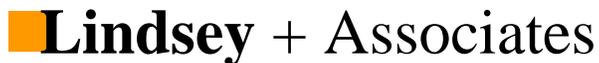


**CITY OF LAUREL, MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2015**

**CITY OF LAUREL
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JUNE 30, 2015**

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Independent Auditor's Report

Honorable Mayor and members of the City Council
City of Laurel, Maryland

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Change in Accounting Principle

As discussed in Note 21 to the financial statements, the City adopted new accounting guidance, GASB No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and GASB No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB No 68* as of July 1, 2014. As a result, the City restated beginning net position in the governmental activities by (\$9,846,298), from \$44,132,578 to \$34,286,280. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of contributions and investment returns, other post-employment benefits plan-schedule of funding progress, other post-employment benefits plan-schedule of employer contributions, and the schedule of revenues and expenditures – budget and actual (budgetary Basis) – general funds - unaudited comparison information on pages 4 through 12 and 55 through 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

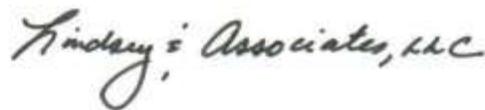
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Laurel, Maryland's financial statements as a whole. The schedule of revenues – budget and actual – general fund and the schedule of expenditures – budget and actual – general fund on pages 60 through 64 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of revenues – budget and actual general fund and the schedule of expenditures – budget and actual general fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2015, on our consideration of the City of Laurel, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Laurel, Maryland's internal control over financial reporting and compliance.

December 17, 2015

A handwritten signature in cursive script that reads "Hindley & Associates, LLC". The signature is written in dark ink and is positioned to the right of the date.

CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

Financial Highlights

- Fiscal Year 2015 was the first year of the current triennial assessment period. The assessments decreased by about 1% from the FY2014 assessable base.
- The redevelopment of the Laurel Mall into the Towne Centre at Laurel increased the assessment of that property by \$40,000,000 by the end of the fiscal year.
- Net revenue from Speed Camera operations continues to provide a source of funding to purchase replacement police vehicles and public safety technology equipment as well as improvements to pedestrian safety.
- In FY2015 the City (as well as other jurisdictions) received additional Highway User Revenue for the second year in a row as partial repayment since the massive reduction of August 2009. These funds were used to offset the snow and ice expenditures.

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.

The statement of net position presents information on all of the City's assets plus deferred outflows and liabilities plus deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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).

CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

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 community planning and business services (permits, code enforcement, and planning/zoning 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, 2015**

Government-wide Financial Analysis

The City's total net position as of June 30, 2015 was \$34,971,223. The largest portion of net position, 86%, is the net investment in capital assets, in the amount of \$30,242,495. The unrestricted portion, 8.7%, of net position can be used to meet the needs of serving the citizens and obligations to creditors. The significant increase and liabilities and corresponding decrease to the Net Position is due to the implementation of GASB 68, which created the Net Pension Liability included in noncurrent liabilities.

The following is a condensed statement of net position:

**City of Laurel, Maryland
Schedule of Net Position**

| | Governmental Activities | |
|----------------------------------|-------------------------|---------------|
| | 2015 | 2014 |
| Current and other assets | \$ 34,814,784 | \$ 24,320,056 |
| Capital assets | 37,905,852 | 36,386,567 |
| Total Assets | 72,720,636 | 60,706,623 |
| Deferred outflows | 2,158,994 | - |
| Long-term liabilities | 22,158,057 | 11,664,964 |
| Other liabilities | 15,759,854 | 4,909,081 |
| Total Liabilities | 37,917,911 | 16,574,045 |
| Deferred inflows | 1,990,496 | - |
| Net position | | |
| Net investment in capital assets | 30,242,495 | 27,424,341 |
| Restricted | 1,685,719 | 1,684,804 |
| Unrestricted | 3,043,009 | 15,023,433 |
| Total Net Position | \$ 34,971,223 | \$ 44,132,578 |

**CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

Governmental Activities

Governmental activities increased the City's net position by \$684,943 or 2% over June 30, 2014. Property taxes comprised 57.07% of the total revenue, while the next highest source of revenue, charges for service, is 18.95% of the total revenue. Income taxes make up 10.04% of total revenue. The remaining 13.94% of revenue is received from licenses, permits, interest, operating grants, fines and forfeitures, and miscellaneous items.

| | Governmental Activities | |
|--|-------------------------|----------------------|
| | 2015 | 2014 |
| Revenue | | |
| Program Revenue | | |
| Charges for services | \$ 6,049,769 | \$ 5,122,372 |
| Operating grants/contributions | 1,813,212 | 1,462,186 |
| Capital grants/contributions | - | - |
| General Revenue | | |
| Property taxes | 18,218,295 | 19,233,809 |
| Income taxes | 3,205,926 | 2,951,766 |
| Other taxes | 700,537 | 248,904 |
| Interest | 6,896 | 13,544 |
| Miscellaneous | 1,930,975 | 2,817,611 |
| Total Revenue | 31,925,610 | 31,850,192 |
| Expenses | | |
| General government | 6,175,679 | 5,459,674 |
| Public safety | 11,593,539 | 9,910,933 |
| Parks & recreation | 2,259,872 | 2,029,856 |
| Public works | 4,817,991 | 4,469,717 |
| Miscellaneous | 6,086,531 | 5,586,740 |
| Debt service | 307,055 | 404,035 |
| Total Expenses | 31,240,667 | 27,860,955 |
| Increase in net position | 684,943 | 3,989,237 |
| Net position, beginning of year - restated | 34,286,280 | 40,143,341 |
| Net position, ending | \$ 34,971,223 | \$ 44,132,578 |

**CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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 \$12,592,781. A portion of fund balance in the amount of \$329,022 is determined to be nonspendable. \$1,799,125 is limited in its use by internal restrictions. Unassigned fund balance represents 36% of total general fund expenditures including transfers, while total fund balance represents 44% of that same amount.

The fund balance of the general fund has increased by 3.95% from \$12,113,996 at June 30, 2014 to \$12,592,781 at June 30, 2015 due to greater revenue than anticipated in local income tax, general service charges, sanitation service charges, and red light camera citations.

The capital projects fund balance decreased by \$301,078 from the prior fiscal year. This is due to fewer ongoing projects.

The Speed Camera fund ended the year with a restricted fund balance of \$1,685,719.

The Community Redevelopment Authority fund balance has a committed fund balance of \$1,938,014.

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 position for the pension fund increased by 20.09% from June 30, 2014 to June 30, 2015. The City's contribution met the actuarial recommendation of \$1,985,494 as well as an additional contribution of \$300,000 and the employee payroll deductions increased due to promotions and additional personnel. Net investment income was \$4,310,314. This is greater than the FY2014 Net investment income by \$1,572,419.

Budgetary Highlights.

The General Operating Budget of FY2015 was amended six times. Budget amendments were necessary to include an adjustment for increase in the Employee Insurance premiums beyond the budgeted increase; increased Red Light Camera revenues were used to provide additional funding for the Capital Improvement Program (CIP) and additional City contributions to the Pension Fund. Such transfers to the CIP have been the practice to provide cash funding of projects; therefore, not requiring additional loans and debt service obligations for future operating budgets. Additional Highway User revenues were used to offset an adjustment to the Snow and Ice Removal budget due to the excess number of snow and ice events. The Mayor and City Council approved the

**CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

appropriation of funds from the Unassigned Fund Balance to replace the roof at the Laurel Municipal Center.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets of \$37,905,852 (net of accumulated depreciation) includes land and land improvements, infrastructure, buildings, and machinery, equipment and tools. This is a 4.18% increase from the prior fiscal year. The \$1,519,285 increase is the net of the additions and the additional depreciation compared to the decrease in value between equipment disposals and construction in progress.

In FY2015, \$989,878 in equipment was purchased between the general fund, speed camera fund and the capital improvement program. Purchases were made of computers and other electronic equipment as well as office furniture and vehicle replacements per the replacement schedule, replacement grills for the parks; a diving board for the pool aa paddle boat replacement for the lakehouse rentals; and a speaker system to use for the Main Street Festival and Fourth of July celebration. Additions of \$484,407 were made to Infrastructure from the reconstruction of Clubhouse Boulevard, the 300 and 1100 blocks of Montgomery Street; the storm drain cell and pedestrian improvements on Dorset Road, and Hyacinth, Woodruff and Lotus Courts were reconstructed. The Skate Park and new playground were at Centennial Park were completed in FY2015 as well as the installation of a concession stand at Greenview Drive Pool and the repaving of the parking lot at the Robert J. DiPietro Community Center. Customer service and security enhancements as well as the replacement of the roof at the Laurel Municipal Center were also completed in FY2015. The completion of these projects increased the values in Land Improvements and Buildings and Improvements, respectively.

The following table displays the City's capital assets:

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

| Description | Governmental Activities |
|-----------------------------|------------------------------------|
| Land | \$ 6,664,556 |
| Construction-in-progress | 199,111 |
| Buildings and improvements | 16,752,706 |
| Machinery, tools, equipment | 4,228,036 |
| Land improvements | 2,055,060 |
| Infrastructure | 8,006,383 |
| TOTAL | \$ 37,905,852 |

**CITY OF LAUREL, MARYLAND
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

Long-term debt. At the end of the current fiscal year, the City had total long-term liabilities outstanding of \$12,336,734. This amount is comprised of the \$7,663,358 notes payable; \$3,508,000 in OPEB liability and \$1,165,376 in accrued vacation leave. This is a decrease of \$614,731 from the FY2014 balance. In FY2015 the total of the scheduled debt service payments were greater than the draws on the Local Government Infrastructure Financing proceeds; and the OPEB liability and accrued vacation leave increased.

