

**City of Gaithersburg, MD
Comprehensive
Annual
Financial Report**

**For the Fiscal Year Ended
June 30, 2014**

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Gaithersburg
A CHARACTER COUNTS! CITY

Comprehensive Annual Financial Report

For the Fiscal Year Ended
June 30, 2014

Prepared by

The Department of Finance and Administration
Tina Hao Smith, *Acting Director*

CITY OF GAITHERSBURG, MARYLAND

**COMPREHENSIVE ANNUAL FINANCIAL
REPORT**

**For the Fiscal Year Ended
June 30, 2014**

MAYOR

Sidney A. Katz

**COUNCIL
MEMBERS**

Ryan Spiegel
Michael A. Sesma
Henry F. Marraffa, Jr.
Jud Ashman
Cathy C. Drzyzgula

CITY MANAGER

Tony Tomasello

**ACTING DIRECTOR OF FINANCE AND
ADMINISTRATION**

Tina Hao Smith, CPA

INDEPENDENT AUDITORS

McGladrey LLP

CITY OF GAITHERSBURG, MARYLAND

**COMPREHENSIVE ANNUAL FINANCIAL
REPORT**

**Fiscal Year 2014
July 1, 2013 – June 30, 2014**

Prepared by:

**ACTING DIRECTOR OF FINANCE AND
ADMINISTRATION**

Tina Hao Smith, CPA

DEPARTMENT OF FINANCE AND ADMINISTRATION

Accounting Division

Ling Yan Angela Woo, CPA, Chief Accountant

Sherry Lewis, Accounting Technician

Tammy Zelava-Castillo, Accounting Specialist

Wesley Rhodes, Procurement Officer

Anita Smith, Staff Accountant

Brittany Saravia, Administrative Assistant

Betty Woods, Senior Accounting Technician

Louise Kauffmann, Housing and Community Development
Director

Contents

Introductory Section	
Transmittal Letter	1 – 4
GFOA Certificate of Achievement for Excellence in Financial Reporting	5
Organizational Chart	6
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Financial Section	
Independent Auditor’s Report	7 – 8
Management’s Discussion And Analysis	9 – 20
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Position	21
Statement of Activities	22
Fund Financial Statements:	
Balance Sheet – Governmental Funds	23
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	24
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	25
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	26
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Budgetary Basis) and Actual – General Fund	27
Statement of Fiduciary Net Position – Fiduciary Funds	28
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	29
Notes to Basic Financial Statements	30 – 48
Required Supplementary Information	
Postretirement Healthcare and Insurance Plan Schedules of Funding Progress and Employer Contributions	49 – 50
Supplementary Information	
Schedule of Revenues – Budget and Actual (Budgetary Basis) – General Fund	51 – 54
Schedule of Expenditures and Encumbrances– Budget and Actual (Budgetary Basis) – General Fund	55 – 57
Statement of Changes in Assets and Liabilities – Agency Fund	58

Contents (Continued)

Statistical Section	
Net Position by Component	59
Changes in Net Position	60 – 61
Fund Balances, Governmental Funds	62 – 63
Changes in Fund Balances, Governmental Funds	64 – 65
Tax Revenues by Source, Governmental Funds	66
Assessed Valuation and Estimated Actual Values of Taxable Property	67
Real Property Tax Levies and Collections	68
Principal Taxpayers	69
Real Property Tax Rates – Direct and Overlapping Governments	70
Computation of Direct and Overlapping Debt	71
Computation of Legal Debt Margin	72
Demographic Statistics	73
Principal Employers	74 – 75
Full-Time City Government Employees by Function/Program	76 – 77
Operating Indicators by Function/Program	78 – 79
Combined Schedule of Cash and Investments – by Financial Institutions	80 – 81
Capital Asset Statistics by Function/Program	82 – 83
Schedule of Cumulative Appropriations, Expenditures, and Encumbrances – Capital Projects	84

Single Audit Section	
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 <i>Government Auditing Standards</i>	85 – 86
Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133	87 – 88
Schedule of Expenditures of Federal Awards	89
Notes to Schedule of Expenditures of Federal Awards	90
Schedule of Findings and Questioned Costs	91
Summary Schedule of Prior Audit Findings	92

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Introductory Section



Gaithersburg
A CHARACTER COUNTS! CITY



Winter Lights



October 24, 2014

To the Mayor and City Council
To the Residents 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 ending June 30, 2014.

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

The City of Gaithersburg's financial statements have been audited by McGladrey 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, 2014 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 that ended June 30, 2014 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 2014 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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COUNCIL MEMBERS
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Ryan Spiegel

CITY MANAGER
Tony Tomasello

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 of Gaithersburg. 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

Located less than 15 miles from Washington, DC, the City of Gaithersburg is a major international hub of information technology, defense and biotechnology companies. The City offers businesses a stable, attractive community with a highly educated workforce, where more than 23% of residents have graduate or professional degrees. Labor market participation is high in this municipality of 65,690 residents, with estimated employment above 34,000. As of August 2014, the average year-to-date unemployment rate was 4.6%, well below the Maryland average of 6.6% for the same period.

The commercial real estate market, controlled by a wide and diverse array of property owners that ranges from Real Estate Investment Trusts to local partnerships, provides businesses with competitive choices in the location selection process. Stable and/or growing major employers include MedImmune (Biologics Research & Development – Headquarters), Lockheed Martin (Information Systems – Defense), Asbury Methodist Village (Continuing Care Retirement Community), and Sodexo (Food & Facilities Management – Headquarters).

Eleven (11) Federal Government research and regulatory agencies are within a 10-mile radius of the City, including the National Institute of Standards & Technology at the center of Gaithersburg, and create an environment that stimulates entrepreneurial activity. Per Dun & Bradstreet (2014), 618 Professional/Scientific/Technical Services businesses account for 16% of local employers. In comparison, Retailers account for less than 10%.

The US Census Bureau ranked Gaithersburg the eighth fastest-growing city in 2013. Demand for residential units remains high and the City has a development pipeline of approved-but-not-yet-built residential projects totaling more than 6700 dwelling units; approximately half of those to be built in the foreseeable future. Rising land values have created market pressure for the conversion of aging retail, office and industrial properties to denser mixed-use development. Thus, the City anticipates future opportunity for revenue growth among more obsolete commercial locations.

Pending transportation improvements in the City include a full, access-controlled interchange at I-270 and Watkins Mill Road (\$42.7 mm; fully funded; open to traffic 2018), the Corridor Cities Transitway Phase 1 (Bus Rapid Transit; connecting the new interchange with Shady Grove Metro; engineering underway), and a Rapid Transit System (Bus Rapid Transit; Rt. 355 Corridor; under study).

Economic indicators reflect a healthy City economy, projected to continue attracting new employers and residents and resulting in a growing real property assessable base.

MAJOR INITIATIVES

In preparing the Fiscal Year 2014 Budget, the City of Gaithersburg identified, through a strategic planning process, initiatives to focus resources on providing effective services for residents and enhancing the quality of life of our community. The following were the major initiatives completed during Fiscal Year 2014:

- Creation of a new City website to allow for easier access to City and community information
- Completion of a biennial Citizen Survey to assist in the prioritization of strategic initiatives and direct resources, and to create opportunities for dialogue with residents
- Development of the Frederick Avenue Corridor Vicinity Capacity Study to define implementation steps to revitalize this key area
- Conducted a Salary Compensation and Classification Study for City employees to ensure the City is remaining competitive with other metropolitan communities
- Completed acquisition process with Federal General Services Administration to obtain the 9.54 acre site on Darnestown Road being vacated by the Consumer Product Safety Commission
- Complete construction of the interior renovations of the B&O train station including improvements to the waiting area and ADA restroom facilities
- Upgraded lighting at Kelley Park field #1
- Completed Phase II of the Water Park Renovation project which included upgrades to the concessions area, office space and changing room facilities
- Established a Community Action Team (CAT) as part of our crime reduction efforts. The CAT team is deployed to neighborhoods throughout the City where they are most needed and is part of a geographically based community policing strategy
- The City's five year Consolidated Plan for Community Development Block Grant funding (2013 – 2018) was approved by Department of Housing and Urban Development (HUD)

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 that ended June 30, 2013. 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.

A Certificate of Achievement is valid for a period of one year only. The City of Gaithersburg has received a Certificate of Achievement for 36 consecutive years (Fiscal Years 1978-2013). 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.

To the Mayor and City Council
To the Residents of the City of Gaithersburg, Maryland
October 24, 2014
Page 4 of 4

DISTINGUISHED BUDGET PRESENTATION

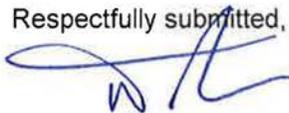
GFOA presented an award of Distinguished Presentation to the City of Gaithersburg for its annual budget for the Fiscal Year beginning July 1, 2013. In order to receive this award, a governmental unit must publish a document that meets program criteria as a policy document, as an operations guide, as 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 tenth consecutive year (Fiscal Years 2003-2012). It is our belief the current budget continues to conform to program requirements and we have submitted it to GFOA to determine its eligibility for another award.

ACKNOWLEDGMENTS

The preparation of this report in a timely manner 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 staff 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 would like to thank the Mayor and the members of the City Council for their interest and support in planning and conducting the financial operation of the City in a responsible and progressive manner.

Respectfully submitted,



Tony Tomasello
City Manager



Tina H. Smith
Acting Director of Finance and Administration



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

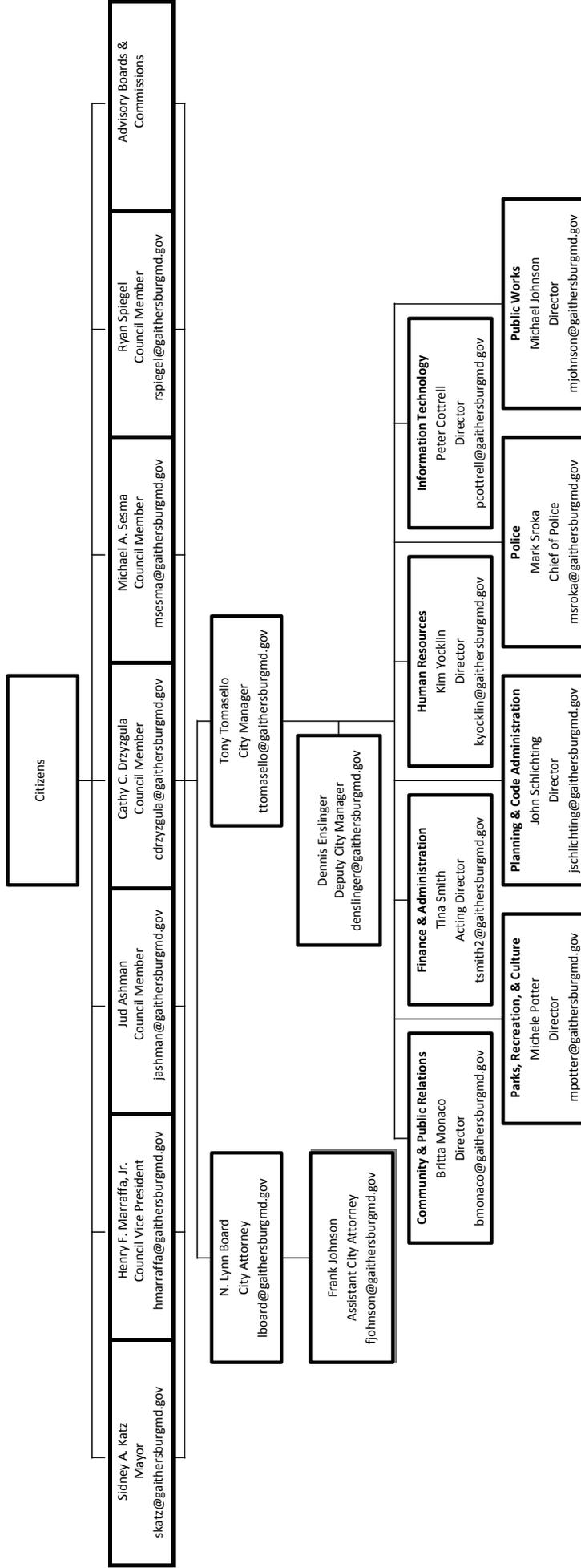
**City of Gaithersburg
Maryland**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

City of Gaithersburg, Maryland



Financial Section



Gaithersburg
A CHARACTER COUNTS! CITY



Celebrate! Gaithersburg in Olde Towne



Independent Auditor's Report

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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Gaithersburg, Maryland, as of June 30, 2014, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 9 through 19 and the Required Supplementary Information for the Postretirement Healthcare and Insurance Plan – Schedules of Funding Progress and Employer Contributions on page 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, and also is not a required part of the basic financial statements.

The schedules and information discussed in the preceding paragraph are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules and information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other information, listed in the table of contents as the introductory and statistical sections, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

McGladrey LLP

Frederick, Maryland
October 30, 2014

**CITY OF GAITHERSBURG, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

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, 2014. 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 2014

- The City's government-wide net position increased by \$9.2 million.
- The General Fund, on a current financial resource basis, reported an excess of revenues over expenditures and other financing sources and uses of \$6.2 million after making a \$6.9 million transfer to the Capital Projects Fund.
- The City's financial position improved over the past year. Total governmental funds' fund balance increased by 7.8% to \$102.4 million.
- Interest income decreased from \$114 thousand to \$77 thousand, as a result of financial market conditions and investment allocations.
- Capital Projects Fund expenditures of \$5.7 million included the Teacher's Way extension, renovation of the B&O Station, Aquatic Center repairs, storm water management projects, street construction, and street resurfacing.

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 Position 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.

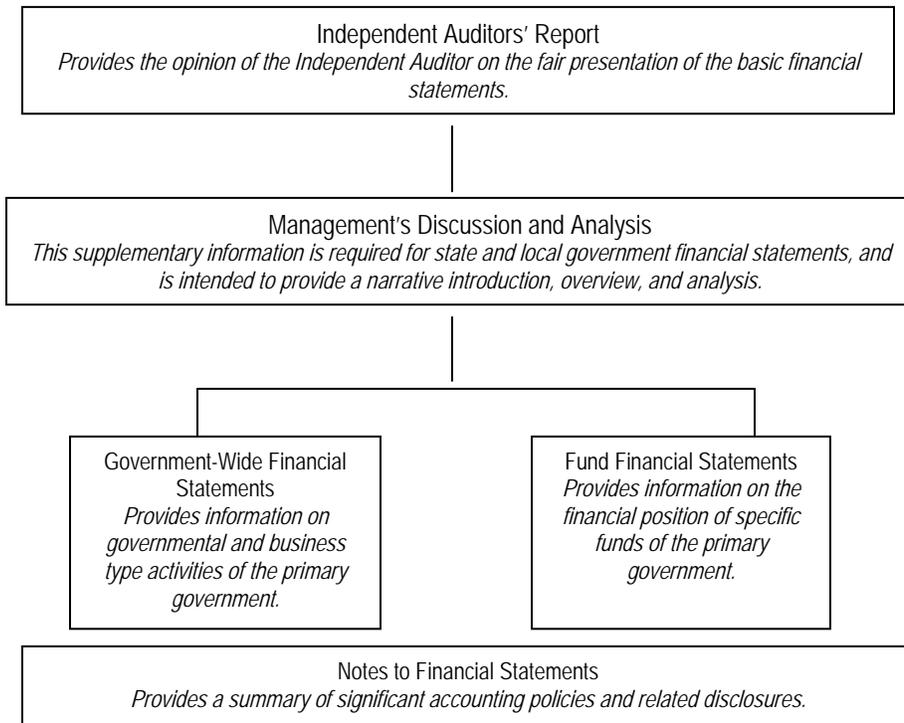
The basic financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the 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, 2014**

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, 2014**

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, Public Works, Planning and Code and General Administration.	Instances in which the City administers resources on behalf of someone else, such as pension and retiree benefit trusts.
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • 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 position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/out-flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liabilities are due and payable	All additions and deductions during the year, regardless of when cash is received or paid

CITY OF GAITHERSBURG, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

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 position 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 position.

- Over time, increases or decreases in the system's net position 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 are 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 future 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 position and a separate reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balances to the statement of activities. The City of Gaithersburg maintains only two governmental funds, those being the General Fund and Capital Projects Fund.
- *Fiduciary funds:* The City is the trustee, or *fiduciary*, for assets that belong to its employees' pension plan, retiree benefit trust, private purpose trusts, and agency funds. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. These activities are excluded from the government-wide financial statements because the assets cannot be used to finance operations.

