

**CITY OF BALTIMORE  
STORMWATER UTILITY FUND**

Financial Statements

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

**CITY OF BALTIMORE  
STORMWATER UTILITY FUND**

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CITY OF BALTIMORE

Catherine E. Pugh

Mayor

DEPARTMENT OF AUDITS  
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## Independent Auditors' Report

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

### Report on the Financial Statements

We have jointly audited the accompanying financial statements of the Stormwater Utility Fund (Fund) of the City of Baltimore, Maryland, (City), which comprise 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 for the matter 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, 2014.

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 Stormwater 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 Matter*

##### **Reporting Entity**

As discussed in note 1.a, the financial statements present only the Stormwater 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 year 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) 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 Transitions for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

#### *Other Matters*

##### **Required Supplementary Information**

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 7 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 April 7, 2017 on our consideration of the Fund'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 Fund's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read 'Robert L. McCarty Jr.'.

Robert L. McCarty Jr., CPA  
City Auditor  
Department of Audits  
April 7, 2017

The KPMG LLP logo, with 'KPMG' in a large, bold, sans-serif font and 'LLP' in a smaller, bold, sans-serif font to its right.

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

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

**Background**

In 2012, the Maryland State Legislature passed a law which mandated that the 10 largest jurisdictions in the State create a stormwater remediation fee by July 1, 2013. A stormwater remediation fee is a service fee like water, sewer, gas, and other vital utility services. The purpose of the fee is to finance the costs of improving the City's stormwater management system, including its watershed protection and restoration program. The fees may only be used for the following purposes: capital improvements for stormwater management, including stream and wetland restoration projects; operation and maintenance of the City's stormwater management system and facilities; public education and outreach relating to stormwater management or stream and wetland restoration; stormwater management planning; to the extent that fees imposed under the authority of State Environment Article §4-204 are deposited into the Fund, review of stormwater management plans and permit applications for future development; grants to nonprofit organizations for up to 100% of a project's costs for watershed restoration and rehabilitation projects; reasonable costs necessary to administer the Fund; and any other use authorized by the Enabling Law.

In November 2012, the voters of Baltimore City approved a change to the City Charter which created the Stormwater Utility Fund. In June 2013, the Baltimore City Council passed Article 27 of the City Code which created the stormwater remediation fee. Prior to July 1, 2013, the stormwater program was part of the General Fund. Both the Fund and the corresponding stormwater remediation fee became effective July 1, 2013.

**Highlights**

- For fiscal year 2015, total operating revenues were \$26.0 million, which represents a decrease of 5.5% from fiscal year 2014 revenues. For fiscal year 2014, total operating revenues were \$27.5 million.
- Total operating expenses for fiscal year 2015 were \$15.4 million, a decrease of \$2.7 million over fiscal year 2014 operating expenses of \$18.1 million.
- Net position for fiscal year 2015 was \$267.2 million, an increase of \$5.4 million over fiscal year 2014 net position of \$261.8 million.

**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 basic 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  
STORMWATER UTILITY FUND**

Management 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 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, 2017		Change 2015-2014
	2015	2014	
Current and other assets:	\$ 33,932	\$ 33,158	\$ 774
Capital assets	252,111	249,425	2,686
Deferred outflow of resources	1,760		1,760
Total assets and deferred outflows	<u>\$ 287,803</u>	<u>\$ 282,583</u>	<u>\$ 5,220</u>
Current liabilities:	\$ 4,940	\$ 1,671	\$ 3,269
Noncurrent liabilities	14,915	19,110	(4,195)
Deferred inflows of resources	734		734
Total liabilities and deferred inflows	<u>\$ 20,589</u>	<u>\$ 20,781</u>	<u>\$ (192)</u>
Net position:			
Invested in capital assets, net of related debt	\$ 244,078	\$ 241,657	\$ 2,421
Unrestricted	23,136	20,145	2,991
Total net position	<u>\$ 267,214</u>	<u>\$ 261,802</u>	<u>\$ 5,412</u>

**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 \$267.2 and \$261.8 million in fiscal year 2015 and 2014, respectively. The Fund's net position includes its investment of \$244.1 and \$241.7 million in capital assets (e.g., land, buildings, equipment and infrastructure), 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 stormwater 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. The Fund had unrestricted net assets of \$23.1 million and \$20.1 million as of June 30, 2015 and June 30, 2014, respectively.

