

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Financial Statements

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Financial Statements
June 30, 2015 and 2014

Table of Contents

	Page(s)
Independent Auditors' Report	1–3
Management's Discussion and Analysis	4–8
Statements of Fund Net Position	9
Statements of Revenues, Expenses, and Changes in Fund Net Position	10
Statements of Cash Flow	11
Notes to Financial Statements	12–39



CITY OF BALTIMORE
Catherine E. Pugh
Mayor

DEPARTMENT OF AUDITS
Room 321, City Hall
Baltimore, Maryland 21202



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

The Mayor, City Council, Comptroller and
Board of Estimates
City of Baltimore, Maryland:

Report on the Financial Statements

We have audited the accompanying financial statements of the Wastewater Utility Fund (fund) of the City of Baltimore, Maryland, (City), which comprises the statements of net position as of June 30, 2015 and June 30, 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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, except as discussed in the following paragraph. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

The City Auditor did not have an external peer review by an unaffiliated audit organization as required by Chapter 3 of *Government Auditing Standards* at least once every three years. The last external peer review was for the period ending December 31, 2011. The City Auditor is in the process of engaging an unaffiliated audit organization to conduct an external peer review for the three-year period ending December 31, 2015.

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wastewater Utility Fund of the City of Baltimore, Maryland as of June 30, 2015 and June 30, 2014, and the changes in financial position, and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

Reporting Entity

As discussed in note 1.a, the financial statement present only the Wastewater Utility Fund and do not purport to, and do not, present fairly the financial position of the City of Baltimore, Maryland, as of June 30, 2015 and June 30, 2014, the changes in its financial position, or its cash flows for the years ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As discussed in note 1.c and note 13 to the financial statements, in fiscal year 2015, the fund implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, *Financial Reporting for Pension Plans* and Statement No. 71, *Pensions Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Robert L. McCarty Jr., CPA
City Auditor
Department of Audits
December 23, 2016

Independent Auditors

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Management's Discussion and Analysis

June 30, 2015 and 2014

(Unaudited)

This section of the City of Baltimore, Maryland's Wastewater Utility Fund (fund) financial statements presents our discussion and analysis of the fund's financial performance during the years ended June 30, 2015 and June 30, 2014.

Background

The fund, through its system of sanitary sewers, interceptors, pumping stations, and wastewater treatment facilities, provides for the treatment and disposal of sanitary sewage flow of approximately two-thirds of the population of the Baltimore metropolitan area. The wastewater system presently receives wastewater directly from Anne Arundel and Baltimore counties, as well as the City of Baltimore. In addition, portions of Anne Arundel and Howard counties discharge wastewater into the system through Baltimore County.

Highlights

- For fiscal year 2015, total operating revenues were \$216.4 million, which represents a decrease of 2.2% from the previous year's revenues. For fiscal year 2014, total operating revenues were \$221.2 million, which represents an increase of 20.5% from the previous year's revenues.
- Total operating expenses for fiscal year 2015 were \$163.7 million, an increase of \$1.6 million over fiscal year 2014 operating expenses of \$162.1 million.
- Net position increased in fiscal years 2015 and 2014 by \$225.6 million and \$163.2 million, respectively.

Overview of the Financial Statements

This report consists of three parts: 1) management's discussion and analysis (this section), 2) financial statements, and 3) notes to the financial statements.

The financial statements provide both long-term and short-term information about the fund's overall financial status. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the fund's financial statements.

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Management's Discussion and Analysis

June 30, 2015 and 2014

(Unaudited)

The fund's financial statements are prepared in conformity with accounting principles generally accepted in the United States as applied to governmental units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the statement of revenues, expenses, and changes in fund net position. All assets and liabilities associated with the operation of the fund are included in the statement of net position.

Analysis of Financial Position

(Expressed in thousands)

	June 30			Change	
	2015	2014	2013	2015-2014	2014-2013
Current and other assets	\$ 550,991	\$ 433,397	\$ 267,433	\$ 117,594	\$ 165,964
Capital assets	2,336,017	2,024,345	1,821,444	311,672	202,901
Deferred outflows of resources	45,770	26,514	27,239	19,256	(725)
Total assets and deferred outflows	\$ 2,932,778	\$ 2,484,256	\$ 2,116,116	\$ 448,522	\$ 368,140
Current liabilities	\$ 205,372	\$ 156,084	\$ 99,068	\$ 49,288	\$ 57,016
Noncurrent liabilities	1,118,591	884,434	736,463	234,157	147,971
Deferred inflows of resources	7,812	—	—	7,812	—
Total liabilities and deferred inflows	\$ 1,331,775	\$ 1,040,518	\$ 835,531	\$ 291,257	\$ 204,987
Net position:					
Invested in capital assets, net of related debt	\$ 1,540,041	\$ 1,347,263	\$ 1,172,110	\$ 192,778	\$ 175,153
Restricted	69,944	83,593	69,857	(13,649)	13,736
Unrestricted	(8,982)	12,882	38,618	(21,864)	(25,736)
Total net position	\$ 1,601,003	\$ 1,443,738	\$ 1,280,585	\$ 157,265	\$ 163,153

Analysis of Financial Position

Net position may serve as a useful indicator of the fund's financial position. For the fund, assets exceeded liabilities by \$1,601.0 million and \$1,443.7 million in fiscal years 2015 and 2014, respectively. The fund's net position includes its investment of \$1,540.0 million and \$1,347.3 million in capital assets (e.g., land, buildings, and equipment), which is net of any related outstanding debt used to acquire those assets, at the end of fiscal years 2015 and 2014, respectively. The fund uses these capital assets to provide wastewater services to citizens; consequently, these assets are not available for future spending.

Although the fund's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from customers of the fund through rates and charges, since the capital assets themselves cannot be liquidated for these liabilities. A portion of the fund's net position, \$69.9 million, represents restricted resources that are legally obligated for revenue bond repayment requirements for fiscal year 2015. The fund had unrestricted net position of (\$9.0) million and \$12.8 million as of June 30, 2015 and June 30, 2014, respectively.

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Management's Discussion and Analysis

June 30, 2015 and 2014

(Unaudited)

During fiscal years 2015 and 2014, the fund expended \$348.0 million and \$241.2 million for capital assets, respectively. These assets primarily represent facility enhancements to comply with environmental regulations. The assets were funded primarily through proceeds of revenue bonds of \$350.6 million (\$318.0 million issued difference due to premiums on sale, \$141.0 million utilized to refund existing debt) and \$320.0 million (\$296.0 million issued difference due to premium on sale, \$128.8 million utilized to refund existing debt) in fiscal years 2015 and 2014, respectively. In addition, the State of Maryland provided \$127.6 and \$70.6 in grant funding and the surrounding counties contributed \$59.0 and \$45.9 million in FY 2015 and FY 2014, respectively. Moody's Investor Services, Inc., and Standard & Poor's Rating Services show the utilities' bonds are rated Aa2 and AA for senior lien debt and Aa3 and AA – for subordinate lien debt, respectively.

Revenues, Expenses, and Changes in Fund Net Position

(Expressed in thousands)

	June 30			Change	
	2015	2014	2013	2015-2014	2014-2013
Operating revenues	\$ 216,428	\$ 221,181	\$ 183,521	\$ (4,753)	\$ 37,660
Operating expenses:					
Salaries and wages	34,761	37,441	38,760	(2,680)	(1,319)
Other personnel costs	19,257	17,753	17,354	1,504	399
Contractual services	58,617	59,370	59,877	(753)	(507)
Material and supplies	10,701	9,047	8,479	1,654	568
Minor equipment	463	382	745	81	(363)
Depreciation	39,904	38,083	36,794	1,821	1,289
Total operating expenses	<u>163,703</u>	<u>162,076</u>	<u>162,009</u>	<u>1,627</u>	<u>67</u>
Operating income	52,725	59,105	21,512	(6,380)	37,593
Nonoperating (expense), net	<u>(15,077)</u>	<u>(15,012)</u>	<u>(14,610)</u>	<u>(65)</u>	<u>(402)</u>
Income before capital contributions	37,648	44,093	6,902	(6,445)	37,191
Capital contributions	<u>187,944</u>	<u>119,060</u>	<u>104,325</u>	<u>68,884</u>	<u>14,735</u>
Change in net position	225,592	163,153	111,227	<u>\$ 62,439</u>	<u>\$ 51,926</u>
Total net position – beginning (as restated)	<u>1,375,411</u>	<u>1,280,585</u>	<u>1,169,358</u>		
Total net position – ending	<u>\$ 1,601,003</u>	<u>\$ 1,443,738</u>	<u>\$ 1,280,585</u>		

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**
Management's Discussion and Analysis
June 30, 2015 and 2014
(Unaudited)

Analysis of Revenues, Expenses, and Changes in Fund Net Position

The overall increase in the fund's net position amounted to \$225.6 million, and \$163.2 million, for fiscal years 2015, and 2014, respectively. These increases are due to improved operating margins that resulted from the implementation of a 11% and 15% wastewater rate increase in fiscal years 2015 and 2014, respectively to customers located in Baltimore City, offset by a decline in consumer consumption in 2014.

