

CITY OF LAUREL, MARYLAND  
**ANNUAL FINANCIAL REPORT**  
JUNE 30, 2005

City of Laurel, Maryland

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	4
MANAGEMENT DISCUSSION AND ANALYSIS - REQUIRED SUPPLEMENTAL INFORMATION	6
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS	16
STATEMENT OF ACTIVITIES	17
BALANCE SHEET - GOVERNMENTAL FUNDS	18
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS	19
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS WITH THE STATEMENT OF NET ASSETS	20
RECONCILIATION OF NET CHANGE IN FUND BALANCE WITH CHANGE IN NET ASSETS	21
COMBINED STATEMENT OF REVENUE, EXPENDITURES AND ENCUMBRANCES - BUDGETARY BASIS (NON-GAAP) - GENERAL FUND	22
STATEMENT OF FIDUCIARY NET ASSETS - PENSION TRUST FUND	23
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - PENSION TRUST FUND	24
NOTES TO FINANCIAL STATEMENTS	25
SUPPLEMENTAL INFORMATION	
SCHEDULE OF REVENUE - BUDGETARY BASIS - GENERAL FUND	47
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES - BUDGETARY BASIS - GENERAL FUND	50

City of Laurel, Maryland

TABLE OF CONTENTS - CONTINUED

	PAGE
SUPPLEMENTAL INFORMATION (CONTINUED)	
PENSION TRUST FUND - ANALYSIS OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS - REQUIRED SUPPLEMENTAL INFORMATION	52
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	53
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	55

## INDEPENDENT AUDITORS' REPORT

The Honorable Members of the City Council  
City of Laurel, Maryland

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Laurel, Maryland (the City) as of and for the year ended June 30, 2005, which collectively comprise the City's financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2005, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 14, 2005, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and Pension Trust Fund - Analysis of Funding Progress and Employer Contributions - Required Supplementary Information on pages 6 through 15 and 52 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and therefore, express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the City's financial statements. The Schedule of Revenue - Budgetary Basis - General Fund and Schedule of Expenditures and Encumbrances - Budgetary Basis - General Fund are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*Reznick Group, P.C.*

Baltimore, Maryland  
October 14, 2005

City Of Laurel, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS -  
REQUIRED SUPPLEMENTAL INFORMATION

June 30, 2005

Financial Highlights

- Ø At June 30, 2005, the assets of the City of Laurel exceeded the liabilities by \$10,849,967 (net assets). Unrestricted net assets were \$2,242,966.
- Ø Net assets increased by \$1,419,986 or 15% from June 30, 2004 to June 30, 2005. This was largely due to an increase in cash and investment account balances as well as the capitalization of the many completed road construction projects and investment in equipment during FY2005.
- Ø The fund balance of the general fund has increased by 18% from \$3,600,667 at June 30, 2004 to \$4,250,280 at June 30, 2005. This is due to the continued funding of the designated fleet and street reserves and an increase in the allowable annual leave carryover amounts and the value of open purchase orders.
- Ø The total debt of the City of Laurel increased by \$18,431. While the general obligation note payable of \$4,043,500 was secured by the City through Department of Housing and Community Development, Community Development Administration (CDA) Local Government Infrastructure Financing Program, only the amount drawn of \$1,269,377 is considered outstanding debt. The renewal of the note payable on behalf of the Laurel Volunteer Fire Department (LVFD) and the execution of a new loan for the Laurel Volunteer Rescue Squad (LVRS) are included in the City's outstanding debt. Debt service on these items was paid throughout the year as well as debt service on the 1996 Public Improvement Bond.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

City Of Laurel, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS -  
REQUIRED SUPPLEMENTAL INFORMATION - CONTINUED

June 30, 2005

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the event causing the change occurs, regardless of the timing of related cash flows. Revenues and expenditures are reported in this statement for some items that will only result in cash flows in the future fiscal periods (i.e. uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities ) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include: general government, public safety, public works, and parks and recreation. Business-type activities are conducted by parks and recreation, public works and development management (within general government) by charging user and processing fees for various programs, sanitation fees and zoning applications, respectively.

**Fund financial statements.** 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City uses governmental funds (general, capital improvement program, long-term debt, and fixed assets) and the fiduciary fund for the retirement plans' financial records.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

City Of Laurel, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS -  
REQUIRED SUPPLEMENTAL INFORMATION - CONTINUED

June 30, 2005

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to allow readers to compare government funds and governmental activities.

Government-Wide Financial Analysis

The City's total net assets as of June 30, 2005 were \$10,849,967. The largest portion of net assets, 62%, is the investment in capital assets, net of related debt, in the amount of \$6,750,319. The unrestricted portion, 21%, of net assets can be used to meet the needs of serving the citizens and obligations to creditors.

The following is a condensed statement of net assets:

**City of Laurel, Maryland**

**Schedule of Net Assets**

	<u>Governmental Activities</u>
Current and other assets	\$ 7,539,041
Capital assets	17,462,103
<b>TOTAL ASSETS</b>	<b><u>\$ 25,001,144</u></b>
Long-term liabilities	\$ 11,452,796
Other liabilities	2,698,381
<b>TOTAL LIABILITIES</b>	<b><u>\$ 14,151,177</u></b>
Net assets	
Invested in capital assets, net of related debt	\$ 6,750,319
Restricted	1,856,682
Unrestricted	2,242,966
<b>TOTAL NET ASSETS</b>	<b><u>\$ 10,849,967</u></b>

City Of Laurel, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS -  
REQUIRED SUPPLEMENTAL INFORMATION - CONTINUED

June 30, 2005

**Governmental Activities**

Governmental activities increased the City's net assets by \$1,419,986 or 15% over June 30, 2004. Property taxes comprised 74% of the total revenue, while the next highest source of revenue, intergovernmental funds, is 7% (down from 20% in FY2004) of the \$17,793,530 total revenue. The remaining 19% of revenue is received from licenses, permits, interest operating grants, charges for services, fines and forfeitures, and miscellaneous items.

**City of Laurel, Maryland**

**Schedule of Changes in Net Assets**

For the year ended June 30, 2005

	<b>Governmental Activities</b>
<b>Revenue</b>	
Program Revenue	
Charges for svcs	\$ 707,449
Operating grants/contributions	546,997
General Revenue	
Property taxes	12,944,421
Local taxes	171,540
Licenses/permits	1,165,102
Intergovernmental	1,219,153
Fines and forfeitures	216,971
Interest	153,530
Miscellaneous	668,367
<b>TOTAL REVENUE</b>	<b><u>17,793,530</u></b>

City Of Laurel, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS -  
REQUIRED SUPPLEMENTAL INFORMATION - CONTINUED

June 30, 2005

<b>Expenses</b>	
General government	3,696,200
Public safety	4,687,189
Parks and recreation	1,164,429
Public works	3,461,820
Miscellaneous	2,700,371
Debt service	663,535
<b>TOTAL EXPENSES</b>	<b><u>16,373,544</u></b>
Increase in net assets	1,419,986
Net assets - beginning - as previously reported	9,535,858
Prior period adjustment	<u>(105,877)</u>
Net assets - beginning - restated	<u>9,429,981</u>
<b>NET ASSETS, ENDING</b>	<b><u>\$ 10,849,967</u></b>

**Financial Analysis of the Government's Funds**

**Governmental funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources.

The general fund is the chief operating fund of the City of Laurel. At the end of the current fiscal year, the total general fund balance is \$4,250,280. There is \$1,463,786 reserved from the fund balance for capital improvement projects, open purchase orders, inventory, and annual leave; and \$689,084 in designated fleet and street reserves (for emergency repairs and replacements). Unreserved fund balance represents 13% of total general fund expenditures, while total fund balance represents 26% of that same amount.

The fund balance of the general fund has increased by 18% from \$3,600,667 at June 30, 2004 to \$4,250,280 at June 30, 2005. This is due to the continued funding of the designated fleet and street reserves and an increase in the allowable annual leave carryover amounts.

