

**City of Havre de Grace, Maryland**

**Financial Statements  
(With Supplementary Information)  
and Independent Auditor's Report**

**June 30, 2015**

# City of Havre de Grace, Maryland

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**City of Havre de Grace, Maryland**

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## Independent Auditor's Report

The Honorable Members of the City Council  
City of Havre de Grace, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Havre de Grace, Maryland (the City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the index.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

## *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Havre de Grace, Maryland, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Change in Accounting Principle*

As discussed in Note 19 to the basic financial statements, the City changed its method of accounting for employee pension plans in the year ended June 30, 2015, as required by the provisions of Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinion is not modified with respect to this matter.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7 through 15 and 73 through 76, the City's pension related information on pages 77 through 80 and the schedule of funding progress on page 81 to 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Havre de Grace, Maryland's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Accounting Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Baltimore, Maryland  
October 30, 2015

## City of Havre de Grace, Maryland

### Management's Discussion and Analysis - Required Supplementary Information

June 30, 2015

This section of the City of Havre de Grace's annual financial report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2015. We encourage users to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

#### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the fiscal year by \$41.64 million (net position). Of this amount, essentially all is invested in capital assets, net of related debt, and the remainder is restricted for specific uses.
- The City's overall net position decreased by \$2.94 million during the fiscal year. Net position for government activities increased \$1.16 million while business-type activities decreased by \$1.78 million. Of this amount, \$1.76 million can be attributed to the adoption of GASB 68 for the City's pension plan and its impact on assets at the beginning of the year.
- Operationally, revenues increased \$90,000 thousand during the fiscal year. Grants and loans from Public and Private Organizations totaled \$190,000 more than in the prior year, tax collections increased \$140 thousand, and decreased water & sewer consumption resulted in \$410 thousand less service fees and other revenues.
- At the close of the fiscal year, the City of Havre de Grace's governmental funds reported combined ending fund balances of \$6.73 million, an increase of \$330 thousand. The fund balance available for use in future year budgeting was \$2.83 million.
- The City's enterprise funds reported ending net position of \$32.45 million, a decrease of \$1.78 million. The primary cause of for the decline in net position was aging infrastructure and the recognition of the net pension liability in accordance with GASB 68. Enterprise fund operating income was \$424 thousand, net of \$2.75 million depreciation expense, and non-operating income was \$780 thousand.
- During the fiscal year, the City's debt instruments decreased by \$1.94 million. City accrued obligations for annual leave, other post-employment benefits and pension related obligations increased \$900 thousand. As a result, total debt obligations decreased \$1.04 million for the year.

## City of Havre de Grace, Maryland

### Management's Discussion and Analysis - Required Supplementary Information - Continued

June 30, 2015

#### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Havre de Grace's basic financial statements. These financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplementary information that will enhance the reader's understanding of the financial condition of the City of Havre de Grace.

#### Basic Financial Statements

The first two statements in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements are the **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements, 2) the budgetary comparison statements, and 3) the proprietary fund statements.

The **notes** section of the basic financial statements explains in detail some of the data contained in those statements. After the notes, **required supplementary information** is provided to show details about the City's individual funds.

#### Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

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.

## City of Havre de Grace, Maryland

### Management's Discussion and Analysis - Required Supplementary Information - Continued

June 30, 2015

The government-wide statements are divided into two categories: 1) governmental activities, and 2) business-type activities. The governmental activities include most of the City's basic services such as public safety, public works and sanitation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water and sewer and marina services offered by the City of Havre de Grace.

The government-wide financial statements can be found on pages 17 and 18 of this report.

#### **Fund Financial Statements**

The fund financial statements provide a more detailed look at the City's most significant activities. 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 of Havre de Grace, like all other governmental entities in Maryland, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements. All of the funds of the City of Havre de Grace can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds** - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds 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. Such information may be useful in evaluating a government's near-term financing requirements. The relationship between government activities, reported in the Statement of Net Position and the Statement of Activities, and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Havre de Grace adopts an annual budget for its General Fund and for its two *enterprise* funds, the Marina Fund and the Water and Sewer Fund. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Mayor and City Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these activities. The budgetary statement provided for the general fund demonstrates how well the City complied with budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget

## City of Havre de Grace, Maryland

### Management's Discussion and Analysis - Required Supplementary Information - Continued

June 30, 2015

as adopted by the Council; 2) the final budget as amended by the Council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and expenses. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

The budgetary statements can be found on pages 73 through 76 of this report.

**Proprietary Funds** - Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Havre de Grace uses enterprise funds to account for its water and sewer activity and for its marina operations. These funds are the same as those functions shown in the business-type activities column in the Statement of Net Position and the Statement of Activities. Proprietary funds provide the same type of information as the government-wide financial statements, but in more detail.

**Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City has three fiduciary funds: 1) the Community Center Fund; 2) the Civilian Employees' Pension Fund; and 3) the Sworn Officers' Pension Fund.

**Summary of Significant Accounting Policies and Notes to the Financial Statements** - The summary of significant accounting policies and notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The summary of significant accounting policies and notes to the financial statements begin on page 29 of this report.

#### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. This information is presented in the Notes to Financial Statements beginning on page 29 of this report.

#### **Government-wide Financial Analysis**

The following analysis discusses the City's financial position and changes to the financial position for the year ended June 30, 2015, with comparative information for the previous year.

**City of Havre de Grace, Maryland**

**Management's Discussion and Analysis -  
Required Supplementary Information - Continued**

**June 30, 2015**

**Statement of Net Position**

City assets exceeded liabilities by \$41.64 million as of June 30, 2015. However, the largest portion (\$41.64 million or 99%) of the City's net position reflects the City's investment in capital assets (e.g. land, buildings, machinery and equipment) less any related debt still outstanding that was used to acquire those assets. The City of Havre de Grace uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending. The remaining net position represents resources that are subject to external restrictions on how they may be used.

**City of Havre de Grace  
Net Position**

	Governmental Activities		Business-Type Activities		Total		% Change
	2015	2014	2015	2014	2015	2014	
Current and other assets	\$ 6,136,869	\$ 6,188,689	\$ 1,539,146	\$ 1,739,768	\$ 7,676,015	\$ 7,928,457	-3.2%
Capital assets	10,331,214	10,593,723	57,622,525	60,186,075	67,953,739	70,779,798	-4.0%
Total assets	<u>16,468,083</u>	<u>16,782,412</u>	<u>59,161,671</u>	<u>61,925,843</u>	<u>75,629,754</u>	<u>78,708,255</u>	-3.9%
Deferred outflow of resources	1,121,301	-	109,264	-	1,230,565	-	
Long-term liabilities	\$ 9,080,014	\$ 8,445,270	\$ 4,539,042	\$ 23,013,256	\$ 13,619,056	\$ 31,458,526	-56.7%
Other liabilities	(930,084)	(406,684)	22,148,813	4,683,719	21,218,729	4,277,035	396.1%
Total liabilities	<u>8,149,930</u>	<u>8,038,586</u>	<u>26,687,855</u>	<u>27,696,975</u>	<u>34,837,785</u>	<u>35,735,561</u>	-2.5%
Deferred inflow of resources	243,039	-	135,317	-	378,356	-	
Net position							
Invested in capital assets, net of related debt	\$ 7,032,429	\$ 7,048,823	\$ 34,609,271	\$ 35,477,484	\$ 41,641,700	\$ 42,526,307	-2.1%
Restricted	2,786,169	2,715,551	-	-	2,786,169	2,715,551	2.6%
Unrestricted	(622,183)	593,509	(2,161,508)	(1,248,616)	(2,783,691)	(655,107)	324.9%
Total net position	<u>\$ 9,196,415</u>	<u>\$ 10,357,883</u>	<u>\$ 32,447,763</u>	<u>\$ 34,228,868</u>	<u>\$ 41,644,178</u>	<u>\$ 44,586,751</u>	-6.6%

Total net position decreased by \$2.94 million during the fiscal year. The net position of the City's business-type activities decreased by \$1.78 million while the net position of governmental activities decreased by \$1.16 million. The City implemented GASB 68 for reporting its pension obligation and this resulted in a \$1.76 million decrease to the City's net position.

## City of Havre de Grace, Maryland

### Management's Discussion and Analysis - Required Supplementary Information - Continued

June 30, 2015

Revenues decreased by \$90 thousand during the fiscal year, primarily due to loans and grants decreasing over \$1.09 million from the previous year. Property taxes increased \$140,000 while service fees and other revenues decreased \$410,000.

Expenditures decreased \$620 thousand during the fiscal year. Spending by the City's government programs decreased \$88 thousand while its enterprise funds decreased spending \$531 thousand.

### City of Havre de Grace Changes in Net Position

	Governmental Activities		Business-Type Activities		Total		% Change
	2015	2014	2015	2014	2015	2014	
Program revenues							
Charges for services	\$ 407,919	\$ 389,838	\$ 6,450,977	\$ 6,877,814	\$ 6,858,896	\$ 7,267,652	-5.6%
Operating grants and contributions	1,659,269	1,550,549	-	-	1,659,269	1,550,549	7.0%
Capital grants and contributions	593,140	533,353	1,212,340	1,190,957	1,805,480	1,724,310	4.7%
General revenues							
Property taxes	10,071,651	9,934,977	-	-	10,071,651	9,934,977	1.4%
Grants and contributions not restricted to specific programs	52,566	52,601	-	-	52,566	52,601	-0.1%
Other	410,257	221,053	175,523	193,399	585,780	414,452	41.3%
<b>Total revenues</b>	<b>13,194,802</b>	<b>12,682,371</b>	<b>7,838,840</b>	<b>8,262,170</b>	<b>21,033,642</b>	<b>20,944,541</b>	<b>0.4%</b>
Expenses							
General government	3,037,434	3,416,287	-	-	3,037,434	3,416,287	-11.1%
Public safety	5,436,014	5,568,804	-	-	5,436,014	5,568,804	-2.4%
Public works	3,839,708	3,507,661	-	-	3,839,708	3,507,661	9.5%
Miscellaneous	417,651	325,779	-	-	417,651	325,779	28.2%
Interest on long-term debt	99,265	99,909	-	-	99,265	99,909	-0.6%
<b>Total government activities</b>	<b>12,830,072</b>	<b>12,918,440</b>	<b>-</b>	<b>-</b>	<b>12,830,072</b>	<b>12,918,440</b>	<b>-0.7%</b>
Water and sewer	-	-	8,545,156	9,032,549	8,545,156	9,032,549	-5.4%
Dockage	-	-	836,760	881,029	836,760	881,029	-5.0%
<b>Total expenses</b>	<b>12,830,072</b>	<b>12,918,440</b>	<b>9,381,916</b>	<b>9,913,578</b>	<b>22,211,988</b>	<b>22,832,018</b>	<b>-2.7%</b>
<b>Change in net position</b>	<b>364,730</b>	<b>(236,069)</b>	<b>(1,543,076)</b>	<b>(1,651,408)</b>	<b>(1,178,346)</b>	<b>(1,887,477)</b>	<b>-37.6%</b>
Net position, beginning	10,357,883	10,593,952	34,228,868	35,880,276	44,586,751	46,474,228	-4.1%
GASB 68 change in accounting principle	(1,526,198)	-	(238,029)	-	(1,764,227)	-	
Net position - beginning, as restated	8,831,685	-	33,990,839	-	42,822,524	-	
<b>Net position, end</b>	<b>\$ 9,196,415</b>	<b>\$ 10,357,883</b>	<b>\$ 32,447,763</b>	<b>\$ 34,228,868</b>	<b>\$ 41,644,178</b>	<b>\$ 44,586,751</b>	<b>-6.6%</b>

### Financial Analysis of the City's Funds

As noted earlier, the City of Havre de Grace uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

## City of Havre de Grace, Maryland

### Management's Discussion and Analysis - Required Supplementary Information - Continued

June 30, 2015

**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. Specifically, unrestricted fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The City Charter requires the City to include any remaining funds at year end as a revenue source for the taxation and spending budget for the ensuing fiscal year, one of the definitions of a fund commitment. Therefore, the City's unrestricted fund balance is treated as either committed or assigned for encumbrances under generally accepted accounting principles.

The general fund is the chief operating fund of the City of Havre de Grace. At the end of the fiscal year, the total general fund balance was \$5.18 million. The City's total governmental funds reported a combined ending fund balance of \$6.73 million, an increase of \$330 thousand from the prior year. The portion of the general fund balance available for inclusion in future fiscal year taxation and spending budgets was \$2.84 million at year-end, an amount equivalent to that available for the prior year.

A total of over \$2.84 million has been restricted for specific purposes and cannot be used for general fund spending. That amount includes \$1.54 million resulting from special assessments and contributions and their usage is restricted.

**Proprietary Funds** - The City's proprietary funds provide the same information found in the government-wide financial statements, but in more detail. The enterprise funds reported a loss in net position of \$1.54 million. Net investment in capital assets of enterprise funds declined by \$870 thousand; while unrestricted fund balances decreased \$913 thousand.

#### **Capital Assets and Debt Administration**

**Capital Assets** - The City of Havre de Grace's investment in capital assets for its governmental and business-type activities as of June 30, 2015 was \$67.95 million (net of accumulated depreciation.) These assets include land, buildings, water and sewer facilities, park facilities, machinery and equipment, and vehicles. The City spent \$1.04 million during 2015 for capital improvements, primarily on street resurfacing and a new park facility.

**City of Havre de Grace, Maryland**

**Management's Discussion and Analysis -  
Required Supplementary Information - Continued**

**June 30, 2015**

**Capital Assets  
City of Havre de Grace**

	Governmental Activities		Business-Type Activities		Total		% Change
	2015	2014	2015	2014	2015	2014	
Land	\$ 2,046,139	\$ 2,046,139	\$ 37,811	\$ 37,811	\$ 2,083,950	\$ 2,083,950	0.0%
Buildings	7,117,351	7,101,226	71,810,408	71,810,408	78,927,759	78,911,634	0.0%
Improvements other than buildings	3,995,689	3,995,689	15,973,090	15,918,567	19,968,779	19,914,256	0.3%
Machinery and equipment	3,612,724	3,556,823	2,266,949	2,139,369	5,879,673	5,696,192	3.2%
Infrastructure	4,961,602	4,889,329	-	-	4,961,602	4,889,329	1.5%
Construction-in-progress	1,157,572	443,676	-	-	1,157,572	443,676	160.9%
Less accumulated depreciation	<u>(12,559,863)</u>	<u>(11,439,159)</u>	<u>(32,465,733)</u>	<u>(29,720,080)</u>	<u>(45,025,596)</u>	<u>(41,159,239)</u>	9.4%
Total capital assets	<u>\$ 10,331,214</u>	<u>\$ 10,593,723</u>	<u>\$ 57,622,525</u>	<u>\$ 60,186,075</u>	<u>\$ 67,953,739</u>	<u>\$ 70,779,798</u>	-4.0%

**Long-Term Debt**

As of June 30, 2015, the City of Havre de Grace had total general obligation debt outstanding of \$26.31 million, a decrease of \$1.94 million from the prior year. In addition, the City has a compensated absences liability totaling \$3.31 million, Post-Employment Benefit obligations totaling \$1.65 million, and a net pension liability of \$1.94 million.

