

**CITY OF LAUREL, MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2008**

**CITY OF LAUREL
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JUNE 30, 2008**

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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 (the City), as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements of the City as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2008, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management discussion and analysis, pension trust fund – analysis of funding, and budgetary comparison information on pages 3 through 10, 43 and 44, 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 45 through 49 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.

Hindsey + Associates, LLC

October 30, 2008

CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2008

Financial Highlights

- At June 30, 2008, the assets of the City of Laurel exceeded the liabilities by \$22,864,145 (net assets). Unrestricted net assets were \$8,232,037.
- Net assets increased by \$5,407,283 or 30% from June 30, 2007 to June 30, 2008. This was largely due to an increase in cash and investment account balances as well as the capitalization of completed road construction projects and investment in equipment; the purchase of 499 8th Street for the expansion of McCullough Field and the significant amount of Construction in Progress recorded for park improvements (dog playground, improvements to Arbory Park and McCullough Field expansion). Additionally, receivables increased due to a new loan executed for the Laurel Volunteer Fire Department and an additional \$300,000 in grants due from Federal, State and County agencies at June 30th.
- The fund balance of the general fund has increased by 4.21% from \$6,225,976 at June 30, 2007 to \$6,487,873 at June 30, 2008. This is due to the excess of revenues over expenditures of only \$261,879.
- The total debt of the City of Laurel decreased by \$1,466,986. Debt service payments totaling \$2,482,403 exceeded the addition of \$1,015,417 for the new LVFD loan and draws on funds issued through the Community Development Administration (CDA) Local Government Infrastructure Financing Program.

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, 2008**

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.

**CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2008**

Government-wide Financial Analysis

The City's total net assets as of June 30, 2008 were \$22,864,145. The largest portion of net assets, 55%, is the investment in capital assets, net of related debt, in the amount of \$12,677,097. The unrestricted portion, 36%, of net assets can be used to meet the needs of serving the citizens and obligations to creditors.

The following is a condensed statement of net assets:

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

	Governmental Activities	
	2007	2008
Current and other assets	\$ 13,306,771	\$ 14,542,275
Capital assets	22,081,600	23,901,706
Total Assets	35,388,371	38,443,981
Long-term liabilities	11,388,801	9,355,268
Other liabilities	6,542,708	6,224,568
Total Liabilities	17,931,509	15,579,836
Net assets		
Invested in capital assets, net of rel	9,396,376	12,677,097
Restricted	1,966,916	1,955,011
Unrestricted	6,093,570	8,232,037
Total Net Assets	\$ 17,456,862	\$ 22,864,145

**CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2008**

Governmental Activities

Governmental activities increased the City's net assets by \$5,407,283 or 30% over June 30, 2007. Property taxes comprised 66% of the total revenue, while the next highest source of revenue, intergovernmental funds, is 20% of the \$25,016,700 total revenue. The remaining 14% of revenue is received from licenses, permits, interest, charges for services, fines and forfeitures, and miscellaneous items.

	Governmental Activities	
	2007	2008
Revenue		
Program Revenue		
Charges for services	\$ 979,321	\$ 958,033
Operating grants/contributions	1,684,578	2,214,548
Capital grants/contributions	-	-
General Revenue		
Property taxes	13,545,683	16,426,980
Income taxes	2,022,443	2,311,920
Other taxes	459,799	430,891
Licenses/permits	1,856,301	1,134,453
Interest	454,310	380,959
Miscellaneous	659,461	1,158,916
Total Revenue	21,661,896	25,016,700
Expenses		
General government	4,559,852	4,542,069
Public safety	5,366,881	5,994,973
Parks & recreation	1,333,052	1,529,956
Public works	3,443,244	3,461,031
Miscellaneous	3,030,076	3,413,069
Debt service	463,869	668,319
Total Expenses	18,196,974	19,609,417
Increase in net assets	3,464,922	5,407,283
Net assets, beginning of year	13,991,940	17,456,862
Prior period adjustment	-	-
Net assets, ending	\$ 17,456,862	\$ 22,864,145

**CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2008**

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 \$6,487,873. There is \$988,690 reserved from the fund balance for encumbrances (open purchase orders), inventory, and annual leave; and \$1,071,000 in designated fleet and street reserves (for emergency repairs and replacements). Unreserved fund balance represents 30% of total general fund expenditures, while total fund balance represents 59% of that same amount.

The fund balance of the general fund has increased by 4% from \$6,225,976 at June 30, 2007 to \$6,487,873 at June 30, 2008. This is due to the excess of revenues over expenditures as well as decreases in the reserve for encumbrances; notes receivable and increases to the fleet and street maintenance reserves.

The capital projects fund balance increased by 28% from the prior fiscal year. This is due to a significant amount of funding transferred from the general operating budget for additional projects and to supplement existing funding.

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 decreased by 5% from June 30, 2007 to June 30, 2008. The City's contribution to the fund exceeded the actuarial recommendation by 25% and the employee payroll deductions increased due to the increase in the pay plans. However, there was an investment loss of \$1,278,041 due to the declining stock market conditions. Total additions to the plan decreased by 89%.

Budgetary Highlights. The General Operating Budget of FY2008 was amended five times. There were unanticipated revenues from real estate taxes for properties added to the tax rolls earlier than projected. Some of these funds were appropriated for transfer to the capital improvement program budget for additional street repairs and park improvement projects as well as additional employer contributions to the pension funds and to compensate for shortfalls in permit revenue.

