



CITY OF BRUNSWICK, MARYLAND

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

FOR THE YEAR ENDED JUNE 30, 2015



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, 2015

MAYOR

Karin B. Tome

CITY COUNCIL

Ellis Burruss

Jeff Snoots

Carroll Jones

Walt Stull

Harry Lashley

Angel White

CITY ADMINISTRATOR

Bob McGroery

CITY AUDITOR

Draper & McGinley, P.A.

CITY ATTORNEY

Offit Kurman

CITY ENGINEER

Jeff Holtzinger

CHIEF OF POLICE

Milton Frech

CITY OF BRUNSWICK, MARYLAND
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FOR THE YEAR ENDED JUNE 30, 2015

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Draper & McGinley, P.A.

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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, each major fund and the aggregate remaining fund information of the City of Brunswick, Maryland, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Brunswick, Maryland'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, each major fund and the aggregate remaining fund information of the City of Brunswick, Maryland, as of June 30, 2015, 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 37–39 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 22, 2015, 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.

Draper & McGinley, P.A.

Frederick, Maryland
October 22, 2015

Management's Discussion and Analysis

Management of the City of Brunswick ("the City") offers readers of the City's accompanying financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2015.

Financial Highlights

- The City's assets totaled \$42,530,635; decreasing \$115,988 from the prior year. Capital assets were \$36,215,813 of this total.
- The City's deferred outflows of resources totaled \$152,055 in FY 2015; the prior year balance was zero. The FY 2015 balance was a result of a change in the accounting and financial reporting for pensions as required by newly implemented Governmental Accounting Standards Board Statement No. 68 (GASB 68).
- The City's liabilities totaled \$5,292,252; increasing \$854,603 from the prior year. Long-term debt obligations were \$3,684,123 of this total.
- The City's governmental long-term debt obligations decreased \$91,630 due to principal payments made in the current year. The City entered into a 4 year capital lease financing agreement for a backhoe in FY 2014 but paid the entire lease balance of \$59,779 in FY 2015. Business-type long-term debt obligations decreased \$106,009 due to principal payments made in the current year.
- The City's deferred inflows of resources totaled \$12,307,329; decreasing \$158,776 from the prior year. Developer unearned revenue was \$12,160,955 of this total. Unearned revenue arises when monies are received by the government but cannot be realized as revenue. The net difference between projected and actual earnings on pension plan investments was \$106,242 of this total.
- The implementation of GASB 68 also required a prior period negative adjustment of \$942,659 to record the City's share of net pension liability. The City's restated FY 2014 government-wide net position was \$24,800,210.
- In FY 2015, the City's government-wide net position was \$25,083,109; increasing \$282,899 from the restated FY 2014 net position. Net position for governmental activities increased \$633,747, while business-type activities decreased \$350,848.
- Of the government-wide net position, net investment in capital assets totaled \$32,615,760; approximately a 3.5% decrease from the prior year. The unrestricted portion of the City's net position was negative \$7,532,651, mostly due to deferred inflows; improving roughly 6.6% over the prior year.
- As of June 30, 2015, the City's governmental funds (General and Capital Projects) reported combined ending fund balances of \$4,048,797; an increase of \$733,681 compared to the prior year, an indication of the City's ongoing fiscal strength and stability. 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 introduce 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 utility and wastewater utility 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 fewer 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 37–39 of this report.

The basic governmental fund financial statements can be found on pages 12-14 of this report.

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 utility and wastewater utility 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 and wastewater utility operations. Each is considered to be a major fund of the City. Conversely, both utility service funds are combined into a single, aggregated presentation in the government-wide financial statements. Individual fund data for the internal funds are provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 15-18 of 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 19–36 of this report.

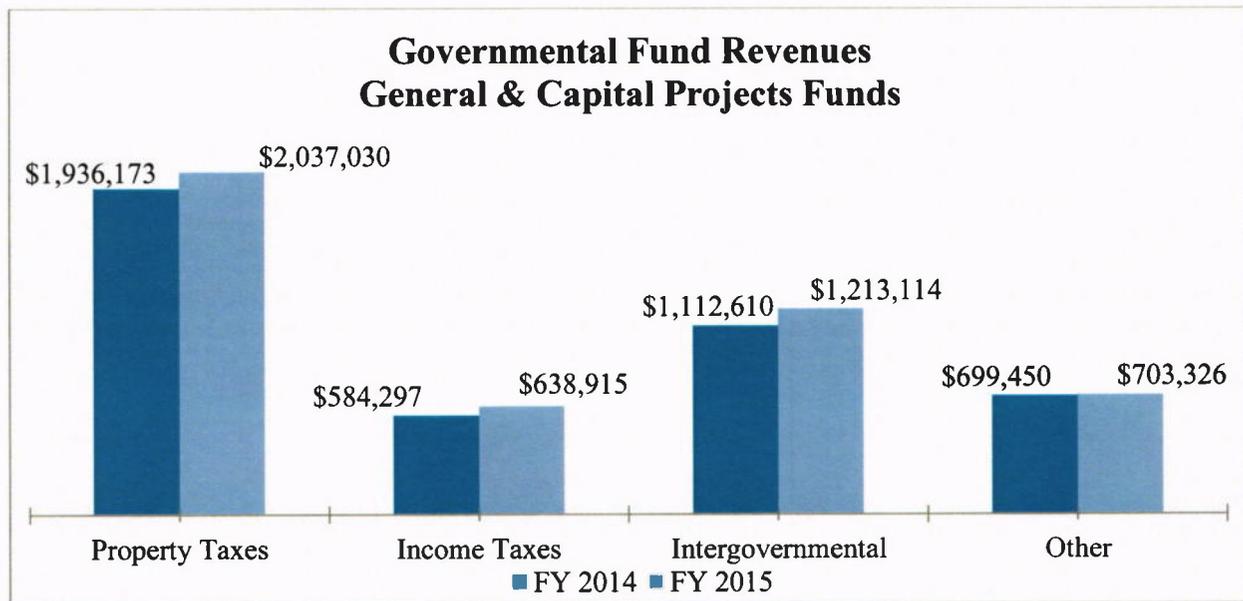
Government-wide Financial Analysis

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 and deferred outflows of the City exceeded liabilities and deferred inflows by \$25,083,109 as of June 30, 2015, an overall increase of \$282,899 in fiscal year 2015. 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 \$633,747; while business-type activities decreased net position by \$350,848. Additionally, per the Statement of Activities, the City's total revenue was \$7,464,160, a 6.2% increase from the prior year's revenue of \$7,028,255.

