



*Gaithersburg*  
*A CHARACTER COUNTS! CITY*

# City of Gaithersburg

31 South Summit Avenue, Gaithersburg, Maryland 20877

## REQUEST FOR PROPOSALS

**No. 2016-015**

### ANNUAL PROFESSIONAL AUDIT SERVICES

**Solicitation Issued:** January 15, 2016

**Proposal Submissions Due:** February 26, 2016      **Time:** 2:00 PM

**Submissions Received By:** Procurement Manager  
City of Gaithersburg  
City Hall, 3rd Floor  
31 South Summit Avenue  
Gaithersburg, Maryland 20877

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**MAYOR**  
Jud Ashman

**COUNCIL MEMBERS**  
Henry Marraffa, Jr.  
Michael Sesma  
Neil Harris  
Robert Wu  
Ryan Spiegel

**CITY MANAGER**  
Tony Tomasello

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## SECTION 1: Definitions

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**CAFR:** “CAFR” means Comprehensive Annual Financial Report

**City:** “City” means the City of Gaithersburg, Maryland, a municipal corporation of the State of Maryland.

**City Manager:** “City Manager” means the City Manager of the City or his or her designee.

**Contract:** “Contract” means the binding agreement awarded pursuant to this Solicitation, if any.

**Contractor:** “Contractor” means the Offeror awarded the Contract.

**GFOA:** “GFOA” means Government Finance Officers Association

**Offeror:** “Offeror” means any Person submitting a Proposal in response to this Solicitation.

**Person:** “Person” means any individual, or association or entity recognized by law.

**Price Analysis:** “Price Analysis” means the examination of the Proposal Price to ensure it is fair and reasonable.

**Procurement Webpage:** “Procurement Webpage” means the webpage on the City’s website dedicated to procurement: <http://www.gaithersburgmd.gov/government/procurement/current-bids>.

**Proposal:** “Proposal” means the offer submitted to the City by an Offeror in response to this Solicitation.

**Services:** “Services” means the goods and/or services to be provided to the City by the Contractor under the Contract as described in this Solicitation.

**Solicitation:** “Solicitation” means this Request for Proposals.

**Solicitation Schedule:** “Solicitation Schedule” refers to the events and dates and times thereof specified in Section 3.1 of this Solicitation.

**Solicitation Documents:** “Solicitation Documents” mean this Solicitation and any and all documents issued and/or used by the City to solicit Proposals, including but not limited to: addendums, amendments, forms and specifications.

**Submission Deadline:** “Submission Deadline” means the date and time, specified in Section 3.1 of this Solicitation, in which all Proposals shall be submitted to and received by the City.

~ END OF SECTION 1 ~

## **SECTION 2: Introduction and Notices to Offerors**

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### **2.1. INTRODUCTION**

The City is seeking sealed Proposals from qualified certified public accountants (CPAs) to conduct a financial statement audit and a single audit for the City of Gaithersburg for each of the next five (5) fiscal years ending June 30, 2016 through June 30, 2020.

The City's financial statements must be completed in time to meet the State of Maryland's reporting deadline of October 31.

### **2.2. DISCLAIMER**

This is a Solicitation only, it is not a contract. The City shall assume no obligation to pay or reimburse any Person for any costs, fees, or expenses incurred in preparation of a response to this Solicitation, or for any meetings or travel costs related to such response. All Proposals submitted to and accepted by the City shall become the exclusive property of the City and shall not be returned. The City reserves the right to reject any or all Proposals in full or in part and/or to waive any technicalities and/or informalities as best may serve the interests of the City. The City is under no obligation to any Offeror until a contract is executed for the Services described herein.

### **2.3. AUTHORITY TO DISTRIBUTE SOLICITATION DOCUMENTS**

The City is the sole entity with the authority to issue and/or distribute any Solicitation Documents and/or information related thereto. Any and all Solicitation Documents obtained from any source other than the City may be incomplete or incorrect. The City assumes no responsibility for any error, omission or misinterpretation resulting from the reliance or use of any Solicitation Documents not both issued and distributed by the City. Any and all Solicitation Documents shall be posted on the Procurement Webpage.

### **2.4. ACCEPTANCE**

The submission of a Proposal shall constitute acknowledgement and acceptance by the Offeror of the requirements, specifications and terms and conditions specified herein.

### **2.5. RESTRICTED DISCUSSIONS**

Offerors are prohibited from discussing this Solicitation or any part thereof with any employee, agent, or representative of the City except as expressly authorized herein. The City may, in its sole discretion, reject the Proposal submitted by any Offeror who is in violation of this provision. Any and all verbal statements and/or answers to questions relative to this Solicitation shall not be considered binding, valid or enforceable.

### **2.6. STATE OF MARYLAND BID AND CONTRACT REQUIREMENTS**

- A. Offerors must be qualified to bid in the State of Maryland in accordance with §16-202 and §16-203 of the State Finance and Procurement Article of the Annotated Code of Maryland.
- B. To enter into any contract with the City, Offerors must be in compliance with the State of Maryland Code of Regulations Title 21, State Procurement Regulations.

**2.7. ADA REQUIREMENTS**

Individuals with a disability, who would like to receive the information in this Solicitation in another form, may contact the City's Procurement Manager by phone at 301-258-6320 or by email at wrhodes@gaitthersburgmd.gov.

**~ END OF SECTION 2 ~**

## SECTION 3: Solicitation Schedule and Information

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### 3.1. **SOLICITATION SCHEDULE**

Below is the schedule of events for this Solicitation. The City reserves the right to modify the Solicitation Schedule at any time as best may serve the interests of the City; any and all modifications shall be made by addendum or amendment and posted on the City's Procurement Webpage. Unless otherwise specified, all references herein to times of day shall be Eastern Time (daylight or standard, as applicable).

| EVENT   | DATE                     | TIME              |
|---|--------------------------|-------------------|
| <b>A. Solicitation Issued:</b>  | <b>January 15, 2016</b>  | <b>N/A</b>        |
| <b>B. Pre-Submission Meeting:</b><br><i>See Subsection 3.2 for additional information</i>             | <b>January 28, 2016</b>  | <b>at 9:30 AM</b> |
| <b>C. Offeror Questions Due in Writing:</b><br><i>See Subsection 3.3 for additional information</i>   | <b>February 5, 2016</b>  | <b>by 2:00 PM</b> |
| <b>D. City's Answers to Questions Issued:</b><br><i>See Subsection 3.4 for additional information</i> | <b>February 12, 2016</b> | <b>by 5:00 PM</b> |
| <b>E. Submission Deadline:</b><br><i>See Subsection 4.2 for additional information</i>                | <b>February 26, 2016</b> | <b>at 2:00 PM</b> |

### 3.2. **PRE-SUBMISSION MEETING**

There will be a Pre-Submission Meeting at the location shown below, on the date and at the time specified in the Solicitation Schedule. Attendance of the Pre-Submission Meeting is not mandatory but is strongly encouraged.

City of Gaithersburg  
City Hall, 2<sup>nd</sup> Floor Gallery  
31 South Summit Avenue  
Gaithersburg, Maryland 20877

### 3.3. **SUBMISSION OF OFFEROR QUESTIONS**

All questions regarding this Solicitation: (i) shall be submitted by email to Stephanie M. Walker, Director of Finance, at [Swalker@gaithersburgmd.gov](mailto:Swalker@gaithersburgmd.gov); and (ii) shall be received by the date and time specified in the Solicitation Schedule. Any and all questions received not in compliance with this paragraph will not be answered unless the City, at its sole discretion, deems that a response to a question is necessary to clarify anything in the Solicitation Documents.

### 3.4. **CITY'S ANSWERS TO OFFEROR QUESTIONS**

The City's answers to questions submitted by Offerors will be posted by addendum on the City's Procurement Webpage on the date specified in the Solicitation Schedule.

~ END OF SECTION 3 ~

## **SECTION 4: Proposal Format, Content, Preparation and Submission**

### **4.1. PROPOSAL FORMAT AND CONTENT**

In order to provide each Offeror with an equal opportunity for consideration, adherence to a standardized proposal format is required; any Proposal submitted outside of the required format shall be cause for the Proposal to be rejected as non-responsive. The Proposal shall include the material and be organized into sections as shown below.

#### **A. Cover Letter**

Include a cover letter prepared on business stationery, which shall include: (i) an overview of the company; (ii) the name, business title, address, email address, and telephone number of the individual authorized to represent the Offeror and to whom the City should direct correspondence; and (iii) signature of the individual authorized to bind the Offeror to its Proposal.

#### **B. Table of Contents**

The Proposal shall include a table of contents that references each of sections therein.

#### **C. Section 1: Understanding the Requirements and Ability to Meet**

This section of the Proposal: shall address and confirm the Offeror understands the requirements of this Solicitation and possess the ability to meet such requirements and deadlines; and shall clearly outline the proposed scope of work and objectives of the Proposal as they relates to the scope and objectives of the project, product and/or service deliverables.

#### **D. Section 2: Work Plan and Timeline**

This section of the Proposal shall include a proposed work plan and timeline (“Work Plan”) and timeline (“Time Line”) for the project, which shall, at a minimum:

- ↪ identify and describe all major phases of the engagement;
- ↪ describe the scheduling, timing, and staffing plan for each major phase of the audit, including the number of hours allocated by staff level and anticipated location for the work (on-site or remote); and
- ↪ identify the audit timeline including deliverable dates.

#### **E. Section 3: Management Plan and Technical Approach**

This section of the Proposal shall include management plan (“Management Plan”) and technical approach (“Technical Approach”) for the project as follows:

##### **I. The Management Plan shall:**

- ↪ clearly describe how the Offeror will manage and control all proposed tasks under the Work Plan and Timeline; and explain how the management and administrative processes will ensure that appropriate levels of attention are given so that work is performed properly and in accordance with the Work Plan and Timeline; and

- ↳ identify any anticipated obstacles, including problems or concerns with the Scope of Services and propose solutions to such obstacles.

II. The Technical Approach shall:

- ↳ describe the proposed approach to be taken to gaining and documenting the Offeror's understanding of the City's internal control structure;
- ↳ identify how the Offeror expects to use City staff to facilitate the work, being sure to differentiate between the responsibilities of the Offeror and the responsibilities of the City. The failure by the Offeror to make any such distinction shall signify the Offeror assumes full responsibility for the respective task;
- ↳ identify practices uses for entrance, exit conferences, and status meetings;
- ↳ describe typical processes used for communication with the City's governing body including estimated timing for any required meetings;
- ↳ identify processes used for issuing reports and Management Letter, communicating weaknesses noted in the accounting and internal control systems and other meetings that will be required; and
- ↳ identify any approvals that will be required from the City, if any.

**F. Section 4: Firm Experience and Capabilities**

This section of the Proposal shall include an overview of the Offeror's firm and its commitment to provide the Services requested in this Solicitation. The Offeror shall, at a minimum:

- ↳ summarize the organizational structure and size of their firm and provide the firm's date of organization and current principal place of business;
- ↳ outline and briefly discuss the scope of services provided and the approximate percentage of the total business devoted to the type of services requested in this Solicitation;
- ↳ describe the firm's experience with similar projects;
- ↳ indicate whether or not the company has an organized practice addressing the requested scope of services, who formally heads such practice and where the person is located;
- ↳ describe the firm's quality control procedures and measures to ensure a high quality audit;
- ↳ provide a link to or copies of the results of the firm's latest external quality review;

- ↳ describe any local office(s) that will service the City, including size, services, area covered, principal contact person, and experience with auditing local government and grants;
- ↳ describe the firm's current workload, including the capacity of the local office to comply with the requirements of the first engagement period and potential subsequent periods, including ensuring deliverables are completed in accordance with required deadlines;
- ↳ describe the firm's involvement with government specific organizations and other industry involvement in organizations such as: GFOA, Maryland GFOA, the Government Audit Quality Center, Association of Government Accountants, etc.; and
- ↳ provide contact information for at least three client references where the firm has provided similar services for at least one year. Within the reference indicate if the client prepares their own financial statements, if the client issues a CAFR, and whether a single audit is performed or not.

**G. Section 5: Staff Qualifications, Experience and Capabilities**

This section of the Proposal shall address the qualifications of staff assigned by the Offeror to the proposed project. The Offeror shall: (i) describe the number and nature of professional staff to be employed in this engagement; (ii) describe the role and responsibilities for all such persons; and (iii) provide a complete resume or a detailed description of each person's education, functional discipline, professional experience, and length of time employed by the Offeror.

In addition, the Offeror shall clearly state if it intends to subcontract any of the proposed work and, if so, provide the names of all such subcontractors. The Offeror shall assume full responsibility and liability for any and all work performed by a subcontractor.

**H. Section 6: Procurement Forms**

This section of the Proposal shall include the following forms, all of which are attached hereto as Attachment A:

- ↳ Addendum and Amendment Acknowledgement Form
- ↳ Affidavit of Qualification to Propose
- ↳ Proposal Submission Certification
- ↳ Conflict of Interest Certification
- ↳ Litigation and Lien Information

**I. Section 7: Pricing**

This section of the Proposal shall include the Offeror's proposed pricing for the Services, as follows:

- I. Pricing must be provided as shown on the Pricing Worksheet, which may be downloaded from the Procurement Webpage.
- II. Pricing must be all-inclusive fixed fee for each year, and include travel, printing, and all out-of-pocket costs.

- III. Describe the circumstance under which you would propose to increase the fee shown in the Pricing Worksheet and how you would communicate such a potential increase to the City.

**4.2. PROPOSAL PREPARATION AND SUBMISSION**

The Offeror shall submit complete sets of its Proposal in a sealed package (hereinafter referred to as "Proposal Package") in accordance with and subject to the following instructions and conditions:

**A. Proposal Package Contents**

The Proposal Package shall contain the following:

- I. One (1) original paper Proposal. All documents and forms shall be completed in their entirety and, when applicable, shall be notarized and/or signed in ink by an authorized or duly authorized representative of the Offeror.
- II. Four (4) identical paper copies of the complete original paper Proposal.
- III. One (1) identical electronic copy of the complete original paper Proposal on a compact disc or flash drive.

**B. Proposal Package Submission**

- I. The Proposal Package shall have the following information printed clearly on the outside of the Proposal Package:
  - Solicitation Number;
  - Solicitation Title; and
  - Name of the Offeror submitting the Proposal Package
- II. The Bid Proposal Package shall be submitted by the Submission Deadline and to the person and location shown below. Proposals submitted not in accordance with this provision shall be deemed Proposals not received by the City by the Submission Deadline  
  
Procurement Manager  
City of Gaithersburg  
City Hall, 3<sup>rd</sup> Floor  
31 South Summit Avenue  
Gaithersburg, Maryland 20877
- III. The City shall assume no responsibility for delays or errors in the delivery of any Proposal; postmarking by the Submission Deadline shall not substitute for actual receipt.
- IV. The Offeror is strictly prohibited from submitting its Proposal by facsimile or by e-mail. Any and all Proposals submitted as such shall be rejected as non-responsive and be removed from consideration.
- V. No partial Proposals will be accepted or reviewed.

VI. Any and all Proposals submitted not in compliance with any of the provisions herein shall be rejected as non-responsive and be removed from consideration.

**~ END OF SECTION 4 ~**

## **SECTION 5: Evaluation Criteria and Selection Process**

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### **5.1. AWARD**

Award of the Contract, if any, shall be to the Responsible Offeror whose Proposal: (i) fully conforms in all material respects to the requirements of this Solicitation, including all form and substance; and (ii) is, in the sole discretion of the City, the most advantageous to the City, price and other factors considered.

### **5.2. SELECTION COMMITTEE**

The City shall assign a committee comprised of personnel it considers to be stakeholders in the project (hereinafter referred to as "Selection Committee") to: review, evaluate and score all Proposals; conduct interviews, if required; and select and recommend the most qualified Offeror for the Contract award.

### **5.3. EVALUATION CRITERIA**

The Selection Committee will evaluate each Proposal on the following criteria (hereinafter referred to as "Evaluation Criteria"):

- A. Understanding the Requirements and Ability to Meet
- B. Work Plan and Timeline
- C. Management Plan and Technical Approach
- D. Firm Experience and Capabilities
- E. Staff Qualifications, Experience and Capabilities
- F. Pricing

### **5.4. SELECTION PROCESS**

Below is the anticipated selection process for this Solicitation; however, the City reserves the right, in its sole discretion, to modify this process as best may serve the interests of the City.

#### **A. Review for Responsiveness**

The Procurement Manager shall perform an initial review of each Proposal to determine its responsiveness to the requirements set forth in this Solicitation. Following the initial review, the Procurement Manager shall distribute all responsive Proposals to the Selection Committee to be evaluated and scored. In the event a Proposal is determined to be nonresponsive, it shall be retained by the Procurement Manager and not be distributed to the Selection Committee.

#### **B. Evaluation and Scoring**

The Selection Committee shall evaluate and score each responsive Proposal to determine the responsibility of the respective Offeror to perform the Services and to establish a list of the highest ranking Offerors.

#### **C. Interviews**

- I. Following the evaluation and scoring of all responsive Proposals, the Selection Committee may require an interview with the highest ranking Offerors, each of which who may be required to make a presentation. Following interviews, if any, the Selection Committee will score each Offeror on their interview and make a recommendation of tentative award to the City Manager.

- II. Formal award shall be contingent on the approval by the City's Mayor and City Council. The City reserves the right to require any Offeror to make a presentation in order to substantiate the qualifications and/or abilities of the Offeror to perform under the Contract.

**~ END OF SECTION 5 ~**

## **SECTION 6: General Terms and Conditions**

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The following terms and conditions shall apply to and survive this Solicitation and be incorporated into the Contract:

**6.1. HEADINGS**

Any and all of the headings contained in any of the Solicitation Documents are for reference purposes only and shall not in any way affect the meaning or interpretation of any of the same.

**6.2. ACCEPTANCE AND REJECTION OF PROPOSALS**

The City reserves the right: (i) to accept or reject any or all Proposals in whole or in part; (ii) to waive any technicalities or informalities in Proposals; and (iii) to cancel or postpone this Solicitation at any time if determined to serve the best interests of the City. The City may reject the Proposal of any Offeror in arrears or in default to the City on any contract, debt, or other obligation.

**6.3. ACCURATE INFORMATION**

The Offeror certifies that all information provided or to be provided to the City is true and correct and may be relied upon by the City in awarding the Contract. Any false and/or misleading information is cause for the City to reject the Offeror's Proposal or to terminate the Contract if awarded to the Offeror. Such rejection or termination shall relieve the City of any direct or consequential damages or costs incurred by the Offeror.

**6.4. ADDENDA AND AMENDMENTS**

In the event any addenda or amendments are issued to this Solicitation, all the terms and conditions of this Solicitation shall govern and apply unless specifically stated or modified in any such addenda or amendments. Any and all written communication not posted on the City's Procurement Webpage relative to this Solicitation shall not be considered binding, valid or enforceable. It is the responsibility of the Offeror to inquire about and obtain any and all addenda and/or amendments issued, all of which shall be published on the City's Procurement Webpage.

**6.5. ALTERNATE PROPOSALS**

The Offeror is expected to clearly respond to the requirements set forth in this Solicitation. Any and all alternate Proposals for the Services shall be rejected as non-responsive and shall be removed from consideration.

**6.6. BINDING PROPOSAL**

All Proposals shall remain binding for 180 calendar days following the Submission Deadline; Proposals may not be withdrawn at any time within this period. In the event an award is not made during such period, all Proposals shall be automatically extended and remain binding for an additional 180 calendar day period. Proposals shall automatically be renewed until such time as either an award is made or proper notice is given to the City by an Offeror of its intent to withdraw its Proposal. Proposals may only be withdrawn by written notice to the City at least fifteen (15) calendar days prior to the expiration of the then current 180 calendar day period.

**6.7. CONFIDENTIALITY**

- A. The City agrees, to the extent permitted by law and in accordance with the terms set forth in this Solicitation, to hold all confidential information and material belonging to the Offeror in strictest confidence. The Offeror shall specify in writing to the City the information and/or material the Offeror deems to be a trade secret or other confidential information and/or material. Written notification shall also contain the reason such information and/or material is considered to be a trade secret and/or confidential.
- B. The Offeror agrees that all knowledge and information it may receive from the City or from its officials, employees or other sources, or by virtue of the performance of Services under and pursuant to the Contract, if awarded the Contract, which are included or referenced in Title 4 of the General Provisions Article of the Annotated Code of Maryland, shall not be directly or indirectly disclosed to any person whatsoever unless authorized to do so by the City Manager. This confidentiality provision shall also apply to any information, activity, or record designated by the City as being “confidential” or “privileged”.

**6.8. CONTRACT AWARD**

- A. It is the intent of the City to award the Contract to one (1) Offeror. The City reserves the right to award the Contract to multiple Offerors and/or to award the Contract in whole or in part. If for any reason, through no fault of the City, the Contract is not executed within thirty (30) days’ following formal award, the City may withdraw the award and award to another Offeror, or solicit new Proposals.
- B. In the event the City receives only one (1) Proposal in response to this Solicitation, the City reserves the right, in its sole discretion, to proceed as a negotiated procurement with the Offeror that submitted the Proposal.

**6.9. ERRORS IN PROPOSALS**

Obvious error(s) in calculations in any Proposal may not be corrected without the prior written consent of the City and may be cause for the Proposal to be deemed non-responsive. If an error is made in an extended price, the unit price will govern.

**6.10. INTEREST IN MORE THAN ONE PROPOSAL AND COLLUSION**

Multiple Proposals submitted in response to this Solicitation by any Offeror under the same or different names shall be rejected as non-responsive. Reasonable grounds for believing that any Offeror has interest in more than one (1) Proposal for this Solicitation, both as the Offeror and as a subcontractor for another Offeror, shall result in the rejection of all Proposals in which the Offeror has interest and disqualify the Offeror from responding to any reissuance of this Solicitation. However, a Person acting only as a subcontractor may be included as a subcontractor for multiple Offerors. The City may reject all Proposals if reasonable cause exists for believing that collusion exists among Offerors.

**6.11. LATE PROPOSALS**

- A. It is the responsibility of the Offeror to ensure the delivery of its Proposal by the Submission Deadline and to the location specified in Section 4.2 of this Solicitation. Any and all Proposals delivered or submitted late or to any location other than the designated location shall be rejected as non-responsive.

- B. The submission of any Proposal by way of facsimile or e-mail is strictly prohibited; any and all Proposals submitted as such shall be rejected as non-responsive. The City assumes no responsibility for any delays and/or errors in the delivery of a Proposal; postmarking by the Submission Deadline shall not substitute for actual receipt. Any and all Proposals submitted not in compliance with any of the provisions of this paragraph shall be rejected as non-responsive.

**6.12. MODIFICATIONS TO PROPOSALS**

The Offeror may only modify its Proposal prior to the Submission Deadline and in accordance with and subject to the following:

- A. The City shall consider a modified Proposal as an entirely new Proposal and shall replace the original Proposal, which shall be deemed to be withdrawn and null and void.
- B. The modified Proposal shall be subject to all the requirements, specifications and terms and conditions set forth herein.
- C. Notwithstanding the provisions with respect to the submission of a Proposal herein, the modified Proposal shall clearly be labeled "Modified Proposal".

**6.13. OPTIONAL GOODS AND/OR SERVICES**

The City reserves the right to request and evaluate optional goods and/or services which may be in the best interests of the City, and to negotiate the price of such goods and/or services with the successful Offeror or with another Offeror, whichever is determined to be the most advantageous to the City. While pricing for optional goods and/or services may be requested in this Solicitation, the City is under no obligation to consider such optional goods and/or services when selecting the successful Offeror unless otherwise stated.

**6.14. SOLICITATION DOCUMENTS**

The Offeror is expected to carefully and thoroughly examine all of the Solicitation Documents for accuracy and completeness, and to become familiar with the same. If doubt exists as to the meaning and/or intent in or of any of the Solicitation Documents, the Offeror shall make an inquiry as to such meaning and/or intent. The failure of the Offeror to examine and become familiar with any and all of the Solicitation Documents shall in no way relieve the Offeror of its obligations under the Contract, if awarded to the Offeror. The submission of a Proposal shall be taken as prima facie evidence of compliance with this provision and that the Offeror fully understands everything in the Solicitation Documents.

**6.15. SOLICITATION PROTEST**

- A. Any protest of this Solicitation shall be in writing to the City Attorney. The provisions of COMAR Title 21.01.03.01A(7), State Procurement Regulations, do not apply to municipalities and are not applicable to this Solicitation. Protests of alleged improprieties in this Solicitation shall be filed prior to the Submission Deadline.
- B. Any written protest shall, at a minimum, include: (i) the name, address, telephone number, and if available, email address of the Person making the protest; (ii) the Solicitation number and a detailed statement of the legal and factual grounds for the protest, including a description of resulting harm to the Person making the protest; and (iii) any and all copies of supporting exhibits, evidence and/or documents to substantiate the claim.

**6.16. USE OF BROKER**

The Offeror warrants that no person or selling agency has been employed or retained to solicit or secure the Contract upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, except bona fide employees, or bona fide established commercial or selling agencies maintained by the Offeror for the purpose of securing business. For violation of this provision, the City shall have the right, in its sole discretion: (i) to terminate or suspend the Contract without liability to the City, its officials or employees; or (ii) to deduct from the Contract price or consideration, the full amount of such commission, percentage, brokerage, or contingent fee.

**6.17. ASSIGNMENT OF THE CONTRACT**

The City's rights under the Contract are personal to the Contractor. It is mutually understood and agreed that the Contractor shall not assign, convey, sublet, transfer or otherwise dispose of its Contract or its right, title or interest therein, or its power to execute the Contract, to any other person without the express written consent of the City; however, in no case shall such consent relieve the Contractor from its obligations under the Contract, or change the terms and conditions of the Contract.

**6.18. CHANGES IN GOODS AND/OR SERVICES**

The City, without invalidating the Contract, may order changes in the goods and/or Services within the general scope of the Contract, consisting of additions, deletions and/or other revisions, and the Contract sum and term shall be adjusted accordingly. Any cost or credit to the City from a change in Services shall be determined by mutual written agreement between the City and the Contractor. The Contractor shall provide all of the goods and services that may be required to complete the Contract at the price agreed upon. Any alterations of variables to the terms of the Contract shall not be valid or binding upon the City unless made in writing and signed by the City and the Contractor.

**6.19. CONTRACT DISPUTES**

Any and all disputes arising under the Contract, except under the provisions for termination, which are not disposed of by agreement between the City and the Contractor, shall be decided under procedures A-D listed below. Pending final resolution of a dispute, the Contractor shall proceed diligently with Contract performance. A claim must be in writing for a sum certain and any money requested must be fully supported by all cost and pricing information.

- A. All disputes, claims, questions of fact or interpretations of the documents of the Contract not disposed of by agreement or express provision of the Contract arising between the City and the Contractor after performance of the Contract has commenced but before final payment and termination of the Contract, are decided by the City Manager or designee ("City Manager").
- B. The City Manager must give the Contractor not less than three (3) working days to submit documentation and written reasons supporting the Contractor's position in the dispute. The City Manager may consider any other information or written submissions from City employees or agents and may conduct an informal, non-record hearing for receipt of testimony, evidence and/or argument. The City Attorney may participate in the hearings to protect the City's interest.

- C. The City Manager must render a decision, in writing, stating reasons for such decision and provide copies to the Contractor and the City Attorney. If the decision is mailed to the Contractor, it must be mailed "certified" and dated the date of mailing; otherwise, it must be dated the date of delivery to the Contractor.
- D. The City Manager's decision may be submitted to Binding Arbitration by either Party under the auspices of an arbitrator appointed by the American Arbitration Association.

**6.20. DISSEMINATION OF DATA**

The Contractor shall not release any information related to the Services under the Contract or publish any reports or documents related to the same without the prior written approval of the City. The Contractor shall include a similar provision in all subcontracts.

**6.21. EMPLOYMENT AS INDEPENDENT CONTRACTOR**

The City and the Contractor recognize and agree: (i) that the Contractor shall act as an independent Contractor to the City; (ii) that the Contract does not create any actual or apparent agency, partnership, franchise, or relationship of employer and employee between the parties; (iii) that neither party shall be entitled to participate in any of the other party's benefits, including without limitation, any health or retirement plans; (iv) that the Contractor shall not be entitled to any remuneration, benefits, or expenses other than as specifically provided for in the Contract; and (v) that the City shall not be liable for any insurance, taxes, or withholding for or on behalf of the Contractor; all such insurance, taxes or withholding, and costs for same, shall be the sole responsibility of the Contractor.

**6.22. ETHICS LAWS AND REQUIREMENTS**

The Contractor shall comply with the financial disclosure and conflict of interest and lobbying provisions of the City's ethics laws, which may be found on the City's website at: <http://www.gaithersburgmd.gov/government/city-code>.

**6.23. FORCE MAJEURE**

The City and the Contractor acknowledge and agree that either party hereto will be relieved of its obligations hereunder in the event and to the extent that the performance of its obligations under the Contract is delayed or prevented by any cause beyond its control, including, without limitation, acts of God, public enemies, war, insurrection, acts or orders of governmental authorities, fire, flood, explosion, or riots ("Force Majeure"). Failure to receive necessary materials and supplies will not excuse performance hereunder unless such failure is itself due to an event of Force Majeure. A party obtaining relief under this provision shall make every reasonable effort to minimize the effects thereof and will promptly resume performance as soon as possible.

**6.24. GOVERNING LAW**

The Contract shall be construed in accordance with the laws and regulations of the Federal Government, State of Maryland, and the City. For purposes of litigation involving the Contract, exclusive venue and jurisdiction shall be in the Circuit Court of Maryland for Montgomery County, District Court of Maryland for Montgomery County or the United States District Court of Maryland.

**6.25. IMMIGRATION REFORM AND CONTROL ACT**

The Contractor shall warrant that it does not and shall not hire, recruit or refer for a fee for employment under the Contract, an alien, knowing the alien is an unauthorized alien, and hire any individual without complying with the requirements of the Immigration Reform and Control Act of 1986 ("Act"), including but not limited to any verification and record keeping requirements. The Contractor shall further assure the City that, in accordance with the Act, it does not and will not discriminate against an individual with respect to hiring, or recruitment or referral for a fee, of the individual for employment or the discharging of the individual from employment because of such individual's national origin or in the case of a citizen or intending citizen, because of such individual's citizenship status.

**6.26. INCONSISTENT PROVISIONS**

- A. Notwithstanding any provisions to the contrary in the terms and conditions of any contract supplied by the Contractor, the conditions of this Solicitation and the Contract supersede those terms and conditions in the event of inconsistency.
- B. In the event of any inconsistency between any of the provisions of this Solicitation and any of the provisions of the Contract, the provisions of the Contract shall take precedence over and supersede those provisions in the event of any inconsistency.