Savings in employee insurance budgets and lapse salary from position vacancies were appropriated for further transfers to the capital improvement program to provide additional funding for the renovation of 811 5th Street for the police department facility as well as to make advanced principal payments on the loan with PNC Bank for the purchase of the 811 5th Street property.

Where possible, these amendments were proposed and approved in order to lessen the impact of the Capital Improvement Program and debt service on future operating budgets.

**CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2008**

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets of \$23,901,706 (net of accumulated depreciation) includes land and land improvements, infrastructure, buildings, and machinery, equipment and tools. This is a 8.24% increase from the prior fiscal year which is only half the increase from FY2006 to FY2007. The \$1.85 million in increases were due to purchases of equipment and vehicles as well as the purchase of 499 8th Street for the continuing expansion project of McCullough Field. The general operating budget funded the purchase of replacement computers and printers. Public safety items include guns, radios and the use of a state grant for a live scan fingerprint machine. Parks and Recreation managed three major park improvements that will be completed in FY2009 as well as improvements at the Gude Park and Stephen P. Turney Recreation Complex funded through Adequate Public Facilities.

In FY2008, about \$1,011,803 in equipment was purchased between the general fund and the capital improvement program; \$206,838 was capitalized for the park property purchase; and \$188,384 was made in infrastructure improvements with another \$1,596,720 in infrastructure and park improvements pending completion at June 30, 2008.

The following table displays the City's capital assets:

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

Description	Governmental Activities
Land	\$ 5,584,378
Construction-in-progress	2,022,406
Buildings and improvements	7,966,764
Machinery, tools, equipment	2,887,129
Land improvements	713,809
Infrastructure	4,727,220
TOTAL	\$ 23,901,706

**CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2008**

Long-term debt. At the end of the current fiscal year, the City had total long-term liabilities outstanding of \$11,949,064. This amount is comprised of the 1996 Public Improvement Bond (PIB) of \$5,705,000; \$5,519,609 notes payable and \$724,455 in accrued vacation leave. This is a decrease of \$1,401,986 from the FY2007 balance. Though the City assisted in executing a new loan for the Laurel Volunteer Fire Department, scheduled debt retirement on the 1996 PIB and the 2004 and 2007 CDA note payable as well as unscheduled principal payments of \$375,000 on the City's note with PNC Bank exceeded the additional debt. Outstanding debt does not include the total of \$8,406,000 issued through the CDA program just the amount of the draw downs of \$665,417. However, the total of the issue is used when calculating debt leeway or disclosing the total amount of outstanding debt.

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

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

	Governmental Activities
General obligation bonds	\$ 5,705,000
Notes payable	5,519,579
Accrued leave liability	724,455
Total	<u><u>\$ 11,949,034</u></u>

Economic Factors and Activities

Fiscal Year 2008 in the City of Laurel saw additional development projects approved utilizing the Revitalization Overlay Area. Revitalization Overlay Areas allow the City more flexibility in selecting projects for redevelopment: striving for higher quality applicants. Since its inception, the Overlay Program has approximately \$750,000,000 in the development pipeline. These investments include over 150 million dollars from Archstone in two separate luxury apartment complexes, as well as a 300 million dollar investment from the Patriot Group in a new mixed use development which will be built on the site of a former trucking terminal. The centerpiece of the investment is the planned redevelopment of the Laurel Mall into the Laurel Commons Town Center, which features upgraded stores, restaurants, a large cinema complex, as well as planned luxury apartments.

The Department of Community Planning & Business Services, in addition to the distinction of the City of Laurel having its own zoning authority, Life Safety Review completes the one-stop shop for developers so all aspects of zoning, permitting and fire code review can be conducted by the City of Laurel. This operation has proven to be highly successful in the vastly reduced amount of time to review proposed projects for fire code compliance. This makes the City of Laurel an even more desirable and efficient place to do business than it already was.

**CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2008**

Building permit revenue declined from FY2007 due to the slow-down in the housing market for developments with zoning approval from the last few years. The Villages of Wellington, The Crescents at Laurel, and Laurel Ridge continue to submit building permit applications. 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 into Laurel Commons 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. Current plans are for initial demolition of certain areas of the mall to commence on January 2, 2009. Also included within the coming fiscal year is Hawthorne Place, the first phase of this redevelopment by The Patriot Group, is planned for April of 2009. This large project will bring additional investment in later phases through 2016.

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.

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

Contacting the City's Financial Management

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

CITY OF LAUREL, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Total
ASSETS		
Current Assets		
Equity in pooled cash and cash equivalents	\$ 9,395,195	\$ 9,395,195
Restricted cash	2,137,458	2,137,458
Taxes receivable, net of allowances	853,159	853,159
Notes receivable	62,913	62,913
Other receivables	607,944	607,944
Due from other governments	968,111	968,111
Due from other funds	46,450	46,450
Inventory	159,556	159,556
Total Current Assets	14,230,786	14,230,786
Noncurrent Assets		
Notes receivable	311,489	311,489
Net capital assets	23,901,706	23,901,706
Total Noncurrent Assets	24,213,195	24,213,195
TOTAL ASSETS	\$ 38,443,981	\$ 38,443,981
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,326,970	\$ 1,326,970
Accrued interest	5,343	5,343
Deposits	2,137,458	2,137,458
Unearned revenue	161,001	161,001
Current portion of long-term debt	2,593,796	2,593,796
Total Current Liabilities	6,224,568	6,224,568
Noncurrent Liabilities		
Compensated absences	724,455	724,455
Loan payable - long-term	8,630,813	8,630,813
Total Noncurrent Liabilities	9,355,268	9,355,268
TOTAL LIABILITIES	15,579,836	15,579,836
NET ASSETS		
Invested in capital assets, net of related debt	12,677,097	12,677,097
Restricted		
Inventory	159,556	159,556
Fleet - general	500,000	500,000
Fleet - EMS	71,000	71,000
Street maintenance	500,000	500,000
Capital projects	-	-
Long-term debt	724,455	724,455
Unrestricted	8,232,037	8,232,037
TOTAL NET ASSETS	22,864,145	22,864,145
TOTAL LIABILITIES AND NET ASSETS	\$ 38,443,981	\$ 38,443,981

