



CITY OF
WESTMINSTER,
MARYLAND

2011

**BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION FOR YEAR ENDED
JUNE 30, 2011**

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Independent Auditor's Report

To the Mayor and Common Council
City of Westminster, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Westminster, Maryland, as of and for the year ended June 30, 2011, which collectively comprise the City of Westminster, Maryland's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Westminster, Maryland's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Westminster, Maryland's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Westminster, Maryland, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2011 on our consideration of the City of Westminster, Maryland's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – General Fund, the Schedule of Funding Progress - Combined State Retirement and Pension System of Maryland, and the Schedule of Funding Progress – Other Postemployment Benefits (OPEB) Plan on pages 5 through 15 and 61 and 62 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it

McGladrey & Pullen, LLP

Frederick, Maryland
October 28, 2011

**CITY OF WESTMINSTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

As management of the City of Westminster, Maryland, we offer readers of the accompanying financial statements this narrative overview and analysis of the financial activities of the City of Westminster for the fiscal year ended June 30, 2011. The objective of this discussion and analysis of the City's financial statements is to provide an overview of its financial activities for the past fiscal year.

Financial Highlights:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$92,392,128 (net assets). Of this amount \$40,053,317 was for governmental activities and \$52,338,811 was for business type activities. The amount of net assets that were unrestricted at year end was \$4,621,325 for governmental activities and \$7,485,149 for business type activities.
- The total net assets increased by \$6,956,190 over FY2010. Governmental activities increased by \$3,217,766 while business type activities increased by \$3,738,424. The increase in Governmental activities included an inter-fund loan receivable and increases in cash from the excess of revenues over expenditures. Business activities were stimulated by increased revenues and lower than expected expenses.
- Interest earned is being utilized to fund current operations as legislatively allowed.
- At the close of FY 2011, the governmental funds included a combined ending fund balance of \$7,726,341, which is an increase of \$2,312,316 over the prior year. Approximately 49% of this fund balance amount is unreserved and available for spending at government discretion.
- At the end of the current fiscal year the unreserved and undesignated fund balance of \$3,811,651 was contained only in the General Fund. There were no undesignated or unreserved funds in the Public Housing Agency Fund.
- The tax rate for property taxes increased from the prior year; business personal and tangible property taxes remained unchanged. The property tax rate increased to \$0.58 per \$100 of assessable real property value, a \$0.14 increase over prior year. The tax rate for business personal and tangible property was unchanged at \$1.10 per \$100 of personal property value.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements are comprised of three components:

- 1) Government wide financial statements,
- 2) Fund financial statements and,
- 3) Notes to the financial statements.

This report also contains other required supplementary information in addition to the basic financial statements themselves.

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.

**CITY OF WESTMINSTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (ex. earned but unused annual leave).

Both of the government-wide financial statements referenced above 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 (police), public works (streets and sanitation), recreation and parks and community development (including the Public Housing Agency). The business-type activities of the City include the sewer and water services. The government-wide financial statements can be found on pages 18 to 20 of this report.

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 or local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the City can be divided into two different categories: governmental funds and proprietary funds.

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 financial 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. By doing so readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison.

CITY OF WESTMINSTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

The City maintains three governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for:

- 1) The General Fund, and
- 2) The Public Housing Agency Fund (PHA)

The City appropriates annual budgets for its governmental funds. A budgetary comparison statement for the general fund has been provided and can be found on page 61 of this report.

The basic governmental fund financial statements can be found on pages 21 to 24 of this report.

Proprietary Funds: The City maintains only one type of proprietary fund: *Enterprise funds*. Enterprise funds are used to report the same functions presented in *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its sewer and water services.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer and Water Funds, which are considered to be major funds of the City. Financial statements for each of these funds can be found on pages 25 to 29.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The note to the financial statements can be found on pages 30 to 57 of this report.

Financial Analysis of the City as a whole

As noted earlier, net assets may serve over time as a useful indicator of a government's financial condition and position. In the case of the City, assets exceeded liabilities by \$92,392,128 at the close of the most recent fiscal year. The City's net assets are divided into three categories: invested in capital assets (net of related debt), restricted net assets and unrestricted net assets. The largest portion of the City's investment is in capital assets (e.g. buildings, improvements, streets, bridges, equipment, vehicles, sewer and water systems, and furniture and fixtures), less any related debt used to acquire those assets that is still outstanding. These net assets represent 77 percent of the total net assets reported. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of debt, it should be noted that the resources needed to repay this debt must be provided from operating revenue since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets of \$9,400,780 represent 10 percent of total net assets. Restricted net assets are resources that are subject to external restrictions or enabling legislation on how they may be used. The increase from FY2010 is primarily related to a change in reporting of Benefit Assessments. Per City Code (enabling legislation), these resources may be used for future infrastructure growth and require approval by Mayor and Common Council. In

**CITY OF WESTMINSTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

addition, the City restricts revenue generated by the property tax increase, referenced previously, for capital improvement projects. Unrestricted net assets or \$12,106,474 represent 13 percent of total net assets and may be used to meet the government's on-going obligations to citizens and creditors.

At the end of the current year, the City is able to report positive balances in all three categories of net assets, for the government as a whole, as well as for its separate governmental and business-type activities.

**City of Westminster, Maryland
Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Government-Wide Totals</u>	
	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
Assets:						
Current & Other Assets	\$ 6,111,589	\$ 8,421,808	\$ 11,700,479	\$ 15,549,806	\$ 17,812,068	\$ 23,971,614
Non-Current Assets	38,610,859	39,458,137	52,747,570	51,608,930	91,358,429	91,067,067
Total Assets	44,722,448	47,879,945	64,448,049	67,158,736	109,170,497	115,038,681
Liabilities:						
Current Liabilities	1,348,224	1,404,232	1,627,705	1,344,159	2,975,929	2,748,391
Non-Current Liabilities	6,538,673	6,422,396	14,219,957	13,475,766	20,758,630	19,898,162
Total Liabilities	7,886,897	7,826,628	15,847,662	14,819,925	23,734,559	22,646,553
Net Assets:						
Investment in Capital Assets,						
Net of Related Debt	31,552,405	32,874,066	38,205,420	38,010,808	69,757,825	70,884,874
Restricted	766,919	2,557,926	-	6,842,854	766,919	9,400,780
Unrestricted	4,516,227	4,621,325	10,394,967	7,485,149	14,911,194	12,106,474
Total Net Assets	\$36,835,551	\$40,053,317	\$48,600,387	\$52,338,811	\$85,435,938	\$92,392,128

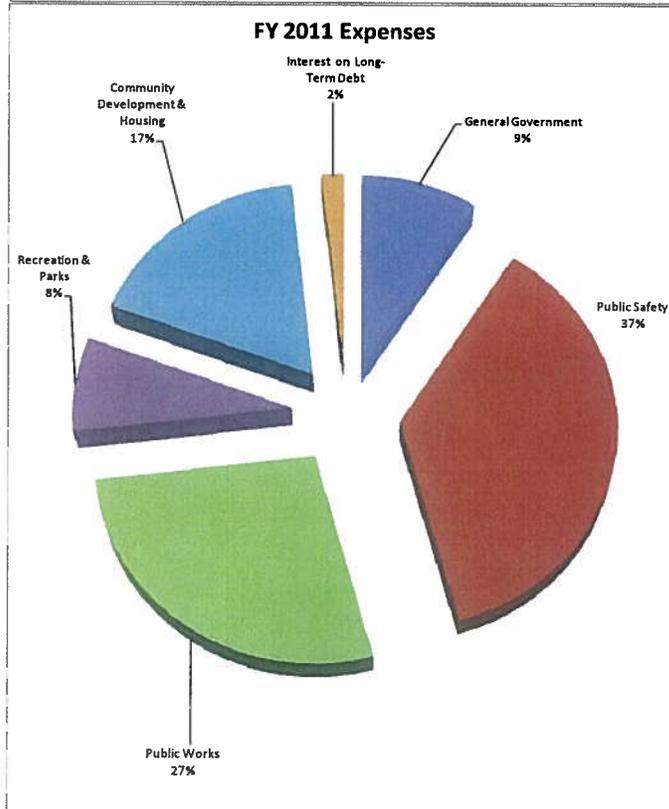
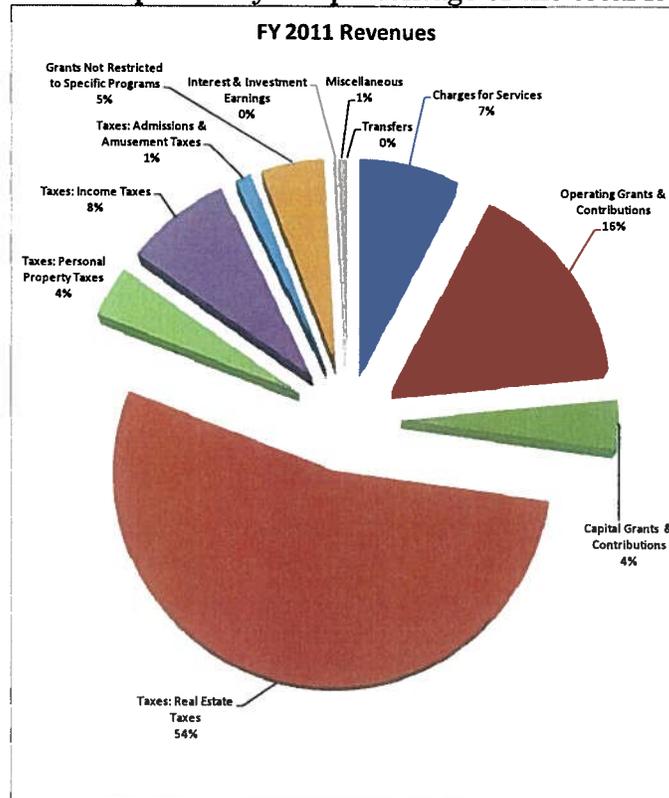
**CITY OF WESTMINSTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

**City of Westminster, Maryland
Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Government-Wide Totals</u>	
	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
Revenues:						
<u>Program Revenues:</u>						
Charges for Services	\$ 1,395,045	\$ 1,428,497	\$ 10,421,006	\$ 11,940,879	\$ 11,816,051	\$ 13,369,376
Operating Grants & Contributions	3,684,630	2,974,969	9,900	12,286	3,694,530	2,987,255
Capital Grants & Contributions	2,779,754	720,513	2,383,176	864,719	5,162,930	1,585,232
<u>General Revenues:</u>						
Taxes:						
Real Estate Taxes	7,394,792	10,122,431	-	-	7,394,792	10,122,431
Personal Property Taxes	795,572	747,784	-	-	795,572	747,784
Income Taxes	1,607,727	1,512,397	-	-	1,607,727	1,512,397
Admissions & Amusement Taxes	256,508	239,106	-	-	256,508	239,106
Grants Not Restricted to Specific Program	850,901	905,603	-	-	850,901	905,603
Interest & Investment Earnings	68,725	45,548	17,948	20,101	86,673	65,649
Miscellaneous	198,296	120,233	14,188	12,747	212,484	132,980
Transfers	14,262	637	(14,262)	(637)	-	-
Total Revenues	19,046,212	18,817,718	12,831,956	12,850,095	31,878,168	31,667,813
Expenses:						
<u>Governmental Activities</u>						
General Government	1,628,041	1,412,939	-	-	1,628,041	1,412,939
Public Safety	5,806,461	5,717,661	-	-	5,806,461	5,717,661
Public Works	4,731,240	4,260,313	-	-	4,731,240	4,260,313
Recreation & Parks	1,206,961	1,192,491	-	-	1,206,961	1,192,491
Community Development & Housing	3,216,499	2,748,473	-	-	3,216,499	2,748,473
Interest on Long-Term Debt	268,649	268,075	-	-	268,649	268,075
<u>Business-type Activities</u>						
Sewer Services	-	-	4,793,225	4,805,897	4,793,225	4,805,897
Water Services	-	-	4,975,767	4,305,774	4,975,767	4,305,774
Total Expenses	16,857,851	15,599,952	9,768,992	9,111,671	26,626,843	24,711,623
Increase (Decrease) in Net Assets	2,188,361	3,217,766	3,062,964	3,738,424	5,251,325	6,956,190
Net Assets - Beginning	34,647,190	36,835,551	45,537,423	48,600,387	80,184,613	85,435,938
Net Assets - Ending	\$36,835,551	\$40,053,317	\$48,600,387	\$52,338,811	\$85,435,938	\$92,392,128