**6.27. INDEMNIFICATION**

The Contractor shall indemnify and hold harmless the City, its officials, employees and agents from the following:

- A. Any and all direct or indirect damages, costs, claims, actions, suits, judgments or liens resulting from the negligent act or commission or omission of the Contractor, its employees, agents or subcontractors; and
- B. Any and all direct or indirect costs, claims, actions, suits, judgments or liens for damages resulting from the Contract arising from the negligence or omission of the Contractor, its employees, agents or subcontractors. The Contractor shall, upon completion of the Services, provide the City with a Release of Liens from any subcontractor, supplier, material, or other supplier of goods and services to the project.

**6.28. LAWS AND REGULATIONS**

The Contractor shall comply with any and all applicable federal, state and local laws, codes and regulations with respect to the Services under the Contract.

**6.29. NO LIENS**

The Contractor shall have no title or interest in any of the goods delivered to the City under the Contract. In no event shall the Contractor encumber any such goods delivered to the City with any lien of any kind or offer such goods as collateral in any transaction whatsoever.

**6.30. NO WAIVER**

Except as otherwise specifically provided in the Contract, a waiver by either party to the Contract of any breach of any provision of the Contract, or either party's decision not to invoke or enforce any right under the Contract, shall not be deemed a waiver of any right or subsequent breach, and all provisions of the Contract shall remain in force.

**6.31. NON-DISCRIMINATION REQUIREMENTS**

- A. The Contractor acknowledges and agrees that during the term of the Contract it shall:
- I. Not discriminate against any employee or applicant for employment because of gender preference, race, color, creed, religion, ancestry, sex, sexual orientation, national origin, affection preference, disability, age, marital status or status with regard to public assistance or as a disabled veteran or veteran of the Vietnam era.
  - II. Take affirmative action to ensure that applicants and employees are treated without regard to their race, color, creed, religion, ancestry, sex, sexual orientation, national origin, affection preference, gender preference, disability, age, marital status or status with regard to public assistance or as a disabled veteran or veteran of the Vietnam era. Such action shall include but not be limited to the following: employment, upgrade, demotion or transfer; recruitment or recruitment advertising, layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship.
  - III. In all solicitations for employees, state that all qualified applicants will receive consideration for employment without regard to race, color, creed, religion, ancestry, sex, sexual orientation, national origin, affection preference, gender preference, disability, age, marital status or status with regard to public assistance or as a disabled veteran or veteran of the Vietnam era. The Contractor agrees to use clauses similar to those above in all contracts and subcontracts. In the event the Contractor fails to comply with the nondiscrimination clauses of the Contract, or fails to include such provisions in all contracts and subcontracts, as hereinabove provided, the Contract may at the sole discretion of the City be declared void AB INITIO, canceled, terminated or suspended in whole or in part with waiver of any recourse by the Contractor against the City or its officials or employees, and the Contractor may be declared ineligible for further contracts with the City.
- B. Any employee, applicant for employment, or prospective employee with information concerning any breach of these requirements may communicate such information to City Manager who shall commence a prompt investigation of the alleged violation. Pursuant to such investigation, the Contractor shall permit access to their books, records and accounts. In the event the City Manager concludes, on the basis of such investigation, that the Contractor has failed to comply with these nondiscrimination clauses, the City Manager may invoke the remedies hereinabove set out.

**6.32. OWNERSHIP OF MATERIALS**

All documents, materials and/or data developed as a result of the Contract shall be the property of the City. The City shall have the right to use and reproduce any documents, materials and/or data used in the performance of, or developed as a result of, the Contract. The City may use such documents, materials and/or data for its own purposes, including reporting to state and federal agencies. The Contractor warrants that it has title to or right of use of all documents, materials and data used and/or developed in connection with the Contract.

**6.33. NONEXCLUSIVE**

Nothing in the Contract shall be deemed to act as a bar to the City's solicitation or purchasing of equipment, goods or services from any other company or entity.

**6.34. PATENTS**

- A. Whenever any article, material, appliance, process composition, means or things called for by the specifications ("Materials") under this Solicitation is covered by Letters of Patent, the Contractor shall secure, prior to using or employing such Materials, the assent in writing of the owner or licensee of such Letters of Patent and file the same with the City.
- B. The Contractor shall defend, at its own expense, and pay the cost and damages awarded in any action brought against the City based on an allegation that the Materials provided by the Contractor infringe on any patent, copyright, license or trade secret. In the event that an injunction shall be obtained against the City's use of the Materials by reason of infringement of any patent, copyright, license or trade secret, the Contractor shall, at its own expense, procure for the City the right to continue using the Materials or replace or modify the same so that it becomes non-infringing.

**6.35. PAYMENT TERMS, TAXES AND INVOICES**

The City shall only pay original proper invoices issued in accordance with the following:

**A. Payment Terms**

The City's standard terms of payment are net thirty (30) days; however, this does not preclude the Contractor from providing a prompt payment discount for the payment of invoices in less than thirty (30) days. Payments considered past-due may be subject to incurred interest not to exceed one percent (1%) per month.

**B. Taxes**

The City is exempt from sales and use taxes. The Contractor shall exclude such taxes from all forms of requests for payments issued to the City; the City shall not be liable for or pay or reimburse the Contractor for any such taxes. A copy of the City's Sales and Use Tax Exemption Certificate is provided below.



**C. Invoices**

Original invoices shall include at a minimum, the Contractor's name, address, telephone and fax numbers, and if applicable, email address and corresponding purchase order number. Invoices shall be submitted to: City of Gaithersburg, Accounts Payable Division, 31 South Summit Avenue, Gaithersburg, Maryland 20877.

**6.36. RECORDS VERIFICATION AND AUDITS**

- A. The Contractor certifies its accounting system conforms to Generally Accepted Accounting Principles (GAAP) and is sufficient to comply with its budgetary and financial obligations under the Contract.
- B. The Contractor and all subcontractors must maintain for a period of five years, books, records, documents, and other evidence directly pertinent to the performance of work under the Contract (hereinafter referred to as "Audit Documentation"), in accordance with appropriate accounting procedures and generally accepted government auditing standards. The Contractor must make Audit Documentation available, upon written request, in a timely manner to other auditors or reviewers in accordance with generally accepted government auditing standards. At the City's request, the Contractor must provide proper facilities within its offices during normal business hours, for purposes of making audit documentation available to such other auditors or reviewers.

**6.37. SUBCONTRACTORS**

The Contractor acknowledges and agrees: that if it shall be necessary to hire or subcontract with competent personnel to fulfill its obligations under the Contract, it shall do so at its own expense; and to ensure that any and all work assigned to any subcontractor shall be performed in compliance with all of the terms and conditions of the Contract. Nothing contained in the Contract shall create any contractual relation between any subcontractor and the City.

**6.38. SURVIVAL**

The representations, warranties and indemnities contained herein shall survive the termination of the Contract.

**6.39. TERMINATION**

**A. Termination for Cause**

- I. If through any cause, the Contractor fails to fulfill in a timely and proper manner its obligations under the Contract, or if the Contractor violates any of the provisions of the Contract, the City may upon written notice to the Contractor, terminate the right of the Contractor to proceed under the Contract or with such part or parts of the Contract to which there has been default, and may hold the Contractor liable for any damages caused the City by reason of such default and termination, if the default is not corrected within 15 days' notice to cure. In addition, the Contract may be terminated for the bankruptcy, dissolution, assignment for the benefit of creditors, or other similar action of the Contractor.
- II. In the event of such termination, any completed Services performed by the Contractor under the Contract shall, at the option of the City, become its property and the Contractor shall be entitled to receive equitable compensation for any work completed to the satisfaction of the City. The Contractor, however, shall not thereby be relieved of liability to the City for damages sustained by the City by reason of any breach of the Contract by the Contractor, and the City may withhold any payments to the Contractor for the purpose of setoff until such time as the amount of damages due the City from the Contractor is determined. The Contractor shall not be responsible for damages under this article solely for reasons of delay if the delay is due to causes beyond its control and without its fault or negligence, but this shall not prevent the City from terminating the Contract for such delay.

**B. Termination for Convenience**

- I. The City may, upon written notice and without cause, terminate the Contract in whole or in part at any time for its convenience. In such instance, payment shall be made to the Contractor for the reasonable costs of the work performed through the date of termination. Termination costs do not include lost profits, consequential damages, delay damages, unabsorbed or under-absorbed overhead of the Contractor or its subcontractors or suppliers. Failure of the Contractor to include a termination for convenience clause into its subcontracts and material purchase orders shall not result in any liability to the City for lost profits in conjunction with a termination for convenience.
- II. The Contractor expressly waives any damages, delay damages, or indirect costs which may arise from the City's election to terminate the Contract in whole or in part for its convenience.

**C. Termination for Non-Appropriation of Funds**

The City shall not be obligated to the Contract for any future fiscal year until funds are appropriated for each such future fiscal year. In the event funding appropriation is not approved, the City may, upon written notice, terminate the Contract in whole or in part and without penalty or expense to the City. The effect of such action shall terminate the Contract on the last day of the fiscal year for which appropriations were made.

~ END OF SECTION 6~

## **SECTION 7: Special Terms and Conditions**

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### **7.1. CONTRACT TERM**

The Contract shall be a standard two party Contract between the City and the Contractor. The term of the Contract shall commence on the date it is signed by the City Manager and shall continue in force until June 30, 2021.

### **7.2. CONTRACTOR PERSONNEL**

The Contractor shall utilize personnel listed in their Proposal; substitution of such personnel shall only be permitted with the prior written permission of the City.

### **7.3. INSURANCE**

- A. The Contractor shall, at all times during the term of the Contract, carry and maintain in full force and effect, at its expense, policies of insurance with minimum limits as follows:
  - I. Comprehensive commercial general liability insurance in an amount no less than one million dollars (\$1,000,000);
  - II. Professional liability insurance (errors and omissions) in an amount no less than one million dollars (\$1,000,000); and
  - III. Workers' compensation insurance for all non-City employees and workers in an amount not less than five hundred thousand dollars (\$500,000).
- B. The City shall be named as an additional insured under the comprehensive commercial general liability policy, and shall receive at least thirty (30) days written notice of any cancellation or adverse material change in that policy, such that any cancellation or adverse material change shall not be effective with respect to the City for thirty (30) days after such written notice is given.
- C. Prior to the execution of the Contract, the Contractor shall provide the City with a certificate of insurance, which shall: (i) evidence the above policies; (ii) name the City as additional insured with respect to the comprehensive commercial general liability insurance policy only; and (iii) contain a provision that requires the Contractor's insurers to provide the City with a written notice of any cancellation or adverse material change in the insurance and that such cancellation or adverse material change shall not be effective with respect to the City for thirty (30) days after such written notice is given.
- D. The Contractor acknowledges and agrees that its failure to provide the City with a certificate of insurance and/or the failure by the City to demand the delivery of said certificate shall not operate or be deemed to operate as a waiver of the insurance and associated endorsements required under this provision, and the Contractor shall hold the City harmless from any liability arising as a result of any such failure(s).

### **7.4. PAYMENTS**

Payments under the Contract shall be based on the Contractor's completion milestones, to be later established and agreed upon between the City and the Contractor, and following the receipt of undisputed proper invoices for the same, which are issued in accordance Section 6.35 of this Solicitation.

**7.5. QUALIFICATIONS OF OFFERORS**

- A. Notwithstanding any of the qualifications specified in any other section of this Solicitation, the Offeror shall meet the following minimum qualifications in order to be eligible to submit a Proposal in response to this Solicitation:
  - I. The Offeror shall have a minimum of eight (8) years' experience providing services similar to those under this Solicitation.
  - II. The Offeror shall be able to fulfill its obligations under the terms and conditions of this Solicitation and the Contract.
- B. Offerors may be required to furnish satisfactory evidence that they are qualified and regularly engaged in performing the Services for which they are submitting a Proposal and maintain a regularly established place of business. An authorized representative of the City may visit any Offeror's place of business or place where the Services are performed to determine ability, capacity, reliability, financial stability and other factors necessary to perform the Contract. If so requested, an Offeror may be required to submit information about its reputation, past performance, business and financial capability and other factors that demonstrate the Offeror is capable of satisfying the City's needs and requirements.

**~ END OF SECTION 7 ~**

## **SECTION 8: Background Information and Scope of Work**

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### **8.1. CITY PROFILE**

The City is among the largest cities in the State of Maryland with a population approximately 67,000, occupying just over 10 square miles within Montgomery County. The City provides many services including: police protection, licensing and permitting, building inspections, parks, recreation and cultural activities, street maintenance, recycling, stormwater, housing and community development and snow removal.

The City operates under a Council-Manager form of government. All services are directed within the following departments: Office of the City Manager; Community and Public Relations; Finance and Administration; Human Resources; Information Technology; Parks, Recreation and Culture; Public Works; Planning and Code Administration and Police.

### **8.2. REPORTING ENTITY**

For financial reporting purposes the reporting entity consists solely of the primary government which in FY15 included the following funds: General Fund, Capital Projects Fund, Non-Major Forest Conservation Fund, an OPEB Pension Trust Fund and a Private-Purpose Trust Fund.

The following additional funds are anticipated to be included in the City's reporting entity in future years: Stormwater Management Fund (Capital Projects), Adequate Public Facilities Fee Fund (Special Revenue), Gaithersburg Housing Assistance Loan Program Fund (Special Revenue), and Asset Replacement Fund (Capital Projects). The latter two funds may remain incorporated within the General Fund for financial reporting purposes.

The City has prepared a CAFR which has received GFOA's Certificate of Achievement for Excellence in Financial Reporting for the last 37 years. The following FY15 documents are attached hereto:

- Appendix A: CAFR
- Appendix B: Single Audit Report
- Appendix C: Report to the Mayor and City Council

The City anticipates it will continue to require a single audit on an annual basis, with the majority of federal funding coming from Community Development Block Grant funds.

The City adopts an annual budget for the General Fund which is adopted in accordance with GAAP, except for the inclusion of encumbrance accounting. All encumbrances open at year end are reported as expenditures when opened for budgetary purposes. The City's FY16 budget can be found in the lower right hand corner at the following website: <http://www.gaithersburgmd.gov/government/budget-and-strategic-planning>.

The City's budget received GFOA's Distinguished Budget Presentation Award for the past 14 years.

### **8.3. CITY STAFF**

The City is committed to quality financial reporting, maintaining adequate systems of internal control and proper stewardship of public funds. The Contractor's primary contacts at the City will be the Director of Finance and Administration and the Comptroller. The City's Finance Department includes three CPAs and is comprised of the following staff:

- Director of Finance and Administration
- Comptroller
- Chief Accountant
- Staff Accountant
- Payroll Coordinator
- Accounting Specialist
- Senior Accounting Technician
- Administrative Assistant
- Procurement Manager
- Housing and Community Development Chief
- Grants Administrator

#### **8.4. COMPUTERIZED SYSTEMS**

The City uses Munis as its general ledger accounting system, Kronos for timekeeping and ADP for payroll processing. Cash receipting is completed within two separate systems, Energov for permits and Class for parks, recreation and culture.

All accounts payable invoices are stored electronically within the Munis system. The Contractor will be provided inquiry access and basic instructions on utilizing the Munis system in order to review invoices.

#### **8.5. SCOPE OF WORK**

A. The Contractor shall perform the following Scope of Work for years ending June 30, 2016 through June 30, 2020:

**I. Financial Statement Audit:** The City requires an independent auditor to audit the City's Comprehensive Annual Financial Report as of and for the years ending June 30, 2016 through 2020. The basic financial statements are expected to include the governmental activities, each major fund and the remaining aggregate fund information and the respective changes in the budgetary comparison for the General Fund and any major Special Revenue Funds, if applicable. The Contractor must prepare an Independent Auditor's Report to express an opinion on the basic financial statements.

The audit should be completed 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.

**II. Single Audit:** As required by Federal OMB Uniform Grant Guidance, the Contractor will audit the City's report on federal awards, complete the data collection form and prepare Independent Auditor's Reports on the City's compliance and internal control over financial reporting based on an audit of financial statements in accordance with Government Auditing Standards, compliance with requirements applicable to each major program, internal control over compliance and schedule of expenditures of federal awards in accordance with OMB Uniform Grant Guidance, status of prior year findings and questioned costs and current year schedule of findings and questioned costs, if applicable.

**III. Maryland State Uniform Financial Report:** The Contractor will prepare the City's uniform financial report and transmit completed forms as required.

- B. In addition to the Scope of Work described above, for year ending June 30, 2016 only, the Contractor shall prepare: basic financial statements, including notes; required supplementary information; and supplementary information.

**8.6. CONTRACTOR DELIVERABLES AND TIMING**

- A. The Contractor must provide up to 25 bound, hard copies and one electronic copy of the following:
- Completed Comprehensive Annual Financial Report (CAFR)
  - Completed single audit report package, as described above
  - Management letter
- B. The Contractor shall prepare the Maryland State Uniform Financial Report electronically for filing by the City.
- C. The City's CAFR is required to be submitted to the State of Maryland no later than October 31, annually. The Contractor will be responsible for filing the City's CAFR with the State and providing documentary evidence of such filing prior to the deadline.

All deliverables identified under A, B and C above are required to be completed no later than October 25.

In order to meet the above deadlines the City anticipates being ready for final audit fieldwork beginning the second week in September. The City does not have a preference for preliminary fieldwork dates. All fieldwork dates should be proposed by the Contractor no later than April 1 each year and will need to coordinate with City vacation and conference schedules.

The partner on the audit engagement will present the auditor's report to the Mayor and Council on an annual basis. The City's governing body meets at regular sessions on the first and third Mondays of each month. The Contractor should be prepared to present at one of the meetings in November or December.

**8.7. CITY DELIVERABLES AND TIMING**

- A. All work papers requested at least three weeks in advance of preliminary and final fieldwork will be provided electronically to the Contractor upon arrival, excluding those which are maintained in paper format, such as cash receipts and certain payroll and bond files.
- B. For FY16 only, the City will prepare the introductory and statistical sections, and management's discussion and analysis within ten days of receiving the draft CAFR.
- C. For FY17 through FY20, the City will prepare all parts of the CAFR for audit no later than October 1.

~ END OF SECTION 8 ~

## **SECTION 9: Attachments and Appendixes**

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### **9.1. ATTACHMENT A**

The following forms are incorporated herein and attached hereto:

- ↳ Affidavit of Qualification to Propose
- ↳ Conflict of Interest Certification
- ↳ Litigation and Lien Information
- ↳ Offeror Reference Data Sheet
- ↳ Proposal Submission Certification

### **9.2. EXHIBITS**

The following documents are incorporated herein and attached hereto

- ↳ Exhibit A: CAFR
- ↳ Exhibit B: Single Audit Report
- ↳ Exhibit C: Mayor and Council Communications

**~ END OF SECTION 9 ~**

# **REQUEST FOR PROPOSALS**

**No. 2016-015**

**ANNUAL PROFESSIONAL AUDIT SERVICES**

**ATTACHMENT A**

**PROCUREMENT FORMS**



# City of Gaithersburg

## Addendum and Amendment Acknowledgment

Solicitation No. \_\_\_\_\_

Please complete this form in its entirety and include it with your Proposal.

Name of Entity: \_\_\_\_\_

Street Address: \_\_\_\_\_

City, State & Zip Code: \_\_\_\_\_, \_\_\_\_\_ \_\_\_\_\_

### **ADDENDUM/AMENDMENT ACKNOWLEDGMENT**

1.  Addendum /  Amendment No: \_\_\_\_\_ Date of Issuance: \_\_\_\_\_

2.  Addendum /  Amendment No: \_\_\_\_\_ Date of Issuance: \_\_\_\_\_

3.  Addendum /  Amendment No: \_\_\_\_\_ Date of Issuance: \_\_\_\_\_

4.  Addendum /  Amendment No: \_\_\_\_\_ Date of Issuance: \_\_\_\_\_

5.  Addendum /  Amendment No: \_\_\_\_\_ Date of Issuance: \_\_\_\_\_

I hereby acknowledge receipt of the addendum(s) and/or amendment(s) listed herein and attests that all requirements stated therein have been incorporated into my Proposal.

\_\_\_\_\_  
Signature Title Date

\_\_\_\_\_  
Printed Name



# City of Gaithersburg

## Affidavit of Qualification to Propose

Solicitation No. \_\_\_\_\_

Please complete this form in its entirety and include it with your Proposal. For the purpose of completing this form, "entity" means an individual, sole proprietor, partnership, corporation, limited liability corporation (LLC), company, or association.

\*Does not apply to individuals or sole proprietors - indicate with "N/A"

I HEREBY AFFIRM THAT:

1. I am the \_\_\_\_\_ and the duly authorized representative of the entity \_\_\_\_\_ and that I possess the legal authority to make this affidavit on behalf of myself and the entity for which I am acting.

\*2. The entity \_\_\_\_\_ is either a Maryland corporation or is a foreign corporation properly registered with the Maryland State Department of Assessments and Taxation, in compliance with the State of Maryland Code of Regulations, Title 21, State Procurement Regulations.

3. Except as described in Paragraph five (5) below, neither I nor the above entity, nor to the best of my knowledge, any of its officers, directors, or partners, or any of its employees directly involved in obtaining contracts with the State of Maryland or any municipality, county, bi-county, or multi-county agency, or subdivision of the State of Maryland have been convicted of, or have pleaded nolo contendere to a charge of, or have, during the course of an official investigation or other proceeding, admitted in writing or under oath, acts of omissions which constitute bribery, attempted bribery, or conspiracy to bribe, whether or not in furtherance of obtaining a contract with a public body, under the provisions Md. Code Ann., State Finance and Procurement Article, §16-202 (1995 Repl. Vol.) and Article 27 of the Annotated Code of Maryland or under the laws of any local, state or the federal government (conduct prior to July 2, 1977 is not required to be reported).

4. List any conviction, plea, or admission described in paragraph three (3) above, with the date, court, official, or administrative body; the individuals involved and their position with the entity; and the sentence or disposition, if any. Otherwise, state "none" as appropriate.

5. Neither I nor the above entity, nor to the best of my knowledge an officer, partner, controlling stockholder or principal of the Offeror, or any other person substantially involved in the Offeror's contracting activities has: (1) been convicted under the laws of the State of Maryland, another state or the United States of: (i) a criminal offense incident to obtaining, attempting to obtain, or performing a public or private contract, except as provided in Section 16-202 of the State Finance and Procurement Article of the Annotated Code of Maryland; or (ii) fraud, embezzlement, theft, forgery, falsification or destruction of records, or receiving stolen property; (2) been convicted of a criminal violation of an antitrust statute of the State of Maryland, another state or the United States; (3) been convicted of a violation of the Racketeer Influenced and Corrupt Organization Act, or the Mail Fraud Act, for acts in connection with the submission of proposals for public or private contracts; (4) been convicted of a violation of Section 14-308 of the State Finance and Procurement Article of the Annotated Code of Maryland; (5) been convicted of a conspiracy to private contract; (4) been convicted of a

**Affidavit of Qualification to Propose**

---

violation of Section 14-308 of the State Finance and Procurement Article of the Annotated Code of Maryland; (5) been convicted of a conspiracy to commit any act or omission that would constitute grounds for conviction under any of the laws or statutes described herein; (6) been found civilly liable under an antitrust statute of the State of Maryland, another state or the United States for acts or omissions in connection with the submission of proposals for public or private contracts.

6. Offeror hereby declares that this Proposal is made without any connection or collusion with any person, entity or corporation making a Proposal for the same work; that pursuant to this affidavit; that the attached specifications and any drawings referred to herein have been carefully examined and are understood; that careful examination has been made as is necessary to become informed as to the character and extent of the work required; and, that if this Proposal is accepted, this Offeror will contract to do, for the price stated in the Proposal, all of the work described in the specifications, drawings and contract conditions.

7. I acknowledge that this affidavit is to be furnished to the City Manager or designee for the City of Gaithersburg, Maryland. I further acknowledge that, if the representations set forth in this affidavit are not true and correct, the City of Gaithersburg may terminate any contract awarded and take any other appropriate action.

I do solemnly declare and affirm under the penalties of perjury that the contents of this affidavit are true and correct.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Witness

\_\_\_\_\_  
Date

**NOTARY ATTESTATION**

State of: \_\_\_\_\_

County of: \_\_\_\_\_

**I hereby certify that on this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_\_, before me the subscriber, a Notary Public in and for the State of \_\_\_\_\_ and County aforesaid, personally appeared \_\_\_\_\_, known to me to be the person whose name is subscribed to this instrument and acknowledged that same was executed for the purposes contained therein.**

**Witness my hand and Notarial seal:** \_\_\_\_\_

**My Commission expires:** \_\_\_\_\_

**Notary Public:** \_\_\_\_\_  
Printed Name



# City of Gaithersburg

## Conflict of Interest Certification

Solicitation No. \_\_\_\_\_

Please complete this form in its entirety and include it with your Proposal. For the purpose of completing this form, "entity" means an individual, sole proprietor, partnership, corporation, limited liability corporation (LLC), company, or association.

\*Does not apply to individuals or sole proprietors - indicate with "N/A"

Name of Entity: \_\_\_\_\_

\* Federal ID No: \_\_\_\_\_

Contact Person: \_\_\_\_\_

Street Address: \_\_\_\_\_

City, State & Zip Code: \_\_\_\_\_, \_\_\_\_\_ \_\_\_\_\_

Telephone Numbers: (P) \_\_\_\_\_ (F) \_\_\_\_\_

(P) \_\_\_\_\_ (C) \_\_\_\_\_

Email Address: \_\_\_\_\_

Email Address: \_\_\_\_\_

### **CONFLICT OF INTEREST CERTIFICATION**

I HEREBY CERTIFY, on behalf of \_\_\_\_\_ that no  
*Name of Entity*  
employee, agent or elected official of the City of Gaithersburg, or member of a commission, board or corporation controlled or appointed by the Mayor and Council of the City of Gaithersburg has received or has been promised directly or indirectly, any financial benefit by way of fee, commission, finder's fee, or in any other manner, remuneration directly or indirectly related to this contract. Upon request by the City Manager or designee, or other authorized agent, as a prerequisite to payment pursuant to the terms of a contract awarded pursuant to this Proposal submission, will furnish to the City, under oath, answers to any interrogatories and comply with any request to review documents related to a possible conflict of interest as herein embodied.

I HEREBY CERTIFY, on behalf of \_\_\_\_\_ that no  
*Name of Entity*  
employee or agent of \_\_\_\_\_ is a member, employee,  
*Name of Entity*  
or elected official of the City of Gaithersburg of any agency, commission, or board of the City of Gaithersburg or is the spouse or any other relative of any of the foregoing. If unable to so certify, the details of any such relationship with the City of Gaithersburg are as follows:

\_\_\_\_\_

**Conflict of Interest Certification**

---

---

---

I do solemnly declare and affirm under the penalties of perjury that the contents of this affidavit are true and correct.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Witness

\_\_\_\_\_  
Date

**NOTARY ATTESTATION**

State of: \_\_\_\_\_

County of: \_\_\_\_\_

**I hereby certify that on this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_\_, before me the subscriber, a Notary Public in and for the State of \_\_\_\_\_ and County aforesaid, personally appeared \_\_\_\_\_, known to me to be the person whose name is subscribed to this instrument and acknowledged that same was executed for the purposes contained therein.**

**Witness my hand and Notarial seal:** \_\_\_\_\_

**My Commission expires:** \_\_\_\_\_

**Notary Public:** \_\_\_\_\_  
Printed Name



# City of Gaithersburg

## Litigation and Lien Information

Solicitation No. \_\_\_\_\_

Please complete this form in its entirety and include it with your Proposal. For the purpose of completing this form, "entity" means an individual, sole proprietor, partnership, corporation, limited liability corporation (LLC), company, or association.

Name of Entity: \_\_\_\_\_

Street Address: \_\_\_\_\_

City, State & Zip Code: \_\_\_\_\_, \_\_\_\_\_ \_\_\_\_\_

Telephone Numbers: (P) \_\_\_\_\_ (F) \_\_\_\_\_

### **LITIGATION INFORMATION**

Is your entity currently involved in any litigation or had a litigation claim(s) within the previous twenty-four (24) month period?

Yes /  No

If yes, please provide a detailed list including case number, jurisdiction, status and brief summary of such litigation.

| <b><u>Case Number</u></b> | <b><u>Jurisdiction</u></b> | <b><u>Status</u></b> | <b><u>Summary</u></b> |
|---------------------------|----------------------------|----------------------|-----------------------|
| _____                     | _____                      | _____                | _____                 |
| _____                     | _____                      | _____                | _____                 |

### **LIENS**

Does your entity have any outstanding mechanics liens?

Yes /  No

If yes, please explain: \_\_\_\_\_

Does your entity have any outstanding tax liens?

Yes /  No:

If yes, please explain: \_\_\_\_\_

\_\_\_\_\_  
Signature Title Date

\_\_\_\_\_  
Printed Name



# City of Gaithersburg

## Proposal Submission Certification

Solicitation No. \_\_\_\_\_

Please complete this form in its entirety and include it with your Proposal. For the purpose of completing this form, "entity" means an individual, sole proprietor, partnership, corporation, limited liability corporation (LLC), company, or association.

Name of Entity: \_\_\_\_\_

Contact Person: \_\_\_\_\_

Street Address: \_\_\_\_\_

City, State & Zip Code: \_\_\_\_\_, \_\_\_\_\_ \_\_\_\_\_

Telephone Numbers: (P) \_\_\_\_\_ (F) \_\_\_\_\_

### **PROPOSAL SUBMISSION CERTIFICATION**

The response to Solicitation No. \_\_\_\_\_ as submitted includes this Proposal Submission Certification Form and the Affidavit of Qualification to Propose Form, Conflict of Interest Certification Form, and Litigation and Lien Information Form. I, the undersigned, hereby attest to the truth and completeness of the information and responses provided and certify that my entity has met the minimum selection criteria as outlined in the Solicitation document.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Witness

\_\_\_\_\_  
Date

### **NOTARY ATTESTATION**

State of: \_\_\_\_\_

County of: \_\_\_\_\_

**I hereby certify that on this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_\_, before me the subscriber, a Notary Public in and for the State of \_\_\_\_\_ and County aforesaid, personally appeared \_\_\_\_\_, known to me to be the person whose name is subscribed to this instrument and acknowledged that same was executed for the purposes contained therein.**

**Witness my hand and Notarial seal:** \_\_\_\_\_

**My Commission expires:** \_\_\_\_\_

**Notary Public:** \_\_\_\_\_

Printed Name

**REQUEST FOR PROPOSALS**

**No.2016-015**

**ANNUAL PROFESSIONAL AUDIT SERVICES**

**EXHIBIT A**

**FY15 COMPREHENSIVE  
ANNUAL FINANCIAL REPORT**

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



**For the Fiscal Year Ended  
June 30, 2015**

**FY 2015**







*Gaithersburg*

**City of Gaithersburg,  
Maryland**

**Comprehensive Annual Financial Report**

Including Independent Auditors' Report

For the Fiscal Year Ended  
June 30, 2015

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





**City Hall Concert Pavilion**



October 30, 2015

To the Mayor and City Council and  
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, 2015.

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 audited by RSM US LLP, a firm of licensed certified public accountants. RSM US LLP has issued an unmodified opinion on the City of Gaithersburg's financial statements for the year ended June 30, 2015. 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.

