

**CITY OF BALTIMORE  
WATER UTILITY FUND**

**Financial Statements**

**June 30, 2015 and 2014**

**(With Independent Auditors' Report Thereon)**

**CITY OF BALTIMORE  
WATER UTILITY FUND**

**Financial Statements  
June 30, 2015 and 2014**

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

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

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except 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, 2015.

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



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

***Opinion***

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

***Emphasis of Matters***

***Reporting Entity***

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

***Change in Accounting Principle***

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

***Other Matter***

***Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 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 December 23, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Robert L. McCarty Jr., CPA  
City Auditors  
Department of audits  
December 23, 2016

Independent Auditors

**CITY OF BALTIMORE  
WATER UTILITY FUND**  
Management Discussion and Analysis

June 30, 2015 and 2014

(Unaudited)

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

**Background**

The fund supplies water to the City, as well as to portions of Baltimore, Anne Arundel, Carroll, Harford, and Howard counties. The fund serves over 1.8 million people by supplying approximately 73 billion gallons of water annually. Approximately 51% of the fund's customers and 42% of water usage are currently within the City, with the remaining 49% of customers and 58% of water usage being in the surrounding Maryland counties.

**Highlights**

- For fiscal year 2015, total operating revenues were \$176.4 million, which represents an increase of 11% from fiscal year 2014 revenues. For fiscal year 2014, total operating revenues were \$158.7 million, which represents an increase of 2.6% from fiscal year 2013 revenues.
- Total operating expenses for fiscal year 2015 were \$136.1 million, the same as fiscal year 2014 operating expenses of \$136.1 million, an increase of \$14.1 million over fiscal year 2013 operating expenses of \$122.0 million.
- Net position increased in fiscal years 2015 and 2014, by \$40.6 million and \$18.7 million, respectively.

**Overview of the Financial Statements**

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

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

**CITY OF BALTIMORE**  
**WATER 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)

	<u>June 30</u>			<u>Change 2015-2014</u>	<u>Change 2014-2013</u>
	<u>2015</u>	<u>2014</u>	<u>2013</u>		
Current and other assets	\$ 327,962	\$ 253,340	\$ 166,401	\$ 74,622	\$ 86,939
Capital assets	1,147,504	1,076,330	1,026,480	71,174	49,850
Deferred outflow of resources	57,763	40,707	40,267	17,056	440
<b>Total assets and deferred outflows</b>	<b>\$ 1,533,229</b>	<b>\$ 1,370,377</b>	<b>\$ 1,233,148</b>	<b>\$ 162,852</b>	<b>\$ 137,229</b>
Current liabilities	\$ 67,690	\$ 49,961	\$ 54,429	\$ 17,729	\$ (4,468)
Noncurrent liabilities	830,396	669,200	546,182	161,196	123,018
Deferred inflow of resources	13,270	—	—	13,270	—
<b>Total liabilities and deferred inflows</b>	<b>\$ 911,356</b>	<b>\$ 719,161</b>	<b>\$ 600,611</b>	<b>\$ 192,195</b>	<b>\$ 118,550</b>
<b>Net position:</b>					
Invested in capital assets, net of related debt	\$ 519,743	\$ 536,159	\$ 528,427	\$ (16,416)	\$ 7,732
Restricted	58,289	68,885	53,772	(10,596)	15,113
Unrestricted	43,841	46,172	50,338	(2,331)	(4,166)
<b>Total net position</b>	<b>\$ 621,873</b>	<b>\$ 651,216</b>	<b>\$ 632,537</b>	<b>\$ (29,343)</b>	<b>\$ 18,679</b>

**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 \$621.9 million and \$651.2 million in fiscal years 2015 and 2014, respectively. The fund's net position includes its investment of \$519.7 million and \$536.2 million in capital assets (e.g., land, buildings, equipment, 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 water 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. An additional portion of the fund's net position, \$58.3 million and \$68.9 million in fiscal years 2015 and 2014, respectively represents restricted resources that are legally obligated for revenue bond repayment requirements. The fund had unrestricted net assets of \$43.8 million and \$46.2 million as of June 30, 2015 and 2014, respectively.

**CITY OF BALTIMORE  
WATER UTILITY FUND**  
Management Discussion and Analysis

June 30, 2015 and 2014

(Unaudited)

During fiscal years 2015 and 2014, the fund expended \$96.1 million and \$71.7 million for capital assets, respectively. These assets primarily represent facility enhancements to comply with environmental regulations. The assets were funded primarily through cash reserves and proceeds of revenue bonds. Bond proceeds of \$198.4 million (includes a premium of \$24.0 million) were received in fiscal year 2015, of which \$76.9 million was utilized to refund existing debt. Bond proceeds of \$346.2 million (includes a premium of \$28.3 million) were received in fiscal year 2014, of which \$188.2 million was utilized to refund existing debt. Moody's Investor Services, Inc., and Standard & Poor's Rating Services show the utilities' bonds are rated Aa2 and AA for senior lien debt and Aa3 and AA- for subordinate lien debt, respectively.