The capital projects fund balance increased by 84% from the prior fiscal year. The settlement of the CDA note payable was in late April 2004. During FY2005 draws totaling \$994,066 were used to fund many, many projects. The Department of Public Works managed the reconstruction

City Of Laurel, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS -  
REQUIRED SUPPLEMENTAL INFORMATION - CONTINUED

June 30, 2005

of Beall Place, Thomas Drive, and 12<sup>th</sup> Street and several blocks of Main Street; as well as major improvements to the Laurel Municipal Swimming Pool were completed. A new stage at Granville Gude Park was constructed.

The Department of Budget & Personnel Services worked with Information Technology & Community Services worked to develop and implement a new personal property tax system. Information Technology & Community Services also worked on the GIS system with a new basemap and photographic infrastructure inventory.

Major fleet purchases were made during FY2005 including a city-wide command post vehicle; bucket truck; dump trucks; commercial mowers; and street marking machine.

**Fiduciary funds.** The retirement plans of the City of Laurel employees is held in trust to provide future retirement benefits and death and disability benefits to participating employees and their beneficiaries. The net assets for the pension fund increased by 13% from June 30, 2004 to June 30, 2005. The City's contribution to the fund exceeded the actuarial recommendation by 27% and the employee payroll deductions increased due to the increase in the pay plans.

**Budgetary Highlights** The General Operating Budget of FY2005 was amended three times. The City assisted the Laurel Volunteer Rescue Squad in securing a loan to fund the purchase of two new ambulances; Harrison-Beard Building and City-owned property on Braygreen Road were sold as surplus real property to put them back on the tax rolls. Those proceeds were appropriated to the CIP to fund projects and further increase the street and fleet reserves. Engineering costs associated with the implementation of the Life Safety Review program were funded by the corresponding permit fee revenue.

The budget was also amended to provide additional contributions to the Pension Fund and to reallocate the credit on debt service to the health insurance budget to cover the new 2% health insurance tax implemented by the State of Maryland. A Homeland Security Grant was received from Prince George's County which was allocated to the Emergency Services Management budget to purchase cots for evacuation centers; and an emergency response trailer for the Department of Public Works.

City Of Laurel, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS -  
REQUIRED SUPPLEMENTAL INFORMATION - CONTINUED

June 30, 2005

Local Income Tax Distribution exceeded budget projections in FY2005 as it did in FY2004 even though the FY2005 distribution was budgeted higher than FY2004 based on economic activity in the City and historical trends. This excess was useful in compensating for revenues that did not meet expectations. Even though the State Highway Administration provided information for budgeting Highway User Revenue, it far exceeded the budget as well.

There were significant savings in Development Management, Public Works and Police Departments. Development Management had a planner position vacancy for the majority of the year as well as an inspector vacancy during the last quarter. Public Works had position vacancies for equipment operators and laborers for a large part of the year. There were vacancies for sworn police officers as well as dispatchers at the Police Department throughout most of the fiscal year; however, by April 2005 the sworn positions were all filled. Exploration and use of existing government contracts has provided savings to both the General Operating Budget and the CIP, allowing for reallocation as necessary for the most efficient use of public funds.

Budgetary concerns regarding utility costs for City facilities due to deregulation has the full attention of elected officials and staff. Also of great concern are health insurance and workers compensation insurance costs.

**Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets of \$17,462,103 (net of accumulated depreciation) includes land and land improvements, infrastructure, buildings, and machinery, equipment and tools. This is a 3.07% increase from the prior fiscal year due largely to the completion of several capital projects including Beall Place, Thomas Drive, and 12<sup>th</sup> Street and several blocks of Main Street; as well as major improvements to the Laurel Municipal Swimming Pool; a new stage at Granville Gude Park and the equipment and heavy-duty vehicles purchased during FY2005.

City Of Laurel, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS -  
 REQUIRED SUPPLEMENTAL INFORMATION - CONTINUED

June 30, 2005

The following table displays the City's capital assets:

**City of Laurel, Maryland**

**Capital Assets**

(Net of depreciation)

<u>Description</u>	<u>Governmental Activities</u>
Land	\$ 5,204,214
Construction-in-progress	27,206
Buildings and improvements	5,729,098
Machinery, tools, equipment	2,128,944
Land improvements	685,337
Infrastructure	3,604,473
Loan costs	81,831
<b>TOTAL</b>	<b><u>\$ 17,461,103</u></b>

**Long-term debt.** At the end of the current fiscal year, the City had total long-term liabilities outstanding of \$11,452,796. This amount is comprised of the 1996 Public Improvement Bond (PIB) of \$ 9,300,000; \$1,537,364 notes payable; and \$615,432 in accrued vacation leave. This is an increase of \$18,428 from the FY2004 balance. The change is due to the debt service payments on the existing debt which includes the renewal of the LVFD note and the new LVRS note for the new ambulances. There is also an increase in the accrued annual leave liability due to the pay plan increase in pay and the number of hours that are eligible for carryover.

City Of Laurel, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS -  
REQUIRED SUPPLEMENTAL INFORMATION - CONTINUED

June 30, 2005

The following table reflects the City's long-term debt:

**City of Laurel, Maryland**

**Long-Term Debt**

	<u>Governmental Activities</u>
General obligation bonds	\$ 9,300,000
Notes payable	1,537,364
Accrued leave liability	615,432
<b>TOTAL</b>	<b><u>\$ 11,452,796</u></b>

**Economic Factors and Activities**

Fiscal Year 2005 in the City of Laurel saw additional development projects and the implementation of the Revitalization Overlay Area. Revitalization Overlay Areas allow the City more flexibility in selecting projects for redevelopment: striving for higher quality applicants. An ill-maintained apartment complex was demolished at the end of FY2005 and it will be replaced with a luxury apartment complex.

The Department of Development Management also implemented the Life Safety Review which includes fire code and review, inspections, and enforcement. In addition to the distinction of the City of Laurel having its own zoning authority, Life Safety Review completes the one-stop shop for developers so all aspects of zoning, permitting and fire code review can be conducted by the City of Laurel. This makes the City of Laurel an even more desirable place to do business than it already was.

Development Management also saw significant permit and zoning fee revenue. The development of a new shopping center at the southeast corner of the provided building permit revenue that was budgeted; however, the set up for the individual merchants required additional permit fees that were not budgeted. The progression of ongoing housing developments with values higher than earlier estimated are another reason the permit revenue exceeded budget projections.

City Of Laurel, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS -  
REQUIRED SUPPLEMENTAL INFORMATION - CONTINUED

June 30, 2005

Those strides having been made, pride is particularly taken in the completion of the street projects and the overhaul to the swimming pool complex, as well as the many equipment purchases including, but not limited to, the mobile command post vehicle. The increase in net assets records the dollar value of these projects: it does not begin to illustrate the overall effects on the community. The City's commitment to further improve and enhance the infrastructure is evidenced by participation in the CDA program; county, state and federal grant programs; and providing operating funds to the CIP whenever possible. The proceeds from the sale of the Harrison-Beard building and the Braygreen Road property were largely reinvested into infrastructure projects: both streets and parks. The City of Laurel's investment in its infrastructure will breed investment and re-investment in private property both residential and commercial.

City of Laurel, Maryland  
STATEMENT OF NET ASSETS  
June 30, 2005

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Equity in pooled cash and cash equivalents	\$ 5,689,879
Restricted cash	467,178
Taxes receivable, net of allowance for doubtful accounts of \$385,027	163,083
Notes receivable	267,987
Other receivables	231,454
Due from other funds	42,990
Due from other governments	657,492
Inventory	18,978
Capital assets, net	<u>17,462,103</u>
Total assets	<u><u>\$ 25,001,144</u></u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 1,429,043
Accrued interest	5,343
Deposits	1,100,909
Deferred revenue	163,086
Long-term liabilities	
Due within one year	1,449,828
Due in more than one year	9,387,536
Accrued leave liability	<u>615,432</u>
Total liabilities	<u>14,151,177</u>
<b>NET ASSETS</b>	
Investment in capital assets, net of related debt	6,750,319
Restricted	
Inventory	18,979
Notes receivable	267,987
Fleet - general	360,084
Fleet - EMS	44,000
Street maintenance	285,000
Capital projects	265,200
Long-term debt	615,432
Unrestricted	<u>2,242,966</u>
Total net assets	<u>10,849,967</u>
Total liabilities and net assets	<u><u>\$ 25,001,144</u></u>