City of Gaithersburg • 31 South Summit Avenue, Gaithersburg, Maryland 20877-2038  
301-258-6300 • FAX 301-948-6149 • TTY 301-258-6430 • [cityhall@gaithersburgmd.gov](mailto:cityhall@gaithersburgmd.gov) • [www.gaithersburgmd.gov](http://www.gaithersburgmd.gov)

MAYOR  
Jud Ashman

COUNCIL MEMBERS  
Cathy Drzyzgula  
Neil Harris  
Henry F. Marraffa, Jr.  
Michael A. Sesma  
Ryan Spiegel

CITY MANAGER  
Tony Tomasello

The City occupies just over 10 square miles and according to the 2014 U.S. Census Bureau estimates has a population of 66,813. 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 which is 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 more than 23% of residents have graduate or professional degrees. Labor market participation is high with estimated employment above 35,600. As of August 2015, the average year-to-date unemployment rate was 4.6%, well below the Maryland average of 5.1% for the same period.

The commercial real estate market, controlled by a wide and diverse array of property owners that ranges from Real Estate Investment Trusts to local partnerships, provides businesses with competitive choices in the location selection process. Stable and/or growing major employers include MedImmune (Biologics Research & Development – Headquarters), Lockheed Martin (Information Systems – Defense), Asbury Methodist Village (Continuing Care Retirement Community), and Sodexo (Food & Facilities Management – Headquarters). Eleven (11) Federal Government research and regulatory agencies are within a 10-mile radius of the City, including the National Institute of Standards & Technology at the center of Gaithersburg, and create an environment that stimulates entrepreneurial activity.

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

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

## **MAJOR INITIATIVES**

In preparing the Fiscal Year 2015 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 2015:

- Executed a contract to acquire a site for the new police station
- Completed renovation of Gaithersburg Aquatic Center
- Awarded contract and began construction of Constitution Gardens Park featuring a new “nature play” space
- Constructed a synthetic turf field at Lakelands Park and designed a synthetic turf field for Robertson Park #3
- Implemented revised rate structure for the Water Quality Protection/Stormwater Management program
- Deployed web-based GIS information tools for use by the public
- Created dedicated Economic development website and related marketing materials
- Completed and received HUD approval of Analysis of Impediments to Fair Housing

## **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, 2014. 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 37 consecutive years (Fiscal Years 1978-2014). We believe our current report continues to conform to Certificate of Achievement Program requirements and we are submitting it to the Government Finance Officers Association of the United States and Canada for review.

To the Mayor and City Council  
To the Residents of the City of Gaithersburg, Maryland  
October 30, 2015  
Page 4 of 4

### **DISTINGUISHED BUDGET PRESENTATION**

GFOA presented an award of Distinguished Presentation to the City of Gaithersburg for its annual budget for the Fiscal Year beginning July 1, 2015. 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 thirteenth consecutive year (Fiscal Years 2003-2015). It is our belief the current budget continues to conform to program requirements and we have submitted it to GFOA to determine its eligibility for another award.

### **ACKNOWLEDGMENTS**

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

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

Respectfully submitted,



Tony Tomasello  
City Manager



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



Government Finance Officers Association

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

Presented to

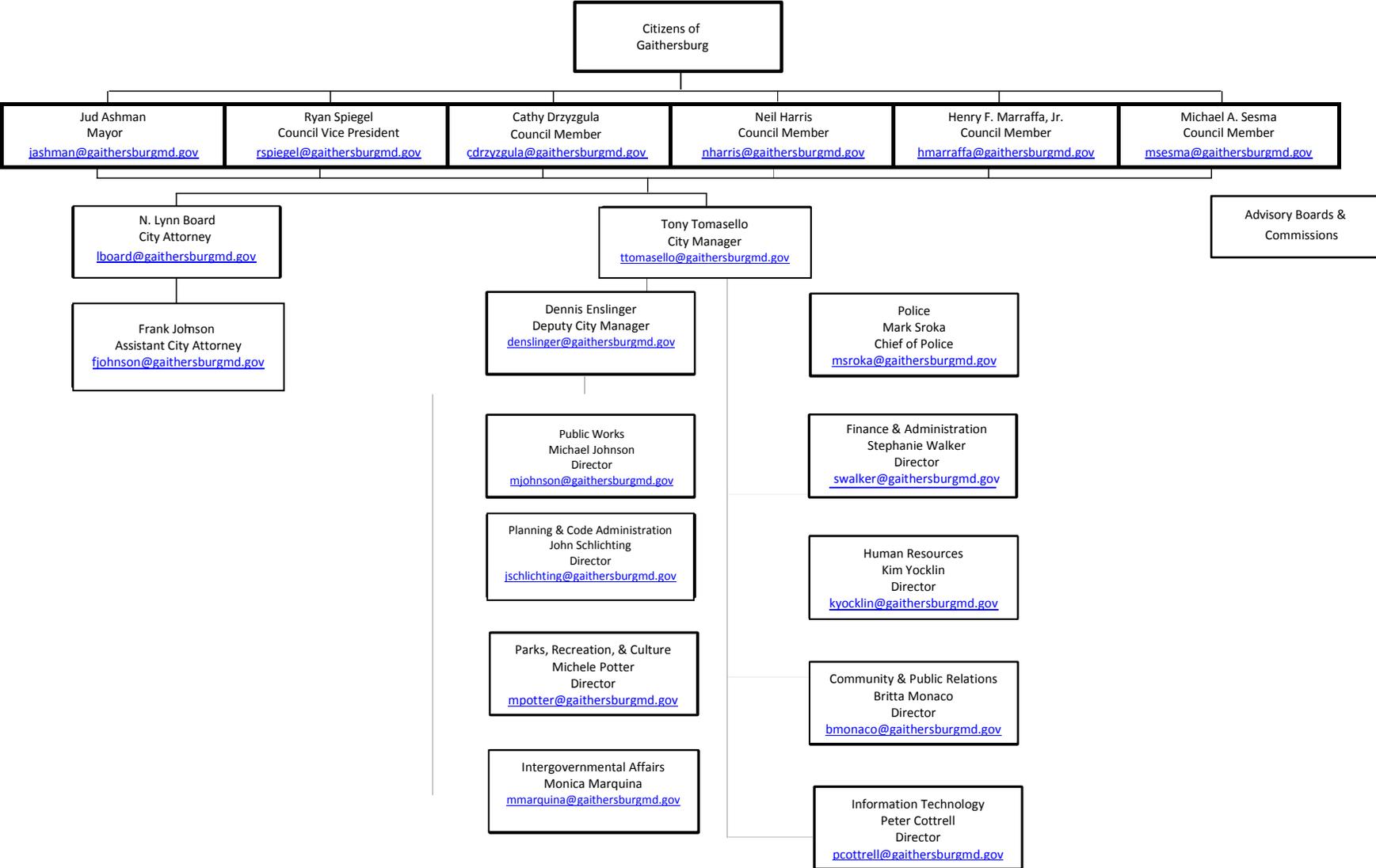
**City of Gaithersburg  
Maryland**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2014**

Executive Director/CEO

# City of Gaithersburg, Maryland



## City of Gaithersburg, Maryland

### Directory of City Officials

#### Title

Mayor  
City Council

City Manager  
Deputy City Manager

City Attorney

#### Department Directors

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

#### Department of Finance and Administration

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

#### Name

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

Tony Tomasello  
Dennis Enslinger

N. Lynn Board

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

Betty Woods  
Brittan Saravia  
Ling Yan Angela Woo, CPA  
Tina Hao Smith, CPA  
Lauren Sukal  
Louise Kauffmann  
Tammy De Andrade  
Wesley Rhodes  
Sherry Lewis



# Financial Section





**Artificial Turf Field at Lakelands Park**



**Independent Auditor's Report**

RSM US LLP

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Gaithersburg, Maryland (the City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Gaithersburg, Maryland, as of June 30, 2015, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 15 to the basic financial statements, the 2014 financial statements have been restated for a change in the City's reporting entity and to correct several misstatements. Our opinion is not modified with respect to these matters.

**Other Matters****Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 10 through 22 and the Required Supplementary Information for the Postretirement Healthcare and Insurance Plan – Schedules of Funding Progress and Employer Contributions on page 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The individual fund financial statements and other schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

RSM US LLP

Frederick, Maryland  
October 30, 2015

## City of Gaithersburg, Maryland

### Management's Discussion and Analysis June 30, 2015

#### 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, 2015. 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 2015

- The City's government-wide net position increased by \$8.0 million.
- The General Fund, which is reported using a current financial resource basis, reported an excess of revenues over expenditures and other financing sources and uses of \$3.9 million after making an \$8.8 million transfer to the Capital Projects Fund.
- The City's financial position improved over the past year. Total governmental funds' fund balance increased by 6.9% to \$111.4 million.
- Capital Projects Fund expenditures of \$6.2 million included the Senior Center renovation, Lakelands soccer field synthetic turf upgrade, water park expansion, storm water management projects, street construction and resurfacing.

#### 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.

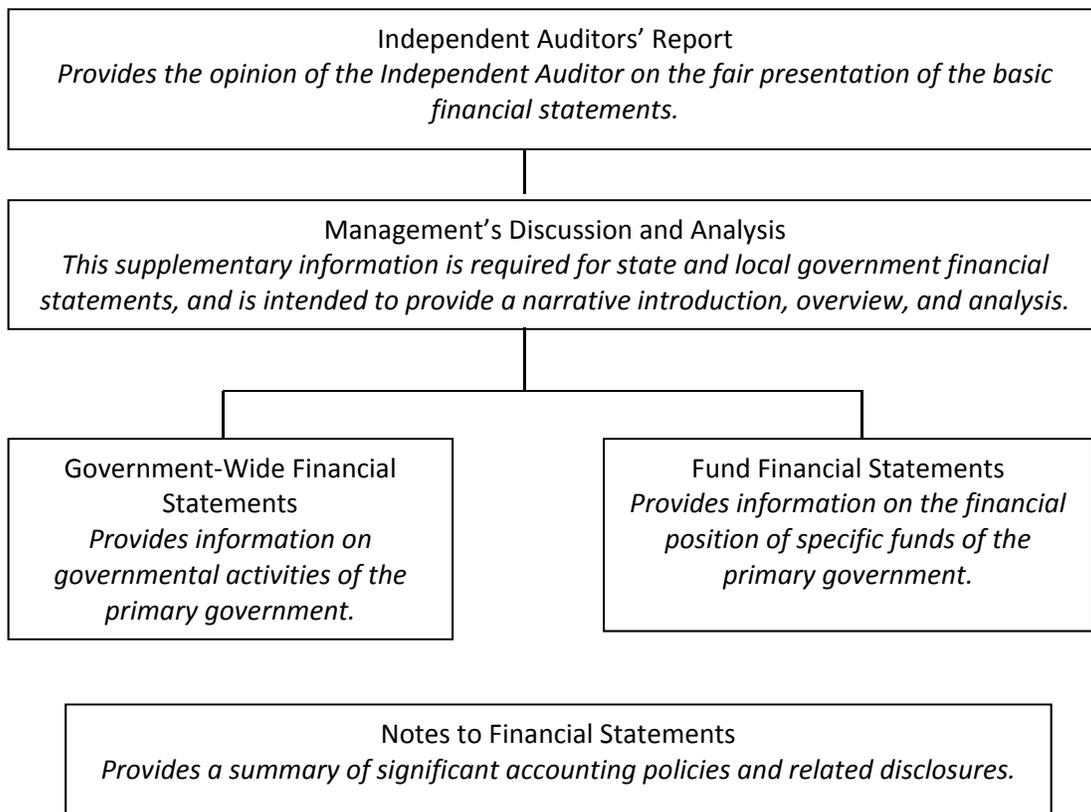
- The first two financial statements are called *government-wide financial statements*. These statements consist of a Statement of Net Position and a Statement of Activities. The Statement of Net Position can be thought of as being similar to a Balance Sheet and the Statement of Activities is similar 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.
  - ❑ *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.

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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**



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

|  | <b>Government-wide Statements</b>  | <b>Fund Financial Statements</b>   |   |
|--|--|--|---|
|  |  | <b>Governmental Funds</b>  | <b>Fiduciary Funds</b>  |
| 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"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul> | <ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>                                       | <ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</li> </ul> |
| 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

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#### 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 only three governmental funds, those being the General Fund, Capital Projects Fund, and a Non-major Forest Conservation Fund.

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- *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, 2015 with a FY 2014 comparative analysis:

**Figure 3 - Condensed Statement of Net Position**

| <u>Governmental Activities</u>   | <u>2015</u>           | As Restated<br><u>2014</u> | <u>Change</u>       | <u>% Chg</u>  |
|----------------------------------|-----------------------|----------------------------|---------------------|---------------|
| <b>Assets</b>                    |                       |                            |                     |               |
| Current and other assets         | \$ 118,050,340        | \$ 110,716,225             | \$ 7,334,115        | 6.62%         |
| Capital assets                   | <u>103,485,802</u>    | <u>101,260,797</u>         | <u>2,225,005</u>    | <u>2.20%</u>  |
| Total assets                     | <u>221,536,142</u>    | <u>211,977,022</u>         | <u>9,559,120</u>    | <u>4.51%</u>  |
| <b>Liabilities</b>               |                       |                            |                     |               |
| Long-term liabilities            | 17,695,244            | 16,023,153                 | 1,672,091           | 10.44%        |
| Other liabilities                | <u>4,175,299</u>      | <u>4,266,102</u>           | <u>(90,803)</u>     | <u>-2.13%</u> |
| Total liabilities                | <u>21,870,543</u>     | <u>20,289,255</u>          | <u>1,581,288</u>    | <u>7.79%</u>  |
| <b>Net position</b>              |                       |                            |                     |               |
| Net investment in capital assets | 103,485,802           | 101,260,797                | 2,225,005           | 2.20%         |
| Restricted                       | 1,241,199             | 505,251                    | 735,948             | 145.66%       |
| Unrestricted                     | <u>94,938,598</u>     | <u>89,921,719</u>          | <u>5,016,879</u>    | <u>5.58%</u>  |
| Total net position               | <u>\$ 199,665,599</u> | <u>\$ 191,687,767</u>      | <u>\$ 7,977,832</u> | <u>4.16%</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 \$7.3 million. This increase was due to an increase in cash during the year due to: budgetary savings within the General Fund of \$3.9 million, funding set aside for future capital projects of \$2.6 million and receipt of a large forest conservation fee of \$737,000 which was unexpected. The City does not issue long-term debt to finance capital projects, but rather saves up for future capital purchases. One of the more significant future projects that the City set funding aside for is a new police station.

## City of Gaithersburg, Maryland

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

Other liabilities include accounts payable, accrued payroll and related benefit liabilities, and deposits related to development work that will be refunded. There was no significant change in this category year over year.

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 not been spent that was received with a third party restriction on what the City can use it for. Full details of the City's restricted net position can be found within the notes to the financial statements, but larger restrictions include stream and infrastructure improvements, public safety activities and transportation projects. This category of net position increased from the previous year due to the receipt of forest conservation fee which can only be spent on forest conservation activities such as tree inventory, planting, tree replacement and tree canopy maintenance.

Unrestricted net position represents the remaining category of equity after net investment in capital assets and restricted net position have been calculated. This increased during the year as revenues exceeded expenses by \$8.0 million.

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 and earned but unused vacation leave). The table below summarizes the Statements of Activities for 2015 and 2014. Significant changes year over year are discussed following the table.

**City of Gaithersburg, Maryland**

**Management's Discussion and Analysis  
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**Figure 4 - Condensed Statement of Activities**

| Governmental Activities            | 2015                | 2014                | Change               | % Chg          |
|------------------------------------|---------------------|---------------------|----------------------|----------------|
| <b>Revenues</b>                    |                     |                     |                      |                |
| Program revenues                   |                     |                     |                      |                |
| Charges for services               | \$ 13,310,237       | \$ 12,053,950       | \$ 1,256,287         | 10.42%         |
| Operating grants and contributions | 922,928             | 1,184,147           | (261,219)            | -22.06%        |
| Capital grants and contributions   | 2,824,717           | 8,232,259           | (5,407,542)          | -65.69%        |
| General revenues:                  |                     |                     |                      |                |
| Property tax                       | 24,309,643          | 23,855,427          | 454,216              | 1.90%          |
| Franchise fees                     | 902,479             | 832,395             | 70,084               | 8.42%          |
| Admissions, amusement, hotel tax   | 2,293,951           | 2,429,703           | (135,752)            | -5.59%         |
| Intergovernmental, not restricted  | 12,780,222          | 12,099,303          | 680,919              | 5.63%          |
| Investment earnings                | 80,324              | 76,838              | 3,486                | 4.54%          |
| Other                              | <u>809,751</u>      | <u>1,568,660</u>    | <u>(758,909)</u>     | <u>-48.38%</u> |
| Total revenue                      | <u>58,234,252</u>   | <u>62,332,682</u>   | <u>(4,098,430)</u>   | <u>-6.58%</u>  |
| <b>Expenses</b>                    |                     |                     |                      |                |
| General government                 | 16,504,191          | 18,891,112          | (2,386,921)          | -12.64%        |
| Public safety                      | 12,562,415          | 11,654,483          | 907,932              | 7.79%          |
| Public works                       | 10,305,125          | 13,481,387          | (3,176,262)          | -23.56%        |
| Parks and recreation               | 8,325,520           | 6,880,851           | 1,444,669            | 21.00%         |
| Community services and development | <u>2,559,169</u>    | <u>2,260,865</u>    | <u>298,304</u>       | <u>13.19%</u>  |
| Total expenses                     | <u>50,256,420</u>   | <u>53,168,698</u>   | <u>(2,912,278)</u>   | <u>-5.48%</u>  |
| Change in net position             | <u>\$ 7,977,832</u> | <u>\$ 9,163,984</u> | <u>\$(1,186,152)</u> | <u>-12.94%</u> |

**Revenues**

Charges for services are the City's second largest revenue category after taxes. Some of the larger charges for services 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 primarily increased in 2015 due to the receipt of a large forest conservation fee (\$737,000) and an increase in aquatic center fees with the reopening of the aquatic center (\$156,000).

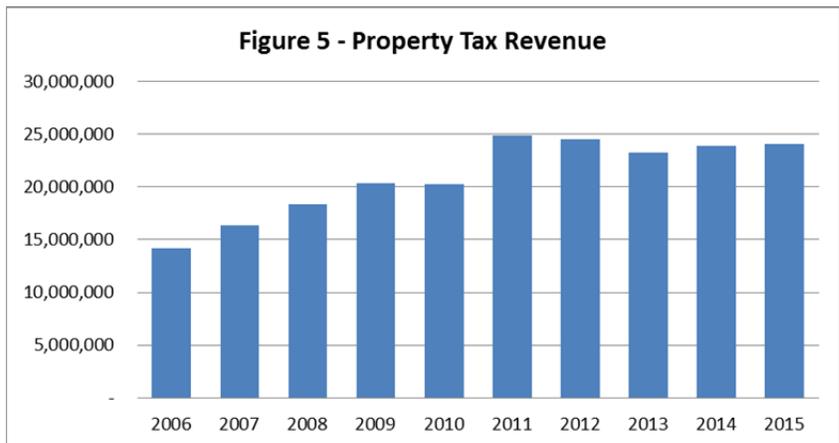
Operating grants and contributions largely includes grants such as the State police grant, a federal grant for housing and several smaller grants for homeless programs and nutrition. In 2014 the City received a large grant for open space which had been categorized as operating which was not received in 2015.

Capital grants and contributions by their nature tend to fluctuate on an annual basis. In 2014 the City received a large grant for a transportation project of \$1.0 million, and received two capital asset contributions totaling \$5.9 million. These were not repeated in 2015. This was offset by new grants for the installation of synthetic turf of \$720,000. 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.

## City of Gaithersburg, Maryland

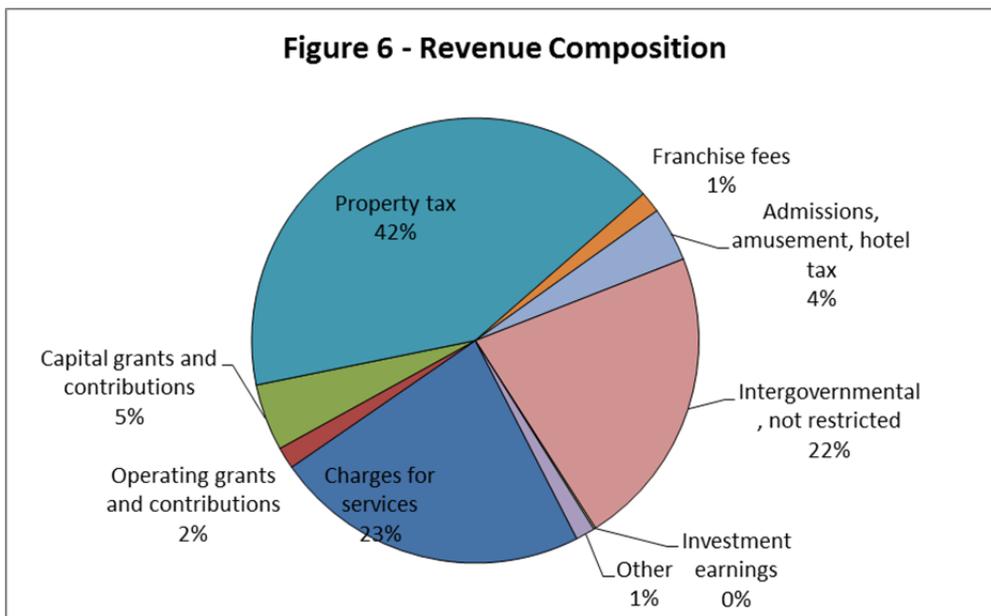
### Management's Discussion and Analysis June 30, 2015

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 right 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 increased in 2015 due to an increase in income taxes received, as the City's population and income levels have increased.

Other revenues in 2014 included a \$1.0 million payment on an old development agreement for the Park Station Apartments project, which was a one-time revenue and was not received again in 2015. The chart below shows the composition of the City's revenue by sources. Other than the significant changes discussed above the overall composition of the City's revenue has remained similar to 2014.



## City of Gaithersburg, Maryland

### Management's Discussion and Analysis June 30, 2015

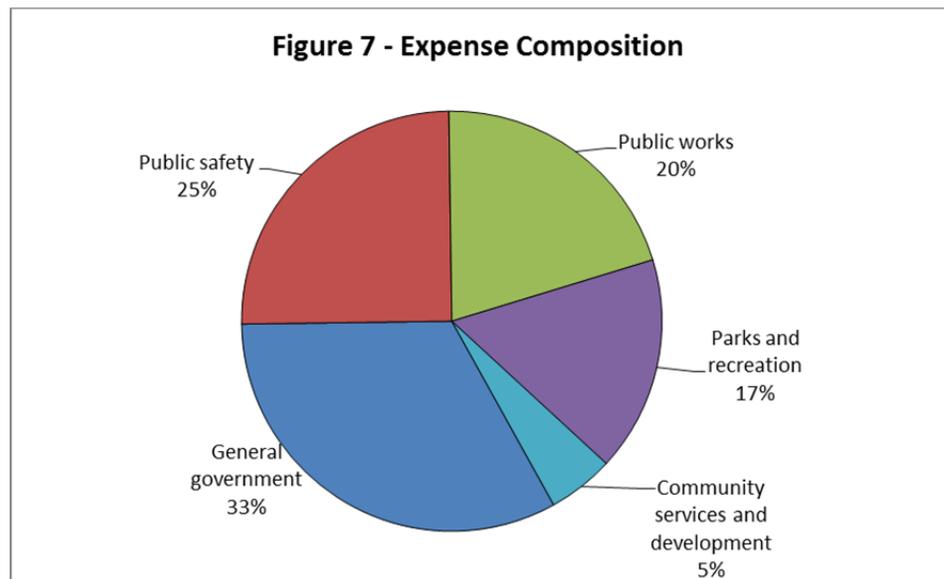
#### Expenses

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 decreased by \$2.4 million mainly due to a change in how other post employment benefits (OPEB) are allocated to functions. In 2014 these expenses (\$3.5 million) were all allocated solely to the general government function. In 2015 these benefits were allocated to all functions based on salary allocations and only \$852,000 was allocated to general government. The City believes this is a more reasonable basis for allocating these expenses.

The public safety function includes police services, building and code enforcement, and traffic and animal control costs. This function increased from 2014 primarily due to the change in allocation method of OPEB costs. In 2015, \$970,000 was allocated to the public safety function, \$0 was allocated in 2014.

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. This function decreased by \$3.2 million. Primarily this was because there was a change of \$4.3 million in the adjustment for capital related costs that were not capitalized between the two years. This was offset by the allocation of OPEB costs to this function of \$569,000 and an increase in depreciation of \$637,000 due to capital asset additions in 2015.

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 increased from 2014 by \$1.4 million. Approximately \$385,000 of this increase was related to the OPEB allocation. Depreciation was higher in FY15 by approximately \$161,000 due to the renovation of the senior center and the new synthetic turf fields which increased the capital assets attributed to this function. The City also saw an increase in these expenses due to the reopening of the Gaithersburg Aquatic Center which had been closed in 2014. The chart to the right shows the composition of expenses by function.

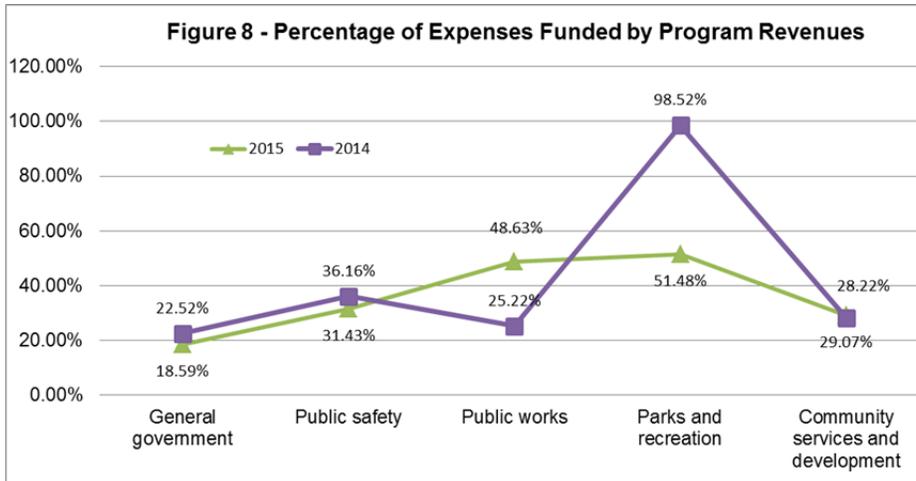


**City of Gaithersburg, Maryland**

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**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.



In 2014 the City received a parcel of land to be used as a park. For accounting purposes, this is shown as a capital grant. That one-time donation of \$2.5 million artificially increased the Parks and recreation funded level shown in 2014 to 98%. The 48% funded level shown for 2015 is more consistent measure of funding level when considering funds from operations.

**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 \$111.4 million; an increase of \$7.2 million over last year’s ending fund balance.

General Fund (Governmental): The general fund had less expenditures than revenues in 2015, thereby increasing total fund balance to \$78.1 million. It is important to note that the net change in fund balance is \$3.9 million. This figure is calculated on the modified accrual basis and is slightly different from the \$4.2 million budgetary basis surplus. This difference is due to the treatment of prior and current year encumbrances.

Capital Projects Fund (Governmental): The Capital Projects Fund showed an increase in fund balance of \$2.6 million as the City set aside funding for future construction of a police station. Capital Projects Funds’ total fund balance of \$32.6 million primarily represents authorized and funded projects that are not complete.

**General Fund Budgetary Highlights**

In accordance with a Resolution of the Mayor and City Council, the City Manager is authorized to make transfers only after May 31<sup>st</sup> 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.

## City of Gaithersburg, Maryland

### Management's Discussion and Analysis

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#### Revenues

Overall the City's General Fund took in \$4.1 million more in revenue than was budgeted. 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 2015 budget is more closely aligned to the 2013 actual results. The City has been fortunate in experiencing significant growth in several revenue areas during 2014 and 2015, which resulted in revenues exceeding budget in the following areas:

- Building permits came in more than budgeted by \$421,000. Due to the recent economic downturn, the City has been budgeting growth at lower levels than we have been expecting.
- Cable franchise fees continue to grow at an unexpectedly high rate, with an 8% increase in 2015, 8% in 2014, and 12% in 2013. Due to the pace of this increase the revenue budget has not kept pace with the actual increases. As a result cable franchise fees were \$159,000 higher than budgeted.
- The City received several grants which had not been included within the budget, one for the synthetic turf fields of \$720,000, one for the senior center of \$200,000 and one for water park renovations of \$205,000. These grants were instrumental in supporting the City's capital projects.
- Income taxes also exceeded the City's budgeted expectations coming in \$878,000 above the amount budgeted. While the City only experienced a 2% increase in income taxes in 2015, the 2014 growth was very strong at 10%.
- The Gaithersburg water park has also experienced significant growth in the last several years with increases of 35% in 2012, 21% in 2013 and 16% in 2014. The 2015 revenue dipped slightly 3% from 2014 to end \$157,000 above budget.
- The City also received several payments during the year which were unbudgeted such as the return of the unvested retirement payments for employee's leaving service of \$134,000.

#### Expenditures

For 2015 the City's General Fund came in \$6.0 million or 12% 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. The City is reviewing its budgeting practices to reduce the differences between the budget and actual results.

The City budgets 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 2015 was \$2.3 million. As a further budgetary control, the City's practices have not been to allow departments to reallocate this saving into operational purchases. Some of the other significant differences between budget and actual are identified below:

- The housing and community development activity came in under budget by \$649,000. 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 2015 were \$774,000.

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- Within the non-department activities:
  - The City receives revenue from photo radar fines, of which approximately 42% is provided to an administration company who handles all billing and collection activities. The expenditure budget was not updated when the revenue was decreased, resulting in the expenditure budget being set at 56% of the revenue. This resulted in the budget being underspent by \$338,000.
  - In 2015 the City budgeted \$400,000 for economic development grants. The City only provides these grants when they are needed to incentivize development for certain projects. During 2015 only one grant was encumbered for \$100,000. The unspent amounts are set aside as assigned fund balance for this purpose in future years.
- Since the City does not issue long-term debt the General fund's annual budget includes funding for the replacement of equipment, vehicles and smaller capital purchases. These funds are intended to be set aside until the asset needs to be replaced in future years. In 2015 the City budgeted \$1.4 million for new equipment and replacement funding. During 2015 \$921,000 was used to purchase new or replacement equipment, resulting in a budgetary set aside of \$458,000.

**Capital Asset and Debt Administration**

**Capital Assets**

By the end of the year, the City had invested \$103.5 million (net of depreciation) in a broad range of capital assets, including buildings, athletic facilities, computers, and vehicles and equipment. Total depreciation expense for the year was \$4.3 million, while additions to buildings, infrastructure, improvements, and equipment and furniture amounted to \$7.7 million. More detailed information about capital assets can be found in Note 7 to the basic financial statements.

