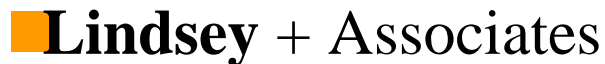


**CITY OF LAUREL, MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2012**

**CITY OF LAUREL
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JUNE 30, 2012**

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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, 2012, which collectively comprise the basic financial statements of the City as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1 to the financial statements, the City of Laurel has implemented the Speed Camera Fund effective July 1, 2011 to account for amounts received from speed camera citations and the related administrative and public safety costs. Additionally, the City established the City of Laurel's Community Redevelopment Authority, a component unit of the City, effective March 26, 2012 for the purpose of revitalizing designated areas of the City.

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, 2012, 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 November 8, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension trust fund – analysis of funding progress and employer contributions, other post-employment benefits plan-schedule of funding progress, other post-employment benefits plan- schedule of employer contributions, and the budgetary comparison information on pages 3 through 10 and 48 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Laurel, Maryland's financial statements as a whole. The schedule of revenues – budget and actual general fund and the schedule of expenditures – budget and actual general fund on pages 52 through 56 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of revenues – budget and actual general fund and the schedule of expenditures – budget and actual general fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hindley & Associates, LLC

November 8, 2012

**CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Financial Highlights

- Fiscal Year 2012 was the first year of the new triennial assessment period. This is the first cycle impacted by the recession that began in 2008. The assessable base of the City decreased by 15% which calculates to revenue of \$3,086,713. Balancing the proposed budget was especially challenging in order to maintain City services.
- A new fund was created for the administration of the Speed Camera program. This allows for easier recording and reporting of the financial activities due to the State-required reporting and volume of transactions.
- The City participated in the Local Government Infrastructure Financing Program. This saved funding the Capital Improvement Program through the General Operating Budget as the debt service was less than the required transfer.
- In an effort to encourage redevelopment and fund incentives and planning, the Mayor and City Council passed Ordinances 1739, 1740 and 1745. Ordinance 1739 created the Community Redevelopment Authority; Ordinance 1740 enacted the Laurel Economic Development Program; and Ordinance 1745 created the Urban Redevelopment Plan.

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 AND ANALYSIS
JUNE 30, 2012

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

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

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

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

**CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Government-wide Financial Analysis

The City's total net assets as of June 30, 2012 were \$37,840,173. The largest portion of net assets, 66%, is the investment in capital assets, net of related debt, in the amount of \$24,839,309. The unrestricted portion, 31%, 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	
	2012	2011
Current and other assets	\$ 19,707,719	\$ 18,496,897
Capital assets	34,982,273	34,874,237
Total Assets	54,689,992	53,371,134
Long-term liabilities	11,878,187	12,710,210
Other liabilities	4,971,632	5,346,915
Total Liabilities	16,849,819	18,057,125
Net assets		
Invested in capital assets, net of related debt	24,839,309	23,383,680
Restricted	1,112,896	886,751
Unrestricted	11,887,968	11,043,578
Total Net Assets	\$ 37,840,173	\$ 35,314,009

**CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Governmental Activities

Governmental activities increased the City's net assets by \$2,526,164 or 6.68% over June 30, 2011. Property taxes comprised 67% of the total revenue, while the next highest source of revenue, charges for service, is 14.5% of the total revenue. Income taxes make up 8.5% of total revenue. The remaining 10% of revenue is received from licenses, permits, interest, operating grants, fines and forfeitures, and miscellaneous items.

	Governmental Activities	
	2012	2011
Revenue		
Program Revenue		
Charges for services	\$ 4,196,086	\$ 3,310,781
Operating grants/contributions	1,292,627	1,344,425
Capital grants/contributions	-	-
General Revenue		
Property taxes	19,321,419	22,386,736
Income taxes	2,468,939	2,752,648
Other taxes	347,427	291,526
Licenses/permits	743,318	678,454
Interest	36,666	32,865
Miscellaneous	474,549	980,344
Total Revenue	28,881,031	31,777,779
Expenses		
General government	4,996,823	5,219,068
Public safety	9,899,932	9,712,486
Parks & recreation	1,942,353	1,987,278
Public works	4,204,873	4,268,077
Miscellaneous	4,826,588	4,760,309
Debt service	484,298	568,258
Total Expenses	26,354,867	26,515,476
Increase in net assets	2,526,164	5,262,303
Net assets, beginning of year	35,314,009	30,051,706
Net assets, ending	\$ 37,840,173	\$ 35,314,009

**CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

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 \$9,849,227. A portion of fund balance in the amount of \$893,123 is determined to be nonspendable. \$1,431,205 is limited in its use by internal restrictions. Unassigned fund balance represents 27% of total general fund expenditures including transfers, while total fund balance represents 37% of that same amount.

The fund balance of the general fund has decreased by 8% from \$10,731,368 at June 30, 2011 to \$9,849,227 at June 30, 2012 due to the use of the unassigned balance to fund the Community Redevelopment Authority and Main Street Relocation Grant Program.

The capital projects fund balance decreased by 88% from the prior fiscal year. This is due to significant expenditures made for the renovations to the Barkman-Kaiser Public Safety Complex; renovations to 7703-7705 Sandy Spring Road for the new Parks and Recreation Maintenance Facility as well as park improvement and technology projects: the funding for which was provided in previous fiscal years.

The Speed Camera fund ended the year with a restricted fund balance of \$1,112,896.

The Community Redevelopment Authority fund balance has a committed fund balance of \$2,790,767.

Fiduciary funds. The retirement plans of the City of Laurel employees are held in trust to provide future retirement benefits and death and disability benefits to participating employees and their beneficiaries. The net assets for the pension fund increased by 2% from June 30, 2011 to June 30, 2012. The City's contribution met the actuarial recommendation and the employee payroll deductions increased due to promotions, additional personnel, and employees returning from active military duty and long-term disability. Net investment income was only \$66,453.

Budgetary Highlights. The General Operating Budget of FY2012 was amended six times. Budget amendments were necessary to remove revenues and expenditures for the Speed Monitoring program and record in the separate fund. Assistance in obtaining an equipment loan was provided to the Laurel Volunteer Rescue Squad which needed to be reflected in the general operating budget. Additionally, savings in debt service due to the delay of the issuance of the Local Government Infrastructure Financing program along with savings in property insurance premiums were used to provide funds to the capital improvement program and an additional contribution to the pension fund.

**CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets of \$34,982,273 (net of accumulated depreciation) includes land and land improvements, infrastructure, buildings, and machinery, equipment and tools. This is a .3% increase from the prior fiscal year. The \$108,036 increase is the net of the additions and the additional depreciation compared to the decrease in value between equipment disposals and construction in progress.

In FY2012, \$851,907 in equipment was purchased between the general fund and the capital improvement program. This includes computers and other electronic equipment as well as guns office equipment; office furniture and vehicle replacements per the replacement schedule. Additions of \$1,610,229 were made to Building and Improvements from the renovations to the Parks and Recreation Maintenance Facility and the Partnership Activity Center at the Barkman-Kaiser Public Safety Complex.

