



CITY OF BRUNSWICK, MARYLAND

**FINANCIAL STATEMENTS AND REPORTS OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

FOR THE YEAR ENDED JUNE 30, 2014



DRAPER & MCGINLEY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS • FINANCIAL CONSULTANTS
FREDERICK, MARYLAND

CITY OF BRUNSWICK, MARYLAND

SUMMARY OF ELECTED AND APPOINTED OFFICIALS

AS OF JUNE 30, 2014

MAYOR

Karin B. Tome

CITY COUNCIL

Andy Alger

Jeff Snoots

Mary Elizabeth Bowie

Walt Stull

Ellis Burruss

Angel White

CITY ADMINISTRATOR

Bob McGrory

CITY AUDITOR

Draper & McGinley, P.A.

CITY ATTORNEY

Severn, O'Connor & Kresslein, P.A.

CITY ENGINEER

Jeff Holtzinger

CHIEF OF POLICE

Milton Frech

CITY OF BRUNSWICK, MARYLAND

FINANCIAL STATEMENTS AND REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

FOR THE YEAR ENDED JUNE 30, 2014

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Draper & McGinley, P.A.

CERTIFIED PUBLIC ACCOUNTANTS
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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Mayor & City Council
City of Brunswick, 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 Brunswick, Maryland, 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.

Auditors' 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 auditors' 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 of Brunswick, Maryland, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–9 and 34–36 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 December 12, 2014, on our consideration of the City of Brunswick, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Brunswick, Maryland's internal control over financial reporting and compliance.

Drapen & McGinnis, P.A.

Frederick, Maryland
December 12, 2014

Management's Discussion and Analysis

As management of the City of Brunswick ("the City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2014. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The City's assets totaled \$42,646,623; decreasing \$283,972 from the prior year. Capital assets were \$37,688,332 of this total.
- The City's liabilities totaled \$4,437,649; decreasing \$39,490 from the prior year. Long-term debt obligations were \$3,881,762 of this total.
- The City's governmental long-term debt obligations increased \$28,863. The City entered into a capital lease financing agreement for a backhoe for \$73,450. Total principal payments of \$44,587 were made in the current year. Business-type long-term debt obligations decreased \$104,068.
- The City's deferred inflows of resources totaled \$12,466,105. Developer unearned revenue was \$12,423,208 of this total. Unearned revenue arises when monies are received by the government but cannot be realized as revenue.
- The assets of the City exceeded its liabilities at the close of the fiscal year by \$25,742,869.
- The City's government-wide net position was \$25,742,869; increasing \$132,894 from the prior year. Net position for governmental activities increased \$571,334, while business-type activities decreased \$438,440.
- Depreciation expense for business-type activities amounted to \$1,440,301. This expense is the replacement cost of an asset at the end of its useful life. Industry standard is to set Service Fees to cover these costs to prevent borrowing the cost of the replacement. While the City does not currently calculate the full value of depreciation expense in the water and sewer fees charged to customers, a percentage of depreciation was included in FY 2014 rate-setting.
- As of the close of the current fiscal year, the City's governmental funds (General and Capital Projects) reported combined ending fund balances of \$3,315,116, an increase of \$358,737 in comparison with the prior year. Approximately 56 percent of this amount is available for spending at the government's discretion; 44 percent is assigned to Capital Projects.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the City of Brunswick's basic financial statements.

The City's basic financial statements are comprised of three components: 1) government-wide financial statement, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other 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 liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, current year revenues and expenses are included in this statement regardless of when the actual cash is received or paid. This format shows the financial reliance of the City’s individual functions on revenues provided by the City’s taxpayers. Revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, sanitation, economic development, and recreation. The business-type activities offered by the City are water treatment and waste water treatment operations.

The government-wide financial statements are on pages 10 and 11 of this report.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into two categories; governmental and proprietary funds.

Governmental funds – These 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 how assets can readily be converted into cash and what monies are left at year-end that will be available for spending in the next year. Governmental fund financial statements give a detailed short-term view that can be used to determine if there are more or less financial resources available to finance City programs.

Because the focus of governmental funds is narrower than 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 financing 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 between governmental funds and governmental activities.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget on pages 34–36.

Proprietary funds – The City maintains two different types of proprietary funds. Proprietary, or enterprise, funds are used to report the same functions as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water treatment and wastewater treatment operations.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information, as well as a combined total, for the water treatment and wastewater treatment operations. Both are considered to be major funds of the City. Conversely, both service funds are combined into a single, aggregated presentation in the government-wide financial statements. Individual fund data for the internal funds is provided in the form of combining statements elsewhere in this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 19–33 of this report.

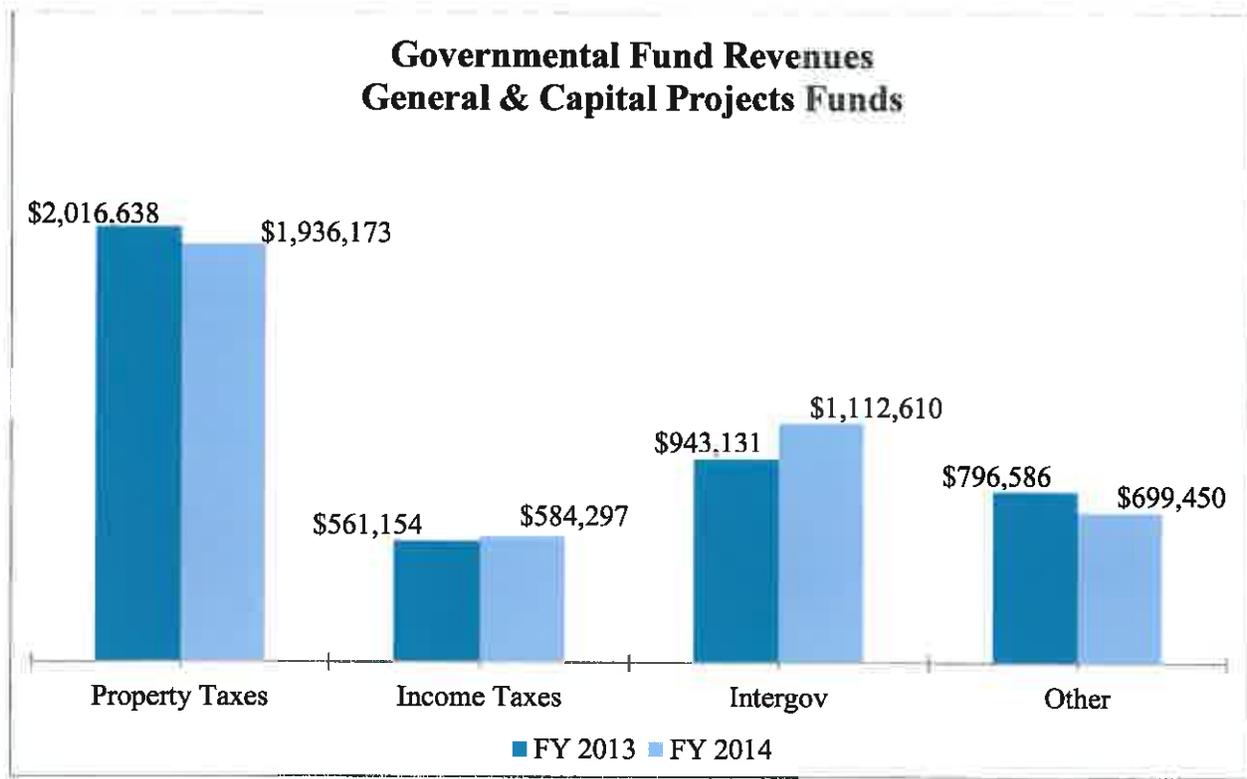
Government-wide Financial Analysis

As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the city as a whole. As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition.

