

**City of Havre de Grace, Maryland**

**Financial Statements  
(With Supplementary Information)  
and Independent Auditors' Report  
June 30, 2016**

City of Havre de Grace, Maryland  
For the Fiscal Year Ended June 30, 2016

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# Zelenkofske Axelrod LLC

## INDEPENDENT AUDITORS' REPORT

To the City Council  
City of Havre de Grace, Maryland

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Havre de Grace, Maryland, (the "City") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

### **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.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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# Zelenkofske Axelrod LLC

## **Adoption of New GASB's**

As discussed in Note 1 to the financial statements, during the fiscal year ending June 30, 2016, the City adopted the provisions of Governmental Accounting Standards Board's Statement No. 72, "Fair Value Measurement and Application", Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and Statement No. 79, "Certain External Investment Pools and Pool Participants". Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios civilian employees' pension plan, schedule of employer contributions – last 10 years civilian employees' pension plan, schedule of investment returns civilian employees' pension plan, schedule of changes in net pension liability and related ratios sworn officers' pension plan, schedule of employer contributions – last 10 years sworn officers' pension plan, schedule of investment returns sworn officers' pension plan and general fund budgetary comparison information on pages 4–10 and 53–60 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's basic financial statements. The combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual 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 and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

# Zelenkofske Axelrod LLC

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2016, 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 Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Zelenkofske Axelrod LLC*

ZELENKOFSCHE AXELROD LLC

Harrisburg, Pennsylvania

October 14, 2016

City of Havre de Grace, Maryland  
Management's Discussion and Analysis  
June 30, 2016

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, 2016. 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 \$41.18 million (net assets). Of this amount, \$42.34 million is invested in capital assets, net of related debt.
- The City's overall net position decreased by \$461 thousand during the fiscal year. Net position for government activities increased \$136 thousand while those for business-type activities decreased by \$596 thousand.
- Operationally, revenues increased \$1.96 million during the fiscal year. Increased water & sewer consumption resulted in \$1.23 million more service charges, tax collections increased \$357 thousand, and grants and loans from Public and Private organizations totaled \$442 thousand more than in the prior year.
- At the close of the fiscal year, the City of Havre de Grace's governmental funds reported combined ending fund balances of \$5.70 million, a decrease of \$1.03 million. The fund balance available for use in future year budgeting was \$2.32 million.
- The City's enterprise funds reported ending net assets of \$31.85 million, a decrease of \$596 thousand. The primary cause of for the decline in net assets was aging infrastructure. Enterprise fund operating income was \$1.31 million, net of \$2.77 million depreciation expense, and non-operating income was \$860 thousand.
- During the fiscal year, the City's net pension liability increased by \$2.35 million and its debt instruments decreased by \$1.98 million. City accrued obligations for annual leave and non-pension post-employment benefits increased \$135 thousand. As a result, total debt obligations increased \$509 thousand for the year.

### **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 supplemental 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 proprietary fund statements and 3) the fiduciary 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 supplemental information** is provided to show details about the City's pension and OPEB plans as well as detail on the general funds budget versus actual results.

## **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, deferred inflows liabilities, and deferred outflows with the difference 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.

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 11 and 12 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 three categories: governmental funds, proprietary funds, and fiduciary funds.

City of Havre de Grace, Maryland  
Management's Discussion and Analysis (continued)  
June 30, 2016

**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 Assets 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 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 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.

The budgetary statements can be found on page 60 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 22 of this report.

City of Havre de Grace, Maryland  
Management's Discussion and Analysis (continued)  
June 30, 2016

**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 required supplementary information beginning on page 53 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, 2016, with comparative information for the previous year.

**Reclassifications**

Certain prior year amounts have been reclassified, to conform to current year presentation.

**Statement of Net Assets**

- City assets exceeded liabilities by \$41.18 million as of June 30, 2016. However, the largest portion (\$42.34 million or 103%) 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 are subject to external or internal restrictions on how they may be used.

**City of Havre de Grace Net Assets**

	Governmental		Business-Type		Total		% Change
	Activities		Activities				
	2016	2015	2016	2015	2016	2015	
Current Assets	\$ 5,021,492	\$ 6,136,869	\$ 1,937,129	\$ 1,539,146	\$ 6,958,621	\$ 7,676,015	(9.3%)
Internal Balances	2,508,770	2,160,430	(2,508,770)	(2,160,430)	-	-	0.0%
Capital Assets	11,368,109	10,331,214	55,298,479	57,622,525	66,666,588	67,953,739	(1.9%)
Total Assets	18,898,371	18,628,513	54,726,838	57,001,241	73,625,209	75,629,754	(2.7%)
Deferred outflow of resources	2,927,032	1,121,301	589,944	109,264	3,516,976	1,230,565	185.8%
Current Liabilities	1,442,242	1,230,346	2,400,892	2,378,612	3,843,134	3,608,958	6.5%
Noncurrent Liabilities	10,804,703	9,080,014	20,948,352	22,148,813	31,753,055	31,228,827	1.7%
Total Liabilities	12,246,945	10,310,360	23,349,244	24,527,425	35,596,189	34,837,785	2.2%
Deferred Inflow of resources	246,471	243,039	116,080	135,317	362,551	378,356	(4.2%)
Net Assets:							
Net Investment in Capital							
Assets	8,326,140	7,032,429	34,009,619	34,609,271	42,335,759	41,641,700	1.7%
Restricted	977,567	1,544,139	-	-	977,567	1,544,139	(36.7%)
Unrestricted	28,280	619,847	(2,158,161)	(2,161,508)	(2,129,881)	(1,541,661)	38.2%
Total Net Assets	\$ 9,331,987	\$ 9,196,415	\$31,851,458	\$32,447,763	\$41,183,445	\$41,644,178	(1.1%)

City of Havre de Grace, Maryland  
Management's Discussion and Analysis (continued)  
June 30, 2016

The City's overall net position decreased by \$461 thousand during the fiscal year. Net position for government activities increased \$135 thousand while those for business-type activities decreased by \$596 thousand.

Revenues increased by \$1.96 million during the fiscal year, primarily due to service fees increasing \$1.23 million, taxes increasing by \$357 thousand, and loans and grants increasing over \$442 thousand from the previous year.

Expenditures increased \$1.24 million during the fiscal year. Spending by the City's government programs increased \$930 thousand while its enterprise funds increased spending \$314 thousand.

**City of Havre de Grace Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total		% Change
	2016	2015	2016	2015	2016	2015	
<b>Program Revenues:</b>							
Charges for Services	\$ 431,429	\$ 407,919	\$ 7,654,600	\$ 6,450,977	\$ 8,086,029	\$ 6,858,896	17.9%
Operating Grants and Contributions	1,481,367	1,659,269	-	-	1,481,367	1,659,269	(10.7%)
Capital Grants and Contributions	1,266,493	593,140	1,158,935	1,212,340	2,425,428	1,805,480	34.3%
<b>General Revenues:</b>							
Taxes	10,428,832	10,071,651	-	-	10,428,832	10,071,651	3.5%
Grants and contributions not restricted to specific Programs	-	52,566	-	-	-	52,566	(100.0%)
Other	287,973	410,257	286,011	175,523	573,984	585,780	(2.0%)
<b>Total Revenues</b>	<b>13,896,094</b>	<b>13,194,802</b>	<b>9,099,546</b>	<b>7,838,840</b>	<b>22,995,640</b>	<b>21,033,642</b>	<b>9.3%</b>
<b>Expenses</b>							
General Government	2,862,766	3,037,434	-	-	2,862,766	3,037,434	(5.8%)
Public Safety	6,043,933	5,436,014	-	-	6,043,933	5,436,014	11.2%
Public Works	3,747,060	3,839,708	-	-	3,747,060	3,839,708	(2.4%)
Parks, Recreation, and Culture	371,659	-	-	-	371,659	-	100.0%
Economic Development and Culture	370,344	-	-	-	370,344	-	100.0%
Miscellaneous	270,773	417,651	-	-	270,773	417,651	(35.2%)
Interest on Long-Term Debt	93,987	99,265	-	-	93,987	99,265	(5.3%)
<b>Total Government Activities</b>	<b>13,760,522</b>	<b>12,830,072</b>	<b>-</b>	<b>-</b>	<b>13,760,522</b>	<b>12,830,072</b>	<b>(7.3%)</b>
Water and Sewer	-	-	8,874,412	8,545,156	8,874,412	8,545,156	3.9%
Dockage	-	-	821,439	836,760	821,439	836,760	(1.8%)
<b>Total Expenses</b>	<b>13,760,522</b>	<b>12,830,072</b>	<b>9,695,851</b>	<b>9,381,916</b>	<b>23,456,373</b>	<b>22,211,988</b>	<b>(5.6%)</b>
Change in Position	135,572	364,730	(596,305)	(1,543,076)	(460,733)	(1,178,346)	(60.9%)
Net Assets, Beginning	9,196,415	8,831,685	32,447,763	33,990,839	41,644,178	42,822,524	(2.8%)
Net Assets, Ending	\$ 9,331,987	\$ 9,196,415	\$31,851,458	\$32,447,763	\$41,183,445	\$41,644,178	.3%

## **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.

**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 \$4.62 million. The City's total governmental funds reported a combined ending fund balance of \$5.70 million, a decrease of \$1.03 million from the prior year. The portion of the general fund balance available for inclusion in future fiscal year taxation and spending budgets was \$2.32 million at year-end, a decrease of \$521 thousand compared to that available for the prior year.

The entire fund balance is restricted, committed or in a nonspendable form. These amounts include \$1.07 million resulting from special assessments and contributions for which 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 \$596 thousand. Net investment in capital assets of enterprise funds declined by \$600 thousand; while unrestricted net position increased \$4 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, 2016 was \$66.67 million (net of accumulated depreciation.) These assets include land, buildings, water and sewer facilities, park facilities, machinery and equipment, and vehicles. The City spent \$2.56 million during 2016 for capital improvements, primarily on rehabilitating an historic playhouse and resurfacing streets.