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

During fiscal year 2015 and 2014, the Fund expended \$6.9 and \$4.1 million for capital assets, respectively. Prior to July 1, 2013, capital assets and their related debt were parts of the Governmental Activities. These assets primarily represent facility enhancements to comply with environmental regulations. The assets were funded primarily through reserves and County transportation bonds.

**Revenues, Expenses, and Changes in Net Position**  
(Expressed in thousands)

	June 30		Change
	2015	2014	2015-2014
Operating revenues	\$ 25,971	\$ 27,511	\$ (1,540)
Operating expenses:			
Salaries and wages	4,279	5,469	(1,190)
Other personnel costs	1,837	2,312	(475)
Contractual services	4,107	5,259	(1,152)
Materials and supplies	507	475	32
Minor equipment	86	70	16
Depreciation	4,566	4,516	50
Total operating expenses	15,382	18,101	(2,719)
Operating income	10,589	9,410	1,179
Nonoperating expense, net	53		53
Total nonoperating revenues, net	53		53
Income before capital contributions	10,642	9,410	1,232
Capital contributions	155	252,392	(252,237)
Change in net position	10,797	261,802	(251,005)
Beginning net position (as restated)	256,417		256,417
Ending net position	\$ 267,214	\$ 261,802	\$ 5,412

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

The overall increase in the Fund's net position amounted to \$10.8 million and \$261.8 million, for fiscal years 2015 and 2014, respectively. The large increase in FY 2014 was the result of governmental activities contributing assets with a book value of \$252.4 million on July 1, 2013.



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

**Capital Assets**

The Fund's capital assets as of June 30, 2015 and 2014 amount to \$252.1 million and \$249.4 million (net of accumulated depreciation), respectively. Capital assets include construction in progress, equipment, and infrastructure. Total increases in the Fund's net capital assets for fiscal year 2015 was \$2.7 million. This increase was funded primarily by the issuance of County transportation bonds. The following schedule presents the capital asset balances for fiscal year 2015:

	<u>Balance at</u>		<u>Change</u> <u>2015-2014</u>
	<u>June 30, 2015</u>	<u>June 30, 2014</u>	
	(Expressed in thousands)		
Construction in progress	\$ 17,314	\$ 11,694	\$ 5,620
Equipment	407		407
Infrastructure	<u>234,390</u>	<u>237,731</u>	<u>(3,341)</u>
Total capital assets, net	<u>\$ 252,111</u>	<u>\$ 249,425</u>	<u>\$ 2,686</u>

As of June 30, 2015 and June 30, 2014, the Fund had commitments of \$10.0 million and \$1.7 million, respectively for the acquisition and construction of capital assets. See note 4 for further information.

**Debt Administration**

For fiscal year 2015 and 2014, the Fund had long-term obligations of \$9.3 million and \$19.4 million, respectively. The long-term obligations consisted primarily of governmental revenue bonds (i.e. county transportation bonds).

The Fund is not expected to issue its own revenue bonds before fiscal year 2017. Existing General Fund debt that is used to fund Stormwater capital projects was transferred to the Fund on July 1, 2013. Capital projects are expected to continue to be funded primarily from county transportation bonds through fiscal year 2016. See notes 5 and 6 for further information.

**Economic Condition of the Stormwater Utility Fund**

The Fund provides conveyance of Baltimore City's surface waters as well as compliance with the City's Municipal Separate Storm Sewer System permit. The rates of the stormwater remediation fee are set by Article 27 of the Baltimore City Code through fiscal year 2017. After that, the rates will be set by the Board of Estimates by recommendation of the Director of Public Works and the Director of Finance. This rate structure is predicted to meet both the capital and environmental compliance needs now and into the future.