See notes to financial statements

City of Laurel, Maryland

STATEMENT OF ACTIVITIES

Year ended June 30, 2005

Function/programs	Expenses	Program Revenue		Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Revenue and Change in Net Assets
				Total
Governmental activities				
General government	\$ 3,696,200	\$ 141,070	\$ 13,161	\$ (3,541,969)
Public safety	4,687,189	-	357,639	(4,329,550)
Parks and recreation	1,164,429	435,413	138,681	(590,335)
Public works	3,461,820	130,966	14,971	(3,315,883)
Miscellaneous	2,700,371	-	22,545	(2,677,826)
Debt service	663,535	-	-	(663,535)
Total governmental activities	<u>\$ 16,373,544</u>	<u>\$ 707,449</u>	<u>\$ 546,997</u>	<u>(15,119,098)</u>
General revenue				
Taxes				
Real estate taxes			\$ 9,468,291	
Personal property taxes			3,476,130	
Admission and amusement taxes			171,540	
				13,115,961
Licenses and permits				1,165,102
Intergovernmental				1,219,153
Fines and forfeitures				216,971
Interest				153,530
Miscellaneous				668,367
				<u>16,539,084</u>
CHANGE IN NET ASSETS				<u>1,419,986</u>
Net assets - beginning - as previously reported				9,535,858
Prior period adjustment				<u>(105,877)</u>
Net assets - beginning - restated				<u>9,429,981</u>
Net assets - ending				<u>\$ 10,849,967</u>

See notes to financial statements

City of Laurel, Maryland

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2005

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>ASSETS</b>			
Equity in pooled cash and cash equivalents	\$ 5,604,709	\$ 85,170	\$ 5,689,879
Restricted cash	467,178	-	467,178
Taxes receivable	163,083	-	163,083
Notes receivable	267,987	-	267,987
Other receivables	231,454	-	231,454
Due from other governments	657,492	-	657,492
Due to/from other funds	42,990	591,573	634,563
Inventory	18,978	-	18,978
	<u>\$ 7,453,871</u>	<u>\$ 676,743</u>	<u>\$ 8,130,614</u>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 1,342,680	\$ 86,363	\$ 1,429,043
Accrued interest	5,343	-	5,343
Deposits	1,100,909	-	1,100,909
Due to/from other funds	591,573	-	591,573
Deferred revenue	163,086	-	163,086
	<u>3,203,591</u>	<u>86,363</u>	<u>3,289,954</u>
<b>COMMITMENTS AND CONTINGENCIES</b>			
	-	-	-
<b>FUND BALANCE</b>			
Reserved	1,530,314	855,580	2,385,894
Unreserved, designated	615,432	(265,200)	350,232
Unreserved, undesignated	2,104,534	-	2,104,534
	<u>4,250,280</u>	<u>590,380</u>	<u>4,840,660</u>
Total fund balance	<u>4,250,280</u>	<u>590,380</u>	<u>4,840,660</u>
Total liabilities and fund balance	<u>\$ 7,453,871</u>	<u>\$ 676,743</u>	<u>\$ 8,130,614</u>

See notes to financial statements

City of Laurel, Maryland

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN  
FUND BALANCE - GOVERNMENTAL FUNDS

Year ended June 30, 2005

	General Fund	Capital Projects Fund	Total Governmental Funds
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Revenue			
Taxes	\$ 13,115,961	\$ -	\$ 13,115,961
Intergovernmental	1,383,616	382,534	1,766,150
Licenses and permits	1,165,102	-	1,165,102
Charges for services	707,449	-	707,449
Fines and forfeitures	216,971	-	216,971
Miscellaneous	679,393	-	679,393
Interest	153,530	-	153,530
	<u>17,422,022</u>	<u>382,534</u>	<u>17,804,556</u>
Total revenue			
Expenditures			
Current			
General government	3,230,116	-	3,230,116
Public safety	4,638,691	-	4,638,691
Parks and recreation	1,060,785	-	1,060,785
Public works	2,738,059	-	2,738,059
Miscellaneous	2,700,371	-	2,700,371
Capital projects	176,281	1,599,746	1,776,027
Debt service	2,047,687	-	2,047,687
	<u>16,591,990</u>	<u>1,599,746</u>	<u>18,191,736</u>
Total expenditures			
Excess (deficiency) of revenue over expenditures before other financing sources (uses)	<u>830,032</u>	<u>(1,217,212)</u>	<u>(387,180)</u>
Other financing sources (uses)			
Operating transfers in (out)	(492,154)	492,154	-
Note payable proceeds	311,735	994,066	1,305,801
	<u>(180,419)</u>	<u>1,486,220</u>	<u>1,305,801</u>
Total other financing sources (uses)			
EXCESS OF REVENUE OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	649,613	269,008	918,621
Fund balance, beginning	<u>3,600,667</u>	<u>321,372</u>	<u>3,922,039</u>
Fund balance, ending	<u>\$ 4,250,280</u>	<u>\$ 590,380</u>	<u>\$ 4,840,660</u>

See notes to financial statements

City of Laurel, Maryland

RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS  
WITH THE STATEMENT OF NET ASSETS

Year ended June 30, 2005

Total fund balance \$ 4,840,660

Amounts reported in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Capital assets	\$ 42,330,196	
Accumulated depreciation	<u>(24,868,093)</u>	17,462,103

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bonds payable	(9,300,000)	
Loan payable	(1,537,364)	
Accrued vacation leave	<u>(615,432)</u>	<u>(11,452,796)</u>

Total net assets		<u><u>\$ 10,849,967</u></u>
------------------	--	-----------------------------

See notes to financial statements

City of Laurel, Maryland

RECONCILIATION OF NET CHANGE IN FUND BALANCE  
WITH CHANGE IN NET ASSETS

Year ended June 30, 2005

Net change in fund balance \$ 918,621

Amounts reported in the statement of activities are different

Capital outlays to purchase or build capital assets are reported in government funds as expenditures. However, for governmental activities those costs are shown in the combined statement of net assets and allocated over their estimated useful lives as annual depreciation in the combined statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.

Depreciation expense	\$ (1,314,257)	
Capital outlays	2,287,594	
Transfer from CIP	(441,974)	
Net book value of disposed capital assets	(11,571)	519,792

Repayment of bonds and notes payable principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 1,384,152

Proceeds from notes payable is an other financing source in the governmental funds, but is an increase in long-term liabilities in the statement of net assets and does not affect the statement of activities. (1,305,801)

In the statement of activities, accrued leave is measured by the amounts earned during the year. In the governmental funds, however, expenditures for this item is measured by the amount of financial resources used. This year, vacation used was less than the amounts earned. (96,778)

Change in net assets \$ 1,419,986

See notes to financial statements

City of Laurel, Maryland

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND  
ENCUMBRANCES - BUDGETARY BASIS (NON-GAAP) - GENERAL FUND

Year ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Revenue				
Taxes	\$ 11,538,319	\$ 11,325,965	\$ 11,067,047	\$ (258,918)
Intergovernmental	3,191,505	3,502,706	3,496,280	(6,426)
Licenses and permits	762,869	817,348	1,101,352	284,004
Charges for services	618,148	640,559	672,525	31,966
Fines and forfeitures	309,552	208,851	216,971	8,120
Miscellaneous	250,579	821,432	1,172,744	351,312
Loan repayments	19,008	193,606	43,752	(149,854)
Interest on note receivable	-	-	6,838	6,838
Total revenue	<u>16,689,980</u>	<u>17,510,467</u>	<u>17,777,509</u>	<u>267,042</u>
Expenditures and encumbrances				
General government	3,316,652	3,311,887	3,276,136	35,751
Public safety	4,490,528	4,642,393	4,626,992	15,401
Parks and recreation	1,089,137	1,074,889	1,065,778	9,111
Public works	2,931,498	2,908,098	2,837,603	70,495
Miscellaneous	2,743,617	2,930,544	2,875,013	55,531
Debt service	2,016,548	2,018,502	2,047,687	(29,185)
Total expenditures	<u>16,587,980</u>	<u>16,886,313</u>	<u>16,729,209</u>	<u>157,104</u>
Excess of revenue over expenditures before other financing sources (uses)	<u>102,000</u>	<u>624,154</u>	<u>1,048,300</u>	<u>424,146</u>
Other financing sources (uses)				
Operating transfers in (out)	-	(492,154)	(492,154)	-
Miscellaneous financial uses	<u>(102,000)</u>	<u>(132,000)</u>	<u>-</u>	<u>132,000</u>
Total other financing sources (uses)	<u>(102,000)</u>	<u>(624,154)</u>	<u>(492,154)</u>	<u>132,000</u>
<b>EXCESS OF REVENUE OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 556,146</u>	<u>\$ 556,146</u>