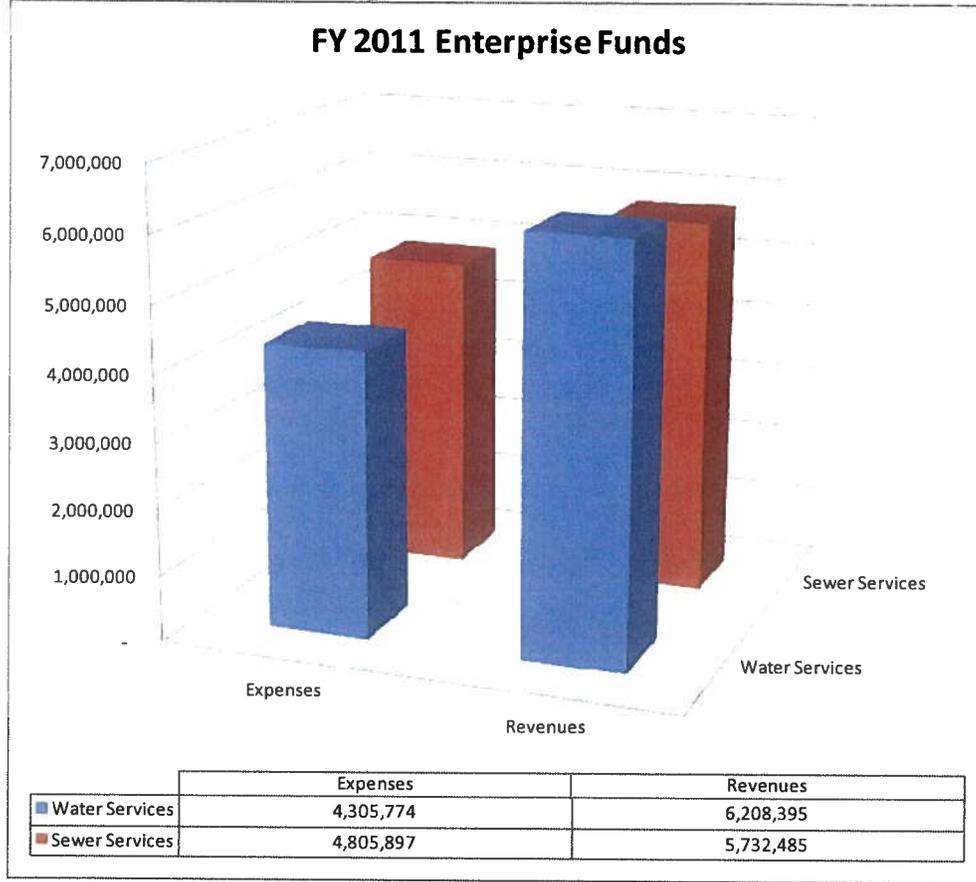
**CITY OF WESTMINSTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

- Governmental Activities:** A graphic representation of the City's Governmental Activities Revenues and Expenses is shown below. Each component is accompanied by the percentage of the total it represents.



**CITY OF WESTMINSTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

- **Business-type activities:** A graphic representation of the City's Business-Type Activity Revenues and Expenses is shown below.



Financial Analysis of the Government's Funds:

As noted earlier, the City of Westminster, Maryland uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of the analysis of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financial requirements. In particular, unreserved fund balance may serve as a measure of a government's net resources available for appropriation as revenue in the subsequent fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,726,341. Approximately 10 percent of the fund balance, \$810,412 is restricted for the Public Housing Agency. An additional 23 percent has been restricted as follows:

- \$928,273 restricted for Capital Improvement Projects
- \$819,421 restricted for Infrastructure Growth

The total General Fund balance increased \$2,157,595 during FY2011, due to revenues exceeding budgeted levels, coupled with lower expenditures.

**CITY OF WESTMINSTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

Proprietary Funds: The City's proprietary funds analysis provides the same type of information found in the governmental activities financial statements, but in more detail.

The Sewer Fund and the Water Fund are the two enterprise operations for the City and net cash from their operating activities totaled \$4,037,246. Although revenues exceeded expenses for FY2011, the surplus was not at a sufficient enough level to fund either the Operating Reserve or the 3R Reserve. The total amount of unrestricted net assets for the Sewer and Water Funds were \$3,735,216 and \$3,749,932, respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights:

The budgetary statement of the General Fund show actual revenues of \$15,993,804, compared to budgeted amount of \$15,857,424, an overall surplus of \$136,380. The major differences between the final budgeted amounts and the actual revenues are as follows:

- Actual business personal property taxes were more than budget by \$250,072 most likely due to increased values in property assessments
- Actual tax credits were less than budget by \$357,916
- Actual income taxes were more than budget by \$312,397
- Actual intergovernmental funding was less than budget by \$263,958 due to decrease in State funding levels

**CITY OF WESTMINSTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

**General Fund Revenues
Budget vs. Actual
FY 2011**

	<u>Budgeted Amounts</u>				% of Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>	
General Fund Revenues					
Taxes	\$ 11,992,549	\$ 11,992,549	\$ 12,642,294	\$ 649,745	105%
Licenses & Permits	295,500	295,500	388,630	93,130	132%
Intergovernmental	1,993,338	2,038,012	1,774,054	(263,958)	87%
Charges for Services	593,950	612,097	791,175	179,078	129%
Fines & Forfeitures	58,000	250,330	248,194	(2,136)	99%
Interest & Investment Earnings	16,925	16,925	14,087	(2,838)	83%
Rental Income	5,200	5,200	5,200	-	100%
Miscellaneous	630,400	646,811	130,170	(516,641)	20%
Total Revenues	<u>\$ 15,585,862</u>	<u>\$ 15,857,424</u>	<u>\$ 15,993,804</u>	<u>\$ 136,380</u>	<u>101%</u>

**General Fund Expenses
Budget vs. Actual
FY 2011**

	<u>Budgeted Amounts</u>				% of Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>	
General Fund Expenditures					
General Government	\$ 1,271,683	\$ 1,262,990	\$ 1,052,084	\$ (210,906)	83%
Public Safety	4,003,347	4,210,771	4,001,834	(208,937)	95%
Public Works	2,835,234	2,835,234	2,627,455	(207,779)	93%
Recreation & Parks	700,080	769,953	762,342	(7,611)	99%
Community Development & Housing	173,090	173,413	297,612	124,199	172%
Debt Service	557,958	582,762	572,249	(10,513)	98%
Capital Outlays	3,384,882	3,402,646	2,189,325	(1,213,321)	64%
Miscellaneous	2,659,588	2,689,407	2,316,762	(372,645)	86%
Total Expenditures	<u>\$ 15,585,862</u>	<u>\$ 15,927,176</u>	<u>\$ 13,819,663</u>	<u>\$ (2,107,513)</u>	<u>87%</u>

**CITY OF WESTMINSTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

Capital Asset and Debt Administration:

Capital Assets: The City of Westminster, Maryland has implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments that requires the retroactive reporting of major general infrastructure assets. The information for the assets other than infrastructure assets was based on historical costs. The costs for the major infrastructure assets were developed by the Planning Department based on a combination of historical costs, where available and were otherwise developed based on the present value of those infrastructure assets, discounted to the year of acquisition. All of the infrastructure assets that were paid with City's funds have been included in these financial statements. For its business-type activities, the City has always reported all capital assets as required for proprietary funds.

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounted to \$90,109,983 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, streets, bridges, equipment, vehicles, sewer and water systems, and furniture and fixtures, and construction in progress. Additional information on the City's capital assets can be found on pages 41 to 42 of this report.

**City of Westminster, Maryland
Capital Assets (net of depreciation)
June 30, 2011**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land and Land Rights	\$ 319,168	\$ 190,915	\$ 510,083
Construction in Progress	131,506	601,630	733,136
Buildings	8,430,427	-	8,430,427
Equipment	786,309	1,152,860	1,939,169
Furniture & Fixtures	-	-	-
Improvements Other than Buildings	4,757,175	-	4,757,175
Infrastructure	23,649,549	-	23,649,549
Transportation & Distribution	-	28,022,421	28,022,421
Utility Plant & Equipment	-	17,127,957	17,127,957
Vehicles	435,233	112,745	547,978
Wells and Water Sources	-	4,392,088	4,392,088
Total Net Capital Assets	\$ 38,509,367	\$ 51,600,616	\$ 90,109,983

Long-term Debt:

At the end of FY2011, the City had total bond and loan principal outstanding of \$19,250,972, which is debt backed by the full faith and credit of the City. Of that amount \$5,714,500 is General Fund infrastructure bonds and \$13,536,472 is Water Fund Drinking Water bonds. In addition, there are capital lease obligations for vehicles and other equipment in the amount of \$104,605.

**CITY OF WESTMINSTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

There are three other types of long-term obligations of the City that do not have mandatory payment terms. The first is a non-interest obligation to the Carroll County Commissioners of Maryland related to agreements to provide water service totaling \$233,828. The second was for compensated absences in the amount of \$599,999. Compensated absences are the total amount of leave liability that the City would owe employees upon their termination. The third are accrued Other Post-Employment Benefits (OPEB) totaling \$832,999. This is a liability identified per the requirements of GASB 45 for retiree benefits. When considering these additions, total long-term debt at June 30, 2011 is \$21,022,403 and at June 30, 2010 was \$22,018,902. Additional information on the City's long-term debt can be found on pages 43 to 46 of this report.

- **Annual Debt Service:** During FY 2011 principal, interest and administrative fee payments of \$1,840,332 were made on all bonds and leases. During FY 2012, \$1,638,130 is expected to be paid for debt service obligations of principal, interest and administrative fees. The decrease is due to the final payment of the Series 1990 B Bond for the Sewer Fund being made in FY 2011.

Request for Information:

This financial report is designed to provide a general overview of the City of Westminster, Maryland's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Gary Ehlers, Treasurer and Director of Finance, City of Westminster, 56 W. Main Street, 1st Floor, Westminster, Maryland, 21157.



