



CITY OF BRUNSWICK, MARYLAND

**Financial Statements, Supplementary Information,
and Independent Auditors' Report**

For the Year Ended June 30, 2017

CITY OF BRUNSWICK, MARYLAND
SUMMARY OF ELECTED AND APPOINTED OFFICIALS
AS OF JUNE 30, 2017

MAYOR

Jeffrey Snoots

CITY COUNCIL

Wayne Allgaier

Vaughn Ripley

Carroll Jones

Tom Smith

Harry Lashley

Angel White

CITY ADMINISTRATOR

David Dunn

CITY AUDITOR

DeLeon and Stang,
CPAs and Advisors

CITY ATTORNEY

Funk & Bolton, P.A.

CITY ENGINEER

Jeff Holtzinger

CHIEF OF POLICE

Milton Frech

City of Brunswick, Maryland
For the Year Ended June 30, 2017

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INDEPENDENT AUDITORS' REPORT

**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, 2017, 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.

City of Brunswick, Maryland
Independent Auditors' Report
Page 2

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, 2017, 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 – 11 and 43 – 47 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 30, 2017, 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.

DeLeon & Stang

DeLeon and Stang, CPAs and Advisors
Frederick, Maryland
October 30, 2017



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, 2017.

Financial Highlights

- The City's assets totaled \$45,811,481; increasing \$1,102,356 from the prior year. Capital assets, net of accumulated depreciation, totaled \$38,077,690; representing 83% of total assets.
- The City's deferred outflows of resources totaled \$436,899 in FY 2017; the prior year balance was \$313,696. These amounts represent financial reporting for pensions as required by Governmental Accounting Standards Board Statement No. 68 (GASB 68).
- The City's liabilities totaled \$5,459,749; decreasing \$80,494 from the prior year. Long-term debt obligations were \$3,306,392 of this total.
- The City's deferred inflows of resources totaled \$11,058,238; decreasing \$759,205 from the prior year. Developer unearned revenue attributable to Brunswick Crossing tap fee credits was \$10,861,287 of this total. The net difference between projected and actual earnings on pension plan investments was \$127,630 of this total. See Note 1 for more details.
- Deferred outflows of resources relating to changes in the City's proportionate share of the Net Pension Liability of the Maryland State Retirement and Pension System were inadvertently omitted for the year ended June 30, 2016 (based on the application of paragraph 54 of GASB No. 68). The effect on the currently presented financial statements is a restatement of the beginning net position of both governmental and business-type activities. See Notes 1 and 13 for more details.
- The City's government-wide net position was \$29,730,393; increasing \$1,908,353 from the restated FY 2016 net position. In the current year, net position for governmental activities increased \$2,042,437 and business-type activities decreased \$134,084.
- Of the government-wide net position, net investment in capital assets totaled \$34,771,298; approximately a 2.1% increase from the prior year. The unrestricted portion of the City's net position was negative \$5,040,905. The deficit in unrestricted net position, attributable to deferred inflows, improved 21.3% from the prior year. Unearned developer revenue in the business type activities represents a significant portion of the deficit.
- As of June 30, 2017, the City's governmental funds (General and Capital Projects) reported combined ending fund balances of \$4,600,489; an increase of \$192,948 compared to the prior year, an indication of the City's ongoing fiscal strength and stability. Approximately 25.5% of the total governmental fund balance is available for spending at the government's discretion; 73.9% is assigned to Capital Projects and Leases; and the remaining .6% is committed by ordinance.

Management's Discussion and Analysis

- The Mayor and Council voted to make a one-time transfer of \$1,300,000 from General Fund Unassigned Fund Balance to Capital Projects Fund Assigned Fund Balance for future capital projects approved annually in the Capital Improvement Program. This amount is shown as a deficiency of revenues and other financing sources over expenditures and other financing uses in the General Fund and then shows as an excess in the Capital Projects Fund on page 13.
- The City's governmental long-term debt obligations decreased \$65,727. Business-type long-term debt obligations decreased \$81,151. Although the City signed two new capital leases to upgrade audio/visual equipment and information technology equipment and infrastructure for \$119,345, principal payments of \$266,223 caused a net decrease.
- At the end of the prior fiscal year, the City had approximately \$85,000 in unspent bond proceeds. In FY 2017, the City opted to use these bond proceeds towards the Maple Avenue Water Line capital project completed on June 30, 2016. The City reallocated \$111,475 of the outstanding debt liability from General Fund to Water Fund based on an increase in actual Water Fund projects funded by the 2012 bond proceeds.

Grant Highlights

The following is an overview of the City's ongoing grants that were awarded, received or applied for during FY 2017.

- Berlin Cemetery – Funds were sought from the MD Heart of the Civil War Heritage Area for the rehabilitation of the Berlin Cemetery, however, the application was denied.
- Little League Concession Stand/Restroom – A Program Open Space grant was previously awarded in FY 2015 totaling \$65,000, with \$6,500 in City matching funds contributed but no activity has taken place. This grant will be reprogrammed for a Sports Complex expansion project in FY2018.
- Mini Golf - A Program Open Space grant was awarded totaling \$26,000, with \$2,900 in City matching funds contributed. The mini golf project was completed in June 2017.
- Dog Park - A Community Parks and Playgrounds grant was awarded totaling \$37,150. To date, \$22,990 has been expended, with the remaining funds anticipated to be spent in the spring of 2018.
- MD Department of Environment – An operating grant was awarded totaling \$42,000 based on Enhanced Nutrient Removal (ENR) performance by the Waste Water Treatment Plant. These ENR funds were used to offset operational and maintenance expenses in the Sewer Fund in FY 2017.
- State Homeland Security Grant Program (SHSP) Federal FY 2016 – The City's Police Department was a sub recipient of the County's SHSP totaling \$7,756. The grant funds were used in FY 2017 to purchase mobile radios and a computer.

Overview of the Financial Statements

The discussion and analysis introduce the City of Brunswick's basic financial statements.

Management's Discussion and Analysis

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 12 and 13 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.

Management's Discussion and Analysis

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 43-44 of this report.

The basic governmental fund financial statements are on pages 14-16 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 are on pages 17-20 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 21-42 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 position may serve over time as a useful indicator of a government's financial condition. Figure 1 shown below provides a summary of the City's net position at June 30, 2017 and 2016.

The assets and deferred outflows of the City exceeded liabilities and deferred inflows by \$29,730,393 as of June 30, 2017; this is a \$1,908,353 increase from the restated FY 2016 net position. The largest portion of the City's net position reflects its investments in capital assets (e.g. land, buildings, vehicles, equipment, infrastructure), less accumulated depreciation and less any related outstanding debt used to acquire those assets. 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, as the capital assets cannot be used to liquidate these liabilities.