**Figure 9 - Capital Assets (Net of Depreciation)**

| <u>Governmental Activities</u>    | <u>2015</u>           | <u>2014</u>           |
|-----------------------------------|-----------------------|-----------------------|
| Land                              | \$ 42,320,205         | \$ 42,371,250         |
| Buildings                         | 20,975,875            | 20,600,150            |
| Improvements other than buildings | 5,768,525             | 3,906,754             |
| Machinery and equipment           | 2,876,359             | 2,937,317             |
| Infrastructure                    | 30,267,326            | 29,097,235            |
| Construction in progress          | <u>1,277,512</u>      | <u>2,348,091</u>      |
| Total capital assets, net         | <u>\$ 103,485,802</u> | <u>\$ 101,260,797</u> |

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

- The grass soccer fields at Lakelands Park were replaced with synthetic turf. This project will substantially increase the availability of the fields;
- The City's Senior Center was renovated with a new entrance and fitness center; and
- The City also completed several stormwater projects.

## City of Gaithersburg, Maryland

### Management's Discussion and Analysis

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The following major projects were in progress during the year and are included in the construction in progress category at year end:

- Renovation of the Constitution gardens community park. The City celebrated the grand re-opening of this park in fiscal year 2016.
- The second phase of the water park renovations was begun including the roof replacement, miniature golf renovations course, and restroom expansion.

#### **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. More detailed information about debt can be found in Note 8 to the basic financial statements.

**Figure 10 - Long-term Obligations**

| <u>Governmental Activities</u> | <u>2015</u>          | <u>2014</u>          |
|--------------------------------|----------------------|----------------------|
| Compensated absences           |                      |                      |
| Vaction                        | \$ 1,701,049         | \$ 1,574,059         |
| Sick                           | <u>1,000,637</u>     | <u>970,236</u>       |
| Total compensated absences     | <u>2,701,686</u>     | <u>2,544,295</u>     |
| Net OPEB obligation            | <u>14,993,558</u>    | <u>13,478,858</u>    |
| Total long-term debt           | <u>\$ 17,695,244</u> | <u>\$ 16,023,153</u> |

#### **Factors Impacting on the City's Future**

The following economic factors are reflected in the City’s FY 2016 budget:

- The City’s economic projections in the FY 2016 budget are based on plans for projected development on the remaining amount of undeveloped land in the City. The city has a development in the pipeline for residential units and approximately half of those to be built in next year or two.
- As we go forward, maintaining property assessments at an increase, accounting for development projects underway and income tax collections at current levels are being factored in future projects.
- Some moderate reductions in shared revenues and grants from Federal, State and County sources were factored into assumptions.

#### **Contacting the City's Financial Management**

This financial report is designed to provide the citizens, taxpayers, customers, 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](http://www.gaithersburgmd.gov).

**City of Gaithersburg, Maryland**

**Statement of Net Position  
As of June 30, 2015**

|  | <u>Governmental<br/>Activities</u> |
|--|------------------------------------|
| <b>Assets</b>                                    |                                    |
| Cash and cash equivalents                        | \$ 110,925,150                     |
| Receivables, net of allowance for uncollectibles | 4,895,967                          |
| Prepays  | 136,003                            |
| Inventory  | 37,930                             |
| Long-term receivables                            | 2,055,290                          |
| Capital assets                                   |                                    |
| Land   | 42,320,205                         |
| Buildings  | 35,903,573                         |
| Improvements other than buildings                | 13,393,066                         |
| Machinery and equipment                          | 12,319,451                         |
| Infrastructure                                   | 68,585,063                         |
| Construction-in-progress                         | 1,277,512                          |
| Less: accumulated depreciation                   | <u>(70,313,068)</u>                |
| <b>Total assets</b>                              | <u>221,536,142</u>                 |
| <b>Liabilities</b>                               |                                    |
| Accounts payable                                 | 965,838                            |
| Accrued liabilities                              | 1,245,826                          |
| Deposits   | 1,963,635                          |
| Non-current liabilities                          |                                    |
| Due within one year                              | 1,111,952                          |
| Due in more than one year                        | <u>16,583,292</u>                  |
| <b>Total liabilities</b>                         | <u>21,870,543</u>                  |
| <b>Net Position</b>                              |                                    |
| Net investment in capital assets                 | 103,485,802                        |
| Restricted for:                                  |                                    |
| Senior center                                    | 18,108                             |
| Sports program                                   | 11,671                             |
| Holiday giving                                   | 15,437                             |
| Public safety                                    | 59,611                             |
| Kentlands Mansion                                | 10,181                             |
| Stream and infrastructure improvements           | 191,804                            |
| Transportation projects                          | 200,000                            |
| Forest conservation                              | 734,387                            |
| Unrestricted                                     | <u>94,938,598</u>                  |
| <b>Total net position</b>                        | <u>\$ 199,665,599</u>              |

See Notes to Basic Financial Statements.

City of Gaithersburg, Maryland

Statement of Activities  
For the Year Ended June 30, 2015

| Functions/Programs                                    | Expenses            | Program Revenues        |  |  | Net (Expense)<br>Revenue and<br>Changes in<br>Net Position<br>Governmental<br>Activities |
|---|---------------------|-------------------------|--|--|--|
|   |                     | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions |  |
| <b>Governmental Activities</b>                        |                     |                         |  |  |  |
| General government                                    | \$16,504,191        | \$ 3,012,450            | \$ 51,144                                | \$ 5,039                               | \$ (13,435,558)  |
| Public safety   | 12,562,415          | 3,331,546               | 613,159                                  | 3,175                                  | (8,614,535)  |
| Public works  | 10,305,125          | 3,156,696               | -  | 1,854,583                              | (5,293,846)  |
| Parks and recreation                                  | 8,325,520           | 3,809,545               | 71,639                                   | 405,000                                | (4,039,336)  |
| Community services and development                    | 2,559,169           | -                       | 186,986                                  | 556,920                                | (1,815,263)  |
| <b>Total governmental activities</b>                  | <u>\$50,256,420</u> | <u>\$13,310,237</u>     | <u>\$ 922,928</u>                        | <u>\$ 2,824,717</u>                    | <u>(33,198,538)</u>  |
| <b>General Revenues</b>                               |                     |                         |  |  |  |
| Property tax  |                     |                         |  |  | 24,309,643   |
| Franchise fees  |                     |                         |  |  | 902,479  |
| Admissions, amusement, and hotel taxes                |                     |                         |  |  | 2,293,951  |
| Intergovernmental not restricted to specific programs |                     |                         |  |  | 12,780,222   |
| Investment earnings                                   |                     |                         |  |  | 80,324   |
| Gain on sale of capital assets                        |                     |                         |  |  | 95,852   |
| Miscellaneous revenues                                |                     |                         |  |  | 713,899  |
| <b>Total general revenues</b>                         |                     |                         |  |  | <u>41,176,370</u>  |
| <b>Change in net position</b>                         |                     |                         |  |  | <u>7,977,832</u>   |
| <b>Net Position</b>                                   |                     |                         |  |  |  |
| Beginning (as Restated, Note 15)                      |                     |                         |  |  | <u>191,687,767</u>   |
| Ending  |                     |                         |  |  | <u>\$ 199,665,599</u>  |

See Notes to Basic Financial Statements.

City of Gaithersburg, Maryland

Balance Sheet – Governmental Funds  
As of June 30, 2015

|   | General Fund         | Capital Projects Fund | Non-Major Fund - Forest Conservation | Total Governmental Funds |
|---|----------------------|-----------------------|--------------------------------------|--------------------------|
| <b>Assets</b>   |                      |                       |                                      |                          |
| Cash and cash equivalents   | \$ 77,417,212        | \$ 32,773,551         | \$ 734,387                           | \$ 110,925,150           |
| Property taxes, net of allowance of \$117,522                             | 230,230              | -                     | -                                    | 230,230                  |
| Due from other governments  | 3,789,395            | -                     | -                                    | 3,789,395                |
| Other receivables, net of allowance of \$111,393                          | 876,342              | -                     | -                                    | 876,342                  |
| Prepays   | 136,003              | -                     | -                                    | 136,003                  |
| Inventory   | 37,930               | -                     | -                                    | 37,930                   |
| Long-term receivables   | 2,055,290            | -                     | -                                    | 2,055,290                |
| <b>Total assets</b>   | <u>\$ 84,542,402</u> | <u>\$ 32,773,551</u>  | <u>\$ 734,387</u>                    | <u>\$ 118,050,340</u>    |
| <b>Liabilities, Deferred Inflow of Resources, and Fund Balances</b>       |                      |                       |                                      |                          |
| Liabilities   |                      |                       |                                      |                          |
| Accounts payable  | \$ 806,600           | \$ 159,238            | \$ -                                 | \$ 965,838               |
| Accrued liabilities   | 1,245,826            | -                     | -                                    | 1,245,826                |
| Deposits  | 1,963,635            | -                     | -                                    | 1,963,635                |
| <b>Total liabilities</b>  | <u>4,016,061</u>     | <u>159,238</u>        | <u>-</u>                             | <u>4,175,299</u>         |
| Deferred inflow of resources  |                      |                       |                                      |                          |
| Unavailable revenues  | 2,453,530            | -                     | -                                    | 2,453,530                |
| <b>Total deferred inflow of resources</b>                                 | <u>2,453,530</u>     | <u>-</u>              | <u>-</u>                             | <u>2,453,530</u>         |
| Fund balances   |                      |                       |                                      |                          |
| Non-spendable   |                      |                       |                                      |                          |
| Prepays   | 136,003              | -                     | -                                    | 136,003                  |
| Inventories   | 37,930               | -                     | -                                    | 37,930                   |
| Restricted  | 506,812              | -                     | 734,387                              | 1,241,199                |
| Committed   | 3,116,773            | 2,636,241             | -                                    | 5,753,014                |
| Assigned  | 14,414,580           | 29,978,072            | -                                    | 44,392,652               |
| Unassigned  | 59,860,713           | -                     | -                                    | 59,860,713               |
| <b>Total fund balances</b>  | <u>78,072,811</u>    | <u>32,614,313</u>     | <u>734,387</u>                       | <u>111,421,511</u>       |
| <b>Total liabilities, deferred inflow of resources, and fund balances</b> | <u>\$ 84,542,402</u> | <u>\$ 32,773,551</u>  | <u>\$ 734,387</u>                    | <u>\$ 118,050,340</u>    |

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, 2015**

|   |                     |                              |
|---|---------------------|------------------------------|
| Total fund balance – governmental funds   |                     | \$ 111,421,511               |
| 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  | 173,798,870         |                              |
| Accumulated depreciation  | <u>(70,313,068)</u> | 103,485,802                  |
| 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 |                     |                              |
|   |                     | 2,453,530                    |
| Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.  |                     |                              |
| Net OPEB obligation   | (14,993,558)        |                              |
| Accumulated unused compensated absences   | <u>(2,701,686)</u>  | <u>(17,695,244)</u>          |
| <b>Net position of governmental activities</b>  |                     | <u><b>\$ 199,665,599</b></u> |

City of Gaithersburg, Maryland

Statement of Revenues, Expenditures, and Changes  
in Fund Balances – Governmental Funds  
For the Year Ended June 30, 2015

|  | General<br>Fund      | Capital Projects<br>Fund | Non-Major<br>Fund - Forest<br>Conservation | Total<br>Governmental<br>Funds |
|--|----------------------|--------------------------|--|--------------------------------|
| <b>Revenues</b>  |                      |                          |  |                                |
| Taxes  | \$ 26,394,499        | \$ -                     | \$ -                                       | \$ 26,394,499                  |
| Licenses and permits   | 4,446,245            | -                        | 737,609                                    | 5,183,854                      |
| Intergovernmental  | 15,820,473           | -                        | -  | 15,820,473                     |
| Charges for services   | 6,721,278            | -                        | -  | 6,721,278                      |
| Fines and forfeitures  | 2,494,883            | -                        | -  | 2,494,883                      |
| Interest income  | 80,324               | -                        | -  | 80,324                         |
| Miscellaneous  | 1,388,235            | -                        | -  | 1,388,235                      |
| <b>Total revenues</b>  | <u>57,345,937</u>    | <u>-</u>                 | <u>737,609</u>                             | <u>58,083,546</u>              |
| <b>Expenditures</b>  |                      |                          |  |                                |
| Current  |                      |                          |  |                                |
| General government   | 11,677,193           | -                        | -  | 11,677,193                     |
| Public safety  | 11,033,960           | -                        | -  | 11,033,960                     |
| Public works   | 8,590,206            | -                        | 3,222                                      | 8,593,428                      |
| Parks and recreation   | 7,070,672            | -                        | -  | 7,070,672                      |
| Community services and development                           | 2,443,962            | -                        | -  | 2,443,962                      |
| Miscellaneous  | 3,994,652            | -                        | -  | 3,994,652                      |
| Capital outlay   | -                    | 6,196,682                | -  | 6,196,682                      |
| <b>Total expenditures</b>                                    | <u>44,810,645</u>    | <u>6,196,682</u>         | <u>3,222</u>                               | <u>51,010,549</u>              |
| <b>Excess (deficiency) of revenues<br/>over expenditures</b> | <u>12,535,292</u>    | <u>(6,196,682)</u>       | <u>734,387</u>                             | <u>7,072,997</u>               |
| <b>Other Financing Sources (Uses)</b>                        |                      |                          |  |                                |
| Transfers in   | -                    | 8,790,000                | -  | 8,790,000                      |
| Transfers out  | (8,790,000)          | -                        | -  | (8,790,000)                    |
| Proceeds from sale of capital assets                         | 163,046              | -                        | -  | 163,046                        |
| <b>Total other financing sources (uses)</b>                  | <u>(8,626,954)</u>   | <u>8,790,000</u>         | <u>-</u>                                   | <u>163,046</u>                 |
| <b>Net change in fund balances</b>                           | <u>3,908,338</u>     | <u>2,593,318</u>         | <u>734,387</u>                             | <u>7,236,043</u>               |
| <b>Fund Balances</b>   |                      |                          |  |                                |
| Beginning (as Restated, Note 15)                             | <u>74,164,473</u>    | <u>30,020,995</u>        | <u>-</u>                                   | <u>104,185,468</u>             |
| Ending   | <u>\$ 78,072,811</u> | <u>\$ 32,614,313</u>     | <u>\$ 734,387</u>                          | <u>\$ 111,421,511</u>          |

See Notes to Basic Financial Statements.

**City of Gaithersburg, Maryland**

**Reconciliation of the Statement of Revenues, Expenditures, and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2015**

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|  |  |                              |
|--|--|------------------------------|
| Total net change in fund balances – governmental funds   |  | \$7,236,043                  |
| <p>Amounts reported for governmental activities in the statement of activities are different because:</p>  |  |                              |
| <p>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:</p>  |  |                              |
| Capitalized outlays  |  | 6,664,272                    |
| Depreciation   |  | <u>(4,372,073)</u> 2,292,199 |
| <p>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:</p>                            |  |                              |
| Asset disposals  |  | (495,522)                    |
| Accumulated depreciation   |  | <u>428,328</u> (67,194)      |
| <p>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).</p>  |  |                              |
|  |  | 188,875                      |
| <p>In the statement of activities, OPEB costs are measured by the amounts earned during the year as actuarially computed. In governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). Change in net position differs from the change in fund balances by the amount of accrued OPEB benefits earned.</p> |  |                              |
|  |  | (1,514,700)                  |
| <p>Some expenses in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in the governmental funds. This is the amount by which accumulated unused compensated absences (increased) decreased.</p>   |  |                              |
|  |  | <u>(157,391)</u>             |
| <b>Change in net position of governmental activities</b>   |  | <u><u>\$7,977,832</u></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, 2015

|   | Original<br>& Final<br>Budget | Actual               | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|-------------------------------|----------------------|---|
| <b>Revenues</b>   |                               |                      |   |
| Taxes   | \$ 26,392,500                 | \$ 26,394,499        | \$ 1,999  |
| Licenses and permits  | 3,626,200                     | 4,446,245            | 820,045   |
| Intergovernmental   | 13,709,630                    | 15,820,473           | 2,110,843   |
| Charges for services  | 5,986,450                     | 6,721,278            | 734,828   |
| Fines and forfeitures   | 2,477,500                     | 2,494,883            | 17,383  |
| Interest income   | 120,000                       | 80,324               | (39,676)  |
| Miscellaneous   | 931,200                       | 1,388,235            | 457,035   |
| <b>Total revenues</b>   | <u>53,243,480</u>             | <u>57,345,937</u>    | <u>4,102,457</u>  |
| <b>Expenditures</b>   |                               |                      |   |
| General government  | 13,616,981                    | 11,297,106           | 2,319,875   |
| Public safety   | 11,795,279                    | 11,063,287           | 731,992   |
| Public works  | 9,505,484                     | 8,585,030            | 920,454   |
| Parks and recreation  | 7,761,364                     | 7,070,039            | 691,325   |
| Community services and development                                      | 2,622,868                     | 2,432,087            | 190,781   |
| Miscellaneous   | 5,224,526                     | 4,042,909            | 1,181,617   |
| <b>Total expenditures</b>   | <u>50,526,502</u>             | <u>44,490,458</u>    | <u>6,036,044</u>  |
| <b>Excess of revenues over expenditures</b>                             | 2,716,978                     | 12,855,479           | 10,138,501  |
| <b>Other Financing Sources (Uses)</b>                                   |                               |                      |   |
| Transfers out   | (8,790,000)                   | (8,790,000)          | -   |
| Proceeds from sale of capital assets                                    | 125,000                       | 163,046              | 38,046  |
| <b>Total other financing uses</b>                                       | <u>(8,665,000)</u>            | <u>(8,626,954)</u>   | <u>38,046</u>   |
| <b>Net change in fund balance</b>                                       | <u>\$ (5,948,022)</u>         | 4,228,525            | <u>\$ 10,176,547</u>                                    |
| Adjustments to Conform with Generally<br>Accepted Accounting Principles |                               | (320,187)            |   |
| <b>Fund Balance</b>   |                               |                      |   |
| Beginning (as Restated, Note 15)  |                               | <u>74,164,473</u>    |   |
| Ending  |                               | <u>\$ 78,072,811</u> |   |

See Notes to Basic Financial Statements.

**City of Gaithersburg, Maryland**

**Statement of Fiduciary Net Position – Fiduciary Funds**

**As of June 30, 2015**

|  | Pension Trust -<br>OPEB<br>Trust<br>Fund | Private-Purpose<br>Trust<br>Fund |
|--|--|----------------------------------|
|  |  |                                  |
| <b>Assets</b>  |  |                                  |
| Cash and cash equivalents  | \$ -                                     | \$ 2,000                         |
| Investments  |  |                                  |
| Open-end mutual funds  | 7,308,912                                | -                                |
| Certificate of deposit   | -  | 13,597                           |
| <b>Total assets</b>  | <b>7,308,912</b>                         | <b>15,597</b>                    |
| <b>Liabilities</b>   |  |                                  |
| Claim reimbursements due to primary government                                   | 96,668                                   | -                                |
| <b>Total liabilities</b>   | <b>96,668</b>                            | <b>-</b>                         |
| <b>Net Position</b>  |  |                                  |
| Net position held in trust for other post-employment benefits and other purposes | <u>\$ 7,212,244</u>                      | <u>\$ 15,597</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, 2015**

|                                  | Pension Trust -<br>OPEB<br>Trust<br>Fund | Private-Purpose<br>Trust<br>Fund |
|----------------------------------|--|----------------------------------|
|                                  | <u>                    </u>              | <u>                    </u>      |
| Additions                        |  |                                  |
| Contributions                    |  |                                  |
| Employer                         | \$ 1,310,000                             | \$ -                             |
| Interest and gains               | <u>149,816</u>                           | <u>5</u>                         |
| <b>Total additions</b>           | <u>1,459,816</u>                         | <u>5</u>                         |
| <br>Deductions                   |  |                                  |
| Benefits and withdrawals         | <u>584,196</u>                           | <u>-</u>                         |
| <b>Change in net position</b>    | 875,620                                  | 5                                |
| <br>Net Position                 |  |                                  |
| Beginning (as Restated, Note 15) | <u>6,336,624</u>                         | <u>15,592</u>                    |
| Ending                           | <u>\$ 7,212,244</u>                      | <u>\$ 15,597</u>                 |

See Notes to Basic Financial Statements.

## City of Gaithersburg, Maryland

### Notes to Basic Financial Statements

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#### **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. 71 and Statement No. 73 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.

## City of Gaithersburg, Maryland

### Notes to Basic Financial Statements

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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 nonmajor 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. The City and many other governments revise their original budgets over the course of the year for a variety of reasons; as a result, both the original adopted budget and the final amended budget, have been reflected in this statement.

#### **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 fund:

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 fee. This fund may also report interest earnings required to accumulate on the balance.

## City of Gaithersburg, Maryland

### Notes to Basic Financial Statements

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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.

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

#### **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, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

## City of Gaithersburg, Maryland

### Notes to Basic Financial Statements

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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 paid 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, 2015, was \$.262 per \$100 of assessed valuation.

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

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.

**City of Gaithersburg, Maryland**

**Notes to Basic Financial Statements**

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**G. Cash, Cash Equivalents, and Investments**

To facilitate effective management of the City's resources, substantially all operating cash is combined in one pooled account and reported in the General Fund. Cash 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. Investments are reported at fair value (generally based on quoted market rates).

**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, 2015, the aggregate of property tax accounts, delinquent three years or more, was \$117,522. The City also reports an allowance for police tickets issued and unpaid, based on historical collections. The balance in this allowance was \$111,393 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, 2015, 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

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

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

**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 loan receivables 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 which qualifies for reporting in this category, which arises only under the modified accrual basis of accounting, is unavailable revenue. Accordingly, it is only reported in the governmental funds balance sheet. The City reports unavailable revenues from income taxes, 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 that the amounts become available.

## City of Gaithersburg, Maryland

### Notes to Basic Financial Statements

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#### **N. 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, 2015, 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.

#### **O. Fund Balance**

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

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

## City of Gaithersburg, Maryland

### Notes to Basic Financial Statements

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#### **P. Net Position**

Net position represents the difference between assets plus deferred outflows and liabilities plus deferred inflows. Net position net investment in capital assets, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. As of June 30, 2015, the City had no debt associated with acquisition of capital assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriation. The City first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

#### **Note 2. Stewardship, Compliance, and Accountability**

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

- 1) Prior to May 2, the City Manager submits to the City Council a proposed operating and capital budget at the program level within each department for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Expenditures may not legally exceed budgeted appropriations at the department level.
- 2) Public hearings are conducted at City Hall to obtain taxpayer comments.
- 3) Prior to July 1, the budget for the General Fund is legally enacted through passage of an ordinance.
- 4) The City Council is authorized to transfer budgeted amounts between programs and then departments within any fund; however, any revisions that alter the total expenditures of any fund must be presented at a public hearing prior to adoption by the City Council. The City Manager is authorized to make transfers in the operating budget, so long as no activity area budget is increased more than 25 percent.
- 5) Formal budgetary integration is employed as a management control device during the year for the General Fund. Project-length financial plans are adopted for the Capital Projects Fund.
- 6) The policy established by the Mayor and Council of the City of Gaithersburg with respect to the City Budget (budgetary basis) does not conform with accounting principles generally accepted in the United States of America (GAAP basis) in certain respects. The primary difference between budgetary and GAAP basis is that under the budgetary basis, encumbrances are recorded as the equivalent of expenditures. Budgeted amounts are as originally adopted and as amended by the City Council and the City Manager. Unencumbered appropriations of the operating budget lapse at the end of each fiscal year. 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<br/>and<br/>Encumbrances</u> | <u>Other<br/>Financing<br/>Sources (Uses)</u> | <u>Current Year<br/>Effect on<br/>Fund Balance</u> |
|---|----------------------|--|---|--|
| General Fund                                      |                      |  |   |  |
| Budgetary basis                                   | \$ 57,345,937        | \$ 44,490,458                                | \$ (8,626,954)                                | \$ 4,228,525                                       |
| Prior year encumbrances<br>outstanding, 6/30/14   | -                    | 688,621                                      | -   | (688,621)  |
| Current year encumbrances<br>outstanding, 6/30/15 | -                    | (368,434)                                    | -   | 368,434  |
| GAAP basis  | <u>\$ 57,345,937</u> | <u>\$ 44,810,645</u>                         | <u>\$ (8,626,954)</u>                         | <u>\$ 3,908,338</u>                                |

**Note 3. Cash, Cash Equivalents, and Investments**

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

|   | <u>Governmental<br/>Activities</u> | <u>OPEB<br/>Trust<br/>Fund</u> | <u>Private-Purpose<br/>Trust<br/>Fund</u> |
|---|------------------------------------|--------------------------------|---|
| Bank deposits                               | \$ 3,806,422                       | \$ -                           | \$ 2,000                                  |
| State Treasurer's Investment Pool           | 83,028,548                         | -                              | -   |
| Montgomery County's General Investment Fund | 24,090,180                         | -                              | -   |
| Certificates of deposit                     | -                                  | -                              | 13,597                                    |
| Open-end mutual funds                       | -                                  | 7,308,912                      | -   |
| Total                                       | <u>\$ 110,925,150</u>              | <u>\$ 7,308,912</u>            | <u>\$ 15,597</u>                          |

*Custodial credit risk*

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned. Maryland State Law prescribes that local government units, such as the City, must deposit its cash in banks transacting business in the State of Maryland, and that such banks must secure any deposits in excess of Federal Deposit Insurance Corporation insurance levels with collateral whose market value is at least equal to the deposits. As of June 30, 2015, 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.

## City of Gaithersburg, Maryland

### Notes to Basic Financial Statements

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#### *Credit risk*

The Mayor and Council of Gaithersburg recognize that their authority to invest the public funds of the City derives from Section 6-222 of the State of Maryland's Finance and Procurement Article, as well as Article 95, Section 22-22N of the annotated Code of Maryland. Authority to invest City funds in compliance with provisions of these State statutes is delegated to the Director of Finance and Administration. The City invests in the Maryland Local Government Investment Pool (MLGIP), which is under the administrative control of the Maryland State Treasurer's Office and the Montgomery County General Investment Fund, which is under the administrative control of the Montgomery County Department of Finance. These investment pools invest only in securities allowed by Maryland State statutes. The fair value of these pools is the same as the value of the respective pool share. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating), and the Montgomery County General Investment Fund is not rated. The City places no limit on the amount the City may invest in any one issuer. OPEB benefit trusts are invested in pooled mutual funds, which are unrated. The City does not have a formal investment policy for credit risk.

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

#### *Interest rate risk*

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

#### *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, 2015. For purposes of risk exposure, certificates of deposit are treated as deposits, which were previously discussed above. The City does not have a formal investment policy for custodial credit risk.

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

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**Note 4. Receivables**

Receivables at June 30, 2015, consist of the following:

|  | <u>Governmental<br/>Activities</u> |
|--|------------------------------------|
| Property taxes                           |                                    |
| Current year                             | \$ 152,022                         |
| Previous years'                          | 195,730                            |
| Allowance on taxes more than 3 years old | <u>(117,522)</u>                   |
| Total property taxes                     | <u>230,230</u>                     |
| Due from other governments               |                                    |
| County                                   | 108,235                            |
| State                                    | 3,557,810                          |
| Federal                                  | <u>123,350</u>                     |
| Total due from other governments         | <u>3,789,395</u>                   |
| Other receivables                        |                                    |
| Cable TV fees                            | 239,766                            |
| Police tickets and fines                 | 179,666                            |
| OPEB Trust reimbursement                 | 96,668                             |
| Pension funds forfeited held by trustee  | 118,251                            |
| Miscellaneous                            | 353,384                            |
| Allowance on police tickets and fines    | <u>(111,393)</u>                   |
| Total other receivables                  | <u>876,342</u>                     |
| Total                                    | <u>\$ 4,895,967</u>                |

These receivables are reported within the General Fund.

**Note 5. Inter-Fund Transfers**

Inter-fund transfers for the year ended June 30, 2015, consisted of a transfer from the General Fund to the Capital Projects Fund in the amount of \$8,790,000. The City does not utilize debt to finance capital projects, rather all projects are financed through the City's annual revenues and cash on hand. The intra-fund transfer represents the amount appropriated in the current year budget for capital projects.

**City of Gaithersburg, Maryland**

**Notes to Basic Financial Statements**

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**Note 6. Long-Term Receivables**

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

|  | <u>Governmental<br/>Activities</u> |
|--|------------------------------------|
| Long-term receivables                              |                                    |
| Gaithersburg Homeownership Assistance Loan Program | \$ 1,296,308                       |
| Developer note receivable                          | <u>758,982</u>                     |
| Total  | <u>\$ 2,055,290</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 noninterest bearing loan funds towards a down payment and closing costs of up to \$20,000 to qualified individuals and families. Principal 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 74 individual loans ranging from \$7,000 to \$20,000 had made been totaling \$1,296,308. Of these loans, \$774,457 were provided during 2015. The City received one repayment of \$10,000 during 2015. As the proceeds received on any loan repayments will remain assigned for the GHALP program, the balance has been reported as assigned fund balance within the General Fund.

**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, 2015, was \$486,000 in principal and \$22,982 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, 2015. The entire unpaid balance, together with accrued interest, is due on January 1, 2020. The loan is secured by a deed of trust, security agreement and assignment of rents. The outstanding balance of the long-term receivable as of June 30, 2015, was \$250,000.