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, 2008

Functions/Programs	Expenses	Indirect Expense Allocation	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Total
Primary Government							
Governmental Activities:							
General government	\$ 4,542,069	\$ 828,132	\$ 206,757	\$ 151,643	\$ -	\$ (5,011,801)	\$ (5,011,801)
Public safety	5,994,973	1,839,009	246,217	402,092	-	(7,185,673)	(7,185,673)
Parks and recreation	1,529,956	511,992	403,626	165,284	-	(1,473,038)	(1,473,038)
Public works	3,461,031	902,255	101,433	1,495,529	-	(2,766,324)	(2,766,324)
Miscellaneous	3,413,069	(3,413,069)	-	-	-	-	-
Interest	668,319	(668,319)	-	-	-	-	-
Total Governmental Activities	19,609,417	-	958,033	2,214,548	-	(16,436,836)	(16,436,836)
Total Primary Government	\$ 19,609,417	\$ -	\$ 958,033	\$ 2,214,548	\$ -	\$ (16,436,836)	\$ (16,436,836)

General revenues:

Taxes	
Income taxes	2,311,920
Property taxes	16,426,980
Other taxes	430,891
Licenses and permits	1,134,453
Grants and contributions	-
Interest and investment earnings	380,959
Miscellaneous	1,158,916
Total General Revenues	21,844,119
Transfers in (out)	-
Change in Net Assets	5,407,283
Net Assets, beginning of year, restated	17,456,862
Net Assets, end of year	\$ 22,864,145

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

**CITY OF LAUREL, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2008**

**RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCE TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES
JUNE 30, 2008**

	General Fund	Capital Projects Fund	Total Governmental Funds	
ASSETS				
Equity in pooled cash and cash equivalents	\$ 8,507,483	\$ 887,712	\$ 9,395,195	
Restricted cash	2,137,458	-	2,137,458	
Taxes receivable, net of allowances	853,159	-	853,159	
Notes receivable	374,402	-	374,402	
Other receivables	224,064	383,880	607,944	
Due from other governments	725,877	242,234	968,111	
Due from other funds	46,450	1,682,243	1,728,693	
Inventory	159,556	-	159,556	
TOTAL ASSETS	\$ 13,028,449	\$ 3,196,069	\$ 16,224,518	
LIABILITIES				
Accounts payable and accrued expenses	1,326,970	-	1,326,970	
Accrued interest	5,343	-	5,343	
Deposits	2,137,458	-	2,137,458	
Due to other funds	1,682,243	-	1,682,243	
Deferred revenue	1,388,562	-	1,388,562	
TOTAL LIABILITIES	6,540,576	-	6,540,576	
FUND BALANCES				
Reserved	1,335,235	3,196,069	4,531,304	
Unreserved - designated	724,455	-	724,455	
Unreserved, undesignated	4,428,183	-	4,428,183	
TOTAL FUND BALANCES	6,487,873	3,196,069	9,683,942	
TOTAL LIABILITIES AND FUND BALANCES	\$ 13,028,449	\$ 3,196,069	\$ 16,224,518	
				Total Governmental Fund Balances
				\$ 9,683,942
				Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.
				23,901,706
				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.
				(11,949,064)
				Certain receivables are offset by deferred revenue in the governmental funds since they are not available to pay for current period expenditures. This is the amount of deferred revenue related to those receivables.
				1,227,561
				\$ 22,864,145
				<i>Net Assets of Governmental Activities</i>

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, 2008

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, 2008

	General Fund	Capital Projects Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 16,059,875	-	\$ 16,059,875
Intergovernmental	4,668,147	556,873	5,225,020
Licenses and permits	1,134,453	-	1,134,453
Charges for services	711,816	-	711,816
Fines and forfeitures	246,217	-	246,217
Miscellaneous	723,661	-	723,661
Total Revenues	<u>23,544,169</u>	<u>556,873</u>	<u>24,101,042</u>
EXPENDITURES			
Current Operations			
General government	4,472,773	-	4,472,773
Public safety	5,722,354	-	5,722,354
Parks and recreation	1,392,331	-	1,392,331
Public works	2,976,947	-	2,976,947
Miscellaneous	3,749,830	42,578	3,792,408
Capital projects	-	2,744,523	2,744,523
Debt Service	2,382,803	-	2,382,803
Principal	668,319	-	668,319
Interest	21,365,357	2,787,101	24,152,458
Total Expenditures	<u>2,178,812</u>	<u>(2,230,228)</u>	<u>(51,416)</u>
Excess of revenues over (under) expenditures before other financing sources (uses)	<u>2,365,357</u>	<u>(1,673,355)</u>	<u>692,002</u>
Other financing sources (uses)			
Loan proceeds	350,000	665,417	1,015,417
Operating transfers in (out)	(2,266,915)	2,266,915	-
Total other financing sources (uses)	<u>(1,916,915)</u>	<u>2,932,332</u>	<u>1,015,417</u>
Excess of revenue and other financing sources over (under) expenditures and other financing sources (uses)	<u>648,442</u>	<u>268,987</u>	<u>917,429</u>
Fund balance, beginning of year	261,897	702,104	964,001
Fund balance, end of year	<u>\$ 6,487,873</u>	<u>\$ 3,196,069</u>	<u>\$ 9,683,942</u>

