

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

**For the Fiscal Year Ended
June 30, 2016**



FY 2016





**City of Gaithersburg,
Maryland**

Comprehensive Annual Financial Report

Including Independent Auditor's Report

For the Fiscal Year Ended
June 30, 2016

Prepared by

The Dedicated Staff of the City's
Department of Finance and Administration

City of Gaithersburg, Maryland

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City of Gaithersburg, Maryland

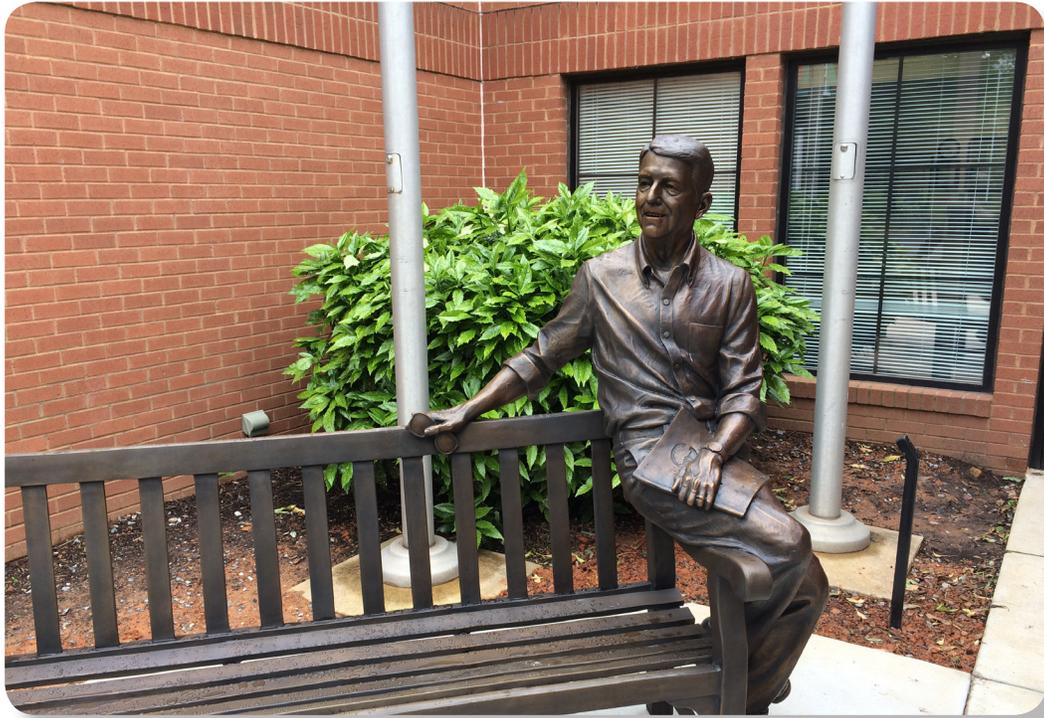
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Introductory Section





Art In Public Places
Former Mayor Edward W. Bohrer, Jr.



October 31, 2016

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, 2016.

Management assumes full responsibility for the completeness and reliability of all the information presented in this report based upon a comprehensive framework of internal controls that has been established for this purpose. 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 independently audited by CohnReznick, LLP, a firm of licensed certified public accountants. The independent auditors have issued an unmodified opinion on the City of Gaithersburg's financial statements for the year ended June 30, 2016. The independent auditor's report is presented as the first component of the Financial Section of the CAFR.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. The MD&A is designed to complement this letter of transmittal and should be read in conjunction with it.

PROFILE OF THE CITY

Gaithersburg began in 1765 as a small agricultural settlement known as Log Town. In 1850, the post office was named "Forest Oak." The town officially became "Gaithersburg" when it was incorporated on April 5, 1878.

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MAYOR
Jud Ashman

COUNCIL MEMBERS
Neil Harris
Henry F. Marraffa, Jr.
Michael A. Sesma
Ryan Spiegel
Robert T. Wu

CITY MANAGER
Tony Tomasello

The City occupies just over 10 square miles and, according to the 2015 U.S. Census Bureau estimates, it has a population of 67,456. The City provides many services including: police protection, licensing and permitting, building inspections, housing and community services, street maintenance, snow removal, recycling, parks, recreation and cultural activities. Fire protection, schools, library and health services are provided by Montgomery County. Water and sanitary sewer services are provided by Washington Suburban Sanitary Commission, a legally separate entity that provides these services to a number of cities and counties within Maryland.

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 it is estimated that 24.8% of residents have graduate or professional degrees. Labor market participation is high with estimated employment above 36,200 (U.S. Census Bureau Community Facts). According to the Maryland Department of Labor, Licensing and Regulation as of July 2016, the average year-to-date unemployment rate was 3.4%, below the Maryland average of 4.5% 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), Leidos (Information Systems – Defense), Asbury Methodist Village (Continuing Care Retirement Community), and Sodexo (Food & Facilities Management – Headquarters). Eleven 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 these create an environment that stimulates entrepreneurial activity.

Pending transportation improvements in the City include a full, access-controlled interchange at I-270 and Watkins Mill Road (\$129 mm; fully funded; open to traffic 2021), the Corridor Cities Transitway Phase 1 (Bus Rapid Transit; connecting the new interchange with Shady Grove Metro) and a Rapid Transit System (Bus Rapid Transit; Rt. 355 Corridor; under study).

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

MAJOR INITIATIVES

In preparing the Fiscal Year 2016 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 2016:

- Established separate Stormwater Management program CIP and implemented detailed project-based cost accounting

- Proposed potential Economic Development “Toolbox” modifications to include façade improvement investments in Olde Towne as well as enhanced grants for struggling office properties
- Expanded marketing opportunities with the installation of digital signage in select City facilities and managed content that incorporated facility and meeting information, events and activities, social media and RSS feeds
- Participated in the Metropolitan Washington Council of Governments (MWCOG) multi-sector greenhouse gas working group to help MWCOG draft a report identifying cost effective, viable strategies to meet the region’s greenhouse gas reduction goals
- Acquired 16 South Summit Avenue building for use as new Police Station; the project will enter the design phase in 2017
- Co-founded LaunchLabs (shared lab space) through public/private partnership

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, 2015. 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 38 consecutive years (Fiscal Years 1978-2015). We believe our current report continues to conform to Certificate of Achievement Program requirements and we are submitting it to the Government Finance Officers Association of the United States and Canada for review.

DISTINGUISHED BUDGET PRESENTATION

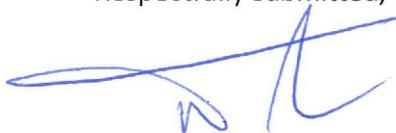
GFOA presented an award of Distinguished Presentation to the City of Gaithersburg for its annual budget for the Fiscal Year beginning July 1, 2016. In order to receive this award, a governmental unit must publish a document that meets program criteria as a policy document, as an operations guide, as 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 fourteenth consecutive year (Fiscal Years 2003-2016). 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 residents of Gaithersburg, 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



Stephanie M. Walker, CPA, CPFO
Director of Finance and Administration



Government Finance Officers Association

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

Presented to

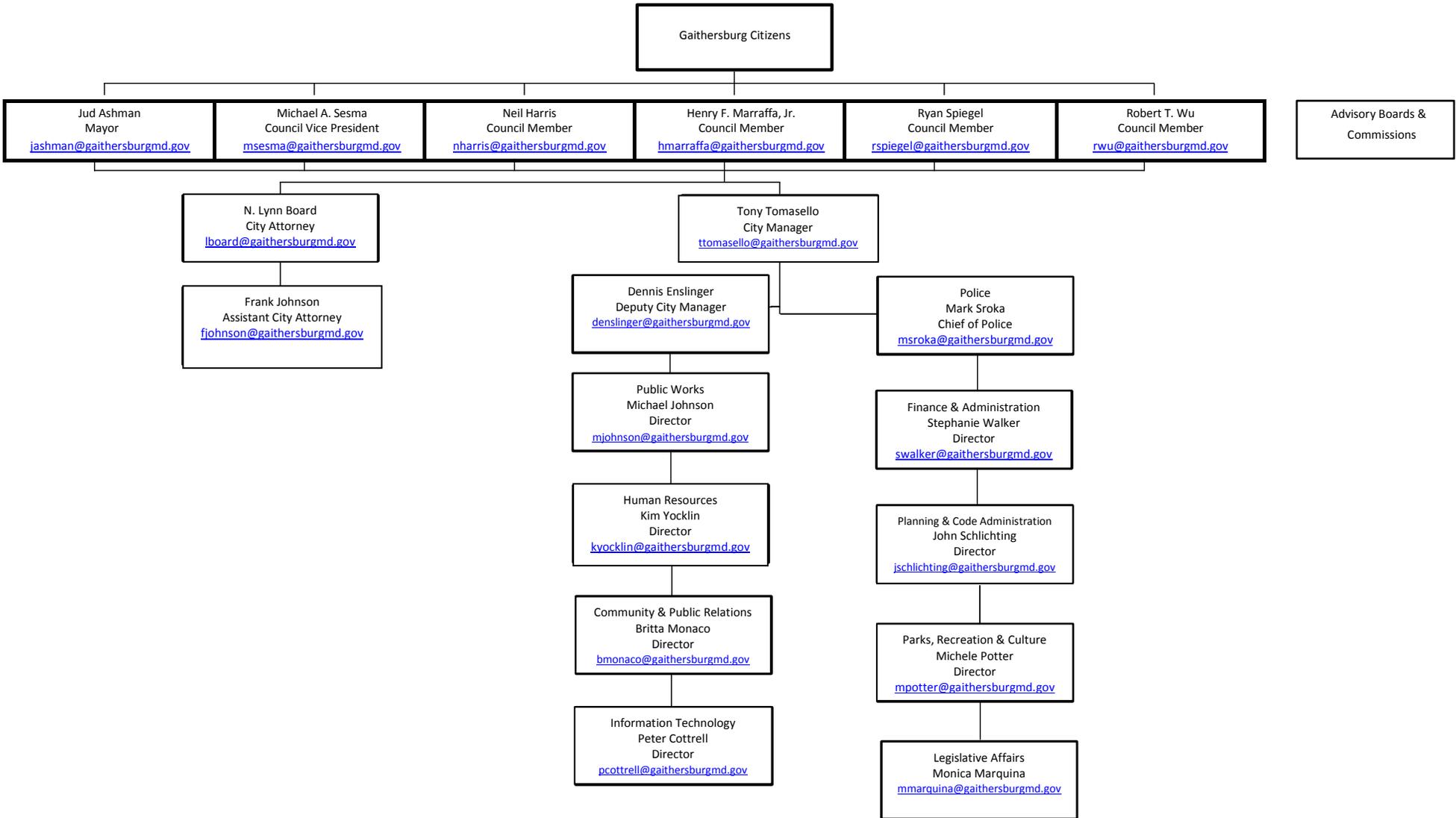
**City of Gaithersburg
Maryland**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

City of Gaithersburg, Maryland



City of Gaithersburg, Maryland

Directory of City Officials

Title

Mayor
City Council

Name

Jud Ashman
Neil Harris
Henry F. Marraffa, Jr.
Michael A. Sesma
Ryan Spiegel
Robert T. Wu

City Manager
Deputy City Manager

Tony Tomasello
Dennis Enslinger

City Attorney

N. Lynn Board

Department Directors

Community & Public Relations
Finance & Administration
Human Resource
Information Technology
Parks, Recreation & Culture
Planning & Code Administration
Police
Public Works

Britta Monaco
Stephanie M. Walker, CPA, CPFO
Kim Yocklin
Peter Cottrell
Michele Potter
John Schlichting
Mark Sroka
Michael Johnson

Department of Finance and Administration

Accounting Specialist
Administrative Assistant
Budget & Procurement Analyst
Chief Accountant
Comptroller
Grants administrator
Housing and Community Development Director
Payroll Coordinator
Procurement Manager
Senior Accounting Technician
Staff Accountant

Betty Woods
Brittan Saravia
JJ Knechtel
Ling Yan Angela Woo, CPA
Tina Hao Smith, CPA
Lauren Sukal
Louise Kauffmann
Larry Salins
Wesley Rhodes
Witarani Doyle
Francis Dohnji

Financial Section





Benjamin Gaither Center Grand Reopening

Independent Auditor's Report

To the City Council
City of Gaithersburg, Maryland

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparison for the General Fund of the City of Gaithersburg, Maryland (the "City"), as of and for the year ended June 30, 2016, 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 opinion.

Opinion

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, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Emphasis of Matter

As discussed in Note 16 to the basic financial statements, the City changed its method of reporting postemployment benefits other than pensions in the year ended June 30, 2016, as required by the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 11 through 25, and the Required Supplementary Information for the Postretirement Healthcare and Insurance Plan - Schedule of Changes in the City's Net OPEB liability and Related Ratios on page 61 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 ("GASB"), which 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 financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, general fund budgetary comparison schedules and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining financial statements, individual nonmajor fund financial statements, and the general fund budgetary comparison schedules listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016, 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 of Gaithersburg, Maryland's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Baltimore, Maryland
October 31, 2016

City of Gaithersburg, Maryland

Management's Discussion and Analysis
June 30, 2016

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, 2016. 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 2016

- The City's government-wide net position increased by \$5.9 million.
- The General Fund, which is reported using a current financial resource basis, reported a decrease in fund balance of (\$2.1) million after making a \$13.4 million transfer to the Capital Projects Fund.
- The City's financial position improved over the past year. Total governmental funds' fund balance increased by 4.5% to \$116.5 million.
- Capital Projects Fund expenditures of \$8.6 million included many projects, the largest of which were: the purchase of a building to be renovated for a new police station, interior renovations at the Casey Community Center, demolition and design work at the former CPSC site, development of a new park at Constitution Gardens, a new telephone system, the purchase of six dump trucks and street reconstruction along Watkins Mill Road.

Overview of the Financial Statements

The discussion and analysis provided here is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three parts: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information intended to furnish additional detail to support the basic financial statements themselves.

- The first two financial statements are called *government-wide financial statements*. These statements consist of a Statement of Net Position and a Statement of Activities. The Statement of Net Position can be thought of as being similar to a Balance Sheet and the Statement of Activities is similar to an Income Statement. These statements group all of the activities of the City together. These financial statements are designed to provide both *short-term* and *long-term* information about the City's *overall* financial status as a whole.
- 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 uses funds in order to demonstrate compliance with budgetary and other regulations. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. 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.

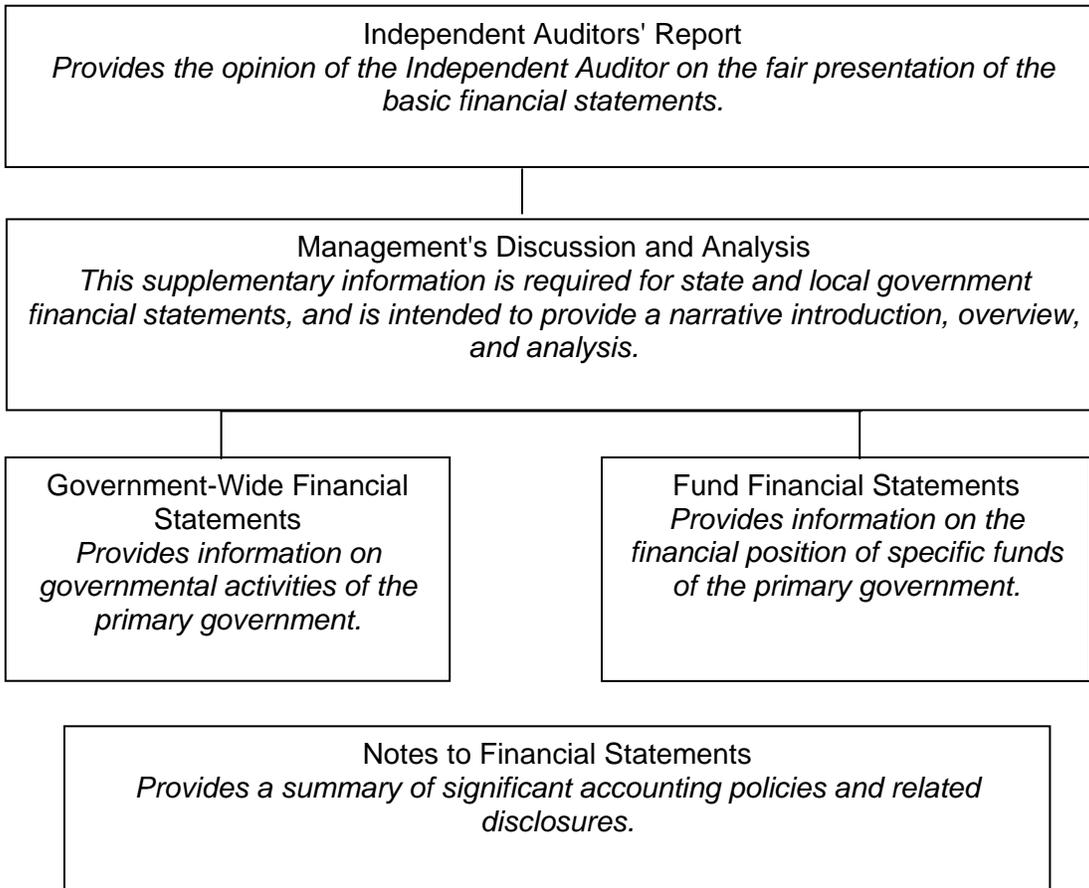
City of Gaithersburg, Maryland

Management's Discussion and Analysis
June 30, 2016

- *Fiduciary funds* statements that provide information about the financial relationships in which the City acts solely as a *trustee* or *agent* for the benefit of others.

The basic financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the City's budget for the year. Figure 1 shows how the various parts of this annual report are arranged and related to one another. The chart below summarizes the major sections of the City's financial statements, including the portion of the activities they cover and the types of information they contain. Figure 2 summarizes the differences between the financial statements and 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, 2016

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 fiduciary funds, 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 other post-employment benefits held in a trust.
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, 2016

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, one needs 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. The activities are financed by substantially all types of City revenues.