**CITY OF BALTIMORE  
STORMWATER UTILITY FUND**

Statements of Net Position

Years ended June 30, 2015 and 2014

(Expressed in thousands)

	<u>2015</u>	<u>2014</u>
<b>Assets and Deferred Outflows of Resources</b>		
<b>Current assets:</b>		
Cash and cash equivalents – operating	\$ 24,288	\$ 10,606
Accounts receivable, net:		
Service billings	7,549	9,834
Due from other governments	95	
Inventories	<u>765</u>	<u>974</u>
Total current assets	<u>32,697</u>	<u>21,414</u>
<b>Noncurrent assets:</b>		
Restricted assets:		
Due from other governments	1,235	11,744
Capital assets, net of accumulated depreciation	234,797	237,731
Capital assets not being depreciated	<u>17,314</u>	<u>11,694</u>
Total noncurrent assets	<u>253,346</u>	<u>261,169</u>
Total assets	286,043	282,583
<b>Deferred outflow of resources:</b>		
Deferred outflows related to pensions	<u>1,760</u>	
Total assets and deferred outflows of resources	<u>\$ 287,803</u>	<u>\$ 282,583</u>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 185	\$ 183
Accrued interest payable	85	139
Compensated absences	236	363
Accounts payable from restricted assets	3,552	350
General obligation bond payable	268	195
Revenue bonds payable	<u>614</u>	<u>441</u>
Total current liabilities	<u>4,940</u>	<u>1,671</u>
<b>Noncurrent liabilities:</b>		
Compensated absences	297	329
General obligation bonds payable	2,750	2,918
Net pension liability	6,232	
Revenue bonds payable	<u>5,636</u>	<u>15,863</u>
Total noncurrent liabilities	<u>14,915</u>	<u>19,110</u>
Total liabilities	19,855	20,781
<b>Deferred inflow of resources:</b>		
Deferred inflow related to pension	<u>734</u>	
Total liabilities and deferred pension inflows	<u>\$ 20,589</u>	<u>\$ 20,781</u>
<b>Net position:</b>		
Net investment in capital assets	\$ 244,078	\$ 241,657
Unrestricted	<u>23,136</u>	<u>20,145</u>
Total net position	<u>\$ 267,214</u>	<u>\$ 261,802</u>

See accompanying notes to financial statements.

**CITY OF BALTIMORE  
STORMWATER UTILITY FUND**

Statements of Revenue, Expense, and Change in Net Position

Years ended June 30, 2015 and June 30, 2014

(Expressed in thousands)

	2015	2014
Operating revenues:		
Stormwater remediation fee	\$ 25,885	\$ 27,468
Rents, fees, and other income	86	43
Total operating revenue	25,971	27,511
Operating expenses:		
Salaries and wages	4,279	5,469
Other personnel costs	1,837	2,312
Contractual services	4,107	5,259
Materials and supplies	507	475
Minor equipment	86	70
Depreciation	4,566	4,516
Total operating expenses	15,382	18,101
Operating income	10,589	9,410
Nonoperating revenue:		
Interest income	53	
Total nonoperating revenues	53	
Income before capital contributions and transfers	10,642	9,410
Capital contributions	155	252,392
Change in net position	10,797	261,802
Total net position – beginning, as restated (note 11)	256,417	
Total net position – ending	\$ 267,214	\$ 261,802

See accompanying notes to financial statements.

**CITY OF BALTIMORE  
STORMWATER UTILITY FUND**

Statements of Cash Flows

Years ended June 30, 2015 and June 30, 2014

(Expressed in thousands)

	2015	2014
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 28,256	\$ 17,677
Payments to employees	(6,443)	(6,957)
Payments to suppliers	(4,500)	(5,818)
	17,313	4,902
<b>Cash flows from capital and related financing activities:</b>		
Proceeds from general obligation bond	100	
Principal paid on general obligation bonds	(195)	(327)
Principal paid on revenue bonds	(441)	(436)
Acquisition and construction of capital assets	(4,052)	(520)
Contributed capital received from governmental activities	957	6,987
	(3,631)	5,704
Net cash provided by capital and related financing activities		
Net increase in cash and cash equivalents	13,682	10,606
Cash and cash equivalents, beginning of year	10,606	
Cash and cash equivalents, end of year	\$ 24,288	\$ 10,606
<b>Reconciliation of operating income to net cash provided by:</b>		
Operating activities:		
Operating income	\$ 10,589	\$ 9,410
<b>Adjustments to reconcile operating income to net cash provided by:</b>		
Operating activities:		
Depreciation expense	4,566	4,516
Changes in assets and liabilities:		
Accounts receivable	2,285	(9,834)
Inventories	209	(65)
Deferred outflow pension	(1,760)	
Accounts payable and accrued liabilities	2	183
Deferred inflow pension	734	
Pension liability (current period)	847	
Compensated absences	(159)	692
Total adjustments	6,724	(4,508)
Net cash provided by operating activities	\$ 17,313	\$ 4,902
<b>Noncash cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets financed by debt	\$ 3,201	\$
Increase in issuance of general obligation bond		
General obligation bonds and related accounts receivable transferred to governmental activities	(9,613)	
Net assets contributed from governmental activities		245,405
Net cash flows from capital and related financing activities	\$ (6,412)	\$ 245,405

See accompanying notes to financial statements.

