



CITY OF
WESTMINSTER,
MARYLAND

2014

**BASIC FINANCIAL STATEMENTS AND REQUIRED
SUPPLEMENTARY INFORMATION FOR YEAR ENDED
JUNE 30, 2014**

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Independent Auditor's Report

To the Mayor and Common Council
City of Westminster, Maryland

Report on the Financial Statements

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 (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 24, retroactive to July 1, 2013, the City adopted the new accounting guidance of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 17; the schedule of revenues, expenditures, and changes in fund balance – budget to actual – General Fund on page 65; and the schedules of funding progress and employer contributions – other postemployment benefits plan on page 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Frederick, Maryland
October 27, 2014

CITY OF WESTMINSTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

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, 2014. 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 \$105,948,400 (net position). Of this amount, \$46,677,609 was for governmental activities and \$59,270,791 was for business type activities. The amount of net position that was unrestricted at year-end was \$7,814,643 for governmental activities and \$11,383,168 for business type activities.
- Total net position increased by \$3,719,078 over FY2013, Governmental activities increased by \$1,422,098, while business type activities increased by \$2,296,980. The increase in Governmental activities included increases in cash from the excess of revenues over expenditures. Business activities were stimulated by increased revenues and lower than expected expenses.
- At the end of the current fiscal year, the unassigned fund balance of \$8,172,376 was contained only in the General Fund. There were no unassigned funds in the Public Housing Agency Fund.
- The property tax rate was reduced by \$0.01 to \$0.56 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.
- The Director of Housing and Preservation was on active military assignment in FY2014. This resulted in a savings in salary expense.
- City employees received a 3% increase, the first in four years.
- No staffing positions were added in FY2014.
- The City received a grant for \$318,000 from the Department of Housing and Community Development to replace 246 sidewalk ramps in the downtown Westminster area.
- The City received a \$500,000 grant to partner with Habitat for Humanity. This grant is partially realized in FY2014 and partially realized in FY2015.
- The credit for the Law Enforcement Officers Pension System ended this year, resulting in an increased pension contribution for the Police Department.
- Capital improvements included new fitness equipment at the Longwell Building, road improvements and renovations/upgrades to various City-owned buildings and structures.

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- There were no increases in water and sewer rates in FY 2014.
- Capital improvements in proprietary funds include the Wakefield Valley tank painting, Gessell Well development, radon removal, waste water treatment plant upgrade and vehicle replacement.

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.

The *statement of net position* presents information on all of the City's assets and deferred outflow of resources, and liabilities with the difference between them reported as *net position*. Over time, changes in net position 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 position changed during the most recent fiscal year. All changes in net position 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.

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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.

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 in the required supplementary information.

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 position may serve over time as a useful indicator of a government's financial condition and position. In the case of the City, assets and deferred outflow of resources exceeded liabilities by \$105,948,400 at the close of the most recent fiscal year. The City's net position is divided into three categories: net investment in capital assets, restricted net position and unrestricted net position. The largest portion is the City's net investment 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

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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

acquire those assets that is still outstanding, and accumulated depreciation). These net capital assets represent 71% of the total net position reported. The City uses these capital assets to provide services to citizens; consequently, these capital 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 position of \$11,769,039 represents 11% of total net position. Restricted net position is resources that are subject to external restrictions or enabling legislation on how they may be used. Unrestricted net position of \$19,197,811 represents 18% of total net position 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 position, for the government as a whole, as well as for its separate governmental and business-type activities.

**City of Westminster, Maryland
Net Position**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Government-Wide Totals</u>	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
<u>Assets:</u>						
Current & Other Assets	\$ 12,441,803	\$ 13,695,537	\$ 20,443,578	\$ 21,675,401	\$ 32,885,381	\$ 35,370,938
Capital Assets, Net	40,225,557	40,643,846	50,586,201	50,551,648	90,811,758	91,195,494
Total Assets	52,667,360	54,339,383	71,029,779	72,227,049	123,697,139	126,566,432
Deferred Outflow of Resources:	25,290	22,480	-	-	25,290	22,480
<u>Liabilities:</u>						
Current Liabilities	1,267,396	1,599,809	1,899,465	1,576,209	3,166,861	3,176,018
Long-Term Liabilities	6,169,743	6,084,445	12,156,503	11,380,049	18,326,246	17,464,494
Total Liabilities	7,437,139	7,684,254	14,055,968	12,956,258	21,493,107	20,640,512
<u>Net Position:</u>						
Net Investment in Capital						
Assets	35,100,713	35,682,137	38,453,577	39,299,413	73,554,290	74,981,550
Restricted	3,622,231	3,180,829	7,573,530	8,588,210	11,195,761	11,769,039
Unrestricted	6,532,567	7,814,643	10,946,704	11,383,168	17,479,271	19,197,811
Total Net Position	\$ 45,255,511	\$ 46,677,609	\$ 56,973,811	\$ 59,270,791	\$ 102,229,322	\$ 105,948,400

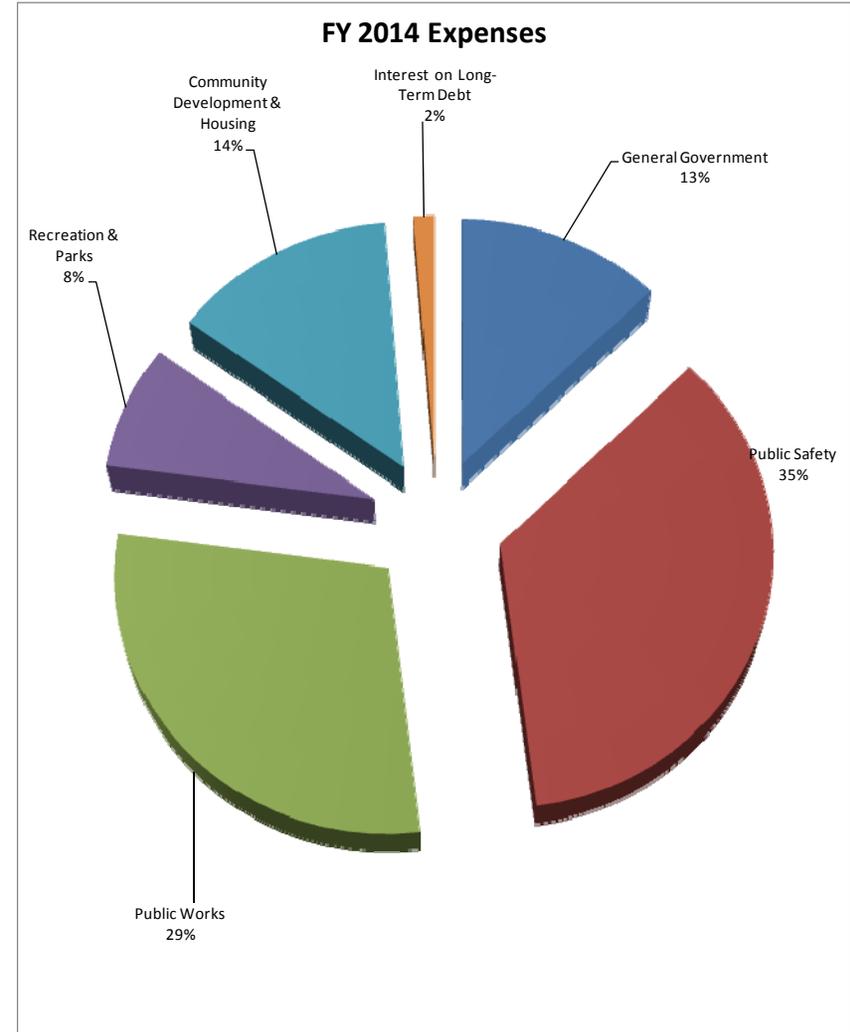
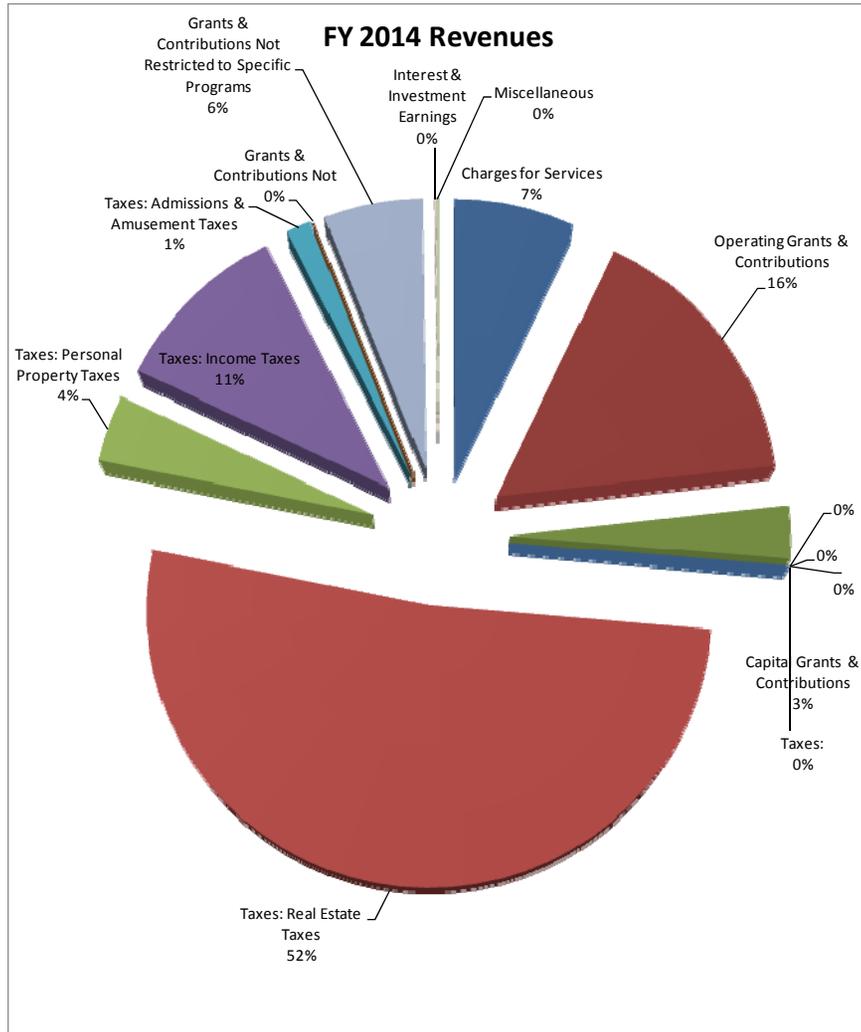
**CITY OF WESTMINSTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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