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 financial 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 one 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 four governmental funds. Two of these funds are considered to be major

City of Gaithersburg, Maryland

Management's Discussion and Analysis
June 30, 2016

funds, the General Fund and the Capital Projects Fund. Two of these funds are considered to be non-major funds, the Stormwater Management Fund and the Forest Conservation Fund.

- *Fiduciary funds:* These funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. 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. The City reports two fiduciary funds, the Other Post-Employment Benefit (OPEB) trust fund and a private purpose trust fund is used to report resources held to provide interest income for funding recreational scholarships.

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, 2016 with a FY 2015 comparative analysis:

Figure 3 - Condensed Statement of Net Position

Governmental Activities	2016	2015	Change	% Chg
Assets				
Current and other assets	\$ 124,233,493	\$ 118,050,340	\$ 6,183,153	5.24%
Capital assets	<u>107,492,726</u>	<u>103,485,802</u>	<u>4,006,924</u>	<u>3.87%</u>
Total assets	<u>231,726,219</u>	<u>221,536,142</u>	<u>10,190,077</u>	<u>4.60%</u>
Deferred outflows of resources	<u>6,385,000</u>	<u>-</u>	<u>6,385,000</u>	<u>100.00%</u>
Liabilities				
Long-term liabilities	51,382,490	41,187,442	10,195,048	24.75%
Other liabilities	<u>4,608,533</u>	<u>4,175,299</u>	<u>433,234</u>	<u>10.38%</u>
Total liabilities	<u>55,991,023</u>	<u>45,362,741</u>	<u>10,628,282</u>	<u>23.43%</u>
Net position				
Net investment in capital assets	107,492,726	103,485,802	4,006,924	3.87%
Restricted	3,474,680	1,241,199	2,233,481	179.95%
Unrestricted	<u>71,152,790</u>	<u>71,446,400</u>	<u>(293,610)</u>	<u>-0.41%</u>
Total net position	<u>\$ 182,120,196</u>	<u>\$ 176,173,401</u>	<u>\$ 5,946,795</u>	<u>3.38%</u>

Current and other assets for governmental activities primarily represent cash, property taxes receivable, amounts due from other governments, miscellaneous receivables, prepaid items, and long-term loans receivable. Total current and other assets increased by \$6.2 million. Much of this increase relates to an increase in cash and investments during the year. Cash balances increased as the City accumulated funds for future stormwater projects (\$2.5 million) and capital projects (\$4.7 million). The City began a new stormwater fee program during FY16 because the State of Maryland issued new stormwater management regulations. These regulations will require a reduction of 20% of stormwater over the City's five year permit period. The State has

City of Gaithersburg, Maryland

Management's Discussion and Analysis
June 30, 2016

not yet finalized the approval of the City's permit and the beginning of the permit period. The City will continue to undertake design work but has placed most projects on hold until the permit has been issued. The City does not issue debt for capital projects, but rather saves for future capital purchases. The capital funds that were accumulated in 2016 will be for the following future projects: renovation of the public works facility, city hall roof replacement and construction of a new park and recreation facility at the former CPSC site.

Changes in capital assets and long-term liabilities are discussed within those sections of this report.

Deferred outflows represent the future expenses related to the City's OPEB liability. During 2016, the City implemented GASB Statements No.'s 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* and 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. These new standards require that the effect (expense) associated with changes in certain actuarial assumptions and between expected and actual investment earnings be charged to expense over multiple years, rather than taking the entire change in one fiscal year. This results in a deferred outflow which will be charged to expense in future years.

Other liabilities include accounts payable, accrued payroll and related benefit liabilities, and deposits related to development work that will be refunded. Others liabilities increased due to an increase in accrued payroll and related liabilities as there were nine days of accrued payroll as compared to seven in 2015. Accounts payable also increased in FY16 due to several vehicle purchases were included in accounts payable in 2016 which were not in 2015 and an increase in billings for speed camera administration due to higher revenue collections and a change in contract terms.

By far 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. The net investment in capital assets can be thought of as the City's equity in capital assets. As mentioned previously, the City does not utilize debt financing, so the net investment in capital assets is 100% of the capital assets. Additions to capital assets are discussed later within this report.

Restricted net position represents money that has a third party restriction on what the City can use it for which was unspent at year end. Full details of the City's restricted net position can be found within the notes to the financial statements, but larger restrictions include forest conservation funds, stream and infrastructure improvements, public safety activities, transportation projects, and stormwater management. This category increased during 2016 related to the new stormwater management fee which is considered to be restricted for that purpose.

City of Gaithersburg, Maryland

Management's Discussion and Analysis
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Unrestricted net position represents the remaining category of equity after net investment in capital assets and restricted net position has been calculated. There was no significant change in this balances year over year.

Statement of Activities: The Statement of Activities presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, earned but unused vacation leave). The table below summarizes the Statement of Activities for 2016 and 2015. Significant changes year over year are discussed following the table.

Figure 4 - Condensed Statement of Activities

Governmental Activities	2016	2015	Change	% Chg
Revenues				
Program revenues				
Charges for services	\$ 17,007,484	\$ 13,310,237	\$ 3,697,247	27.78%
Operating grants and contributions	935,022	922,928	12,094	1.31%
Capital grants and contributions	1,767,652	2,824,717	(1,057,065)	-37.42%
General revenues:				
Property tax	25,846,114	24,309,643	1,536,471	6.32%
Franchise fees	921,784	902,479	19,305	2.14%
Admissions, amusement, hotel tax	2,487,526	2,293,951	193,575	8.44%
Intergovernmental, not restricted	12,522,102	12,780,222	(258,120)	-2.02%
Investment earnings	881,004	80,324	800,680	996.81%
Other	966,847	809,751	157,096	19.40%
Total revenue	<u>63,335,535</u>	<u>58,234,252</u>	<u>5,101,283</u>	<u>8.76%</u>
Expenses				
General government	19,165,828	16,504,191	2,661,637	16.13%
Public safety	13,409,073	12,562,415	846,658	6.74%
Public works	12,954,346	10,305,125	2,649,221	25.71%
Parks and recreation	8,719,722	8,325,520	394,202	4.73%
Community services and development	3,139,656	2,559,169	580,487	22.68%
Total expenses	<u>57,388,625</u>	<u>50,256,420</u>	<u>7,132,205</u>	<u>14.19%</u>
Change in net position	5,946,910	7,977,832	<u>\$ (2,030,922)</u>	<u>-25.46%</u>
Beginning net position (restated)	199,665,599	191,687,767		
Restatement (note)	<u>(23,492,313)</u>	-		
Ending net position	<u>\$ 182,120,196</u>	<u>\$ 199,665,599</u>		

Note: The City implemented GASB Statement No. 75 which restated beginning net position. The impact of this new Statement has not been included in the 2015 amounts shown above.

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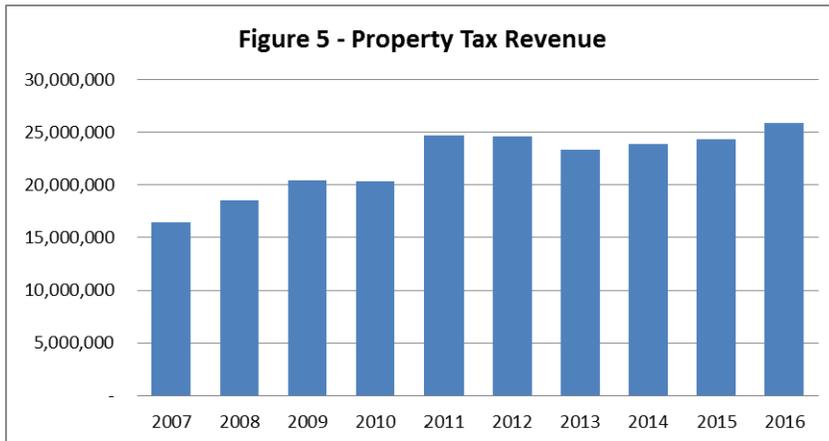
Revenues

Charges for services are the City's second largest revenue category after taxes. Some of the larger revenues in this category include: police tickets and fines, photo radar tickets, stormwater and recycling fees, building permits and licenses, forest conservation fee and recreation fees. Charges for services increased in 2016 due to:

- a significant increase in building and other construction permits related to several large new commercial developments, including a Lifetime Fitness and building at MedImmune;
- an increase in police and photo radar tickets due to an increase in tickets and because the City recorded unpaid tickets as receivables in 2016 whereas they were recorded on a cash basis in the past; and
- the new stormwater management fee.

Operating grants and contributions largely includes grants such as the State police grant, a federal grant for housing and several smaller grants for homeless programs and nutrition. These amounts remained relatively consistent between 2015 and 2016.

Capital grants and contributions by their nature tend to fluctuate on an annual basis. In 2015 the City received grants for the installation of synthetic turf fields, water park constructions and renovations at the senior center which were each one-time grants. The City annually receives funding from the State in the form of highway user fees which is one of the other primary revenues reported in this category.



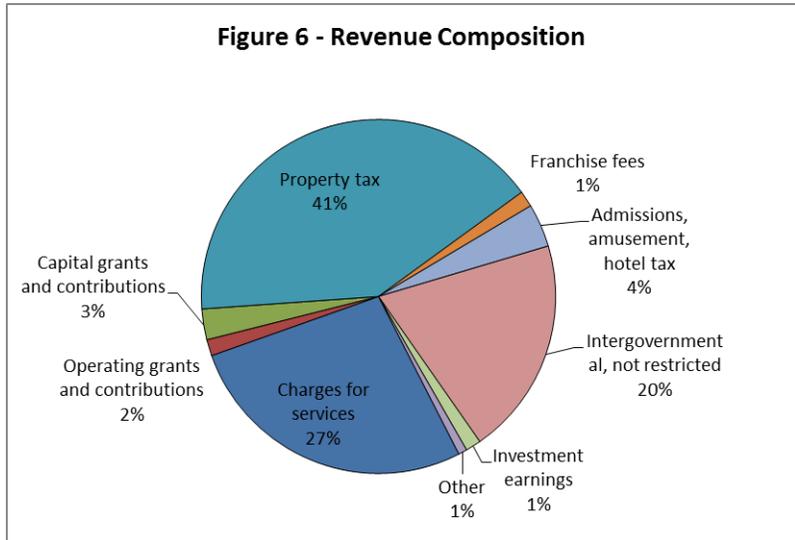
The City's property tax rate has remained the same since 2010, meaning that the City only receives additional revenue when property values appreciate. The chart to the left illustrates the City's property tax revenues for the last several years.

Intergovernmental revenues, not restricted to specific programs include the City's share of income taxes and a payment from Montgomery County toward duplication of services. This revenue remained relatively consistent year over year.

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Other revenues include gains on the sale of capital assets and tend to fluctuate annually due to this type of activity. The year over year change related to sales in 2015 that did not re-occur. The chart to the right shows the composition of the City's revenue by sources. The overall composition has remained similar from 2015 to 2016.



Expenses

The general government function includes the City's administrative, management and legislative activities, maintenance on all City facilities, economic development, planning administration and public information activities. General government expenses increased by \$2.6 million for several reasons:

- Increase in economic development opportunity grants, the City gave \$185,000 in two grants in 2016; one of these grants was awarded in 2015, but no grants were disbursed in 2015.
- The new GASB statements related to OPEB resulted in more expense being recognized in the statement of activities. This impacted the general government line by \$540,000;
- Administration of the City's speed camera program is included in general government. This increased by \$167,000; and
- Salaries and benefits increased by \$840,000 due to position vacancies in 2015, employee raises and benefit increases.

The public safety function includes police services, building and code enforcement, and traffic and animal control costs. This function increased from 2015 primarily due to the change in OPEB which had an impact of \$534,000.

City of Gaithersburg, Maryland

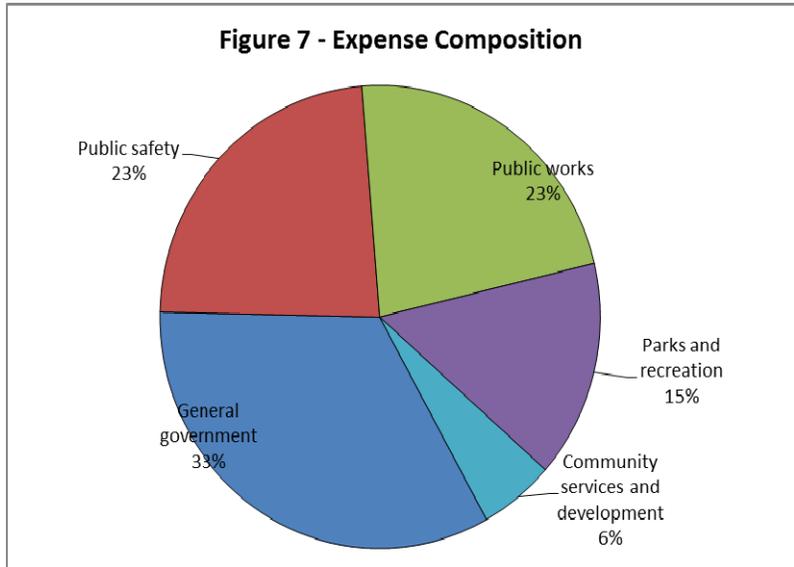
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The public works function represents costs for maintenance costs for municipal parks, fleet, and streets, as well as street lighting, landscaping and forestry, recycling, engineering and street projects. Expenses within public works increased by \$2.6 million for the following reasons:

- The new GASB statements related to OPEB resulted in more expense being recognized in the statement of activities. This impacted the general government line by \$308,000;
- The City entered into a new recycling contract which resulted in higher costs of \$268,000.
- 2016 expenses included expenses for the removal of duplicate capital assets of \$309,750 which had been capitalized in prior years; and
- 2015 expenses in this function included a reduction in expenses for capital related costs that were not capitalized in previous years of \$1.1 million.

The parks and recreation function includes costs for administering and putting on many programs and special events for people of all ages. Costs for the City's community center, Arts Barn, Mansion, waterpark, miniature golf course, aquatic facilities and parks are also categorized here. Expenses within this function remained consistent between the two years.

The chart to the right shows the composition of expenses by function. The allocation of total costs across the functions was similar between 2015 and 2016.

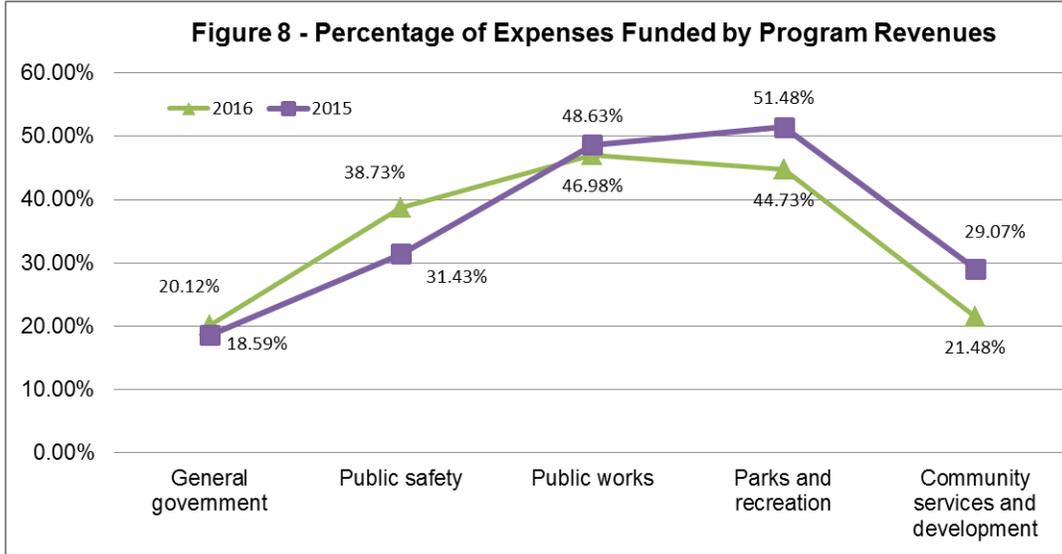


Net Costs

As mentioned within the revenues section, program revenues are revenues intended to pay for a certain activity or function. Program revenues include charges for services, operating grants and capital grants. The chart below illustrates how much of each function's expenses are funded by program revenues. All expenses not funded through program revenues are financed with general revenues, primarily taxes. The percentages funded by program revenues fluctuate annually due to one-time grants.

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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 \$116.5 million; an increase of \$5.1 million over last year's ending fund balance.

General Fund: The general fund spent \$2.1 million more than was taken in, thereby decreasing total fund balance to \$76.0 million. The City planned to spend down fund balance in 2016 by \$10.6 million. Less fund balance was used because revenues exceeded expectations by \$5.2 million and expenditures were less than expected by \$3.3 million. These variances are discussed below within the General Fund budgetary highlights section of this report.

Capital Projects Fund: The Capital Projects Fund showed an increase in fund balance of \$1.2 million as the City set aside funding for future projects, which was discussed with the change in cash position earlier in this report. Capital Projects Funds' total fund balance of \$33.8 million primarily represents authorized and funded projects that are not complete as well as funding set aside for large future projects.

Non-Major Funds: increased fund balance by \$6.0 million. Of this \$3.6 million was related to a transfer from the Capital Projects Fund for the establishment of a stormwater management fund and the remaining was due to the first year of the new stormwater management fee. These funds are being accumulated in order to construct stormwater mitigation assets after the State has issued the City's stormwater management permit.

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. No amendments were made to the City's budget during 2016.

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Revenues

Overall the City's General Fund took in \$1.8 million more in revenue than was budgeted. The 2016 budget included revenue for the City's stormwater management fee of \$3.4 million. This fee was accounted for directly within the Stormwater fund in 2016 rather than being recorded in the General Fund and transferred to the Stormwater Fund. After the effect of this change, revenues within the General Fund exceeded budget by \$5.2 million.