**CITY OF BALTIMORE  
STORMWATER UTILITY FUND**  
Notes to the Financial Statements  
June 30, 2015 and 2014

**(1) Summary of Significant Accounting Policies**

**(a) Reporting Entity**

The Stormwater Utility Fund (Fund) is a separate utility in the Bureau of Water and Wastewater, one of the two bureaus within the City of Baltimore, Maryland's (City) Department of Public Works. The Fund was established to provide a sustainable dedicated revenue source for maintaining, operating, and improving the stormwater management system, including installing practices to improve stormwater quality. In November 2012, the voters approved a Charter Amendment establishing the Fund as a separate enterprise and required it to be financially self-sustaining and operated without profit or loss to the other City Funds or programs.

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 7 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 on Deposit with the City of Baltimore, Maryland**

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 the purposes of the Statements of Cash Flow. To optimize investment returns, the Fund's cash is invested together with all the other City pooled funds, all of which are fully insured or collateralized. The City allocates, on a monthly basis, any investment earnings based in 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 acquisition date.

The Fund's unrestricted cash is recorded in the operating and capital projects general ledger accounts "due to/due from" Fund.

**(e) Inventories**

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

**CITY OF BALTIMORE  
STORMWATER UTILITY FUND**  
Notes to the Financial Statements  
June 30, 2015 and 2014

**(f) Service Billings Accounts Receivable**

Service billings receivables are comprised of stormwater fees billed to users and unbilled fees that are estimated and accrued at year-end. They are included as service billing accounts receivable on the "Statement of Net Position", and as stormwater remediation fee revenue on the "Statements of Revenues, Expenses and Changes in Net Position". See note 3 for details on the allowance for doubtful accounts for accounts receivable.

**(g) Due from Other Governments**

The restricted portion of due from other governments consists of bonds proceeds held by the Maryland State Highway Administration, which are available to draw down upon a submission of eligible expense reimbursements. The Fund deems this account fully collectible based on historical collections.

**(h) Accounts Payable from Restricted Assets**

Represents retainages withheld on contractor invoices related to the construction of a specific capital asset. These payables are first paid from restricted assets first; any remaining amount is paid from unrestricted funds.

**(i) Capital Assets**

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

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

Equipment	2–25 years
Mobile equipment	5–10 years
Infrastructure	80 years

**(j) Compensated Absences**

The liability for compensated absences reported in the Fund statements consists of unpaid, accumulated sick, vacation and personnel 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 payments 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.

**CITY OF BALTIMORE  
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June 30, 2015 and 2014

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 \$510,000 and \$628,000 at June 30, 2014. 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.

The total vacation, personal, sick leave and conversion value of unused sick leave recorded as a liability for compensated absences at June 30, 2015 and 2014 is \$533,000 and \$692,000, respectively.

**(k) Long Term Debt Obligation**

Consist of revenue bonds, which include long term borrowings from the Maryland State Highway Administration, and general obligation bonds.

**(l) Capital Contributions**

Consist of federal or state grants 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.

**(m) Net Position**

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

**Net Investment in Capital Assets**

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

**Unrestricted**

Residual fund balance not included in the above.

**(2) Deposits**

The Fund participates in the City's pooled cash account. At June 30, 2015 and 2014, the Fund's share of the City's pooled cash account, consisting of unrestricted cash was \$24.3 million and \$10.6 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.

**(3) Accounts Receivable, Net**

An allowance for doubtful accounts is recorded for accounts that were over \$200 and delinquent at least 260 days. Accounts receivable is shown net of allowances of \$1,809,000 and \$0 as of June 30, 2015 and June 30, 2014, respectively.