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 \$2,212,900. 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 \$2,250,582 to total fund expenditures of \$3,657,879.

General Fund Budget Variances

During FY 2015, the Mayor and City Council publicly amended the budget. At year's end, actual revenues were \$165,510 more than was budgeted. More specifically, taxes were \$125,581 more than expected, service charges were \$22,052 higher than the budgeted amount, and fines and forfeitures exceeded the amount budgeted by \$17,442.

Total expenditures were \$231,621 less than the final budgeted amount. The Public Works Department was under budget \$75,892 as a result of staff attrition and responsible management of operating expenses; the Financial Administration Department was under budget \$49,078 due to a change in the planned allocation of additional administrative salaries from the Police Department; and the Economic Development function was under budget \$26,677 due to a delay in Community Legacy grant expenditures. Additionally, as a result of spreading legal and other consultant fees to each department based on utilization, there were reductions of more than \$42,000 for legal and planning and zoning expenses.

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.

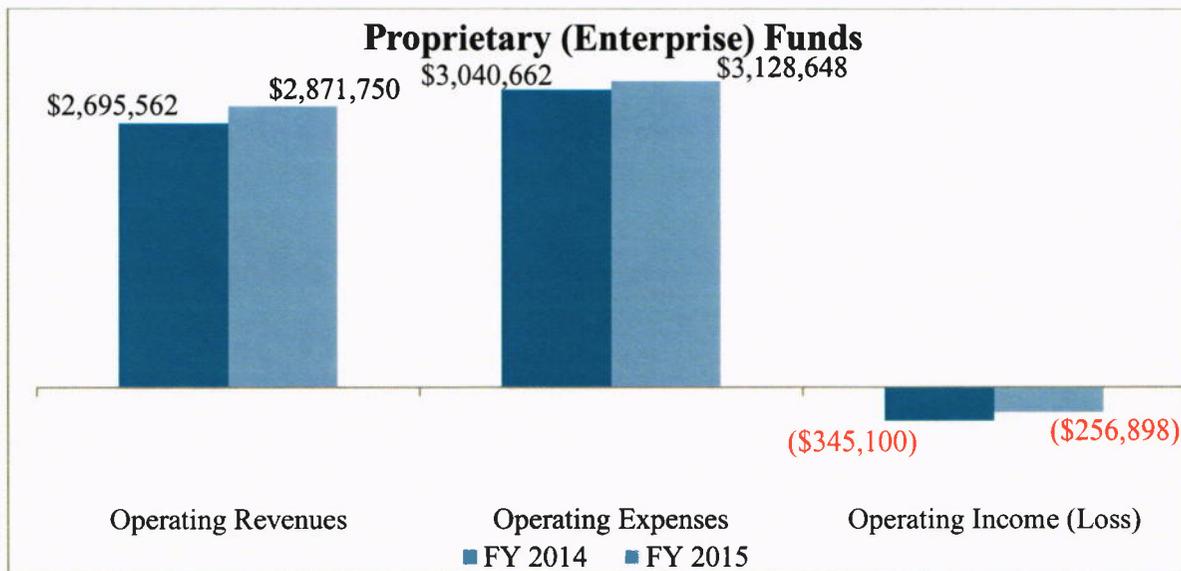
The Water Fund had operating income of \$54,068 as compared to an operating income of \$91,964 in FY 2014; the Sewer Fund had an operating loss of \$310,966 as compared to a loss of \$437,064 in FY 2014. The operating income/loss is derived by calculating the difference between operating revenues and operating expenses.

Depreciation expense for business-type activities amounted to \$1,490,253. 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 2015 rate-setting.

For the Water Fund, the operating income is principally due to the rate increase. While there was approximately a 6.7% increase in Water service charge revenue, there was an 11.8% increase in personnel expenses caused by an additional \$29,100 in transfers of Public Works salaries for water line upgrade projects at 6th Avenue and D Street and along Maple Avenue as well as an increase in health care enrollment. Water Fund depreciation increased 10.6% based on a full year of depreciation on the water treatment plant expansion and the completion of the following projects: water intake upgrade, 6th Avenue and D Street water line, and hydrant replacements. The City also purchased a back-up generator for Yourtee Springs and additional line locators.

For the Sewer Fund, the operating loss is largely attributable to the effects of depreciation expense on the fund. In FY 2015, operating expenses for the Sewer Fund included depreciation and amortization costs of \$945,248; approximately 53.9% of total operating expenses. While there was approximately a 9.5% increase in Sewer service charge revenue, there was a 7.6% increase in personnel expenses caused mostly by an additional \$10,800 in transfers of Public Works salaries for maintenance related tasks and \$8,000 in salary transfers from the Water Fund. It is important to highlight that Sewer Fund operating expenses decreased 9.7% as a result of a more conservative approach to non-emergency maintenance items and the overall goal to manage resources responsibly.

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	
	2014	2015	2014	2015
REVENUES				
Program Revenues				
Operating grants and contributions	\$ 255,915	\$ 346,458	\$ 297,915	\$ 388,458
Charges for services	379,960	412,020	2,892,676	3,128,532
General Revenues				
Taxes	2,613,976	2,774,881	2,613,976	2,774,881
Intergovernmental	822,546	866,657	822,546	866,657
Fines and Forfeitures	25,124	42,142	25,124	42,142
Miscellaneous	200,861	150,227	341,869	263,490
Capital grants and contributions	34,149	-	34,149	-
Total Revenues	4,332,531	4,592,385	7,028,255	7,464,160
PROGRAM EXPENSES				
General government	856,254	943,905	856,254	943,905
Public safety	1,065,771	1,096,759	1,065,771	1,096,759
Public works	1,554,023	1,537,986	1,554,023	1,537,986
Recreation and culture	231,199	224,619	231,199	224,619
Economic development	20,749	124,806	20,749	124,806
Interest	16,054	14,107	16,054	14,107
Miscellaneous	17,147	16,456	17,147	16,456
Business-type activities	-	-	3,134,164	3,222,623
TOTAL PROGRAM EXPENSES	3,761,197	3,958,638	6,895,361	7,181,261
TRANSFERS	-	-	-	-
CHANGES IN NET POSITION	\$ 571,334	\$ 633,747	\$ 132,894	\$ 282,899