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, 2015, consisted of the following:

| Governmental Activities                     | Balance,<br>July 1, 2014 | Additions/<br>Transfers | Deletions/<br>Transfers | Balance,<br>June 30, 2015 |
|---|--------------------------|-------------------------|-------------------------|---------------------------|
| <b>Capital assets not being depreciated</b> |                          |                         |                         |                           |
| Land  | \$ 42,371,250            | \$ -                    | \$ (51,045)             | \$ 42,320,205             |
| Construction-in-progress                    | <u>2,348,091</u>         | <u>2,882,159</u>        | <u>(3,952,738)</u>      | <u>1,277,512</u>          |
| Total assets not being depreciated          | <u>44,719,341</u>        | <u>2,882,159</u>        | <u>(4,003,783)</u>      | <u>43,597,717</u>         |
| <b>Capital assets being depreciated</b>     |                          |                         |                         |                           |
| Buildings                                   | 34,660,286               | 1,258,742               | (15,455)                | 35,903,573                |
| Improvements other than buildings           | 10,914,578               | 2,478,488               | -                       | 13,393,066                |
| Machinery and equipment                     | 11,904,866               | 819,014                 | (404,429)               | 12,319,451                |
| Infrastructure                              | <u>65,431,049</u>        | <u>3,178,607</u>        | <u>(24,593)</u>         | <u>68,585,063</u>         |
| Total assets being depreciated              | <u>122,910,779</u>       | <u>7,734,851</u>        | <u>(444,477)</u>        | <u>130,201,153</u>        |
| <b>Less accumulated depreciation for</b>    |                          |                         |                         |                           |
| Buildings                                   | (14,060,136)             | (875,966)               | 8,404                   | (14,927,698)              |
| Improvements other than buildings           | (7,007,824)              | (616,717)               | -                       | (7,624,541)               |
| Machinery and equipment                     | (8,967,549)              | (871,787)               | 396,244                 | (9,443,092)               |
| Infrastructure                              | <u>(36,333,814)</u>      | <u>(2,007,603)</u>      | <u>23,680</u>           | <u>(38,317,737)</u>       |
| Total accumulated depreciation              | <u>(66,369,323)</u>      | <u>(4,372,073)</u>      | <u>428,328</u>          | <u>(70,313,068)</u>       |
| <b>Capital assets, net</b>                  | <u>\$ 101,260,797</u>    | <u>\$ 6,244,937</u>     | <u>\$ (4,019,932)</u>   | <u>\$ 103,485,802</u>     |

Depreciation expense was charged to governmental functions for the year ended June 30, 2015, as follows:

|                                    |                     |
|------------------------------------|---------------------|
| General government                 | \$ 1,222,172        |
| Public safety                      | 392,409             |
| Public works                       | 2,257,206           |
| Parks and recreation               | 497,742             |
| Community services and development | <u>2,544</u>        |
| Total depreciation                 | <u>\$ 4,372,073</u> |

**City of Gaithersburg, Maryland**

**Notes to Basic Financial Statements**

**Note 8. Long-Term Liabilities**

At June 30, 2015, 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, 2015:

|                                 | Balance,<br>June 30, 2014 | Additions               | Deductions               | Balance,<br>June 30, 2015 | Amounts<br>Due Within<br>One Year |
|---------------------------------|---------------------------|-------------------------|--------------------------|---------------------------|-----------------------------------|
| Compensated absences            |                           |                         |                          |                           |                                   |
| Vacation                        | \$ 1,574,059              | \$ 1,187,137            | \$(1,060,147)            | \$ 1,701,049              | \$ 1,027,792                      |
| Sick leave                      | 970,236                   | 122,359                 | (91,958)                 | 1,000,637                 | 84,160                            |
| Total compensated absences      | <u>2,544,295</u>          | <u>1,309,496</u>        | <u>(1,152,105)</u>       | <u>2,701,686</u>          | <u>1,111,952</u>                  |
| <br>OPEB liability              | <br><u>13,478,858</u>     | <br><u>3,017,700</u>    | <br><u>(1,503,000)</u>   | <br><u>14,993,558</u>     | <br><u>-</u>                      |
| <br>Total Long-term liabilities | <br><u>\$ 16,023,153</u>  | <br><u>\$ 4,327,196</u> | <br><u>\$(2,655,105)</u> | <br><u>\$ 17,695,244</u>  | <br><u>\$ 1,111,952</u>           |

**Note 9. Postretirement Healthcare and Life Insurance**

Plan Description and Contributions: Other Post-Employment Benefit plan (OPEB Plan) is a single-employer defined benefit healthcare plan administered by the City. The OPEB Plan provides hospitalization, 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.

Substantially all full-time employees may qualify for these benefits. As of June 30, 2015 there were 329 total plan members which consisted of 277 employees in active service and 52 retirees and beneficiaries currently receiving benefits. Not all 277 active employees will meet the qualifications to retire and receive OPEB benefits. 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 percent of the health care premium cost of the lowest HMO offered at the time of retirement. All other benefits afforded to a retiree at the time of retirement remain the same, whether an employee retires under the General Retirement Plan or the Early Retirement Plan.

On April 1, 2007, the City established a 115 Trust account (the Trust) for the purpose of prefunding a portion of retiree insurance costs in the future. Per the Trust agreement, the City may elect to contribute additional amounts as deemed necessary to meet its benefit costs. The OPEB Plan 115 Trust is reported by the City as the OPEB Trust Fund.

**City of Gaithersburg, Maryland**

**Notes to Basic Financial Statements**

Funding Policy: 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, and is moving towards annually funding the full Actuarially Required Contribution (ARC).

For 2015, the City contributed \$1,310,000 to the plan, including \$496,189 for current retiree coverage and \$813,811 to prefund benefits. The personnel ordinance requires that the City pay 100 percent of the life insurance premiums and 85 percent of the hospitalization and dental premiums. The table below shows plan member contributions rates per month:

| Calendar Year                          | OPEB Plan Retiree Contribution Rates |              |                  |              |
|--|--------------------------------------|--------------|------------------|--------------|
|  | July - Dec. 2014                     |              | Jan - June, 2015 |              |
|  | Employee                             | Emp + Spouse | Employee         | Emp + Spouse |
| Health insurance Medicare eligible     | \$ 56                                | \$ 113       | \$ 58            | \$ 116       |
| Health insurance Non-medicare eligible | 80                                   | 155          | 80               | 155          |
| Dental                                 | 6                                    | 13           | 6                | 13           |

Annual OPEB Cost and Net OPEB Obligation: The City's annual other postemployment benefit (OPEB) cost (expense) and the net OPEB obligation is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the plan:

|   |                      |
|---|----------------------|
| Annual OPEB Cost (AOC)                            |                      |
| Annual Required Contribution                      | \$ 3,020,000         |
| Interest on net OPEB obligation                   | 775,000              |
| Amortization of net OPEB obligation               | <u>(777,300)</u>     |
| Total Annual OPEB Cost                            | <u>3,017,700</u>     |
| <br>  |                      |
| Net OPEB Obligation beginning                     | 13,478,858           |
| Current Year AOC                                  | 3,017,700            |
| Employer contributions                            |                      |
| Trust contributions made                          | (1,310,000)          |
| Implicit rate subsidy reduced during current year | <u>(193,000)</u>     |
| End of year net OPEB Obligation                   | <u>\$ 14,993,558</u> |

**City of Gaithersburg, Maryland**

**Notes to Basic Financial Statements**

The City's annual OPEB costs, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 and two preceding years are as follows:

| Fiscal Year Ending June 30, | Annual OPEB<br>Cost | Employer<br>Contribution | Percentage of<br>Annual OPEB<br>Cost<br>Contributed | Net OPEB<br>Obligation |
|-----------------------------|---------------------|--------------------------|---|------------------------|
| 2013                        | \$ 3,314,000        | \$ 631,962               | 19.07%  | \$ 11,300,088          |
| 2014                        | 3,207,000           | 1,028,230                | 32.06%  | 13,478,858             |
| 2015                        | 3,017,700           | 1,503,000                | 49.81%  | 14,993,558             |

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

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

In the March 1, 2014 actuarial valuation, the projected unit credit, with linear pro-ration to assumed retirement date, actuarial cost method was used. Significant actuarial assumptions used include (a) overall rate of inflation of 2.8 percent; (b) a rate of return on the investment of 5.0 percent per year compounded annually; (c) projected salary increases of 3.5 percent compounded annually (used for amortization purposes); (d) annual medical and prescription drug trend rate of 7.5 percent initially, reduced annually to arrive at an ultimate healthcare cost trend of 4.3 percent; (e) rates of mortality based upon RP-2000 Combined Healthy Mortality Table; (f) termination of service rates based upon sex and length of service, equal to the decrements used in the June 30, 2012 valuation for the State of Maryland Employees' Pension System; and (g) claims costs based upon age-adjusted premiums for single or family coverage, with explicit costs ranging from \$5,769 to \$14,069, medical and drug costs ranging from \$5,695 to \$23,296, and dental costs ranging from \$496 to \$874. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a period of 25 years for year ended June 30, 2015.

**City of Gaithersburg, Maryland**

**Notes to Basic Financial Statements**

**Note 10. Fund Balance**

Governmental fund balances at June 30, 2015, are summarized as follows:

|   | General<br>Fund             | Capital<br>Projects<br>Fund | Non-Major<br>Fund        |
|---|-----------------------------|-----------------------------|--------------------------|
|   | <u>          </u>           | <u>          </u>           | <u>          </u>        |
| Non-spendable   |                             |                             |                          |
| Prepays   | \$ 136,003                  | \$ -                        | \$ -                     |
| Inventory   | 37,930                      | -                           | -                        |
| Total Non-spendable                                   | <u>173,933</u>              | <u>-</u>                    | <u>-</u>                 |
| Restricted for  |                             |                             |                          |
| Senior center   | 18,108                      | -                           | -                        |
| Sports program  | 11,671                      | -                           | -                        |
| Holiday giving  | 15,437                      | -                           | -                        |
| Public safety activities                              | 59,611                      | -                           | -                        |
| Kentlands Mansion building                            | 10,181                      | -                           | -                        |
| Stream and infrastructure improvements                | 191,804                     | -                           | -                        |
| Transportation projects                               | 200,000                     | -                           | -                        |
| Forest conservation                                   | -                           | -                           | 734,387                  |
| Total Restricted                                      | <u>506,812</u>              | <u>-</u>                    | <u>734,387</u>           |
| Committed for   |                             |                             |                          |
| Parks   | 1,000,000                   | -                           | -                        |
| Housing projects                                      | 2,116,773                   | -                           | -                        |
| Capital projects                                      | -                           | 2,636,241                   | -                        |
| Total Committed                                       | <u>3,116,773</u>            | <u>2,636,241</u>            | <u>-</u>                 |
| Assigned for  |                             |                             |                          |
| General vehicle and equipment replacement             | 9,367,072                   | -                           | -                        |
| Park & recreation buildings and equipment replacement | 194,203                     | -                           | -                        |
| Police equipment replacement                          | 560,954                     | -                           | -                        |
| Economic development opportunity grants               | 1,623,060                   | -                           | -                        |
| Economic development toolbox grants                   | 150,107                     | -                           | -                        |
| Self-insurance  | 95,460                      | -                           | -                        |
| Housing assistance loan program                       | 1,296,308                   | -                           | -                        |
| Housing projects                                      | 758,982                     | -                           | -                        |
| Encumbrances  | 368,434                     | -                           | -                        |
| Capital projects                                      | -                           | 29,978,072                  | -                        |
| Total Assigned  | <u>14,414,580</u>           | <u>29,978,072</u>           | <u>-</u>                 |
| Unassigned  | <u>59,860,713</u>           | <u>-</u>                    | <u>-</u>                 |
| <b>Total fund balances</b>                            | <u><u>\$ 78,072,811</u></u> | <u><u>\$ 32,614,313</u></u> | <u><u>\$ 734,387</u></u> |

**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 non-profit independent financial services corporation. The table below summarizes each plan:

| Plan Description                | 401a          | 401k                                 | 401a supplemental                           |
|---------------------------------|---------------|--------------------------------------|---|
| Covered employees               | all full-time | all full-time, with employee match   | public safety and public works              |
| Plan Members                    |               |                                      |   |
| 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, 2015:

| Pension Expense          | 401a              | 401k                | 401a supplemental |
|--------------------------|-------------------|---------------------|-------------------|
| 2015 Pension expense     | \$ 524,997        | \$ 1,533,141        | \$ 369,928        |
| 2015 Forfeitures applied | (12,471)          | (50,314)            | (71,236)          |
| 2015 net pension expense | <u>\$ 512,526</u> | <u>\$ 1,482,827</u> | <u>\$ 298,692</u> |

The City has no pension liability.

## City of Gaithersburg, Maryland

### Notes to Basic Financial Statements

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#### **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 2015, the City paid premiums of \$263,541 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 2015, the City paid premiums of \$388,867 to Montgomery County.

#### **Note 13. 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.

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 City's would be deducted from the City's local income tax payment beginning in 2017. At this time no estimate for any loss has been accrued in these financial statements as any liability is not yet measurable.

Encumbrances: 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, 2015, encumbrances for contracts were \$1,158,389 in the General Fund and \$2,636,241 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 audited in accordance with the Federal Office of Management and Budget's Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations* for the current year. The amount of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**City of Gaithersburg, Maryland**

**Notes to Basic Financial Statements**

**Note 14. 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 bonds issuances outstanding with an aggregate balance of \$127,705,000. 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 15. Restatement of Net Position and Fund Balance**

Previously the City reported the activity of its defined contribution plans as pension trust funds included in fiduciary funds as the City had concluded it had a fiduciary responsibility for the financial accountability over the plans. During fiscal year 2015, management determined that financial accountability criteria were no longer met and removed the pension trust funds from the reporting unit of the City and restated the beginning net position of the pension trust funds as follows:

|                                       | Fiduciary Fund -<br>Pension Trust<br>Funds |
|---------------------------------------|--|
| Net Position - as previously reported | \$ 64,484,279                              |
| Removal of Defined Contribution Plan  | (58,147,655)                               |
| Net position - as Restated            | \$ 6,336,624                               |

In addition, several changes to the City’s previously issued financial statements were needed in order to present the statements in accordance with GAAP. These changes can be described as follows:

- a. reclassification of pension forfeitures used/applied from fiduciary net position to the governmental activities and the General Fund and recognition of pension forfeiture balances;
- b. reclassification of Gaithersburg Housing Assistance Loan Program from expense/expenditures to loans receivable within the governmental activities and General Fund; and
- c. reclassification of developer escrow deposits to restricted purpose revenue received, within the governmental activities and General Fund.

These changes restated the beginning balances of net position and fund balance as follows:

|  | Governmental<br>Activities | General Fund  |
|--|----------------------------|---------------|
| Net Position / Fund Balance - as previously reported | \$ 189,862,899             | \$ 72,339,605 |
| Recognize pension forfeitures used in previous years | 585,109                    | 585,109       |
| Recognize pension forfeitures available for use      | 202,657                    | 202,657       |
| Long-term loans receivable reported as expenditures  | 531,851                    | 531,851       |
| Recognition of restricted purpose revenue            | 505,251                    | 505,251       |
| Net position / Fund Balance - as Restated            | \$ 191,687,767             | \$ 74,164,473 |

City of Gaithersburg, Maryland

Notes to Basic Financial Statements

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**Note 16. New Governmental Accounting Standards Board (GASB) Standards**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2015, 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. 72, *Fair Value Measurement and Application*, will be effective for the City beginning with its year ending June 30, 2016. This statement defines the term fair value and provides guidance on determining fair value measurement, applying fair value to certain investments, and financial reporting requirements and disclosures.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, will be effective for the City beginning with its year ending June 30, 2017. This statement provides new accounting and financial reporting requirements for governments whose employees are provided with OPEB.
- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will be effective for the City beginning with its year ending June 30, 2018. This statement establishes standards for recognizing and measuring liabilities, deferred outflow of resources, deferred inflows of resources and expense/expenditures related to OPEB.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, will be effective for the City beginning with its year ending June 30, 2016. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative 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. 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.

# Required Supplemental Information Section





**The Little Library at  
Constitution Gardens**

**City of Gaithersburg, Maryland**

**Required Supplementary Information  
Schedule of Funding Progress and Employer Contributions**

**Schedule of Funding Progress**

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

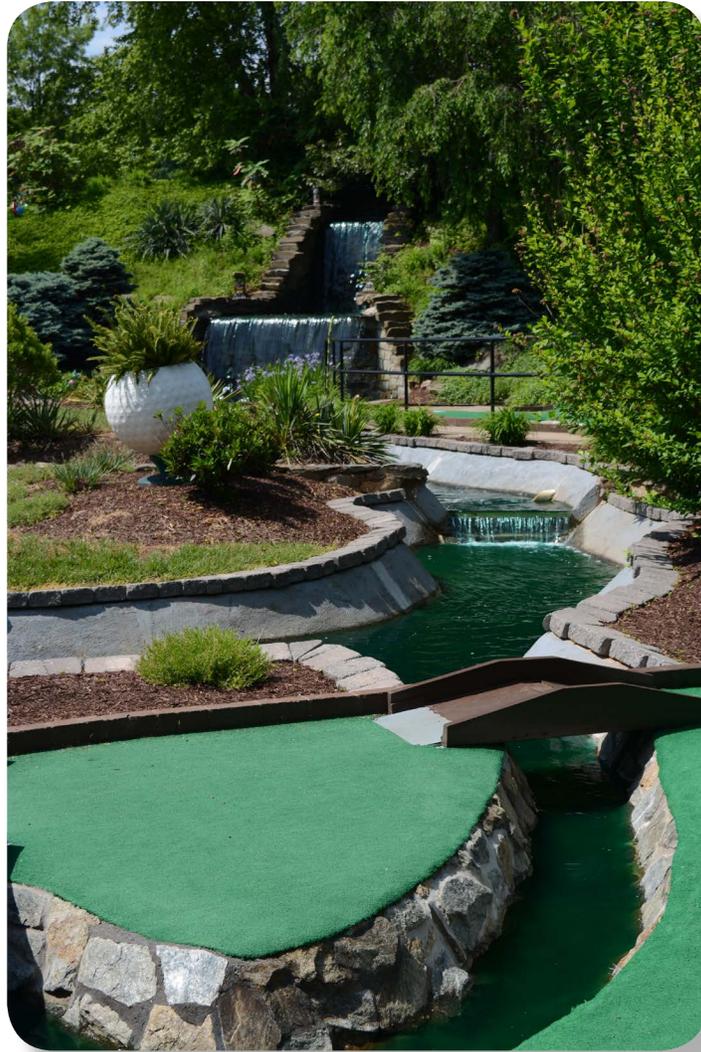
**Schedule of Employer Contributions**

| Fiscal year<br>ending<br>June 30, | Annual<br>Required<br>Contributions | Actual Net<br>Contribution | Percentage<br>Contributed | Net OPEB<br>Obligation |
|-----------------------------------|-------------------------------------|----------------------------|---------------------------|------------------------|
| 2013                              | \$ 3,311,000                        | \$ 631,962                 | 19.09%                    | \$11,300,088           |
| 2014                              | 3,222,000                           | 1,028,230                  | 31.91%                    | 13,478,858             |
| 2015                              | 3,020,000                           | 1,503,000                  | 49.77%                    | 14,993,558             |



# Supplemental Information Section





**Gaithersburg Miniature Golf**



City of Gaithersburg, Maryland

Schedule of Revenues – Budget and Actual (Budgetary Basis) - General Fund  
 Year Ended June 30, 2015  
 (With Comparative Totals for 2014)

|                                   | 2015                          |                   | Variance with<br>Final Budget<br>Positive<br>(Negative) | 2014<br>Actual    |
|-----------------------------------|-------------------------------|-------------------|---|-------------------|
|                                   | Original<br>& Final<br>Budget | Actual            |   |                   |
| <b>Taxes</b>                      |                               |                   |   |                   |
| Real estate taxes                 | \$ 23,117,500                 | \$ 22,572,844     | \$ (544,656)  | \$ 22,070,198     |
| Personal property taxes           | 1,000,000                     | 1,477,539         | 477,539   | 1,726,299         |
| Penalties and interest            | 75,000                        | 50,165            | (24,835)  | 58,930            |
| Hotel tax                         | 1,000,000                     | 1,122,931         | 122,931   | 1,028,511         |
| Admissions tax                    | 1,200,000                     | 1,171,020         | (28,980)  | 1,401,192         |
| <b>Total taxes</b>                | <u>26,392,500</u>             | <u>26,394,499</u> | <u>1,999</u>  | <u>26,285,130</u> |
| <b>Licenses and Permits</b>       |                               |                   |   |                   |
| Street permits                    | 20,000                        | 13,840            | (6,160)   | 91,365            |
| Amusement licenses                | 22,500                        | 23,400            | 900   | 23,250            |
| Traders licenses                  | 115,000                       | 131,391           | 16,391  | 147,237           |
| Hawkers/peddlers licenses         | 5,000                         | 6,750             | 1,750   | 10,000            |
| Electricians licenses             | 15,500                        | 64,575            | 49,075  | 35,700            |
| Rental housing licenses           | 668,900                       | 683,540           | 14,640  | 687,420           |
| Bus shelter franchise fee         | 21,000                        | 18,454            | (2,546)   | 13,215            |
| CATV franchise                    | 725,000                       | 884,025           | 159,025   | 819,180           |
| CATV PEG                          | 45,000                        | 51,144            | 6,144   | 50,277            |
| Animal licenses                   | 27,000                        | 30,845            | 3,845   | 27,420            |
| Building permits                  | 1,030,000                     | 1,450,874         | 420,874   | 1,304,512         |
| Deck Permits                      | 15,000                        | 17,350            | 2,350   | 18,785            |
| Fence Permits                     | 3,000                         | 2,170             | (830)   | 2,800             |
| Swimming Pool Permits             | 3,000                         | 3,580             | 580   | 2,826             |
| Tent Permits                      | 5,000                         | 5,219             | 219   | 5,292             |
| Trailer Permits                   | 1,900                         | 2,200             | 300   | 2,215             |
| Electrical permits                | 179,000                       | 228,122           | 49,122  | 188,487           |
| Occupancy permits                 | 105,000                       | 63,625            | (41,375)  | 96,785            |
| Sign permits                      | 23,000                        | 32,960            | 9,960   | 32,483            |
| Fire protection permits           | 290,000                       | 220,080           | (69,920)  | 267,870           |
| Mechanical permits                | 120,000                       | 152,594           | 32,594  | 129,917           |
| Special events permits            | 15,000                        | 17,020            | 2,020   | 11,262            |
| Grading permits                   | 60,000                        | 82,971            | 22,971  | 35,981            |
| On site improvements              | 75,000                        | 177,558           | 102,558   | 120,867           |
| Stormwater management permits     | 35,000                        | 78,908            | 43,908  | 4,023             |
| Other permits                     | 1,400                         | 3,050             | 1,650   | 1,250             |
| <b>Total licenses and permits</b> | <u>3,626,200</u>              | <u>4,446,245</u>  | <u>820,045</u>  | <u>4,130,419</u>  |

City of Gaithersburg, Maryland

Schedule of Revenues – Budget and Actual (Budgetary Basis) - General Fund  
 Year Ended June 30, 2015  
 (With Comparative Totals for 2014)

(continued)

|                                    | 2015                          |                   | Variance with<br>Final Budget<br>Positive<br>(Negative) | 2014<br>Actual    |
|------------------------------------|-------------------------------|-------------------|---|-------------------|
|                                    | Original<br>& Final<br>Budget | Actual            |   |                   |
| Intergovernmental                  |                               |                   |   |                   |
| Federal grants                     |                               |                   |   |                   |
| Community development              | 360,000                       | 556,920           | 196,920   | 379,610           |
| Transportation enhancement program | -                             | 5,039             | 5,039   | 1,002,849         |
| Transitional housing               | 130,700                       | 127,177           | (3,523)   | 126,025           |
| DOJ police equipment               | 1,200                         | 3,175             | 1,975   | 36,268            |
| Miscellaneous                      | -                             | -                 | -   | 70,000            |
| State grants                       |                               |                   |   |                   |
| Open Space                         | 37,500                        | -                 | (37,500)  | 150,456           |
| Police                             | 655,000                       | 601,077           | (53,923)  | 639,183           |
| Homeless program                   | 5,000                         | 4,957             | (43)  | 4,957             |
| Arts                               | 32,000                        | 35,848            | 3,848   | 32,000            |
| Department of Natural Resources    | -                             | 35,791            | 35,791  | 53,932            |
| Highway safety program             | 20,000                        | 12,082            | (7,918)   | -                 |
| Miscellaneous                      | 25,000                        | 7,278             | (17,722)  | 56,708            |
| Olde Towne revitalization          | 75,000                        | -                 | (75,000)  | 80,000            |
| Synthetic turf                     | -                             | 720,146           | 720,146   | 29,854            |
| Maryland state bond bill           | -                             | 405,000           | 405,000   | -                 |
| State-shared taxes                 |                               |                   |   |                   |
| Highway user                       | 1,124,000                     | 1,183,845         | 59,845  | 1,021,255         |
| 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                         | 10,000,000                    | 10,877,634        | 877,634   | 10,618,077        |
| Homeless program                   | 9,230                         | 9,234             | 4   | 12,161            |
| Nutrition program                  | 46,000                        | 45,618            | (382)   | 45,156            |
| Miscellaneous                      | 18,400                        | 18,540            | 140   | 15,000            |
| <b>Total intergovernmental</b>     | <b>13,709,630</b>             | <b>15,820,473</b> | <b>2,110,843</b>  | <b>15,544,603</b> |
| Charges for Services               |                               |                   |   |                   |
| Automation fee                     | 190,000                       | 248,415           | 58,415  | 217,608           |
| Zoning fees                        | 125,000                       | 148,660           | 23,660  | 177,355           |
| Recreation fees                    | 1,185,500                     | 1,256,376         | 70,876  | 1,160,475         |
| Casey Community Center             | 194,000                       | 203,069           | 9,069   | 195,537           |
| Pool                               | 527,000                       | 684,562           | 157,562   | 704,375           |
| Kentlands Mansion                  | 125,800                       | 179,294           | 53,494  | 145,711           |
| Council of the arts                | 34,400                        | -                 | (34,400)  | 23,803            |

City of Gaithersburg, Maryland

Schedule of Revenues – Budget and Actual (Budgetary Basis) - General Fund  
 Year Ended June 30, 2015  
 (With Comparative Totals for 2014)

(concluded)

|   | 2015                          |                      | Variance with<br>Final Budget<br>Positive<br>(Negative) | 2014<br>Actual       |
|---|-------------------------------|----------------------|---|----------------------|
|   | Original<br>& Final<br>Budget | Actual               |   |                      |
| Special events                                  | 71,800                        | 129,552              | 57,752  | 68,186               |
| Gaithersburg Aquatic Center                     | 200,000                       | 173,965              | (26,035)  | 18,330               |
| Skate park                                      | 10,000                        | 11,385               | 1,385   | 11,726               |
| Group picnics                                   | 52,000                        | 64,890               | 12,890  | 61,835               |
| Winter Lights                                   | 235,000                       | 264,481              | 29,481  | 224,398              |
| Miniature golf revenue                          | 112,250                       | 117,582              | 5,332   | 125,395              |
| Youth center in Olde Towne                      | 25,000                        | 18,402               | (6,598)   | 29,232               |
| Activity Center programs                        | 248,000                       | 252,967              | 4,967   | 236,084              |
| Food services                                   | 5,000                         | 5,000                | -   | 5,000                |
| Gaithersburg Arts Barn                          | 263,900                       | 296,358              | 32,458  | 273,401              |
| Gaithersburg Youth Center                       | 5,000                         | 8,033                | 3,033   | 7,482                |
| Community museum                                | 3,000                         | 3,254                | 254   | 2,260                |
| Membership fee – dog exercise                   | 2,800                         | 2,100                | (700)   | 2,280                |
| Senior Center revenue                           | 123,000                       | 107,620              | (15,380)  | 115,357              |
| Rental – Senior Center                          | 23,000                        | 15,735               | (7,265)   | 29,003               |
| Environmental fees                              | 3,000                         | 6,103                | 3,103   | 6,836                |
| Stormwater management fees                      | 35,000                        | 80,484               | 45,484  | 72,082               |
| Recycling collections                           | 882,000                       | 880,398              | (1,602)   | 853,210              |
| Water quality protection                        | 1,300,000                     | 1,438,262            | 138,262   | 1,402,582            |
| Miscellaneous                                   | 5,000                         | 124,331              | 119,331   | 83,857               |
| <b>Total charges for services</b>               | <b>5,986,450</b>              | <b>6,721,278</b>     | <b>734,828</b>  | <b>6,253,400</b>     |
| Fines and Forfeitures                           |                               |                      |   |                      |
| Ordinance fines                                 | 2,477,500                     | 2,494,883            | 17,383  | 2,509,987            |
| Interest income                                 | 120,000                       | 80,324               | (39,676)  | 76,838               |
| Miscellaneous Revenue                           |                               |                      |   |                      |
| Rents   | 142,900                       | 158,348              | 15,448  | 143,421              |
| Contributions                                   | 81,800                        | 134,408              | 52,608  | 259,638              |
| Passports                                       | 50,000                        | 82,350               | 32,350  | 76,575               |
| Developer contributions                         | 609,700                       | 600,000              | (9,700)   | 600,000              |
| Miscellaneous                                   | 46,800                        | 413,129              | 366,329   | 1,145,086            |
| <b>Total miscellaneous</b>                      | <b>931,200</b>                | <b>1,388,235</b>     | <b>457,035</b>  | <b>2,224,720</b>     |
| <b>Total revenue – Budgetary and GAAP Basis</b> | <b>\$ 53,243,480</b>          | <b>\$ 57,345,937</b> | <b>\$ 4,102,457</b>                                     | <b>\$ 57,025,097</b> |



**City of Gaithersburg, Maryland**

**Schedule of Expenditures and Encumbrances – Budget and Actual  
(Budgetary Basis) – General Fund  
Year Ended June 30, 2015  
(With Comparative Totals for 2014)**

|                                    | 2015                          |            | Variance with<br>Final Budget<br>Positive<br>(Negative) | 2014<br>Actual |
|------------------------------------|-------------------------------|------------|---|----------------|
|                                    | Original<br>& Final<br>Budget | Actual     |   |                |
| General Government                 |                               |            |   |                |
| Mayor and City Council             | \$ 304,179                    | \$ 292,277 | \$ 11,902   | \$ 302,027     |
| Legal                              | 532,605                       | 510,463    | 22,142  | 427,782        |
| Registration and elections         | 1,200                         | -          | 1,200   | 45,768         |
| City Manager                       | 675,091                       | 685,817    | (10,726)  | 606,672        |
| Economic and community development | 425,073                       | 209,323    | 215,750   | 464,159        |
| Environmental affairs              | 284,100                       | 273,513    | 10,587  | 279,205        |
| Human resources                    | 923,444                       | 821,512    | 101,932   | 685,500        |
| Finance and administration         | 1,206,811                     | 1,104,306  | 102,505   | 1,082,054      |
| Housing and community development  | 888,572                       | 238,952    | 649,620   | 401,914        |
| Information technology             | 1,516,878                     | 1,433,095  | 83,783  | 1,343,599      |
| Geographic information services    | 255,121                       | 228,102    | 27,019  | 208,115        |
| General services                   | 114,174                       | 46,479     | 67,695  | 51,625         |
| Facilities management              | 1,067,475                     | 877,167    | 190,308   | 769,336        |
| Building and grounds               |                               |            |   |                |
| City Hall                          | 260,325                       | 137,877    | 122,448   | 142,765        |
| Police                             | 80,350                        | 57,398     | 22,952  | 64,912         |
| Public services                    | 158,850                       | 140,879    | 17,971  | 114,868        |
| Train station                      | 32,000                        | 24,424     | 7,576   | 26,634         |
| Kentlands firehouse                | -                             | -          | -   | 12             |
| Kentlands Mansion                  | 62,100                        | 48,950     | 13,150  | 34,642         |
| Senior Center                      | 67,850                        | 71,755     | (3,905)   | 62,098         |
| Casey Community Center             | 189,250                       | 147,976    | 41,274  | 156,821        |
| Old Towne Pavilion                 | 4,460                         | 2,758      | 1,702   | 3,833          |
| Gaithersburg Aquatic Center        | 60,950                        | 18,442     | 42,508  | 6,033          |
| Activity Center at Bohrer Park     | 303,950                       | 267,164    | 36,786  | 253,518        |
| Gaithersburg Arts Barn             | 94,350                        | 70,578     | 23,772  | 82,955         |
| Water park                         | 146,350                       | 136,354    | 9,996   | 140,398        |
| Miniature golf course              | 22,800                        | 13,152     | 9,648   | 10,743         |
| Skate park                         | 6,350                         | 3,036      | 3,314   | 4,261          |
| Youth Center in Olde Towne         | 48,600                        | 37,580     | 11,020  | 37,738         |
| Gaithersburg Youth Center          | 51,350                        | 49,263     | 2,087   | 42,748         |
| Miscellaneous                      | 48,000                        | 28,239     | 19,761  | -              |
| Parking facility                   | 103,400                       | 82,414     | 20,986  | 77,722         |
| Planning and Code Administration   | 911,419                       | 816,872    | 94,547  | 736,237        |
| Planning                           | 832,333                       | 739,138    | 93,195  | 759,094        |