	Governmental Activities		Business-Type Activities		Government-Wide Totals	
	2013	2014	2013	2014	2013	2014
Revenues:						
<u>Program Revenues:</u>						
Charges for Services	\$ 1,420,942	\$ 1,236,061	\$ 10,620,457	\$ 10,819,233	\$ 12,041,399	\$ 12,055,294
Operating Grants & Contributions	2,380,294	2,834,323	12,076	-	2,392,370	2,834,323
Capital Grants & Contributions	89,434	543,150	468,331	872,369	557,765	1,415,519
<u>General Revenues:</u>						
Taxes:						
Real Estate Taxes	8,950,262	9,068,948	-	-	8,950,262	9,068,948
Personal Property Taxes	809,810	686,858	-	-	809,810	686,858
Income Taxes	1,825,099	1,839,712	-	-	1,825,099	1,839,712
Admissions & Amusement Taxes	210,009	251,232	-	-	210,009	251,232
Grants & Contributions Not						
Restricted to Specific Programs	894,540	1,002,817	-	-	894,540	1,002,817
Interest & Investment Earnings	19,900	11,478	17,379	14,547	37,279	26,025
Miscellaneous	259,471	30,563	29,399	17,565	288,870	48,128
Total Revenues	16,859,761	17,505,142	11,147,642	11,723,714	28,007,403	29,228,856
Expenses:						
<u>Governmental Activities:</u>						
General Government	1,639,904	2,033,740	-	-	1,639,904	2,033,740
Public Safety	5,849,529	5,698,822	-	-	5,849,529	5,698,822
Public Works	4,395,239	4,668,285	-	-	4,395,239	4,668,285
Recreation & Parks	1,142,296	1,267,334	-	-	1,142,296	1,267,334
Community Development & Housing	2,364,831	2,218,483	-	-	2,364,831	2,218,483
Interest on Long-Term Debt	218,755	196,380	-	-	218,755	196,380
<u>Business-type Activities</u>						
Sewer Services	-	-	4,762,370	4,877,723	4,762,370	4,877,723
Water Services	-	-	4,416,333	4,549,011	4,416,333	4,549,011
Total Expenses	15,610,554	16,083,044	9,178,703	9,426,734	24,789,257	25,509,778
Change in Net Position	1,249,207	1,422,098	1,968,939	2,296,980	3,218,146	3,719,078
Net Position - Beginning, as restated	44,006,304	45,255,511	55,004,872	56,973,811	99,011,176	102,229,322
Net Position - Ending	\$ 45,255,511	\$ 46,677,609	\$ 56,973,811	\$ 59,270,791	\$ 102,229,322	\$ 105,948,400

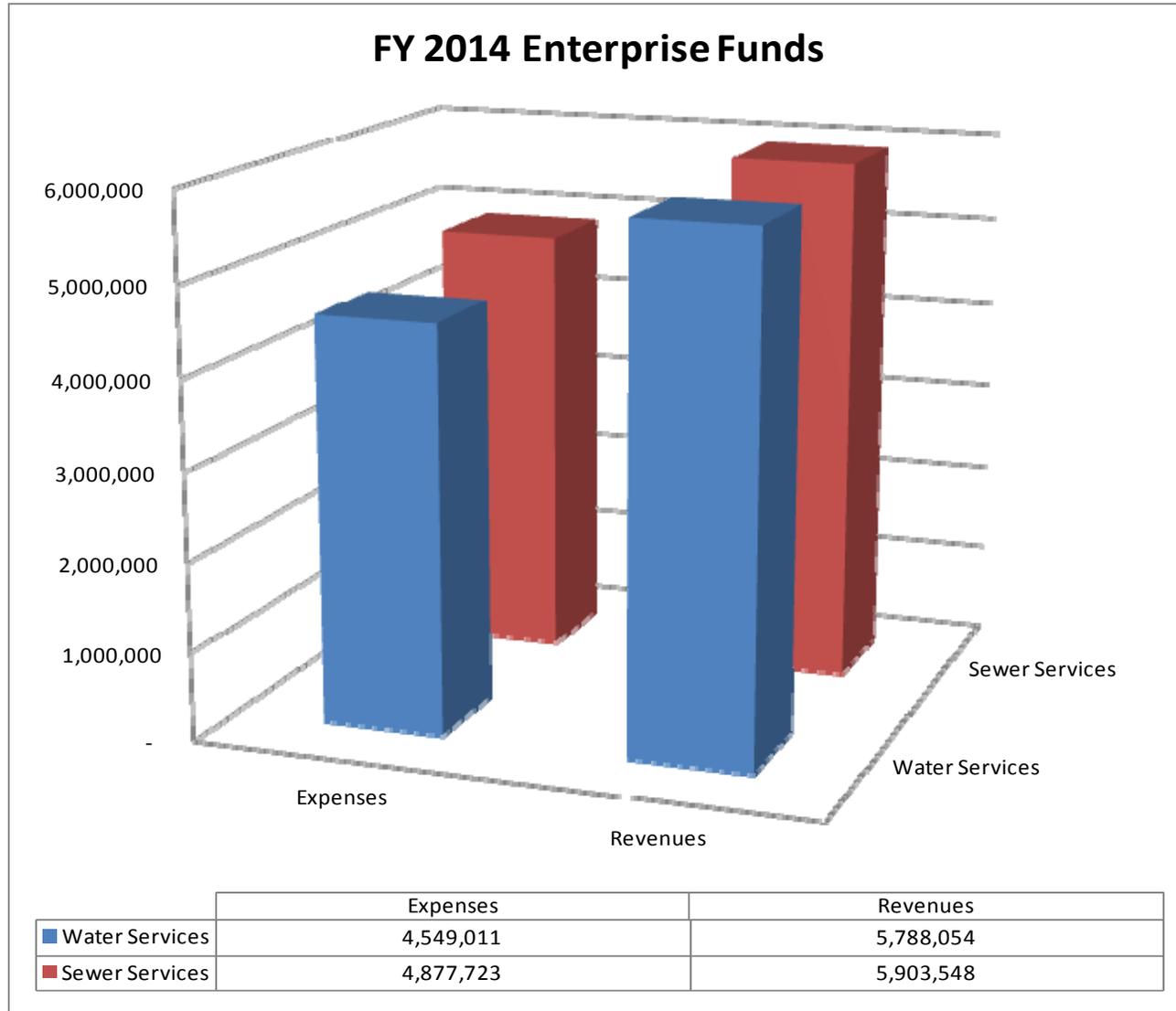
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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- Governmental Activities:** A graphic representation of the City's Governmental Activities Revenues and Expenses is shown below. Each component is accompanied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



**CITY OF WESTMINSTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

- **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, 2014**

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 \$12,080,756. Approximately 1% of the fund balance, \$137,496, is restricted for the Public Housing Agency. An additional 28% has been restricted as follows:

- \$1,905,540 restricted for Capital Improvement Projects
- \$1,007,955 restricted for Infrastructure Growth
- \$85,067 restricted for an Employee FSA plan and Forfeited Proceeds awarded to the City by Judicial process
- \$379,838 for Tax Revenue Commitments

The total General Fund balance increased \$991,376 during FY2014, due to revenues exceeding and expenses falling below budgeted levels. Public Housing Agency Fund balance decreased \$257,671 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 \$2,743,808. This is due to capital projects budgeted but not started. The total amount of unrestricted net position for the Sewer and Water Funds were \$5,561,270 and \$5,821,898, respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights:

The budgetary statement of the General Fund show actual revenues of \$15,496,552 compared to budgeted amount of \$16,398,782, an overall shortfall of \$902,230. The major differences between the final budgeted amounts and the actual revenues are as follows:

- A shortfall in the Family Center revenue due to closures related to renovations
- Re-appropriations of last year's surplus capital funds
- Grants that were budgeted but won't be realized until FY2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Actual General Fund expenditures were less than budget by \$1,902,609 primarily driven by capital outlay expenditures not purchased during the fiscal year just ended and reduced operating expenditures related to grant-funded projects and salaries. The capital outlay items were re-appropriated during the FY2015 Budget process.

General Fund Revenues

Budget vs. Actual

FY 2014

	<u>Budgeted Amounts</u>				% of Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>	
<u>General Fund Revenues</u>					
Taxes	\$ 11,394,848	\$ 11,394,848	\$ 11,664,491	\$ 269,643	102%
Licenses & Permits	489,890	489,890	522,592	32,702	107%
Intergovernmental	2,047,412	2,823,787	2,395,962	(427,825)	85%
Charges for Services	816,195	816,195	579,615	(236,580)	71%
Fines & Forfeitures	120,000	120,000	188,520	68,520	157%
Interest & Investment Earnings	11,200	11,200	11,360	160	101%
Rental Income	5,000	5,000	5,040	40	101%
Reappropriation of Fund Balance	42,184	661,862	-	(661,862)	0%
Miscellaneous	55,000	71,000	35,428	(35,572)	50%
Other Financing Sources	5,000	5,000	93,544	88,544	1871%
Total Revenues	<u>\$ 14,986,729</u>	<u>\$ 16,398,782</u>	<u>\$ 15,496,552</u>	<u>\$ (902,230)</u>	<u>94%</u>

General Fund Expenses

Budget vs. Actual

FY 2014

	<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	\$ 2,012,244	\$ 2,480,310	\$ 1,712,632	\$ 767,678	69%
Public Safety	5,852,983	5,876,216	5,616,944	259,272	96%
Public Works	3,307,521	3,314,769	3,151,535	163,234	95%
Recreation & Parks	1,020,350	987,670	858,453	129,217	87%
Community Development & Housing	112,700	112,700	85,346	27,354	76%
Debt Service	533,181	533,181	531,872	1,309	100%
Capital Outlays	2,078,750	3,033,939	2,479,394	554,545	82%
Other Financing Uses	69,000	69,000	69,000	-	100%
Total Expenditures	<u>\$ 14,986,729</u>	<u>\$ 16,407,785</u>	<u>\$ 14,505,176</u>	<u>\$ 1,902,609</u>	<u>88%</u>

**CITY OF WESTMINSTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
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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, 2014, amounted to \$91,195,494 (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, 2014**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land & Land Rights	\$ 319,172	\$ 190,915	\$ 510,087
Construction in Progress	515,612	2,418,704	2,934,316
Buildings	7,704,337	112,403	7,816,740
Equipment	1,285,965	1,085,454	2,371,419
Improvements Other than Buildings	4,765,426	-	4,765,426
Infrastructure	25,238,158	31,251,684	56,489,842
Utility Plant & Equipment	-	15,088,494	15,088,494
Vehicles	815,176	403,994	1,219,170
Total Net Capital Assets	<u>\$ 40,643,846</u>	<u>\$ 50,551,648</u>	<u>\$ 91,195,494</u>

**CITY OF WESTMINSTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Commitments:

The City is committed under the following contracts for construction and related projects as of June 30, 2014:

Project	Contract Amount	Amount Outstanding at June 30, 2014
Well # 8 (Radon Removal/Nitrate Storage)	\$ 1,295,208	\$ 1,182,896
Gessell Well	518,160	389,509
ENR & Biosolids Upgrade WWTP	3,665,706	2,488,492
Broadband Fiber	1,559,031	1,457,476
Police Department Furnaces	88,510	79,010
City Hall Renovations	29,680	29,680
Skate Park Improvements	300,000	128,000

Long-Term Debt:

At the end of FY2014, the City had total bond and loan principal outstanding of \$15,945,289, which is debt backed by the full faith and credit of the City. Of that amount, \$4,844,900 is General Fund infrastructure bonds and \$11,100,389 is Water Fund Drinking Water bonds. In addition, there are capital lease obligations for other equipment in the amount of \$291,135.