See notes to financial statements

City of Laurel, Maryland

STATEMENT OF FIDUCIARY NET ASSETS - PENSION TRUST FUND

Year ended June 30, 2005

<b>ASSETS</b>	
Cash	\$ 310,296
Investments	13,081,164
Withholdings tax receivable	2,353
Contributions receivable	<u>54,385</u>
Total assets	<u>13,448,198</u>
<b>LIABILITIES</b>	
Due to general fund	42,990
Federal taxes withheld	<u>212</u>
Total liabilities	<u>43,202</u>
<b>NET ASSETS</b>	
Net assets held in trust for pension benefits	<u><u>\$ 13,404,996</u></u>

See notes to financial statements

City of Laurel, Maryland

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - PENSION TRUST FUND

Year ended June 30, 2005

Additions	
Contributions	\$ 1,317,017
Investment income	588,060
Net appreciation in fair value of investments	<u>511,588</u>
Total additions	<u>2,416,665</u>
Deductions	
Benefits payments	803,411
Administrative expenses and other	<u>50,598</u>
Total deductions	<u>854,009</u>
Net increase	1,562,656
Net assets held in trust for pension benefits	
Beginning of year	<u>11,842,340</u>
End of year	<u><u>\$ 13,404,996</u></u>

See notes to financial statements

City of Laurel, Maryland

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Laurel, Maryland, was incorporated on April 4, 1870, under the provisions of the laws of the State of Maryland. The City operates under a Mayor/Council form of government and provides the following services: general government, public safety, public works, parks and recreation. The basic financial statements include the departments, agencies, and other organizational units over which the Mayor and City Council exercise oversight responsibility. In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14. and No. 39. Based on that criteria, there are no component units. The definition of the financial reporting entity is primarily based on the concept of financial accountability. The financial reporting entity consists of the primary government (the City) and activities for which the primary government is financially accountable. Financial accountability exists if a primary government appoints a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide a specific financial benefit to, or impose specific financial burdens on, the primary government. Based upon the application of these criteria, the City's basic financial statements include the City of Laurel Police Retirement Plan, the City of Laurel Employees (Administrative and Maintenance) Retirement Plan, and all departments, funds and account groups operated by the City. The activity of the City's retirement plans is reported in the Pension Trust Fund in the accompanying basic financial statements.

The financial activities of the Laurel Volunteer Fire Department and the Laurel Volunteer Rescue Squad are not considered part of the City's reporting entity. These are separate entities for which the City is not financially accountable.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America applicable to government units.

Government-Wide and Fund Financial Statements

The statement of net assets and statement of activities present financial information on all the non-fiduciary activities of the primary government. The effects of interfund activity have 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.

City of Laurel, Maryland

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

The statement of activities displays the extent to which direct expenses are offset by program revenues for each function of governmental activities and for each segment of business-type activities. Direct expenses are those that can be attributed to a specific function or segment. 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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are fiduciary fund financial statements. Revenues are recognized when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. Real and personal property taxes are recognized as revenues when received. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become 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. The City considers all revenues to be available if they are collected within sixty days after the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, as well as expenditures related to vacation, sick leave, claims and judgments, are recorded only when payment is due.

Other local taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the

City of Laurel, Maryland

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund

The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The principal activities accounted for in the general fund are general government, public safety, public works, parks and recreation, and debt service. Those activities are funded principally by property taxes, state shared taxes and grants from other governmental units.

Capital Projects Fund

The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Additionally, the City reports the following fund types:

Pension Trust Fund

This fund was established to provide pension benefits for City employees. Contributions made by employees and the City, as well as fund earnings and retirement expenses are accounted for in this fund.

Budgetary Accounting and Control

The City follows these procedures in establishing the budgetary data reflected in the basic financial statements:

1. On or by May 1 of each year, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and estimates of anticipated revenue and uses of fund balance, which shall equal or exceed the total proposed expenditures.

City of Laurel, Maryland

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

2. Before adopting a budget, the City Council holds a public hearing to obtain taxpayer comments. Time and location of this hearing are advertised at least two weeks in advance. The Council has historically held two public hearings for each budget.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. From the date of budget enactment, proposed expenditures become appropriations authorized by the City Council. Any transfer of funds between major appropriations, by the Mayor, requires approval of the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the general fund. The policy established by the Mayor and City Council of Laurel, with respect to the City budget (budgetary basis), does not conform to generally accepted accounting principles (GAAP basis). The difference between budgetary and GAAP basis is that under the budgetary basis, encumbrances are recorded as the equivalent of expenditures. Expenditure and encumbrances transactions are presented in accordance with the budgetary basis in the combined statement of revenue, expenditures and encumbrances-budgetary basis, in order to provide a meaningful comparison of actual results with the budget.

Budget amounts are as adopted by the Mayor and City Council. Individual amendments were not material in relation to the original budgeted amounts. The department level is the level of control which may not be legally exceeded.

Unencumbered appropriations of the operating budget lapse at the end of each fiscal year. Appropriations in the capital budget continue as authority for subsequent period expenditures, and lapse in the year of completion of the capital project.

Cash Equivalents

The City considers all demand deposits and investments with a maturity of three months or less when purchased to be cash equivalents.

City of Laurel, Maryland

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

Investments

The investments of the Pension Trust Fund are reported at fair value. The securities of the Pension Trust Funds traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriations, is employed in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances.

Inventory

Inventory is valued at cost. Inventory consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time the items are used. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Capital Assets

Capital assets consist of infrastructure, land, buildings and equipment with an initial individual cost of more than \$500 and an estimated useful life in excess of five years. Such assets are recorded at historical cost. Donated capital assets are recorded at an estimated fair value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed, and costs of uncompleted projects are accumulated in construction-in-progress, which is carried at the lower of cost or market.

Land improvements, buildings and equipment are depreciated using the straight-line method over the following estimated useful lives:

Infrastructure	20 years
Land improvements	15 years
Buildings and improvements	40 years
Equipment	5 - 15 years

City of Laurel, Maryland

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

Compensated Absences

Unused annual leave is adjusted to current salary cost at June 30. Annual leave in excess of 40 days is converted to sick leave on July 1. There is no limit on annual leave payable upon termination or retirement. The City classifies as a current liability the portion expected to be paid from expendable financial resources within the next fiscal year.

City employees are permitted to accumulate compensatory time, limited to five days, in accordance with the Fair Labor Standards Act of 1985 based on employment status. Unused compensatory time is paid to employees upon separation from service.

Personal leave is accrued and unused hours in excess of 10 hours are forfeited on July 1. The City does not reimburse employees for the accumulated personal leave upon termination or retirement. It is not practicable to estimate the portion of such amount which will ultimately be paid because payment is contingent upon future employment. Management expects the City's commitment to provide personal leave to be met during the normal course of activities over the working lives of its employees.

Sick leave is accrued based on varying factors per employee group. The City does not reimburse employees for the unused accumulated sick leave upon termination or retirement, but it may be factored into an employee's retirement benefit.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

City of Laurel, Maryland

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

Reconciliation Between GAAP and Budgetary Basis

Adjustments necessary to convert the excess of revenue and other financing sources over expenditures, encumbrances and other financing uses from the non-GAAP budgetary basis to GAAP basis are provided below:

	<u>General Fund</u>
Excess of revenue over expenditures, encumbrances and other financing sources (uses) - non-GAAP budgetary basis - general fund	\$ 556,146
Loan repayments	(43,752)
Increase (decrease) due to:	
Expenditures of amounts encumbered during prior year	(151,845)
Reserved encumbrances (GAAP basis) at June 30, 2005, but recognized as expenditures for budgetary purposes	<u>289,064</u>
Excess of revenue over expenditures and other financing sources (uses) - GAAP	<u><u>\$ 649,613</u></u>

NOTE 2 - PROPERTY TAXES

The City's real property tax is levied each July 1, on the assessed value for all property located within City boundaries. Real property tax revenue is recognized when received. Assessed values are established by the Maryland State Department of Assessments and Taxation based on estimates of fair market value, multiplied by that year's assessment rate. The rate per \$100 of assessed value was \$.73 in 2005. Taxes are due on July 1; however, they do not become delinquent until after September 30. Property on which taxes are not paid by the following March 1, may be sold at tax sale. Current tax collections for the year ended June 30, 2005, were 99.7% of the levy.