The assets of the City exceeded liabilities by \$25,742,869 as of June 30, 2014; this is a \$132,894 increase from FY 2013. The majority of these net assets are capital assets, which are used to provide services to citizens; consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources.

Governmental activities increased the City's net position by \$571,334; while business-type activities decreased net position by \$438,440. Additionally, per the Statement of Activities the City's total revenue was \$7,028,255, which is a 3.6% increase from the prior year's revenue of \$6,781,129.

See the chart below for a year to year comparison of General Fund revenue categories.



Financial Analysis of the City’s Funds

Unassigned fund balance can be a useful measure of a City’s net resources available for spending at the end of the fiscal year. The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,744,972. As a measure of the general fund’s liquidity, it may be useful to compare both unassigned fund balance noted above and total fund balance of \$1,853,451 to total fund expenditures of \$3,516,352.

General Fund Budget Variances

During FY 2014, the Mayor and City Council publicly amended the budget. As a result of these amendments, actual revenues were over budget by \$63,603. More specifically, taxes were \$53,976 more than expected and intergovernmental revenues were \$17,461 higher than the budgeted amount. User fees were \$20,125 less than budgeted primarily as a result of outsourcing pool management and operations.

Total expenditures were less than the final budgetary estimates by \$212,773. More specifically, the Financial Administration department was under budget \$56,050 as a result of delaying the purchase of a new accounting system; pool expenses were under budget \$31,975 as a result of outsourcing as mentioned above; and Economic Development was under budget \$55,351 due to a position remaining vacant for more than half of the fiscal year.

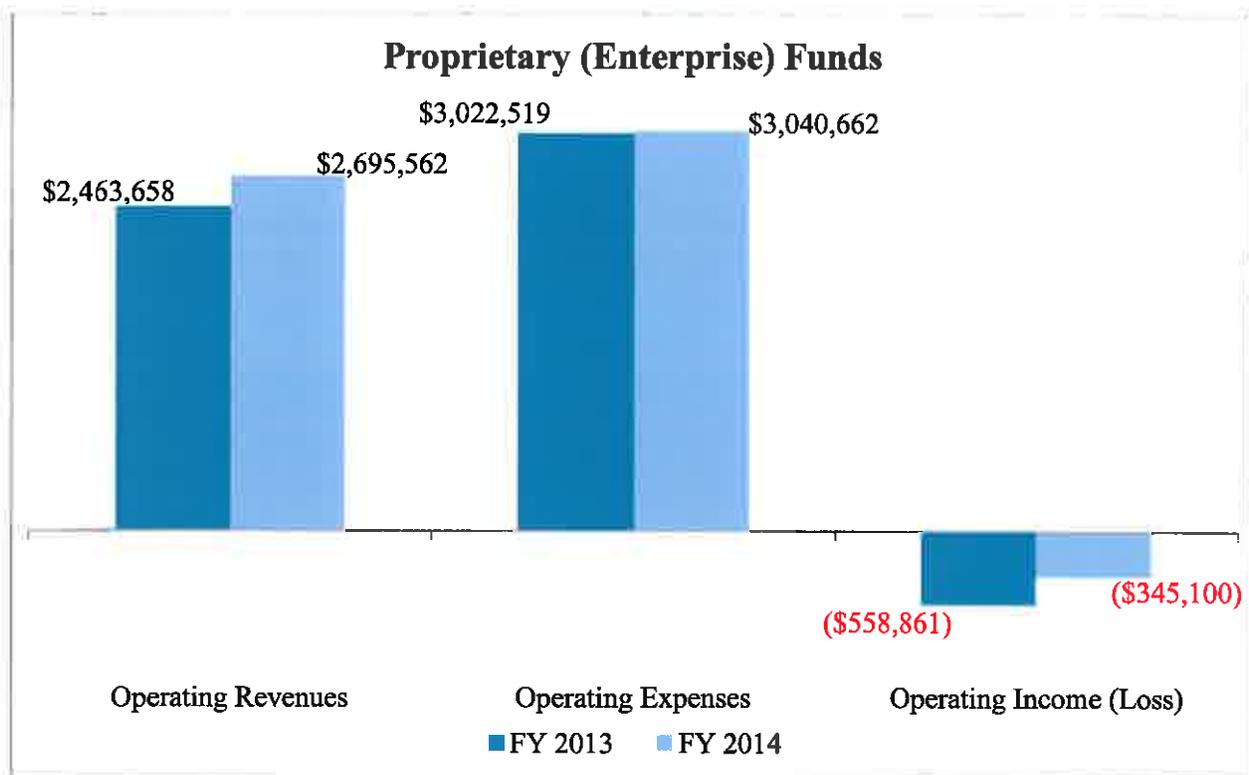
Proprietary Funds

As discussed above, the City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Operating Revenue is calculated using charges for services, reimbursements from developers, and miscellaneous revenues. Operating Expense is calculated using actual personnel, operating, and depreciation costs, without consideration of budgeted use of net assets.

The Water Fund had operating income of \$91,964 as compared to an operating loss of (\$30,040) in FY 2013; the Sewer Fund had an operating loss of (\$437,064) as compared to (\$528,821) in FY2013. The operating loss is derived by calculating the difference between operating revenues and operating expenses.

For the Water Fund, the operating income is attributable to Management's reclassification of Cell Tower revenue from General Fund to Water Fund, which incurs the maintenance and depreciation expenses for the Water Tower asset, atop which are located the Cell Towers. For the Sewer Fund, the operating loss can be largely attributed to the effects of depreciation expense on the fund. In FY 2014, operating expenses for the Sewer Fund included depreciation costs of \$947,531.

The chart below summarizes a year to year comparison of the Enterprise Funds.



The following table summarizes revenues and expenses for the governmental activities of the City and totals for the government overall.

	Governmental Activities		Total Government	
	2013	2014	2013	2014
REVENUES				
Program Revenues				
Operating grants and contributions	142,611	255,915	167,811	297,915
Charges for services	398,235	379,960	2,807,027	2,892,676
General Revenues				
Taxes	2,678,836	2,613,976	2,678,836	2,613,976
Intergovernmental	761,274	822,546	761,274	822,546
Interest	5,245	3,250	5,907	3,412
Miscellaneous	270,299	222,735	299,965	363,581
Capital grants and contributions	60,309	34,149	60,309	34,149
Total Revenues	4,316,809	4,332,531	6,781,129	7,028,255
PROGRAM EXPENSES				
General government	747,723	856,254	747,723	856,254
Public safety	1,004,666	1,065,771	1,004,666	1,065,771
Public works	1,591,792	1,554,023	1,591,792	1,554,023
Recreation and culture	315,404	231,199	315,404	231,199
Economic development	15,981	20,749	15,981	20,749
Interest	16,953	16,054	16,953	16,054
Miscellaneous	44,178	17,147	44,178	17,147
Bond issuance costs	4,197	-	4,197	-
Business-type activities	-	-	3,175,546	3,134,164
TOTAL PROGRAM EXPENSES	3,740,894	3,761,197	6,916,440	6,895,361
TRANSFERS	-	-	-	-
CHANGES IN NET ASSETS	575,915	571,334	(135,311)	132,894