City of Havre de Grace, Maryland  
Management's Discussion and Analysis (continued)  
June 30, 2016

**Capital Assets City of Havre de Grace**

	Governmental Activities		Business-Type Activities		Total		%
	2016	2015	2016	2015	2016	2015	
Land	\$ 2,046,139	\$ 2,046,139	\$ 37,811	\$ 37,811	\$ 2,083,950	\$ 2,083,950	0.0%
Buildings	7,128,183	7,117,351	71,887,821	71,810,408	79,016,004	78,927,759	0.1%
Improvements Other Than Buildings	4,687,797	3,995,689	16,083,665	15,973,090	20,771,462	19,968,779	4.0%
Machinery and Equipment	3,785,513	3,612,724	2,524,820	2,266,948	6,310,333	5,879,672	7.3%
Infrastructure	6,175,987	4,961,602	-	-	6,175,987	4,961,602	24.5%
Construction in Progress	1,178,530	1,157,572	-	-	1,178,530	1,157,572	1.8%
Less Accumulated Depreciation	(13,634,040)	(12,559,863)	(35,235,638)	(32,465,733)	(48,869,678)	(45,025,596)	8.5%
<b>Total Capital Assets</b>	<b>\$11,368,109</b>	<b>\$10,331,214</b>	<b>\$55,298,479</b>	<b>\$57,622,524</b>	<b>\$66,666,588</b>	<b>\$67,953,739</b>	<b>(1.9%)</b>

**Long-Term Debt**

- As of June 30, 2016, the City of Havre de Grace had total general obligation debt outstanding of \$24.33 million a decrease of \$1.98 million from the prior year. In addition, the City has a net pension liability of \$4.29 million a compensated absences liability totaling \$3.26 million, and Post-Employment Benefit obligations totaling \$1.83 million.

**City of Havre de Grace Outstanding Debt**

	Governmental Activities		Business-Type Activities		Total		%
	2016	2015	2016	2015	2016	2015	
General Obligation Bonds	\$ 1,853,200	\$2,078,800	\$21,288,860	\$23,013,254	\$23,142,060	\$25,092,054	(7.8%)
Notes and Loans Payable	1,188,769	1,219,985	-	-	1,188,769	1,219,985	(2.6%)
Compensated Absences	2,530,506	2,529,796	733,933	784,436	3,264,439	3,314,232	(1.5%)
Post Employment Benefits	1,833,177	1,648,194	-	-	1,833,177	1,648,194	11.2%
Net Pension Liability	3,661,115	1,860,055	629,168	75,517	4,290,283	1,935,572	121.7%
<b>Total</b>	<b>\$11,066,767</b>	<b>\$9,336,829</b>	<b>\$22,651,961</b>	<b>\$23,873,207</b>	<b>\$33,718,728</b>	<b>\$33,210,037</b>	<b>1.5%</b>

**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, MD 21078.

City of Havre de Grace, Maryland  
Statement of Net Position  
June 30, 2016

	Governmental Activities	Business - Type Activities	Total
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 3,274,912	\$ 615,601	\$ 3,890,513
Receivables, net of allowance for uncollectibles	314,655	1,308,609	1,623,264
Due from other governments	886,466	-	886,466
Notes receivable, net of allowance for uncollectibles)	95,912	-	95,912
Inventory of fuel	5,688	12,919	18,607
Prepaid expenses and deposits	443,859	-	443,859
Internal balances	2,508,770	(2,508,770)	-
<b>Total Current Assets</b>	<b>7,530,262</b>	<b>(571,641)</b>	<b>6,958,621</b>
<b>Noncurrent Assets:</b>			
<b>Capital assets</b>			
Land	2,046,139	37,811	2,083,950
Construction in progress	1,178,530	-	1,178,530
Infrastructure	6,175,987	-	6,175,987
Buildings	7,128,183	71,887,821	79,016,004
Improvements other than buildings	4,687,797	16,083,665	20,771,462
Equipment	3,785,513	2,524,820	6,310,333
Less accumulated depreciation	(13,634,040)	(35,235,638)	(48,869,678)
<b>Total Capital Assets</b>	<b>11,368,109</b>	<b>55,298,479</b>	<b>66,666,588</b>
<b>Total Assets</b>	<b>18,898,371</b>	<b>54,726,838</b>	<b>73,625,209</b>
<b>Deferred Outflows of Resources</b>			
Pensions	2,927,032	589,944	3,516,976
<b>Current Liabilities</b>			
Accounts payable	\$ 443,367	\$ 450,396	\$ 893,763
Accrued expenses	736,811	246,887	983,698
Notes and loans payable - current	32,464	-	32,464
General obligation bonds - current	229,600	1,703,609	1,933,209
<b>Total Current Liabilities</b>	<b>1,442,242</b>	<b>2,400,892</b>	<b>3,843,134</b>
<b>Noncurrent Liabilities</b>			
Compensated absences	2,530,506	733,933	3,264,439
Notes and loans payable	1,156,305	-	1,156,305
General obligation bonds	1,623,600	19,585,251	21,208,851
OPEB liability	1,833,177	-	1,833,177
Net pension liability	3,661,115	629,168	4,290,283
<b>Total Noncurrent Liabilities</b>	<b>10,804,703</b>	<b>20,948,352</b>	<b>31,753,055</b>
<b>Total Liabilities</b>	<b>12,246,945</b>	<b>23,349,244</b>	<b>35,596,189</b>
<b>Deferred Inflows of Resources:</b>			
Pensions	246,471	116,080	362,551
<b>Net Position:</b>			
Net Investment in Capital Assets	8,326,140	34,009,619	42,335,759
Restricted	977,567	-	977,567
Unrestricted	28,280	(2,158,161)	(2,129,881)
<b>Total Net Position</b>	<b>\$ 9,331,987</b>	<b>\$ 31,851,458</b>	<b>\$ 41,183,445</b>

The notes to the financial statements are an integral part of this statement.

City of Havre de Grace, Maryland  
Statement of Activities  
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
General government	\$ 2,862,766	\$ 334,618	\$ 5,621	\$ -	\$ (2,522,527)	\$ -	\$ (2,522,527)
Public safety	6,043,933	1,240	1,475,746	18,338	(4,548,609)	-	(4,548,609)
Public works	3,747,060	95,571	-	395,933	(3,255,556)	-	(3,255,556)
Parks, recreation, and culture	371,659	-	-	348,425	(23,234)	-	(23,234)
Economic development and opportunity	370,344	-	-	503,797	133,453	-	133,453
Miscellaneous	270,773	-	-	-	(270,773)	-	(270,773)
Interest expense	93,987	-	-	-	(93,987)	-	(93,987)
<b>Total Governmental Activities</b>	<b>13,760,522</b>	<b>431,429</b>	<b>1,481,367</b>	<b>1,266,493</b>	<b>(10,581,233)</b>	<b>-</b>	<b>(10,581,233)</b>
<b>Business - Type Activities:</b>							
Water and sewer	8,874,412	7,020,921	-	1,158,935	-	(694,556)	(694,556)
Dockage	821,439	633,679	-	-	-	(187,760)	(187,760)
<b>Total business-type activities</b>	<b>9,695,851</b>	<b>7,654,600</b>	<b>-</b>	<b>1,158,935</b>	<b>-</b>	<b>(882,316)</b>	<b>(882,316)</b>
<b>Total Government</b>	<b>\$ 23,456,373</b>	<b>\$ 8,086,029</b>	<b>\$ 1,481,367</b>	<b>\$ 2,425,428</b>	<b>(10,581,233)</b>	<b>(882,316)</b>	<b>(11,463,549)</b>
<b>General Revenues:</b>							
Property taxes					8,424,830	-	8,424,830
Income taxes					1,883,057	-	1,883,057
Other taxes					120,945	-	120,945
Unrestricted investment earnings					17,551	764	18,315
Miscellaneous					270,422	285,247	555,669
<b>Total General Revenues</b>					<b>10,716,805</b>	<b>286,011</b>	<b>11,002,816</b>
<b>Change in Net Position</b>					<b>135,572</b>	<b>(596,305)</b>	<b>(460,733)</b>
<b>Net position at beginning of year</b>					<b>9,196,415</b>	<b>32,447,763</b>	<b>41,644,178</b>
<b>Net position at end of year</b>					<b>\$ 9,331,987</b>	<b>\$ 31,851,458</b>	<b>\$ 41,183,445</b>

The notes to the financial statements are an integral part of this statement.

City of Havre de Grace, Maryland  
Balance Sheet - Governmental Funds  
June 30, 2016

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets:</b>			
Cash and cash equivalents	\$ 2,318,416	\$ 956,496	\$ 3,274,912
Receivables, net of allowance for uncollectibles	293,584	21,071	314,655
Due from other governments	886,466	-	886,466
Notes receivable, net of allowance for uncollectibles	-	95,912	95,912
Inventory of fuel	5,688	-	5,688
Prepaid expenses and deposits	443,859	-	443,859
Due from other funds	2,508,770	-	2,508,770
<b>Total Assets</b>	<b>6,456,783</b>	<b>1,073,479</b>	<b>7,530,262</b>
<b>Liabilities:</b>			
Accounts payable	\$ 443,367	\$ -	\$ 443,367
Accrued expenses	736,811	-	736,811
Due to other funds	-	-	-
<b>Total Liabilities</b>	<b>1,180,178</b>	<b>-</b>	<b>1,180,178</b>
<b>Deferred Inflows of Resources:</b>			
Unavailable revenue - property taxes	231,190	-	231,190
Unavailable revenue - income taxes	319,405	-	319,405
Unavailable revenue - other	103,234	-	103,234
<b>Total Deferred Inflows of Resources</b>	<b>653,829</b>	<b>-</b>	<b>653,829</b>
<b>Fund balances:</b>			
<b>Nonspendable</b>			
RAD loans	-	95,912	95,912
Inventory	5,688	-	5,688
Prepaid items and deposits	443,859	-	443,859
Due from other governments	567,061	-	567,061
<b>Restricted:</b>			
Community Development Block Grant	-	412,592	412,592
Promenade Repair	-	21,478	21,478
Critical Area	-	298,386	298,386
Slip Users	-	175,852	175,852
Local Law Enforcement Block Grant	-	68,525	68,525
Forest Conservation	-	734	734
<b>Committed:</b>			
Subsequent year funding commitments	2,315,481	-	2,315,481
Emergency reserve	1,290,687	-	1,290,687
<b>Total fund balances</b>	<b>4,622,776</b>	<b>1,073,479</b>	<b>5,696,255</b>
<b>Total Liabilities Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 6,456,783</b>	<b>\$ 1,073,479</b>	<b>\$ 7,530,262</b>

The notes to the financial statements are an integral part of this statement.

