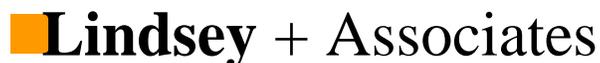


**CITY OF LAUREL, MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2018**

**CITY OF LAUREL
TABLE OF CONTENTS
JUNE 30, 2018**

| | Page |
|--|-------------|
| INDEPENDENT AUDITOR’S REPORT | 1 – 3 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
|) Management’s Discussion and Analysis | 4 – 12 |
| BASIC FINANCIAL STATEMENTS | |
| Government-wide Financial Statements | |
|) Statement of Net Position | 13 |
|) Statement of Activities | 14 |
| Fund Financial Statements | |
|) Balance Sheet – Governmental Funds | 15 |
|) Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 16 |
|) Statement of Fiduciary Net Position – Pension Trust Fund | 17 |
|) Statement of Changes in Fiduciary Net Position – Pension Trust Fund | 18 |
| NOTES TO BASIC FINANCIAL STATEMENTS | 19 – 57 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
|) Schedule of Changes in Net Pension Liability and Related Ratios | 58 |
|) Schedule of Contributions and Investment Returns | 59 |
|) Other Post-Employment Benefits Plan – Schedule of Funding Progress | 60 |
|) Other Post-Employment Benefits Plan – Schedule of Employer Contributions | 61 |
|) Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – General Funds – Unaudited | 62 |
| SUPPLEMENTAL SCHEDULES | |
|) Schedule of Revenues – Budget (non-GAAP basis) and Actual General Fund | 63 – 65 |
|) Schedule of Expenditures – Budget (non-GAAP basis) and Actual General Fund | 66 – 67 |



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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Laurel, Maryland (the "City"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Laurel, Maryland, as of June 30, 2018, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of contributions and investment returns, other post-employment benefits plan-schedule of funding progress, other post-employment benefits plan-schedule of employer contributions, and the schedule of revenues and expenditures – budget and actual (budgetary Basis) – general funds - unaudited comparison information on pages 4 through 12 and 58 through 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Laurel, Maryland's financial statements as a whole. The schedule of revenues – budget non-GAAP and actual – general fund and the schedule of expenditures – budget non-GAAP and actual – general fund on pages 63 through 67 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of revenues – budget non-GAAP and actual general fund and the schedule of expenditures – budget non-GAAP and actual general fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the City adopted new accounting guidance, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* as of July 1, 2017. As a result, the City restated beginning net position of the governmental activities by \$6,732,828, from \$47,347,388 to \$40,614,560. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2018, on our consideration of the City of Laurel, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Laurel, Maryland's internal control over financial reporting and compliance.



December 7, 2018

CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

Financial Highlights

- FY2018 was the tenth year in a row with a real estate tax rate of \$0.71. All City services were maintained from previous years, and a Safety Compliance Officer was added.
- The Capital Improvement Program was approved with funding for new projects totaling \$1,216,750 and reauthorized funds from the previous year including \$5,910,000 in infrastructure projects.
- Ordinance No. 1930 adjusted the FY2018 General Operating Budget to allocate additional real estate tax revenue as well as red light camera revenue. Additional red light camera revenue results in additional processing fees, which requires an addition to the police department expenditure budget. These additional revenues and savings in other expenditure budgets allowed for a transfer to the Capital Improvement program as well as an additional City contribution to the Pension Fund above and beyond the actuary's recommendation.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

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

CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

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, economic and community development (planning/zoning within general government), and Fire Marshal and permit services (permits and code enforcement within public safety) 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, 2018**

Government-wide Financial Analysis

The City's total net position as of June 30, 2018 was \$41,751,105. The largest portion of net position, 86% is the net investment in capital assets, in the amount of \$35,957,935. The unrestricted portion, 7%, of net position can be used to meet the needs of serving the citizens and obligations to creditors.

The following is a condensed statement of net position:

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

| | Governmental Activities | |
|----------------------------------|-------------------------|---------------|
| | 2018 | 2017 |
| Current and other assets | \$ 37,066,448 | \$ 36,443,395 |
| Capital assets | 42,968,992 | 43,172,550 |
| Total Assets | 80,035,440 | 79,615,945 |
| | | |
| Deferred outflows | 5,962,069 | 5,411,842 |
| | | |
| Long-term liabilities | 31,245,094 | 25,401,391 |
| Other liabilities | 11,053,710 | 11,032,962 |
| Total Liabilities | 42,298,804 | 36,434,353 |
| | | |
| Deferred inflows | 1,947,600 | 1,246,046 |
| | | |
| Net position | | |
| Net investment in capital assets | 35,957,935 | 35,635,468 |
| Restricted | 2,881,011 | 2,299,467 |
| Unrestricted | 2,912,159 | 9,412,453 |
| Total Net Position | \$ 41,751,105 | \$ 47,347,388 |

**CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Governmental Activities

Governmental activities decreased the City's net position by \$1,136,545 or 3% over June 30, 2017. Property taxes comprised 58% of the total revenue, while the next highest source of revenue, charges for service, is 21% of the total revenue. Income taxes make up 10% of total revenue. The remaining 11% of revenue is received from licenses, permits, interest, operating grants, fines and forfeitures, and miscellaneous items.

| | Governmental Activities | |
|--|-------------------------|----------------------|
| | 2018 | 2017 |
| Revenue | | |
| Program Revenue | | |
| Charges for services | \$ 7,638,688 | \$ 7,597,077 |
| Operating grants/contributions | 1,493,188 | 1,837,517 |
| Capital grants/contributions | - | - |
| General Revenue | | |
| Property taxes | 21,094,980 | 20,375,868 |
| Income taxes | 3,596,694 | 3,429,557 |
| Other taxes | 653,926 | 1,091,670 |
| Interest | 77,232 | 69,231 |
| Miscellaneous | 2,003,789 | 1,154,423 |
| Total Revenue | 36,558,497 | 35,555,343 |
| Expenses | | |
| General government | 6,363,668 | 5,586,654 |
| Public safety | 12,390,253 | 11,840,095 |
| Parks & recreation | 2,522,585 | 2,199,249 |
| Public works | 5,008,756 | 4,486,356 |
| Miscellaneous | 8,945,109 | 4,052,934 |
| Debt service | 191,581 | 418,230 |
| Total Expenses | 35,421,952 | 28,583,518 |
| Contingency loss | - | (3,260) |
| Increase in net position | 1,136,545 | 6,968,565 |
| Net position, beginning of year - restated | 40,614,560 | 40,090,508 |
| Net position, ending | \$ 41,751,105 | \$ 47,059,073 |

**CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

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 \$18,774,244. A portion of fund balance in the amount of \$123,887 is nonspendable. \$3,038,004 is limited in its use by internal restrictions. Unassigned fund balance represents 50% of total general fund expenditures including transfers, while total fund balance represents 60% of that same amount.

The fund balance of the general fund has increased by 12% from \$16,810,455 at June 30, 2017 to \$18,774,244 at June 30, 2018 due to greater revenue than anticipated in local income tax, inter-governmental revenue charges, sanitation service charges, and red light camera citations.

The capital projects fund balance decreased by \$1,667,975 from the prior fiscal year. This is due to additional transfers from the general fund.

The Speed Camera fund ended the year with a restricted fund balance of \$2,881,011.

The Community Redevelopment Authority fund balance has a committed fund balance of \$1,055,009.

Fiduciary funds. The retirement plans of the City of Laurel employees are held in trust to provide future retirement benefits and death and disability benefits to participating employees and their beneficiaries. The net position for the pension fund increased by 10% from June 30, 2017 to June 30, 2018. The City's contribution met the actuarial recommendation of \$2,002,030 as well as an additional contribution of \$400,000 and the employee payroll deductions increased due to promotions and additional personnel. Net investment gain was \$3,818,899 from June 2017. This is an overall increase of \$4,248,308 from the loss as of June 30, 2017.

Budgetary Highlights

The General Operating Budget of FY2018 was amended once. Ordinance No. 1930 adjusted the FY2018 General Operating Budget to allocate additional real estate tax revenue as well as red light camera revenue. Additional red light camera revenue results in additional processing fees, which requires an addition to the police department expenditure budget. These additional revenues and savings in other expenditure budgets allowed for a transfer to the Capital Improvement program as well as an additional City contribution to the Pension Fund above and beyond the actuary's recommendation. Such transfers to the CIP have been the practice to provide cash funding of projects; therefore, not requiring additional loans and debt service obligations for future operating budgets.

**CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets of \$42,968,992 (net of accumulated depreciation) includes land and land improvements, infrastructure, buildings, machinery, equipment and tools. This is a 0.47% decrease from the prior fiscal year. The decrease is the net of the additions and the additional depreciation, and disposals.

In FY2018, \$1,405,717 in equipment was purchased between the general fund, speed camera fund and the capital improvement program. Purchases were made of computers and other electronic equipment as well as office furniture and vehicle replacements per the replacement schedule. Body wear cameras and Tasers were also purchased. Twenty-three streets were resurfaced in FY2018. The city had funding for 10 street projects. The other 13 were resurfaced in connection with a major WSSC project. The value of the FY2018 additions is \$2,498,899. Building asset values increased due to the renovation of the Emergency Operations Center (EOC) and the exterior painting of the Laurel Municipal Center. The lower level improvements to the Armory Community Center including restroom and shower facilities improvements and the installation of a sprinkler system; security system and new 5th Street entrance. Land improvements increased due to the addition of the electronic signs at the Barkman-Kaiser Public Safety Complex and the corner of Contee and Van Dusen Roads, as well as the addition of the Berlin Wall Memorial in the Memorial Garden.

The following table displays the City's capital assets:

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

| Description | Governmental Activities |
|-----------------------------|------------------------------------|
| Land | \$ 7,006,556 |
| Construction-in-progress | 117,701 |
| Buildings and improvements | 16,059,312 |
| Machinery, tools, equipment | 4,926,455 |
| Land improvements | 2,679,467 |
| Infrastructure | 12,179,501 |
| TOTAL | \$ 42,968,992 |

**CITY OF LAUREL, MARYLAND
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Long-term debt. At the end of the current fiscal year, the City had total long-term liabilities outstanding of \$33,019,262. This amount is comprised of the \$7,011,057 notes payable; \$11,863,735 in OPEB liability and \$1,245,221 in accrued vacation leave. This is an increase of \$6,337,342 from the FY2017 balance. In FY2018 the total of the scheduled debt service payments were greater than the draws on the Local Government Infrastructure Financing proceeds; accrued vacation leave increased; and the OPEB liability increased by 160%.