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

**CITY OF BALTIMORE  
STORMWATER UTILITY FUND**  
Notes to the Financial Statements  
June 30, 2015 and 2014

**(4) Capital Assets**

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

	<u>Balance July 1, 2014</u>	<u>Increases</u>	<u>Transfers</u>	<u>Decreases</u>	<u>Balance June 30, 2015</u>
Capital assets, not being depreciated:					
Construction in progress	\$ 11,694	\$ 6,865	\$	\$ 1,245	\$ 17,314
Total capital assets, not being depreciated	<u>11,694</u>	<u>6,865</u>	<u></u>	<u>1,245</u>	<u>17,314</u>
Capital assets, being depreciated:					
Equipment		428			428
Infrastructure	362,016	1,204			363,220
Total capital assets, being depreciated	<u>362,016</u>	<u>1,632</u>	<u></u>	<u></u>	<u>363,648</u>
Less accumulated depreciation for:					
Equipment		21			21
Infrastructure	124,285	4,545			128,830
Total accumulated depreciation	<u>124,285</u>	<u>4,566</u>	<u></u>	<u></u>	<u>128,851</u>
Total capital assets, being depreciation, net	<u>237,731</u>	<u>(2,934)</u>	<u></u>	<u></u>	<u>234,797</u>
Total capital assets, net	<u>\$ 249,425</u>	<u>\$ 3,931</u>	<u>\$</u>	<u>\$ 1,245</u>	<u>\$ 252,111</u>



**CITY OF BALTIMORE  
STORMWATER UTILITY FUND**  
Notes to the Financial Statements  
June 30, 2015 and 2014

	Balance July 1, 2013	Increases	Transfers	Decreases	Balance June 30, 2014
Capital assets, not being depreciated:					
Construction in progress	\$	4,110	\$ 10,972	\$ 3,388	\$ 11,694
Total capital assets, not being depreciated		4,110	10,972	3,388	11,694
Capital assets, being depreciated:					
Equipment					
Infrastructure		2,418	359,598		362,016
Total capital assets, being depreciated		2,418	359,598		362,016
Less accumulated depreciation for:					
Equipment					
Infrastructure		4,516	119,769		124,285
Total accumulated depreciation		4,516	119,769		124,285
Total capital assets, being depreciation, net		(2,098)	239,829		237,731
Total capital assets, net	\$	2,012	\$ 250,801	\$ 3,388	\$ 249,425

Interest is capitalized on assets acquired with tax exempt debt. The amount of interest to be capitalized is calculated by offsetting interest costs incurred from the date of borrowing until completion of the project, with interest earned on invested proceeds over the same period. During fiscal year 2015 and 2014, interest cost of \$595,000 and \$764,000, were capitalized.

At June 30, 2015 and 2014, the Fund had outstanding commitments for construction of \$10,000,000 and \$1,700,000, respectively.

**(5) Long-Term Obligations**

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

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

	Balance July 1, 2014	Additions	Reductions	Transfers	Balance June 30, 2015	Amount due within one year
Compensated absences	\$ 692	\$	\$ 159	\$	\$ 533	\$ 236
Total general obligation bonds	\$ 3,113	\$ 100	\$ 195	\$	\$ 3,018	\$ 268
Total revenue bonds payable	\$ 16,304	\$	\$ 10,054	\$	\$ 6,250	\$ 614

On March 2, 2015, the City approved the revised list of eligible capital projects participating in the Series 2012 Maryland Department of Transportation (MDOT) revenue bonds. This revision decreased the Stormwater Utility Fund participation in the Series 2012 MDOT bonds. As a result, restricted accounts receivable and bonds payable decreased in the amount of \$9,613,000, for the Fund.

During fiscal year 2015 governmental "consolidated public improvement bonds of 2014 – Series A" were issued of which \$100,000 was utilized to fund Stormwater capital projects.