Generally the City budgets revenues conservatively in order to insulate itself against unknown downturns. Additionally, since municipal budgets are developed mid-way through the previous fiscal year, revenue growth in budgeting lags the actual results by approximately one full year. Thus, the 2016 budget is more closely aligned to the 2014 actual results. The City has been fortunate in experiencing significant growth in several revenue areas during 2015 and 2016, which resulted in revenues exceeding budget in the following areas:

- Building permits came in more than budgeted by \$748,000. Due to the recent economic downturn, the City has been budgeting growth at lower levels than we have been experiencing. The City received payments on several new commercial permits which resulted in revenues exceeding budgets for the building permit and other related permit categories. In total licenses and permits exceeded revenue by \$1.5 million.
- Intergovernmental revenues did better than budget by just under \$800,000. This was due to reimbursement for work completed on the pool of \$300,000 which was not budgeted in 2016. Income taxes are considered to be shared revenues, so they are included in intergovernmental revenue rather than taxes. Income taxes also exceeded the City's budgeted expectations coming in \$515,000 above the amount budgeted. While the City only experienced a 1% increase in income taxes in 2016, and 2% growth in 2015; however in 2014 growth was very strong at 10%. Due to the budgeting process these increases are added to the budget more slowly over multiple years.
- The charges for services category was under budget by \$2.8 million. The majority of this related to the creation of a Stormwater fund. Due to the creation of this new fund the stormwater fees were accounted for directly in that fund rather than reporting them in the General Fund, where they were budgeted. Excluding the effect of this change of \$3.4 million, charges for services came in \$600,000 or 12% better than budget. Just under \$200,000 of this was due to an increase in water park revenues in part due to higher fees for non-resident admissions. This revenue is particularly weather dependent and the budget was established similar to 2014 actual levels. Charges for services related to automation fees also exceeded budget. This revenue is related to building permits and exceeded expectations by \$143,000.
- Ordinance fines exceeded budget due to higher than expected speed camera revenues which came in \$851,000 higher than budget. This was due to an increase in tickets issued and the City recorded tickets receivable which previously had been recorded on a cash basis.

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Expenditures

For 2016 the City's General Fund came in \$3.3 million or 6.4% under budget in expenditures. City departments in general come in under budget due to the City's strong budgetary controls and from savings generated due to position vacancies.

In 2016 the City budgeted for all authorized positions, however due to staff turnover not all authorized positions are filled for the entire year. This provides a budgetary savings. Total salary and benefit savings in 2016 was \$1.4 million. As a further budgetary control, the City's practices have not been to allow departments to reallocate this saving into operational purchases. Beginning with the 2017 budget, the City began including a salary vacancy percentage to reduce the differences between the budget and actual results.

Some of the other significant differences between budget and actual are identified below:

- The housing and community development activity came in under budget by \$450,000. The majority of this relates to the Gaithersburg Homeownership Assistance Loan Program which was budgeted as an expenditure, but for accounting purposes are shown as loans receivable. Total loans distributed in 2016 were \$419,000;
- The City includes \$500,000 for contingency purposes within the budget, of which only \$42,616 was spent in 2016;
- Since the City does not issue long-term debt for capital purchases, the General Fund budget includes funding for the replacement of equipment, vehicles and other small capital purchases. These funds are intended to be set aside until the asset needs to be replaced in future years. In 2016 the City budgeted \$2.0 million for new and replacement equipment funding. During 2016, \$1.8 million was used to purchase new or replacement equipment, resulting in a budgetary set aside of \$200,000 for future years' purchases; and
- The 2016 budget included \$150,000 for a forestry study which was not completed.

Capital Asset and Debt Administration

Capital Assets

By the end of the year, the City had invested \$107.5 million (net of depreciation) in a broad range of capital assets, including buildings, athletic facilities, vehicles, equipment and infrastructure. Total depreciation expense for the year was \$4.8 million, and additions to buildings, infrastructure, improvements, and equipment and furniture amounted to \$9.3 million. More detailed information about capital assets can be found in Note 7.

During the fiscal year the City completed the following significant projects:

- Purchased a building to be renovated for a new police station and public safety building
- Interior renovations at the Casey Community Center were completed during 2016
- The Constitution Gardens project had been included in construction in progress at the end of 2015 was completed in 2016.

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- The City purchased six dump trucks and began the installation of a new telephone system
- Street reconstruction was completed along Watkins Mill Road.

Governmental Activities	2016	2015
Land	\$ 42,914,674	\$ 42,320,205
Buildings	21,231,492	20,975,875
Improvements other than buildings	6,129,423	5,768,525
Machinery and equipment	3,328,562	2,876,359
Infrastructure	28,311,952	30,267,326
Construction in progress	5,576,623	1,277,512
Total capital assets, net	<u>\$ 107,492,726</u>	<u>\$ 103,485,802</u>

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 instruments. The City's long-term obligations consist only of compensated absences payable and other post-employment benefits liabilities. During 2016 the City implemented Governmental Accounting Standards Board (GASB) Statement No.'s 74 and 75 which require the City record the entire balance of unfunded post-employment benefits as a liability. In past years GASB statements only required the City record a liability for the difference between the actuarially determined contribution and the amount paid for benefits or contributed to a trust. The City's net OPEB obligation has been restated to conform to these new accounting pronouncements.

Governmental Activities	2016	2015
Compensated absences		
Vaction	\$ 1,955,578	\$ 1,701,049
Sick	1,097,832	1,000,637
Total compensated absences	<u>3,053,410</u>	<u>2,701,686</u>
Net OPEB obligation (as restated)	<u>48,181,871</u>	<u>38,485,756</u>
Income tax duplication liability	147,209	-
Total long-term debt	<u>\$ 51,382,490</u>	<u>\$ 41,187,442</u>

The City's OPEB liability increased by \$9.7 million; \$6.4 million of this related to the changes in interest rate and other actuarial assumptions and expectations used. The remaining increase represents the difference between the amount contributed by the City to the OPEB trust and the

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estimated cost of providing these benefits on an annual basis. See Note 9 for detailed disclosure on the City's OPEB liability. The income tax duplication liability is a long-term liability related to a lawsuit that the State of Maryland lost for how credits were applied to resident income tax returns. See Note 13 for more information related to this liability.

Factors Impacting on the City's Future

The following economic factors are reflected in the City's FY 2017 budget:

- During 2016 the City was notified by the State that many income tax returns had been allocated to the City in error. While repayment of the estimated \$2.5 million would not be due for many years, if ever, the City's annual allocation of income tax revenue will be lower beginning in 2017 when the correct allocation will be used. The City reduced its estimate for this revenue in 2017 by approximately \$750,000.
- The City has begun projects to assess the condition of its large infrastructure assets. This may result in the need to substantially increase capital spending on areas such as roads, bridges and stormwater management in future years. Since the City does not rely on bonding for these types of large capital projects it is expected that future budgets will continue to draw down fund balances that have been accumulated in past years.
- The 2017 budget includes an estimated use of fund balance of \$10.9 million which was comparable to the amount allocated for use in the 2016 budget.

Contacting the City's Financial Management

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

City of Gaithersburg, Maryland

Statement of Net Position
June 30, 2016

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 116,107,967
Receivables, net of allowance for uncollectibles	5,440,714
Prepays	181,157
Inventory	41,159
Long-term receivables	2,462,496
Capital assets	
Land	42,914,674
Buildings	36,745,261
Improvements other than buildings	14,353,108
Machinery and equipment	13,028,751
Infrastructure	68,833,517
Construction-in-progress	5,576,623
Less: accumulated depreciation	(73,959,208)
Total assets	<u>231,726,219</u>
Deferred Outflows of Resources	
Deferred outflows from OPEB	<u>6,385,000</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 238,111,219</u>
Liabilities	
Accounts payable	\$ 1,178,315
Accrued liabilities	1,412,523
Deposits	2,017,695
Non-current liabilities	
Due within one year	1,134,056
Due in more than one year	50,248,434
Total liabilities	<u>55,991,023</u>
Net Position	
Net investment in capital assets	107,492,726
Restricted for:	
Sports program	11,671
Holiday giving	17,260
Public safety	54,936
Stream and infrastructure improvements	191,804
Transportation projects	200,000
Stormwater	2,252,256
Forest conservation	746,753
Total Restricted	<u>3,474,680</u>
Unrestricted	<u>71,152,790</u>
Total net position	<u>\$ 182,120,196</u>

See Notes to Basic Financial Statements.

City of Gaithersburg, Maryland

Statement of Activities
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
General government	\$ 19,165,828	\$ 3,804,063	\$ 52,080	\$ -	\$ (15,309,685)
Public safety	13,409,073	4,585,220	590,766	16,858	(8,216,229)
Public works	12,954,346	4,755,402	-	1,330,912	(6,868,032)
Parks and recreation	8,719,722	3,862,799	37,557	-	(4,819,366)
Community services and development	3,139,656	-	254,619	419,882	(2,465,155)
Total governmental activities	<u>\$ 57,388,625</u>	<u>\$ 17,007,484</u>	<u>\$ 935,022</u>	<u>\$ 1,767,652</u>	<u>(37,678,467)</u>
General Revenues					
Property tax					25,846,114
Franchise fees					921,784
Admissions, amusement, and hotel taxes					2,487,526
Intergovernmental not restricted to specific programs					12,522,102
Investment earnings					881,004
Gain on sale of capital assets					115,249
Miscellaneous revenues					851,598
Total general revenues					<u>43,625,377</u>
Change in net position					<u>5,946,910</u>
Net Position					
Beginning					199,665,599
Adjustments to restate net position					<u>(23,492,313)</u>
Ending					<u>\$ 182,120,196</u>

See Notes to Basic Financial Statements.

City of Gaithersburg, Maryland

Balance Sheet - Governmental Funds
As of June 30, 2016

	General Fund	Capital Projects Fund	Non-Major Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 75,380,311	\$ 33,952,641	\$ 6,775,015	\$ 116,107,967
Property taxes, net of allowance of \$129,166	177,399	-	-	177,399
Due from other governments	3,398,399	-	-	3,398,399
Other receivables, net of allowance of \$169,651	1,620,183	-	244,733	1,864,916
Prepays	181,157	-	-	181,157
Inventory	41,159	-	-	41,159
Long-term receivables	2,462,496	-	-	2,462,496
Total assets	\$ 83,261,104	\$ 33,952,641	\$ 7,019,748	\$ 124,233,493
Liabilities, Deferred Inflow of Resources, and Fund Balances				
Liabilities				
Accounts payable	\$ 1,000,642	\$ 177,673	\$ -	\$ 1,178,315
Accrued liabilities	1,371,552	-	40,971	1,412,523
Deposits	2,017,695	-	-	2,017,695
Total liabilities	4,389,889	177,673	40,971	4,608,533
Deferred inflow of resources				
Unavailable revenues	2,896,497	-	244,733	3,141,230
Total deferred inflow of resources	2,896,497	-	244,733	3,141,230
Fund balances				
Non-spendable				
Prepays	181,157	-	-	181,157
Inventories	41,159	-	-	41,159
Restricted	475,671	-	2,986,643	3,462,314
Committed	3,117,523	2,210,349	-	5,327,872
Assigned	15,047,154	31,564,619	3,747,401	50,359,174
Unassigned	57,112,054	-	-	57,112,054
Total fund balances	75,974,718	33,774,968	6,734,044	116,483,730
Total liabilities, deferred inflow of resources, and fund balances	\$ 83,261,104	\$ 33,952,641	\$ 7,019,748	\$ 124,233,493

See Notes to Basic Financial Statements.

City of Gaithersburg, Maryland

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
As of June 30, 2016

Total fund balance - governmental funds		\$ 116,483,730
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	\$ 181,451,934	
Accumulated depreciation	<u>(73,959,208)</u>	107,492,726
Income taxes, annexations receivable, and fines and forfeitures in the statements of activities that do not provide financial resources and are not reported as revenue in the governmental funds		
		3,141,230
The net OPEB obligation and the related deferred outflows do not represent financial resources and is not reported in the governmental funds.		
Income tax duplication liability	(147,209)	
Net OPEB obligation	(48,181,871)	
Deferred outflows from OPEB	<u>6,385,000</u>	(41,944,080)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Accumulated unused compensated absences		<u>(3,053,410)</u>
Net position of governmental activities		<u>\$ 182,120,196</u>

See Notes to Basic Financial Statements.

City of Gaithersburg, Maryland

Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds
For the Year Ended June 30, 2016

	General Fund	Capital Projects Fund	Non-Major Funds	Total Governmental Funds
Revenues				
Taxes	\$ 28,372,261	\$ -	\$ -	\$ 28,372,261
Licenses and permits	5,485,935	-	-	5,485,935
Intergovernmental	15,344,503	-	-	15,344,503
Charges for services	5,677,979	-	3,110,768	8,788,747
Fines and forfeitures	2,959,850	-	-	2,959,850
Interest income	679,695	-	112,215	791,910
Miscellaneous	731,655	-	-	731,655
Total revenues	<u>59,251,878</u>	<u>-</u>	<u>3,222,983</u>	<u>62,474,861</u>
Expenditures				
Current				
General government	12,730,955	-	-	12,730,955
Public safety	11,465,055	-	-	11,465,055
Public works	9,312,492	-	298,730	9,611,222
Parks and recreation	7,534,789	-	-	7,534,789
Community services and development	2,687,790	-	-	2,687,790
Miscellaneous	4,320,934	-	-	4,320,934
Capital outlay	-	8,634,246	559,782	9,194,028
Total expenditures	<u>48,052,015</u>	<u>8,634,246</u>	<u>858,512</u>	<u>57,544,773</u>
Excess (deficiency) of revenues over expenditures	<u>11,199,863</u>	<u>(8,634,246)</u>	<u>2,364,471</u>	<u>4,930,088</u>
Other Financing Sources (Uses)				
Transfers in	-	13,328,289	3,635,186	16,963,475
Transfers out	(13,430,087)	(3,533,388)	-	(16,963,475)
Proceeds from sale of capital assets	132,131	-	-	132,131
Total other financing sources (uses)	<u>(13,297,956)</u>	<u>9,794,901</u>	<u>3,635,186</u>	<u>132,131</u>
Net change in fund balances	<u>(2,098,093)</u>	<u>1,160,655</u>	<u>5,999,657</u>	<u>5,062,219</u>
Fund Balances				
Beginning	<u>78,072,811</u>	<u>32,614,313</u>	<u>734,387</u>	<u>111,421,511</u>
Ending	<u>\$ 75,974,718</u>	<u>\$ 33,774,968</u>	<u>\$ 6,734,044</u>	<u>\$ 116,483,730</u>

See Notes to Basic Financial Statements.

City of Gaithersburg, Maryland

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2016

Total net change in fund balances - governmental funds		\$ 5,062,219
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:		
Capitalized outlays	\$ 9,251,753	
Depreciation	<u>(4,773,197)</u>	4,478,556
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	(1,598,689)	
Accumulated depreciation	<u>1,127,057</u>	(471,632)
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).		
		687,700
The net OPEB obligation relates to funding for future retiree health benefit payments, which are not considered current. The net OPEB obligation increased in the current fiscal year.		
		(3,311,000)
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.		
Income tax duplication expense (increase) decrease	(147,209)	
Unused compensated absences (increase) decrease	<u>(351,724)</u>	<u>(498,933)</u>
Change in net position of governmental activities		<u>\$ 5,946,910</u>

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
For the Year Ended June 30, 2016

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues			
Taxes	\$ 27,720,200	\$ 28,372,261	\$ 652,061
Licenses and permits	3,969,580	5,485,935	1,516,355
Intergovernmental	14,560,108	15,344,503	784,395
Charges for services	8,476,120	5,677,979	(2,798,141)
Fines and forfeitures	2,045,000	2,959,850	914,850
Interest income	300,000	679,695	379,695
Miscellaneous	377,870	731,655	353,785
Total revenues	<u>57,448,878</u>	<u>59,251,878</u>	<u>1,803,000</u>
Expenditures			
General government	14,199,166	12,898,420	(1,300,746)
Public safety	11,725,199	11,460,533	(264,666)
Public works	10,259,759	9,395,613	(864,146)
Parks and recreation	8,032,906	7,488,057	(544,849)
Community services and development	2,749,326	2,687,790	(61,536)
Miscellaneous	4,478,458	4,232,484	(245,974)
Total expenditures	<u>51,444,814</u>	<u>48,162,897</u>	<u>(3,281,917)</u>
Excess of revenues over expenditures	6,004,064	11,088,981	5,084,917
Other Financing Sources (Uses)			
Transfers in	150,000	-	(150,000)
Transfers out	(16,791,000)	(13,430,087)	3,360,913
Proceeds from sale of capital assets	50,000	132,131	82,131
Total other financing uses	<u>(16,591,000)</u>	<u>(13,297,956)</u>	<u>3,293,044</u>
Net change in fund balance	<u>\$ (10,586,936)</u>	<u>(2,208,975)</u>	<u>\$ 8,377,961</u>
Adjustments to Conform with Generally Accepted Accounting Principles		110,882	
Fund Balance			
Beginning		<u>78,072,811</u>	
Ending		<u>\$ 75,974,718</u>	

See Notes to Basic Financial Statements.

City of Gaithersburg, Maryland

Statement of Fiduciary Net Position - Fiduciary Funds
As of June 30, 2016

	Pension Trust - OPEB Trust Fund	Private-Purpose Trust Fund
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ -	\$ 2,000
Investments		
Open-end mutual funds	7,895,712	-
Certificate of deposit	<u>-</u>	<u>13,603</u>
Total assets	<u>\$ 7,895,712</u>	<u>\$ 15,603</u>
Liabilities		
Claim reimbursements due to primary government	<u>\$ 137,583</u>	<u>\$ -</u>
Total liabilities	<u>137,583</u>	<u>-</u>
Net Position		
Net position restricted for pensions	7,758,129	-
Net position held in trust	<u>-</u>	<u>15,603</u>
Total net position	<u>\$ 7,758,129</u>	<u>\$ 15,603</u>

See Notes to Basic Financial Statements.

