



CITY OF
WESTMINSTER,
MARYLAND

2012

**BASIC FINANCIAL STATEMENTS AND REQUIRED
SUPPLEMENTARY INFORMATION FOR YEAR ENDED
JUNE 30, 2012**

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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, 2012, which collectively comprise the City of Westminster'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'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, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 15; schedule of revenues, expenditures, and changes in fund balance – budget to actual – General Fund on page 63; schedule of funding progress – combined state retirement and pension system of Maryland on page 64; and schedules of funding progress and employer contributions – other postemployment benefits plan on page 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

McGladrey LLP

Frederick, Maryland
October 30, 2012

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

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, 2012. 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 \$99,106,163 (net assets). Of this amount \$44,093,809 was for governmental activities and \$55,012,354 was for business type activities. The amount of net assets that were unrestricted at year end was \$5,926,862 for governmental activities and \$9,597,503 for business type activities.
- The total net assets increased by \$6,714,035 over FY2011. Governmental activities increased by \$4,040,492 while business type activities increased by \$2,673,543. 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 2012, the governmental funds included a combined ending fund balance of \$9,990,101, which is an increase of \$2,263,754 over the prior year. Approximately 58% of this fund balance amount is unreserved and available for spending at government discretion.
- At the end of the current fiscal year, the unassigned fund balance of \$5,810,439 was contained only in the General Fund. There were no unassigned funds in the Public Housing Agency Fund.
- The tax rate for property taxes and business personal and tangible property taxes remained unchanged. The property tax rate was unchanged at \$0.58 per \$100 of assessable real property value. 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, 2012

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.

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, 2012

The City maintains two 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.

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.

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.

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 \$99,106,163 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 73% 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 \$10,618,722 represent 11% of total net assets. Restricted net assets are resources that are subject to external restrictions or enabling legislation on how they may be used. Unrestricted net assets of \$15,524,365 represent 16% 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
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

**City of Westminster, Maryland
Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Government-Wide Totals</u>	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
<u>Assets:</u>						
Current & Other Assets	\$ 9,370,578	\$ 11,180,595	\$ 15,558,120	\$ 18,434,648	\$ 24,928,698	\$ 29,615,243
Capital Assets, Net	38,509,367	40,268,523	51,600,616	50,947,901	90,109,983	91,216,424
Total Assets	<u>47,879,945</u>	<u>51,449,118</u>	<u>67,158,736</u>	<u>69,382,549</u>	<u>115,038,681</u>	<u>120,831,667</u>
<u>Liabilities:</u>						
Current Liabilities	1,404,232	1,030,940	1,344,159	1,585,059	2,748,391	2,615,999
Long-Term Liabilities	6,422,396	6,324,369	13,475,766	12,785,136	19,898,162	19,109,505
Total Liabilities	<u>7,826,628</u>	<u>7,355,309</u>	<u>14,819,925</u>	<u>14,370,195</u>	<u>22,646,553</u>	<u>21,725,504</u>
<u>Net Assets:</u>						
Investment in Capital Assets, Net of Related Debt	32,874,066	34,872,097	38,010,808	38,090,979	70,884,874	72,963,076
Restricted	2,557,926	3,294,850	6,842,854	7,323,872	9,400,780	10,618,722
Unrestricted	4,621,325	5,926,862	7,485,149	9,597,503	12,106,474	15,524,365
Total Net Assets	<u>\$ 40,053,317</u>	<u>\$ 44,093,809</u>	<u>\$ 52,338,811</u>	<u>\$ 55,012,354</u>	<u>\$ 92,392,128</u>	<u>\$ 99,106,163</u>

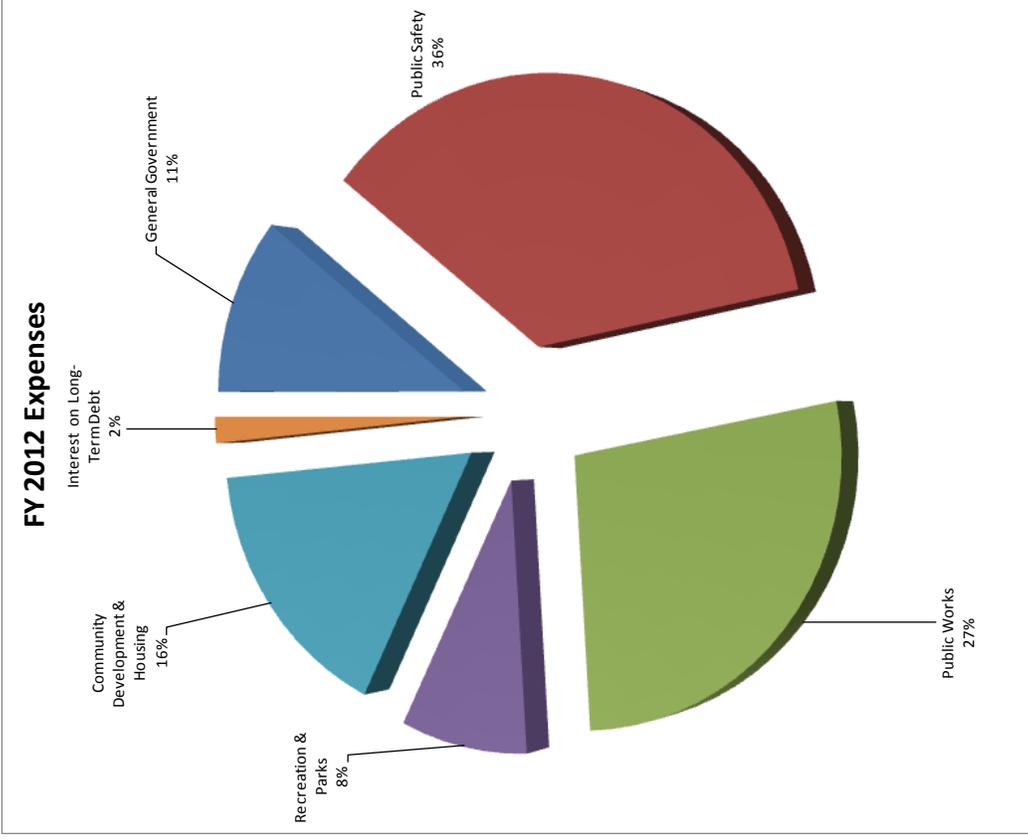
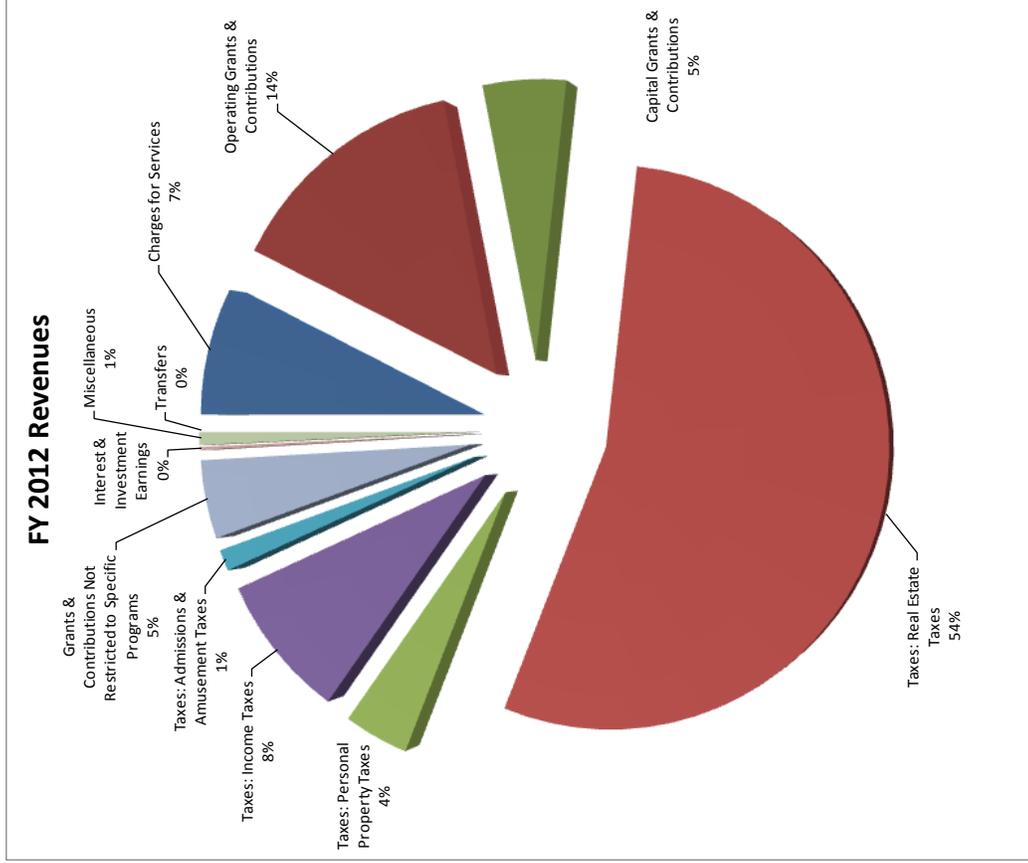
**CITY OF WESTMINSTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Government-Wide Totals</u>	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Revenues:						
<u>Program Revenues:</u>						
Charges for Services	\$ 1,428,497	\$ 1,443,285	\$ 11,940,879	\$ 10,756,362	\$ 13,369,376	\$ 12,199,647
Operating Grants & Contributions	2,974,969	2,807,492	12,286	12,286	2,987,255	2,819,778
Capital Grants & Contributions	720,513	943,412	864,719	983,559	1,585,232	1,926,971
<u>General Revenues:</u>						
Taxes:						
Real Estate Taxes	10,122,431	10,514,072	-	-	10,122,431	10,514,072
Personal Property Taxes	747,784	740,724	-	-	747,784	740,724
Income Taxes	1,512,397	1,637,528	-	-	1,512,397	1,637,528
Admissions & Amusement Taxes	239,106	242,019	-	-	239,106	242,019
Grants & Contributions Not Restricted to Specific Programs	905,603	892,529	-	-	905,603	892,529
Interest & Investment Earnings	45,548	34,368	20,101	16,730	65,649	51,098
Miscellaneous	120,233	145,750	12,747	60,182	132,980	205,932
Transfers	637	-	(637)	-	-	-
Total Revenues	18,817,718	19,401,179	12,850,095	11,829,119	31,667,813	31,230,298
Expenses:						
<u>Governmental Activities:</u>						
General Government	1,412,939	1,658,564	-	-	1,412,939	1,658,564
Public Safety	5,717,661	5,537,316	-	-	5,717,661	5,537,316
Public Works	4,260,313	4,176,521	-	-	4,260,313	4,176,521
Recreation & Parks	1,192,491	1,231,756	-	-	1,192,491	1,231,756
Community Development & Housing	2,748,473	2,510,928	-	-	2,748,473	2,510,928
Interest on Long-Term Debt	268,075	245,602	-	-	268,075	245,602
<u>Business-type Activities</u>						
Sewer Services	-	-	4,805,897	4,990,870	4,805,897	4,990,870
Water Services	-	-	4,305,774	4,164,706	4,305,774	4,164,706
Total Expenses	15,599,952	15,360,687	9,111,671	9,155,576	24,711,623	24,516,263
Increase in Net Assets	3,217,766	4,040,492	3,738,424	2,673,543	6,956,190	6,714,035
Net Assets - Beginning	36,835,551	40,053,317	48,600,387	52,338,811	85,435,938	92,392,128
Net Assets - Ending	\$ 40,053,317	\$ 44,093,809	\$ 52,338,811	\$ 55,012,354	\$ 92,392,128	\$ 99,106,163