City of Gaithersburg, Maryland

Schedule of Expenditures and Encumbrances – Budget and Actual  
(Budgetary Basis) – General Fund  
Year Ended June 30, 2015  
(With Comparative Totals for 2014)

(continued)

|                                      | 2015                          |                   | Variance with<br>Final Budget<br>Positive<br>(Negative) | 2014<br>Actual    |
|--------------------------------------|-------------------------------|-------------------|---|-------------------|
|                                      | Original<br>& Final<br>Budget | Actual            |   |                   |
| Neighborhood Services                | 841,920                       | 676,795           | 165,125   | 627,211           |
| Public information                   | 782,526                       | 748,334           | 34,192  | 760,133           |
| Cable television – Channel 54        | 312,775                       | 256,722           | 56,053  | 248,170           |
| <b>Total general government</b>      | <b>13,616,981</b>             | <b>11,297,106</b> | <b>2,319,875</b>  | <b>11,061,302</b> |
| <b>Public Safety</b>                 |                               |                   |   |                   |
| Police                               | 9,229,056                     | 8,757,013         | 472,043   | 8,621,434         |
| Permits and inspections              | 1,811,080                     | 1,571,888         | 239,192   | 1,459,824         |
| Traffic engineering                  | 272,152                       | 282,581           | (10,429)  | 195,352           |
| Animal control                       | 482,991                       | 451,805           | 31,186  | 433,718           |
| <b>Total public safety</b>           | <b>11,795,279</b>             | <b>11,063,287</b> | <b>731,992</b>  | <b>10,710,328</b> |
| <b>Public Works</b>                  |                               |                   |   |                   |
| Public works administration          | 793,992                       | 818,492           | (24,500)  | 822,623           |
| Streets and special projects         | 1,425,350                     | 1,001,609         | 423,741   | 1,215,216         |
| Fleet maintenance                    | 527,514                       | 524,108           | 3,406   | 501,228           |
| Landscaping and forestry             | 1,138,572                     | 1,027,020         | 111,552   | 1,047,182         |
| Municipal parks maintenance          | 1,758,990                     | 1,754,872         | 4,118   | 1,557,734         |
| Mowing and bulk pick-up              | 1,967,167                     | 1,747,011         | 220,156   | 1,768,736         |
| Recycling                            | 691,634                       | 691,355           | 279   | 657,934           |
| Engineering services                 | 544,719                       | 426,129           | 118,590   | 414,111           |
| Street lighting                      | 657,546                       | 594,434           | 63,112  | 549,079           |
| <b>Total public works</b>            | <b>9,505,484</b>              | <b>8,585,030</b>  | <b>920,454</b>  | <b>8,533,843</b>  |
| <b>Parks, Recreation and Culture</b> |                               |                   |   |                   |
| Administration                       | 840,677                       | 727,481           | 113,196   | 660,506           |
| Recreation programs and sports       | 866,098                       | 885,924           | (19,826)  | 820,757           |
| Recreation classes                   | 336,720                       | 268,011           | 68,709  | 301,558           |
| Youth services                       | 439,749                       | 441,338           | (1,589)   | 406,791           |
| Summer programs                      | 555,064                       | 497,958           | 57,106  | 493,708           |
| Gaithersburg Youth Center            | 259,286                       | 196,692           | 62,594  | 171,059           |
| Skate park                           | 24,989                        | 30,650            | (5,661)   | 30,870            |
| Casey Community Center               | 357,536                       | 375,003           | (17,467)  | 363,248           |
| Water park                           | 595,933                       | 486,279           | 109,654   | 503,659           |
| Gaithersburg Arts Barn               | 493,786                       | 500,568           | (6,782)   | 480,794           |

City of Gaithersburg, Maryland

Schedule of Expenditures and Encumbrances – Budget and Actual  
(Budgetary Basis) – General Fund  
Year Ended June 30, 2015  
(With Comparative Totals for 2014)

(concluded)

|  | 2015                          |                      | Variance with<br>Final Budget<br>Positive<br>(Negative) | 2014<br>Actual       |
|--|-------------------------------|----------------------|---|----------------------|
|  | Original<br>& Final<br>Budget | Actual               |   |                      |
| Youth Center in Olde Towne   | 250,685                       | 225,128              | 25,557  | 208,742              |
| Activities center at Bohrer park                                     | 432,848                       | 404,317              | 28,531  | 400,853              |
| Gaithersburg Aquatic Center  | 315,627                       | 221,220              | 94,407  | 125,636              |
| Miniature golf course  | 91,382                        | 85,383               | 5,999   | 76,715               |
| Picnic pavilions   | 20,357                        | 21,049               | (692)   | 21,426               |
| Winter Lights  | 211,221                       | 188,021              | 23,200  | 141,141              |
| Special events   | 1,127,963                     | 1,009,118            | 118,845   | 736,270              |
| Museums  | 182,923                       | 177,845              | 5,078   | 326,566              |
| Kentlands Mansion  | 358,520                       | 328,054              | 30,466  | 315,719              |
| <b>Total parks, recreation and culture</b>                           | <b>7,761,364</b>              | <b>7,070,039</b>     | <b>691,325</b>  | <b>6,586,018</b>     |
| Community Services and Development                                   |                               |                      |   |                      |
| Senior program   | 705,191                       | 629,261              | 75,930  | 598,141              |
| Community services   | 1,356,046                     | 1,331,461            | 24,585  | 1,186,360            |
| Homeless assistance  | 561,631                       | 471,365              | 90,266  | 483,361              |
| <b>Total community services and development</b>                      | <b>2,622,868</b>              | <b>2,432,087</b>     | <b>190,781</b>  | <b>2,267,862</b>     |
| Miscellaneous  |                               |                      |   |                      |
| Contingency  | 500,000                       | 85,499               | 414,501   | 55,259               |
| Non-departmental   | 3,814,526                     | 2,647,410            | 1,167,116   | 3,269,393            |
| OPEB contribution  | 910,000                       | 1,310,000            | (400,000)   | 1,310,000            |
| <b>Total miscellaneous</b>   | <b>5,224,526</b>              | <b>4,042,909</b>     | <b>1,181,617</b>  | <b>4,634,652</b>     |
| <b>Total expenditures and encumbrances - budgetary basis</b>         | <b>50,526,502</b>             | <b>44,490,458</b>    | <b>6,036,044</b>  | <b>43,794,005</b>    |
| Adjustments to Conform with Generally Accepted Accounting Principles |                               | 320,187              |   | 172,718              |
| <b>Total expenditures - GAAP basis</b>                               |                               | <b>\$ 44,810,645</b> |   | <b>\$ 43,966,723</b> |

City of Gaithersburg, Maryland

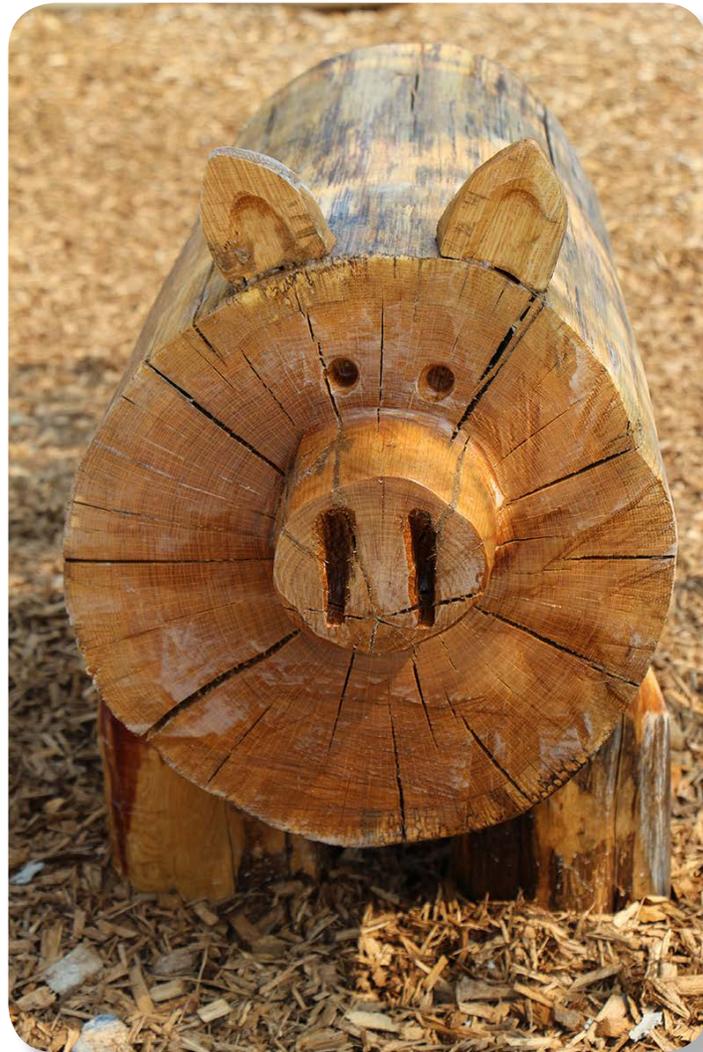
Statement of Changes in Assets and Liabilities – Forest Conservation – Agency Fund  
Year Ended June 30, 2015

|                      | Balance<br>June 30, 2014 | Additions   | Deletions         | Balance<br>June 30, 2015 |
|----------------------|--------------------------|-------------|-------------------|--------------------------|
| <b>Assets</b>        |                          |             |                   |                          |
| Due from other funds | <u>\$ 114,781</u>        | <u>\$ -</u> | <u>\$ 114,781</u> | <u>\$ -</u>              |
| <b>Liabilities</b>   |                          |             |                   |                          |
| Deposits             | <u>\$ 114,781</u>        | <u>\$ -</u> | <u>\$ 114,781</u> | <u>\$ -</u>              |



# Statistical Section





**Wooden Play Piece at  
Constitution Gardens**

**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.

Page(s)

|  |       |
|--|-------|
| <b>Financial Trends</b>  | 61–66 |
| These schedules contain trend information to help the reader understand how the City’s financial performance and well-being have changed over time.  |       |
| <b>Revenue Capacity</b>  | 67–71 |
| These schedules contain information to help the reader assess the City’s most significant local revenue sources, the property tax and the room tax.  |       |
| <b>Debt Capacity</b>   | 72    |
| These schedules present information to help the reader assess the affordability of the government’s current levels of outstanding debt and the government’s ability to issue additional debt in the future.        |       |
| <b>Economic and Demographic Information</b>  | 73–74 |
| These schedules offer economic and demographic indicators to help the reader understand the environment within which the City’s financial activities take place.   |       |
| <b>Operating Information</b>   | 75–80 |
| 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)

|   | 2015                  | 2014                  | 2013                  | 2012                  | 2011                  | 2010                  | 2009                  | 2008                  | 2007                  | 2006                  |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Governmental Activities                               |                       |                       |                       |                       |                       |                       |                       |                       |                       |                       |
| Net investment in capital assets                      | \$ 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        | \$ 103,385,743        |
| Restricted  | 1,241,199             | -                     | -                     | -                     | -                     | -                     | -                     | -                     | -                     | -                     |
| Unrestricted  | <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>     | <u>49,091,738</u>     |
| <i>Total Governmental<br/>Activities Net Position</i> | <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> | <u>\$ 152,477,481</u> |

Note:

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

**City of Gaithersburg, Maryland**

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

|  | 2015                | 2014                | 2013                | 2012                | 2011                | 2010                | 2009                | 2008                | 2007                | 2006                |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Expenses</b>  |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| General Government                                       | \$ 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        | \$ 8,210,925        |
| Public Safety  | 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           | 7,876,021           |
| Public Works   | 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           | 9,412,588           |
| Park, Recreation & Culture                               | 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           | 7,940,172           |
| Community Services & Development                         | 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           | 1,871,188           |
| Miscellaneous*   | -                   | -                   | -                   | -                   | -                   | -                   | 1,536,547           | 1,797,067           | 4,258,951           | 1,174,091           |
| <b>Total Expenses</b>                                    | <b>50,256,420</b>   | <b>49,760,697</b>   | <b>48,566,624</b>   | <b>47,796,329</b>   | <b>45,420,789</b>   | <b>45,734,253</b>   | <b>45,256,956</b>   | <b>45,331,581</b>   | <b>42,306,447</b>   | <b>36,484,985</b>   |
| <b>Program Revenues</b>                                  |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Charges for Services:                                    |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| General Government                                       | 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           | 1,649,170           |
| Public Safety  | 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             | 782,440             |
| Public Works   | 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           | 1,375,813           |
| Park, Recreation & Culture                               | 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           | 2,989,088           |
| Operating Grants and Contributions                       | 922,928             | 1,184,147           | 1,981,372           | 751,938             | 709,575             | 2,246,034           | 1,202,924           | 1,569,161           | 2,141,875           | 1,561,444           |
| Capital Grants and Contributions                         | 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           | 2,386,066           |
| <b>Total Program Revenues</b>                            | <b>17,057,882</b>   | <b>18,062,356</b>   | <b>16,234,687</b>   | <b>15,135,115</b>   | <b>13,568,443</b>   | <b>12,157,529</b>   | <b>10,909,761</b>   | <b>12,699,390</b>   | <b>10,887,059</b>   | <b>10,744,021</b>   |
| <b>Net (Expense)/Revenue</b>                             | <b>(33,198,538)</b> | <b>(31,698,341)</b> | <b>(32,331,937)</b> | <b>(32,661,214)</b> | <b>(31,852,346)</b> | <b>(33,576,724)</b> | <b>(34,347,195)</b> | <b>(32,632,191)</b> | <b>(31,419,388)</b> | <b>(25,740,964)</b> |
| <b>General Revenues</b>                                  |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Property Taxes   | 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          | 14,114,464          |
| Franchise Fees   | 902,479             | 832,395             | 777,606             | 689,385             | 611,947             | 553,860             | 494,925             | 599,253             | 557,181             | 483,125             |
| Admissions, Amusement,<br>Hotel & Motel Tax              | 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             | 1,165,087           |
| Intergovernmental not<br>Restricted to Specific Programs | 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           | 8,779,326           |
| Investment Earnings                                      | 80,324              | 76,838              | 114,189             | 54,191              | 91,395              | 135,532             | 930,421             | 2,212,859           | 2,627,160           | 1,925,574           |
| Gain (loss) on Sale of Capital Assets                    | 95,852              | -                   | -                   | -                   | -                   | (478,113)           | 1,497,522           | -                   | -                   | 1,860,248           |
| Miscellaneous  | 713,899             | 1,568,659           | 4,832,201           | 468,463             | 452,943             | 682,179             | 683,730             | 5,398,897           | 1,423,615           | 853,929             |
| <b>Total General Revenues</b>                            | <b>41,176,370</b>   | <b>40,862,325</b>   | <b>41,447,543</b>   | <b>38,169,652</b>   | <b>38,098,663</b>   | <b>32,597,328</b>   | <b>35,670,512</b>   | <b>37,665,998</b>   | <b>31,856,186</b>   | <b>29,181,753</b>   |
| <b>Change in Net Position</b>                            | <b>\$ 7,977,832</b> | <b>\$ 9,163,984</b> | <b>\$ 9,115,606</b> | <b>\$ 5,508,438</b> | <b>\$ 6,246,317</b> | <b>\$ (979,396)</b> | <b>\$ 1,323,317</b> | <b>\$ 5,033,807</b> | <b>\$ 436,798</b>   | <b>\$ 3,440,789</b> |

The City does not use business-type activities.

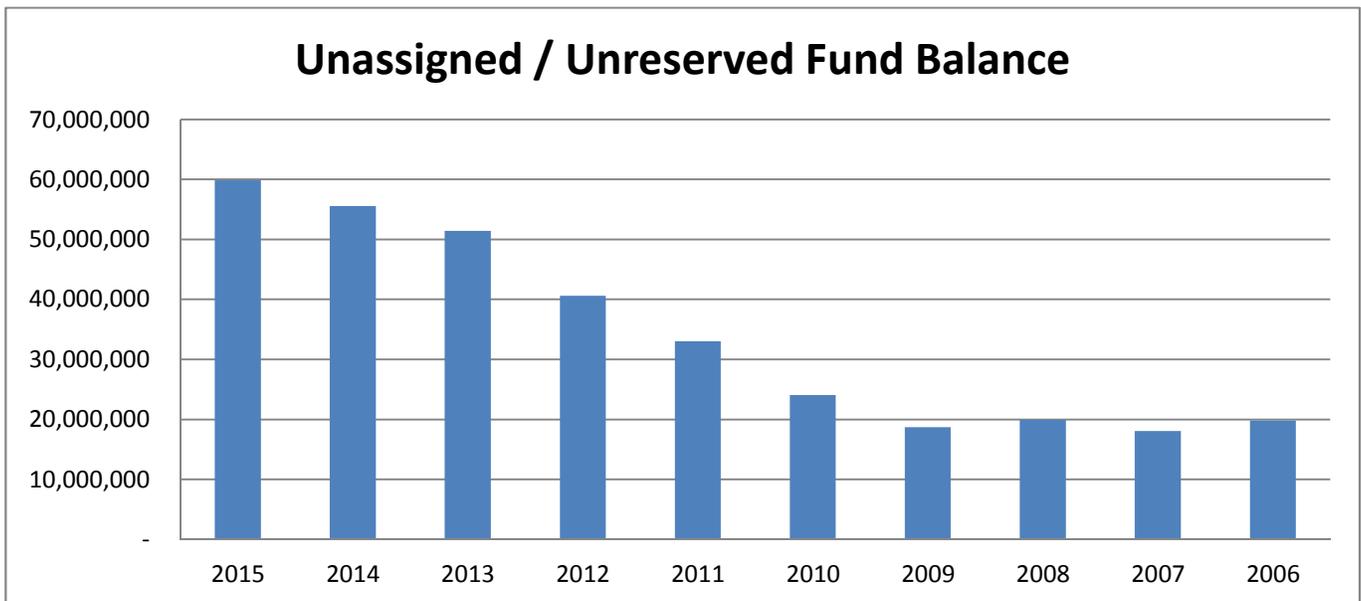
Beginning in FY10 the Miscellaneous Expenses were combined with General Government

**City of Gaithersburg, Maryland**

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

|   | 2015                  | 2014                  | 2013                 | 2012                 | 2011                 |
|---|-----------------------|-----------------------|----------------------|----------------------|----------------------|
| <b>General Fund</b>                                 |                       |                       |                      |                      |                      |
| Reserved  | \$ -                  | \$ -                  | \$ -                 | \$ -                 | \$ -                 |
| Unreserved  | -                     | -                     | -                    | -                    | -                    |
| Non-spendable *                                     | 173,933               | 1,235,084             | 666,682              | 416,567              | 142,809              |
| Restricted *  | 506,812               | -                     | -                    | -                    | -                    |
| Committed *   | 3,116,773             | 3,600,000             | 2,514,000            | -                    | -                    |
| Assigned *  | 14,414,580            | 11,964,092            | 11,556,843           | 11,081,062           | 10,082,400           |
| Unassigned *  | 59,860,713            | 55,540,429            | 51,441,048           | 40,627,029           | 33,019,710           |
| <b>Total General Fund</b>                           | <u>\$ 78,072,811</u>  | <u>\$ 72,339,605</u>  | <u>\$ 66,178,573</u> | <u>\$ 52,124,658</u> | <u>\$ 43,244,919</u> |
| <b>All Other Governmental Funds</b>                 |                       |                       |                      |                      |                      |
| Reserved for Encumbrances                           | -                     | -                     | -                    | -                    | -                    |
| Restricted *  | 734,387               | -                     | -                    | -                    | -                    |
| Committed *   | 2,636,241             | 4,625,532             | 5,139,711            | 3,266,162            | 3,979,595            |
| Assigned/Designated<br>Reported in Capital Projects | 29,978,072            | 25,395,463            | 23,602,478           | 25,377,502           | 25,553,447           |
| <b>Total All Other Governmental Funds</b>           | <u>33,348,700</u>     | <u>30,020,995</u>     | <u>28,742,189</u>    | <u>28,643,664</u>    | <u>29,533,042</u>    |
| <b>Total Governmental Funds</b>                     | <u>\$ 111,421,511</u> | <u>\$ 102,360,600</u> | <u>\$ 94,920,762</u> | <u>\$ 80,768,322</u> | <u>\$ 72,777,961</u> |

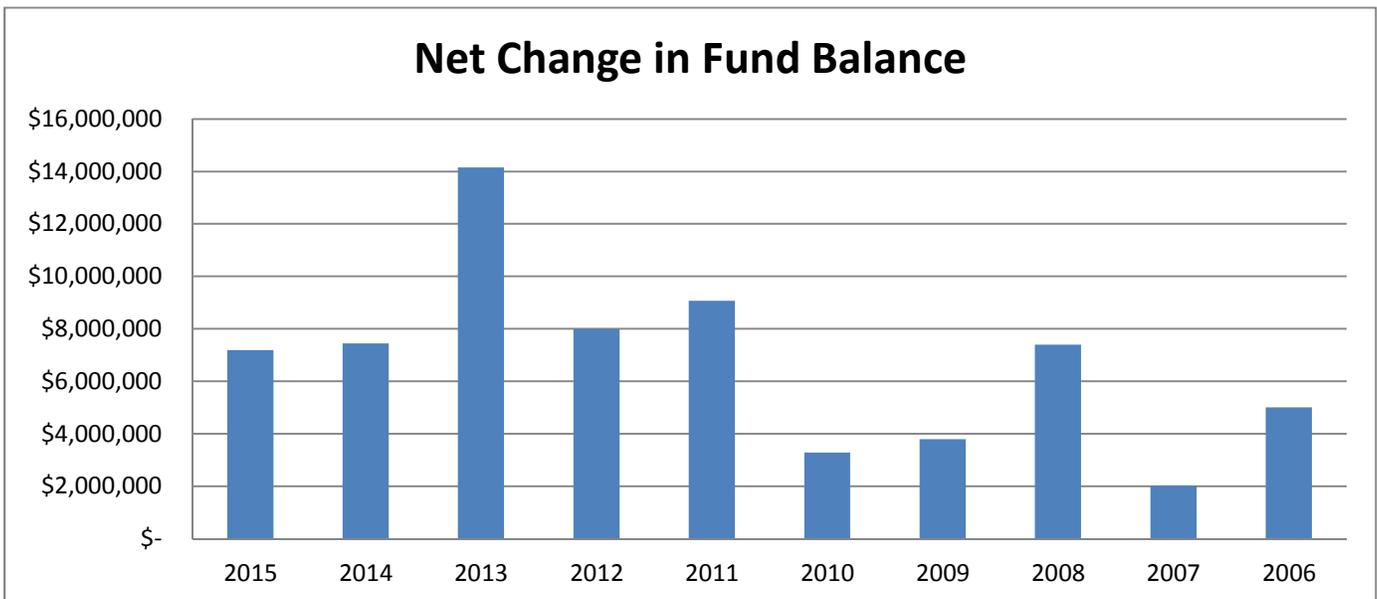
\* Note - GASB Statement No. 54 altered the classification of governmental fund balances on a prospective basis effective with fiscal year 2011.



**City of Gaithersburg, Maryland**

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

|   | 2010                 | 2009                 | 2008                 | 2007                 | 2006                 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>General Fund</b>   |                      |                      |                      |                      |                      |
| Reserved  | \$ 8,954,030         | \$ 12,431,003        | \$ 11,224,516        | \$ 10,629,786        | \$ 12,437,949        |
| Unreserved  | 24,039,806           | 18,723,646           | 19,902,437           | 18,055,440           | 19,827,024           |
| Non-spendable *   | -                    | -                    | -                    | -                    | -                    |
| Restricted *  | -                    | -                    | -                    | -                    | -                    |
| Committed *   | -                    | -                    | -                    | -                    | -                    |
| Assigned *  | -                    | -                    | -                    | -                    | -                    |
| Unassigned *  | -                    | -                    | -                    | -                    | -                    |
| <b>Total General Fund</b>                                   | <u>\$ 32,993,836</u> | <u>\$ 31,154,649</u> | <u>\$ 31,126,953</u> | <u>\$ 28,685,226</u> | <u>\$ 32,264,973</u> |
| <b>All Other Governmental Funds</b>                         |                      |                      |                      |                      |                      |
| Reserved for Encumbrances                                   | 2,608,276            | 3,772,000            | 3,238,750            | 3,993,897            | 1,686,943            |
| Restricted *  | -                    | -                    | -                    | -                    | -                    |
| Committed   | -                    | -                    | -                    | -                    | -                    |
| Assigned/Designated, Reported in:<br>Capital Projects Funds | <u>28,110,103</u>    | <u>25,496,419</u>    | <u>22,259,138</u>    | <u>16,549,764</u>    | <u>13,255,730</u>    |
| <b>Total All Other Governmental Funds</b>                   | <u>30,718,379</u>    | <u>29,268,419</u>    | <u>25,497,888</u>    | <u>20,543,661</u>    | <u>14,942,673</u>    |
| <b>Total Governmental Funds</b>                             | <u>\$ 63,712,215</u> | <u>\$ 60,423,068</u> | <u>\$ 56,624,841</u> | <u>\$ 49,228,887</u> | <u>\$ 47,207,646</u> |



**City of Gaithersburg, Maryland**

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

|   | 2015                | 2014                | 2013                 | 2012                | 2011                |
|---|---------------------|---------------------|----------------------|---------------------|---------------------|
| <b>Revenues</b>                                     |                     |                     |                      |                     |                     |
| Taxes   | \$ 26,394,499       | \$ 26,285,130       | \$ 25,564,310        | \$ 26,996,881       | \$ 26,824,666       |
| Licenses and permits                                | 5,183,854           | 4,130,419           | 5,036,887            | 4,968,781           | 4,348,232           |
| Intergovernmental                                   | 15,820,473          | 15,544,603          | 13,504,206           | 12,637,614          | 11,793,049          |
| Charges for services                                | 6,721,278           | 6,253,400           | 5,979,736            | 5,393,662           | 5,001,975           |
| Fines and forfeitures                               | 2,494,883           | 2,509,987           | 3,149,250            | 3,424,352           | 2,601,188           |
| Interest income                                     | 80,324              | 76,838              | 114,189              | 54,191              | 91,395              |
| Miscellaneous                                       | 1,388,235           | 2,224,720           | 3,634,739            | 468,463             | 452,943             |
| <i>Total Revenues</i>                               | <u>58,083,546</u>   | <u>57,025,097</u>   | <u>56,983,317</u>    | <u>53,943,944</u>   | <u>51,113,448</u>   |
| <b>Expenditures</b>                                 |                     |                     |                      |                     |                     |
| Current   |                     |                     |                      |                     |                     |
| General government                                  | 11,705,328          | 11,138,672          | 10,765,800           | 9,025,529           | 8,875,244           |
| Public safety                                       | 11,033,960          | 10,719,779          | 9,914,172            | 10,944,777          | 10,134,668          |
| Public works  | 8,565,293           | 8,589,974           | 8,133,802            | 8,087,831           | 8,369,405           |
| Parks and recreation                                | 7,070,672           | 6,544,528           | 6,381,842            | 6,338,094           | 5,982,291           |
| Community services and development                  | 2,443,962           | 2,260,327           | 2,217,111            | 2,089,330           | 2,010,300           |
| Transfer to retiree benefit trust                   | -                   | -                   | -                    | 910,000             | 455,000             |
| Other   | 3,994,652           | 4,713,443           | 4,346,623            | 3,223,589           | 2,013,850           |
| Capital outlay                                      | 6,196,682           | 5,651,194           | 3,858,385            | 5,416,508           | 4,232,069           |
| <i>Total Expenditures</i>                           | <u>51,010,549</u>   | <u>49,617,917</u>   | <u>45,617,735</u>    | <u>46,035,658</u>   | <u>42,072,827</u>   |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>7,072,997</u>    | <u>7,407,180</u>    | <u>11,365,582</u>    | <u>7,908,286</u>    | <u>9,040,621</u>    |
| <b>Other Financing Sources (Uses)</b>               |                     |                     |                      |                     |                     |
| Sales of capital assets                             | 163,046             | 32,658              | 2,786,858            | 82,075              | 25,125              |
| Transfers In  | 8,790,000           | 6,930,000           | 3,956,910            | 5,437,130           | 3,046,732           |
| Transfers out                                       | (8,790,000)         | (6,930,000)         | (3,956,910)          | (5,437,130)         | (3,046,732)         |
| <i>Total Other Financing Sources (Uses)</i>         | <u>163,046</u>      | <u>32,658</u>       | <u>2,786,858</u>     | <u>82,075</u>       | <u>25,125</u>       |
| <i>Net Change in Fund Balances</i>                  | <u>\$ 7,236,043</u> | <u>\$ 7,439,838</u> | <u>\$ 14,152,440</u> | <u>\$ 7,990,361</u> | <u>\$ 9,065,746</u> |

**City of Gaithersburg, Maryland**

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

|   | 2010                | 2009                | 2008                | 2007                | 2006                |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Revenues</b>                                     |                     |                     |                     |                     |                     |
| Taxes   | \$ 22,288,431       | \$ 22,136,525       | \$ 19,262,581       | \$ 17,563,444       | \$ 15,329,572       |
| Licenses and permits                                | 3,298,308           | 2,887,975           | 3,006,104           | 2,350,832           | 2,839,355           |
| Intergovernmental                                   | 13,128,144          | 13,427,699          | 14,237,049          | 14,365,733          | 12,376,203          |
| Charges for services                                | 4,693,924           | 4,496,354           | 4,652,709           | 4,421,041           | 4,255,294           |
| Fines and forfeitures                               | 2,008,308           | 610,473             | 1,374,222           | 165,676             | 184,987             |
| Interest income                                     | 135,532             | 930,421             | 2,212,859           | 2,627,160           | 1,925,574           |
| Miscellaneous                                       | 682,179             | 683,730             | 5,472,964           | 1,421,317           | 853,929             |
| <i>Total Revenues</i>                               | <u>46,234,826</u>   | <u>45,173,177</u>   | <u>50,218,488</u>   | <u>42,915,203</u>   | <u>37,764,914</u>   |
| <b>Expenditures</b>                                 |                     |                     |                     |                     |                     |
| Current   |                     |                     |                     |                     |                     |
| General government                                  | 9,400,030           | 8,783,798           | 8,285,566           | 7,428,673           | 6,778,533           |
| Public safety                                       | 10,039,331          | 10,464,470          | 9,586,914           | 8,402,909           | 7,163,130           |
| Public works  | 9,270,532           | 8,626,303           | 6,668,288           | 6,339,144           | 5,492,217           |
| Parks and recreation                                | 6,491,537           | 6,517,399           | 7,806,505           | 7,698,543           | 7,006,072           |
| Community services and development                  | 2,074,583           | 2,052,646           | 2,081,517           | 1,883,026           | 1,860,500           |
| Transfer to retiree benefit trust                   | -                   | 455,000             | 401,000             | 2,552,050           | -                   |
| Other   | 2,022,587           | 1,074,042           | 1,391,404           | 1,693,749           | 1,168,328           |
| Capital outlay                                      | 3,680,679           | 5,557,414           | 6,629,977           | 4,914,067           | 5,401,735           |
| <i>Total Expenditures</i>                           | <u>42,979,279</u>   | <u>43,531,072</u>   | <u>42,851,171</u>   | <u>40,912,161</u>   | <u>34,870,515</u>   |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>3,255,547</u>    | <u>1,642,105</u>    | <u>7,367,317</u>    | <u>2,003,042</u>    | <u>2,894,399</u>    |
| <b>Other Financing Sources (Uses)</b>               |                     |                     |                     |                     |                     |
| Sales of capital assets                             | 33,600              | 2,156,122           | 28,637              | 18,199              | 2,112,309           |
| Transfers In  | 5,130,639           | 9,327,945           | 11,584,204          | 10,515,055          | 9,226,622           |
| Transfers out                                       | (5,130,639)         | (9,327,945)         | (11,584,204)        | (10,515,055)        | (9,226,622)         |
| <i>Total Other Financing Sources (Uses)</i>         | <u>33,600</u>       | <u>2,156,122</u>    | <u>28,637</u>       | <u>18,199</u>       | <u>2,112,309</u>    |
| <i>Net Change in Fund Balances</i>                  | <u>\$ 3,289,147</u> | <u>\$ 3,798,227</u> | <u>\$ 7,395,954</u> | <u>\$ 2,021,241</u> | <u>\$ 5,006,708</u> |

**City of Gaithersburg, Maryland**

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

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| Year                | Property Taxes | Hotel<br>Admisstions &<br>Amusement<br>Taxes | Income Taxes  | Total         |
|---------------------|----------------|--|---------------|---------------|
| 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    |
| 2006                | 14,183,160     | 1,165,087                                    | 7,305,720     | 22,653,967    |
| Change<br>2006-2015 | 69.6%          | 96.9%  | 48.9%         | 64.3%         |

**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 |
|------|---------------|-------------------|-----------------------------|---------------|---|----------------------|
| 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%                |
| 2006 | 7,010,239,417 | 95,085,977        | 224,084,580                 | 7,329,409,974 | 7,329,409,974                               | 36.03%               |

Property values are assessed at 100 percent.