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

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

| | Governmental Activities |
|-------------------------|------------------------------------|
| Notes payable | \$ 7,663,358 |
| Accrued leave liability | 1,165,376 |
| Net pension liability | 11,145,837 |
| OPEB Liability | 3,508,000 |
| Total | \$ 23,482,571 |

Economic Factors and Activities

The redevelopment of the Laurel Mall site into “The Towne Centre at Laurel” began with the issuance of demolition permits in March 2011. Construction has moved rapidly and all commercial buildings have been completed. There are a few vacant spaces that await tenant fit out. The residential portion of the project does not have a firm timeline at present. Construction plans have been approved for both the apartment buildings and parking garage therefore construction of this final phase of the project can commence at any time. Retail stores include Burlington Coat Factory, Party City, Old Navy, Sports Authority, Ulta, Carters/Osh Kosh, and numerous smaller retailers. Restaurants include First Watch, BJ’s Brewhouse, Outback Steakhouse, Mission BBQ and Panera Bread, and several quick food restaurants. Professional services include Express Care of Laurel, My Eye Doctor, Massage Envy, and American Dental Partners. Additionally, a 12-plex Regal Cinema, a Harris Teeter supermarket and Laurel Wine & Spirits have been completed.

Construction began on “C” Street Flats in November 2013. This project, formerly the site of the City of Laurel Police Department, located between “B” Street and “C” Street, was completed in September 2015. The development contains 142 residential units, a coffee shop with a live performance stage, and areas for the display of art work as the project is located within the City Arts and Entertainment District.

Construction is underway at Laurel Gardens Apartments, a redevelopment of an 80-unit apartment complex into a 114-unit apartment complex with off-street parking and open

**CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

space fronting the buildings. Westside Apartments is a 469-unit complex located in the far southwest portion of the City adjacent to the proposed Konterra Town Center East. This project also includes a 56-unit townhouse subdivision and land designated for 200,000 sq. ft. of retail and restaurant, and a hotel site. Also, under construction is an apartment complex known as Anderson's Corner (Avalon Bay Community) which will contain 344 units with limited commercial uses. Just north of the Anderson's Corner project there is an 84 unit assisted living facility under construction. These are key developments for the City's commercial area and economic growth providing permanent, sustained employment opportunities.

The mixed use development known as Hawthorne Place (9007 Marshall Avenue) was approved October 2009. The Patriot Realty Group sold the property to Cohen Investments, Inc. on May 16, 2014 and prior project approvals expired at the end of 2014. Cohen Investments has applied to the City for re-approval of the project with approval expected in October 2015. Construction of the first phase, 303 apartment units, can commence after re-approval of the Revitalization Overlay by the Mayor and City Council and review and approval of construction plans.

The Patriot Realty Group, Inc. has contracted with the Maryland Department of Transportation to develop a transit oriented residential development and parking garage at the Laurel MARC Station. This joint project between the Patriot Realty Group and the Maryland Department of Transportation is to be located at the corner of Main Street and U.S. Route 1 North. The project has been proposed but plans have not been submitted for final approval by the City.

The Main Street commercial area continues to be a powerful draw for businesses wishing to locate/relocate to the City of Laurel. Olive on Main restaurant was supported by the Community Redevelopment Authority through an Economic Development Relocation Grant and the City Mayor and City Council with the approval of a City Tax Credit. Olive on Main has become a popular destination for casual dining and to conduct business. A Laurel tradition, Oliver's Old Towne Tavern, has been completely renovated and reopened under new ownership.

The City Administrator and Department of Community Planning and Business Services remain active in the Maryland Military Installation Council, the Fort George G. Meade Regional Growth Management Committee, and the Fort Meade Community Covenant Council in order to plan and prepare the City for the impacts of the continuing development occurring at Ft. George G. Meade and the National Security Agency, which is in a five mile radius of the City of Laurel.

The Department of Community Planning & Business Services is responsible for Planning, Zoning, Construction Permitting (building, mechanical, electrical, and green construction), Fire and Life Safety review and inspections, Property Maintenance and Residential Housing Standards in the City of Laurel. This "one-stop" operation has proven to be highly successful in the vastly reduced amount of time to review proposed projects for Fire Code compliance.

**CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

The City has and continues to invest in improvements to existing infrastructure, including streets and sidewalks, park improvements and information technology. The City also requires developers to construct infrastructure improvements or pay impact fees to reduce the impact of new development on the City, including but not limited to providing funding for improved intersections; provide funding for additional public safety officers; and providing parkland dedication or fees in lieu of parkland.

These activities as well as the geographic location of the City of Laurel, equally located between Washington City and Baltimore City, 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 Municipal Center staff continue to have a positive influence on new residents and businesses further improving the City's economy.

Development within the City slowed during the recessionary period however has now begun to accelerate, which should also create spin-offs of other investments near these projects. Budgetary concerns regarding energy costs for City facility utilities and vehicle fuel has the full attention of elected officials and staff. Traffic lights and street lights have been replaced with LED bulbs. Several City facilities have also had lights changed or are being changed from incandescent or florescent bulb to LED bulbs resulting in significant energy savings.

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 POSITION
JUNE 30, 2015

| | Governmental Activities | Total |
|--|----------------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Equity in pooled cash and cash equivalents | \$ 18,173,024 | \$ 18,173,024 |
| Restricted cash | 13,908,577 | 13,908,577 |
| Taxes receivable, net of allowances | 957,131 | 957,131 |
| Other receivables | 379,663 | 379,663 |
| Accounts receivable - speed camera fines | 81,319 | 81,319 |
| Accounts receivable - income taxes | 584,764 | 584,764 |
| Due from other governments | 368,234 | 368,234 |
| Due from other funds | 33,050 | 33,050 |
| Inventory | 158,930 | 158,930 |
| Total Current Assets | 34,644,692 | 34,644,692 |
| Noncurrent Assets | | |
| Notes receivable | 170,092 | 170,092 |
| Net capital assets | 37,905,852 | 37,905,852 |
| Total Noncurrent Assets | 38,075,944 | 38,075,944 |
| TOTAL ASSETS | 72,720,636 | 72,720,636 |
| DEFERRED OUTFLOWS OF RESOURCES | 2,158,994 | 2,158,994 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ 74,879,630 | \$ 74,879,630 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 1,754,716 | \$ 1,754,716 |
| Accrued interest | 5,343 | 5,343 |
| Deposits | 11,767,505 | 11,767,505 |
| Unearned revenue | 907,777 | 907,777 |
| Current portion of long-term debt | 1,324,513 | 1,324,513 |
| Total Current Liabilities | 15,759,854 | 15,759,854 |
| Noncurrent Liabilities | | |
| OPEB liability | 3,508,000 | 3,508,000 |
| Compensated absences | 1,165,376 | 1,165,376 |
| Net pension liability | 11,145,837 | 11,145,837 |
| Loan payable - long-term | 6,338,844 | 6,338,844 |
| Total Noncurrent Liabilities | 22,158,057 | 22,158,057 |
| TOTAL LIABILITIES | 37,917,911 | 37,917,911 |
| DEFERRED INFLOWS OF RESOURCES | 1,990,496 | 1,990,496 |
| NET POSITION | | |
| Net investment in capital assets | 30,242,495 | 30,242,495 |
| Restricted | | |
| Speed cameras | 1,685,719 | 1,685,719 |
| Unrestricted | 3,043,009 | 3,043,009 |
| TOTAL NET POSITION | 34,971,223 | 34,971,223 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | \$ 74,879,630 | \$ 74,879,630 |

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, 2015**

| Functions/Programs | Expenses | Indirect Expense Allocation | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | |
|-------------------------------|----------------------|-----------------------------------|-------------------------|--|--|--|------------------------|
| | | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government Governmental Activities | Total |
| Primary Government | | | | | | | |
| Governmental Activities: | | | | | | | |
| General government | \$ 6,175,679 | \$ 1,407,916 | \$ 2,416,101 | \$ 85,280 | \$ - | \$ (5,082,214) | \$ (5,082,214) |
| Public safety | 11,593,539 | 3,126,371 | 3,085,206 | 545,426 | - | (11,089,278) | (11,089,278) |
| Parks and recreation | 2,259,872 | 693,399 | 369,200 | 96,233 | - | (2,487,838) | (2,487,838) |
| Public works | 4,817,991 | 1,165,900 | 179,262 | 1,086,273 | - | (4,718,356) | (4,718,356) |
| Miscellaneous | 6,086,531 | (6,086,531) | - | - | - | - | - |
| Interest | 307,055 | (307,055) | - | - | - | - | - |
| Total Governmental Activities | <u>31,240,667</u> | <u>-</u> | <u>6,049,769</u> | <u>1,813,212</u> | <u>-</u> | <u>(23,377,686)</u> | <u>(23,377,686)</u> |
| Total Primary Government | <u>\$ 31,240,667</u> | <u>\$ -</u> | <u>\$ 6,049,769</u> | <u>\$ 1,813,212</u> | <u>\$ -</u> | <u>\$ (23,377,686)</u> | <u>\$ (23,377,686)</u> |
| | | | | General revenues: | | | |
| | | | | Taxes | | | |
| | | | | Income taxes | 3,205,926 | 3,205,926 | |
| | | | | Property taxes | 18,218,295 | 18,218,295 | |
| | | | | Other taxes | 700,537 | 700,537 | |
| | | | | Interest and investment earnings | 6,896 | 6,896 | |
| | | | | Miscellaneous | 1,930,975 | 1,930,975 | |
| | | | | Total General Revenues | <u>24,062,629</u> | <u>24,062,629</u> | |
| | | | | Transfers in (out) | - | - | |
| | | | | Change in Net Position | 684,943 | 684,943 | |
| | | | | Net Position, beginning of year - restated | <u>34,286,280</u> | <u>34,286,280</u> | |
| | | | | Net Position, end of year | <u>\$ 34,971,223</u> | <u>\$ 34,971,223</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, 2015**

**RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCE TO NET POSITION OF
GOVERNMENTAL ACTIVITIES
JUNE 30, 2015**

| | General Fund | Capital Projects Fund | Speed Camera Fund | Community Redevelopment Authority | Non Major Fund Special Revenue Fund | Total Governmental Funds | | |
|---|----------------------|--------------------------|----------------------|---|---|--------------------------------|---|----------------------|
| ASSETS | | | | | | | | |
| Equity in pooled cash and cash equivalents | \$ 15,558,108 | \$ 908,340 | \$ - | \$ 1,706,576 | \$ - | \$ 18,173,024 | <i>Total Governmental Fund Balances</i> | \$ 18,667,456 |
| Restricted cash | 11,767,505 | - | 2,141,072 | - | - | 13,908,577 | | |
| Taxes receivable, net of allowances | 957,131 | - | - | - | - | 957,131 | Capital assets used in governmental activities | |
| Notes receivable | 170,092 | - | - | - | - | 170,092 | are not financial resources and therefore | |
| Other receivables | 372,153 | 10 | - | 7,500 | - | 379,663 | are not reported in the funds. | 37,905,852 |
| Accounts receivable - speed camera fines | - | - | 81,319 | - | - | 81,319 | | |
| Accounts receivable - income taxes | 584,764 | - | - | - | - | 584,764 | Long-term liabilities, including bonds payable | |
| Due from other governments | 311,075 | 57,159 | - | - | - | 368,234 | OPEB and compensated absences are not due | |
| Due from other funds | 33,050 | 1,485,433 | - | 223,938 | - | 1,742,421 | and payable in the current period and therefore | |
| Inventory | 158,930 | - | - | - | - | 158,930 | are not reported in the funds. | (23,482,570) |
| TOTAL ASSETS | 29,912,808 | 2,450,942 | 2,222,391 | 1,938,014 | - | 36,524,155 | Deferred inflows of resources related to pension liability | |
| DEFERRED OUTFLOWS OF RESOURCES | - | - | - | - | - | - | are not reported in the fund financial statements. | (1,990,496) |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ 29,912,808 | \$ 2,450,942 | \$ 2,222,391 | \$ 1,938,014 | \$ - | \$ 36,524,155 | Deferred outflows of resources related to pension liability | |
| LIABILITIES | | | | | | | are not reported in the fund financial statements. | 2,158,994 |
| Accounts payable and accrued expenses | \$ 1,605,220 | \$ - | \$ 149,496 | \$ - | \$ - | \$ 1,754,716 | Receivables pertaining to revenue that is not | |
| Accrued interest | 5,343 | - | - | - | - | 5,343 | available in accordance with modified accrual | |
| Deposits | 11,767,505 | - | - | - | - | 11,767,505 | accounting are reported as deferred inflows | |
| Due to other funds | 1,322,195 | - | 387,176 | - | - | 1,709,371 | of resources in the funds. | 1,711,987 |
| Unearned revenue | 907,777 | - | - | - | - | 907,777 | <i>Net Position of Governmental Activities</i> | <u>\$ 34,971,223</u> |
| TOTAL LIABILITIES | 15,608,040 | - | 536,672 | - | - | 16,144,712 | | |
| DEFERRED INFLOWS OF RESOURCES | 1,711,987 | - | - | - | - | 1,711,987 | | |
| FUND BALANCES | | | | | | | | |
| Nonspendable | 329,022 | - | - | - | - | 329,022 | | |
| Restricted | - | - | 1,685,719 | - | - | 1,685,719 | | |
| Committed | 1,589,914 | 2,450,942 | - | 1,938,014 | - | 5,978,870 | | |
| Assigned | 209,211 | - | - | - | - | 209,211 | | |
| Unassigned | 10,464,634 | - | - | - | - | 10,464,634 | | |
| TOTAL FUND BALANCES | 12,592,781 | 2,450,942 | 1,685,719 | 1,938,014 | - | 18,667,456 | | |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 29,912,808 | \$ 2,450,942 | \$ 2,222,391 | \$ 1,938,014 | \$ - | \$ 36,524,155 | | |

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, 2015

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

| | General Fund | Capital Projects Fund | Speed Camera Fund | Community Redevelopment Authority | Non Major Fund Special Revenue Fund | Total Governmental Funds | |
|---|----------------------|-----------------------|---------------------|-----------------------------------|-------------------------------------|--------------------------|--|
| REVENUES | | | | | | | |
| Taxes | \$ 18,480,930 | \$ - | \$ - | \$ - | \$ 228,279 | \$ 18,709,209 | |
| Intergovernmental | 5,093,688 | 588,966 | - | - | - | 5,682,654 | |
| Licenses and permits | 2,049,802 | - | - | - | - | 2,049,802 | |
| Charges for services | 914,761 | - | - | - | - | 914,761 | |
| Fines and forfeitures | 2,087,076 | - | 998,130 | - | - | 3,085,206 | |
| Miscellaneous | 569,012 | 867,735 | 4,215 | 20,395 | - | 1,461,357 | |
| Total Revenues | <u>29,195,269</u> | <u>1,456,701</u> | <u>1,002,345</u> | <u>20,395</u> | <u>228,279</u> | <u>31,902,989</u> | |
| EXPENDITURES | | | | | | | |
| Current Operations | | | | | | | |
| General government | 5,565,902 | - | - | - | - | 5,565,902 | |
| Public safety | 8,788,404 | - | 1,001,430 | - | - | 9,789,834 | |
| Parks and recreation | 1,687,440 | - | - | - | - | 1,687,440 | |
| Public works | 3,937,315 | - | - | - | - | 3,937,315 | |
| Miscellaneous | 4,862,555 | 28,306 | - | 539,670 | 75,000 | 5,505,531 | |
| Capital projects | - | 4,151,697 | - | - | - | 4,151,697 | |
| Debt Service | | | | | | | |
| Principal | 1,298,868 | - | - | - | - | 1,298,868 | |
| Interest | 307,055 | - | - | - | - | 307,055 | |
| Total Expenditures | <u>26,447,539</u> | <u>4,180,003</u> | <u>1,001,430</u> | <u>539,670</u> | <u>75,000</u> | <u>32,243,642</u> | |
| Excess of revenues over (under) expenditures before other financing sources (uses) | <u>2,747,730</u> | <u>(2,723,302)</u> | <u>915</u> | <u>(519,275)</u> | <u>153,279</u> | <u>(340,653)</u> | |
| Other financing sources (uses) | | | | | | | |
| Loan proceeds | - | - | - | - | - | - | |
| Operating transfers in (out) | (2,268,945) | 2,422,224 | - | - | (153,279) | - | |
| Total other financing sources (uses) | <u>(2,268,945)</u> | <u>2,422,224</u> | <u>-</u> | <u>-</u> | <u>(153,279)</u> | <u>-</u> | |
| Excess of revenue and other financing sources over (under) expenditures and other financing sources (uses) | <u>478,785</u> | <u>(301,078)</u> | <u>915</u> | <u>(519,275)</u> | <u>-</u> | <u>(340,653)</u> | |
| Fund balance, beginning of year | <u>12,113,996</u> | <u>2,752,020</u> | <u>1,684,804</u> | <u>2,457,289</u> | <u>-</u> | <u>19,008,109</u> | |
| Fund balance, end of year | <u>\$ 12,592,781</u> | <u>\$ 2,450,942</u> | <u>\$ 1,685,719</u> | <u>\$ 1,938,014</u> | <u>\$ -</u> | <u>\$ 18,667,456</u> | |
| | | | | | | | <i>Net Change in Fund Balances - Total Governmental Funds</i> |
| | | | | | | | \$ (340,653) |
| | | | | | | | Pension expense pertaining to the net pension liability is not reported in the funds. |
| | | | | | | | (1,131,041) |
| | | | | | | | 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. |
| | | | | | | | 1,298,868 |
| | | | | | | | This is the amount of principal debt repayment. |
| | | | | | | | 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. |
| | | | | | | | 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. |
| | | | | | | | 1,595,462 |
| | | | | | | | OPEB contributions are long-term liabilities and the related expense is not reported in the funds. |
| | | | | | | | (581,000) |
| | | | | | | | Changes in deferred inflows of resources pertaining to state income taxes do not use current financial resources and are not reported as revenues in the governmental funds. |
| | | | | | | | 189,748 |
| | | | | | | | 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. |
| | | | | | | | (167,127) |
| | | | | | | | Loss on disposal of fixed asset |
| | | | | | | | (76,177) |
| | | | | | | | Difference in accounting for compensated absences between modified accrual and accrual accounting. |
| | | | | | | | (103,137) |
| | | | | | | | <i>Change in Net Position of Governmental Activities</i> |
| | | | | | | | <u>\$ 684,943</u> |

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

**CITY OF LAUREL, MARYLAND
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUND - PENSION TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2015**

| | |
|--|----------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 75,919 |
| Investments, at fair value | 32,282,219 |
| Contributions receivable | 173,500 |
| Other assets | 2,353 |
| TOTAL ASSETS | <u>32,533,991</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| | <u>-</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | |
| | <u>\$ 32,533,991</u> |
| LIABILITIES | |
| Accounts payable | \$ 212 |
| Due to general fund | 33,050 |
| Total liabilities | <u>33,262</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| | <u>-</u> |
| NET POSITION | |
| Held in trust for pension benefits | <u>32,500,729</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | |
| | <u>\$ 32,533,991</u> |

