

City of Havre de Grace, Maryland

**Financial Statements
(With Supplementary Information)
and Independent Auditor's Report
June 30, 2017**

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

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Zelenkofske Axelrod LLC

INDEPENDENT AUDITOR'S 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, 2017, 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

The City's 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, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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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, 2017, the City adopted the provisions of Governmental Accounting Standards Board's Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", Statement No. 77, "Tax Abatement Disclosures", Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans", Statement No. 80 "Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14", and Statement No. 82, "Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73". Our opinion is not modified with respect to these matters.

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, schedule of funding progress and actuarial assumptions for postemployment benefits other than pensions, 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 schedules, 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 schedules 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 27, 2017, 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 27, 2017

City of Havre de Grace, Maryland
Management's Discussion and Analysis
June 30, 2017

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, 2017. 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 \$42.84 million (net assets). Of this amount, \$43.48 million is invested in capital assets, net of related debt.
- The City's overall net position increased by \$1.66 million during the fiscal year. Net position for government activities increased \$615 thousand while those for business-type activities increased by \$1.04 million.
- Operationally, revenues increased \$1.69 million during the fiscal year. The City completed the restoration of its Cultural Arts Center during fiscal 2017. As a result, grants and contributions totaled \$553 thousand more than in the prior year. Increased water & sewer consumption also resulted in \$822 thousand more service charges.
- At the close of the fiscal year, the City of Havre de Grace's governmental funds reported combined ending fund balances of \$4.91 million, a decrease of \$791 thousand. The fund balance available for use in future year budgeting was \$1.86 million.
- The City's enterprise funds reported ending net assets of \$32.89 million, an increase of \$1.04 million. The primary cause of the increase in net assets was the decrease in internal balances payable to the general fund. Enterprise fund operating income was \$2.47 million, net of \$2.76 million depreciation expense, while non-operating income was \$1.33 million.
- During the fiscal year, the City's net pension liability decreased by \$1.25 million while its debt instruments increased by \$3.40 million. City accrued obligations for annual leave and non-pension post-employment benefits increased \$192 thousand. As a result, total debt obligations increased \$2.35 million 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 two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the proprietary fund statements.

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

Government-Wide Financial Statements

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

The statement of net position presents information on all of the City's assets, 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, 2017

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 statement for the General Fund 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, 2017

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, 2017, with comparative information for the previous year.

Statement of Net Assets

- City assets exceeded liabilities by \$42.84 million as of June 30, 2017. However, the largest portion (\$43.48 million or 101.50%) 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				
	2017	2016	2017	2016	2017	2016	
Current Assets	\$ 6,060,856	\$ 5,021,492	\$ 3,827,287	\$ 1,937,129	\$ 9,888,143	\$ 6,958,621	42.1%
Internal Balances	1,173,367	2,508,770	(1,173,367)	(2,508,770)	-	-	0.0%
Capital Assets	15,776,545	11,368,109	53,736,461	55,298,479	69,513,006	66,666,588	4.3%
Total Assets	23,010,768	18,898,371	56,390,381	54,726,838	79,401,149	73,625,209	7.8%
Deferred outflow of resources	2,578,997	2,927,032	526,857	589,944	3,105,854	3,516,976	(11.7%)
Current Liabilities	2,199,628	1,442,242	2,566,622	2,400,892	4,766,250	3,843,134	24.0%
Noncurrent Liabilities	12,667,379	10,804,703	21,119,812	20,948,352	33,787,191	31,753,055	6.4%
Total Liabilities	14,867,007	12,246,945	23,686,434	23,349,244	38,553,441	35,596,189	8.3%
Deferred Inflow of resources	775,655	246,471	336,730	116,080	1,112,385	362,551	206.8%
Net Assets:							
Net Investment in Capital							
Assets	9,917,307	8,326,140	33,567,429	34,009,619	43,484,736	42,335,759	2.7%
Restricted	840,693	977,567	-	-	840,693	977,567	(14.0%)
Unrestricted	(810,897)	28,280	(673,355)	(2,158,161)	(1,484,252)	(2,129,881)	30.3%
Total Net Assets	\$9,947,103	\$ 9,331,987	\$32,894,074	\$31,851,458	\$42,841,177	\$41,183,445	4.0%

City of Havre de Grace, Maryland
Management's Discussion and Analysis (continued)
June 30, 2017

The City's overall net position increased by \$1.66 million during the fiscal year. Net position for government activities increased \$615 thousand while those for business-type activities increased by \$1.04 million.

Revenues increased by \$1.69 million during the fiscal year, primarily due to grants and contributions increasing over \$553 thousand and to service fees increasing \$822 thousand over the previous year.

Expenses decreased by \$426 thousand during the fiscal year. Spending by the City's government programs decreased by \$16 thousand while its enterprise funds decreased spending \$410 thousand.

City of Havre de Grace Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total		% Change
	2017	2016	2017	2016	2017	2016	
Program Revenues:							
Charges for Services	\$ 476,041	\$ 431,429	\$ 8,432,317	\$ 7,654,600	\$ 8,908,358	\$ 8,086,029	10.2%
Operating Grants and Contributions	1,336,232	1,481,367	90,900	-	1,427,132	1,481,367	(3.7%)
Capital Grants and Contributions	1,330,498	1,266,493	1,702,065	1,158,935	3,032,563	2,425,428	25.0%
General Revenues:							
Taxes	10,756,575	10,428,832	-	-	10,756,575	10,428,832	3.1%
Grants and contributions not restricted to specific Programs	-	-	-	-	-	-	-%
Other	460,453	287,973	103,361	286,011	563,814	573,984	(1.8%)
Total Revenues	14,359,799	13,896,094	10,328,643	9,099,546	24,688,442	22,995,640	7.4%
Expenses							
General Government	2,565,679	2,862,766	-	-	2,565,679	2,862,766	(10.4%)
Public Safety	6,023,369	6,043,933	-	-	6,023,369	6,043,933	0.0%
Public Works	4,179,307	3,747,060	-	-	4,179,307	3,747,060	11.5%
Parks, Recreation, and Culture	343,991	371,659	-	-	343,991	371,659	(7.4%)
Economic Development and Culture	453,594	370,344	-	-	453,594	370,344	22.5%
Miscellaneous	55,087	270,773	-	-	55,087	270,773	(79.7%)
Interest on Long-Term Debt	123,656	93,987	-	-	123,656	93,987	31.6%
Total Government Activities	13,744,683	13,760,522	-	-	13,744,683	13,760,522	0.0%
Water and Sewer	-	-	8,495,017	8,874,412	8,495,017	8,874,413	(4.3%)
Dockage	-	-	791,010	821,439	791,010	821,439	(3.7%)
Total Expenses	13,744,683	13,760,522	9,286,027	9,695,851	23,030,710	23,456,373	(1.8%)
Change in Position	615,116	135,572	1,042,616	(596,305)	1,657,732	(460,733)	(459.8%)
Net Assets, Beginning	9,331,987	9,196,415	31,851,458	32,447,763	41,183,445	41,644,178	(1.1%)
Net Assets, Ending	\$9,947,103	\$ 9,331,987	\$32,894,074	\$31,851,458	\$42,841,177	\$41,183,445	4.0%

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 \$3.98 million. The City's total governmental funds reported a combined ending fund balance of \$4.91 million, a decrease of \$791 thousand from the prior year. The portion of the general fund balance available for inclusion in future fiscal year taxation and spending budgets was \$1.86 million at year-end, a decrease of \$458 thousand compared to that available for the prior year.

The entire fund balance is restricted, committed or in a nonspendable form. These amounts include \$929 thousand resulting from special assessments and contributions for which usage is restricted.

Proprietary Funds - The City's proprietary funds provide the same information found in then government-wide financial statements, but in more detail. The enterprise funds reported an increase in net position of \$1.04 million. Net investment in capital assets of enterprise funds declined by \$442 thousand; while unrestricted net position increased \$1.48 million.