City of Laurel, Maryland

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

The City’s personal property taxes are levied monthly by the City on a rotating basis. Assessed values are established by the Maryland State Department of Assessments and Taxation based on estimates of fair market value multiplied by that year’s assessment rate. The rate per \$100 of assessed value was \$1.69 in 2005. Personal property tax revenue is recognized when received.

NOTE 3 - INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivable and payable balances at June 30, 2005, are as follows:

Fund	Interfund receivables	Interfund payables
General fund	\$ 42,990	\$ 591,573
Capital projects fund	591,573	-
Trust and agency	-	42,990
	<u>\$ 634,563</u>	<u>\$ 634,563</u>

Interfund receivables and payables are utilized when payments are made on behalf of another fund. All amounts are expected to be paid within one year. The interfund receivable and payable between the general fund and the capital projects fund are eliminated in the Statement of Net Assets.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

In March 2003, the GASB issued No. 40 “Deposits and Investment Risk Disclosures,” which is effective for periods beginning June 15, 2004. Risk disclosures in previous financial statements (under provisions of GASB No. 3) focused only on custodial risk. GASB No. 40 not only addresses custodial risk but other common areas of investment risk as well.

Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s investment policy requires that deposits must have, at all times, collateral with a market value that meets or exceeds the City’s deposits with the financial institution that are not covered by deposit

City of Laurel, Maryland

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

insurance. At June 30, 2005, the carrying amount and bank balances of the City's deposits and investments with financial institutions, including pension fund deposits and investments, totaled \$19,548,517 and \$19,802,117, respectively. The City's deposits at June 30, 2005, were not entirely insured by federal depository insurance or collateralized with U.S. securities pledged to the City and held by the Bank's Agent. At June 30, 2005, \$244,026 of the cash deposited with the financial institutions was not insured or collateralized. Cash on hand at June 30, 2005 was \$8,543.

Investments: The City has adopted an investment policy which will provide the highest reasonable investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all State and local statutes governing the investment of public funds. Permissible investments include any obligation for which the United States has pledged its full faith and credit for the payment of principal and interest, any obligation that a federal agency issues in accordance with an act of Congress, bankers' acceptance, repurchase agreements, certificates of deposit, certain money market mutual funds, the Maryland Local Government Investment Pool (MLGIP), and commercial paper. The City's policy and State law require that the underlying repurchase agreements and certificates of deposit's collateral must have a market value of at least 102 percent of the cost plus accrued interest of the investments. Investment with financial institutions chartered in a foreign country is prohibited.

The City's policy further limits the percentage of the total portfolio that can be invested in certain investment types at the date of purchase. These investment types and the maximum percentage of the portfolio that can be invested in each are: investment in the debt of other federal agencies and/or instrumentalities, 25%, bankers' acceptance, 25%, certain money market mutual funds, 25%, and MLGIP, 50%. State law places no limits on these types of investments. The City also limits its investment in commercial paper to 5%, which matches State law.

City of Laurel, Maryland

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

	Carrying Amount	Bank Balance
	<u>                    </u>	<u>                    </u>
<u>Deposits</u>		
Insured - Federal Deposit Insurance Corporation	\$ 100,000	\$ 100,000
Uninsured - collateral held by bank pledged to the City	481,883	500,000
Uninsured - collateral held by bank in bank's agent's name	2,705,000	2,705,000
Uninsured - uncollateralized	-	244,026
Petty cash	8,543	-
	<u>3,295,426</u>	<u>3,549,026</u>
Total deposits		
<u>Investments</u>		
Maryland Local Government Investment Pool	1,780,240	1,780,240
Pooled money market mutual funds	1,391,687	1,391,687
Pooled Pension Fund investments	13,081,164	13,081,164
	<u>16,253,091</u>	<u>16,253,091</u>
Total investments		
Total cash and investments	<u>\$ 19,548,517</u>	<u>\$ 19,802,117</u>

Interest Rate Risk: The City plans its investments to match cash flow requirements. The City limits its interest rate risk by primarily investing in securities with maturity dates under one year.

Credit Risk: State law limits investments in bankers' acceptances and commercial paper to the highest letter and numerical rating by at least one nationally recognized statistical rating organization. The Maryland Local Government Investment Pool (the Pool) is duly chartered, administered and subject to regulatory oversight by the State of Maryland. The Pool is managed in a "Rule 2(a)-7 like" manner and has an S&P rating of AAAM. The Pool was created under Maryland State Law and is regulated by the Maryland State Treasurer's Office. It is maintained exclusively to assist eligible participants, as defined by Articles 95 and 22 of

City of Laurel, Maryland

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

the Annotated Code of Maryland. The Pool may invest in any instrument in which the State Treasurer may invest. Permissible instruments are established by Section 6-222 of the State Finance and Procurement Article. No direct investment may have a maturity date of more than 13 months after its acquisition. Securities of the Pool are valued daily on an amortized cost basis, which approximates market value, and are held to maturity under normal circumstances. Investments in money market funds are valued at the closing net asset value per share on the day of valuation. The fair value of the position in the Pool is the same as the value of the pool net assets (shares).

Concentration of Credit Risk: The City will diversify its investments by security type and institution. With the exception of direct purchases of U.S. Treasury instruments, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution unless the portfolio value is less than \$100,000.

NOTE 5 - NOTES RECEIVABLE

The City has made advances to the volunteer fire department and the volunteer rescue squad for purchases of equipment owned and used by the volunteer fire department and the volunteer rescue squad. These advances are evidenced by signed note agreements. Detail of notes receivable at June 30, 2005, are as follows:

<u>Entity</u>	<u>Interest rate at June 30, 2005</u>	<u>Maturity date</u>	<u>Repayment term</u>	<u>Amount due</u>
Vol. Fire Department	3.10%	June 2014	Monthly	\$ 138,170
Vol. Rescue Squad	3.55%	January 2010	Monthly	<u>129,817</u>
				<u><u>\$ 267,987</u></u>

City of Laurel, Maryland

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE 6 - CAPITAL ASSETS

Capital asset activity for governmental activities for the fiscal year ended June 30, 2005, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 5,196,114	\$ 8,100	\$ -	\$ 5,204,214
Construction-in-progress	441,974	27,206	(441,974)	27,206
Total capital assets, not being depreciated	5,638,088	35,306	(441,974)	5,231,420
Capital assets, being depreciated				
Infrastructure	17,962,906	813,317	-	18,776,223
Land improvements	1,581,546	-	-	1,581,546
Buildings and improvements	10,025,774	429,710	(93,709)	10,361,775
Machinery, tools and equipment	5,834,626	1,009,261	(554,455)	6,289,432
Loan costs	89,800	-	-	89,800
Total capital assets, being depreciated	35,494,652	2,252,288	(648,164)	37,098,776
Less accumulated depreciation				
Infrastructure	14,692,177	478,573	-	15,170,750
Land improvements	843,491	52,718	-	896,209
Buildings and improvements	4,359,602	366,784	(93,709)	4,632,677
Machinery, tools and equipment	4,295,159	408,213	(542,884)	4,160,488
Loan costs	-	7,969	-	7,969
Total accumulated depreciation	24,190,429	1,314,257	(636,593)	24,868,093
Total capital assets, being depreciated, net	11,304,223	938,031	(11,571)	12,230,683
Governmental activities capital assets, net	\$ 16,942,311	\$ 973,337	\$ (453,545)	\$ 17,462,103

City of Laurel, Maryland

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

Depreciation expense was charged to functions/programs of governmental activities as follows:

Governmental activities	
General government	\$ 476,806
Public safety	138,792
Parks and recreation	109,868
Public works	<u>588,791</u>
Total depreciation expense - governmental activities	<u>\$ 1,314,257</u>

NOTE 7 - DUE FROM OTHER GOVERNMENTS

The City is currently due funds from the state of Maryland, Prince Georges' County, and the Federal government. Funds due from the state of Maryland, in the amount of \$446,295 as of June 30, 2005, relate to various taxes and fees. These taxes and fees including highway user taxes, local income taxes, traders' licenses, and racetrack impact fees. Funds due from Prince Georges' County, in the amount of \$208,339 as of June 30, 2005, relate to real estate and occupancy taxes. Funds due from the Federal government, in the amount of \$2,858 as of June 30, 2005, relate to a body armor grant for the police department.