**CITY OF GAITHERSBURG, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

Financial Analysis of the City as a Whole

Statement of Net Position: The following table presents a summary of the Statement of Net Position for the City as of June 30, 2014 with a FY 2013 comparative analysis:

	Governmental Activities	
	2014	2013
Figure 3		
Condensed Statement of Net Position		
Current and other assets	\$ 109,396,608	\$ 101,835,868
Capital assets	101,260,797	96,693,648
Total assets	210,657,405	198,529,516
Long-term liabilities outstanding	16,023,153	13,709,721
Other liabilities	4,771,353	4,120,880
Total liabilities	20,794,506	17,830,601
Net position		
Invested in capital assets	101,260,797	96,693,648
Unrestricted	88,602,102	84,005,267
Total net position	\$ 189,862,899	\$ 180,698,915

The City's assets exceeded its liabilities at the close of FY 2014 by \$189.9 million. The largest portion of the City's net position 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 \$58.9 million. Local property taxes funding amounted to \$23.9 million; intergovernmental funding, \$12.1 million; charges for services, \$12.1 million; operating grants and contributions, \$1.2 million; and capital grants and contributions, \$4.8 million. The remaining \$4.8 million came from admission and amusement taxes, hotel and motel taxes, franchise fees, and from other miscellaneous sources.

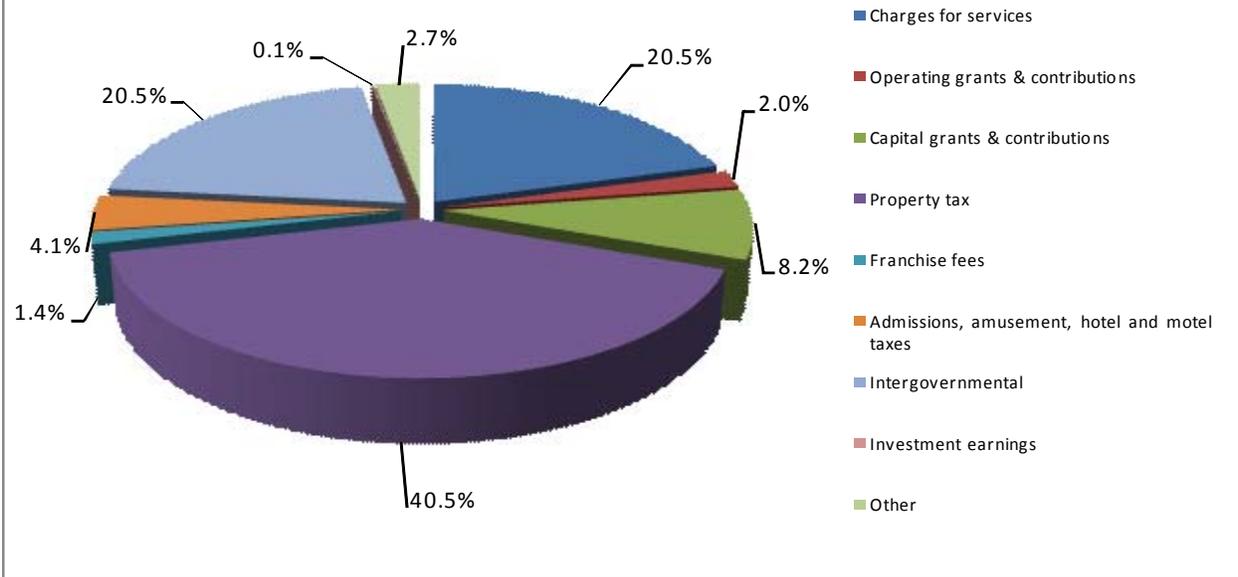
**CITY OF GAITHERSBURG, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

**Figure 4
Condensed Statement of Activities**

	<u>Governmental Activities</u>	
	2014	2013
Revenues		
Program revenues:		
Charges for services	\$ 12,053,950	\$ 13,336,028
Operating grants & contributions	1,184,147	1,640,926
Capital grants & contributions	4,824,259	1,257,733
General revenues:		
Property tax	23,855,427	23,294,315
Franchise fees	832,395	777,606
Admissions, amusement, hotel and motel taxes	2,429,703	2,269,995
Intergovernmental	12,099,303	10,159,237
Investment earnings	76,838	114,189
Other	1,568,660	4,832,201
Total revenues	<u>58,924,682</u>	<u>57,682,230</u>
Expenses		
General government	15,483,112	17,151,788
Public safety	11,654,483	10,568,639
Public works	14,102,911	12,374,419
Parks and recreation	6,259,327	6,254,667
Community services and development	2,260,865	2,217,111
Total expenses	<u>49,760,698</u>	<u>48,566,624</u>
Change in net position	<u>\$ 9,163,984</u>	<u>\$ 9,115,606</u>

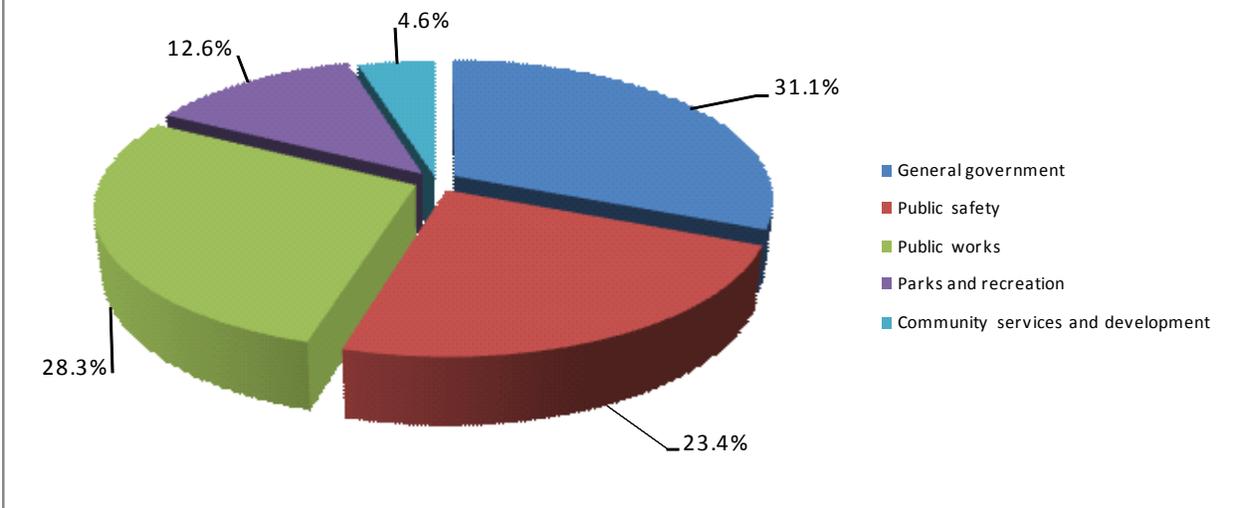
**CITY OF GAITHERSBURG, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

**Figure 5 Sources of Revenues FY-2014
Governmental Activities - \$58.9 million**



The cost of governmental activities for FY 2014 was \$49.8 million. As the chart below indicates, General Government and Public Works are two of the largest programs; however, the highest priority is placed on Public Safety, for which current year expenses totaled \$11.7 million. Various costs increases in fiscal year 2014 were attributable to creation of a new City website, completion of a biennial Citizen Survey, various developmental studies and a Salary Compensation and Classification Study for City employees. Additional costs incurred due to the filling of positions within departments of Police and Public Works which had been held vacant during the economic downturn.

**Figure 6 Expenses FY-2014
Governmental Activities - \$49.8 million**



**CITY OF GAITHERSBURG, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

Governmental Activities

General revenues for the governmental activities were \$40.9 million, while total expenses, net of charges for services and grants and contribution, were \$31.7 million. The increase in net position for governmental activities was \$9.2 million and can be largely attributed the following:

- Capital outlays of \$5.7 million offset by depreciation expense of \$3.4 million as accounted for in accordance with GASB 34, and
- Intergovernmental revenues, which were primarily grants and aid from the Federal, State and County governments. The majority of such revenues were received from the State for Income Taxes (\$10.6 million).

The following table, presents the cost and program revenues of each of the five City activities: general government, public safety, public works, parks and recreation, and community services and development. 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.

	2014			2013		
	Cost Of	Program	Net Cost	Cost Of	Program	Net Cost
	Services	Revenues	Of Services	Services	Revenues	Of Services
General government	\$ 15,483,112	\$ 3,486,429	\$ (11,996,683)	\$ 17,151,788	\$ 4,397,517	\$ (12,754,271)
Public safety	11,654,483	4,213,994	(7,440,489)	10,568,639	4,488,408	(6,080,231)
Public works	14,102,911	3,557,184	(10,545,727)	12,374,419	2,611,058	(9,763,361)
Parks and recreation	6,259,327	6,166,840	(92,487)	6,254,667	4,319,152	(1,935,515)
Community services and development	2,260,865	637,909	(1,622,956)	2,217,111	418,552	(1,798,559)
Total	\$ 49,760,698	\$ 18,062,356	\$ (31,698,342)	\$ 48,566,624	\$ 16,234,687	\$ (32,331,937)

The cost of all governmental activities this year was \$49.8 million. Some of the cost of government activities was paid by those who directly benefited from the programs (\$12.1 million) and other governments organizations that subsidized certain programs with grants and contributions (\$6 million). Of the \$31.7 million net cost of services, the amount that our taxpayers paid for the activities through City property taxes was \$23.9 million.

**CITY OF GAITHERSBURG, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

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 \$102.4 million; an increase of \$7.4 million over last year's ending fund balance of \$94.9 million.

General Fund (Governmental): The general fund had less expenditures than revenues in 2014, thereby increasing total fund balance to \$72.3 million. It is important to note that the net change in fund balance is \$6.2 million. This figure is calculated on the modified accrual basis and is slightly different from the \$6.3 million budgetary basis surplus. This difference is due to the treatment of prior and current year encumbrances.

Capital Projects Fund (Governmental): The Capital Projects Fund showed a \$1.3 million increase in fund balance. Capital Projects Funds' total fund balance of \$30 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.

Actual revenues were more than the budgeted amount by \$3.1 million, while actual expenditures and net transfers out were less than final budget by \$6 million. Actual expenditures of \$43.8 million were \$6 million less than budgeted due primarily to the concerted efforts of each department to generate savings as the instability of the economy and rising costs continued to be an issue. The \$6 million savings generated from unspent expenditures are to be carried forward to FY 2015.

The largest revenue source for the General Fund is City property tax. In FY 2014, property tax revenues of \$23.9 million represented 42 percent of total revenues for the General Fund. On the whole, taxes were 1 percent less than the budget estimate for 2014.



**CITY OF GAITHERSBURG, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

Capital Asset and Debt Administration

Capital Assets

By the end of 2014, the City had invested \$101.2 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 \$3.4 million, while additions to buildings, infrastructure, improvements, and equipment and furniture amounted to \$3.3 million. More detailed information about capital assets can be found in Note 7 to the basic financial statements.

	Governmental Activities	
	2014	2013
Land	\$ 42,371,250	\$ 37,651,550
Buildings	20,600,150	20,292,769
Improvements other than buildings	3,906,754	4,301,838
Machinery and equipment	2,937,317	3,056,385
Infrastructure	29,097,235	30,028,217
Construction in progress	2,348,091	1,362,890
Total capital assets, net	\$ 101,260,797	\$ 96,693,649

The fiscal year 2014 capital projects spending amounted to \$5.5 million for capital projects, principally in the following areas: Complete construction of the interior renovations of the B&O train station, Kelly Park field lighting, Police Radio replacement, Water Park Renovation (phase II), storm water management studies and projects, and street construction and resurfacing.

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 and other post-employment benefits liabilities. More detailed information about debt can be found in Note 8 to the basic financial statements.

	Governmental Activities	
	2014	2013
Compensated absences:		
Vacation	\$ 1,574,059	\$ 1,469,232
Sick leave	970,236	940,401
	<u>2,544,295</u>	<u>2,409,633</u>
Net OPEB obligation	13,478,858	11,300,088
Total long-term debt	\$ 16,023,153	\$ 13,709,721

**CITY OF GAITHERSBURG, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

Factors Bearing on the City's Future

The following economic factors are reflected in the City's FY 2015 budget:

- The City's economic projections in the FY 2015 budget are based on plans for projected development on the remaining amount of undeveloped land in the City. The City has a development in the pipeline for residential units and approximately half of those to be built in the next year or two.
- As we go forward, maintaining property assessments at an increase, accounting for development projects underway, and income tax collections at current levels are being factored in future projects.
- Some moderate reductions in shared revenues and grants from Federal, State and County sources were factored into assumptions.

Contacting the City's Financial Management

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

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City of Gaithersburg, Maryland

**Statement of Net Position
June 30, 2014**

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 909,779
Investments	102,762,643
Receivables	
Property taxes, net	-
Due from other governments	3,160,539
Other receivables, net	2,064,563
Inventory	33,871
Prepays	465,213
Capital assets	
Land	42,371,250
Buildings	34,660,286
Improvements other than buildings	10,914,578
Machinery and equipment	11,904,866
Infrastructure	65,431,049
Construction-in-progress	2,348,091
Less: accumulated depreciation	(66,369,323)
Total assets	<u>210,657,405</u>
Liabilities	
Accounts payable	1,724,863
Accrued liabilities	1,029,894
Deposits	2,016,596
Non-current liabilities	
Due within one year:	
Accumulated unused compensated absences	707,730
Due in more than one year:	
Accumulated unused compensated absences	1,836,565
Other postemployment benefit liability	13,478,858
Total liabilities	<u>20,794,506</u>
Net Position	
Net investment in capital assets	101,260,797
Unrestricted	88,602,102
Total net position	<u>\$ 189,862,899</u>

See Notes to Basic Financial Statements.

City of Gaithersburg, Maryland

Statement of Activities
Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Governmental Activities					
General government	\$ 15,483,112	\$ 2,640,480	\$ 50,277	\$ 795,672	\$ (11,996,683)
Public safety	11,654,483	3,538,543	639,183	36,268	(7,440,489)
Public works	14,102,911	2,426,075	-	1,131,109	(10,545,727)
Parks and recreation	6,259,327	3,448,852	236,388	2,481,600	(92,487)
Community services and development	2,260,865	-	258,299	379,610	(1,622,956)
Total governmental activities	\$ 49,760,698	\$ 12,053,950	\$ 1,184,147	\$ 4,824,259	(31,698,342)
General Revenues					
Property tax					23,855,427
Franchise fees					832,395
Admissions, amusement, and hotel taxes					2,429,703
Intergovernmental not restricted to specific programs					12,099,303
Investment earnings					76,838
Miscellaneous revenues					1,568,660
Total general revenues					40,862,326
Change in net position					9,163,984
Net Position					
Beginning					180,698,915
Ending					\$ 189,862,899

See Notes to Basic Financial Statements.

City of Gaithersburg, Maryland

Balance Sheet – Governmental Funds
June 30, 2014

	General Fund	Capital Projects Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 909,779	\$ -	\$ 909,779
Investments	102,762,643	-	102,762,643
Property taxes, net	-	-	-
Prepays	465,213	-	465,213
Inventory	33,871	-	33,871
Due from other funds	-	30,224,040	30,224,040
Due from other governments	3,160,539	-	3,160,539
Other receivables	2,064,563	-	2,064,563
Total assets	\$ 109,396,608	\$ 30,224,040	\$ 139,620,648
Liabilities, Deferred Inflow of Resources, and Fund Balances			
Liabilities			
Accounts payable	\$ 819,928	\$ 203,045	\$ 1,022,973
Accrued liabilities	1,029,894	-	1,029,894
Deposits	2,016,596	-	2,016,596
Due to other funds	30,925,930	-	30,925,930
Total liabilities	34,792,348	203,045	34,995,393
Deferred inflow of resources			
Income taxes receivable	1,442,783	-	1,442,783
Annexation receivable	600,000	-	600,000
Fines and forfeitures	221,872	-	221,872
	2,264,655	-	2,264,655
Fund balances			
Non-spendable	1,235,084	-	1,235,084
Committed	3,600,000	4,625,532	8,225,532
Assigned	11,964,092	25,395,463	37,359,555
Unassigned	55,540,429	-	55,540,429
Total fund balances	72,339,605	30,020,995	102,360,600
Total liabilities, deferred inflow of resources, and fund balances	\$ 109,396,608	\$ 30,224,040	\$ 139,620,648

See Notes to Basic Financial Statements.