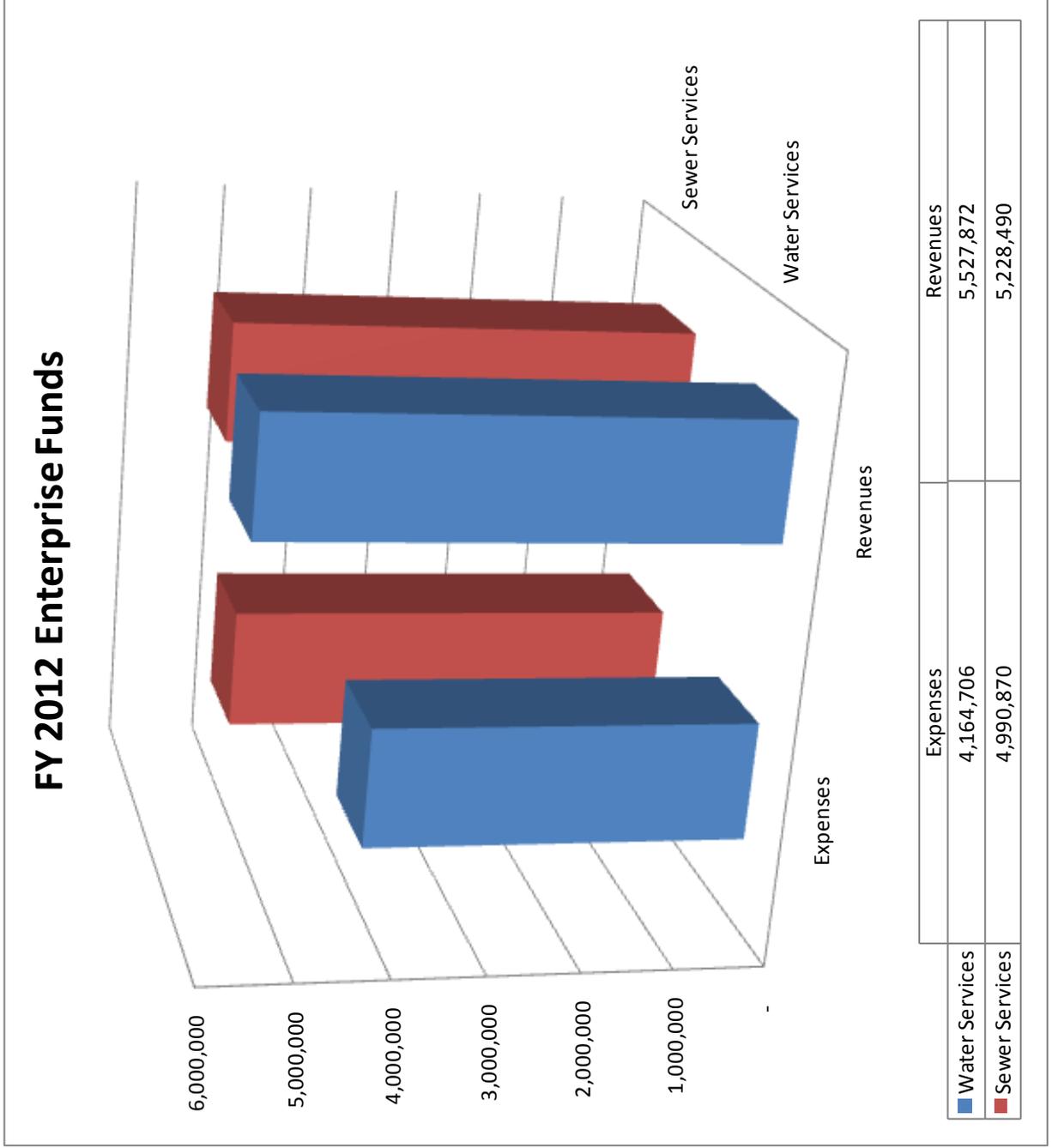
**CITY OF WESTMINSTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

- **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, 2012**

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



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

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 \$9,990,101. Approximately 6% of the fund balance, \$555,504, is restricted for the Public Housing Agency. An additional 27% has been restricted as follows:

- \$1,579,781 restricted for Capital Improvement Projects
- \$899,426 restricted for Infrastructure Growth
- \$260,139 for Westminster Fire Department

The total General Fund balance increased \$2,506,760 during FY2012, due to revenues exceeding budgeted levels, coupled with lower expenditures. Public Housing Agency Fund balance decreased \$243,006 due to funding reductions from U.S. Department of Housing and Urban Development (HUD) in an effort to reduce Housing Assistance Payments (HAP) and Administration (Admin) equity reserves.

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 \$3,809,225. Although revenues exceeded expenses for FY2012, 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 \$4,457,137 and \$5,140,366, 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 \$16,340,858 compared to budgeted amount of \$15,289,684, an overall surplus of \$1,051,174. The major differences between the final budgeted amounts and the actual revenues are as follows:

- Actual income taxes were more than budget by \$580,277
- Actual admission & amusement taxes were more than budget by \$82,334
- Actual licenses & permits fees were more than budget by \$50,486

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

- Actual General Fund expenditures were less than budget by \$2,594,036 primarily driven by under-spending of approximately \$300,000 associated with anticipated storm drain expense related to Maryland Department of the Environment (MDE) regulation that did not take effect, approximately \$58,000 for snow removal, approximately \$86,000 for street sanitation, approximately \$93,000 for facility costs and approximately \$500,000 in capital outlay expenditures

**General Fund Revenues
Budget vs. Actual
FY 2012**

	<u>Budgeted Amounts</u>				% of Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>	
<u>General Fund Revenues</u>					
Taxes	\$ 12,185,235	\$ 12,185,235	\$ 13,125,890	\$ 940,655	108%
Licenses & Permits	369,734	369,734	420,219	50,485	114%
Intergovernmental	1,627,293	1,735,795	1,703,390	(32,405)	98%
Charges for Services	707,900	707,900	714,006	6,106	101%
Fines & Forfeitures	234,500	234,500	238,279	3,779	102%
Interest & Investment Earnings	11,000	11,000	14,088	3,088	128%
Rental Income	6,000	6,000	5,200	(800)	87%
Miscellaneous	20,000	39,520	119,786	80,266	303%
Total Revenues	<u>\$15,161,662</u>	<u>\$15,289,684</u>	<u>\$16,340,858</u>	<u>\$ 1,051,174</u>	<u>107%</u>

**General Fund Expenses
Budget vs. Actual
FY 2012**

	<u>Budgeted Amounts</u>				% of Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>	
<u>General Fund Expenditures</u>					
General Government	\$ 1,311,655	\$ 1,399,369	\$ 1,158,287	\$ (241,082)	83%
Public Safety	4,740,361	4,669,019	4,481,602	(187,417)	96%
Public Works	3,278,339	3,289,303	2,501,924	(787,379)	76%
Recreation & Parks	838,568	838,568	813,059	(25,509)	97%
Community Development & Housing	140,259	252,269	170,790	(81,479)	68%
Debt Service	558,336	550,021	548,114	(1,907)	100%
Capital Outlays	3,395,804	3,447,672	2,649,869	(797,803)	77%
Miscellaneous	2,066,645	2,066,645	1,595,185	(471,460)	77%
Total Expenditures	<u>\$16,329,967</u>	<u>\$16,512,866</u>	<u>\$13,918,830</u>	<u>\$ (2,594,036)</u>	<u>84%</u>

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

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, 2012, amounted to \$91,216,424 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, streets, bridges, equipment, vehicles, sewer and water systems, furniture and fixtures and construction in progress.

**City of Westminster, Maryland
Capital Assets (Net of Depreciation)
JUNE 30, 2012**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land & Land Rights	\$ 319,168	\$ 190,915	\$ 510,083
Construction in Progress	132,870	1,045,486	1,178,356
Buildings	8,148,085	-	8,148,085
Equipment	1,222,260	1,187,811	2,410,071
Furniture & Fixtures	-	-	-
Improvements Other than Buildings	4,608,396	-	4,608,396
Infrastructure	25,200,875	-	25,200,875
Transportation & Distribution	-	27,751,901	27,751,901
Utility Plant & Equipment	-	16,384,705	16,384,705
Vehicles	636,869	111,957	748,826
Wells & Water Sources	-	4,275,126	4,275,126
Total Net Capital Assets	<u>\$ 40,268,523</u>	<u>\$ 50,947,901</u>	<u>\$ 91,216,424</u>

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

Commitments:

The City is committed under the following contracts for construction and related projects as of June 30, 2012:

Project	Contract Amount	Amount Outstanding at June 30, 2012
Well # 8 (Radon Removal/Nitrate Storage)	\$ 146,249	\$ 73,105
Gessell Well	\$ 128,651	\$ 79,096
PA Streetscape - Phase 2	\$ 218,578	\$ 101,793
Sewer Optimization Hardware/Software	\$ 43,200	\$ 4,800
ENR & Biosolids Upgrade WWTP	\$ 17,973,783	\$ 17,631,403

Long-term Debt:

At the end of FY2012, the City had total bond and loan principal outstanding of \$18,182,966, which is debt backed by the full faith and credit of the City. Of that amount \$5,446,700 is General Fund infrastructure bonds and \$12,736,266 is Water Fund Drinking Water bonds. In addition, there are capital lease obligations for other equipment in the amount of \$192,208.

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 \$578,668. 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 \$1,090,000. 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, 2012 is \$20,277,670 and at June 30, 2011 was \$21,022,403.

- **Annual Debt Service:** During FY 2012 principal, interest and administrative fee payments of \$1,653,972 were made on all bonds and leases. During FY 2013, \$1,633,589 is expected to be paid for debt service obligations of principal, interest and administrative fees.

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 the Treasurer and Director of Finance, City of Westminister, 56 W. Main Street, 1st Floor, Westminister, Maryland, 21157.