Capital Assets

The fund's capital assets as of June 30, 2015 and June 30, 2014, amounted to \$2,336.0 million and \$2,024.3 million (net of accumulated depreciation), respectively. Capital assets include land, equipment, buildings, improvements, construction in progress and infrastructure. Total increases in the fund's net capital assets for fiscal years 2015 and 2014 were \$311.7 million and \$202.9 million, respectively. These increases were funded primarily by issuance of revenue bonds. The following schedule presents the capital asset activities for fiscal years 2015 and 2014 (amounts expressed in thousands):

	Balance at June 30			Change	
	2015	2014	2013	2015-2014	2014-2013
Land, net	\$ 9,254	\$ 9,254	\$ 8,931	\$ —	\$ 323
Construction in progress	899,033	688,047	502,596	210,986	185,451
Buildings and improvements, net	1,237,632	1,153,541	1,167,353	84,091	(13,812)
Equipment, net	39,913	32,592	35,735	7,321	(3,143)
Infrastructure, net	150,185	140,911	106,829	9,274	34,082
Total capital assets, net	<u>\$ 2,336,017</u>	<u>\$ 2,024,345</u>	<u>\$ 1,821,444</u>	<u>\$ 311,672</u>	<u>\$ 202,901</u>

As of June 30, 2015 and June 30, 2014, the fund had commitments of \$653,760,000 and \$583,600,000, respectively for the acquisition and construction of capital assets. See note 4 for further information.

Debt Administration

For fiscal years 2015 and 2014, the fund had long-term obligations of \$1,078.6 million and \$894.0 million, respectively. These long-term obligations consisted primarily of revenue bonds, which are secured by revenue derived from the treatment of wastewater. During fiscal years 2015, and 2014, the fund's debt increased by \$184.6 million and \$164.3 million, respectively. See note 5 for further information.

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**
Management's Discussion and Analysis
June 30, 2015 and 2014
(Unaudited)

Economic Condition of the Wastewater Utility Fund

The fund is a large regional utility system that provides for the treatment and disposal of sanitary sewage flow for the diverse Baltimore metropolitan area, which includes Baltimore City, as well as portions of Baltimore, Anne Arundel, and Howard counties. Modest growth is expected in the future. The fund has ample long-term wastewater treatment capacity. The fund is currently under a consent decree with the U.S. Environmental Protection Agency to eliminate sanitary and combined sewer overflows. Although the fund is expected to make substantial investments in capital improvements to meet Clean Water Act and consent decree requirements, management expects continued good financial performance, including adequate debt service coverage and liquidity. In fiscal years 2015 and 2014, the City Board of Estimates approved annual rate increases of 11% and 15%, respectively for Baltimore City. Increased costs of wastewater service are passed along to the counties under the terms of agreements with Baltimore and Anne Arundel counties.

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Statements of Fund Net Position

June 30, 2015 and 2014

(Expressed in thousands)

	2015	2014
Assets and deferred outflow of resources:		
Current assets		
Cash and cash equivalents – operating	\$ 130,404	\$ 104,725
Accounts receivable, net:		
Service billings	46,496	46,354
Other	365	2
Due from other governments	50,235	47,890
Inventories	277	262
Restricted assets:		
Cash and cash equivalents	52,651	42,819
Total current assets	280,428	242,052
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents	143,643	124,572
Due from other governments	126,920	66,773
Capital assets, net of accumulated depreciation	1,427,730	1,327,044
Capital assets not being depreciated	908,287	697,301
Total noncurrent assets	2,606,580	2,215,690
Total assets	2,887,008	2,457,742
Deferred outflow of resources:		
Deferred loss on refundings	35,671	16,716
Deferred outflows related to difference between actual and expected experience (pension)	10,033	—
Interest rate swaps	66	9,798
Total deferred outflows of resources	45,770	26,514
Total assets and deferred outflows of resources	2,932,778	2,484,256
Liabilities and deferred inflows of resources:		
Current liabilities:		
Accounts payable and accrued liabilities	7,861	7,710
Accrued interest payable	21,166	17,868
Due to other governments	19,892	20,383
Compensated absences	2,913	2,867
Accounts payable from restricted assets	121,642	81,906
Capital leases	413	399
Revenue bonds payable	31,485	24,951
Total current liabilities	205,372	156,084
Noncurrent liabilities:		
Compensated absences	3,662	3,681
Capital leases	1,427	1,840
Derivative instrument liability	66	9,922
Net pension liability	66,344	—
Revenue bonds payable, net	1,047,092	868,991
Total noncurrent liabilities	1,118,591	884,434
Total liabilities	1,323,963	1,040,518
Deferred inflow of resources:		
Deferred inflow related to assumption change (pension)	7,812	—
Total deferred inflow of resources	7,812	—
Total liabilities and deferred inflows of resources	1,331,775	1,040,518
Net position:		
Net investment in capital assets	1,540,041	1,347,263
Restricted for:		
Debt service	69,944	83,593
Unrestricted	(8,982)	12,882
Total net position	\$ 1,601,003	\$ 1,443,738

See accompanying notes to financial statements.

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Statements of Revenues, Expenses, and Changes in Fund Net Position

Years ended June 30, 2015 and 2014

(Expressed in thousands)

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Charges for sales and services:		
Wastewater service	\$ 216,163	\$ 220,902
Rents, fees, and other income	265	279
Total operating revenues	<u>216,428</u>	<u>221,181</u>
Operating expenses:		
Salaries and wages	34,761	37,441
Other personnel costs	19,257	17,753
Contractual services	58,617	59,370
Materials and supplies	10,701	9,047
Minor equipment	463	382
Depreciation	39,904	38,083
Total operating expenses	<u>163,703</u>	<u>162,076</u>
Operating income	<u>52,725</u>	<u>59,105</u>
Nonoperating revenues (expenses):		
Loss on disposal of assets	(15)	—
Loss on sale of investments	33	(67)
Bond issuance costs	(334)	(508)
Interest income	880	659
Interest expense	(15,641)	(15,096)
Total nonoperating expenses, net	<u>(15,077)</u>	<u>(15,012)</u>
Income before capital contributions	37,648	44,093
Capital contributions	<u>187,944</u>	<u>119,060</u>
Change in net position	225,592	163,153
Total net position – beginning (as restated) (note 13)	<u>1,375,411</u>	<u>1,280,585</u>
Total net position – ending	<u>\$ 1,601,003</u>	<u>\$ 1,443,738</u>

See accompanying notes to financial statements.

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Statements of Cash Flow

Years ended June 30, 2015 and 2014

(Expressed in thousands)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Receipts from customers	\$ 215,922	\$ 214,404
Payments to employees	(57,850)	(55,381)
Payments to suppliers	(70,483)	(65,004)
Net cash provided by operating activities	<u>87,589</u>	<u>94,019</u>
Cash flow from capital and related financing activities:		
Proceeds from revenue bonds	263,416	275,015
Drawdown of proceeds from state issued revenue bonds	31,652	10,909
Principal paid on revenue bonds	(24,951)	(25,035)
Paid to escrow account for refunding of bonds	(154,902)	(131,599)
Interest received	880	659
Interest paid	(11,816)	(10,357)
Acquisition and construction of capital assets	(311,854)	(194,096)
Capital contributions received	185,600	119,285
Bond issuance cost paid	(334)	(508)
Capital lease payments	(399)	(389)
Swap termination payment	(10,332)	(12,415)
Net cash provided by (used in) capital and related financing activities	<u>(33,040)</u>	<u>31,469</u>
Cash flows from investing activities:		
Gain (loss) of sale of investments	33	(67)
Net cash provided by (used in) investing activities	<u>33</u>	<u>(67)</u>
Net increase in cash and cash equivalents	54,582	125,421
Cash and cash equivalents, beginning of year	272,116	146,695
Cash and cash equivalents, end of year	<u>\$ 326,698</u>	<u>\$ 272,116</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 52,725	\$ 59,105
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	39,904	38,083
Changes in assets and liabilities:		
Accounts receivable – service billings	(142)	(6,962)
Accounts receivable – other	(363)	185
Inventories	(15)	23
Deferred outflow pension	(10,033)	—
Due to/from other governments	(491)	2,579
Accounts payable and accrued liabilities	(195)	1,265
Accrued Salaries	343	—
Deferred inflow pension	7,812	—
Pension liability (current period)	(1,983)	—
Compensated absences	27	(259)
Total adjustments	<u>34,864</u>	<u>34,914</u>
Net cash provided by operating activities	<u>\$ 87,589</u>	<u>\$ 94,019</u>
Noncash activity from capital and related financing activities:		
Acquisition and construction of capital assets financed by debt	\$ 39,736	\$ 46,888
Increase in state issued revenue bonds	<u>\$ 91,799</u>	<u>\$ 44,923</u>

See accompanying notes to financial statements.