City of Gaithersburg, Maryland

**Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2014**

Total fund balance – governmental funds		\$	102,360,600
Amounts reported for governmental activities in the statement of net position 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	\$	167,630,120	
Accumulated depreciation		<u>(66,369,323)</u>	101,260,797
Income taxes, annexations receivable, and fines and forfeitures in the statements of activities that do not provide financial resources and are not reported as revisions in the governmental funds			
			2,264,655
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.			
Net OPEB obligation		(13,478,858)	
Accumulated unused compensated absences		<u>(2,544,295)</u>	(16,023,153)
Net position of governmental activities			<u><u>\$ 189,862,899</u></u>

See Notes to Basic Financial Statements.

City of Gaithersburg, Maryland

Statement of Revenues, Expenditures, and Changes
in Fund Balances – Governmental Funds
Year Ended June 30, 2014

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues			
Taxes and special assessments	\$ 26,285,130	\$ -	\$ 26,285,130
Licenses and permits	4,130,419	-	4,130,419
Intergovernmental	15,544,603	-	15,544,603
Charges for services	6,253,400	-	6,253,400
Fines and forfeitures	2,509,987	-	2,509,987
Investment earnings	76,838	-	76,838
Miscellaneous	2,224,720	-	2,224,720
Total revenues	57,025,097	-	57,025,097
Expenditures			
Current			
General government	11,138,672	-	11,138,672
Public safety	10,719,779	-	10,719,779
Public works	8,589,974	-	8,589,974
Parks and recreation	6,544,528	-	6,544,528
Community services and development	2,260,327	-	2,260,327
Miscellaneous	4,713,443	-	4,713,443
Capital outlay	-	5,651,194	5,651,194
Total expenditures	43,966,723	5,651,194	49,617,917
Excess (deficiency) of revenues over expenditures	13,058,374	(5,651,194)	7,407,180
Other Financing Sources (Uses)			
Transfers in	-	6,930,000	6,930,000
Transfers out	(6,930,000)	-	(6,930,000)
Proceeds from sale of capital assets	32,658	-	32,658
Total other financing sources (uses)	(6,897,342)	6,930,000	32,658
Net change in fund balances	6,161,032	1,278,806	7,439,838
Fund Balances			
Beginning	66,178,573	28,742,189	94,920,762
Ending	\$ 72,339,605	\$ 30,020,995	\$ 102,360,600

See Notes to Basic Financial Statements.

City of Gaithersburg, Maryland

**Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2014**

Total net change in fund balances – governmental funds \$ 7,439,838

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

Capital outlays are reported in governmental funds as expenditures.

However, in the statement of activities, the cost of those assets is allocated
over their estimated useful lives as depreciation expense. This is the amount by
which capital outlays exceed depreciation expense in the current period:

Capital outlays	\$ 5,518,000	
Depreciation	<u>(3,376,243)</u>	2,141,757

Capital contributions received from assets donated to the City are recorded as revenue in the government wide financial statements		2,481,600
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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 position
differs from the change in fund balances by costs of the capital assets sold
less any accumulated depreciation:

Asset disposals	(1,253,184)	
Accumulated depreciation	<u>1,196,975</u>	(56,209)

A certain amount of 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 earned but not available revenue increased (decreased).		(529,570)
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In the statement of activities, OPEB costs are measured by the amounts earned during the year as actuarially computed. In governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). Change in net position differs from the change in fund balances by the amount of accrued OPEB benefits earned.		(2,178,770)
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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.		<u>(134,662)</u>
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Change in net position of governmental activities		<u>\$ 9,163,984</u>
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See Notes to Basic Financial Statements.

City of Gaithersburg, Maryland

Statement of Revenues, Expenditures, and Changes in Fund Balance –
Budget (Budgetary Basis) and Actual – General Fund
Year Ended June 30, 2014

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Amended Budget Positive (Negative)
	Original	Amended		
Revenues				
Taxes and special assessments	\$ 26,010,000	\$ 26,010,000	\$ 26,285,130	\$ 275,130
Licenses and permits	3,148,530	3,148,530	4,130,419	981,889
Intergovernmental	13,678,272	13,678,272	15,544,603	1,866,331
Charges for services	5,938,875	5,938,875	6,253,400	314,525
Fines and forfeitures	3,501,500	3,501,500	2,509,987	(991,513)
Investment earnings	90,000	90,000	76,838	(13,162)
Miscellaneous	1,514,970	1,514,970	2,224,720	709,750
Total revenues	53,882,147	53,882,147	57,025,097	3,142,950
Expenditures				
General government	13,561,291	13,655,341	11,061,302	2,594,039
Public safety	11,436,831	11,517,831	10,710,328	807,503
Public works	9,651,288	9,719,488	8,533,843	1,185,645
Parks and recreation	7,387,148	7,408,798	6,586,018	822,780
Community services and development	2,426,653	2,436,753	2,267,862	168,891
Miscellaneous	5,334,225	5,059,225	4,634,652	424,573
Total expenditures	49,797,436	49,797,436	43,794,005	6,003,431
Excess of revenues over expenditures	4,084,711	4,084,711	13,231,092	9,146,381
Other Financing Sources (Uses)				
Transfers out	(6,930,000)	(6,930,000)	(6,930,000)	-
Proceeds from sale of capital assets	-	-	32,658	32,658
Total other financing uses	(6,930,000)	(6,930,000)	(6,897,342)	32,658
Net change in fund balance	\$ (2,845,289)	\$ (2,845,289)	6,333,750	\$ 9,179,039
Adjustments to Conform with Generally Accepted Accounting Principles			(172,718)	
Fund Balance				
Beginning			66,178,573	
Ending			<u>\$ 72,339,605</u>	

See Notes to Basic Financial Statements.

City of Gaithersburg, Maryland

Statement of Fiduciary Net Position – Fiduciary Funds
June 30, 2014

	Pension Trust Funds	Private-Purpose Trust Fund	Agency Fund
Assets			
Investments			
Open-end mutual funds	\$ 63,899,170	\$ -	\$ -
Certificate of deposit	-	13,592	-
Due from other funds	585,109	2,000	114,781
Total assets	<u>64,484,279</u>	<u>15,592</u>	<u>\$ 114,781</u>
Liabilities			
Deposits	-	-	<u>\$ 114,781</u>
Net Position			
Restricted for pensions and other purposes	<u>\$ 64,484,279</u>	<u>\$ 15,592</u>	

See Notes to Basic Financial Statements.

City of Gaithersburg, Maryland

Statement of Changes in Fiduciary Net Position – Fiduciary Funds
Year Ended June 30, 2014

	Pension Trust Funds	Private-Purpose Trust Fund
Additions		
Contributions		
Employee	\$ 1,095,780	\$ -
Employer	3,587,655	-
Interest and gains	9,238,607	3
Other	43,850	-
Total additions	<u>13,965,892</u>	<u>3</u>
Deductions		
Benefits and withdrawals	<u>4,561,403</u>	-
Change in net position	9,404,489	3
Net Position		
Beginning	<u>55,079,790</u>	<u>15,589</u>
Ending	<u>\$ 64,484,279</u>	<u>\$ 15,592</u>

See Notes to Basic Financial Statements.

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

Note 1. Overview and Summary of Significant Accounting Policies

The City of Gaithersburg, Maryland (the City) 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.

A. Financial Reporting Entity

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

B. Government-Wide and Fund Financial Statements

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

Statement of Net Position: 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 position is reported in three categories: (1) invested in capital assets, net of related debt; (2) restricted; and (3) unrestricted.

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

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

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

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

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

C. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise assets, liabilities, reserves, fund balance/net position, 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 are typically financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "fund balance." The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following comprise the City's major governmental funds:

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

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

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

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

Private-Purpose Trust Fund: 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 they 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 Fund: 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 contributions made by the City to finance future other postemployment benefit payments. The plan is administered by a committee appointed by the City.

Agency Fund: 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.

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

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

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are fund financial statements for the Pension Trust, 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 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. Property on which taxes are not paid by the succeeding June 1 may be 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 earned, but not available revenue and are recognized at the date of receipt. The City's tax rate for the collection year ended June 30, 2014, was \$.262 per \$100 of assessed valuation.

Developer contributions are recognized as a receivable when an enforceable legal claim arises. Contributions that contain a purpose restriction are reported in net position as restricted until used. Contributions are considered available if received within 60 days of year-end. Developer contributions received under executed annexation agreements are further discussed in Note 16.

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

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

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.

E. Encumbrances

Appropriations in the governmental funds are charged for encumbrances when commitments are made. Fund balances are assigned for outstanding encumbrances, which serve as authorizations for expenditures in the subsequent year. At June 30, 2014, encumbrances in the general fund totaled \$688,621.

F. Use of Estimates

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

G. Cash and Cash Equivalents

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

H. Investments

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

I. Receivables

Receivables are carried at original invoice amount less an estimate made for doubtful accounts. It is management's policy to use the aggregate of all accounts that are delinquent three years or more on property taxes as the basis and determination of the allowance for doubtful accounts. At June 30, 2014, the aggregate of property tax accounts, delinquent three years or more, was \$72,396. Receivables are written off when deemed uncollectible and recoveries of receivables previously written off are recorded when received.

J. Inventory

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

K. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2014, 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.

L. Deferred Outflows of Resources

Deferred outflows are the consumption of net position by the government that is applicable to a future period. The City had no deferred outflows at June 30, 2014.

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

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

M. 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

N. Inter-Fund Transactions

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

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

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

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

O. Deferred Inflows of Resources

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balances that applies to a future period and so will not be recognized in an inflow of resources (revenue) until that time. One item which qualifies for reporting in this category, which arises only under the modified accrual basis of accounting, is unavailable revenue. Accordingly, it is only reported in the governmental funds balance sheet. The City reports unavailable revenues from income taxes, annexation agreements, and fines and forfeitures. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Notes to Basic Financial Statements

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

P. Compensated Absences

Full-time employees earn four hours of sick leave for each pay period of service. Sick leave may be accumulated with no maximum balance, and may be applied day-for-day in order to assist an employee in meeting the years of service retirement requirement. Upon retirement from service, the employee is paid for one quarter of their accumulated sick leave.

Employees earn annual vacation leave at the rate of 12 days per year for up to three years of service; 15 days per year for four to six years of service; 18 days per year for seven to nine years of service; 21 days per year for 10 to 12 years of service; and 24 days per year after 12 years of service. At the City Manager's discretion, employees may receive payment for unused vacation under unusual circumstances. All outstanding vacation, not to exceed 240 hours, is payable upon separation of service.

For governmental fund types, the amount of accumulated unpaid vacation and sick leave that is payable from available resources is recorded as a liability of the respective fund only if it has matured, for example, as a result of employee retirements and resignations. As of June 30, 2014, no accumulated unpaid vacation or sick leave had matured, resulting in it being maintained separately and being a reconciling item between the fund and government-wide financial statement presentations.

Q. Fund Balance

Governmental fund types report fund balances in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained. Restricted fund balance are amounts that are restricted to specific purposes when the constraints are externally imposed by creditors, grantors, contributors or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. Committed fund balances are amounts that can only be used for specific purposes. The City Council must approve a resolution in order to establish a fund balance commitment, as well as approve the elimination of a fund balance commitment. Assigned fund balances are amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Manager and the Acting Director of Finance and Administration have the authority to establish assignments of fund balance. Unassigned fund balance is the residual classification for the General Fund.

The City first considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. When unrestricted amounts are considered to have been spent, the City considers committed amounts first, then assigned, and finally unassigned when an expenditure is incurred for which amounts in any of those unrestricted fund balance classifications could be used.

Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision making authority, the Mayor and City Council, are to be reported as committed fund balance. The action to establish, modify or rescind commitments would be a majority vote of the Council taken at a public meeting. Reservations of fund balance are typically done annually during the adoption of the annual budget.

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

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

R. Net Position

Net position represents the difference between assets plus deferred outflows and liabilities plus deferred inflows. Net position net investment in capital assets, consist 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, 2014, the City had no debt associated with acquisition of capital assets. Net position is 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 position is available.

Note 2. Stewardship, Compliance, and Accountability

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

- 1) Prior to May 2, the City Manager submits to the City Council a proposed operating and capital budget at the program level within each department for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Expenditures may not legally exceed budgeted appropriations at the department level.
- 2) Public hearings are conducted at City Hall to obtain taxpayer comments.
- 3) Prior to July 1, the budget for the General Fund is legally enacted through passage of an ordinance.
- 4) The City Council is authorized to transfer budgeted amounts between programs and 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 25 percent.
- 5) Formal budgetary integration is employed as a management control device during the year for the General Fund. Project-length financial plans are adopted for the Capital Projects Fund.
- 6) The policy established by the Mayor and Council of the City of Gaithersburg with respect to the City Budget (budgetary basis) does not conform with accounting principles generally accepted in the United States of America (GAAP basis) in certain respects. The primary difference 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 they 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:

	Revenues	Expenditures and Encumbrances	Other Financing Sources (Uses)	Current Year Effect on Fund Balance
General Fund				
Budgetary basis	\$ 57,025,097	\$ 43,794,005	\$ (6,897,342)	\$ 6,333,750
Prior year encumbrances outstanding, 6/30/13	-	861,339	-	(861,339)
Current year encumbrances outstanding, 6/30/14	-	(688,621)	-	688,621
GAAP basis	<u>\$ 57,025,097</u>	<u>\$ 43,966,723</u>	<u>\$ (6,897,342)</u>	<u>\$ 6,161,032</u>

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

Note 3. Cash and Investments

Deposits:

Custodial credit risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned. 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, 2014, 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, 2014:

	General Fund	Pension Trust Funds	Private-Purpose Trust Fund
State Treasurer's Investment Pool	\$ 99,184,610	\$ -	\$ -
Montgomery County's General Investment Fund	3,578,033	-	-
Certificates of deposit	-	-	13,592
Open-end mutual funds	-	63,899,170	-
	<u>\$ 102,762,643</u>	<u>\$ 63,899,170</u>	<u>\$ 13,592</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 Acting 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 MLGIP is rated "AAAm" by Standard and Poor's (their highest rating), and the Montgomery County General Investment Fund is not rated. The City places no limit on the amount the City may invest in any one issuer. Pension and retiree benefit trusts are invested in pooled mutual funds, which are unrated. The City does not have a formal investment policy for credit risk.

The MLGIP was established in 1982 under Article 95 Section 22G of the Annotated Code of Maryland and is under the administration of the State Treasurer. The MLGIP seeks to maintain a constant unit value of \$1.00 per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, marked to market, is calculated and maintained on a weekly basis to ensure a \$1.00 per unit constant value. The pool is managed in a "Rule 2(a)-7 like" manner and is reported at amortized cost pursuant to Rule 2(a)-7 under the Investment Company Act of 1940.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. To limit the City's exposure to fair value losses arising from increasing interest rates, the City's investment policy limits the term of investment maturities. Investments in the MLGIP are highly liquid and primarily consist of money market funds. Investments in the Montgomery County General Investment Fund consist of various instruments with varying maturities, the majority of which are less than one year, with no maturities greater than two years. Certificates of deposit have maturities of less than one year. A portion of the pension trust fund mutual funds is invested in bond funds. These funds consist of debt instruments with varying maturities. The City does not have a formal investment policy for interest rate risk.

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

Note 3. Cash and Investments (Continued)

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, 2014. For purposes of risk exposure, certificates of deposit are treated as deposits, which were previously discussed above. The City does not have a formal investment policy for custodial credit risk.

Note 4. Receivables

Receivables at June 30, 2014, consist of the following:

	General Fund	Capital Projects Fund	Total Governmental Activities
Due from other governments			
County	\$ 87,194	\$ -	\$ 87,194
State	3,033,833	-	3,033,833
Federal	39,512	-	39,512
	<u>\$ 3,160,539</u>	<u>\$ -</u>	<u>\$ 3,160,539</u>
Other receivables			
Cable TV fees	\$ 227,611	\$ -	\$ 227,611
Police tickets and fines	178,618	-	178,618
OPEB Trust reimbursement	88,005	-	88,005
Developer contributions	600,000	-	600,000
Miscellaneous	234,329	-	234,329
Note receivable	736,000	-	736,000
	<u>\$ 2,064,563</u>	<u>\$ -</u>	<u>\$ 2,064,563</u>

Note 5. Inter-Fund Receivables, Payables, and Transfers

Inter-fund receivable and payable balances at June 30, 2014, are as follows:

<u>Due From Fund</u>	<u>Due to Fund General Fund</u>
Capital Projects Fund	\$ 30,224,040
Pension Trust Fund	585,109
Private-Purpose Trust Fund	2,000
Agency Fund	114,781
	<u>\$ 30,925,930</u>

The balance of \$30,224,040, 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 inter-fund balances result from the time lag between the dates that (1) inter-fund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Inter-fund receivables and payables are non-interest-bearing and are normally settled in the subsequent period.