The following table displays the City's capital assets:

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

<u>Description</u>	<u>Governmental Activities</u>
Land	\$ 6,664,556
Construction-in-progress	629,101
Buildings and improvements	15,298,029
Machinery, tools, equipment	3,316,725
Land improvements	1,777,417
Infrastructure	7,296,445
TOTAL	<u><u>\$ 34,982,273</u></u>

**CITY OF LAUREL, MARYLAND
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Long-term debt. At the end of the current fiscal year, the City had total long-term liabilities outstanding of \$13,159,276. This amount is comprised of the \$10,142,964 notes payable; \$1,966,000 in OPEB liability and \$1,050,312 in accrued vacation leave. This is a decrease of \$827,673 from the FY2011 balance. FY2012 scheduled debt service payments were greater than the additions in the OPEB liability and the accrued vacation leave.

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

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

	Governmental Activities
Notes payable	\$ 10,142,964
Accrued leave liability	1,050,312
OPEB Liability	1,966,000
Total	<u><u>\$ 13,159,276</u></u>

Economic Factors and Activities

The mixed use development known as Hawthorne Place (9007 Marshall Avenue) of the Patriot Realty Group, Inc. have not moved forward as the credit market is still reluctant to provide large funding packages. The Patriot Realty Group, Inc. Laurel MARC Station development, a joint project with the Maryland Department of Transportation, to be located at the corner of Main Street and U.S. Route 1 North (Second Street) has been proposed but plans have not been submitted for approval by the City. The redevelopment of the Laurel Mall site began with the issuance of demolition permits for the U.S. Route 1 parking deck and the mall building. A new building will be constructed on the North end of the property to accommodate a Burlington store. Once complete the existing Burlington store on the southern end of the site will move to the new building and the previous building will be demolished and replaced by a Harris-Teeter grocery store. Additionally, the City has sold the former City Police Department site located between “B” Street and “C” Street (20 “C” Street) for a mixed-use residential/commercial building. These are key developments for the City’s commercial area and economic growth providing permanent, sustained employment opportunities.

Additionally, the City Administrator and Director of Community Planning and Business Services remain active in the Maryland Military Installation Council in order to plan and prepare the City for the impacts of the Base Realignment and Closure (BRAC) at Ft. George G. Meade which is five miles outside the City of Laurel.

CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

The Department of Community Planning & Business Services is responsible for Zoning, Construction Permitting (building, mechanical, electrical, and green construction), Fire and Life Safety review, Property Maintenance and Residential Housing Standards in 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.

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

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

Because development within the City slowed during the recessionary period elected 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, 2012

	<u>Governmental Activities</u>	<u>Total</u>
ASSETS		
Current Assets		
Equity in pooled cash and cash equivalents	\$ 12,386,348	\$ 12,386,348
Restricted cash	3,987,307	3,987,307
Taxes receivable, net of allowances	933,652	933,652
Notes receivable	31,677	31,677
Other receivables	354,457	354,457
Accounts receivable - speed camera fines	260,615	260,615
Accounts receivable - income taxes	567,316	567,316
Due from other governments	274,781	274,781
Due from other funds	50,120	50,120
Inventory	271,470	271,470
Total Current Assets	<u>19,117,743</u>	<u>19,117,743</u>
Noncurrent Assets		
Notes receivable	589,976	589,976
Net capital assets	34,982,273	34,982,273
Total Noncurrent Assets	<u>35,572,249</u>	<u>35,572,249</u>
TOTAL ASSETS	<u>\$ 54,689,992</u>	<u>\$ 54,689,992</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$ 834,150	\$ 834,150
Accrued interest	5,343	5,343
Deposits	2,397,481	2,397,481
Unearned revenue	453,569	453,569
Current portion of long-term debt	1,281,089	1,281,089
Total Current Liabilities	<u>4,971,632</u>	<u>4,971,632</u>
Noncurrent Liabilities		
OPEB liability	1,966,000	1,966,000
Compensated absences	1,050,312	1,050,312
Loan payable - long-term	8,861,875	8,861,875
Total Noncurrent Liabilities	<u>11,878,187</u>	<u>11,878,187</u>
TOTAL LIABILITIES	<u>16,849,819</u>	<u>16,849,819</u>
NET ASSETS		
Invested in capital assets, net of related debt	24,839,309	24,839,309
Restricted		
Speed cameras	1,112,896	1,112,896
Unrestricted	11,887,968	11,887,968
TOTAL NET ASSETS	<u>37,840,173</u>	<u>37,840,173</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 54,689,992</u>	<u>\$ 54,689,992</u>

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

**CITY OF LAUREL, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Functions/Programs	Expenses	Indirect Expense Allocation	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Total
Primary Government							
Governmental Activities:							
General government	\$ 4,996,823	\$ 1,132,381	\$ 188,241	\$ 315,344	\$ -	\$ (5,625,619)	\$ (5,625,619)
Public safety	9,899,932	2,544,727	3,456,669	418,109	-	(8,569,881)	(8,569,881)
Parks and recreation	1,942,353	565,596	403,866	93,228	-	(2,010,855)	(2,010,855)
Public works	4,204,873	1,068,182	147,310	465,946	-	(4,659,799)	(4,659,799)
Miscellaneous	4,826,588	(4,826,588)	-	-	-	-	-
Interest	484,298	(484,298)	-	-	-	-	-
Total Governmental Activities	<u>26,354,867</u>	<u>-</u>	<u>4,196,086</u>	<u>1,292,627</u>	<u>-</u>	<u>(20,866,154)</u>	<u>(20,866,154)</u>
Total Primary Government	<u>\$ 26,354,867</u>	<u>\$ -</u>	<u>\$ 4,196,086</u>	<u>\$ 1,292,627</u>	<u>\$ -</u>	<u>\$ (20,866,154)</u>	<u>\$ (20,866,154)</u>
				General revenues:			
				Taxes			
				Income taxes	2,468,939	2,468,939	
				Property taxes	19,321,419	19,321,419	
				Other taxes	347,427	347,427	
				Licenses and permits	743,318	743,318	
				Interest and investment earnings	36,666	36,666	
				Miscellaneous	474,549	474,549	
				Total General Revenues	<u>23,392,318</u>	<u>23,392,318</u>	
				Transfers in (out)	-	-	
				Change in Net Assets	2,526,164	2,526,164	
				Net Assets, beginning of year	<u>35,314,009</u>	<u>35,314,009</u>	
				Net Assets, end of year	<u>\$ 37,840,173</u>	<u>\$ 37,840,173</u>	

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

**CITY OF LAUREL, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012**

**RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCE TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES
JUNE 30, 2012**