City of Havre de Grace, Maryland  
 Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 For the Year Ended June 30, 2016

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

Total fund balances - governmental funds	\$ 5,696,255
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Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds:

Capital assets	11,368,109
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Other assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds:

Unavailable revenue - property taxes	231,190
Unavailable revenue - income taxes	319,405
Unavailable revenue - other	103,234

Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the Statement of Net Position. Long-term liabilities at year-end consist of:

Compensated absences	(2,530,506)
Net postemployment benefits (other than pensions)	(1,833,177)
Notes and loans payable	(1,188,769)
General obligation bonds	(1,853,200)
Net pension liability	(3,661,115)
Deferred outflows of resources	2,927,032
Deferred inflows of resources	<u>(246,471)</u>

Net position of governmental activities	<u><u>\$ 9,331,987</u></u>
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The notes to the financial statements are an integral part of this statement.

City of Havre de Grace, Maryland  
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds  
For the Year Ended June 30, 2016

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 10,372,779	\$ -	\$ 10,372,779
Licenses and permits	256,352	5,900	262,252
Intergovernmental	712,309	-	712,309
Fines and forfeitures	11,465	-	11,465
Fees	-	53,278	53,278
Interest	2,696	14,855	17,551
Charges for services	104,434	-	104,434
Grants	2,035,018	-	2,035,018
Miscellaneous	259,898	10,524	270,422
<b>Total Revenues</b>	<b>13,754,951</b>	<b>84,557</b>	<b>13,839,508</b>
Expenditures:			
Current operations:			
General government	3,067,717	-	3,067,717
Public safety	5,943,119	-	5,943,119
Public works	3,245,381	-	3,245,381
Parks, recreation, and culture	371,659	-	371,659
Economic development and opportunity	394,614	-	394,614
Miscellaneous	183,935	86,838	270,773
Capital outlay:			
General government	1,082,147	-	1,082,147
Public safety	259,053	-	259,053
Public works	948,013	-	948,013
Debt service:			
Principal	256,816	-	256,816
Interest	93,987	-	93,987
Distributed expenses and administrative fees charged to other funds	(1,063,500)	-	(1,063,500)
<b>Total Expenditures</b>	<b>14,782,941</b>	<b>86,838</b>	<b>14,869,779</b>
Revenues Over (Under) Expenditures	(1,027,990)	(2,281)	(1,030,271)
Other Financing Sources (Uses)			
Transfers in	468,379	-	468,379
Transfers out	-	(468,379)	(468,379)
<b>Total Other Financing Sources (Uses)</b>	<b>468,379</b>	<b>(468,379)</b>	<b>-</b>
Net Changes in Fund Balances	(559,611)	(470,660)	(1,030,271)
Fund Balances:			
Beginning of year	5,182,387	1,544,139	6,726,526
End of year	\$ 4,622,776	\$ 1,073,479	\$ 5,696,255

The notes to the financial statements are an integral part of this statement.

City of Havre de Grace, Maryland  
 Reconciliation of The Statement of Revenues, Expenditures, and Changes in Fund Balances  
 of Governmental Funds to the Statement of Activities  
 For the Year Ended June 30, 2016

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

Net change in fund balances - total governmental funds \$ (1,030,271)

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:

Capital outlays	2,289,213
Depreciation expense	(1,252,318)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This amount is the net change in revenues accrued between the prior and current year:

Property taxes	70,896
Income taxes	(14,843)
Other	533

The issuance of long-term liabilities provide financial resources to governmental funds and contribute to the change in fund balance. However, the issuance of debt does not affect the Statement of Activities since it increases long-term liabilities in the Statement of Net Position. Accordingly, the repayment of principal and the proceeds of bond issuance are reported as an expenditure and revenue in the governmental funds, respectively, but reduce/increase the liability in the Statement of Net Position. The amounts related to the above items that make up differences are:

Principal payments on long-term debt	256,816
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Pursuant to the modified accrual basis of accounting, governmental funds do not recognize expenditures for transactions that are not normally paid with expendable available financial resources. Pursuant to the accrual basis of accounting, the Statement of Activities reports expenses and liabilities regardless of when financial resources are available. In addition, interest on long-term debt is not recognized in the governmental funds until due, while it is accrued in the Statement of Activities. The net differences for the items discussed above are:

Change in postemployment benefits liability	(184,983)
Pension Expense	1,239
Change in accrued compensated absences	(710)
	(184,454)

Change in net position of governmental activities	\$ 135,572
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The notes to the financial statements are an integral part of this statement.

City of Havre de Grace, Maryland  
Statement of Net Position - Proprietary Funds  
June 30, 2016

	Water and Sewer	Dockage	Total Business- Type Activities
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 282,606	\$ 332,995	\$ 615,601
Receivables, net of allowance for uncollectibles	1,306,910	1,699	1,308,609
Inventory of fuel	-	12,919	12,919
Total Current Assets	1,589,516	347,613	1,937,129
<b>Noncurrent Assets:</b>			
<b>Capital assets</b>			
Land	37,811	-	37,811
Buildings	71,887,821	-	71,887,821
Improvements other than buildings	11,929,272	4,154,393	16,083,665
Equipment	2,425,805	99,015	2,524,820
Less accumulated depreciation	(31,840,681)	(3,394,957)	(35,235,638)
Total Capital Assets	54,440,028	858,451	55,298,479
Total Assets	56,029,544	1,206,064	57,235,608
<b>Deferred Outflows of Resources</b>			
Pensions	548,316	41,628	589,944
<b>Current Liabilities</b>			
Accounts payable	\$ 443,646	\$ 6,750	\$ 450,396
Accrued expenses	239,700	7,187	246,887
Due to other funds	2,508,770	-	2,508,770
General obligation bonds - current	1,703,609	-	1,703,609
Total Current Liabilities	4,895,725	13,937	4,909,662
<b>Noncurrent Liabilities</b>			
Compensated absences	664,479	69,454	733,933
General obligation bonds	19,585,251	-	19,585,251
Net pension liability	584,772	44,396	629,168
Total Noncurrent Liabilities	20,834,502	113,850	20,948,352
Total Liabilities	25,730,227	127,787	25,858,014
<b>Deferred Inflows of Resources:</b>			
Pensions	107,889	8,191	116,080
<b>Net Position:</b>			
Net Investment in Capital Assets	33,151,168	858,451	34,009,619
Unrestricted	(2,411,424)	253,263	(2,158,161)
Total Net Position	\$ 30,739,744	\$ 1,111,714	\$ 31,851,458

The notes to the financial statements are an integral part of this statement.

City of Havre de Grace, Maryland  
Statement of Revenues, Expenditures, and Changes in Net Position - Proprietary Funds  
For the Year Ended June 30, 2016

	<u>Water and Sewer</u>	<u>Dockage</u>	<u>Total Business- Type Activities</u>
Operating Revenues:			
Charges for services and sales	\$ 7,020,921	\$ 438,561	\$ 7,459,482
Fuel sales	-	195,118	195,118
Miscellaneous	-	20,979	20,979
	<hr/>	<hr/>	<hr/>
Total Operating Revenues	7,020,921	654,658	7,675,579
Operating Expenses:			
Personnel services	2,668,566	221,727	2,890,293
Chemicals and supplies	981,929	-	981,929
Utilities	577,357	37,566	614,923
Repairs and maintenance	257,748	8,691	266,439
Depreciation	2,488,880	281,025	2,769,905
Distributed expenses and administrative fees	1,014,000	49,500	1,063,500
Other operating expenses	326,703	61,219	387,922
Cost of fuel sold	-	157,027	157,027
	<hr/>	<hr/>	<hr/>
Total Operating Expenses	8,315,183	816,755	9,131,938
Operating Loss	<u>(1,294,262)</u>	<u>(162,097)</u>	<u>(1,456,359)</u>
Nonoperating Revenues (Expenses):			
Bad debts	67,600	(2,400)	65,200
Tap fees	3,545	-	3,545
Interest income	546	218	764
Penalties and miscellaneous revenues	196,668	-	196,668
Interest charges	(559,229)	(2,284)	(561,513)
Grant proceeds	68,250	-	68,250
Capital contributions	1,087,140	-	1,087,140
	<hr/>	<hr/>	<hr/>
Total Nonoperating Revenues (Expenses)	864,520	(4,466)	860,054
Increase (Decrease) in Net Position	(429,742)	(166,563)	(596,305)
Net position at beginning of year	<hr/>	<hr/>	<hr/>
	31,169,486	1,278,277	32,447,763
Net position at end of year	<u>\$ 30,739,744</u>	<u>\$ 1,111,714</u>	<u>\$ 31,851,458</u>

The notes to the financial statements are an integral part of this statement.

City of Havre de Grace, Maryland  
Statement of Cash Flows - Proprietary Funds  
For The Year Ended June 30, 2016

	Water and Sewer	Dockage	Total Business- Type Activities
<b>Cash Flows from Operating Activities</b>			
Receipts from customers and users	\$ 6,807,339	\$ 631,240	\$ 7,438,579
Payments to employees for services	(1,817,127)	(138,230)	(1,955,357)
Payments of benefits on behalf of employees	(852,508)	(75,597)	(928,105)
Payments to suppliers for goods and services	(3,073,960)	(339,817)	(3,413,777)
Other operating receipts	267,813	20,979	288,792
<b>Net Cash Provided by Operating Activities</b>	<b>1,331,557</b>	<b>98,575</b>	<b>1,430,132</b>
<b>Cash Flows from Noncapital Financing Activities</b>			
Transfers from/(to) other funds	171,935	176,405	348,340
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>171,935</b>	<b>176,405</b>	<b>348,340</b>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition and construction of capital assets	(422,060)	(23,799)	(445,859)
Principal paid on bonds and notes	(1,665,394)	(59,000)	(1,724,394)
Grant proceeds received	68,250	-	68,250
Interest paid on bonds and notes	(571,429)	(2,284)	(573,713)
Capital contributions	1,087,140	-	1,087,140
<b>Net Cash Provided by Capital and Related Financing Activities</b>	<b>(1,503,493)</b>	<b>(85,083)</b>	<b>(1,588,576)</b>
<b>Cash Flows from Investing Activities</b>			
Sale of investments	282,061	44,592	326,653
Interest	546	218	764
<b>Net Cash Provided by Investing Activities</b>	<b>282,607</b>	<b>44,810</b>	<b>327,417</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>282,606</b>	<b>234,707</b>	<b>517,313</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>-</b>	<b>98,288</b>	<b>98,288</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 282,606</b>	<b>\$ 332,995</b>	<b>\$ 615,601</b>
<b>Reconciliation of Operating Income Loss To Net Cash Provided By Operating Activities</b>			
Operating loss	\$ (1,294,262)	\$ (162,097)	\$ (1,456,359)
Adjustments to reconcile operating loss to net cash provided by operating activities			
Depreciation	2,488,880	281,025	2,769,905
Water and sewer tap fees received	3,545	-	3,545
Penalties and miscellaneous source revenue received	196,668	-	196,668
Bad debt (expense)/recovery	67,600	(2,400)	65,200
Changes in assets and liabilities			
(Increase)/decrease in accounts receivable	(213,582)	(39)	(213,621)
Decrease in fuel inventory	-	6,298	6,298
(Increase) in deferred outflows pensions	(445,675)	(35,005)	(480,680)
Decrease in accounts payable	106,868	(31,995)	74,873
Decrease in accrued operating expenses	(19,491)	(117)	(19,608)
Increase/(decrease) in compensated absences	(53,600)	3,097	(50,503)
Increase in net pension liability	513,832	39,819	553,651
Decrease in deferred inflows pensions	(19,226)	(11)	(19,237)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 1,331,557</b>	<b>\$ 98,575</b>	<b>\$ 1,430,132</b>

The notes to the financial statements are an integral part of this statement.