Fiscal Year 2016

- The General Fund is expected to experience a modest 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 2016 (within the three-year assessment cycle), but general economic trends may indicate moderate increases in real property values prior to the next assessment.
- Tax Equity revenue received from Frederick County is projected to increase slightly from \$866,657 in FY 2015 to \$884,239 in FY 2016.
- In FY 2016, approximately \$352,900 has been budgeted to be transferred from the General Fund to the Capital Projects Fund for projects.
- Vehicle purchases planned for FY 2016 in the Capital Projects 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 2016. No new external debt is anticipated for FY 2016.
- 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 2016 will continue to show significant transfers from the General Fund and other Funds to account for Water and Wastewater Charges that were not previously billed internally. This change better shows 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, 2015

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
Assets			
Cash and cash equivalents	\$ 3,848,957	\$ 1,253,688	\$ 5,102,645
Restricted cash and investments	257,134	49,312	306,446
Taxes receivable	3,947	-	3,947
Accounts receivable, net of allowance	95,586	550,244	645,830
Due from other governmental agencies	178,003	28,103	206,106
Other receivables	39,561	1,317	40,878
Other assets	-	8,970	8,970
Capital assets:			
Projects under construction	231,675	105,682	337,357
Land	149,147	28,068	177,215
Capital assets, being depreciated	9,927,184	44,428,919	54,356,103
Less: Accumulated depreciation	<u>(3,347,374)</u>	<u>(15,307,488)</u>	<u>(18,654,862)</u>
Capital assets, net	<u>6,960,632</u>	<u>29,255,181</u>	<u>36,215,813</u>
Total Assets	<u>11,383,820</u>	<u>31,146,815</u>	<u>42,530,635</u>
Deferred Outflows of Resources	<u>117,082</u>	<u>34,973</u>	<u>152,055</u>
Total Assets and Deferred Outflows of Resources	<u>11,500,902</u>	<u>31,181,788</u>	<u>42,682,690</u>
Liabilities			
Accounts payable	\$ 134,647	\$ 81,546	\$ 216,193
Accrued liabilities	39,075	12,266	51,341
Compensated absences	113,361	52,231	165,592
Escrow deposits	104,718	36,903	141,621
Deposits held for specific purposes	62,763	-	62,763
Noncurrent liabilities			
Debt obligations due within one year	39,190	191,664	230,854
Debt obligations due in more than one year	401,407	3,051,862	3,453,269
Net pension liability	<u>747,377</u>	<u>223,242</u>	<u>970,619</u>
Total Liabilities	<u>1,642,538</u>	<u>3,649,714</u>	<u>5,292,252</u>
Deferred Inflows of Resources	<u>114,996</u>	<u>12,192,333</u>	<u>12,307,329</u>
Total Liabilities and Deferred Inflows of Resources	<u>1,757,534</u>	<u>15,842,047</u>	<u>17,599,581</u>
Net Position			
Net investment in capital assets	6,591,697	26,024,063	32,615,760
Unrestricted	<u>3,151,671</u>	<u>(10,684,322)</u>	<u>(7,532,651)</u>
Total Net Position	<u>\$ 9,743,368</u>	<u>\$ 15,339,741</u>	<u>\$ 25,083,109</u>

The accompanying notes are an integral part of this statement.

CITY OF BRUNSWICK, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental activities							
General government	\$ (943,905)	\$ 144,215	\$ 1,103	\$ -	\$ (798,587)	\$ -	\$ (798,587)
Public safety	(1,096,759)	1,329	72,814	-	(1,022,616)	-	(1,022,616)
Public works	(1,537,986)	225,421	175,165	-	(1,137,400)	-	(1,137,400)
Recreation and culture	(224,619)	41,055	4,201	-	(179,363)	-	(179,363)
Community and economic development	(124,806)	-	93,175	-	(31,631)	-	(31,631)
Interest expense	(14,107)	-	-	-	(14,107)	-	(14,107)
Miscellaneous	(16,456)	-	-	-	(16,456)	-	(16,456)
Total governmental activities	<u>(3,958,638)</u>	<u>412,020</u>	<u>346,458</u>	<u>-</u>	<u>(3,200,160)</u>	<u>-</u>	<u>(3,200,160)</u>
Business-type activities							
Water services	(1,416,699)	1,328,132	-	-	-	(88,567)	(88,567)
Sewer services	(1,805,924)	1,388,380	42,000	-	-	(375,544)	(375,544)
Total business-type activities	<u>(3,222,623)</u>	<u>2,716,512</u>	<u>42,000</u>	<u>-</u>	<u>-</u>	<u>(375,544)</u>	<u>(375,544)</u>
Total primary government	<u>\$ (7,181,261)</u>	<u>\$ 3,128,532</u>	<u>\$ 388,458</u>	<u>\$ -</u>	<u>(3,200,160)</u>	<u>(464,111)</u>	<u>(3,664,271)</u>
General Revenues							
Taxes							
Property taxes, levied for general purposes					2,037,030	-	2,037,030
Income taxes					638,915	-	638,915
Other local taxes					98,936	-	98,936
County tax equity					866,657	-	866,657
Fines and forfeitures					42,142	-	42,142
Income on investments					2,814	25	2,839
Rental income					3,300	90,617	93,917
Administrative fees					-	4,254	4,254
Miscellaneous income					144,113	18,367	162,480
Total general revenues					<u>3,833,907</u>	<u>113,263</u>	<u>3,947,170</u>
Change in net position					633,747	(350,848)	282,899
Net position - beginning of year, restated					<u>9,109,621</u>	<u>15,690,589</u>	<u>24,800,210</u>
Net position - end of year					<u>\$ 9,743,368</u>	<u>\$ 15,339,741</u>	<u>\$ 25,083,109</u>

The accompanying notes are an integral part of this statement.