Management's Discussion and Analysis

City of Brunswick Net Position Summary Figure 1

	Governmental Activities		Business-Type Activities		Total	
	2017	2016*	2017	2016*	2017	2016*
Current and other assets	\$ 4,988,363	\$ 4,817,119	\$ 2,745,428	\$ 2,368,665	\$ 7,733,791	\$ 7,185,784
Capital assets, net	9,371,384	7,518,023	28,706,306	30,005,318	38,077,690	37,523,341
Deferred outflows of resources	338,586	299,263	98,313	86,908	436,899	386,171
Total assets and deferred outflows of resources	14,698,333	12,634,405	31,550,047	32,460,891	46,248,380	45,095,296
Other liabilities	484,186	517,724	274,056	208,474	758,242	726,198
Long-term liabilities outstanding	335,680	401,407	2,970,712	3,051,863	3,306,392	3,453,270
Net pension liability	1,081,228	1,054,532	313,887	306,243	1,395,115	1,360,775
Deferred inflows of resources	123,515	29,455	10,934,723	11,703,558	11,058,238	11,733,013
Total liabilities and deferred inflows of resources	2,024,609	2,003,118	14,493,378	15,270,138	16,517,987	17,273,256
Net position:						
Net investment in capital assets, net	9,035,704	7,116,616	25,735,594	26,953,455	34,771,298	34,070,071
Unrestricted	3,638,020	3,514,671	(8,678,925)	(9,762,702)	(5,040,905)	(6,248,031)
Total net position	\$ 12,673,724	\$ 10,631,287	\$ 17,056,669	\$ 17,190,753	\$ 29,730,393	\$ 27,822,040

*2016 figures updated to reflect prior period adjustment described in Note 13

At June 30, 2017, the City is able to report positive balances in net position in the net investment in capital assets category for both the government as a whole and for its separate governmental and business-type activities. However, consistent with similar years, the business-type activities reported a negative balance in unrestricted net position. The City is happy to report there was positive movement in this negative balance in the current year.

Governmental Activities

Governmental activities increased the City's net position by \$2,042,437 representing the exclusive cause for growth in the City's net position as shown in Figure 2. A key element for the large increase of 68.8% in the current year net position was the City's final acceptance of approximately \$1,400,000 in contributed capital assets from the Special Taxing District developer.

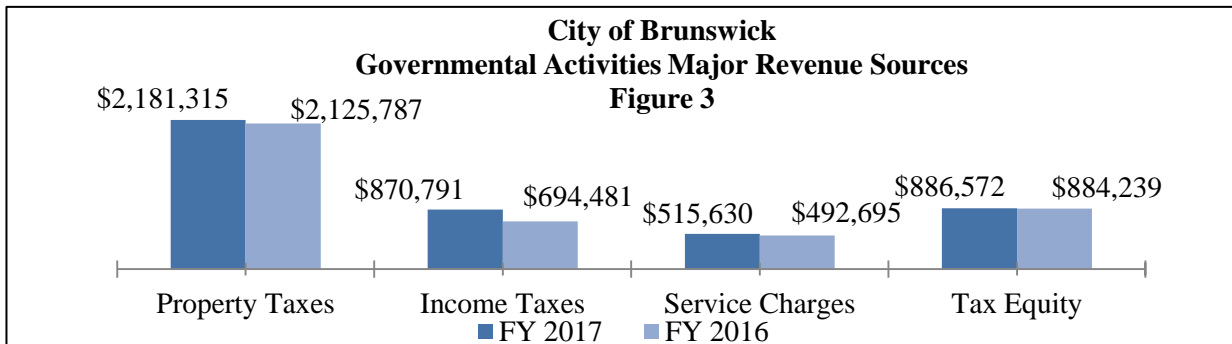
Figure 2 below shows the City's revenue and expenses of the governmental and business-type activities for the years ended June 30, 2017 and 2016.

Management's Discussion and Analysis

City of Brunswick
Statement of Activities - Change in Net Position
Figure 2

	Governmental Activities		Business-Type Activities		Total		Change
	2017	2016	2017	2016	2017	2016	
REVENUES							
Program Revenues							
Operating grants and contributions	316,947	316,526	42,000	42,000	358,947	358,526	421
Charges for services	515,630	492,695	3,305,801	3,152,819	3,821,431	3,645,514	175,917
Capital grants and contributions	1,454,118	113,289	-	1,952,884	1,454,118	2,066,173	(612,055)
General Revenues							
Taxes	3,153,991	2,917,550	-	-	3,153,991	2,917,550	236,441
County Tax Equity	886,572	884,239	-	-	886,572	884,239	2,333
Rental income	3,025	3,300	89,391	93,917	92,416	97,217	(4,801)
Miscellaneous	248,321	257,110	70,613	65,532	318,934	322,642	(3,708)
TOTAL REVENUES	<u>6,578,604</u>	<u>4,984,709</u>	<u>3,507,805</u>	<u>5,307,152</u>	<u>10,086,409</u>	<u>10,291,861</u>	<u>(205,452)</u>
PROGRAM EXPENSES							
General government	1,565,796	1,122,942	-	-	1,565,796	1,122,942	442,854
Public safety	1,122,223	1,006,929	-	-	1,122,223	1,006,929	115,294
Public works	1,113,159	1,433,073	-	-	1,113,159	1,433,073	(319,914)
Waste collection and disposal	382,832	327,704	-	-	382,832	327,704	55,128
Recreation and culture	224,377	226,574	-	-	224,377	226,574	(2,197)
Economic development	118,044	87,536	-	-	118,044	87,536	30,508
Interest	9,736	13,171	-	-	9,736	13,171	(3,435)
Business-type activities	-	-	3,641,889	3,491,906	3,641,889	3,491,906	149,983
TOTAL EXPENSES	<u>4,536,167</u>	<u>4,217,929</u>	<u>3,641,889</u>	<u>3,491,906</u>	<u>8,178,056</u>	<u>7,709,835</u>	<u>468,221</u>
TRANSFERS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	<u>2,042,437</u>	<u>766,780</u>	<u>(134,084)</u>	<u>1,815,246</u>	<u>1,908,353</u>	<u>2,582,026</u>	<u>(673,673)</u>

In FY 2017, the City's revenues from governmental activities totaled \$6,578,604; taxes (property taxes, income taxes, public utility taxes) represented 47.9% of total revenue. Figure 3 below shows a year-to-year comparison of major revenue sources.



In FY 2017, the City's expenses from governmental activities totaled \$4,536,167; general government expenses represented 34.5% of total expenses. In prior years, City officials reduced routine maintenance costs and deferred non-essential purchases in an attempt to maintain a healthy net position through the recession. Conversely, City officials supported a 7.5% increase in expenses in the current year based on improvements in economic trends.

Management's Discussion and Analysis

Business-type Activities

Referring to Figure 2, business-type activities decreased the City's net position by \$134,084. A key element for the negative shift in FY 2017 net position was the City's final acceptance of approximately \$1,950,000 in contributed capital assets from the Special Taxing District developer in FY 2016.

In FY 2017, the City's revenues from business-type activities totaled \$3,507,805; utility service charges for water and sewer represented 94.2% of total revenue. While rates remained static, service charge revenue increased \$152,982. This 4.8% increase in revenue helped offset the 4.3% increase in utility related expenses.

Financial Analysis of the City's Funds

As noted earlier, the City of Brunswick uses fund accounting to ensure and demonstrate compliance with municipal legal requirements. The following is an analysis of the City's governmental and proprietary funds.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance can be a useful measure of a City's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,173,116. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance noted above and total fund balance of \$1,276,164 to total fund expenditures of \$3,978,057. The City's total fund balance represents 32% of general fund expenditures.

