

**CITY OF LAUREL, MARYLAND  
FINANCIAL STATEMENTS  
JUNE 30, 2006**

**CITY OF LAUREL  
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JUNE 30, 2006**

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Laurel, Maryland, as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements of the City as listed in the table of contents. These financial statements are the responsibility of the City of Laurel's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance with the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management discussion and analysis, pension trust fund – analysis of funding, and budgetary comparison information on pages 3 through 10, 40 and 41, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Laurel, Maryland’s basic financial statements. The supplemental schedules on pages 42 through 46 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Lindsey & Associates, LLC". The signature is written in a cursive, flowing style.

September 29, 2006

**CITY OF LAUREL, MARYLAND  
MANAGEMENT'S DISCUSSION & ANALYSIS  
JUNE 30, 2006**

**Financial Highlights**

- At June 30, 2006, the assets of the City of Laurel exceeded the liabilities by \$13,991,940 (net assets). Unrestricted net assets were \$2,719,576.
- Net assets increased by \$3,141,973 or 29% from June 30, 2005 to June 30, 2006. This was largely due to an increase in cash and investment account balances as well as the capitalization of the many completed road construction projects and investment in equipment during FY2006.
- The fund balance of the general fund has increased by 31% from \$4,250,280 at June 30, 2005 to \$5,553,066 at June 30, 2006. This is due to the excess of revenues over expenditures as well as decreases in annual leave liability and the reserve for encumbrances.
- The total debt of the City of Laurel decreased by \$212,797. The debt service paid was greater than the additional principal from the general obligation note payable of \$4,043,500 secured by the City through the Department of Housing and Community Development, Community Development Administration (CDA) Local Government Infrastructure Financing Program. As of June 30, 2006 a grand total of \$2,782,622 has been drawn and only that amount drawn is considered outstanding debt. The amortization of the debt service is for the entire amount and so the scheduled payments have been made on this debt as well as the 1996 Public Improvement Bond. The notes payable on behalf of the Laurel Volunteer Fire Department (LVFD) and the Laurel Volunteer Rescue Squad (LVRS) are included in the City's outstanding debt.

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

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

**CITY OF LAUREL, MARYLAND**  
**MANAGEMENT'S DISCUSSION & ANALYSIS**  
**JUNE 30, 2006**

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

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City uses governmental funds (general, capital improvement program, long-term debt, and fixed assets) and the fiduciary fund for the retirement plans' financial records.

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

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

### **Government-wide Financial Analysis**

The City's total net assets as of June 30, 2006 were \$13,991,940. The largest portion of net assets, 69%, is the investment in capital assets, net of related debt, in the amount of \$9,690,763. The unrestricted portion, 20%, of net assets can be used to meet the needs of serving the citizens and obligations to creditors.

**CITY OF LAUREL, MARYLAND  
MANAGEMENT'S DISCUSSION & ANALYSIS  
JUNE 30, 2006**

The following is a condensed statement of net assets:

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

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Current and other assets	10,109,483	7,539,041
Capital assets	18,812,797	17,462,103
<b>Total Assets</b>	<u>29,922,280</u>	<u>25,001,144</u>
Long-term liabilities	9,723,142	11,452,796
Other liabilities	5,207,198	2,698,381
<b>Total Liabilities</b>	<u>14,930,340</u>	<u>14,151,177</u>
Net assets		
Invested in capital assets, net of related debt	9,690,763	6,750,319
Restricted	1,581,601	1,856,682
Unrestricted	2,719,576	2,242,966
	<u>13,991,940</u>	<u>10,849,967</u>

**Governmental Activities**

Governmental activities increased the City's net assets by \$3,141,973 or 29% over June 30, 2005. Property taxes comprised 63% of the total revenue, while the next highest source of revenue, intergovernmental funds, is 20% of the \$19,466,944 total revenue. The remaining 17% of revenue is received from licenses, permits, interest operating grants, charges for services, fines and forfeitures, and miscellaneous items.

**CITY OF LAUREL, MARYLAND  
MANAGEMENT'S DISCUSSION & ANALYSIS  
JUNE 30, 2006**

	Governmental Activities	
	2006	2005
<b>Revenue</b>		
Program Revenue		
Charges for services	1,013,966	707,449
Operating grants/contributions	2,286,638	546,997
Capital grants/contributions	-	-
General Revenue		
Property taxes	11,999,758	12,944,421
Income taxes	2,088,745	2,047,847
Other taxes	355,882	171,540
Licenses/permits	1,695,547	1,165,102
Interest	274,994	153,530
Miscellaneous	551,199	1,311,090
<b>Total Revenue</b>	<b>20,266,729</b>	<b>17,793,530</b>
<b>Expenses</b>		
General government	3,731,255	3,696,200
Public safety	5,240,068	4,687,189
Parks & recreation	1,407,769	1,164,429
Public works	3,524,096	3,461,820
Miscellaneous	3,262,442	2,700,371
Debt service	506,110	663,535
	<b>17,671,740</b>	<b>16,373,544</b>
Increase in net assets	3,141,973	1,419,986
Net assets, beginning of year	10,849,967	9,535,858
Prior period adjustment	-	(105,877)
<b>Net assets, ending</b>	<b>13,991,940</b>	<b>10,849,967</b>

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

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

The general fund is the chief operating fund of the City of Laurel. At the end of the current fiscal year, the total general fund balance is \$5,553,066. There is \$1,188,704 reserved from the fund balance for encumbrances (open purchase orders), inventory, and annual leave; and \$689,084 in designated fleet and street reserves (for emergency repairs and replacements). Unreserved fund balance represents 20% of total general fund expenditures, while total fund balance represents 31% of that same amount.

**CITY OF LAUREL, MARYLAND  
MANAGEMENT'S DISCUSSION & ANALYSIS  
JUNE 30, 2006**

The fund balance of the general fund has increased by 31% from \$4,250,280 at June 30, 2005 to \$5,553,066 at June 30, 2006. This is due to the excess of revenues over expenditures as well as decreases in required reserves of fund balance of annual leave, inventory and encumbrances.

The capital projects fund balance increased by 76% from the prior fiscal year. This is due to the significant decrease in the balance of encumbrances at the end of the year in comparison with June 30, 2005. Additionally, there were several capital projects that were funded with grants that required the City provide funding initially and apply for reimbursement; therefore, funds were expended with no direct revenue received which depleted the fund balance and also required a reserve of the general fund balance to offset the amount that the capital projects fund could not cover. This was not necessary in FY2006: revenue and expenditures were better balanced.

**Fiduciary funds.** The retirement plans of the City of Laurel employees are held in trust to provide future retirement benefits and death and disability benefits to participating employees and their beneficiaries. The net assets for the pension fund increased by 15% from June 30, 2005 to June 30, 2006. The City's contribution to the fund exceeded the actuarial recommendation by 14% and the employee payroll deductions increased due to the increase in the pay plans.