CITY OF BRUNSWICK, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	<u>Governmental Fund Types</u>		<u>Total Governmental Funds</u>
	<u>General</u>	<u>Capital Projects (Non-major)</u>	
Assets			
Cash and cash equivalents	\$ 3,848,957	\$ -	\$ 3,848,957
Restricted cash and investments	167,481	89,653	257,134
Receivables:			
Taxes	3,947	-	3,947
Customers	95,586	-	95,586
Other governments	108,908	69,095	178,003
Other	39,561	-	39,561
Due from other funds	-	1,675,642	1,675,642
Total Assets	<u>\$ 4,264,440</u>	<u>\$ 1,834,390</u>	<u>\$ 6,098,830</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	\$ 128,452	\$ 6,195	\$ 134,647
Accrued liabilities	39,075	-	39,075
Escrow deposits	104,718	-	104,718
Deposits held for specific purposes	62,763	-	62,763
Due to other funds	1,675,642	-	1,675,642
Total Liabilities	<u>2,010,650</u>	<u>6,195</u>	<u>2,016,845</u>
Deferred Inflows of Resources			
Property taxes - subsequent year	3,208	-	3,208
Unavailable revenues	-	29,980	29,980
Total Deferred Inflows of Resources	<u>3,208</u>	<u>29,980</u>	<u>33,188</u>
Fund Balances			
Nonspendable	-	-	-
Restricted	-	-	-
Committed	-	-	-
Assigned	37,682	1,798,215	1,835,897
Unassigned	2,212,900	-	2,212,900
Total Fund Balances	<u>2,250,582</u>	<u>1,798,215</u>	<u>4,048,797</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 4,264,440</u>	<u>\$ 1,834,390</u>	<u>\$ 6,098,830</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, 2015

	<u>General</u>	<u>Capital Projects (Non-major)</u>	<u>Total Governmental Funds</u>
Revenues			
Local property taxes	\$ 2,037,030	\$ -	\$ 2,037,030
Local income taxes	638,915	-	638,915
Other local taxes	98,936	-	98,936
Licenses and permits	96,432	-	96,432
Intergovernmental revenues	1,177,170	35,944	1,213,114
Service charges	309,052	-	309,052
Fines and forfeitures	42,142	-	42,142
Miscellaneous	150,033	6,731	156,764
Total Revenues	<u>4,549,710</u>	<u>42,675</u>	<u>4,592,385</u>
Expenditures			
General government	905,683	48,674	954,357
Public safety	1,071,857	12,000	1,083,857
Public works	1,292,753	105,152	1,397,905
Recreation and culture	140,270	34,999	175,269
Economic development	125,123	-	125,123
Debt service	105,737	-	105,737
Miscellaneous	16,456	-	16,456
Total Expenditures	<u>3,657,879</u>	<u>200,825</u>	<u>3,858,704</u>
Excess (Deficiency) of Revenues over Expenditures	891,831	(158,150)	733,681
Other Financing Sources (Uses)			
Operating transfers	(494,700)	494,700	-
Total Other Financing Sources (Uses)	<u>(494,700)</u>	<u>494,700</u>	<u>-</u>
Excess of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	397,131	336,550	733,681
Fund Balance - July 1, 2014	<u>1,853,451</u>	<u>1,461,665</u>	
Fund Balance - June 30, 2015	<u>\$ 2,250,582</u>	<u>\$ 1,798,215</u>	
Adjustments for the Statement of Activities			
Capital outlay			206,780
Depreciation expense			(403,691)
Compensated absences			(8,399)
Debt service expenditures			91,630
Net pension adjustment			13,746
Change in Net Position of Governmental Activities			<u>\$ 633,747</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, 2015

Fund balances - governmental funds \$ 4,048,797

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 6,960,632

Deferred outflows of resources 117,082

Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds

Long-term debt (440,597)

Compensated absences (113,361)

Net pension liability (747,377)

Deferred inflows of resources (81,808)

Net position - governmental activities \$ 9,743,368

The accompanying notes are an integral part of this statement.

CITY OF BRUNSWICK, MARYLAND
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 665,616	\$ 588,072	\$ 1,253,688
Restricted cash	16,380	32,932	49,312
Due from customers	264,073	286,171	550,244
Due from other governments	-	28,103	28,103
Other receivables	1,317	-	1,317
Other assets	8,970	-	8,970
Due from water fund	-	2,858,151	2,858,151
Total Current Assets	<u>956,356</u>	<u>3,793,429</u>	<u>4,749,785</u>
Capital Assets			
Capital assets not being depreciated	72,721	61,029	133,750
Capital assets being depreciated	16,435,037	27,993,882	44,428,919
Accumulated depreciation	<u>(5,879,097)</u>	<u>(9,428,391)</u>	<u>(15,307,488)</u>
Total Capital Assets, net	<u>10,628,661</u>	<u>18,626,520</u>	<u>29,255,181</u>
Total Assets	11,585,017	22,419,949	34,004,966
Deferred Outflows of Resources	<u>16,726</u>	<u>18,247</u>	<u>34,973</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 11,601,743</u>	<u>\$ 22,438,196</u>	<u>\$ 34,039,939</u>
Liabilities			
Current Liabilities			
Accounts payable	\$ 47,347	\$ 34,199	\$ 81,546
Accrued liabilities	25,237	39,260	64,497
Escrow deposits	16,380	20,523	36,903
Current portion of debt obligations	66,523	125,141	191,664
Due to sewer fund	<u>2,858,151</u>	<u>-</u>	<u>2,858,151</u>
Total Current Liabilities	<u>3,013,638</u>	<u>219,123</u>	<u>3,232,761</u>
Noncurrent Liabilities			
Net pension liability	106,768	116,474	223,242
Long-term debt obligations	<u>1,468,785</u>	<u>1,583,077</u>	<u>3,051,862</u>
Total Noncurrent Liabilities	<u>1,575,553</u>	<u>1,699,551</u>	<u>3,275,104</u>
Total Liabilities	4,589,191	1,918,674	6,507,865
Deferred Inflows of Resources	<u>5,401,977</u>	<u>6,790,356</u>	<u>12,192,333</u>
Total Liabilities and Deferred Inflows of Resources	<u>9,991,168</u>	<u>8,709,030</u>	<u>18,700,198</u>
Net Position			
Net investment in capital assets	9,093,353	16,918,302	26,011,655
Unrestricted	<u>(7,482,778)</u>	<u>(3,189,136)</u>	<u>(10,671,914)</u>
Total Net Position	<u>\$ 1,610,575</u>	<u>\$ 13,729,166</u>	<u>\$ 15,339,741</u>