NOTE 8 - LONG-TERM DEBT

General obligation bonds consist of the following at June 30, 2005:

\$13,280,000 - public improvement bonds, 1996 Series A; due in annual installments of \$155,000 to \$1,530,000 through October 1, 2011; interest varies from 4.10% to 5.5% and due semiannually on April 1 and October 1.	<u>\$ 9,300,000</u>
---	---------------------

Total interest paid on the general obligation bonds was \$509,250 for the year ended June 30, 2005.

On November 1, 1996, the City issued \$13,280,000 in bonds with a varying interest rate from 4.10% to 5.50%. A portion of the bonds advance refunded \$10,875,000 of outstanding 1991 public improvements bonds with a varying interest rate from 6.25% to 7.00%. Of the \$13,280,000, \$12,177,200 was deposited into an irrevocable trust with an escrow agent to

City of Laurel, Maryland

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

provide for all future debt service payments on the advance refunded portion of the 1991 public improvement bonds. As a result, a portion of the 1991 bonds are considered to be defeased and the associated liability has been removed from the balance sheet. The City completed the advance refunding to reduce its debt service payments over the next 16 years by \$271,201 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$251,362. The bonds defeased and removed from the balance sheet consisted of 1991 public improvement bonds totaling \$10,875,000, maturing in 2011, with a redemption price of 102% and a call date of July 1, 2002.

Redemption

Optional Redemption

Bonds which mature on or before October 1, 2006, are not subject to redemption prior to their maturities. Bonds which mature on or after October 1, 2007, are subject to redemption commencing on October 1, 2006, as a whole at any time or in part on any interest payment date, at the option of the City, at the following redemption prices, expressed as a percentage of the principal amount of bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption:

<u>Periods during which redeemable ( both dates inclusive)</u>	<u>Redemption Price</u>
October 1, 2006 to September 30, 2007	101.0%
October 1, 2007 to September 30, 2008	100.5%
October 1, 2008 and thereafter	100.0%

Notes payable consists of the following at June 30, 2005:

Note payable to Citizens National Bank (the Bank) on behalf of the Laurel Volunteer Fire Department in the amount of \$151,190. The note is payable to the Bank in monthly principal and interest payments of \$1,470 through June 11, 2014, with interest at 3.10%. As of June 30, 2005, the outstanding principal balance on the note is \$138,170. Total interest paid on the note payable was \$4,620 for the year ended June 30, 2005.

City of Laurel, Maryland

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

Note payable to Citizens National Bank (the Bank) on behalf of the Laurel Volunteer Rescue Squad in the amount of \$160,000. The note is payable to the Bank in monthly principal and interest payments of \$2,918 through January 11, 2010, with interest at 3.55%. As of June 30, 2005, the outstanding principal balance on the note is \$129,817. Total interest paid on the note payable was \$2,218 for the year ended June 30, 2005.

Note payable to the Community Development Administration (“CDA”), an agency in the Division of Development Finance of the Maryland Department of Housing and Community Development (“DHCD”) in the amount of \$4,043,500 to finance certain infrastructure and fleet projects. The note is payable to CDA in annual principal payments ranging from \$260,400 to \$331,900 and semiannual interest payments with rates ranging from 2.000% to 4.375%. The semiannual interest payments are offset by interest earned on the undrawn proceeds of the note held in an escrow account by and in the name of CDA. As of June 30, 2005, the outstanding principal balance and undrawn proceeds on the note is \$1,269,377 and \$2,513,723, respectively. Interest expense of \$147,447, net of interest income of \$36,319, was incurred and paid as of June 30, 2005.

The following is a schedule by years of future principal and estimated interest payments required to amortize all debt outstanding as of June 30, 2005. Estimated interest payments were based on rates in effect at June 30, 2005 and do not include the effect of interest earned on undrawn proceeds of the note payable, if any.

<u>Year ending June 30,</u>	<u>General Obligation Bonds</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 1,140,000	\$ 448,200	\$ 309,828	\$ 136,551
2007	1,200,000	383,850	316,689	129,681
2008	1,255,000	319,475	323,491	122,661
2009	1,325,000	254,975	331,191	114,213
2010	1,390,000	186,405	305,491	105,313
2011 and thereafter	2,990,000	151,980	2,464,309	469,938
	<u>\$ 9,300,000</u>	<u>\$ 1,744,885</u>	<u>\$ 4,050,999</u>	<u>\$ 1,078,357</u>

City of Laurel, Maryland

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

Long-term debt activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities					
Bonds and notes payable					
Bonds payable	\$10,380,000	\$ -	\$(1,080,000)	\$ 9,300,000	\$ 1,140,000
Notes payable	<u>535,715</u>	<u>1,305,801</u>	<u>(304,152)</u>	<u>1,537,364</u>	<u>309,828</u>
Total bonds and notes payable	10,915,715	1,305,801	(1,384,152)	10,837,364	1,449,828
Other liabilities					
Accrued leave liability	<u>518,654</u>	<u>96,778</u>	<u>-</u>	<u>615,432</u>	<u>-</u>
Total governmental activities long- term debt	<u>\$11,434,369</u>	<u>\$ 1,402,579</u>	<u>\$(1,384,152)</u>	<u>\$11,452,796</u>	<u>\$ 1,449,828</u>

NOTE 9 - FUND BALANCE

A summary of the reserved and unreserved-designated fund balances of the general, pension trust and capital projects funds as of June 30, 2005, is as follows:

	<u>General</u>	<u>Capital Projects</u>
<u>Reserved</u>		
Encumbrances	\$ 289,064	\$ 855,580
Inventory	18,979	-
Notes receivable	267,987	-
Fleet - general	360,084	-
Fleet - EMS	44,000	-
Street maintenance	285,000	-
Capital projects	<u>265,200</u>	<u>-</u>
	<u>\$ 1,530,314</u>	<u>\$ 855,580</u>

City of Laurel, Maryland

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

<u>Unreserved - Designated</u>	<u>General</u>	<u>Capital Projects</u>
Annual accrued leave	\$ 615,432	\$ -
Subsequent year's expenditures	-	(265,200)
	<u>\$ 615,432</u>	<u>\$ (265,200)</u>

The City has a deficit unreserved - designated fund balance due to the timing of receiving reimbursements from a number of grants they participant in. The grants typically require that the City fund the purchase or service initially and then submit an application for reimbursement through the grant. The City participated in several grants during FY2005 for which a full reimbursement has yet to be received. A designation of the general fund's fund balance has been provided for the deficit in the capital projects fund's fund balance. Once the grant reimbursements are received, the designation will be released.

NOTE 10 - OPERATING LEASES

The City leases certain properties under arrangements accounted for as operating leases.

The City leases property for the Phelps Senior Citizens Center under a lease expiring in October 2005. The minimum expense under the lease is \$26,004 per year. The lease may be canceled by the City or the lessor in the event of certain agreed-upon conditions.

Rent expense charged to operations under these leases for the year ended June 30, 2005 was \$27,924.

The following is a schedule by years of future minimum lease payments payable at June 30, 2005:

<u>Years ending June 30,</u>	
2006	<u>\$ 9,587</u>

City of Laurel, Maryland

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE 11 - DEFERRED COMPENSATION PLAN

The Small Business Protection Act of 1996 (House Bill 3448) enacted on August 20, 1996, mandated that by January 1, 1999, all existing Internal Revenue Code Section 457 plan assets must be held in a custodial account, trust, or annuity contract for the benefit of participants and their beneficiaries. Once a trust, custodial account or annuity contract exists, assets are owned or held by the trust, custodian or insurer for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of public employer creditors nor can they be used by the public employer for any purpose other than the payment of benefits to those individuals participating in the plan or their designated beneficiaries.

