

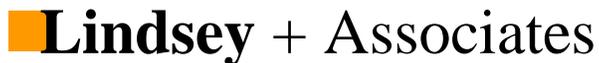
**CITY OF LAUREL, MARYLAND  
FINANCIAL STATEMENTS  
JUNE 30, 2010**

**CITY OF LAUREL  
TABLE OF CONTENTS  
JUNE 30, 2010**

	<b>Page</b>
<b>INDEPENDENT AUDITOR’S REPORT</b>	1 – 2
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
• Management’s Discussion and Analysis	3 – 10
<b>BASIC FINANCIAL STATEMENTS</b>	
<b>Government-wide Financial Statements</b>	
• Statement of Net Assets	11
• Statement of Activities	12
<b>Fund Financial Statements</b>	
• Balance Sheet – Governmental Funds	13
• Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	14
• Statement of Fiduciary Net Assets – Pension Trust Fund	15
• Statement of Changes in Fiduciary Net Assets – Pension Trust Fund	16
<b>NOTES TO BASIC FINANCIAL STATEMENTS</b>	17 – 47
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
• Pension Trust Fund – Analysis of Funding Progress and Employer Contributions	48
• Other Post-Employment Benefits Plan – Funding Progress	49
• Other Post-Employment Benefits Plan – Employer Contributions	50
• Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – General Funds – Unaudited	51
<b>SUPPLEMENTAL SCHEDULES</b>	
• Schedule of Revenues – Budget (non-GAAP basis) and Actual General Fund	52 – 54
• Schedule of Expenditures – Budget (non-GAAP basis) and Actual General Fund	55 – 56
• Schedule of Expenditures of Federal Awards	57

**SINGLE AUDIT REPORTS AND SCHEDULES**

- Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 59 – 60
- 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* 61 – 63
- Schedule of Findings and Questioned Costs Year Ended June 30, 2010 64
- Schedule of Prior Years' Findings 65
- Corrective Action Plan Year Ended June 30, 2010 66



606 Baltimore Avenue  
Suite 101  
Towson, MD 21204

410.825.1994 phone  
301.596.1996 DC phone  
410.825.1997 fax

[www.acpafirm.com](http://www.acpafirm.com)

## Independent Auditor's Report

Honorable Mayor  
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, 2010, which collectively comprise the basic financial statements of the City as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1 to the financial statements, there were prior period accounting errors pertaining to capital assets and construction in progress. Accordingly, an adjustment has been made to beginning net assets to correct the accounting errors.

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 Laurel as of June 30, 2010, and the respective changes in financial position thereof 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 22, 2010, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management discussion and analysis, pension trust fund – analysis of funding, other post-employment benefits plan – schedule of funding progress, other post-employment benefits plan – schedule of employer contributions, and budgetary comparison information on pages 3 through 10 and 48 through 51 are not a required part 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 express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Laurel, Maryland's basic financial statements. The supplemental schedules on pages 52 through 56 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards on page 57 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

October 22, 2010

*Hindley & Associates, LLC*

**CITY OF LAUREL, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2010**

**Financial Highlights**

- At June 30, 2010, the assets of the City of Laurel exceeded the liabilities by \$30,051,706 (net assets). Unrestricted net assets were \$7,360,948.
- Net assets increased by \$5,432,116 or 28% from June 30, 2009 to June 30, 2010. This was due to the capitalization of completed road construction projects, park improvement projects and investment in equipment; the purchase of the property at 7703 and 7705 Sandy Spring Road for the Department of Parks and Recreation Maintenance Operations; and the completion of the Barkman-Kaiser Public Safety Complex for the Laurel Police Department Headquarters.
- The fund balance of the general fund has increased by 20% from \$7,355,260 at June 30, 2009 to \$8,831,484 at June 30, 2010. This is due to the excess in revenues over expenditures; an increase in the reserve for encumbrances and the annual leave liability; and an increase in designated reserves for Fleet and Street Maintenance and Transportation.
- The total debt of the City of Laurel increased by \$1,813,396. Debt service payments totaled \$3,362,640. FY2010 draws on the CDA funds of \$2,385,185 plus the execution of the \$1,396,518 note for the purchase of 7703 and 7705 Sandy Spring Road as well as the increase of the OPEB liability by \$585,000 and the increase and the annual leave liability of \$128,491 exceeded the debt service payments made during the year; therefore the overall debt balance increased from the previous fiscal year.
- FY2010 was particularly challenging with regard to recordkeeping for grants. The City was fortunate to be the recipient of \$1,065,488 in federal grant funds, \$457,543 of which was the product of the American Recovery and Reinvestment Act of 2009. All of the grants were public-safety related. The challenges presented themselves through the reporting process as each agency with whom we dealt had differing deadlines, website access, and reporting formats and requirements. The Department of Budget and Personnel Services participated with representatives of the Laurel Police Department and the Department of Information Technology in site visits and separate audits of related financial materials and processes.

**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**  
**JUNE 30, 2010**

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-like 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.

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.

**CITY OF LAUREL, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

**Government-wide Financial Analysis**

The City's total net assets as of June 30, 2010 were \$30,051,706. The largest portion of net assets, 66%, is the investment in capital assets, net of related debt, in the amount of \$19,839,107. The unrestricted portion, 24%, 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**

	Governmental Activities	
	2010	2009
Current and other assets	\$ 15,628,335	\$ 17,988,268
Capital assets	34,772,186	26,573,067
<b>Total Assets</b>	50,400,521	44,561,335
Long-term liabilities	11,369,982	10,535,083
Other liabilities	8,978,833	9,406,662
<b>Total Liabilities</b>	20,348,815	19,941,745
Net assets		
Invested in capital assets, net of related debt	19,839,107	12,739,893
Restricted	2,851,651	2,103,924
Unrestricted	7,360,948	9,775,773
<b>Total Net Assets</b>	\$ 30,051,706	\$ 24,619,590

**CITY OF LAUREL, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

**Governmental Activities**

Governmental activities increased the City's net assets by \$5,432,116 or 28% over June 30, 2009. Property taxes comprised 80% of the total revenue, while the next highest source of revenue, intergovernmental funds, is 10% of the \$25,215,605 general revenue. The remaining 10% of revenue is received from licenses, permits, interest operating grants, charges for services, fines and forfeitures, and miscellaneous items.

	Governmental Activities	
	2009	2010
<b>Revenue</b>		
Program Revenue		
Charges for services	\$ 1,383,073	\$ 1,639,794
Operating grants/contributions	2,173,963	2,915,255
Capital grants/contributions	-	-
General Revenue		
Property taxes	17,989,097	20,238,352
Income taxes	2,858,020	2,507,210
Other taxes	343,908	362,974
Licenses/permits	925,574	752,628
Interest	189,893	35,976
Miscellaneous	395,975	1,318,465
<b>Total Revenue</b>	26,259,503	29,770,654
<b>Expenses</b>		
General government	4,940,614	5,456,587
Public safety	7,030,314	8,018,099
Parks & recreation	1,625,894	1,844,251
Public works	3,864,564	4,064,678
Miscellaneous	3,885,328	4,274,081
Debt service	657,344	680,842
<b>Total Expenses</b>	22,004,058	24,338,538
Increase in net assets	4,255,445	5,432,116
Net assets, beginning of year - revised	22,864,145	24,619,590
<b>Net assets, ending</b>	<b>\$ 27,119,590</b>	<b>\$ 30,051,706</b>

**CITY OF LAUREL, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

**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 \$8,831,484. There is \$3,485,146 reserved or unreserved but designated from the fund balance for encumbrances (open purchase orders), inventory, and annual leave; and designated fleet and street reserves (for emergency repairs and replacements). Unreserved fund balance represents 22% of total general fund expenditures, while total fund balance represents 36% of that same amount.

The fund balance of the general fund has increased by 20% from \$7,355,260 at June 30, 2009 to \$8,831,484 at June 30, 2010 because revenues exceeded expenditures by \$2,841,833 before operating transfers of \$1,365,609.

The capital projects fund balance decreased by 56% from the prior fiscal year. This is due to significant expenditures made for the renovations to the Barkman-Kaiser Public Safety Complex as well as park improvement and technology projects: the funding for which was provided in previous fiscal years.

**Fiduciary funds.** The retirement plans of the City of Laurel employees are 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 19% from June 30, 2009 to June 30, 2010. The City's contribution met the actuarial recommendation and the employee payroll deductions increased due to the increase in the pay plans. Investment gains of \$2,553,069 put the balance of the net assets higher than that of June 30, 2009.

**Budgetary Highlights.** The General Operating Budget of FY2010 was amended three times. The first amendment became necessary when, in the second month of the fiscal year, the State of Maryland Board of Public Works reduced the Highway User Revenue distribution to local governments and the State Aid for Police Protection funding. The decrease required a reduction of \$600,000. In July of 2009 Mayor Moe had required all departments to identify 3% of the operating budgets in anticipation of the reductions coming from the State. These reductions paired with the savings in health insurance and workers compensation premiums allowed the City to maintain service levels by the Department of Public Works the expenditures for which are partially offset by Highway User Revenue.