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 is for compensated absences in the amount of \$636,934. 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 \$1,633,000. 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, 2014, is \$18,740,186 and at June 30, 2013, was \$19,808,272.

- **Annual Debt Service:** During FY 2014 principal, interest and administrative fee payments of \$1,639,507 were made on all bonds and leases. During FY 2015, \$1,643,022 is expected to be paid for debt service obligations of principal, interest and administrative fees.

Subsequent Events and Economic Factors

In the next year, the City will celebrate the sestercentennial, or 250th anniversary, of the founding of the City. Celebrations include renovating and rededicating City Hall, planting a ceremonial tree and other activities. In its sestercentennial, the City is preparing for the future with major efforts in technology, economic development and environmental stewardship.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

The Mayor and Common Council made a concerted effort to maintain and preserve City facilities with an eye on energy conservation and green initiatives. The FY2015 budget calls for over \$1,000,000 to be spent on these projects.

The city is moving forward into the age of technology by providing high-speed gigabit, symmetrical broadband service to every building in the city. Two pilot projects are underway –one at the senior living community Carroll Lutheran Village with 400 residential units and another at the business park with 110 businesses. The engineering and design is 95% completed and construction should be completed by the end of 2015. The remainder of the City will be wired over the next two years, providing the transportation highway for future economic development.

The city-wide fiber project will be depicted in the budget in a new fund entitled “Fiber Infrastructure Fund”. The initial fiber pilot project will be funded with Special General Benefit Assessment Funds in the amount of \$1,250,000. The city-wide fiber project will be funded with fees from broadband customers and bond proceeds. The FY2015 budget calls for bond issuance of \$5,500,000. Capital Improvement Program Funds may be necessary to supplement these revenue sources for several years until the fiber network is fully self-sufficient. The FY2015 budget calls for a \$500,000 subsidy.

The second major activity to be implemented during FY2015 is the implementation of the Stormwater Management Program. Under Federal court order, the Environmental Protection Agency was ordered to implement a Chesapeake Bay clean up. The State of Maryland established a storm water management fee program to fund projects to direct nitrogen away from streams that feed into the Chesapeake Bay. This program will be implemented through an NPDES (National Pollutant Discharge Elimination System) permit for Carroll County. The City of Westminster, along with the other seven municipalities, will be co-permittees in this permit. The City of Westminster will be required to pay 20% of the cost of storm water projects; Carroll County will pay the remaining 80%. This will become a new mandatory requirement in the Capital Improvement Program. The reporting and documentation permit requirements for the inspections of the outfalls are so substantial and the fines for non-compliance are so onerous that an additional staff member may be required in the Public Works Streets Department in future years.

Another step forward in the technology area is the appropriation of funds to purchase a GIS server to provide interactivity to the data contained in this system. The FY2015 budget also includes a full-time staff position to manage this database. This system will enable staff to access the data and provide maps for any level of information, as well as provide interactivity for the public. The use of GIS has grown exponentially over the past few years – staff can now use the database to track complaints, police calls, code enforcement complaints, location of water and sewer pipes and fixtures, and “as built” development plans.

The public will be able to access zoning designations, maps, locations and descriptions of restaurants and retail establishments, and events and activities, all in up-to-date real-time information, from any application including computers, iPads, cell phones and tablets. This is a huge step forward for the city promotional efforts. This effort will coordinate with the updated City webpage.

The other major category in the 2015 budget is the cost of employee salaries and fringe benefits. Our employees are our most valuable resource and they have demonstrated that in FY2014 by working 3,125 hours of overtime to keep the city operational during 16 interminable snow events. The FY2015 budget includes a 3% cost of living increase. In addition to keeping salaries

**CITY OF WESTMINSTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

competitive with comparable municipalities, this increase helps to offset the four years employees suffered without any increase in salaries.

Employee benefits have continued to be an ever-increasing section of our budget, and FY2015 is no different. The City of Westminster joined the Local Government Insurance Trust Healthcare Plan in FY2012. This plan stabilized our healthcare costs over the past two years, resulting in an \$189,000 credit in FY2013. The experience factor increased in FY2014, resulting in a 15% increase in the credit claims portion of our insurance. A Healthcare Committee, composed of representatives from each department, monitors healthcare costs and issues to keep costs as low as possible.

To counteract the increase in healthcare costs, the City has opted to introduce a new wellness component to our wellness program which will reward employees for following good health habits by reducing the healthcare premium by achieving healthcare goals. Hopefully this program will result in reduced claims experience to reduce our healthcare premiums. Healthy employees result in reduced claims expenditures.

The Sewer Fund will also see a substantial change in FY2015 with the commencement of the construction phase of the Enhanced Nutrient Renewal (ENR) Project. This upgrade is mandated by more stringent regulations issued by Maryland Department of the Environment. The FY2015 Budget calls for the total cost of the project over two year to be \$39,000,000. Of that total cost, 65% is expected to be granted from the Bay Restoration Grant and 35% is expected to come from bond proceeds. After a review of the rates by Municipal and Financial Services Group, the recommendation of an 11% increase in rates for the next three years was approved in the FY2015 budget by the Mayor and Common Council.

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 Tammy Palmer, Director of Finance, City of Westminster, 56 West Main Street, Westminster, Maryland, 21157.

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Basic Financial Statements



City of Westminster, Maryland
Statement of Net Position
June 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS			
Cash & Cash Equivalents	\$ 4,350	\$ -	\$ 4,350
Equity in Pooled Cash & Cash Equivalents			
Unrestricted	7,351,882	9,447,759	16,799,641
Restricted	5,434,868	8,588,210	14,023,078
Taxes Receivable	538,788	-	538,788
Accounts Receivable, Net of Allowance for Uncollectibles of \$386,224 and \$0, respectively			
Unrestricted	275,293	1,370,195	1,645,488
Restricted	-	85,635	85,635
Unbilled Services	-	1,312,757	1,312,757
Grants Receivable	201,672	-	201,672
Loan Receivable	1,650	-	1,650
Prepaid Items and Deposits	199,916	126,545	326,461
Internal Balances	(536,671)	536,671	-
Due from Other Governments	46,283	38,698	84,981
Inventory	65,556	143,355	208,911
Assets Held for Resale	85,000	-	85,000
TOTAL CURRENT ASSETS	13,668,587	21,649,825	35,318,412
NON-CURRENT ASSETS			
Accounts Receivable	5,000	25,576	30,576
Loan Receivable	21,950	-	21,950
Capital Assets			
Land & Land Rights	319,172	190,915	510,087
Construction in Progress	515,612	2,418,704	2,934,316
Buildings	12,224,107	114,708	12,338,815
Equipment	3,520,139	3,836,377	7,356,516
Furniture & Fixtures	128,041	6,414	134,455
Improvements Other than Buildings	8,943,875	-	8,943,875
Infrastructure	45,016,003	45,887,950	90,903,953
Utility Plant & Equipment	-	27,876,908	27,876,908
Vehicles	2,839,992	863,956	3,703,948
	73,506,941	81,195,932	154,702,873
Less: Accumulated Depreciation	32,863,095	30,644,284	63,507,379
Net Capital Assets	40,643,846	50,551,648	91,195,494
TOTAL NON-CURRENT ASSETS	40,670,796	50,577,224	91,248,020
TOTAL ASSETS	54,339,383	72,227,049	126,566,432
DEFERRED OUTFLOWS OF RESOURCES			
Charge on refunding	22,480	-	22,480

(Continued)

City of Westminster, Maryland
Statement of Net Position (Continued)
June 30, 2014

	Governmental Activities	Business-Type Activities	Total
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accounts Payable	\$ 470,718	\$ 288,127	\$ 758,845
Accrued Liabilities	356,212	75,304	431,516
Compensated Absences	37,086	11,080	48,166
Unearned Revenue	217,195	66,090	283,285
Loan Payable	100,000	-	100,000
Capital Lease Obligations	35,819	42,912	78,731
General Obligation Bonds Payable	312,700	836,095	1,148,795
Payable from Restricted Assets			
Unearned Revenue	21,917	-	21,917
Deposits & Escrows	48,162	-	48,162
Due to Other Governments	-	256,601	256,601
	1,599,809	1,576,209	3,176,018
NON-CURRENT LIABILITIES			
Compensated Absences	372,662	216,106	588,768
Accrued Other Postemployment Benefits	1,076,113	556,887	1,633,000
Due to Other Governments	-	233,828	233,828
Capital Lease Obligations	103,470	108,934	212,404
General Obligation Bonds Payable	4,532,200	10,264,294	14,796,494
	6,084,445	11,380,049	17,464,494
TOTAL LIABILITIES			
	7,684,254	12,956,258	20,640,512
NET POSITION			
Net Investment in Capital Assets	35,682,137	39,299,413	74,981,550
Restricted for:			
Future Infrastructure Growth	1,007,955	8,136,520	9,144,475
Capital Improvement Projects	1,655,540	451,690	2,107,230
Public Housing Vouchers	137,496	-	137,496
Tax Revenue Commitments	379,838	-	379,838
Unrestricted	7,814,643	11,383,168	19,197,811
TOTAL NET POSITION	\$ 46,677,609	\$ 59,270,791	\$ 105,948,400

See Notes to Basic Financial Statements

**City of Westminster, Maryland
Statement of Activities
For the Year Ended June 30, 2014**

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities							
General Government	\$ 2,033,740	\$ 437,144	\$ -	\$ -	\$ (1,596,596)	\$ -	\$ (1,596,596)
Public Safety	5,698,822	178,832	420,431	4,500	(5,095,059)	-	(5,095,059)
Public Works	4,668,285	327,696	578,906	538,650	(3,223,033)	-	(3,223,033)
Recreation and Culture	1,267,334	346,037	93	-	(921,204)	-	(921,204)
Community Development & Housing	2,218,483	(53,648)	1,834,893	-	(437,238)	-	(437,238)
Interest on Long-Term Debt	196,380	-	-	-	(196,380)	-	(196,380)
Total Governmental Activities	<u>16,083,044</u>	<u>1,236,061</u>	<u>2,834,323</u>	<u>543,150</u>	<u>(11,469,510)</u>	<u>-</u>	<u>(11,469,510)</u>
Business-Type Activities							
Sewer Services	4,877,723	5,291,975	-	611,573	-	1,025,825	1,025,825
Water Services	4,549,011	5,527,258	-	260,796	-	1,239,043	1,239,043
Total Business-Type Activities	<u>9,426,734</u>	<u>10,819,233</u>	<u>-</u>	<u>872,369</u>	<u>-</u>	<u>2,264,868</u>	<u>2,264,868</u>
TOTAL GOVERNMENT	<u>\$ 25,509,778</u>	<u>\$ 12,055,294</u>	<u>\$ 2,834,323</u>	<u>\$ 1,415,519</u>	<u>(11,469,510)</u>	<u>2,264,868</u>	<u>(9,204,642)</u>
GENERAL REVENUES							
Taxes							
					9,068,948	-	9,068,948
					686,858	-	686,858
					1,839,712	-	1,839,712
					251,232	-	251,232
					1,002,817	-	1,002,817
					11,478	14,547	26,025
					30,563	17,565	48,128
TOTAL GENERAL REVENUES					<u>12,891,608</u>	<u>32,112</u>	<u>12,923,720</u>
CHANGES IN NET POSITION							
					1,422,098	2,296,980	3,719,078
					45,255,511	56,973,811	102,229,322
NET POSITION - ENDING					<u>\$ 46,677,609</u>	<u>\$ 59,270,791</u>	<u>\$ 105,948,400</u>