Fiscal Year 2015

- The General Fund is expected to experience a slight increase in property tax receipts as an increasing number of newly constructed single-family properties go to settlement during the build out of a recently platted subdivision. Property assessments, other than appeals, should remain static in FY 2015 (within the three-year assessment cycle), but general economic trends may indicate modest increases in real property values prior to the next assessment.
- Tax Equity revenue received from Frederick County is projected to see a slight increase to \$866,657 compared with \$822,546 in FY 2014.
- In FY 2015, approximately \$351,000 will be transferred from the General Fund to the Capital Projects Fund for projects.
- Vehicle purchases planned for FY 2015 in the general fund are planned as cash purchases, to avoid incurring additional debt.
- The City will continue reviewing its methodology for booking capital assets to better capture and account for the internal and external costs of its infrastructure investments.
- The City anticipates drawing down its remaining unspent bond proceeds for various capital projects in FY 2015. No new external debt is anticipated for FY 2015.
- The expansion of the Water Treatment Plant came on line in FY 2014. The City should anticipate a significant increase in its depreciation expense from the addition of this asset, which should be offset in part by the rate increase that became effective in FY 2015. Alternatively, the rate increase could lead to increased conservation measures by customers, which would reduce overall water consumption and therefore water and wastewater revenue.
- During FY 2015, after discussion with the Mayor and Council, the City began accounting fully for its own charges for services provided by City utilities. Therefore, FY 2015 will show significant transfers from the General Fund and other Funds to account for Water and Sewer Charges that were not previously billed internally. This change is intended to better show the true cost of delivering general fund services, while assuring that all the metered consumption by all customers is appropriately billed by the enterprise funds.

Request for more information:

This financial report is designed to provide a general overview of the City of Brunswick'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 financial information should be addressed to:

City Administrator
One West Potomac Street
Brunswick, Maryland 21716

CITY OF BRUNSWICK, MARYLAND
STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Cash and cash equivalents	\$ 3,013,675	\$ 684,985	\$ 3,698,660
Restricted cash	273,915	41,820	315,735
Taxes receivable	30,778	-	30,778
Accounts receivable, net of allowance	103,209	529,071	632,280
Other receivables	3,219	14,741	17,961
Other assets	-	12,075	12,075
Due from other governmental agencies	184,251	66,552	250,803
Capital assets:			
Projects under construction	135,103	54,762	189,865
Land	149,147	28,068	177,215
Capital assets, being depreciated	9,816,975	44,265,195	54,082,170
Less: Accumulated depreciation	<u>(2,943,683)</u>	<u>(13,817,235)</u>	<u>(16,760,918)</u>
Capital assets, net	<u>7,157,542</u>	<u>30,530,790</u>	<u>37,688,332</u>
Total Assets	<u>\$ 10,766,589</u>	<u>\$ 31,880,034</u>	<u>\$ 42,646,623</u>
Liabilities			
Accounts payable	\$ 62,475	\$ 61,351	\$ 123,826
Interest payable	-	12,569	12,569
Accrued liabilities	79,565	-	79,565
Compensated absences	104,961	53,645	158,606
Escrow deposits	106,611	29,430	136,041
Other liabilities	33,691	-	33,691
Deposits held for specific purposes	11,589	-	11,589
Bonds, notes, and capital lease financing			
Due within one year	45,848	106,010	151,858
Due in more than one year	<u>486,379</u>	<u>3,243,525</u>	<u>3,729,904</u>
Total Liabilities	<u>931,119</u>	<u>3,506,530</u>	<u>4,437,649</u>
Deferred Inflows of Resources			
Unearned revenue:			
Developers	-	12,423,208	12,423,208
Other	-	42,897	42,897
Total Deferred Inflows of Resources	<u>-</u>	<u>12,466,105</u>	<u>12,466,105</u>
Net Position			
Net investment in capital assets	6,625,315	27,181,255	33,806,570
Unrestricted	<u>3,210,155</u>	<u>(11,273,856)</u>	<u>(8,063,701)</u>
Total Net Position	<u>\$ 9,835,470</u>	<u>\$ 15,907,399</u>	<u>\$ 25,742,869</u>

The accompanying notes are an integral part of this statement.

CITY OF BRUNSWICK, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	Position					Net (Expense) Revenue and Changes in Net	
	Functions/Programs	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities		Business-type Activities
Primary government							
Governmental activities							
General government	\$ (856,254)	\$ 116,869	\$ 1,103	\$ -	\$ (738,282)	\$ -	\$ (738,282)
Public safety	(1,065,771)	1,530	75,767	-	(988,474)	-	(988,474)
Public works	(1,554,023)	216,724	174,858	-	(1,162,441)	-	(1,162,441)
Recreation and culture	(231,199)	44,837	4,187	9,149	(173,026)	-	(173,026)
Economic development	(20,749)	-	-	25,000	4,251	-	4,251
Interest expense	(16,054)	-	-	-	(16,054)	-	(16,054)
Miscellaneous	(17,147)	-	-	-	(17,147)	-	(17,147)
Total governmental activities	<u>(3,761,197)</u>	<u>379,960</u>	<u>255,915</u>	<u>34,149</u>	<u>(3,091,173)</u>	<u>-</u>	<u>(3,091,173)</u>
Business-type activities							
Water services	(1,316,570)	1,244,753	-	-	-	(71,817)	(71,817)
Sewer services	(1,817,594)	1,267,963	42,000	-	-	(507,631)	(507,631)
Total business-type activities	<u>(3,134,164)</u>	<u>2,512,716</u>	<u>42,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(507,631)</u>
Total primary government	\$ (6,895,361)	\$ 2,892,676	\$ 297,915	\$ 34,149	(3,091,173)	(579,448)	(3,670,621)
General Revenues							
Taxes							
Property taxes, levied for general purposes					1,936,173	-	1,936,173
Income taxes					584,297	-	584,297
Other local taxes					93,506	-	93,506
County tax equity					822,546	-	822,546
Fines and forfeitures					25,124	-	25,124
Income on investments					3,250	162	3,412
Rental income					3,575	95,617	99,192
Administrative fees					9,268	10,000	19,268
Miscellaneous income					184,768	35,229	219,997
Total general revenues					<u>3,662,507</u>	<u>141,008</u>	<u>3,803,515</u>
Change in net position					571,334	(438,440)	132,894
Net position - beginning of year					9,264,136	16,345,839	25,609,975
Net position - end of year					<u>\$ 9,835,470</u>	<u>\$ 15,907,399</u>	<u>\$ 25,742,869</u>

The accompanying notes are an integral part of this statement.

CITY OF BRUNSWICK, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	<u>Governmental Fund Types</u>		<u>Total</u>
	<u>General</u>	<u>Capital Projects</u>	<u>Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 3,013,800	\$ (125)	\$ 3,013,675
Restricted cash	152,072	121,843	273,915
Receivables			
Taxes	30,778	-	30,778
Customers	103,209	-	103,209
Other governments	150,080	34,171	184,251
Other	3,219	-	3,219
Due from other funds	-	1,318,209	1,318,209
Total Assets	<u>\$ 3,453,158</u>	<u>\$ 1,474,098</u>	<u>\$ 4,927,256</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 50,042	\$ 12,433	\$ 62,475
Accrued liabilities	79,565	-	79,565
Escrow deposits	106,611	-	106,611
Other liabilities	33,691	-	33,691
Deposits held for specific purposes	11,589	-	11,589
Due to other funds	1,318,209	-	1,318,209
Total Liabilities	<u>1,599,707</u>	<u>12,433</u>	<u>1,612,140</u>
Fund Balances			
Assigned	108,479	1,461,665	1,570,144
Unassigned	1,744,972	-	1,744,972
Total Fund Balances	<u>1,853,451</u>	<u>1,461,665</u>	<u>3,315,116</u>
Total Liabilities and Fund Balances	<u>\$ 3,453,158</u>	<u>\$ 1,474,098</u>	<u>\$ 4,927,256</u>

The accompanying notes are an integral part of this statement.

