

**CITY OF BALTIMORE
STORMWATER UTILITY FUND**

Financial Statements

June 30, 2014

(With Independent Auditors' Report Thereon)

**CITY OF BALTIMORE
STORMWATER UTILITY FUND**

Financial Statements

June 30, 2014

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CITY OF BALTIMORE
STEPHANIE RAWLINGS-BLAKE
Mayor



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

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 statement of net position as of June 30, 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, 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, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

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, 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 matters.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 6 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 August 5, 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.

KPMG LLP

Robert L. McCarty Jr., CPA
City Auditors
Department of Audits
August 5, 2016

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

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, 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 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 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 Governmental Fund, specifically the General Fund. Both the fund and the corresponding stormwater remediation fee became effective July 1, 2013.

Highlights

- For fiscal year 2014, total operating revenues were \$27.5 million.
- Total operating expenses for fiscal year 2014 were \$18.1 million.
- Net position for fiscal year 2014 was \$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's Discussion and Analysis
(Unaudited)
June 30, 2014

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.

Financial Analysis of Net Position
(Expressed in thousands)

		<u>June 30, 2014</u>
Current and other assets	\$	33,158
Capital assets		<u>249,425</u>
Total assets		<u>282,583</u>
Current liabilities		1,671
Noncurrent liabilities		<u>19,110</u>
Total liabilities		<u>20,781</u>
Net position:		
Invested in capital assets, net of related debt		241,657
Unrestricted		<u>20,145</u>
Total net position	\$	<u><u>261,802</u></u>

Analysis of Net Position

Net position may serve as a useful indicator of the fund's financial position. For the fund, assets exceeded liabilities by \$261.8 million in fiscal year 2014. The fund's net position includes its investment of \$241.7 million in capital assets (e.g., land, buildings, equipment and infrastructure), less any related outstanding debt used to acquire those assets, at the end of fiscal year 2014. 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 ended the fiscal year with a total of \$20.1 million in unrestricted net position.

**CITY OF BALTIMORE
STORMWATER UTILITY FUND**

Management's Discussion and Analysis

(Unaudited)

June 30, 2014

During fiscal year 2014, the fund expended \$4.1 million for capital assets. Prior to July 1, 2013, capital assets and their related debt were part of the Governmental Activities. The Governmental Activities contributed assets to the fund with a book value of \$250.8 million during fiscal year 2014.

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

(Expressed in thousands)

	June 30, 2014
Operating revenues	\$ 27,511
Operating expenses:	
Salaries and wages	5,469
Other personnel costs	2,312
Contractual services	5,259
Materials and supplies	475
Minor equipment	70
Depreciation	4,516
Total operating expenses	18,101
Operating income	9,410
Income before capital contributions	9,410
Capital contributions	252,392
Change in net position	261,802
Beginning net position	—
Ending net position	\$ 261,802

Analysis of Revenues, Expenses, and Changes in Net Position

The overall increase in the fund's net position amounted to \$261.8 million, for fiscal year 2014. This increase resulted primarily from the Governmental Activities contributing net assets totaling \$252.4 million to the fund in its first year of operation plus current year operating income of \$9.4 million.

**CITY OF BALTIMORE
STORMWATER UTILITY FUND**

Management's Discussion and Analysis

(Unaudited)

June 30, 2014

Capital Assets

The fund's capital assets as of June 30, 2014 amount to \$249.4 million (net of accumulated depreciation). Capital assets include construction in progress and infrastructure. The following schedule presents the capital asset balances for fiscal year 2014:

Balance at June 30, 2014	
(Expressed in thousands)	
Construction in Progress	\$ 11,694
Infrastructure	237,731
Total capital assets, net	\$ <u>249,425</u>

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

Debt Administration

For fiscal year 2014, the fund had long-term obligations of \$19.4 million. 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 being utilized to fund Stormwater capital projects transferred to the fund effective July 1, 2013. Capital projects are expected to continue to be funded primarily from county transportation bonds through fiscal year 2016. See notes 5, 6 and 12 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**

Statement of Net Position

June 30, 2014

(Expressed in thousands)

Assets

Current assets:

Cash and cash equivalents		\$ 10,606
Accounts receivable, net:		
Service billings		9,834
Inventories		974
		21,414
Total current assets		21,414

Noncurrent assets:

Restricted assets:

Due from other governments		11,744
Capital assets, net of accumulated depreciation		237,731
Capital assets not being depreciated		11,694
		261,169

Total noncurrent assets		261,169
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Total assets		282,583
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Liabilities

Current liabilities:

Accounts payable and accrued liabilities		183
Accrued interest payable		139
Compensated absences		363
Accounts payable from restricted assets		350
General long-term debt payable		195
Revenue bonds payable		441
		1,671

Total current liabilities		1,671
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Noncurrent liabilities:

Compensated absences		329
General long-term debt payable		2,918
Revenue bonds payable		15,863
		19,110

Total noncurrent liabilities		19,110
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Total liabilities		20,781
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Net position:

Net investment in capital assets		241,657
Unrestricted		20,145
		261,802

Total net position		\$ 261,802
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See accompanying notes to financial statements.