**City of Havre de Grace  
Outstanding Debt**

	Governmental Activities		Business-Type Activities		Total		% Change
	2015	2014	2015	2014	2015	2014	
General obligation bonds	\$ 2,078,800	\$ 2,294,900	\$ 23,013,254	\$ 24,708,591	\$ 25,092,054	\$ 27,003,491	-7.1%
Notes and loans payable	1,219,985	1,250,000	-	-	1,219,985	1,250,000	-2.4%
Compensated absences	2,529,796	2,307,608	784,436	703,249	3,314,232	3,010,857	10.1%
Other post-employment benefits	1,648,194	1,463,745	-	-	1,648,194	1,463,745	12.6%
Net pension liability	<u>1,860,055</u>	<u>1,375,132</u>	<u>75,517</u>	<u>150,170</u>	<u>1,935,572</u>	<u>1,525,302</u>	26.9%
Total	<u>\$ 9,336,830</u>	<u>\$ 8,691,385</u>	<u>\$ 23,873,207</u>	<u>\$ 25,562,010</u>	<u>\$ 33,210,037</u>	<u>\$ 34,253,395</u>	-3.0%

**City of Havre de Grace, Maryland**

**Management's Discussion and Analysis -  
Required Supplementary Information - Continued**

**June 30, 2015**

**Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance, City of Havre de Grace, 711 Pennington Avenue, Havre de Grace, Maryland 21078.

## **Financial Statements**

**City of Havre de Grace, Maryland**

**Statement of Net Position**

**June 30, 2015**

	Governmental Activities	Business-Type Activities	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Assets</b>			
Cash and cash equivalents	\$ 1,983,101	\$ 98,288	\$ 2,081,389
Investments	2,527,388	326,653	2,854,041
Receivables (net of allowance for uncollectibles)	348,444	1,094,988	1,443,432
Due from other governments	409,346	-	409,346
Notes receivable (net of allowance for uncollectibles)	246,474	-	246,474
Inventory of fuel	19,214	19,217	38,431
Prepaid expenses and deposits	602,902	-	602,902
Capital assets			
Land	2,046,139	37,811	2,083,950
Construction-in-progress	1,157,572	-	1,157,572
Infrastructure	4,961,602	-	4,961,602
Buildings	7,117,351	71,810,408	78,927,759
Improvements other than buildings	3,995,689	15,973,090	19,968,779
Machinery and equipment	3,612,724	2,266,949	5,879,673
Less accumulated depreciation	<u>(12,559,863)</u>	<u>(32,465,733)</u>	<u>(45,025,596)</u>
<b>Total assets</b>	<u>16,468,083</u>	<u>59,161,671</u>	<u>75,629,754</u>
<b>Deferred outflows of resources</b>			
Deferred outflows - pension related	<u>1,121,301</u>	<u>109,264</u>	<u>1,230,565</u>
<b>Total deferred inflows of resources</b>	<u>1,121,301</u>	<u>109,264</u>	<u>1,230,565</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and other current liabilities	\$ 457,178	\$ 375,523	\$ 832,701
Accrued expenses	516,352	278,695	795,047
Internal balances	(2,160,430)	2,160,430	-
Due within one year	256,816	1,724,394	1,981,210
<b>Noncurrent liabilities</b>			
Compensated absences	2,529,796	784,436	3,314,232
Net pension liability	1,860,055	75,517	1,935,572
Due in more than one year	<u>4,690,163</u>	<u>21,288,860</u>	<u>25,979,023</u>
<b>Total liabilities</b>	<u>8,149,930</u>	<u>26,687,855</u>	<u>34,837,785</u>
<b>Deferred inflows of resources</b>			
Deferred inflows - pension related	<u>243,039</u>	<u>135,317</u>	<u>378,356</u>
<b>Total deferred inflows of resources</b>	<u>243,039</u>	<u>135,317</u>	<u>378,356</u>
<b>Net position</b>			
Invested in capital assets, net of related debt	7,032,429	34,609,271	41,641,700
Restricted for			
Emergency	1,242,030	-	1,242,030
Nonmajor funds	1,544,139	-	1,544,139
Unrestricted	<u>(622,183)</u>	<u>(2,161,508)</u>	<u>(2,783,691)</u>
<b>Total net position</b>	<u>\$ 9,196,415</u>	<u>\$ 32,447,763</u>	<u>\$ 41,644,178</u>

See accompanying notes to the basic financial statements.

See notes to financial statements

**City of Havre de Grace, Maryland**

**Statement of Activities**

**Year ended June 30, 2015**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Functions/programs</b>							
<b>Governmental activities</b>							
General government	\$ 3,037,434	\$ 311,203	\$ 170,715	\$ 176,142	\$ (2,379,374)	\$ -	\$ (2,379,374)
Public safety	5,436,014	-	1,488,554	7,999	(3,939,461)	-	(3,939,461)
Public works	3,839,708	96,716	-	408,999	(3,333,993)	-	(3,333,993)
Miscellaneous	417,651	-	-	-	(417,651)	-	(417,651)
Interest - long-term debt	99,265	-	-	-	(99,265)	-	(99,265)
<b>Total governmental activities</b>	<b>12,830,072</b>	<b>407,919</b>	<b>1,659,269</b>	<b>593,140</b>	<b>(10,169,744)</b>	<b>-</b>	<b>(10,169,744)</b>
<b>Business-type activities</b>							
Water and sewer	8,545,156	5,821,001	-	1,212,340	-	(1,511,815)	(1,511,815)
Dockage	836,760	629,976	-	-	-	(206,784)	(206,784)
<b>Total business-type activities</b>	<b>9,381,916</b>	<b>6,450,977</b>	<b>-</b>	<b>1,212,340</b>	<b>-</b>	<b>(1,718,599)</b>	<b>(1,718,599)</b>
<b>Total government</b>	<b>\$ 22,211,988</b>	<b>\$ 6,858,896</b>	<b>\$ 1,659,269</b>	<b>\$ 1,805,480</b>	<b>(10,169,744)</b>	<b>(1,718,599)</b>	<b>(11,888,343)</b>
<b>General revenues</b>							
Property taxes					10,071,651	-	10,071,651
Grants and contributions not restricted to specific programs					52,566	-	52,566
Unrestricted investment earnings					30,428	226	30,654
Gain on sale of capital assets					1,537	-	1,537
Miscellaneous					378,292	175,297	553,589
<b>Total general revenues</b>					<b>10,534,474</b>	<b>175,523</b>	<b>10,709,997</b>
<b>Change in net position</b>					<b>364,730</b>	<b>(1,543,076)</b>	<b>(1,178,346)</b>
<b>Net position - beginning of year, as restated (See Note 19)</b>					<b>8,831,685</b>	<b>33,990,839</b>	<b>42,822,524</b>
<b>Net position - end of year</b>					<b>\$ 9,196,415</b>	<b>\$ 32,447,763</b>	<b>\$ 41,644,178</b>

See notes to financial statements

**City of Havre de Grace, Maryland**  
**Balance Sheet - Governmental Funds**  
**June 30, 2015**

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 1,983,101	\$ -	\$ 1,983,101
Investments	1,392,388	1,135,000	2,527,388
Receivables (net of allowance for uncollectibles)	334,065	14,379	348,444
Due from other governments	409,346	-	409,346
Notes receivable (net of allowance for uncollectibles)	-	246,474	246,474
Inventory of fuel	19,214	-	19,214
Prepaid expenses and deposits	602,902	-	602,902
Due from other funds	2,137,196	148,286	2,285,482
<b>Total assets</b>	<b>\$ 6,878,212</b>	<b>\$ 1,544,139</b>	<b>\$ 8,422,351</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 405,825	\$ -	\$ 405,825
Accrued expenses	516,352	-	516,352
Due to other funds	176,405	-	176,405
<b>Total liabilities</b>	<b>1,098,582</b>	<b>-</b>	<b>1,098,582</b>
<b>Deferred inflows of resources</b>			
Unavailable revenue - property taxes	160,294	-	160,294
Unavailable revenue - income taxes	334,248	-	334,248
Unavailable revenue - other	102,701	-	102,701
<b>Total deferred inflows of resources</b>	<b>597,243</b>	<b>-</b>	<b>597,243</b>
<b>Fund balances</b>			
<b>Nonspendable</b>			
Long-term due from other government	409,346	-	409,346
Inventory	19,214	-	19,214
Prepaid items and deposits	602,902	-	602,902
Long-term portion of RAD loans	-	260,853	260,853
<b>Spendable</b>			
<b>Restricted</b>			
Reserved for block grant expenditures	-	468,009	468,009
Reserved for critical area expenditures	-	341,290	341,290
Reserved for slip user expenditures	-	341,544	341,544
Reserved for promenade repair expenditures	-	132,443	132,443
<b>Committed</b>			
Subsequent year funding commitments	2,836,728	-	2,836,728
Reserved for emergency	1,242,030	-	1,242,030
<b>Assigned</b>			
General government	63,244	-	63,244
Public works	8,923	-	8,923
<b>Total fund balance</b>	<b>5,182,387</b>	<b>1,544,139</b>	<b>6,726,526</b>
<b>Total liabilities, deferred inflows of resources and fund balance</b>	<b>\$ 6,878,212</b>	<b>\$ 1,544,139</b>	<b>\$ 8,422,351</b>

See notes to financial statements

City of Havre de Grace, Maryland

Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Position - Governmental Funds

Year ended June 30, 2015

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

Total fund balances - governmental funds \$ 6,726,526

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Cost of capital assets	\$ 22,891,077	
Accumulated depreciation	<u>(12,559,863)</u>	10,331,214

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds. 597,243

Contributions to the pension plan in the current fiscal year are deferred outflows of resources and pension related liabilities related to earnings on pension plan investments are deferred inflows of resources in the statement of net position 878,262

Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current fiscal period and, therefore, are not reported as liabilities in the governmental funds. (9,336,830)

Total net position - governmental activities \$ 9,196,415

See notes to financial statements

**City of Havre de Grace, Maryland**

**Statement of Revenue, Expenditures and Changes in  
Fund Balances - Governmental Funds**

**Year ended June 30, 2015**

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenue			
Taxes	\$ 9,917,916	\$ -	\$ 9,917,916
Licenses and permits	246,595	5,900	252,495
Intergovernmental	757,534	-	757,534
Fines and forfeitures	9,007	-	9,007
Fees	-	53,607	53,607
Charges for services	101,817	-	101,817
Grants	1,547,441	-	1,547,441
Miscellaneous	192,883	208,367	401,250
	<u>12,773,193</u>	<u>267,874</u>	<u>13,041,067</u>
Total revenue			
Expenditures			
Current			
General government	3,385,242	-	3,385,242
Public safety	5,466,941	-	5,466,941
Public works	3,307,653	-	3,307,653
Miscellaneous	417,651	-	417,651
Capital outlay			
General government	50,550	-	50,550
Public safety	95,794	-	95,794
Public works	791,710	-	791,710
Debt service			
Principal reduction	246,115	-	246,115
Interest	99,265	-	99,265
Distributed expenses and administrative fees charged to other funds	<u>(1,148,400)</u>	<u>-</u>	<u>(1,148,400)</u>
Total expenditures	<u>12,712,521</u>	<u>-</u>	<u>12,712,521</u>
(Deficiency) excess of revenue over expenditures	<u>60,672</u>	<u>267,874</u>	<u>328,546</u>
Other financing sources (uses)			
Transfers in (out)	<u>(41,669)</u>	<u>41,669</u>	<u>-</u>
Total other financing sources (uses)	<u>(41,669)</u>	<u>41,669</u>	<u>-</u>
(Deficiency) excess of revenue and other financing sources over expenditures and other financing sources (uses)	19,003	309,543	328,546
Fund balances, beginning of year	<u>5,163,384</u>	<u>1,234,596</u>	<u>6,397,980</u>
Fund balances, end of year	<u>\$ 5,182,387</u>	<u>\$ 1,544,139</u>	<u>\$ 6,726,526</u>

See notes to financial statements

**City of Havre de Grace, Maryland**

**Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund  
Balances of Governmental Funds to the Statement of Activities**

**Year ended June 30, 2015**

Total net change in fund balances - governmental funds	\$ 328,546
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current fiscal period.	(262,508)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.	153,734
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt.	246,115
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, such as compensated absences.	(222,188)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, such as other post-employment benefits and pension liabilities.	<u>121,031</u>
Change in net position of governmental activities	<u><u>\$ 364,730</u></u>

See notes to financial statements

**City of Havre de Grace, Maryland**  
**Statement of Net Position - Proprietary Funds**  
**June 30, 2015**

	Water and Sewer	Dockage	Total Business-Type Activities
<b>Assets</b>			
Cash and cash equivalents	\$ -	\$ 98,288	\$ 98,288
Investments	282,061	44,592	326,653
Receivables (net of allowance for uncollectibles)	1,093,328	1,660	1,094,988
Inventory of fuel	-	19,217	19,217
Due from general fund	-	176,405	176,405
	<u>1,375,389</u>	<u>340,162</u>	<u>1,715,551</u>
<b>Capital assets</b>			
Land	37,811	-	37,811
Buildings	71,810,408	-	71,810,408
Improvements other than buildings	11,842,497	4,130,593	15,973,090
Equipment	2,167,933	99,016	2,266,949
Less accumulated depreciation	<u>(29,351,801)</u>	<u>(3,113,932)</u>	<u>(32,465,733)</u>
Net capital assets	<u>56,506,848</u>	<u>1,115,677</u>	<u>57,622,525</u>
Total assets	<u>\$ 57,882,237</u>	<u>\$ 1,455,839</u>	<u>\$ 59,338,076</u>
<b>Deferred outflows of resources</b>			
Deferred outflows - pension related	<u>102,641</u>	<u>6,623</u>	<u>109,264</u>
<b>Liabilities</b>			
Accounts payable	\$ 336,778	\$ 38,745	\$ 375,523
Accrued expenses	271,391	7,304	278,695
Compensated absences	718,079	66,357	784,436
Due to general fund	2,336,835	-	2,336,835
Net pension liability	70,940	4,577	75,517
Due within one year	1,665,394	59,000	1,724,394
Long-term liabilities			
Due within more than one year	<u>21,288,860</u>	<u>-</u>	<u>21,288,860</u>
Total liabilities	<u>26,688,277</u>	<u>175,983</u>	<u>26,864,260</u>
<b>Deferred inflows of resources</b>			
Deferred inflows - pension related	<u>127,115</u>	<u>8,202</u>	<u>135,317</u>
<b>Net position</b>			
Invested in capital assets, net of related debt	33,552,594	1,056,677	34,609,271
Unrestricted	<u>(2,383,108)</u>	<u>221,600</u>	<u>(2,161,508)</u>
Total net position	<u>\$ 31,169,486</u>	<u>\$ 1,278,277</u>	<u>\$ 32,447,763</u>