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

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

| | Governmental Activities |
|-------------------------|------------------------------------|
| Notes payable | \$ 7,011,057 |
| Accrued leave liability | 1,245,221 |
| Net pension liability | 12,899,249 |
| OPEB Liability | <u>11,863,735</u> |
| Total | <u><u>\$ 33,019,262</u></u> |

Economic Factors and Activities

Residential development continues to push forward within the City of Laurel with several projects either approved or pending. A proposal to re-development the Patuxent Greens golf course was recently approved. The owner was approved to re-develop the site with a residential community of 389 units including single-family homes and townhouse. The site will also include amenities such as; community clubhouse, pool, generational playground, tot lots and extensive trail network system. The project will begin constructing in the early 2019 and has four (4) phases of development. A new 97 room extended stay hotel known, as Candlewood Suites will be constructed within the City of Laurel. The project will start construction soon and will be complete by the spring of 2019. The hotel will be located just off Baltimore Avenue/Route 1 in the heart of the City.

The Westside mixed-use development includes a 469-unit complex located in the far southwest portion of the City adjacent to the proposed Konterra Town Center East. This project also includes a 56-unit townhouse subdivision and land designated for commercial uses and a hotel site. Both the apartment complex and the townhouse portion of the mixed-use community is complete. All of the townhouses also have been sold. Furthermore, Andersons Corner a mixed-use community has a 344-unit apartment complex, which was completed in the spring of 2017 known as Avalon Bay of Laurel. There will also be a Royal Farms gas station and convenience store apart of the community is currently under construction.

CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

A smaller townhouse community of 55 units entitled Avery Place at Andersons Corner has been construction and is slated to be complete by the second quarter of 2019. These are key developments for the City's commercial area and economic growth providing permanent, sustained employment opportunities.

The Main Street commercial area continues to be a powerful draw for businesses wishing to locate/relocate to the City of Laurel. Since 2018, approximately 20-25 businesses have located to the Main Street/Route 1 area. By the spring of 2019, the City's first rooftop restaurant and lounge will open up on the historic Main Street. In addition, on the Route 1 corridor the City will see its first Medical Marijuana Dispensary open up by the end of the year. The City has Economic Development grant opportunities available for business and property owners. In 2018, \$14,974 was awarded to business owners to either relocate their business to the City or conduct renovations to their property. Moreover, the City was recently designated a part of Maryland Main Street program. Main Street Maryland is a comprehensive downtown revitalization program that focuses on economic development and historic preservation efforts for Maryland cities. By the City being affiliated with the Program, it will now allow the City to apply for more grants through the state to assist with economic development efforts, revitalization and restoration of the Main Street corridor.

Furthermore, in 2018, the Department of Economic and Community Development started having several economic development events throughout the City; to allow business owners an opportunity to network with City staff and other entrepreneurs. These events also serve as a recruitment mechanism to recruit new viable businesses to the City of Laurel.

The City Administrator and Department of Economic and Community Development remain active in the Maryland Military Installation Council, the Fort George G. Meade Regional Growth Management Committee, and the Fort Meade Community Covenant Council in order to plan and prepare the City for the impacts of the continuing development occurring at Ft. George G. Meade and the National Security Agency, which is in a five mile radius of the City of Laurel. Furthermore, the City of Laurel currently attends several Washington Council of the Government (WCOG) committee meetings to stay abreast of economic, development and other current trends in the region.

The Department of Economic and Community Development maintains and oversees the built environment for the City of Laurel. The Department is responsible for Economic Development, zoning compliance, development review, historic preservation and affordable housing. The Department is also responsible for implementation and update of the City's Master Plan. A long-range planning tool that helps create a well-balanced and cohesive community.

**CITY OF LAUREL, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

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

These activities as well as the geographic location of the City of Laurel, equally located between Washington City and Baltimore City, outstanding services provided by the Laurel Police Department, Department of Public Works, Department of Parks & Recreation, and the responsiveness of elected officials and City Municipal Center staff continue to have a positive influence on new residents and businesses further improving the City's economy.

Development within the City continues to thrive which has created interest from developers to seek approval for other construction projects. It is anticipated that these efforts will continue to allow other investments and opportunities for the City.

Contacting the City's Financial Management

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

CITY OF LAUREL, MARYLAND
STATEMENT OF NET POSITION
JUNE 30, 2018

| | Governmental Activities | Total |
|--|----------------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Equity in pooled cash and cash equivalents | \$ 24,073,715 | \$ 24,073,715 |
| Restricted cash | 10,176,082 | 10,176,082 |
| Taxes receivable, net of allowances | 960,448 | 960,448 |
| Other receivables | 391,082 | 391,082 |
| Accounts receivable - speed camera fines | 108,647 | 108,647 |
| Accounts receivable - income taxes | 833,687 | 833,687 |
| Due from other governments | 359,152 | 359,152 |
| Due from other funds | 39,748 | 39,748 |
| Inventory | 123,887 | 123,887 |
| Total Current Assets | 37,066,448 | 37,066,448 |
| Noncurrent Assets | | |
| Net capital assets | 42,968,992 | 42,968,992 |
| Total Noncurrent Assets | 42,968,992 | 42,968,992 |
| TOTAL ASSETS | 80,035,440 | 80,035,440 |
| DEFERRED OUTFLOWS OF RESOURCES | 5,962,069 | 5,962,069 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ 85,997,509 | \$ 85,997,509 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 2,027,533 | \$ 2,027,533 |
| Accrued interest | 5,343 | 5,343 |
| Deposits | 6,202,346 | 6,202,346 |
| Unearned revenue | 1,040,015 | 1,040,015 |
| Current portion of long-term debt | 1,778,473 | 1,778,473 |
| Total Current Liabilities | 11,053,710 | 11,053,710 |
| Noncurrent Liabilities | | |
| Net OPEB liability | 11,863,735 | 11,863,735 |
| Compensated absences | 1,245,221 | 1,245,221 |
| Due to State (Note 13) | 4,305 | 4,305 |
| Net pension liability | 12,899,249 | 12,899,249 |
| Loan payable - long-term | 5,232,584 | 5,232,584 |
| Total Noncurrent Liabilities | 31,245,094 | 31,245,094 |
| TOTAL LIABILITIES | 42,298,804 | 42,298,804 |
| DEFERRED INFLOWS OF RESOURCES | 1,947,600 | 1,947,600 |
| NET POSITION | | |
| Net investment in capital assets | 35,957,935 | 35,957,935 |
| Restricted | | |
| Speed cameras | 2,881,011 | 2,881,011 |
| Unrestricted | 2,912,159 | 2,912,159 |
| TOTAL NET POSITION | 41,751,105 | 41,751,105 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | \$ 85,997,509 | \$ 85,997,509 |

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, 2018**

| Functions/Programs | Expenses | Indirect Expense Allocation | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | |
|-------------------------------|----------------------|-----------------------------------|-------------------------|--|--|--|------------------------|
| | | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government Governmental Activities | Total |
| Primary Government | | | | | | | |
| Governmental Activities: | | | | | | | |
| General government | \$ 6,363,668 | \$ 2,057,375 | \$ 1,729,269 | \$ 161,722 | \$ - | \$ (6,530,052) | \$ (6,530,052) |
| Public safety | 12,390,253 | 4,592,670 | 5,119,502 | 605,066 | - | (11,258,355) | (11,258,355) |
| Parks and recreation | 2,522,585 | 983,962 | 586,371 | 86,155 | - | (2,834,021) | (2,834,021) |
| Public works | 5,008,756 | 1,502,683 | 203,546 | 640,245 | - | (5,667,648) | (5,667,648) |
| Miscellaneous | 8,945,109 | (8,945,109) | - | - | - | - | - |
| Interest | 191,581 | (191,581) | - | - | - | - | - |
| Total Governmental Activities | <u>35,421,952</u> | <u>-</u> | <u>7,638,688</u> | <u>1,493,188</u> | <u>-</u> | <u>(26,290,076)</u> | <u>(26,290,076)</u> |
| Total Primary Government | <u>\$ 35,421,952</u> | <u>\$ -</u> | <u>\$ 7,638,688</u> | <u>\$ 1,493,188</u> | <u>\$ -</u> | <u>\$ (26,290,076)</u> | <u>\$ (26,290,076)</u> |
| | | | | General revenues: | | | |
| | | | | Taxes | | | |
| | | | | Income taxes | | 3,596,694 | 3,596,694 |
| | | | | Property taxes | | 21,094,980 | 21,094,980 |
| | | | | Other taxes | | 653,926 | 653,926 |
| | | | | Interest and investment earnings | | 77,232 | 77,232 |
| | | | | Miscellaneous | | <u>2,003,789</u> | <u>2,003,789</u> |
| | | | | Total General Revenues | | <u>27,426,621</u> | <u>27,426,621</u> |
| | | | | Change in Net Position | | 1,136,545 | 1,136,545 |
| | | | | Net Position, beginning of year - restated | | <u>40,614,560</u> | <u>40,614,560</u> |
| | | | | Net Position, end of year | | <u>\$ 41,751,105</u> | <u>\$ 41,751,105</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, 2018**

**RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCE TO NET POSITION OF
GOVERNMENTAL ACTIVITIES
JUNE 30, 2018**

| | General Fund | Capital Projects Fund | Speed Camera Fund | Community Redevelopment Authority | Non Major Fund Special Revenue Fund | Total Governmental Funds | | |
|---|----------------------|--------------------------|----------------------|---|---|--------------------------------|---|----------------------|
| ASSETS | | | | | | | | |
| Equity in pooled cash and cash equivalents | \$ 22,278,473 | \$ 926,329 | \$ - | \$ 868,913 | \$ - | \$ 24,073,715 | <i>Total Governmental Fund Balances</i> | \$ 25,997,075 |
| Restricted cash | 6,202,346 | - | 3,973,736 | - | - | 10,176,082 | | |
| Taxes receivable, net of allowances | 960,448 | - | - | - | - | 960,448 | Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 42,968,992 |
| Other receivables | 383,522 | 60 | - | 7,500 | - | 391,082 | | |
| Accounts receivable - speed camera fines | 7,947 | - | 100,700 | - | - | 108,647 | | |
| Accounts receivable - income taxes | 833,687 | - | - | - | - | 833,687 | | |
| Due from other governments | 359,152 | - | - | - | - | 359,152 | Long-term liabilities, including bonds payable, OPEB and compensated absences are not due and payable in the current period and therefore are not reported in the funds. | (33,023,567) |
| Due from other funds | 1,535,130 | 2,697,449 | 337,027 | 178,596 | - | 4,748,202 | | |
| Inventory | 123,887 | - | - | - | - | 123,887 | | |
| TOTAL ASSETS | 32,684,592 | 3,623,838 | 4,411,463 | 1,055,009 | - | 41,774,902 | | |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | | | |
| | - | - | - | - | - | - | Deferred inflows of resources related to pension liability are not reported in the fund financial statements. | (1,947,600) |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ 32,684,592 | \$ 3,623,838 | \$ 4,411,463 | \$ 1,055,009 | \$ - | \$ 41,774,902 | Deferred outflows of resources related to pension liability are not reported in the fund financial statements. | 5,962,069 |
| LIABILITIES | | | | | | | | |
| Accounts payable and accrued expenses | \$ 1,992,462 | \$ - | \$ 35,071 | \$ - | \$ - | \$ 2,027,533 | Receivables pertaining to revenue that is not available in accordance with modified accrual accounting are reported as deferred inflows of resources in the funds. | 1,794,136 |
| Accrued interest | 5,343 | - | - | - | - | 5,343 | | |
| Deposits | 6,202,346 | - | - | - | - | 6,202,346 | | |
| Due to other funds | 2,876,046 | 337,027 | 1,495,381 | - | - | 4,708,454 | <i>Net Position of Governmental Activities</i> | <u>\$ 41,751,105</u> |
| Unearned revenue | 1,040,015 | - | - | - | - | 1,040,015 | | |
| TOTAL LIABILITIES | 12,116,212 | 337,027 | 1,530,452 | - | - | 13,983,691 | | |
| DEFERRED INFLOWS OF RESOURCES | 1,794,136 | - | - | - | - | 1,794,136 | | |
| FUND BALANCES | | | | | | | | |
| Nonspendable | 123,887 | - | - | - | - | 123,887 | | |
| Restricted | - | - | 2,881,011 | - | - | 2,881,011 | | |
| Committed | 2,941,441 | 3,286,811 | - | 1,055,009 | - | 7,283,261 | | |
| Assigned | 96,563 | - | - | - | - | 96,563 | | |
| Unassigned | 15,612,353 | - | - | - | - | 15,612,353 | | |
| TOTAL FUND BALANCES | 18,774,244 | 3,286,811 | 2,881,011 | 1,055,009 | - | 25,997,075 | | |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 32,684,592 | \$ 3,623,838 | \$ 4,411,463 | \$ 1,055,009 | \$ - | \$ 41,774,902 | | |

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, 2018

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, 2018

| | General Fund | Capital Projects Fund | Speed Camera Fund | Community Redevelopment Authority | Non Major Fund Special Revenue Fund | Total Governmental Funds | | |
|---|----------------------|--------------------------|----------------------|---|---|--------------------------------|--|---------------------|
| REVENUES | | | | | | | | |
| Taxes | \$ 21,261,014 | \$ - | \$ - | \$ - | \$ 270,694 | \$ 21,531,708 | <i>Net Change in Fund Balances - Total Governmental Funds</i> | \$ 894,019 |
| Intergovernmental | 5,300,355 | - | - | - | - | 5,300,355 | Pension expense pertaining to the net pension liability is not reported in the funds. | (489,468) |
| Licenses and permits | 1,267,540 | - | - | - | - | 1,267,540 | 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 | 1,261,086 | - | - | - | - | 1,261,086 | This is the amount of principal debt repayment. | 1,616,420 |
| Fines and forfeitures | 3,558,911 | - | 1,551,151 | - | - | 5,110,062 | 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. | |
| Miscellaneous | 414,297 | 128,254 | 17,095 | 758,244 | - | 1,317,890 | This is the amount of the proceeds from new debt. | (1,090,395) |
| Total Revenues | <u>33,063,203</u> | <u>128,254</u> | <u>1,568,246</u> | <u>758,244</u> | <u>270,694</u> | <u>35,788,641</u> | 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. | 771,488 |
| EXPENDITURES | | | | | | | | |
| Current Operations | | | | | | | | |
| General government | 5,813,464 | - | - | - | - | 5,813,464 | OPEB contributions are long-term liabilities and the related expense is not reported in the funds. | (697,362) |
| Public safety | 10,997,899 | - | 986,702 | - | - | 11,984,601 | Changes in deferred inflows of resources pertaining to state income taxes do not use current financial resources and are not reported as revenues in the governmental funds. | 228,699 |
| Parks and recreation | 1,941,274 | - | - | - | - | 1,941,274 | 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. | (22,884) |
| Public works | 3,889,156 | - | - | - | - | 3,889,156 | | |
| Miscellaneous | 5,987,806 | 232,386 | - | 741,583 | 75,000 | 7,036,775 | | |
| Capital projects | - | 3,511,746 | - | - | - | 3,511,746 | | |
| Debt Service | | | | | | | | |
| Principal | 1,616,420 | - | - | - | - | 1,616,420 | | |
| Interest | 191,581 | - | - | - | - | 191,581 | | |
| Total Expenditures | <u>30,437,600</u> | <u>3,744,132</u> | <u>986,702</u> | <u>741,583</u> | <u>75,000</u> | <u>35,985,017</u> | | |
| Excess of revenues over (under) expenditures before other financing sources (uses) | <u>2,625,603</u> | <u>(3,615,878)</u> | <u>581,544</u> | <u>16,661</u> | <u>195,694</u> | <u>(196,376)</u> | | |
| Other financing sources (uses) | | | | | | | | |
| Loan proceeds | - | 1,090,395 | - | - | - | 1,090,395 | | |
| Operating transfers in (out) | (661,814) | 857,508 | - | - | (195,694) | - | | |
| Total other financing sources (uses) | <u>(661,814)</u> | <u>1,947,903</u> | <u>-</u> | <u>-</u> | <u>(195,694)</u> | <u>1,090,395</u> | | |
| Excess of revenue and other financing sources over (under) expenditures and other financing sources (uses) | <u>1,963,789</u> | <u>(1,667,975)</u> | <u>581,544</u> | <u>16,661</u> | <u>-</u> | <u>894,019</u> | | |
| Fund balance, beginning of year | <u>16,810,455</u> | <u>4,954,786</u> | <u>2,299,467</u> | <u>1,038,348</u> | <u>-</u> | <u>25,103,056</u> | Difference in accounting for compensated absences between modified accrual and accrual accounting. | (73,972) |
| Fund balance, end of year | <u>\$ 18,774,244</u> | <u>\$ 3,286,811</u> | <u>\$ 2,881,011</u> | <u>\$ 1,055,009</u> | <u>\$ -</u> | <u>\$ 25,997,075</u> | <i>Change in Net Position of Governmental Activities</i> | <u>\$ 1,136,545</u> |

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

CITY OF LAUREL, MARYLAND
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUND - PENSION TRUST FUND
JUNE 30, 2018

| | |
|--|-----------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 76,062 |
| Investments, at fair value | 40,596,418 |
| Contributions receivable | 250,000 |
| Other assets | <u>2,353</u> |
| TOTAL ASSETS | <u><u>40,924,833</u></u> |
| | |
| DEFERRED OUTFLOWS OF RESOURCES | <u>-</u> |
| | |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u><u>\$ 40,924,833</u></u> |
| | |
| LIABILITIES | |
| Accounts payable | \$ 212 |
| Due to general fund | <u>39,748</u> |
| Total liabilities | <u><u>39,960</u></u> |
| | |
| DEFERRED INFLOWS OF RESOURCES | <u>-</u> |
| | |
| NET POSITION | |
| Held in trust for pension benefits | <u>40,884,873</u> |
| | |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | <u><u>\$ 40,924,833</u></u> |

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

**CITY OF LAUREL, MARYLAND
STATEMENT OF CHANGES IN NET POSITION
AGENCY FUND - PENSION TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2018**

ADDITIONS

| | | |
|---|----|------------------|
| Contributions | | |
| Employer | \$ | 2,526,383 |
| Plan member | | 703,193 |
| Total contributions | | <u>3,229,576</u> |
| | | |
| Investment Income | | |
| Interest income | | 602 |
| Dividends | | 1,640,927 |
| Net change in fair value of investments | | 1,429,161 |
| Net investment income (loss) | | <u>3,070,690</u> |
| | | |
| Total additions | | <u>6,300,266</u> |

DEDUCTIONS

| | | |
|---|--|----------------------|
| Distributions | | 2,335,133 |
| Administrative expenses | | 122,794 |
| | | <u>2,457,927</u> |
| | | |
| Change in net position | | 3,842,339 |
| | | |
| Net position held in trust for pension benefits, beginning of year | | <u>37,042,534</u> |
| | | |
| Net position held in trust for pension benefits, end of year | | <u>\$ 40,884,873</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, 2018

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 and City Council-Strong Mayor form of government and provides the following services: general government, public safety, public works, and parks and recreation. The basic financial statements include the departments, agencies, and other organizational units over which the Mayor and City Council exercise oversight responsibility. In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The definition of the financial reporting entity is primarily based on the concept of financial accountability. The financial reporting entity consists of the primary government (the City) and activities for which the primary government is financially accountable. Financial accountability exists if a primary government appoints a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide a specific financial benefit to, or impose specific financial burdens on, the primary government. Based upon the application of these criteria, the City's basic financial statements include the City of Laurel Police Retirement Plan, the City of Laurel Employees (Administrative and Maintenance) Retirement Plan, and all departments, funds and account groups operated by the City. The activity of the City's retirement plans is reported in the Pension Trust Fund in the accompanying basic financial statements.

The City of Laurel Community Redevelopment Authority (the "Authority"), is reported as a blended component unit since the governing body of the Authority is substantially the same as the City's governing body and the City manages the activities in essentially the same manner as its own departments.

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 as applicable to government units.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of Presentation – Fund Accounting

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

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

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

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

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

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

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

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

Basis of Accounting

Government-Wide Financial Statements

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

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

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Fund Financial Statements

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

Governmental Funds

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

Revenue Recognition

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

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

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Expenditure Recognition

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

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

The major governmental funds are:

-) General Fund is the City's primary operating fund. It is used to account for all financial resources except for those required to be accounted for in another fund.
-) The Capital Projects Fund accounts for financial resources used for the acquisition or construction of major capital facilities.
-) The Speed Camera Fund is a special revenue fund used to account for amounts received from speed camera citations and the related administrative and public safety costs.
-) The Community Redevelopment Authority accounts for revitalization projects in designated areas of the City and is a blended component unit of the City.