	General Fund	Capital Projects Fund	Speed Camera Fund	Community Redevelopment Authority	Non Major Fund Special Taxing District	Total Governmental Funds		
ASSETS								
Equity in pooled cash and cash equivalents	\$ 8,225,351	\$ 1,660,230	\$ -	\$ 2,500,767	\$ -	\$ 12,386,348	<i>Total Governmental Fund Balances</i>	\$ 13,894,555
Restricted cash	2,397,481	-	1,589,826	-	-	3,987,307		
Taxes receivable, net of allowances	933,652	-	-	-	-	933,652	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	34,982,273
Notes receivable	621,653	-	-	-	-	621,653		
Other receivables	303,674	50,783	-	-	-	354,457		
Accounts receivable - speed camera fines	-	-	260,615	-	-	260,615		
Accounts receivable - income taxes	567,316	-	-	-	-	567,316	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.	(13,159,276)
Due from other governments	274,781	-	-	-	-	274,781		
Due from other funds	2,065,987	-	-	290,000	-	2,355,987		
Inventory	271,470	-	-	-	-	271,470		
TOTAL ASSETS	\$ 15,661,365	\$ 1,711,013	\$ 1,850,441	\$ 2,790,767	\$ -	\$ 22,013,586	Deferred income tax revenues are recorded on the modified accrual basis in the fund financial statements.	567,316
LIABILITIES								
Accounts payable and accrued expenses	\$ 833,124	\$ -	\$ 1,026	\$ -	\$ -	\$ 834,150	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.	1,555,305
Accrued interest	5,343	-	-	-	-	5,343		
Deposits	2,397,481	-	-	-	-	2,397,481		
Due to other funds	-	1,569,348	736,519	-	-	2,305,867		
Deferred revenue	2,008,874	-	-	-	-	2,008,874		
Deferred revenue - income taxes	567,316	-	-	-	-	567,316		
TOTAL LIABILITIES	5,812,138	1,569,348	737,545	-	-	7,381,486	<i>Net Assets of Governmental Activities</i>	\$ 37,840,173
FUND BALANCES								
Nonspendable	893,123	-	-	-	-	893,123		
Restricted	-	-	1,112,896	-	-	1,112,896		
Committed	1,574,509	141,665	-	2,790,767	-	4,506,941		
Assigned	143,304	-	-	-	-	143,304		
Unassigned	7,238,291	-	-	-	-	7,238,291		
TOTAL FUND BALANCES	9,849,227	141,665	1,112,896	2,790,767	-	13,894,555		
TOTAL LIABILITIES AND FUND BALANCES	\$ 15,661,365	\$ 1,711,013	\$ 1,850,441	\$ 2,790,767	\$ -	\$ 22,013,586		

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

CITY OF LAUREL, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

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, 2012

	General Fund	Capital Projects Fund	Speed Camera Fund	Community Redevelopment Authority	Non-Major Fund Special Taxing District	Total Governmental Funds		
REVENUES								
Taxes	\$ 19,423,670	\$ -	\$ -	\$ -	\$ 92,233	\$ 19,515,903	<i>Net Change in Fund Balances - Total Governmental Funds</i>	\$ 1,905,763
Intergovernmental	3,987,921	210,276	-	-	-	4,198,197		
Licenses and permits	743,318	-	-	-	-	743,318	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.	
Charges for services	739,417	-	-	-	-	739,417	This is the amount of principal debt repayment.	1,398,366
Fines and forfeitures	944,383	-	2,512,286	-	-	3,456,669		
Miscellaneous	419,577	116,250	6,221	787	-	542,835		
Total Revenues	<u>26,258,286</u>	<u>326,526</u>	<u>2,518,507</u>	<u>787</u>	<u>92,233</u>	<u>29,196,339</u>		
EXPENDITURES								
Current Operations								
General government	4,788,381	-	-	-	-	4,788,381	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.	(50,773)
Public safety	7,987,744	-	1,405,611	-	-	9,393,355		
Parks and recreation	1,661,080	-	-	-	-	1,661,080	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.	109,471
Public works	3,521,816	-	-	-	-	3,521,816		
Miscellaneous	4,110,492	205,076	-	10,020	75,000	4,400,588		
Capital projects	-	1,693,465	-	-	-	1,693,465		
Debt Service								
Principal	1,398,366	-	-	-	-	1,398,366	OPEB contributions are long-term liabilities and the related expense is not reported in the funds.	(426,000)
Interest	484,298	-	-	-	-	484,298		
Total Expenditures	<u>23,952,177</u>	<u>1,898,541</u>	<u>1,405,611</u>	<u>10,020</u>	<u>75,000</u>	<u>27,341,349</u>		
Excess of revenues over (under) expenditures before other financing sources (uses)	<u>2,306,109</u>	<u>(1,572,015)</u>	<u>1,112,896</u>	<u>(9,233)</u>	<u>17,233</u>	<u>1,854,990</u>	Decreases in deferred state income taxes do not use current financial resources and are not reported as revenues in the governmental funds.	(164,893)
Other financing sources (uses)								
Loan proceeds	-	50,773	-	-	-	50,773	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.	(150,415)
Operating transfers in (out)	(3,188,250)	405,483	-	2,800,000	(17,233)	-		
Total other financing sources (uses)	<u>(3,188,250)</u>	<u>456,256</u>	<u>-</u>	<u>2,800,000</u>	<u>(17,233)</u>	<u>50,773</u>	Loss on disposal of fixed asset	(1,435)
Excess of revenue and other financing sources over (under) expenditures and other financing sources (uses)	<u>(882,141)</u>	<u>(1,115,759)</u>	<u>1,112,896</u>	<u>2,790,767</u>	<u>-</u>	<u>1,905,763</u>	Difference in accounting for compensated absences between modified accrual and accrual accounting.	<u>(93,920)</u>
Fund balance, beginning of year	<u>10,731,368</u>	<u>1,257,424</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,988,792</u>	<i>Change in Net Assets of Governmental Activities</i>	<u>\$ 2,526,164</u>
Fund balance, end of year	<u>\$ 9,849,227</u>	<u>\$ 141,665</u>	<u>\$ 1,112,896</u>	<u>\$ 2,790,767</u>	<u>\$ -</u>	<u>\$ 13,894,555</u>		

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

**CITY OF LAUREL, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND - PENSION TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2012**

ASSETS

Cash and cash equivalents	\$ 76,448
Investments, at fair value	22,578,351
Other assets	2,353
TOTAL ASSETS	<u><u>\$ 22,657,152</u></u>

LIABILITIES

Accounts payable	\$ 212
Due to general fund	50,120
Total liabilities	<u>50,332</u>

NET ASSETS

Held in trust for pension benefits	<u>22,606,820</u>
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TOTAL LIABILITIES AND NET ASSETS

	<u><u>\$ 22,657,152</u></u>
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The accompanying notes to these financial statements are an integral part of these statements.

**CITY OF LAUREL, MARYLAND
STATEMENT OF CHANGES IN NET ASSETS
AGENCY FUND - PENSION TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2012**

ADDITIONS

Contributions		
Employer	\$ 1,726,655	
Plan member	846,126	
Total contributions	<u>2,572,781</u>	
Investment Income		
Interest income	1,549	
Dividends	418,712	
Net change in fair value of investments	<u>(353,808)</u>	
Net investment income (loss)	<u>66,453</u>	
Total additions	2,639,234	

DEDUCTIONS

Distributions		2,035,668
Administrative expenses		<u>105,129</u>
		<u>2,140,797</u>
Net increase		498,437
Net assets held in trust for pension benefits, beginning of year		<u>22,108,383</u>
Net assets held in trust for pension benefits, end of year		<u><u>\$ 22,606,820</u></u>

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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. 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.

Effective March 26, 2012 the City of Laurel established the City of Laurel Community Redevelopment Authority (the "Authority"), a component unit of the City. The Authority is reported as a blended component unit since the governing body of the Authority is substantially the same as the City's governing body. Complete financial statements of the Authority can be obtained from their administrative office at 8103 Sandy Spring Road, Laurel, MD 20707.