**Budgetary Highlights** The General Operating Budget of FY2006 was amended three times. There were unanticipated public safety related grants totaling \$65,536 for tactical/medical equipment, speed enforcement and an interoperability box to synchronize the radio system with other agencies during an emergency. Amendment 1 also recognized unanticipated revenue in order to fund new body armor for all sworn staff members.

The budget was amended a second time to allocate a contribution from the developer of the Centre at Laurel for local service groups and City public safety initiatives. It was necessary to further recognize unanticipated revenue to offset expenditures for legal services and wireless phone services.

A third amending ordinance was adopted to increase the budget based on corresponding revenue and expenditures. For example, the expenditure budget to pay Parks & Recreation class instructors and conversely the revenue collections for classes had exceeded the budget; therefore, the adjustment was made for a direct offset. Also, the remaining balance in the health insurance budget was used to make an additional employer contribution to the pension fund exceeding the actuarial recommendation by \$121,062.

Several categories of revenue were collected in excess of the budget. Local Income Tax Distribution exceeded budget projections in FY2006 as it did in the last three years. The FY2006 distribution was budgeted higher than FY2005 based on economic activity in the City and historical trends. For the first time real estate tax collections exceeded budget projections. Accounts were added for newly constructed houses sooner than anticipated.

**CITY OF LAUREL, MARYLAND  
MANAGEMENT'S DISCUSSION & ANALYSIS  
JUNE 30, 2006**

Even though the State Highway Administration provided information for budgeting Highway User Revenue, it exceeded the budget as well. All categories of permits were collected in excess of the budget with the exception of paving, demolition and yard sale.

Budgetary concerns regarding energy costs for City facility utilities and vehicle fuel has the full attention of elected officials and staff. Also of great concern are health insurance and workers compensation insurance costs.

**Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets of \$18,812,797 (net of accumulated depreciation) includes land and land improvements, infrastructure, buildings, and machinery, equipment and tools. This is a 7.74% increase from the prior fiscal year due largely to the further use of the CDA loan to include Turney Avenue, Erica Lane, Marton Street, and White Way; as well as vinyl siding on the Gude Lakehouse, new fountain and lights; security camera systems in several City facilities and a 72' telescope tower for the emergency operations center; and the initial purchase of ruggedized computers for the police vehicles. Sixteen vehicles, including police cars and a 10-ton dump truck were purchased with cash in FY2006 through the operating transfer to the CIP. The general operating budget funded the purchase of replacement computers and printers; projector and speaker equipment for outdoor concerts and movies; scoreboard for the Laurel Community Center; and paddle boats for the Gude Lake operations. Public safety items include guns, radios and Auto External Defibrillators for City facilities.

In FY2006, over \$700,000 in equipment was purchased between the general fund and the capital improvement program; \$435,063 in land and building improvements was capitalized; and \$874,755 was made in infrastructure improvements with another \$581,527 pending completion at June 30, 2006.

The following table displays the City's capital assets:

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

<u>Description</u>	<u>Governmental Activities</u>
Land	5,320,503
Construction-in-progress	581,527
Buildings and improvements	5,620,147
Machinery, tools, equipment	2,356,500
Land improvements	650,106
Infrastructure	<u>4,284,014</u>
<b>TOTAL</b>	<b>18,812,797</b>

**CITY OF LAUREL, MARYLAND  
MANAGEMENT'S DISCUSSION & ANALYSIS  
JUNE 30, 2006**

**Long-term debt.** At the end of the current fiscal year, the City had total long-term liabilities outstanding of \$11,239,999. This amount is comprised of the 1996 Public Improvement Bond (PIB) of \$ 8,160,000; \$2,478,891 notes payable and \$601,108 in accrued vacation leave. This is a decrease of \$212,797 from the FY2005 balance. The debt service payments on the existing debt exceeded the addition of the draw down on the CDA note payable. The draws have been made as bid recommendations have been awarded.

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

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

	<b>Governmental Activities</b>
General obligation bonds	8,160,000
Notes payable	2,478,891
Accrued leave liability	601,108
<b>TOTAL</b>	<b>11,239,999</b>

**Economic Factors and Activities**

Fiscal Year 2006 in the City of Laurel saw additional development projects and the implementation of the Revitalization Overlay Area. Revitalization Overlay Areas allow the City more flexibility in selecting projects for redevelopment: striving for higher quality applicants. An ill-maintained apartment complex was demolished at the end of FY2005 and is being replaced with a 75 million dollar luxury apartment complex. An additional complex by the same company, Archstone Smith, is nearing the start of construction, located just off Route One on Contee Road.

The Department of Community Planning & Business Services also implemented the Neo-Traditional Overlay, Laurel's first subdivision to use this new type of overlay, which is located on Cherry Lane west of Van Dusen Road. In addition to the distinction of the City of Laurel having its own zoning authority, Life Safety Review completes the one-stop shop for developers so all aspects of zoning, permitting and fire code review can be conducted by the City of Laurel. The first year of operation has proven to be highly successful in the vastly reduced amount of time to review proposed projects for fire code compliance. This makes the City of Laurel an even more desirable and efficient place to do business than it already was.

The Department of Community Planning & Business Service also saw significant permit and zoning fee revenue. The development of a new shopping center, called The Centre at Laurel at the southeast corner of the provided building permit revenue that was budgeted; however, the set up for the individual merchants required additional occupancy and sign permit fees that were not budgeted. The progression of ongoing housing developments

**CITY OF LAUREL, MARYLAND  
MANAGEMENT'S DISCUSSION & ANALYSIS  
JUNE 30, 2006**

with values higher than earlier estimated are another reason the permit revenue exceeded budget projections, which includes The Villages of Wellington, Magnolia Woods, Contee Crossing, and Laurel Cove, among others. Real estate tax and local income tax revenues have started to reflect the additional housing stock from the aforementioned new construction developments.

The pipeline of approved projects for the coming year is also extensive. The redevelopment of the Laurel Centre Mall is much anticipated by the entire Laurel community. The mall has seen a significant decline in the types of merchants and the City has been very displeased with the lack of responsiveness of previous owners to attract stores that are in keeping with the area growth and income levels of area residents as evident by the size and cost of new houses.