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

Fiduciary Fund

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Budgetary Accounting and Control

The City follows these procedures in establishing the budgetary data reflected on page 60:

1. On or by May 1 of each year, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and estimates of anticipated revenue and uses of fund balance, which shall equal or exceed the total proposed expenditures.
2. Before adopting a budget, the City Council holds a public hearing to obtain taxpayer comments. Time and location of this hearing are advertised at least two weeks in advance. The Council has historically held two public hearings.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. From the date of budget enactment, proposed expenditures become appropriations authorized by the City Council. Any transfer of funds between major appropriations, by the Mayor, requires approval of the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the general fund. The policy established by the Mayor and City Council of Laurel, with respect to the City budget (budgetary basis), does not conform to generally accepted accounting principles (GAAP basis). The differences between budgetary and GAAP basis are shown in Note 19.

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

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

Cash and Cash Equivalents

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Investments

Investments held at June 30, 2018 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, 2018 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. Inventory at June 30, 2018 is \$123,887 for the general fund.

Capital Assets and Depreciation

Capital assets consist of infrastructure, land, buildings and equipment with an initial individual cost of more than \$500 and an estimated useful life in excess of five years. Such assets are recorded at historical cost. Donated capital assets are recorded at an estimated fair value at the date of donation. Intangible assets are recognized if they are identifiable, and are amortized over their useful lives if they do not have indefinite useful lives.

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

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

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

Restricted Reserves

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Deferred Outflows and Inflows of Resources

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

As of June 30, 2018 the balance of deferred inflows of resources consisted of:

| | |
|-------------------------------|---------------------|
| Income taxes, General Fund | \$ 833,687 |
| Property taxes, General Fund | 960,449 |
| Loan receivable, General Fund | - |
| | <u>\$ 1,794,136</u> |

Local Tax Reserve Fund

At June 30, 2018, the City was advised by the State of Maryland that \$833,687 of the Local Tax Reserve Fund was allocable to the City. The City recorded receivable and deferred inflows of resources in the amount of \$833,687 in the fund financial statements. Changes in this amount have been reflected as current year income tax revenue in the government-wide financial statements in accordance with full accrual accounting.

Interest Expense

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Compensated Absences

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

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

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

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

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

Net Position

The government-wide statement of net position reports \$2,881,011 of restricted net position which is either restricted by enabling legislation or restrictions determined to be legally enforceable.

Estimates

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Equity Classifications

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

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

Restricted net position – Consists of net position with constraints placed on their use either by 1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation and are reduced by liabilities and deferred inflows of resources related to those constraints.

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

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

Governmental Fund Balances

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

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

The City adopted new accounting guidance, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* as of July 1, 2017. As a result, the City restated beginning net position of the governmental activities by \$6,732,828 from \$47,347,388 to \$40,614,560.

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 2018. For day-to-day management control, expenditures may not exceed budget at the department level. The City prepares an annual operating budget on a basis not consistent with generally accepted accounting principles. Refer to Note 19 for a reconciliation to a GAAP basis.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposit Policies

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

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

Pooling of Cash

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 \$7,732,973 and the bank balances totaled \$7,961,339. Of the bank balances, the entire amount was insured by Federal Depository Insurance Corporation (FDIC) or secured by collateral valued at 102 percent of principal and accrued interest. At year end, the City’s bank balances were not exposed to any custodial credit risk because all deposits were fully collateralized. Restricted cash consisted of the following at June 30, 2018:

| | |
|------------------------------|-----------------------------|
| Escrow deposits | \$ 6,202,346 |
| Public safety - speed camera | <u>3,973,736</u> |
| | <u><u>\$ 10,176,082</u></u> |

Investment Policies

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

Investments in money market funds are valued at the closing net asset value per share on the day of valuation. The fair value of the position in the Pool is the same as the value of the pool net position (shares).

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

As of June 30, 2018 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 | \$ 3,024,994 | \$ 3,024,994 | AAAm |
| Repurchase agreements | 19,001,991 | 19,001,991 | N/A |
| Money market funds | 1,630,804 | 1,630,804 | AAAm |
| Certificates of Deposit: | | | |
| Fleet reserve | 512,796 | 512,796 | N/A |
| Street maintenance reserve | 1,025,337 | 1,025,337 | N/A |
| Public safety reserve | <u>1,313,681</u> | <u>1,313,681</u> | N/A |
| | <u>\$ 26,509,603</u> | <u>\$ 26,509,603</u> | |
| Agency Fund - | | | |
| Repurchase agreements | 2,106,453 | 2,106,453 | N/A |
| Mutual funds | <u>38,489,965</u> | <u>38,489,965</u> | N/A |
| | <u>\$ 40,596,418</u> | <u>\$ 40,596,418</u> | |

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

A reconciliation of cash and cash equivalents per the Statement of Net Position totaling \$34,249,797 (\$24,073,715 unrestricted and \$10,176,082 restricted) to investments, deposits and petty cash follows.

| | |
|-------------|----------------------|
| Investments | \$ 26,509,603 |
| Deposits | 7,732,973 |
| Petty cash | <u>7,221</u> |
| | <u>\$ 34,249,797</u> |

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 – TAXES RECEIVABLE

Taxes receivable are comprised of the following as of June 30, 2018.

| | |
|-------------------|--------------------------|
| Personal property | \$ 140,108 |
| Real estate | <u>820,340</u> |
| | <u><u>\$ 960,448</u></u> |

NOTE 5 – OTHER ACCOUNTS RECEIVABLE

Other accounts receivable are comprised of the following as of June 30, 2018.

| | |
|-------------------------------|--------------------------|
| Cable franchise fee | \$ 169,912 |
| Grass cutting receivable | 9,997 |
| Refuse - residential | 38,105 |
| Parks & recreation receivable | 42,121 |
| Various | <u>130,947</u> |
| | <u><u>\$ 391,082</u></u> |

**CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 – UNEARNED REVENUES

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

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

| | | |
|---------------------------|----|--------------|
| Impact fees, General Fund | \$ | 958,127 |
| Other unearned revenues | | 81,888 |
| | | \$ 1,040,015 |

NOTE 7 – INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivable and payable balances at June 30, 2018 are as follows:

| Fund | Interfund receivables | Interfund payables |
|-----------------------------------|--------------------------|-----------------------|
| General fund | \$ 1,535,130 | \$ 2,876,046 |
| Capital projects fund | 2,697,449 | 337,027 |
| Speed camera fund | 337,027 | 1,495,381 |
| Community redevelopment authority | 178,596 | - |
| Pension trust fund | - | 39,748 |
| | \$ 4,748,202 | \$ 4,748,202 |

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 8 – PROPERTY TAX

The City's real property tax is levied each July 1, on the assessed value for all property located within City boundaries. Real property tax revenue is recognized when received. Assessed values are established by the Maryland State Department of Assessments and Taxation based on estimates of fair market value, multiplied by that year's assessment rate. The rate per \$100 of assessed value was \$.71 in 2018.

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, 2018, were 99% of the levy.

The City's real property rate for the special taxing district was \$.03 per \$100 assessed value in 2018.

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 2018. Personal property tax revenue is recognized when received.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 9 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2018 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|------------------------------------|----------------------|---------------------|-------------------|----------------------|
| Governmental activities: | | | | |
| Not being depreciated: | | | | |
| Land | \$ 7,006,556 | \$ - | \$ - | \$ 7,006,556 |
| Construction in progress | 139,794 | - | 22,093 | 117,701 |
| Subtotal | <u>7,146,350</u> | - | 22,093 | <u>7,124,257</u> |
| Depreciable capital assets: | | | | |
| Infrastructure | 25,220,819 | 2,498,899 | 3,476,501 | 24,243,217 |
| Land improvements | 5,177,665 | 115,658 | - | 5,293,323 |
| Buildings and improvements | 25,377,133 | 144,343 | - | 25,521,476 |
| Machinery, tools and equipment | 14,353,589 | 1,405,717 | 63,609 | 15,695,697 |
| Subtotal | <u>70,129,206</u> | <u>4,164,617</u> | <u>3,540,110</u> | <u>70,753,713</u> |
| Total capital assets | <u>77,275,556</u> | <u>4,164,617</u> | <u>3,562,203</u> | <u>77,877,970</u> |
| Accumulated depreciation: | | | | |
| Infrastructure | 14,107,671 | 865,289 | 2,909,244 | 12,063,716 |
| Land improvements | 2,330,387 | 283,469 | - | 2,613,856 |
| Buildings and improvements | 8,682,853 | 779,311 | - | 9,462,164 |
| Machinery, tools and equipment | 9,959,882 | 872,295 | 62,935 | 10,769,242 |
| Subtotal, accumulated depreciation | <u>35,080,793</u> | <u>2,800,364</u> | <u>2,972,179</u> | <u>34,908,978</u> |
| Net capital assets | <u>\$ 42,194,763</u> | <u>\$ 1,364,253</u> | <u>\$ 590,024</u> | <u>\$ 42,968,992</u> |

Depreciation was charged to functions as follows:

| | |
|----------------------|---------------------|
| General government | \$ 462,165 |
| Public safety | 676,256 |
| Parks and recreation | 558,443 |
| Public works | 1,103,500 |
| | <u>\$ 2,800,364</u> |

The City has construction commitments of approximately \$68,520 as of June 30, 2018.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – LONG-TERM DEBT

General obligation bonds consist of the following at June 30, 2018:

\$5,134,344 – Public Improvement bonds, 2016 series A; due in annual installments of \$419,220 to \$579,507 through April 1, 2026; interest varies from 1.76% to 2.91%. The semiannual interest payments are offset by interest on the undrawn proceeds held in an escrow account by and in the name of the CDA. Interest paid on the bond for the year ended June 30, 2018 was \$37,262 less interest income of \$5,728. The outstanding principal balance and balance of undrawn proceeds on June 30, 2018 were \$722,518 and \$3,542,482 respectively.