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The Wastewater Utility Fund (fund) is a separate utility in the Bureau of Water and Wastewater, one of the four bureaus in the City of Baltimore, Maryland's (City) Department of Public Works. In November 1978, the voters approved a Charter Amendment establishing the Wastewater Utility Fund as a separate reporting entity and requiring it to be financially self-sustaining and operated without profit or loss to the other funds or programs of the City.

These financial statements are only of the fund and are not intended to present the net position, changes in net position, or, where applicable, cash flows of the City.

(b) Basis of Presentation

The enterprise fund financial statements are reported using the economic resources management focus and are prepared on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Operating revenues result from the services provided by the fund, and all other revenue is considered nonoperating.

(c) New Government Accounting Standards Board Pronouncements

In fiscal year 2015, the City adopted Governmental Accounting Standards Board Statement No. 68, *Financial Reporting for Pension Plans* and Statement No. 71, *Pensions Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards did have a significant impact on the City's presentation and is further discussed in note 8 for Pension Plans. The fund restated the beginning fund balance for fiscal year 2015 financial statement purposes, but has elected to present fiscal year 2014 financial statements as originally presented.

(d) Cash and Cash Equivalents

The fund maintains its available cash in a cash and investment pool administered by the City. Such amounts are considered to be cash equivalents for purposes of the Statements of Cash Flows. To optimize investment returns, the fund's cash is invested together with all other City pooled funds, all of which are fully insured or collateralized. The City allocates, on a monthly basis, any investment earnings based on the fund's average balance in pooled cash and investments, less an administrative charge. Cash and cash equivalents include demand deposits, as well as short-term investments with a maturity date within three months of the date acquired by the fund.

The Fund's unrestricted (operating and capital) and restricted cash is recorded in the general ledger accounts "due to/due from fund" and Renovation Account; and "M&T Trust Accounts" (referred to in the general ledger as Principal, Interest, Construction and Debt Service Reserve), respectively. Cash equivalents result from short-term investments made by M&T Bank, to maximize interest earnings, for the various trust account they manage on behalf of the Fund. The trust accounts fund future capital asset construction, the debt service reserve, the renovation account (for surplus operating/unrestricted funds) and pay principal and interest on capital asset financing. The renovation account is included in

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

the "Statement of Net Position" as unrestricted cash and cash equivalents, while the remaining trust accounts are classified as current & noncurrent restricted cash and cash equivalents.

(e) Investments

Investments are reported at fair value on the date of the statement of net position, based on market prices. Investments with maturities of less than one year from purchase date are reported at cost, which approximates fair value, and are presented as cash equivalents in the accompanying financial statements.

(f) Swaps

Interest rate swaps are entered into to take advantage of lower cost interest rates, through conversion of variable rate to fixed rates and fixed rate to variable rates. Swap related transactions are recorded as payments are received and made and adjusted to fair value at the end of the year. Note 6 provides more information on these types of financing arrangements.

(g) Inventories

Inventories are stated at cost, using the moving average cost method.

(h) Service Billings Accounts Receivable

Unbilled wastewater user charges are estimated and accrued at year-end. They are included as service billing accounts receivable on the "Statement of Net Position", and as sewer service revenue on the "Statement of Revenues, Expenses and Changes in Net Position". See note 3 for details on the allowance for doubtful accounts.

(i) Restricted Cash

The proceeds of the Fund's revenue bonds are retained in a construction trust account with M&T Bank for the purpose of constructing wastewater facilities. There are additional trust accounts with M&T Bank for the repayment of principal and interest requirements on long-term debt.

(j) Due from Other Governments

The unrestricted portion of due from other governments consists of construction progress billing to local jurisdictions with cost sharing agreements. The restricted portion includes financial proceeds that the Maryland Department of the Environment (Water Quality Financing Administration) have made available to the City for specific capital improvements. The City bills MDE as costs are incurred. The City deems these receivables to be fully collectible based on historical collections.

(k) Accounts Payable from Restricted Assets

Restricted accounts payable include retainage to be refunded to vendors once the project has been completed and approved by the City. These are paid from restricted funds since the project revenues are Grants or cost sharing agreements with other jurisdictions.

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

(l) Use of Restricted Net Position

When an expense is incurred for which restricted and unrestricted resources are available to pay the expense, it is the fund's policy to apply the expense first to restricted resources, then to unrestricted resources.

(m) Capital Assets

Purchased or constructed capital assets are reported at historical cost. Capitalization thresholds are \$50,000 for buildings and improvements; and \$5,000 for equipment.

Capital assets are depreciated using the straight-line method over the estimated useful lives, as follows:

Buildings	50 years
Improvements	20–50 years
Equipment	2–25 years
Mobile equipment	5–10 years
Infrastructure	50 years

(n) Gains and Losses on Extinguishment of Debt from Refundings

Gains and losses on the early extinguishment of debt are amortized over the shorter of the life of the new or old debt.

FY 2015

On December 3, 2014, the City issued wastewater revenue bonds, Series 2014 C, 2014 D, 2014 E, in the amount of \$87,815,000, \$115,520,000, and \$22,850,000, respectively, and totaling \$226,185,000. Of this amount, \$87,815,000 were issued for various capital projects, and \$138,370,000 were refunding bonds that current refunded certain outstanding maturities totaling, \$29,000,000, and advanced refunded certain outstanding maturities totaling, \$111,975,000. A majority of the savings facilitated the refunding of the City's auction rate debt portfolio and the termination of the underlying interest rate exchange agreements. Interest on the bonds is due July 1st and January 1st, and mature between 2015 and 2044 depending on the particular series.

The Series 2014 wastewater refunding revenue bonds reduced total debt service payments by approximately \$2,746,000, to obtain an economic gain of \$1,505,000. Of this amount, \$10,332,000 was used to reduce derivative swap exposure.

FY 2014

On December 3, 2013, the fund issued Wastewater Revenue Bonds, Series 2013-C, 2013-D, and 2013-E in the amounts of \$123,750,000, \$100,860,000, and \$26,405,000, respectively, and totaling \$251,015,000. Of these amounts \$123,750,000 were issued for various capital projects, and \$127,265,000 were refunding bonds that refunded certain maturities totaling \$118,995,000, and advanced refunded certain outstanding maturities totaling \$9,785,000.

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

The Series 2013 Wastewater Refunding Revenue Bond issuance reduced total debt service payments by approximately \$444,000, to obtain an economic gain of approximately \$238,000. Additionally, the City used \$13,128,000 to reduce its derivative swap exposure.

(o) *Compensated Absences*

The liability for compensated absences reported in the fund statements consists of unpaid, accumulated annual sick, vacation and personal leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such upon termination are included. Payments made to terminated employees for accumulated leave are charged as expenditures/expenses, primarily in the fund when paid.

Employees earn one day of sick leave for each completed month of service; there is no limitation on the number of sick leave days that may be accumulated. A portion of unused sick leave earned annually during each twelve month base period may be converted to cash for a maximum of three days, computed on an attendance formula.

Upon retirement with pension benefits, or termination of employment after completion of twenty or more years of service without pension benefits, employees receive either one day's pay for every three or four sick leave days accumulated, depending on union affiliation, and unused as of the date of separation; under any other conditions of separation, unused sick leave is forfeited. At June 30, 2015, it is estimated that accumulated nonvested sick leave for the fund approximated \$5,987,000. Sick leave benefit expenses are recorded as a percent of conversion value based on years of service, with a maximum of 100% for employees with twenty years or more of service.

Employees can accumulate a maximum of 224 vacation and personal leave days depending upon length of service, which may be taken either through time off or carried until paid upon termination or retirement. Accumulated vacation and personal leave expenses are recorded when leave is earned.

The total vacation, personal leave, and conversion value of unused sick leave recorded as a liability for compensated absences at June 30, 2015 and June 30, 2014 is \$6,575,000 and \$6,548,000, respectively.

Effective July 1, 2015, the City will implement a new policy decreasing the amount of accrued vacation and personal leave that can be accumulated by the employees. This change in policy will have a significant impact on compensated absences beginning in fiscal year 2016.

(p) *Due to Other Governments*

Effective January 1, 2005, the State of Maryland implemented a Bay Restoration Fee to provide funding for the upgrade of Wastewater treatment facilities in the State. The fee is collected quarterly by the local government and remitted to the State. At June 30, 2015 and June 30, 2014, the fund held \$19,892,000 and \$20,383,000 respectively, in fees due to the State.

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

(q) Long Term Debt Obligation

Consist of revenue bonds, which include long term borrowings from the Maryland Water Quality Financing Administration.

(r) Capital Contributions

Consist of federal or state grants, and cost reimbursements from the surrounding counties (i.e., primarily Baltimore County) for capital projects. Grant funding for capital projects is reflected in the "statements of revenues, expenses, and changes in fund net position" as a capital contribution.

(s) Net Position

The composition of the fund balance for the fund consists of the following:

Net Investment in Capital Assets

Capital assets (e.g. land, buildings, equipment, etc.) less any related outstanding debt used to acquire those assets as of the end of the fiscal year.

Restricted for Debt Service

Represents those funds maintained in trust accounts at M&T Bank that are legally obligated for the repayment of principle and interest on long-term debt.

Unrestricted

Residual fund balance not included in the above categories.