City of Havre de Grace, Maryland  
Statement of Fiduciary Net Position - Fiduciary Funds  
June 30, 2016

	Pension Trust Funds			Total
	Agency Fund	Civilian Employees	Sworn Officers Employees	
<b>Assets:</b>				
Cash and cash equivalents	\$ 41,195	\$ 39,313	\$ 57,510	\$ 138,018
Investments, at fair value:				
Mutual funds - equity	-	5,619,173	1,341,978	6,961,151
Mutual funds - fixed income	-	3,105,540	711,142	3,816,682
Other receivables	-	16,402	5,765	22,167
Total Assets	41,195	8,780,428	2,116,395	10,938,018
<b>Liabilities:</b>				
Accrued expenses	\$ -	\$ -	\$ -	\$ -
Security deposits	3,390	-	-	3,390
Escrow and other liabilities	37,805	-	-	37,805
Total Liabilities	41,195	-	-	41,195
<b>Net Position</b>				
Net position restricted for pensions	\$ -	\$ 8,780,428	\$ 2,116,395	\$ 10,896,823

The notes to the financial statements are an integral part of this statement.

City of Havre de Grace, Maryland  
Statement of Changes in Fiduciary Net Position - Pension Funds  
For the Year Ended June 30, 2016

	<u>Pension Trust Funds</u>		
	<u>Civilian Employees</u>	<u>Sworn Officers Employees</u>	<u>Total</u>
Additions:			
Contributions:			
Employer	\$ 233,375	\$ 607,175	\$ 840,550
Employee	165,270	133,306	298,576
Net investment income (loss)	(12,226)	14,062	1,836
Miscellaneous	10,082	5,765	15,847
Total Additions	<u>396,501</u>	<u>760,308</u>	<u>1,156,809</u>
Deductions			
Benefit payments	<u>565,571</u>	<u>730,824</u>	<u>1,296,395</u>
Total Deductions	<u>565,571</u>	<u>730,824</u>	<u>1,296,395</u>
Change in net position	(169,070)	29,484	(139,586)
Net position at beginning of year	<u>8,949,498</u>	<u>2,086,911</u>	<u>11,036,409</u>
Net position at end of year	<u><u>\$ 8,780,428</u></u>	<u><u>\$ 2,116,395</u></u>	<u><u>\$ 10,896,823</u></u>

City of Havre de Grace, Maryland  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**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 trust 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. Fiduciary activities of the City are not included in these statements.

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.

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**1. Summary of significant accounting policies** (continued):

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.

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.

**1. Summary of significant accounting policies (continued):**

**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 Civilian employees' and the Sworn Officer employees' benefits. These funds are accounted for in essentially the same manner as a proprietary fund type.

**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 measurable and available only when cash is received.

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**1. Summary of significant accounting policies** (continued):

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.

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.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows 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.

**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.

**1. Summary of significant accounting policies** (continued):

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
- (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.

**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."

"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.

**Compensated Absences**

Employees may accumulate all unused sick leave. Accumulated unpaid annual leave at December 31 of each year cannot exceed 280 hours or it is forfeited. Upon termination, up to 280 hours of accumulated annual leave will be paid to the employee. Unused sick leave will be allowed to accumulate indefinitely. Retirees 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.

**1. Summary of significant accounting policies (continued):**

**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.

Capital assets of the city are depreciated or amortized using the straight-line method over the following estimated lives:

Infrastructure	5-10 years
Buildings	5-40 years
Improvements other than buildings	5-50 years
Equipment	3-20 years

**Deferred Inflows of Resources**

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents acquisition of fund balance that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has one type of item, which arises under a modified accrual basis of accounting, that qualifies for reporting under this category. The governmental funds report unavailable revenue from taxes and other receivables. The government has one type of item, which arises under the accrual basis of accounting, that qualifies for reporting under this category, the deferred inflows related to pensions.

**Deferred Outflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents acquisition of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time. The City has one item that arises under the accrual basis of accounting, that qualifies for reporting under this category, the deferred outflows related to pensions.

**1. Summary of significant accounting policies (continued):**

**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 issuance costs, are expensed in the period incurred. Bond premiums and discounts are amortized as a component of interest expense over the lives of the bonds issued.

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.

**Adoption of Governmental Accounting Standards Board Statements**

The City adopted the requirements of GASB Statement No. 72, "*Fair Value Measurement and Application*". The adoption of this statement had no effect on previously reported amounts.

The City adopted the requirements of GASB Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*". The adoption of this statement had no effect on previously reported amounts.

The City adopted the requirements of GASB Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*". The adoption of this statement had no effect on previously reported amounts.

The City adopted the requirements of GASB Statement No. 79, "*Certain External Investment Pools and Pool Participants*". The adoption of this statement had no effect on previously reported amounts.

**Pending Changes in Accounting Principles**

In March 2016, the GASB issued a Statement No. 82, "*Pension issues – an amendment of GASB Statements No. 367, No. 68, and No. 73*". The City is required to adopt statement No. 82 for its fiscal year 2017 financial statements.

In March 2016, the GASB issued a Statement No. 81, "*Irrevocable Split-Interest Agreements*". The City is required to adopt statement No. 81 for its fiscal year 2018 financial statements.

In January 2016, the GASB issued a Statement No. 80, "*Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*". The City is required to adopt statement No. 80 for its fiscal year 2017 financial statements.

In December 2015, the GASB issued a Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*". The City is required to adopt statement No. 78 for its fiscal year 2017 financial statements.

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**1. Summary of significant accounting policies** (continued):

In August 2015, the GASB issued a Statement No. 77, "*Tax Abatement Disclosures*". The City is required to adopt statement No. 77 for its fiscal year 2017 financial statements.

In June 2015, the GASB issued a Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*". The City is required to adopt statement No. 75 for its fiscal year 2018 financial statements.

In June 2015, the GASB issued a Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pensions*". The City is required to adopt statement No. 74 for its fiscal year 2017 financial statements.

The City has not yet completed the various analyses required to estimate the financial statement impact of these new pronouncements.

**2. 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, 2016, the reserve for emergency was \$1,290,687.

**3. Cash and Investments**

**Deposits**

At year-end, the carrying amount of the City's deposits was \$3,526,886 and the bank balance was \$3,707,892. 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, 2016, the City's bank balance was not exposed to any custodial risk as all deposits in excess of Federal Depository Insurance 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 is a participant of the MLGIP, which provides all local government units of the State an 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 a 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

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**3. Cash and Investments** (continued)

The City's investments in the local government investment pool of \$404,822 are included in cash and cash equivalents on the financial statements. There is no custodial credit risk for these investments.

In addition to the investments authorized for the governmental and proprietary funds, the City's fiduciary funds also have investments in various mutual funds.

As of June 30, 2016, the City had the following debt investments and maturities within its pension funds:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Fixed Income Mutual Funds	3,816,682	-	842,858	2,973,824	-
<b>Total</b>	<b>\$ 3,816,682</b>	<b>\$ -</b>	<b>\$ 842,858</b>	<b>\$ 2,973,824</b>	<b>\$ -</b>

*Interest rate risk:*

The City has a formal investment policy that permits investments as authorized by law and requires that maturities of investments are consistent with cash flow requirements. The policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk:*

As of June 30, 2016, none of the City's pension fund's investments in fixed income mutual funds were rated by Standard and Poor's.

*Concentration of credit risk:*

The City places no limit on the amounts invested in any one issuer. As of June 30, 2016 none of the City's pension fund investments were subject to concentration of credit risk.

**Fair Value**

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City's money market funds of \$501,645 are valued using quoted market prices (Level 1 inputs), as of June 30, 2016.

The City's investments in mutual funds of \$10,777,833 are measured at the Net Asset Value (NAV) and include 6 mutual funds that invest primarily in U.S. common stocks and U.S. debt securities. Additional details on the investment strategies of the City for these funds can be found in Note 10. The City has no unfunded commitments related to its mutual fund investments. Additionally these investments do not have a limit on the redemption frequency or require a redemption notice period.

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**4. 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 2016 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 2016.

All receivables are reported at gross value and, where appropriate, reduced by the estimate considered to be uncollectible. At June 30, 2016 all property taxes were considered collectible.

**5. Due from Other Governments**

Amounts due from other governments totaling \$886,466 at June 30, 2016, include shared General Fund revenue from both State and County sources.

The City entered into an agreement with Harford County (the County) on January 22, 1980, which stated that the County would provide funds to improve the City's water treatment plant. In return for those funds, the City is to manage and maintain the plant and distribute water to the County for an annual fee. The water treatment plant became operational July 1, 1984. The costs of operating the water treatment plant are to be paid by the City and a portion of the costs are to be reimbursed by the County monthly, according to the agreement. The monthly amount is reviewed annually for possible adjustment based on audited costs of running the plant. As of June 30, 2016, the monthly amount paid by the County was \$56,836. For the fiscal year ended June 30, 2016, the amount paid by the County totaled \$682,032.