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

**CITY OF LAUREL, MARYLAND
STATEMENT OF CHANGES IN NET POSITION
AGENCY FUND - PENSION TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2015**

ADDITIONS

| | | |
|---|--------------|--|
| Contributions | | |
| Employer | \$ 2,158,994 | |
| Plan member | 620,072 | |
| Total contributions | 2,779,066 | |
| | | |
| Investment Income | | |
| Interest income | 293 | |
| Dividends | 1,511,269 | |
| Net change in fair value of investments | (267,651) | |
| Net investment income (loss) | 1,243,911 | |
| | | |
| Total additions | 4,022,977 | |

DEDUCTIONS

| | | |
|---|--|---------------|
| Distributions | | 2,158,497 |
| Administrative expenses | | 123,398 |
| | | 2,281,895 |
| | | |
| Change in net position | | 1,741,082 |
| | | |
| Net position held in trust for pension benefits, beginning of year | | 30,759,647 |
| | | |
| Net position held in trust for pension benefits, end of year | | \$ 32,500,729 |

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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 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 City of Laurel Community Redevelopment Authority (the "Authority"), is reported as a blended component unit since the governing body of the Authority is substantially the same as the City's governing body and the City manages the activities in essentially the same manner as its own departments. Complete financial statements of the Authority can be obtained from their administrative office at 8103 Sandy Spring Road, Laurel, MD 20707.

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, 2015

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, the Capital Projects Fund, the Special Revenue Fund, the Speed Camera Fund and the Community Redevelopment Authority.

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 Speed Camera Fund is a special revenue fund used to account for amounts received from speed camera citations and the related administrative and public safety costs.

The Community Redevelopment Authority accounts for revitalization projects in designated areas of the City and is a blended component unit of the City. The Authority is reported as a special revenue fund of the City.

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 position 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.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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 position should be reported as restricted when constraints placed on net position 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.

The City adopted new accounting guidance, GASB No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and GASB No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB No 68* as of July 1, 2014. These statements revise existing standards for accounting and financial reporting by state and local governments for pensions. In accordance with the adoption of these Statements, the City restated beginning net position in the governmental activities by (\$9,846,298), from \$44,132,578 to \$34,286,280.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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 inflows of resources.

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.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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 Speed Camera Fund is a special revenue fund used to account for amounts received from speed camera citations and the related administrative and public safety costs.
- The Community Redevelopment Authority accounts for revitalization projects in designated areas of the City and is a blended component unit of the City.

The City has one nonmajor Fund. The Special Revenue Fund is used 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, 2015

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 60:

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 19.

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

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

Cash 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.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Investments

Investments held at June 30, 2015 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, 2015 consist of real estate taxes, personal property taxes, and other receivables. Receivables 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.

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. 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 position is available.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Deferred Outflows and Inflows of Resources

A *deferred outflow of resources* represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. Likewise, a *deferred inflow of resources* represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

As of June 30, 2015 the balance of deferred inflows of resources consisted of:

| | |
|-------------------------------|---------------------|
| Income taxes, General Fund | \$ 584,764 |
| Property taxes, General Fund | 957,131 |
| Loan receivable, General Fund | 170,092 |
| | <u>\$ 1,711,987</u> |

Local Tax Reserve Fund

At June 30, 2015, the City was advised by the State of Maryland that \$584,764 of the Local Tax Reserve Fund was allocable to the City. The City recorded receivable and deferred inflows of resources in the amount of \$584,764 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, 2015

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.

Net Position

The government-wide statement of net position reports \$1,685,719 of restricted net position 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, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Equity Classifications

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

Net investment in capital assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings, and reduced or increased by deferred inflows and outflows attributable to the acquisition, construction or improvement of those assets.

Restricted net position – Consists of net position 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 and are reduced by liabilities and deferred inflows of resources related to those constraints.

Unrestricted net position – the remaining net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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.

Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

1. Non-Spendable Fund Balance – amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
2. Restricted Fund Balance – amounts that can be spent only for specific purposes because of restrictions imposed externally by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by the City Charter, City Code or enabling legislation.
3. Committed Fund Balance – amounts that can be used only for specific purposes determined by a formal action by City Council, the City’s highest level of decision-making authority, ordinance or resolution.
4. Assigned Fund Balance – amounts that are constrained by the City’s intent that they will be used for specific purposes but are neither restricted nor committed. Pursuant to the City Charter, the City Council is authorized to assign amounts for specific purposes.
5. Unassigned Fund Balance – all amounts not included in other spendable classifications.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

The City considers restricted fund balances to be spent for governmental expenditures first when both restricted and unrestricted resources are available. The City also considers committed fund balances to spend first when other unrestricted fund balance classifications are available for use.

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 2015. 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 note 19 for a reconciliation to a GAAP basis.

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.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

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 \$32,074,845 and the bank balances totaled \$14,798,671. Of the bank balances, the entire amount was insured by Federal Depository Insurance Corporation (FDIC) or secured by collateral valued at 102 percent of principal and accrued interest. 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, 2015:

| | |
|------------------------------|----------------------|
| Escrow deposits | \$ 11,767,505 |
| Public safety - speed camera | 2,141,072 |
| | <u>\$ 13,908,577</u> |

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 position (shares).

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

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.

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, 2015

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

As of June 30, 2015 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> |
|-----------------------------|--|----------------------|--|
| MLGIP | \$ 2,966,250 | \$ 2,966,250 | AAAm |
| Repurchase agreements | 10,363,010 | 10,363,010 | N/A |
| Money market funds | 1,601,380 | 1,601,380 | AAAm |
| Certificates of Deposit: | | | |
| Fleet reserve | 564,163 | 564,163 | N/A |
| Street maintenance reserve | 1,025,751 | 1,025,751 | N/A |
| Public safety reserve | 755,605 | 755,605 | N/A |
| | <u>\$ 17,276,159</u> | <u>\$ 17,276,159</u> | |
| Agency Fund - | | | |
| Repurchase agreements | 3,193,269 | 3,193,269 | N/A |
| Mutual funds | 29,088,950 | 29,088,950 | N/A |
| | <u>\$ 32,282,219</u> | <u>\$ 32,282,219</u> | |

Note: Ratings are provided where applicable to indicate associated Credit Risk.
N/A indicates not applicable.

A reconciliation of cash and cash equivalents per the Statement of Net Position totaling \$32,081,601 (\$18,173,024 unrestricted and \$13,908,577 restricted) to investments, deposits and petty cash follows.

| | |
|-------------|----------------------|
| Investments | \$ 17,276,159 |
| Deposits | 14,798,671 |
| Petty cash | 6,771 |
| | <u>\$ 32,081,601</u> |

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 4 – TAXES RECEIVABLE

Taxes receivable are comprised of the following as of June 30, 2015.

| | | |
|-------------------|----|------------|
| Personal property | \$ | 123,584 |
| Real estate | | 833,547 |
| | | \$ 957,131 |

NOTE 5 – NOTES RECEIVABLE

The City has made advances to the volunteer fire department and volunteer rescue squad for purchases of equipment owned and used by the volunteer fire department and volunteer rescue squad. These advances are evidenced by signed note agreements. Detail of notes receivable at June 30, 2015 are as follows:

| Entity | Interest rate at June 30, 2015 | Maturity date | Repayment term | Amount due |
|-------------------|-----------------------------------|------------------|-------------------|---------------|
| Vol. Fire Dept. | 4.21% | February, 2018 | Monthly | \$ 64,731 |
| Vol. Rescue Squad | 2.65% | June, 2016 | Monthly | 105,361 |
| | | | | \$ 170,092 |

NOTE 6 – OTHER ACCOUNTS RECEIVABLE

Other accounts receivable are comprised of the following as of June 30, 2015.

| | | |
|-------------------------------|----|------------|
| Cable franchise fee | \$ | 181,151 |
| Grass cutting receivable | | 21,545 |
| Refuse - residential | | 33,689 |
| Parks & recreation receivable | | 27,101 |
| Various | | 116,177 |
| | | \$ 379,663 |

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 7 – UNEARNED REVENUES

Governmental funds delay revenue recognition in connection with resources that have been received but not earned.

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

| | | |
|---------------------------|----|------------|
| Impact fees, General Fund | \$ | 775,000 |
| Other unearned revenues | | 132,777 |
| | | \$ 907,777 |
| | | \$ 907,777 |

NOTE 8 – INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivable and payable balances at June 30, 2015 are as follows:

| Fund | Interfund receivables | Interfund payables |
|-----------------------------------|--------------------------|-----------------------|
| General fund | \$ 760,608 | \$ 2,049,753 |
| Capital projects fund | 1,822,460 | 337,027 |
| Speed camera fund | 337,027 | 724,203 |
| Community redevelopment authority | 223,938 | - |
| Pension trust fund | 3,355 | 36,405 |
| | \$ 3,147,388 | \$ 3,147,388 |

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, the Capital Projects Fund, the Speed Camera Fund, and the Community Redevelopment Authority are eliminated in the Statement of Net Position.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 9 – 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 2015.

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, 2015, were 99% of the levy.

The City's real property rate for the special taxing district was \$.03 per \$100 assessed value in 2015.