See Notes to Basic Financial Statements

City of Westminster, Maryland
Balance Sheet of Governmental Funds
June 30, 2014

	General Fund	Public Housing Agency Fund	Total Governmental Funds
ASSETS			
Cash & Cash Equivalents	\$ 4,350	\$ -	\$ 4,350
Equity in Pooled Cash & Cash Equivalents			
Unrestricted	7,351,882	-	7,351,882
Restricted	5,281,152	153,716	5,434,868
Taxes Receivable	538,788	-	538,788
Accounts Receivable, Net of Allowance for Uncollectibles of \$92,774 and \$293,450, respectively	228,507	51,786	280,293
Grants Receivable	201,672	-	201,672
Loans Receivable	23,600	-	23,600
Prepaid Items and Deposits	192,653	7,263	199,916
Interfund Receivables	2,048	-	2,048
Due from Other Governments	46,283	-	46,283
Inventory	65,556	-	65,556
Assets Held for Resale	85,000	-	85,000
TOTAL ASSETS	\$ 14,021,491	\$ 212,765	\$ 14,234,256
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 470,056	\$ 662	\$ 470,718
Accrued Liabilities	324,412	-	324,412
Compensated Absences	37,086	-	37,086
Unearned Revenue	217,195	-	217,195
Loan Payable	100,000	-	100,000
Interfund Payables	536,671	2,048	538,719
Payable from Restricted Assets			
Unearned Revenue	21,917	-	21,917
Deposits & Escrows	34,652	13,510	48,162
TOTAL LIABILITIES	1,741,989	16,220	1,758,209
DEFERRED INFLOWS OF RESOURCES			
Property Taxes Receivables	\$ 236,716	\$ -	\$ 236,716
Fines & Penalties Receivables	28,700	-	28,700
Intergovernmental Receivables	78,089	-	78,089
Housing Assistance Reimbursement Receivables	-	51,786	51,786
TOTAL DEFERRED INFLOWS OF RESOURCES	343,505	51,786	395,291
FUND BALANCES			
Non-spendable	365,159	7,263	372,422
Restricted	3,378,400	137,496	3,515,896
Committed	10,960	-	10,960
Assigned	9,102	-	9,102
Unassigned	8,172,376	-	8,172,376
TOTAL FUND BALANCES	11,935,997	144,759	12,080,756
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 14,021,491	\$ 212,765	\$ 14,234,256

See Notes to Basic Financial Statements

City of Westminster, Maryland
Reconciliation of Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2014

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 12,080,756**

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

Property tax revenue is recognized in the period for which levied rather than when "available." A portion of the property tax revenue is not available and is reported as a deferred inflow of resources in the governmental funds. 236,716

A portion of revenue for citations, intergovernmental and housing voucher repayments is not available for current period expenditures and, therefore, is reported as a deferred inflow of resources in the governmental funds. 158,575

Net charge on bond refundings is reported as an expenditure in the governmental funds but is reflected as a deferred outflow of resources in the statement of net position. 22,480

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 40,643,846

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. (1,448,775)

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. (5,015,989)

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 46,677,609**

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, 2014

	General Fund	Public Housing Agency Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 11,664,491	\$ -	\$ 11,664,491
Licenses & Permits	522,592	-	522,592
Intergovernmental	2,395,962	1,770,680	4,166,642
Charges for Services	579,615	-	579,615
Fines & Forfeitures	188,520	-	188,520
Interest & Investment Earnings	11,360	118	11,478
Rental Income	5,040	-	5,040
Miscellaneous	35,428	16,921	52,349
TOTAL REVENUES	15,403,008	1,787,719	17,190,727
EXPENDITURES			
General Government	1,712,632	-	1,712,632
Public Safety	5,616,944	-	5,616,944
Public Works	3,151,535	-	3,151,535
Recreation & Parks	858,453	-	858,453
Community Development & Housing	85,346	2,114,390	2,199,736
Debt Service			
Principal	337,060	-	337,060
Interest	194,812	-	194,812
Capital Outlays	2,479,394	-	2,479,394
TOTAL EXPENDITURES	14,436,176	2,114,390	16,550,566
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	966,832	(326,671)	640,161
OTHER FINANCING SOURCES			
Proceeds from Issuance of Long-Term Debt	63,367	-	63,367
Proceeds from Sale of Capital Assets	30,177	-	30,177
Transfer in	-	69,000	69,000
Transfer out	(69,000)	-	(69,000)
TOTAL OTHER FINANCING SOURCES	24,544	69,000	93,544
NET CHANGES IN FUND BALANCES	991,376	(257,671)	733,705
Fund Balances - Beginning of Year	10,944,621	402,430	11,347,051
FUND BALANCES - END OF YEAR	\$ 11,935,997	\$ 144,759	\$ 12,080,756

See Notes to Basic Financial Statements

City of Westminster, Maryland
Reconciliation of Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2014

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 733,705**

Amounts reported for governmental activities in the statement of net position 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	2,593,166
Less: Depreciation Expense	(2,088,196)

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 position. 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 position.

Capital Lease Proceeds	(63,367)
Payment of Capital Lease Obligations	31,562
Payment on Bonds Payable	305,500

Property tax, intergovernmental grants, 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. 200,642

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 Charge on Refunding	(2,810)
Accrued Interest Expense	(1,568)
Long-Term Portion of Compensated Absences	(28,320)
Accrued Other Postemployment Benefits	(171,535)

In the statement of activities, only the gain/loss on disposition of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increases financial resources. Thus, the change in net position differs from the change in fund balances by costs of the capital assets disposed of \$797,600, less any accumulated depreciation of \$710,919. (86,681)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 1,422,098**

See Notes to Basic Financial Statements

City of Westminster, Maryland
Statement of Net Position - Proprietary Funds
June 30, 2014

	Sewer Fund	Water Fund	Total Proprietary Funds
ASSETS			
CURRENT ASSETS			
Equity in Pooled Cash & Cash Equivalents			
Unrestricted	\$ 4,879,490	\$ 4,568,269	\$ 9,447,759
Restricted	4,158,771	4,429,439	8,588,210
Accounts Receivable			
Unrestricted	664,950	705,245	1,370,195
Restricted	85,635	-	85,635
Unbilled Services	636,146	676,611	1,312,757
Prepaid Items & Deposits	63,033	63,512	126,545
Interfund Receivables	253,923	284,049	537,972
Due from Other Governments	38,698	-	38,698
Inventory	75,496	67,859	143,355
TOTAL CURRENT ASSETS	10,856,142	10,794,984	21,651,126
NON-CURRENT ASSETS			
Accounts Receivable	12,788	12,788	25,576
Property & Equipment			
Land & Land Rights	54,202	136,713	190,915
Construction in Progress	1,712,661	706,043	2,418,704
Buildings	40,163	74,545	114,708
Equipment	3,031,433	804,944	3,836,377
Furniture & Fixtures	1,607	4,807	6,414
Infrastructure	17,388,334	28,499,616	45,887,950
Utility Plant & Equipment	16,356,747	11,520,161	27,876,908
Vehicles	381,880	482,076	863,956
	38,967,027	42,228,905	81,195,932
Less Accumulated Depreciation	19,642,757	11,001,527	30,644,284
Total Property & Equipment	19,324,270	31,227,378	50,551,648
TOTAL NON-CURRENT ASSETS	19,337,058	31,240,166	50,577,224
TOTAL ASSETS	30,193,200	42,035,150	72,228,350

(Continued)

City of Westminster, Maryland
Statement of Net Position - Proprietary Funds (Continued)
June 30, 2014

	Sewer Fund	Water Fund	Total Proprietary Funds
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	\$ 214,232	\$ 73,895	\$ 288,127
Accrued Liabilities	2,765	72,539	75,304
Compensated Absences - S/T	5,540	5,540	11,080
Unearned Revenue	47,376	18,714	66,090
Interfund Payables	-	1,301	1,301
Capital Lease Obligations	21,456	21,456	42,912
General Obligation Bonds Payable	-	836,095	836,095
Payable from Restricted Assets Due to Other Governments	256,398	203	256,601
TOTAL CURRENT LIABILITIES	547,767	1,029,743	1,577,510
NON-CURRENT LIABILITIES			
Compensated Absences - L/T	112,049	104,057	216,106
Accrued Other Postemployment Benefits	276,701	280,186	556,887
Due to Other Governments	233,828	-	233,828
Capital Lease Obligations	54,467	54,467	108,934
General Obligation Bonds Payable	-	10,264,294	10,264,294
TOTAL NON-CURRENT LIABILITIES	677,045	10,703,004	11,380,049
TOTAL LIABILITIES	1,224,812	11,732,747	12,957,559
NET POSITION			
Net Investment in Capital Assets	19,248,347	20,051,066	39,299,413
Restricted for:			
Future Infrastructure Growth	4,158,771	3,977,749	8,136,520
Capital Improvement Projects	-	451,690	451,690
Unrestricted	5,561,270	5,821,898	11,383,168
TOTAL NET POSITION	\$ 28,968,388	\$ 30,302,403	\$ 59,270,791

See Notes to Basic Financial Statements

City of Westminster, Maryland
Statement of Revenues, Expenses and Changes in
Net Position - Proprietary Funds
For the Year Ended June 30, 2014

	Sewer Fund	Water Fund	Total Proprietary Funds
OPERATING REVENUES			
Charges for Services	\$ 5,291,975	\$ 5,352,423	\$ 10,644,398
Miscellaneous	13,835	3,730	17,565
TOTAL OPERATING REVENUES	5,305,810	5,356,153	10,661,963
OPERATING EXPENSES			
Administrative & General	1,240,153	1,240,632	2,480,785
Sewer Treatment	1,948,534	-	1,948,534
Transmission & Distribution	906,209	698,834	1,605,043
Water Treatment & Pumping	-	1,568,404	1,568,404
Depreciation	781,809	819,500	1,601,309
TOTAL EXPENDITURES	4,876,705	4,327,370	9,204,075
OPERATING INCOME	429,105	1,028,783	1,457,888
NON-OPERATING REVENUES (EXPENSES)			
Interest & Investment Earnings	7,164	7,383	14,547
Rental Income	-	174,835	174,835
Interest Expense	(3,987)	(223,641)	(227,628)
Gain on Disposition of Capital Assets	2,969	2,000	4,969
TOTAL NON-OPERATING REVENUES (EXPENSES)	6,146	(39,423)	(33,277)
INCOME BEFORE TRANSFERS & CAPITAL CONTRIBUTIONS	435,251	989,360	1,424,611
Capital Contributions	611,573	260,796	872,369
CHANGES IN NET POSITION	1,046,824	1,250,156	2,296,980
Net Position - Beginning of Year, as restated (Note 24)	27,921,564	29,052,247	56,973,811
NET POSITION - END OF YEAR	\$ 28,968,388	\$ 30,302,403	\$ 59,270,791