See notes to financial statements

**City of Havre de Grace, Maryland**

**Statement of Revenue, Expenses and Changes in Net  
Position - Proprietary Funds**

**Year ended June 30, 2015**

	<u>Water and Sewer</u>	<u>Dockage</u>	<u>Total Business-Type Activities</u>
Operating revenue			
Charges for sales and services	\$ 5,821,001	\$ 442,763	\$ 6,263,764
Fuel sales	-	187,213	187,213
Miscellaneous	-	15,722	15,722
	<hr/>	<hr/>	<hr/>
Total operating revenue	5,821,001	645,698	6,466,699
	<hr/>	<hr/>	<hr/>
Operating expenses			
Personnel services	2,756,846	220,895	2,977,741
Chemicals and supplies	758,297	-	758,297
Utilities	421,886	40,138	462,024
Repairs and maintenance	157,509	12,337	169,846
Depreciation	2,462,115	283,539	2,745,654
Distributed expenses and administrative fees	1,092,600	55,800	1,148,400
Other expenses	306,864	55,894	362,758
Cost of fuel sold	-	163,929	163,929
	<hr/>	<hr/>	<hr/>
Total operating expenses	7,956,117	832,532	8,788,649
	<hr/>	<hr/>	<hr/>
Operating loss	(2,135,116)	(186,834)	(2,321,950)
	<hr/>	<hr/>	<hr/>
Nonoperating revenue (expenses)			
Bad debts	2,800	2,900	5,700
Tap fees	17,400	-	17,400
Interest income	138	88	226
Penalties and miscellaneous revenue	133,382	-	133,382
Interest charges	(589,039)	(4,228)	(593,267)
Grant proceeds	68,250	-	68,250
Capital contributions	1,144,090	-	1,144,090
Gain on sale of capital assets	-	3,093	3,093
	<hr/>	<hr/>	<hr/>
Total nonoperating revenue (expenses)	777,021	1,853	778,874
	<hr/>	<hr/>	<hr/>
Change in net position	(1,358,095)	(184,981)	(1,543,076)
	<hr/>	<hr/>	<hr/>
Net position - beginning of year, as restated (Note 19)	32,527,581	1,463,258	33,990,839
	<hr/>	<hr/>	<hr/>
Net position - end of year	\$ 31,169,486	\$ 1,278,277	\$ 32,447,763
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See notes to financial statements

**City of Havre de Grace, Maryland**  
**Statement of Cash Flows - Proprietary Funds**  
**Year ended June 30, 2015**

	Water and Sewer	Dockage	Total Business-Type Activities
Cash flows from operating activities			
Receipts from customers	\$ 5,876,424	\$ 627,781	\$ 6,504,205
Other receipts	143,261	21,715	164,976
Payments to employees for services	(1,854,314)	(146,304)	(2,000,618)
Payments of benefits on behalf of employees	(767,420)	(61,268)	(828,688)
Payments of taxes	(137,261)	(9,935)	(147,196)
Payments to suppliers for goods and services	(2,738,716)	(325,408)	(3,064,124)
Net cash provided by operating activities	<u>521,974</u>	<u>106,581</u>	<u>628,555</u>
Cash flows from noncapital financing activities			
Change in due to general fund	<u>681,222</u>	<u>(17,907)</u>	<u>663,315</u>
Net cash provided by (used in) noncapital financing activities	<u>681,222</u>	<u>(17,907)</u>	<u>663,315</u>
Cash flows from capital and related financing activities			
Acquisition and construction of capital assets	(170,560)	(11,544)	(182,104)
Principal paid on bonds and capital leases	(1,638,837)	(56,500)	(1,695,337)
Grant proceeds received	68,250	-	68,250
Interest paid on bond and capital leases	(606,139)	(5,028)	(611,167)
Capital contributions by developers	1,144,090	-	1,144,090
Net cash used in capital and related financing activities	<u>(1,203,196)</u>	<u>(73,072)</u>	<u>(1,276,268)</u>
Cash flows from investing activities			
Sale of investment securities	(138)	(22)	(160)
Interest earned	138	88	226
Net cash provided by investing activities	<u>-</u>	<u>66</u>	<u>66</u>
Net increase in cash and cash equivalents	-	15,668	15,668
Cash and cash equivalents, beginning of year	<u>-</u>	<u>82,620</u>	<u>82,620</u>
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ 98,288</u>	<u>\$ 98,288</u>

(continued)

**City of Havre de Grace, Maryland**

**Statement of Cash Flows - Proprietary Funds - Continued**

**Year ended June 30, 2015**

	<u>Water and Sewer</u>	<u>Dockage</u>	<u>Total Business-Type Activities</u>
Operating loss	\$ (2,135,116)	\$ (186,834)	\$ (2,321,950)
Adjustments to reconcile operating loss to net cash provided by operating activities			
Depreciation	2,462,115	283,539	2,745,654
Amortization	-	3,093	3,093
Water and sewer tap fees received	17,400	-	17,400
Penalties and miscellaneous source revenue received	133,382	-	133,382
Bad debt expense	2,800	2,900	5,700
Changes in assets and liabilities			
Accounts receivable	55,423	(2,195)	53,228
Inventory of fuel	-	4,189	4,189
Due from other governmental entities	-	-	-
Accounts payable	51,613	(1,499)	50,114
Accrued expenses	(124,960)	(8,161)	(133,121)
Unearned revenue	(10,321)	-	(10,321)
Compensated absences	69,638	11,549	81,187
	<u>\$ 521,974</u>	<u>\$ 106,581</u>	<u>\$ 628,555</u>
Net cash provided by operating activities			

See notes to financial statements

**City of Havre de Grace, Maryland**

**Statement of Fiduciary Net Position - Fiduciary Funds**

**June 30, 2015**

	Agency Fund	Pension Trust	
		City Employees	Police Department Employees
<b>Assets</b>			
Cash	\$ 4,598	\$ -	\$ -
Investments, at fair value	-	8,949,498	2,086,911
Due from other funds	51,353	-	-
<b>Total assets</b>	<b>55,951</b>	<b>8,949,498</b>	<b>2,086,911</b>
<b>Liabilities</b>			
Accrued expenses	1,192	-	-
Security deposits	2,140	-	-
Due to other groups	52,619	-	-
<b>Total liabilities</b>	<b>55,951</b>	<b>-</b>	<b>-</b>
<b>Net position</b>	<b>\$ -</b>	<b>\$ 8,949,498</b>	<b>\$ 2,086,911</b>

See notes to financial statements

**City of Havre de Grace, Maryland**

**Statement of Changes in Fiduciary Net Position -  
Pension Trust Funds**

**Year ended June 30, 2015**

	Pension Trust	
	City Employees	Police Department Employees
Additions		
Contributions	\$ 676,001	\$ 437,438
Investment income	484,628	140,456
Total additions	<u>1,160,629</u>	<u>577,894</u>
Deductions		
Distributions	298,307	1,936,042
Depreciation of fair value of plan investments	132,815	46,986
Total deductions	<u>431,122</u>	<u>1,983,028</u>
Changes in net position	729,507	(1,405,134)
Net position - beginning of year	<u>8,219,991</u>	<u>3,492,045</u>
Net position - end of year	<u><u>\$ 8,949,498</u></u>	<u><u>\$ 2,086,911</u></u>

See notes to financial statements

# City of Havre de Grace, Maryland

## Notes to Financial Statements

June 30, 2015

### Note 1 - Summary of Significant Accounting Policies

The City of Havre de Grace (the City) was incorporated on April 5, 1878, under the provisions of the Code of Public Local Laws of Harford County, Maryland. The City operates under a Mayor-Council supervised form of government and provides the following services as authorized by its charter: public safety (police, volunteer fire and ambulance company), highways and streets, sanitation, water and sewage facilities, recreation, urban development and housing, planning and zoning, and general administrative services.

The accounting policies of the City conform to generally accepted accounting principles for local governments. The City's significant accounting policies are described below.

#### Reporting Entity

For financial reporting purposes, in conformance with generally accepted accounting principles (GAAP), the reporting entity includes the primary government governed by the Mayor and Council and the following fiduciary funds:

*City of Havre de Grace, Civilian Employees Pension Trust.* This pension plan is a defined benefit pension plan established by the City to provide benefits at retirement to employees of the City.

*City of Havre de Grace, Sworn Officers Pension Trust.* This pension plan is a defined benefit plan established by the City to provide benefits at retirement to sworn officers of the City.

As a fiduciary fund, the pension funds are used to account for assets held by the City in a trustee capacity for individuals, private organizations, other governments and/or other funds.

*Agency Fund.* The City's agency fund is custodian for the Havre de Grace Community Center.

The City has no component units as defined by GAAP.

#### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts which comprise its assets, liabilities, fund balance/net position, revenue, and expenditures/expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements by fund types as follows:

**Governmental Fund Types**

**General Fund**

The General Fund is the general operating fund of the City. All financial resources are accounted for in this fund except those required to be accounted for in another fund.

**Nonmajor Funds**

All Special Revenue Funds are considered nonmajor funds. The following six funds are all considered nonmajor funds:

The Critical Area Fund is used to account for critical area revenue that is legally restricted to expenditures for the critical area.

The Community Development Block Grant Fund (CDBG) is used to account for the proceeds from the Maryland Department of Housing and Community Development that are legally restricted to expenditures for rehabilitating urban areas and expanding economic opportunities for the benefit of low and moderate income persons.

The Slip User Fund is used to account for Slip User tax revenue. Such revenue is legally restricted to fund expenditures necessary to maintain and enhance water quality, water and waste water facilities, marinas, law enforcement, public safety and fire protection services.

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

The Law Enforcement Restricted Fund is used to account for the proceeds from abandoned property and from the Bureau of Justice Assistance, U.S. Department of Justice, that are legally restricted to expenditures directly related to basic law enforcement functions.

The Forest Conservation Fund is used to account for revenue from the deforestation of property by landowners who have not pursued the option of replanting trees. Proceeds are legally restricted to reforestation of the City.

The Promenade Repair Fund is used to account for a portion of building permit revenues. Such revenues are legally restricted to fund expenditures related to the repair and maintenance of the Promenade.

**Proprietary Fund Types - Enterprise Funds**

**Water and Sewer Fund**

The Water and Sewer Fund is used to account for the operations of the water and sewer systems in a manner whereby the costs of providing services to the general public are recovered primarily through user charges.

**Dockage Fund**

The Dockage Fund is used to account for the operations of the dock facilities in a manner whereby the costs of maintaining the dock area are recovered primarily through user charges or provided from government funds.

**Fiduciary Fund Types - Trust and Agency Funds**

**Havre de Grace Community Center Fund**

This fund accounts for assets held by the City for outside parties, including other governments, or for other funds within the government. The City's agency fund is custodian for the Havre de Grace Community Center. The agency fund does not present results of operations or have a measurement focus.

**Pension Trust Funds**

The City maintains Pension Trust Funds to account for the City employees' and the Police Department employees' benefits. These funds are accounted for in essentially the same manner as a proprietary fund type.

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements, as well as the proprietary and fiduciary fund statements are reported 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 for 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a 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.

Property taxes, charges for services, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are interfund services such as payments-in-lieu of taxes and other charges between certain City functions because the elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

## City of Havre de Grace, Maryland

### Notes to Financial Statements - Continued

June 30, 2015

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **Budgets and Budgetary Accounting**

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

1. Prior to the first Monday in June, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and estimates of anticipated revenue, which shall equal the total proposed expenditures.
2. Prior to July 1, the property tax rate is approved by the City Council and is legally enacted through passage of an ordinance. The budget is adopted by the City Council at this time.
3. From the date of budget enactment, proposed expenditures become appropriations authorized by the City Council. Budgeted amounts presented are as adopted by the City Council. Any revision that alters the expenditure of any fund, in total or among functions or departments, must be approved by the City Council. Budget transfers within departments can be made without approval by the City Council; therefore, the legal level of budgetary control has been effectively lowered to the department level for legal compliance.

Formal budgetary accounting is employed as a management control for all funds of the City. Annual operating budgets are adopted each year and amended as required for the General Fund and the Proprietary Funds. The annual budgets are prepared utilizing the same basis of accounting used to reflect actual revenue and expenditures on a generally accepted accounting principles basis except that, for budgetary purposes:

- (1) designations of prior fiscal year's fund balances are treated as revenue;
- (2) encumbrances are budgeted as expenditures;
- (3) loan proceeds are treated as revenue in the proprietary funds; and

## City of Havre de Grace, Maryland

### Notes to Financial Statements - Continued

June 30, 2015

(4) capital acquisitions are budgeted as expenses in the proprietary funds.

The budget for the Special Revenue Funds is made on a project basis since these projects may span more than one fiscal year. None of the Special Revenue Funds met the criteria to be considered a major fund; therefore, no comparison of budgetary information with actual results for these funds is presented in these financial statements.

Actual expenditures may not exceed budgeted amounts for any fund except in emergency circumstances. Unencumbered appropriations lapse at year-end.

#### **Cash and Cash Equivalents**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition.

Investments are stated at fair value. Investments consist of the Maryland Local Government Investment Pool, certificates of deposit with maturities of greater than 90 days and the guaranteed pension investment fund for the pension plans.

#### **Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of the interfund loans). Other outstanding balances between funds are also reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. "Receivables (net of allowance for uncollectibles)" for the Water and Sewer Fund includes water and sewer services used by customers but not yet billed. Unbilled revenues are estimated based on the billing cycles of each customer.

All taxes, assessments, service charges and other receivables are shown net of an allowance for uncollectibles. The City's allowance for uncollectibles is based upon historical collection experience and a review of the status of current accounts receivable.

## **City of Havre de Grace, Maryland**

### **Notes to Financial Statements - Continued**

**June 30, 2015**

#### **Inventory of Fuel**

Inventory of fuel consists of gasoline and diesel fuel and is valued at the lower of cost or market on a first-in, first-out (FIFO) basis. The purchase method is used to account for inventory.