**6. Notes Receivable**

The City administers a revolving program that was originally funded by a Community Development Block Grant (CDBG) to assist in rehabilitating the City's commercial entities. The loans bear interest of 5.0% per annum and are secured by deeds of trust.

At June 30, 2016, the outstanding balance of notes receivable were as follows:

	<u>Current Portion</u>	<u>Long-Term Portion</u>	<u>Total</u>
Loan receivable	\$ 21,071	\$ 415,412	\$ 436,483
Allowance for loan losses	-	(319,500)	(319,500)
Balance, end of year	<u>\$ 21,071</u>	<u>\$ 95,912</u>	<u>116,983</u>

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**7. 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 Largaret Lane. Beginning in fiscal year 2014, monthly rent is due in the amount of \$3,000. Rent shall increase on September 1 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 2016, the City earned \$38,192 from the cell tower lease. The following schedule presents a summary of the minimum future cell tower lease income over the next five fiscal years:

<u>Fiscal Year</u>	<u>Tower Lease Income</u>
2017	\$ 39,338
2018	40,518
2019	41,734
2020	42,986
2021	44,276

**8. Capital Assets**

A summary of changes in capital assets for governmental activities for the year ended June 30, 2016 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated				
Land	\$ 2,046,139	\$ -	\$ -	\$ 2,046,139
Construction-in-progress	1,157,572	956,050	(935,092)	1,178,530
Total Capital Assets, Not Being Depreciated	3,203,711	956,050	(935,092)	3,224,669
Capital Assets, Being Depreciated				
Infrastructure	4,961,602	1,214,385	-	6,175,987
Buildings	7,117,351	10,832	-	7,128,183
Improvements other than buildings	3,995,689	692,108	-	4,687,797
Equipment	3,612,724	350,930	(178,141)	3,785,513
Total Capital Assets, Being Depreciated	19,687,366	2,268,255	(178,141)	21,777,480
Less Accumulated Depreciation for:				
Infrastructure	2,464,396	530,458	-	2,994,854
Buildings	4,163,418	284,449	-	4,447,867
Improvements other than buildings	3,280,658	153,396	-	3,434,054
Equipment	2,651,391	284,015	(178,141)	2,757,265
Total Accumulated Depreciation	12,559,863	1,252,318	(178,141)	13,634,040
Total Capital Assets, Being Depreciated, Net	7,127,503	1,015,937	-	8,143,440
Total Governmental Activities Capital Assets, Net	\$10,331,214	\$1,971,987	\$(935,092)	\$11,368,109

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**8. Capital Assets** (continued)

The decreases in construction-in-progress are 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:

Governmental Activities

General Government	\$	326,706
Public Safety		122,621
Public Works		802,991
 Total Depreciation Expense, Governmental Activities		 \$ 1,252,318

A summary of changes in capital assets for business-type activities for the year ended June 30, 2016 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated				
Land	\$ 37,811	\$ -	\$ -	\$ 37,811
Total Capital Assets, Not Being Depreciated	37,811	-	-	37,811
Capital Assets, Being Depreciated				
Buildings	71,810,408	77,413	-	71,887,821
Improvements other than buildings	15,973,090	110,575	-	16,083,665
Equipment	2,266,949	257,871	-	2,524,820
Total Capital Assets, Being Depreciated	90,050,447	445,859	-	90,496,306
Less Accumulated Depreciation for:				
Buildings	21,090,577	1,476,255	-	22,566,832
Improvements other than buildings	9,524,455	1,163,633	-	10,688,088
Equipment	1,850,701	130,017	-	1,980,718
Total Accumulated Depreciation	32,465,733	2,769,905	-	35,235,638
Total Capital Assets, Being Depreciated, Net	57,584,714	(2,324,046)	-	55,260,668
Total Governmental Activities Capital Assets, Net	\$ 57,622,525	\$ (2,324,046)	\$ -	\$ 55,298,479

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**9. 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, 2016, is as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
General obligation bonds payable	\$ 2,078,800	\$ -	\$ 225,600	\$ 1,853,200	\$ 229,600
Notes and loans payable	1,219,985	-	31,216	1,188,769	32,464
Compensated absences	2,529,796	110,541	109,831	2,530,506	-
Liability for other postemployment benefits	1,648,194	450,570	265,587	1,833,177	-
Net pension liability	1,860,055	1,801,060	-	3,661,115	-
	<u>\$ 9,336,830</u>	<u>\$ 2,362,171</u>	<u>\$ 632,234</u>	<u>\$ 11,066,767</u>	<u>\$ 262,064</u>

A summary of changes in the general obligation bonds payable, compensated absences, and net pension liability of business-type activities for the year ended June 30, 2016 is as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
General obligation bonds payable	\$ 23,013,254	\$ -	\$ 1,724,394	\$ 21,288,860	\$ 1,703,609
Compensated absences	784,436	29,595	80,098	733,933	-
Net pension liability	75,517	553,651	-	629,168	-
	<u>\$ 23,873,207</u>	<u>\$ 583,246</u>	<u>\$ 1,804,492</u>	<u>\$ 22,651,961</u>	<u>\$ 1,703,609</u>

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**9. Long-Term Liabilities** (continued)

Governmental Activities bonds, notes, and loans payable at June 30, 2016 are comprised of the following:

	Current	Long-Term	Total
<b>Long-Term Debt - Bonds Payable</b>			
Infrastructure Bonds, 2006 Series A - 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.	\$ 20,000	\$ 218,500	\$ 238,500
Refunding Bonds, 2013 Series - 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.	209,600	1,405,100	1,614,700
Total long-term debt - bonds payable	229,600	1,623,600	1,853,200
<b>Long-Term Debt - Notes and Loans Payable</b>			
Note Payable - 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.	32,464	1,156,305	1,188,769
Total notes and loans payable	32,464	1,156,305	1,188,769
<b>Total governmental activities long-term debt</b>	<b>\$ 262,064</b>	<b>\$ 2,779,905</b>	<b>\$ 3,041,969</b>

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**9. Long-Term Liabilities** (continued)

Business-type activities bonds payable at June 30, 2016 are comprised of the following:

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<b>Water and Sewer Fund - Bonds Payable</b>			
Water Quality Bond of 2000 - 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, 2016 was \$36,661.	196,709	782,175	978,884
MDE 2008 ENR Bonds Payable - Bond issued January 31, 2008 in the amount of \$26,328,354 to provide financing for a water treatment plant. Bears interest at 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 administrative fees incurred for the year ended June 30, 2016 was \$499,656.	1,293,500	18,021,176	19,314,676
Refunding Bonds, 2013 Series - 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, 2016 was \$22,911.	213,400	781,900	995,300
Total water and sewer fund - bonds payable	<u>1,703,609</u>	<u>19,585,251</u>	<u>21,288,860</u>
<b>Total business-type activities - long-term debt</b>	<u>\$ 1,703,609</u>	<u>\$ 19,585,251</u>	<u>\$ 21,288,860</u>

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**9. Long-Term Liabilities** (continued)

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 tables show the original combined issue amount and where the debt is reported as well as the annual debt service requirements for Governmental Activities general obligation bonds and notes and loans payable outstanding for the year ended June 30, 2016, assuming current interest rates remain the same:

Bond Series	Original Amount Issued	Outstanding debt reported in:		Total Amount Outstanding
		Government al Activities	Business - Type Activities	
Refunding Bonds, 2013 Series	\$ 3,831,000	\$ 1,614,700	\$ 995,300	\$ 2,610,000

Maturity, years ending June 30	Long-Term Debt - Governmental Activities General Obligation Bonds Payable		
	Principal	Interest	Total
	2017	\$ 229,600	\$ 42,156
2018	205,100	37,197	242,297
2019	214,100	32,710	246,810
2020	219,600	28,023	247,623
2021	224,500	23,223	247,723
2022-2026	760,300	46,793	807,093
Total	<u>\$ 1,853,200</u>	<u>\$ 210,102</u>	<u>\$ 2,063,302</u>

Maturity, years ending June 30	Notes and Loans Payable		
	Principal	Interest	Total
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	37,978	42,037	80,015
2022-2026	213,932	186,143	400,075
2027-2031	260,281	139,794	400,075
2032-2036	316,671	83,403	400,074
2037-2039	222,049	17,996	240,045
Total	<u>\$ 1,188,769</u>	<u>\$ 651,575</u>	<u>\$ 1,840,344</u>

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**9. Long-Term Liabilities** (continued)

The following table shows the annual debt service requirements for Business-Type Activities general obligation bonds outstanding for the year ended June 30, 2016, assuming current interest rates remain the same:

Maturity, years ending June 30	Long-Term Debt - Business-Type Activities General Obligation Bonds Payable		
	Principal	Interest	Total
2017	\$ 1,703,609	\$ 537,151	\$ 2,240,760
2018	1,736,494	501,062	2,237,556
2019	1,622,062	464,270	2,086,332
2020	1,653,829	429,676	2,083,505
2021	1,632,389	394,397	2,026,786
2022-2026	7,799,189	1,426,762	9,225,951
2027-2028	5,141,288	316,439	5,457,727
Total	<u>\$ 21,288,860</u>	<u>\$ 4,069,757</u>	<u>\$ 25,358,617</u>

**10. Defined Benefit Pension 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 (the "Civilian Plan"), a trust-administered, single-employer, defined-benefit, contributory pension plan effective February 1, 1961, for eligible City employees. The Civilian 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.

**Benefits Provided**

The Civilian Plan provides retirement, disability and death benefits to plan members and their beneficiaries. Retirement benefits for normal retirements are calculated as 1.5% of Final Average Earnings times Years of Credited Service (up to 55% of Final Average Earnings as of date of termination. Final Average Earnings is 1/36<sup>th</sup> of the total of the highest 36 months out of the last 120 months worked, and shall be increased by the number of hours of unused sick leave multiplied by the rate of pay in effect at termination divided by the number of months used in final average earnings. A member is eligible for normal retirement after attainment of age 65 and completion of 5 years of service, or after 30 years of service regardless of age. The normal retirement pension is payable monthly during the member's lifetime, with payments continuing after the member's death to the surviving spouse or eligible child, equal to 50% of the amount payable to the member at the time of death.