CITY OF BRUNSWICK, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues			
Local property taxes	\$ 1,936,173	\$ -	\$ 1,936,173
Local income taxes	584,297	-	584,297
Other local taxes	93,506	-	93,506
Licenses and permits	92,241	-	92,241
Intergovernmental revenues	1,078,461	34,149	1,112,610
Service charges	279,549	-	279,549
Fines and forfeitures	25,124	-	25,124
Miscellaneous	200,452	8,578	209,030
Total Revenues	<u>4,289,803</u>	<u>42,727</u>	<u>4,332,530</u>
Expenditures			
General government	809,932	84,770	894,702
Public safety	1,051,356	-	1,051,356
Public works	1,414,047	411,935	1,825,982
Recreation and culture	142,481	34,186	176,667
Economic development	20,749	-	20,749
Debt service	60,641	-	60,641
Miscellaneous	17,146	-	17,146
Total Expenditures	<u>3,516,352</u>	<u>530,891</u>	<u>4,047,243</u>
Excess (Deficiency) of Revenues over Expenditures	773,451	(488,164)	285,287
Other Financing Sources (Uses)			
Capital lease financing	73,450	-	73,450
Operating transfers	(481,252)	481,252	-
Total Other Financing Sources (Uses)	<u>(407,802)</u>	<u>481,252</u>	<u>73,450</u>
Excess of Revenues and Other Financing Sources over Expenditures and Other Uses			
	365,649	(6,912)	358,737
Fund Balance July 1, 2013	1,487,802	1,468,577	
Fund Balance June 30, 2014	<u>\$ 1,853,451</u>	<u>\$ 1,461,665</u>	
Adjustments for the Statement of Activities			
Debt service expenditures			44,587
Capital lease financing			(73,450)
Depreciation expense			(410,626)
Capital outlay			652,564
Compensated absences			(478)
Change in Net Position of Governmental Activities			<u>\$ 571,334</u>

The accompanying notes are an integral part of this statement.

CITY OF BRUNSWICK, MARYLAND
RECONCILIATION OF FUND BALANCE TO NET POSITION OF
GOVERNMENTAL ACTIVITIES
JUNE 30, 2014

Fund balances - governmental funds	\$ 3,315,116
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources, therefore are not reported in the funds

Property and equipment, net	7,157,542
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Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds

Long-term debt	(532,227)
Compensated absences	(104,961)
	<u> </u>

Net position - governmental activities	<u>\$ 9,835,470</u>
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The accompanying notes are an integral part of this statement.

CITY OF BRUNSWICK, MARYLAND
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 464,708	\$ 220,277	\$ 684,985
Restricted cash	11,772	30,048	41,820
Accounts receivable - customers	254,188	274,883	529,071
Other receivables	14,741	-	14,741
Other assets	12,075	-	12,075
Due from other governmental agencies	-	66,552	66,552
Total Current Assets	757,484	591,760	1,349,244
Non-current Assets			
Internal balances	-	2,853,899	2,853,899
Projects under construction	26,295	28,467	54,762
Capital assets	16,290,603	28,002,660	44,293,263
Accumulated depreciation	(5,334,092)	(8,483,143)	(13,817,235)
Capital assets, net	10,982,806	19,547,984	30,530,790
Total Non-current Assets	10,982,806	22,401,883	33,384,689
Total Assets	\$11,740,290	\$22,993,643	\$34,733,933
Liabilities			
Current Liabilities			
Current portion of debt obligations	\$ 41,745	\$ 64,265	\$ 106,010
Accounts payable	44,546	16,805	61,351
Interest payable	5,943	6,626	12,569
Compensated absences	17,965	35,680	53,645
Escrow deposits	11,772	17,658	29,430
Total Current Liabilities	121,971	141,034	263,005
Non-current Liabilities			
Internal balances	2,853,899	-	2,853,899
Long-term debt obligations	1,535,307	1,708,218	3,243,525
Total Non-current Liabilities	4,389,206	1,708,218	6,097,424
Total Liabilities	4,511,177	1,849,252	6,360,429
Deferred Inflows of Resources			
Unearned revenue - developers	5,503,481	6,919,727	12,423,208
Unearned revenue - other	23,117	19,780	42,897
Total Deferred Inflows of Resources	5,526,598	6,939,507	12,466,105
Net Position			
Net investment in capital assets	9,405,754	17,775,501	27,181,255
Unrestricted	(7,703,239)	(3,570,617)	(11,273,856)
Total Net Position	\$ 1,702,515	\$14,204,884	\$15,907,399

The accompanying notes are an integral part of this statement.

CITY OF BRUNSWICK, MARYLAND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating Revenues			
Charges for services	\$ 1,244,753	\$ 1,267,963	\$ 2,512,716
Administrative fees	5,000	5,000	10,000
Rental income	95,617	-	95,617
Grants	-	42,000	42,000
Miscellaneous	21,341	13,888	35,229
Total Operating Revenues	1,366,711	1,328,851	2,695,562
Operating Expenses			
Personnel services	429,908	405,830	835,738
Operating	352,069	412,554	764,623
Depreciation	492,770	947,531	1,440,301
Total Operating Expenses	1,274,747	1,765,915	3,040,662
Operating income (loss)	91,964	(437,064)	(345,100)
Non-operating Revenues (Expenses)			
Interest on invested funds	72	90	162
Interest expense and fees	(41,823)	(51,679)	(93,502)
Total Non-operating Revenues (Expenses)	(41,751)	(51,589)	(93,340)
Change in net position	50,213	(488,653)	(438,440)
Total Net Position, beginning of year	1,652,302	14,693,537	16,345,839
Total Net Position, end of year	\$ 1,702,515	\$14,204,884	\$15,907,399

The accompanying notes are an integral part of this statement.

CITY OF BRUNSWICK, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

Business-Type Activities - Enterprise Funds

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from customers and users	\$ 1,179,160	\$ 941,411	\$ 2,120,571
Cash received from other governments	-	118,574	118,574
Cash received from developers	(1,690)	4,982	3,292
Other operating cash receipts	7,500	-	7,500
Cash payments to suppliers	(344,297)	(416,406)	(760,703)
Cash payments to employees for services	(418,418)	(392,532)	(810,950)
Net cash provided by operating activities	<u>422,255</u>	<u>256,029</u>	<u>678,284</u>
Cash flows from capital and related financing activities			
Purchase of capital assets	(53,279)	(51,200)	(104,479)
Current year construction of capital assets	(74,856)	-	(74,856)
Principal paid on capital debt	(40,641)	(63,427)	(104,068)
Interest paid on capital debt	(40,789)	(51,405)	(92,194)
Net cash used in capital and related financing activities	<u>(209,565)</u>	<u>(166,032)</u>	<u>(375,597)</u>
Cash flows from investing activities			
Investment income	72	90	162
Net cash provided by investing activities	<u>72</u>	<u>90</u>	<u>162</u>
Net increase in cash and cash equivalents	212,762	90,087	302,849
Cash and cash equivalents, beginning of year	263,718	160,238	423,956
Cash and cash equivalents, end of year	<u>\$ 476,480</u>	<u>\$ 250,325</u>	<u>\$ 726,805</u>

The accompanying notes are an integral part of this statement.

