



CITY OF BRUNSWICK, MARYLAND

**FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION, AND
REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

FOR THE YEAR ENDED JUNE 30, 2016



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, 2016

MAYOR

Karin Tome

CITY COUNCIL

Ellis Burruss

Jeffrey Snoots

Carroll Jones

Walt Stull

Harry Lashley

Angel White

CITY ADMINISTRATOR

Bob McGrory

CITY AUDITOR

Draper & McGinley, P.A.

CITY ATTORNEY

Funk & Bolton, P.A.

CITY ENGINEER

Jeff Holtzinger

CHIEF OF POLICE

Milton Frech

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Mayor and City Council
City of Brunswick, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Brunswick, Maryland, as of and for the year ended June 30, 2016, 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, and each major fund of the City of Brunswick, Maryland, as of June 30, 2016, 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, budgetary comparison information, and pension schedules on pages 3 – 9 and 36 – 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 25, 2016, 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.

Drape & McGinity, P.A.

Frederick, Maryland
October 25, 2016

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, 2016.

Financial Highlights

- The City's assets totaled \$44,709,125; increasing \$2,178,490 from the prior year. Capital assets, net of accumulated depreciation, totaled \$37,523,341; representing 84% of total assets.
- The City's deferred outflows of resources totaled \$313,696 in FY 2016; the prior year balance was \$152,055. In FY 2015, the City changed its 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 \$5,540,243; increasing \$247,991 from the prior year. Long-term debt obligations were \$3,453,270 of this total.
- The City's governmental long-term debt obligations decreased \$39,190. Business-type long-term debt obligations decreased \$191,663.
- The City's deferred inflows of resources totaled \$11,817,443; decreasing \$489,886 from the prior year. Developer unearned revenue was \$11,670,915 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 \$107,550 of this total.
- The City's government-wide net position was \$27,665,135; increasing \$2,582,026 from the prior year. In the current year, net position for governmental activities increased \$766,780 and business-type activities increased \$1,815,246.
- Of the government-wide net position, net investment in capital assets totaled \$34,070,071; approximately a 4.7% increase from the prior year. The unrestricted portion of the City's net position was negative \$6,404,936. The deficit in unrestricted net position attributable to deferred inflows improved 14% from the prior year. Unearned Special Taxing District revenue in the business type activities represents a significant portion of the deficit.
- As of June 30, 2016, the City's governmental funds (General and Capital Projects) reported combined ending fund balances of \$4,407,541; an increase of \$358,744 compared to the prior year, an indication of the City's ongoing fiscal strength and stability. Approximately 58 percent of this amount is available for spending at the government's discretion; 40 percent is assigned to Capital Projects and Leases; and the remaining 2 percent is committed by ordinance.

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 36–37 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 19–35 of this report.

