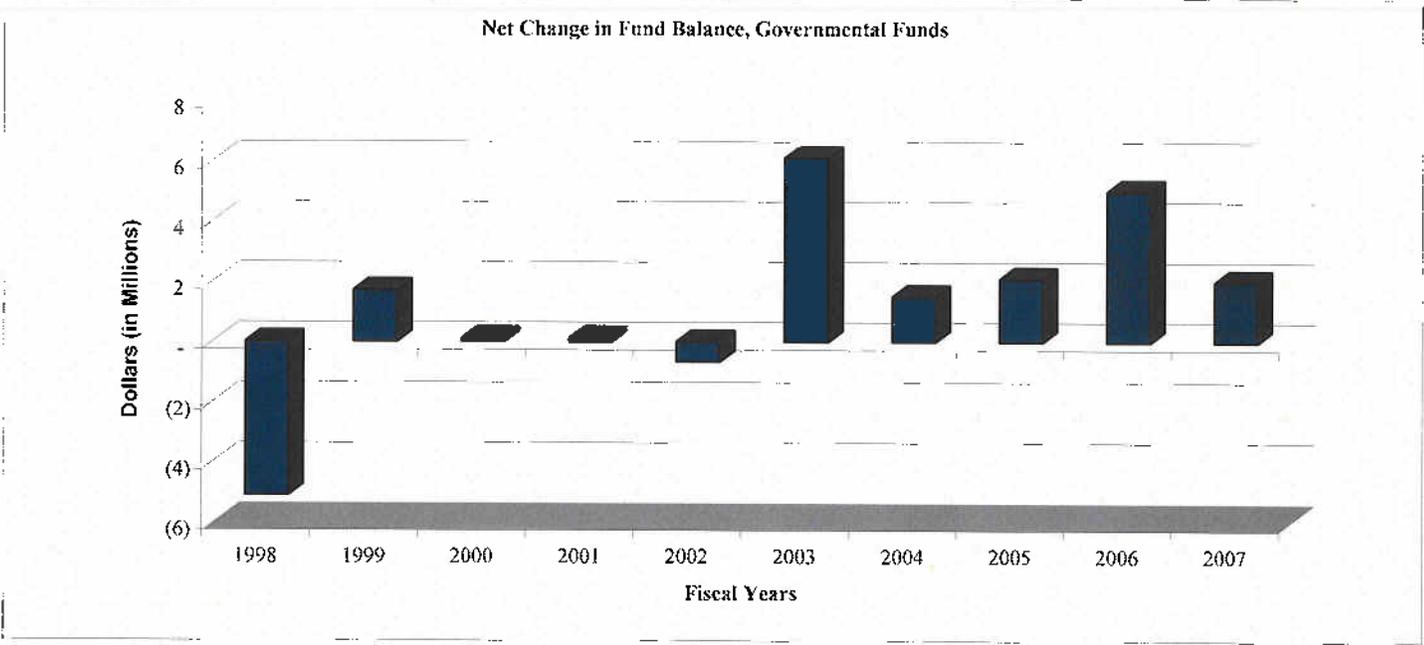
CITY OF GAITHERSBURG, MARYLAND
FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)
June 30, 2007

	2007	2006	2005	2004	2003
General Fund					
Reserved for Encumbrances and Other	\$ 10,629,786	\$ 12,437,949	\$ 12,934,815	\$ 10,068,026	\$ 9,544,154
Unreserved	18,055,440	19,827,024	18,148,339	18,076,256	16,271,512
Total General Fund	\$ 28,685,226	\$ 32,264,973	\$ 31,083,154	\$ 28,144,282	\$ 25,815,666
All Other Governmental Funds					
Reserved for Encumbrances	\$ 3,993,897	\$ 1,686,943	\$ 3,375,847	\$ 4,592,300	\$ 3,937,907
Designated, Reported in:					
Capital Projects Funds	16,549,764	13,255,730	7,741,939	7,383,977	8,899,014
Total All Other Governmental Funds	20,543,661	14,942,673	11,117,786	11,976,277	12,836,921
Total Governmental Funds	\$ 49,228,887	\$ 47,207,646	\$ 42,200,940	\$ 40,120,559	\$ 38,652,587
 Unreserved General Fund Balance as a Percentage of Expenditures	 54.0%	 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, 2007