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

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of Presentation – Fund Accounting

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

The City's governmental funds include the General Fund, the Capital Projects Fund, the Special Revenue Fund, the Speed Camera Fund and the Community Redevelopment Authority.

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

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

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

Effective July 1, 2011 the City implemented the Speed Camera Fund. The Speed Camera Fund is a special revenue fund used to account for amounts received from speed camera citations and the related administrative and public safety costs.

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

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

Basis of Accounting

Government-Wide Financial Statements

The statement of net 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.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

The government-wide statement of activities presents a comparison between expenses, and program revenues for each segment of the business-type activities of the City, if any, and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect costs are allocated to programs. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. Program revenues include charges paid by the recipients of the goods or services offered by the programs, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City. Net 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.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Governmental Funds

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

Revenue Recognition

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

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

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

Expenditure Recognition

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

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

The major governmental funds are:

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

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

Fiduciary Fund

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

Budgetary Accounting and Control

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

1. On or by May 1 of each year, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and estimates of anticipated revenue and uses of fund balance, which shall equal or exceed the total proposed expenditures.
2. Before adopting a budget, the City Council holds a public hearing to obtain taxpayer comments. Time and location of this hearing are advertised at least two weeks in advance. The Council has historically held two public hearings.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. From the date of budget enactment, proposed expenditures become appropriations authorized by the City Council. Any transfer of funds between major appropriations, by the Mayor, requires approval of the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the general fund. The policy established by the Mayor and City Council of Laurel, with respect to the City budget (budgetary basis), does not conform to generally accepted accounting principles (GAAP basis). The differences between budgetary and GAAP basis are shown in footnote 20.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

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

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2012 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

Receivables

Receivables at June 30, 2012 consist of real estate taxes, personal property taxes, and other receivables. Receivables are deemed collectible in full.

Inventory of Supplies

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

Capital Assets and Depreciation

Capital assets consist of infrastructure, land, buildings and equipment with an initial individual cost of more than \$500 and an estimated useful life in excess of five years. Such assets are recorded at historical cost. Donated capital assets are recorded at an estimated fair value at the date of donation. In accordance with GASB No. 51, intangible assets are recognized if they are identifiable, and are amortized over their useful lives if they do not have indefinite useful lives.

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

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

Restricted Reserves

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

Deferred Income Tax Revenue

At June 30, 2012, the City was advised by the State of Maryland that \$567,316 of the Local Tax Reserve Fund was allocable to the City. In accordance with the provision of GASB No. 33, the City recorded receivable and deferred income tax revenue in the amount of \$567,316 in the fund financial statements. Changes in this amount have been reflected as current year income tax revenue in the government-wide financial statements in accordance with full accrual accounting.

Interest Expense

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

Compensated Absences

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

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

Personal leave is accrued and unused hours in excess of 10 hours are forfeited on July 1. The City does not reimburse employees for the accumulated personal leave upon termination or retirement. It is not practicable to estimate the portion of such amount which will ultimately be paid because payment is contingent upon future employment.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Management expects the City’s commitment to provide personal leave to be met during the normal course of activities over the working lives of its employees.

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

Net Assets

The government-wide statement of net assets reports \$1,112,896 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.

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.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Governmental Fund Balances

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

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

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 2012. For day-to-day management control, expenditures may not exceed budget at the department level. The City prepares an annual operating budget on a basis not consistent with generally accepted accounting principles. Refer to footnote 20 for a reconciliation to a GAAP basis.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposit Policies

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

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

Pooling of Cash

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

Deposits

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

At year-end, the carrying amounts of the City’s deposits were \$5,443,174 and the bank balances totaled \$5,819,317. 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, 2012:

Escrow deposits	\$ 2,397,481
	<u>\$ 2,397,481</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, 2012

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, 2012

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

As of June 30, 2012, the City had the following investments:

<u>Types of Investments</u>	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality/ Ratings</u>
MLGIP	\$ 2,959,311	\$ 2,959,311	AAAm
Repurchase agreements	4,291,114	4,291,114	N/A
Money market funds	1,600,147	1,600,147	AAAm
Certificates of Deposit:			
Fleet reserve	558,697	558,697	N/A
Street maintenance reserve	1,015,812	1,015,812	N/A
Public safety reserve	500,000	500,000	N/A
	<u>\$ 10,925,081</u>	<u>\$ 10,925,081</u>	
Agency Fund -			
Repurchase agreements	1,779,765	1,779,765	N/A
Mutual funds	20,798,586	20,798,586	N/A
	<u>\$ 22,578,351</u>	<u>\$ 22,578,351</u>	

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

A reconciliation of cash and cash equivalents per the Statement of Net Assets totaling \$16,373,655 (\$12,386,348 unrestricted and \$3,987,307 restricted) to investments, deposits and petty cash follows.

Investments	\$ 10,925,081
Deposits	5,443,174
Petty cash	5,400
	<u>\$ 16,373,655</u>

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4 – TAXES RECEIVABLE

Taxes receivable are comprised of the following as of June 30, 2012.

Personal property	\$	138,681
Real estate		794,971
		933,652
		\$ 933,652

NOTE 5 – NOTES RECEIVABLE

The City has made advances to the volunteer fire department and volunteer rescue squad for purchases of equipment owned and used by the volunteer fire department and volunteer rescue squad. These advances are evidenced by signed note agreements. Detail of notes receivable at June 30, 2012 are as follows:

Entity	Interest rate at June 30, 2012	Maturity date	Repayment term	Amount due
Vol. Fire Dept.	4.21%	February, 2018	Monthly	\$ 216,409
Vol. Rescue Squad	2.65%	June, 2016	Monthly	405,244
				\$ 621,653

NOTE 6 – OTHER ACCOUNTS RECEIVABLE

Other accounts receivable are comprised of the following as of June 30, 2012.

Cable franchise fee	\$	149,171
Grass cutting receivable		20,147
Refuse - residential		18,970
Parks & recreation receivable		17,088
Various		149,081
		\$ 354,457

NOTE 7 – LEASE AGREEMENT

On January 26, 2010 the City entered into a lease agreement to rent a piece of property. Monthly payments are due to the City in the amount of \$1,650 beginning February 1, 2010 and ending January 31, 2012. Rental income for the year ended June 30, 2012 was \$0.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 8 – DEFERRED/UNEARNED REVENUES

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

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

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Income taxes, General Fund	\$ 567,316	\$ -	\$ 567,316
Property taxes, General Fund	933,652	-	933,652
Loan receivable, General Fund	621,653	-	621,653
Impact fees, General Fund	-	382,366	382,366
Other unearned revenues	-	71,203	71,203
	<u>\$ 2,122,621</u>	<u>\$ 453,569</u>	<u>\$ 2,576,190</u>

NOTE 9 – INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivable and payable balances at June 30, 2012 are as follows:

<u>Fund</u>	<u>Interfund receivables</u>	<u>Interfund payables</u>
General fund	\$ 2,645,987	\$ -
Capital projects fund	-	1,569,348
Speed camera fund	-	736,519
Community redevelopment authority		290,000
Pension trust fund	-	50,120
	<u>\$ 2,645,987</u>	<u>\$ 2,645,987</u>

Interfund receivables and payables are utilized when payments are made on behalf of another fund. All amounts are expected to be paid within one year. The interfund receivable and payable between the General Fund, the Capital Projects Fund, the Speed Camera Fund, and the Community Redevelopment Authority are eliminated in the Statement of Net Assets.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 10 – PROPERTY TAX

The City's real property tax is levied each July 1, on the assessed value for all property located within City boundaries. Real property tax revenue is recognized when received. Assessed values are established by the Maryland State Department of Assessments and Taxation based on estimates of fair market value, multiplied by that year's assessment rate. The rate per \$100 of assessed value was \$.71 in 2012.