Inter-fund transfers for the year ended June 30, 2014, consisted of a transfer in the City's normal course of business from the General Fund to the Capital Projects Fund in the amount of \$6,930,000.

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

Note 6. Long-Term Receivables

On December 19, 2012, the City entered into a loan agreement with a third party to finance renovations to a 32-unit residential facility in the amount of \$486,000. The loan is in furtherance of the City's Affordable Housing Initiative. The terms of the note call for annual interest-only payments at a rate of two percent per annum commencing on January 1, 2014. The entire unpaid balance, together with accrued interest, is due on January 1, 2020. The loan is secured, in a second lien position, by a deed of trust on the land and any structures erected or placed on the land, and an assignment of rents. The outstanding balance of the long-term receivable as of June 30, 2014, was \$486,000.

On April 14, 2014, the City entered into a loan agreement with the same third party above to provide residential rental housing for lower income households in the amount of \$250,000. The loan is in furtherance of the City's Affordable Housing Initiative. The terms of the note call for annual installments at the lesser of interest at a rate of two percent per annum or fifty percent of net cash flow commencing on June 1, 2015. The entire unpaid balance, together with accrued interest, is due on January 1, 2020. The loan is secured by a deed of trust, security agreement and assignment of rents. The outstanding balance of the long-term receivable as of June 30, 2014, was \$250,000.

Note 7. Capital Assets

Capital asset activity for the year ended June 30, 2014, consisted of the following:

Governmental Activities	Balance, July 1, 2013	Additions/ Transfers	Deletions/ Transfers	Balance, June 30, 2014
Capital assets not being depreciated				
Land	\$ 37,651,550	\$ 4,719,700	\$ -	\$ 42,371,250
Construction-in-progress	1,362,890	985,201	-	2,348,091
	<u>39,014,440</u>	<u>5,704,901</u>	<u>-</u>	<u>44,719,341</u>
Capital assets being depreciated				
Buildings	33,490,285	1,178,164	(8,163)	34,660,286
Improvements other than buildings	10,853,111	61,467	-	10,914,578
Machinery and equipment	12,349,672	800,215	(1,245,021)	11,904,866
Infrastructure	65,176,196	254,853	-	65,431,049
	<u>121,869,264</u>	<u>2,294,699</u>	<u>(1,253,184)</u>	<u>122,910,779</u>
Less accumulated depreciation for				
Buildings	(13,197,516)	(870,783)	8,163	(14,060,136)
Improvements other than buildings	(6,551,272)	(456,552)	-	(7,007,824)
Machinery and equipment	(9,293,287)	(863,074)	1,188,812	(8,967,549)
Infrastructure	(35,147,980)	(1,185,834)	-	(36,333,814)
	<u>(64,190,055)</u>	<u>(3,376,243)</u>	<u>1,196,975</u>	<u>(66,369,323)</u>
Capital assets, net	<u>\$ 96,693,649</u>	<u>\$ 4,623,357</u>	<u>\$ (56,209)</u>	<u>\$ 101,260,797</u>

Depreciation expense was charged to governmental functions for the year ended June 30, 2014, as follows:

General government	\$ 1,019,691
Public safety	400,326
Public works	1,619,903
Parks and recreation	336,323
	<u>\$ 3,376,243</u>

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

Note 8. Long-Term Liabilities

At June 30, 2014, the City's long-term liabilities consist of accumulated unused compensated absences and other postemployment benefits liabilities. The entire long-term 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, 2014:

	Balance, June 30, 2013	Additions	Deductions	Balance, June 30, 2014	Amounts Due Within One Year
Compensated absences					
Vacation	\$ 1,469,232	\$ 290,240	\$ (185,413)	\$ 1,574,059	\$ 626,807
Sick leave	940,401	121,158	(91,323)	970,236	80,923
	<u>2,409,633</u>	<u>411,398</u>	<u>(276,736)</u>	<u>2,544,295</u>	<u>707,730</u>
OPEB liability	11,300,088	3,207,000	(1,028,230)	13,478,858	-
	<u>\$ 13,709,721</u>	<u>\$ 3,618,398</u>	<u>\$ (1,304,966)</u>	<u>\$ 16,023,153</u>	<u>\$ 707,730</u>

Note 9. Fund Balance

Governmental fund balances at June 30, 2014, are summarized as follows:

	General Fund	Capital Projects Fund
Non-spendable		
Prepays	\$ 465,213	\$ -
Inventory	33,871	-
Long-term receivable	736,000	-
	<u>1,235,084</u>	<u>-</u>
Committed to		
Sidewalks	200,000	-
Parks	1,000,000	-
Housing initiative fund	2,400,000	-
Capital projects	-	4,625,532
	<u>3,600,000</u>	<u>4,625,532</u>
Assigned to		
Vehicle and equipment replacement	9,562,366	-
Economic development	1,323,059	-
Self-insurance	164,654	-
Training	225,392	-
General government	504,690	-
Public safety	22,211	-
Public works	69,486	-
Parks and recreation	47,365	-
Community service	4,676	-
Nondepartmental	40,193	-
Other capital projects	-	25,395,463
	<u>11,964,092</u>	<u>25,395,463</u>
Unassigned	55,540,429	-
Total fund balances	<u>\$ 72,339,605</u>	<u>\$ 30,020,995</u>

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

Note 10. Pension Plans

The City maintains one single-employer, non-contributory defined contribution pension plan covering all full-time employees. The pension plan is maintained as a Pension Trust Fund. The City also maintains a single-employer, defined benefit postretirement healthcare and insurance plan for qualifying retirees and disabled employees. These plans are further discussed in Notes 11 and 12.

The City does not produce separate comprehensive annual financial reports for either of these plans; as such, all required disclosures for the plans are included within this report and are as follows:

**Combining Statement of Fiduciary Net Position – Pension Trust Funds
June 30, 2014**

	Pension Trust Fund	Retiree Benefit Trust Fund	Total
Assets			
Investments			
Open-end mutual funds	\$ 57,562,546	\$ 6,336,624	\$ 63,899,170
Due from other funds	585,109	-	585,109
Total assets	\$ 58,147,655	\$ 6,336,624	\$ 64,484,279
Net Position			
Restricted for pensions and other purposes	\$ 58,147,655	\$ 6,336,624	\$ 64,484,279

**Combining Statement of Changes in Fiduciary Net Position – Pension Trust Funds
Year Ended June 30, 2014**

	Pension Trust Fund	Retiree Benefit Trust Fund	Total
Additions			
Contributions			
Employee	\$ 1,095,780	\$ -	\$ 1,095,780
Employer	2,277,655	1,310,000	3,587,655
Interest and gains	8,344,955	893,652	9,238,607
Other	43,850	-	43,850
Total additions	11,762,240	2,203,652	13,965,892
Deductions			
Benefits and withdrawals	4,091,545	469,858	4,561,403
Change in net position	7,670,695	1,733,794	9,404,489
Net Position			
Beginning	50,476,960	4,602,830	55,079,790
Ending	\$ 58,147,655	\$ 6,336,624	\$ 64,484,279

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

Note 11. Retirement, Savings, and Deferred Compensation Plans

The City has its own (single employer) non-contributory defined contribution pension plan covering all full-time employees adopted through a formal resolution by City Council. This plan is authorized under Section 401 of the Internal Revenue Code. The City contributes 8.0 percent of annual salary for participating employees. Employees are eligible to participate immediately upon hire. Participants fully vest over five years in the City's contributions to the plan. A supplemental retirement plan contribution up to 2 percent is also available for the eligible public safety and public works full-time employees since August 2005, with up to an additional 3 percent for these employees who also participate in the City's 457 plan. The amount of the City's covered payroll was \$17,959,813 and \$16,950,450 and its total payroll for all employees was \$21,583,634 and \$20,348,844, for the years ended June 30, 2014 and 2013, respectively. Required employer contributions of \$1,784,350 and \$1,689,664 or 10.0 percent of covered payroll were made to the plan for the years ended June 30, 2014 and 2013, respectively. The plan is administered by a committee appointed by the City who are authorized to make changes to the plan amendments. ICMA Retirement Corporation serves as trustee of the plan. As of June 30, 2014 there were 266 employees participating in the plan.

The City also has its own contributory savings plan covering all full-time employees adopted through a formal resolution by City Council. This plan is a defined contribution plan authorized under Section 401 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. Employees made contributions to the plan totaling \$1,100,477 and \$1,063,619, or 6.10 percent and 6.27 percent of covered payroll, for the years ended June 30, 2014 and 2013, respectively. The City will match employees' contributions in an amount equal to 60 percent of employees' contributions up to a maximum of 5 percent of the employees' annual salary. Required employer contributions of \$493,305 and \$459,619, or 2.56 percent and 2.71 percent of covered payroll, were made to the Plan for the years ended June 30, 2014 and 2013, respectively. The plan is administered by a committee appointed by the City who are authorized to make changes to the plan amendments. ICMA Retirement Corporation serves as trustee of the plan. As of June 30, 2014 there were 125 employees participating in the plan.

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 prescribe that the City no longer owns the amounts deferred by employees, including the related income on those amounts. Accordingly, the assets and the liability for the deferred compensation plan participants, including earnings on plan assets, are not included in the City's financial statements. The plan assets will not be subject to the claims of the public entity's creditors during financial crises.

The City has established a Retirement Health Savings (RHS) plan. Employees are eligible to participate immediately upon hire in the first year that an employee opts out of medical and/or dental coverage from the City. He or she may make a one-time irrevocable election for this contribution to his or her RHS account equal to the amount of the premium that would be paid by the City for single medical coverage and/or single dental coverage. 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.

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

Note 12. Postretirement Healthcare and Life Insurance

Plan Description: The City has a plan (single-employer), which provides hospitalization, dental, and life insurance benefits for qualifying retirees and disabled employees. The personnel ordinance requires that the City pay 100 percent of the life insurance premiums and 85 percent 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 44 eligible retirees 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 percent 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 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 2014 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 beginning in FY 2007, to full funding of the Actuarially Required Contribution (ARC). The 115 Trust is reported by the City as a pension trust fund, the Retiree Benefit Trust Fund.

Funding Policy: The City is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The current ARC consisted of the normal cost of \$1,796,000 and the amortization of unfunded accrued liability of \$1,426,000 for a total current year required contribution of \$3,222,000.

Annual OPEB Cost and Net OPEB Obligation: The City's annual other postemployment benefit (OPEB) cost (expense) and the net OPEB obligation are as follows:

Annual OPEB Cost (AOC)	
ARC	\$ 3,222,000
Less amortization of net OPEB obligation	(580,000)
Plus interest on net OPEB obligation	565,000
	<hr/>
Total AOC	\$ 3,207,000
	<hr/>
Net OPEB Obligation (NOO)	
Beginning of year NOO	\$ 11,300,088
Current year AOC	3,207,000
Employer contributions:	
Trust contribution	(1,310,000)
Implicit hidden subsidy payment to retirees	(169,000)
Reimbursement received from Trust for previous pay-as-you-go funding	450,770
	<hr/>
End of year net NOO	\$ 13,478,858
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City of Gaithersburg, Maryland

Notes to Basic Financial Statements

Note 12. Postretirement Healthcare and Life Insurance (Continued)

Three year trend information of the City's annual OPEB cost and net OPEB obligation are as follows:

Fiscal Year Ending June 30,	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	3,088,000	637,682	20.65%	8,618,050
2013	3,314,000	631,962	19.07%	11,300,088
2014	3,207,000	1,028,230	32.06%	13,478,858

Funded Status and Funding Progress: As of March 1, 2014, the latest actuarial valuation date, the plan was 14.22% funded. The actuarially accrued liability for benefits was \$32,371,000, and the actuarial value of assets was \$4,602,828, resulting in an unfunded actuarial accrued liability (UAAL) of \$27,768,172. The covered payroll (annual payroll of active employees covered by the plan) was \$17,153,693, and the ratio of UAAL to the covered payroll was 161.88%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The City continues to maintain a partially funded status. The schedules of funding progress and employer contributions, presented as required supplementary information following the notes to the basic financial statements on page 47, presents information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the March 1, 2014 actuarial valuation, the projected unit credit, with linear pro-ration to assumed retirement date, actuarial cost method was used. Significant actuarial assumptions used include (a) overall rate of inflation of 2.8 percent; (b) a rate of return on the investment of 5.0 percent per year compounded annually; (c) projected salary increases of 3.5 percent compounded annually (used for amortization purposes); (d) annual medical and prescription drug trend rate of 7.5 percent initially, reduced annually to arrive at an ultimate healthcare cost trend of 4.3 percent; (e) rates of mortality based upon RP-2000 Combined Healthy Mortality Table; (f) termination of service rates based upon sex and length of service, equal to the decrements used in the June 30, 2012 valuation for the State of Maryland Employees' Pension System; and (g) claims costs based upon age-adjusted premiums for single or family coverage, with explicit costs ranging from \$5,769 to \$14,069, medical and drug costs ranging from \$5,695 to \$23,296, and dental costs ranging from \$496 to \$874. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a period of 25 years for year ended June 30, 2014.

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

Note 13. 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 2014, the City paid premiums of \$243,256 to the trust. The agreement for the formation of the LGIT provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$5 million for each insured event.

The City also participates in a similar risk sharing pool for its workers' compensation coverage. The City is one of 12 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 2014, the City paid premiums of \$428,590 to Montgomery County.

Note 14. Commitments and Contingencies

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 financial statements of the City.

Capital Projects: The City is committed under various contracts pertaining to street resurfacing, storm water management, traffic signalization, and other capital improvement program projects totaling \$4,625,532 at June 30, 2014. All contracts binding as of June 30, 2014, are appropriately included on the governmental funds' balance sheet as a commitment of fund balance for encumbrances in the Capital Projects Fund.

Grant Program: The City participates in a number of state- and federally-assisted grant programs, which are subject to financial and compliance audits by the grantors or their representatives. Such federal programs were audited in accordance with the Federal Office of Management and Budget's Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations* for the current year. The amount of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

Note 15. 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 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 its 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 its contribution to the purchase price;
- 2) The City will be paid an amount equal to the expenditures it paid for the design and renovations in the City use area and joint use areas; and
- 3) The City will be paid 30 percent of the proceeds that remain.

The City's share of the costs of acquiring and renovating the property is included in capital assets in the amount of \$1,816,537. The costs of operations of the senior citizens center are accounted for in the General Fund of the City.

Note 16. Crown Farm Annexation Agreement

On December 7, 2010, the City executed the Second Amendment to an Annexation Agreement with the developer of a property. Under the terms of the agreement, the developer of the property is required to make contributions to the City in installments through June 2015. On the date the agreement was executed, the City had an enforceable legal claim to the full amount due of \$4,200,000. The contribution of \$4,200,000 was recognized in the statement of activities during fiscal year 2013 as the applicable revenue recognition criteria had been met. The contribution recognized consists of the following: amounts received in previous fiscal years of \$3,000,000; current year receipts of \$600,000 and; amounts owed to the City of \$600,000, which is recognized as a receivable as of June 30, 2014. The \$600,000 receivable balance was recorded as earned but not available revenue in the General Fund since the funds were not received within 60 days after year-end.

Note 17. Conduit Debt Obligation

The total conduit debt outstanding at June 30, 2014, was \$115,655,000 and consists of the following:

The City issued Economic Development Revenue Bonds, 2009 B of \$43,820,000, which refunded 2009 A, 2006 B, and 2006 C totaling \$16,000,000, \$17,880,000 and \$29,905,000, respectively. Previously issued Series 2006 A in the amount of \$82,780,000 was not refunded. All bonds are used to fund the acquisition, construction, and equipping of an assisted living facility at Asbury Methodist Village, a specific third party that is not part of the City's financial reporting entity. 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.

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

Note 18. New Governmental Accounting Standards Board (GASB) Standards

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2014, that have effective dates that may impact future financial presentations.

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

- GASB Statement No. 68, *Accounting for Pensions by State and Local Governmental Employers*, will be effective for the City beginning with its year ending June 30, 2015. This Statement replaces the requirements of GASB Statement No. 27 and No. 50, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. This Statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement calls for immediate recognition of more pension expense than is currently required. Cost-sharing employers will now be required to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement will improve the comparability and consistency of how governments calculate the pension liabilities and expense. It also requires employers to present more extensive note disclosures and RSI, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, will be effective for the City beginning with its year ending June 30, 2015. This Statement establishes accounting and financial reporting standards related to government combinations (such as mergers, acquisitions, and transfers) and disposals of government operations. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. For government acquisitions, this Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. Additionally, this Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, will be effective for the City beginning with its year ending June 30, 2015. This Statement amends Statement 68 to require that, when transitioning to the new pension standards, a government recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. This amount will be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions.