Savings in disposal fees, vehicle maintenance and outside services were used to amend the budget in order to lessen the impact of the Capital Improvement Program and debt service on future operating budgets. In particular, funds were appropriated to retire the \$196,000 of the note executed for the purchase of the 811 Fifth Street.

**CITY OF LAUREL, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

**Capital Asset and Debt Administration**

**Capital Assets.** The City's investment in capital assets of \$34,772,186 (net of accumulated depreciation) includes land and land improvements, infrastructure, buildings, and machinery, equipment and tools. This is a 30% increase from the prior fiscal year. The \$9.88 million in increases were due to purchases of equipment and vehicles as well as the purchase of property at 7703 and 7705 Sandy Spring Road; the completion of the project to renovate for former church and school at 811 Fifth Street for the Laurel Police Department; the improvements to Riverfront Park including the park extension and the dam ruins preservation; the field restoration and amenity improvements to Cypress Street Athletic Field; and the replacement of the play structure at Sweitzer Park; and the reconstruction of seven streets.

In FY2010, \$1,433,980 in equipment was purchased between the general fund and the capital improvement program. This includes computers and other electronic equipment as well as guns and office equipment. \$871,294 in grant funds were used toward the new radio systems as well as 5 Segways, a motorcycle and 10 mountain bikes for the police department. Grant funds were also used to purchase E-tix systems for the patrol cars to issue computerized citations. Construction in Progress of \$365,463 is comprised of the radio system tower; a data recording system; a command vehicle; and the phone system.

The following table displays the City's capital assets:

**City of Laurel, Maryland  
Capital Assets  
(Net of depreciation)**

<b>Description</b>	<b>Governmental Activities</b>
Land	\$ 6,607,876
Construction-in-progress	365,463
Buildings and improvements	14,841,969
Machinery, tools, equipment	3,540,535
Land improvements	1,886,395
Infrastructure	7,529,948
<b>TOTAL</b>	<b>\$ 34,772,186</b>

**CITY OF LAUREL, MARYLAND  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

**Long-term debt.** At the end of the current fiscal year, the City had total long-term liabilities outstanding of \$17,073,649. This amount is comprised of the 1996 Public Improvement Bond (PIB) of \$2,990,000; \$11,943,079 notes payable; \$1,131,000 in OPEB liability and \$1,009,570 in accrued vacation leave. This is an increase of \$1,813,396 from the FY2009 balance. FY2010 draws on the CDA funds of \$2,385,185; the execution of the note for the purchase of 7703 and 7705 Sandy Spring Road as well as the increase of the OPEB liability by \$585,000 and the increase in the annual leave liability of \$128,491 exceeded the debt service payments made during the year; therefore the overall debt balance increased from the previous fiscal year. Outstanding debt does not include the total of \$8,406,000 issued through the CDA program just the amount of the draw downs of \$7,144,273. However, the total of the issue is used when calculating debt leeway.

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

**City of Laurel, Maryland  
Long-term Debt**

	<b>Governmental Activities</b>
General obligation bonds	\$ 2,990,000
Notes payable	11,943,079
Accrued leave liability	1,009,570
OPEB Liability	1,131,000
<b>Total</b>	<b>\$ 17,073,649</b>

**Economic Factors and Activities**

By the end of the first quarter of the City of Laurel’s Fiscal Year 2009 the nation had entered a recession. Due to the measures taken by the Federal government to improve the economy, the City received \$457,544 in American Recovery and Reinvestment Act funds either directly from the Federal government or through the State of Maryland. Most of the grants were relative to public safety. Though this funding is not interchangeable in its application it allows flexibility in future budgets in order to make one-time purchases and the addition of three police officers.

The mixed use development of the Patriot Group and the redevelopment of the Laurel Mall have not moved forward as the credit market is still reluctant to provide large funding packages. These projects are ready to move forward with the exception of the storm water management permits from Prince George’s County. These are key developments for the City’s commercial area and economic growth providing permanent, sustained employment opportunities. We anxiously await forward movement and completion of both projects.

**CITY OF LAUREL, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2010**

Additionally, the City Administrator and Director of Community Planning and Business Services remain active in the Maryland Military Installation Council in order to plan and prepare the City for the impacts of the Base Realignment and Closure (BRAC) at Ft. George G. Meade which is 5 miles outside the City of Laurel. An estimated 5,000-10,000 jobs are expected to be relocated to the base, so there are potential infrastructure implications in and around the City of Laurel.

The Department of Community Planning & Business Services, 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 operation has proven to be highly successful in the vastly reduced amount of time to review proposed projects for fire code compliance. This makes the City of Laurel an even more desirable and efficient place to do business than it already was.

The City has invested a great deal of money in improvements to existing infrastructure, including streets, park improvements and information technology. The City has also required the same from developers to reduce the impact of new development on existing taxpayers, including but not limited to providing funding for improved intersections; provide funding for new sworn personnel; and providing parkland dedication or fees in lieu of parkland.

These activities as well as the geographic location of the City of Laurel, outstanding services provided by the Nationally Accredited Laurel Police Department, Department of Public Works, Department of Parks & Recreation, and the responsiveness of elected officials and City Hall staff continue to attract new residents and businesses further improving the City's economy.

Because development has slowed a great deal in the City of Laurel, officials remain cautious regarding the national and state economies. Budgetary concerns regarding energy costs for City facility utilities and vehicle fuel has the full attention of elected officials and staff. Also of great concern are health insurance and workers compensation insurance costs and the impact of escalating economic issues on income tax and real estate tax revenues.

**Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Budget & Personnel Services at 8103 Sandy Spring Road, Laurel, MD 20707.

**CITY OF LAUREL, MARYLAND**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2010**

	<u>Governmental</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>		
Current Assets		
Equity in pooled cash and cash equivalents	\$ 10,270,348	\$ 10,270,348
Restricted cash	1,622,015	1,622,015
Taxes receivable, net of allowances	1,373,808	1,373,808
Notes receivable	31,677	31,677
Other receivables	260,771	260,771
Accounts receivable - income taxes	538,763	538,763
Due from other governments	1,050,827	1,050,827
Due from other funds	47,854	47,854
Inventory	182,833	182,833
Total Current Assets	<u>15,378,896</u>	<u>15,378,896</u>
Noncurrent Assets		
Notes receivable	249,439	249,439
Net capital assets	34,772,186	34,772,186
Total Noncurrent Assets	<u>35,021,625</u>	<u>35,021,625</u>
<b>TOTAL ASSETS</b>	<u>\$ 50,400,521</u>	<u>\$ 50,400,521</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,241,468	\$ 1,241,468
Accrued interest	5,343	5,343
Deposits	1,622,015	1,622,015
Unearned revenue	406,340	406,340
Current portion of long-term debt	5,703,667	5,703,667
Total Current Liabilities	<u>8,978,833</u>	<u>8,978,833</u>
Noncurrent Liabilities		
OPEB liability	1,131,000	1,131,000
Compensated absences	1,009,570	1,009,570
Loan payable - long-term	9,229,412	9,229,412
Total Noncurrent Liabilities	<u>11,369,982</u>	<u>11,369,982</u>
<b>TOTAL LIABILITIES</b>	<u>20,348,815</u>	<u>20,348,815</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	19,839,107	19,839,107
Restricted		
Inventory	183,433	183,433
Fleet - general	630,554	630,554
Fleet - EMS	-	-
Street maintenance	1,028,094	1,028,094
Capital projects	-	-
Long-term debt	1,009,570	1,009,570
Unrestricted	7,360,948	7,360,948
<b>TOTAL NET ASSETS</b>	<u>30,051,706</u>	<u>30,051,706</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 50,400,521</u>	<u>\$ 50,400,521</u>

The accompanying notes to these financial statements are an integral part of these statements.

**CITY OF LAUREL, MARYLAND  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010**

Functions/Programs	Expenses	Indirect Expense Allocation	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Total
<b>Primary Government</b>							
<b>Governmental Activities:</b>							
General government	\$ 5,456,587	\$ 1,038,486	\$ 200,665	\$ 390,926	\$ -	\$ (5,903,482)	\$ (5,903,482)
Public safety	8,018,099	2,211,187	921,368	418,109	-	(8,889,809)	(8,889,809)
Parks and recreation	1,844,251	489,334	401,499	164,903	-	(1,767,183)	(1,767,183)
Public works	4,064,678	1,215,916	116,262	1,941,317	-	(3,223,015)	(3,223,015)
Miscellaneous	4,274,081	(4,274,081)	-	-	-	-	-
Interest	680,842	(680,842)	-	-	-	-	-
<b>Total Governmental Activities</b>	<b>24,338,538</b>	<b>-</b>	<b>1,639,794</b>	<b>2,915,255</b>	<b>-</b>	<b>(19,783,489)</b>	<b>(19,783,489)</b>
<b>Total Primary Government</b>	<b>\$ 24,338,538</b>	<b>\$ -</b>	<b>\$ 1,639,794</b>	<b>\$ 2,915,255</b>	<b>\$ -</b>	<b>\$ (19,783,489)</b>	<b>\$ (19,783,489)</b>
<b>General revenues:</b>							
<b>Taxes</b>							
						2,507,210	2,507,210
						20,238,352	20,238,352
						362,974	362,974
						752,628	752,628
						35,976	35,976
						1,318,465	1,318,465
						<u>25,215,605</u>	<u>25,215,605</u>
						-	-
						5,432,116	5,432,116
						<u>24,619,590</u>	<u>24,619,590</u>
						<u>\$ 30,051,706</u>	<u>\$ 30,051,706</u>

The accompanying notes to these financial statements are an integral part of these statements.