The Civilian Plan assets may be used only for the payment of benefits to members and expenses of the plan, in accordance with the terms of the Civilian Plan. The Civilian Plan does not issue a stand-alone financial report.

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**10. Defined Benefit Pension Plans** (continued)

**Basis of Accounting**

The Civilian 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 Civilian Plan.

**Method Used to Value Investments**

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

The annual money-weighted rate of return was (.03)% for the year ended June 30, 2016. 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, 2016, the Civilian Plan's membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	10
Inactive plan members entitled to but not yet receiving benefits	6
Active plan members	84
	<u>100</u>

**Contribution Information and Funding Policy**

The Civilian 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 Civilian Plan. Civilian 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 Civilian Plan. Contributions to the Civilian 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 Civilian Plan for the year ended June 30, 2016 were \$242,783 and \$233,375, respectively. Participants must contribute 4% of their compensation each year until the participant has earned 30 years of vesting service. Administrative costs are paid by the plan through investment earnings.

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**10. Defined Benefit Pension Plans** (continued)

**Investment Policy**

The Civilian Plan's 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 Civilian Plan may be amended by the City Council.

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

Asset Class	Target Allocation
Stocks	50% - 70%
Bonds	30% - 50%
Reserves	0% - 20%

**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, 2016 were as follows:

	Governmental Activities	Business-Type Activities		Total
		Water and Sewer	Dockage	
Total net pension liability	\$ 7,305,046	\$ 3,197,682	\$ 242,769	\$ 10,745,497
Plan fiduciary net position	5,969,145	2,612,910	198,373	8,780,428
	\$ 1,335,901	\$ 584,772	\$ 44,396	\$ 1,965,069

Plan fiduciary net position as a percentage of the total pension liability 81.71%

**Actuarial Assumptions**

The annual required contribution for the current year was determined as part of the actuarial valuation on July 1, 2015 rolled forward to June 30, 2016. The City's net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was based on an actuarial valuation as of July 1, 2015. The actuary utilized update procedures to roll forward the total pension liability in the July 1, 2015 actuarial valuation to the June 30, 2016 measurement date. The actuarial assumptions applied to all periods in the measurement included (a) 8% investment rate of return (net of administrative expenses), (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, and (c) inflation of 2.5%.

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**10. Defined Benefit Pension Plans** (continued)

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.

**Expected long-term rate of return:**

The long-term expected rate of return on Civilian Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation. The best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Stocks	5.0% - 6.5%
Bonds	1.0% - 3.5%
Reserves	0% - 1.0%

**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 Civilian 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 Civilian Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The actuarial assumptions used in the July 1, 2015 valuation were based on past experience under the plan and reasonable future expectation which represent the best estimate of anticipated experience under the Civilian Plan. A recent actuarial experience study was not performed.

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 (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
City's net pension liability	\$2,569,617	\$1,965,069	\$1,433,037

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**10. Defined Benefit Pension Plans** (continued)

Changes in the City's net pension liability for the year ended June 30, 2016 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at 6/30/15	\$ 9,170,730	\$ 8,959,580	\$ 211,150
Changes for the year:			
Service cost	259,856	-	259,856
Interest	732,259	-	732,259
Changes of benefits	-	-	-
Changes of assumptions	1,203,353	-	1,203,353
Differences between expected and actual experience	(55,130)	-	(55,130)
Contributions - employer	-	233,375	(233,375)
Contributions - member	-	165,270	(165,270)
Net investment income	-	(12,226)	12,226
Benefit payments, including refunds of employee contributions	(565,571)	(565,571)	-
Administrative expense	-	-	-
Net changes	<u>1,574,767</u>	<u>(179,152)</u>	<u>1,753,919</u>
Balances at 6/30/16	<u>\$ 10,745,497</u>	<u>\$ 8,780,428</u>	<u>\$ 1,965,069</u>

The city had a change in assumption related to accumulated sick leave in the July 1, 2015 actuarial valuation as compared to previous valuations.

**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 (the "Police Plan"), a trust-administered, single-employer, defined-benefit, contributory pension plan effective February 1, 1961, for eligible police department employees. The Police Plan Committee, which consists of the Mayor and the Director of Administration of the City, is responsible for determining benefits under the Police Plan. The City has delegated the authority to manage the Police Plan to T. Rowe Price.

**Benefits Provided**

The Police Plan provides retirement, disability and death benefits to plan members and their beneficiaries. Retirement benefits for normal retirements after June 30, 2014 are calculated as 2.0% of Final Average Earnings times Years of Credited Service to a maximum of 25 years, plus 1% of Final Average Earnings multiplied by Years of Credited Service in excess of 25 years to a maximum of 5 years. Final Average Earnings is 1/36<sup>th</sup> of the total of the highest 36 months out of the last 120 months worked, and shall be increased by the number of hours of unused sick leave multiplied by the rate of pay in effect at termination divided by the number of months used in final average earnings. A member is eligible for normal retirement after attainment of age 62 and completion of 10 years of service, or after 25 years of service regardless of age. The normal retirement pension is payable monthly during the member's

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**10. Defined Benefit Pension Plans** (continued)

lifetime, with payments continuing after the member's death to the surviving spouse or eligible child, equal to 50% of the amount payable to the member at the time of death.

The Police Plan assets may be used only for the payment of benefits to members and expenses of the Police Plan, in accordance with the terms of the Police Plan. The Police Plan does not issue a stand-alone financial report.

**Basis of Accounting**

The Police Plan's financial statements are prepared using the accrual basis of accounting. Employer and Police 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 Police Plan.

**Method Used to Value Investments**

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

The annual money-weighted rate of return was .01% for the year ended June 30, 2016. The money-weighted rate of return expresses the investment performance, net of investment expense, adjusted for changing amounts actually invested.

**Police Plan Membership**

As of June 30, 2016, the Police Plan's membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	3
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	29
	35

**Contribution Information and Funding Policy**

The Police Plan covers all police 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 Police Plan. Police 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 Police Plan. Contributions to the Police 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 Police Plan for the year ended June 30, 2016 were \$755,644 and \$607,175, respectively. 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.

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**10. Defined Benefit Pension Plans** (continued)

**Investment Policy**

The Police 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 Police Plan may be amended by the City Council.

The Police Plan's target asset allocation and long-term expected rate of return was as follows at June 30, 2016:

Asset Class	Target Allocation
Stocks	50% - 70%
Bonds	30% - 50%
Reserves	0% - 20%

**Net Pension Liability**

The components of the net pension liability of the Police Plan at June 30, 2016 were as follows:

	Governmental Activities
Total net pension liability	\$ 4,441,609
Plan fiduciary net position	2,116,395
City's net pension liability	\$ 2,325,214
 Plan fiduciary net position as a percentage of the total pension liability	47.65%

**Actuarial Assumptions**

The annual required contribution for the current year was determined as part of the actuarial valuation on July 1, 2015 rolled forward to June 30, 2016. The City's net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was based on an actuarial valuation as of July 1, 2015. The actuary utilized update procedures to roll forward the total pension liability in the July 1, 2015 actuarial valuation to the June 30, 2016 measurement date. The actuarial assumptions applied to all periods in the measurement included (a) 8% investment rate of return (net of administrative expenses), (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, and (c) inflation of 2.5%.

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**10. Defined Benefit Pension Plans** (continued)

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 .75 for females.

**Expected long-term rate of return:**

The long-term expected rate of return on Police Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation. The best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Stocks	5.0% - 6.5%
Bonds	1.0% - 3.5%
Reserves	0% - 1.0%

**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 Police Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The actuarial assumptions used in the July 1, 2015 valuation were based on past experience under the Police Plan and reasonable future expectation which represent the best estimate of anticipated experience under the Plan. A recent actuarial experience study was not performed.

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 (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
City's net pension liability	\$2,736,514	\$2,325,214	\$1,970,965

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**10. Defined Benefit Pension Plans** (continued)

Changes in the Police Plan's net pension liability for the year ended June 30, 2016 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at 6/30/15	\$ 3,817,098	\$ 2,092,676	\$ 1,724,422
Changes for the year:			
Service cost	163,762	-	163,762
Interest	289,798	-	289,798
Changes of benefits	-	-	-
Changes of assumptions	629,333	-	629,333
Differences between expected and actual experience	272,442	-	272,442
Contributions - employer	-	607,175	(607,175)
Contributions - member	-	133,306	(133,306)
Net investment income	-	14,062	(14,062)
Benefit payments, including refunds of employee contributions	(730,824)	(730,824)	-
Administrative expense	-	-	-
Net changes	624,511	23,719	600,792
Balances at 6/30/16	<u>\$ 4,441,609</u>	<u>\$ 2,116,395</u>	<u>\$ 2,325,214</u>

The city had a change in assumption related to accumulated sick leave in the July 1, 2015 actuarial valuation as compared to previous valuations.

For the year ended June 30, 2016, the City recognized pension expense of \$434,434 for the Civilian employees and \$458,610 for the Police Plan. Pension expense of \$764,589, \$118,380, and \$10,075 was recognized in governmental activities, the sewer and water fund, and the dockage fund, respectively.

At June 30, 2016, the City reported deferred outflows and deferred inflows of resources from the following sources:

	Civilian Plan		Sworn Officers Plan		Total	
	Deferred outflows	Deferred inflows	Deferred outflows	Deferred inflows	Deferred outflows	Deferred inflows
Changes of assumptions	\$ 1,031,445	\$ (315,297)	\$ 845,100	\$ -	\$ 1,876,545	\$ (315,297)
Net difference between expected and actual experience	40,318	(47,254)	629,791	-	670,109	(47,254)
Net difference between projected and actual earnings on pension plan investments	770,800	-	199,522	-	970,322	-
	<u>\$ 1,842,563</u>	<u>\$ (362,551)</u>	<u>\$ 1,674,413</u>	<u>\$ -</u>	<u>\$ 3,516,976</u>	<u>\$ (362,551)</u>

At June 30, 2016, the City reported deferred outflows and deferred inflows of resources in governmental and business-type activities as follows:

	Governmental Activities	Business-Type Activities		Total
		Sewer and Water	Dockage	
Deferred inflows	\$ (246,471)	\$ (107,889)	\$ (8,191)	\$ (362,551)
Deferred outflows	2,927,032	548,316	41,628	3,516,976

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**10. Defined Benefit Pension Plans** (continued)

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

	Civilian Plan		Sworn Officers Plan		Total	
	Deferred outflow s	Deferred inflow s	Deferred outflow s	Deferred outflow s	Deferred inflow s	
2017	\$ 388,743	\$ (70,936)	\$ 306,149	\$ 694,892	\$ (70,936)	
2018	388,743	(70,936)	306,149	694,892	(70,936)	
2019	388,742	(70,936)	306,149	694,891	(70,936)	
2020	324,460	(70,936)	280,637	605,097	(70,936)	
2021	179,970	(70,933)	249,888	429,858	(70,933)	
2022	171,905	(7,874)	112,722	284,627	(7,874)	
2023	-	-	112,719	112,719	-	
	<u>\$ 1,842,563</u>	<u>\$ (362,551)</u>	<u>\$ 1,674,413</u>	<u>\$ 3,516,976</u>	<u>\$ (362,551)</u>	

**11. 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 10. 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.

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 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. For the fiscal year ending June 30, 2016 the City had estimated pay as you go costs of \$265,587.