Basic Financial Statements

CITY OF WESTMINSTER, MARYLAND
STATEMENT OF NET ASSETS
June 30, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash & Cash Equivalents			
Unrestricted	\$ 4,017,176	\$ 5,832,753	\$ 9,849,929
Restricted	2,580,325	86,591	2,666,916
Pooled Cash & Cash Equivalents: Restricted	-	6,842,854	6,842,854
Taxes Receivable	320,845	-	320,845
Accounts Receivable, Net of Allowance for Uncollectibles of \$146,309 and \$0, respectively			
Unrestricted	187,536	1,226,754	1,414,290
Restricted	-	45,848	45,848
Other	-	31,497	31,497
Unbilled Services	-	1,985,262	1,985,262
Special Assessments Receivable	11,520	64,440	75,960
Grants Receivable	160,661	-	160,661
Loan Receivable	1,650	-	1,650
Prepaid Items and Deposits	149,305	97,552	246,857
Internal Balances	796,048	(796,048)	-
Due from Other Governments	11,614	25,752	37,366
Inventory	64,750	106,551	171,301
Assets Held for Resale	120,378	-	120,378
TOTAL CURRENT ASSETS	8,421,808	15,549,806	23,971,614
NON-CURRENT ASSETS			
Cash & Cash Equivalents: Restricted	35,831	-	35,831
Loan Receivable	26,900	-	26,900
Mortgage Receivable	454,000	-	454,000
Net Pension Asset	309,885	-	309,885
Bone Issue Cost, Net of Accumulated Amortization of \$58,046 and \$42,846, respectively	122,154	8,314	130,468
Property and Equipment			
Land & Land Rights	319,168	190,915	510,083
Construction in Progress	131,506	601,630	733,136
Buildings	12,101,020	-	12,101,020
Equipment	3,002,856	3,525,668	6,528,524
Furniture & Fixtures	128,041	6,414	134,455
Improvements Other than Buildings	8,323,211	-	8,323,211
Infrastructure	40,192,353	-	40,192,353
Transmission and Distribution	-	38,803,940	38,803,940
Utility Plant & Equipment	-	27,763,855	27,763,855
Vehicles	2,336,706	597,484	2,934,190

See Notes To Basic Financial Statements

CITY OF WESTMINSTER, MARYLAND
STATEMENT OF NET ASSETS continued
June 30, 2011

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS - continued			
Wells & Water Sources	-	6,138,741	6,138,741
	66,534,861	77,628,647	144,163,508
Less: Accumulated Depreciation	28,025,494	26,028,031	54,053,525
Net Property and Equipment	38,509,367	51,600,616	90,109,983
TOTAL NON-CURRENT ASSETS	39,458,137	51,608,930	91,067,067
TOTAL ASSETS	47,879,945	67,158,736	115,038,681
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	612,914	191,333	804,247
Accrued Liabilities	228,472	170,119	398,591
Deferred Revenue	87,421	20,659	108,080
Loan Payable	100,000	-	100,000
Capital Lease Obligations	26,831	29,404	56,235
General Obligation Bonds Payable	267,800	800,206	1,068,006
Payable from Restricted Assets			-
Deferred Revenue	38,185	-	38,185
Deposits & Escrows	42,609	-	42,609
Due to Other Governments	-	132,438	132,438
TOTAL CURRENT LIABILITIES	1,404,232	1,344,159	2,748,391
NON-CURRENT LIABILITIES			
Compensated Absences	369,086	230,913	599,999
Accrued Other Postemployment Benefits	590,486	242,513	832,999
Due to Other Governments	-	233,828	233,828
Capital Lease Obligations	16,124	32,246	48,370
General Obligation Bonds Payable	5,446,700	12,736,266	18,182,966
TOTAL NON-CURRENT LIABILITIES	6,422,396	13,475,766	19,898,162
TOTAL LIABILITIES	7,826,628	14,819,925	22,646,553
NET ASSETS			
Investment in Capital Assets, Net of Related Debt	32,874,066	38,010,808	70,884,874
Restricted for Future Infrastructure Growth	819,241	6,842,854	7,662,095
Restricted for Capital Improvement Projects	928,273	-	928,273
Restricted for Public Housing Vouchers	810,412	-	810,412
Unrestricted	4,621,325	7,485,149	12,106,474
TOTAL NET ASSETS	\$ 40,053,317	\$ 52,338,811	\$ 92,392,128

See Notes To Basic Financial Statements

**CITY OF WESTMINSTER, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$ 1,412,939	\$ 301,450	\$ 82,119	\$ -	\$ (1,029,370)	\$ -	\$ (1,029,370)
Public Safety	6,717,661	233,785	356,355	-	(5,127,521)	-	(5,127,521)
Public Works	4,260,313	398,448	82,593	506,125	(3,273,147)	-	(3,273,147)
Recreation and Culture	1,192,491	485,040	-	214,388	(498,063)	-	(498,063)
Community Development & Housing	2,748,473	9,774	2,453,902	-	(284,797)	-	(284,797)
Interest on Long-Term Debt	268,076	-	-	-	(268,076)	-	(268,076)
Total Governmental Activities	15,599,952	1,428,497	2,974,969	720,513	(10,475,973)	-	(10,475,973)
Business-Type Activities							
Sewer Services	4,806,897	5,732,485	6,143	423,544	-	1,356,275	1,356,275
Water Services	4,305,774	6,208,394	6,143	441,175	-	2,349,938	2,349,938
Total Business-Type Activities	9,111,671	11,940,879	12,286	864,719	-	3,706,213	3,706,213
TOTAL GOVERNMENT	\$ 24,711,623	\$ 13,369,376	\$ 2,987,255	\$ 1,585,232	(10,475,973)	3,706,213	(6,769,760)
GENERAL REVENUES							
Taxes							
Real Estate Taxes					10,122,431		10,122,431
Personal Property Taxes					747,784		747,784
Income Taxes					1,512,397		1,512,397
Admission & Amusement Taxes					239,106		239,106
Grants & Contributions not Restricted to Specific Programs					905,603		905,603
Interest & Investment Earnings					45,548		45,548
Miscellaneous					120,233		120,233
Transfers					637		637
TOTAL GENERAL REVENUES					13,693,739	32,211	13,725,950
CHANGES IN NET ASSETS					3,217,766	3,738,424	6,956,190
Net Assets - Beginning					36,835,551	48,600,387	85,435,938
NET ASSETS - ENDING					\$ 40,053,317	\$ 52,338,811	\$ 92,392,128

CITY OF WESTMINSTER, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011

	<u>General</u> <u>Fund</u>	<u>Public</u> <u>Housing</u> <u>Agency Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
ASSETS			
Cash & Cash Equivalents			
Unrestricted	\$ 4,017,176	\$ -	\$ 4,017,176
Restricted	1,773,395	842,760	2,616,155
Taxes Receivable	320,845	-	320,845
Accounts Receivable, Net of Allowance for Uncollectibles of \$102,603 and \$43,706, respectively	158,398	29,138	187,536
Special Assessments Receivable	11,520	-	11,520
Grants Receivable	160,661	-	160,661
Loan Receivable	28,550	-	28,550
Mortgage Receivables	454,000	-	454,000
Prepaid Items and Deposits	147,306	1,999	149,305
Interfund Receivables	839,841	-	839,841
Due from Other Governments	11,614	-	11,614
Inventory	64,750	-	64,750
Assets Held for Resale	120,378	-	120,378
TOTAL ASSETS	<u>\$ 8,108,434</u>	<u>\$ 873,897</u>	<u>\$ 8,982,331</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 612,568	\$ 347	\$ 612,915
Accrued Liabilities	181,242	4,549	185,791
Deferred Revenue	232,696	-	232,696
Loan Payable	100,000	-	100,000
Interfund Payables	42,271	1,522	43,793
Payable from Restricted Assets			
Deferred Revenue	9,047	29,138	38,185
Deposits & Escrows	6,779	35,831	42,610
TOTAL LIABILITIES	<u>1,184,603</u>	<u>71,387</u>	<u>1,255,990</u>
FUND BALANCES			
Non-spendable	1,354,585	1,999	1,356,584
Restricted	1,757,595	800,511	2,558,106
Unassigned	3,811,651	-	3,811,651
TOTAL FUND BALANCES	<u>6,923,831</u>	<u>802,510</u>	<u>7,726,341</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 8,108,434</u>	<u>\$ 873,897</u>	<u>\$ 8,982,331</u>

See Notes To Basic Financial Statements

**CITY OF WESTMINSTER MARYLAND
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 7,726,341**

Amounts reported for governmental activities in the statement of net assets are different because:

Property tax revenue is recognized in the period for which levied rather than when "available." A portion of the deferred property tax revenue is not available. 74,806

Deferred revenue for citations and housing voucher repayments is not available for current period expenditures and, therefore, is not reported in the governmental funds. 70,471

Net pension assets in governmental activities are not current financial resources and, therefore, are not reported in governmental funds balance sheet. 309,885

Bond issue costs are reported as expenditures in the governmental funds. 122,154

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 38,509,367

Long-term compensated absences and other post-employment benefits are not payable in the current period and are reported as wages and insurance expenditures in the period during which the absence and service occurs in the fund financial statements. (959,572)

Long-term liabilities, including bonds payable, capital lease obligations, and interest payable, are not due and payable in the current period and, therefore, are not reported in the funds. (5,800,135)

TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 40,053,317**

See Notes To Basic Financial Statements

CITY OF WESTMINSTER, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Public Housing Agency Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 12,642,294	\$ -	\$ 12,642,294
Licenses & Permits	388,630	-	388,630
Intergovernmental	1,774,054	2,127,711	3,901,765
Charges for Services	791,175	-	791,175
Fines & Forfeitures	248,194	-	248,194
Interest & Investment Earnings	14,087	2,407	16,494
Rental Income	5,200	-	5,200
Miscellaneous	130,170	148,411	278,581
TOTAL REVENUES	15,993,804	2,278,529	18,272,333
EXPENDITURES			
General Government	1,052,084	-	1,052,084
Public Safety	4,001,834	-	4,001,834
Public Works	2,627,455	-	2,627,455
Recreation & Parks	762,342	-	762,342
Community Development & Housing	297,612	2,235,781	2,533,393
Debt Service			-
Principal	303,931	-	303,931
Interest	268,318	-	268,318
Capital Outlays	2,189,325	-	2,189,325
Miscellaneous	2,316,762	-	2,316,762
TOTAL EXPENDITURES	13,819,663	2,235,781	16,055,444
EXCESS OF REVENUES OVER EXPENDITURES	2,174,141	42,748	2,216,889
OTHER FINANCING SOURCES (USES)			
Interfund Transfers	(111,336)	111,973	637
Proceeds from Issuance of Long-Term Debt	3,420	-	3,420
Proceeds from Sale of Capital Assets	8,070	-	8,070
TOTAL OTHER FINANCING SOURCES (USES)	(99,846)	111,973	12,127
NET CHANGES IN FUND BALANCES	2,074,295	154,721	2,229,016
Fund Balances - Beginning of Year	4,849,540	647,791	5,497,331
FUND BALANCES - END OF YEAR	\$ 6,923,835	\$ 802,512	\$ 7,726,347

See Notes To Basic Financial Statements

**CITY OF WESTMINSTER MARYLAND
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 2,229,016**

Amounts reported for governmental activities in the statement of net assets are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense.

Add: Capital Outlays	2,189,325
Less: Depreciation Expense	(1,685,863)

Bond, loan, and lease proceeds provide current financial resources to governmental funds, but issuing debt and lease financing increases long-term liabilities in the government-wide statement of net assets. Repayment of debt and loan principal and capital lease obligations are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the government-wide statement of net assets. Other costs related to debt issuance and retirement use governmental fund resources, but recognition of expense is deferred and reported as amortization on the statement of net assets

Amortization of Bond Issue Costs	(7,810)
Capital Lease Proceeds	(3,420)
Payment of Capital Lease Obligations	49,831
Payment on Bonds Payable	254,100

Property tax, citations, and housing voucher repayments in the statement of activities that do not provide current financial resources and are not reported as revenues in the governmental funds. (19,292)

Capital asset contributions are revenues in the statement of activities that do not provide current financial resources and are not reported as revenues in the governmental funds. 526,917

The net effect of various miscellaneous transactions involving capital assets (i.e. sales and trade-ins) is to decrease net assets (1,420)

In the statement of activities, certain expenses do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These expenses include the change in:

Net Pension Asset	(137,998)
Accrued Interest Expense	243
Long-Term Portion of Compensated Absences	(2,136)
Accrued Other Postemployment Benefits	(173,725)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 3,217,766**

See Notes To Basic Financial Statements

CITY OF WESTMINSTER, MARYLAND
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2011