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, 2012, were 100% of the levy.

The City's real property rate for the special taxing district was \$.03 per \$100 assessed value in 2012.

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 2012. Personal property tax revenue is recognized when received.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 11 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Not being depreciated:				
Land	\$ 6,664,556	\$ -	\$ -	\$ 6,664,556
Construction in progress	1,148,777	-	519,676	629,101
Subtotal	<u>7,813,333</u>	-	519,676	<u>7,293,657</u>
Depreciable capital assets:				
Infrastructure	20,733,521	86,472	-	20,819,993
Land improvements	3,237,544	46,130	-	3,283,674
Buildings and improvements	21,130,609	1,610,229	-	22,740,838
Machinery, tools and equipment	10,427,507	851,907	100,392	11,179,022
Subtotal	<u>55,529,181</u>	<u>2,594,738</u>	<u>100,392</u>	<u>58,023,527</u>
Total capital assets	<u>63,342,514</u>	<u>2,594,738</u>	<u>620,068</u>	<u>65,317,184</u>
Accumulated depreciation:				
Infrastructure	13,204,501	319,047	-	13,523,548
Land improvements	1,363,767	142,490	-	1,506,257
Buildings and improvements	6,821,808	621,001	-	7,442,809
Machinery, tools and equipment	7,078,201	883,053	98,957	7,862,297
Subtotal, accumulated depreciation	<u>28,468,277</u>	<u>1,965,591</u>	<u>98,957</u>	<u>30,334,911</u>
Net capital assets	<u>\$ 34,874,237</u>	<u>\$ 629,147</u>	<u>\$ 521,111</u>	<u>\$ 34,982,273</u>

Depreciation was charged to functions as follows:

General government	\$ 212,582
Public safety	786,631
Parks and recreation	280,458
Public works	685,920
	<u>\$ 1,965,591</u>

The City has construction commitments of approximately \$833,712 as of June 30, 2012.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 12 – LONG-TERM DEBT

General obligation bonds consist of the following at June 30, 2012:

\$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, 2012 was \$252,649 less interest income of \$112. The outstanding principal balance and balance of undrawn proceeds on June 30, 2012 were \$4,911,046 and \$1,210,954 respectively.

\$4,043,500 – Public Improvement bonds, 2004 Series A; due in annual installments of \$260,400 to \$331,900 through May 1 2019; interest varies from 2.00% to 4.375%. The semiannual interest payments are offset by interest earned on the undrawn proceeds held in an escrow account by and in the name of the CDA. Interest paid on the bond for the year ended June 30, 2012 was \$85,528. The outstanding principal balance on June 30, 2012 was \$1,789,800.

Notes payable consists of the following at June 30, 2012:

Note payable to PNC Bank on behalf of the Laurel Volunteer Fire Department in the amount of \$350,000 for the purchase of a new fire truck. The note is payable to the Bank in monthly principal and interest payments of \$3,589 through February 12, 2018, with interest at 4.21%. Total interest paid on the note payable was \$10,033. As of June 30, 2012 the outstanding principal balance is \$216,409.

Note payable to PNC Bank in the amount of \$1,747,267 to finance the purchase of a building to be used by the Laurel Police Department. The note is payable in monthly installments of \$16,291 until December 2021 with interest at 2.24%. As of June 30, 2012, the outstanding principal balance on the note is \$1,388,254. Interest paid on the note for the year ended June 30, 2012 was \$34,901.

Note payable to PNC Bank in the amount of \$1,396,518 to finance the purchase of a building to be used by the Laurel Parks and Recreation Department. In December 2010 the City took out an additional principal advance of \$300,000. The note is payable in monthly installments of \$15,454 until December 2021 with interest at 2.24%. As of June 30, 2012, the outstanding principal balance on the note is \$1,432,211. Interest paid on the note for the year ended June 30, 2012 was \$34,671.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 12 – LONG-TERM DEBT - continued

Note payable to PNC Bank on behalf of the Laurel Volunteer Rescue Squad in the amount of \$500,000 for the purchase of a new rescue truck. The note is payable to the Bank in monthly principal and interest payments of \$8,916 through June 14, 2016, with interest at 2.65%. As of June 30, 2012 the outstanding principal balance is \$405,244. Interest paid on the note for the year ended June 30, 2012 was \$12,233.

The changes in governmental long-term debt for the year ended June 30, 2012 are summarized below.

	Beginning Balance	Additions	Retirements	Ending Balance	Amount due in one year
Bank loans	\$ 4,040,584	\$ -	\$ (598,466)	\$ 3,442,118	\$ 451,989
CDA loans	7,449,973	50,773	(799,900)	6,700,846	829,100
Total	<u>\$ 11,490,557</u>	<u>\$ 50,773</u>	<u>\$ (1,398,366)</u>	<u>\$ 10,142,964</u>	<u>\$ 1,281,089</u>
Compensated absences	<u>\$ 956,392</u>	<u>\$ 93,920</u>	<u>\$ -</u>	<u>\$ 1,050,312</u>	<u>\$ -</u>
OPEB liability	<u>\$ 1,540,000</u>	<u>\$ 426,000</u>	<u>\$ -</u>	<u>\$ 1,966,000</u>	<u>\$ -</u>

The following is a schedule by years of future principal and estimated interest payments required to amortize all debt outstanding as of June 30, 2012. Estimated interest payments were based on rates in effect at June 30, 2012 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, 2012

NOTE 12 – LONG-TERM DEBT – continued

Year ended June 30,	Bank Loans		CDA Loans (A)	
	Principal	Interest	Principal	Interest
2013	\$ 451,989	\$ 79,012	\$ 829,100	\$ 307,932
2014	463,487	67,516	861,400	249,857
2015	475,289	55,713	759,500	246,306
2016	487,218	43,709	789,900	218,676
2017	391,529	32,483	822,100	188,680
2018-2022	1,172,606	43,134	3,849,800	445,275
Total	<u>\$ 3,442,118</u>	<u>\$ 321,567</u>	<u>\$ 7,911,800</u>	<u>\$ 1,656,726</u>

Year ended June 30,	Total	
	Principal	Interest
2013	\$ 1,281,089	\$ 386,944
2014	1,324,887	317,373
2015	1,234,789	302,019
2016	1,277,118	262,385
2017	1,213,629	221,163
2018-2022	5,022,406	488,409
Total	<u>\$ 11,353,918</u>	<u>\$ 1,978,293</u>

(A) This payout schedule assumes the remaining \$1,210,954 of undrawn proceeds are drawn down.