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

	Balance July 1, 2013	Additions	Reductions	Transfers	Balance June 30, 2014	Amount due within one year
Compensated absences	\$	\$ 692	\$	\$	\$ 692	\$ 363
Total general obligation bonds	\$	\$	\$ 327	\$ 3,440	\$ 3,113	\$ 195
Total revenue bonds payable	\$	\$	\$ 436	\$ 16,740	\$ 16,304	\$ 441

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General obligation and revenue bonds outstanding as of June 30, 2015 and 2014, consist of (amounts expressed in thousands):

	<u>2015</u>	<u>2014</u>
Consolidated Public Improvement bonds of 1998 – Series C maturing in annual installments from \$41.9 to \$428.7 through October 15, 2025, with interest rate of 1.00% to 5.00%, payable semiannually	\$ 148	\$ 148
Consolidated Public Improvement bonds of 2013 – Series B maturing in annual installments from \$71.8 to \$76.0 through October 15, 2016, with interest rate of 4.70% to 5.50%, payable semiannually	2,770	2,965
Consolidated Public Improvement bonds of 2014 – Series A maturing in annual installments from \$3 to \$6 through October 15, 2031, with interest rate of 3.00% to 5.00%, payable semiannually	<u>100</u>	<u>          </u>
Total general obligation bonds	<u>3,018</u>	<u>3,113</u>
Series bonds series 2009 maturing in annual installments from \$80,342 to \$124,415 through June 15, 2024, with interest rate of 4.00% to 5.00%, payable semiannually	929	1,009
Series bonds series 2004A maturing in annual installments from \$340,000 to \$369,000 through February 1, 2022, with interest rate of 0.04%, payable semiannually	2,534	2,895
Series bonds series 2012 maturing in annual installments from \$169,950 to \$256,850 through October 1, 2027, with interest rate of 2.00% to 5.00%, payable semiannually	<u>2,787</u>	<u>12,400</u>
Total revenue bonds	<u>6,250</u>	<u>16,304</u>
Total general obligation and revenue bonds	<u>\$ 9,268</u>	<u>\$ 19,417</u>

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Principal maturities and interest on general obligation and revenue bonds are as follows (amounts expressed in thousands):

Fiscal year:	<u>Principal</u>	<u>Interest</u>
2016	\$ 882	\$ 283
2017	938	257
2018	894	231
2019	958	207
2020	1,002	174
2021–2025	3,739	387
2026–2030	821	36
2031–2035	34	3
	<u>\$ 9,268</u>	<u>\$ 1,578</u>

**(6) Revenue Bonds**

The City issued revenue bonds prior to the creation of the Stormwater Utility Fund, the proceeds of which were used for capital improvements to Stormwater facilities. Payments for the bonds have been made with General Funds and subsequently reimbursed from the Stormwater Utility Fund revenues. Total principal and interest remaining to be paid on the revenue bonds is \$7.1 million and \$19.1 million at June 30, 2015 and June 30, 2014, respectively.

The principal and interest paid for the revenue bonds in the current year were \$756,000 and \$902,000 at June 30, 2014.

**(7) Pension Plan**

The Fund contributes to a cost-sharing multiple employer defined benefit plan, the Employees' Retirement System (ERS Plan), established January 1, 1926. The ERS Plan provides retirement benefits as well as disability benefits to 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 ERS 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

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The ERS Plan is considered 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 ERS Plan are prepared using the accrual basis of accounting. Employer and member contributions are recognized in the period that the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of The Plan.

**(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 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.

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 reach 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

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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:

(i) *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.

(ii) *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.

(iii) *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.

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**(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 Stormwater Fund's proportionate share of NPL is 1.02%. The following schedules are the proportionate share of net pension liability (NPL) and the sensitivity of the NPL to the discount rate.

	<b>Employees' retirement system (Stormwater Portion)</b> (Dollars expressed in thousands)
Total pension liability	\$ 19,372
Less plan fiduciary net position	<u>13,140</u>
Net pension liability (asset)	<u>\$ 6,232</u>
Plan fiduciary net position as a percentage of total pension liability (asset)	<u>67.8 %</u>

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

	<b>Employees' retirement system (Stormwater Portion)</b>
	(Dollars Expressed in Thousands)
Proportionate Share of Contributions made	\$ 832
Actuarial assumptions:	
Investment rate of return:	
Pre-retirement	7.75%
Post retirement	6.55%
Projected salary increases	4–6.7%
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

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

**(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.



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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:

<b>Long Term Expected Real Rate of Return/Target Allocation</b>	
<b>Assets class</b>	<b>Employees' retirement system</b>
U.S. equities	5.7%/36%
Private equities	10.4%/10.0%
International equities	6.5%/14%
Fixed income	(0.1)%/26%
Real estate	5.6%/9%
Hedge funds	3.6%/5%

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 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.