**CITY OF LAUREL, MARYLAND  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2010**

**RECONCILIATION OF TOTAL GOVERNMENTAL  
FUND BALANCE TO NET ASSETS OF  
GOVERNMENTAL ACTIVITIES  
JUNE 30, 2010**

	General Fund	Capital Projects Fund	Non-Major Fund Special Taxing District	Total Governmental Funds		
<b>ASSETS</b>						
Equity in pooled cash and cash equivalents	\$ 8,618,901	\$ 1,651,447	\$ -	\$ 10,270,348	<i>Total Governmental Fund Balances</i>	\$ 10,666,325
Restricted cash	1,622,015	-	-	1,622,015		
Taxes receivable, net of allowances	1,373,808	-	-	1,373,808	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	34,772,186
Notes receivable	281,116	-	-	281,116		
Other receivables	260,761	10	-	260,771		
Accounts receivable - income taxes	538,763	-	-	538,763	Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(17,073,649)
Due from other governments	306,332	744,495	-	1,050,827		
Due from other funds	608,965	-	-	608,965		
Inventory	182,833	-	-	182,833		
<b>TOTAL ASSETS</b>	<b>\$ 13,793,494</b>	<b>\$ 2,395,952</b>	<b>\$ -</b>	<b>\$ 16,189,446</b>	Deferred income tax revenues are recorded on the modified accrual basis in the fund financial statements.	538,763
<b>LIABILITIES</b>						
Accounts payable and accrued expenses	\$ 1,241,468	\$ -	\$ -	\$ 1,241,468	Certain receivables are offset by deferred revenue in the governmental funds since they are not available to pay for current period expenditures. This is the amount of deferred revenue related to those receivables.	1,148,081
Accrued interest	5,343	-	-	5,343		
Deposits	1,622,015	-	-	1,622,015		
Due to other funds	-	561,111	-	561,111		
Deferred revenue	1,554,421	-	-	1,554,421		
Deferred revenue - income taxes	538,763	-	-	538,763		
<b>TOTAL LIABILITIES</b>	<b>4,962,010</b>	<b>561,111</b>	<b>-</b>	<b>5,523,121</b>	<i>Net Assets of Governmental Activities</i>	<b>\$ 30,051,706</b>
<b>FUND BALANCES</b>						
Reserved	2,475,576	1,834,841	-	4,310,417		
Unreserved - designated	1,009,570	-	-	1,009,570		
Unreserved, undesignated	5,346,338	-	-	5,346,338		
<b>TOTAL FUND BALANCES</b>	<b>8,831,484</b>	<b>1,834,841</b>	<b>-</b>	<b>10,666,325</b>		
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 13,793,494</b>	<b>\$ 2,395,952</b>	<b>\$ -</b>	<b>\$ 16,189,446</b>		

The accompanying notes to these financial statements are an integral part of these statements.

**CITY OF LAUREL, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	General Fund	Capital Projects Fund	Non-Major Fund Special Taxing District	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 20,428,946	\$ -	\$ 101,381	\$ 20,530,327
Intergovernmental	4,450,142	1,828,137	-	6,278,279
Licenses and permits	752,628	-	-	752,628
Charges for services	718,426	-	-	718,426
Fines and forfeitures	921,368	-	-	921,368
Miscellaneous	279,304	380,566	-	659,870
<b>Total Revenues</b>	<u>27,550,814</u>	<u>2,208,703</u>	<u>101,381</u>	<u>29,860,898</u>
<b>EXPENDITURES</b>				
Current Operations				
General government	5,310,094	-	-	5,310,094
Public safety	7,414,213	-	-	7,414,213
Parks and recreation	1,606,130	-	-	1,606,130
Public works	3,627,767	-	-	3,627,767
Miscellaneous	3,388,137	231,476	50,000	3,669,613
Capital projects	-	9,496,039	-	9,496,039
Debt Service				
Principal	2,681,798	-	-	2,681,798
Interest	680,842	-	-	680,842
<b>Total Expenditures</b>	<u>24,708,981</u>	<u>9,727,515</u>	<u>50,000</u>	<u>34,486,496</u>
<b>Excess of revenues over (under) expenditures before other financing sources (uses)</b>	<u>2,841,833</u>	<u>(7,518,812)</u>	<u>51,381</u>	<u>(4,625,598)</u>
<b>Other financing sources (uses)</b>				
Loan proceeds	-	3,781,703	-	3,781,703
Operating transfers in (out)	(1,365,609)	1,416,990	(51,381)	-
<b>Total other financing sources (uses)</b>	<u>(1,365,609)</u>	<u>5,198,693</u>	<u>(51,381)</u>	<u>3,781,703</u>
<b>Excess of revenue and other financing sources over (under) expenditures and other financing sources (uses)</b>	<u>1,476,224</u>	<u>(2,320,119)</u>	<u>-</u>	<u>(843,895)</u>
<b>Fund balance, beginning of year</b>	<u>7,355,260</u>	<u>4,154,960</u>	<u>-</u>	<u>11,510,220</u>
<b>Fund balance, end of year</b>	<u>\$ 8,831,484</u>	<u>\$ 1,834,841</u>	<u>\$ -</u>	<u>\$ 10,666,325</u>

**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, 2010**

<i>Net Change in Fund Balances - Total Governmental Funds</i>	\$ (843,895)
Repayment of debt principal is reported in governmental funds, however, in the statement of activities, it is recorded as a reduction in long-term debt. This is the amount of principal debt repayment.	2,681,798
Proceeds from new debt is considered an other financing source in the governmental funds, but is recorded as an increase in long-term debt in the statement of activities. This is the amount of the proceeds from new debt.	(3,781,703)
Governmental funds report capital outlays 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 exceeded depreciation in the current period.	8,201,409
Increases in deferred state income taxes do not provide current financial resources and are not reported as revenues in the governmental funds.	54,489
Difference in accounting for compensated absences between modified accrual and accrual accounting.	(128,491)
Under the modified accrual basis of accounting, revenues are not recognized unless they are deemed "available" to finance current expenditures. Accrual-basis recognition is not limited by availability. This is the difference in revenue recorded under modified accrual and accrual basis per the Statement of Activities.	(144,733)
OPEB contributions are long-term liabilities and the related expense is not reported in the funds.	(585,000)
Loss on disposal of fixed asset	(2,290)
Other various differences between accrual accounting and modified accrual accounting.	(19,468)
<i>Change in Net Assets of Governmental Activities</i>	<u>\$ 5,432,116</u>

The accompanying notes to these financial statements are an integral part of these statements.

**CITY OF LAUREL, MARYLAND  
STATEMENT OF FIDUCIARY NET ASSETS  
AGENCY FUND - PENSION TRUST FUND  
FOR THE YEAR ENDED JUNE 30, 2010**

**ASSETS**

Cash and cash equivalents	\$ 75,945
Investments, at fair value	17,543,013
Contributions receivable	-
Other assets	2,353
<b>TOTAL ASSETS</b>	<u><u>\$ 17,621,311</u></u>

**LIABILITIES**

Accounts payable	\$ 212
Due to general fund	47,854
<b>Total liabilities</b>	<u><u>48,066</u></u>

**NET ASSETS**

Held in trust for pension benefits	<u>17,573,245</u>
------------------------------------	-------------------

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 17,621,311</u></u>
---	-----------------------------

The accompanying notes to these financial statements are an integral part of these statements.

**CITY OF LAUREL, MARYLAND  
STATEMENT OF CHANGES IN NET ASSETS  
AGENCY FUND - PENSION TRUST FUND  
FOR THE YEAR ENDED JUNE 30, 2010**

**ADDITIONS**

Contributions		
Employer		\$ 1,155,535
Plan member		556,961
Total contributions		1,712,496
Investment Income		
Interest income		669
Dividends		369,339
Net change in fair value of investments		2,183,061
Net investment income (loss)		2,553,069
Total additions		4,265,565

**DEDUCTIONS**

Distributions		1,402,807
Administrative expenses		72,541
		1,475,348
<b>Net increase</b>		2,790,217
<b>Net assets held in trust for pension benefits, beginning of year</b>		14,783,028
<b>Net assets held in trust for pension benefits, end of year</b>		\$ 17,573,245

The accompanying notes to these financial statements are an integral part of these statements.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Financial Reporting Entity**

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 Statements No. 14. and No. 39. Based on those 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.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**Basis of Presentation – Fund Accounting**

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The City's governmental funds include the General Fund and the Capital Projects 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 Capital Projects Fund accounts for financial resources used for the acquisition or construction of major capital facilities.

The Special Revenue Fund accounts for financial resources of a special taxing district.

The City has one fiduciary fund. It is used to account for pension assets held by the City in a trustee capacity.