	Sewer Fund	Water Fund	Total Proprietary Funds
ASSETS			
CURRENT ASSETS			
Cash & Cash Equivalents			
Unrestricted	\$ 2,449,747	\$ 3,383,006	\$ 5,832,753
Restricted	85,473	1,118	86,591
Pooled Cash & Cash Equivalents: Restricted	3,390,595	3,452,259	6,842,854
Accounts Receivable			
Unrestricted	586,450	640,304	1,226,754
Restricted	45,848	-	45,848
Other	-	31,497	31,497
Unbilled Services	945,467	1,039,795	1,985,262
Special Assessments Receivable	32,976	31,464	64,440
Grants Receivable	-	-	-
Prepaid Items & Deposits	50,896	46,656	97,552
Interfund Receivables	283,523	-	283,523
Due from Other Governments	25,752	-	25,752
Inventory	2,077	104,474	106,551
TOTAL CURRENT ASSETS	7,898,804	8,730,573	16,629,377
NON-CURRENT ASSETS			
Bond Issue Costs, Net of Accumulated Amortization of \$42,846	-	8,314	8,314
Property & Equipment			
Land & Land Rights	54,202	136,713	190,915
Construction in Progress	157,984	443,646	601,630
Equipment	2,919,355	606,313	3,525,668
Furniture & Fixtures	1,607	4,807	6,414
Transmission and Distribution	17,008,021	21,795,919	38,803,940
Utility Plant & Equipment	16,243,694	11,520,161	27,763,855
Vehicles	279,209	318,275	597,484
Wells & Water Sources	-	6,138,741	6,138,741
	36,664,072	40,964,575	77,628,647
Less Accumulated Depreciation	17,251,332	8,776,699	26,028,031
Total Property & Equipment	19,412,740	32,187,876	51,600,616
TOTAL NON-CURRENT ASSETS	19,412,740	32,196,190	51,608,930
TOTAL ASSETS	27,811,544	40,926,763	68,238,307
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	129,591	61,742	191,333
Accrued Liabilities	44,669	125,450	170,119
Deferred Revenue	-	20,659	20,659
Interfund Payables	-	538,321	538,321

See Notes To Basic Financial Statements

CITY OF WESTMINSTER, MARYLAND
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS continued
June 30, 2011

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total Proprietary Funds</u>
CURRENT LIABILITIES continued			
Capital Lease Obligations	14,702	14,702	29,404
General Obligation Bonds Payable	-	800,206	800,206
Payable from Restricted Assets Due to Other Governments	131,320	1,118	132,438
TOTAL CURRENT LIABILITIES	<u>320,282</u>	<u>1,562,198</u>	<u>1,882,480</u>
NON-CURRENT LIABILITIES			
Compensated Absences	123,816	107,097	230,913
Accrued Other Postemployment Benefits	109,769	132,744	242,513
Interfund Payables	-	541,250	541,250
Due to Other Governments	233,828	-	233,828
Capital Lease Obligations	16,123	16,123	32,246
General Obligation Bonds Payable	-	12,736,266	12,736,266
TOTAL NON-CURRENT LIABILITIES	<u>483,536</u>	<u>13,533,480</u>	<u>14,017,016</u>
TOTAL LIABILITIES	<u>803,818</u>	<u>15,095,678</u>	<u>15,899,496</u>
NET ASSETS			
Investment in Capital Assets, Net of Related Debt	19,381,915	18,628,893	38,010,808
Restricted for Future Infrastructure Growth	3,390,595	3,452,259	6,842,854
Unrestricted	3,735,216	3,749,933	7,485,149
TOTAL NET ASSETS	<u>\$26,507,726</u>	<u>\$25,831,085</u>	<u>\$52,338,811</u>

See Notes To Basic Financial Statements

CITY OF WESTMINSTER, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Sewer Fund	Water Fund	Total Proprietary Funds
OPERATING REVENUES			
Charges for Services	\$ 5,732,485	\$ 6,005,734	\$ 11,738,219
Miscellaneous	8,512	4,234	12,746
TOTAL OPERATING REVENUES	5,740,997	6,009,968	11,750,965
OPERATING EXPENSES			
Administrative & General	1,516,818	1,533,433	3,050,251
Sewer Treatment	1,670,948	-	1,670,948
Source of Supply	-	109,122	109,122
Transmission & Distribution	659,571	624,127	1,283,698
Water Treatment & Pumping	-	1,062,382	1,062,382
Depreciation	938,371	762,450	1,700,821
TOTAL EXPENDITURES	4,785,708	4,091,514	8,877,222
OPERATING INCOME	955,289	1,918,454	2,873,743
NON-OPERATING REVENUES (EXPENSES)			
Interest & Investment Earnings	9,157	10,944	20,101
Rental Income	-	202,661	202,661
Amortization	(2,297)	(832)	(3,129)
Interest Expense	(12,283)	(213,427)	(225,710)
Loss on Disposition of Capital Assets	(5,610)	-	(5,610)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(11,033)	(654)	(11,687)
INCOME BEFORE TRANSFERS & CAPITAL CONTRIBUTIONS	944,256	1,917,800	2,862,056
Interfund Transfers	80	(717)	(637)
Capital Contributions	429,687	447,318	877,005
CHANGES IN NET ASSETS	1,374,023	2,364,401	3,738,424
Net Assets - Beginning of Year	25,133,703	23,466,684	48,600,387
NET ASSETS - END OF YEAR	\$ 26,507,726	\$ 25,831,085	\$ 52,338,811

See Notes To Basic Financial Statements

CITY OF WESTMINSTER, MARYLAND
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Sewer Fund	Water Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Inflows:			
Cash Received from Customers	\$ 5,352,304	\$ 5,438,474	\$ 10,790,778
Miscellaneous	8,512	4,234	12,746
	5,360,816	5,442,708	10,803,524
Outflows:			
Cash Paid to Suppliers	1,855,183	1,531,326	3,386,509
Cash Paid to Employees	1,974,895	1,706,628	3,681,523
	3,830,078	3,237,954	7,068,032
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,530,738	2,204,754	3,735,492
 CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Inflows:			
Cash Received from Other Funds	80	-	80
Rental Income	-	202,661	202,661
	80	202,661	202,741
Outflows:			
Cash Paid to Other Funds	34,995	299,672	334,667
NET CASH USED BY NON-CAPITAL FINANCING ACTIVITIES	(34,915)	(97,011)	(131,926)
 CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES			
Inflows:			
Capital Contribution & Grants	228,145	413,602	641,747
Outflows:			
Interest Paid	11,876	245,458	257,334
Principal Paid	148,049	802,819	950,868
Purchase of Capital Assets	130,917	107,618	238,535
	290,842	1,155,895	1,446,737
NET CASH USED BY CAPITAL & RELATED FINANCING ACTIVITIES	(62,697)	(742,293)	(804,990)

See Notes To Basic Financial Statements

CITY OF WESTMINSTER, MARYLAND
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS continued
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total Proprietary Funds</u>
CASH FLOWS FROM INVESTING ACTIVITES			
Inflows:			
Interest on Investments	9,157	10,944	20,101
NET CASH PROVIDED BY INVESTING ACTIVITIES	9,157	10,944	20,101
NET INCREASE IN CASH & CASH EQUIVALENTS	1,442,283	1,376,394	2,818,677
Cash & Cash Equivalents - Beginning of Year	4,483,532	5,459,989	9,943,521
CASH & CASH EQUIVALENTS - END OF YEAR	\$ 5,925,815	\$ 6,836,383	\$ 12,762,198
RECONCILIATION OF CASH & CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS			
CURRENT ASSETS			
Cash & Cash Equivalents			
Unrestricted	\$ 2,449,747	\$ 3,383,006	\$ 5,832,753
Restricted	85,473	1,118	86,591
Pooled Cash & Cash Equivalents: Restricted	3,390,595	3,452,259	6,842,854
CASH & CASH EQUIVALENTS - END OF YEAR	\$ 5,925,815	\$ 6,836,383	\$ 12,762,198
NON-CASH CAPITAL & RELATED FINANCING ACTIVITIES			
The City acquired a new server through a capital lease	\$ 3,420	\$ 3,420	\$ 6,840
The City received service laterals & inventory from developers	\$ 204,213	\$ 121,335	\$ 325,548

See Notes To Basic Financial Statements

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The City of Westminster, Maryland, (the City), was incorporated as a city by Chapter 418 of the Acts of 1838. That charter was amended by Chapter 335 of the Acts of 1856, which characterized the municipality as a city known as the Mayor and Common Council of Westminster.

The City operates under a Mayor-Council supervised form of government and provides the following services as authorized by its charter: general administrative, planning and zoning, public safety, highways and streets, parking, sanitation, recreation and culture, community development and housing, and water and sewer services.

The City's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB pronouncements issued after November 30, 1989.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The basis for determining component units is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no separate component units of the City.

Basic Financial Statements - Government-Wide Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's general government (general administrative, planning, and zoning), public safety, public works (highways and streets, parking, and sanitation), recreation and culture, and community development and housing services are classified as governmental activities. The City's water and sewer services are classified as business-type activities.

In the government-wide statement of net assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost per functional category (public safety, public works, etc.), which are otherwise being supported by general government revenues (property and income taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function or business-type activity. Program revenues include revenues from fines, licenses and permit fees, and charges for services. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grant column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property and income taxes, intergovernmental revenues, interest income, etc). The City does not allocate indirect costs.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

Basic Financial Statements - Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The City utilizes various criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. Governmental funds reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is a description of the City's major governmental funds:

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

Public Housing Agency Fund - The Public Housing Agency Fund is used to account for the proceeds of federal funds regulated by the Department of

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Housing and Urban Development, and for the expenditures that are legally restricted for low income housing program purposes.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues for the City's proprietary funds are charges for water and sewer services. Operating expenses for the City's proprietary funds include source of supply, water and sewer treatment and pumping costs, water and sewer transmission and distribution costs, administrative and general, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as non-operating revenues and expenses.

The City's proprietary funds are all classified as enterprise funds. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs. The following is a description of the City's major enterprise funds:

Water Fund - The Water Fund is used to account for the revenues generated from the charges for distribution of water to residential and commercial users of the City.

Sewer Fund - The Sewer Fund is used to account for the revenues generated from the charges for sewer services provided to residential and commercial users of the City.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual - Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligible requirements imposed by the provider have been met.

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Modified Accrual - The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and as deferred revenue by the recipient.

Cash and Cash Equivalents

The City considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The carrying amount approximates estimated fair value because of the short maturity of those instruments.

Receivables

All receivables are reported original invoice amount less an estimate for uncollectible amounts. It is management's policy to use the aggregate of all accounts that are delinquent one year or more on police tickets, 90 percent of the aggregate of all family center accounts, and 60 percent of the aggregate housing assistance repayments as the basis and determination of the allowance for doubtful accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2011, are reported as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which services are consumed.

Inventory

Inventories of materials are maintained in the General, Water, and Sewer Funds. Materials are carried in an inventory account at cost using the first-in, first-out method and are subsequently charged to expenditures when consumed.

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Capital Assets

Capital assets used in governmental fund type operations are accounted for in the government-wide financial statements, rather than in governmental funds.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Capital assets with a value of \$10,000 or more are capitalized by the City. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Governmental Funds	
Buildings and Building Improvements	20 - 40
Equipment	5 - 10
Infrastructure	7 - 40
Water Fund	
Other Equipment	5 - 10
Transmission and Distribution Equipment	10 - 100
Utility Plant and Equipment	10 - 40
Wells and Water Sources	10 - 100
Sewer Fund	
Other Equipment	5 - 10
Transmission and Distribution Equipment	20 - 75
Utility Plant and Equipment	5 - 40

Government-Wide Financial Statements - In the government-wide financial statements, fixed assets are accounted for as capital assets.

Depreciation of all exhaustible fixed assets is recorded as a direct expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets.

Additions are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Fund Financial Statements - In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

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Interfund Activity

The City allocates to several funds a percentage of the salaries and wages and related costs of personnel who perform general and administrative services for such funds but are paid through the General Fund.

Sales of goods and services between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds, and after non-operating revenues/expenses in proprietary funds.

On fund financial statements, interfund loans are classified as interfund receivables/payables. These amounts are eliminated in the statement of net assets, except for amounts due between governmental and business-type activities, which are presented as internal balances.

Compensated Absences

Permanent employees are granted vacation leave based on the number of continuous service years. A maximum of forty days of annual leave may be carried over to subsequent years. Upon termination, the employees will be paid the number of days accrued.