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

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating Revenues			
Charges for services	\$ 1,328,132	\$ 1,388,380	\$ 2,716,512
Rental income	90,617	-	90,617
Operating grants	-	42,000	42,000
Miscellaneous	9,694	12,927	22,621
Total Operating Revenues	1,428,443	1,443,307	2,871,750
Operating Expenses			
Personnel services	480,723	436,603	917,326
Operating	348,647	372,422	721,069
Depreciation	545,005	945,248	1,490,253
Total Operating Expenses	1,374,375	1,754,273	3,128,648
Operating income (loss)	54,068	(310,966)	(256,898)
Nonoperating Revenues (Expenses)			
Interest on invested funds	7	18	25
Interest expense and fees	(42,324)	(51,651)	(93,975)
Total Nonoperating Revenues (Expenses)	(42,317)	(51,633)	(93,950)
Change in Net Position	11,751	(362,599)	(350,848)
Total Net Position, beginning of year - restated	1,598,824	14,091,765	15,690,589
Total Net Position, end of year	\$ 1,610,575	\$ 13,729,166	\$ 15,339,741

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, 2015

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities			
Cash received from customers and users	\$ 1,289,495	\$ 1,120,381	\$ 2,409,876
Cash received from other governments	-	183,757	183,757
Cash received from developers	16,288	7,865	24,153
Other operating cash receipts	370	-	370
Cash payments to suppliers	(342,399)	(355,352)	(697,751)
Cash payments to employees for services	(483,147)	(446,070)	(929,217)
Net cash provided by operating activities	<u>480,607</u>	<u>510,581</u>	<u>991,188</u>
Cash flows from capital and related financing activities			
Purchase of capital assets	(128,439)	(19,084)	(147,523)
Current year construction of capital assets	(62,421)	(4,700)	(67,121)
Principal paid on capital debt	(41,744)	(64,265)	(106,009)
Interest paid on capital debt	(42,494)	(51,871)	(94,365)
Net cash used in capital and related financing activities	<u>(275,098)</u>	<u>(139,920)</u>	<u>(415,018)</u>
Cash flows from investing activities			
Investment income	<u>7</u>	<u>18</u>	<u>25</u>
Net cash provided by investing activities	<u>7</u>	<u>18</u>	<u>25</u>
Net increase in cash and cash equivalents	205,516	370,679	576,195
Cash and cash equivalents, beginning of year	<u>476,480</u>	<u>250,325</u>	<u>726,805</u>
Cash and cash equivalents, end of year	<u>\$ 681,996</u>	<u>\$ 621,004</u>	<u>\$ 1,303,000</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, 2015

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 54,068	\$ (310,966)	\$ (256,898)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	545,005	945,248	1,490,253
Net change in operating assets and liabilities			
Due from customers	(9,885)	(11,288)	(21,173)
Due from other governments	-	38,449	38,449
Other receivables	13,425	-	13,425
Other assets	3,105	-	3,105
Deferred outflows of resources	(2,706)	(2,953)	(5,659)
Accounts payable	3,143	17,070	20,213
Accrued liabilities	1,156	(2,502)	(1,346)
Escrow deposits	4,609	2,865	7,474
Net pension liability	(10,944)	(11,939)	(22,883)
Deferred inflows of resources	(124,621)	(149,151)	(273,772)
Interfund activity	4,252	(4,252)	-
Net cash provided by operating activities	<u>\$ 480,607</u>	<u>\$ 510,581</u>	<u>\$ 991,188</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 2015:

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).

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.

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.

CITY OF BRUNSWICK, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 City Administrator, and after making departmental reviews of the requests, a recommended budget is presented to the Mayor and Council.
3. Public hearings are required by law to be scheduled by City officials with approval of the Mayor and Council.

CITY OF BRUNSWICK, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2015, the City determined that no allowance for uncollectible accounts was necessary as all accounts are deemed collectible.

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, 2015 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 is 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.

Deferred Outflows / Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that period.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that period.

CITY OF BRUNSWICK, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

Nonspendable 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.

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. Assigned fund balances in the governmental funds include \$37,682 for the remaining capital lease obligation and \$1,798,215 for future capital projects.

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 borrowings used for the acquisition, construction, or improvement of those assets, plus any proceeds remaining in cash and investments. 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.

CITY OF BRUNSWICK, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(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.

CITY OF BRUNSWICK, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

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

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 \$5,276,314; the bank balance was \$5,368,694, and cash on hand was \$300. The City's deposits were fully covered by the Federal Deposit Insurance Corporation and collateral held by the pledging financial institution as of June 30, 2015.

Included in cash and cash equivalents, the City had \$132,477 invested in the Maryland Local Government Investment Pool (MLGIP) as of June 30, 2015.

The City's cash and investments as of June 30, 2015, as presented in the Statement of Net Position, reconciled to the City's deposits and investments, are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 3,848,957	\$ 1,253,688	\$ 5,102,645
Restricted cash and investments	257,134	49,312	306,446
	<u>\$ 4,106,091</u>	<u>\$ 1,303,000</u>	<u>\$ 5,409,091</u>

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Cash on hand	\$ 300	\$ -	\$ 300
Deposits in banks	3,646,953	1,303,000	4,949,953
Certificates of deposit	326,361	-	326,361
Investment pools (MLGIP)	132,477	-	132,477
	<u>\$ 4,106,091</u>	<u>\$ 1,303,000</u>	<u>\$ 5,409,091</u>

As of June 30, 2015, the City had the following investments:

<u>Investment Type (All funds)</u>	<u>Fair Value</u>	<u>Investment Maturities</u>		<u>% of Portfolio</u>
		<u>< 1 Year</u>	<u>1-5 Years</u>	
Certificates of deposit	\$ 326,361	\$ 310,157	\$ 16,204	71.13%
Investment pool (MLGIP)	132,477	132,477	-	28.87%
	<u>\$ 458,838</u>	<u>\$ 442,634</u>	<u>\$ 16,204</u>	<u>100.00%</u>

CITY OF BRUNSWICK, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

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

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 71% 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, 2015 were 0.07% for the MLGIP and between 0.17% and 1.95% for the certificates of deposit.