CITY OF BRUNSWICK, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

Business-Type Activities - Enterprise Funds

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 91,964	\$ (437,064)	\$ (345,100)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	492,770	947,531	1,440,301
Developer connection fees	(158,065)	(210,788)	(368,853)
Net change in operating assets and liabilities			
Accounts receivable - customers	(13,600)	(12,203)	(25,803)
Accounts receivable - other	(6,960)	(20,253)	(27,213)
Interfund activity	10,691	(10,691)	-
Other assets	(1,121)	-	(1,121)
Accounts payable	8,893	(3,852)	5,041
Compensated absences	(2,070)	(589)	(2,659)
Escrow deposits	(12)	(18)	(30)
Deferred revenue	(235)	3,956	3,721
Net cash provided by operating activities	<u>\$ 422,255</u>	<u>\$ 256,029</u>	<u>\$ 678,284</u>

The accompanying notes are an integral part of this statement.

CITY OF BRUNSWICK, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Brunswick, Maryland (the City) was incorporated in 1890 and is currently organized under the provisions of a mayor-council form of government. The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units.

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Governmental Accounting Standards Board Codification Section 2100 have been considered and there are no agencies or entities which should be presented with the City.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The City follows GASB 62 in applying GASB guidance to its proprietary activities, which incorporates Financial Accounting Standards Board statements and interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The statement of net position and the statement of activities report information about the City as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements include the financial activities of the primary government. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for business-type activities of the City. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods and services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

CITY OF BRUNSWICK, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and managerial requirements.

The following is a brief description of the specific funds used by the City in fiscal year 2014:

Governmental Fund Types

General Fund – This fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The General Fund accounts for the normal recurring activities of the City, (i.e., public safety, public works, parks and recreation, general government, etc.). These activities are funded principally by property and income taxes on individuals and businesses, and grants from other governmental units.

Capital Projects Fund – This fund accounts for the purchase, construction or renovation of major general fixed assets over an extended period of time (other than those financed by the Proprietary Funds). While capital outlay accounts are used in each function reported in the General Fund, longer-term projects, those with mixed funding or projects of a large amount or spanning several fiscal years, are accounted for in this fund.

Proprietary Fund Types

Enterprise Funds – Water and sewer services are accounted for in Enterprise Funds. The primary measurement focus is upon the determination of net income, financial position, and cash flow. The generally accepted accounting principles are similar to those used in the private business sector.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year in which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental fund.

CITY OF BRUNSWICK, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net position is reported as restricted when constraints placed on net position use are externally imposed by grantors or contributors. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when cash is received and when amounts to be received are both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues as available if they are collected within 60 days after year-end.

Expenditures generally are recorded when the related liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Business-type activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. 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 a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budgets and Budgetary Accounting

The budget document is a comprehensive financial plan showing all revenues and expenditures expected for the General Fund, Capital Projects Fund, and the Proprietary Funds of the City. Budgets are adopted on an annual cycle for all funds, except the capital projects fund, which adopts a project-length budget on an annual basis.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. City officials request all departments to submit their proposed operating budgets for the fiscal year commencing the following July 1.
2. All budget requests are compiled by the Finance Committee, and after making departmental reviews of the requests, a recommended budget is presented to the Mayor and Council.

CITY OF BRUNSWICK, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Public hearings are required by law to be scheduled by City officials with approval of the Mayor and Council.
4. Prior to the commencement of the fiscal year, the property tax rate is set and the budget is adopted.
5. Appropriations lapse at the end of the fiscal year (except in the Capital Projects Fund).
6. During the year, the Mayor and Council may amend the budget at a regularly scheduled public meeting.

Cash, Cash Equivalents, and Investments

For purposes of the statement of cash flows, the City considers cash on hand, demand deposits, and all highly liquid investments and debt instruments with maturities of three months or less from the date of acquisition to be cash and cash equivalents. Generally, cash resources of the individual funds are combined to form a pool of cash and investments. Investments consist primarily of certificates of deposit, Maryland Local Government Investment Pool (MLGIP), and a business money market account (BB&T Money Rate Savings). Investments are carried at market value in all funds. Investment income earned as a result of pooling is distributed to the appropriate funds based on the ending balance of cash and investments of each fund.

Receivables and Uncollectible Accounts

Significant receivables include amounts from customers primarily for utility services. These receivables are due within one year. For the year ended June 30, 2014, the City has no allowance for uncollectible accounts recorded.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the statement of net position. Short-term interfund loans are classified as “interfund receivables/payables.”

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2014 are recorded as prepaid items. In the governmental fund financial statements, reported prepaid items are equally offset in the fund balance as nonspendable, which indicates they do not constitute “available spendable resources” even though they are a component of total assets.

CITY OF BRUNSWICK, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. A group of similar assets that cost more than \$5,000 in total are also capitalized. The capitalization threshold for infrastructure has been established at \$10,000. Capital assets purchased or acquired are recorded at cost or, if donated, at the estimated fair market value upon receipt. Depreciation of property and equipment is computed on the straight-line method for financial reporting purposes. Depreciation is provided for over the estimated useful lives of the assets based on the following guidelines:

Buildings	20 – 50 years
Improvements	10 – 50 years
Software	3 – 5 years
Vehicles	3 – 5 years
Machinery & equipment	3 – 10 years

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, compensatory, and sick pay benefits. Employees are entitled to receive payment for all unused vacation and compensatory hours at the conclusion of their employment. Accumulated vacation and compensatory hours are accrued when incurred in the government-wide and proprietary fund financial statements.

Fund Balance

The City has implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions for its governmental funds. Under GASB Statement No. 54, fund balances are required to be reported according to the following classifications:

Non-spendable fund balance – Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid amounts, assets held for sale, and long-term receivables.

Restricted fund balance – Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or other governments; or are imposed by law (through constitutional provisions or enabling legislation).

Committed fund balance – Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the City's highest level of decision-making authority, the Mayor and Council.

CITY OF BRUNSWICK, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assigned fund balance – Amounts that are constrained by the City’s intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the Mayor and Council, or by an official to whom that authority has been given. With the exception of the General Fund, this is the residual fund balance classification for all governmental funds with positive balances.

Unassigned fund balance – This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of cost of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Interfund Transactions

Quasi-external transactions are accounted for as revenues or expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Estimates

The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

CITY OF BRUNSWICK, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

(2) CASH, INVESTMENTS, AND EQUITY IN POOLED INVESTED CASH

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparts to an investment in debt securities will not fulfill its obligation. The City shall invest only in the following types of securities, which are authorized by the State:

- Obligations of U.S. governmental agencies
- Fully insured or collateralized certificates of deposit
- Repurchase agreements and reverse repurchase agreements not to exceed 360 days to stated maturity
- Bankers acceptances with the highest quality letter and numerical rating
- Municipal securities with the highest quality letter and numerical rating
- Money market mutual funds containing securities of U.S. governmental agencies
- Local Government Investment Pool administered by the State Treasurer

The City's investment policy states that collateralization is required on bank accounts, certificates of deposit, and repurchase agreements at 102% of the market value of principal and accrued interest for balances not covered by the Federal Deposit Insurance Corporation (FDIC).

The City's investments have received the following ratings by Standard & Poor's: Maryland Local Government Investment Pool (MLGIP) rated AAAM. There are no ratings on the certificates of deposit.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Custodial credit risk for investments exists when, in the event of the failure of the counterparty to a transaction, a government may be unable to recover the value of investment or collateral securities that are in the possession of an outside party. As of year-end, the City's carrying amount of deposits was \$3,539,226; the bank balance was \$3,633,465; and cash on hand was \$300. The balances were fully covered by FDIC and collateral held by the pledging financial institutions' trust department or agent.

Investments held by the City are stated at fair value. Investments as of June 30, 2014, include certificates of deposit. The carrying amount was \$342,457 and the bank balance was \$342,457. This amount was covered by collateral held by the pledging financial institutions' trust department or agent. Also, the City had \$132,412 invested in the Maryland Local Government Investment Pool (MLGIP) which was fully collateralized by securities held in the name of PNC Bank's account at the Federal Reserve Bank as of June 30, 2014.