City of Gaithersburg, Maryland

Statement of Changes in Fiduciary Net Position - Fiduciary Funds
For the Year Ended June 30, 2016

	Pension Trust - OPEB Trust Fund	Private-Purpose Trust Fund
	<u> </u>	<u> </u>
Additions		
Contributions		
Employer	\$ 1,200,000	\$ -
Interest and gains (losses)	<u>(103,118)</u>	<u>6</u>
Total additions	<u>1,096,882</u>	<u>6</u>
Deductions		
Benefits and withdrawals	<u>550,997</u>	<u>-</u>
Change in net position	545,885	6
Net Position		
Beginning	<u>7,212,244</u>	<u>15,597</u>
Ending	<u>\$ 7,758,129</u>	<u>\$ 15,603</u>

See Notes to Basic Financial Statements.

Note 1. Overview and Summary of Significant Accounting Policies

The accounting policies of the City of Gaithersburg, Maryland (the City) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The accepted standard-setting body for establishing governmental accounting and financial reporting principles is the Governmental Accounting Standards Board (GASB). The City has implemented all GASB Statements through Statement No. 72, Statement No. 76 and Statement No. 79 and has early-implemented Statement No. 75 for these financial statements.

A. Financial Reporting Entity

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.

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. 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. The emphasis of fund financial statements is on major funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major funds.

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.

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, 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 current financial position, rather than upon net income determination. The following comprise the City's major governmental funds:

General Fund: The General Fund is the primary 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.

The City also reports the following non-major governmental funds:

Special Revenue Fund: The City uses a Special Revenue Fund to demonstrate compliance over the spending of revenues restricted for forest conservation, which are collected through the City's forestry in-lieu-of the fee. This fund may also report interest earnings required to accumulate on the balance.

Storm Water Management Fund: The Storm Water Management Fund is used to account for financial resources to be used for the acquisition or construction of the City's storm water management initiative and accounts for the associated revenues from the storm water program fees. This fund may also report interest earnings required to accumulate on the balance.

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. The City reports the following Fiduciary Funds:

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 the government-wide financial statements; that is, the measurement focus is upon income determination, financial position, and cash flows. The City's Sam and Claire Rosen Trust Fund is included as a private-purpose trust fund. This fund accounts for interest earned on the balance held to provide for recreational sports scholarships.

OPEB Trust Fund: Retiree benefit trust funds are accounted for in essentially the same manner as government-wide financial statements as well; The City's Retiree Benefit Fund accounts for contributions made by the City to finance future other postemployment benefit (OPEB) payments and held in an irrevocable trust account.

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 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.

In contrast, 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, 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 and expected to be repaid 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, 2016 was \$0.262 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.

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.

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 into one pooled account and reported in the General Fund. Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash and cash equivalents also include money market, commercial paper and open-end mutual funds that have maturities of less than one year.

H. 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, 2016, the aggregate of property tax accounts, delinquent three years or more, was \$129,166. The City also reports an allowance for police tickets issued and unpaid, based on historical collections. The balance in this allowance was \$169,651 at year-end. Receivables are written off when deemed uncollectible and recoveries of receivables previously written off are recorded when received.

I. 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.

J. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2016, 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.

K. 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.

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

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

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

L. 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 loans receivable are reflected as non-spendable fund balance which indicates that they do not constitute available financial resources and, therefore, are not available for appropriation.

M. 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 that qualifies for reporting in this category, which arises only under the modified accrual basis of accounting, is unavailable revenue. Accordingly, it is reported only in the governmental funds balance sheet. The City reports unavailable revenues from income taxes, property taxes, fines and forfeitures and other receivables not collected within the period of availability. These amounts are deferred and recognized as an inflow of resources in the period in which the amounts become available.

N. Deferred Outflows of Resources

During the fiscal year ended June 30, 2016, the City elected to early adopt GASB No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75). This statement established reporting standards that reclassified a portion of the OPEB liability as a deferred outflow of resources.

O. 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, 2016, 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.

P. 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 be used only 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 through the City's charter has 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.

Q. Net Position

Net position represents the difference between assets plus deferred outflows and liabilities plus deferred inflows. Net position categorized as net investment in capital assets, consists of capital assets, less accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. As of June 30, 2016, 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.

R. Recent Governmental Accounting Standards Board Pronouncements

GASB Statement No. 72, Fair Value Measurement and Application, effective for the City beginning with its fiscal year ending June 30, 2016. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

During the fiscal year ended June 30, 2016, the City elected to early adopt GASB No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75), which is effective for fiscal years beginning after June 15, 2017, with early adoption permitted. GASB No. 75 specifies that employers recognize their net OPEB liability, and the related deferred outflows of resources, deferred inflows of resources and OPEB expense on their books, and also stipulates the incremental note disclosures and Required Supplementary Information in the financial reports of employers with defined benefit OPEB plans.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This Statement reduced the GAAP hierarchy to two categories of authoritative GAAP and addressed the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 79, Certain External Investment Pools and Pool Participants, effective for the City beginning with its fiscal year ending June 30, 2016. This Statement establishes criteria for an external investment pool to qualify for making the election to measure its investments at amortized cost for financial reporting purposes, as well as establishes criteria to address how the external investment pool transacts with participants; the requirements for portfolio maturity, quality, diversification, and liquidity; and the calculation and requirements of a shadow price. The provisions on portfolio quality, custodial credit risk, and shadow pricing will be effective for the City beginning with its fiscal year ending June 30, 2017.

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 as 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. All appropriations for the capital budget are deemed re-appropriated without inclusion in the budget for the subsequent year unless the City Council shall specifically provide that such appropriations are not re-appropriated.

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

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

	<u>Revenues</u>	<u>Expenditures and Encumbrances</u>	<u>Other Financing Sources (Uses)</u>	<u>Current-Year Effect on Fund Balance</u>
General Fund				
Budgetary basis	\$ 59,251,878	\$ 48,162,897	\$ (13,297,956)	\$ (2,208,975)
Prior-year encumbrances outstanding, 6/30/15	-	368,434	-	(368,434)
Current-year encumbrances outstanding, 6/30/16	-	(479,316)	-	479,316
GAAP basis	<u>\$ 59,251,878</u>	<u>\$ 48,052,015</u>	<u>\$ (13,297,956)</u>	<u>\$ (2,098,093)</u>

Note 3. Cash, Cash Equivalents, and Investments

The City's cash, cash equivalents and investments consisted of the following at year-end:

	<u>FY16</u>		
	<u>Governmental Activities</u>	<u>OPEB Trust Fund</u>	<u>Private-Purpose Trust Fund</u>
<u>Cash and cash equivalents</u>			
Bank deposits	\$ 4,026,707	\$ -	\$ 2,000
MLGIP	35,354,150	-	-
Certificates of deposit	-	-	13,603
Money market	1,632,411	-	-
Open-end mutual funds	-	7,895,712	-
Sub-Total	<u>41,013,268</u>	<u>7,895,712</u>	<u>15,603</u>
<u>Investments</u>			
Commercial paper	6,579,169	-	-
US agency securities	27,754,470	-	-
US Treasury securities	40,761,060	-	-
Sub-Total	<u>75,094,699</u>	<u>-</u>	<u>-</u>
Total cash, cash equivalents and investments	<u>\$ 116,107,967</u>	<u>\$ 7,895,712</u>	<u>\$ 15,603</u>

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

Some of the amounts shown above are considered investments that are measured at fair value on a recurring basis. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City has the following recurring fair value measurements as of year-end:

Investments	Amount	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Commercial paper	\$ 6,579,169	\$ -	\$ 6,579,169	\$ -
US agency securities	27,754,470	-	27,754,470	-
US treasury securities	40,761,060	40,761,060	-	-
Total investments by fair value level	\$ 75,094,699	\$ 40,761,060	\$ 34,333,639	\$ -
Investments carried at amortized cost:				
Investments	Amount			
MLGIP - Mutual Funds (General Fund)	\$ 35,354,150			
Total investments at amortized cost	\$ 35,354,150			

Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quote prices.

- Amounts invested in US treasury securities are comprised of securities valued using quoted market prices (Level 1) which are then allocated to position holders. These funds are required to publish their daily net asset value and to transact at that price.
- Amounts invested in commercial paper and US agency securities are comprised of securities which are priced by industry standard vendors, using observable inputs such as benchmark yields, reported trades broker/dealer quotes, and issuer spreads (Level 2) which are then allocated to position holders at a per unit value.

Custodial credit risk deposits

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, 2016, 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.

Custodial credit risk for investments

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, 2016 as they were held by counterparty. For purposes of risk exposure, certificates of deposit are treated as deposits, which were previously discussed above. The City's investment policy requires that securities are held by a third party custodian.

Credit risk

Credit risk is the risk the City would lose money due to a default by the security issuers or backer. The City's investment policy reduces the exposure to this risk by restricting the authorized investments to the following:

1. U.S. Government Securities - these securities include obligations for which the United States has pledged its full faith and credit for the payment of interest and principal;
2. U.S. Agency Securities - Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of congress;
3. Repurchase Agreements - entered into with financial institutions that sign master repurchase agreements and that maintain collateralization of at least 102% of the principal amount and comply with other safekeeping and collateral requirements;
4. Certificates of Deposit and Time Deposits, including deposits to Certificate of Deposit Account Registry Service (CDARS) - Banks and savings and loan associations must maintain collateralization that equals or exceeds that amount of the deposit not federally insured and comply with other safekeeping and collateral requirements;
5. Bankers' Acceptances - issued by a bank with a short-term debt rating in the highest letter and numerical rating by at least one national recognized statistical rating organization as designated by the United States Securities and Exchange Commission (SEC) or the State Treasurer;
6. Municipal Bonds - amounts treated by the Internal Revenue Service as bond sale proceeds only, bonds, notes or other obligations of investment grade in the highest quality letter and numerical rating by at least one nationally recognized statistical rating organization as designated by the SEC issued by or on behalf of this or any other state or any agency, department, county, municipal or public corporation special district authority, or political subdivision thereof, or in any fund or trust that invests only in securities of the type described in this item;
7. Commercial Paper - issued by a company that has received the highest letter and numerical rating by at least two nationally recognized statistical rating organization as designated by the United States Securities and Exchange Commission, provided that such commercial paper may not exceed 10% of the total investments made under this subsection;

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

8. Money Market Mutual Funds - that contain only securities of the organizations listed in items 1,2, 3 and 4 above; are registered with the Securities and Exchange Commission under the Investment Company Act of 1940, U.S.C. § 80(A), as amended and operated in accordance with rule 2A-7 of the Investment Company Act of 1940, 17 C.F.R. § 270-2A-7, as amended; and that has received the highest rating from at least one nationally recognized statistical rating organization as designated by the United States Securities and Exchange Commission;
9. Pooled Investments - Any investment portfolio created under the Maryland Local Government Investment Pool, defined under the Local Government Article, Sections 17-301 through 17-309 of the Annotated Code of Maryland, that is administered by the State Treasurer;
10. Montgomery County Pooled Investment Fund; and
11. Any other investments expressly permitted by §6-222 of Maryland State Finance and Procurement Code, as well as any future amendments to this State Code and other future state laws that supersede or supplement this State Code, as applicable.

As of June 30, 2016, the City held cash equivalents and investments in the Maryland Local Government Investment Pool (MLGIP), money market funds, commercial paper and US agency securities which were exposed to credit risk. These assets had the following credit ratings:

Cash equivalent and investment	S&P Rating	Amount
MLGIP	AAAm	\$ 35,354,150
Money market	AAAm	1,632,411
Commercial paper	A-1	5,182,794
Commercial paper	A-1+	1,396,375
US agency securities	AA+	27,754,470
Open-end mutual funds	unrated	7,895,712

The Mayor and Council of Gaithersburg recognize that their authority to invest the public funds of the City derives from Section 6-222 of the State of Maryland's Finance and Procurement Article, as well as Article 95, Section 22-22N of the annotated Code of Maryland. Authority to invest City funds in compliance with provisions of these State statutes is delegated to the Director of Finance and Administration. MLGIP is under the administrative control of the Maryland State Treasurer's. This investment pool invests 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 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.

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

The City also held funds in the Montgomery County General Investment Fund during the fiscal year. That fund was unrated.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's investment policy limits investments to five years. As of June 30, 2016, the City's investments had the following maturities:

Investment type	Fair Value	Maturity in years				
		< 1 year	1 - 2	2 - 3	3 - 4	4 - 5
MLGIP	\$ 35,354,150	\$ 35,354,150	\$ -	\$ -	\$ -	\$ -
Money market	1,632,411	1,632,411	-	-	-	-
Open-end mutual funds	7,895,712	7,895,712	-	-	-	-
Commercial paper	6,579,169	6,579,169	-	-	-	-
US agency securities	27,754,470	2,004,410	-	6,643,212	9,682,303	9,424,545
US Treasury securities	40,761,060	12,901,150	16,305,089	2,763,314	3,572,205	5,219,306
Total	\$ 119,976,972	\$ 66,367,002	\$ 16,305,089	\$ 9,406,526	\$ 13,254,508	\$ 14,643,851

During the year, the City also held funds within the Montgomery County General Investment Fund which consisted of various instruments with varying maturities, the majority of which are less than one year, with no maturities greater than two years.

Concentration of credit risk

Concentration of credit risk is the risk that losses become substantial due to the magnitude of the City's investment in a single issuer. To reduce these risks the City's investment policy limits the investment portfolio allocations by investment type and individual issuer as follows:

Security Type	Maximum Allocation (at time of purchase)	Maximum Issuer (at time of purchase)
U.S. Government Securities	100%	N/A
U.S. Government Agencies & Instruments	75%	30%
Repurchase Agreements	50%	30%
Certificates of Deposit and CDARS	25%	5%
Bankers Acceptances	25%	10%
Municipal Bonds	25%	10%
Commercial Paper	10%	5%
Money Market Mutual Funds	50%	25%
Maryland Local Government Investment Pool	100%	N/A
Montgomery County Pooled Investment Fund	25%	N/A

As of June 30, 2016, the City had \$17,392,200 in US agency securities issued by Federal National Mortgage Association and \$7,326,900 in US agency securities issued by the Federal Home Loan Mortgage Corporation, which exceeded 5% of the City's total portfolio.

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

Note 4. Receivables

Receivables at June 30, 2016, consist of the following:

	<u>Governmental Activities</u>
Property taxes	
Current year	\$ 85,065
Previous year	221,500
Allowance on taxes more than 3 years old	<u>(129,166)</u>
Total property taxes	<u>177,399</u>
Due from other governments	
County	118,181
State	3,181,447
Federal	<u>98,771</u>
Total due from other governments	<u>3,398,399</u>
Other receivables	
Cable TV fees	240,859
Police tickets and fines	845,788
OPEB Trust reimbursement	137,583
Miscellaneous	811,606
Allowance on police tickets and fines	<u>(169,651)</u>
Total other receivables	<u>1,864,916</u>
Total	<u>\$ 5,440,714</u>

These receivables are reported within the General Fund and the Stormwater Fund.

Note 5. Inter-Fund Transfers

<u>Transferred From</u>	<u>Transferred To</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Capital Projects	\$ 13,328,289	The City does not issue debt for capital projects, rather all projects are financed through the City's annual revenues and cash on hand.
General Fund	Stormwater Fund	101,798	This transfer represents the amount appropriated for capital projects City's share of stormwater fees.
Capital Projects	Stormwater Fund	<u>3,533,388</u>	Previous years balances for stormwater projects transferred to new fund.
Total Transfers		<u>\$ 16,963,475</u>	

Note 6. Long-Term Receivables

The City's long-term receivables consist of the following:

	<u>Governmental Activities</u>
Long-term receivables	
Gaithersburg Homeownership Assistance Loan Program	\$ 1,688,794
Developer note receivable	<u>773,702</u>
Total	<u>\$ 2,462,496</u>

A. Gaithersburg Homeownership Assistance Loan Program (GHALP)

In order to help reduce barriers for homeownership, the City has developed a down-payment assistance program. This program provides loan funds towards a down payment and closing costs of up to \$20,000 to qualified individuals and families. The loans bear no interest. Principal is to be repaid on the loans if the unit is no longer owner occupied, or the unit is sold. The loan is also due upon the refinance of the primary mortgage. The City's loan is secured by a second mortgage on the property. At year-end a total of 102 individual loans ranging from \$7,000 to \$20,000 had been made totaling \$1,688,794. Of these loans, \$418,586 was provided during 2016. The City received \$26,500 in repayments during 2016.

B. Developer Note Receivable

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 to support 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. Interest payments may be deferred until the project has positive cash flow. 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, 2016, was \$486,000 in principal and \$32,702 in accrued interest.

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 to support 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, 2016. 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, 2016, was \$250,000 in principal and \$5,000 in accrued interest.

As the proceeds received on these loan repayments will remain assigned for housing projects, the balances have been reported as assigned fund balance within the General Fund.