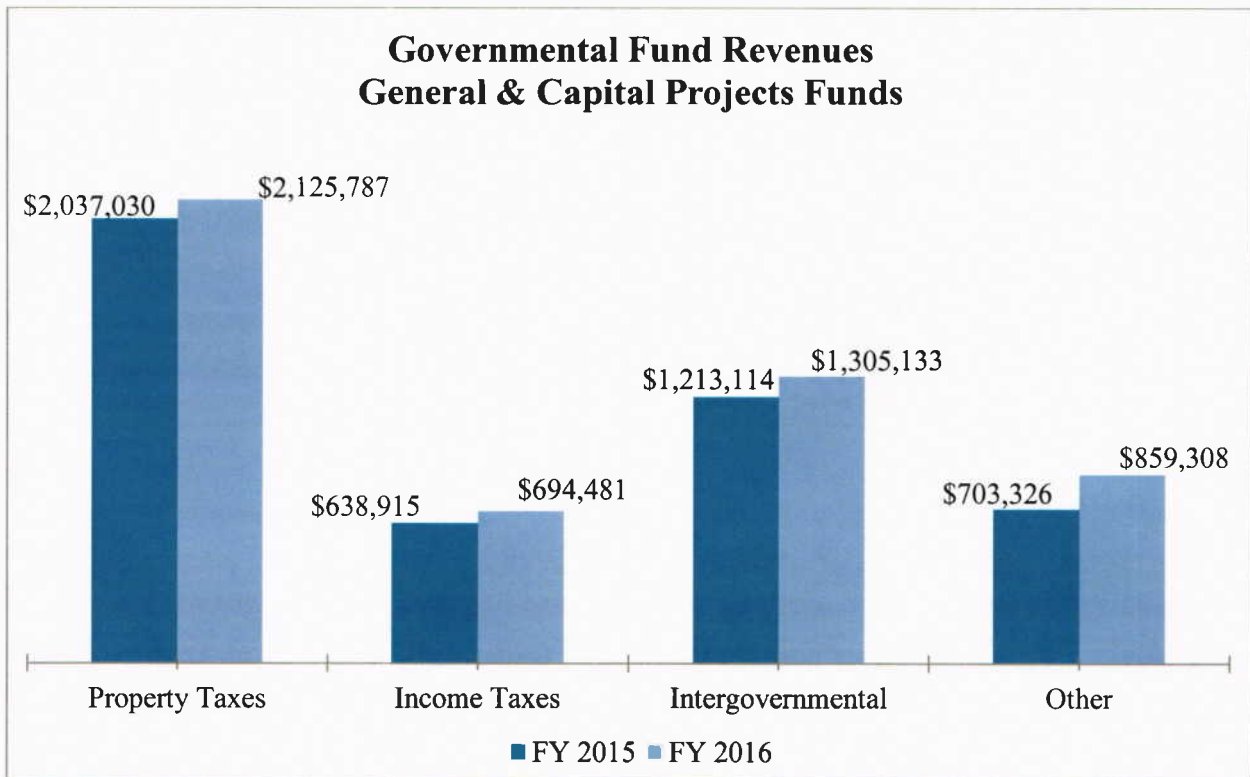
Government-wide Financial Analysis

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 \$27,665,135 as of June 30, 2016; this is a \$2,582,026 increase from FY 2015. The majority of net position reflects the City's net investment in capital assets (e.g. land, buildings, vehicles, and equipment). The City uses these capital assets 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, since the capital assets cannot be used to liquidate these liabilities.

Governmental activities increased the City's net position by \$766,780 and business-type activities increased net position by \$1,815,246. Additionally, per the Statement of Activities, the City's total revenue was \$10,291,861, a 37.9% increase from the prior year's revenue of \$7,464,160. Capital contributions of \$1,952,884 from the Special Taxing District developer represented 69% of the increase.

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 \$2,550,069. 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 \$2,576,164 to total fund expenditures of \$3,534,892.

General Fund Budget Variances

During FY 2016, the Mayor and City Council publicly amended the budget. At year's end, actual revenues were \$48,574 more than the budgeted amount. More specifically, taxes were \$7,750 more than expected, service charges were \$14,288 higher than the budgeted amount, and intergovernmental revenues exceeded the amount budgeted by \$23,165.

Total expenditures were \$74,308 less than the final budgeted amount. The Mayor and Council Department was under budget \$18,244 as a result of fewer contributions to non-profit organizations and sustainability projects that were postponed. The Planning and Zoning Department was under budget \$9,901 and the Financial Administration Department was under budget \$7,519 due to responsible management of operating expenses. The Parks function (newly comprised of the Parks Department, the Swimming Pool Department, the Campground Department, and the Skateboard Park Department) was under budget \$21,882 due to a more conservative approach to non-emergency maintenance items and the overall goal to manage resources responsibly.

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.