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**11. Other Post-Employment Benefits (OPEB)** (continued)

The following table shows the components of the City's OPEB cost for the year, the amount contributed to the plan and changes in the City's OPEB obligation to the plan:

	Civilian Employees	Police Department Employees	Total
Annual required contribution	\$ 172,432	\$ 269,347	\$ 441,779
Interest on net OPEB obligation	12,380	53,548	65,928
ARC adjustment	(10,729)	(46,408)	(57,137)
OPEB cost	174,083	276,487	450,570
Employer contribution	164,101	101,486	265,587
Increase in net OPEB obligation	9,982	175,001	184,983
Net OPEB obligation:			
Beginning of year	309,493	1,338,701	1,648,194
End of year	\$ 319,475	\$ 1,513,702	\$ 1,833,177

The net postemployment benefit obligation is liquidated by the general fund.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2014, 2015 and 2016 were as follows:

Year Ended	Annual OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
2014	404,502	46.7%	1,463,745
2015	431,724	57.3%	1,648,194
2016	450,570	58.9%	1,833,177

The funded status of the plan as of the latest actuarial valuation dated July 1, 2013 was as follows:

Unfunded actuarial accrued liability	<u>\$ 4,820,402</u>
Funded ratio	0.00%
Covered payroll	\$ 6,788,219
Unfunded actuarial accrued liability as a percentage of covered payroll	71.01%

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**11. Other Post-Employment Benefits (OPEB) (continued)**

**Actuarial Methods and 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 open percentage of pay basis
Valuation Method:	Projected Unit Credit
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%
Interest rate	4.0%

**12. Interfund Receivables, Payables and Transfers**

Individual fund “due from other funds” and due to other funds” balances at December 31, 2015, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 2,508,770	\$ -
Water and Sewer Fund	-	2,508,770
Total	<u>\$ 2,508,770</u>	<u>\$ 2,508,770</u>

The outstanding balance between the funds resulted from the time lag between the date that that interfund goods and services were provided, and the date that payment was made between the funds.

Individual funds “transfers in” and “transfers out” were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 468,379	\$ -
Nonmajor Governmental Funds	-	468,379
	<u>\$ 468,379</u>	<u>\$ 468,379</u>

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**13. Excess of Expenditures Over Appropriations General Fund**

The City had excess expenditures over appropriations in the following general fund departments: Public Safety (\$146,971), Public Works (\$18,392), Parks Recreation, and Culture (\$49,259) and Miscellaneous (\$65,835). The excess expenditures were funded by greater than anticipated revenues and prior year fund balances.

**14. 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 Paid June 30, 2016
Liability pool	\$ 1,000,000	\$ 27,556
Law enforcement liability pool	1,000,000	40,005
Public official liability pool	1,000,000	12,181
Excess liability pool	4,000,000	4,555
Automobile pool	1,000,000	33,248
Property pool (including boiler and machinery)	81,737,115	70,195
		<u>\$ 187,740</u>

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, 2016, the Trust was not in a deficit position.

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**15. 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.

**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.

**16. Net Position and Fund Balance Classifications**

**Government-Wide Statements**

Net position is displayed in three components:

- a. Net Investment in capital assets – Consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets.
- b. Restricted net position – Consists of net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

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.

City of Havre de Grace, Maryland  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2016

**16. Net Position and Fund Balance Classifications**

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.
- 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 Fiscal 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 Transfer (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 or net position 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 2, 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.

**17. Subsequent Events**

In August 2016 the City approved issuance of two loans with the Maryland Department of Housing and Community Development Department to fund various projects including Water Treatment Plant rehabilitation projects and Opera House improvements. The aggregate loan proceeds totaled \$4,500,000 and will be payable through April 1, 2031.

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Havre de Grace, Maryland  
Schedule of Changes in The Net Pension Liability  
and Related Ratios - Civilian Employees Pension Plan

	2016	2015	2014
<b>Total pension liability</b>			
Service cost	\$ 259,856	\$ 239,300	\$ 280,556
Interest	732,259	719,091	698,409
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(55,130)	56,466	-
Changes of assumptions	1,203,353	(441,417)	16,853
Benefit payments, including refunds of employee contributions	(565,571)	(298,308)	(1,077,588)
<b>Net change in total pension liability</b>	<b>1,574,767</b>	<b>275,132</b>	<b>(81,770)</b>
<b>Total pension liability - beginning</b>	<b>9,170,730</b>	<b>8,885,536</b>	<b>8,967,306</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 10,745,497</b>	<b>\$ 9,160,668</b>	<b>\$ 8,885,536</b>
<b>Plan fiduciary net position</b>			
Contributions - employer	\$ 233,375	\$ 504,625	\$ 546,050
Contributions - employee	165,270	171,376	147,500
Net investment income	(12,226)	351,813	1,217,361
Benefit payments, including refunds of employee contributions	(565,571)	(298,307)	(1,077,588)
<b>Net change in plan fiduciary position</b>	<b>(179,152)</b>	<b>729,507</b>	<b>833,323</b>
<b>Plan fiduciary net position - beginning</b>	<b>8,959,580</b>	<b>8,219,991</b>	<b>7,386,668</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>8,780,428</b>	<b>8,949,498</b>	<b>8,219,991</b>
<b>City's net pension liability - ending (a) - (b)</b>	<b>\$ 1,965,069</b>	<b>\$ 211,170</b>	<b>\$ 665,545</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>81.71%</b>	<b>97.69%</b>	<b>92.51%</b>
<b>Covered - employee payroll</b>	<b>\$ 4,802,568</b>	<b>\$ 4,661,409</b>	<b>\$ 4,657,717</b>
<b>City net pension liability as a percentage of covered - employee payroll</b>	<b>40.92%</b>	<b>4.53%</b>	<b>14.29%</b>
<b>Notes to schedule</b>			

The City adopted GASB 67 on a prospective basis in 2014; therefore only two years are presented in the above schedule.

The City had a change in assumption related to accumulated sick leave in the July, 1, 2015 actuarial valuation as compared to previous valuations.

City of Havre de Grace, Maryland  
Schedule of Employer Contributions - Last 10 Years  
Civilian Employees' Pension Plan

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined employer contributions	\$ 242,783	\$ 228,183	\$ 498,993	*	*	*	*	*	*	*
Contributions in relation to the actuarially determined employer contribution	233,375	504,625	546,060							
Employer contributions deficiency (excess)	<u>\$ 9,408</u>	<u>\$ (276,442)</u>	<u>\$ (47,067)</u>							
Covered - employee payroll	\$ 4,802,568	\$ 4,661,409	\$ 4,657,717							
Employer contributions as a percentage of covered - employee payroll	4.86%	10.83%	11.72%							

\* Information for years 2013 and prior is not available.

**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.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Projected Unit Credit
Amortization method	Level dollar, fixed period
Amortization period	Period ending June 30, 2018 for unfunded liability prior to implementing sick leave assumption. Period ending June 30, 2025 for unfunded liability due to implementing sick leave assumption.
Asset valuation method	5 - year smoothed market value
Inflation	2.50%
Salary increases	4.00% per annum for steps A through N within each pay grade, 2 % per annum for steps L-1 through L-6, then 1% thereafter.
Investment rate of return	8.00%
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 .8775 for males and .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 .70 for males and no adjustments for females.

City of Havre de Grace, Maryland  
Schedule of Investment Returns - Civilian Employees' Pension Plan

	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	-0.03%	4.20%	17.02%

**Notes to Schedule**

The City adopted GASB 67 on a prospective basis in 2014; therefore only three years are presented in the above schedule.

City of Havre de Grace, Maryland  
Schedule of Changes in The Net Pension Liability  
and Related Ratios - Sworn Officers' Pension Plan

	2016	2015	2014
<b>Total pension liability</b>			
Service cost	\$ 163,762	\$ 150,691	\$ 129,092
Interest	289,798	284,709	361,652
Changes of benefit terms	-	-	-
Differences between expected and actual experience	272,442	547,966	-
Changes of assumptions	629,333	412,208	6,519
Benefit payments, including refunds of employee contributions	(730,824)	(1,936,042)	(1,042,456)
<b>Net change in total pension liability</b>	<u>624,511</u>	<u>(540,468)</u>	<u>(545,193)</u>
<b>Total pension liability - beginning</b>	3,817,098	4,357,567	4,902,760
<b>Total pension liability - ending (a)</b>	<u>\$ 4,441,609</u>	<u>\$ 3,817,099</u>	<u>\$ 4,357,567</u>
<b>Plan fiduciary net position</b>			
Contributions - employer	\$ 607,175	\$ 306,400	\$ 327,700
Contributions - employee	133,306	131,038	150,324
Net investment income	14,062	93,470	529,028
Benefit payments, including refunds of employee contributions	(730,824)	(1,936,042)	(1,042,456)
<b>Net change in plan fiduciary position</b>	<u>23,719</u>	<u>(1,405,134)</u>	<u>(35,404)</u>
<b>Plan fiduciary net position - beginning</b>	2,092,676	3,497,811	3,533,215
<b>Plan fiduciary net position - ending (b)</b>	<u>2,116,395</u>	<u>2,092,677</u>	<u>3,497,811</u>
<b>City's net pension liability - ending (a) - (b)</b>	<u>\$ 2,325,214</u>	<u>\$ 1,724,422</u>	<u>\$ 859,756</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	47.65%	54.82%	80.27%
<b>Covered - employee payroll</b>	\$ 1,867,549	\$ 1,993,618	\$ 2,130,502
<b>City net pension liability as a percentage of covered - employee payroll</b>	124.51%	86.50%	40.35%
<b>Notes to schedule</b>			

The City adopted GASB 67 on a prospective basis in 2014; therefore only two years are presented in the above schedule.