CITY OF BRUNSWICK, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(2) CASH, INVESTMENTS, AND EQUITY IN POOLED INVESTED CASH (CONTINUED)

The City's cash and investments as of June 30, 2014, as presented in the Statement of Net Position, reconciled to the City's deposits and investments, are as follows:

	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	\$ 3,013,675	\$ 684,985	\$ 3,698,660
Restricted cash	273,915	41,820	315,735
	<u>\$ 3,287,590</u>	<u>\$ 726,805</u>	<u>\$ 4,014,395</u>

	Governmental Activities	Business-type Activities	Total
Cash on hand	\$ 300	\$ -	\$ 300
Deposits in banks	2,812,421	726,805	3,539,226
Certificates of deposit	342,457	-	342,457
Investment pools (MLGIP)	132,412	-	132,412
	<u>\$ 3,287,590</u>	<u>\$ 726,805</u>	<u>\$ 4,014,395</u>

As of June 30, 2014, the City had the following investments:

Investment Type (All funds)	Fair Value	Investment Maturities		% of Portfolio
		< 1 Year	1-5 Years	
Certificates of deposit	\$ 342,457	\$ 326,563	\$ 15,894	72.12%
Investment pool (MLGIP)	132,412	132,412	-	27.88%
	<u>\$ 474,869</u>	<u>\$ 458,975</u>	<u>\$ 15,894</u>	<u>100.00%</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer, not applicable to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds, and external investment pools or other pooled investments. More than 72% of the City's portfolio is invested in debt instruments (certificates of deposit).

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy is not explicit as to how interest rate risk is managed. The interest rate in the MLGIP fluctuates throughout the year. The applicable interest rates as of June 30, 2014 were 0.05% for the MLGIP and between 0.55% and 1.95% for the certificates of deposit.

CITY OF BRUNSWICK, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(3) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

Governmental Activities	Balance July 1, 2013	Additions	Disposals	Transfers	Balance June 30, 2014
Capital assets, not being depreciated					
Land and land improvements	\$ 149,147	\$ -	\$ -	\$ -	\$ 149,147
Projects under constructions	104,120	533,989	-	(503,006)	135,103
Total capital assets not being depreciated	<u>253,267</u>	<u>533,989</u>	<u>-</u>	<u>(503,006)</u>	<u>284,250</u>
Capital assets, being depreciated					
Buildings	1,299,688	-	-	84,770	1,384,458
Improvements	3,286,241	-	-	-	3,286,241
Infrastructure	3,210,431	-	-	418,236	3,628,667
Machinery and equipment	779,636	92,462	(8,000)	-	864,098
Vehicles	600,678	26,113	-	-	626,791
Software	26,720	-	-	-	26,720
Total capital assets being depreciated	9,203,394	118,575	(8,000)	503,006	9,816,975
Less: accumulated depreciation	<u>(2,541,057)</u>	<u>(410,626)</u>	<u>8,000</u>	<u>-</u>	<u>(2,943,683)</u>
Total capital assets being depreciated, net	<u>6,662,337</u>	<u>(292,051)</u>	<u>-</u>	<u>503,006</u>	<u>6,873,292</u>
Governmental Activities capital assets, net	<u>\$ 6,915,604</u>	<u>\$ 241,938</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,157,542</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:

General government	\$ 43,216
Public safety	36,766
Public works	245,130
Parks and recreation	85,514
Total depreciation expense – Governmental activities	<u>\$ 410,626</u>

CITY OF BRUNSWICK, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(3) CAPITAL ASSETS (CONTINUED)

Business-type Activities	Balance July 1, 2013	Additions	Disposals	Transfers	Balance June 30, 2014
Capital assets, not being depreciated					
Land and land improvements	\$ 28,068	\$ -	\$ -	\$ -	\$ 28,068
Projects under construction	3,036,120	74,856	-	(3,056,214)	54,762
Total capital assets, not being depreciated	<u>3,064,188</u>	<u>74,856</u>	<u>-</u>	<u>(3,056,214)</u>	<u>82,830</u>
Capital assets, being depreciated					
Buildings and improvements	9,056,048	-	-	-	9,056,048
Infrastructure	30,396,726	53,279	-	3,056,214	33,506,219
Machinery and equipment	1,585,573	51,200	-	-	1,636,773
Vehicles	66,155	-	-	-	66,155
Total capital assets being depreciated	41,104,502	104,479	-	3,056,214	44,265,195
Less: accumulated depreciation	<u>(12,376,934)</u>	<u>(1,440,301)</u>	<u>-</u>	<u>-</u>	<u>(13,817,235)</u>
Total capital assets being depreciated, net	<u>28,727,568</u>	<u>(1,335,822)</u>	<u>-</u>	<u>3,056,214</u>	<u>30,447,960</u>
Business-type Activities capital assets, net	<u>\$ 31,791,756</u>	<u>\$ (1,260,966)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,530,790</u>

Depreciation expense was charged to functions/programs as follows:

Business-type activities	
Water	\$ 492,770
Sewer	<u>947,531</u>
Total depreciation expense – Business-type activities	<u>\$ 1,440,301</u>

(4) UNEARNED REVENUE

Unearned revenue arises in governmental funds when revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned revenue also arises, in both governmental and proprietary funds, when resources are received by the government before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. Unearned revenue in the proprietary funds amounted to \$12,466,105 due to the government not having a legal claim to the funds.

CITY OF BRUNSWICK, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(5) LONG-TERM DEBT OBLIGATIONS

Debt outstanding as of June 30, 2014 is as follows:

<u>Governmental Activities Debt</u>	<u>Rate</u>	<u>Amount</u>
Maryland Department of the Environment; Due 2019; Annual principal and interest payments of approximately \$15,000	1.10%	\$ 64,823
2012 Tax-Exempt Bond payable to PNC Bank; Due 2030; Annual principal and interest payments fluctuate throughout the life of the bonds	2.90%	358,925
Capital Lease Equipment (copier); Due 2018; Annual principal and interest payments of approximately \$13,000	5.00%	48,700
Capital Lease Equipment (backhoe); Due 2018; Annual principal and interest payments of approximately \$16,000	4.30%	<u>59,779</u>
Total Governmental Activities Debt		<u>\$ 532,227</u>
<u>Enterprise Debt</u>	<u>Rate</u>	<u>Amount</u>
Water Quality Bond Series 2004 payable to Maryland Water Quality Financing Administration; Due 2024; Annual principal and interest payments of approximately \$27,000	0.40%	\$ 268,504
Reservoir Bond payable to the Maryland Water Quality Financing Administration; Due 2026; Annual principal and interest payments of approximately \$25,000	1.10%	241,813
2012 Tax-Exempt Bond payable to PNC Bank; Due 2030; Annual principal and interest payments fluctuate throughout the life of the bonds	2.90%	2,462,815
2012 Taxable Bond payable to PNC Bank; Due 2020; Annual principal and interest payments fluctuate throughout the life of the bonds	4.45%	375,000
Capital Lease Equipment (copier); Due 2018; Annual principal and interest payments of approximately \$13,000	5.00%	<u>1,403</u>
Total Enterprise Fund Debt		<u>\$ 3,349,535</u>

CITY OF BRUNSWICK, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(5) LONG-TERM DEBT OBLIGATIONS (CONTINUED)

Debt service, including capital lease payments requirements are as follows:

	General Government		Enterprise	
	Principal	Interest	Principal	Interest
2015	\$ 45,848	\$ 16,051	\$ 106,010	\$ 94,365
2016	53,800	14,537	191,663	91,998
2017	58,641	12,773	220,573	86,534
2018	63,555	10,849	249,559	80,159
2019	26,191	9,661	272,985	72,881
2020-2024	110,524	30,488	1,088,483	232,122
2025-2029	141,612	17,312	1,000,306	121,347
2030-2034	32,056	930	219,956	6,379

Interest expense

For the year ended June 30, 2014, total interest was \$109,559 and reported as follows: interest expense of \$16,057 for governmental activities and \$93,502 for business-type activities.