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Basic Financial Statements



CITY OF WESTMINSTER, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash & Cash Equivalents			
Unrestricted	\$ 4,738,390	\$ 7,512,701	\$ 12,251,091
Restricted	3,333,973	86,093	3,420,066
Pooled Cash & Cash Equivalents			
Unrestricted	1,207,401	-	1,207,401
Restricted	-	7,323,872	7,323,872
Taxes Receivable	389,160	-	389,160
Accounts Receivable, Net of Allowance for Uncollectibles of \$196,898 and \$40,443, respectively			
Unrestricted	239,023	1,432,390	1,671,413
Restricted	-	44,513	44,513
Unbilled Services	-	1,446,461	1,446,461
Special Assessments Receivable	-	32,220	32,220
Grants Receivable	181,434	223,335	404,769
Loan Receivable	1,650	-	1,650
Prepaid Items and Deposits	156,491	86,256	242,747
Internal Balances	107,989	(107,989)	-
Due from Other Governments	46,241	26,830	73,071
Inventory	66,749	177,207	243,956
Assets Held for Resale	120,378	-	120,378
TOTAL CURRENT ASSETS	10,588,879	18,283,889	28,872,768
NON-CURRENT ASSETS			
Cash & Cash Equivalents: Restricted	16,795	-	16,795
Accounts Receivable	-	143,277	143,277
Loan Receivable	25,250	-	25,250
Mortgage Receivable	274,444	-	274,444
Net Pension Asset	160,883	-	160,883
Bond Issue Cost, Net of Accumulated Amortization of \$65,856 and \$43,678, respectively	114,344	7,482	121,826
Property and Equipment			
Land & Land Rights	319,168	190,915	510,083
Construction in Progress	132,870	1,045,486	1,178,356
Buildings	12,101,020	-	12,101,020
Equipment	3,471,242	3,624,514	7,095,756
Furniture & Fixtures	128,041	6,414	134,455
Improvements Other than Buildings	8,364,966	-	8,364,966
Infrastructure	42,746,863	-	42,746,863
Transmission and Distribution	-	39,100,949	39,100,949
Utility Plant & Equipment	-	27,833,708	27,833,708
Vehicles	2,604,787	605,487	3,210,274

See Notes to Basic Financial Statements

CITY OF WESTMINSTER, MARYLAND
STATEMENT OF NET ASSETS continued
JUNE 30, 2012

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
ASSETS - continued			
Wells & Water Sources	-	6,138,741	6,138,741
	69,868,957	78,546,214	148,415,171
Less: Accumulated Depreciation	29,600,434	27,598,313	57,198,747
Net Property and Equipment	40,268,523	50,947,901	91,216,424
TOTAL NON-CURRENT ASSETS	40,860,239	51,098,660	91,958,899
TOTAL ASSETS	51,449,118	69,382,549	120,831,667
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	259,513	398,345	657,858
Accrued Liabilities	231,279	173,746	405,025
Compensated Absences	15,377	17,534	32,911
Unearned Revenue	88,214	19,606	107,820
Loan Payable	100,000	-	100,000
Capital Lease Obligations	16,632	33,264	49,896
General Obligation Bonds Payable	273,400	811,958	1,085,358
Payable from Restricted Assets			-
Unearned Revenue	14,885	-	14,885
Deposits & Escrows	27,498	423	27,921
Due to Other Governments	4,142	130,183	134,325
TOTAL CURRENT LIABILITIES	1,030,940	1,585,059	2,615,999
NON-CURRENT LIABILITIES			
Compensated Absences	341,352	204,405	545,757
Accrued Other Postemployment Benefits	762,279	327,721	1,090,000
Due to Other Governments	-	233,828	233,828
Capital Lease Obligations	47,438	94,874	142,312
General Obligation Bonds Payable	5,173,300	11,924,308	17,097,608
TOTAL NON-CURRENT LIABILITIES	6,324,369	12,785,136	19,109,505
TOTAL LIABILITIES	7,355,309	14,370,195	21,725,504
NET ASSETS			
Investment in Capital Assets, Net of Related Debt	34,872,097	38,090,979	72,963,076
Restricted for Future Infrastructure Growth	899,426	7,323,872	8,223,298
Restricted for Capital Improvement Projects	1,579,781	-	1,579,781
Restricted for Public Housing Vouchers	555,504	-	555,504
Restricted for Westminster Fire Department	260,139	-	260,139
Unrestricted	5,926,862	9,597,503	15,524,365
TOTAL NET ASSETS	\$ 44,093,809	\$ 55,012,354	\$ 99,106,163

See Notes to Basic Financial Statements

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$ 1,658,564	\$ 340,590	-	-	\$ (1,317,974)	\$ -	\$ (1,317,974)
Public Safety	5,637,316	242,242	336,173	42,742	(4,916,159)	-	(4,916,159)
Public Works	4,176,521	335,731	269,280	900,670	(2,670,840)	-	(2,670,840)
Recreation and Culture	1,231,756	467,659	-	-	(764,097)	-	(764,097)
Community Development & Housing	2,510,928	57,063	2,202,039	-	(251,826)	-	(251,826)
Interest on Long-Term Debt	245,602	-	-	-	(245,602)	-	(245,602)
Total Governmental Activities	15,360,687	1,443,285	2,807,492	943,412	(10,166,498)	-	(10,166,498)
Business-Type Activities							
Sewer Services	4,990,870	5,228,490	6,143	648,088	-	891,851	891,851
Water Services	4,164,706	5,527,872	6,143	335,471	-	1,704,780	1,704,780
Total Business-Type Activities	9,155,576	10,756,362	12,286	983,559	-	2,596,631	2,596,631
TOTAL GOVERNMENT	\$ 24,516,263	\$ 12,199,647	\$ 2,819,778	\$ 1,926,971	(10,166,498)	2,596,631	(7,569,867)
GENERAL REVENUES							
Taxes							
Real Estate Taxes					10,514,072	-	10,514,072
Personal Property Taxes					740,724	-	740,724
Income Taxes					1,637,528	-	1,637,528
Admission & Amusement Taxes					242,019	-	242,019
Grants & Contributions not Restricted to Specific Programs					892,529	-	892,529
Interest & Investment Earnings					34,368	16,730	51,098
Miscellaneous					145,750	60,182	205,932
TOTAL GENERAL REVENUES					14,206,990	76,912	14,283,902
CHANGES IN NET ASSETS					4,040,492	2,673,543	6,714,035
Net Assets - Beginning					40,053,317	52,338,811	92,392,128
NET ASSETS - ENDING					\$ 44,093,809	\$ 55,012,354	\$ 99,106,163

See Notes to Basic Financial Statements

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

	General Fund	Public Housing Agency Fund	Total Governmental Funds
ASSETS			
Cash & Cash Equivalents			
Unrestricted	\$ 4,738,390	\$ -	\$ 4,738,390
Restricted	2,769,076	581,692	3,350,768
Pooled Cash & Cash Equivalents: Unrestricted	1,207,401	-	1,207,401
Taxes Receivable	389,160	-	389,160
Accounts Receivable, Net of Allowance for Uncollectibles of \$67,597 and \$129,301, respectively	152,788	86,235	239,023
Grants Receivable	181,434	-	181,434
Loan Receivable	26,900	-	26,900
Mortgage Receivables	274,444	-	274,444
Prepaid Items and Deposits	152,489	4,002	156,491
Interfund Receivables	312,396	-	312,396
Due from Other Governments	46,241	-	46,241
Inventory	66,749	-	66,749
Assets Held for Resale	120,378	-	120,378
TOTAL ASSETS	\$10,437,846	\$ 671,929	\$11,109,775
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 256,040	\$ 3,473	\$ 259,513
Accrued Liabilities	187,567	4,396	191,963
Compensated Absences	15,377	-	15,377
Deferred Revenue	215,689	86,200	301,889
Loan Payable	100,000	-	100,000
Interfund Payables	202,848	1,559	204,407
Payable from Restricted Assets			
Deferred Revenue	14,885	-	14,885
Deposits & Escrows	10,703	16,795	27,498
Due to Other Governments	4,142	-	4,142
TOTAL LIABILITIES	1,007,251	112,423	1,119,674
FUND BALANCES			
Non-spendable	880,810	4,002	884,812
Restricted	2,739,346	555,504	3,294,850
Unassigned	5,810,439	-	5,810,439
TOTAL FUND BALANCES	9,430,595	559,506	9,990,101
TOTAL LIABILITIES AND FUND BALANCES	\$10,437,846	\$ 671,929	\$11,109,775

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, 2012**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 9,990,101**

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. 83,258

Deferred revenue for citations and housing voucher repayments is not available for current period expenditures and, therefore, is not reported in the governmental funds. 130,418

Net pension assets in governmental activities are not current financial resources and, therefore, are not reported in governmental funds balance sheet. 160,883

Bond issue costs are reported as expenditures in the governmental funds. 114,344

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 40,268,523

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. (1,103,631)

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. (5,550,087)

TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 44,093,809**

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, 2012

	General Fund	Public Housing Agency Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 13,125,890	\$ -	\$ 13,125,890
Licenses & Permits	420,219	-	420,219
Intergovernmental	1,703,390	1,913,082	3,616,472
Charges for Services	714,006	-	714,006
Fines & Forfeitures	238,279	-	238,279
Interest & Investment Earnings	14,088	2,229	16,317
Rental Income	5,200	-	5,200
Miscellaneous	119,786	119,985	239,771
TOTAL REVENUES	16,340,858	2,035,296	18,376,154
EXPENDITURES			
General Government	1,158,287	-	1,158,287
Public Safety	4,481,602	-	4,481,602
Public Works	2,501,924	-	2,501,924
Recreation & Parks	813,059	-	813,059
Community Development & Housing	170,790	2,278,302	2,449,092
Debt Service			-
Principal	299,147	-	299,147
Interest	248,967	-	248,967
Capital Outlays	2,649,869	-	2,649,869
Miscellaneous	1,595,185	-	1,595,185
TOTAL EXPENDITURES	13,918,830	2,278,302	16,197,132
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,422,028	(243,006)	2,179,022
OTHER FINANCING SOURCES			
Proceeds from Issuance of Long-Term Debt	52,462	-	52,462
Proceeds from Sale of Capital Assets	32,270	-	32,270
TOTAL OTHER FINANCING SOURCES	84,732	-	84,732
NET CHANGES IN FUND BALANCES	2,506,760	(243,006)	2,263,754
Fund Balances - Beginning of Year	6,923,835	802,512	7,726,347
FUND BALANCES - END OF YEAR	\$ 9,430,595	\$ 559,506	\$ 9,990,101

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, 2012**

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 2,263,754**

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	2,649,869
Less: Depreciation Expense	(1,794,680)

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	(52,462)
Payment of Capital Lease Obligations	31,347
Payment on Bonds Payable	267,800

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.	68,401
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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.	906,302
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The net effect of various miscellaneous transactions involving capital assets (i.e. sales and trade-ins) is to decrease net assets	(2,333)
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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	(149,002)
Accrued Interest Expense	3,364
Long-Term Portion of Compensated Absences	27,735
Accrued Other Postemployment Benefits	(171,793)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 4,040,492**

See Notes to Basic Financial Statements

CITY OF WESTMINSTER, MARYLAND
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2012

	Sewer Fund	Water Fund	Total Proprietary Funds
ASSETS			
CURRENT ASSETS			
Cash & Cash Equivalents			
Unrestricted	\$ 3,238,711	\$ 4,273,990	\$ 7,512,701
Restricted	85,891	202	86,093
Pooled Cash & Cash Equivalents: Restricted	3,638,037	3,685,835	7,323,872
Accounts Receivable, Net of Allowance for Uncollectibles of \$21,072 and \$19,371, respectively			
Unrestricted	730,810	701,580	1,432,390
Restricted	44,513	-	44,513
Unbilled Services	682,378	764,083	1,446,461
Special Assessments Receivable	16,488	15,732	32,220
Grants Receivable	223,335	-	223,335
Prepaid Items & Deposits	43,537	42,719	86,256
Interfund Receivables	204,701	-	204,701
Due from Other Governments	26,830	-	26,830
Inventory	75,814	101,393	177,207
TOTAL CURRENT ASSETS	9,011,045	9,585,534	18,596,579
NON-CURRENT ASSETS			
Accounts Receivable	70,504	72,773	143,277
Bond Issue Costs, Net of Accumulated Amortization of \$43,678	-	7,482	7,482
Property & Equipment			
Land & Land Rights	54,202	136,713	190,915
Construction in Progress	543,565	501,921	1,045,486
Equipment	2,955,168	669,346	3,624,514
Furniture & Fixtures	1,607	4,807	6,414
Transmission and Distribution	17,194,333	21,906,616	39,100,949
Utility Plant & Equipment	16,313,547	11,520,161	27,833,708
Vehicles	258,081	347,406	605,487
Wells & Water Sources	-	6,138,741	6,138,741
	37,320,503	41,225,711	78,546,214
Less Accumulated Depreciation	18,130,123	9,468,190	27,598,313
Total Property & Equipment	19,190,380	31,757,521	50,947,901
TOTAL NON-CURRENT ASSETS	19,260,884	31,837,776	51,098,660
TOTAL ASSETS	28,271,929	41,423,310	69,695,239
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	306,810	91,535	398,345
Accrued Liabilities	49,693	124,053	173,746
Compensated Absences - S/T	2,921	14,613	17,534
Deferred Revenue	-	19,606	19,606