(2) Deposits and Investments

The fund participates in the City's pooled cash account. At June 30, 2015 and June 30, 2014, the fund's share of the City's pooled cash account, including both restricted and unrestricted cash, was \$120.3 million and \$94.3 million, respectively. All of the City's pooled cash deposits are either insured through the Federal Depository Insurance Corporation or collateralized by securities held in the name of the City by the City's agent.

For other than pension funds, the City is authorized by state law to invest in direct or indirect obligations of the United States Government, repurchase agreements that are secured by direct or indirect obligations of the United States Government, certificates of deposit, commercial paper with highest letter and numerical rating, and mutual funds registered with the Securities and Exchange Commission. The City's investment policy limits the percentage of certain types of securities, with the exception of obligations for which the United States Government has pledged its full faith and credit. For investments held by the City in trust and/or to secure certain debt obligations, the City complies with the terms of the trust agreements. The City's Board of Finance has formally adopted the above policies and reviews and approves all security transactions.

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

The fund's investments at June 30, 2015 and June 30, 2014 are presented in the following table. All investments are presented by investment type, and debt securities are presented by maturity (amounts expressed in thousands):

	Fair value	Investment maturities by months	
		Less than 6	6 to 12
June 30, 2015 investment type:			
Debt securities:			
U.S. agencies	\$ 13,831	\$ —	\$ 13,831
Money market mutual funds	72,183	72,183	—
Blackrock Liquidity fund	73,395	73,395	—
Federated government obligation fund	47,710	47,710	—
	<u>207,119</u>	<u>\$ 193,288</u>	<u>\$ 13,831</u>
Less cash equivalents	<u>207,119</u>		
Total investments	<u>\$ —</u>		

	Fair value	Investment maturities by months	
		Less than 6	6 to 12
June 30, 2014 investment type:			
Debt securities:			
U.S. agencies	\$ 105	\$ 84	\$ 21
Money market mutual funds	89,355	89,355	—
Federated government obligation fund	88,045	88,045	—
	<u>177,505</u>	<u>\$ 177,484</u>	<u>\$ 21</u>
Less cash equivalents	<u>177,505</u>		
Total investments	<u>\$ —</u>		

Interest rate risk – Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of the investments.

The City limits its interest rate risk in accordance with the City's Board of Finance policy by maintaining a minimum of 20% of the City's investment in funds in liquid investments, to include United States Government securities, overnight repurchase agreements, and by limiting the par value of the portfolio invested for a period greater than one year at or below \$100 million. The fund is in compliance with this policy.

Credit risk of debt securities – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

As discussed above, the City's Board of Finance limits City investments to only the highest rated investments in the categories discussed above. The fund's portions of the City's rated debt investments as of June 30, 2015 were rated by a nationally recognized statistical rating agency, and are presented below using the Standard and Poor's rating scale (amounts expressed in thousands):

Investment type	June 30, 2015			
	Fair value	Quality ratings		
		AA+	AAA	A1
Debt securities:				
U.S. agencies:				
Federal home loan mortgage association note	\$ 13,831	\$ 13,831	\$ —	\$ —
Money market mutual funds:				
Wilmington U.S. government money market fund	72,183	—	72,183	—
Blackrock liquidity fund	73,395	—	73,395	—
Federal government obligation fund	47,710	—	47,710	—
Total rated debt investments	<u>\$ 207,119</u>	<u>\$ 13,831</u>	<u>\$ 193,288</u>	<u>\$ —</u>

Investment type	June 30, 2014			
	Fair value	Quality ratings		
		AA+	AAA	A1
Debt securities:				
U.S. agencies:				
Federal home loan mortgage association note	\$ 105	\$ 105	\$ —	\$ —
Money market mutual funds:				
Wilmington U.S. government money market fund	89,355	—	—	89,355
Federal government obligation fund	88,045	—	88,045	—
Total rated debt investments	<u>\$ 177,505</u>	<u>\$ 105</u>	<u>\$ 88,045</u>	<u>\$ 89,355</u>

The fund did not have any debt securities investments at June 30, 2015 and 2014 that were more than five percent of total investments.

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

(3) Accounts Receivable, net

An allowance for doubtful accounts is recorded for accounts that are delinquent at least 260 days. Accounts receivable are shown net of an allowance of \$9,968,000 and \$14,282,000 as of June 30, 2015 and June 30, 2014, respectively. The allowance is calculated based on accounts that are both over \$200 and greater than 260 days old.

Penalty income derived from delinquent Baltimore City Water, Wastewater & Storm Water billings were credited exclusively to the Water Utility Fund, since all billings costs including's customer service costs attributable to billing inquiries were paid by the Water Utility Fund.

(4) Capital Assets

Capital assets activities for the years ended June 30, 2015 and 2014 were as follows (expressed in thousands):

	Balance June 30, 2014	Additions	Deductions	Balance June 30, 2015
Capital assets, not being depreciated:				
Land	\$ 9,254	\$ —	\$ —	\$ 9,254
Construction in progress	688,047	347,993	137,007	899,033
Total capital assets, not being depreciated	<u>697,301</u>	<u>347,993</u>	<u>137,007</u>	<u>908,287</u>
Capital assets, being depreciated:				
Buildings and improvements	1,666,410	117,323	—	1,783,733
Equipment	125,748	10,976	1,210	135,514
Infrastructure	145,406	12,305	—	157,711
Total capital assets, being depreciated	<u>1,937,564</u>	<u>140,604</u>	<u>1,210</u>	<u>2,076,958</u>
Less accumulated depreciation for:				
Buildings and improvements	512,869	33,232	—	546,101
Equipment	93,156	3,640	1,195	95,601
Infrastructure	4,495	3,031	—	7,526
Total accumulated depreciation	<u>610,520</u>	<u>39,903</u>	<u>1,195</u>	<u>649,228</u>
Total capital assets, being depreciated, net	<u>1,327,044</u>	<u>100,701</u>	<u>15</u>	<u>1,427,730</u>
Total capital assets, net	<u>\$ 2,024,345</u>	<u>\$ 448,694</u>	<u>\$ 137,022</u>	<u>\$ 2,336,017</u>

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 8,931	\$ 323	\$ —	\$ 9,254
Construction in progress	502,596	240,898	55,447	688,047
Total capital assets, not being depreciated	511,527	241,221	55,447	697,301
Capital assets, being depreciated:				
Buildings and improvements	1,648,337	18,073	—	1,666,410
Equipment	125,235	513	—	125,748
Infrastructure	108,782	36,624	—	145,406
Total capital assets, being depreciated	1,882,354	55,210	—	1,937,564
Less accumulated depreciation for:				
Buildings and improvements	480,984	31,885	—	512,869
Equipment	89,500	3,656	—	93,156
Infrastructure	1,953	2,542	—	4,495
Total accumulated depreciation	572,437	38,083	—	610,520
Total capital assets, being depreciated, net	1,309,917	17,127	—	1,327,044
Total capital assets, net	\$ 1,821,444	\$ 258,348	\$ 55,447	\$ 2,024,345

Interest is capitalized on assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest cost incurred from same period. During fiscal years 2015 and 2014, interest cost of \$21,158,000 and \$16,502,000, respectively (net of interest earned of \$392,800 and \$1,013,000 respectively), was capitalized.

At June 30, 2015, the fund had outstanding commitments for construction of \$653,760,000.

(5) Long-Term Obligations

The City does not have a debt limit; however, the Constitution of Maryland requires a three-step procedure for creation of debt by the City of Baltimore:

- Act of the General Assembly of Maryland or resolution of the majority of Baltimore City delegates
- Ordinance of the Mayor and City Council of Baltimore
- Ratification by the voters of the City of Baltimore

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

Changes in long-term obligations for the years ended June 30, 2015 and June 30, 2014 are as follows (amounts expressed in thousands):

	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015	Amounts due within one year
Revenue bonds	\$ 859,678	\$ 317,984	\$ 165,927	\$ 1,011,735	\$ 31,485
Add bond premium	34,264	37,231	4,653	66,842	—
Total revenue bonds payable	<u>\$ 893,942</u>	<u>\$ 355,215</u>	<u>\$ 170,580</u>	<u>\$ 1,078,577</u>	<u>\$ 31,485</u>
Capital lease	<u>\$ 2,239</u>	<u>\$ —</u>	<u>\$ 399</u>	<u>\$ 1,840</u>	<u>\$ 413</u>
Compensated absences	<u>\$ 6,548</u>	<u>\$ 27</u>	<u>\$ —</u>	<u>\$ 6,575</u>	<u>\$ 2,913</u>

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	Amounts due within one year
Revenue bonds	\$ 717,555	\$ 295,938	\$ 153,815	\$ 859,678	\$ 24,951
Add bond premium	12,109	24,126	1,971	34,264	—
Total revenue bonds payable	<u>\$ 729,664</u>	<u>\$ 320,064</u>	<u>\$ 155,786</u>	<u>\$ 893,942</u>	<u>\$ 24,951</u>
Capital lease	<u>\$ 2,628</u>	<u>\$ —</u>	<u>\$ 389</u>	<u>\$ 2,239</u>	<u>\$ 399</u>
Compensated absences	<u>\$ 6,808</u>	<u>\$ —</u>	<u>\$ 260</u>	<u>\$ 6,548</u>	<u>\$ 2,867</u>