Net Change in Fund Balances - Total Governmental Funds \$ 964,001

Repayment of debt principal is reported in governmental funds, however, in the statement of activities, it is recorded as a reduction in long-term debt. This is the amount of principal debt repayment. 2,382,803

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. (1,015,417)

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. 1,845,899

Difference in accounting for compensated absences between modified accrual and accrual accounting. (65,000)

Under the modified accrual basis of accounting, revenues are not recognized unless they are deemed "available" to finance current expenditures. Accrual-basis recognition is not limited by availability. This is the difference in revenue recorded under modified accrual and accrual basis per the Statement of Activities. 944,997

Loan to the Laurel Volunteer Fire Department is reflected as an outlay under modified accrual basis of accounting in the governmental funds and not reflected in the Statement of Activities under accrual accounting. 350,000

Change in Net Assets of Governmental Activities \$ 5,407,283

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, 2008**

ASSETS

Cash and cash equivalents	\$ 44,150
Investments, at fair value	17,050,845
Contributions receivable	139,385
Other assets	2,451
TOTAL ASSETS	<u><u>\$ 17,236,831</u></u>

LIABILITIES

Accounts payable	\$ 212
Due to general fund	46,450
Total liabilities	<u>46,662</u>

NET ASSETS

Held in trust for pension benefits	<u>17,190,169</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 17,236,831</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, 2008**

ADDITIONS

Contributions		
Employer		\$ 1,232,353
Plan member		451,653
Total contributions		1,684,006
Investment Income		
Interest income		20,147
Dividends		1,304,800
Net change in fair value of investments		(2,602,988)
Net investment income (loss)		(1,278,041)
Total additions		405,965

DEDUCTIONS

Distributions		1,294,371
Administrative expenses		102,103
		1,396,474

Net decrease		(990,509)
Net assets held in trust for pension benefits, beginning of year		18,180,678
Net assets held in trust for pension benefits, end of year		\$ 17,190,169

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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, 2008

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, 2008

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, 2008

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, 2008

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 44:

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 17.

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, 2008

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, 2007 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, 2008 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, 2008

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, 2008

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.

Net Assets

The government-wide statement of net assets reports \$1,955,011 of restricted net assets which is either restricted by enabling legislation or restrictions determined to be legally enforceable.

Estimates

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

Equity Classifications

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

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

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

**CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

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

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 2008. 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.

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.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

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 \$409,381 and the bank balances totaled \$521,085. 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, 2008:

Escrow deposits	\$2,137,458
	<u>\$2,137,458</u>

Investment Policies

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

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

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

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

Investments

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

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

As of June 30, 2008, the City had the following investments:

<u>Types of Investments</u>	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality/ Ratings</u>	<u>Weighted Average Days to Maturity</u>
MLGIP	\$ 2,898,886	\$ 2,898,886	AAAm	44
Repurchase agreements	5,969,724	5,969,724	N/A	1
Money market funds	1,582,982	1,582,982	AAAm	34
Certificates of Deposit:				
Fleet Reserve	371,449	371,449	N/A	132
Street Maintenance Reserve	293,996	293,996	N/A	132
	<u>\$ 11,117,037</u>	<u>\$11,117,037</u>		
Agency Fund -				
Repurchase agreements	1,372,557	1,372,557	N/A	1
Mutual funds	15,678,288	15,678,288		
	<u>\$ 17,050,845</u>	<u>\$17,050,845</u>		

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

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

A reconciliation of cash and cash equivalents per the Statement of Net Assets totaling \$11,532,653 (\$9,395,195 unrestricted and \$2,137,458 restricted) to investments, deposits and petty cash follows.

Investments	\$11,117,037
Deposits	409,381
Petty cash	<u>6,235</u>
	<u>\$11,532,653</u>

**CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 4 – TAXES RECEIVABLE

Taxes receivable are comprised of the following as of June 30, 2008.

Personal property	\$	686,378
Real estate		166,781
		\$ 853,159

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, 2008 are as follows:

Entity	Interest rate at June 30, 2008	Maturity date	Repayment term	Amount due
Vol. Fire Dept.	4.21%	February, 2018	Monthly	\$ 340,578
Vol. Rescue Squad	3.55%	January, 2010	Monthly	33,824
				\$ 374,402

NOTE 6 – OTHER ACCOUNTS RECEIVABLE

Other accounts receivable are comprised of the following as of June 30, 2008.

Bond Proceeds	\$	374,808
Cable franchise fee		113,312
Parks & recreation receivable		17,604
Refuse - residential		14,009
Amusement licenses		8,514
Various		79,697
		\$ 607,944

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 7 – INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivable and payable balances at June 30, 2008 are as follows:

Fund	Interfund receivables	Interfund payables
General fund	\$ 46,450	\$ 1,682,243
Capital projects fund	1,682,243	-
Pension trust fund	-	46,450
	\$1,728,693	\$1,728,693

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

NOTE 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 2008. 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, 2008, were 99.56% 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 2008. Personal property tax revenue is recognized when received.

**CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 9 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2008 was as follows

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Not being depreciated:				
Land	\$ 5,377,540	\$ 206,838	\$ -	\$ 5,584,378
Construction in progress	451,480	1,596,720	25,794	2,022,406
Subtotal	<u>5,829,020</u>	<u>1,803,558</u>	<u>25,794</u>	<u>7,606,784</u>
Depreciable capital assets:				
Infrastructure	19,434,427	188,384	87,172	19,535,639
Land improvements	1,765,102	-	-	1,765,102
Buildings and improvements	13,561,090	-	-	13,561,090
Machinery, tools and equipment	7,368,865	1,011,803	13,650	8,367,018
Loan costs	-	-	-	-
Subtotal	<u>42,129,483</u>	<u>1,200,187</u>	<u>100,822</u>	<u>43,228,849</u>
Total capital assets	<u>47,958,503</u>	<u>3,003,745</u>	<u>126,616</u>	<u>50,835,633</u>
Accumulated depreciation:				
Infrastructure	14,708,323	187,268	87,172	14,808,419
Land improvements	1,001,518	49,775	-	1,051,293
Buildings and improvements	5,290,418	303,908	-	5,594,326
Machinery, tools and equipment	4,876,644	616,895	13,650	5,479,889
Loan costs	-	-	-	-
Subtotal, accumulated depreciation	<u>25,876,903</u>	<u>1,157,846</u>	<u>100,822</u>	<u>26,933,927</u>
Net capital assets	<u>\$ 22,081,600</u>	<u>\$ 1,845,899</u>	<u>\$ 25,794</u>	<u>\$ 23,901,706</u>

Depreciation was charged to functions as follows:

Government activities:	
General government	\$ 184,807
Public safety	324,638
Parks and recreation	155,833
Public works	492,568
Total government activities depreciation expense	<u>\$ 1,157,846</u>

The City has construction commitments of approximately \$2,022,406 as of June 30, 2008.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 10 – LONG-TERM DEBT

General obligation bonds consist of the following at June 30, 2008:

\$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, 2008 was \$319,475. Balance due on June 30, 2008 was \$5,705,000.

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, 2008

NOTE 10 – LONG-TERM DEBT – continued

\$8,406,000 - Public improvement bonds, 2007 Series B; due in annual installments of \$599,561 to \$759,105 through May 1, 2022; interest varies from 1.88% to 2.07%. The semiannual interest payments are offset by interest on the undrawn proceeds held in an escrow account by and in the name of the CDA. Interest paid on the bond for the year ended June 30, 2008 was \$97,315 less interest income of \$77,646. The outstanding principal balance and balance of undrawn proceeds on June 30, 2008 were \$240,817 and \$7,740,583 respectively.

Notes payable consists of the following at June 30, 2008:

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%. Total interest paid on the note payable was \$2,215 for the year ended June 30, 2008. The remaining principal balance of \$99,601 was paid in full in March 2008.

Note payable to PNC Bank (the Bank) on behalf of the Laurel Volunteer Fire Department in the amount of \$350,000 for the purchase of a new fire truck. The note is payable to the Bank in monthly principal and interest payments of \$3,589 through February 12, 2018, with interest at 4.21%. Total interest paid on the note payable was \$4,901. As of June 30, 2008 the outstanding principal balance is \$340,578.

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, 2008, the outstanding principal balance on the note is \$33,824. Total interest paid on the note payable was \$1,895 for the year ended June 30, 2008.

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, 2008, the outstanding principal balance and undrawn proceeds on the note is \$2,773,020 and \$994,481 respectively. Interest expense of \$110,004, net of interest income of \$8,481 was incurred and paid as of June 30, 2008.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 10 – LONG-TERM DEBT – continued

Note payable to Citizens National Bank (the Bank) in the amount of \$2,500,000 to finance the purchase of a building to be used by the Laurel Police Department. The note is payable to the Bank in monthly principal and interest payments of \$45,784 through August 1, 2012, with interest at 3.55%. As of June 30, 2008, the outstanding principal balance on the note is \$2,131,371. Interest paid on the note for the year ended June 30, 2008 was \$132,580.

The changes in governmental long-term debt for the year ended June 30, 2008 are summarized below.

	Beginning Balance	Additions	Retirements	Ending Balance	Amount due in one year
General					
obligation bonds	\$ 6,960,000	\$ -	\$ (1,255,000)	\$ 5,705,000	\$ 1,325,000
Bank loans	2,682,545	350,000	(526,803)	2,505,742	546,196
CDA loan	3,049,020	665,417	(700,600)	3,013,837	722,600
Total	<u>\$ 12,691,565</u>	<u>\$ 1,015,417</u>	<u>\$ (2,482,403)</u>	<u>\$ 11,224,579</u>	<u>\$ 2,593,796</u>
Compensated absences	<u>\$ 659,455</u>	<u>\$ 65,000</u>	<u>\$ -</u>	<u>\$ 724,455</u>	<u>\$ -</u>

The following is a schedule by years of future principal and estimated interest payments required to amortize all debt outstanding as of June 30, 2008. Estimated interest payments were based on rates in effect at June 30, 2008 and do not include the effect of interest earned on undrawn proceeds of the note payable, if any.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 10 – LONG-TERM DEBT - continued