\$2,860,000 – Public Improvement bonds, 2012 series A; due in annual installments of \$263,500 to \$316,500 through May 1, 2022; interest varies from 1.41% to 2.91%. The semiannual interest payments are offset by interest on the undrawn proceeds held in an escrow account by and in the name of the CDA. Interest paid on the bond for the year ended June 30, 2018 was \$38,171 less interest income of \$1,839. The outstanding principal balance and balance of undrawn proceeds on June 30, 2018 were \$1,052,913 and \$160,587 respectively.

\$8,406,000 - Public improvement bonds, 2007 Series B was refinanced in August 2017; 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, 2018 was \$58,776 less interest income of \$10. The outstanding principal balance and balance of undrawn proceeds on June 30, 2018 were \$2,820,473 and \$0 respectively.

Notes payable consists of the following at June 30, 2018:

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, and 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 were consolidated as of February 22, 2016 with a principal balance of \$1,610,402. Through the February 2016 debt service payments on the original two loans, \$12,710 and \$13,967 in interest payments had been made. The consolidated note is payable in monthly installments of \$15,022 until February 24, 2021 with interest at 2.25%. As of June 30, 2018, the outstanding principal balance on the note is \$1,266,800. Interest paid on the note for the year ended June 30, 2018 was \$30,664.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – LONG-TERM DEBT – continued

Also on February 22, 2016, the Mayor and City Council executed loan documents for a loan in the amount of \$1,402,584. The loan proceeds funded the purchase of a refuse truck as well as the construction project for Cherry Lane and Ashford Boulevard. The note is payable in monthly installments of \$13,084 until February 24, 2021 with interest at 2.25%. As of June 30, 2018, the outstanding principal balance on the note is \$1,103,324. Interest paid on the note for the year ended June 30, 2018 was \$26,707.

The changes in governmental long-term debt for the year ended June 30, 2018 are summarized below.

| | Beginning Balance | Additions | Retirements | Ending Balance | Amount due in one year |
|-------------------------|----------------------|---------------------|-----------------------|----------------------|---------------------------|
| Bank loans | \$ 2,650,017 | \$ - | \$ (279,893) | \$ 2,370,124 | \$ 286,173 |
| CDA loans | 4,887,065 | 1,090,395 | (1,336,527) | 4,640,933 | 1,492,300 |
| Total | <u>\$ 7,537,082</u> | <u>\$ 1,090,395</u> | <u>\$ (1,616,420)</u> | <u>\$ 7,011,057</u> | <u>\$ 1,778,473</u> |
| | | | | | |
| Compensated absences | <u>\$ 1,171,249</u> | <u>\$ 73,972</u> | <u>\$ -</u> | <u>\$ 1,245,221</u> | <u>\$ -</u> |
| OPEB liability | <u>\$ 4,565,000</u> | <u>\$ 7,298,735</u> | <u>\$ -</u> | <u>\$ 11,863,735</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, 2018. Estimated interest payments were based on rates in effect at June 30, 2018 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, 2018

NOTE 10 – LONG-TERM DEBT – continued

| <u>Year ended June 30,</u> | <u>Bank Loans</u> | | <u>CDA Loans (A)</u> | |
|----------------------------|---------------------|-------------------|----------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2019 | \$ 286,173 | \$ 51,091 | \$ 1,492,300 | \$ 157,947 |
| 2020 | 292,652 | 44,612 | 1,522,500 | 133,221 |
| 2021 | 1,791,299 | 26,094 | 1,549,700 | 103,971 |
| 2022 | - | - | 1,579,500 | 74,084 |
| 2023 | - | - | 535,000 | 41,765 |
| 2024-2026 | | | 1,665,000 | 67,720 |
| Total | \$ 2,370,124 | \$ 121,797 | \$ 8,344,000 | \$ 578,708 |

| <u>Year ended June 30,</u> | <u>Total</u> | |
|----------------------------|----------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2019 | \$ 1,778,473 | \$ 209,038 |
| 2020 | 1,815,152 | 177,833 |
| 2021 | 3,340,999 | 130,065 |
| 2022 | 1,579,500 | 74,084 |
| 2023 | 535,000 | 41,765 |
| 2024-2026 | 1,665,000 | 67,720 |
| Total | \$ 10,714,124 | \$ 700,505 |

(A) This payout schedule assumes the remaining \$3,542,482 and \$160,587 of undrawn proceeds are drawn down.

NOTE 11 – CONCENTRATIONS

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12 – RISK MANAGEMENT

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

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

LGIT is capitalized at an actuarially determined level to provide financial stability for its local government members and to reduce the possibility of assessments. The trust is owned by the participating counties and cities and managed by a Board of Trustees elected by the members. Annual premiums are assessed for the various policy coverages. During fiscal year 2018, the City paid premiums of \$252,537 to the trust. The agreement for the formation of LGIT provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of annual premiums. Settled claims, if any resulting from these risks, have not exceeded commercial insurance coverage in the past fiscal year.

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

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

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

**CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 13 – COMPTROLLER OF THE TREASURY OF MARYLAND V. WYNNE

In 2015, in *Comptroller of the Treasury of Maryland v. Wynne*, the Supreme Court invalidated a portion of Maryland’s personal income tax scheme after determining that it inherently burdened the earnings of individuals who resided in one state but earned income in another.

In response, Maryland has enacted corrective legislation allowing a credit for Maryland residents against personal income tax for income taxed by other states. The Court had ruled that the failure of Maryland law to allow such a credit rendered Maryland’s personal income tax scheme unconstitutional.

As of June 2018, the Comptroller’s Office states that the fiscal impact of the ruling on the City will be \$4,305 of refunds for prior years’ taxes, and a minimal estimated reduction in income tax revenue each year going forward.

The City will be required to start reimbursing the State during the fourth quarter of fiscal year 2019, and the debt will be repaid over a period of five years as a reduction in income tax distribution.

| | Balance June 30, 2017 | Retired During Year | Balance June 30, 2018 | Amount Due Within 1 Year |
|-------------------|--------------------------|------------------------|--------------------------|-----------------------------|
| State of Maryland | \$ 4,305 | \$ - | \$ 4,305 | \$ 215 |

The annual deductions will be as follows:

| FY | Amount |
|------------|----------|
| 2019 | \$ 215 |
| 2020 | 860 |
| 2021 | 860 |
| 2022 | 860 |
| 2023 | 860 |
| Thereafter | 650 |
| | \$ 4,305 |

NOTE 14 – DEFERRED COMPENSATION PLAN

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 14 – DEFERRED COMPENSATION PLAN - continued

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

In compliance with the Internal Revenue Code Section 457(g), all assets and income of the plans are held in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, the investments designated for compensation benefits are not reflected in the City's financial statements.

Mass Mutual (formerly ITT Hartford) is the plan administrator and the trustee for one plan, and Pacific Life is the plan administrator and the trustee for the other plan.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 15 – RETIREMENT 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. The City's municipal code and section 23A of the Annotated Code of Maryland grants the authority to provide and amend retirement benefits.

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

The City has also adopted GASB No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB No. 68. GASB No. 71 requires that contributions to the pension plan subsequent to the measurement date be recognized as a deferred outflow of resources. The City's fiscal 2018 contribution of \$2,526,383 is therefore recognized as a pension-related deferred outflow of resources.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 15 – RETIREMENT PLAN - continued

Benefits provided

Administrative and Maintenance employees are eligible to receive retirement benefits as of the participant's 65th birthday and the completion of 5 years of credited service or upon the completion of 30 years of credited service regardless of age. Police employees are eligible to receive retirement benefits the earlier of the participant's 65th birthday and the completion of 5 years of credited service or upon completion of 20 years of credited service regardless of age. All participants under the Plans as of June 30, 2007, are entitled to a minimum benefit as of such date determined under the provisions of the plan then in effect.

Employees may elect to receive their pension benefits in the form of a single life annuity, a period certain and continuous annuity, a joint and survivor annuity or a Social Security annuity. Administrative and Maintenance employee's normal retirement allowance consists of 1.67% of final average compensation multiplied by credited service not greater than 30 years. Police employee's normal retirement allowance consists of 2.5% of final average compensation for each of the first 20 years of credited service plus 1.5% of final average compensation for each of the next 5 years of credited service.

The Plans allow the City to grant a cost of living increase to participants or beneficiaries annually. The most recent cost of living adjustment was an increase of 2.5% effective July 1, 1998.

Plan Membership

All full-time and part-time employees of the City must participate in the applicable Plan. A participant becomes fully vested in his or her accrued benefit after 5 years of credited service. Credited service is determined for any participant as the years and completed months during which the participant shall have been in the employment of the City. Additionally, credited service includes credited service transferred from other government employers in the State of Maryland or purchased for military service or government service anywhere in the United States, not to exceed 5 years.

The number of employees covered and current membership classifications as of June 30, 2018 are as follows:

| | |
|---|-------------------|
| Active participants | 174 |
| Inactive plan members entitled to but not yet receiving benefits | 11 |
| Inactive plan members or beneficiaries currently receiving benefits | <u>95</u> |
| Total participants | <u><u>280</u></u> |

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 15 – RETIREMENT PLAN - continued

Deferred Retirement Option Program

The Plans may be amended by the City Council, and the Plans were amended as of January 1, 2005 to include provisions for a Deferred Retirement Option Plan (“DROP”). Under the DROP, participants eligible to participate may elect to defer the commencement of his or her retirement benefits from a minimum period of one year to a maximum period of seven years in the Employee Plan and five years in the Police Plan. The period of participation automatically ends when a participant terminates employment for any reason. Election to participate in the DROP was to end December 31, 2009, but was extended in 2009 and 2014 to December 31, 2019. The balance of amounts held by the Plans pursuant to the DROP was \$2,851,886 as of June 30, 2018.

Funding Policy

The City’s municipal code and section 23A of the Annotated Code of Maryland grants the authority to establish and amend contribution rates. As a condition of employment, employees must contribute 4.5% (Administrative and Maintenance) and 8.8% (Police) of base earnings, excluding bonuses, commissions, overtime payments and other additional compensation. The City’s funding policy is to make annual contributions to the Plans as calculated by the actuary in amounts sufficient to provide the benefits of the Plans. The City does not calculate a net pension obligation, but develops an annual required contribution as a percent of payroll. The annual pension cost is equal to the annual required contribution. The contribution rate applied to actual payroll is actuarially determined and consists of a normal cost component and an unfunded actuarial component. The contributions made to the Plan for fiscal year 2018 were made in accordance with the actuarial valuation for the plan year ending June 30, 2017. The contributions consisted of amounts contributed by the employees of \$703,029 and amounts contributed by the City of \$2,526,383.