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

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

**CITY OF LAUREL, MARYLAND**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

	Governmental Activities	Total
<b>ASSETS</b>		
Current Assets		
Equity in pooled cash and cash equivalents	\$ 5,191,254	\$ 5,191,254
Restricted cash	1,866,517	1,866,517
Taxes receivable, net of allowances	918,853	918,853
Notes receivable	46,057	46,057
Other receivables	662,263	662,263
Due from other governments	1,200,975	1,200,975
Due from other funds	212	212
Inventory	47,242	47,242
<b>Total Current Assets</b>	<b>9,933,373</b>	<b>9,933,373</b>
Noncurrent Assets		
Notes receivable	176,110	176,110
Net capital assets	18,812,797	18,812,797
<b>Total Noncurrent Assets</b>	<b>18,988,907</b>	<b>18,988,907</b>
<b>TOTAL ASSETS</b>	<b>\$ 28,922,280</b>	<b>\$ 28,922,280</b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,406,371	\$ 1,406,371
Accrued interest	5,343	5,343
Deposits	1,402,494	1,402,494
Deferred revenue	876,133	876,133
Current portion of long-term debt	1,516,857	1,516,857
<b>Total Current Liabilities</b>	<b>5,207,198</b>	<b>5,207,198</b>
Noncurrent Liabilities		
Compensated absences	601,108	601,108
Loan payable - long-term	9,122,034	9,122,034
<b>Total Noncurrent Liabilities</b>	<b>9,723,142</b>	<b>9,723,142</b>
<b>TOTAL LIABILITIES</b>	<b>14,930,340</b>	<b>14,930,340</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	9,690,763	9,690,763
Restricted		
Inventory	47,242	47,242
Notes receivable	222,167	222,167
Fleet - general	360,084	360,084
Fleet - EMS	66,000	66,000
Street maintenance	285,000	285,000
Capital projects	-	-
Long-term debt	601,108	601,108
Unrestricted	2,719,576	2,719,576
<b>TOTAL NET ASSETS</b>	<b>13,991,940</b>	<b>13,991,940</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 28,922,280</b>	<b>\$ 28,922,280</b>

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

**CITY OF LAUREL, MARYLAND**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Indirect Expense Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Total
Primary Government							
Governmental Activities:							
General government	\$ 3,731,255	\$ 1,682,624	\$ 189,664	\$ 77,078	\$ -	\$ (5,147,137)	\$ (5,147,137)
Public safety	5,240,068	907,873	269,141	392,085	-	(5,486,715)	(5,486,715)
Parks and recreation	1,407,769	52,445	433,477	141,643	-	(885,094)	(885,094)
Public works	3,524,096	578,626	121,684	1,675,832	-	(2,305,206)	(2,305,206)
Miscellaneous	2,715,458	(2,715,458)	-	-	-	-	-
Interest	506,110	(506,110)	-	-	-	-	-
Total Governmental Activities	<u>17,124,756</u>	<u>-</u>	<u>1,013,966</u>	<u>2,286,638</u>	<u>-</u>	<u>(13,824,152)</u>	<u>(13,824,152)</u>
Total Primary Government	<u>\$ 17,124,756</u>	<u>\$ -</u>	<u>\$ 1,013,966</u>	<u>\$ 2,286,638</u>	<u>\$ -</u>	<u>\$ (13,824,152)</u>	<u>\$ (13,824,152)</u>
				General revenues:			
				Taxes			
				Income taxes		2,088,745	2,088,745
				Property taxes		11,999,758	11,999,758
				Other taxes		355,882	355,882
				Licenses and permits		1,695,547	1,695,547
				Grants and contributions		-	-
				Interest and investment earnings		274,994	274,994
				Miscellaneous		551,199	551,199
				Total General Revenues		<u>16,966,125</u>	<u>16,966,125</u>
				Transfers in (out)		-	-
				Change in Net Assets		3,141,973	3,141,973
				Net Assets, beginning of year		10,849,967	10,849,967
				Net Assets, end of year		<u>\$ 13,991,940</u>	<u>\$ 13,991,940</u>

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

**CITY OF LAUREL, MARYLAND  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2006**

**RECONCILIATION OF TOTAL GOVERNMENTAL  
FUND BALANCE TO NET ASSETS OF  
GOVERNMENTAL ACTIVITIES  
JUNE 30, 2006**

	General Fund	Capital Projects Fund	Total Governmental Funds	
<b>ASSETS</b>				
Equity in pooled cash and cash equivalents	\$ 5,102,521	\$ 88,733	\$ 5,191,254	
Restricted cash	1,866,517	-	1,866,517	
Taxes receivable, net of allowances	918,853	-	918,853	
Notes receivable	222,167	-	222,167	
Other receivables	232,999	429,264	662,263	
Due from other governments	697,364	503,611	1,200,975	
Due from other funds	44,854	169,489	214,343	
Inventory	47,242	-	47,242	
<b>TOTAL ASSETS</b>	<b>\$ 9,132,517</b>	<b>\$ 1,191,097</b>	<b>\$ 10,323,614</b>	
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	1,125,992	280,379	1,406,371	
Accrued interest	5,343	-	5,343	
Deposits	1,402,494	-	1,402,494	
Due to other funds	169,489	44,642	214,131	
Deferred revenue	876,133	-	876,133	
<b>TOTAL LIABILITIES</b>	<b>3,579,451</b>	<b>325,021</b>	<b>3,904,472</b>	
<b>FUND BALANCES</b>				
Reserved	1,276,680	866,076	2,142,756	
Unreserved - designated	601,108	-	601,108	
Unreserved, undesignated	3,675,278	-	3,675,278	
<b>TOTAL FUND BALANCES</b>	<b>5,553,066</b>	<b>866,076</b>	<b>6,419,142</b>	
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 9,132,517</b>	<b>\$ 1,191,097</b>	<b>\$ 10,323,614</b>	
				<b>\$ 6,419,142</b>
				<b>18,812,797</b>
				<b>(11,239,999)</b>
				<b>\$ 13,991,940</b>

*Total Governmental Fund Balances*

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

Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds.

*Net Assets of Governmental Activities*

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

**CITY OF LAUREL, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**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, 2006**

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 12,260,883	\$ -	\$ 12,260,883
Intergovernmental	3,818,643	799,785	4,618,428
Licenses and permits	1,695,547	-	1,695,547
Charges for services	744,825	-	744,825
Fines and forfeitures	269,141	-	269,141
Miscellaneous	677,905	-	677,905
<b>Total Revenues</b>	<u>19,466,944</u>	<u>799,785</u>	<u>20,266,729</u>
<b>EXPENDITURES</b>			
Current Operations			
General government	3,515,373	-	3,515,373
Public safety	5,056,823	-	5,056,823
Parks and recreation	1,171,795	-	1,171,795
Public works	2,965,850	-	2,965,850
Miscellaneous	2,723,488	-	2,723,488
Capital projects	-	2,550,335	2,550,335
Debt Service			
Principal	1,451,319	-	1,451,319
Interest	506,110	-	506,110
<b>Total Expenditures</b>	<u>17,390,758</u>	<u>2,550,335</u>	<u>19,941,093</u>
<b>Excess of revenues over (under) expenditures before other financing sources (uses)</b>	<u>2,076,186</u>	<u>(1,750,550)</u>	<u>325,636</u>
<b>Other financing sources (uses)</b>			
Note payable proceeds	-	1,252,846	1,252,846
Operating transfers in (out)	(773,400)	773,400	-
<b>Total other financing sources (uses)</b>	<u>(773,400)</u>	<u>2,026,246</u>	<u>1,252,846</u>
<b>Excess of revenue and other financing sources over (under) expenditures and other financing sources (uses)</b>	<u>1,302,786</u>	<u>275,696</u>	<u>1,578,482</u>
<b>Fund balance, beginning of year</b>	<u>4,250,280</u>	<u>590,380</u>	<u>4,840,660</u>
<b>Fund balance, end of year</b>	<u>\$ 5,553,066</u>	<u>\$ 866,076</u>	<u>\$ 6,419,142</u>