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Required Supplemental Information Section



Gaithersburg
A CHARACTER COUNTS! CITY



Gaithersburg Train Station

City of Gaithersburg, Maryland

**Postretirement Healthcare and Insurance Plan – Required Supplementary Information
(Unaudited – See Accompanying Independent Auditor’s Report)**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets a	Actuarial Accrued Liability (AAL) b	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll c	UAAL as a Percentage of Covered Payroll [(b-a) / c]
July 1, 2011	2,986,000	30,249,000	27,263,000	9.87%	16,419,595	166.04%
July 1, 2012	3,316,000	32,982,000	29,666,000	10.05%	16,577,453	178.95%
March 1, 2014	4,602,828	32,371,000	27,768,172	14.22%	17,153,693	161.88%

Schedule of Employer Contributions

Fiscal Year Ending June 30,	Annual Required Contribution	Actual Net Contribution	Percentage Contributed	Net OPEB Obligation
2012	3,076,000	637,682	20.7%	8,618,050
2013	3,311,000	631,962	19.1%	11,300,088
2014	3,222,000	1,028,230	31.9%	13,478,858

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Supplemental Information Section



Gaithersburg
A CHARACTER COUNTS! CITY



Kentlands Mansion

City of Gaithersburg, Maryland

Schedule of Revenues – Budget and Actual (Budgetary Basis) – General Fund
 Year Ended June 30, 2014
 (With Comparative Totals for 2013)

	2014				2013 Actual
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)	
Taxes and Special Assessments					
Real estate taxes	\$ 23,000,000	\$ 23,000,000	\$ 22,070,638	\$ (929,362)	\$ 21,778,142
Personal property taxes	750,000	750,000	1,725,859	975,859	1,435,495
Penalties and interest	60,000	60,000	58,930	(1,070)	80,678
Hotel tax	1,000,000	1,000,000	1,028,511	28,511	1,001,040
Admissions tax	1,200,000	1,200,000	1,401,192	201,192	1,268,955
Total taxes and special assessments	26,010,000	26,010,000	26,285,130	275,130	25,564,310
Licenses and Permits					
Street permits	52,000	52,000	91,365	39,365	138,812
Telecommunications/utility permits	-	-	-	-	50,000
Amusement licenses	22,500	22,500	23,250	750	21,900
Traders licenses	125,000	125,000	147,237	22,237	116,361
Hawkers/peddlers licenses	5,000	5,000	10,000	5,000	12,000
Electricians licenses	9,500	9,500	35,700	26,200	17,150
Rental housing licenses	456,680	456,680	687,420	230,740	590,700
Bus shelter franchise fee	21,000	21,000	13,215	(7,785)	21,411
CATV franchise	650,000	650,000	819,180	169,180	756,195
CATV PEG	45,000	45,000	50,277	5,277	48,311
Animal licenses	35,250	35,250	27,420	(7,830)	26,083
Pet shop/commercial kennel	750	750	750	-	500
Building permits	1,000,500	1,000,500	1,304,512	304,012	1,987,484
Electrical permits	152,000	152,000	188,487	36,487	279,622
Occupancy permits	98,200	98,200	96,785	(1,415)	192,440
Sign permits	14,200	14,200	32,483	18,283	33,115
Mechanical permits	98,000	98,000	129,917	31,917	213,741
Grading permits	60,000	60,000	35,981	(24,019)	17,325
On site improvements	65,000	65,000	120,867	55,867	119,693
Fire protection permits	174,000	174,000	267,870	93,870	325,208
Special events permits	35,000	35,000	11,262	(23,738)	11,310
Home occupation permits	200	200	200	-	80
Deck Permits	6,000	6,000	18,785	12,785	18,575
Fence Permits	1,500	1,500	2,800	1,300	4,600
Fuel Tank Permits	200	200	300	100	1,410
Swimming Pool Permits	800	800	2,826	2,026	4,095
Tent Permits	4,000	4,000	5,292	1,292	6,721
Trailer Permits	1,250	1,250	2,215	965	2,845
Stormwater management permits	15,000	15,000	4,023	(10,977)	19,200
Total licenses and permits	3,148,530	3,148,530	4,130,419	981,889	5,036,887

(Continued)

City of Gaithersburg, Maryland

Schedule of Revenues – Budget and Actual (Budgetary Basis) – General Fund (Continued)
 Year Ended June 30, 2014
 (With Comparative Totals for 2013)

	2014				2013 Actual
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)	
Intergovernmental					
State-shared taxes					
Highway user	\$ 1,076,800	\$ 1,076,800	\$ 1,021,255	\$ (55,545)	\$ 309,367
County grants and shared taxes					
Financial corporations	2,645	2,645	2,645	-	2,645
County revenue sharing	1,168,000	1,168,000	1,168,467	467	1,168,467
Income tax	9,575,000	9,575,000	10,618,077	1,043,077	9,658,350
Homeless program	9,230	9,230	12,161	2,931	9,234
Nutrition program	46,000	46,000	45,156	(844)	47,074
Miscellaneous	14,400	14,400	15,000	600	9,000
State grants					
Open Space	701,250	701,250	150,456	(550,794)	951,689
Police	377,729	377,729	639,183	261,454	377,729
Homeless program	5,000	5,000	4,957	(43)	4,957
Arts	20,500	20,500	32,000	11,500	20,473
Department of Natural Resources	113,628	113,628	53,932	(59,696)	-
Miscellaneous	70,000	70,000	86,562	16,562	22,573
Olde Towne revitalization	-	-	80,000	80,000	-
Federal grants					
Community development	365,000	365,000	379,610	14,610	560,070
Transportation enhancement program	-	-	1,002,849	1,002,849	-
Transitional housing	130,690	130,690	126,025	(4,665)	137,512
Energy efficiency and conservation	-	-	-	-	177,538
DOJ police equipment	2,400	2,400	36,268	33,868	3,581
FEMA	-	-	-	-	27,331
Miscellaneous	-	-	70,000	70,000	151
Total intergovernmental	13,678,272	13,678,272	15,544,603	1,866,331	13,487,741

(Continued)

City of Gaithersburg, Maryland

Schedule of Revenues – Budget and Actual (Budgetary Basis) – General Fund (Continued)
 Year Ended June 30, 2014
 (With Comparative Totals for 2013)

	2014				2013 Actual
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)	
Charges for Services					
Automation fee	\$ 173,000	\$ 173,000	\$ 217,608	\$ 44,608	\$ 317,367
Zoning fees	81,725	81,725	177,355	95,630	107,825
Casey Community Center	185,000	185,000	195,537	10,537	189,672
Pool	502,000	502,000	704,375	202,375	608,858
Gaithersburg Aquatic Center	200,000	200,000	18,330	(181,670)	62,150
Miniature golf revenue	261,000	261,000	125,395	(135,605)	118,792
Group picnics	52,000	52,000	61,835	9,835	55,805
Recreation fees	1,309,600	1,309,600	1,160,475	(149,125)	1,168,685
Winter Lights	235,000	235,000	224,398	(10,602)	246,365
Gaithersburg Arts Barn	218,700	218,700	273,401	54,701	260,457
Council of the arts	32,000	32,000	23,803	(8,197)	30,929
Gaithersburg Youth Center	18,000	18,000	7,482	(10,518)	9,958
Teen Center	25,000	25,000	29,232	4,232	21,337
Kentlands Mansion	125,000	125,000	145,711	20,711	87,079
Special events	69,000	69,000	68,186	(814)	76,616
Community events	2,500	2,500	2,260	(240)	3,232
Senior Center revenue	99,000	99,000	115,357	16,357	103,876
Stormwater management fees	4,000	4,000	72,082	68,082	24,025
Recycling collections	851,350	851,350	853,210	1,860	881,454
Rental – Senior Center	23,000	23,000	29,003	6,003	22,129
Membership fee – dog exercise	3,000	3,000	2,280	(720)	2,820
Activity Center programs	248,000	248,000	236,084	(11,916)	247,949
Food services	5,000	5,000	5,000	-	5,000
Skate park	10,000	10,000	11,726	1,726	16,791
Environmental fees	3,000	3,000	6,836	3,836	3,790
Water quality protection	1,200,000	1,200,000	1,402,582	202,582	1,203,610
Miscellaneous	3,000	3,000	83,857	80,857	103,165
Total charges for services	5,938,875	5,938,875	6,253,400	314,525	5,979,736
Fines and Forfeitures					
Ordinance fines	3,501,500	3,501,500	2,509,987	(991,513)	2,008,308

(Continued)

City of Gaithersburg, Maryland

Schedule of Revenues – Budget and Actual (Budgetary Basis) – General Fund (Continued)
 Year Ended June 30, 2014
 (With Comparative Totals for 2013)

	2014				2013 Actual
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)	
Investment Earnings	\$ 90,000	\$ 90,000	\$ 76,838	\$ (13,162)	\$ 114,189
Miscellaneous Revenue					
Rents	131,100	131,100	143,421	12,321	142,205
Sale of materials	10,000	10,000	5,282	(4,718)	20,304
Contributions	697,700	697,700	259,638	(438,062)	40,920
Vending machines	5,000	5,000	4,297	(703)	4,647
Passports	30,000	30,000	76,575	46,575	68,640
Community promotion	250	250	-	(250)	62
Expenditure reimbursement	7,200	7,200	1,106,745	1,099,545	117,499
Developer contributions	609,720	609,720	600,000	(9,720)	3,000,000
Miscellaneous	24,000	24,000	28,762	4,762	240,462
Total miscellaneous	<u>1,514,970</u>	<u>1,514,970</u>	<u>2,224,720</u>	<u>709,750</u>	<u>3,634,739</u>
Total revenue – budgetary basis	<u>\$ 53,882,147</u>	<u>\$ 53,882,147</u>	<u>57,025,097</u>	<u>\$ 3,142,950</u>	<u>55,825,910</u>
Adjustments to Conform with Generally Accepted Accounting Principles			-		-
Total revenue – GAAP basis			<u>\$ 57,025,097</u>		<u>\$ 55,825,910</u>

City of Gaithersburg, Maryland

Schedule of Expenditures and Encumbrances – Budget and Actual
 (Budgetary Basis) – General Fund
 Year Ended June 30, 2014
 (With Comparative Totals for 2013)

	2014				2013 Actual
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)	
General Government					
Mayor and City Council	\$ 285,798	\$ 302,898	\$ 302,027	\$ 871	\$ 270,140
City Manager	658,721	662,021	606,672	55,349	360,569
Economic and community development	510,208	634,058	464,159	169,899	617,918
Environmental affairs	295,524	295,524	279,205	16,319	246,143
Registration and elections	56,000	56,000	45,768	10,232	-
Finance and administration	1,196,780	1,219,780	1,082,054	137,726	1,041,097
Legal	500,919	508,119	427,782	80,337	367,358
Planning	814,781	820,281	759,094	61,187	690,477
Information technology	1,421,523	1,432,523	1,343,599	88,924	1,343,177
General information services	216,207	216,207	208,115	8,092	-
Human resources	745,287	751,887	685,500	66,387	726,916
Housing and community development	1,090,843	964,843	401,914	562,929	260,032
General services	182,150	182,150	51,625	130,525	92,307
Facilities management	970,046	963,146	769,336	193,810	1,241,952
Building and grounds					
City Hall	247,712	247,712	142,765	104,947	205,367
Police	83,724	83,724	64,912	18,812	59,641
Public services	162,417	162,417	114,868	47,549	133,103
Kentlands firehouse	1,520	1,520	12	1,508	1,453
Gaithersburg Arts Barn	101,138	101,138	82,955	18,183	74,541
Train station	24,467	26,867	26,634	233	19,379
Kentlands Mansion	66,250	66,250	34,642	31,608	42,568
Senior Center	66,650	66,650	62,098	4,552	67,643
Casey Community Center	190,561	190,561	156,821	33,740	164,114
Old Towne Pavilion	4,035	4,035	3,833	202	2,961
Teen Center	71,820	71,820	37,738	34,082	42,090
Activity Center at Bohrer Park	307,000	307,000	253,518	53,482	249,751
Water park	136,510	147,510	140,398	7,112	133,122
Miniature golf course	21,500	21,500	10,743	10,757	16,587
Skate park	7,200	7,200	4,261	2,939	3,579
Parking facility	115,600	115,600	77,722	37,878	72,498
Gaithersburg Youth Center	65,740	65,740	42,748	22,992	39,199
Miscellaneous	62,200	62,200	6,033	56,167	1,335
Public information	830,004	831,504	760,133	71,371	656,376
Cable television – Channel 54	398,496	398,496	248,170	150,326	161,795
Planning and Code Administration	898,780	906,280	736,237	170,043	718,972
Neighborhood Services	753,180	760,180	627,211	132,969	573,284
Total general government	13,561,291	13,655,341	11,061,302	2,594,039	10,697,444

(Continued)

City of Gaithersburg, Maryland

Schedule of Expenditures and Encumbrances – Budget and Actual
 (Budgetary Basis) – General Fund (Continued)
 Year Ended June 30, 2014
 (With Comparative Totals for 2013)

	2014				2013 Actual
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)	
Public Safety					
Police	\$ 1,709,915	\$ 1,733,415	\$ 1,610,000	\$ 123,415	\$ 1,262,901
Police Services Operations	7,520,571	7,566,071	7,011,434	554,637	6,738,046
Building and code administration	1,501,472	1,512,472	1,459,824	52,648	1,357,765
Traffic engineering	253,378	253,378	195,352	58,026	179,649
Animal control	451,495	452,495	433,718	18,777	405,831
Total public safety	11,436,831	11,517,831	10,710,328	807,503	9,944,192
Public Works					
Public works administration	795,898	919,898	822,623	97,275	773,396
Municipal parks maintenance	1,790,917	1,797,917	1,557,734	240,183	1,557,683
Engineering services	451,964	451,964	414,111	37,853	374,802
Streets and special projects	1,463,678	1,377,678	1,215,216	162,462	1,074,004
Fleet maintenance	571,667	574,867	501,228	73,639	530,862
Street lighting	657,546	657,546	549,079	108,467	578,235
Landscaping and forestry	1,238,135	1,245,135	1,047,182	197,953	942,215
Mowing and bulk pick-up	2,012,236	2,025,236	1,768,736	256,500	1,636,603
Recycling	669,247	669,247	657,934	11,313	652,728
Total public works	9,651,288	9,719,488	8,533,843	1,185,645	8,120,528

(Continued)

City of Gaithersburg, Maryland

**Schedule of Expenditures and Encumbrances – Budget and Actual
(Budgetary Basis) – General Fund (Continued)
Year Ended June 30, 2014
(With Comparative Totals for 2013)**

	2014				2013 Actual
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)	
Parks, Recreation and Culture					
Administration	\$ 793,699	\$ 794,199	\$ 660,506	\$ 133,693	\$ 708,978
Recreation programs and sports	830,652	835,152	820,757	14,395	800,960
Special events	760,992	760,992	736,270	24,722	674,042
Summer programs	569,316	569,316	493,708	75,608	487,594
Gaithersburg Youth Center	216,753	216,753	171,059	45,694	164,522
Skate park	37,850	37,850	30,870	6,980	35,557
Recreation classes	323,644	323,644	301,558	22,086	297,825
Casey Community Center	349,001	364,001	363,248	753	324,886
Water park	532,350	534,350	503,659	30,691	424,007
Aquatic facilities	351,370	334,570	125,636	208,934	128,250
Picnic pavilions	22,171	22,171	21,426	745	15,869
Gaithersburg Arts Barn	469,587	482,037	480,794	1,243	424,629
Kentlands Mansion	357,333	357,333	315,719	41,614	318,712
Winter Lights	161,715	161,715	141,141	20,574	148,165
Miniature golf course	82,670	82,670	76,715	5,955	103,648
Cultural arts programs	399,509	399,509	326,566	72,943	281,592
Youth services	417,492	421,492	406,791	14,701	394,089
Activities center at Bohrer park	416,923	416,923	400,853	16,070	390,652
Old Towne Youth Center	289,121	289,121	208,742	80,379	243,764
Food service	5,000	5,000	-	5,000	-
Total parks, recreation and culture	7,387,148	7,408,798	6,586,018	822,780	6,367,741
Community Services and Development					
Senior program	611,981	615,481	598,141	17,340	571,479
Human services	1,279,986	1,283,486	1,186,360	97,126	1,152,728
Homeless assistance	534,686	537,786	483,361	54,425	481,014
Total community services and development	2,426,653	2,436,753	2,267,862	168,891	2,205,221
Miscellaneous					
Contingency	500,000	230,000	55,259	174,741	1,224,361
Non-departmental	3,924,225	3,519,225	3,269,393	249,832	1,872,670
OPEB contribution	910,000	1,310,000	1,310,000	-	910,000
Total miscellaneous	5,334,225	5,059,225	4,634,652	424,573	4,007,031
Total expenditures and encumbrances – budgetary basis	\$ 49,797,436	\$ 49,797,436	43,794,005	\$ 6,003,431	41,342,157
Adjustments to Conform with Generally Accepted Accounting Principles			172,718		417,193
Total expenditures – GAAP basis			\$ 43,966,723		\$ 41,759,350

City of Gaithersburg, Maryland

Statement of Changes in Assets and Liabilities – Agency Fund
Year Ended June 30, 2014

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Assets				
Due from other funds	\$ 132,256	\$ -	\$ (17,475)	\$ 114,781
Liabilities				
Deposits	\$ 121,378	\$ 4,809	\$ (11,406)	\$ 114,781
Accounts payable	10,878	11,406	(22,284)	-
Total liabilities	\$ 132,256	\$ 16,215	\$ (33,690)	\$ 114,781

Statistical Section



Gaithersburg
A CHARACTER COUNTS! CITY



City Hall Concert Pavilion

TABLE OF CONTENTS STATISTICAL SECTION

This part of the City of Gaithersburg, Maryland's Comprehensive Annual Financial Reports 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>Page(s)</u>
Financial Trends	59–65
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	
Revenue Capacity	66–70
These schedules contain information to help the reader assess the City's most significant local revenue sources, the property tax and the room tax.	
Debt Capacity	71–72
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.	
Economic and Demographic Information	73–75
These schedules offer economic and demographic indicators to help the reader understand the environment within which the City's financial activities take place.	
Operating Information	76–84
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.	