At June 30, 2017, the governmental funds of City of Brunswick reported a combined fund balance of \$4,600,489 with a net increase in fund balance of \$192,948. Included in this change in fund balance is the \$1,300,000 transfer from General Fund unassigned fund balance to Capital Projects Fund assigned fund balance as noted in the financial highlight section.

General Fund Budget Variances

The City uses the budget as a planning tool and as such, the Mayor and City Council publicly amended the budget throughout the year on an as needed basis. Department Heads, finance staff, and the Finance Committee reviewed and discussed the budget on a monthly basis. At year's end, actual revenues were \$5,227 less than the amended budgeted amount. More specifically, intergovernmental revenues were \$4,580 less than the budgeted amount.

Total expenditures were \$107,043 less than the amended budgeted amount. The Planning and Zoning Department was under budget \$6,536 and the Financial Administration Department was under budget \$13,477 due to Management's effort to control costs by using a more conservative approach to non-emergency maintenance items. The Police Department was also under budget \$17,227 due to the overall goal to manage resources responsibly. Another driving force to decreased expenses was the Sidewalk Loan Program. The Public Works Department was under budget \$50,343 primarily due to this program. To allocate costs for the Sidewalk Loan Program, the City budgeted the program as an expense even though the actual loan creates a long-term receivable on the Balance Sheet. As a result of increased

Management's Discussion and Analysis

revenues and reduced expenses, the City transferred more than the budgeted amount to the Capital Projects Fund.

While the \$1,300,000 transfer from General Fund unassigned fund balance to Capital Projects Fund assigned fund balance was approved by Mayor and City Council as mentioned above, the City did not process this transfer as a budget amendment. The City viewed this as a one-time governmental reserve transfer, unlike an annual operating transfer. However, per GASB 34, all transfers are considered current year operating transfers; thus the \$1,300,000 variance shown in Other Financing Sources (Uses).

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 an operating income of 89,008; an increase of 213% from the FY 2016 amount of \$28,373. The Sewer Fund had an operating loss of \$133,516 as compared to a loss of \$74,791 in FY 2016. The operating income/loss is derived by calculating the difference between operating revenues and operating expenses.

Depreciation expense for business-type activities amounted to \$1,574,190; an increase of 4.4%. This expense is not a current use of funds; however, it is a measure of the replacement cost of an asset at the end of its useful life. Industry standard is to set Service Fees to cover depreciation costs to prevent borrowing the cost of the replacement asset. While the City does not currently include the full cost of depreciation expense in the water and sewer fees charged to customers, a percentage of depreciation was included when rates were reviewed in FY 2015.

For the Water Fund, total operating revenues increased 5.3%; whereas total operating expenses only increased 1.6%. The driving factor for the Water Fund revenue increase was service charge revenue; wireless telecommunication income remained static. Although department wide, there was only a 1.6% increase in expenses, within the Water Fund department, there was a 8.1% increase in personnel expenses due to merit increases and increased pension expense. Conversely, there was a 8.1% decrease in operating expenses; a reflection of Management's effort to control costs by using a more conservative approach to non-emergency maintenance items.

For the Sewer Fund, the operating loss grew 78.5% from the prior year. The ongoing operating loss is largely attributable to the effects of depreciation expense on the Sewer Fund. In FY 2017, operating expenses for the Sewer Fund included depreciation and amortization costs of \$990,764; 52.2% of total operating expenses. Total operating revenues increased 3.9%; whereas total operating expenses increased 7.1%. The driving factor for the Sewer Fund expense increase was the \$177,763 increase in operating expenses, a 45.6% increase from the prior year. More specifically, the City had increased tipping charges related to a microorganism level issue. To stabilize the level issue, additional chemicals were purchased, the plant used more electricity, and additional hauling of activated sludge was necessary.

Management's Discussion and Analysis

Highlights of Fiscal Year 2018

- 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 the Special Taxing District. Property assessments, other than appeals, will have a slight increase phased in over the next three years per reassessed values as of January 1, 2017.
- As a result of the increase in assessable base described above and the continued fiscal health in the General Fund, City officials voted to decrease the property tax rate from \$0.44 per \$100 of assessed value to \$0.430 per \$100 of assessed value.
- Tax Equity revenue received from Frederick County is projected to increase approximately 5.3% from \$886,572 in FY 2017 to \$933,240 in FY 2018.
- In FY 2018, approximately \$19,200 will be transferred from the General Fund to the Capital Projects Fund for projects.
- Vehicle purchases planned for FY 2018 in the Capital Projects Fund will be cash purchases to avoid incurring additional debt.
- The City is working with a municipal financial advisor to procure funding for approximately \$2.5 million in FY 2018. The new borrowings will help the City stay steadfast with the goal of substantial completion for the new Emergency Operation Center/PD/DPW building.
- The City raised utility rates in FY 2018 to cover increased operational costs and to build a reserve for necessary capital infrastructure projects. A minimum utility bill for base usage of trash, water, and sewer increased \$5.50.

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, 2017

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 4,396,571	\$ 2,085,761	\$ 6,482,332
Restricted cash and investments	234,865	18,754	253,619
Taxes receivable	6,748	-	6,748
Accounts receivable, net of allowance	102,141	571,361	673,502
Due from other governmental agencies	209,522	53,538	263,060
Other receivables	38,516	1,389	39,905
Other assets	-	14,625	14,625
Capital assets:			
Capital assets not being depreciated	546,745	150,734	697,479
Capital assets being depreciated	13,029,338	46,936,937	59,966,275
Less: Accumulated depreciation	<u>(4,204,699)</u>	<u>(18,381,365)</u>	<u>(22,586,064)</u>
Capital assets, net	<u>9,371,384</u>	<u>28,706,306</u>	<u>38,077,690</u>
Total Assets	<u>14,359,747</u>	<u>31,451,734</u>	<u>45,811,481</u>
Deferred Outflows of Resources	<u>338,586</u>	<u>98,313</u>	<u>436,899</u>
Total Assets and Deferred Outflows of Resources	<u>14,698,333</u>	<u>31,550,047</u>	<u>46,248,380</u>
Liabilities			
Accounts payable	\$ 115,641	\$ 199,769	\$ 315,410
Accrued liabilities	41,075	11,119	52,194
Compensated absences	120,915	44,414	165,329
Escrow deposits	140,598	18,754	159,352
Deposits held for specific purposes	65,957	-	65,957
Noncurrent liabilities			
Debt obligations due within one year	56,313	260,861	317,174
Debt obligations due in more than one year	279,367	2,709,851	2,989,218
Net pension liability	<u>1,081,228</u>	<u>313,887</u>	<u>1,395,115</u>
Total Liabilities	<u>1,901,094</u>	<u>3,558,655</u>	<u>5,459,749</u>
Deferred Inflows of Resources	<u>123,515</u>	<u>10,934,723</u>	<u>11,058,238</u>
Total Liabilities and Deferred Inflows of Resources	<u>2,024,609</u>	<u>14,493,378</u>	<u>16,517,987</u>
Net Position			
Net investment in capital assets	9,035,704	25,735,594	34,771,298
Unrestricted	<u>3,638,020</u>	<u>(8,678,925)</u>	<u>(5,040,905)</u>
Total Net Position	<u>\$ 12,673,724</u>	<u>\$ 17,056,669</u>	<u>\$ 29,730,393</u>

The accompanying notes are an integral part of this statement.