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, 2017 was \$69.51 million (net of accumulated depreciation.) These assets include land, buildings, water and sewer facilities, park facilities, machinery and equipment, and vehicles. The City spent \$6.95 million during 2017 for capital improvements, primarily on rehabilitating a Cultural Arts Center and acquiring waterfront parkland.

City of Havre de Grace, Maryland
Management's Discussion and Analysis (continued)
June 30, 2017

Capital Assets City of Havre de Grace

	Governmental Activities		Business-Type Activities		Total		% Change
	2017	2016	2017	2016	2017	2016	
Land	\$ 3,548,139	\$ 2,046,139	\$ 37,811	\$ 37,811	\$ 3,585,950	\$ 2,083,950	72.1%
Buildings	7,128,183	7,128,183	72,417,715	71,887,821	79,545,898	79,016,004	0.7%
Improvements Other Than Buildings	5,097,301	4,687,797	16,326,489	16,083,665	21,423,790	20,771,462	3.1%
Machinery and Equipment	4,067,237	3,785,513	2,734,355	2,524,820	6,801,592	6,310,333	7.8%
Infrastructure	6,613,405	6,175,987	-	-	6,613,405	6,175,987	7.1%
Construction in Progress	4,244,423	1,178,530	216,542	-	4,460,965	1,178,530	278.5%
Less Accumulated Depreciation	(14,922,143)	(13,634,040)	(37,996,451)	(35,235,638)	(52,918,594)	(48,869,678)	8.3%
Total Capital Assets	\$15,776,545	\$11,368,109	\$53,736,461	\$55,298,479	\$69,513,006	\$66,666,588	4.3%

Long-Term Debt

- As of June 30, 2017, the City of Havre de Grace had total general obligation debt outstanding of \$27.74 million, an increase of \$3.40 million from the prior year. In addition, the City has a net pension liability of \$3.04 million, a compensated absences liability totaling \$3.25 million, and Post-Employment Benefit obligations totaling \$2.04 million.

City of Havre de Grace Outstanding Debt

	Governmental Activities		Business-Type Activities		Total		% Change
	2017	2016	2017	2016	2017	2016	
General Obligation Bonds	\$ 3,627,933	\$ 1,853,200	\$21,875,916	\$21,288,860	\$25,503,849	\$23,142,060	10.2%
Notes and Loans Payable	2,231,305	1,188,769	-	-	2,231,305	1,188,769	87.7%
Compensated Absences	2,552,521	2,530,506	696,933	733,933	3,249,454	3,264,439	(0.5%)
Post-Employment Benefits	2,040,357	1,833,177	-	-	2,040,357	1,833,177	11.3%
Net Pension Liability	2,612,459	3,661,115	430,123	629,168	3,042,582	4,290,283	(29.1%)
Total	\$13,064,575	\$11,066,767	\$23,002,972	\$22,651,961	\$36,067,547	\$33,718,728	7.0%

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, 2017

	Governmental Activities	Business - Type Activities	Total
Current Assets:			
Cash and cash equivalents	\$ 4,640,283	\$ 758,044	\$ 5,398,327
Receivables, net of allowance for uncollectibles	243,509	1,353,230	1,596,739
Due from other governments	927,762	1,706,884	2,634,646
Notes receivable, net of allowance for uncollectibles	88,580	-	88,580
Inventory of fuel	21,589	9,129	30,718
Prepaid expenses and deposits	139,133	-	139,133
Internal balances	1,173,367	(1,173,367)	-
Total Current Assets	7,234,223	2,653,920	9,888,143
Noncurrent Assets:			
Capital assets			
Land	3,548,139	37,811	3,585,950
Construction in progress	4,244,423	216,542	4,460,965
Infrastructure	6,613,405	-	6,613,405
Buildings	7,128,183	72,417,715	79,545,898
Improvements other than buildings	5,097,301	16,326,489	21,423,790
Equipment	4,067,237	2,734,355	6,801,592
Less accumulated depreciation	(14,922,143)	(37,996,451)	(52,918,594)
Total Capital Assets	15,776,545	53,736,461	69,513,006
Total Assets	23,010,768	56,390,381	79,401,149
Deferred Outflows of Resources			
Pensions	2,578,997	526,857	3,105,854
Current Liabilities			
Accounts payable	\$ 1,085,368	\$ 441,381	\$ 1,526,749
Accrued expenses	717,064	242,081	959,145
Notes and loans payable - current	63,763	-	63,763
General obligation bonds - current	333,433	1,883,160	2,216,593
Total Current Liabilities	2,199,628	2,566,622	4,766,250
Noncurrent Liabilities			
Compensated absences	2,552,521	696,933	3,249,454
Notes and loans payable	2,167,542	-	2,167,542
General obligation bonds	3,294,500	19,992,756	23,287,256
OPEB liability	2,040,357	-	2,040,357
Net pension liability	2,612,459	430,123	3,042,582
Total Noncurrent Liabilities	12,667,379	21,119,812	33,787,191
Total Liabilities	14,867,007	23,686,434	38,553,441
Deferred Inflows of Resources:			
Pensions	775,655	336,730	1,112,385
Net Position:			
Net Investment in Capital Assets	9,917,307	33,567,429	43,484,736
Restricted	840,693	-	840,693
Unrestricted	(810,897)	(673,355)	(1,484,252)
Total Net Position	\$ 9,947,103	\$ 32,894,074	\$ 42,841,177

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, 2017

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
Governmental Activities:							
General government	\$ 2,565,679	\$ 370,477	\$ 5,088	\$ -	\$ (2,190,114)	\$ -	\$ (2,190,114)
Public safety	6,023,369	1,585	1,331,144	157,034	(4,533,606)	-	(4,533,606)
Public works	4,179,307	103,979	-	402,586	(3,672,742)	-	(3,672,742)
Parks, recreation, and culture	343,991	-	-	374,697	30,706	-	30,706
Economic development and opportunity	453,594	-	-	396,181	(57,413)	-	(57,413)
Miscellaneous	55,087	-	-	-	(55,087)	-	(55,087)
Interest expense	123,656	-	-	-	(123,656)	-	(123,656)
Total Governmental Activities	13,744,683	476,041	1,336,232	1,330,498	(10,601,912)	-	(10,601,912)
Business - Type Activities:							
Water and sewer	8,495,017	7,780,120	90,900	1,654,265	-	1,030,268	1,030,268
Dockage	791,010	652,197	-	47,800	-	(91,013)	(91,013)
Total business-type activities	9,286,027	8,432,317	90,900	1,702,065	-	939,255	939,255
Total Government	\$ 23,030,710	\$ 8,908,358	\$ 1,427,132	\$ 3,032,563	(10,601,912)	939,255	(9,662,657)
General Revenues:							
Property taxes					8,468,612	-	8,468,612
Income taxes					2,111,398	-	2,111,398
Other taxes					176,565	-	176,565
Unrestricted investment earnings					14,679	1,975	16,654
Miscellaneous					445,774	101,386	547,160
Total General Revenues					11,217,028	103,361	11,320,389
Change in Net Position					615,116	1,042,616	1,657,732
Net position at beginning of year					9,331,987	31,851,458	41,183,445
Net position at end of year					\$ 9,947,103	\$ 32,894,074	\$ 42,841,177