**Basis of Accounting**

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the City, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. The City has no business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting, including the reclassification or elimination of internal activity (between funds). This is the same approach used in the preparation of the proprietary fund financial statements, if any, but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

The government-wide statement of activities presents a comparison between expenses, and program revenues for each segment of the business-type activities of the City, if any, and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect costs are allocated to programs. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. Program revenues include charges paid by the recipients of the goods or services offered by the programs, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City. Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

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

**Fund Financial Statements**

Fund financial statements report detailed information about the City. The focus of governmental and enterprise financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds, if any, are aggregated and presented in a single column.

**Governmental Funds**

City activities pertaining to general government, public safety, public works, parks and recreation, and debt service are reported in the governmental funds. All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**Revenue Recognition**

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e. collectible within the current year or within two months of year-end and available to pay obligations of the current period). These include property taxes, franchise taxes, investment earnings, charges for services and intergovernmental revenues.

Some revenues, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, some revenues are recorded as receivables and deferred until they become available.

Other revenues, including licenses and permits, certain charges for services, and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

**Expenditure Recognition**

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on long-term debt, which has not matured, are recognized when paid.

Allocations of costs, such as depreciation and amortization, are not recognized in the governmental activities.

The major governmental funds are:

- General Fund is the City's primary operating fund. It is used to account for all financial resources except for those required to be accounted for in another fund.
- The Capital Projects Fund accounts for financial resources used for the acquisition or construction of major capital facilities.

The City has a nonmajor Special Revenue Fund to account for a special taxing district. These funds are to be used to ensure continued bus services in the District and for infrastructure operations and maintenance in the District.

**Fiduciary Fund**

The City has one fiduciary fund. The Pension Trust Fund is used to account for pension assets held by the City in a trustee capacity. This fund is accounted for and reported in a manner similar to proprietary funds, since capital maintenance is critical.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**Budgetary Accounting and Control**

The City follows these procedures in establishing the budgetary data reflected on page 51:

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.
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.
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 differences between budgetary and GAAP basis are shown in footnote 20.

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.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**Cash and Cash Equivalents**

The City’s cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Investments**

In accordance with GASB Statement No. 31, “Accounting and Financial Reporting for Certain Investments,” investments held at June 30, 2010 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

**Receivables**

Receivables at June 30, 2010 consist of real estate taxes, personal property taxes, highway user revenue, and other receivables. Taxes, special assessments, utility charges and accrued interest are deemed collectible in full.

**Inventory of Supplies**

Inventories, if any, are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds and expenses in the proprietary type funds, if any, when used.

**CITY OF LAUREL, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**Capital Assets and Depreciation**

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. In accordance with GASB No. 51, intangible assets are recognized if they are identifiable, and are amortized over their useful lives if they do not have indefinite useful lives.

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.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

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

**Restricted Reserves**

The City uses restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**Deferred Income Tax Revenue**

At June 30, 2010, the City was advised by the State of Maryland that \$538,763 of the Local Tax Reserve Fund was allocable to the City. In accordance with the provision of GASB No. 33, the City recorded receivable and deferred income tax revenue in the amount of \$538,763 in the fund financial statements. Changes in this amount have been reflected as current year income tax revenue in the government-wide financial statements in accordance with full accrual accounting.

**Interest Expense**

Interest is expensed as incurred except when interest is incurred during the construction period and is capitalized as part of the cost of the asset.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**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.

**Net Assets**

The government-wide statement of net assets reports \$2,851,651 of restricted net assets which is either restricted by enabling legislation or restrictions determined to be legally enforceable.

**Estimates**

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues, expenditures, and expenses. Actual results could vary from the estimates that were used.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**Equity Classifications**

Equity is classified as net assets and is displayed in three components:

*Invested in capital assets, net of related debt* – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* – Consists of net assets with constraints placed on their use either by 1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

*Unrestricted net assets* – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first and then unrestricted resources as needed.

**Prior Period Adjustment**

The prior year’s net assets for the governmental activities was incorrect due to accounting errors primarily pertaining to capital assets and construction in progress. In prior years, expenditures in the amount of \$2,500,000 were capitalized in buildings as well as included in construction in progress. As a result, beginning net assets was decreased by \$2,500,000 from \$27,119,590 to \$24,619,590.

**NOTE 2 – COMPLIANCE AND ACCOUNTABILITY**

**Budget Requirements, Accounting, and Reporting**

**Requirements for all funds:**

Annual budgets are adopted for all City funds. The City Council may subsequently amend the budget and the budget was amended during fiscal year 2010. For day-to-day management control, expenditures may not exceed budget at the department level. The City prepares an annual operating budget on a basis not consistent with generally accepted accounting principles. Refer to footnote 20 for a reconciliation to a GAAP basis.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**Deposit Policies**

Statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, banker’s acceptance, and other available bank investments provided that approved securities are pledged to secure those funds deposited in an amount equal to the amount of those funds. In addition, the City can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law and can invest in the State of Maryland Local Government Investment Pool.

The City’s deposits are insured or collateralized with securities held by the City, its agent, or by the pledging financial institution’s trust department or agent in the name of the City.

**Pooling of Cash**

The City pools all individual fund cash balances. Income is distributed to the funds based on contribution to the pool.

**Deposits**

**Custodial credit risk** for deposits is the risk that in the event of a bank failure, the City’s deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City’s policy requires deposits to be insured by FDIC, and balances exceeding FDIC limits be secured by collateral valued at 102 percent of principal and accrued interest. Collateral is to be held by the City, its agent, or by the pledging financial institution’s trust department or agent in the name of the City.

At year-end, the carrying amounts of the City’s deposits were \$1,541,502 and the bank balances totaled \$2,025,821. Of the bank balances, the entire amount was insured by Federal Depository Insurance Corporation (FDIC). At year end, the City’s bank balances were not exposed to any custodial credit risk because all deposits were fully collateralized. Restricted cash consisted of the following at June 30, 2010:

Escrow deposits	\$ 1,622,015
	<u>\$ 1,622,015</u>

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 3 – DEPOSITS AND INVESTMENTS - continued**

**Investment Policies**

**Credit Risk** is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. 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 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).

**Interest Rate Risk** is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City's policy is to limit its interest rate risk by primarily investing in securities with maturity dates under one year.

**Concentration of Credit Risk** is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's policy is to 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.

For investments, **custodial credit risk** is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities in the possession of an outside party. 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 insurance.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 3 – DEPOSITS AND INVESTMENTS - continued**

**Investments**

Generally, the City's investing activities are managed by the Controller and the City Council. 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  
JUNE 30, 2010**

**NOTE 3 – DEPOSITS AND INVESTMENTS - continued**

As of June 30, 2010, the City had the following investments:

<u>Types of Investments</u>	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality/ Ratings</u>	<u>Weighted Average Days to Maturity</u>
MLGIP	\$ 2,951,045	\$ 2,951,045	AAAm	46
Repurchase agreements	4,245,089	4,245,089	N/A	1
Money market funds	1,599,427	1,599,427	AAAm	34
Certificates of Deposit:				
Fleet Reserve	550,000	550,000	N/A	210
Street Maintenance Reserve	<u>1,000,000</u>	<u>1,000,000</u>	N/A	210
	<u>\$ 10,345,561</u>	<u>\$ 10,345,561</u>		
Agency Fund -				
Repurchase agreements	711,389	711,389	N/A	1
Mutual funds	<u>16,831,624</u>	<u>16,831,624</u>	N/A	
	<u>\$ 17,543,013</u>	<u>\$ 17,543,013</u>		

Notes: 1- Ratings are provided where applicable to indicate associated **Credit Risk**. N/A indicates not applicable.

2- **Interest Rate Risk** is estimated using either duration or weighted average days to maturity depending on the respective policy.

A reconciliation of cash and cash equivalents per the Statement of Net Assets totaling \$11,892,363 (\$10,270,348 unrestricted and \$1,622,015 restricted) to investments, deposits and petty cash follows.

Investments	\$ 10,345,561
Deposits	1,541,502
Petty cash	<u>5,300</u>
	<u>\$ 11,892,363</u>

**CITY OF LAUREL, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 4 – TAXES RECEIVABLE**

Taxes receivable are comprised of the following as of June 30, 2010.

Personal property	\$ 180,730
Real estate	1,193,078
	<u>\$ 1,373,808</u>

**NOTE 5 – NOTES RECEIVABLE**

The City has made advances to the volunteer fire department for purchases of equipment owned and used by the volunteer fire department. These advances are evidenced by signed note agreements. Detail of notes receivable at June 30, 2010 are as follows:

Entity	Interest rate at June 30, 2010	Maturity date	Repayment term	Amount due
Vol. Fire Dept.	4.21%	February, 2018	Monthly	\$ 281,116
				\$ 281,116

**NOTE 6 – OTHER ACCOUNTS RECEIVABLE**

Other accounts receivable are comprised of the following as of June 30, 2010.