CITY OF BRUNSWICK, MARYLAND
Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary government							
Governmental activities							
General government	\$ (1,565,796)	\$ 199,264	\$ 1,103	\$ -	\$ (1,365,429)	\$ -	\$ (1,365,429)
Public safety	(1,122,223)	4,822	77,778	-	(1,039,623)	-	(1,039,623)
Public works	(1,113,159)	21,892	201,131	1,405,618	515,482	-	515,482
Waste collection and disposal	(382,832)	215,193	-	-	(167,639)	-	(167,639)
Recreation and culture	(224,377)	73,994	-	48,500	(101,883)	-	(101,883)
Community and economic development	(118,044)	465	36,935	-	(80,644)	-	(80,644)
Interest expense	(9,736)	-	-	-	(9,736)	-	(9,736)
Total governmental activities	<u>(4,536,167)</u>	<u>515,630</u>	<u>316,947</u>	<u>1,454,118</u>	<u>(2,249,472)</u>	<u>-</u>	<u>(2,249,472)</u>
Business-type activities							
Water services	(1,696,662)	1,606,456	-	-	-	(90,206)	(90,206)
Sewer services	(1,945,227)	1,699,345	42,000	-	-	(203,882)	(203,882)
Total business-type activities	<u>(3,641,889)</u>	<u>3,305,801</u>	<u>42,000</u>	<u>-</u>	<u>-</u>	<u>(294,088)</u>	<u>(294,088)</u>
Total primary government	<u>\$ (8,178,056)</u>	<u>\$ 3,821,431</u>	<u>\$ 358,947</u>	<u>\$ 1,454,118</u>	<u>(2,249,472)</u>	<u>(294,088)</u>	<u>(294,088)</u>
General Revenues							
Taxes							
Property taxes, levied for general purposes					2,181,315	-	2,181,315
Income taxes					870,791	-	870,791
Other local taxes					101,885	-	101,885
County tax equity					886,572	-	886,572
Income on investments					7,232	1	7,233
Rental income					3,025	89,391	92,416
Administrative fees					-	10,000	10,000
Miscellaneous income					241,089	60,612	301,701
Total general revenues					<u>4,291,909</u>	<u>160,004</u>	<u>4,451,913</u>
Change in net position					2,042,437	(134,084)	1,908,353
Net position - beginning of year, restated					<u>10,631,287</u>	<u>17,190,753</u>	<u>27,822,040</u>
Net position - end of year					<u>\$ 12,673,724</u>	<u>\$ 17,056,669</u>	<u>\$ 29,730,393</u>

The accompanying notes are an integral part of this statement.

CITY OF BRUNSWICK, MARYLAND
Balance Sheet
Governmental Funds
June 30, 2017

	Governmental Fund Types		Total Governmental Funds
	General	Capital Projects	
Assets			
Cash and cash equivalents	\$ 4,396,571	\$ -	\$ 4,396,571
Restricted cash and investments	206,555	28,310	234,865
Receivables:			
Taxes	6,748	-	6,748
Customers	102,141	-	102,141
Other governments	160,532	48,990	209,522
Other	38,516	-	38,516
Due from other funds	-	3,248,066	3,248,066
Total Assets	\$ 4,911,063	\$ 3,325,366	\$ 8,236,429
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	\$ 114,600	\$ 1,041	\$ 115,641
Accrued liabilities	41,075	-	41,075
Escrow deposits	140,598	-	140,598
Deposits held for specific purposes	65,957	-	65,957
Due to other funds	3,248,066	-	3,248,066
Total Liabilities	3,610,296	1,041	3,611,337
Deferred Inflows of Resources			
Unearned revenues	24,603	-	24,603
Total Deferred Inflows of Resources	24,603	-	24,603
Fund Balances			
Nonspendable	-	-	-
Restricted	-	-	-
Committed	-	28,310	28,310
Assigned	103,048	3,296,015	3,399,063
Unassigned	1,173,116	-	1,173,116
Total Fund Balances	1,276,164	3,324,325	4,600,489
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 4,911,063	\$ 3,325,366	\$ 8,236,429

The accompanying notes are an integral part of this statement.

CITY OF BRUNSWICK, MARYLAND
Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues			
Local property taxes	\$ 2,181,315	\$ -	\$ 2,181,315
Local income taxes	870,791	-	870,791
Other local taxes	101,885	-	101,885
Licenses and permits	113,773	-	113,773
Intergovernmental revenues	1,203,520	48,500	1,252,020
User fees	149,757	9,804	159,561
Waste collection and disposal	215,193	-	215,193
Fines and forfeitures	27,103	-	27,103
Miscellaneous	251,336	9	251,345
Total Revenues	<u>5,114,673</u>	<u>58,313</u>	<u>5,172,986</u>
Expenditures			
General government	1,018,085	1,440	1,019,525
Public safety	1,155,111	91,684	1,246,795
Public works	1,069,757	826,169	1,895,926
Waste collection and disposal	382,832	-	382,832
Recreation and culture	180,862	62,231	243,093
Economic development	116,404	-	116,404
Debt service	55,006	-	55,006
Total Expenditures	<u>3,978,057</u>	<u>981,524</u>	<u>4,959,581</u>
Excess (Deficiency) of Revenues over Expenditures	1,136,616	(923,211)	213,405
Other Financing Sources (Uses)			
Transfers	(2,416,159)	2,416,159	-
Debt proceeds	91,018	-	91,018
Debt reallocation	(111,475)	-	(111,475)
Total Other Financing Sources (Uses)	<u>(2,436,616)</u>	<u>2,416,159</u>	<u>(20,457)</u>
Excess of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(1,300,000)	1,492,948	192,948
Fund Balance - July 1, 2016	<u>2,576,164</u>	<u>1,831,377</u>	
Fund Balance - June 30, 2017	<u>\$ 1,276,164</u>	<u>\$ 3,324,325</u>	
Adjustments for the Statement of Activities			
Capital outlay			983,545
Contribution of capital assets			1,405,618
Depreciation expense			(534,068)
Compensated absences			(1,232)
Debt service expenditures			45,270
Loss on disposal			(1,733)
Debt proceeds			(91,018)
Debt reallocation			111,475
Net pension adjustment			(68,368)
Change in Net Position of Governmental Activities			<u>\$ 2,042,437</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, 2017

Fund balances - governmental funds	\$ 4,600,489
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	9,371,384
Deferred outflows of resources	338,586
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds	
Long-term debt	(335,680)
Compensated absences	(120,915)
Net pension liability	(1,081,228)
Deferred inflows of resources, pension-related	<u>(98,912)</u>
Net position - governmental activities	<u>\$ 12,673,724</u>

The accompanying notes are an integral part of this statement.