NOTE 13 – CONCENTRATION OF CREDIT RISK

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

NOTE 14 – RISK MANAGEMENT

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

LGIT is a self-insured public entity risk pool offering general liability, excess liability, business auto liability, police legal liability, public official liability, environmental liability, and property coverage.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 14 – RISK MANAGEMENT - continued

LGIT is capitalized at an actuarially determined level to provide financial stability for its local government members and to reduce the possibility of assessments. The trust is owned by the participating counties and cities and managed by a Board of Trustees elected by the members. Annual premiums are assessed for the various policy coverages. During fiscal year 2012, the City paid premiums of \$167,526 to the trust. The agreement for the formation of LGIT provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of annual premiums. Settled claims, if any resulting from these risks, have not exceeded commercial insurance coverage in the past fiscal year.

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

NOTE 15 – DEFERRED COMPENSATION PLAN

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

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

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

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.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 16 – PENSION PLAN

Plan Description

The City contributes to the City of Laurel Police Retirement Plan and the City of Laurel Employee (Administrative and Maintenance) Retirement Plan (Plans). Both Plans contain virtually the same provisions and the valuation of each of the Plans uses virtually the same assumptions. Accordingly, for ease of disclosure and understanding, they are presented here as one plan, except as indicated. The Plans are single-employer defined benefit plans which provide retirement benefits and death and disability benefits to participating employees and their beneficiaries. All full-time and part-time employees of the City must participate in the applicable Plan. A participant becomes fully vested in his or her accrued benefit after 5 years of credited service. Credited service is determined for any participant as the years and completed months during which the participant shall have been in the employment of the City. Additionally, credited service includes credited service transferred from other government employers in the State of Maryland or purchased for military service or government service anywhere in the United States, not to exceed 5 years. Administrative and Maintenance employees are eligible to receive retirement benefits as of the participant's 65th birthday and the completion of 5 years of credited service or upon the completion of 30 years of credited service regardless of age. Police employees are eligible to receive retirement benefits the earlier of the participant's 65th birthday and the completion of 5 years of credited service or upon completion of 20 years of credited service regardless of age. All participants under the Plans as of June 30, 2007, are entitled to a minimum benefit as of such date determined under the provisions of the plan then in effect. Employees may elect to receive their pension benefits in the form of a single life annuity, a period certain and continuous annuity, a joint and survivor annuity or a Social Security annuity. Administrative and Maintenance employee's normal retirement allowance consists of 1.67% of final average compensation multiplied by credited service not greater than 30 years. Police employee's normal retirement allowance consists of 2.5% of final average compensation for each of the first 20 years of credited service plus 1.5% of final average compensation for each of the next 5 years of credited service. The Plans allow the City to grant a cost of living increase to participants or beneficiaries annually. The most recent cost of living adjustment was an increase of 2.5% effective July 1, 1998.

The Plans may be amended by the City Council, and the Plans were amended as of January 1, 2005 to include provisions for a Deferred Retirement Option Plan ("DROP"). Under the DROP, participants eligible to participate may elect to defer the commencement of his or her retirement benefits from a minimum period of one year to a maximum period of seven years. The period of participation automatically ends when a participant terminates employment for any reason. Election to participate in the DROP was to end December 31, 2009, but was extended in 2009 to December 31, 2014.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 16 – PENSION PLAN - continued

Funding Policy

As a condition of employment, employees must contribute 4.5% (Administrative and Maintenance) and 8.8% (Police) of base earnings, excluding bonuses, commissions, overtime payments and other additional compensation. The City’s funding policy is to make annual contributions to the Plans as calculated by the actuary in amounts sufficient to provide the benefits of the Plans. The City does not calculate a net pension obligation, but develops an annual required contribution as a percent of payroll. The annual pension cost is equal to the annual required contribution. The contribution rate applied to actual payroll is actuarially determined and consists of a normal cost component and an unfunded actuarial component. The City had annual required contributions of \$1,551,655, \$1,401,849, and \$1,155,535, for the fiscal years ended June 30, 2012, 2011, and 2010. The City has made all annual required contributions. The contributions made to the Plans for fiscal year 2012 were made in accordance with the actuarial valuation for the plan year ending June 30, 2011. The contributions consisted of amounts contributed by the employees of \$846,126 and amounts contributed by the City of \$1,726,655.

The plans invest in mutual funds.

The number of employees covered and current membership classifications as of June 30, 2011 are as follows:

Active participants	169
Terminated vested participants	14
Retirees and beneficiaries	<u>71</u>
Total participants	<u><u>254</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.

**CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 16 – PENSION PLAN – continued

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

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

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows. 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, 2011
Actuarial cost method:	Entry age normal
Amortization method:	Level dollar
Remaining amortization period:	25 years - Police Plan 30 years - Employee Plan
Asset valuation method:	Asset smoothing
Actuarial assumptions:	
Investment rate of return	7.5% compounded annually
Projected salary increases	5.0% compounded annually
Cost of living adjustments	0.00%
Inflation rate	3.5% compounded annually
Contribution rates:	
Police	8.8%
Employees	4.5%
Mortality: healthy lives (employees)	RP-2000 Combined Mortality Table of Males and Females
Mortality: disabled lives (employees)	Healthy life mortality set forward 10 years
Mortality: healthy lives (police)	RP-2000 Blue Collar Mortality Table of Males and Females
Mortality: disabled lives (police)	Healthy life mortality set forward 10 years

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 16 – PENSION PLAN – continued

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

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

PENSION TRUST FUND - ANALYSIS OF FUNDING

Actuarial Valuation Date July 1, 2011	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 2011	\$ 10,163,601	\$ 15,364,716	\$ 5,201,115	66.15%	\$ 4,923,711	105.63%
Police Plan 2011	11,361,397	19,715,891	8,354,494	57.63%	3,009,598	277.60%

Refer to Required Supplementary Information on page 49 for additional information regarding these plans. There are no separately issued financial statements for these plans.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 17 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

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

Funding Policy

The City has not established an OPEB trust as of June 30, 2012 and has not made a contribution for the year ended June 30, 2012. The City will pay benefits on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The City’s annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the City’s annual OPEB cost, the amount actually contributed to the Plan and the City’s net OPEB obligation as of June 30, 2012.

Annual required contribution (ARC)	\$ 578,000
Less: Contributions made	(151,000)
Less: NOO Amortization	(63,000)
Plus: Interest on NOO	<u>62,000</u>
Increase in net OPEB obligation (NOO)	426,000
Net OPEB obligation - beginning of year	1,540,000
Net OPEB obligation - end of year	<u>\$ 1,966,000</u>
Percentage of annual OPEB cost contributed	26.12%

Funded Status

As of July 1, 2011, there was not an OPEB trust. The actuarial accrued liability for benefits was \$5,619,000 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,619,000. The ratio of the actuarial value of assets to the actuarial accrued liability was 0%. The covered payroll (annual payroll of active employees covered under the Plan) was \$10,479,118 and the ratio of the UAAL to the covered payroll was 53.62%.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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

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

Actuarial cost method	Projected unit credit
Asset valuation method	Market value of assets
Rate of return on investments	4.00%
Aggregate salary growth	3.50%
Healthcare cost trend rate	Medical and prescription: 9.00% for FY 2011 trending down to 4.60%
Amortization method	Level percentage of projected payroll
Amortization period	30 years
Status of period	Closed

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 18 – COMMITMENTS AND CONTINGENCIES

Grants

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

Litigation

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

NOTE 19 – RISKS AND UNCERTAINTIES

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

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

Excess (deficiency) of revenue over expenditures, encumbrances and other financing sources (uses) - non-GAAP budgetary basis - general fund	\$ -
Use of undesignated reserves	(2,800,000)
Increase (decrease) due to:	
Expenditures of amounts encumbered during prior year	(289,699)
Reserved encumbrances (GAAP basis) at June 30, 2012, but recognized as expenditures for budgetary purposes	<u>143,304</u>
Excess (deficiency) of revenue over expenditures and other financing sources (uses) - GAAP	<u><u>\$ (2,946,395)</u></u>

NOTE 21 – FUND BALANCE REPORTING

Fund balances for the City’s governmental funds consisted of the following as of June 30, 2012:

Non-Spendable Fund Balance

The non-spendable fund balance in the general fund in the amount of \$893,123 is made up of \$271,470 of inventory and \$621,653 of notes receivable that are not in spendable form.