(3) 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 \$12,167,899 due to the government not having a legal claim to the funds.

(4) 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, 2015 was \$445,830,908. The property tax rate was \$0.462 per \$100 of assessed value.

CITY OF BRUNSWICK, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(5) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance June 30, 2015</u>
Capital assets, not being depreciated					
Land and land improvements	\$ 149,147	\$ -	\$ -	\$ -	\$ 149,147
Projects under constructions	<u>135,103</u>	<u>96,572</u>	<u>-</u>	<u>-</u>	<u>231,675</u>
Total capital assets not being depreciated	<u>284,250</u>	<u>96,572</u>	<u>-</u>	<u>-</u>	<u>380,822</u>
Capital assets, being depreciated					
Buildings	1,384,458	-	-	-	1,384,458
Improvements	3,286,241	22,281	-	-	3,308,522
Infrastructure	3,628,667	-	-	-	3,628,667
Machinery and equipment	864,098	12,000	-	-	876,098
Vehicles	626,791	75,928	-	-	702,719
Software	<u>26,720</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,720</u>
Total capital assets being depreciated	9,816,975	110,209	-	-	9,927,184
Less: accumulated depreciation	<u>(2,943,683)</u>	<u>(403,691)</u>	<u>-</u>	<u>-</u>	<u>(3,347,374)</u>
Total capital assets being depreciated, net	<u>6,873,292</u>	<u>(293,482)</u>	<u>-</u>	<u>-</u>	<u>6,579,810</u>
Governmental Activities capital assets, net	<u>\$ 7,157,542</u>	<u>\$ (196,910)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,960,632</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:

General government	\$ 37,366
Public safety	31,463
Public works	249,738
Parks and recreation	<u>85,124</u>
Total depreciation expense – Governmental activities	<u>\$ 403,691</u>

CITY OF BRUNSWICK, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(5) CAPITAL ASSETS (CONTINUED)

<u>Business-type Activities</u>	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2015</u>
Capital assets, not being depreciated					
Land and land improvements	\$ 28,068	\$ -	\$ -	\$ -	\$ 28,068
Projects under construction	54,762	67,120	-	(16,200)	105,682
Total capital assets, not being depreciated	<u>82,830</u>	<u>67,120</u>	<u>-</u>	<u>(16,200)</u>	<u>133,750</u>
Capital assets, being depreciated					
Buildings and improvements	9,056,047	-	-	-	9,056,047
Infrastructure	33,506,219	119,012	-	-	33,625,231
Machinery and equipment	1,636,774	28,512	-	16,200	1,681,486
Vehicles	66,155	-	-	-	66,155
Total capital assets being depreciated	44,265,195	147,524	-	16,200	44,428,919
Less: accumulated depreciation	<u>(13,817,235)</u>	<u>(1,490,253)</u>	<u>-</u>	<u>-</u>	<u>(15,307,488)</u>
Total capital assets being depreciated, net	<u>30,447,960</u>	<u>(1,342,729)</u>	<u>-</u>	<u>16,200</u>	<u>29,121,431</u>
Business-type Activities capital assets, net	<u>\$ 30,530,790</u>	<u>\$ (1,275,609)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,255,181</u>

Depreciation expense was charged to functions/programs as follows:

Business-type activities	
Water	\$ 545,005
Sewer	<u>945,248</u>
Total depreciation expense – Business-type activities	<u>\$ 1,490,253</u>

CITY OF BRUNSWICK, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(6) LONG-TERM DEBT OBLIGATIONS

Debt outstanding as of June 30, 2015 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%	\$ 49,679
2012 Tax-Exempt Bond payable to PNC Bank; Due 2030; Annual principal and interest payments fluctuate throughout the life of the bonds	2.90%	353,236
Capital Lease Equipment (copier); Due 2018; Annual principal and interest payments of approximately \$13,000	5.00%	<u>37,682</u>
Total Governmental Activities Debt		<u>\$ 440,597</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%	\$ 242,133
Reservoir Bond payable to the Maryland Water Quality Financing Administration; Due 2026; Annual principal and interest payments of approximately \$25,000	1.10%	221,528
2012 Tax-Exempt Bond payable to PNC Bank; Due 2030; Annual principal and interest payments fluctuate throughout the life of the bonds	2.90%	2,423,780
2012 Taxable Bond payable to PNC Bank; Due 2020; Annual principal and interest payments fluctuate throughout the life of the bonds	4.45%	355,000
Capital Lease Equipment (copier); Due 2018; Annual principal and interest payments of approximately \$13,000	5.00%	<u>1,085</u>
Total Enterprise Fund Debt		<u>\$ 3,243,526</u>

CITY OF BRUNSWICK, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(6) LONG-TERM DEBT OBLIGATIONS (CONTINUED)

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

	General Government		Enterprise	
	Principal	Interest	Principal	Interest
2016	\$ 39,190	\$ 13,170	\$ 191,664	\$ 91,998
2017	43,390	12,047	220,572	86,534
2018	47,634	10,792	249,559	80,159
2019	26,191	9,661	272,983	72,881
2020	16,748	8,242	248,246	64,854
2021-2025	119,779	27,283	1,041,285	203,230
2026-2030	147,665	13,205	1,019,217	91,764

Interest expense

For the year ended June 30, 2015, total interest was \$108,082 and reported as follows: interest expense of \$14,107 for governmental activities and \$93,975 for business-type activities.