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



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, 2007

	2007	2006	2005	2004	2003
Revenues					
Taxes and special assessments	\$ 17,563,444	\$ 15,329,572	\$ 14,288,983	\$ 13,497,432	\$ 12,299,149
Licenses and Permits	2,350,832	2,839,355	3,546,026	2,846,186	2,393,830
Intergovernment	14,365,733	12,376,203	11,736,917	10,618,001	14,652,989
Charges for Services	4,421,041	4,255,294	3,851,601	3,653,432	3,664,998
Fines and Forfeitures	165,676	184,987	269,982	270,861	97,950
Investment earnings	2,627,160	1,925,574	870,163	424,765	527,717
Miscellaneous	1,421,317	853,929	810,903	2,958,632	1,105,466
Total Revenues	\$ 42,915,203	\$ 37,764,914	\$ 35,374,575	\$ 34,269,309	\$ 34,742,099
Expenditures					
Current:					
General Government	\$ 7,428,673	\$ 6,778,533	\$ 6,272,714	\$ 6,111,467	\$ 5,780,224
Public Safety	8,402,909	\$7,163,130	6,573,228	6,201,423	5,584,233
Public Works	6,339,144	\$5,492,217	5,051,478	5,059,108	4,777,453
Parks, Recreation and Culture	7,698,543	\$7,006,072	6,713,263	6,384,575	6,023,875
Community Services and Development*	1,883,026	\$1,860,500	1,777,491	1,582,419	1,487,092
Miscellaneous	1,693,749	\$1,168,328	1,283,143	681,245	1,039,064
Capital Outlay	4,914,067	\$5,401,735	6,049,046	6,796,200	3,985,566
Total Expenditures	\$ 38,360,111	\$ 34,870,515	\$ 33,720,363	\$ 32,816,437	\$ 28,677,507
Excess of Revenues Over (Under) Expenditure:	\$ 4,555,092	\$ 2,894,399	\$ 1,654,212	\$ 1,452,872	\$ 6,064,592
Other Financing Sources (Uses)					
Sales of capital assets	\$ 18,199	\$ 2,112,309	\$ 426,169	\$ 15,100	\$ 18,450
Transfers In	10,515,055	\$9,226,622	5,190,555	3,920,537	4,444,911
Transfers out	(10,515,055)	(\$9,226,622)	(5,190,555)	(3,920,537)	(4,444,911)
Transfers to GASB 43 Trust	(2,552,050)	-	-	-	-
Total Other Financing Sources (Uses)	\$ (2,533,851)	\$ 2,112,309	\$ 426,169	\$ 15,100	\$ 18,450
Adjustments to Reclassify Liabilities		-	-	-	-
Net Change in Fund Balances	\$ 2,021,241	\$ 5,006,708	\$ 2,080,381	\$ 1,467,972	\$ 6,083,042

* 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, 2007

(continued)