Restricted Fund Balance

The restricted fund balance in the speed camera fund is comprised of \$1,112,896 for public safety expenditures.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 21 – FUND BALANCE REPORTING – continued

Committed Fund Balance

The committed fund balance in the general fund in the amount of \$1,574,509 is made up of \$558,697 for fleet equipment and \$1,015,812 for street maintenance. The committed fund balance in the capital projects fund is \$141,665 for future capital projects. The committed fund balance in the community redevelopment authority is \$2,790,767 for redevelopment projects.

Assigned Fund Balance

The assigned fund balance in the general fund is made up of \$143,304 for encumbrances outstanding.

Unassigned Fund Balance

The unassigned fund balance in the general fund is \$7,238,291.

NOTE 22 – NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements:

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010, effective for financial statements for periods beginning after December 15, 2011.

Statement No. 61, *The Financial Reporting Entity: Omnibus*, issued November 2010, effective for financial statements for periods beginning after June 15, 2012.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued December 2010, effective for financial statements for periods beginning after December 15, 2011.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued June 2011, effective for financial statements for periods beginning after December 15, 2011.

Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued March 2012, effective for financial statements for periods beginning after December 15, 2012.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 22 – NEW ACCOUNTING PRONOUNCEMENTS - continued

Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, issued March 2012, effective for financial statements for periods beginning after December 15, 2012.

Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, issued June 2012, effective for financial statements for fiscal years beginning after June 15, 2013.

Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, issued June 2012, effective for fiscal years beginning after June 15, 2014.

The City will implement these statements as necessary as of their effective dates. While the City is still in the process of determining the effect of implementing these GASB statements, they are not expected to have a material effect on the financial position of the City.

**CITY OF LAUREL, MARYLAND
PENSION TRUST FUND - ANALYSIS OF FUNDING
PROGRESS AND EMPLOYER CONTRIBUTIONS -
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012**

Actuarial Valuation Date July 1, 2010	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						
2011	\$ 10,163,601	\$ 15,364,716	\$ 5,201,115	66.15%	\$ 4,923,711	105.63%
2010	9,075,505	13,806,971	4,731,466	65.73%	4,807,650	98.42%
2009	8,658,749	12,639,873	3,981,124	68.50%	4,618,146	86.21%
2008	8,756,381	11,340,351	2,583,970	77.21%	4,016,384	64.34%
2007	8,371,476	10,541,991	2,170,515	79.41%	3,628,886	59.81%
2006	7,414,713	9,734,544	2,319,831	76.17%	3,497,546	66.33%
Police Plan						
2011	11,361,397	19,715,891	8,354,494	57.63%	3,009,598	277.60%
2010	9,998,262	18,248,947	8,250,685	54.79%	3,004,929	274.57%
2009	9,483,321	17,018,090	7,534,769	55.72%	2,788,432	270.22%
2008	9,551,099	15,721,489	6,170,390	60.75%	2,468,075	250.01%
2007	8,804,646	15,022,820	6,218,174	58.61%	2,237,874	277.86%
2006	7,606,070	13,784,982	6,178,912	55.18%	1,982,730	311.64%

The following schedule gives information on employer required contributions.

Years ended June 30,	Annual required contribution (ARC)	Percentage of ARC contributed
2012	\$ 1,551,655	111.29%
2011	1,401,849	103.71%
2010	1,155,535	100.00%
2009	1,037,594	104.89%
2008	980,853	116.98%
2007	922,940	123.84%

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

**CITY OF LAUREL, MARYLAND
OTHER POST-EMPLOYMENT BENEFITS PLAN
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012**

Actuarial Valuation Date July 1,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age Normal	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2011	\$ -	\$ 5,619,000	\$ 5,619,000	0.00%	\$ 10,479,118	53.62%
2010	-	5,229,000	5,229,000	0.00%	10,145,089	51.54%
2009	-	6,502,000	6,502,000	0.00%	10,053,543	64.67%
2008	-	6,119,000	6,119,000	0.00%	9,178,525	66.67%

Information for prior years not available.

**CITY OF LAUREL, MARYLAND
OTHER POST-EMPLOYMENT BENEFITS PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012**

Year Ended June 30,	Annual Required Contribution (ARC)	Actual Contribution ¹	Percentage Contributed	
			Employer Contribution	Total
2012	\$ 578,000	\$ 151,000	26.12%	26.12%
2011	540,000	131,000	24.26%	24.26%
2010	584,000	-	0.00%	0.00%
2009	546,000	-	0.00%	0.00%

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

Information for prior years not available.

CITY OF LAUREL, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Revenues				
Taxes	\$ 19,259,089	\$ 19,259,089	\$ 19,423,670	\$ 164,581
Intergovernmental	3,258,699	3,278,699	3,987,921	709,222
Licenses and permits	462,250	462,250	743,318	281,068
Charges for services	692,500	692,500	739,417	46,917
Fines and forfeitures	1,329,455	879,455	944,383	64,928
Miscellaneous	250,037	3,212,914	278,441	(2,934,473)
Loan repayments	43,064	150,054	141,136	(8,918)
Total Revenues	\$ 25,295,094	\$ 27,934,961	\$ 26,258,286	\$ (1,676,675)
Expenditures				
General government	\$ 5,035,584	\$ 5,086,717	\$ 4,788,381	\$ 298,336
Public safety	8,227,249	8,007,287	7,987,744	19,543
Parks and recreation	1,688,098	1,710,393	1,661,080	49,313
Public works	4,100,155	3,969,116	3,521,816	447,300
Miscellaneous	4,087,588	7,345,838	4,110,492	3,235,346
Debt service	2,156,420	1,815,610	1,882,664	(67,054)
Total Expenditures	\$ 25,295,094	\$ 27,934,961	\$ 23,952,177	\$ 3,982,784