#### **Capital Assets**

##### **Tangible Assets**

Capital assets, which include land, construction-in-progress, buildings, machinery and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets for the primary government are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Capital assets are depreciated using the straight-line method over their estimated useful lives. General infrastructure assets acquired prior to July 1, 2003, are not reported in the basic financial statements.

##### **Intangible Assets**

Intangible assets, included in improvements other than building, (e.g., easements, water rights, timber rights, trademarks, and computer software, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Intangible assets for the City are defined as all intangible assets which lack physical substance, are nonfinancial in nature, are identifiable, have an initial, individual costs of more than \$5,000 and have an initial useful life extending beyond a single reporting period. Intangible assets are depreciated using the straight-line method over their estimated useful lives.

#### **Compensated Absences**

Employees may accumulate all unused sick leave. Accumulated unpaid annual leave at December 31 of each year cannot exceed 240 hours or it is forfeited. Upon termination, up to 240 hours of accumulated annual leave will be paid to the employee. Unused sick leave will be allowed to accumulate indefinitely. Retirees

## **City of Havre de Grace, Maryland**

### **Notes to Financial Statements - Continued**

**June 30, 2015**

will be entitled to receive their accumulated sick leave, which will be calculated in their retirement formula. Employees who resign from city service will receive their accumulated sick leave, which will be calculated along with their retirement fund reimbursement.

#### **Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts, as well as issuance costs, are expensed in the period incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### **Use of Estimates in Preparing Financial Statements**

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

#### **New Governmental Accounting Standards Board (GASB) Standard**

GASB has issued the pronouncements noted below, prior to the year ended June 30, 2015, the implementation of which may impact the financial statements of the City:

- GASB Statement No. 68, "Accounting and Financial Reporting for Pensions," an Amendment of GASB Statement No. 27 was effective for the City beginning with its fiscal year ended June 30, 2015. This statement replaces the requirements of Statement No. 27, "Accounting for Pensions by State and Local Government Employers" and Statement No. 50, "Pension Disclosure." Additionally, Statement No. 68 enhances accountability and transparency through new and revised note disclosures and required supplementary information (RSI). The implementation of this statement has a material effect on the financial position of the City and is further discussed in Note 19.

## City of Havre de Grace, Maryland

### Notes to Financial Statements - Continued

June 30, 2015

- GASB Statement No. 69, "Government Combinations and Disposals of Government Obligations," was effective for the City beginning with its year ended June 30, 2015. This statement provides guidance relating to measurement, accounting, and financial reporting of government combinations as well as disposals of government operations. The statement also requires disclosures to be made about governmental combinations and disposals of government operations to enable financial statement users to evaluate the nature and effects of those transactions. In addition, Statement No. 69 provides guidance for transfers of operations that do not constitute entirely legally separate entities and in which no significant consideration is exchanged. The implementation of this statement did not have a material impact on the financial position of the City.
- GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date," was effective for the City beginning with its year ended June 30, 2015. This statement was designed to address an issue regarding application of the transition provisions of Statement No. 68. Statement No. 71 amends Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The implementation of this statement did not have a material impact on the financial position of the City.
- GASB Statement No. 72, "Fair Value Measurement and Application," will be effective for the City beginning with its year ending June 30, 2016. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The City is still evaluating the impact of implementation of this statement, but does not expect the effect of this statement to have a material impact on the financial position of the City.
- GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68," will be effective for the City beginning with its year ending June 30, 2016. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, "Accounting and Financial Reporting for Pensions," as well as for the assets accumulated for the purposes of

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, "Financial Reporting for Pension Plans," and Statement 68 for pension plans and pensions that are within their respective scopes. The City is still evaluating the impact of implementation of this statement, but does not expect the effect of this statement to have a material impact on the financial position of the City.

- GASB Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," will be effective for the City beginning with its year ending June 30, 2017. This Statement replaces Statements No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," as amended, and No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans." It also includes requirements for defined contribution OPEB plans that replace the requirements of those OPEB plans in Statement No. 25, "Financial Reporting for Defined Benefit Pension" Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, "Pension Disclosures." The City is still evaluating the impact of implementation of this statement, but does not expect the effect of this statement to have a material impact on the financial position of the City.
- GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," will be effective for the City beginning with its year ending June 30, 2017. This Statement replaces the requirements of Statements No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," as amended and No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans," for OPEB. Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," establishes new accounting and financial reporting requirements for OPEB plans. The City is still evaluating the impact of implementation of this statement, but does not expect the effect of this statement to have a material impact on the financial position of the City.
- GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments," will be effective for the City beginning with its year ending June 30, 2016. This Statement supersedes Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments." The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015 and should be applied retroactively. The City is still evaluating the impact of implementation of this statement, but does not expect the effect

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

of this statement to have a material impact on the financial position of the City.

**Note 2 - Reconciliation of Government-Wide and Fund Financial Statements**

- A. Explanation of certain differences between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position:

The Basic Financial Statements includes a Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position - Governmental Funds. This statement reconciles total fund balances - governmental funds to total net position - governmental activities. One element of that reconciliation explains that "long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current fiscal period and therefore are not reported in the governmental funds."

The details of the \$9,364,704 difference are as follows:

General obligation bonds - general government	\$ 2,078,800
Compensated absences - general government	2,529,796
Notes and loans payable - general government	1,219,985
Other post-employment benefits - general government	1,648,194
Net pension liability - general government	<u>1,860,055</u>
Total	<u>\$ 9,336,830</u>

- B. Explanation of certain differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds and the Government-wide Statement of Activities:

The Basic Financial Statements includes a Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities. This statement reconciles the total net change in fund balances - total governmental funds to the change in net position of governmental activities. One element of the reconciliation explains that "Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets."

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

The details of this (\$262,508) difference are as follows:

Capital acquisitions	\$ 988,583
Construction-in-progress transfers	(50,529)
Depreciation expense	<u>(1,200,562)</u>
Total	<u>\$ (262,508)</u>

Another element of the reconciliation states that "Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds."

The details of this \$153,734 difference are as follows:

Deferred inflows of resources June 30, 2015	\$ 597,243
Deferred inflows of resources June 30, 2014	<u>(443,509)</u>
Net adjustment to increase net change in fund balances - governmental funds to arrive at change in net position of governmental activities	<u>\$ 153,734</u>

Another element of that reconciliation states that "Bond and loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position."

The details of this \$246,115 difference are as follows:

General obligation debt - City	\$ 216,100
Notes and loans payable	<u>30,015</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 246,115</u>

Another element of that reconciliation states that "Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds, such as compensated absences."

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

The details of this (\$222,188) difference are as follows:

Compensated absences June 30, 2015	\$ (2,529,796)
Compensated absences June 30, 2014	<u>2,307,608</u>
 Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	 <u>\$ (222,188)</u>

Another element of that reconciliation states that "Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds such as other post-employment benefits and pension liabilities."

The details of this \$171,399 difference are as follows:

Other post-employment benefits June 30, 2015	\$ (1,648,194)
Other post-employment benefits June 30, 2014	1,463,745
Net pension liability June 30, 2015	(1,860,055)
Net pension liability June 30, 2014	1,287,273
Net deferred outflows - pension related June 30, 2015	878,262
Net deferred outflows - pension related June 30, 2014	<u>-</u>
 Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	 <u>\$ 121,031</u>

**Note 3 - Budgets and Budgetary Accounting**

The following General Fund Departments exceeded their appropriated expenditure budgets for the year ended June 30, 2015:

<u>General Fund</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General government	\$ 3,251,600	\$ 3,385,242	\$ 133,642
Miscellaneous	345,700	417,651	71,951
Debt service			
Interest	81,700	99,265	17,565

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

**Note 4 - Reserve for Emergency**

The City has established a reserve for emergency account (also known as a Rainy Day Fund) to provide funding in emergency situations or in cases of revenue shortfalls. On February 6, 2006, Resolution 2006-2 was adopted and the contingency reserve fund is to be funded each year by an amount equal to 2% of the prior fiscal year's General Fund operating budget until it reaches 10% of the prior fiscal year's General Fund operating budget. At that time, funding is required to be that amount necessary to fulfill the 10% obligation. As of June 30, 2015, the reserve for emergency was \$1,242,030.

**Note 5 - Cash and Investments**

Cash, cash equivalents and investments of the City are described as follows:

**Deposits**

At year-end, the carrying amount of the City's deposits was \$2,081,389 and the bank balance was \$2,237,631. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Maryland State Law prescribes that local government units, such as the City, must deposit its cash in banks which transact business in Maryland. Such banks must also secure any deposits in excess of the Federal Depository Insurance Corporation insurance levels with collateral whose market value is at least equal to the deposits. As of June 30, 2015, the City's bank balance was not exposed to any custodial risk as all deposits were fully collateralized.

**Investments**

Statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, repurchase agreements, certificates of deposit or time deposits insured by the FDIC, and the Maryland Local Government Investment Pool (MLGIP), which invests in U.S. Treasuries.

The City's investments consist of certificates of deposit with original maturity greater than 90 days of \$2,450,000 and investments in the local government investment pool of \$404,041. There is no custodial credit risk for either of these investments as the amounts are fully collateralized. In addition, there is no interest rate risk as the interest rates are adjusted periodically for the certificates of deposits and the investment in the local government investment pool.

## City of Havre de Grace, Maryland

### Notes to Financial Statements - Continued

June 30, 2015

The City's investments for the Pension Trust Fund consist of investments in mutual funds of \$11,036,409. There is no custodial credit risk for these investments. In addition, there is no interest rate risk as the interest rates are adjusted periodically for the investment in mutual funds. The mutual funds are unrated.

The City is a participant of the MLGIP, which provides all local government units of the State a safe investment vehicle for the short-term investment of funds. The State Legislature created MLGIP with the passage of Article 95 22 G, of the Annotated Code of Maryland. The MLGIP, under the administrative control of the State Treasurer, has been managed by PNC Institutional Investments. The pool has an AAA rating from Standard and Poor's and maintains a \$1.00 per share value. A MLGIP Advisory Committee of current participants was formed to review, on a quarterly basis, the activities of the Fund and to provide suggestions to enhance the pool. The fair market value of the pool is the same as the value of the pool shares.

Additionally, in accordance with reporting requirements of GASB Statement No. 40, the City does not have any interest rate risk associated with investments. Investments in the MLGIP and mutual funds are priced on a daily basis, with funds availability also on a daily basis. It should also be noted that the City does not have any foreign currency risk associated with any investments.

#### Note 6 - Property Taxes

The taxes levied on July 1 become a lien on that date, and are payable by October 1. City property tax revenues are recognized when levied to the extent that they result in current receivables. Delinquency in paying property taxes results in property being put up for sale by Harford County in June of the respective tax year. Resolution No. 128 was passed February 15, 1982, by the Mayor and City Council which enabled the City to levy up to \$2.00 per \$100 of assessed valuation for general governmental services, including principal and interest on long-term debt for subsequent years beginning July 1, 1982. The City's tax rate for fiscal year 2015 was \$0.56 per \$100 of assessed value.

The City's personal property taxes are levied annually. Assessed values are established by the Maryland State Department of Assessments and Taxation based on estimates of fair market value multiplied by that year's assessment rate. The rate per \$100 of assessed value was \$1.705 in fiscal year 2015.

All receivables are reported at gross value and, where appropriate, reduced by the estimate considered to be uncollectible. At June 30, 2015 all property taxes were considered collectible.



**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

Vincenti Decoys - Note issued September 17, 2007, for \$85,000 bears interest at 5.0% per annum, and is secured by a deed of trust. Principal and interest payments in the amount of \$902 are receivable monthly until maturity in September 2017. 67,924

Web Advantage, Inc. - Note issued October 11, 2007, for \$100,000 bears interest at 5.0% per annum, and is secured by a deed of trust. Principal and interest payments in the amount of \$1,061 are receivable monthly until maturity in October 2017. 40,790

Salon Marielle, LLC - Note issued October 31, 2007, for \$45,000 bears interest at 5.0% per annum, and is secured by a deed of trust; modified on October 18, 2011 to a non-interest bearing principal amount of \$12,000. Principal payments of \$400 are receivable monthly until maturity in March 2014. The loan was paid off in full during fiscal year 2015. -

202 Congress Avenue, LLC - Note issued June 10, 2008, for \$100,000 bears interest at 5.0% per annum, and is secured by a deed of trust. Principal and interest payments in the amount of \$1,061 are receivable monthly until maturity in June 2018. This loan is in default as of June 30, 2015, with a corresponding allowance for the balance of the loan in the amount of \$89,893. -

Edward Sheets and Stephanie Sheets - Note issued November 21, 2008, for \$93,750 bears interest at 5.0% per annum, and is secured by a deed of trust. Principal and interest payments in the amount of \$741 are receivable monthly until maturity in November 2023. This loan is in default as of June 30, 2015, with a corresponding allowance for the balance of the loan in the amount of \$49,772. -

Old Chesapeake Properties, LLC - Note issued February 9, 2009, for \$100,000 bears interest at 5.0% per annum, and is secured by a deed of trust. Principal and interest payments in the amount of \$791 are receivable monthly until maturity in February 2024. This loan is in default as of June 30, 2015, with a corresponding allowance for the balance of the loan in the amount of \$71,652. -

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

Concord Properties, Inc., Margaret E. Logan and Dwayne A. Coakley - Note issued April 13, 2011, for \$85,000 bears interest at 5.0% per annum, and is secured by a deed of trust. Principal and interest payments in the amount of \$902 are receivable monthly until maturity in April 2021.	76,772
Best Choice Driving School - Note issued June 25, 2010, for \$25,000 bears interest at 5.0% per annum, and is secured by a deed of trust. Principal and interest payments in the amount of \$165 are receivable monthly until maturity in June 2030.	20,786
Mary L. Martin, Limited - Note issued December 21, 2011, for \$100,000 bears interest at 5.0% per annum, and is secured by a deed of trust. Principal and interest payments in the amount of \$1,413 are receivable monthly until maturity in December 2018.	<u>54,581</u>
Total Notes Receivable, net of allowance for uncollectibles	<u><u>\$ 260,853</u></u>

**Note 9 - Cell Tower Lease**

The City entered into a cellular phone tower agreement on June 4, 2013, which allows for the placement of cellular antennas and panels at 100 Larget Lane. Beginning in fiscal year 2014, monthly rent is due in the amount of \$3,000. Rent shall increase on September 1<sup>st</sup> of each year, thereafter, by an amount equal to three percent over the rent paid during the then-previous twelve-month period. This agreement will expire on August 31, 2041.