CITY OF BRUNSWICK, MARYLAND
Statement of Net Position
Proprietary Funds
June 30, 2017

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 918,249	\$ 1,167,512	\$ 2,085,761
Restricted cash	14,732	4,022	18,754
Due from customers	275,041	296,320	571,361
Due from other governments	-	53,538	53,538
Other receivables	1,389	-	1,389
Other assets	14,625	-	14,625
Due from water fund	-	2,858,185	2,858,185
Total Current Assets	<u>1,224,036</u>	<u>4,379,577</u>	<u>5,603,613</u>
Capital Assets			
Capital assets not being depreciated	92,353	58,381	150,734
Capital assets being depreciated	17,770,026	29,166,911	46,936,937
Accumulated depreciation	<u>(7,009,853)</u>	<u>(11,371,512)</u>	<u>(18,381,365)</u>
Total Capital Assets, net	<u>10,852,526</u>	<u>17,853,780</u>	<u>28,706,306</u>
Total Assets	12,076,562	22,233,357	34,309,919
Deferred Outflows of Resources	<u>50,277</u>	<u>48,036</u>	<u>98,313</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 12,126,839</u>	<u>\$ 22,281,393</u>	<u>\$ 34,408,232</u>
Liabilities			
Current Liabilities			
Accounts payable	\$ 100,743	\$ 99,026	\$ 199,769
Accrued liabilities	5,900	5,219	11,119
Compensated absences	25,483	18,931	44,414
Escrow deposits	14,732	4,022	18,754
Current portion of debt obligations	101,094	159,767	260,861
Due to sewer fund	<u>2,858,185</u>	<u>-</u>	<u>2,858,185</u>
Total Current Liabilities	<u>3,106,137</u>	<u>286,965</u>	<u>3,393,102</u>
Noncurrent Liabilities			
Net pension liability	176,426	137,461	313,887
Long-term debt obligations	<u>1,411,167</u>	<u>1,298,684</u>	<u>2,709,851</u>
Total Noncurrent Liabilities	<u>1,587,593</u>	<u>1,436,145</u>	<u>3,023,738</u>
Total Liabilities	4,693,730	1,723,110	6,416,840
Deferred Inflows of Resources	<u>4,856,107</u>	<u>6,078,616</u>	<u>10,934,723</u>
Total Liabilities and Deferred Inflows of Resources	<u>9,549,837</u>	<u>7,801,726</u>	<u>17,351,563</u>
Net Position			
Net investment in capital assets	9,340,265	16,395,329	25,735,594
Unrestricted	<u>(6,763,263)</u>	<u>(1,915,662)</u>	<u>(8,678,925)</u>
Total Net Position	<u>\$ 2,577,002</u>	<u>\$ 14,479,667</u>	<u>\$ 17,056,669</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
For the Year Ended June 30, 2017

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating Revenues			
Charges for services	\$ 1,606,456	\$ 1,699,345	\$ 3,305,801
Rental income	89,391	-	89,391
Operating grants	-	42,000	42,000
Miscellaneous	46,201	24,411	70,612
Total Operating Revenues	1,742,048	1,765,756	3,507,804
Operating Expenses			
Personnel services	543,351	340,980	884,331
Operating	526,263	567,528	1,093,791
Depreciation	583,426	990,764	1,574,190
Total Operating Expenses	1,653,040	1,899,272	3,552,312
Operating income (loss)	89,008	(133,516)	(44,508)
Nonoperating Revenues (Expenses)			
Interest on invested funds	-	1	1
Interest expense and fees	(43,622)	(45,955)	(89,577)
Total Nonoperating Revenues (Expenses)	(43,622)	(45,954)	(89,576)
Net income (loss)	45,386	(179,470)	(134,084)
Change in Net Position	45,386	(179,470)	(134,084)
Total Net Position, beginning of year, restated	2,531,616	14,659,137	17,190,753
Total Net Position, end of year	\$ 2,577,002	\$ 14,479,667	\$ 17,056,669

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, 2017

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from customers and users	\$ 1,384,482	\$ 1,195,429	\$ 2,579,911
Cash received from other governments	-	134,298	134,298
Cash payments to developers	(28)	(18,008)	(18,036)
Other operating cash receipts	37,091	13,657	50,748
Cash payments to suppliers	(509,149)	(491,581)	(1,000,730)
Cash payments to employees for services	(505,502)	(360,193)	(865,695)
Net cash provided by operating activities	<u>406,894</u>	<u>473,602</u>	<u>880,496</u>
Cash flows from capital and related financing activities			
Purchase of capital assets	(127,232)	(82,636)	(209,868)
Current year construction of capital assets	(58,827)	(6,485)	(65,312)
Proceeds from new debt	123,000	16,420	139,420
Principal paid on capital debt	(79,525)	(141,047)	(220,572)
Interest paid on capital debt	(43,524)	(46,540)	(90,064)
Net cash used in capital and related financing activities	<u>(186,108)</u>	<u>(260,288)</u>	<u>(446,396)</u>
Cash flows from investing activities			
Investment income	-	1	1
Net cash provided by investing activities	<u>-</u>	<u>1</u>	<u>1</u>
Net increase (decrease) in cash and cash equivalents	220,786	213,315	434,101
Cash and cash equivalents, beginning of year	<u>712,196</u>	<u>958,218</u>	<u>1,670,414</u>
Cash and cash equivalents, end of year	<u><u>\$ 932,982</u></u>	<u><u>\$ 1,171,533</u></u>	<u><u>\$ 2,104,515</u></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, 2017

	<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)	\$ 89,008	\$ (133,516)	\$ (44,508)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	583,426	990,764	1,574,190
Net change in operating assets and liabilities			
Due from customers	28,652	29,122	57,774
Due from other governments	-	(11,921)	(11,921)
Other receivables	5,670	-	5,670
Other assets	5,815	-	5,815
Deferred outflows of resources	(8,526)	(2,879)	(11,405)
Accounts payable	11,299	75,947	87,246
Accrued liabilities	6,818	45	6,863
Escrow deposits	(5,028)	(23,008)	(28,036)
Net pension liability	29,777	(22,133)	7,644
Deferred inflows of resources	(340,038)	(428,798)	(768,836)
Interfund activity	21	(21)	-
Net cash provided by operating activities	<u>\$ 406,894</u>	<u>\$ 473,602</u>	<u>\$ 880,496</u>

The accompanying notes are an integral part of this statement.

CITY OF BRUNSWICK, MARYLAND
Notes to the Financial Statements
June 30, 2017

NOTE 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.

CITY OF BRUNSWICK, MARYLAND
Notes the Financial Statements (Continued)
June 30, 2017

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide and Fund Financial Statements (Continued)

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.

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 2017:

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).

CITY OF BRUNSWICK, MARYLAND
Notes the Financial Statements (Continued)
June 30, 2017

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide and Fund Financial Statements (Continued)

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.

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.

CITY OF BRUNSWICK, MARYLAND
Notes the Financial Statements (Continued)
June 30, 2017

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement focus, basis of accounting, and financial statement presentation
(Continued)

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. Department Heads submit their proposed operating and capital budgets for the fiscal year commencing the following July 1 to the City Administrator for review.
2. Department Heads work closely with the City Administrator to compile a Five-Year Capital Improvement Plan. A draft budget is then presented to Department Heads and the Finance Committee for review.
3. The draft budget is presented to the Mayor and upon preliminary approval by the Mayor, the City Administrator and Accountant present the budget to Mayor and Council.
4. Public hearings are required by law to be scheduled by City officials with approval of the Mayor and Council.
5. Prior to the commencement of the fiscal year, the property tax rate is set and the budget is adopted via special ordinance.
6. Appropriations lapse at the end of the fiscal year.
7. During the year, the Mayor and Council may amend the budget by ordinance.