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 2015. Personal property tax revenue is recognized when received.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 10 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2015 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|------------------------------------|----------------------|---------------------|---------------------|----------------------|
| Governmental activities: | | | | |
| Not being depreciated: | | | | |
| Land | \$ 6,664,556 | \$ - | \$ - | \$ 6,664,556 |
| Construction in progress | 1,245,005 | - | 1,045,894 | 199,111 |
| Subtotal | <u>7,909,561</u> | <u>-</u> | <u>1,045,894</u> | <u>6,863,667</u> |
| Depreciable capital assets: | | | | |
| Infrastructure | 21,393,445 | 484,407 | 446,330 | 21,431,522 |
| Land improvements | 3,646,317 | 312,917 | - | 3,959,234 |
| Buildings and improvements | 22,027,349 | 2,935,010 | 20,871 | 24,941,488 |
| Machinery, tools and equipment | 12,407,268 | 989,878 | 470,222 | 12,926,924 |
| Subtotal | <u>59,474,379</u> | <u>4,722,212</u> | <u>937,423</u> | <u>63,259,168</u> |
| Total capital assets | <u>67,383,940</u> | <u>4,722,212</u> | <u>1,983,317</u> | <u>70,122,835</u> |
| Accumulated depreciation: | | | | |
| Infrastructure | 13,439,385 | 393,048 | 407,294 | 13,425,139 |
| Land improvements | 1,736,992 | 167,182 | - | 1,904,174 |
| Buildings and improvements | 7,529,772 | 673,033 | 14,023 | 8,188,782 |
| Machinery, tools and equipment | 8,291,224 | 847,593 | 439,929 | 8,698,888 |
| Subtotal, accumulated depreciation | <u>30,997,373</u> | <u>2,080,856</u> | <u>861,246</u> | <u>32,216,983</u> |
| Net capital assets | <u>\$ 36,386,567</u> | <u>\$ 2,641,356</u> | <u>\$ 1,122,071</u> | <u>\$ 37,905,852</u> |

Depreciation was charged to functions as follows:

| | |
|----------------------|---------------------|
| General government | \$ 239,074 |
| Public safety | 834,365 |
| Parks and recreation | 414,262 |
| Public works | 593,155 |
| | <u>\$ 2,080,856</u> |

The City has construction commitments of approximately \$242,592 as of June 30, 2015.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 11 – LONG-TERM DEBT

General obligation bonds consist of the following at June 30, 2015:

\$2,860,000 – Public Improvement bonds, 2012 series A; due in annual installments of \$263,500 to \$316,500 through May 1, 2022; interest varies from 1.41% to 2.91%. 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, 2015 was \$53,708 less interest income of \$101. The outstanding principal balance and balance of undrawn proceeds on June 30, 2015 were \$1,122,374 and \$934,126 respectively.

\$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, 2015 was \$197,847 less interest income of \$10. The outstanding principal balance and balance of undrawn proceeds on June 30, 2015 were \$4,533,000 and \$0 respectively.

\$4,043,500 – Public Improvement bonds, 2004 Series A; due in annual installments of \$260,400 to \$331,900 through May 1 2019; interest varies from 2.00% to 4.375%. The semiannual interest payments are offset by interest earned 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, 2014 was \$62,900. During the year ended June 30, 2014, the loan was repaid in full and the outstanding principal balance on June 30, 2014 was \$0.

Notes payable consists of the following at June 30, 2015:

Note payable to PNC 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 \$5,530. As of June 30, 2015 the outstanding principal balance is \$77,338.

Note payable to PNC Bank in the amount of \$1,747,267 to finance the purchase of a building to be used by the Laurel Police Department. The note is payable in monthly installments of \$16,291 until December 2021 with interest at 2.24%. As of June 30, 2015, the outstanding principal balance on the note is \$879,724. Interest paid on the note for the year ended June 30, 2015 was \$22,123.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 11 – LONG-TERM DEBT – continued

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. In December 2010 the City took out an additional principal advance of \$300,000. The note is payable in monthly installments of \$15,454 until December 2021 with interest at 2.24%. As of June 30, 2015, the outstanding principal balance on the note is \$957,926. Interest paid on the note for the year ended June 30, 2015 was \$23,755.

Note payable to PNC Bank on behalf of the Laurel Volunteer Rescue Squad in the amount of \$500,000 for the purchase of a new rescue truck. The note is payable to the Bank in monthly principal and interest payments of \$8,916 through June 14, 2016, with interest at 2.65%. As of June 30, 2015 the outstanding principal balance is \$105,363. Interest paid on the note for the year ended June 30, 2015 was \$4,335.

The changes in governmental long-term debt for the year ended June 30, 2015 are summarized below.

| | Beginning Balance | Additions | Retirements | Ending Balance | Amount due in one year |
|-------------------------|----------------------|-------------------|-----------------------|---------------------|---------------------------|
| Bank loans | \$ 2,484,852 | \$ - | \$ (476,868) | \$ 2,007,984 | \$ 476,013 |
| CDA loans | 6,477,374 | - | (822,000) | 5,655,374 | 848,500 |
| Total | <u>\$ 8,962,226</u> | <u>\$ -</u> | <u>\$ (1,298,868)</u> | <u>\$ 7,663,358</u> | <u>\$ 1,324,513</u> |
| Compensated absences | <u>\$ 1,062,239</u> | <u>\$ 103,137</u> | <u>\$ -</u> | <u>\$ 1,165,376</u> | <u>\$ -</u> |
| OPEB liability | <u>\$ 2,927,000</u> | <u>\$ 581,000</u> | <u>\$ -</u> | <u>\$ 3,508,000</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, 2015. Estimated interest payments were based on rates in effect at June 30, 2015 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, 2015

NOTE 11 – LONG-TERM DEBT – continued

| Year ended June 30, | Bank Loans | | CDA Loans (A) | |
|---------------------|---------------------|-------------------|---------------------|-------------------|
| | Principal | Interest | Principal | Interest |
| 2016 | \$ 476,013 | \$ 42,555 | \$ 848,500 | \$ 226,897 |
| 2017 | 379,815 | 31,843 | 875,500 | 201,904 |
| 2018 | 378,834 | 22,589 | 906,000 | 174,711 |
| 2019 | 366,904 | 14,047 | 937,800 | 144,363 |
| 2020 | 326,681 | 5,729 | 970,500 | 112,054 |
| 2021-2025 | 79,737 | 638 | 2,051,200 | 114,939 |
| Total | <u>\$ 2,007,984</u> | <u>\$ 117,401</u> | <u>\$ 6,589,500</u> | <u>\$ 974,868</u> |

| Year ended June 30, | Total | |
|---------------------|---------------------|---------------------|
| | Principal | Interest |
| 2016 | \$ 1,324,513 | \$ 269,452 |
| 2017 | 1,255,315 | 233,747 |
| 2018 | 1,284,834 | 197,300 |
| 2019 | 1,304,704 | 158,410 |
| 2020 | 1,297,181 | 117,783 |
| 2021-2025 | 2,130,937 | 115,577 |
| Total | <u>\$ 8,597,484</u> | <u>\$ 1,092,269</u> |

(A) This payout schedule assumes the remaining \$934,126 of undrawn proceeds are drawn down.

NOTE 12 – CONCENTRATIONS

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

NOTE 13 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and related disasters. The City is a capital member of the Local Government Insurance Trust (LGIT) sponsored by the Maryland Municipal League (MML), and the Maryland Association of Counties.

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.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 13 – RISK MANAGEMENT - continued

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 2015, the City paid premiums of \$203,893 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 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.

The City employs a full-time Risk Management Officer, funded in the City Administrator's Office. This has allowed the City to place all of its insurance, safety (both public and employee), and risk management responsibilities within one full-time position. This position is also responsible for the City's Employee Wellness Program. Key responsibilities include vehicle accident investigation; safety inspections at all City properties, parks, and facilities; and employee awareness for job safety and personal health, and Chair of the City's Risk Management Committee. The Risk Management Officer oversees the City's general liability insurance policies and workers compensation insurance.

In the second year of having a City Risk Management Officer, the City continues to receive LGIT Program Grants, recognition and inclusion from other Maryland municipal Risk Management Officers, and invited to serve on the LGIT Risk Management Committee. The Risk Management Officer works very closely with the City's Insurance Consultant, Insurance Buyers' Council, which has resulted in lower premiums in several of the lines of insurance coverage. The Risk Management Officer is the Chair of the City's Accident Review Board, Public Employees Safety Association Board Member, and a member of the Public Risk Management Association. It is expected that the City's Risk Management Program will continue to bring positive results as a result of the efforts of the Risk Management Officer.

NOTE 14 – 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.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 – DEFERRED COMPENSATION PLAN - continued

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, the investments designated for compensation benefits are not reflected in the City's financial statements.

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 15 – RETIREMENT PLAN

The City has adopted GASB No. 68 – Accounting and Financial Reporting for Pensions (“GASB 68”) for the year ended June 30, 2015.

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. The City's municipal code and section 23A of the Annotated Code of Maryland grants the authority to provide and amend retirement benefits.

The Plan is administered by the Retirement Plan Board of Trustees. The Board is comprised of seven members including a participant of the Police Plan and a participant of the Employee Plan. The remaining members are appointed by the Mayor and confirmed by the Council. At least two members must have experience in banking, investing or accounting. The City Administrator and Director of Finance, or their designees, serve as ex officio, non-voting members. There are no separately issued financial statements for these plans.

The City has also adopted GASB No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB No. 68. GASB No. 71 requires that contributions to the pension plan subsequent to the measurement date be recognized as a deferred outflow of resources. The City's fiscal 2015 contribution of \$2,158,994 is therefore recognized as a pension-related deferred outflow of resources.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 15 – RETIREMENT PLAN - continued

Benefits provided

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.

Plan Membership

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.