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

| | Fiscal Year Ending June 30 | | |
|-------------------------------|----------------------------|--------------|--------------|
| | 2018 | 2017 | 2016 |
| Retirement plan contributions | \$ 2,526,383 | \$ 2,247,316 | \$ 2,402,030 |

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 15 – RETIREMENT PLAN - continued

The City contributed \$2,526,383 to the System for fiscal year 2018 which was actuarially determined based on statutory provisions. The City has also recognized in Pension Expense its proportionate share of the System’s deferred inflows of resources (an increase in Pension Expense) attributable to the net difference between projected and actual investment earnings on pension plan assets and its proportionate share of the System’s deferred outflows of resources (a decrease in Pension Expense) attributable to changes in assumptions.

Required disclosures aggregate for the plan:

| | <u>Laurel Pension System</u> |
|---|------------------------------|
| Total pension liability | \$ 52,219,377 |
| Total fiduciary net position | 39,320,128 |
| City's proportionate share of total pension liabilities | 12,899,249 |
| City's proportionate share of net pension liabilities | 100.00% |
| Total pension assets | 39,320,128 |
| Measurement date of collective net pension liability | June 30, 2017 |
| Date of actuarial valuation | June 30, 2017 |
| Deferred outflows related to pensions | 5,962,069 |
| Deferred inflows related to pensions | 1,947,600 |
| Pension expense/expenditures for the period | 2,036,915 |

**CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 15 – RETIREMENT PLAN - continued

Actuarial assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation on July 1, 2016 rolled forward to June 30, 2016. The key assumptions used to perform the June 30, 2017 pension liability calculation for the System are as follows:

| | |
|-------------------------------|---|
| Actuarial Method | Entry Age Normal |
| Amortization Method | Level Percentage of Payroll, Closed |
| Asset valuation method | 5-year smoothed market |
| Inflation (b) | 3.0% |
| Salary Increases | 5%, including inflation |
| Discount Rate (a) | 7.00% |
| Investment Rate of Return (b) | 7.00% |
| Retirement age | Participants are assumed to retire or join DROP upon eligibility for Normal Retirement |
| Mortality | RP-2014 Total Dataset table with generational projection by scale MP-2016. For Police plan members use blue collar adjustment; for disabled participants set forward 10 years |

- (a) Discount rate at prior measurement date was 7.00%.
- (b) There were no benefit changes during the year. Adjustments to the roll-forward liabilities were made to reflect the following assumption changes in the 2017 valuation:
 - a. Investment return assumption did not change.
 - b. Inflation assumption did not change.

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

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 15 – RETIREMENT PLAN - continued

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

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

The above was the Plan’s Board of Trustee’s adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of June 30, 2017.

The components of the net pension liability for the System as of June 30, 2017, calculated in accordance with GASB Statement No. 67, are shown in the following table:

| | |
|---|---------------|
| Total pension liability | \$ 52,219,377 |
| Plan Fiduciary Net Position | 39,320,128 |
| Net Pension Liability | \$ 12,899,249 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 75.30% |

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 15 – RETIREMENT PLAN - continued

Discount Rate

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

Sensitivity of the Net Pension Liability

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

| | 1% Decrease | Current Discount Rate | 1% Increase |
|------------------------------|---------------|--------------------------|--------------|
| | 6.00% | 7.00% | 8.00% |
| City's net pension liability | \$ 19,369,222 | \$ 12,899,249 | \$ 7,555,781 |

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 15 – RETIREMENT PLAN - continued

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

At June 30, 2018, the City reported a liability of \$12,899,249 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental units, actuarially determined. At June 30, 2017, the City’s proportion was 100 percent.

For the year ended June 30, 2018, the City recognized pension expense of \$2,036,915. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows | Deferred Inflows |
|--|---------------------|--------------------|
| Differences between expected and actual experience | \$ 15,462 | \$ 177,353 |
| Changes of assumptions | 1,412,301 | - |
| Net difference between projected and actual earnings on pension plan investments | 2,007,923 | 1,638,792 |
| Contributions subsequent to the measurement date | 2,526,383 | - |
| Total | \$ 5,962,069 | \$1,816,145 |

The deferred inflows and outflows of resources relating to differences between expected and actual experience and differences in projected and actual investment earnings represent the City’s proportionate share of the unamortized portions of the Plan’s original amounts, which are being amortized over a five-year period beginning in fiscal 2018. These unamortized amounts will be ratably recognized in pension expense over the next four years. The deferred outflow of resources of \$2,526,383 relating to contributions subsequent to the measurement date will be recognized as a reduction of the City’s net pension liability in the year ended June 30, 2019.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 16 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description and Benefits Provided

The City pays up to \$500 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 \$500 of premiums per month.

Funding Policy

The City has not established an OPEB trust as of June 30, 2018 and has not made a contribution for the year ended June 30, 2018. The City will pay benefits on a pay-as-you-go basis.

Employees Covered by Benefit Terms

At June 30, 2018, the following employees were covered by the benefit terms:

| | |
|--|-------------------|
| Inactive employees or beneficiaries currently receiving benefit payments | 39 |
| Inactive employees entitled to but not yet receiving benefit payments | 53 |
| Active employees | <u>199</u> |
| | <u><u>291</u></u> |

Total OPEB Liability

The City’s total OPEB liability of \$11,863,735 was measured as of June 30, 2018, and was determined by an actuarial valuation as of June 30, 2017 and rolled forward to June 30, 2018.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 16 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – continued

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all period included in the measurement, unless otherwise specified:

| | |
|-----------------------------|------------------|
| Actuarial cost method | Entry age normal |
| Salary increases | 3.5% per annum |
| Discount rate | 3.62% |
| Healthcare cost trend rates | 3.9% |

The discount rate was based on the 20-year bond rate.

Mortality rates were based on the RP2014 Total Dataset adjusted to the 2006 table with fully generational projection using scale MP2016.

The trend rate selected is based on an economic model developed by a health care economist for the Society of Actuaries.

Changes in the Total OPEB Liability

| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (a) - (b) |
|---|--------------------------------|---------------------------------------|------------------------------------|
| Balance as of June 30, 2017 for FY2017 | \$ 11,297,828 | \$ - | \$ 11,297,828 |
| Changes for the year | | | |
| Service cost | 567,582 | - | 567,582 |
| Interest | 398,471 | - | 398,471 |
| Changes in benefit terms | - | - | - |
| Experience losses/(gains) | (92,296) | | (92,296) |
| Trust contribution - employer | - | 242,400 | (242,400) |
| Net investment income | - | - | - |
| Changes in assumptions | (65,450) | - | (65,450) |
| Benefit payments (net of retiree contributions) | (242,400) | (242,400) | - |
| Administrative expense | - | - | - |
| Net changes | <u>565,907</u> | <u>-</u> | <u>565,907</u> |
| Balance as of June 30, 2018 for FY2018 | <u>\$ 11,863,735</u> | <u>\$ -</u> | <u>\$ 11,863,735</u> |

Changes of assumptions reflects a change in the discount rate from 3.50% to 3.62%.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 16 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – continued

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability to the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.62%) or 1-percentage-point higher (4.62%) than the current discount rate:

| | 1% Decrease 2.62% | Current Discount Rate 3.62% | 1% Increase 4.62% |
|----------------------------|----------------------|-----------------------------------|----------------------|
| Total OPEB Liability | \$ 13,675,717 | \$ 11,863,735 | \$ 10,387,923 |
| Net OPEB Liability/(Asset) | \$ 13,675,717 | \$ 11,863,735 | \$ 10,387,923 |

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate

The following presents the total OPEB liability to the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (2.90%) or 1-percentage-point higher (4.90%) than the current discount rate:

| | 1% Decrease 2.90% | Current Medical Trend 3.90% | 1% Increase 4.90% |
|----------------------------|----------------------|--------------------------------|----------------------|
| Total OPEB Liability | \$ 10,137,382 | \$ 11,863,735 | \$ 14,026,568 |
| Net OPEB Liability/(Asset) | \$ 10,137,382 | \$ 11,863,735 | \$ 14,026,568 |

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the City recognized OPEB expense of \$939,762. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ - | \$ 76,913 |
| Changes of assumptions | - | 54,542 |
| Net difference between project and actual earnings on OPEB plan investments | - | - |
| Total | \$ - | \$ 131,455 |

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 16 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – continued

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Fiscal Year <u>ended June 30:</u> | |
|--------------------------------------|----------|
| 2019 | (26,291) |
| 2020 | (26,291) |
| 2021 | (26,291) |
| 2022 | (26,291) |
| 2023 | (26,291) |
| Thereafter | - |

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Grants

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

Litigation

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

NOTE 18 – RISKS AND UNCERTAINTIES

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

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 19 – RECONCILIATION OF NON-GAAP BUDGET TO GAAP BUDGET

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

| | |
|---|----------------------------|
| Excess (deficiency) of revenue over expenditures, encumbrances and other financing sources (uses) - non-GAAP budgetary basis - general fund | \$ - |
| Use of designated reserves | (776,378) |
| Increase (decrease) due to: | |
| Expenditures of amounts encumbered during prior year | (102,049) |
| Reserved encumbrances (GAAP basis) at June 30, 2018, but recognized as expenditures for budgetary purposes | <u>96,563</u> |
| Excess (deficiency) of revenue over expenditures and other financing sources (uses) - GAAP | <u><u>\$ (781,864)</u></u> |

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 20 – FUND BALANCE REPORTING

Fund balances for the City’s governmental funds consisted of the following as of June 30, 2018:

Non-Spendable Fund Balance

The non-spendable fund balance in the general fund in the amount of \$123,887 is made up of inventory that is not in spendable form.

Restricted Fund Balance

The restricted fund balance in the speed camera fund is comprised of \$2,881,011 for public safety expenditures.

Committed Fund Balance

The committed fund balance in the general fund in the amount of \$2,941,441 is made up of \$498,737 for fleet equipment and \$1,492,704 for street maintenance; \$550,000 for employee insurance; \$200,000 for City vehicle fuel; and \$200,000 City facility utility expense. The committed fund balance in the capital projects fund is \$3,286,811 for future capital projects. The committed fund balance in the community redevelopment authority is \$1,055,009 for redevelopment projects.

Assigned Fund Balance

The assigned fund balance in the general fund is made up of \$96,563 for encumbrances outstanding.