See Notes to Basic Financial Statements

City of Westminster, Maryland
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2014

	Sewer Fund	Water Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Inflows:			
Cash Received from Customers	\$ 5,253,479	\$ 5,295,004	\$ 10,548,483
Miscellaneous	13,835	3,730	17,565
	5,267,314	5,298,734	10,566,048
Outflows:			
Cash Paid to Suppliers	1,975,767	1,749,527	3,725,294
Cash Paid to Employees	2,136,067	1,960,879	4,096,946
	4,111,834	3,710,406	7,822,240
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,155,480	1,588,328	2,743,808
 CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Inflows:			
Rental Income	-	174,835	174,835
Outflows:			
Cash Paid to Other Funds	65,061	222,653	287,714
NET CASH USED IN NON-CAPITAL FINANCING ACTIVITIES	(65,061)	(47,818)	(112,879)
 CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES			
Inflows:			
Capital Contribution & Grants	658,949	260,796	919,745
Disposal of Capital Assets	2,969	2,000	4,969
	661,918	262,796	924,714
Outflows:			
Interest Paid	1,499	221,153	222,652
Principal Paid	31,559	855,479	887,038
Purchase of Capital Assets	1,040,997	525,759	1,566,756
	1,074,055	1,602,391	2,676,446
NET CASH USED IN CAPITAL & RELATED FINANCING ACTIVITIES	(412,137)	(1,339,595)	(1,751,732)

(Continued)

City of Westminster, Maryland
Statement of Cash Flows - Proprietary Funds (Continued)
For the Year Ended June 30, 2014

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total Proprietary Funds</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Inflows:			
Interest on Investments	\$ 7,164	\$ 7,383	\$ 14,547
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>7,164</u>	<u>7,383</u>	<u>14,547</u>
NET INCREASE IN CASH & CASH EQUIVALENTS	685,446	208,298	893,744
Cash & Cash Equivalents - Beginning of Year	<u>8,352,815</u>	<u>8,789,410</u>	<u>17,142,225</u>
CASH & CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 9,038,261</u></u>	<u><u>\$ 8,997,708</u></u>	<u><u>\$ 18,035,969</u></u>
RECONCILIATION OF CASH & CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION			
CURRENT ASSETS			
Equity in Pooled Cash & Cash Equivalents			
Unrestricted	\$ 4,879,490	\$ 4,568,269	\$ 9,447,759
Restricted	4,158,771	4,429,439	8,588,210
CASH & CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 9,038,261</u></u>	<u><u>\$ 8,997,708</u></u>	<u><u>\$ 18,035,969</u></u>

See Notes to Basic Financial Statements

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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).

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 position, 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 assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts – net investment in capital assets, restricted net position; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1. Overview and Summary of Significant Accounting Policies (Continued)

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 position resulting from the current year's activities.

Basic Financial Statements - Fund Financial Statements

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

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

Governmental Funds

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

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

Public Housing Agency Fund - The Public Housing Agency Fund is used to account for the proceeds of federal funds regulated by the Department of Housing and Urban Development, and for the expenditures that are legally restricted for low income housing program purposes.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1. Overview and Summary of Significant Accounting Policies (Continued)

Proprietary Funds

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

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

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

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

Basis of Accounting

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

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

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1. Overview and Summary of Significant Accounting Policies (Continued)

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 combines cash balances from all funds and invests to the extent possible in highly-liquid investments purchased with a maturity of three months or less which are considered to be cash equivalents and are reflected in the respective fund balance sheets as equity in pooled cash and cash equivalents. Earnings from these investments are allocated evenly among the respective funds. 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 85 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.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2014, 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.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1. Overview and Summary of Significant Accounting Policies (Continued)

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 capital 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>
Buildings and Building Improvements	7 - 40
Equipment and Vehicles	5 - 10
Furniture and Fixtures	5
Infrastructure	7 - 100
Utility Plant and Equipment	10 - 40

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

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

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

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

Deferred Outflows of Resources

Deferred Outflows are the consumption of net position by the City that is applicable to a future reporting period. As of June 30, 2014, the City's deferred outflows consist of a net charge on a bond refunding.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1. Overview and Summary of Significant Accounting Policies (Continued)

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 position, 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.

Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the term of the bonds using the bond-outstanding method which approximates the effective interest method. Bonds payable are reported net of the applicable unamortized bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid bond insurance costs are reported as prepaid items and amortized over the term of the related debt using the straight-line method. In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1. Overview and Summary of Significant Accounting Policies (Continued)

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and / or the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. One item which qualifies for reporting in this category, which arises only under the modified accrual basis of accounting, is unavailable revenue. Accordingly, it is only reported in the governmental funds balance sheet. The City reports unavailable revenues from property taxes, fines and penalties, grants, and reimbursements of housing assistance from tenants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Unearned Revenue

Both governmental and proprietary report revenue received in advance of the City providing services as unearned. As of June 30, 2014, governmental and proprietary funds reported unearned revenue of \$239,112 and \$66,090, respectively.

Net Position

In the government-wide financial statements and proprietary fund financial statements, net position equals assets plus deferred outflows of resources less liabilities and deferred inflows of resources, and is classified in the following three categories:

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

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

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

Fund Balances

In the governmental fund financial statements, fund balance equals assets plus deferred outflows of resources less liabilities and deferred inflows of resources, and is classified in the categories of fund balance presented 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.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1. Overview and Summary of Significant Accounting Policies (Continued)

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, except for the inclusion of previous years' unexpended budgetary appropriations as revenue, none of which was utilized for the year ended June 30, 2014. Appropriations for salaries and operating expenses lapse at the fiscal year-end, but appropriations for equipment and capital projects can be carried forward into the subsequent fiscal year as an appropriated surplus. Budget revisions receive approval of the Mayor and Common Council if the result is an appropriation from the operating reserve or a change in the funding for a capital expenditure. There was three budget revisions approved by the Mayor and Common Council and several budget reclassifications approved by management during the year ended June 30, 2014.

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.

Note 2. Deposits and Investments

The City maintains a cash and investment pool that is available for use by all funds. The City is governed by the deposit and investment limitations of Maryland law. 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 MLGIP is rated "AAAm" by Standard and Poor's (their highest rating). The State Legislature created MLGIP with the passage of Article 95 22G, of the Annotated Code of Maryland. The MLGIP, under the administrative control of the State Treasurer, has been managed by a single financial institution. A MLGIP Advisory Committee of current participants reviews, on a quarterly basis, the activities of the fund and provides suggestions to enhance the pool. The fair value of the pool is the same as the value of the pool shares. As of June 30, 2014, all pool holdings are in cash and cash equivalents with a weighted average maturity of 35 days. The pool is managed in a "Rule 2(a)-7 like" manner and is reported at amortized cost pursuant to Rule 2(a)-7 under the Investment Company Act of 1940. As of June 30, 2014, the City had total investments in MLGIP of \$9,427,751 which have been reflected as cash and cash equivalents.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 2. Deposits and Investments (Continued)

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 consisting of both external restrictions as well as internally imposed designations at June 30, 2014, is as follows:

	Governmental Activities	Business-Type Activities
Future Infrastructure Growth	\$ 1,007,955	\$ 8,136,520
Capital Improvement Projects	1,905,540	451,690
Future Healthcare Costs	1,854,271	-
Housing Voucher Program	153,716	-
Tax Revenue Commitments	379,838	-
Judicial Mandates	63,077	-
Developer Deposits	28,419	-
Employee Flexible Spending Account	21,990	-
City Program Commitments	20,062	-
Total Restricted Cash and Cash Equivalents	\$ 5,434,868	\$ 8,588,210

Custodial Credit Risk

Deposits in financial institutions, reported as components of cash and cash equivalents, had a bank balance of \$22,110,931 at June 30, 2014, of which \$309,177 was covered by federal depository insurance. The remaining amount of \$21,801,754 was fully collateralized by securities pledged and held by a financial institution's trust department or agent, not in the City's name, as of June 30, 2014.

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.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 2. Deposits and Investments (Continued)

Credit Risk

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

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

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 2. Deposits and Investments (Continued)

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, 2014, 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, 2014, \$23,600 remains outstanding on the loan, \$1,650 of which has been classified as a current asset.

Note 4. Assets Held for Resale

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 had been sold and the City agreed to accept the remaining five properties as satisfaction for the outstanding receivable, \$274,444, and deferred revenue, \$11,835. In November 2012, these five properties were transferred to the City, by deed, in satisfaction of the outstanding open receivable and deferred revenue. These properties were appraised at \$85,000 and are anticipated to be transferred to Habitat for Humanity at this value within the next fiscal year. As of June 30, 2014, these properties were recorded as an Asset Held for Resale at the appraised value.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 5. Capital Assets

A summary of governmental activities follows:

	Balance July 1, 2013	Increases	Decreases	Transferred to Active Status	Balance June 30, 2014
Capital Assets					
Non-Depreciable Assets					
Land and Land Rights	\$ 319,172	\$ -	\$ -	\$ -	\$ 319,172
Construction in Progress	13,600	502,012	-	-	515,612
Total Non-Depreciable Assets	332,772	502,012	-	-	834,784
Depreciable Assets					
Buildings	12,127,620	107,451	10,964	-	12,224,107
Equipment	3,909,828	110,002	499,691	-	3,520,139
Furniture and Fixtures	128,041	-	-	-	128,041
Improvements Other than Buildings	8,587,674	368,785	12,584	-	8,943,875
Infrastructure	43,888,798	1,127,205	-	-	45,016,003
Vehicles	2,736,642	377,711	274,361	-	2,839,992
Total Depreciable Assets	71,378,603	2,091,154	797,600	-	72,672,157
Total Capital Assets	71,711,375	2,593,166	797,600	-	73,506,941
Accumulated Depreciation					
Buildings	4,238,514	284,400	3,144	-	4,519,770
Equipment	2,439,745	222,325	427,896	-	2,234,174
Furniture and Fixtures	128,041	-	-	-	128,041
Improvements Other than Buildings	3,956,846	227,121	5,518	-	4,178,449
Infrastructure	18,633,975	1,143,870	-	-	19,777,845
Vehicles	2,088,697	210,480	274,361	-	2,024,816
Total Accumulated Depreciation	31,485,818	2,088,196	710,919	-	32,863,095
Total Capital Assets, Net	\$ 40,225,557	\$ 504,970	\$ 86,681	\$ -	\$ 40,643,846

Accumulated costs attributable to projects included in construction in progress at June 30, 2014, are as follows:

Governmental Activities	
Wakefield Valley Trail Extension	\$ 31,438
Broadband Pilot	103,602
City Hall Renovations	1,334
Skate Park	177,000
Police Headquarters Furnace	18,336
Armory Renovations	161,145
Family Center Upgrades	22,757
Total Construction in Progress	\$ 515,612

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 5. Capital Assets (Continued)