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

Note 7. Capital Assets

Capital asset activity for the year ended June 30, 2016, consisted of the following:

Governmental Activities	Balance, July 1, 2015	Additions/ Transfers	Deletions/ Transfers	Balance, June 30, 2016
Capital assets not being depreciated				
Land	\$ 42,320,205	\$ 594,469	\$ -	\$ 42,914,674
Construction-in-progress	1,277,512	6,593,003	(2,293,892)	5,576,623
Total assets not being depreciated	<u>43,597,717</u>	<u>7,187,472</u>	<u>(2,293,892)</u>	<u>48,491,297</u>
Capital assets being depreciated				
Buildings	35,903,573	1,312,038	(470,350)	36,745,261
Improvements other than buildings	13,393,066	960,042	-	14,353,108
Machinery and equipment	12,319,451	1,387,639	(678,339)	13,028,751
Infrastructure	<u>68,585,063</u>	<u>698,454</u>	<u>(450,000)</u>	<u>68,833,517</u>
Total assets being depreciated	<u>130,201,153</u>	<u>4,358,173</u>	<u>(1,598,689)</u>	<u>132,960,637</u>
Less accumulated depreciation for				
Buildings	(14,927,698)	(911,421)	325,350	(15,513,769)
Improvements other than buildings	(7,624,541)	(599,144)	-	(8,223,685)
Machinery and equipment	(9,443,092)	(918,554)	661,457	(9,700,189)
Infrastructure	<u>(38,317,737)</u>	<u>(2,344,078)</u>	<u>140,250</u>	<u>(40,521,565)</u>
Total accumulated depreciation	<u>(70,313,068)</u>	<u>(4,773,197)</u>	<u>1,127,057</u>	<u>(73,959,208)</u>
Capital assets, net	<u>\$ 103,485,802</u>	<u>\$ 6,772,448</u>	<u>\$ (2,765,524)</u>	<u>\$ 107,492,726</u>

Depreciation expense was charged to governmental functions for the year ended June 30, 2016 as follows:

General government	\$ 1,513,466
Public safety	327,774
Public works	2,203,674
Parks and recreation	643,740
Community services and development	84,543
Total depreciation	<u>\$ 4,773,197</u>

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

Note 8. Long-Term Liabilities

At June 30, 2016, 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, 2016:

	(As Restated) Balance, June 30, 2015	Additions	Deductions	Balance, June 30, 2016	Amounts Due Within One Year
Compensated absences					
Vacation	\$ 1,701,049	\$ 1,316,975	\$ (1,062,446)	\$ 1,955,578	\$ 1,065,423
Sick leave	1,000,637	119,813	(22,618)	1,097,832	68,633
Total compensated absences	<u>2,701,686</u>	<u>1,436,788</u>	<u>(1,085,064)</u>	<u>3,053,410</u>	<u>1,134,056</u>
Net OPEB liability	38,485,756	11,022,115	(1,326,000)	48,181,871	-
Income tax duplication liability	-	147,209	-	147,209	-
Total Long-term liabilities	<u>\$ 41,187,442</u>	<u>\$ 12,606,112</u>	<u>\$ (2,411,064)</u>	<u>\$ 51,382,490</u>	<u>\$ 1,134,056</u>

Note 9. Postretirement Healthcare and Life Insurance

Plan Description: Other Post-Employment Benefit plan (OPEB Plan) is a single-employer defined benefit healthcare plan administered by the City. The OPEB Plan provides health care, dental, and life insurance benefits for qualifying retirees, disabled employees and their spouses. Employer and plan member contributions and benefit levels were established by the Mayor and City Council via the personnel ordinance and may be amended by that body. The City does not issue separate OPEB Plan financial statements, all required disclosure has been included within this report. The significant accounting policies of the plan are covered in Note 1 of the note to the financial statements.

Employees covered by benefit terms: Substantially all full-time employees may qualify for these benefits. At June 1, 2016, the following employees were covered by the benefit terms:

Retirees currently receiving benefits	61
Active employees	<u>281</u>
Total plan members	<u><u>342</u></u>

Benefits provided: Not all 281 active employees will meet the qualifications to retire and receive OPEB benefits; the table above includes 52 employees and 11 retirees who opted out of medical coverage. 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. To retire under the Early Retirement Plan, the employee must be at least 46 years of age and have a minimum of 20 years of service. Employees retiring under the Early Retirement Plan pay an additional 5% of the health care premium cost of the lowest HMO offered at the time of retirement. All other benefits afforded to a retiree at the time of retirement remain the same, whether an employee retires under the General Retirement Plan or the Early Retirement Plan.

Contributions: The contribution requirements of plan members and the City are established and may be amended by the Mayor and City Council. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually during the budget process. Additional contributions may be identified during the year by the City Manager. There are no contractual terms requiring a specific funding level. The City currently funds more than the amount needed under a pay-as-you-go funding mechanism.

For 2016, the City contributed \$1,200,000 to the OPEB Plan. The personnel ordinance requires that the City pay 100% of the life insurance and the long-term care premiums. For General Retirement retirees, the City pays 85% of the health care and dental premiums, while retirees contribute the remaining 15%. For Early Retirement retirees, the City pays 80% of the health care and dental premiums, while retirees contribute the remaining 20%. Active employees are not required to contribute to the OPEB Plan. The contribution amount is determined annually based on budgetary funding availability with a long term goal of fully funding the obligation. There are no statutory or other legally required contribution levels.

Net OPEB Liability

The City's net OPEB liability was measured as of June 30, 2016 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 1, 2016.

Actuarial assumptions: The total OPEB liability in the June 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation rate	2.3%
Salary increases	4.2% - 6.45%
Investment rate of return	6.25%
Healthcare cost trend rates *	5.9% for 2016 to an ultimate rate of 4.06%

Mortality rates were based on the Healthy RP-2014 Total Dataset Mortality table and Disabled Retiree Mortality table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale MP-2014.

*Society of Actuaries Long-Run Medical Cost Trend Model as updated in November, 2015, modified to take into account the impact of the Cadillac Tax.

The actuarial assumptions used in the June 1, 2016 valuation were based on the results of an actuarial study for the period July 1, 2015 - June 30, 2016.

Long-term expected rate of return: An expected real rate of return was not provided for the asset profile. The 10-year average rate of return for the portfolio was 5.7%. The 10-year geometric average inflation was 1.7% which is 60 basis points lower than the inflation assumption for the long-term medical trend model. The actual return was adjusted by 60 basis points and rounded to the nearest 25 basis points to select the long-term rate of return assumption of 6.25%.

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

Discount rate: The discount rate used to measure the total OPEB liability was 3.38%. The projection of cash flows used to determine the discount rate assumed that contributions from the City will be made at the same level as the subsequent years' adopted budget. Based on this assumption, the OPEB plan's asset are expected to be exhausted in future years. Benefits that are paid prior to the estimated date that assets are exhausted are discounted at the expected rate of return of 6.25% as of June 30, 2016 and 2015. Benefits that are paid after the trust fund is expected to be exhausted are discounted based on an index rate for 20-year tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. For this valuation, the bond rates used as of June 30, 2016 and 2015 were 3.01% and 3.79%, respectively, and they represent the bond rates published by the Federal Reserve in the following link: <http://www.federalreserve.gov/releases/h15/data.htm>. Therefore, the blended discount rates used as of June 30, 2016 and 2015 were 3.38% and 4.14%, respectively.

Net OPEB Plan's Fiduciary Net Position

The elements of the OPEB Plan's basic financial statements are included within the Statement of Fiduciary Net Position - Fiduciary Funds and Statement of Changes in Fiduciary Net Position - Fiduciary Funds, in the accompanying financial statements.

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balance as of June 30, 2015	\$ 45,698,000	\$ 7,212,244	\$ 38,485,756
Changes for the Year:			
Service Cost	2,427,000	-	2,427,000
Interest	1,833,000	-	1,833,000
Employer Contributions			
Employer Trust Contributions	-	1,200,000	(1,200,000)
Implicit Subsidy Contribution	-	126,000	(126,000)
Total Employer Contribution	-	1,326,000	(1,326,000)
Net Investment Income	-	(103,118)	103,118
Changes in Assumptions	6,658,997	-	6,658,997
Benefit Payments			
Benefit Payments - Explicit	(550,997)	(550,997)	-
Benefit Payments - Implicit	(126,000)	(126,000)	-
Total Benefit Payments	(676,997)	(676,997)	-
Net Changes	10,242,000	545,885	9,696,115
Balance as of June 30, 2016	\$ 55,940,000	\$ 7,758,129	\$ 48,181,871

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

Sensitivity of the net OPEB liability to changes in the discount rate and health-care cost trend rates: The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.38%) or 1-percentage-point higher (4.38%) than the current discount rate:

	1% Decrease 2.38%	Discount Rate 3.38%	1% Increase 4.38%
Total OPEB Liability	\$ 68,749,000	\$ 55,940,000	\$ 46,135,000

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates: The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using the healthcare cost trend rates that are 1-percentage-point lower (4.96%) or 1-percentage-point higher (6.96%) than the current healthcare cost trend rates:

	1% Decrease Rate in 2040 of 4.96%	Health Care Cost Trend Rate in 2040 of 5.96%	1% Increase Rate in 2040 of 6.96%
Total OPEB Liability	\$ 45,051,000	\$ 55,940,000	\$ 70,774,000

OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended June 30, 2016, the City recognized OPEB expense of \$3,311,118. At June 30, 2016, the City reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources
Difference Between Projected and Actual Investment Earnings	\$ 558,000
Changes in Assumptions	5,827,000
Total	<u>\$ 6,385,000</u>

Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending	Deferred Outflows of Resources	Total
2017	\$ 972,000	\$ 972,000
2018	972,000	972,000
2019	972,000	972,000
2020	970,000	970,000
2021	832,000	832,000
Thereafter	1,667,000	1,667,000

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

Note 10. Fund Balance

Governmental fund balances at June 30, 2016, are summarized as follows:

	General Fund	Capital Projects Fund	Non-Major Funds
Nonspendable			
Prepays	\$ 181,157	\$ -	\$ -
Inventory	41,159	-	-
Total Nonspendable	<u>222,316</u>	<u>-</u>	<u>-</u>
Restricted for			
Sports program	11,671	-	-
Holiday giving	17,260	-	-
Public safety activities	54,936	-	-
Stream and infrastructure improvements	191,804	-	-
Transportation projects	200,000	-	-
Stormwater	-	-	2,252,256
Forest conservation	-	-	734,387
Total Restricted	<u>475,671</u>	<u>-</u>	<u>2,986,643</u>
Committed for			
Parks	1,000,000	-	-
Housing projects	2,117,523	-	-
Capital projects	-	2,210,349	-
Total Committed	<u>3,117,523</u>	<u>2,210,349</u>	<u>-</u>
Assigned for			
General vehicle and equipment replacement	8,465,573	-	-
Park & recreation buildings and equipment replacement	340,651	-	-
Police equipment replacement	1,460,951	-	-
Economic development opportunity grants	1,688,059	-	-
Economic development toolbox grants	150,107	-	-
Housing assistance loan program	1,688,794	-	-
Housing projects	773,702	-	-
Encumbrances	479,317	-	-
Stormwater	-	-	3,735,035
Forest conservation	-	-	12,366
Capital projects	-	31,564,619	-
Total Assigned	<u>15,047,154</u>	<u>31,564,619</u>	<u>3,747,401</u>
Unassigned	<u>57,112,054</u>	<u>-</u>	<u>-</u>
Total fund balances	\$ 75,974,718	\$ 33,774,968	\$ 6,734,044

Encumbrances included various expenditures that have been assigned for future services that are to be provided to the City such as professional, landscaping, refuse collection services, as well as for the purchase of future assets (machinery and equipment) for various departments.

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

Note 11. Retirement Plans

The City offers three single-employer, defined contribution pension plans, all authorized under Section 401 of the Internal Revenue Code. The plans and contribution rates were established by the Mayor and City Council, who would authorize any plan amendments. The plans are administered by ICMA-RC, a nonprofit independent financial services corporation. The table below summarizes each plan:

Plan Description	401a	401k	401a supplemental
Covered employees Plan Members	all full-time	all full-time, with employee match	public safety and public works
Benefits Provided	8% of salary	3% of salary, with 5% employee match	up to 5% of salary, with 10% employee match
Vesting period years of service			
1	0%	0%	0%
2	0%	0%	0%
3	33%	33%	0%
4	67%	67%	0%
5	100%	100%	0%
6	100%	100%	20%
7	100%	100%	40%
8	100%	100%	60%
9	100%	100%	80%
10	100%	100%	100%

Unvested, forfeited amounts are available to the City to offset future pension payments. The table below summarizes pension expense for the year ended June 30, 2016:

Pension Expense	401a	401k	401a supplemental
2016 Pension expense	\$ 1,604,123	\$ 556,455	\$ 391,736
2016 Forfeitures applied	(100,300)	(87,558)	(89,983)
2016 net pension expense	<u>\$ 1,503,823</u>	<u>\$ 468,897</u>	<u>\$ 301,753</u>

The City has no pension liability.

Note 12. 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 2016, the City paid premiums of \$234,800 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 2016, the City paid premiums of \$301,810 to Montgomery County.

Note 13. Income Tax Duplication Liability

The State of Maryland lost a case related to income tax duplication, where taxpayers with income tax liabilities in multiple states had not been allowed a credit for local income taxes paid to other jurisdictions. In order to receive a refund, taxpayers are required to file an amended state tax return. The State of Maryland has indicated that any reduction in taxes due to the City's would be deducted from the City's local income tax payment beginning in 2019. As of June 30, 2016, \$147,209, which includes \$6,016 of interest, was recorded as payable.

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.

Income tax revenue over allocation: During 2016, the State of Maryland identified certain income tax returns that its believed to have been credited to the City in error. As a result, the State has calculated that the City was over allocated income tax revenue by \$2,476,133 during tax years 2010 to 2014. Under Statute 2-611 of the Tax - General Article, the State may not require the City to make reimbursement of this estimated over allocation until the State has completed a statewide analysis to determine the number of counties or municipal corporations that received an overpayment or underpayment of local income tax revenue. If this analysis is completed the City may be required to repay this amount beginning after 2024. The State may, or may not undertake to complete the statewide analysis, accordingly this amount has not been recorded as a liability to the City at year end.

Open Contracts: The City is committed under various contracts pertaining to street resurfacing, storm water management, traffic signalization, other capital improvement projects and general operating contracts. At June 30, 2016, encumbrances for contracts were \$735,495 in the General Fund, \$662,965 for Storm Water Management Fund, \$58,800 in the Forest Conservation Fund and \$2,210,349 in the Capital Projects Fund. These have been reported as assigned or committed within the appropriate 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 not audited in accordance with Title 2 U. S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (the Uniform Guidance) for the current year as the threshold of \$750,000 of federal expenditures were not met. 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.

Note 15. Conduit Debt Obligation

The City has approved the issuance of economic development revenue bonds for the benefit of Asbury Methodist Village, Incorporated, an assisted living facility. This debt is secured by the revenues of the facility and do not constitute an indebtedness of the City. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. At year-end, there were three bond issuances outstanding with an aggregate balance of \$124,185,000. The full faith and credit of the City have not been pledged in support of the bonds, and in the event of default, the City cannot be held liable.

Note 16. Prior Period Adjustment

The City adopted GASB No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75) during the year ended June 30, 2016. GASB 75 requires that employers recognize their net OPEB liability and the related deferred outflows of resources, deferred inflows of resources and OPEB expense on their books. GASB 75 was applied retrospectively by restating the financial statements for all periods presented. The presentation of net OPEB liability and OPEB expense in accordance GASB 75 required the restatement of the beginning of the year net position. Accordingly, the beginning of the year net position was reduced by the beginning of the year net OPEB liability of \$23,492,313.

Note 17. New Governmental Accounting Standards Board (GASB) Standards

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2016, that have effective dates that may impact future financial presentations. The full statements are available on the GASB's website. 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. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, will be effective for the City beginning with its fiscal year ending June 30, 2017. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for the purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

- GASB Statement No. 77, *Tax Abatement Disclosures*, will be effective for the City beginning with its year ending June 30, 2017. This statement requires additional disclosure of tax abatement agreements including a description of the agreement, the amount of taxes abated during the year and other commitments made by the government as part of the agreement. That statement also requires disclosure of tax abatement agreements with an impact on the City that have been entered into by other governments.
- GASB Statement No. 82, *Pension Issues*, will be effective for the City beginning with the fiscal year ending June 30, 2017. This Statement amends certain provisions of GASBS No. 67, 68, and 73 as they relate to the disclosure of pension obligations.

Required Supplementary Information Section





Electric Car Charging Stations

City of Gaithersburg, Maryland

Required Supplementary Information
Schedule of Changes in the City's Net OPEB Liability and Related Ratios

Schedule of Changes in the City's Total OPEB Liability and Related Ratios

	2016
Total OPEB Liability	
Service Cost	\$ 2,427,000
Interest	1,833,000
Changes in Assumptions	6,658,997
Benefit Payments	(676,997)
Net Change in Total OPEB Liability	10,242,000
Total OPEB Liability - Beginning	45,698,000
Total OPEB Liability - Ending (a)	<u>\$ 55,940,000</u>
Plan Fiduciary Net Position	
Contribution Employer	1,326,000
Net Investment Income	(103,118)
Benefit Payments	(676,997)
Net Change in Fiduciary Net Position	545,885
Plan Fiduciary Net Position - Beginning	7,212,244
Plan Fiduciary Net Position - Ending (b)	<u>\$ 7,758,129</u>
City's Net OPEB Liability - Ending (a) - (b)	48,181,871
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	13.87%
Covered-Employee Payroll	20,709,628
City's Net OPEB Liability as a percentage of covered-employee payroll	232.65%

Notes to Schedule:

Changes in Assumptions: Change in assumptions reflect the effect of changes in the discount rate each period. A discount rate of 4.14% was used in 2015, while a discount rate of 3.38% was used in 2016.

The above schedule is presented to illustrate the requirement for specified information for 10 years. However, until a full 10-year trend is compiled, information is only presented for those year(s) for which information is available.