SUPPLEMENTAL SCHEDULES

CITY OF LAUREL, MARYLAND
SCHEDULE OF REVENUES
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
REVENUES				
Taxes				
Real and personal property	\$ 19,044,089	\$ 19,044,089	\$ 19,251,816	\$ 207,727
Local - admissions	150,000	150,000	106,851	(43,149)
Penalties and interest	65,000	65,000	65,003	3
Total Taxes	<u>19,259,089</u>	<u>19,259,089</u>	<u>19,423,670</u>	<u>164,581</u>
Intergovernmental				
State and Federal Grants				
Other federal and state grants	244,587	244,587	301,093	56,506
FEMA grant	-	-	10,619	10,619
Police protection	349,115	349,115	345,801	(3,314)
Police aid supplement	68,692	68,692	72,308	3,616
Total state and federal grants	<u>662,394</u>	<u>662,394</u>	<u>729,821</u>	<u>67,427</u>
State Shared Taxes				
Local income tax	2,200,000	2,200,000	2,633,832	433,832
Race track impact fees	15,000	15,000	26,122	11,122
Developer impact fees	-	-	5,040	5,040
Highway user	35,638	35,638	230,521	194,883
Hotel/motel taxes	200,000	200,000	240,576	40,576
Total state shared taxes	<u>2,450,638</u>	<u>2,450,638</u>	<u>3,136,091</u>	<u>685,453</u>
County Grants				
Financial corporations	6,362	6,362	6,363	1
M-NCPPC grants	111,305	131,305	93,228	(38,077)
Highway safety grant	13,000	13,000	14,530	1,530
Other grants	15,000	15,000	7,888	(7,112)
Total county grants	<u>145,667</u>	<u>165,667</u>	<u>122,009</u>	<u>(43,658)</u>
Total Intergovernmental	<u>3,258,699</u>	<u>3,278,699</u>	<u>3,987,921</u>	<u>709,222</u>

CITY OF LAUREL, MARYLAND
SCHEDULE OF REVENUES
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Licenses and permits				
Liquor	\$ 8,000	\$ 8,000	\$ 12,039	\$ 4,039
Amusement permits	3,500	3,500	13,320	9,820
Building permits	26,875	26,875	63,935	37,060
Cable TV	270,000	270,000	354,206	84,206
Traders licenses	50,000	50,000	52,575	2,575
Rental licenses	65,000	65,000	73,690	8,690
Other permits and licenses	38,875	38,875	173,553	134,678
Total licenses and permits	<u>462,250</u>	<u>462,250</u>	<u>743,318</u>	<u>281,068</u>
Charges for services				
Passport execution fees	50,000	50,000	53,425	3,425
Zoning fees	31,000	31,000	36,576	5,576
Refuse collection	104,000	104,000	147,310	43,310
Recreation fees	433,400	433,400	403,866	(29,534)
Facility rentals	50,000	50,000	58,418	8,418
Other	24,100	24,100	39,822	15,722
Total charges for services	<u>692,500</u>	<u>692,500</u>	<u>739,417</u>	<u>46,917</u>
Fines and forfeitures				
Red light camera tickets	726,510	726,510	808,740	82,230
Speed camera citations	450,000	-	-	-
Parking tickets	95,000	95,000	68,527	(26,473)
False alarm fines	24,925	24,925	22,650	(2,275)
Release fee - impound	33,020	33,020	36,261	3,241
Other	-	-	8,205	8,205
Total fines and forfeitures	<u>1,329,455</u>	<u>879,455</u>	<u>944,383</u>	<u>64,928</u>

CITY OF LAUREL, MARYLAND
SCHEDULE OF REVENUES
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Miscellaneous				
Interest on investments	\$ 35,300	\$ 35,300	\$ 28,180	\$ (7,120)
Disposal rebate	60,856	60,856	62,217	1,361
Other	153,881	3,116,758	188,044	(2,928,714)
Total miscellaneous	<u>250,037</u>	<u>3,212,914</u>	<u>278,441</u>	<u>(2,934,473)</u>
Loan repayments				
Fire department repayments	43,064	43,064	43,063	(1)
Rescue squad repayments	-	106,990	98,073	(8,917)
Total loan repayments	<u>43,064</u>	<u>150,054</u>	<u>141,136</u>	<u>(8,918)</u>
Total Revenue	<u>\$ 25,295,094</u>	<u>\$ 27,934,961</u>	<u>\$ 26,258,286</u>	<u>\$ (1,676,675)</u>

CITY OF LAUREL, MARYLAND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
General Government				
City council	\$ 69,175	\$ 69,175	\$ 67,268	\$ 1,907
Clerk to the council	178,632	178,632	178,115	517
Mayor	468,918	468,918	467,763	1,155
City administrator	542,312	542,312	511,083	31,229
Registration and elections	27,150	27,150	26,817	333
Budget and personnel services	648,804	648,804	629,470	19,334
Planning and zoning	907,559	907,559	830,571	76,988
Information technology and community services	1,132,781	1,138,560	1,137,821	739
Municipal center maintenance	537,518	544,060	499,575	44,485
Other facilities maintenance	482,405	489,144	383,491	105,653
Community promotion	40,330	72,403	56,407	15,996
Total general government	5,035,584	5,086,717	4,788,381	298,336
Public Safety				
Police department	7,596,032	7,399,457	7,396,415	3,042
Emergency services management	414,808	391,657	372,431	19,226
Police department facility	216,409	216,173	218,898	(2,725)
Total public safety	8,227,249	8,007,287	7,987,744	19,543
Parks and recreation				
Greenview drive complex	33,750	36,045	30,593	5,452
Parks and recreation administration	610,528	610,528	606,707	3,821
Recreation	282,382	282,382	255,183	27,199
Laurel municipal pool	162,357	156,357	156,137	220
Laurel community center programs	253,866	248,983	246,966	2,017
Greenview drive programs	40,324	53,207	53,142	65
Armory programs	137,469	135,469	133,721	1,748
Gude lakehouse programs	15,285	15,285	13,396	1,889
Senior services programs	152,137	172,137	165,235	6,902
Total parks and recreation	1,688,098	1,710,393	1,661,080	49,313

CITY OF LAUREL, MARYLAND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Public Works				
Public works administration	\$ 368,100	\$ 369,100	\$ 363,288	\$ 5,812
Automotive maintenance	948,962	980,857	797,066	183,791
Waste collection and disposal	1,160,480	1,008,998	989,024	19,974
Recycling	195,107	262,214	226,115	36,099
Highways and streets	493,497	494,924	457,091	37,833
Snow and ice removal	92,305	56,022	30,914	25,108
Street lighting	352,000	302,297	275,950	26,347
Engineering and technical services	195,125	194,125	160,003	34,122
Traffic engineering	172,496	178,496	153,653	24,843
Tree management	122,083	122,083	68,712	53,371
Total public works	<u>4,100,155</u>	<u>3,969,116</u>	<u>3,521,816</u>	<u>447,300</u>
Miscellaneous				
Retirement pension	1,571,655	1,746,655	1,734,155	12,500
Employee training	57,709	57,709	42,694	15,015
Insurance	2,458,224	2,353,224	2,335,114	18,110
Other	-	3,188,250	(1,471)	3,189,721
Total miscellaneous	<u>4,087,588</u>	<u>7,345,838</u>	<u>4,110,492</u>	<u>3,235,346</u>
Debt Service				
Principal	1,643,883	1,326,076	1,398,366	(72,290)
Interest	512,537	489,534	484,298	5,236
Total debt service	<u>2,156,420</u>	<u>1,815,610</u>	<u>1,882,664</u>	<u>(67,054)</u>
Total Expenditures	<u>\$ 25,295,094</u>	<u>\$ 27,934,961</u>	<u>\$ 23,952,177</u>	<u>\$ 3,982,784</u>