**CITY OF BALTIMORE
STORMWATER UTILITY FUND**

Statement of Revenue, Expense, and Change in Net Position

Year ended June 30, 2014

(Expressed in thousands)

Operating revenues:		
Charges for sales and services:		
Water and sewer services	\$	27,468
Rents, fees, and other income		43
Total operating income		<u>27,511</u>
Operating expenses:		
Salaries and wages		5,469
Other personnel costs		2,312
Contractual services		5,259
Materials and supplies		475
Minor equipment		70
Depreciation		4,516
Total operating expenses		<u>18,101</u>
Operating income		<u>9,410</u>
Income before capital contributions		9,410
Capital contributions		<u>252,392</u>
Change in net position		261,802
Total net position – beginning		<u>—</u>
Total net position – ending	\$	<u><u>261,802</u></u>

See accompanying notes to financial statements.

**CITY OF BALTIMORE
STORMWATER UTILITY FUND**

Statement of Cash Flows

Year ended June 30, 2014

(Expressed in thousands)

Cash flows from operating activities:	
Receipts from customers	\$ 17,677
Payments to employees	(6,957)
Payments to suppliers	(5,818)
Net cash provided by operating activities	<u>4,902</u>
Cash flows from capital and related financing activities:	
Principal paid on revenue bonds	(436)
Principal paid on general long-term debt	(327)
Acquisition and construction of capital assets	(520)
Contributed capital received from governmental activities	6,987
Net cash provided by capital and related financing activities	<u>5,704</u>
Net increase in cash and cash equivalents	10,606
Cash and cash equivalents, beginning of year	<u>—</u>
Cash and cash equivalents, end of year	<u>\$ 10,606</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 9,410
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	4,516
Changes in assets and liabilities:	
Increase in accounts receivable	(9,834)
Increase in inventories	(65)
Increase in accounts payable and accrued liabilities	183
Increase in compensated absences	692
Total reconciling adjustments	<u>(4,508)</u>
Net cash provided by operating activities	<u>\$ 4,902</u>
Noncash cash flows from capital and related financing activities:	
Net assets contributed from governmental activities	<u>\$ 245,405</u>

See accompanying notes to financial statements.

**CITY OF BALTIMORE
STORMWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The Stormwater Utility Fund (fund) is an enterprise fund of the City of Baltimore, Maryland (City) and a separate utility within the Bureau of Water and Wastewater, one of the two bureaus within the City of Baltimore's 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. Effective July 1, 2013, the fund became 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 fund's 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) Cash and Cash Equivalents

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 City. The cash balances of substantially all funds are pooled and invested by the City for the purpose of increasing earnings through investment activities. The pool's investments are reported at fair value at June 30, 2014, based on market prices. The individual funds' portions of the pool's fair value are presented as "Pooled Cash and Investments." Earnings on the pooled funds are apportioned and paid or credited to the funds quarterly based on the average daily balance of each participating fund. The City does not invest any portion of its cash in derivative investments.

At June 30, 2014, the fund's share of the City's pooled cash account was \$10.6 million of unrestricted cash. 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.

(d) Inventories

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

(e) Service Billings Accounts Receivable – Unbilled Stormwater Utility User Charges

Unbilled stormwater 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 for accounts receivable.

**CITY OF BALTIMORE
STORMWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2014

(f) Due from Other Governments

Bonds proceeds held by the Maryland State Highway Administration that may be drawn down by the fund pending submission of eligible expense reimbursement. There is no allowance for these amounts since all amounts have been collected in the past and current amounts are expected to be paid in the subsequent fiscal year.

(g) 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.

(h) Due to Other Funds

Interfund balances are primarily the result of the City's policy not to reflect cash deficits in its individual funds.

(i) 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	80 years

(j) 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 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.

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

**CITY OF BALTIMORE
STORMWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2014

separation; under any other conditions of separation, unused sick leave is forfeited. At June 30, 2014, it is estimated that accumulated nonvested sick leave for the fund approximated \$628,000. 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, 2014 is \$692,000.