City employees participate in two plans. One plan, sponsored by ITT Hartford, was established during the year ended June 30, 1998. The assets of this plan were immediately deposited into a custodial account and therefore, never recorded as assets and corresponding liabilities to the participants in the agency fund of the City. The assets of the second plan, sponsored by ING (formerly Aetna Life Insurance and Annuity Company), have been transferred to a custodial account and therefore are not reported in any agency fund of the City.

NOTE 12 - PRIOR PERIOD ADJUSTMENT

During the annual audit of the basic financial statements, it was discovered that capital assets were overstated by \$105,877. Accordingly, an entry was made to decrease capital assets and decrease previously reported net assets by \$105,877 as of June 30, 2005.

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and related disasters. The City is a capital 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 and 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

City of Laurel, Maryland

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

members. Annual premiums are assessed for the various policy coverages. During fiscal year 2005, the City paid premiums of \$250,525 to the trust. The agreement for the formation of LGIT provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of annual premiums. Settled claims, if any resulting from these risks, have not exceeded commercial insurance coverage in the past fiscal year.

NOTE 14 - PENSION PLAN

Plan Description

The City contributes to the City of Laurel Police Retirement Plan and the City of Laurel Employee (Administrative and Maintenance) Retirement Plan (Plans). Both Plans contain virtually the same provisions and the valuation of each of the Plans uses virtually the same assumptions. Accordingly, for ease of disclosure and understanding, they are presented here as one plan, except as indicated. The Plans are single-employer defined benefit plans which provide retirement benefits and death and disability benefits to participating employees and their beneficiaries. All full-time and part-time employees of the City must participate in the applicable Plan. A participant becomes fully vested in his or her accrued benefit after 5 years of credited service. Credited service is determined for any participant as the years and completed months during which the participant shall have been in the employment of the City. Additionally, credited service includes credited service transferred from other government employers in the State of Maryland or purchased for military service or government service anywhere in the United States, not to exceed 5 years. Administrative and Maintenance employees are eligible to receive retirement benefits as of the participant's 65th birthday and the completion of 5 years of credited service or upon the completion of 30 years of credited service regardless of age. Police employees are eligible to receive retirement benefits the earlier of the participant's 65th birthday and the completion of 5 years of credited service or upon completion of 20 years of credited service regardless of age. All participants under the Plans as of June 30, 1998, are entitled to a minimum benefit as of such date determined under the provisions of the plan then in effect. Employees may elect to receive their pension benefits in the form of a single life annuity, a period certain and continuous annuity, a joint and survivor annuity or a Social Security annuity. Administrative and Maintenance employees' normal retirement allowance consists of 1.67% of final average compensation multiplied by credited service not greater than 30 years. Police employees' normal retirement allowance consists of 2.5% of final average compensation for each of the

City of Laurel, Maryland

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

first 20 years of credited service plus 1.5% of final average compensation for each of the next 5 years of credited service. The Plans allow the City to grant a cost of living increase to participants or beneficiaries annually. The most recent cost of living adjustment was an increase of 2.5% effective July 1, 1998.

The Plans were amended as of January 1, 2005 to include provisions for a Deferred Retirement Option Plan ("DROP"). Under the DROP, participants eligible to participate may elect to defer the commencement of his or her retirement benefits from a minimum period of one year to a maximum period of seven years. The period of participation automatically ends when a participant terminates employment for any reason. Election to participate in the DROP ends December 31, 2009.

The Plans were further amended as of March 28, 2005 to include a provision stating that if the present value of a retired participant's vested accrued benefit exceeds \$1,000 such lump sum distribution shall be made only after the retired participant completes the appropriate distribution forms.

Funding Policy

As a condition of employment, employees must contribute 4.5% (Administrative and Maintenance) and 8.8% (Police) of base earnings, excluding bonuses, commissions, overtime payments and other additional compensation. The City's funding policy is to make annual contributions to the Plans as calculated by the actuary in amounts sufficient to provide the benefits of the Plans. The contributions made to the Plans for fiscal year 2005 were made in accordance with the actuarial valuation for the plan year ending June 30, 2003. The contributions consisted of amounts contributed by the employees of \$402,329 and amounts contributed by the City of \$914,691.

Significant actuarial assumptions used in determining the actuarial accrued liability are shown in the Pension Trust Fund - Analysis of Funding Progress and Employer Contributions - Required Supplemental Information on page 52. The amount shown as the "actuarial accrued liability" is a standard disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess, on a going concern basis, the funding status of the Plan to which contributions are made, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The actuarial accrued liability was determined as part of an actuarial valuation performed as of July 1, 2004.

City of Laurel, Maryland

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

Mortality

Health lives - 1994 Uninsured Pensioners Mortality Table for Males and Females  
Disabled lives - Healthy life mortality set forward 10 years

Interest rates

7.5% compounded annually

Salary increase

5.0% per annum

Social security increases

4% annual increase in rate of wage base and national average earnings increase and  
4% annual increase in rate of Consumer Price Index.

Administrative and Maintenance employees are assumed to retire following the earlier of (i) attainment of age 65, or (ii) the completion of 30 years of service.

Police employees are assumed to retire based on years of service as follows:

<u>Years of Service</u>	<u>Percentage Retiring</u>
20	20.0%
21	12.5%
22	28.5%
23	40.0%
24	33.3%
25	100.0%

Investments

The Plans invest in mutual funds.

SUPPLEMENTAL INFORMATION

City of Laurel, Maryland

SCHEDULE OF REVENUE - BUDGETARY BASIS - GENERAL FUND

Year ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
<b>Taxes</b>				
Real and personal property	\$ 11,340,319	\$ 11,127,965	\$ 10,840,705	\$ (287,260)
Local - admissions	148,000	148,000	171,540	23,540
Penalties and interest	<u>50,000</u>	<u>50,000</u>	<u>54,802</u>	<u>4,802</u>
Total taxes	<u>11,538,319</u>	<u>11,325,965</u>	<u>11,067,047</u>	<u>(258,918)</u>
<b>Intergovernmental</b>				
State and federal grants				
FEMA				
Police protection	345,165	345,165	292,537	(52,628)
Police aid supplement	<u>52,098</u>	<u>52,098</u>	<u>52,263</u>	<u>165</u>
Total state and federal grants	<u>397,263</u>	<u>397,263</u>	<u>344,800</u>	<u>(52,463)</u>
<b>State shared taxes</b>				
Local income tax	1,916,545	2,041,814	2,047,847	6,033
Race track impact fees	60,450	60,450	63,750	3,300
Highway user	536,285	678,285	678,315	30
Hotel/motel taxes	140,000	158,300	158,304	4
Other	<u>18,956</u>	<u>18,956</u>	<u>20,705</u>	<u>1,749</u>
Total state shared taxes	<u>2,672,236</u>	<u>2,957,805</u>	<u>2,968,921</u>	<u>11,116</u>
<b>County grants</b>				
Financial corporations	6,362	6,362	6,362	-
Seniors grant	90,144	93,489	96,868	3,379
Highway safety grant	15,000	15,000	14,971	(29)
Other grants	<u>10,500</u>	<u>32,787</u>	<u>64,358</u>	<u>31,571</u>
Total county grants	<u>122,006</u>	<u>147,638</u>	<u>182,559</u>	<u>34,921</u>
Total intergovernmental	<u>3,191,505</u>	<u>3,502,706</u>	<u>3,496,280</u>	<u>(6,426)</u>