Cable franchise fee	\$ 130,955
Grass cutting receivable	34,961
Refuse - residential	17,819
Parks & recreation receivable	19,648
Various	57,388
	\$ 260,771

**NOTE 7 – LEASE AGREEMENT**

On January 26, 2010 the City entered into a lease agreement to rent a piece of property. Monthly payments are due to the City in the amount of \$1,650 beginning February 1, 2010 and ending January 31, 2012. However, the City did not settle on the property until June 2, 2010 and the City was paid a pro-rated amount for 28 days in June. Rental income for the year ended June 30, 2010 was \$1,540.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 7 – LEASE AGREEMENT – continued**

Future minimum rental income is as follows:

Year ended June 30	
2011	\$ 19,800
2012	11,550
	<u>\$ 31,350</u>

**NOTE 8 – DEFERRED/UNEARNED REVENUES**

Government funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities in the current period. Governmental funds all defer revenue recognition in connection with resources that have been received but not earned.

At the end of the current fiscal year, the deferred revenues and unearned revenues reported in the governmental funds were as follows:

	Unavailable	Unearned	Total
Income taxes, General Fund	\$ 538,763	\$ -	\$ 538,763
Property taxes, General Fund	866,965	-	866,965
Loan receivable, General Fund	281,116	-	281,116
Impact fees, General Fund	-	343,676	343,676
Other unearned revenues	-	62,664	62,664
	<u>\$ 1,686,844</u>	<u>\$ 406,340</u>	<u>\$ 2,093,184</u>

**NOTE 9 – INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES**

Interfund receivable and payable balances at June 30, 2010 are as follows:

Fund	Interfund receivables	Interfund payables
General fund	\$ 608,965	\$ -
Capital projects fund	-	561,111
Pension trust fund	-	47,854
	<u>\$ 608,965</u>	<u>\$ 608,965</u>

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 9 – INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES - continued**

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 10 – PROPERTY TAX**

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 \$.71 in 2010.

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, 2010, were 99% of the levy.

The City's real property rate for the special taxing district was \$.03 per \$100 assessed value in 2010.

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 2010. Personal property tax revenue is recognized when received.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 11 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Not being depreciated:				
Land	\$ 6,519,205	\$ 203,575	\$ 114,904	\$ 6,607,876
Construction in progress	1,563,667	365,463	1,563,667	365,463
Subtotal	<u>8,082,872</u>	<u>569,038</u>	<u>1,678,571</u>	<u>6,973,339</u>
Depreciable capital assets:				
Infrastructure	19,919,311	1,348,275	628,561	20,639,025
Land improvements	2,603,458	512,444	-	3,115,902
Buildings and improvements	13,576,428	7,510,697	-	21,087,125
Machinery, tools and equipment	8,550,083	1,433,980	59,234	9,924,829
Subtotal	<u>44,649,280</u>	<u>10,805,396</u>	<u>687,795</u>	<u>54,766,881</u>
Total capital assets	<u>52,732,152</u>	<u>11,374,434</u>	<u>2,366,366</u>	<u>61,740,220</u>
Accumulated depreciation:				
Infrastructure	13,451,861	285,777	628,561	13,109,077
Land improvements	1,119,649	109,858	-	1,229,507
Buildings and improvements	5,899,383	345,773	-	6,245,156
Machinery, tools and equipment	5,688,192	753,046	56,944	6,384,294
Subtotal, accumulated depreciation	<u>26,159,085</u>	<u>1,494,454</u>	<u>685,505</u>	<u>26,968,034</u>
Net capital assets	<u>\$ 26,573,067</u>	<u>\$ 9,879,980</u>	<u>\$ 1,680,861</u>	<u>\$ 34,772,186</u>

Depreciation was charged to functions as follows:

General government	\$ 179,500
Public safety	658,759
Parks and recreation	239,470
Public works	416,725
	<u>\$ 1,494,454</u>

The City has construction commitments of approximately \$323,869 as of June 30, 2010.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 12 – LONG-TERM DEBT**

General obligation bonds consist of the following at June 30, 2010:

\$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 is due semiannually on April 1 and October 1. Interest paid on the bonds for the year ended June 30, 2010 was \$186,405. Balance due on June 30, 2010 was \$2,990,000.

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 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.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 12 – LONG-TERM DEBT – continued**

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:

Periods during which redeemable (both dates inclusive)	Redemption Price
October 1, 2008 and thereafter	100.00%

\$8,406,000 - Public improvement bonds, 2007 Series B; due in annual installments of \$599,561 to \$759,105 through May 1, 2022; interest varies from 1.88% to 2.07%. The semiannual interest payments are offset by interest on the undrawn proceeds held in an escrow account by and in the name of the CDA. Interest paid on the bond for the year ended June 30, 2010 was \$284,447 less interest income of \$812. The outstanding principal balance and balance of undrawn proceeds on June 30, 2010 were \$5,824,073 and \$1,261,727 respectively.

Notes payable consists of the following at June 30, 2010:

Note payable to PNC Bank (the Bank) on behalf of the Laurel Volunteer Fire Department in the amount of \$350,000 for the purchase of a new fire truck. The note is payable to the Bank in monthly principal and interest payments of \$3,589 through February 12, 2018, with interest at 4.21%. Total interest paid on the note payable was \$12,707. As of June 30, 2010 the outstanding principal balance is \$281,116.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 12 – LONG-TERM DEBT – continued**

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, 2010, the outstanding principal balance on the note is \$2,398,000. Interest expense of \$103,952 was incurred and paid as of June 30, 2010.

Note payable to Citizens National Bank (the Bank) in the amount of \$2,500,000 to finance the purchase of a building to be used by the Laurel Police Department. The note is interest only maturing in June 2010 with interest at 3.55%. The note was amended on June 21, 2010 extending the maturity date to September 20, 2010. As of June 30, 2010, the outstanding principal balance on the note is \$2,043,372. Interest paid on the note for the year ended June 30, 2010 was \$74,146.

Note payable to Patuxent Greens Golf, LLC. in the amount of \$515,642 for the purchase of property in the City. The note is due in two payments. The first payment of \$257,821 plus accrued interest is due on January 23, 2010. The remaining balance of \$257,821 plus accrued interest is due on January 23, 2011. The interest rate on the note is 7.0%. The City elected to pay the balance in full on August 4, 2009. The balance outstanding at June 30, 2010 is \$0. Interest paid on the note for the year ended June 30, 2010 was \$19,185.

Note payable to PNC Bank in the amount of \$1,396,518 to finance the purchase of a building to be used by the Laurel Parks and Recreation Department. The note is interest only maturing in January 2011 with interest at 2.75%. As of June 30, 2010, the outstanding principal balance on the note is \$1,396,518. Interest paid on the note for the year ended June 30, 2010 was \$0.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 12 – LONG-TERM DEBT - continued**

The changes in governmental long-term debt for the year ended June 30, 2010 are summarized below.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Amount due in one year</u>
General					
obligation bonds	\$ 4,380,000	\$ -	\$ (1,390,000)	\$ 2,990,000	\$ 1,460,000
Bank loans	2,870,486	1,396,518	(545,998)	3,721,006	3,471,567
CDA loans	6,582,688	2,385,185	(745,800)	8,222,073	772,100
Total	<u>\$ 13,833,174</u>	<u>\$ 3,781,703</u>	<u>\$ (2,681,798)</u>	<u>\$ 14,933,079</u>	<u>\$ 5,703,667</u>
Compensated					
absences	<u>\$ 881,079</u>	<u>\$ 128,491</u>	<u>\$ -</u>	<u>\$ 1,009,570</u>	<u>\$ -</u>
OPEB liability	<u>\$ 546,000</u>	<u>\$ 585,000</u>	<u>\$ -</u>	<u>\$ 1,131,000</u>	<u>\$ -</u>

The following is a schedule by years of future principal and estimated interest payments required to amortize all debt outstanding as of June 30, 2010. Estimated interest payments were based on rates in effect at June 30, 2010 and do not include the effect of interest earned on undrawn proceeds of the note payable, if any.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 12 – LONG-TERM DEBT – continued**

Year ended June 30,	Bank Loans		CDA Loans (A)	
	Principal	Interest	Principal	Interest
2011	\$ 3,471,567	\$ 53,831	\$ 772,100	\$ 362,204
2012	33,029	10,034	799,900	335,929
2013	34,493	8,569	829,100	307,932
2014	35,996	7,067	861,400	249,857
2015	37,563	5,500	759,500	246,306
2016-2020	108,358	6,475	4,033,300	764,563
2021-2025	-	-	1,428,500	88,068
Total	<u>\$ 3,721,006</u>	<u>\$ 91,476</u>	<u>\$ 9,483,800</u>	<u>\$ 2,354,859</u>

Year ended June 30,	General Obligation Bonds		Total	
	Principal	Interest	Principal	Interest
2011	\$ 1,460,000	\$ 113,730	\$ 5,703,667	\$ 529,765
2012	1,530,000	38,250	2,362,929	384,213
2013	-	-	863,593	316,501
2014	-	-	897,396	256,924
2015	-	-	797,063	251,806
2016-2020	-	-	4,141,658	771,038
2021-2025	-	-	1,428,500	88,068
Total	<u>\$ 2,990,000</u>	<u>\$ 151,980</u>	<u>\$ 16,194,806</u>	<u>\$ 2,598,315</u>

(A) This payout schedule assumes the remaining \$1,261,727 of undrawn proceeds are drawn down.