	2002	2001	2000	1999	1998
Revenues					
Taxes and special assessments	\$ 11,044,580	\$ 10,338,771	\$ 9,520,070	\$ 9,108,112	\$ 7,116,675
Licenses and Permits	3,342,405	3,231,719	2,766,428	3,185,504	3,009,671
Intergovernment	9,949,156	11,985,809	15,186,630	10,115,907	8,498,656
Charges for Services	3,457,067	3,039,498	3,399,369	3,199,280	2,718,361
Fines and Forfeitures	197,949	204,358	119,043	138,741	56,713
Investment earnings	831,396	1,837,086	1,864,106	1,382,239	1,761,211
Miscellaneous	397,026	549,331	122,009	1,173,084	302,533
Total Revenues	\$ 29,219,579	\$ 31,186,572	\$ 32,977,655	\$ 28,302,867	\$ 23,463,820
Expenditures					
Current:					
General Government	\$ 5,530,902	\$ 5,683,711	\$ 5,440,656	\$ 5,015,200	\$ 4,125,128
Public Safety	5,090,247	4,944,825	4,626,937	4,307,106	3,869,850
Public Works	4,149,430	3,869,722	3,791,244	3,566,936	3,082,390
Parks, Recreation and Culture	9,122,557	5,719,980	5,583,393	5,397,229	5,292,607
Community Services and Development	-	-	-	-	-
Miscellaneous	2,191,188	2,013,389	2,036,339	2,415,750	1,973,312
Capital Outlay	7,846,247	8,806,856	11,375,676	5,901,825	10,193,930
Total Expenditures	\$ 33,930,571	\$ 31,038,483	\$ 32,854,245	\$ 26,604,046	\$ 28,537,217
Excess of Revenues Over (Under) Expenditures	\$ (4,710,992)	\$ 148,089	\$ 123,410	\$ 1,698,821	\$ (5,073,397)
Other Financing Sources (Uses)					
Sales of capital assets	\$ 4,047,276	\$ -	\$ -	\$ -	\$ -
Transfers In	8,029,150	8,634,600	8,777,000	12,460,200	3,974,000
Transfers out	(8,029,150)	(8,634,600)	(8,777,000)	(12,460,200)	(3,974,000)
Total Other Financing Sources (Uses)	\$ 4,047,276	\$ -	\$ -	\$ -	\$ -
Adjustments to Reclassify Liabilities	-	-	-	-	-
Net Change in Fund Balances	\$ (663,716)	\$ 148,089	\$ 123,410	\$ 1,698,821	\$ (5,073,397)

CITY OF GAITHERSBURG, MARYLAND
TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)
June 30, 2007

Year	Property Taxes	Admissions and Amusement Taxes	Income Taxes	Total
2007	\$ 16,379,040	\$ 985,453	\$ 8,628,861	\$ 25,993,354
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
Change 1998-2007	155.7%	53.0%	89.3%	123.9%

CITY OF GAITHERSBURG, MARYLAND
ASSESSED VALUATION OF TAXABLE PROPERTY
Last Ten Fiscal Years
June 30, 2007

Year	Real Property	Personal Property	Corporate Personal Property	Total	Estimated Actual Values of Taxable Property	Percentage Of Change
2007	\$ 9,123,103,406	\$ 2,988,302	\$ 228,289,623	\$ 9,354,381,331	\$ 9,354,381,331	29.3%
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%

* 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
ESTIMATED ACTUAL VALUES OF TAXABLE PROPERTY
Last Ten Fiscal Years
June 30, 2007

Year	Total Tax Levy	Current Tax Collections	Percent of Current Tax Collections To Tax Levy		Delinquent Tax Collections	Total Tax Collections*	Percent of Total Tax Collections To Tax Levy	
				%				%
2007	\$ 16,483,710	\$ 16,479,710	99.97	%	\$ (100,669)	\$ 16,379,041	99.37	%
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	

* "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, 2007**

2007

Taxpayer	Property Assessed Valuation (1)	Percentage of Total Assessed Valuation	
ARE LLC	\$ 182,890,290	2.00	%
Asbury Methodist Home, Inc.	151,144,312	1.66	
Lake Forest Associates	136,775,832	1.50	
Medimmune, Inc	117,447,800	1.29	
CHI Two Washingtonian LLC	90,155,323	0.99	
Saul Holdings LTD Partnership	77,497,498	0.85	
Federal Realty Investment Trust	74,686,364	0.82	
893 Clopper Road Investors	67,352,500	0.74	
MR 270 NMD LLC	63,953,232	0.70	
EL-AD Kentlands LLC	64,153,800	0.70	
	<u>\$ 1,026,056,951</u>	<u>11.25</u>	<u>%</u>
<i>Total Assessed Valuation</i>	<u>\$ 9,123,103,406</u>		

1998

Taxpayer	Property Assessed Valuation (1)	Percentage of Total Assessed Valuation	
Lake Forest Associates	\$ 50,115,600	3.71	%
Gaithersburg Comm. Assoc. LLC	29,687,490	2.20	
Asbury Methodist Home	23,945,040	1.77	
Kentlands Limited Partnership	21,974,750	1.63	
Aetna Life Insurance	19,571,120	1.45	
Federal Realty Investment Trust	19,168,010	1.42	
Loral Federal Systems	17,000,000	1.26	
IBM Corporation	16,649,680	1.23	
HSP-QRS Corp.	12,384,560	0.92	
Verbal Corporation	11,381,060	0.84	
	<u>\$ 221,877,310</u>	<u>16.44</u>	<u>%</u>
<i>Total Assessed Valuation</i>	<u>\$ 1,349,941,261</u>		