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, 2017

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 3,816,031	\$ 824,252	\$ 4,640,283
Receivables, net of allowance for uncollectibles	227,068	16,441	243,509
Due from other governments	927,762	-	927,762
Notes receivable, net of allowance for uncollectibles	-	88,580	88,580
Inventory of fuel	21,589	-	21,589
Prepaid expenses and deposits	139,133	-	139,133
Due from other funds	1,173,367	-	1,173,367
Total Assets	6,304,950	929,273	7,234,223
Liabilities:			
Accounts payable	\$ 1,085,368	\$ -	\$ 1,085,368
Accrued expenses	717,064	-	717,064
Total Liabilities	1,802,432	-	1,802,432
Deferred Inflows of Resources:			
Unavailable revenue - property taxes	178,328	-	178,328
Unavailable revenue - income taxes	348,113	-	348,113
Total Deferred Inflows of Resources	526,441	-	526,441
Fund balances:			
Nonspendable:			
RAD loans	-	88,580	88,580
Inventory	21,589	-	21,589
Prepaid items and deposits	139,133	-	139,133
Due from other governments	579,649	-	579,649
Restricted:			
Community Development Block Grant	-	459,900	459,900
Promenade Repair	-	29,878	29,878
Critical Area	-	257,654	257,654
Slip Users	-	55,174	55,174
Local Law Enforcement Block Grant	-	37,353	37,353
Forest Conservation	-	734	734
Committed:			
Subsequent year funding commitments	1,857,976	-	1,857,976
Emergency reserve	1,377,730	-	1,377,730
Total fund balances	3,976,077	929,273	4,905,350
Total Liabilities Deferred Inflows of Resources and Fund Balances	\$ 6,304,950	\$ 929,273	\$ 7,234,223

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, 2017

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

Total fund balances - governmental funds	\$ 4,905,350
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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	15,776,545
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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	178,328
Unavailable revenue - income taxes	348,113

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	(2,552,521)
Net postemployment benefits (other than pensions)	(2,040,357)
Notes and loans payable	(2,231,305)
General obligation bonds	(3,627,933)
Net pension liability	(2,612,459)
Deferred outflows of resources	2,578,997
Deferred inflows of resources	(775,655)
	(775,655)

Net position of governmental activities	\$ 9,947,103
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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, 2017

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 10,780,729	\$ -	\$ 10,780,729
Licenses and permits	324,839	8,400	333,239
Intergovernmental	748,011	-	748,011
Fines and forfeitures	6,360	-	6,360
Fees	-	54,322	54,322
Interest	403	14,276	14,679
Charges for services	82,120	-	82,120
Grants	2,021,953	-	2,021,953
Miscellaneous	445,046	728	445,774
	<u>14,409,461</u>	<u>77,726</u>	<u>14,487,187</u>
Total Revenues			
Expenditures:			
Current operations:			
General government	2,948,054	-	2,948,054
Public safety	6,074,706	-	6,074,706
Public works	3,351,111	-	3,351,111
Parks, recreation, and culture	343,991	-	343,991
Economic development and opportunity	447,116	-	447,116
Miscellaneous	80,787	(25,700)	55,087
Capital outlay:			
General government	4,521,459	-	4,521,459
Public safety	32,464	-	32,464
Public works	609,588	-	609,588
Parks, recreation, and culture	590,429	-	590,429
Debt service:			
Principal	382,731	-	382,731
Interest	123,656	-	123,656
Distributed expenses and administrative fees charged to other funds	(1,002,300)	-	(1,002,300)
	<u>18,503,792</u>	<u>(25,700)</u>	<u>18,478,092</u>
Total Expenditures			
Revenues Over (Under) Expenditures	<u>(4,094,331)</u>	<u>103,426</u>	<u>(3,990,905)</u>
Other Financing Sources (Uses)			
Proceeds from bonds and notes	3,200,000	-	3,200,000
Transfers in	247,632	-	247,632
Transfers out	-	(247,632)	(247,632)
	<u>3,447,632</u>	<u>(247,632)</u>	<u>3,200,000</u>
Total Other Financing Sources (Uses)			
Net Changes in Fund Balances	(646,699)	(144,206)	(790,905)
Fund Balances:			
Beginning of year	<u>4,622,776</u>	<u>1,073,479</u>	<u>5,696,255</u>
End of year	<u>\$ 3,976,077</u>	<u>\$ 929,273</u>	<u>\$ 4,905,350</u>

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, 2017

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

Net change in fund balances - total governmental funds	\$ (790,905)
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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	5,753,940
Depreciation expense	(1,345,504)

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	(52,862)
Income taxes	28,708
Other	(103,234)

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	382,731
Proceeds from bonds and notes	(3,200,000)

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	(207,180)
Pension Expense	171,437
Change in accrued compensated absences	(22,015)

Change in net position of governmental activities	<u><u>\$ 615,116</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 Net Position - Proprietary Funds
June 30, 2017

	<u>Water and Sewer</u>	<u>Dockage</u>	<u>Total Business- Type Activities</u>
Current Assets:			
Cash and cash equivalents	\$ 284,076	\$ 473,968	\$ 758,044
Receivables, net of allowance for uncollectibles	1,352,485	745	1,353,230
Due from other governments	1,706,884	-	1,706,884
Inventory of fuel	<u>-</u>	<u>9,129</u>	<u>9,129</u>
Total Current Assets	3,343,445	483,842	3,827,287
Noncurrent Assets:			
Capital assets			
Land	37,811	-	37,811
Construction in progress	216,542	-	216,542
Buildings	72,417,715	-	72,417,715
Improvements other than buildings	12,124,196	4,202,293	16,326,489
Equipment	2,635,340	99,015	2,734,355
Less accumulated depreciation	<u>(34,349,121)</u>	<u>(3,647,330)</u>	<u>(37,996,451)</u>
Total Capital Assets	<u>53,082,483</u>	<u>653,978</u>	<u>53,736,461</u>
Total Assets	56,425,928	1,137,820	57,563,748
Deferred Outflows of Resources			
Pensions	<u>488,897</u>	<u>37,960</u>	<u>526,857</u>
Current Liabilities			
Accounts payable	\$ 434,554	\$ 6,827	\$ 441,381
Accrued expenses	231,500	10,581	242,081
Due to other funds	1,173,367	-	1,173,367
General obligation bonds - current	<u>1,883,160</u>	<u>-</u>	<u>1,883,160</u>
Total Current Liabilities	3,722,581	17,408	3,739,989
Noncurrent Liabilities			
Compensated absences	617,912	79,021	696,933
General obligation bonds	19,992,756	-	19,992,756
Net pension liability	<u>399,133</u>	<u>30,990</u>	<u>430,123</u>
Total Noncurrent Liabilities	<u>21,009,801</u>	<u>110,011</u>	<u>21,119,812</u>
Total Liabilities	24,732,382	127,419	24,859,801
Deferred Inflows of Resources:			
Pensions	<u>312,469</u>	<u>24,261</u>	<u>336,730</u>
Net Position:			
Net Investment in Capital Assets	32,913,451	653,978	33,567,429
Unrestricted	<u>(1,043,477)</u>	<u>370,122</u>	<u>(673,355)</u>
Total Net Position	<u>\$ 31,869,974</u>	<u>\$ 1,024,100</u>	<u>\$ 32,894,074</u>