The salary-related payments representing the employer's share of Social Security and Medicare taxes have been accrued. The vested annual leave is expensed as incurred in the appropriate funds. The City estimates the current portion of compensated absences based on known or anticipated retirements for the forthcoming calendar year. The remainder of the obligation for compensated absences is reported as a long term liability in the government-wide financial statements and the proprietary fund financial statements.

Deferred Revenue

On governmental fund financial statements, tax receivables that were not collected within the available period and charges for services collected in advance are recorded as deferred revenue. Revenues received under reimbursable grant agreements are recognized in the period in which the qualified expenditures are made. Any unexpended funds are reported as deferred revenue.

Bond Discounts and Issuance Costs

In the government-wide financial statements and proprietary fund financial statements, bond discounts and issuance costs are capitalized and amortized over the terms of the respective bonds using a method, which approximates the effective interest method. Bond discounts are netted against bonds payable for presentation.

In the governmental fund financial statements, bond discounts and issuance costs are expensed in the year of the bond issue. Bond discounts are netted against bond proceeds and reported as "Other Financing Sources". Bond issuance costs are expensed as "Debt Service".

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Net Assets and Fund Balances

In the government-wide financial statements and proprietary fund financial statements, net assets are classified in the following categories:

Investment in Capital Assets, Net of Related Debt - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt, net of related bond issuance costs, that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted Net Assets - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - This category represents the net assets of the City, which are not restricted for any project or other purpose. However, these funds may be designated for specific projects or purposes in the fund financial statements.

Fund Balances - GASB Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was required to be adopted by the City beginning with the year ended June 30, 2011. The categories of fund balance presented in the City's financial statements have changed as a result of implementing this Statement, see Note 12 for further details. The Mayor and Common Council must approve a motion in order to establish a fund balance commitment or assignment and only needs to approve the elimination of a fund balance commitment. The City first considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. When unrestricted amounts are considered to have been spent, the City considers committed amounts first, then assigned, and finally unassigned when an expenditure is incurred for which amounts in any of those unrestricted fund balance classifications could be used.

Budgets and Budgetary Accounting

The City prepares an annual operating budget for the General Fund and the Enterprise Funds on a basis consistent with accounting principles generally accepted in the United States of America. Appropriations for salaries and operating expenses lapse at the fiscal year end, but appropriations for equipment and capital projects can be carried forward into the subsequent fiscal year as an appropriated surplus. Budget revisions receive approval of the Mayor and Common Council if the result is an appropriation from the operating reserve or a change in the funding for a capital expenditure. There was one budget revision approved by the Mayor and Common Council and several budget reclassifications approved by management during the year ended June 30, 2011.

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Estimates

Management uses estimates and assumptions in preparing financial statements in conformity 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 and expenses. Actual results could vary from the estimates that were used.

Note 2. Deposits and Investments

The City is governed by the deposit and investment limitations of Maryland law. The deposits and investments held at June 30, 2011, are reported at fair value, based on quoted market prices, and shown below:

<u>Type</u>	<u>Rating/Interest Rate</u>	<u>Maturities</u>	<u>Carrying Value</u>
Deposits			
Demand Deposits			\$ 12,548,441
Cash On Hand			4,235
Investments			
State Investment Pool	AAA _m by S&P/0.34%	50 Day Average	6,842,854
Total Deposits and Investments			<u>\$ 19,395,530</u>
Reconciliation to the Statement of Net Assets			
Current Assets			
Cash & Cash Equivalents - Unrestricted			\$ 9,849,929
Cash & Cash Equivalents - Restricted			2,666,916
Pooled Cash & Cash Equivalents - Restricted			6,842,854
			<u>19,359,699</u>
Non-Current Assets			
Cash & Cash Equivalents - Restricted			35,831
Total			<u>\$ 19,395,530</u>

The City is a participant of the Maryland Local Government Investment Pool (MLGIP), which provides all local government units of the state an investment vehicle for short-term investment of funds. The State Legislature created MLGIP with the passage of Article 95 22G, of the Annotated Code of Maryland. The MLGIP, under the administrative control of the State Treasurer, has been managed by a single financial institution. A MLGIP Advisory Committee of current participants reviews, on a quarterly basis, the activities of the fund and provides suggestions to enhance the pool. The fair value of the pool is the same as the value of the pool shares. As of June 30, 2011, all pool holdings are in cash and cash equivalents.

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The City's MLGIP investments are held by a broker who is a member of the Securities Investor Protection Corporation (SIPC). SIPC insures the cash and securities in each investor's account up to \$500,000 against loss in the case of a failed brokerage firm or misappropriation of assets by the broker, however only up to \$100,000 for cash investments. The investments held at the City's broker are insured up to \$500,000 by the SIPC in the event such failure or misappropriation occurs.

Restricted cash and cash equivalents in the governmental funds at June 30, 2011 are comprised of the following:

General Fund	
Funds Held for Future Infrastructure Growth	\$ 819,421
Funds Held for Capital Improvement Projects	928,273
Funds Held in Escrow Pending Judicial Approval	9,047
Funds Held for Future Housing Assistance Payments	9,901
Developer Deposits	<u>6,754</u>
Total General Fund\$1,773,396
Public Housing Agency Fund	
Funds Held for Future Housing Assistance Payments	742,744
Funds Held for Client Escrow Accounts	35,831
Funds Held for Future Administrative Expenses	<u>64,185</u>
Total Public Housing Agency Fund	\$ 842,760
Total Restricted Cash and Cash Equivalents	<u>\$2,616,156</u>

Current restricted cash and cash equivalents in the Sewer Fund consist of \$80,967 in unremitted bay restoration fees to the State of Maryland, \$3,388 related to a refund of collected bay restoration fees to Carroll County, Maryland and \$1,118 related to tax sale fees to Carroll County, Maryland.

Current restricted cash and cash equivalents in the Water Fund consist of \$1,118 related to tax sale fees to Carroll County, Maryland.

Restricted assets are classified as current when they are restricted for payment of current liabilities. Otherwise, they are non-current in nature.

Custodial Credit Risk

Deposits in financial institutions, reported as components of cash and cash equivalents and investments, had a bank balance of \$13,584,347 at June 30, 2011, \$12,584,347 of which was exposed to custodial credit risk. This amount was not fully collateralized by securities pledged and held by a financial institution's trust department or agent, not in the City's name, as of June 30, 2011 in the amount of \$5,739.

Interest Rate Risk

The City's formal investment policy manages its exposure to fair value losses arising from increasing interest rates by limiting investments in securities to those

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maturing within three years from the date of purchase. However, the City may collateralize its repurchase agreements using longer-dated investments not to exceed 30 years to maturity. Reserve funds may be invested in securities exceeding 30 days if the maturity of such investment coincides as nearly as practicable with the expected use of funds. Maturities of investments held at June 30, 2011 are provided in the previous schedule.

Credit Risk

The City's formal investment policy does not limit its investment choices beyond the limitations of state law, which are as follows:

1. An obligation for which the United States has pledged its faith and credit for the payment of principal and interest.
2. An obligation that a federal agency or federal instrumentality has issued in accordance with an act of Congress.
3. A repurchase agreement collateralized in an amount not less than 102% of the principal amount by an obligation of the United States, its agencies or instrumentalities, provided the collateral is held by a custodian other than the seller designated by the buyer.
4. Bankers' acceptances guaranteed by a financial institution with a short-term debt rating in the highest letter and numerical rating by at least one nationally recognized statistical rating organization as designated by either the United States Securities and Exchange Commission (SEC) or the Treasurer.
5. Commercial Paper that has received the highest letter and numerical rating by at least one nationally recognized statistical rating organization as designated by either the United States SEC provided that such Commercial Paper may not exceed five percent of the total investments made by the Treasurer under this subsection.
6. With respect to amounts treated by the Internal Revenue Service as bond sale proceeds only, bonds, notes, or other obligations of investment grade in the highest quality letter and numerical rating by at least one nationally recognized statistical rating organization as designated by either the United States SEC issued by, or on behalf of, this or any other state or any agency, department, county, municipal or public corporation, special district, authority, or political subdivision thereof, or any fund or trust that invests only in securities of the type described in this paragraph.
7. Money market mutual funds that:
 - a. contain only securities of the organizations listed in items 1, 2, and 3 of this subsection;
 - b. are registered with the SEC under the Investment Company Act of 1940, 15 U.S.C. § 80a-1 et seq., as amended; and

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- c. are operated in accordance with Rule 2A-7 of the Investment Company Act of 1940, 17 C.F.R. § 270.2A-7, as amended.
- 8. Any investment portfolio created under the MLGIP defined under Article 95 22G of the code that is administered by the office of the State Treasurer.
- 9. Interest-bearing time deposits (including certificates of deposit) and/or savings accounts in any bank(s) or savings and loan association(s) in the State of Maryland, which are collateralized, as provided in the State Finance and Procurement Article.

Concentration of Credit Risk

Based on the formal investment policy, the City invests no more than 70% of its total investment portfolio in any single security type or in any single financial institution, excluding the MLGIP. At June 30, 2011, the City had no concentration of credit risk.

Note 3. Loan Receivable and Related Forgiveness

In February 1998, the City loaned \$50,000 to Human Services Program of Carroll County, Inc., a local not-for-profit organization, to assist with the organization's project to rehabilitate a shelter building. The agreement provided that no payments of principal or interest shall be due under the note and the principal shall be forgiven at the rate of \$1,650 per year while the property is utilized as a shelter for low and moderate income families and individuals. If not paid off by the organization due to modification of use, the entire indebtedness will be forgiven by February 25, 2028. As of June 30, 2011, \$28,550 remains outstanding on the loan, \$1,650 of which has been classified as a current asset.

Note 4. Mortgage Receivable and Assets Held for Resale

In 2005, the City began participating in the Affordable Housing Initiative Program, a state program designating certain property as rehabilitation candidates within revitalization areas. The City purchased and rehabilitates these homes through a combination of state grant funding, low-to-no interest loans, private contributions, and general funds for sale to low-income residents as defined by state-specified guidelines. As of June 30, 2010, the City had one property held for rehabilitation, which they expect to complete and sell within the next fiscal year.

In April 2010, the City sold several Union Street lot properties to the Episcopal Housing Corporation (EHC) for rehabilitation as a nine-unit, low-income housing area. The City and EHC agreed to a \$494,000, zero-interest loan, payable at \$40,500 for each of the first eight lots sold upon sale and remaining balance due upon the earlier of the sale of the ninth lot or September 30, 2011, which includes anticipated extensions. As of June 30, 2011, no lots have been sold and the City agreed to forgive \$40,000 of the loan and extended the maturity to September 30, 2012. As of June 30, 2011, none of the balance is anticipated to be collected in the subsequent year.