(k) Capital Contributions

During 2014, the net assets contributed from Governmental Activities to the Stormwater Fund was \$252.4 million. The net assets consisted of unrestricted cash, inventory, restricted accounts receivable, due from other governments, capital assets, and long-term debt.

(2) Deposits

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

(3) Accounts Receivable, Net

An allowance for doubtful accounts is recorded for accounts that are delinquent at least 260 days. At June 30, 2014, there were no accounts that were delinquent at least 260 days. Accounts receivable is shown net of an allowance of \$0 as of June 30, 2014.

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

**CITY OF BALTIMORE
STORMWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2014

(4) Capital Assets

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

	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:					
Infrastructure	—	2,418	359,598	—	362,016
Total capital assets, being depreciated	—	2,418	359,598	—	362,016
Less accumulated depreciation for:					
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 2014, interest cost of \$764,000 was capitalized.

At June 30, 2014, the fund had outstanding commitments for construction of \$1.7 million.

(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

**CITY OF BALTIMORE
STORMWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2014

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
General obligation bonds	\$ —	\$ —	\$ 327	\$ 3,440	\$ 3,113	\$ 195
Total general long-term debt	\$ —	\$ —	\$ 327	\$ 3,440	\$ 3,113	\$ 195
Revenue bonds	\$ —	\$ —	\$ 436	\$ 16,740	\$ 16,304	\$ 441
Total revenue bonds payable	\$ —	\$ —	\$ 436	\$ 16,740	\$ 16,304	\$ 441

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

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
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	2,965
Total obligation bonds	<u>3,113</u>
Series bonds series 2009 maturing in annual installments from \$80.3 to \$124.4 through June 15, 2024, with interest rate of 4.00% to 5.00%, payable semiannually	1,009
Series bonds series 2004A maturing in annual installments from \$340 to \$369 through February 1, 2022, with interest rate of 0.04%, payable semiannually	2,895
Series bonds series 2012 maturing in annual installments from \$612.5 to \$1,484.4 through October 1, 2027, with interest rate of 2.00% to 5.00%, payable semiannually	12,400
Total revenue bonds	<u>16,304</u>
	<u>\$ 19,417</u>

**CITY OF BALTIMORE
STORMWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2014

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

	Principal	Interest
Fiscal year:		
2015	\$ 636	\$ 613
2016	1,984	573
2017	2,079	515
2018	2,080	451
2019	2,190	385
2020–2024	7,376	970
2025–2029	3,072	150
	\$ 19,417	\$ 3,657

(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 \$19.1 million.

The City issued a Stormwater Special Revenue Bond, Series 2004 with \$2,895,000 outstanding at June 30, 2014. This bond will fund various City stormwater capital projects associated with road construction. The bond is secured by a pledge of the City's share of State highway user revenues.

Principal and interest paid for the revenue bonds in the current year were \$902,000.

(7) Pension Plan

Classified employees of the fund are required to join the City of Baltimore's Employees' Retirement System (ERS). The ERS is a cost-sharing multiple-employer defined benefit pension plan which provides retirement, disability, and death benefits to plan members and beneficiaries. The plan is managed by a Board of Trustees in accordance with Article 22 of the Baltimore City Code. Plan provisions may be amended only by the City Council. The fund's share of contributions to the plan was \$1,095,000 in 2014. The ERS issues a publicly available financial report that may be obtained by writing to the Baltimore City Retirement Systems, 7 East Redwood Street, 12th Floor, Baltimore, MD 21202-3470.

CITY OF BALTIMORE
STORMWATER UTILITY FUND

Notes to the Financial Statements

June 30, 2014

(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, 2014, 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, 2014, there were 16,251 City retirees eligible for these benefits.

For fiscal year 2014, the Fund's total contributions to the Plan was \$1.1 million.

(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 year. 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 2014, the fund's share of the City's cost was \$0.

**CITY OF BALTIMORE
STORMWATER UTILITY FUND**

Notes to the Financial Statements

June 30, 2014

(10) Subsequent Events

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 \$9,612,907, for the fund. Additionally, due from other governments and bonds payable increased by the same amount in the governmental activities.

Council Bill 13-0247 established a new defined benefit and defined contribution Retirement System to provide separate eligibility, contributions, and benefits provisions for employees initially employed or re-employed with the City on or after July 1, 2014. These employees must, as a condition of employment, elect either: (i) a non-hybrid membership in the Retirement Savings Plan, or (ii) a hybrid membership consisting of a Class D membership in the Employees' Retirement System and membership in the Retirement Savings Plan. This change was enacted to strengthen the City's Employees' Retirement System starting in fiscal year 2015.

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 impact compensated absences beginning in fiscal year 2016.