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, 2017

	<u>Water and Sewer</u>	<u>Dockage</u>	<u>Total Business- Type Activities</u>
Operating Revenues:			
Charges for services and sales	\$ 7,780,120	\$ 448,906	\$ 8,229,026
Fuel sales	-	186,685	186,685
Miscellaneous	-	16,606	16,606
	<u>7,780,120</u>	<u>652,197</u>	<u>8,432,317</u>
Total Operating Revenues			
Operating Expenses:			
Personnel services	2,424,544	225,136	2,649,680
Chemicals and supplies	1,025,758	-	1,025,758
Utilities	384,276	25,053	409,329
Repairs and maintenance	178,367	7,359	185,726
Depreciation	2,508,440	252,373	2,760,813
Distributed expenses and administrative fees	950,400	51,900	1,002,300
Other operating expenses	460,646	60,626	521,272
Cost of fuel sold	-	168,563	168,563
	<u>7,932,431</u>	<u>791,010</u>	<u>8,723,441</u>
Total Operating Expenses			
Operating Loss	<u>(152,311)</u>	<u>(138,813)</u>	<u>(291,124)</u>
Nonoperating Revenues (Expenses):			
Bad debts	(72,484)	2,900	(69,584)
Tap fees	27,375	-	27,375
Interest income	1,476	499	1,975
Penalties and miscellaneous revenues	170,970	-	170,970
Interest charges	(562,586)	-	(562,586)
Grant proceeds	90,900	47,800	138,700
Capital contributions	1,626,890	-	1,626,890
	<u>1,282,541</u>	<u>51,199</u>	<u>1,333,740</u>
Total Nonoperating Revenues (Expenses)			
Increase (Decrease) in Net Position	1,130,230	(87,614)	1,042,616
Net position at beginning of year	<u>30,739,744</u>	<u>1,111,714</u>	<u>31,851,458</u>
Net position at end of year	<u>\$ 31,869,974</u>	<u>\$ 1,024,100</u>	<u>\$ 32,894,074</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
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 7,734,545	\$ 639,445	\$ 8,373,990
Payments to employees for services	(1,705,883)	(140,962)	(1,846,845)
Payments of benefits on behalf of employees	(686,868)	(68,275)	(755,143)
Payments to suppliers for goods and services	(3,016,739)	(306,240)	(3,322,979)
Other operating receipts	125,861	16,606	142,467
Net Cash Provided by Operating Activities	2,450,916	140,574	2,591,490
Cash Flows from Noncapital Financing Activities			
Transfers from/(to) other funds	(1,335,403)	-	(1,335,403)
Net Cash Provided by Noncapital Financing Activities	(1,335,403)	-	(1,335,403)
Cash Flows from Capital and Related Financing Activities			
Acquisition and construction of capital assets	(1,150,895)	(47,900)	(1,198,795)
Principal paid on bonds and notes	(1,812,944)	-	(1,812,944)
Grant proceeds received	90,900	47,800	138,700
Interest paid on bonds and notes	(562,586)	-	(562,586)
Proceeds from bonds and notes	693,116	-	693,116
Capital contributions	1,626,890	-	1,626,890
Net Cash Provided by Capital and Related Financing Activities	(1,115,519)	(100)	(1,115,619)
Cash Flows from Investing Activities			
Interest	1,476	499	1,975
Net Cash Provided by Investing Activities	1,476	499	1,975
Net Increase in Cash and Cash Equivalents	1,470	140,973	142,443
Cash and Cash Equivalents, Beginning of Year	282,606	332,995	615,601
Cash and Cash Equivalents, End of Year	\$ 284,076	\$ 473,968	\$ 758,044
Reconciliation of Operating Income Loss To Net Cash Provided By Operating Activities			
Operating loss	\$ (152,311)	\$ (138,813)	\$ (291,124)
Adjustments to reconcile operating loss to net cash provided by operating activities			
Depreciation	2,508,440	252,373	2,760,813
Water and sewer tap fees received	27,375	-	27,375
Penalties and miscellaneous source revenue received	170,970	-	170,970
Bad debt (expense)/recovery	(72,484)	2,900	(69,584)
Changes in assets and liabilities			
(Increase)/decrease in accounts receivable	(45,575)	954	(44,621)
Decrease in fuel inventory	-	3,790	3,790
Decrease in deferred outflows pensions	59,419	3,668	63,087
(Increase)/decrease in accounts payable	(9,092)	77	(9,015)
(Increase)/decrease in accrued operating expenses	(8,200)	3,394	(4,806)
Increase/(decrease) in compensated absences	(46,567)	9,567	(37,000)
Increase in net pension liability	(185,639)	(13,406)	(199,045)
Increase in deferred inflows pensions	204,580	16,070	220,650
Net Cash Provided by Operating Activities	\$ 2,450,916	\$ 140,574	\$ 2,591,490

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, 2017

	Pension Trust Funds			Total
	Agency Fund	Civilian Employees	Sworn Officers Employees	
Assets:				
Cash and cash equivalents	\$ 73,601	\$ 60,910	\$ 126,179	\$ 260,690
Investments, at fair value:				
Mutual funds - equity	-	6,397,720	2,156,647	8,554,367
Mutual funds - fixed income	-	2,965,833	1,017,086	3,982,919
Other receivables	-	15,499	9,798	25,297
Total Assets	\$ 73,601	\$ 9,439,962	\$ 3,309,710	\$ 12,823,273
Liabilities:				
Security deposits	4,390	-	-	4,390
Escrow and other liabilities	69,211	-	-	69,211
Total Liabilities	73,601	-	-	73,601
Net Position				
Net position restricted for pensions	\$ -	\$ 9,439,962	\$ 3,309,710	\$ 12,749,672

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, 2017

	Pension Trust Funds		
	Civilian Employees	Sworn Officers Employees	Total
Additions:			
Contributions:			
Employer	\$ 216,175	\$ 816,700	\$ 1,032,875
Employee	157,141	140,432	297,573
Net investment income	1,214,158	355,875	1,570,033
Total Additions	1,587,474	1,313,007	2,900,481
Deductions			
Benefit payments	927,940	119,692	1,047,632
Total Deductions	927,940	119,692	1,047,632
Change in net position	659,534	1,193,315	1,852,849
Net position at beginning of year	8,780,428	2,116,395	10,896,823
Net position at end of year	\$ 9,439,962	\$ 3,309,710	\$ 12,749,672

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

City of Havre de Grace, Maryland
Notes to Financial Statements
For the Year Ended June 30, 2017

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, 2017

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, 2017

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. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pensions*". The adoption of this statement had no effect on previously reported amounts.

The City adopted the requirements of GASB Statement No. 77, "*Tax Abatement Disclosures*". The adoption of this statement had no effect on previously reported amounts.

The City adopted the requirements of GASB Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*". The adoption of this statement had no effect on previously reported amounts.

The City adopted the requirements of GASB Statement No. 80, "*Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*". The adoption of this statement had no effect on previously reported amounts.

The City adopted the requirements of GASB Statement No. 82, "*Pension issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*". The adoption of this statement had no effect on previously reported amounts.

Pending Changes in Accounting Principles

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 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 November 2016, the GASB issued a Statement No. 83, "*Certain Asset Retirement Obligations*". The City is required to adopt statement No. 83 for its fiscal year 2019 financial statements.

In January 2017, the GASB issued a Statement No. 84, "*Fiduciary Activities*". The City is required to adopt statement No. 84 for its fiscal year 2020 financial statements.

City of Havre de Grace, Maryland
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017

1. Summary of significant accounting policies (continued):

In March 2017, the GASB issued a Statement No. 85, "*Omnibus 2017*". The City is required to adopt statement No. 85 for its fiscal year 2018 financial statements.

In May 2017, the GASB issued a Statement No. 86, "*Certain Debt Extinguishment Issues*". The City is required to adopt statement No. 86 for its fiscal year 2018 financial statements.

In June 2017, the GASB issued a Statement No. 87, "*Leases*". The City is required to adopt statement No. 87 for its fiscal year 2021 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, 2017, the reserve for emergency was \$1,377,730.

3. Cash and Investments

Deposits

At year-end, the carrying amount of the City's deposits was \$1,842,941 and the bank balance was \$1,847,748. 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, 2017, 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, 2017

3. Cash and Investments (continued)

The City's investments in the local government investment pool of \$3,628,987 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, 2017, 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	3,982,919	-	776,620	3,206,299	-
Total	<u>\$ 3,982,919</u>	<u>\$ -</u>	<u>\$ 776,620</u>	<u>\$ 3,206,299</u>	<u>\$ -</u>

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, 2017, 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, 2017 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 and pension trust funds money market funds of \$3,816,076 are valued using quoted market prices (Level 1 inputs), as of June 30, 2017.

The pension trust funds investments in mutual funds of \$12,537,286 are valued using quoted market prices (Level 1 inputs), as of June 30, 2017.

City of Havre de Grace, Maryland
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017

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 2017 was \$0.56970 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 2017.

All receivables are reported at gross value and, where appropriate, reduced by the estimate considered to be uncollectible. At June 30, 2017 all property taxes were considered collectible.

5. Due from Other Governments

Amounts due from other governments totaling \$2,634,646 at June 30, 2017, include shared General Fund revenue from both State and County sources, as well as certain bond proceeds due to the City.