**NOTE 13 – CONCENTRATION OF CREDIT RISK**

The City derives most of its revenues from the citizens of the City. The City is located in Prince George’s County, Maryland.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 14 – 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.

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 members. Annual premiums are assessed for the various policy coverages. During fiscal year 2010, the City paid premiums of \$213,746 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.

Premiums are charged to the appropriate City's General Fund, with no provision made for claim liability in addition to premiums, unless an assessment is made by the Trust. There have been no assessments for the last three fiscal years.

**NOTE 15 – DEFERRED COMPENSATION PLAN**

The City Council established two deferred compensation plans in accordance with Internal Revenue Code Section 457. These plans, available to all full-time and part-time employees, elected officials and auxiliary employees, permit them to defer any portion of their salary until future years. The City does not contribute to these plans.

All amounts of compensation deferred under the plans, and all related income are held in trust for the exclusive benefit of participants and their beneficiaries. The assets will not be diverted to any other purpose.

In compliance with the Internal Revenue Code Section 457(g), all assets and income of the plans are held in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, in accordance with Governmental Accounting Standards Board Statement No. 32, "Accounting and Financial Reporting for the Internal Revenue Code 457 Deferred Compensation Plan," the investments designated for compensation benefits are not reflected in the City's financial statements.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 15 – DEFERRED COMPENSATION PLAN - continued**

ITT Hartford is the plan administrator and the trustee for one plan, and ING (formerly Aetna Life Insurance and Annuity Company) is the plan administrator and the trustee for the other plan.

**NOTE 16 – 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, 2007, 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 employee's normal retirement allowance consists of 1.67% of final average compensation multiplied by credited service not greater than 30 years. Police employee's normal retirement allowance consists of 2.5% of final average compensation for each of the 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.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 16 – PENSION PLAN - continued**

The Plans may be amended by the City Council, and 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 was to end December 31, 2009, but was extended in 2009 to December 31, 2014.

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 City does not calculate a net pension obligation, but develops an annual required contribution as a percent of payroll. The annual pension cost is equal to the annual required contribution. The contribution rate applied to actual payroll is actuarially determined and consists of a normal cost component and an unfunded actuarial component. The City had annual required contributions of \$1,155,535, \$1,037,594, and \$980,853, for the fiscal years ended June 30, 2010, 2009, and 2008. The City has made all annual required contributions. The contributions made to the Plans for fiscal year 2010 were made in accordance with the actuarial valuation for the plan year ending June 30, 2009. The contributions consisted of amounts contributed by the employees of \$556,961 and amounts contributed by the City of \$1,155,535.

The plans invest in mutual funds.

The number of employees covered and current membership classifications as of June 30, 2009 are as follows:

Active participants	169
Terminated vested participants	9
Retirees and beneficiaries	66
Total participants	244

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.

**CITY OF LAUREL, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 16 – PENSION PLAN – continued**

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

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

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the accrued actuarial liability.

Actuarial valuation date:	July 1, 2009
Actuarial cost method:	Entry age normal
Amortization method:	Level dollar
Remaining amortization period:	25 years - Police Plan 30 years - Employee Plan
Asset valuation method:	Asset smoothing
Actuarial assumptions:	
Investment rate of return	7.5% compounded annually
Projected salary increases	5.0% compounded annually
Cost of living adjustments	0.00%
Inflation rate	3.5% compounded annually
Contribution rates:	
Police	8.8%
Employees	4.5%
Mortality: healthy lives (employees)	RP-2000 Combined Mortality Table of Males and Females
Mortality: disabled lives (employees)	Healthy life mortality set forward 10 years
Mortality: healthy lives (police)	RP-2000 Blue Collar Mortality Table of Males and Females
Mortality: disabled lives (police)	Healthy life mortality set forward 10 years

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 16 – PENSION PLAN – continued**

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 required schedule of funding progress immediately 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 liability for benefits.

**PENSION TRUST FUND - ANALYSIS OF FUNDING**

Actuarial Valuation Date July 1, 2009	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
Employees Plan						
2009	\$ 8,658,749	\$ 12,639,873	\$ 3,981,124	68.50%	\$ 4,618,146	86.21%
Police Plan						
2009	9,483,321	17,018,090	7,534,769	55.72%	2,788,432	270.22%

Refer to Required Supplementary Information on page 48 for additional information regarding these plans. There are no separately issued financial statements for these plans.

**CITY OF LAUREL, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 17 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

*Plan Description*

The City pays up to \$300 per month for life for each retiree’s health insurance. The retiree may use this money to obtain health insurance coverage from other carriers, or use the City’s insurance provider. The City reimburses the costs for coverage for the retiree only, not dependents, for \$300 of premiums per month.

*Funding Policy*

The City has not established an OPEB trust as of June 30, 2010 and has not made a contribution for the year ended June 30, 2010.

*Annual OPEB Cost and Net OPEB Obligation*

The City’s annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, 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 over a period not to exceed 30 years. The following table shows the components of the City’s annual OPEB cost, the amount actually contributed to the Plan and the City’s net OPEB obligation as of June 30, 2010.

Annual required contribution (ARC)	\$ 584,000
Less: Contributions made	-
Less: NOO Amortization	(18,000)
Plus: Interest on NOO	19,000
Increase in net OPEB obligation (NOO)	<u>585,000</u>
Net OPEB obligation - beginning of year	546,000
Net OPEB obligation - end of year	<u>\$ 1,131,000</u>
Percentage of annual OPEB cost contributed	0.00%

*Funded Status*

As of July 1, 2010, there was not an OPEB trust. The actuarial accrued liability for benefits was \$6,502,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,502,000. The ratio of the actuarial value of assets to the actuarial accrued liability was 0%. The covered payroll (annual payroll of active employees covered under the Plan) was \$10,053,543 and the ratio of the UAAL to the covered payroll was 64.67%.

**CITY OF LAUREL, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 17 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) - continued**

*Actuarial Methods and Assumptions*

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 healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the 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 the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The accompanying schedules of funding progress and employer contributions following the footnotes present trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits and amounts contributed to the plan.

The actuarial method and significant assumptions listed below were used in the actuarial valuation as of July 1, 2010.

Actuarial cost method	Projected Unit Credit
Asset valuation method	Not applicable
Rate of return on investments	4.00%
Aggregate salary growth	3.50%
Healthcare cost trend rate	Medical and prescription: 8.50% for FY 2009 and 2010 trending down to 5.20% in FY 2080
Amortization method	Level percentage of projected payroll
Amortization period	30 years
Status of period	To be determined (closed or open)

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 18 – COMMITMENTS AND CONTINGENCIES**

**Grants**

The City receives grants from time-to-time. Expenditures from certain grants are subject to audit by the grantor, and the City is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the City's management, no material refunds will be required as a result of disallowed expenditures.

**Litigation**

In the normal course of business the City is a defendant in several lawsuits which management is vigorously defending. No contingency has been established because neither the outcome of the cases nor the amount of an award, if any, can be determined. The City's attorney and the insurance carrier are defending these matters.

**NOTE 19 – RISKS AND UNCERTAINTIES**

The Plans invest in various investment securities. Investment securities are exposed to various risks such as interest risk, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 20 – RECONCILIATION OF NON-GAAP BUDGET TO GAAP BUDGET**

The financial statements and notes conform to GAAP. The budget is prepared on a basis not consistent with GAAP. The reconciliation between the non-GAAP budget and GAAP follows:

Excess of revenue over expenditures, encumbrances and other financing sources (uses) - non-GAAP budgetary basis - general fund	\$ -
Increase (decrease) due to:	
Expenditures of amounts encumbered during prior year	(792,006)
Reserved encumbrances (GAAP basis) at June 30, 2010, but recognized as expenditures for budgetary purposes	<u>633,495</u>
Excess of revenue over expenditures and other financing sources (uses) - GAAP	<u><u>\$ (158,511)</u></u>

**NOTE 21 – FUND BALANCE REPORTING**

GASB No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions” is effective for the year ended June 30, 2011. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The City has not determined the financial statement effect of GASB No. 54.

**CITY OF LAUREL, MARYLAND**

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

**June 30, 2010**

<u>Actuarial Valuation Date July 1, 2009</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age Normal</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
<b>Employees Plan</b>						
2009	\$ 8,658,749	\$ 12,639,873	\$ 3,981,124	68.50%	\$ 4,618,146	86.21%
2008	8,756,381	11,340,351	2,583,970	77.21%	4,016,384	64.34%
2007	8,371,476	10,541,991	2,170,515	79.41%	3,628,886	59.81%
2006	7,414,713	9,734,544	2,319,831	76.17%	3,497,546	66.33%
2005	6,736,632	9,238,960	2,502,328	72.92%	3,527,433	70.94%
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%
<b>Police Plan</b>						
2009	9,483,321	17,018,090	7,534,769	55.72%	2,788,432	270.22%
2008	9,551,099	15,721,489	6,170,390	60.75%	2,468,075	250.01%
2007	8,804,646	15,022,820	6,218,174	58.61%	2,237,874	277.86%
2006	7,606,070	13,784,982	6,178,912	55.18%	1,982,730	311.64%
2005	6,648,724	12,026,102	5,377,378	55.29%	2,343,249	229.48%
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%

The following schedule gives information on employer required contributions.