(1) Assessed valuation based on the valuation of property for taxes collected in 2007 and 1998 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, 2007

Year	Direct Rate	Overlapping Rates			Total
	City of Gaithersburg	Montgomery County	State of Maryland	Service Areas & Transit	
2007	\$ 0.212	\$ 0.624	\$ 0.132	\$ 0.188	\$ 1.156
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

- 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, 2007

Jurisdiction	Total Debt Outstanding	Percentage Applicable to City	Amount Applicable to City of Gaithersburg
Direct			
City of Gaithersburg	\$ 0	0.0%	\$ 0
Overlapping			
Montgomery County	2,056,103,628	0.0%	0
Total Direct and Overlapping Debt	\$ 2,056,103,628	0.0%	0

Source: Montgomery County Department of Finance

**CITY OF GAITHERSBURG, MARYLAND
COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2007**

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, 2007

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	%
2007	60,736	\$ 66,209	62,700,000	N/A	137,798	2.8	
2006	59,282	61,805	58,900,000	N/A	139,387	2.9	
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	3.2	
2003	55,912	53,260	48,789,893	N/A	138,891	3.3	
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	

- (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

* U.S. Census Bureau

**CITY OF GAITHERSBURG, MARYLAND
PRINCIPAL EMPLOYERS
Current Fiscal Year
Number of employees for quarter ending June 30, 2007**

2007		
Employer	Employees	Percentage of Total City Employment
National Institute of Standards and Technology	2,100	1.85 %
IBM	1,100	0.97
MedImmune	1,000	0.88
Sodexo USA	1,000	0.88
Asbury Methodist Village	867	0.76
The Gazette Newspaper	428	0.38
Gene Logic	362	0.32
Broadsoft, Inc.	200	0.18
Digene	280	0.25
Airline Foods	187	0.16
Total	7,524	6.61 %
Total Montgomery County Employees	113,804	
(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.

CITY OF GAITHERSBURG, MARYLAND
FULL-TIME CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
Last Ten Fiscal Years
June 30, 2007

Function/Program	2007	2006	2005	2004	2003
General Government:					
Mayor and City Council	1	1	1	1	1
Legal Services	-	-	-	-	-
Registrations & Elections	-	-	-	-	-
Office of the City Manager	5	6	6	7	6
Economic & Community Development	3	2	2.5	2	2
Environmental Affairs	2	2	1.5	-	-
Human Resources	4	4	3	3	3
Finance & Administration	6	6	6	6	6
Information Technology	6	5	5	4	4
Facilities Management	7	5	5	4	5
Buildings and Grounds	-	2	2	2	2
General Services	-	-	-	-	-
Public Information	4	4	4	4	4
Cable Television Channel 13	2	2	3	3	3
Planning	11	12	11	11	11
Public Safety					
Police Services	51	47	45	41	39
Code Administration	19	15	17	17	17
Traffic Engineering	2	2	2	2	2
Animal Control	4	4	4	4	4
Public Works					
Public Works Administration	5	5	5	6	6
Streets & Special Projects	9	9	7	6	6
Fleet Maintenance	5	5	5	5	5
Landscaping & Forestry	12	11	11	11	11
Mowing & Bulk Pick-Up	17	18	18	17	17
Recycling	-	-	-	-	-
Engineering Services	1	1	1	1	1
Street Lighting	-	-	-	-	-
Parks, Recreation & Culture					
Parks, Recreation & Culture	5	5	5	7	7
Parks Maintenance Division	16	17	16	16	14
Recreation Programs & Sports	5	5	4	4	4
Recreation Classes	1	1	1	1	1
Youth Services	3	4	4	4	4
Summer Programs	-	-	-	-	-
Gaithersburg Youth Center	1	-	1	-	-
Olde Towne Youth Center	-	1	-	-	-
Casey Community Center	2	2	2	2	2
Water Park	1	1	1	1	1
Gaithersburg Arts Barn	2.0	0.5	0.5	0.5	1.5
Kentlands Mansion	2.0	1.5	1.5	1.5	1.5
Cultural Arts Programs	1	1	1	1	1
Special Events	4	4	4	4	4
Gaithersburg Aquatic Center	1	1	1	1	1
Picnic Pavilions	-	-	-	-	-
Winter Lights	1	1	1	1	1
Miniature Golf Course	-	-	-	-	-
Activity Center	4	4	4	2	2
Skate Park	-	-	-	-	-
Food Service	-	-	-	-	-
Community Services and Development					
Seniors Program	5	5	4	4	4
Human Services	3	3	3	2	2
Homeless Assistance	3	3	2	2	2
Full-Time Employee Totals:					
	236.0	228.0	221.0	211.0	208.0
Employment Agreement Employee Totals:					
	11.6	17.6	18.7	19.6	16.6
Part-Time Employee Totals:					
	115.8	113.4	108.6	105.3	102.2
Total Employees					
	<u>363.4</u>	<u>359.0</u>	<u>348.3</u>	<u>335.9</u>	<u>326.8</u>