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. For the fiscal year ended June 30, 2017, the amount paid by the County totaled \$785,069.

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, 2017, the outstanding balance of notes receivable were as follows:

	<u>Current Portion</u>	<u>Long-Term Portion</u>	<u>Total</u>
Loan receivable	\$ 16,441	\$ 382,380	\$ 398,821
Allowance for loan losses	-	(293,800)	(293,800)
Balance, end of year	<u>\$ 16,441</u>	<u>\$ 88,580</u>	<u>105,021</u>

City of Havre de Grace, Maryland
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017

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 Larget 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 2017, the City earned \$39,338 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>
2018	40,518
2019	41,734
2020	42,986
2021	44,276
2022	45,604

8. Capital Assets

A summary of changes in capital assets for governmental activities for the year ended June 30, 2017 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	\$ 1,502,000	\$ -	\$ 3,548,139
Construction-in-progress	1,178,530	3,065,893	-	4,244,423
Total Capital Assets, Not Being Depreciated	3,224,669	4,567,893	-	7,792,562
Capital Assets, Being Depreciated				
Infrastructure	6,175,987	437,418	-	6,613,405
Buildings	7,128,183	-	-	7,128,183
Improvements other than buildings	4,687,797	409,504	-	5,097,301
Equipment	3,785,513	339,125	(57,401)	4,067,237
Total Capital Assets, Being Depreciated	21,777,480	1,186,047	(57,401)	22,906,126
Less Accumulated Depreciation for:				
Infrastructure	2,994,854	571,669	-	3,566,523
Buildings	4,447,867	284,265	-	4,732,132
Improvements other than buildings	3,434,054	211,201	-	3,645,255
Equipment	2,757,265	278,369	(57,401)	2,978,233
Total Accumulated Depreciation	13,634,040	1,345,504	(57,401)	14,922,143
Total Capital Assets, Being Depreciated, Net	8,143,440	(159,457)	-	7,983,983
Total Governmental Activities Capital Assets, Net	\$ 11,368,109	\$ 4,408,436	\$ -	\$ 15,776,545

City of Havre de Grace, Maryland
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017

8. Capital Assets (continued)

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

Governmental Activities

General Government	\$	339,099
Public Safety		115,272
Public Works		891,133
 Total Depreciation Expense, Governmental Activities		 \$ 1,345,504

A summary of changes in capital assets for business-type activities for the year ended June 30, 2017 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
Construction In Progress	-	216,542	-	216,542
Total Capital Assets, Not Being Depreciated	37,811	216,542	-	254,353
Capital Assets, Being Depreciated				
Buildings	71,887,821	529,894	-	72,417,715
Improvements other than buildings	16,083,665	242,824	-	16,326,489
Equipment	2,524,820	209,535	-	2,734,355
Total Capital Assets, Being Depreciated	90,496,306	982,253	-	91,478,559
Less Accumulated Depreciation for:				
Buildings	22,566,832	1,754,378	-	24,321,210
Improvements other than buildings	10,688,088	871,888	-	11,559,976
Equipment	1,980,718	134,547	-	2,115,265
Total Accumulated Depreciation	35,235,638	2,760,813	-	37,996,451
Total Capital Assets, Being Depreciated, Net	55,260,668	(1,778,560)	-	53,482,108
Total Governmental Activities Capital Assets, Net	\$ 55,298,479	\$ (1,562,018)	\$ -	\$ 53,736,461

City of Havre de Grace, Maryland
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017

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, 2017, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds payable	\$ 1,853,200	\$ 2,100,000	\$ 325,267	\$ 3,627,933	\$ 333,433
Notes and loans payable	1,188,769	1,100,000	57,464	2,231,305	63,763
Compensated absences	2,530,506	193,106	171,091	2,552,521	-
Liability for other postemployment benefits	1,833,177	456,360	249,180	2,040,357	-
Net pension liability	3,661,115	-	1,048,656	2,612,459	-
	<u>\$ 11,066,767</u>	<u>\$ 3,849,466</u>	<u>\$ 1,851,658</u>	<u>\$ 13,064,575</u>	<u>\$ 397,196</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, 2017 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds payable	\$ 21,288,860	\$ 2,400,000	\$ 1,812,944	\$ 21,875,916	\$ 1,883,160
Compensated absences	733,933	13,841	50,841	696,933	-
Net pension liability	629,168	-	199,045	430,123	-
	<u>\$ 22,651,961</u>	<u>\$ 2,413,841</u>	<u>\$ 2,062,830</u>	<u>\$ 23,002,972</u>	<u>\$ 1,883,160</u>

City of Havre de Grace, Maryland
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017

9. Long-Term Liabilities (continued)

Governmental Activities bonds, notes, and loans payable at June 30, 2017 are comprised of the following:

	Current	Long-Term	Total
Long-Term Debt - Bonds Payable			
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 dat of May and November. An annual prinicipal payment is due on May 1. The bonds mature on May 1, 2026.	20,500	198,000	218,500
Refunding Bonds, 2013 Series - Bonds dated May 31, 2013 in the amount of 3,3831,000 (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.	184,600	1,220,500	1,405,100
2016 Sereis A - Bonds dated August 31, 2016 in the amount of \$4,500,000 (of which \$2,100,000 is included in Governmental Activities and \$2,400,000 is included in the Water and Sewer Fund) to provide financing for the water treatment plant and Opera House. Bears interst at a rate of 2.2% throughout the course of the loan with a celing of 3%. Semiannual interest payments are due on the first day of October and April. The bonds mature on April 1, 2031.	128,333	1,876,000	2,004,333
Total long-term debt - bonds payable	333,433	3,294,500	3,627,933
Long-Term Debt - Notes and Loan Payable			
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.	33,763	1,122,542	1,156,305
Note Payable Harford County - Installment purchase agreement with Harford County in the amount of \$1,100,000 to facilitate the purchase of real property located within the City limits. The agreement "Note" bears no interest and requires the City to make annual principal payments of \$55,000 until maturity in September 2036.	30,000	1,045,000	1,075,000
Total notes and loans payable	63,763	2,167,542	2,231,305
Total governmental activities - long-term debt	\$ 397,196	\$ 5,462,042	\$ 5,859,238

City of Havre de Grace, Maryland
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017

9. Long-Term Liabilities (continued)

Business-type activities bonds payable at June 30, 2017 are comprised of the following:

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Water and Sewer Fund - Bonds Payable			
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.	201,430	580,744	782,174
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.	1,320,663	16,700,512	18,021,175
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.	214,400	567,500	781,900
2016 Sereis A - Bonds dated August 31, 2016 in the amount of \$4,500,000 (of which \$2,100,000 is included in Governmental Activities and \$2,400,000 is included in the Water and Sewer Fund) to provide financing for the water treatment plant and Opera House. Bears interest at a rate of 2.2% throughout the course of the loan with a ceiling of 3%. Semiannual interest payments are due on the first day of October and April. The bonds mature on April 1, 2031.	146,667	2,144,000	2,290,667
Total water and sewer fund - bonds payable	<u>1,883,160</u>	<u>19,992,756</u>	<u>21,875,916</u>
Total business-type activities - long-term debt	<u>\$ 1,883,160</u>	<u>\$ 19,992,756</u>	<u>\$ 21,875,916</u>

City of Havre de Grace, Maryland
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017

9. Long-Term Liabilities (continued)

The following tables show the annual debt service requirements for Governmental Activities general obligation bonds and notes and loans payable outstanding for the year ended June 30, 2017, assuming current interest rates remain the same:

Maturity, years ending June 30	Long-Term Debt - Governmental Activities General Obligation Bonds Payable		
	Principal	Interest	Total
2018	\$ 333,433	\$ 75,041	\$ 408,474
2019	344,767	69,731	414,498
2020	352,600	64,015	416,615
2021	357,500	57,857	415,357
2022	371,633	51,242	422,875
2023-2027	1,238,000	157,660	1,395,660
2028-2032	630,000	45,024	675,024
Total	\$3,627,933	\$ 520,570	\$4,148,503

Maturity, years ending June 30	Notes and Loans Payable		
	Principal	Interest	Total
2018	\$ 63,763	46,252	\$ 110,015
2019	90,113	44,902	135,015
2020	91,518	43,497	135,015
2021	92,978	42,037	135,015
2022	94,498	40,517	135,015
2023-2027	497,489	177,586	675,075
2028-2032	545,692	129,383	675,075
2033-2037	604,338	70,736	675,074
2038-2039	150,916	9,114	160,030
Total	\$2,231,305	\$ 604,024	\$2,835,329

City of Havre de Grace, Maryland
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017

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, 2017, 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
2018	\$ 1,883,160	\$ 544,314	\$ 2,427,474
2019	1,771,395	506,582	2,277,977
2020	1,805,829	470,808	2,276,637
2021	1,784,389	433,979	2,218,368
2022	1,652,009	387,005	2,039,014
2023-2027	9,765,142	1,411,006	11,176,148
2028-2030	3,213,992	181,913	3,395,905
Total	\$ 21,875,916	\$ 3,935,607	\$ 25,811,523

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 Conduent.