<u>Years ended June 30,</u>	<u>Annual required contribution (ARC)</u>	<u>Percentage of ARC contributed</u>
2010	\$ 1,155,535	100.00%
2009	1,037,594	104.89%
2008	980,853	116.98%
2007	922,940	123.84%
2006	837,239	114.46%
2005	722,073	126.68%
2004	561,872	137.52%
2003	378,987	100.00%
2002	248,429	100.63%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated.

**CITY OF LAUREL, MARYLAND**

**OTHER POST-EMPLOYMENT BENEFITS PLAN  
SCHEDULE OF FUNDING PROGRESS  
REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2010**

Actuarial Valuation Date July 1,	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
2010	\$ -	\$ 6,502,000	\$ 6,502,000	0.00%	\$ 10,053,543	64.67%
2009	-	6,119,000	6,119,000	0.00%	9,178,525	66.67%

Information for prior years not available

**CITY OF LAUREL, MARYLAND**

**OTHER POST-EMPLOYMENT BENEFITS PLAN  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2010**

Year Ended June 30,	Annual Required Contribution (ARC)	Percentage Contributed	
		Employer Contribution	Total
2010	\$ 584,000	0.00%	0.00%
2009	546,000	0.00%	0.00%

Information for prior years not available.

**CITY OF LAUREL, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED**  
**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<b>General Fund</b>			
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues</b>				
Taxes	\$ 20,360,619	\$ 20,360,619	\$ 20,428,946	\$ 68,327
Intergovernmental	3,662,614	3,692,022	4,450,142	758,120
Licenses and permits	741,604	683,604	752,628	69,024
Charges for services	679,210	679,210	718,426	39,216
Fines and forfeitures	550,940	767,298	921,368	154,070
Miscellaneous	313,516	263,825	233,899	(29,926)
Loan repayments	43,064	43,064	45,405	2,341
<b>Total Revenues</b>	<b>\$ 26,351,567</b>	<b>\$ 26,489,642</b>	<b>\$ 27,550,814</b>	<b>\$ 1,061,172</b>
<b>Expenditures</b>				
General government	\$ 5,432,425	\$ 5,559,056	\$ 5,310,094	\$ 248,962
Public safety	7,405,302	7,510,443	7,414,213	96,230
Parks and recreation	1,696,231	1,674,325	1,606,130	68,195
Public works	4,116,489	3,804,713	3,627,767	176,946
Miscellaneous	4,713,754	4,738,739	3,388,137	1,350,602
Debt service	2,987,366	3,202,366	3,362,640	(160,274)
<b>Total Expenditures</b>	<b>\$ 26,351,567</b>	<b>\$ 26,489,642</b>	<b>\$ 24,708,981</b>	<b>\$ 1,780,661</b>

**SUPPLEMENTAL SCHEDULES**

**CITY OF LAUREL, MARYLAND**  
**SCHEDULE OF REVENUES**  
**BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
<b>REVENUES</b>				
<b>Taxes</b>				
Real and personal property	\$ 20,145,619	\$ 20,145,619	\$ 20,136,971	\$ (8,648)
Local - admissions	150,000	150,000	184,098	34,098
Penalties and interest	65,000	65,000	107,877	42,877
<b>Total Taxes</b>	<u>20,360,619</u>	<u>20,360,619</u>	<u>20,428,946</u>	<u>68,327</u>
<b>Intergovernmental</b>				
State and Federal Grants				
Other federal and state grants	152,057	528,456	372,244	(156,212)
Police protection	335,000	462,560	473,361	10,801
Police aid supplement	54,862	72,035	89,481	17,446
Total state and federal grants	<u>541,919</u>	<u>1,063,051</u>	<u>935,086</u>	<u>(127,965)</u>
State Shared Taxes				
Local income tax	2,000,000	2,000,000	2,452,721	452,721
Race track impact fees	50,000	50,000	15,375	(34,625)
Developer impact fees	-	-	571,319	571,319
Highway user	659,689	167,965	95,674	(72,291)
Hotel/motel taxes	200,000	200,000	178,876	(21,124)
Total state shared taxes	<u>2,909,689</u>	<u>2,417,965</u>	<u>3,313,965</u>	<u>896,000</u>
County Grants				
Financial corporations	6,362	6,362	6,362	-
M-NCPPC grants	165,644	165,644	164,903	(741)
Highway safety grant	24,000	24,000	17,506	(6,494)
Other grants	15,000	15,000	12,320	(2,680)
Total county grants	<u>211,006</u>	<u>211,006</u>	<u>201,091</u>	<u>(9,915)</u>
<b>Total Intergovernmental</b>	<u>3,662,614</u>	<u>3,692,022</u>	<u>4,450,142</u>	<u>758,120</u>

**CITY OF LAUREL, MARYLAND**  
**SCHEDULE OF REVENUES**  
**BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
<b>Licenses and permits</b>				
Liquor	\$ 13,000	\$ 13,000	\$ 14,575	\$ 1,575
Amusement permits	14,000	14,000	13,318	(682)
Building permits	103,750	103,750	126,908	23,158
Cable TV	270,000	270,000	310,151	40,151
Traders licenses	50,000	50,000	51,308	1,308
Rental licenses	42,000	42,000	62,505	20,505
Other permits and licenses	248,854	190,854	173,863	(16,991)
<b>Total licenses and permits</b>	<u>741,604</u>	<u>683,604</u>	<u>752,628</u>	<u>69,024</u>
<b>Charges for services</b>				
Passport execution fees	50,000	50,000	45,126	(4,874)
Zoning fees	30,000	30,000	32,035	2,035
Refuse collection	103,000	103,000	116,262	13,262
Recreation fees	424,450	424,450	401,499	(22,951)
Facility rentals	46,200	46,200	57,045	10,845
Other	25,560	25,560	66,459	40,899
<b>Total charges for services</b>	<u>679,210</u>	<u>679,210</u>	<u>718,426</u>	<u>39,216</u>
<b>Fines and forfeitures</b>				
Red light camera tickets	448,965	665,323	734,225	68,902
Parking tickets	70,000	70,000	108,663	38,663
False alarm fines	17,620	17,620	29,805	12,185
Release fee - impound	14,355	14,355	38,696	24,341
Other	-	-	9,979	9,979
<b>Total fines and forfeitures</b>	<u>550,940</u>	<u>767,298</u>	<u>921,368</u>	<u>154,070</u>

**CITY OF LAUREL, MARYLAND**  
**SCHEDULE OF REVENUES**  
**BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
<b>Miscellaneous</b>				
Interest on investments	\$ 191,000	\$ 22,642	\$ 31,203	\$ 8,561
Disposal rebate	60,728	60,728	60,856	128
Other	61,788	180,455	141,840	(38,615)
<b>Total miscellaneous</b>	<u>313,516</u>	<u>263,825</u>	<u>233,899</u>	<u>(29,926)</u>
<b>Loan repayments</b>				
Fire department repayments	43,064	43,064	43,063	(1)
Rescue squad repayments	-	-	2,342	2,342
<b>Total loan repayments</b>	<u>43,064</u>	<u>43,064</u>	<u>45,405</u>	<u>2,341</u>
<b>Total Revenue</b>	<u><u>\$ 26,351,567</u></u>	<u><u>\$ 26,489,642</u></u>	<u><u>\$ 27,550,814</u></u>	<u><u>\$ 1,061,172</u></u>

**CITY OF LAUREL, MARYLAND**  
**SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -**  
**BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
<b>General Government</b>				
City council	\$ 98,255	\$ 96,717	\$ 84,719	\$ 11,998
Clerk to the council	182,482	184,913	178,965	5,948
Mayor	567,052	554,552	493,385	61,167
City administrator	532,864	522,864	512,162	10,702
Registration and elections	13,235	16,842	11,443	5,399
Budget and personnel services	688,428	631,963	626,389	5,574
Planning and zoning	995,562	903,062	876,663	26,399
Information technology and community services	1,092,081	1,306,902	1,224,507	82,395
Municipal center maintenance	518,065	576,799	569,191	7,608
Other facilities maintenance	659,806	679,847	663,919	15,928
Community promotion	84,595	84,595	68,751	15,844
<b>Total general government</b>	<u>5,432,425</u>	<u>5,559,056</u>	<u>5,310,094</u>	<u>248,962</u>
<b>Public Safety</b>				
Police department	6,888,480	7,048,558	6,980,400	68,158
Emergency services management	463,322	415,617	391,627	23,990
Police department facility	53,500	46,268	42,186	4,082
<b>Total public safety</b>	<u>7,405,302</u>	<u>7,510,443</u>	<u>7,414,213</u>	<u>96,230</u>
<b>Parks and recreation</b>				
Greenview drive	65,889	65,889	64,982	907
Parks and recreation administration	627,898	602,898	578,298	24,600
Recreation	275,516	266,954	254,580	12,374
Laurel municipal pool	149,223	153,343	151,722	1,621
Laurel community center programs	254,289	254,325	230,893	23,432
Armory programs	138,969	141,469	140,278	1,191
Gude lakehouse programs	15,164	15,164	11,575	3,589
Senior services programs	169,283	174,283	173,802	481
<b>Total parks and recreation</b>	<u>1,696,231</u>	<u>1,674,325</u>	<u>1,606,130</u>	<u>68,195</u>