*Net Change in Fund Balances - Total Governmental Funds*      \$    1,578,482

Repayment of debt principal is reported in governmental funds, however, in the statement of activities, it is recorded as a reduction in long-term debt. This is the amount of principal debt repayment. 1,451,319

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. (1,252,846)

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. 1,374,880

Various (9,862)

*Change in Net Assets of Governmental Activities*      \$    3,141,973

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

**CITY OF LAUREL, MARYLAND  
 STATEMENT OF FIDUCIARY NET ASSETS  
 AGENCY FUND - PENSION TRUST FUND  
 FOR THE YEAR ENDED JUNE 30, 2006**

**ASSETS**

Cash and cash equivalents	\$ 75,403
Investments, at fair value	15,060,568
Contributions receivable	225,526
Other assets	2,353
<b>TOTAL ASSETS</b>	<u><u>\$ 15,363,850</u></u>

**LIABILITIES**

Accounts payable	\$ 44,854
Due to general fund	212
Total liabilities	<u>45,066</u>

**NET ASSETS**

Held in trust for pension benefits	<u>15,318,784</u>
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<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 15,363,850</u></u>
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The accompanying notes to these financial statements are an integral part of this statement.

**CITY OF LAUREL, MARYLAND  
STATEMENT OF CHANGES IN NET ASSETS  
AGENCY FUND - PENSION TRUST FUND  
FOR THE YEAR ENDED JUNE 30, 2006**

**ADDITIONS**

Contributions		
Employer	\$ 958,301	
Plan Member	422,460	
Total contributions	<u>1,380,761</u>	
Investment Income		
Net increase in fair value of investments	1,489,403	
Interest	5,116	
Net investment income	<u>1,494,519</u>	
Total additions	2,875,280	

**DEDUCTIONS**

Distributions		909,444
Administrative expenses	52,048	
	<u>961,492</u>	
<b>Net increase</b>		1,913,788
<b>Net assets held in trust for pension benefits, beginning of year</b>		<u>13,404,996</u>
<b>Net assets held in trust for pension benefits, end of year</b>		<u><u>\$ 15,318,784</u></u>

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

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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

**Financial Reporting Entity**

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

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

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

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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

**Basis of Presentation – Fund Accounting**

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

The City's governmental funds include the General Fund and the Capital Projects Fund.

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The Capital Projects Fund accounts for financial resources used for the acquisition or construction of major capital facilities.

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

**Basis of Accounting**

**Government-Wide Financial Statements**

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

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

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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

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

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

**Fund Financial Statements**

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

**Governmental Funds**

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

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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

**Revenue Recognition**

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

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

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

**Expenditure Recognition**

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

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

The major governmental funds are:

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

**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, 2006**

**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 41:

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.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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

**Cash and Cash Equivalents**

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

**Investments**

GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments" was implemented during fiscal year 1997. In accordance with this statement, investments held at June 30, 2006 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.

GASB Statement No. 40, "Deposit and Investment Risk Disclosures" was implemented during fiscal year 2005. This GASB Statement rescinds and supersedes certain GASB Statement No. 3 disclosures while adding additional required deposit and investment risk disclosures.

**Receivables**

Receivables at June 30, 2006 consist of real estate taxes, personal property taxes, highway user revenue, notes and other receivables. Taxes, special assessments, utility charges and accrued interest are deemed collectible in full.

**Inventory of Supplies**

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

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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

**Capital Assets and Depreciation**

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

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

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

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

**Restricted Reserves**

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

**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.

**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.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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

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

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

**Reserves and Designations**

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

**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.

**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 2006. For day-to-day management control, expenditures may not exceed budget at the department level. The City prepares an annual operating budget on a basis not consistent with generally accepted accounting principles. Refer to footnote 18 for a reconciliation to a GAAP basis.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**Deposit Policies**

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

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

**Pooling of Cash**

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

**Deposits**

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

At year-end, the carrying amounts of the City's deposits were \$333,231 and the bank balances totaled \$496,159. Of the bank balances, the entire amount was insured by Federal Depository Insurance Corporation (FDIC). At year end, the City's bank balances were not exposed to any custodial credit risk because all deposits were fully collateralized. Restricted cash consisted of the following at June 30, 2006:

Escrow deposits	\$1,402,494
Other	464,023
	<u>\$1,402,494</u>

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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

**Investment Policies**

**Credit Risk** is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in bankers' acceptances and commercial paper to the highest letter and numerical rating by at least one nationally recognized statistical rating organization. The Maryland Local Government Investment Pool (the Pool) is duly chartered, administered and subject to regulatory oversight by the State of Maryland. The Pool is managed in a "Rule 2(a)-7 like" manner and has an S&P rating of AAAm. The Pool was created under Maryland State Law and is regulated by the Maryland State Treasurer's Office. It is maintained exclusively to assist eligible participants, as defined by Articles 95 and 22 of the Annotated Code of Maryland. The Pool may invest in any instrument in which the State Treasurer may invest. Permissible instruments are established by Section 6-222 of the State Finance and Procurement Article. No direct investment may have a maturity date of more than 13 months after its acquisition. Securities of the Pool are valued daily on an amortized cost basis, which approximates market value, and are held to maturity under normal circumstances. Investments in money market funds are valued at the closing net asset value per share on the day of valuation. The fair value of the position in the Pool is the same as the value of the pool net assets (shares).

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

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

For investments, **custodial credit risk** is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities in the possession of an outside party. The City's investment policy requires that deposits must have, at all times, collateral with a market value that meets or exceeds the City's deposits with the financial institution that are not covered by deposit insurance.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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

**Investments**

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

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

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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

As of June 30, 2006, the City had the following investments:

Types of Investments	Fair Value/ Carrying Amount	Cost	Average Credit Quality/ Ratings	Weighted Average Days to Maturity
MLGIP	\$ 1,970,368	\$ 1,970,368	AAAm	33
Repurchase agreements	2,640,000	2,640,000	N/A	3
Money market funds	1,448,457	1,448,457	AAAm	39
Certificates of Deposit:				
Fleet Reserve	365,996	365,996	N/A	132
Street Maintenance Reserve	289,679	289,679	N/A	132
	<u>\$ 6,714,500</u>	<u>\$ 6,714,500</u>		
Agency Fund -				
Mutual funds	15,060,568	15,060,568		
	<u>\$ 21,775,068</u>	<u>\$ 21,775,068</u>		

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

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

**NOTE 4 – TAXES RECEIVABLE**

Taxes receivable are comprised of the following as of June 30, 2006.