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 1/36th 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, 2017

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 14.41% for the year ended June 30, 2017. 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, 2017, the Civilian Plan's membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	11
Inactive plan members entitled to but not yet receiving benefits	8
Active plan members	79
	<hr/>
	98
	<hr/> <hr/>

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, 2017 were \$237,717 and \$216,175, 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, 2017

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, 2017:

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, 2017 were as follows:

	Governmental Activities	Business-Type Activities		Total
		Water and Sewer	Dockage	
Total net pension liability	\$ 7,060,943	\$ 3,380,386	\$ 262,464	\$ 10,703,793
Plan fiduciary net position	6,227,235	2,981,253	231,474	9,439,962
City's net pension liability	\$ 833,708	\$ 399,133	\$ 30,990	\$ 1,263,831

Plan fiduciary net position as a percentage of the total pension liability 88.19%

Actuarial Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation on July 1, 2016 rolled forward to June 30, 2017. The City's net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was based on an actuarial valuation as of July 1, 2016. The actuary utilized update procedures to roll forward the total pension liability in the July 1, 2016 actuarial valuation to the June 30, 2017 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, 2017

10. Defined Benefit Pension Plans (continued)

Mortality rates are based on the following:

- Healthy lives: RP 2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006 and projected with Mortality Improvement Scale MP-2016.
- Disabled lives: RP 2014 Disable Retiree Mortality Table rolled back to 2006 and projected with Improvement Scale MP-2016.

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, 2016 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	\$1,975,720	\$1,263,831	\$642,384

City of Havre de Grace, Maryland
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017

10. Defined Benefit Pension Plans (continued)

Changes in the City's net pension liability for the year ended June 30, 2017 were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 6/30/16	\$ 10,745,497	\$ 8,780,428	\$ 1,965,069
Changes for the year:			
Service cost	249,284	-	249,284
Interest	843,179	-	843,179
Changes of benefits	-	-	-
Changes of assumptions	109,958	-	109,958
Differences between expected and actual experience	(316,185)	-	(316,185)
Contributions - employer	-	216,175	(216,175)
Contributions - member	-	157,141	(157,141)
Net investment income	-	1,214,158	(1,214,158)
Benefit payments, including refunds of employee contributions	(927,940)	(927,940)	-
Administrative expense	-	-	-
Net changes	<u>(41,704)</u>	<u>659,534</u>	<u>(701,238)</u>
Balances at 6/30/17	<u>\$ 10,703,793</u>	<u>\$ 9,439,962</u>	<u>\$ 1,263,831</u>

The city had a change in assumption related mortality in the July 1, 2016 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 Conduent.

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 1/36th 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, 2017

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 13.91% for the year ended June 30, 2017. 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, 2017, 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	2
Active plan members	35
	40

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, 2017 were \$685,068 and \$816,700, 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, 2017

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, 2017 were as follows:

	Governmental Activities
Total net pension liability	\$ 5,088,461
Plan fiduciary net position	3,309,710
City's net pension liability	\$ 1,778,751
Plan fiduciary net position as a percentage of the total pension liability	65.04%

Actuarial Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation on July 1, 2016 rolled forward to June 30, 2017. The City's net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was based on an actuarial valuation as of July 1, 2016. The actuary utilized update procedures to roll forward the total pension liability in the July 1, 2016 actuarial valuation to the June 30, 2017 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, 2017

10. Defined Benefit Pension Plans (continued)

Mortality rates are based on the following:

- Healthy lives: RP-2014 Total Employee and Healthy Annuitant Mortality Table rolled back to 2006 and projected with Improvement Scale MP-2016.
- Disabled lives: RP-2014 Disabled Retiree Mortality Table rolled back to 2006 and projected with Improvement Scale MP-2016.

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, 2016 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	\$2,200,742	\$1,778,751	\$1,416,288

City of Havre de Grace, Maryland
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017

10. Defined Benefit Pension Plans (continued)

Changes in the Police Plan's net pension liability for the year ended June 30, 2017 were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 6/30/15	\$ 4,441,609	\$ 2,116,395	\$ 2,325,214
Changes for the year:			
Service cost	184,553	-	184,553
Interest	365,397	-	365,397
Changes of benefits	-	-	-
Changes of assumptions	8,466	-	8,466
Differences between expected and actual experience	208,128	-	208,128
Contributions - employer	-	816,700	(816,700)
Contributions - member	-	140,432	(140,432)
Net investment income	-	355,875	(355,875)
Benefit payments, including refunds of employee contributions	(119,692)	(119,692)	-
Administrative expense	-	-	-
Net changes	<u>646,852</u>	<u>1,193,315</u>	<u>(546,463)</u>
Balances at 6/30/16	<u>\$ 5,088,461</u>	<u>\$ 3,309,710</u>	<u>\$ 1,778,751</u>

The city had a change in assumption related to mortality in the July 1, 2016 actuarial valuation as compared to previous valuations.

For the year ended June 30, 2017, the City recognized pension expense of \$436,296 for the Civilian employees and \$509,834 for the Police Plan. Pension expense of \$797,644, \$137,788, and \$10,698 was recognized in governmental activities, the sewer and water fund, and the dockage fund, respectively.

At June 30, 2017, 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	\$ 953,787	\$ (252,237)	\$ 714,954	\$ -	\$ 1,668,741	\$ (252,237)
Net difference between expected and actual experience	32,254	(310,394)	699,567	-	731,821	(310,394)
Net difference between projected and actual earnings on pension plan investments	<u>562,029</u>	<u>(426,786)</u>	<u>143,263</u>	<u>(122,968)</u>	<u>705,292</u>	<u>(549,754)</u>
	<u>\$ 1,548,070</u>	<u>\$ (989,417)</u>	<u>\$ 1,557,784</u>	<u>\$ (122,968)</u>	<u>\$ 3,105,854</u>	<u>\$ (1,112,385)</u>

At June 30, 2017, the City reported deferred outflows and deferred inflows of resources in governmental and business-type activities as follows:

	Business-Type Activities			
	Governmental Activities	Sewer and Water	Dockage	Total
Deferred inflows	\$ (775,655)	\$ (312,469)	\$ (24,261)	\$ (1,112,385)
Deferred outflows	2,578,997	488,897	37,960	3,105,854

City of Havre de Grace, Maryland
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017

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 Inflow s	Deferred outflow s	Deferred inflow s
2018	\$ 404,451	\$ (222,801)	\$ 333,223	\$ (30,742)	\$ 737,674	\$ (253,543)
2019	404,450	(222,801)	333,221	(30,742)	737,671	(253,543)
2020	340,168	(222,803)	307,711	(30,742)	647,879	(253,545)
2021	195,678	(222,800)	276,962	(30,742)	472,640	(253,542)
2022	187,613	(53,043)	139,796	-	327,409	(53,043)
2023	15,710	(45,169)	139,795	-	155,505	(45,169)
2024	-	-	27,076	-	27,076	-
	<u>\$ 1,548,070</u>	<u>\$ (989,417)</u>	<u>\$ 1,557,784</u>	<u>\$ (122,968)</u>	<u>\$ 3,105,854</u>	<u>\$ (1,112,385)</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, 2017 the City had estimated pay as you go costs of \$249,180.