See Notes to Basic Financial Statements

CITY OF WESTMINSTER, MARYLAND
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS continued
JUNE 30, 2012

	Sewer <u>Fund</u>	Water <u>Fund</u>	Total Proprietary <u>Funds</u>
CURRENT LIABILITIES continued			
Interfund Payables	-	71,440	71,440
Capital Lease Obligations	16,632	16,632	33,264
General Obligation Bonds Payable	-	811,958	811,958
Payable from Restricted Assets Deposits & Escrows	221	202	423
Payable from Restricted Assets Due to Other Governments	130,183	-	130,183
TOTAL CURRENT LIABILITIES	<u>506,460</u>	<u>1,150,039</u>	<u>1,656,499</u>
NON-CURRENT LIABILITIES			
Compensated Absences - L/T	114,382	90,023	204,405
Accrued Other Postemployment Benefits	148,337	179,384	327,721
Interfund Payables	-	241,250	241,250
Due to Other Governments	233,828	-	233,828
Capital Lease Obligations	47,437	47,437	94,874
General Obligation Bonds Payable	-	11,924,308	11,924,308
TOTAL NON-CURRENT LIABILITIES	<u>543,984</u>	<u>12,482,402</u>	<u>13,026,386</u>
TOTAL LIABILITIES	<u>1,050,444</u>	<u>13,632,441</u>	<u>14,682,885</u>
NET ASSETS			
Investment in Capital Assets, Net of Related Debt	19,126,311	18,964,668	38,090,979
Restricted for Future Infrastructure Growth	3,638,037	3,685,835	7,323,872
Unrestricted	4,457,137	5,140,366	9,597,503
TOTAL NET ASSETS	<u>\$27,221,485</u>	<u>\$27,790,869</u>	<u>\$55,012,354</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, 2012

	Sewer Fund	Water Fund	Total Proprietary Funds
OPERATING REVENUES			
Charges for Services	\$ 5,228,490	\$ 5,348,209	\$ 10,576,699
Miscellaneous	29,719	27,898	57,617
TOTAL OPERATING REVENUES	5,258,209	5,376,107	10,634,316
OPERATING EXPENSES			
Administrative & General	1,622,062	1,592,270	3,214,332
Sewer Treatment	1,615,393	-	1,615,393
Source of Supply	-	85,254	85,254
Transmission & Distribution	816,215	463,128	1,279,343
Water Treatment & Pumping	-	1,067,904	1,067,904
Depreciation	933,419	753,088	1,686,507
TOTAL EXPENDITURES	4,987,089	3,961,644	8,948,733
OPERATING INCOME	271,120	1,414,463	1,685,583
NON-OPERATING REVENUES (EXPENSES)			
Interest & Investment Earnings	7,631	9,099	16,730
Rental Income	-	179,663	179,663
Amortization	-	(832)	(832)
Interest Expense	(3,782)	(202,231)	(206,013)
Gain on Disposition of Capital Assets	11,853	3,000	14,853
TOTAL NON-OPERATING REVENUES (EXPENSES)	15,702	(11,301)	4,401
INCOME BEFORE TRANSFERS & CAPITAL CONTRIBUTIONS	286,822	1,403,162	1,689,984
Transfers In (Out)	(221,151)	221,151	-
Capital Contributions	648,088	335,471	983,559
CHANGES IN NET ASSETS	713,759	1,959,784	2,673,543
Net Assets - Beginning of Year	26,507,726	25,831,085	52,338,811
NET ASSETS - END OF YEAR	\$ 27,221,485	\$ 27,790,869	\$ 55,012,354

See Notes to Basic Financial Statements

CITY OF WESTMINSTER, MARYLAND
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Sewer Fund	Water Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Inflows:			
Cash Received from Customers	\$ 5,275,835	\$ 5,519,197	\$ 10,795,032
Miscellaneous	29,719	27,898	57,617
	5,305,554	5,547,095	10,852,649
Outflows:			
Cash Paid to Suppliers	1,888,746	1,291,176	3,179,922
Cash Paid to Employees	2,016,655	1,832,561	3,849,216
	3,905,401	3,123,737	7,029,138
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,400,153	2,423,358	3,823,511
 CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Inflows:			
Cash Received from Other Funds	78,822	221,151	299,973
Rental Income	-	179,663	179,663
	78,822	400,814	479,636
Outflows:			
Cash Paid to Other Funds	221,151	766,881	988,032
NET CASH USED IN NON-CAPITAL FINANCING ACTIVITIES	(142,329)	(366,067)	(508,396)
 CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES			
Inflows:			
Capital Contribution & Grants	254,929	240,504	495,433
Disposal of Capital Assets	11,853	3,000	14,853
	266,782	243,504	510,286
Outflows:			
Interest Paid	3,910	207,255	211,165
Principal Paid	19,217	819,423	838,640
Purchase of Capital Assets	472,286	159,572	631,858
	495,413	1,186,250	1,681,663
NET CASH USED IN CAPITAL & RELATED FINANCING ACTIVITIES	(228,631)	(942,746)	(1,171,377)

See Notes to Basic Financial Statements

CITY OF WESTMINSTER, MARYLAND
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS continued
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total Proprietary Funds</u>
CASH FLOWS FROM INVESTING ACTIVITES			
Inflows:			
Interest on Investments	7,631	9,099	16,730
NET CASH PROVIDED BY INVESTING ACTIVITIES	7,631	9,099	16,730
NET INCREASE IN CASH & CASH EQUIVALENTS	1,036,824	1,123,644	2,160,468
Cash & Cash Equivalents - Beginning of Year	5,925,815	6,836,383	12,762,198
CASH & CASH EQUIVALENTS - END OF YEAR	\$ 6,962,639	\$ 7,960,027	\$ 14,922,666
RECONCILIATION OF CASH & CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS			
CURRENT ASSETS			
Cash & Cash Equivalents			
Unrestricted	\$ 3,238,711	\$ 4,273,990	\$ 7,512,701
Restricted	85,891	202	86,093
Pooled Cash & Cash Equivalents: Restricted	3,638,037	3,685,835	7,323,872
CASH & CASH EQUIVALENTS - END OF YEAR	\$ 6,962,639	\$ 7,960,027	\$ 14,922,666
NON-CASH CAPITAL & RELATED FINANCING ACTIVITIES			
The City acquired a new server through a capital lease	\$ 52,461	\$ 52,461	\$ 104,922
The City received service laterals & inventory from developers	\$ 186,312	\$ 110,699	\$ 297,011

See Notes to Basic Financial Statements

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

Note 1. Overview and 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 recognizes all long-term

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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.

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

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levied. Grants and similar items are recognized as revenue as soon as all eligible requirements imposed by the provider have been met.

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, 20 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. For proprietary funds, management determines the provision for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Unbilled Services

Unbilled customer service receivables for water consumption and related sewer charges are based upon the actual quantity of water used during the subsequent billing periods and the previous year's respective billing periods, depending on the availability of related reading when unbilled services are estimated.

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Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2012, 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.

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;

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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.

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.

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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".

Net Assets

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 – The categories of fund balance presented in the City's financial statements are discussed in further detail in Note 12. 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

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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, 2012.

Use of 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.

Subsequent Events

The City evaluated subsequent events through October 30, 2012 which represents the date the financial statements were available to be issued.

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, 2012, 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			\$ 15,683,876
Cash On Hand			4,076
Investments			
State Investment Pool	AAAm by S&P/0.14%	53 Day Average	8,531,273
Total Deposits and Investments			<u>\$ 24,219,225</u>
Reconciliation to the Statement of Net Assets			
Current Assets			
Cash & Cash Equivalents - Unrestricted			\$ 12,251,091
Cash & Cash Equivalents - Restricted			3,420,066
Pooled Cash & Cash Equivalents - Unrestricted			1,207,401
Pooled Cash & Cash Equivalents - Restricted			7,323,872
		24,202,430
Non-Current Assets			
Cash & Cash Equivalents - Restricted			16,795
Total			<u>\$ 24,219,225</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.

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The fair value of the pool is the same as the value of the pool shares. As of June 30, 2012, all pool holdings are in cash and cash equivalents.

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 \$250,000 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, 2012 are comprised of the following:

General Fund

Funds Held for Future Infrastructure Growth	\$ 899,426
Funds Held for Capital Improvement Projects	1,579,781
Funds Held for Westminster Fire Department	260,139
Funds Held in Escrow Pending Judicial Approval	14,885
Funds Held in Escrow for Employee Flexible Spending Account	3,924
Funds Held for Disbursement to Other Governments	4,142
Developer Deposits	6,779
Total General Fund	\$ 2,769,076

Public Housing Agency Fund

Funds Held for Future Housing Assistance Payments	488,650
Funds Held for Client Escrow Accounts	16,795
Funds Held for Future Administrative Expenses	76,247
Total Public Housing Agency Fund	\$ 581,692
Total Restricted Cash and Cash Equivalents	\$ 3,350,768

Current restricted cash and cash equivalents in the Sewer Fund consist of \$85,670 in unremitted bay restoration fees to the State of Maryland, net of administrative fee and \$221 associated with funds held in an employee Flexible Spending Account.

Current restricted cash and cash equivalents in the Water Fund consist of \$202 associated with funds held in an employee Flexible Spending Account.

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 \$16,021,951 at June 30, 2012, \$14,769,113 of which was exposed to custodial credit risk. This amount was fully collateralized by

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securities pledged and held by a financial institution's trust department or agent, not in the City's name, as of June 30, 2012.

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 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, 2012 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.

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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
 - 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, 2012, 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, 2012, \$26,900 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, 2012, the City had one property held for rehabilitation, which they expect to complete and sell within the next fiscal year.

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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 included anticipated extensions. As of June 30, 2012, four lots have been sold and the City agreed to accept the remaining five properties as satisfaction for the outstanding mortgage. No deed has been transferred as of June 30, 2012, so an open receivable of \$274,444 and deferred revenue of \$11,835 are reported in lieu of these properties. The deed for the properties is anticipated to be transferred within the next fiscal year.