Changes in Long-Term Liabilities

During the year ended June 30, 2014 the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in 1 year
Governmental activities:					
Bonds payable	\$ 444,184	\$ -	\$ (20,436)	\$ 423,748	\$ 20,834
Capital leases	59,180	73,450	(24,151)	108,479	25,014
Governmental activities - Long-term liabilities	<u>\$ 503,364</u>	<u>\$ 73,450</u>	<u>\$ (44,587)</u>	<u>\$ 532,227</u>	<u>\$ 45,848</u>
Business-type activities:					
Bonds payable	\$ 3,451,901	\$ -	\$ (103,769)	\$ 3,348,132	\$ 105,693
Capital leases	1,702	-	(299)	1,403	317
Business-type activities - Long-term liabilities	<u>\$ 3,453,603</u>	<u>\$ -</u>	<u>\$ (104,068)</u>	<u>\$ 3,349,535</u>	<u>\$ 106,010</u>

CITY OF BRUNSWICK, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

(5) LONG-TERM DEBT OBLIGATIONS (CONTINUED)

During fiscal year 2007, the City issued \$36,310,000 in Special Obligation Bonds for the Brunswick Crossing Special Tax District. The bonds are not a liability to the City nor are they backed by the full faith and credit of the City. The City by Ordinance created a special tax district whereby a special tax will be levied by the City on real property located within the Special Tax District. The special taxes are expected to be levied in subsequent years.

(6) PROPERTY TAXES

The City's property taxes are levied each July 1 at rates enacted by the Mayor and Council on the total assessed value as determined by the Maryland State Department of Assessments and Taxation.

Property taxes become delinquent on October 1. Interest accrues at 1% monthly for delinquent property taxes. Tax liens on real property are sold at public auction the second Monday in May on taxes delinquent since October 1 of the current fiscal year. Total assessed value on which levies were made for the year ended June 30, 2014 was \$424,874,477. The property tax rate was \$0.462 per \$100 of assessed value.

(7) EMPLOYEE BENEFITS

All permanent employees of the City that work more than 500 hours per fiscal year are provided retirement benefits through the Employee Pension System of the State of Maryland ("Pension System"). During fiscal year 1980, the State changed from the Retirement System to the Pension System for new employees. Employees hired before December 31, 1979 had the option of remaining in the Retirement System or joining the Pension System on July 1st of each year. There were no employees that opted for the Retirement System and, therefore, only the Pension System is used.

The Pension System is a defined-benefit plan and multiple employer system. The plan involves state-wide participation of employees from numerous other state and local governmental units. The system is administered by the Maryland State Retirement Agency pursuant to the Annotated Code of Maryland.

Under the Pension System, members may retire after 30 years of service or the attainment of age 62 with five years of service, age 63 with four years of service, age 64 with three years of service or age 65 or over with two years of service. Effective November 1999, the City began participation in the State of Maryland's Contributory Pension System, an amendment of the Pension System. Effective July 2006, the City began participation in the State of Maryland's Alternate Contributory Pension Plan. The employees are required to contribute 7% of their base salaries. The revised plan also requires an employer contribution from the City. All current and future permanent employees will participate in this plan. The benefit formula changed as a result of the revisions to provide benefits based on service before and after June 30, 1998.

CITY OF BRUNSWICK, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(7) EMPLOYEE BENEFITS (CONTINUED)

The “pension benefit obligation” is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among Systems and employers.

The Maryland State Retirement and Pension System issues a comprehensive annual financial report each year. The report can be obtained from the agency’s office at:

Maryland State Retirement and Pension System
120 East Baltimore Street
Baltimore, Maryland 21202

The City is required to contribute all amounts necessary for the Pension System.

The total contributions from the employees for the years ended June 30 were:

2012	\$133,685
2013	144,206
2014	146,700

The City contributed to the System, which was equal to 100% of the required contributions for the years ended June 30:

2012	\$128,921
2013	109,297
2014	127,454

(8) GRANTS FROM GOVERNMENTAL UNITS

Federal and state governmental units represent an important source of supplementary funding used to finance construction, maintenance, employment programs, and other activities beneficial to the community. The grants received by the City specify the purpose for which the grant funds are to be used, and such grants are subject to audit by the granting agency or its representative. For the year ended June 30, 2014, the City’s federal grant expenditures did not exceed \$500,000; therefore, they are not subject to the Single Audit Act.

CITY OF BRUNSWICK, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

(9) COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although it is believed by management that such disallowances will be immaterial.

(10) RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's general liability risks are financed through the City's participation in the Local Government Insurance Trust (LGIT). The City pays an annual premium to LGIT for its general insurance coverage. The City has coverage of \$1,000,000 for each occurrence under commercial general liability and automobile liability. The annual aggregate limit is \$3,000,000 under the commercial policy and is the most the Trust will pay under the City's agreement. In addition, the City carries property insurance limited to \$30,129,537. The City continues to carry commercial insurance for employee health, accident insurance and workers compensation. Settled claims resulting from these risks have not exceeded insurance coverage, and no significant reductions in insurance coverage have occurred in any of the past three fiscal years.

(11) SUBSEQUENT EVENTS

Subsequent events are defined as events or transactions that occur after the Statement of Net Position date through the date that the financial statements are available to be issued. The City performed an evaluation as of December 12, 2014, the date the financial statements were available to be issued. There were no subsequent events that required recording or disclosure in these financial statements.

CITY OF BRUNSWICK, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL
GENERAL FUND

For the year ended June 30, 2014	Original Budget	Final Budget	(Budgetary Basis) Actual	Variance with Final Budget- Positive (Negative)
REVENUES				
Taxes	<u>\$ 2,353,767</u>	<u>\$ 2,560,000</u>	<u>\$ 2,613,976</u>	<u>\$ 53,976</u>
Licenses and Permits	<u>76,562</u>	<u>76,562</u>	<u>92,241</u>	<u>15,679</u>
Intergovernmental Revenues	<u>1,019,088</u>	<u>1,061,000</u>	<u>1,078,461</u>	<u>17,461</u>
Service Charges				
User Fees	109,650	109,650	89,525	(20,125)
Tipping fees - landfill charge	<u>176,500</u>	<u>191,000</u>	<u>190,024</u>	<u>(976)</u>
Total Service Charges	<u>286,150</u>	<u>300,650</u>	<u>279,549</u>	<u>(21,101)</u>
Fines and Forfeitures	<u>4,000</u>	<u>26,000</u>	<u>25,124</u>	<u>(876)</u>
Miscellaneous Revenues	<u>160,292</u>	<u>201,988</u>	<u>200,452</u>	<u>(1,536)</u>
Total Revenues	<u>\$ 3,899,859</u>	<u>\$ 4,226,200</u>	<u>\$ 4,289,803</u>	<u>\$ 63,603</u>

The accompanying notes are an integral part of this schedule.