City of Laurel, Maryland

SCHEDULE OF REVENUE - BUDGETARY BASIS - GENERAL FUND - CONTINUED

Year ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Licenses and permits				
Liquor	9,650	9,650	11,363	1,713
Amusement permits	12,630	12,630	21,083	8,453
Occupational	100	100	90	(10)
Building permits	280,950	304,475	400,834	96,359
Cable TV	210,000	210,000	243,839	33,839
Traders licenses	60,000	77,348	85,002	7,654
Other permits and licenses	189,539	203,145	339,141	135,996
Total licenses and permits	<u>762,869</u>	<u>817,348</u>	<u>1,101,352</u>	<u>284,004</u>
Charges for services				
Passport execution fees	60,000	60,000	66,180	6,180
Zoning fees	18,000	48,970	48,974	4
Refuse collection	88,820	71,472	70,110	(1,362)
Recreation fees	393,300	402,089	415,825	13,736
Facility rentals	40,350	40,350	45,520	5,170
Other	17,678	17,678	25,916	8,238
Total charges for services	<u>618,148</u>	<u>640,559</u>	<u>672,525</u>	<u>31,966</u>
Fines and forfeitures				
Red light camera tickets	178,000	104,785	104,785	-
Parking tickets	49,320	78,320	79,038	718
False alarm fines	62,836	6,350	6,350	-
Release fee - impound	17,196	17,196	24,816	7,620
Other	2,200	2,200	1,982	(218)
Total fines and forfeitures	<u>309,552</u>	<u>208,851</u>	<u>216,971</u>	<u>8,120</u>

City of Laurel, Maryland

SCHEDULE OF REVENUE - BUDGETARY BASIS - GENERAL FUND - CONTINUED

Year ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Miscellaneous				
Rental	21,301	21,301	19,588	(1,713)
Interest on investments	156,000	125,030	146,692	21,662
Disposal rebate	60,728	60,728	60,856	128
Sale of property	300	438,786	471,493	32,707
Other	12,250	175,587	474,115	298,528
Total miscellaneous	<u>250,579</u>	<u>821,432</u>	<u>1,172,744</u>	<u>351,312</u>
Loan repayments				
Fire department repayments	19,008	19,008	13,569	(5,439)
Rescue squad repayments	-	174,598	30,183	(144,415)
Total loan repayments	<u>19,008</u>	<u>193,606</u>	<u>43,752</u>	<u>(149,854)</u>
Interest on note receivable	-	-	6,838	6,838
Total revenue	<u>\$ 16,689,980</u>	<u>\$ 17,510,467</u>	<u>\$ 17,777,509</u>	<u>\$ 267,042</u>

City of Laurel, Maryland

SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -  
BUDGETARY BASIS - GENERAL FUND

Year ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
General government				
City council	\$ 57,713	\$ 57,713	\$ 53,083	\$ 4,630
Clerk to the council	131,569	131,569	129,665	1,904
Mayor	280,502	287,515	273,455	14,060
City administrator	409,944	285,681	275,915	9,766
Registration and elections	225	225	114	111
Budget and personnel services	406,334	413,970	413,785	185
Planning and zoning	640,160	565,699	565,699	-
Information technology and community services	575,436	708,217	707,237	980
Facilities and grounds	769,474	811,003	808,674	2,329
Community promotion	45,295	50,295	48,509	1,786
Total general government	<u>3,316,652</u>	<u>3,311,887</u>	<u>3,276,136</u>	<u>35,751</u>
Public safety				
Police department	4,206,899	4,306,764	4,306,764	-
Emergency services management	283,629	335,629	320,228	15,401
Total public safety	<u>4,490,528</u>	<u>4,642,393</u>	<u>4,626,992</u>	<u>15,401</u>
Parks and recreation				
Parks and recreation administration	387,585	366,886	362,779	4,107
Recreation	260,914	262,161	262,161	-
Laurel municipal pool	102,831	115,365	115,365	-
Laurel community center programs	195,216	198,261	197,416	845
Armory programs	11,020	10,946	10,573	373
Gude lakehouse programs	12,046	11,159	10,201	958
Senior services programs	119,525	110,111	107,283	2,828
Total parks and recreation	<u>1,089,137</u>	<u>1,074,889</u>	<u>1,065,778</u>	<u>9,111</u>

City of Laurel, Maryland

SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -  
BUDGETARY BASIS - GENERAL FUND - CONTINUED

Year ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
Public works				
Public works administration	153,057	152,219	148,131	4,088
Automotive maintenance	487,403	500,054	494,655	5,399
Waste collection and disposal	1,242,198	1,219,198	1,211,564	7,634
Highways and streets	460,014	440,385	440,385	-
Snow and ice removal	42,354	57,386	55,260	2,126
Street lighting	195,400	226,882	226,882	-
Engineering and technical services	141,445	147,474	143,470	4,004
Traffic engineering	150,652	107,053	74,657	32,396
Tree management	58,975	57,447	42,599	14,848
Total public works	<u>2,931,498</u>	<u>2,908,098</u>	<u>2,837,603</u>	<u>70,495</u>
Miscellaneous				
Retirement pension	742,073	917,154	917,154	-
Fleet equipment	174,550	225,201	176,258	48,943
Insurance	1,787,748	1,756,350	1,753,060	3,290
Other	39,246	31,839	28,541	3,298
Total miscellaneous	<u>2,743,617</u>	<u>2,930,544</u>	<u>2,875,013</u>	<u>55,531</u>
Debt service				
Principal	1,352,364	1,384,153	1,384,152	1
Interest	664,184	634,349	663,535	(29,186)
Total debt service	<u>2,016,548</u>	<u>2,018,502</u>	<u>2,047,687</u>	<u>(29,185)</u>
Total expenditures	<u>\$ 16,587,980</u>	<u>\$ 16,886,313</u>	<u>\$ 16,729,209</u>	<u>\$ 157,104</u>

City of Laurel, Maryland

PENSION TRUST FUND - ANALYSIS OF FUNDING  
 PROGRESS AND EMPLOYER CONTRIBUTIONS -  
 REQUIRED SUPPLEMENTAL INFORMATION

June 30, 2005

The following schedules give an analysis of the funding progress for each plan.

Actuarial Valuation Date July 1, 2004	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age Normal	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
<b>Employees Plan</b>						
2004	\$ 6,118,691	\$ 8,245,176	\$ 2,126,485	74.21%	\$ 3,034,120	70.09%
2003	\$ 5,570,783	\$ 7,332,541	\$ 1,761,758	75.97%	\$ 2,915,206	60.43%
2002	\$ 5,370,767	\$ 6,617,412	\$ 1,246,645	81.16%	\$ 3,055,704	40.80%
2001	\$ 5,169,622	\$ 5,755,036	\$ 585,414	89.83%	\$ 2,871,540	20.39%
2000	\$ 4,944,885	\$ 5,159,158	\$ 214,273	95.85%	\$ 3,055,533	7.01%
1999	\$ 4,546,752	\$ 4,589,160	\$ 42,408	99.08%	\$ 2,773,378	1.53%
<b>Police Plan</b>						
2004	\$ 5,834,671	\$ 11,197,428	\$ 5,362,757	52.11%	\$ 2,074,954	258.45%
2003	\$ 5,200,000	\$ 9,991,988	\$ 4,791,988	52.04%	\$ 1,807,801	265.07%
2002	\$ 5,080,890	\$ 8,991,128	\$ 3,910,238	56.51%	\$ 1,785,125	219.05%
2001	\$ 5,041,426	\$ 7,859,153	\$ 3,928,838	64.15%	\$ 1,710,206	164.76%
2000	\$ 4,929,215	\$ 6,805,756	\$ 1,876,541	72.43%	\$ 1,824,646	102.84%
1999	\$ 4,697,370	\$ 6,350,129	\$ 1,652,759	73.97%	\$ 1,540,712	107.27%

The following schedule gives information on employer required contributions.

Years ended June 30,	Annual required contribution	Percentage contributed
2005	\$722,073	126.68%
2004	\$561,872	137.52%
2003	\$378,897	100.63%
2002	\$248,429	100.00%
2001	\$207,994	100.00%

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

The Honorable Members of the City Council  
City of Laurel, Maryland

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Laurel, Maryland (the City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Laurel, Maryland, in a separate letter dated October 14, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our

audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are described in the accompanying Schedule of Findings and Questioned Costs.

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

*Reznick Group, P.C.*

Baltimore, Maryland  
October 14, 2005

City of Laurel, Maryland

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2005

Statement of Condition

The City has collateral in place to cover the cash it maintains with its bank; however, due to an unexpected increase in cash during the year ended June 30, 2005, the City had uninsured and uncollateralized cash deposits as of June 30, 2005 of \$244,026.

Recommendation

The City should contact the bank to increase the collateralization to cover all cash deposits.

Auditor Noncompliance Code:

Other

Auditee's Summary Comments:

Management is in agreement with the finding and recommendation.