Note 5. Capital Assets

A summary of governmental activities follows:

	Balance July 1, 2011	Increases	Decreases	Transferred to Active Status	Balance June 30, 2012
Capital Assets					
Non-Depreciable Assets					
Land and Land Rights	\$ 319,168	\$ -	\$ -	\$ -	\$ 319,168
Construction in Progress	131,506	1,655,204	-	(1,653,840)	132,870
Total Non-Depreciable Assets	<u>450,674</u>	<u>1,655,204</u>	<u>-</u>	<u>(1,653,840)</u>	<u>452,038</u>
Depreciable Assets					
Buildings	12,101,020	-	-	-	12,101,020
Equipment	3,002,856	596,262	127,876	-	3,471,242
Furniture and Fixtures	128,041	-	-	-	128,041
Improvements Other than Buildings	8,323,211	41,755	-	-	8,364,966
Infrastructure	40,192,353	900,670	-	1,653,840	42,746,863
Vehicles	2,336,706	362,280	94,199	-	2,604,787
Total Depreciable Assets	<u>66,084,187</u>	<u>1,900,967</u>	<u>222,075</u>	<u>1,653,840</u>	<u>69,416,919</u>
Total Capital Assets	<u>66,534,861</u>	<u>3,556,171</u>	<u>222,075</u>	<u>-</u>	<u>69,868,957</u>
Accumulated Depreciation					
Buildings	3,670,593	282,342	-	-	3,952,935
Equipment	2,216,546	157,978	125,542	-	2,248,982
Furniture and Fixtures	128,041	-	-	-	128,041
Improvements Other than Buildings	3,566,036	190,534	-	-	3,756,570
Infrastructure	16,542,805	1,003,183	-	-	17,545,988
Vehicles	1,901,474	160,643	94,199	-	1,967,918
Total Accumulated Depreciation	<u>28,025,495</u>	<u>1,794,680</u>	<u>219,741</u>	<u>-</u>	<u>29,600,434</u>
Total Capital Assets, Net	<u>\$ 38,509,366</u>	<u>\$ 1,761,491</u>	<u>\$ 2,334</u>	<u>\$ -</u>	<u>\$ 40,268,523</u>

Accumulated costs attributable to projects included in construction in progress at June 30, 2012 are as follows:

General Fund	
Wakefield Valley Trail Extension	\$ 13,498
Road Overlays & Millings	60
PA Streetscape Phase 2	119,312
Total Construction in Progress	<u>\$ 132,870</u>

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Depreciation expense was charged to governmental activities functions as follows:

General Fund	
General Government	\$ 45,439
Public Safety	111,735
Public Works	1,364,487
Recreation and Culture	254,272
Community Development	18,747
Total Depreciation Expense	<u>\$ 1,794,680</u>

A summary of business-type activities follows:

	Balance <u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	Transferred to Active Status	Balance <u>June 30, 2012</u>
Capital Assets					
Non-Depreciable Assets					
Land and Land Rights	\$ 190,915	\$ -	\$ -	\$ -	\$ 190,915
Construction in Progress	601,630	443,856	-	-	1,045,486
Total Non-Depreciable Assets	<u>792,545</u>	<u>443,856</u>	<u>-</u>	<u>-</u>	<u>1,236,401</u>
Depreciable Assets					
Equipment	3,525,668	193,940	95,094	-	3,624,514
Furniture and Fixtures	6,414	-	-	-	6,414
Transmission and Distribution	38,803,940	297,009	-	-	39,100,949
Utility Plant	27,763,855	69,853	-	-	27,833,708
Vehicles	597,484	29,131	21,128	-	605,487
Wells and Water Sources	6,138,741	-	-	-	6,138,741
Total Depreciable Assets	<u>76,836,102</u>	<u>589,933</u>	<u>116,222</u>	<u>-</u>	<u>77,309,813</u>
Total Capital Assets	<u>77,628,647</u>	<u>1,033,789</u>	<u>116,222</u>	<u>-</u>	<u>78,546,214</u>
Accumulated Depreciation					
Equipment	2,372,807	158,990	95,094	-	2,436,703
Furniture and Fixtures	6,414	-	-	-	6,414
Transmission and Distribution	10,781,517	567,531	-	-	11,349,048
Utility Plant	10,635,898	813,105	-	-	11,449,003
Vehicles	484,738	29,920	21,128	-	493,530
Wells and Water Sources	1,746,653	116,962	-	-	1,863,615
Total Accumulated Depreciation	<u>26,028,027</u>	<u>1,686,508</u>	<u>116,222</u>	<u>-</u>	<u>27,598,313</u>
Total Capital Assets, Net	<u>\$ 51,600,620</u>	<u>\$ (652,719)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,947,901</u>

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Accumulated costs attributable to projects included in construction in progress at June 30, 2012 are as follows:

Water Fund	
Gessell Well/Little Pike Creek	\$ 359,336
Raw Reservoir Expansion	69,441
Well #8 (Radon/Nitrate Storage)	73,144
Total Water Fund	<u>501,921</u>
Sewer Fund	
Enhanced Nutrient Removal Project & Biosolids Upgrade - WWTP	500,365
WWPT Modeling Software	43,200
Total Sewer Fund	<u>543,565</u>
Total Construction in Progress	<u><u>\$ 1,045,486</u></u>

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

Water Fund	\$ 753,089
Sewer Fund	933,419
Total Depreciation Expense	<u><u>\$ 1,686,508</u></u>

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, 2012. 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, 2012, there have been no advances against this line-of-credit and, hence, no outstanding balance.

CITY OF WESTMINSTER, MARYLAND
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JUNE 30, 2012

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, 2012, \$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 server configuration equipment and a Voice Over Internet Protocol (VOIP) phone system. The obligations are secured by the related assets and carry stated interest rates from 5.66% to 20.95%.

At June 30, 2012, 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:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2013	\$ 22,202	\$ 44,405
2014	22,202	44,405
2015	13,396	26,791
2016	13,395	26,791
2017	6,699	13,395
Total Minimum Lease Payments	77,894	155,787
Less: Amount Representing Interest	13,824	27,649
Present Value of Net Future Minimum Capital Lease Payments included in General Long-Term Debt	64,070	128,138
Less: Current Portion	16,632	33,264
Long-Term Portion	\$ 47,438	\$ 94,874

Assets under capital lease included in Property and Equipment at June 30, 2012 include the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Asset Cost under Capital Lease		
Equipment	\$ 125,816	\$ 251,631
Less: Accumulated Depreciation	54,905	109,810
Total Asset Cost under Capital Lease, Net	\$ 70,911	\$ 141,821

CITY OF WESTMINSTER, MARYLAND
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Note 10. Long-Term Debt

General Obligation Bonds outstanding as of June 30, 2012 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 \$123,600 - \$188,300 plus interest paid semi-annually at rates of 4.00% - 4.80%. The bond matures on May 1, 2022.

\$ 1,541,400

\$4,820,000 Infrastructure Bonds - 2005 Series A due in annual principal payments of \$149,800 - \$300,000 plus interest paid semi-annually at rates of 4.00% - 4.40%. The bond matures on May 1, 2030.

3,905,300

Total Governmental Activities General Obligation Bonds Payable

5,446,700

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 \$65,268 - \$80,145 plus interest paid semi-annually at a rate of 2.6%. The bond matures on February 1, 2021.

652,356

Drinking Water Bond, Series 2007, in the amount of \$9,850,906. Due in annual principal payments of \$67,233 - \$546,872 plus interest paid semi-annually at a rate of 1.0%. Interest payments began on August 1, 2007 and principal payments began on February 1, 2010. The bond matures on February 1, 2027.

8,241,563

Drinking Water Bond, Series 2008, in the amount of \$4,415,138. Due in annual principal payments of \$199,818 - \$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.

3,842,347

Total Proprietary Fund General Obligation Bonds Payable

12,736,266

Total General Obligation Bonds Payable

\$ 18,182,966

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
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Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2012:

Type of Debt	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
Governmental Activities					
General Obligation Bonds Payable	\$ 5,714,500	\$ -	\$ 267,800	\$ 5,446,700	\$ 273,400
Capital Lease Obligations	42,955	52,462	31,347	64,070	16,632
Other Long-Term Liabilities:					
Compensated Absences	369,086	-	12,357	356,729	15,377
Net OPEB Obligations	590,486	171,793	-	762,279	-
Total Governmental Activities	<u>\$ 6,717,027</u>	<u>\$ 224,255</u>	<u>\$ 311,504</u>	<u>\$ 6,629,778</u>	<u>\$ 305,409</u>
Business-Type Activities					
General Obligation Bonds Payable	\$ 13,536,472	\$ -	\$ 800,206	\$ 12,736,266	\$ 811,958
Capital Lease Obligations	61,650	104,923	38,435	128,138	33,264
Other Long-Term Liabilities:					
Compensated Absences	230,913	-	8,974	221,939	17,534
Net OPEB Obligations	242,513	85,208	-	327,721	-
Interfund Payables	841,250	-	300,000	541,250	300,000
Due to Other Governments	233,828	-	-	233,828	-
Total Business-Type Activities	<u>\$ 15,146,626</u>	<u>\$ 190,131</u>	<u>\$ 1,147,615</u>	<u>\$ 14,189,142</u>	<u>\$ 1,162,756</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,	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 273,400	\$ 234,224	\$ 811,958	\$ 191,593
2014	287,600	223,103	823,919	179,632
2015	301,300	211,273	836,095	167,457
2016	311,700	198,741	848,488	155,063
2017	325,200	185,637	861,105	142,447
2018-2022	1,859,500	705,030	4,420,677	514,851
2023-2027	1,223,000	354,064	3,503,096	196,394
2028-2030	865,000	77,219	630,928	6,845
Total	<u>\$ 5,446,700</u>	<u>\$ 2,189,291</u>	<u>\$ 12,736,266</u>	<u>\$ 1,554,282</u>

Interest costs incurred for the year ended June 30, 2012 were \$245,602 for governmental activities, all of which were charged to expense, and \$206,013 for business-type activities, all of which were charged to expense.

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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, 2012, there were various series of Economic Development Revenue Bonds and Educational Facilities Revenue Bonds outstanding, with an aggregate principal amount payable of \$106,235,000.

Note 11. Interfund Transactions

Interfund receivable and payable balances at June 30, 2012, consisted of the following:

<u>Due to</u>	<u>Due From</u>			<u>Total</u>
	<u>General Fund</u>	<u>Public Housing Agency Fund</u>	<u>Water Fund</u>	
General Fund	\$ -	\$ 1,559	\$ 310,837	\$ 312,396
Sewer Fund	202,848	-	1,853	\$ 204,701
Total	<u>\$ 202,848</u>	<u>\$ 1,559</u>	<u>\$ 312,690</u>	<u>\$ 517,097</u>

The interfund balance due from the Water Fund to the General Fund includes \$541,250 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, 2012, \$241,250 of the balance is not scheduled to be collected in the subsequent year. In addition, the City established an earmarked fund for estimated future OPEB obligations in the General Fund. Since no irrevocable trust is established, a long-term liability for the Net OPEB Obligation (NOO) remains outstanding for the Water Fund, offset by \$192,348 interfund receivable from the General Fund, where these funds are maintained, which is not expected to be collected in the subsequent year.

The interfund balance due from the General Fund to the Sewer Fund includes \$159,049 interfund receivable related funds earmarked for estimated future OPEB obligations that are maintained by the General Fund and are not expected 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.

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

Note 12. Net Assets and Fund Balances

The governmental fund balances at June 30, 2012, are summarized as follows:

	General Fund	Public Housing Agency Fund	Total
Non-Spendable:			
Prepaid Expenditures	\$ 152,489	\$ 4,002	\$ 156,491
Inventory	66,749	-	66,749
Assets Held for Resale	120,378	-	120,378
L/T Due from Water Fund	241,500	-	241,500
L/T Mortgage Receivable - Episcopal Housing Corporation	274,444	-	274,444
L/T Loan Receivable - Human Services Program	25,250	-	25,250
Subtotal	880,810	4,002	884,812
Restricted:			
Housing Voucher Program	-	555,504	555,504
Capital Improvements	1,579,781	-	1,579,781
Infrastructure Growth	899,426	-	899,426
Westminster Fire Department	260,139	-	260,139
Subtotal	2,739,346	555,504	3,294,850
Unassigned	5,810,439	-	5,810,439
Total Fund Balance	\$ 9,430,595	\$ 559,506	\$ 9,990,101

The government-wide statement of net assets for the year ended June 30, 2012 reports \$3,294,850 and \$7,323,872 of restricted net assets for the City's governmental and business-type activities, respectively, of which \$2,739,346 and \$7,323,872, respectively, is restricted by enabling legislation.

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, 2012 was \$0.58 per \$100 of assessed property value.