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Note 5. Capital Assets

A summary of governmental activities follows:

	Balance July 1, <u>2010</u>	<u>Increases</u>	<u>Decreases</u>	Transferred to Active Status	Balance June 30, <u>2011</u>
Capital Assets					
Non-Depreciable Assets					
Land and Land Rights	\$ 319,168	\$ -	\$ -	\$ -	\$ 319,168
Construction in Progress	<u>15,619</u>	<u>1,631,789</u>	-	<u>(1,515,902)</u>	<u>131,506</u>
Total Non-Depreciable Assets	<u>334,787</u>	<u>1,631,789</u>	-	<u>(1,515,902)</u>	<u>450,674</u>
Depreciable Assets					
Buildings	11,891,573	-	1	209,448	12,101,020
Equipment	5,171,536	345,268	181,687	(2,332,261)	3,002,856
Furniture and Fixtures	128,040	1	-	-	128,041
Improvements Other than Buildings	8,547,932	-	-	(224,721)	8,323,211
Infrastructure	38,170,326	506,125	-	1,515,902	40,192,353
Vehicles	-	<u>233,061</u>	<u>243,889</u>	<u>2,347,534</u>	<u>2,336,706</u>
Total Depreciable Assets	<u>63,909,407</u>	<u>1,084,455</u>	<u>425,577</u>	<u>1,515,902</u>	<u>66,084,186</u>
Total Capital Assets	<u>64,244,194</u>	<u>2,716,244</u>	<u>425,577</u>	-	<u>66,534,861</u>
Accumulated Depreciation					
Building	3,295,672	282,343	1	92,580	3,670,593
Equipment	4,235,319	128,794	180,267	(1,967,300)	2,216,546
Furniture and Fixtures	128,040	-	-	-	128,040
Improvements Other than Buildings	3,470,566	189,959	-	(94,489)	3,566,036
Infrastructure	15,634,191	908,614	-	-	16,542,805
Vehicles	-	<u>176,153</u>	<u>243,889</u>	<u>1,969,209</u>	<u>1,901,474</u>
Total Accumulated Depreciation	<u>26,763,788</u>	<u>1,685,863</u>	<u>424,157</u>	-	<u>28,025,494</u>
Total Capital Assets, Net	<u>\$37,480,406</u>	<u>\$1,030,382</u>	<u>\$ 1,421</u>	<u>\$ -</u>	<u>\$38,509,367</u>

Accumulated costs attributable to projects included in construction in progress at June 30, 2011 are as follows:

General Fund	
Wakefield Valley Trail - Extension	\$ 13,498
Road Overlays & Millings	103,344
PA Streetscape Phase 2	13,463
Windsor Culvert Crossing	<u>1,201</u>
Total Construction in Progress	<u>\$ 131,506</u>

Depreciation expense was charged to governmental activities functions as follows:

General Fund	
General Government	\$ 39,044
Public Safety	101,296
Public Works	1,282,054
Recreation and Culture	244,722
Community Development	<u>18,747</u>
Total	<u>\$1,685,863</u>

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A summary of business-type activities follows:

	Balance July 1, <u>2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	Balance June 30, <u>2011</u>
Capital Assets					
Non-Depreciable Assets					
Land and Land Rights	\$ 190,915	\$ -	\$ -	\$ -	\$ 190,915
Construction in Progress	<u>416,290</u>	<u>185,340</u>	<u>-</u>	<u>-</u>	<u>601,630</u>
Total Non-Depreciable Assets	<u>607,205</u>	<u>185,340</u>	<u>-</u>	<u>-</u>	<u>792,545</u>
Depreciable Assets					
Equipment	3,059,163	29,203	77,573	514,875	3,525,668
Furniture and Fixtures	6,414	-	-	-	6,414
Transmission and Distribution	38,478,391	325,549	-	-	38,803,940
Utility Plant	28,950,091	-	43,419	(1,142,817)	27,763,855
Vehicles	-	30,831	61,289	627,942	597,484
Wells and Water Sources	<u>6,147,582</u>	<u>1</u>	<u>8,842</u>	<u>-</u>	<u>6,138,741</u>
Total Depreciable Assets	<u>76,641,641</u>	<u>385,584</u>	<u>191,123</u>	<u>-</u>	<u>76,836,102</u>
Total Capital Assets	<u>77,248,846</u>	<u>570,924</u>	<u>191,123</u>	<u>-</u>	<u>77,628,647</u>
Accumulated Depreciation					
Equipment	2,434,862	245,805	77,573	(230,287)	2,372,807
Furniture and Fixtures	6,414	-	-	-	6,414
Transmission and Distribution	10,204,384	577,133	-	-	10,781,517
Utility Plant	10,228,527	730,884	37,809	(285,704)	10,635,898
Vehicles	-	30,036	61,289	515,991	484,738
Wells and Water Sources	<u>1,638,532</u>	<u>116,963</u>	<u>8,842</u>	<u>-</u>	<u>1,746,653</u>
Total Accumulated Depreciation	<u>24,512,719</u>	<u>1,700,821</u>	<u>185,513</u>	<u>-</u>	<u>26,028,027</u>
Total Capital Assets, Net	<u>\$52,736,127</u>	<u>(\$1,129,897)</u>	<u>\$ 5,610</u>	<u>\$ -</u>	<u>\$51,600,620</u>

Accumulated costs attributable to projects included in construction in progress at June 30, 2011 are as follows:

Water Fund	
Gessell Property Well	\$ 301,136
Raw Reservoir Expansion	69,441
Well #8 (Radon/Nitrate Storage)	63,705
Little Pipe Creek	<u>9,364</u>
Total Water Fund	<u>443,646</u>
Sewer Fund	
Enhanced Nutrient Removal Project	<u>157,984</u>
Total Construction in Progress	<u>\$ 601,630</u>

Depreciation expense, including amortization expense on assets under capital lease, was charged to business type functions as follows:

Water Services	\$ 762,450
Sewer Services	<u>938,371</u>
Total	<u>\$1,700,821</u>

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Note 6. Loan Payable

In February 2007, the City received \$100,000 in zero-interest financing from the Westminster Town Center Corporation to be used for the purchase and rehabilitation of certain properties to be sold as affordable housing to qualified buyers, all of which was outstanding at June 30, 2011. The loan is payable upon the sale of the related properties, which is anticipated to occur within the next fiscal year.

Note 7. Line of Credit

In December 2010, the City opened a \$1,000,000, variable rate line-of-credit to fund short-term working capital needs. As of June 30, 2011, there have been no advances against this line-of-credit and, hence, no outstanding balance.

Note 8. Due to Other Governments

In prior years, the City received \$478,000 from the Carroll County Commissioners of Maryland in relation to agreements to provide water service to the County Airport and County Industrial Park Complex for \$228,000 and for project costs for expanding permanent sewage infrastructure along Maryland Route 31 and the Adams Mill Road Vicinity (the "Avondale" area) for \$250,000. Both amounts bear no interest and no repayment guidelines, and have been classified as non-current obligations of the City. As of June 30, 2011, \$84,791 and \$149,037 are outstanding on the County Airport and County Avondale obligations, respectively.

Note 9. Capital Leases

The City has entered into several agreements to lease vehicles and server configuration equipment. The obligations are secured by the related assets and carry stated interest rates from 3.99% to 5.97%.

At June 30, 2011, future minimum payments required under leases with terms greater than one year, and the present value of minimum capital lease payments, were as follows, for the year ending June 30:

	Governmental Activities	Business-Type Activities
2012	\$28,563	\$32,625
2013	8,708	17,415
2014	<u>8,756</u>	<u>17,512</u>
Total Minimum Lease Payments	46,027	67,552
Less: Amount Representing Interest	<u>3,072</u>	<u>5,901</u>
Present Value of Net Future Minimum Capital Lease Payments included in General Long-Term Debt	42,955	61,651
Less: Current Portion	<u>26,831</u>	<u>29,404</u>
Long-Term Portion	<u>\$16,124</u>	<u>\$32,247</u>

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
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Assets under capital lease included in Property and Equipment at June 30, 2011 include the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Asset Cost under Capital Lease		
Equipment	\$247,449	\$147,368
Less: Accumulated Depreciation	<u>174,832</u>	<u>71,648</u>
Total Asset Cost under Capital Lease, Net	<u>\$ 72,617</u>	<u>\$ 75,720</u>

Note 10. Long-Term Debt

General Obligation Bonds outstanding as of June 30, 2011 are composed of the following:

Governmental Activities General Obligation Bonds Payable

\$2,560,200 Infrastructure Bonds - 2002 Series A due in annual principal payments of \$120,600 - \$188,300 plus interest paid semi-annually at rates of 3.85% - 4.8%. The bond matures on May 1, 2022.	\$ 1,662,000
\$4,820,000 Infrastructure Bonds - 2005 Series A due in annual principal payments of \$147,200 - \$300,000 plus interest paid semi-annually at rates of 3.75% - 4.40%. The bond matures on May 1, 2030.	<u>4,052,500</u>
Total Governmental Activities General Obligation Bonds Payable	<u>5,714,500</u>

Proprietary Fund General Obligation Bonds Payable

Water Fund

Drinking Water Bond, Series 2000, in the amount of \$1,269,858. Due in annual principal payments of \$63,614 - \$80,145 plus interest paid semi-annually at a rate of 2.6%. The bond matures on February 1, 2021.	715,970
Drinking Water Bond, Series 2007, in the amount of \$9,850,906. Due in annual principal payments of \$67,233 - \$541,458 plus interest paid semi-annually at a rate of 1%. Interest payments began on August 1, 2007 and principal payments began on February 1, 2010. The bond matures on February 1, 2027.	8,783,020
Drinking Water Bond, Series 2008, in the amount of \$4,415,138. Due in annual principal payments of \$195,135 - \$285,190 plus interest paid semi-annually at a rate of 2.4%. Interest payments began on August 1, 2009 and principal payments began on February 1, 2010. The bond matures on February 1, 2028.	<u>4,037,482</u>

Total Proprietary General Obligation Bonds Payable	<u>13,536,472</u>
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Total General Obligation Bonds Payable	<u>\$19,250,972</u>
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The full faith and credit and taxing powers of the City are pledged in payment of any deficiency in the funding of the principal and interest payments of all general obligation bonds.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2011:

Type of Debt	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
Governmental Activities					
General Obligation Bonds Payable	\$ 5,968,600	\$ -	\$ 254,100	\$ 5,714,500	\$ 267,800
Capital Lease Obligations	89,365	3,420	49,830	42,955	26,831
Other Long-Term Liabilities:					
Compensated Absences	375,209	-	6,123	369,086	-
Net OPEB Obligations	416,761	173,725	-	590,486	-
Total Governmental Activities	<u>\$ 6,849,935</u>	<u>\$ 177,145</u>	<u>\$ 310,053</u>	<u>\$ 6,717,027</u>	<u>\$ 294,631</u>
Business-Type Activities					
General Obligation Bonds Payable	\$ 14,459,022	\$ -	\$ 922,550	\$ 13,536,472	\$ 800,206
Capital Lease Obligations	83,128	6,840	28,318	61,650	29,404
Other Long-Term Liabilities:					
Compensated Absences	233,750	-	2,837	230,913	-
Net OPEB Obligations	159,239	83,274	-	242,513	-
Interfund Payables	1,155,000	-	313,750	841,250	300,000
Due to Other Governments	233,828	-	-	233,828	-
Total Business-Type Activities	<u>\$ 16,323,967</u>	<u>\$ 90,114</u>	<u>\$ 1,267,455</u>	<u>\$ 15,146,626</u>	<u>\$ 1,129,610</u>

Other long-term liabilities in governmental and business-type activities are liquidated from general revenues in the respective General, Public Housing Agency, Water, and Sewer Funds, as applicable.

The principal and interest requirements to maturity of the general obligation bonds payable debt of all funds are as follows:

Years Ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 267,800	\$ 253,041	\$ 800,206	\$ 203,345
2013	273,400	242,037	811,958	191,593
2014	287,600	230,614	823,919	179,632
2015	301,300	218,469	836,095	167,457
2016	311,700	205,609	848,488	155,063
2017-2021	1,779,900	810,887	4,436,313	581,444
2022-2026	1,362,800	431,616	4,348,565	258,046
2027-2030	<u>1,130,000</u>	<u>152,710</u>	<u>630,928</u>	<u>21,046</u>
Total	<u>\$5,714,500</u>	<u>\$2,544,983</u>	<u>\$13,536,472</u>	<u>\$1,757,626</u>

Interest costs incurred for the year ended June 30, 2011 were \$268,075 for governmental activities, all of which were charged to expense, and \$225,710 for business-type activities, all of which were charged to expense.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
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From time to time, the City has issued Economic Development and Educational Facilities Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. The City is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2011, there were various series of Economic Development Revenue Bonds and Educational Facilities Revenue Bonds outstanding, with an aggregate principal amount payable of \$109,238,970.

Note 11. Interfund Transactions

Interfund receivable and payable balances at June 30, 2011, consisted of the following:

<u>Due to</u>	<u>Due From</u>			<u>Total</u>
	<u>General Fund</u>	Public <u>Housing Agency Fund</u>	<u>Water Fund</u>	
General Fund	\$ -	\$ 1,522	\$ 838,319	\$ 839,841
Sewer Fund	42,271	-	241,253	283,524
Total	<u>\$ 42,271</u>	<u>\$ 1,522</u>	<u>\$1,079,572</u>	<u>\$1,123,365</u>

The interfund balance due from the Water Fund to the General Fund includes \$841,250 in outstanding loans to assist with working capital over the past several fiscal years. Management has established an anticipated repayment plan through the year ending June 30, 2014 to satisfy the outstanding loan. As of June 30, 2011, \$541,250 of the balance is not scheduled to be collected in the subsequent year.