Personal property	\$ 772,505
Real estate	146,348
	<u>\$ 918,853</u>

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 5 – NOTES RECEIVABLE**

The City has made advances to the volunteer fire department and the volunteer rescue squad for purchases of equipment owned and used by the volunteer fire department and the volunteer rescue squad. These advances are evidenced by signed note agreements. Detail of notes receivable at June 30, 2006 are as follows:

<u>Entity</u>	<u>Interest rate at June 30, 2006</u>	<u>Maturity date</u>	<u>Repayment term</u>	<u>Amount due</u>
Vol. Fire Dept.	3.10%	June, 2014	Monthly	\$ 123,212
Vol. Rescue Squad	3.55%	January, 2010	Monthly	98,955
				<u>\$ 222,167</u>

**NOTE 6 – OTHER ACCOUNTS RECEIVABLE**

Other accounts receivable are comprised of the following as of June 30, 2006.

Cable franchise fee	\$ 106,190
Capital project reimbursements	384,645
Amusement licenses	26,802
Refuse - residential	17,646
Various	126,980
	<u>\$ 662,263</u>

**NOTE 7 – INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES**

Interfund receivable and payable balances at June 30, 2006 are as follows:

<u>Fund</u>	<u>Interfund receivables</u>	<u>Interfund payables</u>
General fund	\$ 44,854	\$ 169,489
Capital projects fund	169,489	44,642
Pension trust fund	-	212
	<u>\$ 214,343</u>	<u>\$ 214,343</u>

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

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 8 – 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 \$.72 in 2006. 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, 2006, were 99.93% of the levy.

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 2006. Personal property tax revenue is recognized when received.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 9 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Not being depreciated:				
Land	\$ 5,204,214	\$ 116,289	\$ -	\$ 5,320,503
Construction in progress	27,206	571,170	16,849	581,527
Subtotal	<u>5,231,420</u>	<u>687,459</u>	<u>16,849</u>	<u>5,902,030</u>
Depreciable capital assets:				
Infrastructure	18,866,023	874,755	-	19,740,778
Land improvements	1,581,546	24,831	-	1,606,377
Buildings and improvements	10,361,775	293,943	-	10,655,718
Machinery, tools and equipment	6,289,432	701,563	211,985	6,779,010
Subtotal	<u>37,098,776</u>	<u>1,895,092</u>	<u>211,985</u>	<u>38,781,883</u>
Total capital assets	<u>42,330,196</u>	<u>2,582,551</u>	<u>228,834</u>	<u>44,683,913</u>
Accumulated depreciation:				
Infrastructure	15,178,719	278,045	-	15,456,764
Land improvements	896,209	60,062	-	956,271
Buildings and improvements	4,632,677	402,894	-	5,035,571
Machinery, tools and equipment	4,160,488	466,670	204,648	4,422,510
Subtotal, accumulated depreciation	<u>24,868,093</u>	<u>1,207,671</u>	<u>204,648</u>	<u>25,871,116</u>
Net capital assets	<u>\$ 17,462,103</u>	<u>\$ 1,374,880</u>	<u>\$ 24,186</u>	<u>\$ 18,812,797</u>

Depreciation was charged to functions as follows:

Government activities:	
General government	\$ 230,206
Public safety	183,245
Parks and recreation	235,974
Public works	558,246
Total government activities depreciation expense	<u>\$ 1,207,671</u>

The City has construction commitments of approximately \$206,000 as of June 30, 2006.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 10 – LONG-TERM DEBT**

General obligation bonds consist of the following at June 30, 2006:

\$13,280,000 – public improvement bonds, 1996 Series A; due in annual installments of \$155,000 to \$1,530,000 through October 1, 2011; interest varies from 4.10% to 5.5% and is due semiannually on April 1 and October 1. Interest paid on the bonds for the year ended June 30, 2006 was \$448,200. Balance due on June 30, 2006 was \$8,160,000.

On November 1, 1996, the City issued \$13,280,000 in bonds with a varying interest rate from 4.10% to 5.50%. A portion of the bonds advance refunded \$10,875,000 of outstanding 1991 public improvements bonds with a varying interest rate from 6.25% to 7.00%. Of the \$13,280,000, \$12,177,200 was deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the advance refunded portion of the 1991 public improvement bonds. As a result, a portion of the 1991 bonds are considered to be defeased and the associated liability has been removed from the balance sheet. The City completed the advance refunding to reduce its debt service payments over the next 16 years by \$271,201 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$251,362. The bonds defeased and removed from the balance sheet consisted of 1991 public improvement bonds totaling \$10,875,000, maturing in 2011, with a redemption price of 102% and a call date of July 1, 2002.

Redemption

Optional Redemption

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

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

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 10 – LONG-TERM DEBT - continued**

Notes payable consists of the following at June 30, 2006:

Note payable to Citizens National Bank (the Bank) on behalf of the Laurel Volunteer Fire Department in the amount of \$151,190. The note is payable to the Bank in monthly principal and interest payments of \$1,470 through June 11, 2014, with interest at 3.10%. As of June 30, 2006, the outstanding principal balance on the note is \$123,212. Total interest paid on the note payable was \$4,153 for the year ended June 30, 2006.

Note payable to Citizens National Bank (the Bank) on behalf of the Laurel Volunteer Rescue Squad in the amount of \$160,000. The note is payable to the Bank in monthly principal and interest payments of \$2,918 through January 11, 2010, with interest at 3.55%. As of June 30, 2006, the outstanding principal balance on the note is \$98,955. Total interest paid on the note payable was \$4,170 for the year ended June 30, 2006.

Note payable to the Community Development Administration (“CDA”), an agency in the Division of Development Finance of the Maryland Department of Housing and Community Development (“DHCD”) in the amount of \$4,043,500 to finance certain infrastructure and fleet projects. The note is payable to CDA in annual principal payments ranging from \$260,400 to \$331,900 and semiannual interest payments with rates ranging from 2.000% to 4.375%. The semiannual interest payments are offset by interest earned on the undrawn proceeds of the note held in an escrow account by and in the name of CDA. As of June 30, 2006, the outstanding principal balance and undrawn proceeds on the note is \$2,256,724 and \$1,786,777, respectively. Interest expense of \$49,580, net of interest income of \$43,422, was incurred and paid as of June 30, 2006.

The changes in governmental long-term debt for the year ended June 30, 2006 are summarized below.