Source: City of Gaithersburg, Maryland 1998-2007 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, 2007

<u>Function/Program</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
General Government:					
Mayor and City Council	1	1	1	1	2
Legal Services	-	-	-	-	-
Registrations & Elections	-	-	-	-	-
Office of the City Manager	6	6	8	7	7
Economic & Community Development	2	2	2	2	1
Environmental Affairs	-	-	-	-	-
Human Resources	3	3	2	2	1
Finance & Administration	6	6	5	6	6
Information Technology	5	4	4	4	4
Facilities Management	5	5	5	5	3
Buildings and Grounds	2	2	2	2	2
General Services	-	-	-	-	-
Public Information	4	4	4	4	2
Cable Television Channel 13	3	2	2	2	2
Planning	12	12	12	11	11
Public Safety					
Police Services	39	39	39	37	34
Code Administration	17	17	18	17	17
Traffic Engineering	2	2	2	2	2
Animal Control	4	3	3	3	2
Public Works					
Public Works Administration	6	6	5	5	4
Streets & Special Projects	7	8	8	8	8
Fleet Maintenance	5	5	5	5	5
Landscaping & Forestry	10	10	9	9	9
Mowing & Bulk Pick-Up	18	16	16	16	16
Recycling	-	2	2	2	2
Engineering Services	1	1	1	1	1
Street Lighting	-	-	-	-	-
Parks, Recreation & Culture					
Parks, Recreation & Culture	6	6	7	7	3
Parks Maintenance Division	13	12	12	11	11
Recreation Programs & Sports	5	5	5	5	12
Recreation Classes	1	1	1	1	-
Youth Services	4	3	3	3	-
Summer Programs	-	-	-	-	-
Gaithersburg Youth Center	-	-	-	-	-
Parks, Recreation & Culture (Cont.)					
Olde Towne Youth Center	-	-	-	-	1
Casey Community Center	2	2	2	2	2
Water Park	1	1	1	1	1
Gaithersburg Arts Barn	1	1	-	-	-
Kentlands Mansion	1	1	1	1	1
Cultural Arts Programs	1	1	1	1	1
Special Events	2	2	2	2	-
Gaithersburg Aquatic Center	1	1	1	1	-
Picnic Pavilions	-	-	-	-	-
Winter Lights	1	1	1	1	-
Miniature Golf Course	-	-	-	-	-
Activity Center	3	3	3	3	2
Skate Park	-	-	-	-	-
Food Service	-	-	-	-	-
Community Services and Development					
Seniors Program	4	4	3	3	2
Human Services	2	2	2	2	2
Homeless Assistance	2	2	2	2	2
Full-Time Employee Totals:	208.0	204.0	202.0	197.0	181.0
Employment Agreement Employee Totals:	19.1	23.3	21.3	25.0	-
Part-Time Employee Totals:	110.6	119.5	114.4	137.1	123.1
Total Employees	337.7	346.8	337.7	359.1	304.1