Depreciation expense, including depreciation expense on assets under capital lease, was charged to governmental activities functions as follows:

Governmental Activities	
General Government	\$ 79,375
Public Safety	135,155
Public Works	1,521,366
Recreation and Culture	333,553
Community Development	18,747
Total Depreciation Expense	<u>\$ 2,088,196</u>

A summary of business-type activities follows:

	Balance July 1, 2013	Increases	Decreases	Transferred to Active Status	Balance June 30, 2014
Capital Assets					
Non-Depreciable Assets					
Land and Land Rights	\$ 190,915	\$ -	\$ -	\$ -	\$ 190,915
Construction in Progress	1,663,290	1,060,455	-	(305,041)	2,418,704
Total Non-Depreciable Assets	<u>1,854,205</u>	<u>1,060,455</u>	<u>-</u>	<u>(305,041)</u>	<u>2,609,619</u>
Depreciable Assets					
Buildings	19,526	95,182	-	-	114,708
Equipment	3,832,605	59,313	55,541	-	3,836,377
Furniture and Fixtures	6,414	-	-	-	6,414
Infrastructure	45,403,122	179,787	-	305,041	45,887,950
Utility Plant	27,876,908	-	-	-	27,876,908
Vehicles	800,552	172,019	108,615	-	863,956
Total Depreciable Assets	<u>77,939,127</u>	<u>506,301</u>	<u>164,156</u>	<u>305,041</u>	<u>78,586,313</u>
Total Capital Assets	<u>79,793,332</u>	<u>1,566,756</u>	<u>164,156</u>	<u>-</u>	<u>81,195,932</u>
Accumulated Depreciation					
Buildings	488	1,817	-	-	2,305
Equipment	2,613,575	192,889	55,541	-	2,750,923
Furniture and Fixtures	6,414	-	-	-	6,414
Infrastructure	13,912,506	723,760	-	-	14,636,266
Utility Plant	12,175,655	612,759	-	-	12,788,414
Vehicles	498,493	70,084	108,615	-	459,962
Total Accumulated Depreciation	<u>29,207,131</u>	<u>1,601,309</u>	<u>164,156</u>	<u>-</u>	<u>30,644,284</u>
Total Capital Assets, Net	<u>\$ 50,586,201</u>	<u>\$ (34,553)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,551,648</u>

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 5. Capital Assets (Continued)

Accumulated costs attributable to projects included in construction in progress at June 30, 2014 are as follows:

Water Fund		
Gessell Well/Little Pike Creek	\$	442,178
Well #8 (Radon/Nitrate Storage)		238,387
Hydes Quarry (New Water Source)		24,144
City Hall Renovations		1,334
		<u>706,043</u>
Total Water Fund		<u>706,043</u>
Sewer Fund		
Enhanced Nutrient Removal Project & Biosolids Upgrade - WWTP		1,711,327
City Hall Renovations		1,334
		<u>1,712,661</u>
Total Sewer Fund		<u>1,712,661</u>
Total Construction in Progress	\$	<u>2,418,704</u>

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

Water Fund	\$	819,500
Sewer Fund		781,809
		<u>1,601,309</u>
Total Depreciation Expense	\$	<u>1,601,309</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, 2014. 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

The City has a \$1,000,000, unsecured variable rate line-of-credit with a local bank to fund short-term working capital needs. Interest is paid monthly at the bank's prime rate. The line is subject annual renewals. As of June 30, 2014, there have been no advances against this line-of-credit and, hence, no outstanding balance.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014, \$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 and fitness equipment. The obligations are secured by the related assets and carry stated interest rates from 5.66% to 20.95%.

At June 30, 2014, future minimum payments required under leases with terms greater than one year, and the present value of minimum capital lease payments, were as follows:

<u>Years Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2015	\$ 45,116	\$ 53,767
2016	45,616	53,767
2017	38,418	40,371
2018	31,720	26,976
Total Minimum Lease Payments	160,870	174,881
Less: Amount Representing Interest	21,581	23,035
Present Value of Net Future Minimum Capital Lease Payments included in Long-Term Debt	139,289	151,846
Less: Current Portion	35,819	42,912
Long-Term Portion	<u>\$ 103,470</u>	<u>\$ 108,934</u>

Assets under capital lease included in Property and Equipment at June 30, 2014, include the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Asset Cost under Capital Lease		
Equipment	\$ 288,727	\$ 450,722
Less: Accumulated Depreciation	120,820	239,529
Total Asset Cost under Capital Lease, Net	<u>\$ 167,907</u>	<u>\$ 211,193</u>

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 10. Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2014:

Type of Debt	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Amounts Due Within One Year
Governmental Activities					
General Obligation Bonds Payable	\$ 5,150,400	\$ -	\$ 305,500	\$ 4,844,900	\$ 312,700
Capital Lease Obligations	107,484	63,367	31,562	139,289	35,819
Other Long-Term Liabilities:					
Compensated Absences	361,018	65,407	16,677	409,748	37,086
Net OPEB Obligations	904,578	171,535	-	1,076,113	-
Total Governmental Activities	\$ 6,523,480	\$ 300,309	\$ 353,739	\$ 6,470,050	\$ 385,605
Business-Type Activities					
General Obligation Bonds Payable	\$ 11,924,308	\$ -	\$ 823,919	\$ 11,100,389	\$ 836,095
Capital Lease Obligations	214,966	-	63,120	151,846	42,912
Other Long-Term Liabilities:					
Compensated Absences	213,018	14,168	-	227,186	11,080
Net OPEB Obligations	457,422	99,465	-	556,887	-
Interfund Payables	241,250	-	241,250	-	-
Due to Other Governments	233,828	-	-	233,828	-
Total Business-Type Activities	\$ 13,284,792	\$ 113,633	\$ 1,128,289	\$ 12,270,136	\$ 890,087

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 full faith and credit and taxing powers of the City are pledged in payment of any deficiency in the funding of the principal and interest payments of all general obligation bonds.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 10. Long-Term Debt (Continued)

General Obligation Bonds outstanding as of June 30, 2014, are composed of the following:

Governmental Activities General Obligation Bonds Payable

\$4,820,000 Infrastructure Bonds - 2005 Series A due in annual principal payments of \$148,000 - \$300,000 plus interest paid semi-annually at rates of 4.00% - 4.40%. The bond matures on May 1, 2030. \$ 3,598,000

\$1,541,400 Infrastructure Bonds - 2012 Series B due in annual principal payments of \$157,500 - \$165,500 plus interest paid semi-annually at rates of 0.61% - 2.53%. The bond matures on May 1, 2022. 1,246,900

Total Governmental Activities General Obligation Bonds Payable 4,844,900

Business-Type Activities General Obligation Bonds Payable

Water Fund

Drinking Water Bond, Series 2000, in the amount of \$1,269,858. Due in annual principal payments of \$66,965 - \$80,145 plus interest paid semi-annually at a rate of 2.6%. The bond matures on February 1, 2021. 520,124

Drinking Water Bond, Series 2007, in the amount of \$9,850,906. Due in annual principal payments of \$552,341 - \$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. 7,142,350

Drinking Water Bond, Series 2008, in the amount of \$4,415,138. Due in annual principal payments of \$204,614 - \$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. 3,437,915

Total Business-Type Activities General Obligation Bonds Payable 11,100,389

Total General Obligation Bonds Payable \$ 15,945,289

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

Years Ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 312,700	\$ 172,955	\$ 836,095	\$ 167,457
2016	320,200	164,813	848,488	155,063
2017	327,700	156,115	861,105	142,447
2018	340,100	147,019	873,949	129,603
2019	346,500	137,250	887,025	116,526
2020-2024	1,567,700	518,779	4,386,595	384,474
2025-2029	1,330,000	246,033	2,407,132	87,487
2030	300,000	13,200	-	-
Total	<u>\$ 4,844,900</u>	<u>\$ 1,556,164</u>	<u>\$ 11,100,389</u>	<u>\$ 1,183,057</u>

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 10. Long-Term Debt (Continued)

Interest costs incurred and charged to expense for the year ended June 30, 2014 for governmental activities and business-type activities were \$196,380 and \$227,628, respectively.

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, 2014, there were various series of Economic Development Revenue Bonds and Educational Facilities Revenue Bonds outstanding, with an aggregate principal amount payable of \$88,366,000. On July 1, 2014, Economic Development Revenue Bonds in the amount of \$41,616,000 as of June 30, 2014 were currently refunded through the issuance of Project and Refunding Revenue Bonds Series 2014 in the amount of \$48,945,000.

Note 11. Interfund Transactions

Interfund receivable and payable balances at June 30, 2014, 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	\$ -	\$ 2,048	\$ -	\$ 2,048
Sewer Fund	252,622	-	1,301	253,923
Water Fund	284,049	-	-	284,049
Total	\$ 536,671	\$ 2,048	\$ 1,301	\$ 540,020

A long-term liability for the Net OPEB Obligation (NOO) remains outstanding for both the Sewer and Water Funds, offset by interfund receivable from the General Fund, where these funds are maintained, which is 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.

An interfund transfer of \$69,000 was made between the General Fund and the Public Housing Agency Fund for operating expenditures.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 12. Net Position and Fund Balances

The governmental fund balances at June 30, 2014, are summarized as follows:

	General Fund	Public Housing Agency Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Non-Spendable:			
Prepaid Expenditures	\$ 192,653	\$ 7,263	\$ 199,916
Inventory	65,556	-	65,556
Assets Held for Resale	85,000	-	85,000
L/T Loan Receivables	21,950	-	21,950
Subtotal	<u>365,159</u>	<u>7,263</u>	<u>372,422</u>
Restricted:			
Housing Voucher Program	-	137,496	137,496
Capital Improvements	1,905,540	-	1,905,540
Infrastructure Growth	1,007,955	-	1,007,955
Employee Flexible Spend Account	21,990	-	21,990
Police Non-Budgeted	63,077	-	63,077
Tax Revenue Commitments	379,838	-	379,838
Subtotal	<u>3,378,400</u>	<u>137,496</u>	<u>3,515,896</u>
Committed to:			
Police Discretionary Use	<u>10,960</u>	-	<u>10,960</u>
Assigned to:			
Farmer's Market	4,145	-	4,145
Tree Commission	4,957	-	4,957
Subtotal	<u>9,102</u>	-	<u>9,102</u>
Unassigned	<u>8,172,376</u>	-	<u>8,172,376</u>
Total Fund Balance	<u>\$ 11,935,997</u>	<u>\$ 144,759</u>	<u>\$ 12,080,756</u>

The government-wide statement of net position for the year ended June 30, 2014, reports \$3,180,829 and \$8,588,210 of restricted net position for the City's governmental and business-type activities, respectively, of which \$3,043,333 and \$8,588,210, respectively, is restricted by enabling legislation.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014, was \$0.56 per \$100 of assessed property value.