	Beginning Balance	Additions	Retirements	Ending Balance	Amount due in one year
General					
obligation bonds	\$ 9,300,000	\$ -	\$ (1,140,000)	\$ 8,160,000	\$ 1,200,000
Bank loans	267,987	-	(45,820)	222,167	46,057
CDA loan	1,269,377	1,252,846	(265,499)	2,256,724	270,800
Total	<u>\$10,837,364</u>	<u>\$1,252,846</u>	<u>\$ (1,451,319)</u>	<u>\$10,638,891</u>	<u>\$ 1,516,857</u>
Compensated absences	<u>\$ 615,432</u>	<u>\$ -</u>	<u>\$ (14,324)</u>	<u>\$ 601,108</u>	<u>\$ -</u>

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 10 – LONG-TERM DEBT - continued**

The following is a schedule by years of future principal and estimated interest payments required to amortize all debt outstanding as of June 30, 2006. Estimated interest payments were based on rates in effect at June 30, 2006 and do not include the effect of interest earned on undrawn proceeds of the note payable, if any.

Year ended June 30,	Bank Loans		CDA Loan (A)	
	Principal	Interest	Principal	Interest
2007	\$ 46,057	\$ 6,616	\$ 270,800	\$ 122,914
2008	47,654	5,020	276,000	117,498
2009	48,678	3,367	282,600	110,736
2010	15,383	2,257	290,200	102,965
2011	15,867	1,773	299,200	94,259
2012 - 2016	48,528	2,265	1,387,900	308,527
2017 - 2021	-	-	710,900	62,795
<b>Total</b>	<b>\$ 222,167</b>	<b>\$ 21,298</b>	<b>\$ 3,517,600</b>	<b>\$ 919,694</b>

  

Year ended June 30,	General Obligation Bonds		Total	
	Principal	Interest	Principal	Interest
2007	\$1,200,000	\$ 383,850	\$ 1,516,857	\$ 513,380
2008	1,255,000	319,475	1,578,654	441,993
2009	1,325,000	254,975	1,656,278	369,078
2010	1,390,000	186,405	1,695,583	291,627
2011	1,460,000	113,730	1,775,067	209,762
2012 - 2016	1,530,000	38,250	2,966,428	349,042
2017 - 2021	-	-	710,900	62,795
<b>Total</b>	<b>\$8,160,000</b>	<b>\$1,296,685</b>	<b>\$11,899,767</b>	<b>\$2,237,677</b>

(A) This payout schedule assumes the remaining \$1,786,777 of undrawn proceeds are drawn down.

**NOTE 11 – CONCENTRATION OF CREDIT RISK**

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

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 12 – RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and related disasters. The City is a capital member of the Local Government Insurance Trust (LGIT) sponsored by the Maryland Municipal League (MML), and the Maryland Association of Counties. LGIT is a self-insured public entity risk pool offering general liability, excess liability, business auto liability, police legal liability, public official liability, environmental liability, and property coverage.

LGIT is capitalized at an actuarially determined level to provide financial stability for its local government members and to reduce the possibility of assessments. The trust is owned by the participating counties and cities and managed by a Board of Trustees elected by the members. Annual premiums are assessed for the various policy coverages. During fiscal year 2006, the City paid premiums of \$313,656 to the trust. The agreement for the formation of LGIT provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of annual premiums. Settled claims, if any resulting from these risks, have not exceeded commercial insurance coverage in the past fiscal year.

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

**NOTE 13 – DEFERRED COMPENSATION PLAN**

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

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

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

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 13 – DEFERRED COMPENSATION PLAN – continued**

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

**NOTE 14 – PENSION PLAN**

Plan Description

The City contributes to the City of Laurel Police Retirement Plan and the City of Laurel Employee (Administrative and Maintenance) Retirement Plan (Plans). Both Plans contain virtually the same provisions and the valuation of each of the Plans uses virtually the same assumptions. Accordingly, for ease of disclosure and understanding, they are presented here as one plan, except as indicated. The Plans are single-employer defined benefit plans which provide retirement benefits and death and disability benefits to participating employees and their beneficiaries. All full-time and part-time employees of the City must participate in the applicable Plan. A participant becomes fully vested in his or her accrued benefit after 5 years of credited service. Credited service is determined for any participant as the years and completed months during which the participant shall have been in the employment of the City. Additionally, credited service includes credited service transferred from other government employers in the State of Maryland or purchased for military service or government service anywhere in the United States, not to exceed 5 years. Administrative and Maintenance employees are eligible to receive retirement benefits as of the participant's 65th birthday and the completion of 5 years of credited service or upon the completion of 30 years of credited service regardless of age. Police employees are eligible to receive retirement benefits the earlier of the participant's 65th birthday and the completion of 5 years of credited service or upon completion of 20 years of credited service regardless of age. All participants under the Plans as of June 30, 1998, are entitled to a minimum benefit as of such date determined under the provisions of the plan then in effect. Employees may elect to receive their pension benefits in the form of a single life annuity, a period certain and continuous annuity, a joint and survivor annuity or a Social Security annuity. Administrative and Maintenance employees' normal retirement allowance consists of 1.67% of final average compensation multiplied by credited service not greater than 30 years. Police employees' normal retirement allowance consists of 2.5% of final average compensation for each of the first 20 years of credited service plus 1.5% of final average compensation for each of the next 5 years of credited service. The Plans allow the City to grant a cost of living increase to participants or beneficiaries annually. The most recent cost of living adjustment was an increase of 2.5% effective July 1, 1998.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 14 – PENSION PLAN – continued**

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

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

Funding Policy

As a condition of employment, employees must contribute 4.5% (Administrative and Maintenance) and 8.8% (Police) of base earnings, excluding bonuses, commissions, overtime payments and other additional compensation. The City's funding policy is to make annual contributions to the Plans as calculated by the actuary in amounts sufficient to provide the benefits of the Plans. The City does not calculate a net pension obligation, but develops an annual required contribution as a percent of payroll. The annual pension cost is equal to the annual required contribution. The contribution rate applied to actual payroll is actuarially determined and consists of a normal cost component and an unfunded actuarial component. The City had an annual required contributions of \$837,239, \$722,073 and \$561,872 for the fiscal years ended June 30, 2006, 2005 and 2004. The City has made all annual required contributions. The contributions made to the Plans for fiscal year 2006 were made in accordance with the actuarial valuation for the plan year ending June 30, 2004. The contributions consisted of amounts contributed by the employees of \$422,460 and amounts contributed by the City of \$958,301.

Significant actuarial assumptions used in determining the actuarial accrued liability are shown in the Pension Trust Fund - Analysis of Funding Progress and Employer Contributions - Required Supplemental Information on page 40. The amount shown as the “actuarial accrued liability” is a standard disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess, on a going concern basis, the funding status of the Plan to which contributions are made, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The actuarial accrued liability was determined as part of an actuarial valuation performed as of July 1, 2005.

The plans invest in mutual funds.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 14 – PENSION PLAN – continued**

The number of employees covered and current membership classifications as of June 30, 2005 are as follows:

Active participants	143
Terminated vested participants	14
Retirees and beneficiaries	44
Total participants	201

Mortality

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

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

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

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

Refer to Required Supplementary Information on page 40 for additional information regarding these plans. There are no separately issued financial statements for these plans.