Year ended June 30,	Bank Loans		CDA Loan (A)	
	Principal	Interest	Principal	Interest
2009	546,196	82,469	722,600	412,227
2010	531,077	63,118	745,800	386,856
2011	550,466	43,729	772,100	362,204
2012	570,537	23,659	799,900	335,929
2013	125,564	8,973	829,100	307,932
2014-2018	181,902	19,057	4,089,600	1,088,493
2019-2023	-	-	2,795,320	294,557
Total	<u>\$ 2,505,742</u>	<u>\$ 241,005</u>	<u>\$ 10,754,420</u>	<u>\$ 3,188,198</u>

Year ended June 30,	General Obligation Bonds		Total	
	Principal	Interest	Principal	Interest
2009	1,325,000	254,975	2,593,796	749,671
2010	1,390,000	186,405	2,643,677	661,750
2011	1,460,000	113,730	2,756,266	544,315
2012	1,530,000	38,250	2,872,637	424,113
2013	-	-	925,464	344,902
2014-2018	-	-	4,271,502	1,107,550
2019-2023	-	-	2,795,320	294,557
Total	<u>\$ 5,705,000</u>	<u>\$ 593,360</u>	<u>\$ 18,858,662</u>	<u>\$ 4,126,858</u>

(A) This payout schedule assumes the remaining \$7,740,583 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, 2008

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 2008, the City paid premiums of \$260,090 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, 2008

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 employee's normal retirement allowance consists of 1.67% of final average compensation multiplied by credited service not greater than 30 years. Police employee's normal retirement allowance consists of 2.5% of final average compensation for each of the first 20 years of credited service plus 1.5% of final average compensation for each of the next 5 years of credited service. The Plans allow the City to grant a cost of living increase to participants or beneficiaries annually. The most recent cost of living adjustment was an increase of 2.5% effective July 1, 1998.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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.

The Police Plan was amended again as of June 30, 2006 to allow police employees to participate in the DROP at 20 years of service rather than 25 years. As a result of this amendment, the actuarially determined contribution for FY 2008 increased.

Funding Policy

As a condition of employment, employees must contribute 4.5% (Administrative and Maintenance) and 8.8% (Police) of base earnings, excluding bonuses, commissions, overtime payments and other additional compensation. The City’s funding policy is to make annual contributions to the Plans as calculated by the actuary in amounts sufficient to provide the benefits of the Plans. The City does not calculate a net pension obligation, but develops an annual required contribution as a percent of payroll. The annual pension cost is equal to the annual required contribution. The contribution rate applied to actual payroll is actuarially determined and consists of a normal cost component and an unfunded actuarial component. The City had annual required contributions of \$980,853, \$922,940, and \$837,239 for the fiscal years ended June 30, 2008, 2007 and 2006. The City has made all annual required contributions. The contributions made to the Plans for fiscal year 2008 were made in accordance with the actuarial valuation for the plan year ending June 30, 2006. The contributions consisted of amounts contributed by the employees of \$451,653 and amounts contributed by the City of \$1,163,168.

The plans invest in mutual funds.

**CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 14 – PENSION PLAN – continued

The number of employees covered and current membership classifications as of June 30, 2007 are as follows:

Active participants	146
Terminated vested participants	18
Retirees and beneficiaries	<u>56</u>
Total participants	<u><u>220</u></u>

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

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

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 14 – PENSION PLAN – continued

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

Actuarial valuation date:	July 1, 2007
Actuarial cost method:	Entry age normal
Amortization method:	Level dollar
Remaining amortization period:	25 years - Police Plan 30 years - Employee Plan
Asset valuation method:	Asset smoothing
Actuarial assumptions:	
Investment rate of return	7.5% compounded annually
Projected salary increases	5.0% compounded annually
Cost of living adjustments	4.0% compounded annually
Inflation rate	3.5% compounded annually
Contribution rates:	
Police	8.8%
Employees	4.5%
Mortality: healthy lives	1994 Uninsured Pensioners Mortality Table of Males and Females
Mortality: disables lives	Healthy life mortality set forward 10 years

The amount shown as the “actuarial accrued liability” is a standard disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess, on a going concern basis, the funding status of the Plan to which contributions are made, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers.

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 14 – PENSION PLAN – continued

PENSION TRUST FUND - ANALYSIS OF FUNDING

Actuarial Valuation Date <u>July 1, 2007</u>	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age Normal	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Employees Plan	\$8,371,476	\$ 10,541,991	\$2,170,515	79.41%	\$ 3,628,886	59.81%
Police Plan	8,804,646	15,022,820	6,218,174	58.61%	2,237,874	277.86%

Refer to Required Supplementary Information on page 43 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, 2008, the City paid \$41,735 for retirees' health insurance.

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.

Litigation

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

**CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 17 – RISKS AND UNCERTAINTIES

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

NOTE 18 – RECONCILIATION OF NON-GAAP BUDGET TO GAAP BUDGET

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

Excess of revenue over expenditures, encumbrances and other financing sources (uses) - non-GAAP budgetary basis - general fund	\$ -
Increase (decrease) due to:	
Expenditures of amounts encumbered during prior year	(60,853)
Reserved encumbrances (GAAP basis) at June 30, 2008, but recognized as expenditures for budgetary purposes	<u>104,679</u>
Excess of revenue over expenditures and other financing sources (uses) - GAAP	<u><u>\$ 43,826</u></u>

NOTE 19 – 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, 2009.