During 2013, the City earned \$36,000 from the cell tower lease. The following schedule presents a summary of the minimum future cell tower lease income:

Fiscal Year	Tower Lease Income
2016	\$ 38,192
2017	39,338
2018	40,518
2019	41,734
2020	42,986

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

**Note 10 - Changes in Capital Assets**

A summary of changes in capital assets for governmental activities for the year ended June 30, 2015 is as follows:

	Balance June 30, 2014	Increases	Decreases	Balance June 30, 2015
Capital assets, not being depreciated				
Land	\$ 2,046,139	\$ -	\$ -	\$ 2,046,139
Construction-in-progress	443,676	764,425	50,529	1,157,572
Total capital assets, not being depreciated	<u>2,489,815</u>	<u>764,425</u>	<u>50,529</u>	<u>3,203,711</u>
Capital assets, being depreciated				
Infrastructure	4,889,329	72,273	-	4,961,602
Buildings	7,101,226	16,125	-	7,117,351
Improvements other than buildings	3,995,689	-	-	3,995,689
Machinery and equipment	3,556,823	135,760	79,859	3,612,724
Total capital assets, being depreciated	<u>19,543,067</u>	<u>224,158</u>	<u>79,859</u>	<u>19,687,366</u>
Less accumulated depreciation for				
Infrastructure	2,004,614	459,782	-	2,464,396
Buildings	3,879,862	283,556	-	4,163,418
Improvements other than buildings	3,094,453	186,205	-	3,280,658
Machinery and equipment	2,460,231	271,019	79,859	2,651,391
Total accumulated depreciation	<u>11,439,160</u>	<u>1,200,562</u>	<u>79,859</u>	<u>12,559,863</u>
Total capital assets, being depreciated, net	<u>8,103,907</u>	<u>(976,404)</u>	<u>-</u>	<u>7,127,503</u>
General capital assets, net	<u>\$ 10,593,722</u>	<u>\$ (211,979)</u>	<u>\$ 50,529</u>	<u>\$ 10,331,214</u>

The construction-in-progress reflects a decrease due to certain projects being closed during the year and transferred to the applicable asset categories in the current fiscal year.

Depreciation expense was charged to function/programs of the City as follows:

General government	\$ 310,962
Public safety	129,580
Public works	<u>760,020</u>
Total depreciation expense - governmental activities	<u>\$ 1,200,562</u>

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

A summary of changes in capital assets for business-type activities for the year ended June 30, 2015 is as follows:

	Balance June 30, 2014	Increases	Decreases	Balance June 30, 2015
Capital assets, not being depreciated				
Land	\$ 37,811	\$ -	\$ -	\$ 37,811
Total capital assets, not being depreciated	<u>37,811</u>	<u>-</u>	<u>-</u>	<u>37,811</u>
Capital assets, being depreciated				
Water and sewer plants	71,810,408	-	-	71,810,408
Improvements to plants and marina	15,918,567	54,523	-	15,973,090
Equipment	2,139,369	127,580	-	2,266,949
Total capital assets, being depreciated	<u>89,868,344</u>	<u>182,103</u>	<u>-</u>	<u>90,050,447</u>
Less accumulated depreciation for				
Water and sewer plants	19,077,546	2,013,031	-	21,090,577
Improvements to plants and marina	8,898,003	626,452	-	9,524,455
Equipment	1,744,531	106,170	-	1,850,701
Total accumulated depreciation	<u>29,720,080</u>	<u>2,745,653</u>	<u>-</u>	<u>32,465,733</u>
Total capital assets, being depreciated, net	<u>60,148,264</u>	<u>(2,563,550)</u>	<u>-</u>	<u>57,584,714</u>
Capital assets, net	<u>\$ 60,186,075</u>	<u>\$ (2,563,550)</u>	<u>\$ -</u>	<u>\$ 57,622,525</u>

**Note 11 - Long-Term Liabilities**

A summary of changes in long-term liabilities of governmental activities, which includes debt, compensated absences, and other post-employment benefits, for the year ended June 30, 2015 is as follows:

	General Obligation Bonds Payable	Notes and Loans Payable	Compensated Absences	Other Post-Employment Benefits	Net Pension Liability	Total
Long-term debt						
at June 30, 2014	\$ 2,294,900	\$ 1,250,000	\$ 2,307,608	\$ 1,463,745	\$ 1,375,132	\$ 8,691,385
Obligations retired	(216,100)	(30,015)	-	-	-	(246,115)
Compensated absences	-	-	222,188	-	-	222,188
Other post-employment benefits	-	-	-	184,449	-	184,449
Pension liability	-	-	-	-	484,923	484,923
Long-term debt						
at June 30, 2015	<u>\$ 2,078,800</u>	<u>\$ 1,219,985</u>	<u>\$ 2,529,796</u>	<u>\$ 1,648,194</u>	<u>\$ 1,860,055</u>	<u>\$ 9,336,830</u>
Due within one year	<u>\$ 225,600</u>	<u>\$ 31,216</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 256,816</u>

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

A summary of the changes in the general obligation bonds payable and compensated absences of business-type activities for the year ended June 30, 2015 is as follows:

	General Obligation Bonds Payable	Notes and Loans Payable	Compensated Absences	Net Pension Liability	Total
Balance, June 30, 2014	\$ 24,708,591	\$ -	\$ 703,249	\$ 150,170	\$ 25,562,010
Obligations retired	(1,695,337)	-	-	-	(1,695,337)
Compensated absences	-	-	81,187.00	-	81,187
Pension liability	-	-	-	(74,653)	(74,653)
Balance, June 30, 2015	<u>\$ 23,013,254</u>	<u>\$ -</u>	<u>\$ 784,436</u>	<u>75,517</u>	<u>\$ 23,873,207</u>
Due in one year	<u>\$ 1,724,394</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,724,394</u>

Bonds, notes and loans payable at June 30, 2015 are comprised of the following:

	Current	Long-term	Total
<b>Long-Term Debt - Bonds Payable</b>			
<u>Infrastructure Bonds, 2006 Series A</u> - Bonds dated April 5, 2006, in the amount of \$400,000 to provide financing for park improvements. Bears interest at a rate of 4.03%. Semiannual interest payments are due on the first day of May and November. An annual principal payment is due on May 1. The bonds mature on May 1, 2026.	\$ 19,000	\$ 238,500	\$ 257,500
<u>Refunding Bonds, 2013 Series</u> - Bonds dated May 31, 2013 in the amount of \$3,831,000 (of which \$2,210,000 is included in Governmental Activities and \$1,621,000 is included in the Water and Sewer Fund) to provide financing for various City projects. Bears interest at a rate of 1.97%. Annual principal and interest payments are due on June 30. The bonds mature on June 30, 2027.	206,600	1,614,700	1,821,300
Total long-term debt	<u>225,600</u>	<u>1,853,200</u>	<u>2,078,800</u>

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
<b>Long-Term Debt - Notes and Loans Payable</b>			
<u>Note Payable</u> - Loan issued by a related party to the City on August 13, 2013, in the amount of \$1,250,000. The loan bears interest at 4.0% and is to be repaid in annual installments of \$30,015 until maturity in August 2038.	31,216	1,188,769	1,219,985
Total notes and loans payable	<u>31,216</u>	<u>1,188,769</u>	<u>1,219,985</u>
<b>Total long-term debt</b>	<u>\$ 256,816</u>	<u>\$ 3,041,969</u>	<u>\$ 3,298,785</u>

**Water and Sewer Fund - Bonds Payable**

<u>Refunding Bonds, 2013 Series</u> - Bonds dated May 31, 2013 in the amount of \$3,831,000 (of which \$2,210,000 is included in Governmental Activities and \$1,621,000 is included in the Water and Sewer Fund) to provide financing for various City projects. Bears interest at a rate of 1.97%. Annual principal and interest payments are due on June 30. The bonds mature on June 30, 2027. Interest incurred for the year ended June 30, 2015 was \$23,164.	\$ 206,400	\$ 995,300	\$ 1,201,700
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<u>Water Quality Bond of 2000</u> - Bond dated December 20, 2000, in the amount of \$3,569,102 to provide financing for the construction of improvements to the water treatment plant. Bears interest at a 2.40% annual rate, payable in semiannual installments, due on the first day of February and August. An annual principal payment in varying amounts is due on February 1, beginning February 1, 2003. The bond matures February 1, 2022. The bond proceeds are being funded to the City by Maryland Water Quality Financing Administration as needed for construction. Interest and administrative fees incurred for the year ended June 30, 2015 was \$41,163.	192,099	978,884	1,170,983
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**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
<b>Water and Sewer Fund - Bonds Payable</b>			
 <u>MDE 2008 ENR Bonds Payable</u> - Bond issued January 31, 2008 in the amount of 26,328,354 to provide financing for a water treatment plant. Bears interest at a 2.10% annual rate, payable in semiannual installments with payments due on the first day of February and August. An annual principal payment in varying amounts is due on February 1, beginning August 1, 2011, and is due until maturity on February 1, 2029. Interest and admin fees incurred for the year ended June 30, 2015 was \$524,712.	<u>1,266,895</u>	<u>19,314,676</u>	<u>20,581,571</u>
Water and Sewer Fund bonds payable	<u>1,665,394</u>	<u>21,288,860</u>	<u>22,954,254</u>
Total Water and Sewer fund - long-term debt	<u>\$ 1,665,394</u>	<u>\$ 21,288,860</u>	<u>\$ 22,954,254</u>

**Dockage Fund - Bonds Payable**

<u>Infrastructure Bonds, 2006 Series A</u> - Bonds dated April 5, 2006, in the amount of \$500,000 to provide financing for City pier replacement. Bears interest at a rate of 4.15%. Semiannual interest payments are due on the first day of May and November. An annual principal payment is due on May 1. The bonds mature on May 1, 2016. Interest and administrative fees incurred for the year ended June 30, 2015 was \$4,228.	<u>\$ 59,000</u>	<u>\$ -</u>	<u>\$ 59,000</u>
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**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

Certain of the City's bonds issued in a single transaction for the refunding of certain bonds are payable for both governmental and business-type activities. As a result, the financial statements report debt outstanding and the related debt service for that combined transaction in both governmental and business-type activities in the relative proportion of the underlying debt refunded. When individual business-type revenues are not sufficient to pay for operations inclusive of allocated debt-service, interfund transfers are made in amounts to address the shortfall. The following table shows the original combined issue amount and where the debt is reported.

Bond Series	Original Amount Issued	Outstanding debt reported in		Total Amount Outstanding
		Governmental Activities	Business-Type Activities	
Refunding Bonds, 2013 Series	\$ 3,831,000	\$ 1,821,300	\$ 1,201,700	\$ 3,023,000

Maturity, years ending June 30	Long-Term Debt - Governmental Activities		
	General Obligation Bonds Payable		
	Principal	Interest	Requirement
2016	\$ 225,600	\$ 46,982	\$ 272,582
2017	229,600	42,156	271,756
2018	205,100	37,197	242,297
2019	214,100	32,710	246,810
2020	219,600	28,023	247,623
2021 - 2025	956,300	68,500	1,024,800
2026	28,500	1,516	30,016
Total	\$ 2,078,800	\$ 257,084	\$ 2,335,884

Maturity, years ending June 30	Notes and Loans Payable		
	Principal	Interest	Requirement
2016	\$ 31,216	\$ 48,799	\$ 80,015
2017	32,464	47,551	80,015
2018	33,763	46,252	80,015
2019	35,113	44,902	80,015
2020	36,518	43,497	80,015
2021 - 2025	205,704	194,371	400,075
2026 - 2030	250,270	149,805	400,075
2031 - 2035	304,492	95,583	400,075
2036 - 2039	290,445	29,614	320,059
Total	\$ 1,219,985	\$ 700,374	\$ 1,920,359

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

Maturity, years ending June 30	Water and Sewer Fund		
	General Obligation Bonds Payable		
	Principal	Interest	Requirement
2016	\$ 1,665,394	\$ 571,490	\$ 2,236,884
2017	1,703,609	536,209	2,239,818
2018	1,736,494	500,121	2,236,615
2019	1,622,062	463,329	2,085,391
2020	1,653,829	428,734	2,082,563
2021 - 2025	7,806,033	1,596,422	9,402,455
2026 - 2028	6,766,833	533,645	7,300,478
<b>Total</b>	<b>\$ 22,954,254</b>	<b>\$ 4,629,950</b>	<b>\$ 27,584,204</b>

  

Maturity, year ending June 30	Dockage Fund		
	General Obligation Bonds Payable		
	Principal	Interest	Requirement
2016	\$ 59,000	\$ 2,683	\$ 61,683

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

**Note 12 - Retirement Plans**

**City Employees**

**General**

The Mayor and City Council of Havre de Grace, Maryland, established the City of Havre de Grace Civilian Employees' Pension Plan, a trust-administered, single-employer, defined-benefit, contributory pension plan effective February 1, 1961, for eligible City employees (the Plan). The Plan Committee, which consists of the Mayor and the Director of Administration of the City, is responsible for determining benefits under the plan. The City has delegated the authority to manage the Plan to T. Rowe Price.

No standalone financial statements are issued for this Plan.

**Basis of Accounting**

The Plan's financial statements are prepared using the accrual basis of accounting. Employer and Plan member contributions are recognized in the period the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

**Method Used to Value Investments**

Plan investments are reported at fair value based on quoted market prices.

The annual money-weighted rate of return was 4.20% for the year ended June 30, 2015. The money-weighted rate of return expresses the investment performance, net of investment expense, adjusted for changing amounts actually invested.

**Plan Membership**

As of June 30, 2015, the pension plan's membership consisted of the following:

Active Plan members	86
Inactive Plan members or beneficiaries currently receiving benefits	10
Inactive Plan members entitled to benefits but not yet receiving them	<u>5</u>
<b>Total</b>	<u><u>101</u></u>

**Contribution Information and Funding Policy**

The Plan covers all civilian employees with at least one year of credited service who have worked 1,000 or more hours per year, regardless of age, are eligible to participate in the Plan. Plan participants begin vesting after three years of credited service. Full vesting occurs after seven years of participation.

Article X of the City of Havre de Grace, Maryland Civilian Employees Pension Plan establishes contribution rates to the Plan. Contributions to the Plan made by the City are based on an actuarially determined rate. The actuarially determined contributions consider the normal retirement benefit (a fixed percentage of monthly compensation), years of service and the employee's age, among other factors. The actuarially required contribution and the amount paid into the Plan for the year ended June 30, 2015 was \$676,001. Participants must contribute 4% of his or her compensation each year until the participant has earned 30 years of vesting service. Administrative costs are financed through investment earnings.