All remaining interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made, and are expected to be repaid within the following year.

Interfund transfers were made between the General Fund and the Water and Sewer Funds for shared liabilities, technology equipment, and related technology equipment leases.

A one-time transfer of \$111,973 was made between the General Fund and the Public Housing Fund to cover deficiencies in Administrative Equities related to the Housing Program.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Note 12. Net Assets and Fund Balances

Governmental fund balances at June 30, 2011, are summarized as follows:

	General Fund	Public Housing Agency Fund	Total
Non-spendable:			
Prepaid Expenditures	\$ 147,307	\$ 1,999	\$ 149,306
Inventory	64,750	-	64,750
Assets Held for Resale	120,378	-	120,378
L/T Due from Water Fund	541,250	-	541,250
L/T Mortgage Receivable - Episcopal Housing Corporation	454,000	-	454,000
L/T Loan Receivable - Human Services Program	26,900	-	26,900
Subtotal	<u>1,354,585</u>	<u>1,999</u>	<u>1,356,584</u>
Restricted:			
Housing Voucher Program	9,901	800,511	810,412
Capital Improvements	928,273	-	928,273
Infrastructure Growth	819,421	-	819,421
Subtotal	<u>1,757,595</u>	<u>800,511</u>	<u>2,558,106</u>
Unassigned	<u>3,811,651</u>	<u>-</u>	<u>3,811,651</u>
Total Fund Balance	<u>\$ 6,923,831</u>	<u>\$ 802,510</u>	<u>\$ 7,726,341</u>

Note 13. Property Taxes

From the effective date of the budget, the amount stated thereon as the amount to be raised by the property tax shall constitute a determination of the amount of the tax levy in the corresponding tax year. Taxes are due and payable on the first day of July on the year for which they are levied and become overdue and in arrears on the first day of the following October. The Mayor and Common Council also have the authority to levy a half-year tax on new construction due and payable on January 1st in the year such tax is levied. Tax rate for the year ended June 30, 2011 was \$0.58 per \$100 of assessed property value.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Note 14. Lease Agreements

The City has entered into communication tower lease agreements with various unrelated parties through 2018. All lease agreements are renewable for four successive five-year periods at the lessee's discretion. Rental income for the year ended June 30, 2011, was \$202,661. Future minimum annual rental income for the Water Fund is determined as follows, for the years ending June 30:

2012	\$ 162,348
2013	123,153
2014	127,640
2015	132,295
2016	80,565
2017-2018	36,363
Total	<u>\$ 662,364</u>

Note 15. Operating Leases

The City has entered into a five-year operating lease, dated March 2004, with an unrelated party for the leasing of office space, through February 2012, with the option to renew for five successive one-year periods. The lease agreement states that the landlord is responsible for real estate taxes levied against the premises, while the City is responsible for all utility costs, and an annual three percent escalation clause.

The City also has entered into an operating lease, dated February 2005, with an unrelated party for leasing of a parking lot through February 2012. The rental agreement is renewable for four successive two-year periods at the City's discretion. In addition, the City has various operating leases with unrelated parties for copiers through November 2015.

The following is a schedule of future minimum rental payments required under the operating leases as of June 30, 2011:

	<u>Activities</u>	<u>Activities</u>
2012	\$ 46,982	\$ 65,984
2013	35,913	67,964
2014	36,318	70,003
2015	36,161	72,103
2016	37,133	74,266
2017	25,245	50,491
	<u>\$ 217,752</u>	<u>\$ 400,811</u>

Rent expense for governmental and business-like activities for the year ended June 30, 2011 were \$58,193 and \$59,015, respectively.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Note 16. *Defined Contribution Plans*

The City, in accordance with City Council approval, has two defined contribution plans created in accordance with Internal Revenue Code Sections 457(b) and 401(a), respectively. The 457(b) plan is available to all regular full-time and part-time employees, and the 401(a) plan is available to those employees who are not members of the Law Enforcement Officers' Pension System (LEOPS) of Maryland, with at least six months of employment service. The 457(b) and 401(a) plans have 70 and 108 active participants, respectively, as of June 30, 2011.

The 457(b) plan permits employees to defer a portion of their salary until future years, which the employees are fully vested in upon contribution. Employees can defer the lesser of \$16,500, adjusted for cost-of-living after 2010, and up to an additional \$5,500 catch-up for employees age 50 or over, or 100% of their includable salaries over the plan year. No City contributions were made to the 457(b) plan for the year ended June 30, 2011.

The 401(a) plan permits the City to contribute two percent of eligible employees' salary to a maximum of \$46,000 per employee, adjusted for inflation after 2011, to this plan based on attaining six months of service. Employees are fully vested in this plan upon contribution. The City contributed \$66,528 to the 401(a) plan for the year ended June 30, 2011.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries. The assets will not be diverted to any other purpose. The City has a duty of due care that would be required of an ordinary prudent investor.

Note 17. Pension Plans

Non-Uniformed Employees

Plan Description

The City participates in two defined benefit pension plans, which provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Employees' Retirement System (ERS) and the Employees' Pension System (EPS) are part of the Employees' Combined System (ECS) of Maryland, a cost-sharing multiple-employer public employee retirement system administered by the State Retirement Agency of Maryland.

Effective January 1, 1980, the ERS was effectively closed to new membership when the EPS was established. Individuals who were members of the ERS on December 31, 1979 continued their ERS membership unless and until they elect to transfer to the new system.

The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland. The State Retirement and Pension System of Maryland issues a publicly available comprehensive annual financial report that includes the actuarial valuation, financial statements and required supplementary

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

information, and other statistical and portfolio information for the ECS. That report may be obtained by writing to State Retirement Agency of Maryland, 120 East Baltimore Street, Baltimore, Maryland, 21202 or on the Internet at www.sra.state.md.us.

Funding Policy

The contribution requirements of plan members and employers are established and may be amended by the System's Board of Trustees. ERS plan members are required to contribute either five or seven percent of earnable compensation, depending upon the retirement option selected, and EPS plan members are required to contribute two percent of earnable compensation. The employers are required to contribute at an actuarially determined rate for both plans, which was 14.72 % and 10.83% of earnable compensation for ERS and EPS plan members, respectively, for the year ended June 30, 2011.

Annual Pension Cost

For the years ended June 30, 2011, 2010, and 2009, the City's pension cost for ERS and EPS was equal to \$467,994, \$379,006, and \$369,825, respectively, and represented 100% of the City's required contribution for each year. The required contributions were determined by actuarial valuation using the individual entry age normal cost method.

Law Enforcement Officers

Plan Description

The City participates in another defined benefit pension plan for law enforcement officers, which provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The LEOPS is a cost-sharing multiple-employer public employee retirement system administered by the State Retirement Agency of Maryland.

The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland. The State Retirement and Pension System of Maryland issues a publicly available comprehensive annual financial report that includes the actuarial valuation, financial statements and required supplementary information, and other statistical and portfolio information for the LEOPS. That report may be obtained by writing to State Retirement Agency of Maryland, 120 East Baltimore Street, Baltimore, Maryland, 21202 or on the Internet at www.sra.state.md.us.

In May 2004, the City transferred \$2,614,273 from the EPS to the LEOPS. According to actuarial valuation as of June 2003, there was a special negative accrued liability contribution of \$1,164,906, which is being refunded to the City. The City receives a credit, amortized in level annual installments over a ten-year period, commencing December 31, 2003, of \$167,052 per year. As of June 30, 2011, \$309,885 remains on the outstanding credit amortization, which has been recognized as a net pension asset for the City's governmental activities.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
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Funding Policy

The contribution requirements of plan members and employers are established and may be amended by the System's Board of Trustees. The LEOPS plan members are required to contribute four, five, or seven percent of earnable compensation, depending upon the retirement option selected. Employers are required to contribute to the plan at an actuarially determined rate, which was 32.74% of earnable compensation for LEOPS plan members for the year ended June 30, 2011.

Annual Pension Cost

For the years ended June 30, 2011, 2010, and 2009, the City's pension cost for the LEOPS was \$532,566, \$447,567, and \$479,092, respectively, and represented 100% of the City's required contribution for each year after application of the relating \$167,052 annual credit. The required contributions were determined by actuarial valuation using the individual entry age normal cost method.

Actuarial Assumptions

Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.75% per year compounded annually, (b) projected salary increases of 3.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 8.5% per year, attributable to seniority/merit, (d) post-retirement benefit increases ranging from 2.75% to 3.5% per year depending on the system, (e) rates of mortality, termination of service, disablement and retirement are based on actual experience during the period from June 30, 2003 through June 30, 2006, and (f) the aggregate active member payroll is assumed to increase by 3.5% annually.

Note 18. Other Postemployment Benefits Plan

The City offers a single-employer defined benefit healthcare plan for the employees of the City, administered through United Health Care, which provides healthcare benefits for active employees and other postemployment benefits (OPEB) for eligible retirees, their spouses and dependents. The plan is administered under two City policies, the Retiree Insurance Policy and the Retirement Medical Insurance Policy (effective July 1, 2008).

Plan Description and Funding Policies

The defined healthcare plan provides medical, hospitalization and prescription drug benefits to eligible active plan members and retirees, their spouses and dependents, and is authorized by the City. The plan provisions, benefits available and required reimbursements are governed by the Retiree Insurance Policy and the Retirement Medical Insurance Policy. Effective April 1, 2009, the City's plan was changed to a Health Reimbursement Plan (HRA). Employee's deductibles are \$1,000 for individuals and \$2,000 for individuals plus dependents, of which the City subsidizes up to \$600 and \$1,200, respectively, of the deductibles for active employees and retirees. Upon reaching eligibility for Medicare, retirees are no longer permitted to participate in the City's plan, except for those eligible under the Retiree Insurance Policy.

CITY OF WESTMINSTER, MARYLAND
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Under the Retiree Insurance Policy, all employees meeting the retirement eligibility requirements of the State Retirement and Pension System of Maryland, based on age and years of service for Law Enforcement and General employees, and the City, based on age and years of service as well as retirement directly from the City and having continuous medical insurance coverage with the City after retirement, as of July 1, 2008 can participate in City-sponsored coverage. The City subsidizes the retirees' individual premium cost up to 80%, based on the number of points (age plus years of service) at the age of retirement, and qualifying disabled participants all qualify for the 80% subsidy regardless of number of points. There is no City subsidy on spouses or dependents. Upon reaching eligibility for Medicare, retirees are eligible for a Medicare supplemental plan.

Under the Retirement Medical Insurance Policy, all employees meeting the retirement eligibility requirements of the State Retirement and Pension System of Maryland, based on age and years of service for Law Enforcement and General employees, and the City, based on age and years of service as well as retirement directly from the City and having continuous medical insurance coverage with the City after retirement, after July 1, 2008 can participate in City-sponsored coverage. The City subsidizes the retirees' individual premium cost up to 80%, based on the number of points (age plus years of service) at the age of retirement, and qualifying disabled participants all qualify for the 80% subsidy regardless of number of points. There is no City subsidy on spouses or dependents. Upon reaching eligibility for Medicare, retirees are no longer permitted to participate in the City's plan.

Membership of the plan consisted of 134 participants, 110 of which are active plan members and 24 are retirees and beneficiaries receiving benefits at June 30, 2011.

The plan is unfunded, with premium payments made by the City on a pay-as-you-go basis. All eligible retirees are required to reimburse the City for premiums paid for medical and hospitalization and prescription drug benefits elected as paid by the City. These reimbursements are withheld from the retirees' state retirement benefit on behalf of the City, and are forwarded to the City on a monthly basis. For the year ended June 30, 2011, the City paid premium costs of \$165,663 for retirees, their spouses and dependents, \$72,570 of which was reimbursed by plan members based on eligibility in accordance with the plan's applicable policy.