CITY OF WESTMINSTER, MARYLAND
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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, 2012, was \$179,663. Future minimum annual rental income for the Water Fund is determined as follows, for the years ending June 30:

2013	\$ 184,941
2014	192,284
2015	199,931
2016	151,332
2017	81,716
2018	5,200
Total	<u>\$ 815,404</u>

Note 15. Operating Leases

The City has entered into a five-year operating lease, dated April 2012, with an unrelated party for the leasing of office space, through March 2015, with the option to renew for an additional three-year period. The lease agreement states that the City is responsible for fifty-six percent (56%) of real estate taxes levied against the premises, as well as fifty-six percent (56%) of annual operating expenses incurred by landlord. If renewed at end of initial term, monthly lease amount will increase 1.54%, 1.52% and 1.49%, annually beginning April 2015.

The City also has entered into an operating lease, dated February 2005, with an unrelated party for leasing of a parking lot through February 2015. 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 June 2017.

The following is a schedule of future minimum rental payments required under the operating leases as of June 30, 2012:

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
2013	\$ 72,958	\$ 91,761
2014	73,070	93,211
2015	50,167	68,557
2016	2,744	-
2017	1,315	-
	<u>\$ 200,254</u>	<u>\$ 253,529</u>

Rent expense for governmental and business-type activities for the year ended June 30, 2012 were \$58,472 and \$66,566, respectively.

CITY OF WESTMINSTER, MARYLAND
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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 88 and 81 active participants, respectively, as of June 30, 2012.

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 \$17,000, adjusted annually for cost-of-living increases, 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. In addition, the City's 457(b) plan contains a Roth IRA option allowing after-tax contributions up to an annual maximum of \$5,000, with an additional \$1,000 catch-up for employees age 50 or over. No City contributions were made to the 457(b) plan for the year ended June 30, 2012.

The 401(a) plan permits the City to contribute two percent of eligible employees' salary to a maximum of \$50,000 per employee, adjusted annually for cost-of-living increases, to this plan based on attaining six months of service. Employees are fully vested in this plan upon contribution. The City contributed \$68,848 to the 401(a) plan for the year ended June 30, 2012.

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, thus the plan assets are not reflected in the financial statements of the City.

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.

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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 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 seven percent of earnable compensation. The employers are required to contribute at an actuarially determined rate for both plans, which was 14.83% and 10.94% of earnable compensation for ERS and EPS plan members, respectively, for the year ended June 30, 2012.

Annual Pension Cost

For the years ended June 30, 2012, 2011, and 2010, the City's pension cost for ERS and EPS was equal to \$487,379, \$467,994, and \$379,006, 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, 2012, \$160,883 remains on

CITY OF WESTMINSTER, MARYLAND
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the outstanding credit amortization, which has been recognized as a net pension asset for the City's governmental activities.

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 33.09% of earnable compensation for LEOPS plan members for the year ended June 30, 2012.

Annual Pension Cost

For the years ended June 30, 2012, 2011, and 2010, the City's pension cost for the LEOPS was \$446,859, \$532,566, and \$447,567, 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 a third-party agent, 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. Upon reaching eligibility for Medicare, retirees are no

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longer permitted to participate in the City's plan, except for those eligible under the Retiree Insurance Policy.

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 139 participants, 116 of which are active plan members and 23 are retirees and beneficiaries receiving benefits at June 30, 2012.

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, 2012, the City paid premium costs of \$158,844 for retirees, their spouses and dependents, \$62,487 of which was reimbursed by plan members based on eligibility in accordance with the plan's applicable policy.

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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, 2012:

Annual Required Contribution	\$ 395,000
Interest on Net OPEB Obligation	33,000
Adjustment to Annual Required Contribution	(51,000)
Annual OPEB Cost	<u>377,000</u>
Contributions Made	(120,000)
Increase (Decrease) in Net OPEB Obligation	<u>257,000</u>
Net OPEB Obligation - Beginning of Year	833,000
Net OPEB Obligation - End of Year	<u><u>\$ 1,090,000</u></u>

Funded Status and Funding Progress

As of the July 1, 2011 valuation, the actuarial accrued liability for benefits was \$4,526,000, all of which was unfunded, the covered payroll (annual payroll of active employees covered by the plan) was \$7,776,206, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 58.2%.

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 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.

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For the July 1, 2011 actuarial valuation, the projected unit credit actuarial cost method was used, based on assumption that between 4% 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 8% 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, 2011 valuation was 27 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	\$ 271,120	\$ 1,414,463	\$ 1,685,583
Adjustments to Reconcile Operating Income			
Depreciation	933,419	753,088	1,686,507
(Increase) Decrease in:			
Account Receivable	(213,529)	(102,552)	(316,081)
Due From Other Governments	(1,078)	-	(1,078)
Unbilled Services	263,089	275,711	538,800
Inventory	(73,737)	3,081	(70,656)
Prepaid Expenses	7,359	3,937	11,296
Increase (Decrease) in:			
Account Payable	177,219	29,793	207,012
Due To Other Governments	(1,137)	(1,118)	(2,255)
Deferred Revenue	-	(1,053)	(1,053)
Accrued Expenses	5,373	3,829	9,202
Accrued Compensated Absences	(6,513)	(2,461)	(8,974)
Accrued OPEB	38,568	46,640	85,208
Net Cash Provided by Operating Activities	<u>\$ 1,400,153</u>	<u>\$ 2,423,358</u>	<u>\$ 3,823,511</u>

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012, 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:

Project	Contract Amount	Amount Outstanding at June 30, 2012
Well # 8 (Radon Removal/Nitrate Storage)	\$ 146,249	\$ 73,105
Gessell Well	\$ 128,651	\$ 79,096
PA Streetscape - Phase 2	\$ 218,578	\$ 101,793
Sewer Optimization Hardware/Software	\$ 43,200	\$ 4,800
ENR & Biosolids Upgrade WWTP	\$ 17,973,783	\$ 17,631,403

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.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012 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 beginning with its year ending June 30, 2013. 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 No. 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, 2013. This Statement amends the account and financial reporting standards for including, presenting, and disclosing information about governmental component units, including equity 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.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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 beginning with its year ending June 30, 2013. 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 beginning with its year ending June 30, 2013. 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 other than Net Assets becoming Net Position.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, will be effective for the City beginning with its year ending June 30, 2014. The purpose of this statement is to define/re-define items previously categorized as assets or liabilities to be as-is or get reported as deferred outflows or deferred inflows, respectively, per Statement No. 63. The impact to the City is predominantly dependent upon the nature of activities during a given reporting cycle.

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, will be effective for the City beginning with its year ending June 30, 2014. This release will have no direct impact on the City, simply aid in the preparation of future financial statements.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, will be effective for the City beginning with its year ending June 30, 2014. The purpose of this statement is to enhance note disclosures and RSI for both defined benefit and defined contribution pension plans, and requires presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. This release will have no impact on the City as it does not maintain its own pension plan.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, will be effective for the City beginning with its year ending June 30, 2015. The purpose of this statement is to improve accounting and financial reporting for pensions. The City currently participates in a cost sharing plan (MSRP) and will need to report its proportion share of the net pension liability, pension expense, deferred outflows and deferred inflows of the State plan, as applicable, as well as informational disclosures.

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Required Supplementary Information



CITY OF WESTMINSTER, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET TO ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012
(UNAUDITED - SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT)

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Taxes	\$ 12,185,235	\$ 12,185,235	\$ 13,125,890	\$ 940,655
Licenses & Permits	369,734	369,734	420,219	50,485
Intergovernmental	1,627,293	1,735,795	1,703,390	(32,405)
Charges for Services	707,900	707,900	714,006	6,106
Fines & Forfeitures	234,500	234,500	238,279	3,779
Interest & Investment Earnings	11,000	11,000	14,088	3,088
Rental Income	6,000	6,000	5,200	(800)
Miscellaneous	20,000	39,520	119,786	80,266
TOTAL REVENUES	15,161,662	15,289,684	16,340,858	1,051,174
EXPENDITURES				
General Government	1,311,655	1,399,369	1,158,287	(241,082)
Public Safety	4,740,361	4,669,019	4,481,602	(187,417)
Public Works	3,278,339	3,289,303	2,501,924	(787,379)
Recreation & Parks	838,568	838,568	813,059	(25,509)
Community Development & Housing	140,259	252,269	170,790	(81,479)
Debt Service	558,336	550,021	548,114	(1,907)
Capital Outlays	3,395,804	3,447,672	2,649,869	(797,803)
Miscellaneous	2,066,645	2,066,645	1,595,185	(471,460)
TOTAL EXPENDITURES	16,329,967	16,512,866	13,918,830	(2,594,036)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,168,305)	(1,223,182)	2,422,028	3,645,210
OTHER FINANCING SOURCES				
Proceeds from Issuance of Long-Term Debt	-	-	52,462	52,462
Assets Held for Resale Disposition	-	-	32,270	32,270
TOTAL OTHER FINANCING SOURCES	-	-	84,732	84,732
NET CHANGES IN FUND BALANCES	(1,168,305)	(1,223,182)	2,506,760	3,729,942
Fund Balances - Beginning of Year	6,923,835	6,923,835	6,923,835	-
FUND BALANCES - END OF YEAR	\$ 5,755,530	\$ 5,700,653	\$ 9,430,595	\$ 3,729,942

CITY OF WESTMINSTER, MARYLAND
SCHEDULE OF FUNDING PROGRESS -
COMBINED STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND
(UNAUDITED - SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT)

(Expressed in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
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%
2011	\$ 36,177,656	\$ 55,917,543	\$ 19,739,887	64.70%	\$ 10,478,800	188.38%

CITY OF WESTMINSTER, MARYLAND
OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLAN
(UNAUDITED - SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT)

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
		(AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)			
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%
7/1/2011	\$ -	\$ 4,526,000	\$ 4,526,000	0.00%	\$ 7,776,206	58.20%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contribution	Actual Contribution	Percent Contributed	Net OPEB Obligation
2010	\$ 354,000	\$ 98,000	27.7%	\$ 576,000
2011	\$ 374,000	\$ 105,000	28.1%	\$ 803,000
2012	\$ 395,000	\$ 120,000	30.4%	\$ 1,090,000

City Of Westminster, Maryland

OMB Circular A-133
Supplementary Financial Report
Year Ended June 30, 2012

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**Independent Auditor's Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of
Financial Statements Performed In Accordance
With Government Auditing Standards**

Mayor and Common Council
City of Westminster, Maryland

We have audited the financial statements of the City of Westminster, Maryland as of and for the year ended June 30, 2012, and have issued our report thereon dated October 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the City of Westminster, Maryland is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Westminster, Maryland's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, 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 do not express an opinion on the effectiveness of the City of Westminster, Maryland's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness, and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2012-01 to be a material weakness.

A *significant* deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2011-02 to be a significant deficiency.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Westminster, Maryland in a separate letter, dated October 30, 2012.

The City of Westminster, Maryland's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Westminster, Maryland's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, Common Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "McGladrey LLP".

Frederick, Maryland
October 30, 2012



**Independent Auditor's Report On Compliance With
Requirements That Could Have A Direct And Material Effect
On Each Major Program And On Internal Control Over
Compliance In Accordance With OMB Circular A-133**

Mayor and Common Council
City of Westminster, Maryland

Compliance

We have audited City of Westminster, Maryland's compliance with the types of compliance requirements described in OMB Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of the City of Westminster, Maryland's major federal programs for the year ended June 30, 2012. The City of Westminster, Maryland's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Westminster, Maryland's management. Our responsibility is to express an opinion on the City of Westminster, Maryland's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Westminster, Maryland's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Westminster, Maryland's compliance with those requirements.