CITY OF BRUNSWICK, MARYLAND
Notes the Financial Statements (Continued)
June 30, 2017

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017, 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, 2017 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 the Financial Statements (Continued)
June 30, 2017

NOTE 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 two years. 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 the Financial Statements (Continued)
June 30, 2017

NOTE 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. Committed fund balance in the governmental funds include \$28,310 in collected impact fees.

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 balance in the governmental funds include \$103,048 for the remaining capital lease obligations of three separate capital leases and \$3,296,015 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.

CITY OF BRUNSWICK, MARYLAND
Notes the Financial Statements (Continued)
June 30, 2017

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTE 2- CASH, INVESTMENTS, AND EQUITY IN POOL 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

CITY OF BRUNSWICK, MARYLAND
Notes the Financial Statements (Continued)
June 30, 2017

NOTE 2- CASH, INVESTMENTS, AND EQUITY IN POOL INVESTED CASH (Continued)

Credit Risk (Continued)

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

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

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Custodial credit risk for investments exists when, in the event of the failure of the counterparty to a transaction, a government may be unable to recover the value of investment or collateral securities that are in the possession of an outside party. As of year-end, the City’s carrying amount of deposits was \$6,735,952; the bank balance was \$6,846,698 and cash on hand was \$500. 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, 2017.

Included in cash and cash equivalents, the City had \$133,424 invested in the Maryland Local Government Investment Pool (MLGIP) as of June 30, 2017.

The City’s cash and investments as of June 30, 2017, as presented in the Statement of Net Position, reconciled to the City’s deposits and investments, are as follows:

	<u>Governmental</u> Activities	<u>Business-type</u> Activities	<u>Total</u>
Cash and cash equivalents	\$ 4,396,571	\$ 2,085,761	\$ 6,482,332
Restricted cash and investments	<u>234,865</u>	<u>18,754</u>	<u>253,619</u>
	<u>\$ 4,631,436</u>	<u>\$ 2,104,515</u>	<u>\$ 6,735,951</u>

CITY OF BRUNSWICK, MARYLAND
Notes the Financial Statements (Continued)
June 30, 2017

NOTE 2- CASH, INVESTMENTS, AND EQUITY IN POOL INVESTED CASH (Continued)

Custodial Credit Risk (Continued)

	Governmental Business-type		Total
	Activities	Activities	
Cash on hand	\$ 500	\$ -	\$ 500
Deposits in banks	4,169,653	2,104,515	6,274,168
Certificates of deposit	327,859	-	327,859
Investment pools (MLGIP)	133,424	-	133,424
	<u>\$ 4,631,436</u>	<u>\$ 2,104,515</u>	<u>\$ 6,735,951</u>

As of June 30, 2017, 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	\$ 327,859	\$ 327,859	\$ -	71.08%
Investment pool (MLGIP)	133,424	133,424	-	28.92%
	<u>\$ 461,283</u>	<u>\$ 461,283</u>	<u>\$ -</u>	<u>100.00%</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer, not applicable to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds, and external investment pools or other pooled investments. More than 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, 2017 were 0.94% for the MLGIP and between 0.1% and 0.17% for the certificates of deposit.

CITY OF BRUNSWICK, MARYLAND
Notes the Financial Statements (Continued)
June 30, 2017

NOTE 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 \$10,906,005 due to the government not having a legal claim to the funds.

NOTE 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, 2017 was \$503,555,350. The property tax rate was \$0.44 per \$100 of assessed value.

CITY OF BRUNSWICK, MARYLAND
Notes the Financial Statements (Continued)
June 30, 2017

NOTE 5- CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

<u>Governmental Activities</u>	<u>Balance</u> July 1, 2016	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance</u> June 30, 2017
Capital assets, not being depreciated					
Land and land improvements	\$ 427,430	\$ -	\$ -	\$ -	\$ 427,430
Historical Collections	58,736	-	-	-	58,736
Projects under construction	<u>132,249</u>	<u>41,513</u>	<u>-</u>	<u>(113,183)</u>	<u>60,579</u>
Total capital assets not being depreciated	<u>618,415</u>	<u>41,513</u>	<u>-</u>	<u>(113,183)</u>	<u>546,745</u>
Capital assets, being depreciated					
Buildings	1,384,458	-	-	-	1,384,458
Improvements	3,336,695	30,142	-	-	3,366,837
Infrastructure	4,066,142	2,036,478	-	49,808	6,152,428
Machinery and equipment	932,965	235,351	(12,080)	17,084	1,173,320
Vehicles	845,248	91,969	(66,466)	-	870,751
Software	<u>81,544</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>81,544</u>
Total capital assets being depreciated	10,647,052	2,393,940	(78,546)	66,892	13,029,338
Less: accumulated depreciation	<u>(3,747,444)</u>	<u>(534,068)</u>	<u>76,813</u>	<u>-</u>	<u>(4,204,699)</u>
Total capital assets being depreciated, net	<u>6,899,608</u>	<u>1,859,872</u>	<u>(1,733)</u>	<u>66,892</u>	<u>8,824,639</u>
Governmental Activities capital assets, net	<u>\$ 7,518,023</u>	<u>\$ 1,901,385</u>	<u>\$ (1,733)</u>	<u>\$ (46,291)</u>	<u>\$ 9,371,384</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:

General government	\$ 48,678
Public safety	51,037
Public works	340,921
Parks and recreation	<u>93,432</u>
Total depreciation expense - Governmental activities	<u>\$ 534,068</u>

CITY OF BRUNSWICK, MARYLAND
Notes the Financial Statements (Continued)
June 30, 2017

NOTE 5- CAPITAL ASSETS (Continued)

<u>Business-type Activities</u>	Balance July 1, 2016	Additions	Disposals	Transfers	Balance June 30, 2017
Capital assets, not being depreciated					
Land and land improvements	\$ 28,068	\$ -	\$ -	\$ -	\$ 28,068
Projects under construction	<u>57,354</u>	<u>65,312</u>	<u>-</u>	<u>-</u>	<u>122,666</u>
Total capital assets not being depreciated	<u>85,422</u>	<u>65,312</u>	<u>-</u>	<u>-</u>	<u>150,734</u>
Capital assets, being depreciated					
Buildings and improvements	9,089,874	-	-	-	9,089,874
Infrastructure	35,819,761	-	-	-	35,819,761
Machinery and equipment	1,742,295	165,597	-	-	1,907,892
Vehicles	<u>75,142</u>	<u>44,269</u>	<u>(1)</u>	<u>-</u>	<u>119,410</u>
Total capital assets being depreciated	46,727,072	209,866	(1)	-	46,936,937
Less: accumulated depreciation	<u>(16,807,176)</u>	<u>(1,574,190)</u>	<u>1</u>	<u>-</u>	<u>(18,381,365)</u>
Total capital assets being depreciated, net	<u>29,919,896</u>	<u>(1,364,324)</u>	<u>-</u>	<u>-</u>	<u>28,555,572</u>
Business-type Activities capital assets, net	<u>\$ 30,005,318</u>	<u>\$ (1,299,012)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,706,306</u>

Depreciation expense was charged to functions/programs as follows:

Business-type activities

Water	\$ 583,426
Sewer	<u>990,764</u>
Total depreciation expense - Business-type activities	<u>\$ 1,574,190</u>