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

**Investment Policy**

The Civilian Employees' Pension Plan investment policy is to invest in a balanced portfolio that, over time, has the potential to balance the capital appreciation offered by stocks with income and relative stability of fixed income securities. The objective is to provide capital appreciation, current income and preservation of capital through a portfolio of stocks and fixed income securities. The Plan may be amended by the City Council.

The Plan's target asset allocation and long-term expected rate of return was as follows at June 30, 2015:

<u>Security Type</u>	<u>Range</u>
Stocks	50% - 70%
Bonds	30% - 50%
Reserves	0% - 20%

The plan document has not established a minimum long-term expected rate of return.

**Net Pension Liability**

The net pension liability was allocated amongst the funds based on the percentage of contributions made by each fund. The components of the net pension liability of the City at June 30, 2015 were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>		<u>Total</u>
		Water and Sewer	Dockage	
Total net pension liability	\$ 5,884,791	\$ 3,077,971	\$ 197,886	\$ 9,160,648
Plan fiduciary net position	<u>5,749,158</u>	<u>3,007,031</u>	<u>193,309</u>	<u>8,949,498</u>
City's net pension liability	<u>\$ 135,633</u>	<u>\$ 70,940</u>	<u>\$ 4,577</u>	<u>\$ 211,150</u>

Plan fiduciary net position  
as a percentage of the  
total pension liability

97.70%

**Actuarial Assumptions**

The annual required contribution for the current year was determined as part of the actuarial valuation on July 1, 2014 rolled forward to June 30, 2015. The City's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was based on an actuarial

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

valuation as of July 1, 2014. The actuary utilized update procedures to rollforward the total pension liability in the July 1, 2014 actuarial valuation to the June 30, 2015 measurement date. The actuarial assumptions applied to all periods in the measurement included (a) 8% investment rate of return (net of administrative expenses) and (b) projected salary increases at 4% per annum for steps A through N within each pay grade and 2% per annum for steps L-1 through L-6, then 1% thereafter.

Mortality rates are based on the following:

- Healthy lives: RP 2000 Combined Mortality tables projected to 2027 by Scale BB with pre-retirement mortality adjustments of 0.8775 for males and 0.765 for females, and post-retirement mortality adjustments of 1.17 for males and 1.02 for females.
- Disabled lives: RP 2000 Disabled Mortality tables with post-retirement mortality adjustments of 0.70 for males and no adjustment for females.

**Discount Rate**

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that City contributions will continue to follow the current funding policy. Based on those 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. In the event of benefit payments that are not covered by the pension plan's fiduciary net position, a municipal bond rate of 3.73% would have been used to discount the benefit payments not covered by the plan's fiduciary net position. The rate equals the S&P Municipal Bond 20 Year High Grade Rate Index at June 30, 2015.

The following presents the net pension liability of the City calculated using a discount rate of 8%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7%) or 1 percentage point higher (9%) than the current rate:

	1% Decrease 7%	Current Discount Rate 8%	1% Increase 9%
Net pension liability	\$ 740,447	\$ 211,150	\$ (254,243)

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

The following is the schedule of changes in the City's employee's net pension liability:

Total Changes in Net Pension Liability	
Service cost	239,300
Interest	719,091
Projected earnings on plan investments	(673,223)
Contributions	(676,001)
Administrative expenses	-
Changes of benefit terms	-
Difference between expected and actual experience	56,446
Change of assumptions	(441,417)
Difference between projected and actual earnings	<u>321,409</u>
Total net pension liability - beginning	<u>665,545</u>
Total net pension liability - end	<u><u>\$ 211,150</u></u>
Plan Fiduciary Net Position	
Contributions - employer	504,625
Contributions - employees	171,376
Net investment income	351,813
Benefit payments, including refunds of member contribution:	(298,307)
Administrative expenses	
Net change in plan fiduciary net position	729,507
Plan fiduciary net position - beginning	<u>8,219,991</u>
Plan fiduciary net position - end	<u><u>\$ 8,949,498</u></u>
Total pension liability	<u><u>\$ 9,160,648</u></u>

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

**Police Department Employees**

**General**

The Mayor and City Council of Havre de Grace, Maryland, established the City of Havre de Grace Sworn Officers' Pension Plan, a trust-administered, single-employer, defined-benefit, contributory pension plan effective February 1, 1961, for eligible police department employees (the Plan). The Plan Committee, which consists of the Mayor and the Director of Administration of the City, is responsible for determining benefits under the Plan. The City has delegated the authority to manage the Plan to T. Rowe Price.

No standalone financial statements are issued for this Plan.

**Basis of Accounting**

The Plan's financial statements are prepared using the accrual basis of accounting. Employer and Plan member contributions are recognized in the period the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

**Method Used to Value Investments**

Plan investments are reported at fair value based on quoted market prices.

The annual money-weighted rate of return was 2.93% for the year ended June 30, 2015. The money-weighted rate of return expresses the investment performance, net of investment expense, adjusted for changing amounts actually invested.

**Plan Membership**

As of June 30, 2015, the pension plan's membership consisted of the following:

Active Plan members	32
Inactive Plan members or beneficiaries currently receiving benefits	3
Inactive Plan members entitled to benefits but not yet receiving them	5
<b>Total</b>	<b>40</b>

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

**Contribution Information and Funding Policy**

All employees with at least one year of credited service who have worked 1,000 or more hours per year, regardless of age, are eligible to participate in the Plan. Plan participants begin vesting after three years of credited service. Full vesting occurs after seven years of participation.

Article X of the City of Havre de Grace, Maryland Sworn Officers Pension Plan establishes contribution rates to the Plan. Contributions to the Plan made by the City are based on an actuarially determined rate. The actuarially determined contributions consider the normal retirement benefit (a fixed percentage of monthly compensation), years of service and the employee's age, among other factors. The actuarially required contribution and the amount paid into the plan for the year ended June 30, 2015 was \$437,438. Participants must contribute 7% of his or her compensation each year until the participant has earned 30 years of vesting service. Administrative costs are financed through investment earnings.

**Investment Policy**

The Sworn Officers Plan investment policy is to invest in a balanced portfolio that, over time, has the potential to balance the capital appreciation offered by stocks with income and relative stability of fixed income securities. The objective is to provide capital appreciation, current income and preservation of capital through a portfolio of stocks and fixed income securities. The Plan may be amended by the City Council.

The Plan's target asset allocation was as follows at June 30, 2015:

<u>Security Type</u>	<u>Range</u>
Stocks	50% - 70%
Bonds	30% - 50%
Reserves	0% - 20%

The plan document has not established a minimum long-term expected rate of return.

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

**Net Pension Liability**

The components of the net pension liability of the City at June 30, 2015 were as follows:

	<u>Governmental Activities</u>
Total pension liability	\$ 3,811,333
Plan fiduciary net position	<u>2,068,911</u>
City's net pension liability	<u><u>\$ 1,724,422</u></u>
Plan fiduciary net position as a percentage of the total pension liability	54.28%

**Actuarial Assumptions**

The City's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was based on an actuarial valuation as of July 1, 2014. The actuary utilized update procedures to rollforward the total pension liability in the July 1, 2014 actuarial valuation to the June 30, 2015 measurement date. The actuarial assumptions applied to all periods in the measurement included (a) 8% investment rate of return (net of administrative expenses) and (b) projected salary increases at 4% per annum for steps A through N within each pay grade and 2% per annum for steps L-1 through L-6, then 1% thereafter.

Mortality rates are based on the following:

- Healthy lives: RP 2000 Combined Mortality tables projected to 2027 by Scale BB with pre-retirement mortality adjustments of 0.75 for males and females.
- Disabled lives: RP 2000 Disabled Mortality tables with post-retirement mortality adjustments of 0.50 for males and 0.75 for females, subject to the requirement that the disabled mortality rates after adjustment are not less than healthy mortality rates.

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

**Discount Rate**

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that City contributions will continue to follow the current funding policy. Based on those 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. In the event of benefit payments that are not covered by the pension plan's fiduciary net position, a municipal bond rate of 3.73% would have been used to discount the benefit payments not covered by the plan's fiduciary net position. The rate equals the S&P Municipal Bond 20 Year High Grade Rate Index at June 30, 2015.

The following presents the net pension liability of the City calculated using a discount rate of 8%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7%) or 1 percentage point higher (9%) than the current rate:

	1% Decrease 7%	Current Discount Rate 8%	1% Increase 9%
Net pension liability	\$ 2,133,573	\$ 1,724,422	\$ 1,374,479

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

The following is the schedule of changes in the City's Police employees net pension liability:

Total Changes in Net Pension Liability	
Service cost	150,691
Interest	284,709
Projected earnings on plan investments	(221,034)
Contributions	(437,438)
Administrative expenses	-
Changes of benefit terms	-
Difference between expected and actual experience	547,966
Change of assumptions	412,208
Difference between projected and actual earnings	<u>127,563</u>
Total net pension liability - beginning	<u>859,757</u>
Total net pension liability - end	<u><u>\$ 1,724,422</u></u>
Plan Fiduciary Net Position	
Contributions - employer	306,400
Contributions - employees	131,038
Net investment income	93,470
Benefit payments, including refunds of member contributions	(1,936,042)
Administrative expenses	
Net change in plan fiduciary net position	(1,405,134)
Plan fiduciary net position - beginning	<u>3,492,045</u>
Plan fiduciary net position - end	<u><u>\$ 2,086,911</u></u>
Total pension liability	<u><u>\$ 3,811,333</u></u>

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

For the year ended June 30, 2015, the City recognized pension expense of \$381,547 for the City employees and \$60,391 for the Sworn Officers. At June 30, 2015, City reported deferred outflows and deferred inflows of resources from the following sources:

	<b>Employees Plan</b>		<b>Officers Plan</b>		<b>Total</b>	
	<u>Deferred outflows</u>	<u>Deferred inflows</u>	<u>Deferred outflows</u>	<u>Deferred inflows</u>	<u>Deferred outflows</u>	<u>Deferred inflows</u>
Changes of assumptions	-	(378,357)	353,321	-	353,321	(378,357)
Net difference between expected and actual experience in the easurement of the total pension liability	48,382	-	522,453	-	570,835	-
Net difference between projected and actual earnings on pension plan investments	<u>257,127</u>	<u>-</u>	<u>49,282</u>	<u>-</u>	<u>306,409</u>	<u>-</u>
	<u>\$ 305,509</u>	<u>\$ (378,357)</u>	<u>\$ 925,056</u>	<u>\$ -</u>	<u>\$ 1,230,565</u>	<u>\$ (378,357)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized as follows over the next six years:

	<b>Employees Plan</b>		<b>Police Plan</b>	<b>Total</b>	
	<u>Deferred outflows</u>	<u>Deferred inflows</u>	<u>Deferred outflows</u>	<u>Deferred outflows</u>	<u>Deferred inflows</u>
2016	\$ 72,346	\$ (63,060)	\$ 162,681	\$ 235,027	\$ (63,060)
2017	\$ 72,346	\$ (63,060)	\$ 162,681	\$ 235,027	\$ (63,060)
2018	\$ 72,346	\$ (63,060)	\$ 162,681	\$ 235,027	\$ (63,060)
2019	\$ 72,345	\$ (63,060)	\$ 162,679	\$ 235,024	\$ (63,060)
2020	\$ 8,064	\$ (63,060)	\$ 137,168	\$ 145,232	\$ (63,060)
2021	\$ 8,062	\$ (63,057)	\$ 137,166	\$ 145,228	\$ (63,057)

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

**Note 13 - Other Post-Employment Benefits (OPEB)**

**Plan Description**

The City provides a post-employment health care plan in addition to the pension benefits described in Note 12. These post-employment benefits are subject to change at any time. All employees who retire from the City may participate in the program. In order to be eligible, the retiree must have a minimum of 25 or more years of City service, and immediately preceding retirement, been enrolled in a medical, vision or prescription drug insurance plan offered to active employees of the City. A retiree of the Civilian plan with 25 to 29 years of service pays 25% of the cost and the City pays 75% of the cost. A retiree of the Civilian plan with more than 30 years of service pays 10% of the cost and the City pays 90% of the cost. A retiree of the Sworn Officers' Pension Plan with 25 or more years of service pays 10% of the cost and the City pays 90% of the cost. The coverage is available until the retiree is eligible for Medicare. The employee's spouse is also eligible for this coverage. Seven retirees received benefits during the year. The total cost of providing this benefit was \$247,275 for the fiscal year ended June 30, 2015.

No standalone financial statements are issued for this OPEB Plan.

**Basis of Accounting**

The OPEB Plan's financial information is prepared on the accrual basis of accounting. Expenditures are recognized on the accrual basis as retirees' insurance costs are incurred.

**Funding Policies and Funded Progress**

The OPEB Plan's funding policy provides for the City to contribute to the Plan the actuarially determined annual required contribution (ARC). The City has decided not to fund the Plan. The City's contributions are funded on a pay-as-you-go basis. The schedules of funding progress presented as required supplementary information (RSI) following the notes to financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The information presented relates to the Plan as a whole and presents information relative to understanding the scale of the information as it relates to the City.

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

The required contribution amount and OPEB expense per the most recent actuarial valuation report with valuation date of July 1, 2013 is presented below:

	<u>City Employees</u>	<u>Police Department Employees</u>	<u>Total</u>
Net OPEB obligation (NOO) as of June 30, 2014	\$ 308,189	\$ 1,155,556	\$ 1,463,745
Annual required contribution (ARC) as of July 1, 2014	167,754	256,163	423,917
Interest on NOO	(10,684)	(40,059)	(50,743)
Adjustment to ARC	12,328	46,222	58,550
Annual OPEB cost	169,398	262,326	431,724
Contributions paid for the year	(168,094)	(79,181)	(247,275)
Increase in NOO	1,304	183,145	184,449
Net OPEB obligation (NOO) as of June 30, 2015	<u>\$ 309,493</u>	<u>\$ 1,338,701</u>	<u>\$ 1,648,194</u>

The annual OPEB cost, percentage of annual OPEB cost contributed, and the net OPEB obligation as of June 30, 2015 and the preceding four years (GASB Statement No. 45 was implemented in the year ended June 30, 2010) are:

<u>Date</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligations</u>
06/30/15	\$ 431,724	\$ 247,275	57.3%	\$ 1,648,194
06/30/14	404,502	188,962	46.7%	1,463,745
06/30/13	426,163	188,200	44.2%	1,241,583
06/30/12	401,011	164,789	41.1%	998,742
06/30/11	380,697	135,561	35.6%	758,474

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

**Actuarial Assumptions**

The actuarial methods and significant assumptions used by the actuary are summarized in this note to conform to the disclosure requirements for GASB Statement Nos. 43 and 45. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates made about the future.