**NOTE 15 – OTHER POST-EMPLOYMENT BENEFITS**

Since March 1994, the City pays up to \$2,400 annually for each retirees' health insurance. This health insurance benefit is financed on a pay-as-you-go basis. During the year ended June 30, 2006, the City paid \$36,794 for retirees' health insurance.

**CITY OF LAUREL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 16 – 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.

**NOTE 17 – RECONCILIATION OF NON-GAAP BUDGET TO GAAP BUDGET**

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

Excess of revenue over expenditures, encumbrances and other financing sources (uses) - non-GAAP budgetary basis - general fund	\$ 1,337,360
Prior years' surplus	(991,227)
Loan repayments	(52,673)
Increase (decrease) due to:	-
Expenditures of amounts encumbered during prior year	(289,064)
Reserved encumbrances (GAAP basis) at June 30, 2006, but recognized as expenditures for budgetary purposes	<u>137,328</u>
Excess of revenue over expenditures and other financing sources (uses) - GAAP	<u><u>\$ 141,724</u></u>

**NOTE 18 – NEW ACCOUNTING PRONOUNCEMENT**

In June, 2004, the Governmental Accounting Standards Board issued Statement No. 45, “Accounting and Financial Reporting for Post Employment Benefit Plans Other Than Pensions” (GASB 45). The City is currently working to determine the impact of adopting GASB 45 on its financial statement presentation and disclosures. The City is required to adopt GASB 45 for the fiscal year ending June 30, 2010.

**CITY OF LAUREL, MARYLAND**

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

**June 30, 2006**

<u>Actuarial Valuation Date July 1, 2005</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age Normal</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
<b>Employees Plan</b>						
2005	6,736,632	9,238,960	2,502,328	72.92%	3,527,433	70.94%
2004	6,118,691	8,245,176	2,126,485	74.21%	3,034,120	70.09%
2003	5,570,783	7,332,541	1,761,758	75.97%	2,915,206	60.43%
2002	5,370,767	6,617,412	1,246,645	81.16%	3,055,704	40.80%
2001	5,169,622	5,755,036	585,414	89.83%	2,871,540	20.39%
2000	4,944,885	5,159,158	214,273	95.85%	3,055,533	7.01%
<b>Police Plan</b>						
2005	6,648,724	12,026,102	5,377,378	55.29%	2,343,249	229.48%
2004	5,834,671	11,197,428	5,362,757	52.11%	2,074,954	258.45%
2003	5,200,000	9,991,988	4,791,988	52.04%	1,807,801	265.07%
2002	5,080,890	8,991,128	3,910,238	56.51%	1,785,125	219.05%
2001	5,041,426	7,859,153	2,817,727	64.15%	1,710,206	164.76%
2000	4,929,215	6,805,756	1,876,541	72.43%	1,824,646	102.84%

The following schedule gives information on employer required contributions.

<u>Years ended June 30,</u>	<u>Annual required contribution</u>	<u>Percentage contributed</u>
2006	837,239	114.46%
2005	722,073	126.68%
2004	561,872	137.52%
2003	378,987	100.00%
2002	248,429	100.63%
2001	207,994	100.00%

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

Actuarial valuation date	7/1/05
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	25 years - Police Plan and 30 years for Employee Plan
Asset valuation method	Asset smoothing
<b>Actuarial assumptions:</b>	
Investment rate of return	7.5% compounded annually
Projected salary increases	5.0% compounded annually
Cost of living adjustments	4.0% compounded annually
Inflation rate	3.5% compounded annually
<b>Contribution rates:</b>	
Police	8.8%
Employees	4.5%
Mortality: healthy lives	1994 Uninsured Pensioners Mortality Table of Males and Female
Mortality: disables lives	Healthy life mortality set forward 10 years

**CITY OF LAUREL, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED**  
**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<b>General Fund</b>			
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues</b>				
Taxes	\$ 12,452,468	\$ 12,327,166	\$ 12,260,883	\$ (66,283)
Intergovernmental	3,612,947	3,678,483	3,818,643	140,160
Licenses and permits	1,135,230	1,327,687	1,695,547	367,860
Charges for services	660,669	642,246	744,825	102,579
Fines and forfeitures	378,255	378,255	269,141	(109,114)
Miscellaneous	233,233	465,170	625,232	160,062
Loan repayments	43,803	43,803	52,673	8,870
Interest on note receivable	-	-	-	-
<b>Total Revenues</b>	<b>\$ 18,516,605</b>	<b>\$ 18,862,810</b>	<b>\$ 19,466,944</b>	<b>\$ 604,134</b>
<b>Expenditures</b>				
General government	\$ 3,418,220	\$ 3,735,773	\$ 3,515,373	\$ 220,400
Public safety	4,870,831	5,134,250	5,056,823	77,427
Parks and recreation	1,201,609	1,196,109	1,171,795	24,314
Public works	3,162,579	3,151,079	2,965,850	185,229
Miscellaneous	3,827,798	3,610,031	2,723,488	886,543
Debt service	2,035,568	2,035,568	1,957,429	78,139
<b>Total Expenditures</b>	<b>\$ 18,516,605</b>	<b>\$ 18,862,810</b>	<b>\$ 17,390,758</b>	<b>\$ 1,472,052</b>

## **SUPPLEMENTAL SCHEDULES**

**CITY OF LAUREL, MARYLAND**  
**SCHEDULE OF REVENUES**  
**BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2006**

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
<b>REVENUES</b>				
<b>Taxes</b>				
Real and personal property	\$ 12,262,468	\$ 12,137,166	\$ 11,999,758	\$ (137,408)
Local - admissions	148,000	148,000	192,337	44,337
Penalties and interest	42,000	42,000	68,788	26,788
<b>Total Taxes</b>	<u>12,452,468</u>	<u>12,327,166</u>	<u>12,260,883</u>	<u>(66,283)</u>
<b>Intergovernmental</b>				
State and Federal Grants				
Other federal and state grants	2,857	56,893	62,015	5,122
Police protection	372,144	372,144	311,085	(61,059)
Police aid supplement	52,552	52,552	81,000	28,448
Total state and federal grants	<u>427,553</u>	<u>481,589</u>	<u>454,100</u>	<u>(27,489)</u>
State Shared Taxes				
Local income tax	1,953,775	1,953,775	2,088,745	134,970
Race track impact fees	62,100	62,100	79,500	17,400
Highway user	815,013	815,013	862,547	47,534
Hotel/motel taxes	175,000	175,000	163,545	(11,455)
Total state shared taxes	<u>3,005,888</u>	<u>3,005,888</u>	<u>3,194,337</u>	<u>188,449</u>
County Grants				
Financial corporations	6,362	6,362	6,362	-
M-NCPPC grants	157,644	157,644	141,643	(16,001)
Highway safety grant	12,500	12,500	13,500	1,000
Other grants	3,000	14,500	8,701	(5,799)
Total county grants	<u>179,506</u>	<u>191,006</u>	<u>170,206</u>	<u>(20,800)</u>
<b>Total Intergovernmental</b>	<u>3,612,947</u>	<u>3,678,483</u>	<u>3,818,643</u>	<u>140,160</u>