CITY OF BRUNSWICK, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL
GENERAL FUND

For the year ended June 30, 2014	Original Budget	Final Budget	(Budgetary Basis) Actual	Variance with Final Budget- Positive (Negative)
EXPENDITURES				
General Government				
Mayor & Council	\$ 70,216	\$ 80,300	\$ 69,547	\$ 10,753
Elections	500	500	-	500
Financial Administration	598,760	566,455	510,405	56,050
Legal	25,000	25,000	1,433	23,567
Planning, Zoning, & Enforcement	194,235	235,280	228,547	6,733
Total General Government	888,711	907,535	809,932	97,603
Public Safety				
Police Department	1,013,698	1,034,786	1,031,356	3,430
Fire and Rescue Contributions	20,000	20,000	20,000	-
Total Public Safety	1,033,698	1,054,786	1,051,356	3,430
Public Works				
Highways and Streets	1,066,550	1,080,550	1,097,871	(17,321)
Sanitation and Waste Removal	328,500	328,500	316,176	12,324
Total Public Works	1,395,050	1,409,050	1,414,047	(4,997)
Recreation and Culture				
Parks	29,000	29,000	20,627	8,373
Swimming Pool	76,180	76,180	44,205	31,975
Campground	28,200	28,200	19,894	8,306
Skateboard Park	2,400	2,400	1,089	1,311
Special Events	65,924	65,924	56,666	9,258
Total Recreation and Culture	201,704	201,704	142,481	59,223
Economic Development				
Economic Development	40,100	76,100	20,749	55,351
Total Economic Development	40,100	76,100	20,749	55,351

The accompanying notes are an integral part of this schedule.

CITY OF BRUNSWICK, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL
GENERAL FUND

For the year ended June 30, 2014	Original Budget	Final Budget	(Budgetary Basis) Actual	Variance with Final Budget- Positive (Negative)
Miscellaneous				
Contributions	14,250	14,250	\$ 14,216	\$ 34
Insurance & Pension	<u>4,000</u>	<u>4,000</u>	<u>2,930</u>	<u>1,070</u>
Total Miscellaneous	18,250	18,250	17,146	1,104
Debt Service	<u>32,630</u>	<u>61,700</u>	<u>60,641</u>	<u>1,059</u>
Total Expenditures	3,610,143	3,729,125	3,516,352	212,773
Other Financing Sources (Uses)				
Capital lease financing	-	-	73,450	73,450
Transfer to Capital Projects	<u>(227,687)</u>	<u>(497,075)</u>	<u>(481,252)</u>	<u>15,823</u>
Total Other Financing Sources (Uses)	<u>(227,687)</u>	<u>(497,075)</u>	<u>(407,802)</u>	<u>89,273</u>
Net Change in fund balance	<u>\$ 62,029</u>	<u>\$ -</u>	<u>\$ 365,649</u>	<u>\$ 365,649</u>

The accompanying notes are an integral part of this schedule.



Draper & McGinley, P.A.

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

Mayor & City Council
City of Brunswick, 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 Brunswick, Maryland, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Brunswick, Maryland's basic financial statements and have issued our report thereon dated December 12, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Brunswick, Maryland'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 of Brunswick, Maryland's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Brunswick, Maryland's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as Findings 14-1 and 14-2 in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

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

City of Brunswick, Maryland's Response to Findings

The City of Brunswick, Maryland's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City of Brunswick, Maryland's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Drapen & McGinley, P.A.

Frederick, Maryland
December 12, 2014

CITY OF BRUNSWICK, MARYLAND
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

Finding 14-1 – Bank account reconciliations

Condition: As noted in the prior year, the City’s internal control procedures state that the bank account reconciliations will be completed and reviewed, documented by initials of the appropriate staff member and the date, within 90 days of the ending date of the period covered by the corresponding bank statements.

The internal control procedures were not consistently followed in fiscal year 2014 for the operating account. The operating account reconciliations were not completed within 90 days after the month-end.

Criteria: Monthly reconciliations of bank accounts should be prepared to determine that all cash transactions have been properly recorded and to discover any errors timely. A benefit of monthly account reconciliations is that errors do not accumulate and can be identified and attributed to a particular period, making future reconciliations easier to perform.

Cause: None of the operating bank account reconciliations were prepared on a timely basis in fiscal year 2014, largely due to time constraints of the City Accountant and issues with the accounting software.

Effect: The bank reconciliations were not performed in a timely manner and established procedures were not followed. The bank reconciliations were reviewed once completed, however, the date of the review could not be determined as it was not documented. Timely preparation and review of the monthly bank account reconciliations reduces the risk that errors may not be detected.

Recommendation: We recommend the City review and evaluate its current procedures to ensure adequate controls are in place to ensure the bank account reconciliations are prepared and reviewed in a timely manner. In reviewing its procedures, management should perform a risk assessment of what constitutes timely for purposes of the bank account reconciliation process.

Response: During FY 2014 the City had significant changes to its staffing, organization, and business processes, many of which had particular effect on financial practices. These changes were sometimes driven by personnel or technical challenges and circumstances beyond the City’s control, but always adapted with the intent to provide better customer service.

Management believes accountability for its fiduciary responsibilities is a key component of quality customer service. However, as the number of customers and the depth, breadth, complexity, and volume of the City’s financial transactions and obligations has increased, it is not realistic to expect the staffing previously devoted to financial oversight would be sufficient.

The City will continue to review, evaluate, and modernize its current procedures regarding the timeliness of bank account reconciliations. During such efforts, the City will also assess risks regarding timeliness in this area. While specific technical support issues with the City’s accounting software persisted into the first quarter of FY 2015, the City believes that increases in its use of technology and the deployment of temporary staffing support will be sufficient to assure that the City’s documented internal control procedures in this area will be followed starting with the second quarter of FY 2015. Management has recommended that the legislature formalize its approval of additional staff resources to assure that this condition will not persist over the long term.

CITY OF BRUNSWICK, MARYLAND
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

Finding 14-2 – Internal control over cash receipts

Condition: The City’s internal control over cash receipts is to review and compare the deposit transaction receipt from the bank to the original deposit ticket prepared by the appropriate staff. This review procedure is performed once the deposit ticket book is completely used by the City and review is documented by the City Administrator’s initials on the returned deposit transaction receipts.

Based on our testing of this internal control, we noted a review was taking place; but since the procedure was not being performed until the deposit ticket book was complete, the review was performed approximately every two months.

Criteria: Management is responsible for the establishment of effective controls over the cash receipts cycle to ensure the proper collection, recording, safeguarding, and depositing of the cash received.

Cause: The current internal control process is not well-designed as it does not allow for a timely review.

Effect: The review of the cash receipts collected and deposited was not performed timely. Timely review reduces the risk that errors may exist between the City’s books and records and the cash at the bank.

Recommendation: To increase the operating effectiveness of controls over cash receipts, we recommend the City review and evaluate its current procedures to ensure adequate controls are in place to process, record, and safeguard cash receipts.

Response: During FY 2014 the City had significant changes to its staffing, organization, and business processes, many of which had particular effect on financial practices. As not all business processes were documented, the City relied on oral tradition in communicating certain business processes.

While Management believes adequate controls were in place “to process, record, and safeguard cash receipts”, there are always areas for improvement. Prior to this audit finding, management had reviewed and evaluated its internal control over cash receipts and implemented improved control processes. Among these were: an additional verification of deposits and cross check processes comparing subsidiary batch totals to both deposit tickets and general ledger reports. New online access and scanning procedures have increased timeliness as well as efficiency for review and internal control of cash receipts.

Management regrets that the description of this control in an FY 2010 Audit finding was not sufficiently detailed to define expectations for timeliness, as the process described therein was followed in FY 2014. Management will continue to improve the documentation of the City’s business practices, particularly such internal controls, in the hope that the future control standards by which it is measured are clear to all.