CITY OF WESTMINSTER, MARYLAND
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Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost is calculated based on the *annual required contribution (ARC) of the employer*, which is actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost, the estimated actuarial amount contributed to the plan, and changes in the City's net OPEB obligation for the year ended June 30, 2011:

Annual Required Contribution	\$374,000
Interest on Net OPEB Obligation	23,000
Adjustment to Annual Required Contribution	<u>(35,000)</u>
Annual OPEB Cost	362,000
Contributions Made	<u>(105,000)</u>
Increase (Decrease) in Net OPEB Obligation	257,000
Net Pension Obligation - Beginning of Year	<u>576,000</u>
Net Pension Obligation - End of Year	<u><u>\$833,000</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the year ended June 30, 2010 and the preceding year were as follows:

<u>Trend Information</u>			
<u>Year Ended</u>	<u>Annual</u>	<u>Percentage of</u>	<u>Net OPEB</u>
<u>June 30,</u>	<u>Cost</u>	<u>Annual OPEB Cost</u>	<u>Obligation</u>
		<u>Contributed</u>	
2009	\$401,000	18.7%	\$326,000
2010	\$348,000	28.2%	\$576,000
2011	\$374,000	28.1%	\$833,000

Funded Status and Funding Progress

As of the July 1, 2010 valuation, the actuarial accrued liability for benefits was \$4,346,000, all of which was unfunded, the covered payroll (annual payroll of active employees covered by the plan) was \$7,651,516, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 56.8%.

Actuarial Assumptions and Methods

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and the plan members) and include the

CITY OF WESTMINSTER, MARYLAND
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types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

For the July 1, 2009 actuarial valuation, the projected unit credit actuarial cost method was used, based on assumption that between four percent and 100% of general employees, based on points and gender, will retire upon attainment of the eligibility requirements for retirement, and that law enforcement employees reaching 25 years of service will retire between 15% and 35%, based on age, upon attainment of the eligibility requirements for retirement as of the valuation date. The valuation assumes that between 50% and 100% of eligible retirees, based on points, will elect coverage in the plan, and 20% of these eligible retirees are assumed to be married and will have a spouse covered by the plan at retirement.

The actuarial assumptions included a four percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on the City's assets, and medical and prescription drug base and sensitivity decreasing from eight percent and 9.5%, respectively, in 2010 to an ultimate level of 4.2% and 5.2%, respectively, in 2080 and thereafter. Additional medical trend assumptions were developed using the Society of Actuaries Long-Run Medical Cost Trend Model baseline assumptions with the following used as input variables: 3.2% rate of inflation, 0.9% rate of growth in real income/gross domestic product (GDP) per capita, 1.4 income multiplier for health spending, 1.2% extra trend due to technology and other factors, 25% health share of GDP resistance point, and 2075 being the year for limiting cost growth to GDP growth. The UAAL is being amortized as a level dollar amount on a 30-year closed basis. The remaining amortization period at the July 1, 2009 valuation was 29 years.

Note 19. Reconciliation of Operating Income to Net Cash Provided by Operating Activities

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Operating Income	\$ 955,289	\$ 1,918,454	\$ 2,873,743
Adjustments to Reconcile Operating Income			
Depreciation	938,371	762,450	1,700,821
(Increase) Decrease in:			
Account Receivable	56,775	(19,353)	37,422
Due From Other Governments	73,196	-	73,196
Unbilled Services	(515,303)	(558,035)	(1,073,338)
Inventory	35,370	122,849	158,219
Prepaid Expenses	10,182	7,332	17,514
Increase (Decrease) in:			
Account Payable	(50,033)	(108,946)	(158,979)
Due To Other Governments	5,152	1,118	6,270
Deferred Revenue	-	9,010	9,010
Accrued Expenses	2,616	8,561	11,177
Accrued Compensated Absences	(1,923)	(914)	(2,837)
Accrued OPEB	21,046	62,228	83,274
Net Cash Provided by Operating Activities	<u>\$ 1,530,738</u>	<u>\$ 2,204,754</u>	<u>\$ 3,735,492</u>

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Note 20. Commitments and Contingencies

The City participates in a number of federal, state, and county programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of June 30, 2011, significant amounts of grant expenditures have not been audited by the appropriate grantor government, but the City believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the City.

The City is committed under the following contracts for construction and related projects:

<u>Project</u>	<u>Contract Amount</u>	<u>Amount Outstanding at June 30, 2011</u>
Well #8 (Radon Removal/Nitrate Storage)	\$115,965	\$ 15,642
Gessell Well	\$128,651	\$127,932
PA Streetscape – Phase 2	\$ 17,978	\$ 7,191
Windsor Culvert Crossing	\$251,408	\$ 62,462
Sewer Optimization Hardware/Software	\$ 43,200	\$ 43,200
Capacity Management Plan	\$ 41,260	\$ 41,260
Voice Over IP (VOIP) – Phone System	\$176,650	\$176,650

After June 30, 2011, the City began a Sewer System Rehabilitation analysis which involved a televised line installed within the sewer line, initially the main line. Initial cost estimated at \$65,729.

Note 21. 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 natural disasters.

The City is a member in the Local Government Insurance Trust (LGIT), which is owned and directed by local governments (participants) that subscribe to its insurance coverages. The LGIT is managed by a Board of Trustees and a contract administration company. The trustees are elected by a majority vote of the participants with each participant having one vote. The City does not exercise any control over the LGIT's operations.

The maximum coverage under the liability pool of the LGIT is \$1,000,000 per claim. The City also participates in an excess liability pool, which has maximum coverage of \$5,000,000. Settled claims resulting from these risks have not exceeded insurance coverage for each of the past three years.

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Note 22. Environmental Concerns

The City operates a sewer facility and has several above-ground storage tanks for its oil and diesel fuel. All above-ground storage tanks are surrounded by containment tanks to lessen the severity of contamination in the event of a leak. If a leak or contamination occurred, the City could become liable for the cost to clean up the spill.

Note 23. Concentrations and Economic Dependencies

The City provides various services to its residents. The City is located in northern Carroll County, Maryland. Credit is granted to its residents for taxes, water, and sewer bills. The City may place a lien on any property associated with unpaid taxes and water and sewer services, therefore, an allowance for uncollectible amounts is not considered necessary.

A majority of the supplies in relation to water meters and transmitters are secured from a sole-source supplier, and there are no guaranteed supply arrangements for those components. There have been no issues relating to difficulties in obtaining sufficient supplies of components on a timely basis.

The City may experience some financial impact as a result of the current economic conditions occurring within the world's economy. The continued rise in residential foreclosures may impact the City's ability to timely collect property tax revenue as well as water and sewer fees. Also, the City receives shared revenue from the county and state. The amounts of these funds are not guaranteed and may be reduced as a result of the current economic environment.

Note 24. New Governmental Accounting Standards Board Pronouncements

The GASB has issued several pronouncements prior to the year ended June 30, 2011 that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the City:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, will be effective for the City as of July 1, 2012. The purpose of this statement is to address how to account and report service concession arrangements. The City currently has no service concession arrangements and does not foresee the creation of any such arrangements in the future; therefore this release will not impact the City.

GASB Statement Number 61, *The Financial Reporting Entity – Omnibus – An Amendment of GASB Statements No. 14 and No. 34*, will be effective for the City beginning with its year ending June 30, 2012. This Statement amends the account and financial reporting standards for including, presenting, and disclosing information about governmental component units, including equity

CITY OF WESTMINSTER, MARYLAND
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interests. The City currently has no component units and does not foresee the addition of any component units in the future; therefore this release will not impact the City.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, will be effective for the City as of July 1, 2012. The purpose of this statement is to allow those who prepare or audit financial statements, or reference standards for state and local government, to access the applicable guidance with great ease and certainty. This release will have no direct impact on the City, simply aid in the preparation of future financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, will be effective for the City as of July 1, 2012. The purpose of this statement is to provide a framework that specifies where deferred outflows of resources and deferred inflows of resources – as well as assets and liabilities – should be displayed in the Financial Statements. At present, this release will have no direct impact upon the City.

GASB Statement No. 64, *Derivative Instruments – Application of Hedge Termination Provisions – An Amendment of GASB Statement No. 53*, will be effective for the City as of July 1, 2011. The purpose of this statement is to provide accounting and financial reporting guidance related to specific circumstances where hedge account may continue after the termination of the hedging derivative instrument. The City currently possesses no derivative instruments and does not foresee the purchase of any derivative instruments in the future; therefore this release will not impact the City.



Required Supplementary Information

CITY OF WESTMINSTER, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET TO ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011
(UNAUDITED - SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT)

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Taxes	\$ 11,992,549	\$ 11,992,549	\$ 12,642,294	\$ 649,745
Licenses & Permits	295,500	295,500	388,630	93,130
Intergovernmental	1,993,338	2,038,012	1,774,054	(263,958)
Charges for Services	593,950	612,097	791,175	179,078
Fines & Forfeitures	58,000	250,330	248,194	(2,136)
Interest & Investment Earnings	16,925	16,925	14,087	(2,838)
Rental Income	5,200	5,200	5,200	-
Miscellaneous	630,400	646,811	130,170	(516,641)
TOTAL REVENUES	15,585,862	15,857,424	15,993,804	136,380
EXPENDITURES				
General Government	1,271,683	1,262,990	1,052,084	(210,906)
Public Safety	4,003,347	4,210,771	4,001,834	(208,937)
Public Works	2,835,234	2,835,234	2,627,455	(207,779)
Recreation & Parks	700,080	769,953	762,342	(7,611)
Community Development & Housing	173,090	173,413	297,612	124,199
Debt Service	557,958	582,762	572,249	(10,513)
Capital Outlays	3,384,882	3,402,646	2,189,325	(1,213,321)
Miscellaneous	2,659,588	2,689,407	2,316,762	(372,645)
TOTAL EXPENDITURES	15,585,862	15,927,176	13,819,663	(2,107,513)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(69,752)	2,174,141	2,243,893
OTHER FINANCING SOURCES (USES)				
Interfund Transfers	-	-	(111,336)	(111,336)
Proceeds from Issuance of Long-Term Debt	-	-	3,420	3,420
Assets Held for Resale Disposition	-	-	8,070	8,070
TOTAL OTHER FINANCING SOURCES (USE)	-	-	(99,846)	(99,846)
NET CHANGES IN FUND BALANCES	-	(69,752)	2,074,295	2,144,047
Fund Balances - Beginning of Year	4,849,540	4,849,540	4,849,540	4,849,540
FUND BALANCES - END OF YEAR	\$ 4,849,540	\$ 4,779,788	\$ 6,923,835	\$ 6,993,587

CITY OF WESTMINSTER, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED - SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT)

SCHEDULE OF FUNDING PROGRESS -
COMBINED STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND

(Expressed in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
		Unit Credit (b)	Unfunded AAL (UAAL) (b-a)			
2008	\$ 39,504,284	\$ 50,244,047	\$ 10,739,763	78.62%	\$ 10,542,806	101.87%
2009	\$ 34,284,569	\$ 52,729,171	\$ 18,444,602	65.02%	\$ 10,714,241	172.15%
2010	\$ 34,688,346	\$ 54,085,081	\$ 19,396,735	64.14%	\$ 10,657,944	181.99%

SCHEDULE OF FUNDING PROGRESS -
OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
		Unit Credit (b)	Unfunded AAL (UAAL) (b-a)			
7/1/2008	\$ -	\$ 4,288,000	\$ 4,288,000	0.00%	\$ 8,326,775	51.50%
7/1/2009	\$ -	\$ 4,171,000	\$ 4,171,000	0.00%	\$ 7,973,815	52.31%
7/1/2010	\$ -	\$ 4,346,000	\$ 4,346,000	0.00%	\$ 7,651,516	56.80%