*(i) Sensitivity of the Proportionate Share of the Pension Liability to Changes in the Discount Rate*

<b>Employees' retirement system (Stormwater Proportionate Share)</b>	<b>1% Decrease 6.75% Active Part. 5.55% Retired Part.</b>	<b>Current discount rate 7.75% Active Part. 6.55% Retired Part.</b>	<b>1% Increase 8.75% Active Part. 7.55% Retired Part.</b>
	(Dollars expressed in thousands)		
Net pension liability	\$ 8,384	\$ 6,232	\$ 4,413
Plan fiduciary net position as a percentage of total pension liability	61.0 %	67.8 %	74.9 %

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(ii) *Deferred Inflows and Deferred Outflows*

Exclusive of contribution made subsequent to the measurement date which will be recognized in pension expense in the next fiscal year, a summary of the proportionate share of the net outflows / (inflows) of resources to be recognized in pension expense in future years is presented below:

	<b>Employees' retirement system (Stormwater Portion)</b> <hr style="width: 100%;"/> <b>(Dollars expressed in thousands)</b>
Deferred outflows (inflows) for years ended June 30:	
2016	\$ 105
2017	105
2018	105
2019	(183)
	<hr style="width: 100%;"/> <b>\$ 132</b> <hr style="width: 100%;"/>

The following presents a summary of deferred outflows/(inflows) of resources related to pensions:

	<b>Amount</b> <hr style="width: 100%;"/> <b>(Dollar expressed in thousands)</b>
Deferred Inflows of resources:	
Assumption change	\$ (734)
Total inflows	<hr style="width: 100%;"/> <b>\$ (734)</b> <hr style="width: 100%;"/>
Deferred outflows of resources:	
Change in proportionate share	\$ 774
Differences between actual and expected experience	92
Contributions subsequent to measurement date	894
Total outflows	<hr style="width: 100%;"/> <b>\$ 1,760</b> <hr style="width: 100%;"/>

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**(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:

	<b>Employees' retirement system (Stormwater Portion)</b> <hr style="width: 100%; border: 0.5px solid black;"/> <b>(Dollars expressed in thousands)</b>
Service cost	\$ 232
Interest on total pension liability	1,305
Administrative expenses	33
Member contributions	(32)
Expected investment return net of investment expenses	(920)
Recognition of deferred inflows/outflows of resources:	
Recognition of change in proportionate share	248
Recognition of liability gains and losses	31
Recognition of investment (gains) and losses	<u>(183)</u>
Pension expense	<u>\$ 714</u>

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

	<b>Employees' retirement system (Stormwater Portion)</b> <hr style="width: 100%; border: 0.5px solid black;"/> <b>(Dollars expressed in thousands)</b>
Net pension liability, beginning of year	\$ 6,218
Outflows:	
Change in proportionate share	774
Differences between actual and expected experience	92
Total change outflows (1)	<hr style="width: 100%; border: 0.5px solid black;"/> <u>866</u>
Inflows:	
Assumption change	(734)
Total change inflows	<hr style="width: 100%; border: 0.5px solid black;"/> <u>(734)</u>
Pension expense	714
Employer contributions	<hr style="width: 100%; border: 0.5px solid black;"/> <u>(832)</u>
Net pension liability, end of year	<hr style="width: 100%; border: 0.5px solid black;"/> <u>\$ 6,232</u>

(1) Contributions subsequent to the measurement date are \$832,000 and are reflected in the net pension liability

The Fund's share of contributions to the plan was \$1,095,000 for the year ended June 30, 2014.

**(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.

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**(8) 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 stand alone 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, the Fund's total contribution to the Plan was \$28,000 and \$1,100,000 for fiscal year 2014, respectively.

**(9) 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 generally 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 year 2015, the Fund's share of the City's cost was \$129,000 and \$0 for fiscal year 2014.

**(10) Subsequent Event**

Effective July 1, 2015 the City implemented 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.

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**(11) 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):

	<b>June 30, 2014 <u>net position</u></b>	<b>GASB 68 pension <u>adjustment</u></b>	<b>Restated June 30, 2014 <u>net position</u></b>
Stormwater Utility Fund	\$ 261,802	\$ (5,385)	\$ 256,417