The City had a change in assumption related to accumulated sick leave in the July, 1, 2015 actuarial valuation as compared to previous valuations.

City of Havre de Grace, Maryland  
Schedule of Employer Contributions - Last 10 Years  
Sworn Officers' Pension Plan

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined employer contributions	\$ 755,644	\$ 648,377	\$ 350,877	*	*	*	*	*	*	*
Contributions in relation to the actuarially determined employer contribution	607,175	306,400	327,700							
Employer contributions deficiency (excess)	<u>\$ 148,469</u>	<u>\$ 341,977</u>	<u>\$ 23,177</u>							
Covered - employee payroll	\$ 1,867,549	\$ 1,993,618	\$ 2,130,502							
Employer contributions as a percentage of covered - employee payroll	32.51%	15.37%	15.38%							

\* Information for years 2013 and prior is not available.

**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.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Projected Unit Credit
Amortization method	Level dollar, fixed period
Amortization period	Period ending June 30, 2018 for unfunded liability prior to implementing sick leave assumption. Period ending June 30, 2025 for unfunded liability due to implementing sick leave assumption.
Asset valuation method	5 - year smoothed market value
Inflation	2.50%
Salary increases	4.00% per annum for steps A through N within each pay grade, 2 % per annum for steps L-1 through L-6, then 1% thereafter.
Investment rate of return	8.00%
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 .75 for males females. 2) Disabled lives: RP 2000 Disabled Mortality tables with post-retirement mortality adjustments of .50 for males and .75 for females.

City of Havre de Grace, Maryland  
Schedule of Investment Returns - Sworn Officers' Pension Plan

	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	0.01%	2.93%	16.70%

**Notes to Schedule**

The City adopted GASB 67 on a prospective basis in 2014; therefore only three years are presented in the above schedule.

City of Havre de Grace, Maryland  
 Schedule of Funding Progress and Actuarial Assumptions for  
 Postemployment Benefits Other Than Pensions

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (b-a)	Funded ratio (a/b)	Annual covered payroll (c)	Unfunded actuarial accrued liability as a percentage of covered payroll (b-a/c)
July 1, 2008	-	4,682,970	4,682,970	0.0%	4,964,681	94.3%
July 1, 2010	-	4,600,546	4,600,546	0.0%	5,776,889	79.6%
July 1, 2013	-	4,820,402	4,820,402	0.0%	6,788,219	71.0%

Actuarial assumption:

Actuarial cost method: Projected unit credit  
 Participant data: Based on census information as of July 1, 2013

Amorization method: 30 years open percentage of pay basis

Valuation method: Projected unit credit

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 4.0%

Interest assumption: Discount rate of 4.0%

Salary increases: 4.0%

Interest rate: 4.0%

City of Havre de Grace, Maryland  
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2016

	General Fund			
	Budgeted Amounts		Actual Amounts	Variance Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 9,981,500	\$ 10,067,300	\$ 10,372,779	\$ 305,479
Licenses and permits	235,600	235,600	256,352	20,752
Intergovernmental	739,200	739,200	712,309	(26,891)
Fines and forfeitures	7,700	7,700	11,465	3,765
Charges for services	98,200	98,200	104,434	6,234
Grants	2,745,900	2,760,900	2,035,018	(725,882)
Miscellaneous	158,200	182,100	262,594	80,494
<b>Total revenues</b>	<b>13,966,300</b>	<b>14,091,000</b>	<b>13,754,951</b>	<b>(336,049)</b>
<b>Expenditures</b>				
Current:				
General government:				
Legislative	71,400	71,400	74,763	(3,363)
Executive	14,300	14,300	18,012	(3,712)
Finance	750,900	750,900	730,787	20,113
Elections	5,500	5,500	7,574	(2,074)
Legal	100,000	100,000	104,588	(4,588)
Planning and zoning	729,600	729,600	723,803	5,797
General services	2,593,000	2,633,100	2,142,407	490,693
Information technology	312,100	312,100	347,930	(35,830)
Public safety:				
Police	5,319,400	5,407,600	5,557,782	(150,182)
Legal	5,700	5,700	2,500	3,200
Ambulance	141,200	141,200	141,190	10
Fire	500,700	500,700	500,700	-
Public works:				
Public works	3,139,600	3,324,400	3,364,159	(39,759)
Shop operations	300,600	300,600	298,421	2,179
Sanitation	550,000	550,000	530,814	19,186
Parks, recreation, and culture:				
Civic and cultural contributions	221,700	283,900	344,328	(60,428)
Commissions	38,500	38,500	27,331	11,169
Economic development and opportunity				
Economic development	225,600	225,600	192,585	33,015
Tourism	194,900	194,900	202,029	(7,129)
Miscellaneous				
Insurance	118,100	118,100	107,035	11,065
Bad debts	-	-	76,900	(76,900)
Debt Service				
Principal reduction	256,800	256,800	256,816	(16)
Interest charges	95,800	95,800	93,987	1,813
<b>Sub-total expenditures</b>	<b>15,685,400</b>	<b>16,060,700</b>	<b>15,846,441</b>	<b>214,259</b>
Distributed expenses and administrative fees charged to other funds	(1,063,500)	(1,063,500)	(1,063,500)	-
<b>Total expenditures</b>	<b>14,621,900</b>	<b>14,997,200</b>	<b>14,782,941</b>	<b>214,259</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(655,600)</b>	<b>(906,200)</b>	<b>(1,027,990)</b>	<b>(121,790)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in (out)	124,400	375,000	468,379	93,379
<b>Total Other Financing Sources (Uses)</b>	<b>124,400</b>	<b>375,000</b>	<b>468,379</b>	<b>93,379</b>
<b>Net Change in Fund Balance</b>	<b>(531,200)</b>	<b>(531,200)</b>	<b>(559,611)</b>	<b>(28,411)</b>

## OTHER SUPPLEMENTARY INFORMATION

City of Havre de Grace, Maryland  
Combining Balance Sheet - Nonmajor Governmental Funds  
June 30, 2016

	Community Development Block Grant Fund	Promenade Repair Fund	Critical Area Fund	Slip User Fund	Local Law Enforcement Block Grant Fund	Forest Conservation Fund	Total Nonmajor Governmental Funds
<b>Assets:</b>							
Cash and cash equivalents	\$ 391,521	\$ 21,478	\$ 298,386	\$ 175,852	\$ 68,525	\$ 734	\$ 956,496
Receivables	21,071	-	-	-	-	-	21,071
Notes receivable, net of allowance for uncollectibles	95,912	-	-	-	-	-	95,912
Due from other funds	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>508,504</b>	<b>21,478</b>	<b>298,386</b>	<b>175,852</b>	<b>68,525</b>	<b>734</b>	<b>1,073,479</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>							
<b>Nonspendable</b>							
Long-term portion of RAD loans	95,912	-	-	-	-	-	95,912
<b>Restricted:</b>							
Community Development Block Grant	412,592	-	-	-	-	-	412,592
Promenade Repair	-	21,478	-	-	-	-	21,478
Critical Area	-	-	298,386	-	-	-	298,386
Slip Users	-	-	-	175,852	-	-	175,852
Local Law Enforcement Block Grant	-	-	-	-	68,525	-	68,525
Forest Conservation	-	-	-	-	-	734	734
<b>Total fund balances</b>	<b>508,504</b>	<b>21,478</b>	<b>298,386</b>	<b>175,852</b>	<b>68,525</b>	<b>734</b>	<b>1,073,479</b>
<b>Total liabilities and fund balances</b>	<b>\$ 508,504</b>	<b>\$ 21,478</b>	<b>\$ 298,386</b>	<b>\$ 175,852</b>	<b>\$ 68,525</b>	<b>\$ 734</b>	<b>\$ 1,073,479</b>

City of Havre de Grace, Maryland  
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds  
 For the Year Ended June 30, 2016

	Community Development Block Grant Fund	Promenade Repair Fund	Critical Area Fund	Slip User Fund	Local Law Enforcement Block Grant Fund	Forest Conservation Fund	Total Nonmajor Governmental Funds
<b>Revenues:</b>							
Licenses and permits	\$ -	\$ 5,900	\$ -	\$ -	\$ -	\$ -	\$ 5,900
Fees	-	-	-	53,278	-	-	53,278
Interest	13,395	235	606	619	-	-	14,855
Miscellaneous	-	-	-	-	10,524	-	10,524
<b>Total Revenues</b>	<b>13,395</b>	<b>6,135</b>	<b>606</b>	<b>53,897</b>	<b>10,524</b>	<b>-</b>	<b>84,557</b>
<b>Expenditures:</b>							
Miscellaneous	86,838	-	-	-	-	-	86,838
<b>Total Expenditures</b>	<b>86,838</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>86,838</b>
Revenues over (under expenditures)	(73,443)	6,135	606	53,897	10,524	-	(2,281)
<b>Other Financing Uses</b>							
Transfers out	-	(117,100)	(43,510)	(219,589)	(88,180)	-	(468,379)
<b>Total Other Financing Uses</b>	<b>-</b>	<b>(117,100)</b>	<b>(43,510)</b>	<b>(219,589)</b>	<b>(88,180)</b>	<b>-</b>	<b>(468,379)</b>
<b>Net Changes In Fund Balances</b>	<b>(73,443)</b>	<b>(110,965)</b>	<b>(42,904)</b>	<b>(165,692)</b>	<b>(77,656)</b>	<b>-</b>	<b>(470,660)</b>
<b>Fund Balances:</b>							
Beginning of Year	581,947	132,443	341,290	341,544	146,181	734	1,544,139
End of Year	<u>\$ 508,504</u>	<u>\$ 21,478</u>	<u>\$ 298,386</u>	<u>\$ 175,852</u>	<u>\$ 68,525</u>	<u>\$ 734</u>	<u>\$ 1,073,479</u>

# Zelenkofske Axelrod LLC

## 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

To 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, 2016, 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 14, 2016.

### 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*.

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# Zelenkofske Axelrod LLC

## **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.

*Zelenkofske Axelrod LLC*

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania

October 14, 2016