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

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City of Gaithersburg, Maryland
 Net Position by Component
 Last Ten Fiscal Years
(accrual basis of accounting)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Governmental Activities										
Invested in Capital Assets	\$ 101,260,797	\$ 96,693,648	\$ 99,456,894	\$ 98,705,783	\$ 99,881,968	\$ 101,308,114	\$ 101,079,002	\$ 102,235,261	\$ 103,385,743	\$ 105,089,489
Unrestricted	88,602,102	84,005,267	72,126,415	67,369,088	59,946,586	59,499,836	56,869,084	50,679,018	49,091,738	41,301,909
<i>Total Governmental Activities Net Position</i>	<u>\$ 189,862,899</u>	<u>\$ 180,698,915</u>	<u>\$ 171,583,309</u>	<u>\$ 166,074,871</u>	<u>\$ 159,828,554</u>	<u>\$ 160,807,950</u>	<u>\$ 157,948,086</u>	<u>\$ 152,914,279</u>	<u>\$ 152,477,481</u>	<u>\$ 146,391,398</u>

City of Gaithersburg, Maryland

Changes in Net Position

Last Ten Fiscal Years

(accrual basis of accounting)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Expenses										
Governmental Activities:										
General Government	\$ 15,483,112	\$ 17,151,788	\$ 16,369,822	\$ 15,481,747	\$ 12,907,455	\$ 11,641,478	\$ 10,536,978	\$ 8,745,788	\$ 8,210,925	\$ 6,929,027
Public Safety	11,654,483	10,568,639	10,538,639	10,273,073	11,148,695	11,281,073	10,918,534	9,118,647	7,876,021	6,479,474
Public Works	14,102,911	12,374,419	13,138,836	11,524,148	12,246,680	11,438,388	10,811,440	9,746,888	9,412,588	9,237,552
Park, Recreation & Culture	6,259,327	6,254,667	5,659,702	6,131,521	7,280,057	7,255,705	9,118,751	8,538,526	7,940,172	6,858,152
Community Services & Development	2,260,865	2,217,111	2,089,330	2,010,300	2,151,366	2,103,765	2,148,811	1,897,647	1,871,188	1,777,491
Miscellaneous		-	- *	-	-	1,536,547	1,797,067	4,258,951	1,174,091	1,263,435
Total Governmental Activities Expenses	\$ 49,760,698	\$ 48,566,624	\$ 47,796,329	\$ 45,420,789	\$ 45,734,253	\$ 45,256,956	\$ 45,331,581	\$ 42,306,447	\$ 36,484,985	\$ 32,545,131
Program Revenues										
Governmental Activities:										
Charges for Services:										
General Government	\$ 2,640,480	\$ 3,596,714	\$ 2,731,495	\$ 2,793,156	\$ 2,121,622	\$ 1,703,735	\$ 1,855,587	\$ 1,175,102	\$ 1,649,170	\$ 2,343,286
Public Safety	3,538,543	4,090,633	4,295,957	3,566,588	2,705,648	1,381,525	1,897,490	799,743	782,440	950,677
Public Works	2,426,075	2,301,691	2,630,871	1,834,855	1,527,357	1,400,167	1,631,297	1,333,515	1,375,813	999,598
Park, Recreation & Culture	3,448,852	3,346,990	3,412,020	3,263,386	3,092,053	3,014,450	3,049,408	3,072,008	2,989,088	2,929,167
Operating Grants and Contributions	1,184,147	1,981,372	751,938	709,575	2,246,034	1,202,924	1,569,161	2,141,875	1,561,444	938,266
Capital Grants and Contributions	4,824,259	917,287	1,312,834	1,400,883	464,815	2,206,960	2,696,447	2,364,816	2,386,066	2,789,941
Total Governmental Activities										
Program Revenues	\$ 18,062,356	\$ 16,234,687	\$ 15,135,115	\$ 13,568,443	\$ 12,157,529	\$ 10,909,761	\$ 12,699,390	\$ 10,887,059	\$ 10,744,021	\$ 10,950,935

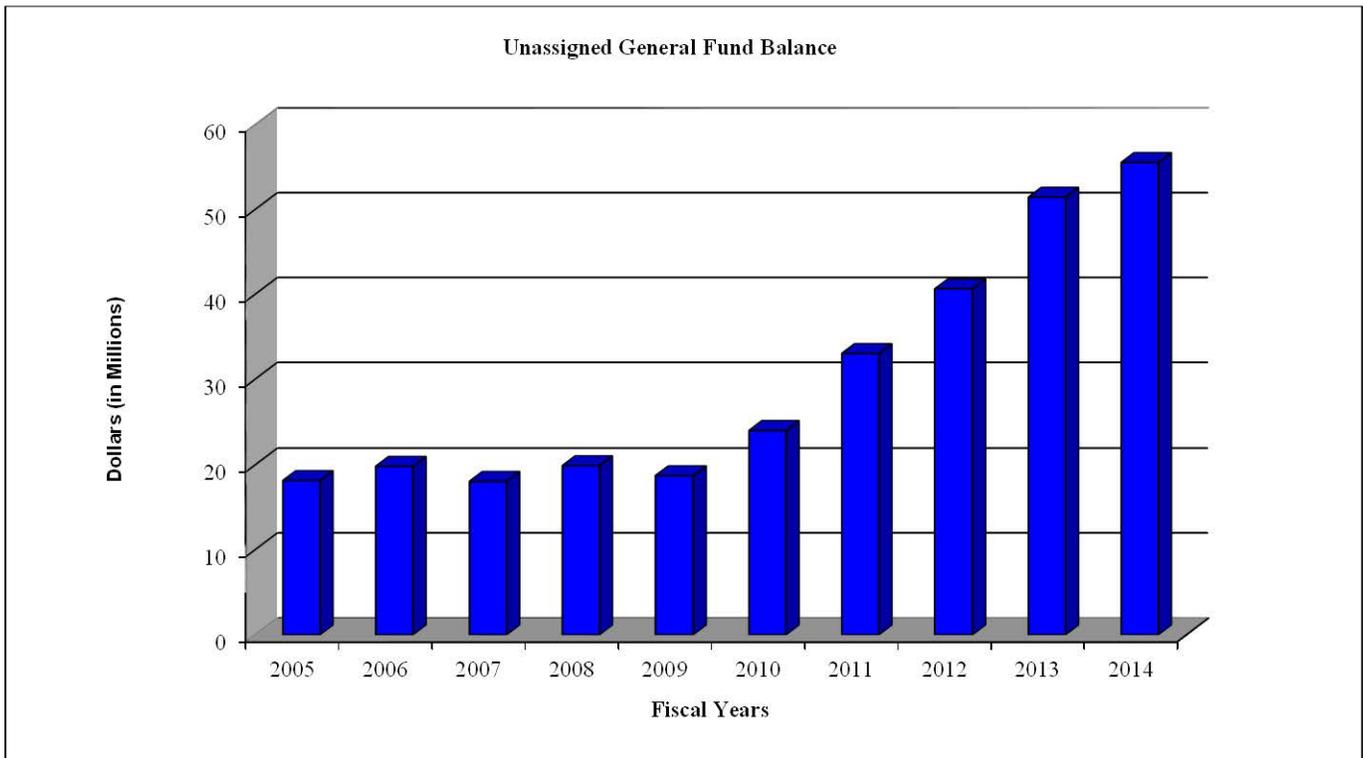
City of Gaithersburg, Maryland
Changes in Net Position (continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Net (Expense)/Revenue										
Governmental Activities	\$ (31,698,341)	\$ (32,331,937)	\$ (32,661,214)	\$ (31,852,346)	\$ (33,576,724)	\$ (34,347,195)	\$ (32,632,191)	\$ (31,419,388)	\$ (25,740,964)	\$ (21,594,196)
<i>Total Primary Government Net Expense</i>	<u>\$ (31,698,341)</u>	<u>\$ (32,331,937)</u>	<u>\$ (32,661,214)</u>	<u>\$ (31,852,346)</u>	<u>\$ (33,576,724)</u>	<u>\$ (34,347,195)</u>	<u>\$ (32,632,191)</u>	<u>\$ (31,419,388)</u>	<u>\$ (25,740,964)</u>	<u>\$ (21,594,196)</u>
General Revenues										
Governmental Activities:										
Property Taxes	\$ 23,855,427	\$ 23,294,315	\$ 24,575,499	\$ 24,723,315	\$ 20,357,547	\$ 20,455,347	\$ 18,516,490	\$ 16,454,046	\$ 14,114,464	\$ 13,310,028
Franchise Fees	832,395	777,606	689,385	611,947	553,860	494,925	599,253	557,181	483,125	444,881
Admissions, Amusement, Hotel & Motel Tax	2,429,703	2,269,995	2,395,490	1,877,403	1,952,656	1,718,650	830,156	985,453	1,165,087	1,008,836
Intergovernmental not Restricted to Specific Programs	12,099,303	10,159,237	9,986,624	10,341,660	9,393,667	9,889,917	10,108,343	9,808,731	8,779,326	8,008,710
Investment Earnings	76,838	114,189	54,191	91,395	135,532	930,421	2,212,859	2,627,160	1,925,574	870,163
Gain (loss) on Sale of Capital Assets	-	-	-	-	(478,113)	1,497,522	-	-	1,860,248	-
Miscellaneous	1,568,659	4,832,201	468,463	452,943	682,179	683,730	5,398,897	1,423,615	853,929	810,903
<i>Total Governmental Activities General Revenues</i>	<u>\$ 40,862,325</u>	<u>\$ 41,447,543</u>	<u>\$ 38,169,652</u>	<u>\$ 38,098,663</u>	<u>\$ 32,597,328</u>	<u>\$ 35,670,512</u>	<u>\$ 37,665,998</u>	<u>\$ 31,856,186</u>	<u>\$ 29,181,753</u>	<u>\$ 24,453,521</u>
Change in Net Position	<u>\$ 9,163,984</u>	<u>\$ 9,115,606</u>	<u>\$ 5,508,438</u>	<u>\$ 6,246,317</u>	<u>\$ (979,396)</u>	<u>\$ 1,323,317</u>	<u>\$ 5,033,807</u>	<u>\$ 436,798</u>	<u>\$ 3,440,789</u>	<u>\$ 2,859,325</u>

City of Gaithersburg, Maryland
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

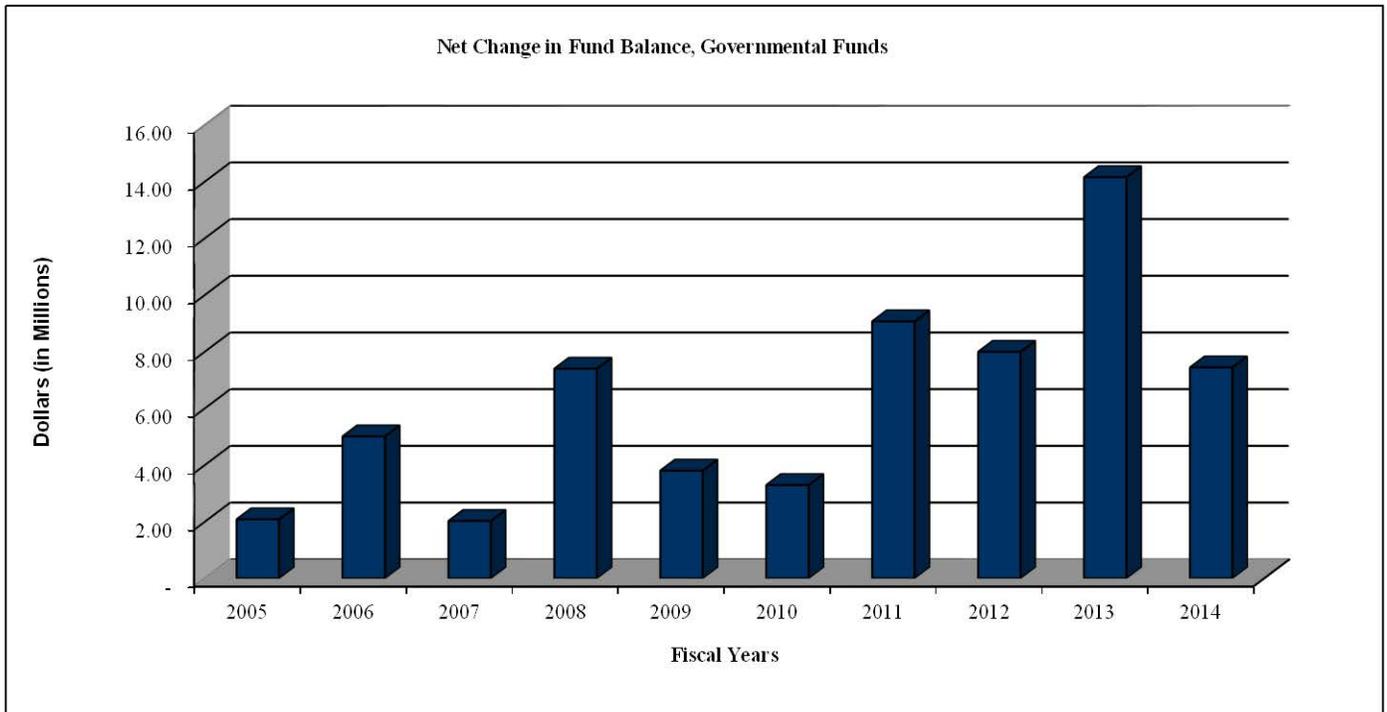
	2014	2013	2012	2011	2010
General Fund					
Reserved for Encumbrances and Other	\$ -	\$ -	\$ -	\$ -	\$ 8,954,030
Unreserved	-	-	-	-	24,039,806
Non-spendable *	1,235,084	666,682	416,567	142,809	-
Committed *	3,600,000	2,514,000	-	-	-
Assigned *	11,964,092	11,556,843	11,081,062	10,082,400	-
Unassigned *	55,540,429	51,441,048	40,627,029	33,019,710	-
Total General Fund	\$ 72,339,605	\$ 66,178,573	\$ 52,124,658	\$ 43,244,919	\$ 32,993,836
All Other Governmental Funds					
Reserved for Encumbrances	\$ -	\$ -	\$ -	\$ -	\$ 2,608,276
Committed	4,625,532	5,139,711	3,266,162	3,979,595	-
Assigned/Designated, Reported in:					
Capital Projects Funds	25,395,463	23,602,478	25,377,502	25,553,447	28,110,103
Total All Other Governmental Funds	30,020,995	28,742,189	28,643,664	29,533,042	30,718,379
Total Governmental Funds	\$ 102,360,600	\$ 94,920,762	\$ 80,768,322	\$ 72,777,961	\$ 63,712,215
Unassigned General Fund Balance as a percentage of 3-year Expenditures Rolling Average	114.0%	123.2%	107.4	87.3	61.2

* Note - GASB Statement No. 54 altered the classification of governmental fund balances on a prospective basis effective with fiscal year 2011. Retroactive application was encouraged; however, information pertaining to prior years is not readily available. The objective of this statement is to more clearly define categories that reflect the nature and extent of constraints placed on the City's fund balances.