City of Havre de Grace, Maryland
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017

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	\$ 181,643	\$ 264,940	\$ 446,583
Interest on net OPEB obligation	12,779	60,548	73,327
ARC adjustment	<u>(11,075)</u>	<u>(52,475)</u>	<u>(63,550)</u>
OPEB cost	183,347	273,013	456,360
Employer contribution	<u>151,293</u>	<u>97,887</u>	<u>249,180</u>
Increase in net OPEB obligation	32,054	175,126	207,180
Net OPEB obligation:			
Beginning of year	<u>319,475</u>	<u>1,513,702</u>	<u>1,833,177</u>
End of year	<u>\$ 351,529</u>	<u>\$ 1,688,828</u>	<u>\$ 2,040,357</u>

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 2015, 2016 and 2017 were as follows:

Year Ended	Annual OPEB cost	of annual OPEB cost contributed	Net OPEB obligation
2015	431,724	57.3%	1,648,194
2016	450,570	58.9%	1,833,177
2017	456,360	54.6%	2,040,357

The funded status of the plan as of the latest actuarial valuation dated July 1, 2016 was as follows:

Unfunded actuarial accrued liability	<u>\$ 5,037,073</u>
Funded ratio	0.00%
Covered payroll	\$ 6,477,005
Unfunded actuarial accrued liability as a percentage of covered payroll	77.77%

City of Havre de Grace, Maryland
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017

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:	7/1/2016
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 2017 is 8.0%. This rate decreases by 0.25% per year to an ultimate rate of 4.5% in fiscal year 2026. Dental trend rate applied to all periods is 4.0%.
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 June 30, 2017, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 1,173,367	\$ -
Water and Sewer Fund	-	1,173,367
Total	<u>\$ 1,173,367</u>	<u>\$ 1,173,367</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	\$ 247,632	\$ -
Nonmajor Governmental Funds	-	247,632
	<u>\$ 247,632</u>	<u>\$ 247,632</u>

City of Havre de Grace, Maryland
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017

13. Excess of Expenditures Over Appropriations General Fund

The City had excess expenditures over appropriations in the following general fund departments: General Government (\$2,883,913), Public Safety (\$125,870), Public Works (\$275,128), and Debt Service (\$11,988). 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, 2017, the City participated in the following pools:

	Maximum Coverage Per Claim	Premiums Paid June 30, 2017
Liability pool	\$ 1,000,000	\$ 29,438
Law enforcement liability pool	1,000,000	41,672
Public official liability pool	1,000,000	14,959
Excess liability pool	4,000,000	5,378
Automobile pool	1,000,000	36,930
Property pool (including boiler and machinery)	81,737,115	79,900
		<u>\$ 208,277</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, 2017, 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, 2017

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, 2017

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 30th, 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.

REQUIRED SUPPLEMENTARY INFORMATION

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

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 249,284	\$ 259,856	\$ 239,300	\$ 280,556
Interest	843,179	732,259	719,091	698,409
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(316,185)	(55,130)	56,466	-
Changes of assumptions	109,958	1,203,353	(441,417)	16,853
Benefit payments, including refunds of employee contributions	(927,940)	(565,571)	(298,308)	(1,077,588)
Net change in total pension liability	(41,704)	1,574,767	275,132	(81,770)
Total pension liability - beginning	10,745,497	9,170,730	8,885,536	8,967,306
Total pension liability - ending (a)	\$ 10,703,793	\$ 10,745,497	\$ 9,160,668	\$ 8,885,536
Plan fiduciary net position				
Contributions - employer	\$ 216,175	\$ 233,375	\$ 504,625	\$ 546,050
Contributions - employee	157,141	165,270	171,376	147,500
Net investment income	1,214,158	(12,226)	351,813	1,217,361
Benefit payments, including refunds of employee contributions	(927,940)	(565,571)	(298,307)	(1,077,588)
Net change in plan fiduciary position	659,534	(179,152)	729,507	833,323
Plan fiduciary net position - beginning	8,780,428	8,959,580	8,219,991	7,386,668
Plan fiduciary net position - ending (b)	9,439,962	8,780,428	8,949,498	8,219,991
City's net pension liability - ending (a) - (b)	\$ 1,263,831	\$ 1,965,069	\$ 211,170	\$ 665,545
Plan fiduciary net position as a percentage of the total pension liability	88.19%	81.71%	97.69%	92.51%
Covered - employee payroll	\$ 4,401,498	\$ 4,802,568	\$ 4,661,409	\$ 4,657,717
City net pension liability as a percentage of covered - employee payroll	28.71%	40.92%	4.53%	14.29%

Notes to schedule

The City adopted GASB 67 on a prospective basis in 2014; therefore only four 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.

The City had a change in assumptions related to assumed mortality in the July 1, 2016 actuarial valuation as compared to previous valuations.

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined employer contributions	\$ 237,717	\$ 242,783	\$ 228,183	\$ 498,993	*	*	*	*	*	*
Contributions in relation to the actuarially determined employer contribution	216,175	233,375	504,625	546,060						
Employer contributions deficiency (excess)	<u>\$ 21,542</u>	<u>\$ 9,408</u>	<u>\$ (276,442)</u>	<u>\$ (47,067)</u>						
Covered - employee payroll	\$ 4,401,498	\$ 4,802,568	\$ 4,661,409	\$ 4,657,717						
Employer contributions as a percentage of covered - employee payroll	4.91%	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, 2025 for unfunded liability due to implementing sick leave assumptions; period ending June 30, 2019 for remaining unfunded liability.
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: RP2014 Total Employee and Health Annuitant Tables rolled back to 2006 and projected with Improvement Scale MP-2016. 2) Disabled lives: RP2014 Disabled Retiree Mortality Table rolled back to 2006 and projected with Improvement Scale MP-2016.

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

	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	14.41%	-0.03%	4.20%	17.02%

Notes to Schedule

The City adopted GASB 67 on a prospective basis in 2014; therefore only four 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

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 184,553	\$ 163,762	\$ 150,691	\$ 129,092
Interest	365,397	289,798	284,709	361,652
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	208,128	272,442	547,966	-
Changes of assumptions	8,466	629,333	412,208	6,519
Benefit payments, including refunds of employee contributions	(119,692)	(730,824)	(1,936,042)	(1,042,456)
Net change in total pension liability	646,852	624,511	(540,468)	(545,193)
Total pension liability - beginning	4,441,609	3,817,098	4,357,567	4,902,760
Total pension liability - ending (a)	\$ 5,088,461	\$ 4,441,609	\$ 3,817,099	\$ 4,357,567
Plan fiduciary net position				
Contributions - employer	\$ 816,700	\$ 607,175	\$ 306,400	\$ 327,700
Contributions - employee	140,432	133,306	131,038	150,324
Net investment income	355,875	14,062	93,470	529,028
Benefit payments, including refunds of employee contributions	(119,692)	(730,824)	(1,936,042)	(1,042,456)
Net change in plan fiduciary position	1,193,315	23,719	(1,405,134)	(35,404)
Plan fiduciary net position - beginning	2,116,395	2,092,676	3,497,811	3,533,215
Plan fiduciary net position - ending (b)	3,309,710	2,116,395	2,092,677	3,497,811
City's net pension liability - ending (a) - (b)	\$ 1,778,751	\$ 2,325,214	\$ 1,724,422	\$ 859,756
Plan fiduciary net position as a percentage of the total pension liability	65.04%	47.65%	54.82%	80.27%
Covered - employee payroll	\$ 2,075,507	\$ 1,867,549	\$ 1,993,618	\$ 2,130,502
City net pension liability as a percentage of covered - employee payroll	85.70%	124.51%	86.50%	40.35%

Notes to schedule

The City adopted GASB 67 on a prospective basis in 2014; therefore only four 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.