Supplementary Information Section





**Fireworks at Bohrer Park
at Summit Hall Farm**

City of Gaithersburg, Maryland

Combining Balance Sheet
Non-major Governmental Funds

June 30, 2016

	Non-Major Funds		Total Non-Major Governmental Funds
	Forest Conservation Fund	Storm Water Management Fund	
Assets			
Cash and cash equivalents	\$ 746,753	\$ 6,028,262	\$ 6,775,015
Other receivable	-	244,733	244,733
Total assets	<u>\$ 746,753</u>	<u>\$ 6,272,995</u>	<u>\$ 7,019,748</u>
Liabilities, Deferred Inflow of Resources, and Fund Balances			
Liabilities			
Accrued liabilities	\$ -	\$ 40,971	\$ 40,971
Total liabilities	<u>-</u>	<u>40,971</u>	<u>40,971</u>
Deferred inflow of resources			
Unavailable revenues	-	244,733	244,733
Total deferred inflow of resources	<u>-</u>	<u>244,733</u>	<u>244,733</u>
Fund balances			
Restricted	734,387	2,252,256	2,986,643
Assigned	12,366	3,735,035	3,747,401
Total fund balances	<u>746,753</u>	<u>5,987,291</u>	<u>6,734,044</u>
Total liabilities, deferred inflow of resources, and fund balances	<u>\$ 746,753</u>	<u>\$ 6,272,995</u>	<u>\$ 7,019,748</u>

City of Gaithersburg, Maryland

Combining Statement of Revenues, Expenditures and Changes in Fund Balance -
Non-major Governmental Funds

June 30, 2016

	Non-Major Funds		Total Non-Major Governmental Funds
	Forest Conservation Fund	Storm Water Management Fund	
Revenues			
Charges for services	\$ -	\$ 3,110,768	\$ 3,110,768
Interest earnings	12,366	99,849	112,215
Total revenues	<u>12,366</u>	<u>3,210,617</u>	<u>3,222,983</u>
Expenditures			
Current			
Public works	-	298,730	298,730
Capital outlay	-	559,782	559,782
Total expenditures	<u>-</u>	<u>858,512</u>	<u>858,512</u>
Excess of revenues over expenditures	<u>12,366</u>	<u>2,352,105</u>	<u>2,364,471</u>
Other Financing Sources			
Transfers in	-	3,635,186	3,635,186
Total other financing sources	<u>-</u>	<u>3,635,186</u>	<u>3,635,186</u>
Net change in fund balances	<u>12,366</u>	<u>5,987,291</u>	<u>5,999,657</u>
Fund Balances			
Beginning	<u>734,387</u>	<u>-</u>	<u>734,387</u>
Ending	<u>\$ 746,753</u>	<u>\$ 5,987,291</u>	<u>\$ 6,734,044</u>

City of Gaithersburg, Maryland

Schedule of Revenues - Budget and Actual (Budgetary Basis) - General Fund
 Year Ended June 30, 2016
 (With Comparative Totals for 2015)

	2016			2015 Actual
	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)	
Taxes				
Real estate taxes	\$ 24,000,000	\$ 24,153,339	\$ 153,339	\$ 22,572,844
Personal property taxes	1,315,200	1,674,254	359,054	1,477,539
Penalties and interest	55,000	57,142	2,142	50,165
Hotel tax	1,100,000	1,134,798	34,798	1,122,931
Admissions tax	1,250,000	1,352,728	102,728	1,171,020
Total taxes	<u>27,720,200</u>	<u>28,372,261</u>	<u>652,061</u>	<u>26,394,499</u>
Licenses and Permits				
Street permits	51,000	109,878	58,878	13,840
Amusement licenses	22,500	19,200	(3,300)	23,400
Trader's licenses	145,000	123,487	(21,513)	131,391
Hawker's/peddler's licenses	5,000	6,750	1,750	6,750
Electricians licenses	27,000	63,000	36,000	64,575
Rental housing licenses	654,430	748,720	94,290	683,540
Bus shelter franchise fee	21,000	21,459	459	18,454
CATV franchise	848,000	900,325	52,325	884,025
CATV PEG	45,000	52,080	7,080	51,144
Animal licenses	28,500	31,975	3,475	30,845
Building permits	1,200,000	1,947,702	747,702	1,450,874
Deck permits	15,000	10,910	(4,090)	17,350
Fence permits	2,100	2,415	315	2,170
Swimming pool permits	2,000	21,610	19,610	3,580
Tent permits	5,000	4,572	(428)	5,219
Trailer permits	1,900	2,550	650	2,200
Electrical permits	179,000	266,551	87,551	228,122
Occupancy permits	68,000	55,050	(12,950)	63,625
Sign permits	26,000	20,463	(5,537)	32,960
Fire protection permits	275,000	334,904	59,904	220,080
Mechanical permits	150,000	185,152	35,152	152,594
Special event permits	15,000	13,205	(1,795)	17,020
Grading permits	54,000	142,560	88,560	82,971
On-site improvements	100,000	218,410	118,410	177,558
Stormwater management permits	28,000	180,737	152,737	78,908
Other permits	1,150	2,270	1,120	3,050
Total licenses and permits	<u>3,969,580</u>	<u>5,485,935</u>	<u>1,516,355</u>	<u>4,446,245</u>

City of Gaithersburg, Maryland

Schedule of Revenues - Budget and Actual (Budgetary Basis) - General Fund
 Year Ended June 30, 2016
 (With Comparative Totals for 2015)

	2016			(continued)
	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)	2015 Actual
Intergovernmental				
Federal grants				
Community development	\$ 320,000	\$ 419,882	\$ 99,882	\$ 556,920
Transportation enhancement program	27,000	-	(27,000)	5,039
Transitional housing	133,200	141,950	8,750	127,177
DOJ police equipment	9,000	16,858	7,858	3,175
Miscellaneous	-	18,398	18,398	-
State grants				
Police	600,000	590,766	(9,234)	601,077
Homeless program	5,000	-	(5,000)	4,957
Arts	34,000	37,557	3,557	35,848
Department of Natural Resources	-	-	-	35,791
Highway safety program	20,000	-	(20,000)	12,082
Miscellaneous	280,000	900	(279,100)	7,278
Olde Towne revitalization	100,000	16,873	(83,127)	-
Synthetic turf	-	-	-	720,146
Maryland state bond bill	-	-	-	405,000
State-shared taxes				
Highway user	1,275,678	1,314,039	38,361	1,183,845
County grants and shared taxes				
Financial corporations	2,600	2,645	45	2,645
County revenue sharing	1,168,000	1,168,467	467	1,168,467
Income tax	10,500,000	11,015,225	515,225	10,877,634
Homeless program	9,230	35,757	26,527	9,234
Nutrition program	46,000	57,889	11,889	45,618
Miscellaneous	30,400	507,297	476,897	18,540
Total intergovernmental	14,560,108	15,344,503	784,395	15,820,473
Charges for Services				
Automation fees	186,620	329,307	142,687	248,415
Zoning fees	150,000	98,547	(51,453)	148,660
Recreation fees	1,224,000	1,200,619	(23,381)	1,256,376
Casey Community Center	180,500	157,351	(23,149)	203,069
Pool	641,700	838,791	197,091	684,562
Kentlands Mansion	134,400	161,878	27,478	179,294

City of Gaithersburg, Maryland

Schedule of Revenues - Budget and Actual (Budgetary Basis) - General Fund
 Year Ended June 30, 2016
 (With Comparative Totals for 2015)

	2016		(concluded)	
	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)	2015 Actual
Special events	\$ 106,500	\$ 129,579	\$ 23,079	\$ 129,552
Gaithersburg Aquatic Center	175,000	156,091	(18,909)	173,965
Skate park	11,000	14,168	3,168	11,385
Group picnics	56,000	67,170	11,170	64,890
Winter lights	236,500	278,271	41,771	264,481
Miniature golf revenue	116,500	119,199	2,699	117,582
Youth Center in Olde Towne	13,000	8,512	(4,488)	18,402
Activity Center programs	238,000	239,182	1,182	252,967
Food services	-	5,000	5,000	5,000
Gaithersburg Arts Barn	255,900	294,264	38,364	296,358
Gaithersburg Youth Center	4,000	10,009	6,009	8,033
Community museum	3,000	3,555	555	3,254
Membership fee – dog exercise	1,000	840	(160)	2,100
Senior Center revenue	125,000	142,123	17,123	107,620
Rental – Senior Center	23,000	24,917	1,917	15,735
Environmental fees	1,500	3,025	1,525	6,103
Stormwater management fees	35,000	141,070	106,070	80,484
Recycling collections	1,148,000	1,145,928	(2,072)	880,398
Water quality protection	3,400,000	-	(3,400,000)	1,438,262
Miscellaneous	10,000	108,583	98,583	124,331
Total charges for services	8,476,120	5,677,979	(2,798,141)	6,721,278
Fines and Forfeitures				
Ordinance fines	2,045,000	2,959,850	914,850	2,494,883
Interest income	300,000	679,695	379,695	80,324
Miscellaneous Revenue				
Rents	151,650	157,229	5,579	158,348
Contributions	105,000	126,820	21,820	134,408
Passports	65,000	83,675	18,675	82,350
Developer contributions	-	750	750	600,000
Miscellaneous	56,220	363,181	306,961	413,129
Total miscellaneous	377,870	731,655	353,785	1,388,235
Total revenue - Budgetary and GAAP Basis	\$ 57,448,878	\$ 59,251,878	\$ 1,803,000	\$ 57,345,937

City of Gaithersburg, Maryland

Schedule of Expenditures and Encumbrances - Budget and Actual
(Budgetary Basis) - General Fund
Year Ended June 30, 2016
(With Comparative Totals for 2015)

	2016			2015 Actual
	Original & Final Budget	2016 Actual	Variance with Final Budget Positive (Negative)	
General Government				
Mayor and City Council	\$ 310,378	\$ 293,645	\$ 16,733	\$ 292,277
Legal	551,934	582,558	(30,624)	510,463
Registration and elections	54,800	51,489	3,311	-
City Manager	706,026	716,343	(10,317)	685,817
Economic and community development	503,194	447,680	55,514	209,323
Environmental affairs	453,833	152,529	301,304	273,513
Human resources	978,862	1,002,390	(23,528)	821,512
Finance and administration	1,251,124	1,244,453	6,671	1,104,306
Housing and community development	785,139	288,703	496,436	238,952
Information technology	1,653,217	1,536,911	116,306	1,433,095
Geographic information services	283,284	262,040	21,244	228,102
General services	72,032	271,235	(199,203)	46,479
Facilities management	1,296,285	1,127,197	169,088	877,167
Building and grounds				
City Hall	215,888	137,339	78,549	137,877
Police	68,933	62,745	6,188	57,398
Public services	129,410	216,763	(87,353)	140,879
Train station	30,478	24,056	6,422	24,424
Kentlands Mansion	58,900	39,144	19,756	48,950
Senior Center	74,282	72,261	2,021	71,755
Casey Community Center	148,737	128,373	20,364	147,976
Old Towne Pavilion	3,300	3,822	(522)	2,758
Gaithersburg Aquatic Center	32,387	11,711	20,676	18,442
Activity Center at Bohrer Park	297,381	264,547	32,834	267,164
Gaithersburg Arts Barn	84,986	80,795	4,191	70,578
Water park	127,046	93,737	33,309	136,354
Miniature golf course	24,000	15,392	8,608	13,152
Skate park	7,295	2,898	4,397	3,036
Youth Center in Olde Towne	39,287	32,578	6,709	37,580
Gaithersburg Youth Center	55,391	38,798	16,593	49,263
Miscellaneous	28,800	37,164	(8,364)	28,239
Parking facility	89,715	77,381	12,334	82,414
Planning and Code Administration	871,402	824,011	47,391	816,872
Planning	918,885	889,075	29,810	739,138
Neighborhood Services	882,531	708,538	173,993	676,795
Public information	831,717	819,442	12,275	748,334
Cable television - Channel 54	278,307	340,677	(62,370)	256,722
Total general government	14,199,166	12,898,420	1,300,746	11,297,106

City of Gaithersburg, Maryland

Schedule of Expenditures and Encumbrances - Budget and Actual
(Budgetary Basis) - General Fund
Year Ended June 30, 2016
(With Comparative Totals for 2015)

	2016			(continued)
	Original & Final Budget	2016 Actual	Variance with Final Budget Positive (Negative)	2015 Actual
Public Safety				
Police	\$ 9,149,578	\$ 9,165,973	\$ (16,395)	\$ 8,757,013
Permits and inspections	1,806,494	1,664,188	142,306	1,571,888
Traffic engineering	263,752	153,362	110,390	282,581
Animal control	505,375	477,010	28,365	451,805
Total public safety	11,725,199	11,460,533	264,666	11,063,287
Public Works				
Public Works administration	825,091	841,233	(16,142)	818,492
Streets and special projects	1,333,291	1,412,362	(79,071)	1,001,609
Fleet maintenance	553,731	518,121	35,610	524,108
Landscaping and forestry	1,266,269	990,371	275,898	1,027,020
Municipal parks maintenance	1,929,637	1,872,053	57,584	1,754,872
Mowing and bulk pick-up	2,104,822	1,850,797	254,025	1,747,011
Recycling	965,775	960,168	5,607	691,355
Engineering services	668,143	385,348	282,795	426,129
Street lighting	613,000	565,160	47,840	594,434
Total public works	10,259,759	9,395,613	864,146	8,585,030
Parks, Recreation and Culture				
Administration	822,163	706,933	115,230	727,481
Recreation programs and sports	928,819	913,443	15,376	885,924
Recreation classes	322,464	283,700	38,764	268,011
Youth services	452,027	455,540	(3,513)	441,338
Summer programs	545,649	518,223	27,426	497,958
Gaithersburg Youth Center	215,598	220,737	(5,139)	196,692
Skate park	31,149	31,571	(422)	30,650
Casey Community Center	368,478	356,158	12,320	375,003
Water park	655,919	578,193	77,726	486,279
Gaithersburg Arts Barn	503,991	512,656	(8,665)	500,568
Youth Center in Olde Towne	310,201	276,479	33,722	225,128
Activities Center at Bohrer Park	487,269	452,400	34,869	404,317
Gaithersburg Aquatic Center	373,983	256,928	117,055	221,220
Miniature golf course	94,336	83,780	10,556	85,383
Picnic pavilions	21,288	19,714	1,574	21,049
Winter lights	214,252	185,734	28,518	188,021

City of Gaithersburg, Maryland

Schedule of Expenditures and Encumbrances - Budget and Actual
(Budgetary Basis) - General Fund
Year Ended June 30, 2016
(With Comparative Totals for 2015)

	2016			(concluded)
	Original & Final Budget	2016 Actual	Variance with Final Budget Positive (Negative)	2015 Actual
Special events	\$ 1,139,865	\$ 1,101,028	\$ 38,837	\$ 1,009,118
Museums	187,244	177,849	9,395	177,845
Kentlands Mansion	358,211	356,991	1,220	328,054
Total parks, recreation and culture	<u>8,032,906</u>	<u>7,488,057</u>	<u>544,849</u>	<u>7,070,039</u>
Community Services and Development				
Senior program	736,466	737,622	(1,156)	629,261
Community services	1,448,096	1,414,907	33,189	1,331,461
Homeless assistance	564,764	535,261	29,503	471,365
Total community services and development	<u>2,749,326</u>	<u>2,687,790</u>	<u>61,536</u>	<u>2,432,087</u>
Miscellaneous				
Contingency	500,000	9,199	490,801	85,499
Nondepartmental	2,778,458	3,023,285	(244,827)	2,647,410
OPEB contribution	1,200,000	1,200,000	-	1,310,000
Total miscellaneous	<u>4,478,458</u>	<u>4,232,484</u>	<u>245,974</u>	<u>4,042,909</u>
Total expenditures and encumbrances - budgetary basis	<u>\$ 51,444,814</u>	<u>48,162,897</u>	<u>\$ 3,281,917</u>	<u>44,490,458</u>
Adjustments to Conform with Generally Accepted Accounting Principles		(110,882)		320,187
Total expenditures - GAAP basis		<u>\$ 48,052,015</u>		<u>\$ 44,810,645</u>

Statistical Section





Flags for Our Heros

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	70 - 75
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	76 - 80
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	81
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	82 - 83
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	84 - 90
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.

City of Gaithersburg, Maryland

Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Governmental Activities										
Net investment in capital assets	\$ 107,492,726	\$ 103,485,802	\$ 101,260,797	\$ 96,693,648	\$ 99,456,894	\$ 98,705,783	\$ 99,881,968	\$ 101,308,114	\$ 101,079,002	\$ 102,235,261
Restricted	3,474,680	1,241,199	-	-	-	-	-	-	-	-
Unrestricted	<u>71,152,790</u>	<u>94,938,598</u>	<u>88,602,102</u>	<u>84,005,267</u>	<u>72,126,415</u>	<u>67,369,088</u>	<u>59,946,586</u>	<u>59,499,836</u>	<u>56,869,084</u>	<u>50,679,018</u>
<i>Total Governmental Activities Net Position</i>	<u>\$ 182,120,196</u>	<u>\$ 199,665,599</u>	<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>

Note:
Previous years have not been restated to conform to the current year presentation.