Note 14. Rental Income Agreements

The City has entered into communication tower lease agreements with various unrelated parties through August 2017. All lease agreements are renewable for four successive, five-year periods at the lessee's discretion. Rental income for the year ended June 30, 2014, was \$174,835. Future minimum annual rental income for the Water Fund as of June 30, 2014, as follows:

<u>Years Ending June 30.</u>	
2015	\$ 179,470
2016	134,926
2017	81,716
2018	<u>5,200</u>
Total Minimum Rental Income	<u><u>\$ 401,312</u></u>

Note 15. Operating Leases

The City has entered into a three operating lease, dated April 2012 with a three-year renew option, with an unrelated party for the leasing of office space, through March 2018, 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 two additional three-year periods at the City's discretion through February 2021.

In addition, the City has various operating leases with unrelated parties for copiers through August 2018.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 15. Operating Leases (Continued)

The following is a schedule of future minimum rental payments required under the operating leases as of June 30, 2014:

<u>Years Ending June 30.</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2015	\$ 84,837	\$ 106,211
2016	85,625	107,793
2017	84,988	109,375
2018	63,480	81,431
2019	23,409	-
2020-2021	35,640	-
Total Minimum Lease Payments	<u>\$ 377,979</u>	<u>\$ 404,810</u>

Rent expense for governmental and business-type activities for the year ended June 30, 2014 was \$112,988 and \$77,028, respectively.

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 99 and 3 active participants, respectively, as of June 30, 2014.

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 \$17,500, 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 \$5,500, 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, 2014.

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 \$68,293 to the 401(a) plan for the year ended June 30, 2014.

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.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 17. Pension Plans

Non-Uniformed Employees

Plan Description

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

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

The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland. The State Retirement and Pension System of Maryland issues a publicly available comprehensive annual financial report that includes the actuarial valuation, financial statements and required supplementary 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 13.89% and 10.00% of earnable compensation for ERS and EPS plan members, respectively, for the year ended June 30, 2014.

Annual Pension Cost

For the years ended June 30, 2014, 2013, and 2012, the City's pension cost for ERS and EPS was equal to \$440,218, \$396,797, and \$487,379, 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.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 17. Pension Plans (Continued)

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.

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 31.76% of earnable compensation for LEOPS plan members for the year ended June 30, 2014.

Annual Pension Cost

For the years ended June 30, 2014, 2013, and 2012, the City's pension cost for the LEOPS was \$596,113, \$372,877, and \$446,859, 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.

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).

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 18. Other Postemployment Benefits Plan (Continued)

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 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 137 participants, 113 of which are active plan members and 24 are retirees and beneficiaries receiving benefits at June 30, 2014.

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, 2014, the City paid premium costs of \$161,907 for retirees, their spouses and dependents, \$61,352 of which was reimbursed by plan members based on eligibility in accordance with the plan's applicable policy.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 18. Other Postemployment Benefits Plan (Continued)

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, 2014:

Annual Required Contribution	\$	457,000
Interest on Net OPEB Obligation		54,000
Adjustment to Annual Required Contribution		(87,000)
Annual OPEB Cost		424,000
Contributions Made		(153,000)
Increase (Decrease) in Net OPEB Obligation		271,000
Net OPEB Obligation - Beginning of Year		1,362,000
Net OPEB Obligation - End of Year	\$	1,633,000

Funded Status and Funding Progress

As of the July 1, 2013 valuation, the actuarial accrued liability for benefits was \$4,922,000, all of which was unfunded, the covered payroll (annual payroll of active employees covered by the plan) was \$8,220,230, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 59.9%.

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.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 18. Other Postemployment Benefits Plan (Continued)

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.

For the July 1, 2013 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 5.7% and 6.7%, respectively, in 2014 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.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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

The following is a reconciliation of the Proprietary Funds operating income to net cash provided by operating activities for the year ended June 30, 2014:

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Operating Income	\$ 429,105	\$ 1,028,783	\$ 1,457,888
Adjustments to Reconcile Operating Income			
Depreciation	781,809	819,500	1,601,309
(Increase) Decrease in:			
Account Receivable	(24,939)	(837)	(25,776)
Due From Other Governments	(10,409)	-	(10,409)
Unbilled Services	(6,776)	9,770	2,994
Inventory	87	31,571	31,658
Prepaid Expenses	(22,085)	(26,747)	(48,832)
Increase (Decrease) in:			
Account Payable	4,568	(185,459)	(180,891)
Due To Other Governments	3,627	(4,802)	(1,175)
Unearned Revenue	-	(61,550)	(61,550)
Accrued Expenses	(51,002)	(84,039)	(135,041)
Accrued Compensated Absences	2,074	12,094	14,168
Accrued OPEB	49,421	50,044	99,465
Net Cash Provided by Operating Activities	<u>\$ 1,155,480</u>	<u>\$ 1,588,328</u>	<u>\$ 2,743,808</u>

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, 2014, 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.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 20. Commitments and Contingencies (Continued)

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

Project	Contract Amount	Amount Outstanding at June 30, 2014
Well # 8 (Radon Removal/Nitrate Storage)	\$ 1,295,208	\$ 1,182,896
Gessell Well	518,160	389,509
ENR & Biosolids Upgrade WWTP	3,665,706	2,488,492
Broadband Fiber	1,559,031	1,457,476
Police Department Furnaces	88,510	79,010
City Hall Renovations	29,680	29,680
Skate Park Improvements	300,000	128,000

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; personal injury; and natural disasters. The City is a member of the Local Government Insurance Trust (LGIT), sponsored by the Maryland Municipal League (MML), and the Maryland Association of Counties. The LGIT is a self-insured public entity risk pool offering general liability, excess liability, business auto liability, police legal liability, public official liability, environmental liability, and property coverage.

LGIT is capitalized at an actuarially determined level to provide financial stability for its local government members to reduce the possibility of assessments. The trust is owned by the participating counties and cities and managed by a Board of Trustees elected by the members. Annual premiums are assessed for the various policy coverages. The agreement for the formation of the LGIT provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$5 million for each insured event.

The City also maintains coverage for health insurance and workers compensation through commercial insurance companies.

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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.

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. Restatement of Beginning Net Position

The City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in fiscal year 2014. Under the new guidance, debt issuance costs are no longer presented as an asset to be amortized over the life of the debt, but are to be expensed in the year in which incurred. As such, Statement No. 65 indicates that changes should be implemented retroactively by restating financial statements for all prior periods presented. The following is a summary of the effects the adoption of this Statement had on each of the City's net positions as of June 30, 2013:

	Governmental Activities	Water Fund	Business-Type Activities
Net Position as of June 30, 2013, as Previously Reported	\$ 45,363,261	\$ 29,058,897	\$ 56,980,461
Cumulative Effect of Change in Accounting Principle - Unamortized Bond Issuance Costs	(107,750)	(6,650)	(6,650)
Net Position as of June 30, 2013, as Restated	\$ 45,255,511	\$ 29,052,247	\$ 56,973,811

CITY OF WESTMINSTER, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 25. New Governmental Accounting Standards Board Pronouncements

The GASB has issued several pronouncements prior to the year ended June 30, 2014, 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. 68, *Accounting for Pensions by State and Local Governmental Employers*, will be effective for the City beginning with its year ending June 30, 2015. This Statement replaces the requirements of GASB Statement No. 27 and No. 50, as they relate to governments that provide pensions through pension plans administered as trust or similar arrangements that meet certain criteria. This Statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Additionally, this Statement enhances accountability and transparency through revised and new note disclosures and required supplementary information.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, will be effective for the City beginning with its year ending June 30, 2015. This Statement establishes accounting and financial reporting standards related to government combinations (such as mergers, acquisitions, and transfers) and disposals of government operations. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. For government acquisitions, this Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. Additionally, this Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

GASB Statement No. 71, *Pension Transition for Contribution Made Subsequent to the Measurement Date* (an amendment of GASB Statement No. 68), will be effective for the City beginning with its year ending June 30, 2015. This Statement amends Statement No. 68 related to transition provisions for certain pension contributions made to defined benefit pension plans prior to implementation of Statement 68 by employers and nonemployer contribution entities. If it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pension, contributions made after the measurement date of the beginning net pension liability could have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implantation. This statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

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, 2014
(UNAUDITED - See Accompanying Independent Auditor's Report)

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Taxes	\$ 11,394,848	\$ 11,394,848	\$ 11,664,491	\$ 269,643
Licenses & Permits	489,890	489,890	522,592	32,702
Intergovernmental	2,047,412	2,823,787	2,395,962	(427,825)
Charges for Services	816,195	816,195	579,615	(236,580)
Fines & Forfeitures	120,000	120,000	188,520	68,520
Interest & Investment Earnings	11,200	11,200	11,360	160
Rental Income	5,000	5,000	5,040	40
Reappropriation of fund balance	42,184	661,862	-	(661,862)
Miscellaneous	55,000	71,000	35,428	(35,572)
TOTAL REVENUES	14,981,729	16,393,782	15,403,008	(990,774)
EXPENDITURES				
General Government	2,012,244	2,480,310	1,712,632	767,678
Public Safety	5,852,983	5,876,216	5,616,944	259,272
Public Works	3,307,521	3,314,769	3,151,535	163,234
Recreation & Parks	1,020,350	987,670	858,453	129,217
Community Development & Housing	112,700	112,700	85,346	27,354
Debt Service	533,181	533,181	531,872	1,309
Capital Outlays	2,078,750	3,033,939	2,479,394	554,545
TOTAL EXPENDITURES	14,917,729	16,338,785	14,436,176	1,902,609
EXCESS OF REVENUES OVER EXPENDITURES	64,000	54,997	966,832	911,835
OTHER FINANCING SOURCES (USES)				
Proceeds from Issuance of Long-Term Debt	-	-	63,367	63,367
Proceeds from Sale of Capital Assets	5,000	5,000	30,177	25,177
Transfer Out	(69,000)	(69,000)	(69,000)	-
TOTAL OTHER FINANCING SOURCES	(64,000)	(64,000)	24,544	88,544
NET CHANGE IN FUND BALANCE	\$ -	\$ (9,003)	991,376	\$ 1,000,379
Fund Balance - Beginning of Year			10,944,621	
FUND BALANCES - END OF YEAR			\$ 11,935,997	

City of Westminster, Maryland
Schedules of Funding Progress and Employer Contributions -
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 (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]
07/01/2011	\$ -	\$ 4,526,000	\$ 4,526,000	0.00%	\$ 7,776,206	58.20%
07/01/2012	\$ -	\$ 4,736,000	\$ 4,736,000	0.00%	\$ 7,794,504	60.76%
07/01/2013	\$ -	\$ 4,922,000	\$ 4,922,000	0.00%	\$ 8,220,230	59.88%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contribution	Actual Contribution	Percent Contributed	Net OPEB Obligation
2012	\$ 395,000	\$ 120,000	30.4%	\$ 1,090,000
2013	\$ 432,000	\$ 137,000	31.7%	\$ 1,362,000
2014	\$ 457,000	\$ 153,000	33.5%	\$ 1,633,000

City of Westminster, Maryland

OMB Circular A-133
Supplementary Financial Report
Year Ended June 30, 2014

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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***

Honorable Mayor and Common Council
City of Westminster, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Westminster, Maryland (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 27, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free 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*.

Purpose of this Report

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

A handwritten signature in black ink that reads "McGladrey LLP". The signature is written in a cursive, flowing style.