The City had a change in assumptions related to assumed mortality in the July 1, 2016 actuarial valuation as compared to previous valuations.

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined employer contributions	\$ 685,068	\$ 755,644	\$ 648,377	\$ 350,877	*	*	*	*	*	*
Contributions in relation to the actuarially determined employer contribution	816,700	607,175	306,400	327,700						
Employer contributions deficiency (excess)	<u>\$ (131,632)</u>	<u>\$ 148,469</u>	<u>\$ 341,977</u>	<u>\$ 23,177</u>						
Covered - employee payroll	\$ 2,075,507	\$ 1,867,549	\$ 1,993,618	\$ 2,130,502						
Employer contributions as a percentage of covered - employee payroll	39.35%	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, 2025 for unfunded liability due to implementing sick leave assumption; period ending June 30, 2019 for remaining unfunded liability.
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-2014 Total Employee and Healthy Annuitant Mortality Table rolled back to 2006 and projected with improvement Scale MP-2016. 2) Disabled lives: RP-2014 Disabled Retiree Mortality Table rolled back to 2006 and projected with improvement Scale MP-2016.

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

	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	13.91%	0.01%	2.93%	16.70%

Notes to Schedule

The City adopted GASB 67 on a prospective basis in 2014; therefore only four 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, 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%
July 1, 2016	-	5,037,073	5,037,073	0.0%	6,477,005	77.8%

Actuarial assumption:

Actuarial cost method: Projected unit credit
Participant data: Based on census information as of July 1, 2016

Amortization method: 30 years open percentage of pay basis

Valuation method: Projected unit credit

Actuarial trend assumption: Baseline medical trend rate applied to FY 2017 is 8.0%. This rate decreases by 0.25% per year to an ultimate rate of 4.5% in fiscal year 2026. Dental trend rate applied is 4.0%

Interest assumption: Discount rate of 4.0%

Salary increases: 4.0%

Interest rate: 4.0%

City of Havre de Grace, Maryland
Schedule 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		
Revenues				
Taxes	\$ 10,112,300	\$ 10,218,500	\$ 10,780,729	\$ 562,229
Licenses and permits	231,200	231,200	324,839	93,639
Intergovernmental	757,300	757,300	748,011	(9,289)
Fines and forfeitures	11,200	11,200	6,360	(4,840)
Charges for services	98,000	98,000	82,120	(15,880)
Grants	1,652,200	1,988,400	2,021,953	33,553
Miscellaneous	197,100	211,900	445,449	233,549
Total revenues	13,059,300	13,516,500	14,409,461	892,961
Expenditures				
Current:				
General government:				
Legislative	66,300	66,300	81,591	(15,291)
Executive	13,000	13,000	20,327	(7,327)
Finance	727,200	727,200	711,576	15,624
Elections	5,500	5,500	11,276	(5,776)
Legal	90,400	90,400	100,070	(9,670)
Planning and zoning	780,700	780,700	793,004	(12,304)
General services	2,551,600	2,566,400	5,459,808	(2,893,408)
Information technology	336,100	336,100	291,861	44,239
Public safety:				
Police	5,347,800	5,379,700	5,373,924	5,776
Legal	4,300	4,300	35,946	(31,646)
Ambulance	96,600	96,600	96,600	-
Fire	475,700	500,700	600,700	(100,000)
Public works:				
Public works	3,308,500	3,449,700	3,678,866	(229,166)
Shop operations	276,300	276,300	261,262	15,038
Sanitation	550,000	550,000	611,000	(61,000)
Parks, recreation, and culture:				
Civic and cultural contributions	277,900	337,900	330,491	7,409
Commissions	13,500	13,500	13,500	-
Economic development and opportunity				
Economic development	661,300	661,300	447,116	214,184
Tourism	-	-	-	-
Miscellaneous				
Insurance	124,700	124,700	111,196	13,504
Bad debts	-	-	(30,410)	30,410
Debt Service				
Principal reduction	356,400	371,400	382,731	(11,331)
Interest charges	194,800	123,000	123,657	(657)
Sub-total expenditures	16,258,600	16,474,700	19,506,092	(3,031,392)
Distributed expenses and administrative fees charged to other funds	(1,002,300)	(1,002,300)	(1,002,300)	-
Total expenditures	15,256,300	15,472,400	18,503,792	(3,031,392)
Excess of Revenues Over (Under) Expenditures	(2,197,000)	(1,955,900)	(4,094,331)	(2,138,431)
Other Financing Sources (Uses)				
Proceeds from bonds and notes	2,100,000	2,100,000	3,200,000	1,100,000
Transfers in (out)	326,000	247,900	247,632	(268)
Total Other Financing Sources (Uses)	2,426,000	2,347,900	3,447,632	1,099,732
Net Change in Fund Balance	229,000	392,000	(646,699)	(1,038,699)

OTHER SUPPLEMENTARY INFORMATION

City of Havre de Grace, Maryland
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2017

	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
Assets:							
Cash and cash equivalents	\$ 443,459	\$ 29,878	\$ 257,654	\$ 55,174	\$ 37,353	\$ 734	\$ 824,252
Receivables	16,441	-	-	-	-	-	16,441
Notes receivable, net of allowance for uncollectibles	<u>88,580</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>88,580</u>
Total Assets	548,480	29,878	257,654	55,174	37,353	734	929,273
Liabilities:							
Due to other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Liabilities	-	-	-	-	-	-	-
Fund balances:							
Nonspendable							
Long-term portion of RAD loans	88,580	-	-	-	-	-	88,580
Restricted:							
Community Development Block Grant	459,900	-	-	-	-	-	459,900
Promenade Repair	-	29,878	-	-	-	-	29,878
Critical Area	-	-	257,654	-	-	-	257,654
Slip Users	-	-	-	55,174	-	-	55,174
Local Law Enforcement Block Grant	-	-	-	-	37,353	-	37,353
Forest Conservation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>734</u>	<u>734</u>
Total fund balances	548,480	29,878	257,654	55,174	37,353	734	929,273
Total liabilities and fund balances	<u>\$ 548,480</u>	<u>\$ 29,878</u>	<u>\$ 257,654</u>	<u>\$ 55,174</u>	<u>\$ 37,353</u>	<u>\$ 734</u>	<u>\$ 929,273</u>

City of Havre de Grace, Maryland
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds
For the Year Ended June 30, 2017

	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
Revenues:							
Licenses and permits	\$ -	\$ 8,400	\$ -	\$ -	\$ -	\$ -	\$ 8,400
Fees	-	-	-	54,322	-	-	54,322
Interest	14,276	-	-	-	-	-	14,276
Miscellaneous	-	-	-	-	728	-	728
Total Revenues	14,276	8,400	-	54,322	728	-	77,726
Expenditures:							
Miscellaneous	(25,700)	-	-	-	-	-	(25,700)
Total Expenditures	(25,700)	-	-	-	-	-	(25,700)
Revenues over (under expenditures)	39,976	8,400	-	54,322	728	-	103,426
Other Financing Uses							
Transfers out	-	-	(40,732)	(175,000)	(31,900)	-	(247,632)
Total Other Financing Uses	-	-	(40,732)	(175,000)	(31,900)	-	(247,632)
Net Changes In Fund Balances	39,976	8,400	(40,732)	(120,678)	(31,172)	-	(144,206)
Fund Balances:							
Beginning of Year	508,504	21,478	298,386	175,852	68,525	734	1,073,479
End of Year	<u>\$ 548,480</u>	<u>\$ 29,878</u>	<u>\$ 257,654</u>	<u>\$ 55,174</u>	<u>\$ 37,353</u>	<u>\$ 734</u>	<u>\$ 929,273</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, 2017, 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 27, 2017.

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*.

Harrisburg

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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 27, 2017