CITY OF LAUREL, MARYLAND

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

June 30, 2008

<u>Actuarial Valuation Date July 1, 2007</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>
Employees Plan						
2007	8,371,476	10,541,991	2,170,515	79.41%	3,628,886	59.81%
2006	7,414,713	9,734,544	2,319,831	76.17%	3,497,546	66.33%
2005	6,736,632	9,238,960	2,502,328	72.92%	3,527,433	70.94%
2004	6,118,691	8,245,176	2,126,485	74.21%	3,034,120	70.09%
2003	5,570,783	7,332,541	1,761,758	75.97%	2,915,206	60.43%
2002	5,370,767	6,617,412	1,246,645	81.16%	3,055,704	40.80%
Police Plan						
2007	8,804,646	15,022,820	6,218,174	58.61%	2,237,874	277.86%
2006	7,606,070	13,784,982	6,178,912	55.18%	1,982,730	311.64%
2005	6,648,724	12,026,102	5,377,378	55.29%	2,343,249	229.48%
2004	5,834,671	11,197,428	5,362,757	52.11%	2,074,954	258.45%
2003	5,200,000	9,991,988	4,791,988	52.04%	1,807,801	265.07%
2002	5,080,890	8,991,128	3,910,238	56.51%	1,785,125	219.05%

The following schedule gives information on employer required contributions.

<u>Years ended June 30,</u>	<u>Annual required contribution</u>	<u>Percentage contributed</u>
2008	980,853	125.64%
2007	922,940	123.84%
2006	837,239	114.46%
2005	722,073	126.68%
2004	561,872	137.52%
2003	378,987	100.00%
2002	248,429	100.63%

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

CITY OF LAUREL, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Revenues				
Taxes	\$ 14,218,368	\$ 15,869,068	\$ 16,059,875	\$ 190,807
Intergovernmental	4,913,785	5,167,851	4,668,147	(499,704)
Licenses and permits	2,277,050	1,181,685	1,134,453	(47,232)
Charges for services	676,380	679,255	711,816	32,561
Fines and forfeitures	239,695	239,695	246,217	6,522
Miscellaneous	389,091	770,861	664,632	(106,229)
Loan repayments	52,656	52,656	59,029	6,373
Interest on note receivable	-	-	-	-
Total Revenues	<u>\$ 22,767,025</u>	<u>\$ 23,961,071</u>	<u>\$ 23,544,169</u>	<u>\$ (416,902)</u>
Expenditures				
General government	\$ 4,576,535	\$ 4,794,387	\$ 4,472,773	\$ 321,614
Public safety	6,031,346	5,813,737	5,722,354	91,383
Parks and recreation	1,396,538	1,410,033	1,392,331	17,702
Public works	3,588,543	3,420,532	2,976,947	443,585
Miscellaneous	4,278,851	5,468,000	3,749,830	1,718,170
Debt service	2,895,212	3,054,382	3,051,122	3,260
Total Expenditures	<u>\$ 22,767,025</u>	<u>\$ 23,961,071</u>	<u>\$ 21,365,357</u>	<u>\$ 2,595,714</u>

SUPPLEMENTAL SCHEDULES

CITY OF LAUREL, MARYLAND
SCHEDULE OF REVENUES
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2008

REVENUES	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable/ (Unfavorable)
Taxes				
Real and personal property	\$ 13,968,368	\$ 15,619,068	\$ 15,779,309	\$ 160,241
Local - admissions	190,000	190,000	189,134	(866)
Penalties and interest	60,000	60,000	91,432	31,432
Total Taxes	<u>14,218,368</u>	<u>15,869,068</u>	<u>16,059,875</u>	<u>190,807</u>
Intergovernmental				
State and Federal Grants				
Other federal and state grants	5,496	122,957	125,391	2,434
Police protection	358,718	358,718	347,312	(11,406)
Police aid supplement	55,219	55,219	54,780	(439)
Total state and federal grants	<u>419,433</u>	<u>536,894</u>	<u>527,483</u>	<u>(9,411)</u>
State Shared Taxes				
Local income tax	2,625,000	2,625,000	2,311,920	(313,080)
Race track impact fees	75,000	75,000	58,950	(16,050)
Developer impact fees	395,800	532,405	397,845	(134,560)
Highway user	1,006,746	1,006,746	918,668	(88,078)
Hotel/motel taxes	187,300	187,300	241,757	54,457
Total state shared taxes	<u>4,289,846</u>	<u>4,426,451</u>	<u>3,929,140</u>	<u>(497,311)</u>
County Grants				
Financial corporations	6,362	6,362	6,362	-
M-NCPPC grants	162,644	162,644	165,284	2,640
Highway safety grant	20,500	20,500	19,988	(512)
Other grants	15,000	15,000	19,890	4,890
Total county grants	<u>204,506</u>	<u>204,506</u>	<u>211,524</u>	<u>7,018</u>
Total Intergovernmental	<u>4,913,785</u>	<u>5,167,851</u>	<u>4,668,147</u>	<u>(499,704)</u>

CITY OF LAUREL, MARYLAND
SCHEDULE OF REVENUES
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Licenses and permits				
Liquor	\$ 11,000	\$ 11,000	\$ 6,578	\$ (4,422)
Amusement permits	57,900	57,900	11,605	(46,295)
Building permits	963,185	263,185	248,916	(14,269)
Cable TV	261,503	261,503	275,664	14,161
Traders licenses	74,745	74,745	66,258	(8,487)
Other permits and licenses	908,717	513,352	525,432	12,080
Total licenses and permits	<u>2,277,050</u>	<u>1,181,685</u>	<u>1,134,453</u>	<u>(47,232)</u>
Charges for services				
Passport execution fees	70,000	70,000	71,725	1,725
Zoning fees	20,000	20,000	46,501	26,501
Refuse collection	88,500	88,500	101,433	12,933
Recreation fees	433,780	436,655	403,626	(33,029)
Facility rentals	43,600	43,600	52,537	8,937
Other	20,500	20,500	35,994	15,494
Total charges for services	<u>676,380</u>	<u>679,255</u>	<u>711,816</u>	<u>32,561</u>
Fines and forfeitures				
Red light camera tickets	104,400	104,400	118,431	14,031
Parking tickets	76,325	76,325	70,971	(5,354)
False alarm fines	29,286	29,286	29,035	(251)
Release fee - impound	27,284	27,284	27,355	71
Other	2,400	2,400	425	(1,975)
Total fines and forfeitures	<u>239,695</u>	<u>239,695</u>	<u>246,217</u>	<u>6,522</u>