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

The City has issued revenue bonds, the proceeds of which were used to provide funds for capital improvements to Wastewater facilities. Certain assets and revenues of the fund are pledged as collateral for the bonds and notes. During fiscal year 2015, the City issued Wastewater Revenue Bonds, Series 2014-C, 2014-D, and 2014-E, which totaled \$317,984,000. A portion of these bonds was used to refund term bonds Series 2006-C, 2007-D, 2008-A, and 2009-C, serial bonds Series 2005-B, 2006-C, 2007-D and 2008-A, and auction rate notes Series 2002-B and 2002-C. Bonds and notes outstanding as of June 30 consist of (amounts expressed in thousands):

	2015	2014
Serial bonds series 1994-B maturing in a final annual installment of \$406,000 on February 1, 2015, with interest rate at 2.25%, payable semiannually	\$ —	\$ 406
Serial bonds series 1994-C maturing in a final annual installment of \$387,000 on February 1, 2015, with interest rate at 2.5%, payable semi-annually	—	387
Serial bonds series 1994-D maturing in a final annual installment of \$295,000 on February 1, 2015, with interest rate at 3.6%, payable semiannually	—	295
Serial bonds series 1996-B maturing in annual installments from \$148,000 to \$208,000 through February 1, 2017, with interest rate at 3.17%, payable semiannually	410	606
Serial bonds series 1998-A maturing in annual installments from \$287,000 to \$414,000 through February 1, 2019, with interest rate at 2.87%, payable semiannually	1,388	1,759
Serial bonds series 1999-A maturing in annual installments from \$122,000 to \$167,000 through February 1, 2019, with interest rate at 2.52%, payable semiannually	628	771
Serial bonds series 1999-B maturing in annual installments from \$433,000 to \$652,000 through February 1, 2021, with interest rate at 2.61%, payable semiannually	3,112	3,671
Serial bonds series 2001-A maturing in annual installments from \$569,000 to \$819,000 through February 1, 2022, with interest rate at 2.3%, payable semiannually	5,171	5,870
Serial bonds series 2002-A maturing in annual installments from \$1,145,000 to \$1,660,000 through July 1, 2021, with variable interest through July 1, 2016 and a fixed rate of 4.85 – 5.0% thereafter, payable semiannually	2,520	4,560
Serial bonds series 2003-B maturing in annual installments from \$308,000 to \$984,000 through February 1, 2024, with interest rate at 0.40%, payable semiannually	2,557	2,876
Serial bonds series 2004-B maturing in annual installments from \$586,000 to \$972,000 through February 1, 2022, with interest rate at 0.45%, payable semiannually	6,321	7,270
Serial bonds series 2004-C maturing in annual installments from \$846,000 to \$984,000 through February 1, 2024 with interest rate at 0.25%, payable semiannually	8,038	8,914

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Serial bonds series 2005-A maturing in annual installments from \$984,000 to \$1,030,000 through February 1, 2024 with interest rate at 0.25%, payable semiannually	\$ 8,799	\$ 9,866
Serial bonds series 2005 – B maturing in annual installments from \$940,000 to \$1,480,000 through July 1, 2025 with interest rates of 3.25% to 5.0%, payable semiannually	975	4,820
Serial bonds series 2006-A maturing in annual installments from \$495,000 to \$1,548,000 through February 1, 2025 with interest rate at 0.40%, payable semiannually	14,210	15,704
Serial bonds series 2006-B maturing in annual installments from \$338,000 to \$362,000 through February 1, 2026 with interest rate at 0.40%, payable semiannually	3,728	4,074
Serial bonds series 2006-C maturing in annual installments from \$990,000 to \$2,090,000 through July 1, 2026, with interest rates of 4.0% to 5.0%, payable semiannually	2,560	17,750
Serial bonds series 2007-A maturing in annual installments from \$1,833,000 to \$2,184,000 through February 1, 2026, with interest rate at 0.4%, payable semiannually	23,068	25,158
Serial bonds series 2007-C maturing in annual installments from \$35,000 to \$3,935,000 through July 1, 2027, with interest rates of 3.6% to 4.5%, payable semiannually	10,815	10,865
Serial bonds series 2007 – B maturing in annual installments from \$134,000 to \$161,000 through February 1, 2027, with interest rate at 0.4%, payable semiannually	1,893	2,047
Serial bonds series 2007-D maturing in annual installments from \$1,890,000 to \$4,330,000 through July 1, 2027, with interest rate at 5.0%, payable semiannually	7,600	44,995
Serial bonds series 2008-A maturing in annual installments from \$475,000 to \$1,005,000 through July 1, 2028, with interest rates of 2.00% to 5.00%, payable semiannually	14,570	23,630
Serial bonds series 2009-A maturing in annual installments of \$426,167 through February 1, 2029 with interest rate at 0%	5,966	6,393
Serial bonds series 2009-B maturing in annual installments of \$91,149 through February 1, 2029, with interest rate at 0.0%	1,284	1,375
Serial bonds series 2009-C maturing in annual installments from \$370,000 to \$570,000 through July 1, 2022, with interest rates of 2.00% to 4.50% payable semiannually	5,665	6,270
Term bonds series 1993-A with interest at 5.65%, payable semiannually, due July 1, 2020	12,300	14,000
Term bonds series 1994-A with interest at 6.0%, payable semiannually, due July 1, 2015	830	1,615
Term bonds series 1994-A with interest at 5.0%, payable semiannually, due July 1, 2022	7,115	7,115

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

	2015	2014
Term bonds series 2006-C with interest at 5.0%, payable semiannually, due July 1, 2029	\$ —	\$ 6,920
Term bonds series 2007-C with interest at 4.5%, payable semiannually, due July 1, 2032	29,795	29,795
Term bonds series 2007-C with interest at 4.5%, payable semiannually, due July 1, 2036	19,255	19,255
Term bonds series 2007-D with interest at 5.0%, payable semiannually, due July 1, 2032	—	25,120
Term bonds series 2007-D with interest at 5.0%, payable semiannually, due July 1, 2037	20,160	32,050
Term bond series 2008-A with interest at 5.0%, payable semiannually, due July 1, 2033	7,675	12,205
Term bond series 2008-A with interest at 5.0%, payable semiannually, due July 1, 2038	15,575	15,575
Term bonds series 2009-C with interest at 5.00%, payable semiannually, due July 1, 2024	—	1,720
Term bonds series 2009-C with interest at 5.00%, payable semiannually, due July 1, 2029	3,215	5,115
Term bonds series 2009-C with interest at 5.125% payable semiannually, due July 1, 2034	6,545	6,545
Term bonds series 2009-C with interest at 5.625% payable semiannually, due July 1, 2039	8,490	8,490
Auction rate notes series 2002-B, payable monthly, due July 1, 2032	—	9,600
Auction rate notes series 2002-C, payable monthly, due July 1, 2032	—	19,400
Serial bonds series 2009-E maturing in annual installment of \$157,842 from February 1, 2015 through February 1, 2032, with an interest rate of 0.00%	2,683	2,841
Serial bonds series, 2011-A maturing in annual installments of \$915,000 to \$3,940,000 through February 1, 2031 with interest rates from 2.00% to 5.00%	46,855	48,610

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

	2015	2014
Serial bonds series, 2011-B maturing in annual installments of \$168,332 to \$203,363 from February 1, 2015 through February 1, 2033, with interest rates from 1.00%	\$ 3,368	\$ 3,538
Term bond series 2011-A with interest at 5.00%, payable semiannually, due July 1, 2036	22,870	22,870
Term bond series 2011-A with interest at 5.00%, payable semiannually, due July 1, 2041	29,185	29,185
Serial bonds series, 2013-A maturing in annual installments of \$1,558,483 to \$1,798,836 from February 1, 2016 through February 1, 2034, with interest rate of 0.80%, payable semiannually	31,844	31,844
Serial bonds series, 2013-C maturing in annual installments of \$1,160,000 to \$4,725,000 from July 1, 2014 through July 1, 2033, with interest rates from 3.00% to 5.00% payable semiannually	60,170	61,330
Term bond series 2013-C with interest at 5.00%, payable semiannually, due July 1, 2038	27,420	27,420
Term bond series 2013-C with interest at 5.00%, payable semiannually, due July 1, 2043	35,000	35,000
Serial bonds series, 2013-D maturing in annual installments of \$45,000 to \$3,640,000 from July 1, 2014 through July 1, 2033, with interest rates from 3.00% to 5.00% payable semiannually	70,135	70,180
Term bond series 2013-D with interest at 5.00%, payable semiannually, due July 1, 2038	14,835	14,835
Term bond series 2013-D with interest at 5.00%, payable semiannually, due July 1, 2042	15,845	15,845
Serial bonds series, 2013-E maturing in annual installments of \$20,000 to \$3,300,000 from July 1, 2014 through July 1, 2026, with interest rates from 3.00% to 5.00% payable semiannually	26,385	26,405
Serial bonds series, 2014-A maturing in annual installments of \$2,040,192 to \$2,464,774 from February 1, 2016 through February 1, 2035, with interest rates at 1.00% payable semiannually	44,923	44,923
Serial bonds series, 2014-D maturing in annual installments of \$1,125,000 to \$5,650,000 through July 1, 2034, with interest rates from 2.00% to 5.00% payable semiannually	43,555	—
Term bond series 2014-C with interest at 5.00%, payable semiannually, due July 1, 2039	19,445	—
Term bond series 2014-C with interest at 5.00%, payable semiannually, due July 1, 2044	24,815	—