Unassigned Fund Balance

The unassigned fund balance in the general fund is \$15,612,353.

CITY OF LAUREL, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 21 – NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements:

Statement No. 83, *Certain Asset Retirement Obligations*, issued November 2016, effective for financial statements for fiscal years beginning after June 15, 2018.

Statement No. 84, *Fiduciary Activities*, issued January 2018, effective for financial statements for fiscal years beginning after December 15, 2018.

Statement No. 85, *Omnibus 2018*, issued March 2018, effective for financial statements for fiscal years beginning after June 15, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues*, issued May 2018, effective for financial statements for fiscal years beginning after June 15, 2018.

Statement No. 87, *Leases*, issued June 2018, effective for financial statements for fiscal years beginning after December 15, 2019.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, issued April 2018, effective for reporting periods beginning after June 15, 2018.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, issued June 2018, effective for reporting periods beginning after December 15, 2019.

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

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

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|------------------|------------------|------------------|------------------|---|-------------|-------------|-------------|-------------|-------------|
| Total Pension Liability | | | | | | | | | | |
| Service cost | \$ 1,501 | \$ 1,339 | \$ 1,289 | \$ 1,210 | Information for FY 2013 and earlier years is not available. | | | | | |
| Interest | 3,335 | 3,020 | 2,936 | 2,850 | | | | | | |
| Changes of benefit terms | - | - | - | - | | | | | | |
| Difference between expected and actual experience | 19 | (152) | (215) | - | | | | | | |
| Changes of assumptions | 1,366 | 532 | - | - | | | | | | |
| Benefit payments | <u>(2,152)</u> | <u>(2,750)</u> | <u>(1,676)</u> | <u>(1,737)</u> | | | | | | |
| Net change in total pension liability | 4,069 | 1,989 | 2,334 | 2,323 | | | | | | |
| Total pension liability - beginning | <u>48,150</u> | <u>46,161</u> | <u>43,827</u> | <u>41,504</u> | | | | | | |
| Total pension liability - end (a) | <u>\$ 52,219</u> | <u>\$ 48,150</u> | <u>\$ 46,161</u> | <u>\$ 43,827</u> | | | | | | |
| Plan fiduciary net position | | | | | | | | | | |
| Contributions - employer | \$ 2,247 | \$ 2,402 | \$ 2,159 | \$ 2,285 | | | | | | |
| Contributions - member | 674 | 615 | 604 | 579 | | | | | | |
| Net investment income | 3,921 | (391) | 1,321 | 4,435 | | | | | | |
| Benefit payments | (2,152) | (2,749) | (1,676) | (1,737) | | | | | | |
| Administrative expenses | (111) | (102) | (123) | (94) | | | | | | |
| Other | - | - | - | - | | | | | | |
| Net change in plan fiduciary net position | 4,579 | (225) | 2,285 | 5,468 | | | | | | |
| Plan fiduciary net position - beginning | <u>34,741</u> | <u>34,966</u> | <u>32,681</u> | <u>27,213</u> | | | | | | |
| Plan fiduciary net position - end (b) | <u>\$ 39,320</u> | <u>\$ 34,741</u> | <u>\$ 34,966</u> | <u>\$ 32,681</u> | | | | | | |
| Net pension liability (a - b) | <u>\$ 12,899</u> | <u>\$ 13,409</u> | <u>\$ 11,195</u> | <u>\$ 11,146</u> | | | | | | |
| Plan fiduciary net position as a percentage of total pension liability | 75.30% | 72.15% | 75.75% | 74.57% | | | | | | |
| Covered-employee payroll | \$ 10,721 | \$ 9,953 | \$ 9,985 | \$ 9,410 | | | | | | |
| Net pension liability as a percentage of covered employee payroll | 120.32% | 134.72% | 112.12% | 118.45% | | | | | | |
| Expected average remaining service years of all participants | 5 | 5 | 5 | 5 | | | | | | |

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

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

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|-----------------|-----------------|-----------------|-----------------|---|-------------|-------------|-------------|-------------|-------------|
| Actuarially determined contribution | \$ 2,027 | \$ 1,966 | \$ 1,978 | \$ 1,985 | Information for FY 2013 and earlier years is not available. | | | | | |
| Contributions made | <u>2,247</u> | <u>2,402</u> | <u>2,159</u> | <u>2,285</u> | | | | | | |
| Contributions deficiency (excess) | <u>\$ (220)</u> | <u>\$ (436)</u> | <u>\$ (181)</u> | <u>\$ (300)</u> | | | | | | |
| Covered-employee payroll | \$ 10,721 | \$ 9,953 | \$ 9,510 | \$ 12,005 | | | | | | |
| Contributions as a percentage of covered payroll | 20.96% | 24.13% | 22.70% | 19.03% | | | | | | |

Notes to Schedule

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

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

**CITY OF LAUREL, MARYLAND
OTHER POST-EMPLOYMENT BENEFITS PLAN
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018**

| 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 |
|--|---------------------------------|---|---------------------------|-----------------|--------------------|--|
| 2016 | \$ - | \$ 9,868,000 | \$ 9,868,000 | 0.00% | \$ 11,928,106 | 82.73% |
| 2015 | - | 8,505,000 | 8,505,000 | 0.00% | 12,349,217 | 68.87% |
| 2014 | - | 7,963,000 | 7,963,000 | 0.00% | 12,561,962 | 63.39% |
| 2013 | - | 7,222,000 | 7,222,000 | 0.00% | 12,005,479 | 60.16% |
| 2012 | - | 6,451,000 | 6,451,000 | 0.00% | 10,295,640 | 62.66% |
| 2011 | - | 5,619,000 | 5,619,000 | 0.00% | 10,479,118 | 53.62% |
| 2010 | - | 5,229,000 | 5,229,000 | 0.00% | 10,145,089 | 51.54% |
| 2009 | - | 6,502,000 | 6,502,000 | 0.00% | 10,053,543 | 64.67% |
| 2008 | - | 6,119,000 | 6,119,000 | 0.00% | 9,178,525 | 66.67% |

**CITY OF LAUREL, MARYLAND
OTHER POST-EMPLOYMENT BENEFITS PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018**

| Year Ended June 30, | Annual Required Contribution (ARC) | Actual Contribution ¹ | Percentage Contributed | |
|------------------------|---------------------------------------|-------------------------------------|--------------------------|--------|
| | | | Employer Contribution | Total |
| 2017 | \$ 1,011,000 | \$ 204,000 | 20.18% | 20.18% |
| 2016 | 821,000 | 291,000 | 35.44% | 35.44% |
| 2015 | 738,000 | 157,000 | 21.27% | 21.27% |
| 2014 | 713,000 | 238,000 | 33.38% | 33.38% |
| 2013 | 630,000 | 119,000 | 18.89% | 18.89% |
| 2012 | 578,000 | 151,000 | 26.12% | 26.12% |
| 2011 | 540,000 | 131,000 | 24.26% | 24.26% |
| 2010 | 584,000 | - | 0.00% | 0.00% |
| 2009 | 546,000 | - | 0.00% | 0.00% |

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

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, 2018

| | General Fund | | | |
|-------------------------|----------------------------|----------------------|----------------------|---------------------|
| | Original Budget | Final Budget | Actual | Variance |
| Revenues | | | | |
| Taxes | \$ 20,821,961 | \$ 20,821,961 | \$ 21,261,014 | \$ 439,053 |
| Intergovernmental | 5,674,131 | 5,774,948 | 5,300,355 | (474,593) |
| Licenses and permits | 1,008,800 | 1,018,800 | 1,267,540 | 248,740 |
| Charges for services | 876,200 | 980,200 | 1,261,086 | 280,886 |
| Fines and forfeitures | 2,329,212 | 3,229,212 | 3,558,911 | 329,699 |
| Miscellaneous | 304,769 | 446,615 | 414,297 | (32,318) |
| Loan repayments | 776,378 | 776,378 | - | (776,378) |
| Unassigned fund balance | - | - | - | - |
| Total Revenues | <u>\$ 31,791,451</u> | <u>\$ 33,048,114</u> | <u>\$ 33,063,203</u> | <u>\$ 15,089</u> |
| Expenditures | | | | |
| General government | \$ 6,338,972 | \$ 6,183,671 | \$ 5,813,464 | \$ 370,207 |
| Public safety | 11,036,137 | 11,614,137 | 10,997,899 | 616,238 |
| Parks and recreation | 2,050,237 | 2,122,387 | 1,941,274 | 181,113 |
| Public works | 4,292,540 | 4,292,540 | 3,889,156 | 403,384 |
| Miscellaneous | 6,081,762 | 6,843,576 | 5,987,806 | 855,770 |
| Debt service | 1,991,803 | 1,991,803 | 1,808,001 | 183,802 |
| Total Expenditures | <u>\$ 31,791,451</u> | <u>\$ 33,048,114</u> | <u>\$ 30,437,600</u> | <u>\$ 2,610,514</u> |

SUPPLEMENTAL SCHEDULES

CITY OF LAUREL, MARYLAND
SCHEDULE OF REVENUES
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

| | Original Budget | Final Budget | Actual | Variance Favorable/ (Unfavorable) |
|--------------------------------|--------------------|-------------------|-------------------|---|
| REVENUES | | | | |
| Taxes | | | | |
| Real and personal property | \$ 20,086,961 | \$ 20,311,961 | \$ 20,851,060 | \$ 539,099 |
| Local - admissions | 675,000 | 450,000 | 327,947 | (122,053) |
| Penalties and interest | 60,000 | 60,000 | 82,007 | 22,007 |
| Total Taxes | <u>20,821,961</u> | <u>20,821,961</u> | <u>21,261,014</u> | <u>439,053</u> |
| Intergovernmental | | | | |
| State and Federal Grants | | | | |
| Other federal and state grants | 6,331 | 6,331 | 125,582 | 119,251 |
| Police protection | 500,000 | 500,000 | 539,666 | 39,666 |
| Police aid supplement | 64,500 | 64,500 | 65,400 | 900 |
| Total state and federal grants | <u>570,831</u> | <u>570,831</u> | <u>730,648</u> | <u>159,817</u> |
| State Shared Taxes | | | | |
| Local income tax | 3,200,000 | 3,200,000 | 3,367,995 | 167,995 |
| Race track impact fees | 53,571 | 53,571 | 107,142 | 53,571 |
| Developer impact fees | 960,000 | 960,000 | 6,051 | (953,949) |
| Highway user | 450,000 | 550,817 | 618,720 | 67,903 |
| Hotel/motel taxes | 285,000 | 285,000 | 325,979 | 40,979 |
| Total state shared taxes | <u>4,948,571</u> | <u>5,049,388</u> | <u>4,425,887</u> | <u>(623,501)</u> |
| County Grants | | | | |
| Financial corporations | 6,362 | 6,362 | 25,772 | 19,410 |
| M-NCPPC grants | 112,367 | 112,367 | 86,155 | (26,212) |
| Highway safety grant | 30,000 | 30,000 | 21,525 | (8,475) |
| Other grants | 6,000 | 6,000 | 10,368 | 4,368 |
| Total county grants | <u>154,729</u> | <u>154,729</u> | <u>143,820</u> | <u>(10,909)</u> |
| Total Intergovernmental | <u>5,674,131</u> | <u>5,774,948</u> | <u>5,300,355</u> | <u>(474,593)</u> |