City of Gaithersburg, Maryland

Change in Net Position - Governmental Activities
Last Ten Fiscal Years
(accrual basis of accounting)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Expenses										
General Government	\$ 19,165,828	\$ 16,504,191	\$ 15,483,111	\$ 17,151,788	\$ 16,369,822	\$ 15,481,747	\$ 12,907,455	\$ 11,641,478	\$ 10,536,978	\$ 8,745,788
Public Safety	13,409,073	12,562,415	11,654,483	10,568,639	10,538,639	10,273,073	11,148,695	11,281,073	10,918,534	9,118,647
Public Works	12,954,346	10,305,125	14,102,911	12,374,419	13,138,836	11,524,148	12,246,680	11,438,388	10,811,440	9,746,888
Park, Recreation & Culture	8,719,722	8,325,520	6,259,327	6,254,667	5,659,702	6,131,521	7,280,057	7,255,705	9,118,751	8,538,526
Community Services & Development	3,139,656	2,559,169	2,260,865	2,217,111	2,089,330	2,010,300	2,151,366	2,103,765	2,148,811	1,897,647
Miscellaneous*	-	-	-	-	-	-	-	1,536,547	1,797,067	4,258,951
Total Expenses	57,388,625	50,256,420	49,760,697	48,566,624	47,796,329	45,420,789	45,734,253	45,256,956	45,331,581	42,306,447
Program Revenues										
Charges for Services:										
General Government	3,804,063	3,012,450	2,640,480	3,596,714	2,731,495	2,793,156	2,121,622	1,703,735	1,855,587	1,175,102
Public Safety	4,585,220	3,331,546	3,538,543	4,090,633	4,295,957	3,566,588	2,705,648	1,381,525	1,897,490	799,743
Public Works	4,755,402	3,156,696	2,426,075	2,301,691	2,630,871	1,834,855	1,527,357	1,400,167	1,631,297	1,333,515
Park, Recreation & Culture	3,862,799	3,809,545	3,448,852	3,346,990	3,412,020	3,263,386	3,092,053	3,014,450	3,049,408	3,072,008
Operating Grants and Contributions	935,022	922,928	1,184,147	1,981,372	751,938	709,575	2,246,034	1,202,924	1,569,161	2,141,875
Capital Grants and Contributions	1,767,652	2,824,717	4,824,259	917,287	1,312,834	1,400,883	464,815	2,206,960	2,696,447	2,364,816
Total Program Revenues	19,710,158	17,057,882	18,062,356	16,234,687	15,135,115	13,568,443	12,157,529	10,909,761	12,699,390	10,887,059
Net (Expense)/Revenue	(37,678,467)	(33,198,538)	(31,698,341)	(32,331,937)	(32,661,214)	(31,852,346)	(33,576,724)	(34,347,195)	(32,632,191)	(31,419,388)
General Revenues										
Property Taxes	25,846,114	24,309,643	23,855,427	23,294,315	24,575,499	24,723,315	20,357,547	20,455,347	18,516,490	16,454,046
Franchise Fees	921,784	902,479	832,395	777,606	689,385	611,947	553,860	494,925	599,253	557,181
Admissions, Amusement, Hotel & Motel Tax	2,487,526	2,293,951	2,429,703	2,269,995	2,395,490	1,877,403	1,952,656	1,718,650	830,156	985,453
Intergovernmental not Restricted to Specific Programs	12,522,102	12,780,222	12,099,303	10,159,237	9,986,624	10,341,660	9,393,667	9,889,917	10,108,343	9,808,731
Investment Earnings	881,004	80,324	76,838	114,189	54,191	91,395	135,532	930,421	2,212,859	2,627,160
Gain (loss) on Sale of Capital Assets	115,249	95,852	-	-	-	-	(478,113)	1,497,522	-	-
Miscellaneous	851,598	713,899	1,568,659	4,832,201	468,463	452,943	682,179	683,730	5,398,897	1,423,615
Total General Revenues	43,625,377	41,176,370	40,862,325	41,447,543	38,169,652	38,098,663	32,597,328	35,670,512	37,665,998	31,856,186
Change in Net Position	\$ 5,946,910	\$ 7,977,832	\$ 9,163,984	\$ 9,115,606	\$ 5,508,438	\$ 6,246,317	\$ (979,396)	\$ 1,323,317	\$ 5,033,807	\$ 436,798

The City does not use business-type activities.
Beginning in FY10 the Miscellaneous Expenses were combined with General Government

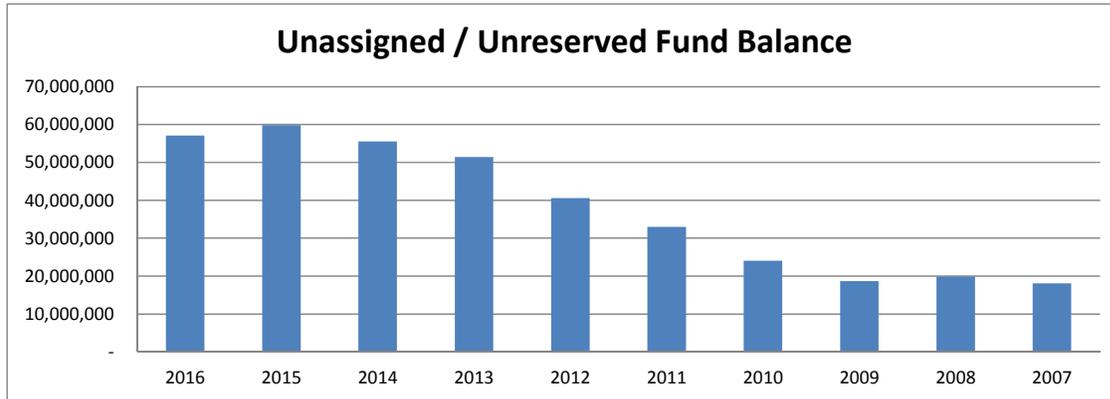
Source: MD Dept of Labor Licensing & Regulation, MD Dept of Business
& Economic Development, and direct correspondence with the companies.

City of Gaithersburg, Maryland

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

	2016	2015	2014	2013	2012
General Fund					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	-	-	-	-	-
Non-spendable *	222,316	173,933	1,235,084	666,682	416,567
Restricted *	475,671	506,812	-	-	-
Committed *	3,117,523	3,116,773	3,600,000	2,514,000	-
Assigned *	15,047,154	14,414,580	11,964,092	11,556,843	11,081,062
Unassigned *	57,112,054	59,860,713	55,540,429	51,441,048	40,627,029
Total General Fund	\$ 75,974,718	\$ 78,072,811	\$ 72,339,605	\$ 66,178,573	\$ 52,124,658
All Other Governmental Funds					
Reserved for Encumbrances	-	-	-	-	-
Restricted *	2,986,643	734,387	-	-	-
Committed *	2,210,349	2,636,241	4,625,532	5,139,711	3,266,162
Assigned/Designated Reported in Capital Projects	35,312,020	29,978,072	25,395,463	23,602,478	25,377,502
Total All Other Governmental Funds	40,509,012	33,348,700	30,020,995	28,742,189	28,643,664
Total Governmental Funds	\$ 116,483,730	\$ 111,421,511	\$ 102,360,600	\$ 94,920,762	\$ 80,768,322

* Note - GASB Statement No. 54 altered the classification of governmental fund balances on a prospective basis effective with fiscal year 2011.



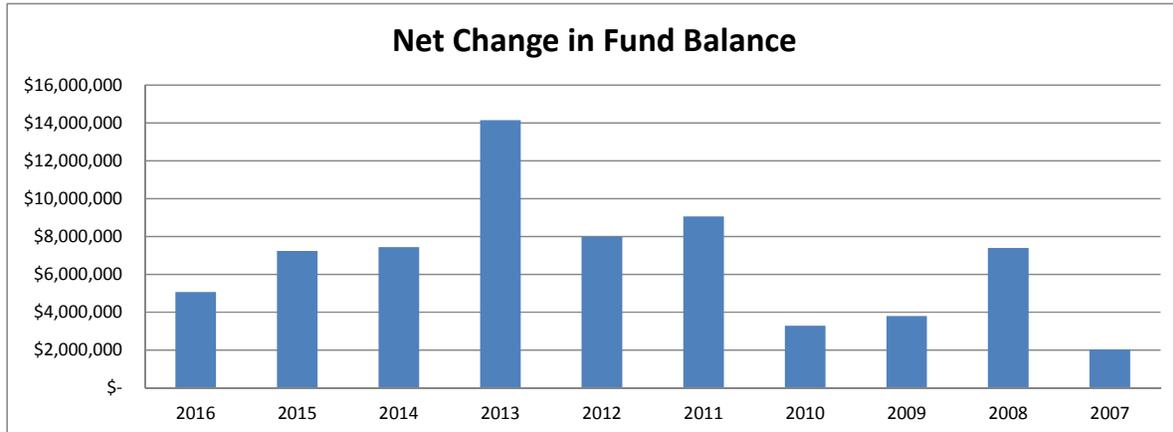
Source: MD Dept of Labor Licensing & Regulation, MD Dept of Business & Economic Development, and direct correspondence with the companies.

City of Gaithersburg, Maryland

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

	2011	2010	2009	2008	2007
General Fund					
Reserved	\$ -	\$ 8,954,030	\$ 12,431,003	\$ 11,224,516	\$ 10,629,786
Unreserved	-	24,039,806	18,723,646	19,902,437	18,055,440
Non-spendable *	142,809	-	-	-	-
Restricted *	-	-	-	-	-
Committed *	-	-	-	-	-
Assigned *	10,082,400	-	-	-	-
Unassigned *	33,019,710	-	-	-	-
Total General Fund	\$ 43,244,919	\$ 32,993,836	\$ 31,154,649	\$ 31,126,953	\$ 28,685,226
All Other Governmental Funds					
Reserved for Encumbrances	-	2,608,276	3,772,000	3,238,750	3,993,897
Restricted *	-	-	-	-	-
Committed	3,979,595	-	-	-	-
Assigned/Designated, Reported in: Capital Projects Funds	25,553,447	28,110,103	25,496,419	22,259,138	16,549,764
Total All Other Governmental Funds	29,533,042	30,718,379	29,268,419	25,497,888	20,543,661
Total Governmental Funds	\$ 72,777,961	\$ 63,712,215	\$ 60,423,068	\$ 56,624,841	\$ 49,228,887

* Note - FY10 and prior, Unreserve Fund balance is generally the Unassigned Fund Balance. The Reserved included Prepaids, Inventory, and Encumbrances. Prepaids and Inventory are now shown as Non-spendable. Encumbrances are now shown as Assigned.



City of Gaithersburg, Maryland

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

	2016	2015	2014	2013	2012
Revenues					
Taxes	\$ 28,372,261	\$ 26,394,499	\$ 26,285,130	\$ 25,564,310	\$ 26,996,881
Licenses and permits	5,485,935	5,183,854	4,130,419	5,036,887	4,968,781
Intergovernmental	15,344,503	15,820,473	15,544,603	13,504,206	12,637,614
Charges for services	8,788,747	6,721,278	6,253,400	5,979,736	5,393,662
Fines and forfeitures	2,959,850	2,494,883	2,509,987	3,149,250	3,424,352
Interest income	791,910	80,324	76,838	114,189	54,191
Miscellaneous	731,655	1,388,235	2,224,720	3,634,739	468,463
<i>Total Revenues</i>	<u>62,474,861</u>	<u>58,083,546</u>	<u>57,025,097</u>	<u>56,983,317</u>	<u>53,943,944</u>
Expenditures					
Current					
General government	12,730,955	11,705,328	11,138,672	10,765,800	9,025,529
Public safety	11,465,055	11,033,960	10,719,779	9,914,172	10,944,777
Public works	9,611,222	8,565,293	8,589,974	8,133,802	8,087,831
Parks and recreation	7,534,789	7,070,672	6,544,528	6,381,842	6,338,094
Community services and development	2,687,790	2,443,962	2,260,327	2,217,111	2,089,330
Transfer to retiree benefit trust	-	-	-	-	910,000
Other	4,320,934	3,994,652	4,713,443	4,346,623	3,223,589
Capital outlay	9,194,028	6,196,682	5,651,194	3,858,385	5,416,508
<i>Total Expenditures</i>	<u>57,544,773</u>	<u>51,010,549</u>	<u>49,617,917</u>	<u>45,617,735</u>	<u>46,035,658</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>4,930,088</u>	<u>7,072,997</u>	<u>7,407,180</u>	<u>11,365,582</u>	<u>7,908,286</u>
Other Financing Sources (Uses)					
Sales of capital assets	132,131	163,046	32,658	2,786,858	82,075
Transfers In	16,963,475	8,790,000	6,930,000	3,956,910	5,437,130
Transfers out	(16,963,475)	(8,790,000)	(6,930,000)	(3,956,910)	(5,437,130)
<i>Total Other Financing Sources (Uses)</i>	<u>132,131</u>	<u>163,046</u>	<u>32,658</u>	<u>2,786,858</u>	<u>82,075</u>
<i>Net Change in Fund Balances</i>	<u>\$ 5,062,219</u>	<u>\$ 7,236,043</u>	<u>\$ 7,439,838</u>	<u>\$ 14,152,440</u>	<u>\$ 7,990,361</u>

City of Gaithersburg, Maryland

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

	2011	2010	2009	2008	2007
Revenues					
Taxes	\$ 26,824,666	\$ 22,288,431	\$ 22,136,525	\$ 19,262,581	\$ 17,563,444
Licenses and permits	4,348,232	3,298,308	2,887,975	3,006,104	2,350,832
Intergovernmental	11,793,049	13,128,144	13,427,699	14,237,049	14,365,733
Charges for services	5,001,975	4,693,924	4,496,354	4,652,709	4,421,041
Fines and forfeitures	2,601,188	2,008,308	610,473	1,374,222	165,676
Interest income	91,395	135,532	930,421	2,212,859	2,627,160
Miscellaneous	452,943	682,179	683,730	5,472,964	1,421,317
<i>Total Revenues</i>	<u>51,113,448</u>	<u>46,234,826</u>	<u>45,173,177</u>	<u>50,218,488</u>	<u>42,915,203</u>
Expenditures					
Current					
General government	8,875,244	9,400,030	8,783,798	8,285,566	7,428,673
Public safety	10,134,668	10,039,331	10,464,470	9,586,914	8,402,909
Public works	8,369,405	9,270,532	8,626,303	6,668,288	6,339,144
Parks and recreation	5,982,291	6,491,537	6,517,399	7,806,505	7,698,543
Community services and development	2,010,300	2,074,583	2,052,646	2,081,517	1,883,026
Transfer to retiree benefit trust	455,000	-	455,000	401,000	2,552,050
Other	2,013,850	2,022,587	1,074,042	1,391,404	1,693,749
Capital outlay	4,232,069	3,680,679	5,557,414	6,629,977	4,914,067
<i>Total Expenditures</i>	<u>42,072,827</u>	<u>42,979,279</u>	<u>43,531,072</u>	<u>42,851,171</u>	<u>40,912,161</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>9,040,621</u>	<u>3,255,547</u>	<u>1,642,105</u>	<u>7,367,317</u>	<u>2,003,042</u>
Other Financing Sources (Uses)					
Sales of capital assets	25,125	33,600	2,156,122	28,637	18,199
Transfers In	3,046,732	5,130,639	9,327,945	11,584,204	10,515,055
Transfers out	(3,046,732)	(5,130,639)	(9,327,945)	(11,584,204)	(10,515,055)
<i>Total Other Financing Sources (Uses)</i>	<u>25,125</u>	<u>33,600</u>	<u>2,156,122</u>	<u>28,637</u>	<u>18,199</u>
<i>Net Change in Fund Balances</i>	<u>\$ 9,065,746</u>	<u>\$ 3,289,147</u>	<u>\$ 3,798,227</u>	<u>\$ 7,395,954</u>	<u>\$ 2,021,241</u>

City of Gaithersburg, Maryland

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

Year	Property Taxes	Hotel Admissions & Amusement Taxes	Income Taxes	Total
2016	\$ 25,884,735	\$ 2,487,526	\$ 11,015,225	\$ 39,387,486
2015	24,058,278	2,293,951	10,877,634	37,229,863
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
Change 2007-2016	58.0%	152.4%	27.7%	51.5%

Source: MD Dept of Labor Licensing & Regulation, MD Dept of Business & Economic Development, and direct correspondence with the companies.

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
2016	\$ 9,280,387,955	\$ 78,257,170	\$ 221,315,472	\$ 9,579,960,597	\$ 9,537,450,123	5.13%
2015	8,785,480,916	77,098,113	209,293,208	9,071,872,237	9,071,872,237	-0.02%
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	10.98%
2008	7,902,294,340	88,986,405	244,650,566	8,235,931,311	8,235,931,311	11.99%
2007	7,029,366,190	96,571,060	228,289,623	7,354,226,873	7,354,226,873	0.34%

Property values are assessed at 100 percent.

** Source: MC Confirmation

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	Collected in Subsequent Periods	Total Tax Collections*	Percent of Total Tax Collections To Tax Levy
2016	\$ 24,203,239	\$ 24,150,333	99.78%	\$ -	\$ 24,150,333	99.78%
2015	23,017,960	22,994,859	99.90%	4,950	22,999,809	99.92%
2014	22,977,036	22,833,113	99.37%	26,032	22,859,145	99.49%
2013	22,198,042	22,103,676	99.57%	52,770	22,156,446	99.81%
2012	24,099,749	23,554,380	97.74%	20,069	23,574,449	97.82%
2011	24,040,356	23,501,271	97.76%	28,282	23,529,553	97.88%
2010	21,389,471	20,228,821	94.57%	28,811	20,257,632	94.71%
2009	21,179,664	20,206,336	95.40%	22,217	20,228,553	95.51%
2008	18,566,771	18,257,510	98.33%	27,008	18,284,518	98.48%
2007	16,841,578	16,479,710	97.85%	11,049	16,490,759	97.92%

* "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

Taxpayer	2016	
	Property Assessed Valuation (1)	Percentage of Total Assessed Valuation
MedImmune, Inc	\$ 221,142,266	2.39%
BF Saul	155,948,333	1.69%
ARE Equities	152,626,966	1.65%
Asbury Atlantic Inc	137,982,634	1.49%
RPAI	131,126,000	1.42%
Avalon II Maryland Value III LP	88,429,133	0.96%
Federal Realty Investment TR	87,310,333	0.95%
Jefferson at Orchard Pond	85,221,500	0.92%
KBSIII One Washingtonian LLC	81,600,000	0.88%
Lakeforest Associates	80,000,000	0.87%
Total	\$ 1,221,387,165	13.22%
<i>Total Assessed Valuation</i>	<i>\$ 9,237,877,481</i>	

Taxpayer	2007	
	Property Assessed Valuation (1)	Percentage of Total Assessed Valuation
ARE LLC	\$ 182,890,290	2.00%
Asbury Methodist Home, Inc.	151,144,312	1.66%
Lake Forest Associates	136,775,832	1.50%
Medimmune, Inc	117,447,800	1.29%
CHI Two Washingtonian LLC	90,155,323	0.99%
Saul Holdings LTD Partnership	77,497,498	0.85%
Federal Realty Investment Trust	74,686,364	0.82%
893 Clopper Road Investors	67,352,500	0.74%
MR 270 NMD LLC	63,953,232	0.70%
EL-AD Kentlands LLC	64,153,800	0.70%
Total	\$ 1,026,056,951	11.25%
<i>Total Assessed Valuation</i>	<i>\$ 9,123,103,406</i>	

(1) Assessed valuation based on the valuation of Real Property for taxes collected in 2016 and 2007 respectively, and a review of the 10 largest taxpayers for the City.