**CITY OF LAUREL, MARYLAND**  
**SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -**  
**BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
<b>Public Works</b>				
Public works administration	\$ 351,624	\$ 351,624	\$ 350,023	\$ 1,601
Automotive maintenance	853,026	748,026	655,612	92,414
Waste collection and disposal	1,324,122	1,049,122	1,029,423	19,699
Recycling	195,286	200,286	168,544	31,742
Highways and streets	480,418	464,418	452,054	12,364
Snow and ice removal	86,605	245,310	232,788	12,522
Street lighting	352,000	297,519	289,345	8,174
Engineering and technical services	185,297	180,297	176,875	3,422
Traffic engineering	172,048	152,048	162,624	(10,576)
Tree management	116,063	116,063	110,479	5,584
<b>Total public works</b>	<u>4,116,489</u>	<u>3,804,713</u>	<u>3,627,767</u>	<u>176,946</u>
<b>Miscellaneous</b>				
Retirement pension	1,175,535	1,214,125	1,162,125	52,000
Employee training	73,928	59,928	53,354	6,574
Employee tuition	6,700	4,700	3,705	995
Insurance	2,714,591	2,096,091	2,093,071	3,020
Other	743,000	1,363,895	75,882	1,288,013
<b>Total miscellaneous</b>	<u>4,713,754</u>	<u>4,738,739</u>	<u>3,388,137</u>	<u>1,350,602</u>
<b>Debt Service</b>				
Principal	2,323,157	2,538,157	2,681,798	(143,641)
Interest	664,209	664,209	680,842	(16,633)
<b>Total debt service</b>	<u>2,987,366</u>	<u>3,202,366</u>	<u>3,362,640</u>	<u>(160,274)</u>
<b>Total Expenditures</b>	<u>\$ 26,351,567</u>	<u>\$ 26,489,642</u>	<u>\$ 24,708,981</u>	<u>\$ 1,780,661</u>

**CITY OF LAUREL, MARYLAND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010**

<u>Federal Grantor/Program Title/Grant Title</u>	<u>Federal CFDA#</u>	<u>Program or Award Amount</u>	<u>Revenue Received</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF JUSTICE</b>				
<b>Office of Community Oriented Policing</b>				
Public Safety Partnership and Community Policing - ARRA				
COPS Hiring Recovery	16.710	\$ 726,411	\$ 98,195	\$ 98,195
COPS Other Tech	16.710	450,000	-	-
COPS Law Enforcement Tech	16.710	607,945	607,945	607,945
Total Public Safety		<u>1,784,356</u>	<u>706,140</u>	<u>706,140</u>
<b>Bureau of Justice Assistance</b>				
Edward Byrne Memorial JAG Program				
Surveillance Technology	16.738	39,727	39,579	39,579
Traffic Enforcement	16.738	19,815	19,815	19,815
Edward Byrne Memorial JAG Program - ARRA				
Law Enforcement Tech	16.803	124,994	124,994	124,994
Environmental Policing	16.804	81,961	81,961	81,961
Total Edward Byrne		<u>266,497</u>	<u>266,349</u>	<u>266,349</u>
<b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>		<u>2,050,853</u>	<u>972,489</u>	<u>972,489</u>
<b>DEPARTMENT OF ENERGY</b>				
Energy Efficiency and Conservation - ARRA	81.128	93,000	93,000	93,000
<b>TOTAL DEPARTMENT OF ENERGY</b>		<u>93,000</u>	<u>93,000</u>	<u>93,000</u>
<b>TOTAL</b>		<u><u>\$ 2,143,853</u></u>	<u><u>\$ 1,065,489</u></u>	<u><u>\$ 1,065,489</u></u>

**CITY OF LAUREL, MARYLAND  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 1 – GENERAL**

The Schedule of Expenditures of Federal Awards comprises a listing of the federal revenues expended by the City during the fiscal year ended June 30, 2010. The schedule is organized by program or grant as defined by the appropriate federal or state agency responsible for distributing the funds. All programs started and/or terminated during the year and those programs which remained open during the year are included in the schedule.

**NOTE 2 – BASIS OF ACCOUNTING**

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Laurel, Maryland, and is presented on the accrual basis of accounting. 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 3 – RELATIONSHIP TO FINANCIAL STATEMENTS**

Federal award expenditures are reported in the City’s financial statements as follows:

<u>Grant Description</u>	<u>CFDA Number</u>	<u>FY 2010 Expenditures</u>
Public Safety Partnership and Community Policing -ARRA	16.710	\$ 706,140
Edward Byrne Memorial JAG Program	16.738	59,394
Edward Byrne Memorial JAG Program - ARRA	16.803	124,994
Edward Byrne Memorial JAG Program - ARRA	16.804	81,961
Energy Efficiency and Conservation - ARRA	81.128	<u>93,000</u>
 Total Expenditures of Federal Awards		 <u><u>\$ 1,065,489</u></u>

Single Audit testing procedures were performed for program transactions occurring during the fiscal year ended June 30, 2010. Single Audit testing has not previously been performed, nor was it required.

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE  
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor  
Members of the City Council  
City of Laurel, MD

Compliance

We have audited the City of Laurel'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, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the city complied, in all material respects, with the 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, 2010.

#### Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or *material weaknesses*. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the City Council, others within the City, 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.

October 22, 2010

*Hindley & Associates, LLC*

**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 the City of Laurel, Maryland (the “City”), and as of and for the year ended June 30, 2010, which collectively comprise the City’s basic financial statements and have issued our report therein dated October 22, 2010. 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 of Laurel’s internal control over financial reporting as a basis of designing our auditing procedures 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 of Laurel’s internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the City of Laurel’s internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or its 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We consider the following deficiencies described in the accompanying *Schedule of Findings and Responses* to be material weaknesses: 2010-01.

#### Compliance and Other Matters

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

The City of Laurel's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Responses*. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Council, others within the City, 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.

October 22, 2010

*Hindley & Associates, LLC*

**SCHEDULE OF FINDINGS AND RESPONSES  
CITY OF LAUREL, MARYLAND  
JUNE 30, 2010**

**Finding 2010-01 – Capital Asset Management**

**Condition:**

During our audit we noted that a capital asset had inadvertently been capitalized into buildings as well as included in construction in progress for renovations on the same building.

**Cause:**

Management did not allow sufficient time to properly reconcile building improvements and infrastructure records. Management also did not properly delegate and work with project-managing departments. The project in question ran for multiple years, creating some confusion as to when expenditures were incurred and capitalized.

**Effect:**

Capital assets were overstated by \$2,500,000 which resulted in a misstatement of net assets and capital assets.

**Recommendation:**

We recommend management reconcile expenditures relating to capital additions throughout the construction process. It is easier to reconcile while the transactions are fresh rather than waiting until the end of the project, especially if the project runs for multiple years. We also recommend management consider continuing education and training relating to the fixed asset software package.

**Management Response:**

Management has corrected this error in their fixed asset ledger during FY 2010. Management has also implemented additional procedures during FY 2011 for greater enforcement of asset documentation and monthly reviews of ledgers to ensure all assets are properly recorded. Management has also implemented quarterly reporting with department heads managing capital projects to ensure more timely reconciliations. Management has signed up for a training webinar with the fixed asset software provider.

**CITY OF LAUREL, MARYLAND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010**

<u>Financial Statements</u>	<u>Summary of Auditor's Results</u>
1. Type of auditor's report issued:	Unqualified
2. Internal controls over financial reporting:	
a. Material weaknesses identified?	Yes
b. Significant deficiencies identified not considered to be material weaknesses?	None reported
3. Noncompliance material to financial statements noted?	No
 <u>Federal Awards</u>	
1. Internal controls over financial reporting:	
a. Material weaknesses identified?	No
b. Significant deficiencies identified not considered to be material weaknesses?	None reported
2. Type of auditor's report issued on compliance for major programs:	Unqualified
3. Any audit findings disclosed that are required to be reported in accordance with Circular OMB A-133, Section 510(a)?	No
4. Identification of major programs:	
<u>CFDA Number</u>	<u>Name of Federal Program</u>
16.710	Public Safety Partnership and Community Policing - ARRA
16.803	Edward Byrne Memorial JAG Program - ARRA
16.804	Edward Byrne Memorial JAG Program - ARRA
5. Dollar threshold used to distinguish between Type A and Type B programs?	\$ 300,000
6. Auditee qualified as low-risk auditee?	No
7. Questioned Costs	None

**CITY OF LAUREL, MARYLAND  
SCHEDULE OF PRIOR YEARS' FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NONE**

**CITY OF LAUREL, MARYLAND  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2010**

Name of contact person: Michele Saylor  
Director of Budget and  
Personnel Services

Contact Information: 301-725-5300 ext 236

Corrective action planned and  
anticipated completion date: See schedule of findings  
and responses.