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, 2007

Function/Program	2007	2006	2005	2004	2003
General Information					
Population	60,736	59,282	58,459	56,141	55,912
Registered Voters	27,725	25,936	25,936	25,936	25,936
General Government					
Commercial Construction Permits Issued	7	9	17	11	13
Residential Construction Permits Issued	126	134	94	77	273
Estimated Value of Construction	\$ 30,177,912	\$ 40,815,382	\$ 74,313,532	\$ 25,020,215	\$ 38,415,978
Transitional Housing to Permanent Housing	6	8	6	8	9
Public Safety					
Police Officers	46	45	43	39	36
Traffic Citations	6,803	7,818	7,066	4,699	8,733
Calls for Service	11,956	17,844	30,995	28,643	24,431
Fire Marshall Inspections	1	1	1	1	1
Animal Control Officers	3	3	3	3	3
Fire Marshall Inspections	1,094	1,527	1,302	2,118	2,313
Animal Licenses	2,477	2,454	2,472	2,624	2,498
Solid Waste					
Co-Mingled (tons)	579	804	972	745	831
Newspaper (tons)	1,449	1,407	2,013	1,812	1,873
Yard Waste (tons)	934	902	967	1,322	888

CITY OF GAITHERSBURG, MARYLAND
OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years
June 30, 2007
(continued)

	2002	2000	1999	1998	1997
	54,018	52,613	49,819	49,500	49,126
	24,631	24,631	20,766	20,341	21,495
	27	23	24	26	16
	544	466	387	145	194
\$	110,686,357	\$94,577,424	\$112,301,719	\$93,444,803	\$67,810,554
	10	6	10	8	8
	36	36	34	32	31
	8,033	5,994	5,017	4,429	3,549
	25,145	22,550	21,000	21,960	22,501
	1	1	1	1	1
	3	3	2	2	2
	2,222	2,424	2,552	1,110	438
	2,249	2,132	1,761	2,349	2,073
	699	656	673	706	718
	1,525	1,677	1,616	1,257	1,333
	543	438	422	414	305

CITY OF GAITHERSBURG, MARYLAND
COMBINED SCHEDULE OF CASH AND INVESTMENTS -
BY FINANCIAL INSTITUTIONS
June 30, 2007

Description	Total
Bank of America	\$826,771
Mercantile Potomac Bank	\$94,592
Mercantile Potomac Bank Certificate of Deposit	\$293,136
Total Financial Institutions	<u>\$1,214,499</u>
Petty Cash, Change Funds, Trust Funds and Safe Deposit Escrow:	
General Fund	\$19,621
Pension Trust Fund	\$36,901,532
Retiree Benefit Trust Fund	\$ 2,529,050
Private-Purpose Trust Fund	\$12,651
Total Petty Cash, Change Funds, Trust Funds and Safe Deposit Escrow	<u>\$39,462,854</u>
Total Cash Deposits in Financial Institutions and on Hand	<u>\$40,677,353</u>
Investments, State Treasurer's Investment Pool	\$27,227,857
Montgomery County's General Investment Fund	\$21,924,377
Total Investments	<u>\$49,152,234</u>
Total Cash and Investments	<u><u>\$89,829,587</u></u>

CITY OF GAITHERSBURG, MARYLAND
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Fiscal Years
June 30, 2007

Function/Program	2007	2006	2005	2004	2003
General Information					
Area in Square Miles	10.33	10.04	10.04	10.01	10.01
Public Safety - Police					
Stations	1	1	1	1	1
Number of Patrol Units	46	57	50	47	47
Highways and Streets					
City Streets (miles)	87.95	87.95	88.24	87.61	84.92
County Streets (miles)	6.06	5.75	5.34	5.34	5.32
State Streets (miles)	17.54	17.54	17.54	17.54	17.61
Private Streets (miles)	3.98	3.98	4.28	4.93	4.93
Street Lights	4,323	3,550	3,350	3,150	2,950
Recreation and Culture					
Park Acreage	853.48	853.48	853.48	853.48	853.48
Parks	25	25	25	24	23
Museums	1	1	1	1	-
Performance Pavilions	1	1	1	1	1
Skate Parks	1	1	1	1	1
Swimming Pools	2	2	2	2	2
Miniature Golf	1	1	1	1	1
Community Centers	5	5	4	4	4
Performance Arts	1	1	1	1	1
Tennis Courts	14	12	12	12	12