\*\* Source: MC detailed tax receivables report.

**City of Gaithersburg, Maryland**

**Real Property Tax Levies And Collections  
Last Ten Fiscal Years**

| <u>Year</u> | <u>Total Tax Levy</u> | <u>Current Tax Collections</u> | <u>Percent of Current Tax Collections To Tax Levy</u> | <u>Delinquent Tax Collections</u> | <u>Total Tax Collections*</u> | <u>Percent of Total Tax Collections To Tax Levy</u> |
|-------------|-----------------------|--------------------------------|---|-----------------------------------|-------------------------------|---|
| 2015        | \$ 23,017,960         | \$ 22,994,859                  | 99.90%  | \$ 57,786                         | 23,052,645                    | 100.15%   |
| 2014        | 22,977,036            | 22,833,113                     | 99.37%  | 27,883                            | 22,860,996                    | 99.49%  |
| 2013        | 22,198,042            | 22,103,676                     | 99.57%  | 17,082                            | 22,120,758                    | 99.65%  |
| 2012        | 24,099,749            | 23,554,380                     | 97.74%  | (561,568)                         | 22,992,812                    | 95.41%  |
| 2011        | 24,040,356            | 23,501,271                     | 97.76%  | (248,398)                         | 23,252,873                    | 96.72%  |
| 2010        | 21,389,471            | 20,228,821                     | 94.57%  | 43,423                            | 20,272,244                    | 94.78%  |
| 2009        | 21,179,664            | 20,206,336                     | 95.40%  | 130,315                           | 20,336,651                    | 96.02%  |
| 2008        | 18,566,771            | 18,257,510                     | 98.33%  | 87,088                            | 18,344,598                    | 98.80%  |
| 2007        | 16,483,710            | 16,479,710                     | 99.98%  | (100,669)                         | 16,379,041                    | 99.37%  |
| 2006        | 14,507,688            | 14,275,316                     | 98.40%  | (92,156)                          | 14,183,160                    | 97.76%  |

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

**City of Gaithersburg, Maryland**

**Principal Taxpayers  
Current Fiscal Year and Nine Years Ago**

| Taxpayer                        | 2015                            |  |
|---------------------------------|---------------------------------|--|
|                                 | Property Assessed Valuation (1) | Percentage of Total Assessed Valuation |
| Medimmune, Inc                  | 207,174,666                     | 235.81%                                |
| ARE LLC                         | 113,048,066                     | 128.68%                                |
| Lake Forest Associates          | 109,951,133                     | 125.15%                                |
| Asbury Atlantic Inc             | 101,894,633                     | 115.98%                                |
| Avalon II Maryland Value III LP | 88,429,133                      | 100.65%                                |
| Archstone Westchester           | 87,596,033                      | 99.71%                                 |
| KBSIII One Washingtonian LLC    | 85,250,000                      | 97.04%                                 |
| 893 Clopper Road Investors Corp | 85,221,500                      | 97.00%                                 |
| Federal Realty Investments TR   | 83,109,700                      | 94.60%                                 |
| TRT 270 Center Owner LLC        | 75,241,400                      | 85.64%                                 |
| <b>Total</b>                    | <b>\$ 1,036,916,264</b>         | <b>1180.26%</b>                        |
| <i>Total Assessed Valuation</i> | <i>\$ 8,785,480,916</i>         |  |
| Taxpayer                        | 2006                            |  |
|                                 | Property Assessed Valuation (1) | Percentage of Total Assessed Valuation |
| ARE LLC                         | \$ 158,965,095                  | 2.27%                                  |
| Asbury Methodist Home, Inc.     | 134,764,191                     | 1.92%                                  |
| Lake Forest Associates          | 128,852,466                     | 1.84%                                  |
| Medimmune, Inc                  | 87,972,166                      | 1.25%                                  |
| Saul Holdings LTD Partnership   | 73,387,965                      | 1.05%                                  |
| Federal Realty Investment Trust | 67,623,332                      | 0.96%                                  |
| CHI Two Washingtonian LLC       | 66,695,766                      | 0.95%                                  |
| 893 Clopper Road Investors      | 65,358,765                      | 0.93%                                  |
| 9801 Washington Office, Inc     | 60,232,366                      | 0.86%                                  |
| SFHI LLC                        | 57,475,600                      | 0.82%                                  |
| <b>Total</b>                    | <b>\$ 901,327,712</b>           | <b>12.86%</b>                          |
| <i>Total Assessed Valuation</i> | <i>\$ 7,010,239,417</i>         |  |

(1) Assessed valuation based on the valuation of Real Property for taxes collected in 2015 and 2006 respectively, and a review of the 10 largest taxpayers for the City.

Property values are assessed at 100 percent.

Source: City of Gaithersburg Finance Department

**City of Gaithersburg, Maryland**

**Real Property Tax Rates - Direct and Overlapping Governments  
(Per \$100 of Assessed Valuation)  
Last Ten Fiscal Years**

| Year | Direct Rate          | Overlapping       |                   |          | Total    |
|------|----------------------|-------------------|-------------------|----------|----------|
|      | City of Gaithersburg | Montgomery County | State of Maryland | Transit  |          |
| 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    |
| 2006 | 0.212                | 0.679             | 0.112             | 0.177    | 1.180    |

**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, 2015**

| Jurisdiction                             | Total<br>Debt<br>Outstanding | Percentage<br>Applicable<br>to City | Applicable<br>to City of<br>Gaithersburg |
|--|------------------------------|-------------------------------------|--|
| <b>Direct</b>                            |                              |                                     |  |
| City of Gaithersburg                     | \$ -                         | 100.0%                              | \$ -                                     |
| <b>Overlapping</b>                       |                              |                                     |  |
| Montgomery County                        | \$ 4,039,654,173             | 5.0%                                | \$ 163,692,478                           |
| <b>Total Direct and Overlapping Debt</b> | <u>\$ 4,039,654,173</u>      |                                     | <u>\$ 163,692,478</u>                    |

Source:  
Montgomery County Department of Finance.

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**

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| Year | (1)<br>Population | Personal<br>Income<br>(\$ in thousands) | (2)<br>Per<br>Capita<br>Income | Median<br>Age | Montgomery<br>County<br>Avg. School<br>Enrollment | (4)<br>Montgomery<br>County<br>Unemployment<br>Rate |
|------|-------------------|---|--------------------------------|---------------|---|---|
| 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   |
| 2006 | 58,607            | 3,931,123                               | 67,076                         | N/A           | 139,387   | 2.9   |

(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, 2015**

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2015

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| Employer   | Employees           | Percentage<br>of Total City<br>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                 | 0.14%                                     |
| 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>0.06%</u>                              |
| <b>Total</b>   | <b><u>8,992</u></b> | <b>1.65%</b>                              |
| Total Montgomery County Civilian Labor Force<br>(Data for total employees available for county only) | <u>544,313</u>      |   |

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2006

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| Employer   | Employees           | Percentage<br>of Total City<br>Employment |
|--|---------------------|---|
| National Institute of Standards and Technology   | 2,100               | 1.88%                                     |
| IBM  | 1,100               | 0.98%                                     |
| Medimmune  | 1,000               | 0.89%                                     |
| Sodexo USA   | 1,000               | 0.89%                                     |
| Asbury Methodist Village   | 867                 | 0.77%                                     |
| The Gazette Newspaper  | 428                 | 0.38%                                     |
| Gene Logic   | 362                 | 0.32%                                     |
| Broadsoft, Inc.  | 200                 | 0.18%                                     |
| Digene   | 280                 | 0.25%                                     |
| Arline Foods   | 187                 | 0.17%                                     |
| <b>Total</b>   | <b><u>7,524</u></b> | <b>6.72%</b>                              |
| Total Montgomery County Civilian Labor Force<br>(Data for total employees available for county only) | <u>111,967</u>      |   |

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

City of Gaithersburg, Maryland

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

| Function/Program                 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|----------------------------------|------|------|------|------|------|------|------|------|------|------|
| General Government:              |      |      |      |      |      |      |      |      |      |      |
| Mayor and City Council           | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    |
| Legal Services                   | 3    | 3    | 2    | 2    | 2    | 2    | 2    | -    | -    | -    |
| Office of the City Manager       | 5    | 5    | 4    | 4    | 4    | 5    | 5    | 5    | 5    | 6    |
| Economic & Community Development | 2    | 2    | 2    | 2    | 2    | 2    | 2    | 3    | 3    | 2    |
| Environmental Affairs            | 3    | 3    | 3    | 1    | 1    | 1    | 2    | 2    | 2    | 2    |
| Human Resources                  | 5    | 5    | 5    | 5    | 5    | 5    | 5    | 4    | 4    | 4    |
| Finance & Administration         | 9    | 9    | 9    | 8    | 7    | 7    | 6    | 6    | 6    | 6    |
| Housing & Community Deve         | 1    | 1    | 1    | 1    | 1    | 1    | 1    | -    | -    | -    |
| Information Technology           | 11   | 11   | 10   | 9    | 8    | 8    | 8    | 7    | 6    | 5    |
| Facilities Management            | 9    | 7    | 8    | 8    | 8    | 8    | 8    | 8    | 7    | 5    |
| Buildings and Grounds            | -    | -    | -    | -    | -    | -    | -    | -    | -    | 2    |
| Public Information               | 6    | 6    | 6    | 6    | 4    | 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    | -    | -    | -    | -    | -    | -    | -    |
| Planning & Administration        | 6    | 6    | 6    | 9    | 10   | 10   | 10   | 11   | 11   | 12   |
| Public Safety                    |      |      |      |      |      |      |      |      |      |      |
| Police Services                  | 66   | 65   | 65   | 59   | 59   | 59   | 58   | 56   | 51   | 47   |
| Code Administration              | 20   | 18   | 15   | 20   | 20   | 20   | 20   | 20   | 19   | 15   |
| Traffic Engineering              | 2    | 2    | 2    | 2    | 2    | 2    | 2    | 2    | 2    | 2    |
| Animal Control                   | 4    | 4    | 4    | 4    | 5    | 5    | 4    | 4    | 4    | 4    |
| Public Works                     |      |      |      |      |      |      |      |      |      |      |
| Public Works Administration      | 5    | 5    | 5    | 5    | 5    | 5    | 5    | 5    | 5    | 5    |
| Parks Maintenance Division       | 16   | 16   | 16   | 16   | 16   | 16   | 16   | 16   | 16   | 17   |
| Streets & Special Projects       | 10   | 10   | 10   | 10   | 10   | 10   | 10   | 9    | 9    | 9    |
| Fleet Maintenance                | 5    | 6    | 6    | 6    | 6    | 6    | 5    | 5    | 5    | 5    |
| Landscaping & Forestry           | 13   | 13   | 13   | 13   | 13   | 13   | 13   | 13   | 12   | 11   |
| Mowing & Bulk Pick-Up            | 20   | 19   | 19   | 19   | 19   | 20   | 20   | 19   | 17   | 18   |
| Engineering Services             | 4    | 4    | 3    | 2    | 2    | 2    | 2    | 2    | 1    | 1    |

**City of Gaithersburg, Maryland**

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

| Function/Program                                    | 2015                | 2014                | 2013                | 2012                | 2011                | 2010                | 2009                | 2008                | 2007                | 2006                |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Parks, Recreation &amp; Culture</b>              |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Parks, Recreation & Culture                         | 5                   | 5                   | 5                   | 5                   | 4                   | 5                   | 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                   | 4                   |
| Gaithersburg Youth Center                           | 2                   | 1                   | 1                   | 1                   | 1                   | 1                   | 1                   | 1                   | 1                   | -                   |
| Olde Towne Youth Center                             | 1                   | 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                   | 1                   | 1                   | 1                   | 1                   | 1                   | 1                   | 1                   | 1                   |
| Gaithersburg Arts Barn                              | 2                   | 2                   | 2                   | 2                   | 1                   | 1                   | 1                   | 1                   | 2                   | 1                   |
| Kentlands Mansion                                   | 3                   | 3                   | 3                   | 3                   | 2                   | 2                   | 2                   | 2                   | 2                   | 2                   |
| Cultural Arts Programs (Comm. Munseum) <sup>†</sup> | 1                   | 2                   | 2                   | 1                   | 1                   | 1                   | 1                   | 1                   | 1                   | 1                   |
| Special Events                                      | 6                   | 4                   | 4                   | 5                   | 5                   | 4                   | 4                   | 4                   | 4                   | 4                   |
| Gaithersburg Aquatic Center                         | 1                   | 1                   | 1                   | 1                   | 1                   | 1                   | 1                   | 1                   | 1                   | 1                   |
| Winter Lights                                       | -                   | -                   | -                   | -                   | 1                   | 1                   | 1                   | 1                   | 1                   | 1                   |
| Miniature Golf Course                               | -                   | -                   | 1                   | -                   | -                   | -                   | -                   | -                   | -                   | -                   |
| Activity Center                                     | 3                   | 3                   | 3                   | 5                   | 4                   | 4                   | 4                   | 4                   | 4                   | 4                   |
| <b>Community Services and Development</b>           |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Seniors Program                                     | 6                   | 5                   | 5                   | 5                   | 5                   | 5                   | 5                   | 5                   | 5                   | 5                   |
| Community Services                                  | 4                   | 4                   | 3                   | 3                   | 3                   | 3                   | 3                   | 3                   | 3                   | 3                   |
| Homeless Assistance                                 | 4                   | 3                   | 3                   | 3                   | 3                   | 3                   | 3                   | 3                   | 3                   | 3                   |
| Full-Time Employee Totals:                          | 287.0               | 278.0               | 271.0               | 261.0               | 256.0               | 258.0               | 255.0               | 248.0               | 236.0               | 228.0               |
| Employment Agreement Employee Totals:               | -                   | 2.0                 | 3.0                 | 4.8                 | 6.8                 | 8.3                 | 8.4                 | 10.6                | 11.6                | 17.6                |
| Part-Time Employee Totals:                          | <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>        | <u>113.4</u>        |
| <b>Total Employees</b>                              | <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> | <u><u>359.0</u></u> |

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

City of Gaithersburg, Maryland

Operating Indicators by Function/Program  
Last Ten Fiscal Years

| Function/Program                          | 2015           | 2014           | 2013           | 2012          | 2011          |
|---|----------------|----------------|----------------|---------------|---------------|
| <b>General Information</b>                |                |                |                |               |               |
| Population                                | 67,099         | 65,690         | 63,842         | 62,848        | 61,172        |
| Registered Voters                         | 32,614         | 32,203         | 32,459         | 31,137        | 28,539        |
| <b>General Government</b>                 |                |                |                |               |               |
| Commercial Construction                   |                |                |                |               |               |
| Permits Issued Note 1                     | 750            | 649            | 14             | 49            | 22            |
| Residential Construction                  |                |                |                |               |               |
| Permits Issued Note 1                     | 879            | 715            | 221            | 111           | 152           |
| Estimated Value of Construction           | \$ 255,791,134 | \$ 131,330,709 | \$ 149,132,741 | \$ 31,581,002 | \$ 92,207,832 |
| Transitional Housing to Permanent Housing | 7              | 7              | 8              | 11            | 7             |
| <b>Public Safety</b>                      |                |                |                |               |               |
| Police Officers                           | 55             | 59             | 52             | 52            | 46            |
| Traffic Citations                         | 6,829          | 8,765          | 10,670         | 9,359         | 8,356         |
| Calls for Service                         | 18,849         | 18,263         | 32,879         | 10,194        | 8,928         |
| Fire Marshall Inspector                   | 1              | 1              | 1              | 1             | 1             |
| Animal Control Officers                   | 5              | 4              | 4              | 4             | 4             |
| Fire Marshall Inspections                 | 1,407          | 1,368          | 1,211          | 1,001         | 1,684         |
| Animal Licenses                           | 2,900          | 2,740          | 1,655          | 2,882         | 2,838         |
| <b>Solid Waste</b>                        |                |                |                |               |               |
| Co-Mingled (tons)                         | 3,491          | 3,424          | 3,395          | 3,117         | 3,343         |
| Newspaper (tons) Note 2                   | N/A            | N/A            | N/A            | N/A           | N/A           |
| Yard Waste (tons)                         | 970            | 1,485          | 1,389          | 1,251         | 1,259         |

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

Operating Indicators by Function/Program  
Last Ten Fiscal Years

| Function/Program                          | 2010          | 2009          | 2008          | 2007          | 2006          |
|---|---------------|---------------|---------------|---------------|---------------|
| <b>General Information</b>                |               |               |               |               |               |
| Population                                | 58,017        | 57,818        | 59,912        | 60,736        | 58,607        |
| Registered Voters                         | 28,115        | 25,469        | 25,469        | 27,725        | 25,936        |
| <b>General Government</b>                 |               |               |               |               |               |
| Commercial Construction                   |               |               |               |               |               |
| Permits Issued Note 1                     | 1             | 11            | 4             | 7             | 9             |
| Residential Construction                  |               |               |               |               |               |
| Permits Issued Note 1                     | 125           | 72            | 89            | 126           | 134           |
| Estimated Value of Construction           | \$ 24,799,660 | \$ 46,746,126 | \$ 36,022,880 | \$ 30,177,912 | \$ 40,815,382 |
| Transitional Housing to Permanent Housing | 13            | 11            | 3             | 6             | 8             |
| <b>Public Safety</b>                      |               |               |               |               |               |
| Police Officers                           | 52            | 53            | 49            | 46            | 45            |
| Traffic Citations                         | 7,858         | 8,085         | 5,966         | 6,803         | 7,818         |
| Calls for Service                         | 8,653         | 7,805         | 7,955         | 11,956        | 17,844        |
| Fire Marshall Inspector                   | 1             | 1             | 1             | 1             | 1             |
| Animal Control Officers                   | 4             | 3             | 3             | 3             | 3             |
| Fire Marshall Inspections                 | 1,291         | 1,262         | 979           | 1,094         | 1,527         |
| Animal Licenses                           | 2,596         | 2,508         | 2,467         | 2,477         | 2,454         |
| <b>Solid Waste</b>                        |               |               |               |               |               |
| Co-Mingled (tons)                         | 3,171         | 2,474         | 907           | 579           | 804           |
| Newspaper (tons) Note 2                   | N/A           | N/A           | 1,432         | 1,449         | 1,407         |
| Yard Waste (tons)                         | 993           | 1,014         | 1,036         | 934           | 902           |

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              | 2015   | 2014   | 2013   | 2012   | 2011   | 2010   | 2009   | 2008   | 2007   | 2006   |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>General Information</b>    |        |        |        |        |        |        |        |        |        |        |
| Area in Square Miles          | 10.37  | 10.37  | 10.37  | 10.33  | 10.33  | 10.33  | 10.33  | 10.33  | 10.33  | 10.04  |
| <b>Public Safety - Police</b> |        |        |        |        |        |        |        |        |        |        |
| Stations                      | 1      | 1      | 1      | 1      | 1      | 1      | 1      | 1      | 1      | 1      |
| Number of Patrol Units        | 74     | 73     | 73     | 73     | 66     | 63     | 63     | 58     | 46     | 57     |
| <b>Highways and Streets</b>   |        |        |        |        |        |        |        |        |        |        |
| City Streets (miles)          | 92.97  | 92.97  | 92.56  | 92.56  | 90.51  | 87.95  | 87.95  | 87.95  | 87.95  | 87.95  |
| County Streets (miles)        | 6.72   | 6.72   | 6.72   | 6.72   | 6.72   | 6.06   | 6.06   | 6.06   | 6.06   | 5.75   |
| State Streets (miles)         | 17.36  | 17.34  | 17.54  | 17.54  | 17.54  | 17.54  | 17.54  | 17.54  | 17.54  | 17.54  |
| Private Streets (miles)       | 1.93   | 1.93   | 1.93   | 1.93   | 2.08   | 3.98   | 3.98   | 3.98   | 3.98   | 3.98   |
| Street Lights (City Maint.)   | 3,781  | 3,890  | 4,138  | 4,115  | 4,115  | 4,367  | 4,377  | 4,368  | 4,323  | 3,550  |
| <b>Recreation and Culture</b> |        |        |        |        |        |        |        |        |        |        |
| Park Acreage                  | 872.96 | 872.96 | 853.48 | 853.48 | 853.48 | 853.48 | 853.48 | 853.48 | 853.48 | 853.48 |
| Parks                         | 27     | 27     | 25     | 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     | 12     |
| Mansion                       | 1      | 1      | 1      | 1      | 1      | 1      | -      | -      | -      | -      |

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

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

**City of Gaithersburg, Maryland**  
 Schedule of Cumulative Appropriations, Expenditures, and Encumbrances - Capital Projects  
 From Project Inception Through June 30, 2015

| Project<br>Number                 | Project<br>Name                                     | Cumulative<br>Appropriation  | Cumulative<br>Expenditures<br>Plus<br>Encumbrances | Variance<br>Favorable<br>(Unfavorable) |
|-----------------------------------|---|------------------------------|--|--|
| <b>CITY FACILITY:</b>             |   |                              |  |  |
| 70-2                              | City Hall   | \$ 5,133,851                 | \$ 4,477,553                                       | \$ 656,298                             |
| 72-2                              | Public Service Facility                             | 4,492,629                    | 3,932,445  | 560,184                                |
| 93-1                              | Technology Projects                                 | 6,115,854                    | 4,349,363  | 1,766,491                              |
| 98-1                              | Facilities Projects                                 | 6,247,991                    | 4,009,551  | 2,238,440                              |
| 01-2                              | Kentlands Mansion                                   | 1,387,316                    | 858,863  | 528,453                                |
| 07-1                              | Emergency Preparedness                              | 135,328                      | 135,328  | -                                      |
| 09-1                              | Police Station Improvement                          | 4,711,397                    | 178,212  | 4,533,185                              |
| 10-1                              | Energy Efficiency and Conservation                  | 778,000                      | 536,967  | 241,033                                |
|                                   | Total City Facility                                 | <u>29,002,366</u>            | <u>18,478,282</u>                                  | <u>10,524,084</u>                      |
| <b>COMMUNITY ENHANCEMENT</b>      |   |                              |  |  |
| 71-2                              | Street Lighting                                     | 2,481,406                    | 2,126,481  | 354,925                                |
| 79-5                              | Olde Towne Revitalization                           | 5,458,523                    | 3,185,410  | 2,273,113                              |
| 81-4                              | Property Acquisition and Disposition                | 16,181,544                   | 14,684,179   | 1,497,365                              |
| 99-4A                             | Olde Towne Park Plaza                               | 1,069,784                    | 5,201  | 1,064,583                              |
| 00-1                              | Y Site Development                                  | 12,901,874                   | 12,901,874   | -                                      |
| 04-1                              | Community Development Block Grant - HUD             | 1,177,459                    | 741,529  | 435,930                                |
| 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                     | 1,050,000                    | -  | 1,050,000                              |
| 14-2                              | Consumer Product Safety Commission Park             | 1,600,000                    | 416,158  | 1,183,842                              |
| 00-0                              | Contingency and Future Projects                     | 3,899,980                    | 2,167,338  | 1,732,642                              |
|                                   | Total Community Enhancement                         | <u>49,913,631</u>            | <u>37,614,568</u>                                  | <u>12,299,063</u>                      |
| <b>TRANSPORTATION/ENVIRONMENT</b> |   |                              |  |  |
| 79-3                              | Sidewalks, Handicapped Ramps & Bike Pathways        | 3,044,016                    | 2,473,744  | 570,272                                |
| 82-1                              | Stormwater Management and Storm Drainage            | 13,129,787                   | 9,702,508  | 3,427,279                              |
| 83-1                              | Street Resurfacing                                  | 18,842,370                   | 18,753,692   | 88,678                                 |
| 91-3                              | Street Reconstruction                               | 9,032,710                    | 7,947,240  | 1,085,470                              |
| 92-2                              | Traffic Calming and Signalization                   | 1,457,535                    | 1,312,945  | 144,590                                |
| 98-7                              | Transit Enhancements                                | 333,343                      | 221,263  | 112,080                                |
| 99-1                              | North Frederick Avenue Corridor Plan Implementation | 254,635                      | 125,456  | 129,179                                |
| 07-2                              | Teachers Way  | 3,200,400                    | 2,869,514  | 330,886                                |
|                                   | Total Transportation/Environment                    | <u>49,294,796</u>            | <u>43,406,362</u>                                  | <u>5,888,434</u>                       |
| <b>RECREATION/LEISURE</b>         |   |                              |  |  |
| 83-2                              | Bohrer Park at Summit Hall Farm                     | 15,489,092                   | 14,506,560   | 982,532                                |
| 98-4                              | Art In Public Places                                | 636,509                      | 483,053  | 153,456                                |
| 00-4                              | Renovation/Improvements Of Existing Parks           | 2,340,086                    | 2,240,261  | 99,825                                 |
| 03-1                              | Gaithersburg Aquatic/Recreation Center              | 1,897,632                    | 706,321  | 1,191,311                              |
| 09-3                              | Gaithersburg Senior Center                          | 989,040                      | 820,206  | 168,834                                |
| 13-1                              | Synthetic Fields                                    | 1,105,000                    | 1,019,207  | 85,793                                 |
|                                   | Total Recreation/Leisure                            | <u>22,457,359</u>            | <u>19,775,608</u>                                  | <u>2,681,751</u>                       |
|                                   | Unallocated / Closed Projects                       | -                            | -  | 1,220,981                              |
|                                   | <b>Grand Total</b>                                  | <u><u>\$ 150,668,152</u></u> | <u><u>\$ 119,274,820</u></u>                       | <u><u>\$ 32,614,313</u></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](http://www.gaithersburgmd.gov)



**REQUEST FOR PROPOSALS**

**No.2016-015**

**ANNUAL PROFESSIONAL AUDIT SERVICES**

**EXHIBIT B**

**FY15 SINGLE AUDIT REPORT**

# **City of Gaithersburg, Maryland**

OMB Circular A-133  
Supplementary Financial Report  
Year Ended June 30, 2015

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

**RSM US LLP**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Gaithersburg, Maryland (the City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 30, 2015.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as finding 2015-001, which we consider to be a material weakness.

**Compliance and Other Matters**

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

**City of Gaithersburg, Maryland’s Response to Finding**

The City’s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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

RSM US LLP

Frederick, Maryland  
October 30, 2015



RSM US LLP

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

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Gaithersburg, Maryland's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City of Gaithersburg, Maryland complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

### **Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Gaithersburg, Maryland (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements. We issued our report thereon dated October 30, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*RSM US LLP*

Frederick, Maryland  
October 30, 2015

City of Gaithersburg, Maryland

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2015

| Program   | CFDA<br>Number | Pass-Through<br>Entity Identifying<br>Number | Revenue<br>Recognized and<br>Expenditures |
|---|----------------|--|---|
| <b>U.S. Department of Housing and Urban Development</b>               |                |  |   |
| <u>Direct Program</u>   |                |  |   |
| Supportive Housing for Persons with Disabilities                      | 14.181         | N/A  | \$ 48,042                                 |
| Supportive Housing for Persons with Disabilities                      | 14.181         | N/A  | 82,648                                    |
| <b>Total for Supportive Housing for Persons with<br/>Disabilities</b> |                |  | <u>130,690</u>                            |
| Community Development Block Grant                                     | 14.218         | N/A  | <u>545,789</u>                            |
| <b>Total U.S. Department of Housing and<br/>Urban Development</b>     |                |  | <u>676,479</u>                            |
| <b>U.S. Department of Transportation</b>                              |                |  |   |
| <u>Passed through Maryland Department of Transportation</u>           |                |  |   |
| Highway Planning and Construction                                     | 20.205         | N/A  | <u>5,039</u>                              |
| <b>U.S. Department of Justice</b>                                     |                |  |   |
| <u>Direct Program</u>   |                |  |   |
| Bulletproof Vest Partnership Program                                  | 16.607         | N/A  | <u>3,175</u>                              |
| <b>Total Expenditures of Federal Awards</b>                           |                |  | <u><u>\$ 684,693</u></u>                  |

See Notes to Schedule of Expenditures of Federal Awards.