CITY OF BRUNSWICK, MARYLAND
Notes the Financial Statements (Continued)
June 30, 2017

NOTE 6- LONG-TERM DEBT OBLIGATIONS

Debt outstanding as of June 30, 2017 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%	\$ 18,888
2012 Tax-Exempt Bond payable to PNC Bank Due 2030; Annual principal and interest payments fluctuate throughout the life of the bonds	2.90%	213,744
Capital Lease - copier equipment; Due 2018; Annual principal and interest payments of approximately \$13,000	5.00%	13,911
Capital Lease - audio/visual equipment; Due 2021; Annual principal and interest payments of approximately \$2,500	9.50%	9,057
Capital Lease - IT equipment; Due 2022; Annual principal and interest payments of approximately \$18,000	6.30%	<u>80,080</u>
		<u>\$ 335,680</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%	\$ 189,075
Reservoir Bond payable to the Maryland Water Quality Financing Administration; Due 2026; Annual principal and interest payments of approximately \$25,000	1.10%	180,285
2012 Tax-Exempt Bond payable to PNC Bank; Due 2030; Annual principal and interest payments fluctuate throughout the life of the bonds	2.90%	2,343,005
2012 Taxable Bond payable to PNC Bank; Due 2020; Annual principal and interest payments fluctuate throughout the life of the bonds	4.45%	230,000
Capital Lease Equipment (copier); Due 2018; Annual principal and interest payments of approximately \$13,000	5.00%	400
Capital Lease - IT equipment; Due 2022; Annual principal and interest payments of approximately \$6,500	6.30%	<u>27,947</u>
Total Enterprise Fund Debt		<u>\$2,970,712</u>

CITY OF BRUNSWICK, MARYLAND
Notes the Financial Statements (Continued)
June 30, 2017

NOTE 6- LONG-TERM DEBT OBLIGATIONS (Continued)

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

	<u>General Government</u>		<u>Enterprise</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 56,313	\$ 13,005	\$ 260,861	\$ 85,018
2019	34,997	11,017	285,514	77,242
2020	28,426	8,694	259,352	68,671
2021	33,073	7,175	212,831	60,698
2022	33,710	5,496	220,323	55,386
2023-2027	88,512	16,471	1,067,012	189,484
2028-2032	60,649	3,567	664,819	39,097

Interest expense

For the year ended June 30, 2017, total interest was \$99,313 and reported as follows: interest expense of \$9,736 for governmental activities and \$89,577 for business-type activities.

Changes in Long-Term Liabilities

During the year ended June 30, 2017 the following changes occurred in long-term liabilities:

	<u>Beginning</u>				<u>Ending</u>	<u>Due in</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Reallocation</u>	<u>Balance</u>	<u>1 year</u>
Governmental activities:						
Bonds payable	\$ 375,312	\$ -	\$ (31,205)	\$ (111,475)	\$ 232,632	\$ 28,249
Capital leases	26,095	91,018	(14,065)	-	103,048	28,064
Governmental activities - Long-term liabilities	<u>\$ 401,407</u>	<u>\$ 91,018</u>	<u>\$ (45,270)</u>	<u>\$ (111,475)</u>	<u>\$ 335,680</u>	<u>\$ 56,313</u>
Business-type activities:						
Bonds payable	\$ 3,051,113	\$ -	\$ (220,223)	\$ 111,475	\$ 2,942,365	\$ 255,761
Capital leases	750	28,327	(730)	-	28,347	5,100
Business-type activities - Long-term liabilities	<u>\$ 3,051,863</u>	<u>\$ 28,327</u>	<u>\$ (220,953)</u>	<u>\$ 111,475</u>	<u>\$ 2,970,712</u>	<u>\$ 260,861</u>

CITY OF BRUNSWICK, MARYLAND
Notes the Financial Statements (Continued)
June 30, 2017

NOTE 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.

NOTE 7- EMPLOYEE BENEFITS

Cost sharing Multiple Employer Pension Plan:

Plan description

All permanent employees of the City that work more than 500 hours per fiscal year are provided retirement benefits through the Employee's Contributory Pension System of the State of Maryland ("Pension System").

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.

Effective July 2006, the City began participation in the State of Maryland's Alternate Contributory Pension Plan. Under this plan, 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. Employees are required to contribute 7% of their base salaries. The revised plan also requires an employer contribution from the City. The benefit formula changed as a result of the revisions to provide benefits based on service before and after June 30, 1998.

Effective July 2011, the City began participation in the State of Maryland's Reformed Contributory Pension Benefit. Under this benefit, members may retire at the attainment of age 65 with 10 years of service or based on the Rule of 90 (sum of age and service equal 90). All future permanent employees will participate in this plan.

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 the Financial Statements (Continued)
June 30, 2017

NOTE 7- EMPLOYEE BENEFITS (Continued)

The Maryland State Retirement and Pension System does not prepare or maintain separate actuarial reports for the participating governmental units. 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 total contributions from the employees for the years ended June 30 were:

2012	\$133,685
2013	144,206
2014	146,700
2015	154,964
2016	144,022
2017	151,976

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
2016	115,190
2017	108,053

Total pension expense for the year ended June 30, 2017 was \$129,847; \$68,368 for governmental activities and \$61,479 business-type activities.

Key actuarial methods and assumptions:

Actuarial	Entry Age Normal
Amortization method	Level percentage of payroll, closed
Inflation	2.7% general, 3.2% wage
Salary increases	3.30% to 9.2% including inflation
Discount rate	7.55%
Investment rate of return	7.55%
Mortality	RP-2014 Mortality tables
Actuarial valuation date	June 30, 2016

CITY OF BRUNSWICK, MARYLAND
Notes the Financial Statements (Continued)
June 30, 2017

NOTE 7- EMPLOYEE BENEFITS (Continued)

Discount rate

A single discount rate of 7.55% 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 7.55%. 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 7.55%, 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 6.55%	Current Discount	1% Increase to 8.55%
Employees Pension (muni)	1,851,682	1,395,115	1,009,864

CITY OF BRUNSWICK, MARYLAND
Notes the Financial Statements (Continued)
June 30, 2017

NOTE 8- DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

For the year ended June 30, 2017, the City reported deferred outflows and inflows of resources related to the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of pension assumptions	\$ 50,527	\$ -
Net difference between projected and actual earnings on pension plan investments	278,319	127,630
City contributions subsequent to the measurement date	<u>108,053</u>	<u>-</u>
	<u>436,899</u>	<u>\$ 127,630</u>
Other deferred inflows:		
Unearned revenues		24,603
Connection charges		44,718
Developer contributions		<u>10,861,287</u>
		<u>\$ 11,058,238</u>

Deferred outflows of resources of \$108,053 related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2018	\$ 53,316
2019	53,316
2020	71,757
2021	42,252
2022	<u>(19,424)</u>
	<u>\$ 201,217</u>

CITY OF BRUNSWICK, MARYLAND
Notes the Financial Statements (Continued)
June 30, 2017

NOTE 9- 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, 2017, the City's federal grant expenditures did not exceed \$750,000; therefore, they are not subject to the Single Audit Act.

NOTE 10- COMMITMENTS AND CONTINGENCES

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.