CITY OF GAITHERSBURG, MARYLAND
 CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
 Last Ten Fiscal Years
 June 30, 2007
 (continued)

2002	2001	2000	1999	1998
10.01	10.01	10.01	9.99	9.99
1	1	1	1	1
34	47	45	41	37
82.17	87.61	77.58	77.09	71.88
5.25	5.32	5.70	5.70	6.65
19.01	17.54	14.15	13.91	14.83
4.93	4.93	1.06	1.06	1.06
2,775	2,500	2,430	2,250	1,850
853.48	777.71	743.73	716.30	716.30
22	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, 2007

Project Number	Project Name	Cumulative Appropriation	Cumulative Expenditures Plus Encumbrances	Variance Favorable (Unfavorable)
CITY FACILITY:				
70-2	City Hall	\$ 4,098,852	\$ 4,039,496	\$ 59,356
72-2	Public Service Facility	3,438,894	3,243,616	195,278
86-3	Latitude Observatory	362,168	212,452	149,716
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	2,243,000	1,884,830	358,170
98-1	Facilities Projects	1,410,711	1,338,526	72,185
01-2	Kentlands Mansion	587,473	585,173	2,300
02-1	Kentlands Firehouse	20,000	-	20,000
07-1	Emergency Preparedness	80,000	-	80,000
Total City Facility		15,462,087	14,460,924	1,001,163
COMMUNITY ENHANCEMENT				
71-2	Street Lighting	1,791,406	1,554,708	236,698
79-5	Olde Towne Revitalization	3,835,518	3,026,602	808,916
81-4	Property Acquisition and Disposition	14,411,544	14,346,397	65,147
82-3	Landscape Improvement	1,279,233	1,231,201	48,032
99-4	Olde Towne Park Bell Tower	785,000	274,236	510,764
99-6	Neighborhood Amenities Program	480,000	478,582	1,418
00-1	West Diamond Avenue Sector Program	13,131,052	12,924,811	206,241
02-4	Historic District Improvements	656,585	587,311	69,274
04-1	Community Development Block Grant - HUD	1,349,684	585,850	763,834
00-0	Contingency and Future Projects	2,018,333	1,696,102	322,231
Total Community Enhancement		39,738,355	36,705,800	3,032,555
TRANSPORTATION/ENVIRONMENT				
79-3	Sidewalks, Handicapped Ramps & Bike Pathways	1,675,914	1,278,717	397,197
82-1	Stormwater Management and Storm Drainage	6,962,683	6,506,864	455,819
83-1	Street Resurfacing	14,413,175	14,230,233	182,942
91-3	Street Reconstruction	3,200,036	2,925,630	274,406
92-2	Traffic Calming and Signalization	1,257,536	1,062,786	194,750
98-7	Transit Enhancements	181,300	149,833	31,467
99-1	North Frederick Avenue Corridor Plan Implementation	165,000	125,457	39,543
07-2	Teachers Way	190,400	-	190,400
Total Transportation/Environment		28,046,044	26,279,520	1,766,524

(Continued)

CITY OF GAITHERSBURG, MARYLAND
SCHEDULE OF CUMULATIVE APPROPRIATIONS, EXPENDITURES,
AND ENCUMBRANCES – CAPITAL PROJECTS
From Project Inception Through June 30, 2007
(Continued)