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

	2015	2014
Serial bonds series, 2014-D maturing in annual installments of \$1,125,000 to \$5,650,000 through July 1, 2034, with interest rates from 3.00% to 5.00% payable semiannually	\$ 115,520	\$ —
Serial bonds series, 2014-E maturing in annual installments of \$165,000 to \$3,935,000 through July 1, 2032, with interest rates from 2.00% to 5.00% payable semiannually	22,850	—
Serial bonds series, 2015-A maturing in annual installment of \$954,000 to \$1,122,000 beginning February 1, 2017 through February 1, 2035, with interest rates of 0.90%, payable semiannually	19,696	—
Serial bonds series, 2015-B maturing in annual installment of \$3,307,000 to \$3,920,000 beginning February 1, 2018 through February 1, 2037, with interest rates of 0.90%, payable semiannually	72,103	—
	1,011,735	859,678
Unamortized bond premium	66,842	34,264
	\$ 1,078,577	\$ 893,942

At June 30, 2015 and June 30, 2014, the fund had zero and \$29,000,000 of auction rate notes, respectively. Interest rates for these notes are determined every 7 days. In the event of a failed auction, the auction agent assesses the failed auction rate to the issuers of the notes. Interest paid under these conditions is currently limited to 150% of the nonfinancial commercial paper rate depending on the rating of each bond issue. The failed auction rate on these notes during the fiscal year was less than 1%.

Principal maturities and interest on revenue bonds, shown at gross, are as follows (amounts expressed in thousands):

	Principal	Interest	Interest rate swap net ^(a)
Fiscal year:			
2016	\$ 31,485	\$ 39,127	\$ (23)
2017	33,886	37,597	(8)
2018	37,449	36,596	—
2019	38,349	35,521	—
2020	38,988	34,373	—
2021–2025	193,645	153,471	—
2026–2030	198,156	118,689	—
2031–2035	215,597	76,247	—
2036–2040	145,445	35,723	—
2041–2045	78,735	7,901	—
	\$ 1,011,735	\$ 575,245	\$ (31)

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

- (a) Interest rate swap net payments represent estimated payments for additional interest resulting from swap agreements to counterparties. The additional payments were computed using rates as of June 30, 2009, assuming current interest rates remain the same for the entire term of the bonds. As rates vary, variable rate bond interest payments and net swap payments will vary.

The fund has various revenue bond covenants that generally require the fund to maintain rates sufficient to meet the operating requirements of the fund and an operating reserve as defined in the revenue bond indentures. As of June 30, 2015, the rate requirements were met, and management believes the fund is in compliance with all significant requirements of the indentures.

Pledged Revenue

The fund has pledged future customer revenues to repay \$1,011,735,000 and \$859,678,000 of revenue bond debt at June 30, 2015 and June 30, 2014, respectively. Proceeds from these revenue bonds were used to build and improve various aspects of the City's wastewater utility systems. The bonds are payable solely from the revenues of the fund and are payable through 2044. Annual principal and interest payments on these revenue bonds are expected to require 65.7% of pledged revenues. Total principal and interest, remaining to be paid on the revenue bonds for the fund is \$1,586,949,000 and \$1,377,223,000 at June 30, 2015 and June 30, 2014, respectively. Principal and interest paid for the current year and current pledged revenue for the fund were \$58,103,000 and \$88,249,000 respectively. While principal and interest and pledged revenue for fiscal year 2014 were \$51,224,000 and \$97,188,000, respectively.

(6) Interest Rate Swaps

(a) Objectives of the Swaps

The fund enters into swaps for three reasons: First, the majority of its swaps have been used to create synthetic fixed rate financings (by issuing floating rate bonds and swapping them to fixed) as a way to provide lower cost fixed rate financing to meet the City's capital needs. Second, the City has used swaps from fixed to floating to help the City manage its balance sheet for an appropriate mix of fixed and floating rate exposure. And, third, the City has used basis swaps to amend the floating rate on certain of its existing synthetic fixed rate swaps in order to provide a better hedge on the underlying floating rate bonds.

(b) Terms, Fair Value, and Credit Risk

The terms, fair value, and credit risk rating of the outstanding swaps, as of June 30, 2015, are presented in the following table. The notional amounts of the swaps match the principal amount of the associated debt. The City's swap agreements contain scheduled reductions to outstanding notional amounts that are designed to track the scheduled or anticipated reductions in the associated "bonds payable" category.

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

(c) Hedged Derivative Instruments

At June 30, 2015 and June 30, 2014, the fund had deferred outflows for various hedged derivative instruments with total fair values of these instruments in the amount of (\$66,000) and (\$9,798,000), respectively. The notional amounts for these hedged derivative instruments at June 30, 2015 and June 30, 2014 were \$2,520,000 and \$33,560,000, respectively. During fiscal years 2015 and 2014, the fair values of these instruments increased \$9,732,000 and \$14,803,000, respectively. All hedges are cash flow hedges. The following schedule provides a detailed analysis of derivative instruments held at June 30, 2015 and 2014:

Outstanding bonds	Effective date	Termination date	Interest rate paid by city	June 30, 2015		Fair value	Counterparty credit rating
				Interest rate received	Notional amount		
Floating to fixed swaps							
2002 revenue bonds	5/7/2002	7/1/2015	4.50%	CPI-Base Rate	\$ 1,240,000	\$ (23,154)	A-/A3
2002 revenue bonds	5/7/2002	7/1/2016	4.61	CPI-Base Rate	1,280,000	(43,049)	A-/A3
Total swaps outstanding					\$ 2,520,000	\$ (66,203)	

Outstanding bonds	Effective date	Termination date	Interest rate paid by city	June 30, 2014		Fair value	Counterparty credit rating
				Interest rate received	Notional amount		
Floating to fixed swaps							
2002 revenue bonds	5/7/2002	7/1/2032	4.55%	67% LIBOR	\$ 29,000,000	\$ (9,764,208)	A-/Baa2
2002 revenue bonds	5/7/2002	7/1/2014	4.39	CPI	2,040,000	(5,412)	A-/Baa2
2002 revenue bonds	5/7/2002	7/1/2015	5.00	CPI	1,240,000	(9,439)	A-/Baa2
2002 revenue bonds	5/7/2002	7/1/2016	4.61	CPI	1,280,000	(19,345)	A-1Baa2
Total swaps outstanding					\$ 33,560,000	\$ (9,798,404)	

i. Credit Risk

As of June 30, 2015, the fund is not exposed to credit risk on any of the outstanding swaps because the swaps have negative fair values. All fair values were calculated using the mark-to-market or par value method. However, should interest rates change and the fair values of the swaps become positive, the Fund would be exposed to credit risk in the amount of the derivatives' fair value.

The swap agreements contain varying collateral agreements with counterparties. In general, these agreements require full collateralization of the fair value of the swap should the counterparty's credit rating fall below Baa as issued by Moody's or BBB as issued by Standard and Poor's. Collateral on all swaps is to be in the form of cash or United States Government securities held by the City. As of June 30, 2015 and June 30, 2014, none of the City's swap agreements met this requirement.

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

ii. Basis Risk

The fund's variable rate bonds are all Consumer Price Index bonds. These swaps are structured to capture the difference between expected and actual inflation without exposure to changes in the real interest rates.

iii. Termination Risk

The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap contract has a negative fair value, the City would be liable to the counterparty for that payment.

(d) Investment Derivative Instruments

The fair value balance and notional amounts of derivative instruments outstanding at June 30, 2015 and 2014, classified by type and the changes in fair value of such derivative instruments for the year ended June 30, 2015 and 2014 are as follows:

	Investment derivative instruments				
	Change in fair value		Fair value at June 30, 2015		
	Classification	Amount	Classification	Amount	Notional
None					

	Investment derivative instruments				
	Change in fair value		Fair value at June 30, 2014		
	Classification	Amount	Classification	Amount	Notional
Fixed to floating	Investment revenue	\$ 31,820	Debt	\$ (123,239)	\$ (7,469,047)

At June 30, 2014, the fund was not exposed to credit risk on the interest rate swaps, because it is a negative fair value or liability position.

(7) Prior-Year Defeasance of Debt

In prior years, the City defeased certain revenue bonds by placing the proceeds of new debt issues in an irrevocable trust to provide for all future debt service payments on the old debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the fund's financial statements. At June 30, 2015 and June 30, 2014, the fund had \$160,970,000 and \$48,995,000, respectively of debt outstanding that is considered defeased.