Changes in Long-Term Liabilities

During the year ended June 30, 2015 the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in 1 year
Governmental activities:					
Bonds payable	\$ 423,748	\$ -	\$ (20,833)	\$ 402,915	\$ 27,603
Capital leases	108,479	-	(70,797)	37,682	11,587
Governmental activities - Long-term liabilities	<u>\$ 532,227</u>	<u>\$ -</u>	<u>\$ (91,630)</u>	<u>\$ 440,597</u>	<u>\$ 39,190</u>
Business-type activities:					
Bonds payable	\$ 3,348,132	\$ -	\$ (105,691)	\$ 3,242,441	\$ 191,330
Capital leases	1,403	-	(318)	1,085	334
Business-type activities - Long-term liabilities	<u>\$ 3,349,535</u>	<u>\$ -</u>	<u>\$ (106,009)</u>	<u>\$ 3,243,526</u>	<u>\$ 191,664</u>

CITY OF BRUNSWICK, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

(6) 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.

(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.

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.

CITY OF BRUNSWICK, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(7) EMPLOYEE BENEFITS (CONTINUED)

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
2015	154,964

The City also contributed to the System, in amounts equal to 100% of the required contributions for the years ended June 30:

2012	\$128,921
2013	109,297
2014	127,454
2015	138,013

Actuarial methods and assumptions:

Actuarial	Entry Age Normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	24 years for State System
Asset Valuation method	5-year smoothed market, 20% collar
Inflation	2.9% general, 3.4% wage
Salary increases	3.4% to 11.9% including inflation
Discount rate	7.65%
Investment rate of return	7.65%
Retirement age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period 2006 – 2010.
Mortality	RP-2000 Combined Healthy Mortality Table, projected to year 2025
Actuarial valuation date	June 30, 2014

CITY OF BRUNSWICK, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(7) EMPLOYEE BENEFITS (CONTINUED)

Discount rate

A single discount rate of 7.65% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.65%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.65%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

System	1% Decrease to 6.65%	Current Discount	1% Increase to 8.65%
Employees Pension (muni)	\$ 1,855,544	\$ 970,619	\$ 222,303

(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, 2015, the City's federal grant expenditures did not exceed \$500,000; therefore, they are not subject to the Single Audit Act.

(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.

CITY OF BRUNSWICK, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(10) DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

For the year ended June 30, 2015, the City reported deferred outflows and inflows of resources related to the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of pension assumptions	\$ 14,042	\$ -
Net difference between projected and actual earnings on pension plan investments	-	106,242
City contributions subsequent to the measurement date	<u>138,013</u>	<u>-</u>
	<u>\$ 152,055</u>	<u>\$ 106,242</u>
Other deferred inflows:		
Property taxes - subsequent year		3,208
Unavailable revenues		29,980
Connection charges		6,944
Developer contributions		<u>12,160,955</u>
		<u>\$ 12,307,329</u>

(11) 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.

CITY OF BRUNSWICK, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(12) PRIOR PERIOD ADJUSTMENT AND RESTATEMENT DUE TO IMPLEMENTATION OF GASB 68

The City implemented GASB 68, *Accounting and Financial Reporting for Pensions*, in fiscal year 2015, which required the City to record its proportionate share of the net pension liability as a participating local governmental unit of the State of Maryland's Retirement System.

The effect on the currently presented financial statements is a restatement of the beginning net position of both governmental and business-type activities, as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Net position, beginning of year	\$ 9,835,470	\$ 15,907,399
Net pension liability	<u>(725,849)</u>	<u>(216,810)</u>
Net position, beginning of year - restated	<u>\$ 9,109,621</u>	<u>\$ 15,690,589</u>

(13) 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 October 22, 2015, 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, 2015	Original Budget	Final Budget	(Budgetary Basis) Actual	Variance with Final Budget- Positive (Negative)
REVENUES				
Taxes	\$ 2,467,300	\$ 2,649,300	\$ 2,774,881	\$ 125,581
Licenses and Permits	76,600	97,300	96,432	(868)
Intergovernmental Revenues	1,111,900	1,180,600	1,177,170	(3,430)
Service Charges				
User Fees	75,400	103,500	105,318	1,818
Tipping fees - landfill charge	176,500	183,500	203,734	20,234
Total Service Charges	<u>251,900</u>	<u>287,000</u>	<u>309,052</u>	<u>22,052</u>
Fines and Forfeitures	4,000	24,700	42,142	17,442
Miscellaneous Revenues	134,500	145,300	150,033	4,733
Total Revenues	<u>\$ 4,046,200</u>	<u>\$ 4,384,200</u>	<u>\$ 4,549,710</u>	<u>\$ 165,510</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, 2015	Original Budget	Final Budget	(Budgetary Basis) Actual	Variance with Final Budget- Positive (Negative)
EXPENDITURES				
General Government				
Mayor & Council	\$ 63,300	\$ 76,700	\$ 75,051	\$ 1,649
Elections	500	500	292	208
Financial Administration	661,400	667,600	618,522	49,078
Legal	25,000	25,000	-	25,000
Planning, Zoning, & Enforcement	231,200	229,200	211,818	17,382
Total General Government	981,400	999,000	905,683	93,317
Public Safety				
Police Department	971,200	1,037,900	1,041,437	(3,537)
Fire and Rescue Contributions	32,100	32,100	30,420	1,680
Total Public Safety	1,003,300	1,070,000	1,071,857	(1,857)
Public Works				
Highways and Streets	1,068,300	1,048,200	972,308	75,892
Sanitation and Waste Removal	328,500	328,500	320,445	8,055
Total Public Works	1,396,800	1,376,700	1,292,753	83,947
Recreation and Culture				
Parks	29,000	29,000	26,145	2,855
Swimming Pool	15,900	25,600	26,395	(795)
Campground	31,600	31,600	24,381	7,219
Skateboard Park	2,400	2,400	892	1,508
Special Events	72,700	72,700	62,457	10,243
Total Recreation and Culture	151,600	161,300	140,270	21,030
Economic Development				
Economic Development	76,800	151,800	125,123	26,677
Total Economic Development	76,800	151,800	125,123	26,677

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, 2015	Original Budget	Final Budget	(Budgetary Basis) Actual	Variance with Final Budget- Positive (Negative)
Miscellaneous				
Contributions	19,400	19,400	\$ 10,875	\$ 8,525
Insurance & Pension	4,000	5,600	5,581	19
Total Miscellaneous	<u>23,400</u>	<u>25,000</u>	<u>16,456</u>	<u>8,544</u>
Debt Service	<u>61,900</u>	<u>105,700</u>	<u>105,737</u>	<u>(37)</u>
Total Expenditures	3,695,200	3,889,500	3,657,879	231,621
Other Financing Sources (Uses)				
Transfer to Capital Projects	(351,000)	(494,700)	(494,700)	-
Total Other Financing Sources (Uses)	<u>(351,000)</u>	<u>(494,700)</u>	<u>(494,700)</u>	<u>-</u>
Net Change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 397,131</u>	<u>\$ 397,131</u>

The accompanying notes are an integral part of this schedule.