The number of employees covered and current membership classifications as of June 30, 2015 are as follows:

| | |
|---|-------------------|
| Active participants | 172 |
| Inactive plan members entitled to but not yet receiving benefits | 11 |
| Inactive plan members or beneficiaries currently receiving benefits | <u>85</u> |
| Total participants | <u><u>268</u></u> |

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 15 – RETIREMENT PLAN - continued

Deferred Retirement Option Program

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 in the Employee Plan and five years in the Police Plan. 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 and 2014 to December 31, 2019. The balance of amounts held by the Plans pursuant to the DROP was \$2,465,359 as of June 30, 2015.

Funding Policy

The City’s municipal code and section 23A of the Annotated Code of Maryland grants the authority to establish and amend contribution rates. 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 contributions made to the Plan for fiscal year 2015 were made in accordance with the actuarial valuation for the plan year ending June 30, 2014. The contributions consisted of amounts contributed by the employees of \$604,123 and amounts contributed by the City of \$2,158,994.

The required and actual contributions for the fiscal years ending June 30th were as follows:

| | Fiscal Year Ending June 30 | | |
|-------------------------------|----------------------------|--------------|--------------|
| | 2015 | 2014 | 2013 |
| Retirement plan contributions | \$ 2,158,994 | \$ 2,285,494 | \$ 1,662,636 |

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 15 – RETIREMENT PLAN - continued

The City contributed \$2,158,994 to the System for fiscal year 2015 which was actuarially determined based on statutory provisions. The City has also recognized in Pension Expense its proportionate share of the System’s deferred inflows of resources (an increase in Pension Expense) attributable to the net difference between projected and actual investment earnings on pension plan assets and its proportionate share of the System’s deferred outflows of resources (a decrease in Pension Expense) attributable to changes in assumptions.

Required disclosures aggregate for the plan:

| | <u>Laurel Pension System</u> |
|---|------------------------------|
| Total pension liability | \$ 43,827,077 |
| Total fiduciary net position | 32,681,240 |
| City's proportionate share of total pension liabilities | 11,145,837 |
| City's proportionate share of net pension liabilities | 100.00% |
| Total pension assets | 32,681,240 |
| Measurement date of collective net pension liability | June 30, 2014 |
| Date of actuarial valuation | June 30, 2014 |
| Deferred outflows related to pensions | 2,158,994 |
| Deferred inflows related to pensions | 1,990,496 |
| Pension expense/expenditures for the period | 1,131,041 |

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 15 – RETIREMENT PLAN - continued

Actuarial assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation on July 1, 2014 rolled forward to June 30, 2015. The key assumptions used to perform the June 30, 2015 pension liability calculation for the System are as follows:

| | |
|-------------------------------|---|
| Actuarial Method | Entry Age Normal |
| Amortization Method | Level Percentage of Payroll, Closed |
| Asset valuation method | 3-year smoothed market |
| Inflation (b) | 3.0% |
| Salary Increases | 5%, including inflation |
| Discount Rate (a) | 7.0% |
| Investment Rate of Return (b) | 7.0% |
| Retirement age | Participants are assumed to retire or join DROP upon eligibility for Normal Retirement |
| Mortality | RP-2000 Combined Healthy Mortality Table projected seven years beyond the year of the valuation by scale AA. For Police plan members use blue collar adjustment; for disabled participants set forward 10 years |

- (a) Discount rate at prior measurement date was 7.00%.
- (b) There were no benefit changes during the year. Adjustments to the roll-forward liabilities were made to reflect the following assumption changes in the 2014 valuation:
 - a. Investment return assumption did not change.
 - b. Inflation assumption did not change.

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

| Years of Service | Percentage Retiring |
|---------------------|------------------------|
| 20 | 20.00% |
| 21 | 12.50% |
| 22 | 28.50% |
| 23 | 40.00% |
| 24 | 33.30% |
| 25 | 100.00% |

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 15 – RETIREMENT PLAN - continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (3%). The target allocation and best estimates of geometric real rates of return for each major asset class are summarized below.

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|----------------------|----------------------|---|
| Large Cap Equity | 23% | 7.53% |
| Small/Mid Cap Equity | 26% | 7.91% |
| Foreign Equity | 15% | 7.56% |
| Fixed Income | 15% | 3.02% |
| Defensive | 15% | 2.75% |
| Real Estate | 6% | 6.21% |
| | 100% | |

The above was the Plan’s Board of Trustee’s adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of June 30, 2014.

The components of the net pension liability for the System as of June 30, 2014, calculated in accordance with GASB Statement No. 67, are shown in the following table:

| | |
|---|---------------|
| Total pension liability | \$ 43,827,077 |
| Plan Fiduciary Net Position | 32,681,240 |
| Net Pension Liability | \$ 11,145,837 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 74.57% |

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 15 – RETIREMENT PLAN - continued

Discount Rate

A single discount rate of 7.00% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.00%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the System’s net pension liability and the City’s proportionate share of the System’s net pension liability, calculated using a single discount rate of 7.00%, a single discount rate that is 1-percentage point lower (i.e., 6.00%), and a single discount rate that is 1-percentage point higher (i.e., 8.00%).

| | 1% Decrease 6.00% | Current Discount Rate 7.00% | 1% Increase 8.00% |
|------------------------------|----------------------|-----------------------------------|----------------------|
| City's net pension liability | \$ 16,273,706 | \$ 11,145,837 | \$ 6,861,059 |

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 15 – RETIREMENT PLAN - continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the City reported a liability of \$11,145,837 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental units, actuarially determined. At June 30, 2014, the City’s proportion was 100 percent.

For the year ended June 30, 2015, the City recognized pension expense of \$1,131,041. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows | Deferred Inflows |
|--|-------------------|------------------|
| Changes of assumptions | \$ - | \$ - |
| Net difference between projected and actual earnings on pension plan investments | - | 1,990,496 |
| Contributions subsequent to the measurement date | 2,158,994 | - |
| Total | \$ 2,158,994 | \$1,990,496 |

The deferred outflow of resources of \$0 due to changes in assumptions and deferred inflows of resources of \$1,990,496 due to differences in projected and actual investment earnings represent the City’s proportionate share of the unamortized portions of the Plan’s original amounts, which are being amortized over a five-year period beginning in fiscal 2016. These unamortized amounts will be ratably recognized in pension expense over the next four years. The deferred outflows of resources of \$2,158,994 relating to contributions subsequent to the measurement date are be recognized as a reduction of the City’s net pension liability in the year ended June 30, 2015.

**CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 16 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

The City pays up to \$350 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 \$350 of premiums per month.

Funding Policy

The City has not established an OPEB trust as of June 30, 2015 and has not made a contribution for the year ended June 30, 2015. The City will pay benefits on a pay-as-you-go basis.

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, 2015.

| | |
|--|---------------------|
| Annual required contribution (ARC) | \$ 762,000 |
| Less: Contributions made | (157,000) |
| Less: NOO Amortization | (126,000) |
| Plus: Interest on NOO | <u>102,000</u> |
| Increase in net OPEB obligation (NOO) | 581,000 |
| Net OPEB obligation - beginning of year | 2,927,000 |
| Net OPEB obligation - end of year | <u>\$ 3,508,000</u> |
| Percentage of annual OPEB cost contributed | 20.60% |

Funded Status

As of July 1, 2014, there was not an OPEB trust. The actuarial accrued liability for benefits was \$7,222,000 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,222,000. 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 \$12,005,479 and the ratio of the UAAL to the covered payroll was 60.16%.

**CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 16 – 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, 2013.

| | |
|-------------------------------|---|
| Actuarial cost method | Projected unit credit |
| Asset valuation method | Market value of assets |
| Rate of return on investments | 3.50% |
| Aggregate salary growth | 3.50% |
| Healthcare cost trend rate | Medical and prescription: 8.00% for FY 2013 trending down to 4.60% |
| Amortization method | Level percentage of projected payroll |
| Amortization period | 30 years |
| Status of period | Closed |

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 17 – 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 18 – 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 position available for benefits.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 19 – 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 (deficiency) of revenue over expenditures, encumbrances and other financing sources (uses) - non-GAAP budgetary basis - general fund | \$ - |
| Use of undesignated reserves | (1,138,300) |
| Increase (decrease) due to: | |
| Expenditures of amounts encumbered during prior year | (283,133) |
| Reserved encumbrances (GAAP basis) at June 30, 2015, but recognized as expenditures for budgetary purposes | <u>209,211</u> |
| Excess (deficiency) of revenue over expenditures and other financing sources (uses) - GAAP | <u><u>\$ (1,212,222)</u></u> |

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 20 – FUND BALANCE REPORTING

Fund balances for the City’s governmental funds consisted of the following as of June 30, 2015:

Non-Spendable Fund Balance

The non-spendable fund balance in the general fund in the amount of \$329,022 is made up of \$158,930 of inventory and \$170,092 of notes receivable that are not in spendable form.

Restricted Fund Balance

The restricted fund balance in the speed camera fund is comprised of \$1,685,719 for public safety expenditures.

Committed Fund Balance

The committed fund balance in the general fund in the amount of \$1,589,914 is made up of \$564,163 for fleet equipment and \$1,025,751 for street maintenance. The committed fund balance in the capital projects fund is \$2,450,942 for future capital projects. The committed fund balance in the community redevelopment authority is \$1,938,014 for redevelopment projects.

Assigned Fund Balance

The assigned fund balance in the general fund is made up of \$209,211 for encumbrances outstanding.

Unassigned Fund Balance

The unassigned fund balance in the general fund is \$10,464,634.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 21 – NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements:

Statement No. 72, *Fair Value Measurement and Application*, issued February 2015, effective for financial statements for fiscal years beginning after June 15, 2015.

Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, issued June 2015, effective for financial statements for fiscal years beginning after June 15, 2015.

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, issued June 2015, effective for financial statements for fiscal years beginning after June 15, 2016.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015, effective for financial statements for fiscal years beginning after June 15, 2017.

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, issued June 2015, effective for financial statements for fiscal years beginning after June 15, 2015.

Statement No. 77, *Tax Abatement Disclosures*, issued August 2015, effective for financial statements for fiscal years beginning after December 15, 2015.

The City will implement these statements as necessary as of their effective dates. The City is still in the process of determining the effect of implementing these GASB statements.

CITY OF LAUREL, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYEES RETIREMENT PLAN AND POLICE RETIREMENT PLAN
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST 10 FISCAL YEARS
(Dollar amounts in thousands)

| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|--|------------------|---|------|------|------|------|------|------|------|------|
| Total Pension Liability | | | | | | | | | | |
| Service cost | \$ 1,210 | | | | | | | | | |
| Interest | 2,850 | Information for FY 2013 and earlier years is not available. | | | | | | | | |
| Changes of benefit terms | - | | | | | | | | | |
| Difference between expected and actual experience | - | | | | | | | | | |
| Changes of assumptions | - | | | | | | | | | |
| Benefit payments | (1,737) | | | | | | | | | |
| Net change in total pension liability | <u>2,323</u> | | | | | | | | | |
| Total pension liability - beginning | 41,504 | | | | | | | | | |
| Total pension liability - end (a) | <u>\$ 43,827</u> | | | | | | | | | |
| Plan fiduciary net position | | | | | | | | | | |
| Contributions - employer | \$ 2,285 | | | | | | | | | |
| Contributions - member | 579 | | | | | | | | | |
| Net investment income | 4,435 | | | | | | | | | |
| Benefit payments | (1,737) | | | | | | | | | |
| Administrative expenses | (94) | | | | | | | | | |
| Other | - | | | | | | | | | |
| Net change in plan fiduciary net position | <u>5,468</u> | | | | | | | | | |
| Plan fiduciary net position - beginning | 27,213 | | | | | | | | | |
| Plan fiduciary net position - end (b) | <u>\$ 32,681</u> | | | | | | | | | |
| Net pension liability (a - b) | <u>\$ 11,146</u> | | | | | | | | | |
| Plan fiduciary net position as a percentage of total pension liability | 74.57% | | | | | | | | | |
| Covered employee payroll | \$ 12,005 | | | | | | | | | |
| Net pension liability as a percentage of covered employee payroll | 92.84% | | | | | | | | | |
| Expected average remaining service years of all participants | 5 | | | | | | | | | |

The above schedules are presented to illustrate the requirement for specific information for 10 years; however, until a full 10-year trend is compiled, information is only presented for those years for which information is available.

**CITY OF LAUREL, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYEES RETIREMENT PLAN AND POLICE RETIREMENT PLAN
SCHEDULE OF CONTRIBUTIONS AND INVESTMENT RETURNS
LAST 10 FISCAL YEARS
(Dollar amounts in thousands)**

| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|-----------------|---|------|------|------|------|------|------|------|------|
| Actuarially determined contribution | \$ 1,985 | Information for FY 2013 and earlier years is not available. | | | | | | | | |
| Contributions made | 2,285 | | | | | | | | | |
| Contributions deficiency (excess) | <u>\$ (300)</u> | | | | | | | | | |
| Covered employee payroll | \$ 12,005 | | | | | | | | | |
| Contributions as a percentage of covered payroll | 19.03% | | | | | | | | | |
| Annual money weighted rate of return, net of investment expense | 8.84% | | | | | | | | | |

Notes to Schedule

Valuation date:

Actuarially determined contribution amounts are calculated as of the beginning of the fiscal year (July 1) for the year immediately following the fiscal year. Actuarial valuations are performed every year.

| | |
|-------------------------------|--|
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level Percentage of Payroll |
| Remaining amortization period | 30/25 years (closed) for Employees/Police |
| Asset valuation method | 3-year smoothed market |
| Inflation | 3.00% |
| Salary increases | 5.0%, including inflation |
| Investment rate of return | 7.0%, net of pension plan investment expense |
| Retirement age | Participants are assumed to retire or join DROP upon eligibility for Normal Retirement |
| Mortality | RP-2000 Combined Healthy Table, projected seven years beyond the year of the valuation by scale AA. For Police members use blue collar adjustment; for disabled participants set forward 10 years. |

**CITY OF LAUREL, MARYLAND
OTHER POST-EMPLOYMENT BENEFITS PLAN
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

| 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 |
|--|---------------------------------|---|---------------------------|-----------------|--------------------|--|
| 2014 | \$ - | \$ 7,963,000 | \$ 7,963,000 | 0.00% | \$ 12,561,962 | 63.39% |
| 2013 | - | 7,222,000 | 7,222,000 | 0.00% | 12,005,479 | 60.16% |
| 2012 | - | 6,451,000 | 6,451,000 | 0.00% | 10,295,640 | 62.66% |
| 2011 | - | 5,619,000 | 5,619,000 | 0.00% | 10,479,118 | 53.62% |
| 2010 | - | 5,229,000 | 5,229,000 | 0.00% | 10,145,089 | 51.54% |
| 2009 | - | 6,502,000 | 6,502,000 | 0.00% | 10,053,543 | 64.67% |
| 2008 | - | 6,119,000 | 6,119,000 | 0.00% | 9,178,525 | 66.67% |

**CITY OF LAUREL, MARYLAND
OTHER POST-EMPLOYMENT BENEFITS PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

| Year Ended June 30, | Annual Required Contribution (ARC) | Actual Contribution ¹ | Percentage Contributed | |
|------------------------|---------------------------------------|-------------------------------------|--------------------------|--------|
| | | | Employer Contribution | Total |
| 2014 | \$ 713,000 | \$ 238,000 | 33.38% | 33.38% |
| 2013 | 630,000 | 119,000 | 18.89% | 18.89% |
| 2012 | 578,000 | 151,000 | 26.12% | 26.12% |
| 2011 | 540,000 | 131,000 | 24.26% | 24.26% |
| 2010 | 584,000 | - | 0.00% | 0.00% |
| 2009 | 546,000 | - | 0.00% | 0.00% |

¹ Sum of estimated retiree medical payments plus scheduled trust contributions.

CITY OF LAUREL, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

| | General Fund | | | |
|---------------------------|----------------------------|----------------------|----------------------|---------------------|
| | Original Budget | Final Budget | Actual | Variance |
| Revenues | | | | |
| Taxes | \$ 18,688,323 | \$ 18,465,323 | \$ 18,480,930 | \$ 15,607 |
| Intergovernmental | 4,769,516 | 5,488,796 | 5,093,688 | (395,108) |
| Licenses and permits | 1,760,510 | 1,938,940 | 2,049,802 | 110,862 |
| Charges for services | 767,800 | 867,800 | 914,761 | 46,961 |
| Fines and forfeitures | 913,000 | 1,829,685 | 2,087,076 | 257,391 |
| Miscellaneous | 498,436 | 574,136 | 418,960 | (155,176) |
| Loan repayments | 150,053 | 150,053 | 150,052 | (1) |
| Unassigned fund balance | - | 450,000 | - | (450,000) |
| Total Revenues | \$ 27,547,638 | \$ 29,764,733 | \$ 29,195,269 | \$ (569,464) |
| Expenditures | | | | |
| General government | \$ 5,847,497 | \$ 5,883,057 | \$ 5,565,902 | \$ 317,155 |
| Public safety | 8,586,683 | 9,158,897 | 8,788,404 | 370,493 |
| Parks and recreation | 1,741,257 | 1,744,088 | 1,687,440 | 56,648 |
| Public works | 4,322,478 | 4,116,148 | 3,937,315 | 178,833 |
| Miscellaneous | 5,663,775 | 7,476,595 | 4,862,555 | 2,614,040 |
| Debt service | 1,620,948 | 1,620,948 | 1,605,923 | 15,025 |
| Total Expenditures | \$ 27,782,638 | \$ 29,999,733 | \$ 26,447,539 | \$ 3,552,194 |

SUPPLEMENTAL SCHEDULES

CITY OF LAUREL, MARYLAND
SCHEDULE OF REVENUES
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

| | Original Budget | Final Budget | Actual | Variance Favorable/ (Unfavorable) |
|--------------------------------|--------------------|-------------------|-------------------|---|
| REVENUES | | | | |
| Taxes | | | | |
| Real and personal property | \$ 18,471,323 | \$ 18,002,323 | \$ 18,015,106 | \$ 12,783 |
| Local - admissions | 175,000 | 401,000 | 402,023 | 1,023 |
| Penalties and interest | 42,000 | 62,000 | 63,801 | 1,801 |
| Total Taxes | <u>18,688,323</u> | <u>18,465,323</u> | <u>18,480,930</u> | <u>15,607</u> |
| Intergovernmental | | | | |
| State and Federal Grants | | | | |
| Other federal and state grants | 15,240 | 15,240 | 73,921 | 58,681 |
| Police protection | 345,801 | 345,801 | 481,541 | 135,740 |
| Police aid supplement | 72,308 | 72,308 | 63,885 | (8,423) |
| Total state and federal grants | <u>433,349</u> | <u>433,349</u> | <u>619,347</u> | <u>185,998</u> |
| State Shared Taxes | | | | |
| Local income tax | 2,750,000 | 3,016,000 | 3,016,178 | 178 |
| Race track impact fees | - | 53,570 | 53,571 | 1 |
| Developer impact fees | 1,032,500 | 1,044,316 | 501,179 | (543,137) |
| Highway user | 225,000 | 489,394 | 489,394 | - |
| Hotel/motel taxes | 175,000 | 298,500 | 298,514 | 14 |
| Total state shared taxes | <u>4,182,500</u> | <u>4,901,780</u> | <u>4,358,836</u> | <u>(542,944)</u> |
| County Grants | | | | |
| Financial corporations | 6,362 | 6,362 | 6,362 | - |
| M-NCPPC grants | 111,305 | 111,305 | 96,233 | (15,072) |
| Highway safety grant | 21,000 | 21,000 | 7,913 | (13,087) |
| Other grants | 15,000 | 15,000 | 4,997 | (10,003) |
| Total county grants | <u>153,667</u> | <u>153,667</u> | <u>115,505</u> | <u>(38,162)</u> |
| Total Intergovernmental | <u>4,769,516</u> | <u>5,488,796</u> | <u>5,093,688</u> | <u>(395,108)</u> |