Project Number	Project Name	Cumulative Appropriation	Cumulative Expenditures Plus Encumbrances	Variance Favorable (Unfavorable)
RECREATION/LEISURE				
83-2	Bohrer Park at Summit Hall Farm	\$ 12,181,514	\$ 11,961,394	\$ 220,120
87-3	Recreation Courts Renovation	604,000	589,792	14,208
93-2	Ballfield Projects	464,314	404,181	60,133
97-2	Victory Farm Park	-	-	-
98-2	Winter Lights	193,555	135,892	57,663
98-3	Lakelands Park	2,875,985	2,839,297	36,688
98-4	Art In Public Places	391,509	358,568	32,941
98-5	Gaithersburg Aquatic Center	94,206	94,206	-
99-7	School Playground Match Program	60,000	49,600	10,400
00-2	Casey Community Center Renovations	539,861	500,049	39,812
00-3	Gaithersburg Youth Center At Robertson Park	2,229,036	2,161,698	67,338
00-4	Renovation/Improvements Of Existing Parks	410,000	247,302	162,698
01-3	Malcolm King Park Improvements	311,750	113,648	198,102
02-2	Parks and Facility Signage	112,308	81,555	30,753
03-1	Gaithersburg Aquatic/Recreation Center	8,144,332	1,300,714	6,843,618
06-1	Gaithersburg Youth Center in Olde Towne	2,660,000	246,653	2,413,347
06-2	Market Square Park Plaza	722,500	722,247	253
06-3	Gaithersburg UpCounty Senior Center	700,000	138,552	561,448
Total Recreation/Leisure		<u>32,694,870</u>	<u>21,945,348</u>	<u>10,749,522</u>
Grand Total		<u>\$ 115,941,356</u>	<u>\$ 99,391,592</u>	<u>\$ 16,549,764</u>

SINGLE AUDIT REPORT

**Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Gaithersburg, Maryland (the City) as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 16, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 grant 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 management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Baltimore, Maryland
November 16, 2007

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the City of Gaithersburg, Maryland (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2007, and have issued our report thereon dated November 16, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is 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.

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

Clifton Gunderson LLP

Baltimore, Maryland

December 13, 2007, except for our report on the schedule of expenditures of federal awards which is dated November 16, 2007

CITY OF GAITHERSBURG, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2007

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Direct Program:			
Supporting Housing for Persons with Disabilities	14.181	N/A	\$ 128,247
Community Development Block Grant	14.218	N/A	322,524
Housing Opportunities for Persons with AIDS	14.241	N/A	<u>461,996</u>
Total U.S. Department of Housing and Urban Development			<u>912,767</u>
U.S. Department of Justice:			
Direct Program:			
Cops in School	16.710	N/A	<u>39,567</u>
Total U.S. Department of Justice			<u>39,567</u>
Total Expenditures of Federal Awards			<u>\$ 952,334</u>

CITY OF GAITHERSBURG
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2007

NOTE 1 – SINGLE AUDIT OVERVIEW

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

NOTE 2 – FISCAL PERIOD AUDITED

Single audit testing procedures were performed for transactions occurring during the fiscal year ended June 30, 2007.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 4 – SUB-GRANTEES

The Community Development Block Grant and Housing Opportunities for Persons with AIDS program has sub-grantees that received \$322,524 and \$461,996, respectively, in sub-awards during the year ended June 30, 2007.

CITY OF GAITHERSBURG, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2007

I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	_____	Yes	_____	X	No
Significant deficiency(ies) identified that are not considered to be material weaknesses	_____	Yes	_____	X	None reported
Noncompliance material to financial statements noted?	_____	Yes	_____	X	No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	_____	Yes	_____	X	No
Significant deficiency(ies) identified that are not considered to be material weaknesses	_____	Yes	_____	X	None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____	Yes	_____	X	No
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Identification of Major Programs

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number(s)</u>
Housing Opportunity for Persons with Aids (HOPWA)	14.241

Dollar threshold used to distinguish between type A and type B programs \$ 300,000

Auditee qualified as low-risk auditee?	_____	X	Yes	_____	No
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CITY OF GAITHERSBURG, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2007
(continued)

II. Financial Statement Findings

None

III. Federal Award Findings and Questioned Costs

None

**CITY OF GAITHERSBURG, MARYLAND
SCHEDULE OF PRIOR YEAR FINDINGS
June 30, 2007**

Finding 06-01	Procedures related to the identification and reporting of federal expenditures were not consistently performed.
Current Status	We tested the completeness of the schedule of expenditures of federal awards. No exceptions were noted. Resolved
Finding 06-02	Sub-recipient program monitoring was not documented in accordance with OMB's reporting requirements.
Current Status	We tested the City's process for performing and documenting the sub-recipient's administration of the federal program. No exceptions were noted. Resolved