In our opinion, City of Westminster, Maryland complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of City of Westminster, Maryland is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Westminster, Maryland's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Westminster, Maryland's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

Schedule of Expenditures of Federal Awards and Supplementary Information

We have audited the basic financial statements of the City of Westminster, Maryland as of and for the year ended June 30, 2012, and have issued our report thereon dated October 30, 2012 which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Westminster, Maryland's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The financial data schedule and HAP and admin equity calculations are presented for purposes of additional analysis, as required by Department of Housing and Urban Development, REAC, and also are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

This report is intended solely for the information and use of the Mayor, Common Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey LLP

Frederick, Maryland
October 30, 2012

City Of Westminster, Maryland

**Schedule Of Expenditures Of Federal Awards
Year Ended June 30, 2012**

Federal Grantor/ Pass-Through Grantor Program Or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Direct Program:			
Section 8 Housing Choice Vouchers	14.871	N/A	\$ 1,913,082
Total U.S. Department of Housing and Urban Development			<u>1,913,082</u>
U.S. Department of Justice			
Passed through Governor's Office of Crime Control and Prevention:			
Violence Against Women Formula Grants	16.588	VAWA-2010-1053 VAWA-2011-1054	<u>51,269</u>
Passed through Carroll County Health Department:			
Enforcing Underage Drinking Laws Program	16.727	R.A.A.M	<u>2,893</u>
Direct Program:			
Bulletproof Vest Partnership/Body Armor Safety Initiative	16.607	N/A	<u>3,575</u>
Edward Byrne Memorial JAG Program	16.738	2011-DJ-BX-2773	<u>11,002</u>
ARRA - Edward Byrne Memorial JAG Program / Grants to Units Of Local Government	16.804		<u>3,897</u>
Total U.S. Department of Justice			<u>72,636</u>
U.S. Department of Transportation			
Passed through Maryland Highway Safety Office (MHSO) and National Highway Traffic Safety Administration (NHTSA):			
State and Community Highway Safety	20.600	Smooth Operator 11-12	1,109
Alcohol Impaired Driving Countermeasures Incentive Grants I	21.601	Alcohol Forum 11-12	<u>3,758</u>
Total Highway Safety Cluster			<u>4,867</u>
Total U.S. Department of Transportation			<u>4,867</u>
U.S. Department of Homeland Security			
Passed through Maryland Emergency Management Agency (MEMA):			
Disater Grants - Public Assistance	97.036	FEMA-3335-EM-MD	<u>39,180</u>
Homeland Security Grant Program (HSGP)	97.067		<u>28,046</u>
Total U.S. Department of Homeland Security			<u>67,226</u>
Total Expenditures of Federal Awards			<u>\$ 2,057,811</u>

See Notes To Schedule Of Expenditures Of Federal Awards.

City Of Westminster, Maryland

Notes To Schedule Of Expenditures Of Federal Awards

Note 1. Single Audit Overview

The Single Audit is the performance of a uniform audit of all of the City of Westminster, Maryland's (the City) federal grants in conjunction with the annual audit of the basic financial statements. The adoption of such a procedure was formalized by the Federal Office of Management and Budget (OMB) in Circular A-133. The Single Audit fulfills all the federal agencies' audit requirements, which include financial, compliance, and the adequacy of internal control.

Note 2. Fiscal Period Audited

Single audit testing procedures were performed for transactions occurring during the fiscal year ended June 30, 2012.

Note 3. Basis Of Presentation

The accompanying schedule of expenditures of federal awards has been prepared on the modified accrual basis of accounting. Grant revenues are recorded for financial reporting purposes when expenditures are made in accordance with the requirements of the respective grants.

City Of Westminster, Maryland

**Schedule Of Findings And Questioned Costs
Year Ended June 30, 2012**

Section I. Summary Of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? X Yes None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any auditor findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes X No

(Continued)

City Of Westminster, Maryland

**Schedule Of Findings And Questioned Costs
Year Ended June 30, 2012**

Section II. Financial Statement Findings

Internal Control

Finding 2012-01: Segregation of Duties – Material Weakness

Criteria: A key element in internal controls is an ideal segregation of duties which allows for independent reviews within the financial accounting function.

Condition: There was a lack of segregation of duties between physical access to cash disbursements, preparation of cash disbursements, and maintenance of accounts payable system. The same individual posts accounts payable invoices, generates accounts payable checks, and prepares accounts payable checks for mailing. Additionally, blank check stock is not pre-numbered and is maintained in a file cabinet which is accessible by all finance department employees along with access to the printers containing the signature cards. These conditions were also reported as prior year Finding 2011-02.

Context: During our understanding and testing of internal controls, we noted the lack of segregation of duties.

Effect: There is an increased risk of financial misstatement. The lack of controls surrounding the City's check stock increases the risk of misstatement related to cash disbursements given the absence of segregation of duties in this area.

Cause: The Accounting Specialist is responsible for multiple incompatible duties within the accounting department.

Recommendation: We recommend the implementation of procedures to ensure segregation of duties within the accounts payable function. We also recommend tighter controls surrounding the check stock, such as limiting access to certain individuals as well as maintaining a log to track check numbers.

Views of Responsible Officials and Planned Corrective Actions: See Corrective Action Plan.

Finding 2012-02: Journal Entries – Significant Deficiency

Criteria: Journal entries should be identified and recorded in a timely manner, supported by appropriate documents, and include a detailed description of the nature of and reason for the adjustment. All journal entries should be reviewed and approved by the Director of Finance or the City Accountant.

Condition: Some of the adjustments to the City's general ledger were being recorded without proper approval and supporting documentation. This condition was also reported as prior year Finding 2011-03.

Context: All journal entries recorded by the Accounting Manager are not formally reviewed. The City Accountant only reviews entries that are not normal operating entries. In addition, a substantial amount of journal entries selected for audit testing lacked available support and information necessary to facilitate review and approval.

Effect: Subjective determination of differences between normal operating entries and unusual entries creates vulnerability of not having unusual entries being subject to an independent review.

(Continued)

City Of Westminster, Maryland

**Schedule Of Findings And Questioned Costs
Year Ended June 30, 2012**

Cause: Proper review procedures have not been implemented which require management approval for all journal entries prior to recording. The City Accountant has added review procedures; however, these reviews only occur on entries not considered to be normal operating entries

Recommendation: We recommend that all adjusting journal entries be subject to a formally documented independent review.

Views of Responsible Officials and Planned Corrective Actions: See Corrective Action Plan.

Compliance

No matters were reported.

Section III. Findings And Questioned Costs For Federal Awards

No matters were reported.

City Of Westminster, Maryland

**Summary Schedule Of Prior Audit Findings
Year Ended June 30, 2012**

Federal Awards Findings

Identifying Number: 2011-05 Timely Response to REAC Request (Compliance finding)

Audit Finding: The City failed to re-submit its unaudited financial statements within 15 business days as requested by a notification received from REAC.

Corrective Action Taken: Corrective action was taken.

Identifying Number: 2011-06 Depository Agreements (Compliance finding)

Audit Finding: The City had entered into a depository agreement with only one of the two financial institutions it utilizes for HUD funds.

Corrective Action Taken: Corrective action was taken.

CITY OF WESTMINSTER
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Common Council
Damian L. Halstad, President
Dr. Robert P. Wack
Tony Chiavacci
Dennis Frazier
Paul Whitson

Corrective Action Plan For the Year Ended June 30, 2012

The City of Westminster, Maryland, respectfully submits the following corrective action plan for the year ended June 30, 2012

Name of independent public accounting firm:

McGladrey LLP
5291 Corporate Drive, Suite 100
Frederick, MD 21703-8351

The findings from the June 30, 2012 Schedule of Findings and Questioned Costs are discussed below. These findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Audit Results, does not include findings and is not addressed.

Finding 2012-01: Segregation of Duties – Material Weakness

Condition: There was a lack of segregation of duties between physical access to cash disbursements, preparation of cash disbursements, and maintenance of accounts payable system. The same individual posts accounts payable invoices, generates accounts payable checks, and prepares accounts payable checks for mailing. Additionally, blank check stock is not pre-numbered and is maintained in a file cabinet which is accessible by all finance department employees along with access to the printers containing the signature cards. These conditions were also reported as prior year Finding 2011-02.

Corrective Actions: The Accounting Specialist produces an invoice edit prior to posting invoices. The invoice edit report and original invoices are forwarded to the Accounting Manager for

approval. The Accounting Manager initials the invoice edit report as notification of approval and returns all to the Accounting Specialist. The Accounting Specialist generates the checks. The checks and the invoices are forwarded to the Finance Director. The Finance Director initials all checks on the signature line after review. The checks and invoices are returned to the Accounting Specialist for mailing. All of the actions of the Accounting Specialist are supervised and approved by the Accounting Manager and the Finance Director. Numbered check stock will be purchased and stored in the department safe. In addition, all invoice vouchers have the check number printed on them. In addition, a check history register can be printed to verify continuous check numbers. The corrective action is currently being implemented by the Director of Finance and is expected to be in place by December 2012.

Finding 2012-02: Journal Entries – Significant Deficiency

Condition: Some of the adjustments to the City's general ledger were being recorded without proper approval and supporting documentation. This condition was also reported as prior year Finding 2011-03.

Corrective Actions: All journal entries are approved and signed by the Finance Director. In addition, changes to the accounting procedures and to the application software are anticipated in the next fiscal year to reduce the number of journal entries. The corrective action is currently being implemented by the Director of Finance and is expected to be in place by December 2012.

Questions regarding the financial statement findings and questioned costs for federal awards should be addressed to Tammy Palmer at (410) 848-3274.

Sincerely,



Tammy Palmer
Director of Finance

City Of Westminster Housing Office (MD027)
Westminster, MD
Program Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End:

06/30/2012

	14.871 Housing Choice Vouchers	Total
111 Cash - Unrestricted		
112 Cash - Restricted - Modernization and Development		
113 Cash - Other Restricted	\$564,898	\$564,898
114 Cash - Tenant Security Deposits		
115 Cash - Restricted for Payment of Current Liabilities	\$16,795	\$16,795
100 Total Cash	\$581,693	\$581,693
121 Accounts Receivable - PHA Projects		
122 Accounts Receivable - HUD Other Projects		
124 Accounts Receivable - Other Government		
125 Accounts Receivable - Miscellaneous	\$35	\$35
126 Accounts Receivable - Tenants		
126.1 Allowance for Doubtful Accounts - Tenants		
126.2 Allowance for Doubtful Accounts - Other		
127 Notes, Loans, & Mortgages Receivable - Current		
128 Fraud Recovery	\$215,501	\$215,501
128.1 Allowance for Doubtful Accounts - Fraud	(\$129,301)	(\$129,301)
129 Accrued Interest Receivable		
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$86,235	\$86,235
131 Investments - Unrestricted		
132 Investments - Restricted		
135 Investments - Restricted for Payment of Current Liability		
142 Prepaid Expenses and Other Assets	\$4,002	\$4,002
143 Inventories		
143.1 Allowance for Obsolete Inventories		
144 Inter Program Due From		
145 Assets Held for Sale		
150 Total Current Assets	\$671,930	\$671,930
161 Land		
162 Buildings		
163 Furniture, Equipment & Machinery - Dwellings		
164 Furniture, Equipment & Machinery - Administration		

(Continued)

City Of Westminster Housing Office (MD027)
Westminster, MD
Program Balance Sheet Summary (Continued)

Submission Type: Audited/A-133

Fiscal Year End:

06/30/2012

	14.871 Housing Choice Vouchers	Total
165 Leasehold Improvements		
166 Accumulated Depreciation		
167 Construction in Progress		
168 Infrastructure		
160 Total Capital Assets, Net of Accumulated Depreciation	\$0	\$0
171 Notes, Loans and Mortgages Receivable - Non-Current		
172 Notes, Loans, & Mortgages Receivable - Non Current - Past		
173 Grants Receivable - Non Current		
174 Other Assets		
176 Investments in Joint Ventures		
180 Total Non-Current Assets	\$0	\$0
190 Total Assets	\$671,930	\$671,930
311 Bank Overdraft		
312 Accounts Payable <= 90 Days	\$3,473	\$3,473
313 Accounts Payable >90 Days Past Due		
321 Accrued Wage/Payroll Taxes Payable	\$4,397	\$4,397
322 Accrued Compensated Absences - Current Portion		
324 Accrued Contingency Liability		
325 Accrued Interest Payable		
331 Accounts Payable - HUD PHA Programs		
332 Account Payable - PHA Projects		
333 Accounts Payable - Other Government	\$1,559	\$1,559
341 Tenant Security Deposits		
342 Deferred Revenues	\$86,200	\$86,200
343 Current Portion of Long-term Debt - Capital Projects/Mortgage		
344 Current Portion of Long-term Debt - Operating Borrowings		
345 Other Current Liabilities	\$16,795	\$16,795
346 Accrued Liabilities - Other		
347 Inter Program - Due To		
348 Loan Liability - Current		
310 Total Current Liabilities	\$112,424	\$112,424

(Continued)

City Of Westminster Housing Office (MD027)
Westminster, MD
Program Balance Sheet Summary (Continued)

Submission Type: Audited/A-133

Fiscal Year End:

06/30/2012

	14.871 Housing Choice Vouchers	Total
351 Long-term Debt, Net of Current - Capital Projects/Mortgage		
352 Long-term Debt, Net of Current - Operating Borrowings		
353 Non-current Liabilities - Other		
354 Accrued Compensated Absences - Non Current		
355 Loan Liability - Non Current		
356 FASB 5 Liabilities		
357 Accrued Pension and OPEB Liabilities		
350 Total Non-Current Liabilities	\$0	\$0
300 Total Liabilities	\$112,424	\$112,424
508.1 Invested In Capital Assets, Net of Related Debt		
509.2 Fund Balance Reserved	\$4,002	\$4,002
511.2 Unreserved, Designated Fund Balance		
511.1 Restricted Net Assets	\$555,504	\$555,504
512.1 Unrestricted Net Assets		
512.2 Unreserved, Undesignated Fund Balance		
513 Total Equity/Net Assets	\$559,506	\$559,506
600 Total Liabilities and Equity/Net Assets	\$671,930	\$671,930

City Of Westminster Housing Office (MD027)
Westminster, MD
Program Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End:

06/30/2012

	14.871 Housing Choice Vouchers	Total
70300 Net Tenant Rental Revenue		
70400 Tenant Revenue - Other		
70500 Total Tenant Revenue	\$0	\$0
70600 HUD PHA Operating Grants	\$1,913,082	\$1,913,082
70610 Capital Grants		
70710 Management Fee		
70720 Asset Management Fee		
70730 Book Keeping Fee		
70740 Front Line Service Fee		
70750 Other Fees		
70700 Total Fee Revenue		
70800 Other Government Grants		
71100 Investment Income - Unrestricted	\$192	\$192
71200 Mortgage Interest Income		
71300 Proceeds from Disposition of Assets Held for Sale		
71310 Cost of Sale of Assets		
71400 Fraud Recovery	\$23,074	\$23,074
71500 Other Revenue	\$96,912	\$96,912
71600 Gain or Loss on Sale of Capital Assets		
72000 Investment Income - Restricted	\$2,038	\$2,038
70000 Total Revenue	\$2,035,298	\$2,035,298
91100 Administrative Salaries	\$139,522	\$139,522
91200 Auditing Fees	\$1,000	\$1,000
91300 Management Fee		
91310 Book-keeping Fee		
91400 Advertising and Marketing	\$581	\$581
91500 Employee Benefit contributions - Administrative	\$16,048	\$16,048
91600 Office Expenses	\$7,319	\$7,319
91700 Legal Expense	\$1,323	\$1,323
91800 Travel		
91810 Allocated Overhead		

(Continued)

City Of Westminster Housing Office (MD027)
Westminster, MD
Program Revenue and Expense Summary (Continued)

Submission Type: Audited/A-133

Fiscal Year End:

06/30/2012

	14.871 Housing Choice Vouchers	Total
91900 Other	\$6,741	\$6,741
91000 Total Operating - Administrative	\$172,534	\$172,534
92000 Asset Management Fee		
92100 Tenant Services - Salaries		
92200 Relocation Costs		
92300 Employee Benefit Contributions - Tenant Services		
92400 Tenant Services - Other		
92500 Total Tenant Services	\$0	\$0
93100 Water		
93200 Electricity		
93300 Gas	\$626	\$626
93400 Fuel		
93500 Labor		
93600 Sewer		
93700 Employee Benefit Contributions - Utilities		
93800 Other Utilities Expense	\$6,739	\$6,739
93000 Total Utilities	\$7,365	\$7,365
94100 Ordinary Maintenance and Operations - Labor		
94200 Ordinary Maintenance and Operations - Materials and Other		
94300 Ordinary Maintenance and Operations Contracts	\$1,470	\$1,470
94500 Employee Benefit Contributions - Ordinary Maintenance		
94000 Total Maintenance	\$1,470	\$1,470
95100 Protective Services - Labor		
95200 Protective Services - Other Contract Costs		
95300 Protective Services - Other		
95500 Employee Benefit Contributions - Protective Services		
95000 Total Protective Services	\$0	\$0
96110 Property Insurance		
96120 Liability Insurance		

(Continued)

City Of Westminster Housing Office (MD027)
Westminster, MD
Program Revenue and Expense Summary (Continued)

Submission Type: Audited/A-133

Fiscal Year End:

06/30/2012

	14.871 Housing Choice Vouchers	Total
96130 Workmen's Compensation	\$889	\$889
96140 All Other Insurance	\$34,655	\$34,655
96100 Total insurance Premiums	\$35,544	\$35,544
96200 Other General Expenses	\$4,500	\$4,500
96210 Compensated Absences		
96300 Payments in Lieu of Taxes		
96400 Bad debt - Tenant Rents		
96500 Bad debt - Mortgages		
96600 Bad debt - Other		
96800 Severance Expense		
96000 Total Other General Expenses	\$4,500	\$4,500
96710 Interest of Mortgage (or Bonds) Payable		
96720 Interest on Notes Payable (Short and Long Term)		
96730 Amortization of Bond Issue Costs		
96700 Total Interest Expense and Amortization Cost	\$0	\$0
96900 Total Operating Expenses	\$221,413	\$221,413
97000 Excess of Operating Revenue over Operating Expenses	\$1,813,885	\$1,813,885
97100 Extraordinary Maintenance		
97200 Casualty Losses - Non-capitalized		
97300 Housing Assistance Payments	\$2,006,291	\$2,006,291
97350 HAP Portability-In	\$50,597	\$50,597
97400 Depreciation Expense		
97500 Fraud Losses		
97600 Capital Outlays - Governmental Funds	\$0	\$0
97700 Debt Principal Payment - Governmental Funds	\$0	\$0
97800 Dwelling Units Rent Expense		
90000 Total Expenses	\$2,278,301	\$2,278,301
10010 Operating Transfer In		

(Continued)

City Of Westminster Housing Office (MD027)
Westminster, MD
Program Revenue and Expense Summary (Continued)

Submission Type: Audited/A-133

Fiscal Year End:

06/30/2012

	14.871 Housing Choice Vouchers	Total
10020 Operating transfer Out		
10030 Operating Transfers from/to Primary Government		
10040 Operating Transfers from/to Component Unit		
10050 Proceeds from Notes, Loans and Bonds		
10060 Proceeds from Property Sales		
10070 Extraordinary Items, Net Gain/Loss		
10080 Special Items (Net Gain/Loss)		
10091 Inter Project Excess Cash Transfer In		
10092 Inter Project Excess Cash Transfer Out		
10093 Transfers between Program and Project - In		
10094 Transfers between Project and Program - Out		
10100 Total Other financing Sources (Uses)	\$0	\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total	(\$243,003)	(\$243,003)
11020 Required Annual Debt Principal Payments	\$0	\$0
11030 Beginning Equity	\$802,509	\$802,509
11040 Prior Period Adjustments, Equity Transfers and Correction		
11050 Changes in Compensated Absence Balance	\$0	\$0
11060 Changes in Contingent Liability Balance	\$0	\$0
11070 Changes in Unrecognized Pension Transition Liability	\$0	\$0
11080 Changes in Special Term/Severance Benefits Liability	\$0	\$0
11090 Changes in Allowance for Doubtful Accounts - Dwelling	\$0	\$0
11100 Changes in Allowance for Doubtful Accounts - Other	\$0	\$0
11170 Administrative Fee Equity	\$260,638	\$260,638
11180 Housing Assistance Payments Equity	\$298,868	\$298,868
11190 Unit Months Available	3468	3468
11210 Number of Unit Months Leased	3128	3128
11270 Excess Cash		
11610 Land Purchases		
11620 Building Purchases		
11630 Furniture & Equipment - Dwelling Purchases		
11640 Furniture & Equipment - Administrative Purchases		
11650 Leasehold Improvements Purchases		
11660 Infrastructure Purchases		
13510 CFFP Debt Service Payments		
13901 Replacement Housing Factor Funds		

City Of Westminster Housing Office (MD027)
Westminster, MD
HAP and Admin Equity Calculations
June 30, 2012

HAP Excess/Deficit Calculation

<u>GL #</u>	<u>GL Description</u>	<u>Amount</u>
110.492102	Annual Contributions Earned	\$ 1,727,734
	Total HUD Grants	<u>1,727,734</u>
110.492103	Repayments - HAP	15,510
110.494305	FSS Forfeitures	30,831
110.494201	Interest - Operating	14
110.494203	Interest - HAP	2,038
	Total HAP Revenue	<u>1,776,127</u>
110.65.100.5791	HAP - Homeownership	13,665
110.65.100.5792	HAP - Family Unification	44,889
110.65.100.5793	HAP - Tenant Protection	11,323
110.65.100.5795	HAP - All Other	1,905,360
110.65.100.5796	HAP - FSS Escrow	11,767
110.65.100.5797	HAP - Port-Out	19,287
	Total HAP Expenses	<u>2,006,291</u>
	Net HAP	(230,164)
<u>HAP Equity:</u>		
	Beginning of year	<u>529,032</u>
	End of year	<u>\$ 298,868</u>

Admin Equity Calculation

<u>GL #</u>	<u>GL Description</u>	<u>Amount</u>
110.492104	HUD Admin Fee Distribution	\$ 185,348
	Total HUD Grants	<u>185,348</u>
110.494202	Interest - Admin.	178
110.494302	Port-in: Subsidy Receipts	62,844
110.494303	Port-in: Admin Fee Receipts	3,237
110.494301	Repayments - Admin	7,564
	Total Admin Revenue	<u>259,171</u>
	Total PHA Expenses	2,278,301
	Less: HAP-related Expense	<u>(2,006,291)</u>
	Total Admin Expenses	<u>272,010</u>
	Net Admin	(12,839)
<u>Admin Equity:</u>		
	Beginning of year	<u>273,477</u>
	End of year	<u>\$ 260,638</u>
Total Ending Equity		<u>\$ 559,506</u>