Frederick, Maryland
October 27, 2014



**Independent Auditor's Report on Compliance for Each Major Program;
Report on Internal Control Over Compliance; Report on Schedule of Expenditures
of Federal Awards Required by OMB Circular A-133; and Supplementary Information
Required by the Department of Housing and Urban Development, REAC**

Mayor and Common Council
City of Westminster, Maryland

Report on Compliance for Each Major Federal Program

We have audited the City of Westminster, Maryland's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of 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, 2014.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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'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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 and Supplementary Information Required by the Department of Housing and Urban Development, REAC

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City as of and for the year ended June 30, 2014, and related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report dated October 27, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 the Department of Housing and Urban Development, REAC, and also are not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards, the financial data schedule, and HAP and equity calculations are fairly stated in all material respects in relation to the basic financial statements as a whole.

McGladrey LLP

Frederick, Maryland
October 27, 2014

City of Westminster, Maryland

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014**

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			
<u>Passed through Maryland Department of Housing and Community Development:</u>			
Community Development Block Grants	14.228	MD-10-CD-26 MD-13-ED-70	<u>\$ 481,303</u>
<u>Direct Program:</u>			
Section 8 Housing Choice Vouchers	14.871	N/A	<u>1,770,680</u>
Total U.S. Department of Housing and Urban Development			<u>2,251,983</u>
U.S. Department of Justice			
<u>Passed through Governor's Office of Crime Control and Prevention:</u>			
Violence Against Women Formula Grants	16.588	VAWA-2012-1054 VAWA-2013-1154	<u>41,839</u>
<u>Passed through Carroll County Health Department:</u>			
Enforcing Underage Drinking Laws Program	16.727	R.A.A.M EUDL-2009-1017	<u>362</u>
<u>Direct Program:</u>			
Bulletproof Vest Partnership/Body Armor Safety Initiative	16.607	N/A	<u>3,621</u>
Total U.S. Department of Justice			<u>45,822</u>
U.S. Department of Transportation			
<u>Passed through Maryland Highway Safety Office (MHSO) and National Highway Traffic Safety Administration (NHTSA):</u>			
State and Community Highway Safety	20.600	Smooth Operator 11-12	2,339
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	Alcohol Forum 11-12	<u>2,435</u>
Total Highway Safety Cluster			<u>4,774</u>
Total U.S. Department of Transportation			<u>4,774</u>
U.S. Department of Homeland Security			
<u>Passed through Maryland Emergency Management Agency (MEMA):</u>			
Disater Grants - Public Assistance	97.036	FEMA-410-DR-MD	<u>45,253</u>
Total U.S. Department of Homeland Security			<u>45,253</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,347,832</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

City of Westminster, Maryland

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of federal awards (the Schedule) includes the federal grant activity of the City of Westminster, Maryland (the City) under programs of the Federal Government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-133, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Grant revenues are recorded for financial reporting purposes when expenditures are made in accordance with requirements of the respective grants.

City of Westminster, Maryland

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X 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? Yes X None Reported

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

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>
14.228	Community Development Block Grants/State's Program
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

Section II. Financial Statement Findings

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, 2014**

The prior year single audit disclosed no findings in the Schedule of Findings and Questioned Costs.

City of Westminster Housing Office (MD027)

Westminster, MD

Program Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End:

06/30/2014

	14.871 Housing Choice Vouchers	Total
111 Cash - Unrestricted		
112 Cash - Restricted - Modernization and Development		
113 Cash - Other Restricted	\$140,206	\$140,206
114 Cash - Tenant Security Deposits		
115 Cash - Restricted for Payment of Current Liabilities	\$13,510	\$13,510
100 Total Cash	\$153,716	\$153,716
121 Accounts Receivable - PHA Projects		
122 Accounts Receivable - HUD Other Projects		
124 Accounts Receivable - Other Government		
125 Accounts Receivable - Miscellaneous	\$0	\$0
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	\$345,236	\$345,236
128.1 Allowance for Doubtful Accounts - Fraud	(\$293,450)	(\$293,450)
129 Accrued Interest Receivable		
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$51,786	\$51,786
131 Investments - Unrestricted		
132 Investments - Restricted		
135 Investments - Restricted for Payment of Current Liability		
142 Prepaid Expenses and Other Assets	\$7,263	\$7,263
143 Inventories		
143.1 Allowance for Obsolete Inventories		
144 Inter Program Due From		
145 Assets Held for Sale		
150 Total Current Assets	\$212,765	\$212,765
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: 06/30/2014

	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	\$212,765	\$212,765
200 Deferred Outflow of Resouces		
290 Total Assets and Deferred Outflow of Resouces	\$212,765	\$212,765
311 Bank Overdraft		
312 Accounts Payable <= 90 Days	\$662	\$662
313 Accounts Payable >90 Days Past Due		
321 Accrued Wage/Payroll Taxes Payable		
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	\$2,048	\$2,048
341 Tenant Security Deposits		
342 Unearned Revenue		
343 Current Portion of Long-term Debt - Capital Projects/Mortgage		
344 Current Portion of Long-term Debt - Operating Borrowings		
345 Other Current Liabilities	\$13,510	\$13,510
346 Accrued Liabilities - Other		
347 Inter Program - Due To		
348 Loan Liability - Current		
310 Total Current Liabilities	\$16,220	\$16,220

(Continued)

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

Submission Type: Audited/A-133 Fiscal Year End: 06/30/2014

	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	\$16,220	\$16,220
400 Deferred Inflow of Resources	\$51,786	\$51,786
508.1 Net Investment in Capital Assets		
509.2 Fund Balance Reserved	\$7,263	\$7,263
511.2 Unreserved, Designated Fund Balance		
511.1 Restricted Net Position	\$137,496	\$137,496
512.1 Unrestricted Net Position		
512.2 Unreserved, Undesignated Fund Balance		
513 Total Equity/Net Position	\$144,759	\$144,759
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net Assets / Position	\$212,765	\$212,765

City of Westminster Housing Office (MD027)

Westminster, MD

Program Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End:

06/30/2014

	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	\$1,770,680	\$1,770,680
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		
71200 Mortgage Interest Income		
71300 Proceeds from Disposition of Assets Held for Sale		
71310 Cost of Sale of Assets		
71400 Fraud Recovery	\$16,302	\$16,302
71500 Other Revenue	\$619	\$619
71600 Gain or Loss on Sale of Capital Assets		
72000 Investment Income - Restricted	\$118	\$118
70000 Total Revenue	\$1,787,719	\$1,787,719
91100 Administrative Salaries	\$129,662	\$129,662
91200 Auditing Fees	\$6,524	\$6,524
91300 Management Fee		
91310 Book-keeping Fee		
91400 Advertising and Marketing	\$126	\$126
91500 Employee Benefit contributions - Administrative	\$59,638	\$59,638
91600 Office Expenses	\$25,955	\$25,955
91700 Legal Expense		
91800 Travel		
91810 Allocated Overhead	\$36,932	\$36,932

(Continued)

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

Submission Type: Audited/A-133 Fiscal Year End: 06/30/2014

	14.871 Housing Choice Vouchers	Total
91900 Other	\$3,900	\$3,900
91000 Total Operating - Administrative	\$262,737	\$262,737
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	\$1,194	\$1,194
93300 Gas		
93400 Fuel		
93500 Labor		
93600 Sewer		
93700 Employee Benefit Contributions - Utilities		
93800 Other Utilities Expense		
93000 Total Utilities	\$1,194	\$1,194
94100 Ordinary Maintenance and Operations - Labor		
94200 Ordinary Maintenance and Operations - Materials and Other		
94300 Ordinary Maintenance and Operations Contracts	\$1,540	\$1,540
94500 Employee Benefit Contributions - Ordinary Maintenance		
94000 Total Maintenance	\$1,540	\$1,540
95100 Protective Services - Labor		
95200 Protective Services - Other Contract Costs		
95300 Protective Services - Other	\$52	\$52
95500 Employee Benefit Contributions - Protective Services		
95000 Total Protective Services	\$52	\$52
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: 06/30/2014

	14.871 Housing Choice Vouchers	Total
96130 Workmen's Compensation	\$749	\$749
96140 All Other Insurance		
96100 Total insurance Premiums	\$749	\$749
96200 Other General Expenses		
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	\$0	\$0
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	\$266,272	\$266,272
97000 Excess of Operating Revenue over Operating Expenses	\$1,521,447	\$1,521,447
97100 Extraordinary Maintenance		
97200 Casualty Losses - Non-capitalized		
97300 Housing Assistance Payments	\$1,847,542	\$1,847,542
97350 HAP Portability-In	\$576	\$576
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	\$2,114,390	\$2,114,390
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:

06/30/2014

	14,871 Housing Choice Vouchers	Total
10020 Operating Transfer Out		
10030 Operating Transfers from/to Primary Government	\$69,000	\$69,000
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)	\$69,000	\$69,000
10000 Excess (Deficiency) of Total Revenue Over (Under) Total	(\$257,671)	(\$257,671)
11020 Required Annual Debt Principal Payments	\$0	\$0
11030 Beginning Equity	\$402,430	\$402,430
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	\$149,463	\$149,463
11180 Housing Assistance Payments Equity	(\$4,704)	(\$4,704)
11190 Unit Months Available	3516	3516
11210 Number of Unit Months Leased	2956	2956
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, 2014

HAP Excess/Deficit Calculation

GL #	GL Description	Amount
110.492102	Annual Contributions Earned	\$ 1,628,981
	Total HUD Grants	<u>1,628,981</u>
110.492103	Repayments - HAP	8,151
110.494305	FSS Forfeitures	-
110.494201	Interest - Operating	-
110.911105	Interest - HAP	118
	Total HAP Revenue	<u>1,637,250</u>
110.65.100.5791	HAP - Homeownership	6,659
110.65.100.5792	HAP - Family Unification	34,447
110.65.100.5793	HAP - Tenant Protection	-
110.65.100.5795	HAP - All Other	1,706,912
110.65.100.5796	HAP - FSS Escrow	7,783
110.65.100.5797	HAP - Port-Out	91,741
	Total HAP Expenses	<u>1,847,542</u>
	Net HAP	(210,292)
<u>HAP Equity:</u>		
	Beginning of year	<u>205,588</u>
	End of year	<u>\$ (4,704)</u>

Admin Equity Calculation

GL #	GL Description	Amount
110.492104	HUD Admin Fee Distribution	\$ 141,699
	Total HUD Grants	<u>141,699</u>
110.494202	Interest - Admin.	-
110.494302	Port-in: Subsidy Receipts	576
110.494303	Port-in: Admin Fee Receipts	43
110.494301	Repayments - Admin	8,151
110.513140	Contributions/Subsidy	69,000
	Total Admin Revenue	<u>219,469</u>
	Total PHA Expenses	2,114,390
	Less: HAP-related Expense	<u>(1,847,542)</u>
	Total Admin Expenses	<u>266,848</u>
	Net Admin	(47,379)
<u>Admin Equity:</u>		
	Beginning of year	<u>196,842</u>
	End of year	<u>\$ 149,463</u>

Total Ending Equity

\$ 144,759