Property values are assessed at 100 percent.

Source: MD Dept of Labor Licensing & Regulation, MD Dept of Business & Economic Development, and direct correspondence with the companies.

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			Total
	City of Gaithersburg	Montgomery County	State of Maryland	Transit	
2016	\$ 0.262	\$ 0.723	\$ 0.112	\$ 0.177	\$ 1.274
2015	0.262	0.732	0.112	0.177	1.283
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

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
and Legal Debt Margin
June 30, 2016

Jurisdiction	Total Debt Outstanding	Percentage Applicable to City	Applicable to City of Gaithersburg
Direct			
City of Gaithersburg	\$ -	100.0%	\$ -
Overlapping			
Montgomery County	\$ 4,156,655,263	5.1%	\$ 210,806,740
Total Direct and Overlapping Debt	<u>\$ 4,156,655,263</u>		<u>\$ 210,806,740</u>

Source:
Montgomery County Department of Finance, Table 19.

Assessed value of the City divided by the assessed value 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

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 (\$ in thousands)	(2) Per Capita Income	Median Age	(3) Montgomery County Avg. School Enrollment	(4) Montgomery County Unemployment Rate
2016	68,635	\$ 5,391,485	\$ 78,553	N/A	156,447	3.4
2015	67,099	5,216,612	77,745	N/A	154,230	4.0
2014	65,690	4,900,277	74,597	N/A	151,289	4.4
2013	63,842	4,644,250	72,746	N/A	149,018	5.0
2012	62,848	4,596,703	73,140	N/A	146,709	5.2
2011	61,172	4,384,870	71,681	N/A	143,309	5.2
2010	58,017	4,035,605	69,559	N/A	140,500	5.6
2009	57,818	3,970,536	68,673	N/A	137,763	5.3
2008	59,912	4,275,680	71,366	N/A	137,745	3.2
2007	60,736	4,195,886	69,084	N/A	137,798	2.6

- (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 and Nine Years Ago
Number of employees for quarter ending June 30, 2016

2016		
Employer	*Employees	Percentage of Total City Employment
National Institute of Standards and Technology	2,730	0.50%
Medimmune	2,290	0.42%
Asbury Methodist Village	820	0.15%
Lockheed Martin	736	0.13%
Sodexo USA	570	0.10%
Hughes Network Systems, LLC	450	0.08%
Adventist HealthCare	400	0.07%
Kaiser Permanente	350	0.06%
GXS	346	0.06%
Novavax	<u>300</u>	<u>0.05%</u>
Total	<u>8,992</u>	1.64%
Total Montgomery County Civilian Labor Force (Data for total employees available for county only)	<u>549,900</u>	

2007		
Employer	Employees	Percentage of Total City Employment
National Institute of Standards and Technology	2,100	1.85%
IBM	1,100	0.97%
Medimmune	1,000	0.88%
Sodexo USA	1,000	0.88%
Asbury Methodist Village	867	0.76%
The Gazette Newspaper	428	0.38%
Gene Logic	362	0.32%
Broadsoft, Inc.	200	0.18%
Digene	280	0.25%
Arline Foods	187	0.16%
Total	<u>7,524</u>	6.61%
Total Montgomery County Civilian Labor Force (Data for total employees available for county only)	<u>113,804</u>	

Source: MD Dept of Labor Licensing & Regulation, MD Dept of Business & Economic Development, and direct correspondence with the companies.

*Magnitude and rankings verified September 2016 from aggregated data.

City of Gaithersburg, Maryland

Full-Time City Government Employees by Function/Program
Last Ten Fiscal Years

Function/Program	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
General Government:										
Mayor and City Council	1	1	1	1	1	1	1	1	1	1
Legal Services	3	3	3	2	2	2	2	2	-	-
Office of the City Manager	5	5	5	4	4	4	5	5	5	5
Economic & Community Development	2	2	2	2	2	2	2	2	3	3
Environmental Affairs	3	3	3	3	1	1	1	2	2	2
Human Resources	5	5	5	5	5	5	5	5	4	4
Finance & Administration	9	9	9	9	8	7	7	6	6	6
Housing & Community Deve	1	1	1	1	1	1	1	1	-	-
Information Technology	12	11	11	10	9	8	8	8	7	6
Facilities Management	9	9	7	8	8	8	8	8	8	7
Buildings and Grounds	-	-	-	-	-	-	-	-	-	-
Public Information	6	6	6	6	6	4	4	4	4	4
Cable Television Channel 13	2	2	2	2	2	2	2	2	2	2
Planning & Code Administration	8	8	8	8	-	-	-	-	-	-
Planning & Administration	7	6	6	6	9	10	10	10	11	11
Public Safety										
Police Services	65	66	65	65	59	59	59	58	56	51
Code Administration	20	20	18	15	20	20	20	20	20	19
Traffic Engineering	2	2	2	2	2	2	2	2	2	2
Animal Control	4	4	4	4	4	5	5	4	4	4
Public Works										
Public Works Administration	6	5	5	5	5	5	5	5	5	5
Parks Maintenance Division	16	16	16	16	16	16	16	16	16	16
Streets & Special Projects	10	10	10	10	10	10	10	10	9	9
Fleet Maintenance	5	5	6	6	6	6	6	5	5	5
Landscaping & Forestry	12	13	13	13	13	13	13	13	13	12
Mowing & Bulk Pick-Up	20	20	19	19	19	19	20	20	19	17
Engineering Services	4	4	4	3	2	2	2	2	2	1

City of Gaithersburg, Maryland

Full-Time City Government Employees by Function/Program
Last Ten Fiscal Years

Function/Program	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Parks, Recreation & Culture										
Parks, Recreation & Culture	4	5	5	5	5	4	5	5	5	5
Recreation Programs & Sports	5	5	5	5	5	5	5	5	5	5
Recreation Classes	1	1	1	1	1	1	1	1	1	1
Youth Services	3	3	3	3	3	3	3	3	3	3
Gaithersburg Youth Center	2	2	1	1	1	1	1	1	1	1
Olde Towne Youth Center	2	1	1	1	1	1	1	1	1	-
Casey Community Center	2	2	2	2	2	2	2	2	2	2
Water Park	2	2	2	1	1	1	1	1	1	1
Gaithersburg Arts Barn	2	2	2	2	2	1	1	1	1	2
Kentlands Mansion	3	3	3	3	3	2	2	2	2	2
Cultural Arts Programs (Comm. Museum)*	1	1	2	2	1	1	1	1	1	1
Special Events	6	6	4	4	5	5	4	4	4	4
Gaithersburg Aquatic Center	1	1	1	1	1	1	1	1	1	1
Winter Lights	-	-	-	-	-	1	1	1	1	1
Miniature Golf Course	-	-	-	1	-	-	-	-	-	-
Activity Center	4	3	3	3	5	4	4	4	4	4
Community Services and Development										
Seniors Program	6	6	5	5	5	5	5	5	5	5
Community Services	4	4	4	3	3	3	3	3	3	3
Homeless Assistance	4	4	3	3	3	3	3	3	3	3
Full-Time Employee Totals:	289.0	287.0	278.0	271.0	261.0	256.0	258.0	255.0	248.0	236.0
Employment Agreement Employee Totals:		-	2.0	3.0	4.8	6.8	8.3	8.4	10.6	11.6
Part-Time Employee Totals:	<u>101.8</u>	<u>101.8</u>	<u>105.1</u>	<u>101.3</u>	<u>99.4</u>	<u>99.3</u>	<u>119.4</u>	<u>117.5</u>	<u>117.4</u>	<u>115.8</u>
Total Employees	<u><u>390.8</u></u>	<u><u>388.8</u></u>	<u><u>385.1</u></u>	<u><u>375.3</u></u>	<u><u>365.2</u></u>	<u><u>362.1</u></u>	<u><u>385.7</u></u>	<u><u>380.9</u></u>	<u><u>376.0</u></u>	<u><u>363.4</u></u>

Source: City of Gaithersburg, Maryland 2007-2017 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	2016	2015	2014	2013	2012
General Information					
Population	68,635	67,099	65,690	63,842	62,848
Registered Voters	34,780	32,614	32,203	32,459	31,137
General Government					
Commercial Construction					
Permits Issued Note 1	598	750	649	14	49
Residential Construction					
Permits Issued Note 1	903	879	715	221	111
Estimated Value of Construction	\$ 135,092,107	\$ 255,791,134	\$ 131,330,709	\$ 149,132,741	\$ 31,581,002
Transitional Housing to Permanent Housing	11	7	7	8	11
Public Safety					
Police Officers	58	55	59	52	52
Traffic Citations	6,424	6,829	8,765	10,670	9,359
Calls for Service	10,885	18,849	18,263	32,879	10,194
Fire Marshall Inspector Note 2	3.5	1	1	1	1
Animal Control Officers	5	5	4	4	4
Fire Marshall Inspections	1,462	1,407	1,368	1,211	1,001
Animal Licenses	2,882	2,900	2,740	1,655	2,882
Solid Waste					
Co-Mingled (tons)	3,508	3,491	3,424	3,395	3,117
Newspaper (tons) Note 3	N/A	N/A	N/A	N/A	N/A
Yard Waste (tons)	860	970	1,485	1,389	1,251

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

Note 2 in FY16, FTEs included 1 Fire Marshal, 2.5 Inspectors

Note 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

Function/Program	2011	2010	2009	2008	2007
General Information					
Population	61,172	58,017	57,818	59,912	60,736
Registered Voters	28,539	28,115	25,469	25,469	27,725
General Government					
Commercial Construction					
Permits Issued Note 1	22	1	11	4	7
Residential Construction					
Permits Issued Note 1	152	125	72	89	126
Estimated Value of Construction	\$ 92,207,832	\$ 24,799,660	\$ 46,746,126	\$ 36,022,880	\$ 30,177,912
Transitional Housing to Permanent Housing	7	13	11	3	6
Public Safety					
Police Officers	46	52	53	49	46
Traffic Citations	8,356	7,858	8,085	5,966	6,803
Calls for Service	8,928	8,653	7,805	7,955	11,956
Fire Marshall Inspector	1	1	1	1	1
Animal Control Officers	4	4	3	3	3
Fire Marshall Inspections	1,684	1,291	1,262	979	1,094
Animal Licenses	2,838	2,596	2,508	2,467	2,477
Solid Waste					
Co-Mingled (tons)	3,343	3,171	2,474	907	579
Newspaper (tons) Note 2	N/A	N/A	N/A	1,432	1,449
Yard Waste (tons)	1,259	993	1,014	1,036	934

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

Note 2 In FY09, the City single stream recycling materials and combined Co-Mingled goods with newspaper.

City of Gaithersburg, Maryland

Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Function/Program	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
General Information										
Area in Square Miles	10.39	10.37	10.37	10.37	10.33	10.33	10.33	10.33	10.33	10.33
Public Safety - Police										
Stations	1	1	1	1	1	1	1	1	1	1
Number of Patrol Units	75	74	73	73	73	66	63	63	58	46
Highways and Streets										
City Streets (miles)	92.97	92.97	92.97	92.56	92.56	90.51	87.95	87.95	87.95	87.95
County Streets (miles)	6.72	6.72	6.72	6.72	6.72	6.72	6.06	6.06	6.06	6.06
State Streets (miles)	17.36	17.36	17.34	17.54	17.54	17.54	17.54	17.54	17.54	17.54
Private Streets (miles)	2.35	1.93	1.93	1.93	1.93	2.08	3.98	3.98	3.98	3.98
Street Lights (City Maint.)	3,781	3,781	3,890	4,138	4,115	4,115	4,367	4,377	4,368	4,323
Recreation and Culture										
Park Acreage	872.96	872.96	872.96	853.48	853.48	853.48	853.48	853.48	853.48	853.48
Parks	27	27	27	25	25	25	25	25	25	25
Museums	1	1	1	1	1	1	1	1	1	1
Performance Pavilions	1	1	1	1	1	1	1	1	1	1
Skate Parks	1	1	1	1	1	1	1	1	1	1
Swimming Pools	2	2	2	2	2	2	2	2	2	2
Miniature Golf	1	1	1	1	1	1	1	1	1	1
Community Centers	5	5	5	5	5	5	5	5	5	5
Performance Arts	1	1	1	1	1	1	1	1	1	1
Tennis Courts	14	14	14	14	14	14	14	14	14	14
Mansion	1	1	1	1	1	1	1	-	-	-

* Note 2 in FY16, FYEs included 1 Fire Marshal, 2.5 Inspectors or parking ticket processing units.

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

Source: MD Dept of Labor Licensing & Regulation, MD Dept of Business & Economic Development, and direct correspondence with the companies.

City of Gaithersburg, Maryland

Schedule of Cumulative Appropriations, Expenditures, and Encumbrances - Capital Projects
From Project Inception Through June 30, 2016

Project Number	Project Name	Cumulative Appropriation	Cumulative Expenditures Plus Encumbrances	Variance Favorable (Unfavorable)
CITY FACILITY:				
70-2	City Hall	\$ 5,883,851	\$ 4,566,945	\$ 1,316,906
72-2	Public Service Facility	5,492,629	4,893,519	599,110
93-1	Technology Projects	6,115,854	4,579,577	1,536,277
98-1	Facilities Projects	6,677,991	5,008,812	1,669,179
01-2	Kentlands Mansion	1,497,497	888,491	609,006
09-1	Police Station Improvement	9,711,397	5,290,280	4,421,117
10-1	Energy Efficiency and Conservation	1,028,000	580,536	447,464
Total City Facility		<u>36,407,219</u>	<u>25,808,162</u>	<u>10,599,057</u>
COMMUNITY ENHANCEMENT				
71-2	Street Lighting	2,556,406	2,163,383	393,023
79-5	Olde Towne Revitalization	5,458,523	3,185,410	2,273,113
81-4	Property Acquisition and Disposition	16,181,544	14,954,057	1,227,487
99-4A	Olde Towne Park Plaza	1,169,784	187,977	981,807
04-1	Community Development Block Grant - HUD	1,177,459	838,334	339,125
09-2	Historic Preservation at Crown Farm	2,570,000	26,439	2,543,561
09-4	Rolling Stock Project	1,523,061	1,359,959	163,102
14-1	Quince Orchard Park - Medimmune	1,550,000	29,862	1,520,138
14-2	Consumer Product Safety Commission Park	4,600,000	582,627	4,017,373
00-0	Contingency and Future Projects	4,796,230	2,198,984	2,597,246
Total Community Enhancement		<u>41,583,007</u>	<u>25,527,032</u>	<u>16,055,975</u>
TRANSPORTATION/ENVIRONMENT				
79-3	Sidewalks, Handicapped Ramps & Bike Pathways	3,164,016	2,418,449	745,567
82-1	Stormwater Management and Storm Drainage	13,129,787	13,118,001	11,786
83-1	Street Resurfacing	19,803,106	18,630,989	1,172,117
91-3	Street Reconstruction	9,132,710	8,054,818	1,077,892
92-2	Traffic Calming and Signalization	1,648,846	1,315,245	333,601
98-7	Transit Enhancements	333,343	221,263	112,080
99-1	North Frederick Avenue Corridor Plan Implementation	254,635	136,637	117,998
07-2	Teachers Way	3,094,664	2,868,052	226,612
Total Transportation/Environment		<u>50,561,107</u>	<u>46,763,454</u>	<u>3,797,653</u>
RECREATION/LEISURE				
83-2	Bohrer Park at Summit Hall Farm	15,522,842	14,589,077	933,765
98-4	Art In Public Places	636,509	483,648	152,861
00-4	Renovation/Improvements Of Existing Parks	2,430,086	2,289,429	140,657
03-1	Gaithersburg Aquatic/Recreation Center	1,706,321	706,321	1,000,000
09-3	Gaithersburg Senior Center	1,007,148	900,703	106,445
13-1	Synthetic Fields	1,105,000	1,019,207	85,793
Source: MD Dept of Labor Licensing & Regulation, MD Dept of Business & Economic Develop Unallocated / Closed Projects		<u>22,407,906</u>	<u>19,988,385</u>	<u>2,419,521</u>
Grand Total		<u>\$ 150,959,239</u>	<u>\$ 118,087,032</u>	<u>\$ 33,774,968</u>

City of Gaithersburg, Maryland

Schedule of Cumulative Appropriations, Expenditures, and Encumbrances - Capital Projects
From Project Inception Through June 30, 2016

Project Number	Project Name	Cumulative Appropriation	Cumulative Expenditures Plus Encumbrances	Variance Favorable (Unfavorable)
ENVIRONMENT/INFRASTRUCTURE/RESTORATION				
SW002	Muddy Branch West Deer Park	\$ -	\$ 340,691	\$ (340,691)
SW003	Odendhal Avenue	40,000	-	40,000
SW004	Stream Girard Street	160,000	221,403	(61,403)
SW005	Victory Farm	75,000	73,401	1,599
SW006	Amberfield	50,000	79,800	(29,800)
SW007	Stream Lakelands Drive	235,000	119,593	115,407
SW008	Stream Orchard Ridge Drive	125,000	103,282	21,718
Total Environment/Infrastructure/Restoration		<u>\$ 685,000</u>	<u>\$ 938,171</u>	<u>\$ (253,171)</u>

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**