City of Gaithersburg, Maryland
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2009	2008	2007	2006	2005
General Fund					
Reserved for Encumbrances and Other	12,431,003	11,224,516	\$ 10,629,786	\$ 12,437,949	\$ 12,934,815
Unreserved	18,723,646	19,902,437	18,055,440	19,827,024	18,148,339
Non-spendable *	-	-	-	-	-
Committed *	-	-	-	-	-
Assigned *	-	-	-	-	-
Unassigned *	-	-	-	-	-
Total General Fund	\$ 31,154,649	\$ 31,126,953	\$ 28,685,226	\$ 32,264,973	\$ 31,083,154
All Other Governmental Funds					
Reserved for Encumbrances	3,772,000	3,238,750	\$ 3,993,897	\$ 1,686,943	\$ 3,375,847
Committed	-	-			
Assigned/Designated, Reported in: Capital Projects Funds	25,496,419	22,259,138	16,549,764	13,255,730	7,741,939
Total All Other Governmental Funds	29,268,419	25,497,888	20,543,661	14,942,673	11,117,786
Total Governmental Funds	\$ 60,423,068	\$ 56,624,841	\$ 49,228,887	\$ 47,207,646	\$ 42,200,940
Unassigned General Fund Balance as a percentage of 3-year Expenditures Rolling Average	51.7	59.5	61.3	71.7	69.7



City of Gaithersburg, Maryland
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2014	2013	2012	2011	2010
Revenues					
Taxes and special assessments	\$ 26,285,130	\$ 25,564,310	\$ 26,996,881	\$ 26,824,666	\$ 22,288,431
Licenses and Permits	4,130,419	5,036,887	4,968,781	4,348,232	3,298,308
Intergovernment	15,544,603	13,504,206	12,637,614	11,793,049	13,128,144
Charges for Services	6,253,400	5,979,736	5,393,662	5,001,975	4,693,924
Fines and Forfeitures	2,509,987	3,149,250	3,424,352	2,601,188	2,008,308
Investment earnings	76,838	114,189	54,191	91,395	135,532
Miscellaneous	2,224,720	3,634,739	468,463	452,943	682,179
Total Revenues	\$ 57,025,097	\$ 56,983,317	\$ 53,943,944	\$ 51,113,448	\$ 46,234,826
Expenditures					
Current:					
General Government	\$ 11,138,672	\$ 10,765,800	\$ 9,025,529	\$ 8,875,244	\$ 9,400,030
Public Safety	10,719,779	9,914,172	10,944,777	10,134,668	10,039,331
Public Works	8,589,974	8,133,802	8,087,831	8,369,405	9,270,532
Parks, Recreation and Culture	6,544,528	6,381,842	6,338,094	5,982,291	6,491,537
Community Services and Development*	2,260,327	2,217,111	2,089,330	2,010,300	2,074,583
Transfer to retiree benefit trust	-	-	910,000	455,000	-
Other	4,713,443	4,346,623	3,223,589	2,013,850	2,022,587
Capital Outlay	5,651,194	3,858,385	5,416,508	4,232,069	3,680,679
Total Expenditures	\$ 49,617,917	\$ 45,617,735	\$ 46,035,658	\$ 42,072,827	\$ 42,979,279
Excess of Revenues Over (Under) Expenditures	\$ 7,407,180	\$ 11,365,582	\$ 7,908,286	\$ 9,040,621	\$ 3,255,547
Other Financing Sources (Uses)					
Sales of capital assets	\$ 32,658	\$ 2,786,858	\$ 82,075	\$ 25,125	\$ 33,600
Transfers In	6,930,000	3,956,910	5,437,130	3,046,732	5,130,639
Transfers out	(6,930,000)	(3,956,910)	(5,437,130)	(3,046,732)	(5,130,639)
Total Other Financing Sources (Uses)	\$ 32,658	\$ 2,786,858	\$ 82,075	\$ 25,125	\$ 33,600
Adjustments to Reclassify Liabilities					
Net Change in Fund Balances	\$ 7,439,838	\$ 14,152,440	\$ 7,990,361	\$ 9,065,746	\$ 3,289,147

City of Gaithersburg, Maryland
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2009	2008	2007	2006	2005
Revenues					
Taxes and special assessments	\$ 22,136,525	\$ 19,262,581	\$ 17,563,444	\$ 15,329,572	14,288,983
Licenses and Permits	2,887,975	3,006,104	2,350,832	2,839,355	3,546,026
Intergovernment	13,427,699	14,237,049	14,365,733	12,376,203	11,736,917
Charges for Services	4,496,354	4,652,709	4,421,041	4,255,294	3,851,601
Fines and Forfeitures	610,473	1,374,222	165,676	184,987	269,982
Investment earnings	930,421	2,212,859	2,627,160	1,925,574	870,163
Miscellaneous	683,730	5,472,964	1,421,317	853,929	810,903
Total Revenues	\$ 45,173,177	\$ 50,218,488	\$ 42,915,203	\$ 37,764,914	35,374,575
Expenditures					
Current:					
General Government	8,783,798	\$ 8,285,566	\$ 7,428,673	\$ 6,778,533	6,272,714
Public Safety	10,464,470	9,586,914	8,402,909	7,163,130	6,573,228
Public Works	8,626,303	6,668,288	6,339,144	5,492,217	5,051,478
Parks, Recreation and Culture	6,517,399	7,806,505	7,698,543	7,006,072	6,713,263
Community Services and Development	2,052,646	2,081,517	1,883,026	1,860,500	1,777,491
Transfer to retiree benefit trust	455,000	401,000	2,552,050	-	-
Other	1,074,042	1,391,404	1,693,749	1,168,328	1,283,143
Capital Outlay	5,557,414	6,629,977	4,914,067	5,401,735	6,049,046
Total Expenditures	\$ 43,531,072	\$ 42,851,171	\$ 40,912,161	\$ 34,870,515	33,720,363
Excess of Revenues Over (Under) Expenditures	\$ 1,642,105	\$ 7,367,317	\$ 2,003,042	\$ 2,894,399	1,654,212
Other Financing Sources (Uses)					
Sales of capital assets	\$ 2,156,122	\$ 28,637	\$ 18,199	\$ 2,112,309	426,169
Transfers In	9,327,945	11,584,204	10,515,055	9,226,622	5,190,555
Transfers out	(9,327,945)	(11,584,204)	(10,515,055)	(9,226,622)	(5,190,555)
Total Other Financing Sources (Uses)	\$ 2,156,122	\$ 28,637	\$ 18,199	\$ 2,112,309	426,169
Net Change in Fund Balances	\$ 3,798,227	\$ 7,395,954	\$ 2,021,241	\$ 5,006,708	2,080,381

City of Gaithersburg, Maryland
 Tax Revenues by Source, Governmental Funds
 Last Ten Fiscal Years
(modified accrual basis of accounting)

Year	Property Taxes	Hotel and Admissions and Amusement Taxes	Income Taxes	Total
2014	\$ 23,855,427	2,429,703	10,618,077	36,903,207
2013	23,213,637	\$ 2,269,995	\$ 9,658,350	\$ 35,141,982
2012	24,523,341	2,395,490	9,531,397	36,450,228
2011	24,864,896	1,877,403	8,601,966	35,344,265
2010	20,272,244	1,952,656	9,187,114	31,412,014
2009	20,336,651	1,718,650	8,787,635	30,842,936
2008	18,344,598	830,156	8,741,260	27,916,014
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
Change 2005-2014	80.3%	140.8%	52.6%	74.1%

City of Gaithersburg, Maryland
 Assessed Valuation and Estimated Actual Values of Taxable Property
 Last Ten Fiscal Years

Year	Real Property	Personal Property	Corporate Personal Property	Total	Estimated Actual Values of Taxable Property	Percentage of Change
2014	\$ 8,769,861,069	\$ 72,656,981	\$ 231,249,434	\$ 9,073,767,484	\$ 9,073,767,484	3.68%
2013	8,472,535,115	72,200,000	207,033,019	8,751,768,134	8,751,768,134	-10.64%
2012	9,198,377,481	73,934,717	223,681,509	9,495,993,707	9,793,609,934	3.02%
2011	9,175,708,584	87,400,377	243,496,415	9,506,605,376	9,506,605,376	4.03%
2010	8,826,640,580	90,363,370	221,516,130	9,138,520,080	9,138,520,080	-0.02%
2009	8,822,557,075	88,708,679	229,259,434	9,140,525,188	9,140,525,188	11.0%
2008	7,902,294,340	88,986,405	244,650,566	8,235,931,311	8,235,931,311	12.0%
2007	7,029,366,190	96,571,060	228,289,623	7,354,226,873	7,354,226,873	0.3%
2006	7,010,239,417	95,085,977	224,084,580	7,329,409,974	7,329,409,974	36.0%
2005	6,435,021,700	107,679,883	225,612,110	6,768,313,693	5,388,270,239	11.2

Property values are assessed at 100 percent.

** Source: MC detailed tax receivables report.

City of Gaithersburg, Maryland
Real Property Tax Levies and Collections
Last Ten Fiscal Years

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	%
2014	\$ 22,977,036	\$ 22,833,113	99.37	%	\$ 27,883	\$ 22,860,996	99.49	%
2013	22,198,042	22,103,676	99.57		17,082	22,120,758	99.65	
2012	24,099,749	23,554,380	97.74		(561,568)	22,992,812	95.41	
2011	24,040,356	23,501,271	97.76		(248,398)	23,252,873	96.72	
2010	21,389,471	20,228,821	94.57		43,423	20,272,244	94.78	
2009	21,179,664	20,206,336	95.40		130,315	20,336,651	96.02	
2008	18,566,771	18,257,510	98.33		87,088	18,344,598	98.80	
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	

* "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

2014		
Taxpayer	Property Assessed Valuation (1)	Percentage of Total Assessed Valuation
Medimmune, Inc	\$ 197,011,200	2.25 %
Lake Forest Associates	102,500,000	1.17
ARE LLC	100,876,800	1.15
Chi Two Washingtonian LLC ET AL	90,845,000	1.04
893 Clopper Road Investors Corp	85,221,500	0.97
Avalon II Maryland Value III LP	84,601,000	0.96
Federal Realty Investments TR	80,256,400	0.92
VII Crown Farm Owner LLC	76,268,000	0.87
Asbury Atlantic Inc	74,449,500	0.85
KBSIII One Washingtonian LLC	71,651,100	0.82
	\$ 963,680,500	10.99 %
<i>Total Assessed Valuation</i>	<i>\$ 8,769,861,068</i>	

2005		
Taxpayer	Property Assessed Valuation (1)	Percentage of Total Assessed Valuation
ARE - 19 Firstfield Road LLC	\$ 131,854,900	2.27 %
Lake Forest Associates	120,855,300	2.08
Asbury Methodist Home, Inc	118,552,480	2.04
Saul Holdings LTD Partnership	67,964,300	1.17
Federal Realty Investment Trust	60,560,300	1.04
9801 Washington Office Inc.	56,511,500	0.97
SFHI LLC	54,076,900	0.93
Washingtonian Associates LC	53,393,600	0.92
893 Clopper Road Investors	52,900,600	0.91
Medimmune, Inc.	45,974,300	0.79
	\$ 762,644,180	13.13 %
<i>Total Assessed Valuation</i>	<i>\$ 5,806,606,924</i>	

(1) Assessed valuation based on the valuation of Real Property for taxes collected in 2013 and 2005 respectively, and a review of the 10 largest taxpayers for the City.

Property values are assessed at 100 percent.

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

Year	Direct Rate	Overlapping Rates			Total
	City of Gaithersburg	Montgomery County	State of Maryland	Service Areas & Transit	
2014	\$ 0.262	\$ 0.759	\$ 0.112	\$ 0.168	\$ 1.301
2013	\$ 0.262	\$ 0.724	\$ 0.112	\$ 0.183	\$ 1.281
2012	0.262	0.713	0.112	0.183	1.270
2011	0.262	0.699	0.112	0.135	1.208
2010	0.212	0.683	0.112	0.171	1.178
2009	0.212	0.661	0.112	0.165	1.150
2008	0.212	0.627	0.112	0.185	1.136
2007	0.212	0.624	0.112	0.188	1.136
2006	0.212	0.679	0.112	0.177	1.180
2005	0.212	0.734	0.132	0.167	1.245

- 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.
 - Property values are assessed at 100 percent.

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

City of Gaithersburg, Maryland
 Computation of Direct and Overlapping Debt
 June 30, 2014

Jurisdiction	Total Debt Outstanding	Percentage Applicable to City	Amount Applicable to City of Gaithersburg
Direct			
City of Gaithersburg	<u>\$ 0</u>	100.0%	<u>\$ 0</u>
Overlapping			
Montgomery County	<u>3,658,898,401</u>	5.0%	<u>163,692,478</u>
Total Direct and Overlapping Debt	<u><u>\$ 3,658,898,401</u></u>		<u><u>\$ 163,692,478</u></u>

Source: Montgomery County Department of Finance.

We take the accessible base of the City divided by the accessible base of the County to derive the percentage deemed to be overlapping. We feel this is a fair indicator of the tax impact on the residents of the City who are also residents of the County

City of Gaithersburg, Maryland
Computation of Legal Debt Margin
As of June 30, 2014

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

Year	(1) Population	Personal Income (\$ thousands)	(2) Per Capita Income	Median Age	(3) Montgomery County Avg. School Enrollment	(4) Montgomery County Unemployment Rate	%
2014	65,690	\$ 5,058,590	\$ 77,007	N/A	151,289	5.2	
2013	63,842	4,690,791	73,475	N/A	149,018	5.2	
2012	62,848	4,607,827	73,317	N/A	146,709	5.0	
2011	61,172	4,322,719	70,665	N/A	143,309	5.0	
2010	58,017	4,000,040	68,946	N/A	140,500	5.6	
2009	57,818	3,834,663	66,323	N/A	137,763	5.3	
2008	59,912	4,071,440	67,957	N/A	137,745	3.3	
2007	60,736	4,041,191	66,537	N/A	137,798	2.7	
2006	58,607	3,783,551	64,558	N/A	139,387	2.8	
2005	57,812	3,475,657	60,120	N/A	139,337	3.1	

(1) City of Gaithersburg, Department of Planning & Code Administration

(2) Montgomery County Department of Finance Demographic Stat.

(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, 2014

2014		
<u>Employer</u>	<u>Employees</u>	<u>Percentage of Total City Employment</u>
National Institute of Standards and Technology	2,769	0.52%
Medimmune	2,141	0.40%
Lockheed Martin	1,200	0.23%
IBM	897	0.17%
Asbury Atlantic, Inc	820	0.15%
Sodexo USA	563	0.11%
Gazette (Post Community Media, LLC)	475	0.09%
Hughes Network Systems, LLC	450	0.08%
Kaiser Permanente	350	0.07%
GXS	330	0.06%
Total	9,995	1.89%
Total Montgomery County Civilian Labor Force (Data for total employees available for county only)	529,482	

Source: City of Gaithersburg Department of Economic and Community Development & Department of Finance and Administration. Amounts are estimates generated from correspondence with the companies, and company internet websites.

The City of Gaithersburg only started to keep track of this information beginning in FY 2008; therefore, comparative information for nine years ago is not available.