NOTE 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 the Financial Statements (Continued)
June 30, 2017

NOTE 12- INTERFUND TRANSFERS

Transfers to/from other funds at June 30, 2017, consist of the following:

	<u>Amount</u>
From the General Fund to the Capital Projects Fund to fund current capital projects	\$ 85,700
From the General Fund to the Capital Projects Fund to fund additional capital projects	1,030,459
From the General Fund to the Capital Projects Fund to fund future capital projects contained in the Capital Improvement Program	<u>1,300,000</u>
	<u>\$2,416,159</u>

Transfers are used to move unrestricted revenues to finance capital purchases and capital projects in other funds in accordance with budgetary authorizations, including amounts provided as matching funds for grant programs.

In FY 2017, the City made a transfer from the General Fund of \$85,700 to the Capital Projects Fund to fund various capital purchases within the approved budget. The City made an additional transfer from the General Fund of \$1,030,459 to the Capital Projects Fund to cover \$923,211 of current year capital purchases and construction costs and to fund \$107,248 in future capital projects. Mayor and Council also voted to make a one-time transfer of \$1,300,000 from General Fund Unassigned Fund Balance to Capital Projects Fund Assigned Fund Balance for future capital projects approved annually in the Capital Improvement Program.

CITY OF BRUNSWICK, MARYLAND
Notes the Financial Statements (Continued)
June 30, 2017

NOTE 13- PRIOR PERIOD ADJUSTMENT

Deferred outflows of resources relating to changes in the City's proportionate share of the Net Pension Liability of the Maryland State Retirement and Pension System were inadvertently omitted for the year ended June 30, 2016 (based on the application of paragraph 54 of GASB No. 68).

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:

	Governmental	Business-type
	<u>Activities</u>	<u>Activities</u>
Net position, beginning of year	\$ 10,510,148	\$ 17,154,987
Change in proportionate share of NPL	<u>121,139</u>	<u>35,766</u>
Net position, beginning of year - restated	<u>\$ 10,631,287</u>	<u>\$ 17,190,753</u>

NOTE 14- 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 30, 2017, 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
For the Year Ended June 30, 2017

For the year ended June 30, 2017	Original Budget	Final Appropriated Budget	(Budgetary Basis) Actual	Variance with Final Budget- Positive (Negative)
REVENUES				
Taxes	\$ 2,742,900	\$ 3,151,900	\$ 3,153,991	\$ 2,091
Licenses and Permits	94,700	113,200	113,773	573
Intergovernmental Revenues	1,245,100	1,208,100	1,203,520	(4,580)
Service Charges				
User Fees	110,500	144,300	149,757	5,457
Waste Collection and Disposal	193,500	220,800	215,193	(5,607)
Total Service Charges	<u>304,000</u>	<u>365,100</u>	<u>364,950</u>	<u>(150)</u>
Fines and Forfeitures	17,800	29,000	27,103	(1,897)
Miscellaneous Revenues	119,400	252,600	251,336	(1,264)
Total Revenues	<u>\$ 4,523,900</u>	<u>\$ 5,119,900</u>	<u>\$ 5,114,673</u>	<u>\$ (5,227)</u>
EXPENDITURES				
General Government				
Mayor & Council	\$ 107,300	\$ 116,500	\$ 111,898	\$ 4,602
Elections	-	-	-	-
Financial Administration	732,800	712,500	699,023	13,477
Legal	-	-	-	-
Planning, Zoning, & Enforcement	260,500	213,700	207,164	6,536
Total General Government	<u>1,100,600</u>	<u>1,042,700</u>	<u>1,018,085</u>	<u>24,615</u>
Public Safety				
Police Department	1,262,800	1,132,300	1,115,073	17,227
Fire and Rescue Contributions	42,100	42,100	40,038	2,062
Total Public Safety	<u>1,304,900</u>	<u>1,174,400</u>	<u>1,155,111</u>	<u>19,289</u>
Public Works				
Highways and Streets	1,205,700	1,120,100	1,069,757	50,343
Total Public Works	<u>1,205,700</u>	<u>1,120,100</u>	<u>1,069,757</u>	<u>50,343</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
For the Year Ended June 30, 2017

For the year ended June 30, 2017	Original Budget	Final Appropriated Budget	(Budgetary Basis) Actual	Variance with Final Budget- Positive (Negative)
Waste Collection and Disposal	328,500	383,000	382,832	168
Recreation and Culture				
Parks	125,000	132,600	135,495	(2,895)
Special Events	64,700	57,100	45,367	11,733
Total Recreation and Culture	189,700	189,700	180,862	8,838
Economic Development				
Economic Development	253,200	117,500	116,404	1,096
Total Economic Development	253,200	117,500	116,404	1,096
Debt Service	55,600	57,700	55,006	2,694
Total Expenditures	4,438,200	4,085,100	3,978,057	107,043
Other Financing Sources (Uses)				
Transfers	(85,700)	(1,123,800)	(2,416,159)	(1,292,359)
Debt Proceeds	-	89,000	91,018	2,018
Debt Reallocation	-	-	(111,475)	(111,475)
Total Other Financing Sources (Uses)	(85,700)	(1,034,800)	(2,436,616)	(1,401,816)
Net Change in fund balance	\$ -	\$ -	\$ (1,300,000)	\$ (1,300,000)

CITY OF BRUNSWICK, MARYLAND
Schedule of the City's Proportionate Share of the Net Pension Liability

For the year ended June 30, 2017	Employees' Pension System
City's proportion of the net pension liability	0.005913001%
City's proportionate share of the net pension liability	<u>\$ 1,395,115</u>
Covered-employee payroll	\$ 2,187,278
City's proportionate share of net pension liability as a percentage of its covered-employee payroll	<u>63.78%</u>
Plan Fiduciary Net position as a % of total pension liability	<u>65.79%</u>

CITY OF BRUNSWICK, MARYLAND
Schedule of Contributions and Related Ratios

For the year ended June 30, 2017	Employees' Pension System
Contractually required contribution	\$ 108,053
Actual contribution	<u>(108,053)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	\$ 2,187,278
Contributions as a percentage of covered-employee payroll	4.94%

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, 2016	Employees' Pension System
City's proportion of the net pension liability	0.006547945%
City's proportionate share of the net pension liability	<u>\$ 1,360,775</u>
Covered-employee payroll	\$ 2,139,205
City's proportionate share of net pension liability as a percentage of its covered-employee payroll	<u>63.61%</u>
Plan Fiduciary Net position as a % of total pension liability	<u>68.78%</u>

CITY OF BRUNSWICK, MARYLAND
Schedule of Contributions and Related Ratios

For the year ended June 30, 2016	Employees' Pension System
Contractually required contribution	\$ 115,190
Actual contribution	<u>(115,190)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	\$ 2,139,205
Contributions as a percentage of covered-employee payroll	5.38%

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>

CITY OF BRUNSWICK, MARYLAND
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 schedule.



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

**Mayor and City Council
City of Brunswick, Maryland**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund, of the City of Brunswick, Maryland, as of and for the year ended June 30, 2017, 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 30, 2017.

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.

City of Brunswick, Maryland
Independent Auditors' Report
Page 2

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City 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*.

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.

DeLeon & Stang

DeLeon and Stang, CPAs and Advisors
Frederick, Maryland
October 30, 2017