## City of Gaithersburg, Maryland

### Notes to Schedule of Expenditures of Federal Awards

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#### **Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Gaithersburg, Maryland under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

#### **Note 2. Summary of Significant Accounting Policies**

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

**City of Gaithersburg, Maryland**

**Schedule of Findings and Questioned Costs  
Year Ended June 30, 2015**

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**Section I. Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?   Yes  X  No

Federal Awards:

Internal control over major programs:

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

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

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

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 14.218                | CDBG Cluster                              |

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

Auditee qualified as low-risk auditee?   Yes  X  No

**Section II. Financial Statement Finding**

Internal Control

**Finding 2015-001: Asset and Revenue Recognition – Material Weakness**

*Criteria:* A key element in internal controls is the design, implementation, and maintenance of controls to ensure all transactions are properly reflected in the financial statements, including nonrecurring transactions.

*Condition:* The City did not recognize defined contribution plan participant forfeitures utilized over the years to reduce the City's required contributions to the plans; along with forfeitures held by the plans' trustee at year end available for use to reduce future City contributions. Also, disbursements under the City's homeownership assistance loan program were recorded as expenditures rather than loans receivable. Additionally, the City recorded restricted revenues received from developers as escrow deposits.

## City of Gaithersburg, Maryland

### Schedule of Findings and Questioned Costs Year Ended June 30, 2015

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*Context:* Prior to the commencement of the audit, the City's management discovered that previous defined contribution plan participant forfeitures, disbursements under the City's homeownership assistance loan program, and restricted revenues received from developer transactions were improperly recorded and corrected the accounting treatment through restating previous issued financial statements.

*Effect:* The City had cumulatively utilized retirement plan forfeitures in the amount of \$585,109 as of June 30, 2014 to reduce required contributions made by the general fund and recorded as a liability due to the pension fund instead of a reduction of City contribution expenditures. Also, as of June 30, 2014, the City's retirement plans' trustee held participant forfeitures in the amount of \$202,657 which were available to be used by the City to reduce future required contributions. As of June 30, 2014, the City had outstanding loans under its housing assistance loan program in the amount of \$531,851 that had been recorded as expenditures instead of loans receivable. Also, as of June 30, 2014, the City had received payments from developers in the amount of \$505,251 for payment in-lieu fees assessed for obligations to be completed by the City instead of the developers. These fees were recorded as escrow deposit liabilities when collected instead of restricted revenue upon the execution of the payment in-lieu agreements. To correct these errors, the net position of the governmental activities and the fund balance of the general fund were restated and increased as of June 30, 2014 in the amount of \$1,824,898.

*Cause:* These non-routine transactions were not properly evaluated and recorded by the City. In particular, management failed to apply revenue recognition criteria for certain nonexchange transactions.

*Recommendation:* We recommend implementation of procedures to ensure all non-routine transactions are properly recorded in the City's general ledger in a timely manner.

*Views of Responsible Officials and Planned Corrective Actions:* Management acknowledges that although these transactions were recorded in the City's books and records, the classification was not in accordance with accounting standards in previous years. During this fiscal year management corrected the City's records and implemented new controls to ensure these transactions are properly classified in the City's financial statements.

#### Compliance

No matters were reported.

#### **Section III. Findings and Questioned Costs for Federal Awards**

No matters were reported.

**City of Gaithersburg, Maryland**

**Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2015**

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No matters were reported in the prior year.

**REQUEST FOR PROPOSALS**

**No.2016-015**

**ANNUAL PROFESSIONAL AUDIT SERVICES**

**EXHIBIT C**

**FY15 REPORT TO THE  
MAYOR AND CITY COUNCIL**

# City of Gaithersburg, Maryland

Report to the Mayor and City Council  
December 7, 2015





**RSM US LLP**

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Frederick, Maryland 21703

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December 7, 2015

To the Mayor and City Council  
Mr. Tony Tomasello, City Manager  
City of Gaithersburg, Maryland  
Gaithersburg, Maryland

Attention: Honorable Mayor Ashman and City Manager Tomasello

We are pleased to present this report related to our audit of the basic financial statements of the City of Gaithersburg, Maryland (the Organization) for the year ended June 30, 2015. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the City of Gaithersburg, Maryland's financial reporting process.

This report is intended solely for the information and use of the Mayor and City Council and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the City of Gaithersburg, Maryland.

*RSM US LLP*

**THE POWER OF BEING UNDERSTOOD**  
AUDIT | TAX | CONSULTING

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| Exhibit B—Significant Written Communications Between Management and Our Firm<br>Representation Letter |     |

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## Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the basic financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

| Area   | Comments   |
|--|--|
| <b>Our Responsibilities With Regard to the Financial Statement Audit</b>         | Our responsibilities under auditing standards generally accepted in the United States of America and <i>Government Auditing Standards</i> , issued by the Comptroller General of the United States, have been described to you in our arrangement letter dated August 19, 2015. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities which are also described in that letter.  |
| <b>Overview of the Planned Scope and Timing of the Financial Statement Audit</b> | We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.  |
| <b>Accounting Policies and Practices</b>   | <b>Preferability of Accounting Policies and Practices</b><br>Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.<br><br><b>Adoption of, or Change in, Accounting Policies</b><br>Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City. Following is a description of significant accounting policies or their application that were either initially selected or changed during the year. <ul style="list-style-type: none"><li>• GASB Statement No. 68, <i>Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27</i>, was required to be adopted by the City beginning with the year ending June 30, 2015. This Statement replaces the requirements of GASB Statement No. 27 and No. 50, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The adoption of GASB 68 had no effect on the City's financial statements.</li></ul> |

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**Area**

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**Comments**

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- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, was required to be adopted by the City beginning with the year ending June 30, 2015. This Statement establishes accounting and financial reporting standards related to government combinations (such as mergers, acquisitions, and transfers) and disposals of government operations. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. For government acquisitions, this Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. Additionally, this Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The adoption of GASB 69 had no effect on the City's financial statements.
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, was required to be adopted by the City beginning with the year ending June 30, 2015. This Statement amends Statement 68 to require that, when transitioning to the new pension standards, a government recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. The adoption of GASB 71 had no effect on the City's financial statements.
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, were adopted early by the City in conjunction with the adoption of GASB No. 68 and No. 71. This Statement completes the suite of pension standards. Statement 73 establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (in other words, those not covered by Statements 67 and 68). The requirements in Statement 73 for reporting pensions generally are the same as in Statement 68. However, the lack of a pension plan that is administered through a trust that meets specified criteria is reflected in the measurements. The adoption of GASB 73 had no effect on the City's financial statements.

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**Area**

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**Comments**

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Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statement of the City which are discussed further in Note 16 to the basic financial statements:

- GASB Statement No. 72, *Fair Value Measurement and Application*
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- GASB Statement No. 77, *Tax Abatement Disclosures*

**Significant or Unusual Transactions**

As discussed in Note 15 to the financial statements, the financial statements for 2014 were restated to reflect a change in the reporting entity during 2015 to remove the defined contribution plans along with correcting errors contained in those statements as follows:

Change in reporting entity:

- Previously the City reported the activity of its defined contribution plans as pension trust funds included in fiduciary funds as the City had concluded it had a fiduciary responsibility for the financial accountability over the plans. During fiscal year 2015, management determined that financial accountability criteria were no longer met and removed the pension trust funds from the reporting unit of the City and restated the beginning net position of the pension trust funds by removing net position of \$58,147,655.

Correction of errors:

- The City has utilized plan participant forfeitures over the years to reduce the amount of required contributions to the plans by the City. However, the utilization of the forfeitures totaling \$585,109 were never recognized as a reduction of the expenditure recorded in the general fund. In addition, the plans' trustee held participant forfeitures at June 30, 2014 totaling \$202,657 that were available to the City to be used to reduce future required City contributions but were not recorded as an asset.
- As of June 30, 2014, the City had made disbursements totaling \$531,851 through its housing assistance loan program for which expenditures had been recognized in the general fund instead of loans receivable asset.
- Developer contributions collected under payment in-lieu agreements along with certain police seizures as of June 30, 2014 were recorded as escrow deposit liabilities instead being recognized as restricted revenues totaling \$505,251.

| Area   | Comments   |
|--|--|
|  | <p><b>Management’s Judgments and Accounting Estimates</b><br/> Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.</p> |
| <b>Audit Adjustment</b>  | An audit adjustments proposed by us and recorded by the City of Gaithersburg, Maryland is shown in the attached Summary of Recorded Audit Adjustments.   |
| <b>Uncorrected Misstatements</b>   | Uncorrected misstatements are summarized in the attached Summary of Uncorrected Misstatements.   |
| <b>Disagreements With Management</b>   | We encountered no disagreements with management over the application of significant accounting principles, the basis for management’s judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the basic financial statements.   |
| <b>Consultations With Other Accountants</b>  | We are not aware of any consultations management had with other accountants about accounting or auditing matters.  |
| <b>Significant Issues Discussed With Management</b>  | We discussed the significant and unusual transactions described above with management.   |
| <b>Significant Difficulties Encountered in Performing the Audit</b>                          | We did not encounter any significant difficulties in dealing with management during the audit.   |
| <b>Letter Communicating a Material Weakness in Internal Control Over Financial Reporting</b> | We have separately communicated a material weakness included in the schedule of findings and questioned costs as part of the single audit section of the financial statements and this communication is attached as Exhibit A.   |
| <b>Significant Written Communications Between Management and Our Firm</b>                    | Copies of material written communications between our firm and the management of the Organization, including the representation letter provided to us by management, are attached as Exhibit B.  |

# City of Gaithersburg, Maryland

## Summary of Significant Accounting Estimates

### Year Ended June 30, 2015

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the City's June 30, 2015, basic financial statements.

| <b>Estimate</b>                                 | <b>Accounting Policy</b>  | <b>Management's Estimation Process</b>  | <b>Basis for Our Conclusions on Reasonableness of Estimate</b>  |
|---|---|---|---|
| <b>Allowance for doubtful accounts</b>          | All police tickets issued and unpaid and property tax receivables are shown net of an allowance for uncollectible accounts. | The City uses the aggregate of all accounts that are delinquent three years or more on property taxes and two years or more on police tickets as the basis and determination of the allowance for doubtful accounts.  | <p>We obtained the year-end property tax receivable schedule, ensuring that receivables greater than three years past due were reserved. Additionally, we obtained the year-end police tickets receivable schedule, ensuring that receivables greater than two years past due were reserved. We also tested collectability for selected balances that were not reserved.</p> <p>Management has recorded an allowance for doubtful accounts of \$228,915 as of June 30, 2015 which appears reasonable.</p> |
| <b>Estimated useful lives of capital assets</b> | Capital assets are depreciated over the estimated useful life.  | <p>When new assets are acquired, the City determines the useful life based upon asset categories.</p> <p>The City typically utilizes the following useful lives by asset category:</p> <ul style="list-style-type: none"> <li>• buildings and improvements 15 – 40 years</li> <li>• machinery and equipment 5 – 10 years</li> <li>• infrastructure 15 – 50 years</li> </ul> | We obtained the useful lives assigned to capital assets in each asset category and determined that they were reasonable in relation to the actual life of similar assets (based upon disposal trends) and consistent with industry practices.   |

| <b>Estimate</b>  | <b>Accounting Policy</b>   | <b>Management's Estimation Process</b>  | <b>Basis for Our Conclusions on Reasonableness of Estimate</b>  |
|--|--|---|---|
| <p><b>Post-employment benefits other than pension (OPEB) liabilities</b></p> | <p>The City records its liabilities for OPEB based upon actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due.</p> <p>The liabilities are determined using the projected unit credit method with linear proration to assumed benefit commencement.</p> | <p>The City engages an actuary to perform actuarial calculations of the liabilities.</p> <p>The City determines the assumptions used in the actuarial calculation in consultation with the actuary.</p> | <p>We obtained the actuarial valuation report and tested to ensure that the assumptions and census data used in calculating the actuarial liability were consistent and reasonable with industry practices.</p> |

**City of Gaithersburg, Maryland**  
**Summary of Recorded Audit Adjustments**  
**Year Ended June 30, 2015**

| Description  | Effect—Increase (Decrease) |                    |                  |                  |             |
|--|----------------------------|--------------------|------------------|------------------|-------------|
|  | Assets                     | Liabilities        | Equity           | Revenue          | Expenses    |
| <u>General Fund</u> – To adjust deferred inflows<br>for unavailable property taxes | \$ -                       | \$ (42,270)        | \$ -             | \$ 42,270        | \$ -        |
| Total Effect   |                            |                    | 42,270           | <u>\$ 42,270</u> | <u>\$ -</u> |
| Balance Sheet Effect   | <u>\$ -</u>                | <u>\$ (42,270)</u> | <u>\$ 42,270</u> |                  |             |

# City of Gaithersburg, Maryland

## Summary of Uncorrected Misstatements

### Year Ended June 30, 2015

During the course of our audit, we accumulated uncorrected misstatements that were determined by management to be immaterial, both individually and in the aggregate, to the financial position, results of operations, and cash flows and to the related basic financial statement disclosures. Following is a summary of those differences.

**Opinion Unit:**

**General Fund**

| Description  | Effect—Increase (Decrease) |             |             |         |           |
|--|----------------------------|-------------|-------------|---------|-----------|
|  | Assets                     | Liabilities | Equity      | Revenue | Expenses  |
| <b><u>Carryover impact from previous years</u></b>   | \$ -                       | \$ -        | \$ -        | \$ -    | \$ -      |
| <b><u>Current year misstatements</u></b>   |                            |             |             |         |           |
| <u>Known misstatements</u>   |                            |             |             |         |           |
| To properly record accounts payable for services received before year end recorded in the subsequent period. | -                          | 15,810      | -           | -       | 15,810    |
| <u>Differences with estimates</u>  |                            |             |             |         |           |
| None.  | -                          | -           | -           | -       | -         |
| <u>Projected misstatements</u>   |                            |             |             |         |           |
| To record projected understatement of accounts payable due to error in sample tested.                        | -                          | 46,383      | -           | -       | 46,383    |
| Total Effect   | -                          | -           | (62,193)    | \$ -    | \$ 62,193 |
| Balance Sheet Effect   | \$ -                       | \$ 62,193   | \$ (62,193) |         |           |

**Opinion Unit:**

**General CIP Fund**

| Description   | Effect—Increase (Decrease) |             |             |         |           |
|---|----------------------------|-------------|-------------|---------|-----------|
|   | Assets                     | Liabilities | Equity      | Revenue | Expenses  |
| <b><u>Carryover impact from previous years</u></b>  | \$ -                       | \$ -        | \$ -        | \$ -    | \$ -      |
| <b><u>Current year misstatements</u></b>  |                            |             |             |         |           |
| <u>Known misstatements</u>  |                            |             |             |         |           |
| To properly record accounts payable for costs incurred before year end recorded in the subsequent period. | -                          | 21,175      | -           | -       | 21,175    |
| <u>Differences with estimates</u>   |                            |             |             |         |           |
| None.   | -                          | -           | -           | -       | -         |
| <u>Projected misstatements</u>  |                            |             |             |         |           |
| To record projected understatement of accounts payable due to error in sample tested.                     | -                          | 10,624      | -           | -       | 10,624    |
| Total Effect  | -                          | -           | (31,799)    | \$ -    | \$ 31,799 |
| Balance Sheet Effect  | \$ -                       | \$ 31,799   | \$ (31,799) |         |           |

**Opinion Unit:**  
**Governmental Activities**

| Description   | Effect—Increase (Decrease) |             |                   |         |              |
|---|----------------------------|-------------|-------------------|---------|--------------|
|   | Assets                     | Liabilities | Equity            | Revenue | Expenses     |
| <b><u>Carryover impact from previous years</u></b>  | \$ -                       | \$ -        | \$ -              | \$ -    | \$ -         |
| <b><u>Current year misstatements</u></b>            |                            |             |                   |         |              |
| <u>Known misstatements</u>                          |                            |             |                   |         |              |
| To capitalize a deposit for purchase of a building. | 100,000                    | -           | -                 | -       | (100,000)    |
| <u>Differences with estimates</u>                   |                            |             |                   |         |              |
| None.   | -                          | -           | -                 | -       | -            |
| <u>Projected misstatements</u>                      |                            |             |                   |         |              |
| None.   | -                          | -           | -                 | -       | -            |
| Total Effect  | -                          | -           | 100,000           | \$ -    | \$ (100,000) |
| Balance Sheet Effect                                | <u>\$ 100,000</u>          | <u>\$ -</u> | <u>\$ 100,000</u> |         |              |

**Exhibit A—Letter Communicating a Material  
Weakness in Internal Control Over Financial Reporting**



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

**RSM US LLP**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Gaithersburg, Maryland (the City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 30, 2015.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as finding 2015-001, which we consider to be a material weakness.

**Compliance and Other Matters**

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

**City of Gaithersburg, Maryland’s Response to Finding**

The City’s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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

RSM US LLP

Frederick, Maryland  
October 30, 2015

**City of Gaithersburg, Maryland**

**Schedule of Findings and Questioned Costs  
Year Ended June 30, 2015**

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**Section I. Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?   Yes  X  No

Federal Awards:

Internal control over major programs:

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

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

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

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 14.218                | CDBG Cluster                              |

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

Auditee qualified as low-risk auditee?   Yes  X  No

**Section II. Financial Statement Finding**

Internal Control

**Finding 2015-001: Asset and Revenue Recognition – Material Weakness**

*Criteria:* A key element in internal controls is the design, implementation, and maintenance of controls to ensure all transactions are properly reflected in the financial statements, including nonrecurring transactions.

*Condition:* The City did not recognize defined contribution plan participant forfeitures utilized over the years to reduce the City's required contributions to the plans; along with forfeitures held by the plans' trustee at year end available for use to reduce future City contributions. Also, disbursements under the City's homeownership assistance loan program were recorded as expenditures rather than loans receivable. Additionally, the City recorded restricted revenues received from developers as escrow deposits.

## City of Gaithersburg, Maryland

### Schedule of Findings and Questioned Costs Year Ended June 30, 2015

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*Context:* Prior to the commencement of the audit, the City's management discovered that previous defined contribution plan participant forfeitures, disbursements under the City's homeownership assistance loan program, and restricted revenues received from developer transactions were improperly recorded and corrected the accounting treatment through restating previous issued financial statements.

*Effect:* The City had cumulatively utilized retirement plan forfeitures in the amount of \$585,109 as of June 30, 2014 to reduce required contributions made by the general fund and recorded as a liability due to the pension fund instead of a reduction of City contribution expenditures. Also, as of June 30, 2014, the City's retirement plans' trustee held participant forfeitures in the amount of \$202,657 which were available to be used by the City to reduce future required contributions. As of June 30, 2014, the City had outstanding loans under its housing assistance loan program in the amount of \$531,851 that had been recorded as expenditures instead of loans receivable. Also, as of June 30, 2014, the City had received payments from developers in the amount of \$505,251 for payment in-lieu fees assessed for obligations to be completed by the City instead of the developers. These fees were recorded as escrow deposit liabilities when collected instead of restricted revenue upon the execution of the payment in-lieu agreements. To correct these errors, the net position of the governmental activities and the fund balance of the general fund were restated and increased as of June 30, 2014 in the amount of \$1,824,898.

*Cause:* These non-routine transactions were not properly evaluated and recorded by the City. In particular, management failed to apply revenue recognition criteria for certain nonexchange transactions.

*Recommendation:* We recommend implementation of procedures to ensure all non-routine transactions are properly recorded in the City's general ledger in a timely manner.

*Views of Responsible Officials and Planned Corrective Actions:* Management acknowledges that although these transactions were recorded in the City's books and records, the classification was not in accordance with accounting standards in previous years. During this fiscal year management corrected the City's records and implemented new controls to ensure these transactions are properly classified in the City's financial statements.

#### Compliance

No matters were reported.

### **Section III. Findings and Questioned Costs for Federal Awards**

No matters were reported.

**Exhibit B—Significant Written Communications  
Between Management and Our Firm**



October 30, 2015

RSM US LLP  
5291 Corporate Drive, Suite 100  
Frederick, Maryland 21703

This representation letter is provided in connection with your audit of the basic financial statements of the City of Gaithersburg, Maryland (the City) which comprise governmental activities, each major fund and the aggregate remaining fund information as of and for the year ended June 30, 2015 for the purpose of expressing an opinion on whether the basic financial statements are presented fairly, in all material respects in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

We confirm, to the best of our knowledge and belief, as of October 30, 2015:

*Financial Statements*

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated August 19, 2015, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party relationships and transactions, including interfund transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

City of Gaithersburg • 31 South Summit Avenue, Gaithersburg, Maryland 20877-2038  
301-258-6300 • FAX 301-948-6149 • cityhall@gaitthersburgmd.gov • www.gaitthersburgmd.gov

MAYOR  
Jud Ashman

COUNCIL MEMBERS  
Cathy Drzyzgula  
Neil Harris  
Henry F. Marraffa, Jr.  
Michael A. Sesma  
Ryan Spiegel

CITY MANAGER  
Tony Tomasello

8. We have not completed the process of evaluating the effect that will result from adopting the guidance in Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value measurement and Application*, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, GASB Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits other than Pensions*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 77 *Tax Abatement Disclosures*. The City is therefore unable to disclose the effect that adopting these GASB Statements will have on its financial statements.
9. We have no direct or indirect, legal or moral obligation for any debt of any organization, public or private that is not disclosed in the financial statement.
10. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
11. We agree with the restatement of the previously issued financial statements discussed in Note 15. In that regard:
  - a. The restatement reflects a change in the City's reporting entity during fiscal year 2015
  - b. The restatement corrects several errors in the 2014 financial statements.
  - c. We were not aware of the errors when those financial statements were issued.
  - d. We are not aware of any other errors in those financial statements.

We do not believe it is necessary to recall those financial statements and all users of those financial statements will receive a copy of the current year's financial statements and independent auditor's report.

12. We have informed you of all uncorrected misstatements.

As of and for the Year Ended June 30, 2015

We believe that the effects of the uncorrected misstatements summarized below are immaterial to the opinion units of the basic financial statements. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

**Opinion Unit:**  
**General Fund**

| Description  | Effect—Increase (Decrease) |             |             |         |           |
|--|----------------------------|-------------|-------------|---------|-----------|
|  | Assets                     | Liabilities | Equity      | Revenue | Expenses  |
| <b><u>Carryover impact from previous years</u></b>   | \$ -                       | \$ -        | \$ -        | \$ -    | \$ -      |
| <b><u>Current year misstatements</u></b>   |                            |             |             |         |           |
| <b><u>Known misstatements</u></b>  |                            |             |             |         |           |
| To properly record accounts payable for services received before year end recorded in the subsequent period. | -                          | 15,810      | -           | -       | 15,810    |
| <b><u>Differences with estimates</u></b>   |                            |             |             |         |           |
| None.  | -                          | -           | -           | -       | -         |
| <b><u>Projected misstatements</u></b>  |                            |             |             |         |           |
| To record projected understatement of accounts payable due to error in sample tested.                        | -                          | 46,383      | -           | -       | 46,383    |
| Total Effect   | -                          | -           | (62,193)    | \$ -    | \$ 62,193 |
| Balance Sheet Effect   | \$ -                       | \$ 62,193   | \$ (62,193) |         |           |

**Opinion Unit:**  
**General CIP Fund**

| Description   | Effect—Increase (Decrease) |             |             |         |           |
|---|----------------------------|-------------|-------------|---------|-----------|
|   | Assets                     | Liabilities | Equity      | Revenue | Expenses  |
| <b><u>Carryover impact from previous years</u></b>  | \$ -                       | \$ -        | \$ -        | \$ -    | \$ -      |
| <b><u>Current year misstatements</u></b>  |                            |             |             |         |           |
| <b><u>Known misstatements</u></b>   |                            |             |             |         |           |
| To properly record accounts payable for costs incurred before year end recorded in the subsequent period. | -                          | 21,175      | -           | -       | 21,175    |
| <b><u>Differences with estimates</u></b>  |                            |             |             |         |           |
| None.   | -                          | -           | -           | -       | -         |
| <b><u>Projected misstatements</u></b>   |                            |             |             |         |           |
| To record projected understatement of accounts payable due to error in sample tested.                     | -                          | 10,624      | -           | -       | 10,624    |
| Total Effect  | -                          | -           | (31,799)    | \$ -    | \$ 31,799 |
| Balance Sheet Effect  | \$ -                       | \$ 31,799   | \$ (31,799) |         |           |

**Opinion Unit:**  
**Governmental Activities**

| Description  | Effect—Increase (Decrease) |             |            |         |              |
|--|----------------------------|-------------|------------|---------|--------------|
|  | Assets                     | Liabilities | Equity     | Revenue | Expenses     |
| <b><u>Carryover impact from previous years</u></b> | \$ -                       | \$ -        | \$ -       | \$ -    | \$ -         |
| <b><u>Current year misstatements</u></b>           |                            |             |            |         |              |
| <b><u>Known misstatements</u></b>                  |                            |             |            |         |              |
| To capitalize a deposit for purchase of a building | 100,000                    | -           | -          | -       | (100,000)    |
| <b><u>Differences with estimates</u></b>           |                            |             |            |         |              |
| None.  | -                          | -           | -          | -       | -            |
| <b><u>Projected misstatements</u></b>              |                            |             |            |         |              |
| None.  | -                          | -           | -          | -       | -            |
| Total Effect                                       | -                          | -           | 100,000    | \$ -    | \$ (100,000) |
| Balance Sheet Effect                               | \$ 100,000                 | \$ -        | \$ 100,000 |         |              |

*Information Provided*

13. We have provided you with:
  - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
  - b. Additional information that you have requested from us for the purpose of the audit;
  - c. Unrestricted access to persons within the city from whom you determined it necessary to obtain audit evidence.
  - d. Minutes of the meetings of the governing board and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
14. All transactions have been recorded in the accounting records and are reflected in the financial statements.
15. It is our responsibility to establish and maintain internal controls over financial reporting. One of the components of internal control is risk assessment. We hereby represent that our risk assessment process includes identification and assessment of risks of material misstatement due to fraud. We have shared with you our fraud risk assessment, including a description of the risks, our assessment of the magnitude and likelihood of misstatements arising from those risks, and the controls that we have designed and implemented in response to those risks.
16. We have no knowledge of allegations of fraud or suspected fraud, affecting the City's financial statements involving:
  - a. Management.
  - b. Employees who have significant roles in the internal control.
  - c. Others where the fraud could have a material effect on the financial statements.
17. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements received in communications from employees, former employees, analysts, regulators, or others.
18. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects were considered when preparing financial statements.
19. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
20. We have disclosed to you the identity of the City's related parties and all the related-party relationships and transactions of which we are aware.
21. We have informed you of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the City's ability to record, process, summarize, and report financial data.
22. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
23. Management agrees with the findings of specialists in evaluating the City's liability for Postemployment Benefits Other than Pension (OPEB) and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the basic financial statements and underlying accounting records. Management did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and Management is not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

*Supplementary Information*

24. With respect to supplementary information presented in relation to the financial statements as a whole:
- a. We acknowledge our responsibility for the presentation of such information.
  - b. We believe such information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.
  - d. There are no underlying significant assumptions or interpretations regarding the measurement or presentation of such information.
  - e. When supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.
25. With respect to Management's Discussion and Analysis, the Postretirement Healthcare and Insurance Plan Schedules of Funding Progress and Employer Contributions presented as required by Government Accounting Standards Board to supplement the basic financial statements:
- a. We acknowledge our responsibility for the presentation of such required supplementary information.
  - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by accounting principles generally accepted in the United States of America.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.
  - d. The following are underlying significant assumptions or interpretations regarding the measurement or presentation of such information:
    - In the March 1, 2014 actuarial valuation, the projected unit credit, with proration to assumed retirement date, actuarial cost method was used. Significant actuarial assumptions used include (a) overall rate of inflation of 2.8 percent; (b) a rate of return on the investment of 5.0 percent per year compounded annually; (c) projected salary increases of 3.5 percent compounded annually (used for amortization purposes); (d) annual medical and prescription drug trend rate of 7.5 percent initially, reduced annually to arrive at an ultimate healthcare cost trend of 4.3 percent; (e) rates of mortality based upon RP-2000 Healthy Mortality Table; (f) termination of service rates based upon sex and length of service, equal to the decrements used in the June 30, 2012 valuation for the State of Maryland Employees' Pension System; and (g) claims costs based upon age-adjusted premiums for single or family coverage, with explicit costs ranging from \$5,769 to \$14,069, medical and drug costs ranging from \$5,695 to \$23,926, and dental costs ranging from \$496 to \$874. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a period of 25 years for year ended June 30, 2015.

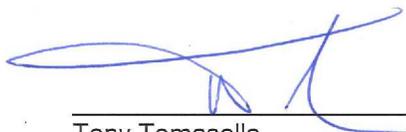
*Compliance Considerations*

26. In connection with your audit, conducted in accordance with *Government Auditing Standards*, we confirm that management:
- a. Is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the City.
  - b. Has no knowledge of any instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
  - c. Has no knowledge of any instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
  - d. Has no knowledge of any instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
  - e. Has no knowledge of any fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements; or abuse.
  - f. Has a process to track the status of any audit findings and recommendations.
  - g. Has identified for the auditor any previous audits, attestation engagements, and other studies related to the audit objectives and whether any related recommendations have been implemented.
  - h. Has no knowledge of any compliance findings reported by the auditor.
  - i. Acknowledges its responsibilities as it relates to non-audit services performed by the auditor, including a statement that it assumes all management responsibilities; that it oversees the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; that it evaluates the adequacy and results of the services performed; and that it accepts responsibility for the results of the services. Specifically:
    - Stephanie Walker has supervised, reviewed, approved and takes full responsibility for the City's Annual Uniform Financial Report and acknowledges the auditor's role in the preparation of this information.
27. In connection with your audit of federal awards conducted in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, we confirm:
- a. Management is responsible for complying, and has complied, with the requirements of Circular A-133.
  - b. Management is responsible for understanding and complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of its federal programs.
  - c. Management is responsible for establishing and maintaining, and has established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on its federal programs.

- d. Management has prepared the schedule of expenditures of federal awards in accordance with Circular A-133 and has included expenditures made during the period being audited for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
- e. Management has identified and disclosed to the auditor the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.
- f. Management has made available all contracts and grant agreements (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities.
- g. Management has no knowledge of any amounts questioned or known noncompliance with the direct and material compliance requirements of federal awards.
- h. Management believes that the auditee has complied with the direct and material compliance requirements.
- i. Management has made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- j. Management has no knowledge of any compliance requirements that are subject to varying interpretations.
- k. Management has no knowledge of any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- l. Management has no knowledge of any findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- m. Management is responsible for taking corrective action on any audit findings of the compliance audit.
- n. Management has provided the auditor with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- o. Management has disclosed the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.
- p. Management has disclosed all known noncompliance with direct and material compliance requirements occurring subsequent to the period covered by the auditor's report or stating that there were no such known instances.
- q. Management has disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses in internal control over compliance, have occurred subsequent to the date as of which compliance is audited.
- r. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.

- s. The copies of federal program financial reports provided to the auditor are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
  - t. Management has charged costs to federal awards in accordance with applicable cost principles.
  - u. Management is responsible for, and has accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by Circular A-133.
  - v. Management has accurately completed the appropriate sections of the data collection form.
28. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

**City of Gaithersburg, Maryland**



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Tony Tomasello  
City Manager



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Stephanie M. Walker  
Director of Finance and Administration