CITY OF LAUREL, MARYLAND
SCHEDULE OF REVENUES
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | Variance Favorable/ (Unfavorable) |
|------------------------------------|----------------------------|-------------------------|------------------|---|
| Licenses and permits | | | | |
| Liquor | \$ 15,000 | \$ 15,000 | \$ 20,588 | \$ 5,588 |
| Amusement permits | 10,000 | 10,000 | 10,608 | 608 |
| Building permits | 228,800 | 228,800 | 202,288 | (26,512) |
| Cable TV | 445,000 | 445,000 | 526,294 | 81,294 |
| Traders licenses | 50,000 | 50,000 | 54,881 | 4,881 |
| Rental licenses | 160,000 | 160,000 | 176,500 | 16,500 |
| Other permits and licenses | 100,000 | 110,000 | 276,381 | 166,381 |
| Total licenses and permits | <u>1,008,800</u> | <u>1,018,800</u> | <u>1,267,540</u> | <u>248,740</u> |
| Charges for services | | | | |
| Passport execution fees | 125,000 | 125,000 | 158,037 | 33,037 |
| Zoning fees | 10,000 | 65,186 | 110,643 | 45,457 |
| Refuse collection | 164,000 | 164,000 | 203,546 | 39,546 |
| Recreation fees | 411,825 | 460,639 | 586,371 | 125,732 |
| Facility rentals | 72,700 | 72,700 | 107,141 | 34,441 |
| Safety inspections | 19,125 | 19,125 | 9,440 | (9,685) |
| Other | 73,550 | 73,550 | 85,908 | 12,358 |
| Total charges for services | <u>876,200</u> | <u>980,200</u> | <u>1,261,086</u> | <u>280,886</u> |
| Fines and forfeitures | | | | |
| Red light camera tickets | 2,164,212 | 3,064,212 | 3,379,140 | 314,928 |
| Parking tickets | 120,000 | 120,000 | 143,811 | 23,811 |
| False alarm fines | 19,000 | 19,000 | 16,900 | (2,100) |
| Release fee - impound | 16,000 | 16,000 | 18,440 | 2,440 |
| Other | 10,000 | 10,000 | 620 | (9,380) |
| Total fines and forfeitures | <u>2,329,212</u> | <u>3,229,212</u> | <u>3,558,911</u> | <u>329,699</u> |

CITY OF LAUREL, MARYLAND
SCHEDULE OF REVENUES
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Favorable/ (Unfavorable)</u> |
|------------------------------|----------------------------|-------------------------|----------------------|--|
| Miscellaneous | | | | |
| Interest on investments | \$ 22,000 | \$ 22,000 | \$ 60,137 | \$ 38,137 |
| Disposal rebate | 68,780 | 68,780 | 68,780 | - |
| Other | 213,989 | 355,835 | 285,380 | (70,455) |
| Total miscellaneous | <u>304,769</u> | <u>446,615</u> | <u>414,297</u> | <u>(32,318)</u> |
| Loan repayments | | | | |
| Designated funds | <u>776,378</u> | <u>776,378</u> | - | (776,378) |
| Total loan repayments | <u>776,378</u> | <u>776,378</u> | - | (776,378) |
| Total Revenue | <u>\$ 31,791,451</u> | <u>\$ 33,048,114</u> | <u>\$ 33,063,203</u> | <u>\$ 15,089</u> |

CITY OF LAUREL, MARYLAND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

| | Original Budget | Final Budget | Actual | Variance Favorable/ (Unfavorable) |
|--|--------------------|-------------------|-------------------|---|
| General Government | | | | |
| City council | \$ 102,777 | \$ 102,777 | \$ 82,550 | \$ 20,227 |
| Clerk to the council | 181,223 | 181,223 | 175,868 | 5,355 |
| Mayor | 629,609 | 484,609 | 467,205 | 17,404 |
| City administrator | 570,674 | 563,174 | 537,471 | 25,703 |
| Registration and elections | 42,134 | 42,134 | 20,533 | 21,601 |
| Budget and personnel services | 779,565 | 787,065 | 766,972 | 20,093 |
| Communications | 589,168 | 589,168 | 506,261 | 82,907 |
| Planning and zoning | 578,792 | 483,792 | 439,342 | 44,450 |
| Information technology and community services | 1,686,032 | 1,686,032 | 1,629,839 | 56,193 |
| Municipal center maintenance | 159,847 | 176,197 | 159,524 | 16,673 |
| Other facilities maintenance | 949,701 | 973,050 | 952,169 | 20,881 |
| Community promotion | 69,450 | 114,450 | 75,730 | 38,720 |
| Total general government | <u>6,338,972</u> | <u>6,183,671</u> | <u>5,813,464</u> | <u>370,207</u> |
| Public Safety | | | | |
| Police department | 9,623,106 | 10,177,106 | 9,593,282 | 583,824 |
| Emergency services management | 525,184 | 525,184 | 518,751 | 6,433 |
| Office of the fire marshall/permit svcs | 651,407 | 661,407 | 633,651 | 27,756 |
| Police department facility | 236,440 | 250,440 | 252,215 | (1,775) |
| Total public safety | <u>11,036,137</u> | <u>11,614,137</u> | <u>10,997,899</u> | <u>616,238</u> |
| Parks and recreation | | | | |
| Greenview Drive complex | 36,130 | 36,130 | 31,446 | 4,684 |
| Parks and recreation administration | 776,356 | 803,356 | 746,951 | 56,405 |
| Recreation | 323,224 | 323,224 | 268,320 | 54,904 |
| Laurel municipal pool | 196,861 | 193,228 | 175,379 | 17,849 |
| Laurel community center programs | 249,679 | 249,679 | 234,173 | 15,506 |
| Greenview Drive programs | 86,256 | 85,039 | 70,065 | 14,974 |
| Armory programs | 168,053 | 218,053 | 210,830 | 7,223 |
| Gude lakehouse programs | 18,418 | 18,418 | 14,673 | 3,745 |
| Senior services programs | 195,260 | 195,260 | 189,437 | 5,823 |
| Total parks and recreation | <u>2,050,237</u> | <u>2,122,387</u> | <u>1,941,274</u> | <u>181,113</u> |

CITY OF LAUREL, MARYLAND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

| | Original Budget | Final Budget | Actual | Variance Favorable/ (Unfavorable) |
|------------------------------------|----------------------|----------------------|----------------------|---|
| Public Works | | | | |
| Public works administration | \$ 310,859 | \$ 310,859 | \$ 304,907 | \$ 5,952 |
| Automotive maintenance | 1,042,524 | 1,048,524 | 860,093 | 188,431 |
| Waste collection and disposal | 1,145,407 | 1,186,907 | 1,090,032 | 96,875 |
| Recycling | 230,769 | 189,269 | 277,532 | (88,263) |
| Highways and streets | 689,892 | 683,892 | 685,343 | (1,451) |
| Snow and ice removal | 121,992 | 121,992 | 73,392 | 48,600 |
| Street lighting | 357,000 | 357,000 | 270,592 | 86,408 |
| Engineering and technical services | 84,332 | 84,332 | 81,891 | 2,441 |
| Traffic engineering | 203,650 | 203,650 | 158,234 | 45,416 |
| Tree management | 106,115 | 106,115 | 87,140 | 18,975 |
| Total public works | <u>4,292,540</u> | <u>4,292,540</u> | <u>3,889,156</u> | <u>403,384</u> |
| Miscellaneous | | | | |
| Retirement pension | 2,296,383 | 2,546,383 | 2,533,683 | 12,700 |
| Employee training | 80,695 | 80,695 | 53,202 | 27,493 |
| Employee tuition | 16,576 | 16,576 | 8,285 | 8,291 |
| Insurance | 3,688,108 | 3,538,108 | 3,393,011 | 145,097 |
| Other* | - | 661,814 | (375) | 662,189 |
| Total miscellaneous | <u>6,081,762</u> | <u>6,843,576</u> | <u>5,987,806</u> | <u>855,770</u> |
| Debt Service | | | | |
| Principal | 1,690,726 | 1,690,726 | 1,616,420 | 74,306 |
| Interest | 301,077 | 301,077 | 191,581 | 109,496 |
| Total debt service | <u>1,991,803</u> | <u>1,991,803</u> | <u>1,808,001</u> | <u>183,802</u> |
| Total Expenditures | <u>\$ 31,791,451</u> | <u>\$ 33,048,114</u> | <u>\$ 30,437,600</u> | <u>\$ 2,610,514</u> |

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

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

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Laurel, Maryland, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City of Laurel, Maryland's basic financial statements, and have issued our report thereon dated December 7, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

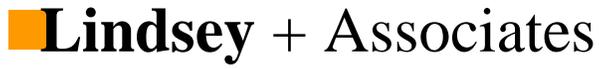
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Handwritten signature in cursive script that reads "Kindley & Associates, LLC".

December 7, 2018



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Suite 101
Towson, MD 21204

410.825.1994 phone
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www.acpafirm.com

December 7, 2018

To the Mayor, City Council and City Manager
City of Laurel, Maryland

We audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Laurel, Maryland (the "City") for the year ended June 30, 2018, and have issued our report thereon dated December 7, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U. S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated March 6, 2018, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U. S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2017 except as may be explained in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

Completion of the audit was delayed until actuarial information in accordance with GASB 75 could be provided.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representation from management that is included in the management representation letter dated December 7, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationships and our responses were not a condition to our retention.

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

Very truly yours,

Kindley & Associates, LLC