CITY OF BRUNSWICK, MARYLAND
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

For the year ended June 30, 2015	Employees' Pension System
City's proportion of the net pension liability	0.005469283%
City's proportionate share of the net pension liability	<u>\$ 970,619</u>
Covered-employee payroll	\$ 2,077,008
City's proportionate share of net pension liability as a percentage of its covered-employee payroll	<u>46.73%</u>
Plan Fiduciary Net position as a % of total pension liability	<u>71.87%</u>

SCHEDULE OF CONTRIBUTIONS AND RELATED RATIOS

For the year ended June 30, 2015	Employees' Pension System
Contractually required contribution	\$ 138,013
Actual contribution	<u>(138,013)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	\$ 2,077,008
Contributions as a percentage of covered-employee payroll	6.64%

The accompanying notes are an integral part of this statement.



Draper & McGinley, P.A.

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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, each major fund, and the aggregate remaining fund information of the City of Brunswick, Maryland, as of and for the year ended June 30, 2015, 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 October 22, 2015.

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.

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. 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as Findings 2015-001 and 2015-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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

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

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.

Drapw 4 McGinney .P.A.

Frederick, Maryland
October 22, 2015

CITY OF BRUNSWICK, MARYLAND
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2015

Finding 2015-001 – Document Retention

Condition: The City’s internal control procedures state that timesheets must be signed by the employee and the department head or their supervisor. In addition, the “Register Prior to Processing” report from the payroll company is to be reviewed and initialed by the City Administrator or Mayor on the last page next to the company payroll totals as evidence of that review.

On July 6, 2015, the City’s servers were compromised by a virus and several network files were lost from the fourth quarter of fiscal year 2015. Neither the original timesheets, the “Register Prior to Processing” report nor scanned copies could be produced for the pay period we selected in the fourth quarter for our testing of internal controls.

Criteria: Employees’ timesheets should be approved by their applicable department head/supervisor to verify the proper recording of an employee’s time before payroll is processed for the pay period. The “Register Prior to Processing” report should also be approved to verify the City’s payroll totals for the period before payroll is released.

Cause & Effect: The employees’ timesheets and the “Register Prior to Processing” report were scanned to the City’s internal network and the originals were shredded after the payroll was processed and released. Once the server was compromised, the City lost those scanned documents.

Without these documents, we could not verify that the employees’ hours and the total company payroll were approved before the payroll was released for the pay period selected for testing.

Recommendation: We recommend the City review and evaluate its current procedures to ensure adequate controls are in place to safeguard the City’s documents and records. We suggest the City physically retain original documents and records that cannot be reproduced for a reasonable period of time and to perform tests periodically to ensure that the controls over information technology are adequate to prevent losses in the future.

Response: The City met the criteria and has adequate controls over payroll processing. It provided documentation for all periods not subject to this data loss, and additional documentation of its payroll controls is available in the form of timecards, leave reports, and payroll reports. With regard to document retention, the City has reviewed and evaluated its current procedures, and will retain hardcopies of its documents that cannot be reproduced through the completion of the applicable audit.

The City recently purchased offsite cloud backup as a second backup process for the network file share. A three stage backup process is utilized for the financial system data: onsite backup to server, onsite backup to tape, and offsite backup to cloud. The City will be changing Information Technology contractors to provide better assurance of periodic maintenance and monitoring of its data backup systems.

CITY OF BRUNSWICK, MARYLAND
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Finding 2015-002 – Utility billing

Condition: The City provides water, sewer, and waste collection services to a majority of its residents. Water and sewer service charges are based on a customer's usage, and waste collection is a fixed fee. In addition to these service charges, certain customers are charged a \$5.00 monthly (or \$15.00 quarterly) fee per household or equivalent dwelling unit, which is collected by the City for the State of Maryland Bay Restoration Fund. Billings for these services are performed quarterly by City personnel.

During our test of utility billings, we selected a sample of sixty customer bills. We recomputed the billing based on authorized rates and individual customer water usage. We found two errors in our testing. We noted one bill that did not include the fixed waste collection fee and another bill that did not include the \$15.00 Bay Restoration Fund fee.

We expanded our procedures related to the Bay Restoration fees. We asked City personnel to review the entire 4th quarter billing register for any additional customers who were not being billed, and two additional customer accounts were identified that were not being charged Bay Restoration Fund fees.

Criteria: All residential and non-residential customers, are required to pay the Bay Restoration Fund fee unless paying it to another jurisdiction or exempt. The City has identified these exempt and other accounts. Most residential customers are to be charged the fixed waste collection fee; non-residential customers generally do not use the City's waste collection services.

Cause & Effect: The customer accounts in question were identified as having coding errors within the utility billing software which were not identified during the City's preliminary billing review.

The effect of the errors identified was not material. However, without controls in place to detect such misstatements the errors could have been larger. All the accounts identified with errors were adjusted within the utility billing software and the correct charges will be applied in FY 2016.

Recommendation: We recommend you evaluate your current procedures to ensure that coding errors are detected and corrected in a timely manner.

Response: The three Utility accounts identified during testing were accurately billed for the Bay Restoration fee the first time it was billed in April 2005; however, the Accounts Receivable (AR) code for this fee was removed prior to the July 2005 bills. While this may have been a valid management decision for these three accounts at the time, and while not all of its customers are charged these fees, the City has evaluated its current procedures. To detect future coding issues and correct them on a timely basis, Staff will create a tracking log for standard coding exceptions. This log will be compared to the "Billing Totals Recap" report on a quarterly basis.

In addition, during FY 2016 the City will transition from its legacy (2003) billing system to a more modern system with robust reporting features. During this transition the City will identify and purge any such coding errors from the legacy data, ensure that the account creation process will automate fee coding to the extent possible, and will develop and use standard reports to identify residual errors.