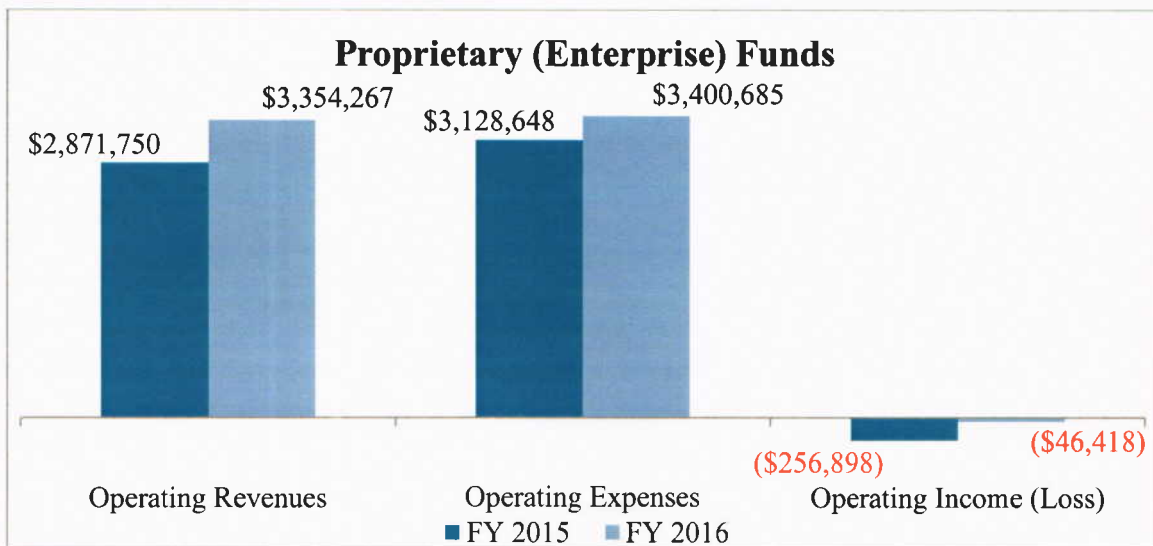
The Water Fund had operating income of \$28,373 as compared to an operating income of \$54,068 in FY 2015; the Sewer Fund had an operating loss of \$74,791 as compared to a loss of \$310,966 in FY 2015. The operating income/loss is derived by calculating the difference between operating revenues and operating expenses.

Depreciation expense for business-type activities amounted to \$1,507,688. 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 2016 rate-setting.

For the Water Fund, operating income decreased 47.5% from the prior year. Total operating revenues increased 15.8%; whereas total operating expenses increased 18.3%. While there was approximately a 14.9% increase in Water service charge revenue, there was a 4.6% increase in personnel expenses caused by pension expense and a 64.2% increase in operating expenses caused by a \$200,000 increase in water utility expenses for City owned properties. This expense tripled in FY2016 due to increased flow on a run off meter used to regulate chlorination at the end of a water line. It is important to note that there is an offsetting revenue component for this expense.

For the Sewer Fund, the operating loss improved 76% from the prior year. The ongoing operating loss is largely attributable to the effects of depreciation expense on the fund. In FY 2016, operating expenses for the Sewer Fund included depreciation and amortization costs of \$956,358; approximately 53.9% of total operating expenses. While there was approximately a 17.2% increase in Sewer service charge revenue, there was a 4.7% increase in operating expenses caused by an increase in Utility expenses.

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	
	2015	2016	2015	2016
REVENUES				
Program Revenues				
Operating grants and contributions	346,458	316,526	388,458	358,526
Charges for services	412,020	492,695	3,128,532	3,645,514
General Revenues				
Taxes	2,774,881	2,917,550	2,774,881	2,917,550
Intergovernmental	866,657	884,239	866,657	884,239
Fines and Forfeitures	42,142	42,429	42,142	42,429
Miscellaneous	150,227	217,981	263,490	377,430
Capital grants and contributions	-	113,289	-	2,066,173
Total Revenues	4,592,385	4,984,709	7,464,160	10,291,861
PROGRAM EXPENSES				
General government	943,905	1,114,106	943,905	1,114,106
Public safety	1,096,759	1,006,929	1,096,759	1,006,929
Public works	1,537,986	1,760,777	1,537,986	1,760,777
Recreation and culture	224,619	226,574	224,619	226,574
Economic development	124,806	87,536	124,806	87,536
Interest	14,107	13,171	14,107	13,171
Miscellaneous	16,456	8,836	16,456	8,836
Business-type activities	-	-	3,222,623	3,491,906
TOTAL PROGRAM EXPENSES	3,958,638	4,217,929	7,181,261	7,709,835
TRANSFERS	-	-	-	-
CHANGES IN NET POSITION	633,747	766,780	282,899	2,582,026