**CITY OF LAUREL, MARYLAND**  
**SCHEDULE OF REVENUES**  
**BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2006**

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
<b>Licenses and permits</b>				
Liquor	\$ 9,650	\$ 9,650	\$ 11,165	\$ 1,515
Amusement permits	15,000	15,000	15,908	908
Building permits	439,000	520,055	666,742	146,687
Cable TV	220,000	279,600	284,671	5,071
Traders licenses	72,000	72,000	67,289	(4,711)
Other permits and licenses	379,580	431,382	649,772	218,390
<b>Total licenses and permits</b>	<u>1,135,230</u>	<u>1,327,687</u>	<u>1,695,547</u>	<u>367,860</u>
<b>Charges for services</b>				
Passport execution fees	70,000	70,000	66,610	(3,390)
Zoning fees	20,000	20,000	43,636	23,636
Refuse collection	95,500	95,500	121,684	26,184
Recreation fees	392,750	396,150	433,477	37,327
Facility rentals	62,373	40,550	45,960	5,410
Other	20,046	20,046	33,458	13,412
<b>Total charges for services</b>	<u>660,669</u>	<u>642,246</u>	<u>744,825</u>	<u>102,579</u>
<b>Fines and forfeitures</b>				
Red light camera tickets	249,210	249,210	136,905	(112,305)
Parking tickets	70,962	70,962	61,696	(9,266)
False alarm fines	36,397	36,397	39,765	3,368
Release fee - impound	18,786	18,786	28,725	9,939
Other	2,900	2,900	2,050	(850)
<b>Total fines and forfeitures</b>	<u>378,255</u>	<u>378,255</u>	<u>269,141</u>	<u>(109,114)</u>

**CITY OF LAUREL, MARYLAND**  
**SCHEDULE OF REVENUES**  
**BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2006**

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
<b>Miscellaneous</b>				
Rental	\$ 37,755	\$ 37,755	\$ 38,661	\$ 906
Interest on investments	120,000	120,000	274,994	154,994
Disposal rebate	60,728	60,728	60,856	128
Sale of property	-	-	24,914	24,914
Other	14,750	246,687	225,807	(20,880)
<b>Total miscellaneous</b>	<u>233,233</u>	<u>465,170</u>	<u>625,232</u>	<u>160,062</u>
<b>Loan repayments</b>				
Fire department repayments	13,612	13,612	17,640	4,028
Rescue squad repayments	30,191	30,191	35,033	4,842
<b>Total loan repayments</b>	<u>43,803</u>	<u>43,803</u>	<u>52,673</u>	<u>8,870</u>
<b>Interest on note receivable</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Revenue</b>	<u>\$ 18,516,605</u>	<u>\$ 18,862,810</u>	<u>\$ 19,466,944</u>	<u>\$ 604,134</u>

**CITY OF LAUREL, MARYLAND**  
**SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -**  
**BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2006**

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
<b>General Government</b>				
City council	\$ 61,265	\$ 67,975	\$ 59,847	\$ 8,128
Clerk to the council	134,106	134,106	129,747	4,359
Mayor	286,333	354,616	342,022	12,594
City administrator	298,741	298,741	254,707	44,034
Registration and elections	7,710	7,710	4,748	2,962
Budget and personnel services	446,075	461,890	452,808	9,082
Planning and zoning	610,936	665,665	624,330	41,335
Information technology and community services	703,644	803,809	729,512	74,297
Facilities and grounds	818,890	816,741	810,227	6,514
Community promotion	50,520	124,520	107,425	17,095
<b>Total general government</b>	<u>3,418,220</u>	<u>3,735,773</u>	<u>3,515,373</u>	<u>220,400</u>
<b>Public Safety</b>				
Police department	4,543,467	4,711,747	4,648,886	62,861
Emergency services management	327,364	422,503	407,937	14,566
<b>Total public safety</b>	<u>4,870,831</u>	<u>5,134,250</u>	<u>5,056,823</u>	<u>77,427</u>
<b>Parks and recreation</b>				
Parks and recreation administration	403,076	380,115	376,822	3,293
Recreation	304,136	293,481	291,600	1,881
Laurel municipal pool	105,181	130,397	130,754	(357)
Laurel community center programs	208,491	211,891	211,743	148
Armory programs	30,787	29,854	12,327	17,527
Gude lakehouse programs	16,163	16,596	15,758	838
Senior services programs	133,775	133,775	132,791	984
<b>Total parks and recreation</b>	<u>1,201,609</u>	<u>1,196,109</u>	<u>1,171,795</u>	<u>24,314</u>

**CITY OF LAUREL, MARYLAND**  
**SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -**  
**BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2006**

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
<b>Public Works</b>				
Public works administration	\$ 157,977	\$ 161,477	\$ 159,234	\$ 2,243
Automotive maintenance	525,518	579,346	572,871	6,475
Waste collection and disposal	1,455,985	1,370,257	1,201,363	168,894
Highways and streets	467,611	476,111	471,073	5,038
Snow and ice removal	49,538	34,538	25,923	8,615
Street lighting	214,900	228,203	250,821	(22,618)
Engineering and technical services	148,637	152,501	152,972	(471)
Traffic engineering	92,588	97,375	81,462	15,913
Tree management	49,825	51,271	50,131	1,140
<b>Total public works</b>	<u>3,162,579</u>	<u>3,151,079</u>	<u>2,965,850</u>	<u>185,229</u>
<b>Miscellaneous</b>				
Retirement pension	857,239	978,466	978,464	2
Employee training	50,445	56,560	30,649	25,911
Employee tuition	13,188	13,930	5,992	7,938
Insurance	2,137,526	1,765,675	1,708,733	56,942
Other	769,400	795,400	(350)	795,750
<b>Total miscellaneous</b>	<u>3,827,798</u>	<u>3,610,031</u>	<u>2,723,488</u>	<u>886,543</u>
<b>Debt Service</b>				
Principal	1,753,684	1,513,909	1,451,319	62,590
Interest	281,884	521,659	506,110	15,549
<b>Total debt service</b>	<u>2,035,568</u>	<u>2,035,568</u>	<u>1,957,429</u>	<u>78,139</u>
<b>Total Expenditures</b>	<u>\$ 18,516,605</u>	<u>\$ 18,862,810</u>	<u>\$ 17,390,758</u>	<u>\$ 1,472,052</u>

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

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

We have audited the 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, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with

certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council and management and is not intended to be and should not be used by anyone other than these specified parties.

*Hindley's Associates, LLC*

September 29, 2006