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

(8) Pension Plan

The City contributes to a cost-sharing multiple employer defined benefit plan, the Employees' Retirement System Plan (ERS Plan or The Plan), established January 1, 1926. The ERS Plan provides retirement benefits as well as disability benefits to plan members and their beneficiaries. The ERS Plan is managed by a Board of Trustees in accordance with Article 22 of the Baltimore City Code. The Plan benefits provisions may be amended only by the City Council. The ERS Plan issues separate financial statements which may be obtained by writing to the ERS Plan at the following addresses:

Baltimore City Retirement Systems
7 East Redwood Street, 12th Floor
Baltimore, Maryland 21202-3470

The ERS Plan is considered to be part of the City of Baltimore's reporting entity and its' financial statements as a whole are included in the City's financial statements. The financial statements for The Plan are prepared using the accrual basis of accounting. Employer and member contributions are recognized in the period that the contributions are due, and the employer has made a formal commitment to provide the contributions.

(a) Plan Description

The ERS Plan covers City employees and the Baltimore City Public School System employees with the exception of those required to join the Maryland State Retirement System.

At June 30, 2014, the measurement date, the ERS Plan membership consisted of:

Active plan members	8,904
Retirees and beneficiaries – currently receiving benefits	8,893
Inactive members eligible to, but not yet receiving benefits	1,043
Total	18,840

The ERS Plan provides service retirement benefits as well as death and disability benefits. Only the Mayor and City Council may amend the ERS Plan Provisions. The reduction of benefits is precluded by the City Code.

The ERS Plan is divided into three Classes: A, C and D for amendment of membership and benefit changes of the Plan Provisions.

Class "A" has less than 0.01% of active contributory members. The "A" contributory Class consists of all members hired prior to July 1, 1979 who did not elect to transfer to Class C, the noncontributory class. Membership was mandatory on the member's second anniversary of employment. However, the member could voluntarily enroll within the first two years of employment.

Class "C" is composed of 99.70% of the ERS membership and consists of all employees hired on or after July 1, 1979 who automatically become members on the first anniversary of employment, and all members hired prior to July 1, 1979 who elected to transfer from the Class "A" contributory class.

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

Effective July 1, 2013, Ordinance 13-144 was enacted by the Mayor and City Council introducing contributions for active ERS Plan noncontributory members and eliminating the post retirement variable benefit increase. The Ordinance provides that effective July 1, 2013 members will contribute 1% of pay, to continue each year at 1% increments provided that 2% compensation is received for each year of contribution until employee contribution reaches 5% of compensation.

The ERS defined benefit Class "C" was closed to new members on June 30, 2014 to establish the City of Baltimore's Retirement Saving Plan (RSP). The RSP consist of a 401a contributory nonhybrid and a hybrid contributory defined benefit "D" Plan. The RSP is not a separate plan, but is a separate class of the existing ERS plan, if the employee choses to belong to the hybrid defined benefit "D" plan. The waiting period of entry for the contributory nonhybrid plan is 180 days. The hybrid contributory defined benefit Plan waiting period is one year. Employees hired as of July 1, 2014 have 150 days of employment to select between the two Plans. Employees who do not select a Plan after 150 days of employment will automatically default into the hybrid contributory defined benefit "D" plan. The mandatory contribution to each of the Plan's is 5%. Members have an option in both Plans to contribute to the City of Baltimore's 457 Deferred Compensation Plan and will receive a 50% match on the first two percent of their contributions.

The contributions required by the ERS Plan provisions for each membership class are as follows:

<u>Membership classes</u>	<u>Percentage of compensation</u>
A	4.0%
C	1.0-5.0%*

* Class C contributions increased from 1.0% to 2.0% for the fiscal year beginning July 1, 2014 through June 30, 2015.

Members of Classes A and B are eligible to retire at age 60 with 5 years of service or 30 years of membership service. Members of Classes C and D are eligible to retire at age 65 with 5 years of service or 30 years of service, regardless of age. Early retirement is allowed at age 55 with 5 years of service payable at age 65 or reduced for payment before age 65. Benefits for service retirement are paid as follows:

Classes A and B – The sum of:

1. An annuity of the actuarial equivalent of a members accumulated contributions: and,
2. A pension, which together with the annuity shall equal 1.935% (Class A) or 1.785% (Class B) of average final compensation times years of service.

Class C:

A pension of (1) 1.6% of average final compensation times years of service up to 30 years, plus (2) 0.25% of average final compensation in excess of covered compensation, times years of service up to 30 years, plus (3) 1.85% of average final compensation, times years of service in excess of 30 years.

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

Class D:

A pension of 1.00% of average final compensation, times years of service. If the member retires at or after age 62 with at least 20 years of service the member receives an enhanced benefit of 1.10% of average final compensation times years of service.

(b) Proportionate Share of Net Pension Liability

The measurement date for The Plan is June 30, 2014. Measurements are based on the fair value of assets as of June 30, 2014. The funds proportionate share of NPL is 9.33%. The following schedules are the proportionate share of net pension liability (NPL) and the sensitivity of the NPL to the discount rate.

The components of the proportionate share of the net pension liability of the Plan are as follows:

	Employees' Retirement System (Wastewater Portion) <hr/> (Dollars expressed in thousands)
Total pension liability	\$ 206,223
Less plan fiduciary net position	139,879
Net pension liability	<u>\$ 66,344</u>
Plan fiduciary net position as a percentage of total pension liability (asset)	<u>67.8%</u>

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

The Actuarial Assumptions and the proportionate share of current year contributions for the Plan are:

	Employees' Retirement System (Wastewater Portion)
Proportionate share of contributions made	\$8,856
Actuarial assumptions:	
Investment rate of return:	
Pre-retirement	7.75%
Post retirement	6.55%
Projected salary increases	2.65%
Includes inflation rate at	2.75%
Cost-of-living adjustment	1.5–2.0%
Mortality	Sex distinct 1994 Uninsured Pensioners Generational Mortality with adjustments and improvement using Scale AA
Last experience study covered	July 1, 2006-June 30, 2010

(c) Expected Returns, Discount Rate and Deferred Inflows/Outflows

The long term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate or return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rate of return for each major asset class included in The Plan's target asset allocation are summarized in the following table:

Assets class	Long term expected real rate of return/target allocation Employees' Retirement System
U.S. equities	5.7%/36.0%
International equities	6.5%/14.0%
Private equity	10.4%/10.0%
Fixed income	(0.1)%/26.0%
Real estate	5.6%/9.0%
Hedge funds	3.6%/5.0%

The projection of the cash flows used to determine discount rate assumed that plan member contributions will continue to be made at the rates specified in the City Code. Expected member contributions for fiscal year 2014 were 1% of pay increasing to 2% of pay for Fiscal year 2015 will continue to increase annually up to 5% of compensation thereafter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for the July 1, 2014 actuarial

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

valuation. Based on these assumptions, the ERS Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current members until the last payment for the current covered population is made as of the June 30, 2014 measurement date. The discount rate at June 30, 2014, 7.75%, is the assumed long term expected rate of return on ERS investments.

The sensitivity of the net pension liability below presents the proportionate share of the net pension liability of the Plan calculated using the current discount rates as well as what proportionate share of The Plan's net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

Sensitivity of the proportionate share of the pension liability to changes in the discount rate

<u>Employees' Retirement System (Wastewater Proportionate Share)</u>	<u>1% Decrease 6.75% Active Part. 5.55% Retired Part.</u>	<u>Current discount rate 7.75% Active Part. 6.55% Retired Part.</u>	<u>1% Increase 8.75% Active Part. 7.55% Retired Part.</u>
	(Dollars expressed in thousands)		
Net pension liability	\$ 89,256	\$ 66,344	\$ 46,977
Plan fiduciary net position as a percentage of total pension liability	61.0%	67.8%	74.9%

Deferred Inflows and Deferred Outflows. A summary of the proportionate share of the net deferred outflows/ (inflows) of resources to be recognized in pension expense in future years is presented below:

	<u>Employees' Retirement System (Waste water Portion)</u> (Dollars expressed in thousands)
Deferred outflows (inflows) for years ended June 30:	
2016	\$ (1,628)
2017	(1,628)
2018	(1,628)
2019	(1,953)
	<u>\$ (6,837)</u>

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

(d) *Proportionate Share of Collective Pension Expense and Changes in Net Pension Liability*

The proportionate share of collective pension expense includes charges in the collective net pension liability, projected earnings on pension plan investments, and the amortization of deferred outflows of resources and deferred inflows of resources for the current period. The components of the proportionate share of pension expense for the Plan are as follows:

	Employees' Retirement System (Waste water Portion) <hr style="width: 100%;"/> (Dollars expressed in thousands)
Service cost	\$ 2,471
Interest on total pension liability	13,889
Changes in benefits terms	(94)
Administrative expenses	346
Member contributions	(338)
Expected investment return net of investment expenses	(9,795)
Recognition of deferred inflows/outflows of resources:	
Recognition of liability gains and losses	326
Recognition of investment (gains) and losses	(1,953)
Pension expense	<hr style="width: 100%;"/> \$ 4,852 <hr style="width: 100%;"/>

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

Items that have resulted in a change in the proportionate share of the net pension liability for the current reporting periods are as follows:

	Employees' Retirement System (Waste water Portion) <u>(Dollars expressed in thousands)</u>
Net pension liability, beginning of year	\$ 77,183
Outflows:	
Differences between actual and expected experience	<u>977</u>
Total change outflows (1)	<u>977</u>
Inflows:	
Differences between actual and expected experience	—
Differences between projected and actual investment earnings	—
Assumption change	<u>(7,812)</u>
Total change inflows	<u>(7,812)</u>
Pension expense	4,852
Employer contributions	<u>(8,856)</u>
Net pension liability, end of year	<u>\$ 66,344</u>

(1) Pension contributions subsequent to the measurement date were \$9,056,00 and were not reflected in the pension liability

(e) Deferred Compensation

The City offers its employees a deferred compensation plan in accordance with the Internal Revenue Code (IRC) Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees or other beneficiaries until termination, retirement, death, or unforeseeable emergency.