CITY OF LAUREL, MARYLAND
SCHEDULE OF REVENUES
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

| | Original Budget | Final Budget | Actual | Variance Favorable/ (Unfavorable) |
|------------------------------------|--------------------|------------------|------------------|---|
| Licenses and permits | | | | |
| Liquor | \$ 10,000 | \$ 10,000 | \$ 16,106 | \$ 6,106 |
| Amusement permits | 10,000 | 10,000 | 11,550 | 1,550 |
| Building permits | 722,400 | 722,400 | 649,719 | (72,681) |
| Cable TV | 355,000 | 355,000 | 434,716 | 79,716 |
| Traders licenses | 50,000 | 50,000 | 53,095 | 3,095 |
| Rental licenses | 140,000 | 140,000 | 123,100 | (16,900) |
| Other permits and licenses | 473,110 | 651,540 | 761,516 | 109,976 |
| Total licenses and permits | <u>1,760,510</u> | <u>1,938,940</u> | <u>2,049,802</u> | <u>110,862</u> |
| Charges for services | | | | |
| Passport execution fees | 76,000 | 121,000 | 124,713 | 3,713 |
| Zoning fees | 10,000 | 65,000 | 97,040 | 32,040 |
| Refuse collection | 150,000 | 150,000 | 179,262 | 29,262 |
| Recreation fees | 408,250 | 408,250 | 369,200 | (39,050) |
| Facility rentals | 58,500 | 58,500 | 78,044 | 19,544 |
| Other | 65,050 | 65,050 | 66,502 | 1,452 |
| Total charges for services | <u>767,800</u> | <u>867,800</u> | <u>914,761</u> | <u>46,961</u> |
| Fines and forfeitures | | | | |
| Red light camera tickets | 800,000 | 1,716,685 | 1,907,640 | 190,955 |
| Parking tickets | 66,000 | 66,000 | 135,571 | 69,571 |
| False alarm fines | 10,000 | 10,000 | 20,050 | 10,050 |
| Release fee - impound | 27,000 | 27,000 | 19,810 | (7,190) |
| Other | 10,000 | 10,000 | 4,005 | (5,995) |
| Total fines and forfeitures | <u>913,000</u> | <u>1,829,685</u> | <u>2,087,076</u> | <u>257,391</u> |

CITY OF LAUREL, MARYLAND
SCHEDULE OF REVENUES
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

| | Original Budget | Final Budget | Actual | Variance Favorable/ (Unfavorable) |
|------------------------------|-----------------------------|-----------------------------|-----------------------------|---|
| Miscellaneous | | | | |
| Interest on investments | \$ 22,000 | \$ 22,000 | \$ 2,681 | \$ (19,319) |
| Disposal rebate | 60,856 | 60,856 | 85,975 | 25,119 |
| Other | 415,580 | 491,280 | 330,304 | (160,976) |
| Unassigned fund balance | - | 450,000 | - | (450,000) |
| Total miscellaneous | <u>498,436</u> | <u>1,024,136</u> | <u>418,960</u> | <u>(605,176)</u> |
| Loan repayments | | | | |
| Fire department repayments | 43,064 | 43,064 | 43,063 | (1) |
| Rescue squad repayments | 106,989 | 106,989 | 106,989 | - |
| Total loan repayments | <u>150,053</u> | <u>150,053</u> | <u>150,052</u> | <u>(1)</u> |
| Total Revenue | <u><u>\$ 27,547,638</u></u> | <u><u>\$ 29,764,733</u></u> | <u><u>\$ 29,195,269</u></u> | <u><u>\$ (569,464)</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, 2015

| | Original Budget | Final Budget | Actual | Variance Favorable/ (Unfavorable) |
|--|--------------------|------------------|------------------|---|
| General Government | | | | |
| City council | \$ 96,184 | \$ 95,184 | \$ 81,566 | \$ 13,618 |
| Clerk to the council | 161,045 | 156,045 | 153,642 | 2,403 |
| Mayor | 580,007 | 530,007 | 517,785 | 12,222 |
| City administrator | 463,417 | 529,747 | 505,101 | 24,646 |
| Registration and elections | 6,100 | 6,100 | 2,205 | 3,895 |
| Budget and personnel services | 665,866 | 665,866 | 642,826 | 23,040 |
| Communications | 516,211 | 516,211 | 434,681 | 81,530 |
| Planning and zoning | 1,006,099 | 943,429 | 901,136 | 42,293 |
| Information technology and community services | 1,271,667 | 1,313,482 | 1,271,834 | 41,648 |
| Municipal center maintenance | 169,991 | 165,035 | 164,037 | 998 |
| Other facilities maintenance | 854,380 | 854,421 | 809,272 | 45,149 |
| Community promotion | 56,530 | 107,530 | 81,817 | 25,713 |
| Total general government | <u>5,847,497</u> | <u>5,883,057</u> | <u>5,565,902</u> | <u>317,155</u> |
| Public Safety | | | | |
| Police department | 7,885,258 | 8,447,008 | 8,135,070 | 311,938 |
| Emergency services management | 495,153 | 491,717 | 436,758 | 54,959 |
| Police department facility | 206,272 | 220,172 | 216,576 | 3,596 |
| Total public safety | <u>8,586,683</u> | <u>9,158,897</u> | <u>8,788,404</u> | <u>370,493</u> |
| Parks and recreation | | | | |
| Greenview Drive complex | 32,250 | 39,400 | 39,216 | 184 |
| Parks and recreation administration | 594,781 | 597,179 | 593,280 | 3,899 |
| Recreation | 303,029 | 284,200 | 281,378 | 2,822 |
| Laurel municipal pool | 165,615 | 162,194 | 156,853 | 5,341 |
| Laurel community center programs | 256,620 | 259,510 | 243,862 | 15,648 |
| Greenview Drive programs | 53,288 | 64,029 | 62,824 | 1,205 |
| Armory programs | 144,959 | 144,656 | 136,057 | 8,599 |
| Gude lakehouse programs | 17,335 | 19,540 | 19,464 | 76 |
| Senior services programs | 173,380 | 173,380 | 154,506 | 18,874 |
| Total parks and recreation | <u>1,741,257</u> | <u>1,744,088</u> | <u>1,687,440</u> | <u>56,648</u> |

CITY OF LAUREL, MARYLAND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

| | Original Budget | Final Budget | Actual | Variance Favorable/ (Unfavorable) |
|------------------------------------|----------------------|----------------------|----------------------|---|
| Public Works | | | | |
| Public works administration | \$ 396,274 | \$ 356,274 | \$ 330,452 | \$ 25,822 |
| Automotive maintenance | 1,027,129 | 932,129 | 917,569 | 14,560 |
| Waste collection and disposal | 1,177,233 | 1,107,233 | 1,062,037 | 45,196 |
| Recycling | 203,962 | 188,962 | 175,198 | 13,764 |
| Highways and streets | 527,685 | 505,850 | 554,795 | (48,945) |
| Snow and ice removal | 116,942 | 259,942 | 175,342 | 84,600 |
| Street lighting | 357,000 | 297,000 | 284,582 | 12,418 |
| Engineering and technical services | 213,963 | 221,468 | 215,265 | 6,203 |
| Traffic engineering | 203,644 | 168,644 | 150,643 | 18,001 |
| Tree management | 98,646 | 78,646 | 71,432 | 7,214 |
| Total public works | <u>4,322,478</u> | <u>4,116,148</u> | <u>3,937,315</u> | <u>178,833</u> |
| Miscellaneous | | | | |
| Retirement pension | 2,005,494 | 2,178,994 | 2,166,494 | 12,500 |
| Employee training | 75,950 | 75,950 | 44,079 | 31,871 |
| Employee tuition | - | - | 1,596 | (1,596) |
| Insurance | 2,702,530 | 2,677,706 | 2,651,907 | 25,799 |
| Other* | 879,801 | 2,543,945 | (1,521) | 2,545,466 |
| Total miscellaneous | <u>5,663,775</u> | <u>7,476,595</u> | <u>4,862,555</u> | <u>2,614,040</u> |
| Debt Service | | | | |
| Principal | 1,288,990 | 1,298,870 | 1,298,868 | 2 |
| Interest | 331,958 | 322,078 | 307,055 | 15,023 |
| Total debt service | <u>1,620,948</u> | <u>1,620,948</u> | <u>1,605,923</u> | <u>15,025</u> |
| Total Expenditures | <u>\$ 27,782,638</u> | <u>\$ 29,999,733</u> | <u>\$ 26,447,539</u> | <u>\$ 3,552,194</u> |

*Non-GAAP basis budget includes transfers to the Capital Projects Fund.