CITY OF LAUREL, MARYLAND
SCHEDULE OF REVENUES
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Miscellaneous				
Rental	\$ 21,563	\$ 43,863	\$ 47,300	\$ 3,437
Interest on investments	210,000	441,000	380,959	(60,041)
Disposal rebate	60,728	60,728	60,856	128
Sale of property	-	-	20,363	20,363
Other	96,800	225,270	155,154	(70,116)
Total miscellaneous	<u>389,091</u>	<u>770,861</u>	<u>664,632</u>	<u>(106,229)</u>
Loan repayments				
Fire department repayments	17,642	17,642	23,996	6,354
Rescue squad repayments	35,014	35,014	35,033	19
Total loan repayments	<u>52,656</u>	<u>52,656</u>	<u>59,029</u>	<u>6,373</u>
Interest on note receivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue	<u>\$ 22,767,025</u>	<u>\$ 23,961,071</u>	<u>\$ 23,544,169</u>	<u>\$ (416,902)</u>

CITY OF LAUREL, MARYLAND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
General Government				
City council	\$ 83,381	\$ 83,381	\$ 80,887	\$ 2,494
Clerk to the council	146,268	146,268	142,832	3,436
Mayor	414,602	420,602	401,483	19,119
City administrator	396,039	396,039	373,613	22,426
Registration and elections	9,335	9,335	2	9,333
Budget and personnel services	556,311	550,911	513,242	37,669
Planning and zoning	889,659	779,194	690,276	88,918
Information technology and community services	1,020,018	1,020,018	892,524	127,494
Facilities and grounds	1,004,607	1,262,324	1,252,789	9,535
Community promotion	56,315	126,315	125,125	1,190
Total general government	<u>4,576,535</u>	<u>4,794,387</u>	<u>4,472,773</u>	<u>321,614</u>
Public Safety				
Police department	5,651,251	5,387,862	5,320,187	67,675
Emergency services management	380,095	401,475	377,840	23,635
Police department facility	-	24,400	24,327	73
Total public safety	<u>6,031,346</u>	<u>5,813,737</u>	<u>5,722,354</u>	<u>91,383</u>
Parks and recreation				
Parks and recreation administration	465,415	465,415	461,138	4,277
Recreation	304,591	296,581	291,005	5,576
Laurel municipal pool	127,329	141,339	141,105	234
Laurel community center programs	221,258	228,333	226,123	2,210
Armory programs	117,999	117,999	115,499	2,500
Gude lakehouse programs	13,108	13,108	12,565	543
Senior services programs	146,838	147,258	144,896	2,362
Total parks and recreation	<u>1,396,538</u>	<u>1,410,033</u>	<u>1,392,331</u>	<u>17,702</u>

CITY OF LAUREL, MARYLAND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Public Works				
Public works administration	\$ 178,159	\$ 250,020	\$ 247,005	\$ 3,015
Automotive maintenance	736,420	777,469	598,376	179,093
Waste collection and disposal	1,280,885	965,161	945,694	19,467
Recycling	130,549	126,490	114,610	11,880
Highways and streets	579,182	557,699	513,653	44,046
Snow and ice removal	64,167	63,467	36,641	26,826
Street lighting	275,000	278,545	260,518	18,027
Engineering and technical services	164,510	163,470	99,648	63,822
Traffic engineering	117,312	175,852	106,420	69,432
Tree management	62,359	62,359	54,382	7,977
Total public works	<u>3,588,543</u>	<u>3,420,532</u>	<u>2,976,947</u>	<u>443,585</u>
Miscellaneous				
Retirement pension	1,017,353	1,167,353	1,163,168	4,185
Employee training	70,793	59,202	58,157	1,045
Employee tuition	12,744	2,034	1,380	654
Insurance	2,709,661	1,911,661	1,901,887	9,774
Other	468,300	2,327,750	625,238	1,702,512
Total miscellaneous	<u>4,278,851</u>	<u>5,468,000</u>	<u>3,749,830</u>	<u>1,718,170</u>
Debt Service				
Principal	2,047,914	2,383,203	2,382,803	400
Interest	847,298	671,179	668,319	2,860
Total debt service	<u>2,895,212</u>	<u>3,054,382</u>	<u>3,051,122</u>	<u>3,260</u>
Total Expenditures	<u>\$ 22,767,025</u>	<u>\$ 23,961,071</u>	<u>\$ 21,365,357</u>	<u>\$ 2,595,714</u>

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**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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 30, 2008. 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 City of Laurel's internal control over financial reporting as a basis of designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Laurel's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the City of Laurel's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Laurel's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Laurel's financial statements that is more than inconsequential will not be prevented or detected by the City of Laurel's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Laurel's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Hindsey + Associates, LLC

October 30, 2008