The City has no administrative involvement and does not perform the investing function. The City has no fiduciary accountability for the plan and, accordingly, the plan assets and related liabilities to plan participants are not included in the basic financial statements.

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

(9) Other Postemployment Benefits

The City of Baltimore provides other postemployment benefits (OPEB) to all qualified City employees. The OPEB Plan (Plan) is a contributory, single employer defined benefit plan. The benefit and contribution provisions of the Plan are established and may be amended by the City. The Plan provides postemployment healthcare, prescription and life insurance benefits to retirees and their beneficiaries. In order to effectively manage the Plan, the City established an OPEB Trust Fund. All retiree and City contributions are deposited into the Trust Fund and all retiree related health and life insurance benefits are paid from the Trust Fund. The City also contracted with the Board of Trustees of the Employee's Retirement System to act as investment manager for the Trust Fund. BNY Mellon Bank Asset Servicing is the Trust Fund's asset custodian. The Plan does not issue standalone financial statements; however, the OPEB Trust Fund is included in the City's financial statements as a Trust and Agency Fund.

At June 30, 2015, the City's policy is to fund benefits on a pay as you go basis plus make additional contributions comprising the federal retiree drug subsidy payments and additional annual appropriation. Retirees are required to contribute at various rates ranging from approximately \$58 to \$1,331 on a monthly basis, depending on the health plan and level of coverage elected and whether Medicare supplemental coverage is present. At June 30, 2015, there were 16,123 City retirees eligible for these benefits.

For fiscal year 2015 and 2014, the Fund's total contributions to the Plan were \$5.5 million and \$5.3 million, respectively.

(10) Risk Management

The fund participates in the City's risk management program. 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. During fiscal year 1987, the City established the Risk Management Fund (an internal service fund) to account for and finance its uninsured risks. The City's risk financing techniques include a combination of risk retention through self-insurance and risk transfer through the purchase of commercial insurance. The Risk Management Fund services all claims for risk of loss, including general liability, property and casualty, workers' compensation, unemployment compensation, automobile physical damage and bodily injury, and sundry other risks. Commercial insurance coverage is provided for each property damage claim in excess of \$500,000 with a cap of \$500,000,000. Settled claims have not exceeded this commercial coverage in any of the past three years. The City also provides medical insurance coverage for all employees and retirees. Employees are required to pay a percentage of the annual cost of medical plans, and the remaining costs are paid by the City's internal service fund.

All funds of the City participate and make payments to the Risk Management Fund based on actuarial estimates and historical cost information of the amounts needed to pay prior and current year claims. During fiscal years 2015 and 2014, the fund's share of the City's cost was \$2,211,000 and \$1,900,000, respectively.

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

(11) Commitments and Contingencies

The fund has received Federal grants and State grants for the construction of capital projects. Entitlement to grant resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal and State regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits in accordance with grantors' requirements. Any disallowances as a result of these audits become a liability of the fund. As of June 30, 2015 and June 30, 2014, management estimates that no material liabilities will result from such audits.

The Northeast Maryland Waste Disposal Authority Act, was enacted by the Maryland General Assembly to assist in the provision of waste disposal facilities for the Northeast Maryland area, including the facilities for the disposal of Wastewater treatment residue. The City agreed to perform the obligations of the Authority. The current agreement, approved in March 2008 provided that the Authority and Mayor and City Council of Baltimore (the City) entered into a service agreement, through June 30, 2014, with Veolia Water North America-Central, LLC, a Delaware limited liability company, which now owns and operates the Facility. This agreement has now been extended through June 30, 2018. The agreement allows the fund to deliver up to approximately 2,167 wet tons of sewerage sludge per month and to pay a tipping fee comparable to alternative methods of sludge disposal currently being used by the fund. The debt service on variable rate bonds is a component of the tipping fee. The fund's current tipping fee expense per wet ton for delivering sewerage sludge was \$89.19 and \$43.89 up to the guaranteed and excess tonnage amounts, respectively. Payments under the agreement in fiscal year 2015 were \$2.580 million. The maximum commitment by the City is 26,004 wet tons per year.

The fund also has an agreement with Synagro-Baltimore, L.L.C. a wholly owned subsidiary of Synagro Technologies for processing biosolids at the City's Back River and Patapsco Wastewater Treatment Plants. Under the agreements the fund delivers approximately 19,000 dry tons of biosolids per year at each facility and pays base and service tipping fee. The debt service on the bonds is a component of the tipping fee. The fund's current monthly base tipping fee expense for delivering biosolids is \$254,236 for Patapsco Wastewater Treatment Plant. The base tipping fee at the Back River Waste Water Treatment Plant terminated in fiscal year 2015 with the completion of debt service payments. The service tipping fees were \$410.20 and \$406.10 per ton for the Back River and Patapsco Wastewater Treatment Plants, respectively. Payments under the agreements in fiscal year 2015 were \$18.206 million. The agreements extend to 2025 and 2017 for the Back River and Patapsco Wastewater Treatment Plants, respectively.

The City has voluntarily entered into a Consent Decree to rehabilitate its aging sewer infrastructure and correct historical overflow mechanisms. The Consent Decree is one of many that the U.S. Department of Justice has currently negotiated with major east coast cities with aged sewer and storm water infrastructures. The City is proactively negotiating to increase its remedial efforts to address discharge and overflow concerns of the State and Federal regulatory agencies. These efforts are ambitious and the costs of the construction and maintenance are estimated to be greater than \$1 billion. The City has committed to financing these remedial efforts through a combination of Water and Wastewater revenue bonds in conjunction with all available State and Federal assistance.

**CITY OF BALTIMORE
WASTEWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2015 and 2014

- (a) The City in 2002, voluntarily entered into a Consent Decree to rehabilitate its aging sewer infrastructure and correct historical overflow mechanisms. The Consent Decree is one of many that the U.S. Department of Justice has currently negotiated with major east coast cities with aged sewer and storm water infrastructures. These efforts are ambitious and the costs of the construction and maintenance are estimated to be greater than \$1 billion. The City has committed to financing these remedial efforts through a combination of Wastewater revenue bonds in conjunction with all available State and Federal assistance. During the life of the Consent Decree to date, the City has spent over \$800 million to study, design, and begin improving the sanitary sewer system with the goal of eliminating sanitary sewer overflows. The consent decree expired January 1, 2016 and the City of Baltimore has been negotiating a new decree with Department of Justice, the Environmental Protection Agency, and the Maryland Department of the Environment.

On June 1, 2016 the City, the Environmental Protection Agency, the Department of Justice, and the Maryland Department of the Environment filed a proposed modification to the 2002 Consent Decree with the court. The revised decree is composed of the two phases with priority given to those projects that provide the greatest environmental benefits in the early years and is expected to cost \$630.1 million in fiscal year 2017 to complete the remaining phase one projects. The second phase deadline is 2030 and focuses on increasing the capacity of the system, which is expected to cost \$548.4 million.

(12) Subsequent Events

Effective July 1, 2015, the City will implement a new policy decreasing the amount of accrued vacation and personal leave that can be accumulated by the employees. This change in policy will have a significant impact on compensated absences beginning in fiscal year 2016.

On June 15, 2016, the City entered into an agreement with the Maryland Water Quality Financing Administration for a Water Quality Revolving Loan in the amount of \$23,816,620. The rate of interest on the loan is set at 0.70%.

(13) Beginning Balance Adjustment

During fiscal year 2015, the City implemented Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Under the provisions of this statement, the City must change the method of computing net pension liability. Therefore, the City has recalculated the fiscal year ending June 30, 2014, net position totals based on the effect of these changes. The restated net position totals resulting from this accounting are as follows for governmental activities and for the applicable proprietary funds affected (amounts expressed in thousands):

	June 30, 2014 net position	GASB 68 pension adjustments	Restated June 30, 2014 net position
Wastewater Utility Fund	\$ 1,443,738	(68,327)	\$ 1,375,411