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City of Gaithersburg, Maryland
 Full-Time City Government Employees by Function/Program
 Last Ten Fiscal Years

Function/Program	2014	2013	2012	2011	2010
General Government:					
Mayor and City Council	1	1	1	1	1
Legal Services	3	2	2	2	2
Registrations & Elections	-	-	-	-	-
Office of the City Manager	5	4	4	4	5
Economic & Community Development	2	2	2	2	2
Environmental Affairs	3	3	1	1	1
Human Resources	5	5	5	5	5
Finance & Administration	9	9	8	7	7
Housing & Community Deve	1	1	1	1	1
Information Technology	11	10	9	8	8
Facilities Management	7	8	8	8	8
Buildings and Grounds	-	-	-	-	-
General Services	-	-	-	-	-
Public Information	6	6	6	4	4
Cable Television Channel 13	2	2	2	2	2
Planning & Code Administration	*	8	-	-	-
Planning & Administration	6	6	9	10	10
Public Safety					
Police Services	65	65	59	59	59
Code Administration	18	15	20	20	20
Traffic Engineering	2	2	2	2	2
Animal Control	4	4	4	5	5
Public Works					
Public Works Administration	5	5	5	5	5
Parks Maintenance Division	16	16	16	16	16
Streets & Special Projects	10	10	10	10	10
Fleet Maintenance	6	6	6	6	6
Landscaping & Forestry	13	13	13	13	13
Mowing & Bulk Pick-Up	19	19	19	19	20
Recycling	-	-	-	-	-
Engineering Services	4	3	2	2	2
Street Lighting	-	-	-	-	-
Parks, Recreation & Culture					
Parks, Recreation & Culture	5	5	5	4	5
Recreation Programs & Sports	5	5	5	5	5
Recreation Classes	1	1	1	1	1
Youth Services	3	3	3	3	3
Summer Programs	-	-	-	-	-
Gaithersburg Youth Center	1	1	1	1	1
Olde Towne Youth Center	1	1	1	1	1
Casey Community Center	2	2	2	2	2
Water Park	2	1	1	1	1
Gaithersburg Arts Barn	2	2	2	1	1
Kentlands Mansion	3	3	3	2	2
Cultural Arts Programs	2	2	1	1	1
Special Events	4	4	5	5	4
Gaithersburg Aquatic Center	1	1	1	1	1
Picnic Pavilions	-	-	-	-	-
Winter Lights	-	-	-	1	1
Miniature Golf Course	-	1	-	-	-
Activity Center	3	3	5	4	4
Skate Park	-	-	-	-	-
Food Service	-	-	-	-	-
Community Services and Development					
Seniors Program	5	5	5	5	-
Community Services	4	3	3	3	3
Homeless Assistance	3	3	3	3	3
Full-Time Employee Totals:	278.0	271.0	261.0	256.0	253.0
Employment Agreement Employee Totals:	2.0	3.0	4.8	6.8	8.3
Part-Time Employee Totals:	105.1	101.3	99.4	99.3	119.4
Total Employees	385.1	375.3	365.2	362.1	380.7

Source: City of Gaithersburg, Maryland 2005-2014 Adopted Budgets
 Method: Using 1.0 for each full-time employee (FTE).

City of Gaithersburg, Maryland
 Full-Time City Government Employees by Function/Program (continued)
 Last Ten Fiscal Years

Function/Program	2009	2008	2007	2006	2005
General Government:					
Mayor and City Council	1	1	1	1	1
Legal Services	2	-	-	-	-
Registrations & Elections	-	-	-	-	-
Office of the City Manager	5	5	5	6	6
Economic & Community Development	2	3	3	2	2.5
Environmental Affairs	2	2	2	2	1.5
Human Resources	5	4	4	4	3
Finance & Administration	6	6	6	6	6
Housing & Community Deve	1	-	-	-	-
Information Technology	8	7	6	5	5
Facilities Management	8	8	7	5	5
Buildings and Grounds	-	-	-	2	2
General Services	-	-	-	-	-
Public Information	4	4	4	4	4
Cable Television Channel 13	2	2	2	2	3
Planning	10	11	11	12	11
Public Safety					
Police Services	58	56	51	47	45
Code Administration	20	20	19	15	17
Traffic Engineering	2	2	2	2	2
Animal Control	4	4	4	4	4
Public Works					
Public Works Administration	5	5	5	5	5
Parks Maintenance Division	16	16	16	17	16
Streets & Special Projects	10	9	9	9	7
Fleet Maintenance	5	5	5	5	5
Landscaping & Forestry	13	13	12	11	11
Mowing & Bulk Pick-Up	20	19	17	18	18
Recycling	-	-	-	-	-
Engineering Services	2	2	1	1	1
Street Lighting	-	-	-	-	-
Parks, Recreation & Culture					
Parks, Recreation & Culture	5	5	5	5	5
Recreation Programs & Sports	5	5	5	5	4
Recreation Classes	1	1	1	1	1
Youth Services	3	3	3	4	4
Summer Programs	-	-	-	-	-
Gaithersburg Youth Center	1	1	1	-	1
Olde Towne Youth Center	1	1	-	1	-
Casey Community Center	2	2	2	2	2
Water Park	1	1	1	1	1
Gaithersburg Arts Barn	1	1	2	1	1
Kentlands Mansion	2	2	2	2	2
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	4	4
Skate Park	-	-	-	-	-
Food Service	-	-	-	-	-
Community Services and Development					
Seniors Program	5	5	5	5	4
Human Services	3	3	3	3	3
Homeless Assistance	3	3	3	3	2
Full-Time Employee Totals:	255.0	248.0	236.0	228.0	221.0
Employment Agreement Employee Totals:	8.4	10.6	11.6	17.6	18.7
Part-Time Employee Totals:	117.5	117.4	115.8	113.4	108.6
Total Employees	380.9	376.0	363.4	359.0	348.3

Source: City of Gaithersburg, Maryland 2005-2014 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

Function/Program	2014	2013	2012	2011	2010
General Information					
Population	65,690	63,842	62,848	61,172	58,017
Registered Voters	32,203	32,459	31,137	28,539	28,115
General Government					
Commercial Construction Permits Issued	¹ 649	14	49	22	1
Residential Construction Permits Issued	² 715	221	111	152	125
Estimated Value of Construction	\$ 131,330,709	\$ 149,132,741	\$ 31,581,002	\$ 92,207,832	\$ 24,799,660
Transitional Housing to Permanent Housing	7	8	11	7	13
Public Safety					
Police Officers	59	52	52	46	52
Traffic Citations	8,765	10,670	9,359	8,356	7,858
Calls for Service	18,263	32,879	10,194	8,928	8,653
Fire Marshall Inspector	1	1	1	1	1
Animal Control Officers	4	4	4	4	4
Fire Marshall Inspections	1,368	1,211	1,001	1,684	1,291
Animal Licenses	2,740	1,655	2,882	2,838	2,596
Solid Waste					
Co-Mingled (tons)	3,424	3,395	3,117	3,343	3,171
Newspaper (tons)	³ N/A	N/A	N/A	N/A	N/A
Yard Waste (tons)	1,485	1,389	1,251	1,259	993

¹ In FY14, the City began tracking both new and improvement permits.

² In FY14, the City began tracking both new and improvement permits.

³ In FY09, the City single stream recycling materials and combined Co-Mingled goods with newspaper.

City of Gaithersburg, Maryland
 Operating Indicators by Function/Program
 Last Ten Fiscal Years

2009	2008	2007	2006	2005
57,818	59,912	60,736	58,607	57,812
25,469	25,469	27,725	25,936	25,936
11	4	7	9	17
72	89	126	134	94
\$ 46,746,126	\$ 36,022,880	\$ 30,177,912	\$ 40,815,382	\$ 74,313,532
11	3	6	8	6
53	49	46	45	43
8,085	5,966	6,803	7,818	7,066
7,805	7,955	11,956	17,844	30,995
1	1	1	1	1
3	3	3	3	3
1,262	979	1,094	1,527	1,302
2,508	2,467	2,477	2,454	2,472
2,474	907	579	804	972
N/A	1,432	1,449	1,407	2,013
1,014	1,036	934	902	1,322

City of Gaithersburg, Maryland
 Combined Schedule of Cash and Investments - by Financial Institution
 June 30, 2014

Description	Total
Bank of America	\$788,084
PNC Bank	\$110,612
Total Financial Institutions	<u>\$898,696</u>
Petty Cash, Change Funds, Trust Funds and Safe Deposit Escrow:	
General Fund	\$11,083
Pension Trust Fund	\$57,562,546
Retiree Benefit Trust Fund	\$6,336,624
Private-Purpose Trust Fund	\$13,592
Total Petty Cash, Change Funds, Trust Funds and Safe Deposit Escrow	<u>\$63,923,845</u>
 Total Cash Deposits in Financial Institutions and on Hand	 <u>\$64,822,541</u>
 Investments, State Treasurer's Investment Pool	 \$99,184,610
Montgomery County's General Investment Fund	\$3,578,033
Total Investments	<u>\$102,762,643</u>
 Total Cash and Investments	 <u>\$167,585,184</u>

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City of Gaithersburg, Maryland
 Capital Asset Statistics by Function/Program
 Last Ten Fiscal Years

Function/Program	2014	2013	2012	2011	2010
General Information					
Area in Square Miles	10.37	10.37	10.33	10.33	10.33
Public Safety - Police					
Stations	1	1	1	1	1
Number of Patrol Units	73	73	73	66	63
Highways and Streets					
City Streets (miles)	92.97	92.56	92.56	90.51	87.95
County Streets (miles)	6.72	6.72	6.72	6.72	6.06
State Streets (miles)	17.54	17.54	17.54	17.54	17.54
Private Streets (miles)	1.93	1.93	1.93	2.08	3.98
Street Lights (City Maint.)	3,890	4,138	4,115	4,115	4,367
Recreation and Culture					
Park Acreage	872.96	853.48	853.48	853.48	853.48
Parks	27	25	25	25	25
Museums	1	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	5	5	5
Performance Arts	1	1	1	1	1
Tennis Courts	14	14	14	14	14
Mansion	1 **	1 **	1 **	1 **	1

* The number of patrol units show in FY 2009 - FY2010 no longer include command staff, detectives or parking ticket processing units.

** The Mansion operation was transferred to Recreation and Culture in FY10.

City of Gaithersburg, Maryland
 Capital Asset Statistics by Function/Program
 Last Ten Fiscal Years

2009	2008	2007	2006	2005
10.33	10.33	10.33	10.04	10.04
1	1	1	1	1
63	58	46	57	50
87.95	87.95	87.95	87.95	88.24
6.06	6.06	6.06	5.75	5.34
17.54	17.54	17.54	17.54	17.54
3.98	3.98	3.98	3.98	4.28
4,377	4,368	4,323	3,550	3,350
853.48	853.48	853.48	853.48	853.48
25	25	25	25	25
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
2	2	2	2	2
1	1	1	1	1
5	5	5	5	4
1	1	1	1	1
14	14	14	12	12

City of Gaithersburg, Maryland
Schedule of Cumulative Appropriations, Expenditures, and Encumbrances - Capital Projects
From Project Inception Through June 30, 2014

Project Number	Project Name	Cumulative Appropriation	Cumulative Expenditures Plus Encumbrances	Variance Favorable (Unfavorable)
CITY FACILITY:				
70-2	City Hall	\$ 4,933,851	4,432,146	\$ 501,705
72-2	Public Service Facility	4,042,629	3,808,019	234,610
93-1	Technology Projects	6,115,854	4,326,910	1,788,944
98-1	Facilities Projects	6,247,991	3,277,517	2,970,474
01-2	Kentlands Mansion	1,137,316	858,863	278,453
02-1	Kentlands Firehouse	65,683	65,683	-
07-1	Emergency Preparedness	135,328	135,328	-
09-1	Police Station Improvement	1,211,397	51,277	1,160,120
10-1	Energy Efficiency and Conservation	728,000	537,917	190,083
Total City Facility		<u>24,618,049</u>	<u>17,493,660</u>	<u>7,124,389</u>
COMMUNITY ENHANCEMENT				
71-2	Street Lighting	2,406,406	2,095,463	310,943
79-5	Olde Towne Revitalization	5,458,523	3,183,760	2,274,763
81-4	Property Acquisition and Disposition	15,681,544	14,684,179	997,365
99-4A	Olde Towne Park Plaza	1,069,784	5,201	1,064,583
00-1	Y Site Development	13,031,052	12,901,874	129,178
04-1	Community Development Block Grant - HUD	977,459	628,421	349,038
09-2	Historic Preservation at Crown Farm	2,570,000	26,439	2,543,561
09-4	Rolling Stock Project	1,523,061	1,364,932	158,129
14-1	Quince Orchard Park - Medimmune	1,050,000	-	1,050,000
14-2	Consumer Product Safety Commission Park	1,400,000	5,899	1,394,101
00-0	Contingency and Future Projects	3,649,980	2,180,228	1,469,752
Total Community Enhancement		<u>48,817,809</u>	<u>37,076,396</u>	<u>11,741,413</u>
TRANSPORTATION/ENVIRONMENT				
79-3	Sidewalks, Handicapped Ramps & Bike Pathways	2,744,016	2,167,734	576,282
82-1	Stormwater Management and Storm Drainage	11,729,787	9,750,914	1,978,873
83-1	Street Resurfacing	18,192,370	17,919,130	273,240
91-3	Street Reconstruction	8,432,710	7,963,612	469,098
92-2	Traffic Calming and Signalization	1,457,535	1,313,960	143,575
98-7	Transit Enhancements	333,343	235,941	97,402
99-1	North Frederick Avenue Corridor Plan Implementation	125,457	125,457	-
07-2	Teachers Way	3,200,400	3,029,030	171,370
Total Transportation/Environment		<u>46,215,618</u>	<u>42,505,778</u>	<u>3,709,840</u>
RECREATION/LEISURE				
83-2	Bohrer Park at Summit Hall Farm	\$ 15,424,092	14,434,451	\$ 989,641
98-4	Art In Public Places	636,509	477,553	158,956
00-4	Renovation/Improvements Of Existing Parks	2,290,086	1,352,940	937,146
02-2	Parks and Facility Signage	-	-	-
03-1	Gaithersburg Aquatic/Recreation Center	1,897,632	706,321	1,191,311
09-3	Gaithersburg Senior Center	989,040	95,768	893,272
13-1	Synthetic Fields	1,055,000	990,244	64,756
Total Recreation/Leisure		<u>22,292,359</u>	<u>18,057,277</u>	<u>4,235,082</u>
Grand Total		<u>\$ 141,943,835</u>	<u>\$ 115,133,111</u>	<u>\$ 26,810,724</u>

Single Audit Section



Gaithersburg
A CHARACTER COUNTS! CITY



Arts Barn



**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**

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

We have audited, in accordance with the 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, 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 30, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McGladrey LLP

Frederick, Maryland
October 30, 2014



**Independent Auditor's Report on Compliance for
Each Major Federal Program and Report on Internal Control Over
Compliance Required by OMB Circular A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Gaithersburg, Maryland's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Gaithersburg, Maryland complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

McGladrey LLP

Frederick, Maryland
October 30, 2014

City of Gaithersburg, Maryland

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Program	CFDA Number	Pass-Through Entity Identifying Number	Revenue Recognized and Expenditures
U.S. Department of Housing and Urban Development			
<u>Direct Program</u>			
Supportive Housing for Persons with Disabilities	14.181	N/A	\$ 54,064
Supportive Housing for Persons with Disabilities	14.181	N/A	71,961
Total for Supportive Housing for Persons with Disabilities			<u>126,025</u>
Community Development Block Grant	14.218	N/A	<u>379,610</u>
Total U.S. Department of Housing and Urban Development			<u>505,635</u>
U.S. Department of Transportation			
<u>Passed through Maryland Department of Transportation</u>			
Highway Planning and Construction	20.205	N/A	<u>813,590</u>
U.S. Department of Justice			
<u>Direct Program</u>			
Bulletproof Vest Partnership Program	16.607	N/A	1,263
Police Technology	16.710		25,425
Total U.S. Department of Justice			<u>26,688</u>
U.S. Department of Homeland Security			
<u>Passed through Montgomery County, Maryland</u>			
Disaster Grants – Public Assistance	97.067	N/A	<u>9,580</u>
Environmental Protection Agency			
<u>Direct Program</u>			
Chesapeake Bay program	66.466	N/A	<u>70,000</u>
Total Expenditures of Federal Awards			<u>\$ 1,425,493</u>

See Notes to Schedule of Expenditures of Federal Awards.

City of Gaithersburg, Maryland

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Gaithersburg, Maryland under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. 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.

City of Gaithersburg, Maryland

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2014**

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? 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? Yes X None Reported

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway Planning and Construction
14.218	CDBG Cluster

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

Auditee qualified as low-risk auditee? Yes X No

Section II. Financial Statement Findings

No matters were reported.

Section III. Findings and Questioned Costs for Federal Awards

No matters were reported.

City of Gaithersburg, Maryland

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014**

Internal Control

Identifying Number: 2013-01 Missing Transactions – Material Weakness

Audit Finding: In prior year, the City failed to record contribution revenue in the statement of activities after revenue recognition criteria had been met in accordance with the annexation agreement.

Corrective Action Taken: Corrective action was taken.

Comprehensive Annual Financial Report

City of Gaithersburg, MD
Department of Finance and Administration
31 South Summit Avenue
Gaithersburg, Maryland 20877
301-258-6320 • www.gaithersburgmd.gov