Actuarial valuation date:	7/1/2013
Actuarial cost method:	Projected Unit Credit
Amortization method:	30 years using level percentage of projected payroll
Asset valuation method:	N/A
Actuarial trend assumption:	Baseline medical trend rate applied to FY 2014 is 7.0%. This rate decreases by 0.5% through FY 2019. Dental trend rate applied to FY 2014 is 4%.
Interest assumption:	Discount rate of 4.0%
Salary increases:	4.0%

**Note 14 - Interfund Receivables, Payables and Transfers**

The composition of interfund balances at June 30, 2015, is as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Nonmajor Governmental Funds	\$ 148,286	\$ -
Enterprise Funds	176,405	2,336,835
General Fund	2,137,196	176,405
Agency Fund	<u>51,353</u>	<u>-</u>
Total	<u>\$ 2,513,240</u>	<u>\$ 2,513,240</u>
	<u>Transfer In (Out)</u>	
	<u>General Fund</u>	<u>Nonmajor Governmental</u>
General fund	<u>\$ 41,669</u>	<u>\$ (41,669)</u>
Total	<u>\$ 41,669</u>	<u>\$ -</u>

City of Havre de Grace, Maryland

Notes to Financial Statements - Continued

June 30, 2015

**Note 15 - Risk Management**

The City is a member of the Local Government Insurance Trust (the Trust). The Trust is a consortium of Maryland local governments created July 1, 1987, to provide an alternative to the diminishing availability of insurance coverages to municipal governments and the increasing premium costs in the municipal insurance market. The Trust is owned and directed by the local governments (participants) that subscribe to its insurance coverages. The Trust's objectives are to (1) offer broader insurance coverages and, in certain cases, coverages not otherwise available from commercial insurance providers; (2) provide coverages to members at competitive rates; and (3) develop programs and provide specific loss control and risk management assistance to local governments.

The Trust is managed by a Board of Trustees and a contract administration company. The Trustees are elected by a majority vote of the participants with each participant having one vote. The City does not exercise any control over the Trust's operations.

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. At June 30, 2015, the City participated in the following pools:

	Maximum Coverage Per Claim	Premiums for Period Including June 30, 2015
Liability pool	\$ 1,000,000	\$ 30,268
Law enforcement liability pool	1,000,000	41,146
Public official liability pool	1,000,000	11,388
Excess liability pool	4,000,000	4,817
Automobile pool	1,000,000	35,151
Property pool (including boiler and machinery)	77,998,102	56,479
Total		<u>\$ 179,249</u>

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past three fiscal years.

The Trust assesses premiums based on the amount of coverage obtained and a capital contribution determined by the Trust. The Trust allocates earnings on the Trust assets to reduce annual premiums. In addition, the Trust has the right to assess its members an amount up to twice their annual premium, if the Trust experiences a deficit. At June 30, 2015, the Trust was not in a deficit position.

	Year ended June 30, 2015	Year ended June 30, 2014
Unpaid claims, beginning of fiscal year	\$ 15,838	\$ 75,108
Incurred claims (including IBNRs)	(97,046)	(139,671)
Claim payments	81,208	80,401
Unpaid claims, end of fiscal year	<u>\$ -</u>	<u>\$ 15,838</u>

**Note 16 - Commitments and Contingencies**

**Grant Audit**

The City receives federal, state, and county funding for specific purposes that are subject to review and audit by these agencies. Such audits could result in a request for reimbursement by the grantor agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of the City's management, such disallowances, if any, would not be significant.

**Revitalizing and Development Revolving Loan Fund**

The City was awarded a \$392,500 grant from the Maryland Department of Housing and Community Development, known as the 1990 Bay City Market Block Grant. The purpose of this grant was to loan these funds to entrepreneurs for commercial revitalization activities. Under the terms of the original grant agreement, all principal and interest payments (project income) on these loans were to be remitted to the State. During the year ended June 30, 1991, the City established a revolving loan fund in compliance with Community Development Block Grant regulations. With the implementation of this revolving loan fund, the City was relieved from their liability to repay the State provided they comply with the terms of this new agreement. Upon receipt of the project, the City will offer fixed rate, flexible term, and low interest loans for economic development projects to eligible applicants. Transactions related to these activities are recorded in the Community Development Block Grant Fund.

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

**Litigation**

Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against the City. In the opinion of management and legal counsel, all such matters are adequately covered by insurance, or if not so covered, are without merit or are of such kind or involve such amounts as would not have a significant effect on the financial position or results of operations of the City, if disposed of unfavorably.

**Note 17 - Reconciliation between Fund Financial Statements and Budgetary Statements**

Since the General Fund's Statement of Revenues, Expenditures and Changes in Fund Balances (GAAP basis) and the Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (budgetary basis) use different revenue and expenditure recognition policies, a reconciliation of these two statements is provided below:

Revenue over expenditures - budgetary basis	\$ (53,163)
Net effect of encumbrances	<u>72,166</u>
Change in fund balance - GAAP basis	<u><u>\$ 19,003</u></u>
Fund balance - budgetary basis	\$ 5,110,221
Net effect of encumbrances	<u>72,166</u>
Fund balance - GAAP basis	<u><u>\$ 5,182,387</u></u>

**Note 18 - Fund Balance Disclosure**

In accordance with Government Accounting Standards Board Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City classifies governmental fund balances as follows:

Nonspendable Fund Balance includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual agreements.

**Spendable Fund Balance**

- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation.

## City of Havre de Grace, Maryland

### Notes to Financial Statements - Continued

June 30, 2015

- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority. The City's original budget legislation begins with the Budget Office combining historical data, assessment of needs for the upcoming year and the Mayor's platform to review and/or make changes to each department's budget. In May, a Budgetary Committee will meet again with each department for final review and approval of a preliminary budget. The budget is then formally presented to City Council at the first Council Meeting in June for its review, revisions, and final approval by June 30<sup>th</sup>, at which time the budget becomes law. All subsequent budget requests made during the year, after Council's approval, must be presented on a Budget Transfers (BT) and again receive approval by Council. City Council may also amend the budget outside of the BT process.
- Assigned - includes spendable fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Director of Finance.
- Unassigned - includes residual positive fund balance within the General Fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

The City spends restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made, with the exception of the emergency reserve established by the City Council. Under normal circumstances, the City would first elect to utilize the Operating Reserve (unassigned fund balance in the General Fund) before considering use of its Emergency Reserve.

As noted in note 4, the City has established an emergency reserve policy and fund. The emergency reserve is contained as a separate subfund within the General Fund and is included in each annual budget. The emergency reserve will be classified as committed fund balance.

**City of Havre de Grace, Maryland**

**Notes to Financial Statements - Continued**

**June 30, 2015**

**Note 19 - Change in Accounting Principle**

The City implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions. The City maintains the City's Employee Retirement Plan and the Police Retirement Plan. GASB 68 requires that the City recognize its net pension liability and pension expense related to the plan. The presentation of the net pension liability and pension expense in accordance with GASB 68 required the restatement of beginning net position. The following is a summary of the effects of the implementation of these statements on the City's beginning Net Position:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Water and Sewer Fund</u>	<u>Dockage Fund</u>
Net position as of June 30, 2014, as previously reported	\$ 10,357,883	\$ 34,228,868	\$ 32,751,182	\$ 1,477,686
Cumulative effect of the implementation of GASB No. 68	<u>(1,526,198)</u>	<u>(238,029)</u>	<u>(223,601)</u>	<u>(14,428)</u>
Net position as of June 30, 2014, as restated	<u>\$ 8,831,685</u>	<u>\$ 33,990,839</u>	<u>\$ 32,527,581</u>	<u>\$ 1,463,258</u>

**Note 20 - Subsequent Events**

Events that occur after the statement of net position date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of net position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of net position date require disclosure in the accompanying notes. Management evaluated the activity of the City through October 30, 2015 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

**Required Supplementary Information**

City of Havre de Grace, Maryland

Combined Statement of Revenue, Expenditures and Other Sources and Uses of Financial Resources, and Changes in Fund Balance - Budget (Non-GAAP) and Actual - General Fund

Year ended June 30, 2015

	<u>General Fund</u>			<b>Variance Positive/ (Negative)</b>
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	
<b>Revenue</b>				
Taxes	\$ 9,781,100	\$ 9,781,100	\$ 9,917,916	\$ 136,816
Licenses and permits	221,700	221,700	246,595	24,895
Intergovernmental	705,300	705,300	757,534	52,234
Fines and forfeitures	11,500	11,500	9,007	(2,493)
Charges for services	99,000	99,000	101,817	2,817
Grants	3,157,400	3,061,000	1,547,441	(1,513,559)
Miscellaneous	66,100	66,100	192,883	126,783
<b>Total revenue</b>	<u>14,042,100</u>	<u>13,945,700</u>	<u>12,773,193</u>	<u>(1,172,507)</u>
<b>Expenditures</b>				
<b>Current</b>				
General government	3,418,600	3,251,600	3,385,242	133,642
Public safety	5,423,100	5,557,800	5,466,941	(90,859)
Public works	3,190,000	3,357,200	3,307,653	(49,547)
Miscellaneous	327,900	345,700	417,651	71,951
<b>Capital outlay</b>				
General government	1,550,000	1,185,600	113,794	(1,071,806)
Public safety	189,200	208,300	95,794	(112,506)
Public works	517,000	1,319,100	800,632	(518,468)
<b>Debt service</b>				
Principal reduction	266,100	266,100	246,115	(19,985)
Interest	81,700	81,700	99,265	17,565
<b>Total expenditures</b>	<u>14,963,600</u>	<u>15,573,100</u>	<u>13,933,087</u>	<u>(1,640,013)</u>
Distributed expenses and administrative fees charged to other funds	<u>(1,148,400)</u>	<u>(1,148,400)</u>	<u>(1,148,400)</u>	<u>-</u>
<b>Total expenditures</b>	<u>13,815,200</u>	<u>14,424,700</u>	<u>12,784,687</u>	<u>(1,640,013)</u>
(Deficiency) excess of revenue over expenditures	226,900	(479,000)	(11,494)	467,506
<b>Other financing uses</b>				
Transfers in (out)	<u>(35,000.00)</u>	<u>7,400</u>	<u>(41,669)</u>	<u>(49,069)</u>
(Deficiency) excess of revenue and other financing sources over expenditures and other financing uses	<u>\$ 191,900</u>	<u>\$ (471,600)</u>	<u>(53,163)</u>	<u>\$ 418,437</u>
Fund balances at beginning of year			<u>5,163,384</u>	
Fund balances at end of year			<u>\$ 5,110,221</u>	

City of Havre de Grace, Maryland

Schedule of Expenditures - Budget (Non-GAAP) and Actual - General Fund

Year ended June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive/ (Negative)</u>
<b>GENERAL GOVERNMENT</b>				
Legislative				
City Council				
Personnel services	\$ 33,700	\$ 33,700	\$ 33,281	\$ (419)
Other services and charges	38,100	38,100	38,126	26
Total legislative	<u>71,800</u>	<u>71,800</u>	<u>71,407</u>	<u>(393)</u>
Executive				
Personnel services	8,500	8,500	8,628	128
Other services and charges	5,200	5,200	8,422	3,222
Total executive	<u>13,700</u>	<u>13,700</u>	<u>17,050</u>	<u>3,350</u>
Finance				
Personnel services	660,100	660,100	669,193	9,093
Other services and charges	82,500	82,500	85,790	3,290
Capital outlay	-	30,100	-	(30,100)
Total finance	<u>742,600</u>	<u>772,700</u>	<u>754,983</u>	<u>(17,717)</u>
Elections				
Personnel services	2,700	2,700	2,275	(425)
Other services and charges	2,800	2,800	3,116	316
Total elections	<u>5,500</u>	<u>5,500</u>	<u>5,391</u>	<u>(109)</u>
Legal				
Other services and charges	100,000	100,000	131,439	31,439
Planning and zoning				
Personnel services	827,000	728,100	730,788	2,688
Other services and charges	82,200	82,200	55,759	(26,441)
Total planning and zoning	<u>909,200</u>	<u>810,300</u>	<u>786,547</u>	<u>(23,753)</u>
Tourism				
Personnel services	155,400	155,400	156,889	1,489
Other services and charges	64,100	84,100	83,679	(421)
Total tourism	<u>219,500</u>	<u>239,500</u>	<u>240,568</u>	<u>1,068</u>
Economic Development				
Personnel services	132,200	132,200	136,453	4,253
Other services and charges	42,000	22,000	23,916	1,916
Total Economic Development	<u>174,200</u>	<u>154,200</u>	<u>160,369</u>	<u>6,169</u>
General services				
Personnel services	785,400	717,300	802,547	85,247
Other services and charges	147,100	147,100	134,758	(12,342)
Capital outlay	1,550,000	1,155,500	113,794	(1,041,706)
Total general services	<u>2,482,500</u>	<u>2,019,900</u>	<u>1,051,099</u>	<u>(968,801)</u>

City of Havre de Grace, Maryland

Schedule of Expenditures - Budget (Non-GAAP) and Actual - General Fund - Continued

Year ended June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive/ (Negative)</u>
Information technology				
Personnel services	158,200	158,200	164,763	6,563
Other services and charges	91,400	91,400	115,420	24,020
	<u>249,600</u>	<u>249,600</u>	<u>280,183</u>	<u>30,583</u>
Total general government	<u>4,968,600</u>	<u>4,437,200</u>	<u>3,499,036</u>	<u>(938,164)</u>
<b>PUBLIC SAFETY</b>				
Police				
Personnel services	4,554,100	4,688,800	4,500,702	(188,098)
Other services and charges	441,000	441,000	495,390	54,390
Capital outlay	189,200	208,300	95,794	(112,506)
	<u>5,184,300</u>	<u>5,338,100</u>	<u>5,091,886</u>	<u>(246,214)</u>
Legal				
Other services and charges	5,700	5,700	3,960	(1,740)
Ambulance				
Other services and charges	96,600	96,600	141,189	44,589
Fire				
Other services and charges	325,700	325,700	325,700	-
	<u>325,700</u>	<u>325,700</u>	<u>325,700</u>	<u>-</u>
Total public safety	<u>5,612,300</u>	<u>5,766,100</u>	<u>5,562,735</u>	<u>(203,365)</u>
<b>PHYSICAL ENVIRONMENT</b>				
Public works				
Personnel services	1,637,200	1,804,200	1,804,631	431
Other services and charges	689,700	689,900	670,729	(19,171)
Capital outlay	517,000	1,319,100	800,631	(518,469)
	<u>2,843,900</u>	<u>3,813,200</u>	<u>3,275,991</u>	<u>(537,209)</u>
Shop operations				
Personnel services	242,100	242,100	251,226	9,126
Other services and charges	46,000	46,000	35,477	(10,523)
	<u>288,100</u>	<u>288,100</u>	<u>286,703</u>	<u>(1,397)</u>
Sanitation				
Contract trash removal	575,000	575,000	545,591	(29,409)
	<u>3,707,000</u>	<u>4,676,300</u>	<u>4,108,285</u>	<u>(568,015)</u>
<b>MISCELLANEOUS</b>				
Civic and cultural contributions	187,500	205,300	205,300	-
Commissions	38,500	38,500	86,422	47,922
Insurance	101,900	101,900	102,229	329
Bad debt	-	-	23,700	23,700
	<u>327,900</u>	<u>345,700</u>	<u>417,651</u>	<u>71,951</u>

City of Havre de Grace, Maryland

Schedule of Expenditures - Budget (Non-GAAP) and Actual - General Fund - Continued

Year ended June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive/ (Negative)</u>
<b>DEBT SERVICE</b>				
Principal reduction	266,100	266,100	246,115	(19,985)
Interest charges	81,700	81,700	99,265	17,565
Total debt service	<u>347,800</u>	<u>347,800</u>	<u>345,380</u>	<u>(2,420)</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 14,963,600</u>	<u>\$ 15,573,100</u>	<u>\$ 13,933,087</u>	<u>\$ (1,640,013)</u>

**City of Havre de Grace, Maryland**  
**Civilian Employees' Pension Plan**  
**Schedule of Changes in the City's Net Pension Liability and Related Ratios**  
**Last Ten Fiscal Years**  
**Year ended June 30, 2015**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Total Pension Liability</b>										
Service cost	\$ 239,300	\$ 280,556	Information for years 2013 and prior is not available.							
Interest	719,091	698,409								
Difference between expected and actual experience	56,446	-								
Changes of assumptions	(441,417)	16,853								
Benefit payments, including refunds of member contributions	<u>(298,308)</u>	<u>(1,077,588)</u>								
<b>Net change in total pension liability</b>	275,112	(81,770)								
<b>Total pension liability - beginning</b>	<u>8,885,536</u>	<u>8,967,306</u>								
<b>Total pension liability - end</b>	<u>\$ 9,160,648</u>	<u>\$ 8,885,536</u>								
<b>Plan fiduciary net position</b>										
Contributions - employer	\$ 504,625	\$ 546,050								
Contributions - member	171,376	147,500								
Net investment income	351,813	1,217,361								
Benefit payments, including refunds of member contributions	<u>(298,307)</u>	<u>(1,077,588)</u>								
<b>Net change in plan fiduciary net position</b>	729,507	833,323								
<b>Plan fiduciary net position - beginning</b>	<u>8,219,991</u>	<u>7,386,668</u>								
<b>Plan fiduciary net position - end</b>	<u>\$ 8,949,498</u>	<u>\$ 8,219,991</u>								
<b>Net pension liability</b>	<u>\$ 211,150</u>	<u>\$ 665,545</u>								
Plan fiduciary net position as a percentage of total pension liability	97.70%	92.51%								
Covered employee payroll	\$ 4,661,409	\$ 4,657,717								
Net pension liability as a percentage of covered employee payroll	4.53%	14.29%								

The schedule above is presented to illustrate the requirement for specific information for 10 years; however, until a full 10-year trend is compiled, information is only presented for those years for which information is available.

City of Havre de Grace, Maryland

Sworn Officers' Pension Plan  
 Schedule of Changes in the City's Net Pension Liability and Related Ratios  
 Last Ten Fiscal Years

Year ended June 30, 2015

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Total Pension Liability</b>										
Service cost	\$ 150,691	\$ 129,092	Information for years 2013 and prior is not available.							
Interest	284,709	361,652								
Difference between expected and actual experience	547,966	-								
Changes of assumptions	412,208	6,519								
Benefit payments, including refunds of member contributions	(1,936,042)	(1,042,456)								
<b>Net change in total pension liability</b>	(540,468)	(545,193)								
<b>Total pension liability - beginning</b>	<u>4,357,567</u>	<u>4,902,760</u>								
<b>Total pension liability - end</b>	<u>\$ 3,817,099</u>	<u>\$ 4,357,567</u>								
<b>Plan fiduciary net position</b>										
Contributions - employer	\$ 306,400	\$ 327,700								
Contributions - member	131,038	150,324								
Net investment income	93,470	529,028								
Benefit payments, including refunds of member contributions	(1,936,042)	(1,042,456)								
<b>Net change in plan fiduciary net position</b>	(1,405,134)	(35,404)								
<b>Plan fiduciary net position - beginning</b>	<u>3,497,811</u>	<u>3,533,215</u>								
<b>Plan fiduciary net position - end</b>	<u>\$ 2,092,677</u>	<u>\$ 3,497,811</u>								
<b>Net pension liability</b>	<u>\$ 1,724,422</u>	<u>\$ 859,756</u>								
Plan fiduciary net position as a percentage of total pension liability	54.82%	80.27%								
Covered employee payroll	1,993,618	2,130,502								
Net pension liability as a percentage of covered employee payroll	86.50%	40.35%								

The schedule above is presented to illustrate the requirement for specific information for 10 years; however, until a full 10-year trend is compiled, information is only presented for those years for which information is available.

**City of Havre de Grace, Maryland**  
**Civilian Employees' Pension Plan**  
**Schedule of City Contributions and Investment Returns**  
**Last Ten Fiscal Years**

**Year ended June 30, 2015**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ 228,183	\$ 498,993	<b>Information for years 2013 and prior is not available</b>							
Contributions made	<u>504,625</u>	<u>546,060</u>								
Contributions (excess) deficiency	<u>\$ (276,442)</u>	<u>\$ (47,067)</u>								
Covered employee payroll	\$ 4,661,409	\$ 4,657,717								
Contributions as a percentage of covered payroll	10.83%	11.72%								
Annual money weighted rate of return, net of investment expense	4.20%	17.02%								

**Notes to Schedule**

Valuation date:	Actuarially determined contribution amounts are calculated as of the beginning of the fiscal year (July 1) for the year immediately following the fiscal year. Actuarial valuations are performed every year.
Actuarial cost method	Projected Unit Credit
Amortization method	Level dollar, fixed period
Amortization period	Period ending June 30, 2017
Asset valuation method	5-year smoothed market value
Inflation	
Salary increases	4% per annum for steps A through N within each pay grade and 2% per annum for steps L-1 through L-6, then 1% thereafter
Investment rate of return	8%, net of pension plan administrative and investment expenses
Retirement age	An age related assumption is used for participants not yet receiving payments.
Mortality	Mortality rates are based on the following: 1) Healthy lives: RP 2000 Combined Mortality tables projected to 2027 by Scale BB with pre-retirement mortality adjustments of 0.8775 for males and 0.765 for females, and post-retirement mortality adjustments of 1.17 for males and 1.02 for females. 2) Disabled lives: RP 2000 Disabled Mortality tables with post-retirement mortality adjustments of 0.70 for males and no adjustment for females.

The schedule above is presented to illustrate the requirement for specific information for 10 years; however, until a full 10-year trend is compiled, information is only presented for those years for which information is available.

**City of Havre de Grace, Maryland**  
**Sworn Officers' Pension Plan**  
**Schedule of City Contributions and Investment Returns**  
**Last Ten Fiscal Years**  
**Year ended June 30, 2015**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ 648,377	\$ 350,877								
Contributions made	<u>306,400</u>	<u>327,700</u>								
			Information for years 2013 and prior is not available							
Contributions (excess) deficiency	<u>\$ 341,977</u>	<u>\$ 23,177</u>								
Covered employee payroll	\$ 1,993,618	\$ 2,130,502								
Contributions as a percentage of covered payroll	15.37%	15.38%								
Annual money weighted rate of return, net of investment expense	2.93%	16.70%								

**Notes to Schedule**

Valuation date:	Actuarially determined contribution amounts are calculated as of the beginning of the fiscal year (July 1) for the year immediately following the fiscal year. Actuarial valuations are performed every year.
Actuarial cost method	Projected Unit Credit
Amortization method	Level dollar, fixed period
Amortization period	Period ending June 30, 2017
Asset valuation method	5-year smoothed marked value
Salary increases	4% per annum for steps A through N within each pay grade and 2% per annum for steps L-1 through L-6, then 1% thereafter
Investment rate of return	8%, net of pension plan administrative and investment expenses
Retirement age	An age-related assumption is used for participants not yet receiving payments
Mortality	Mortality rates are based on the following: 1) Healthy lives: RP 2000 Combined Mortality tables projected to 2027 by Scale BB with pre-retirement mortality adjustments of 0.75 for males and females. 2) Disabled lives: RP 2000 Disabled Mortality tables with post-retirement mortality adjustments of 0.50 for males and 0.75 for females, subject to the requirement that the disabled mortality rates after adjustment are not less than healthy mortality rates.

The schedule above is presented to illustrate the requirement for specific information for 10 years; however, until a full 10-year trend is compiled, information is only presented for those years for which information is available.

**City of Havre de Grace, Maryland**

**Other Post-Employment Benefits**

**June 30, 2015**

**Schedule of Funding Progress**

Schedule of funding progress (unaudited) for the City Post-employment Benefits Plan for the prior three years (GASB Statement No. 45 was implemented in the year ended June 30, 2010):

Valuation Date	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability	(3) Percentage Funded (1)/(2)	(4) Unfunded Actuarial Accrued Liability (2)-(1)	(5) Annual Covered Payroll	(6) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4)/(5)
7/1/14	-	\$ 5,063,133	0.0%	\$ 5,063,133	\$ 6,655,027	76.1%
7/1/13	-	4,820,402	0.0%	4,820,402	6,788,219	71.0%
7/1/12	-	5,177,659	0.0%	5,177,659	6,487,823	79.8%
7/1/11	-	4,867,509	0.0%	4,867,509	6,122,716	79.5%
7/1/10	-	4,600,546	0.0%	4,600,546	5,861,330	78.5%

Schedule of employer contribution (unaudited) for the City Post-employment Benefits Plan for the prior four years (GASB Statement No. 45 was implemented in the year ended June 30, 2010):

Date	ARC	Contribution	Percentage of ARC Contributed	Net OPEB Obligation
6/30/15	\$ 423,917	\$ 247,275	58.3%	\$ 1,648,194
6/30/14	404,502	188,962	46.7%	1,463,745
6/30/13	426,163	188,200	44.2%	1,241,583
6/30/12	401,011	164,789	41.1%	998,472
6/30/11	380,697	135,561	35.6%	758,474
6/30/10	402,324	146,650	36.5%	510,614

## **Supplementary Information**

**Combining Financial Statements - Governmental Fund Types**

**City of Havre de Grace, Maryland**  
**Combining Balance Sheet - Nonmajor Funds**  
**June 30, 2015**

	Community Development Block Grant Fund	Promenade Repair Fund	Critical Area Fund	Slip User Fund	Local Law Enforcement Block Grant Fund	Forest Conservation Fund	Total
<b>Assets</b>							
Investments	\$ 320,000	\$ 132,000	\$ 341,000	\$ 342,000	\$ -	\$ -	\$ 1,135,000
Receivables	14,379	-	-	-	-	-	14,379
Notes receivable, net of allowance for uncollectibles	246,474	-	-	-	-	-	246,474
Due from other funds	1,094	443	290	(456)	146,181	734	148,286
<b>Total assets</b>	<b>\$ 581,947</b>	<b>\$ 132,443</b>	<b>\$ 341,290</b>	<b>\$ 341,544</b>	<b>\$ 146,181</b>	<b>\$ 734</b>	<b>\$ 1,544,139</b>
<b>Liabilities</b>							
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balances</b>							
Nonspendable							
Long-term portion of RAD loans	260,853	-	-	-	-	-	260,853
Restricted							
Reserved for block grant expenditures	321,094	-	-	-	146,181	734	468,009
Reserved for critical area expenditures	-	-	341,290	-	-	-	341,290
Reserved for slip user expenditures	-	-	-	341,544	-	-	341,544
Reserved for slip user expenditures expenditures	-	132,443	-	-	-	-	132,443
<b>Total fund balance</b>	<b>581,947</b>	<b>132,443</b>	<b>341,290</b>	<b>341,544</b>	<b>146,181</b>	<b>734</b>	<b>1,544,139</b>
<b>Total liabilities and fund balance</b>	<b>\$ 581,947</b>	<b>\$ 132,443</b>	<b>\$ 341,290</b>	<b>\$ 341,544</b>	<b>\$ 146,181</b>	<b>\$ 734</b>	<b>\$ 1,544,139</b>

City of Havre de Grace, Maryland

Combining Statement of Revenue, Expenditures and Changes in Fund Balance - Nonmajor Funds

Year ended June 30, 2015

	Community Development Block Grant Fund	Promenade Repair Fund	Critical Area Fund	Slip User Fund	Local Law Enforcement Block Grant Fund	Forest Conservation Fund	Total
Revenue							
Licenses and permits	\$ -	\$ 5,900	\$ -	\$ -	\$ -	\$ -	\$ 5,900
Fees	-	-	-	53,607	-	-	53,607
Miscellaneous	102,094	256	1,085	1,006	103,926	-	208,367
Total revenue	102,094	6,156	1,085	54,613	103,926	-	267,874
Expenditures							
General Government - Current	-	-	-	-	-	-	-
Total expenditures	-	-	-	-	-	-	-
Excess (deficiency) of revenue over expenditures	102,094	6,156	1,085	54,613	103,926	-	267,874
Other financing sources (uses)							
Operating transfers (out) in	-	(175)	41,844	-	-	-	41,669
Excess (deficiency) of revenue and other financing sources over expenditures	102,094	5,981	42,929	54,613	103,926	-	309,543
Fund balance, beginning of year	479,853	126,462	298,361	286,931	42,255	734	1,234,596
Fund balance, end of year	\$ 581,947	\$ 132,443	\$ 341,290	\$ 341,544	\$ 146,181	\$ 734	\$ 1,544,139

Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit  
of Financial Statements Performed in Accordance with  
*Government Auditing Standards*

The Honorable Members of the City Council  
City of Havre de Grace, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Havre de Grace, Maryland (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 30, 2015.

#### Internal Control over Financial Reporting

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

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

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

## Compliance and Other Matters

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

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Baltimore, Maryland  
October 30, 2015