Revenues, Expenses, and Changes in Net Position

	(Expressed in thousands)				
	June 30			Change 2015-2014	Change 2014-2013
	2015	2014	2013		
Operating revenues	\$ 176,440	\$ 158,678	\$ 154,680	\$ 17,762	\$ 3,998
Operating expenses:					
Salaries and wages	38,153	39,454	37,093	(1,301)	2,361
Other personnel costs	17,729	17,181	16,341	548	840
Contractual services	43,276	46,581	37,638	(3,305)	8,943
Material and supplies	11,952	10,052	8,982	1,900	1,070
Minor Equipment	745	679	791	66	(112)
Depreciation	24,195	22,118	21,122	2,077	996
Total operating expenses	<u>136,050</u>	<u>136,065</u>	<u>121,967</u>	<u>(15)</u>	<u>14,098</u>
Operating income	40,390	22,613	32,713	17,777	(10,100)
Nonoperating expense, net	<u>(13,510)</u>	<u>(16,379)</u>	<u>(12,937)</u>	2,869	(3,442)
Income before capital contributions	26,880	6,234	19,776	20,646	(13,542)
Capital contributions	<u>13,716</u>	<u>12,445</u>	<u>22,328</u>	<u>1,271</u>	<u>(9,883)</u>
Change in net position	40,596	18,679	42,104	<u>\$ 21,917</u>	<u>\$ (23,425)</u>
Beginning net position (as restated)	<u>581,277</u>	<u>632,537</u>	<u>590,433</u>		
Ending net position	<u>\$ 621,873</u>	<u>\$ 651,216</u>	<u>\$ 632,537</u>		

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

The overall increase in the fund's net position amounted to \$40.6 million and \$18.7 million for fiscal years 2015, and 2014, respectively, due to the implementation of a 11% and 15% water rate increase in fiscal years 2015 and 2014 respectively, to customers located in Baltimore City, Anne Arundel, Howard, and Carroll counties, successfully minimizing increases in operating expenses, and capital contributions, primarily from Baltimore County, corresponding to increases in the cost of the Capital Improvement Program.



**CITY OF BALTIMORE  
WATER 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 amounted to \$1,147.5 million and \$1,076.3 million (net of accumulated depreciation), respectively. Capital assets include land, equipment, buildings, improvements, construction in progress and infrastructure. Total increases in the fund's net capital assets for fiscal years 2015 and 2014 were \$71.1 million and \$49.9 million, respectively. These increases were funded primarily by issuance of revenue bonds. The following schedule presents the capital asset activities for fiscal years 2015 and 2014 (amounts expressed in thousands):

	<u>Balance June 30, 2015</u>	<u>Net change</u>	<u>Balance June 30, 2014</u>	<u>Net change</u>	<u>Balance June 30, 2013</u>
Land	\$ 12,540	\$ —	\$ 12,540	\$ —	\$ 12,540
Construction in progress	150,946	(106,044)	256,990	26,376	230,614
Buildings and improvements, net	776,980	137,268	639,712	(14,285)	653,997
Equipment, net	9,385	849	8,536	(1,816)	10,352
Infrastructure, net	197,653	39,101	158,552	39,575	118,977
Total capital assets, net	<u>\$ 1,147,504</u>	<u>\$ 71,174</u>	<u>\$ 1,076,330</u>	<u>\$ 49,850</u>	<u>\$ 1,026,480</u>

As of June 30, 2015 and 2014, the fund had commitments of \$167.541 million and \$92.833 million for the acquisition and construction of capital assets. See note 4 for further information.

**Debt Administration**

For fiscal years 2015 and 2014, the fund had long-term obligations of \$765.4 million and \$656.1 million, respectively. These long-term obligations consisted primarily of governmental revenue bonds, which are secured by revenue from the sale of water.

The fund issued revenue bonds during fiscal year 2015 to fund the cost of acquisition and construction of various capital projects. During fiscal years 2015 and 2014, the fund's debt increased by \$109.3 million and by \$145.7 million in 2015 and 2014, respectively. See note 5 for further information.

**Economic Condition of the Water Utility Fund**

The fund is a large regional utility system that provides service to the diverse Baltimore metropolitan area, which includes Baltimore City as well as portions of Baltimore, Anne Arundel, Howard, Carroll, and Harford counties. Modest growth is expected in the future. The fund's long-term water supply is good, with water primarily coming from the Loch Raven, Prettyboy, and Liberty Reservoirs. Additional water can be drawn from the Susquehanna River, providing the fund with additional capacity. Although the fund is expected to make substantial investments in capital improvements to meet the Safe Drinking Water Act requirements and to rehabilitate aging infrastructure, management expects continued good financial performance, including adequate debt service coverage and liquidity.

**CITY OF BALTIMORE  
WATER UTILITY FUND**

Statements of Net Position

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	\$ 66,382	\$ 58,527
Accounts receivable, net:		
Service billings	45,184	45,556
Other	340	50
Due from other governments	28,150	13,136
Inventories	6,489	7,890
Restricted assets:		
Cash and cash equivalents	<u>32,697</u>	<u>27,281</u>
Total current assets	<u>179,242</u>	<u>152,440</u>
<b>Noncurrent assets:</b>		
Restricted assets:		
Cash and cash equivalents	148,720	100,900
Capital assets, net of accumulated depreciation	984,018	806,800
Capital assets not being depreciated	<u>163,486</u>	<u>269,530</u>
Total noncurrent assets	<u>1,296,224</u>	<u>1,177,230</u>
Total assets	<u>1,475,466</u>	<u>1,329,670</u>
<b>Deferred outflows of resources:</b>		
Deferred loss on bond refundings	37,835	28,389
Deferred outflow related to pension	10,454	—
Interest rate swaps	<u>9,474</u>	<u>12,318</u>
Total deferred outflows of resources	<u>57,763</u>	<u>40,707</u>
Total assets and deferred outflows of resources	<u>1,533,229</u>	<u>1,370,377</u>
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	3,952	3,174
Accrued interest payable	16,816	15,032
Deposit subject to refund	15	15
Compensated absences	2,499	2,412
Accounts payable paid from restricted assets	28,528	17,078
Revenue bonds payable	<u>15,880</u>	<u>12,250</u>
Total current liabilities	<u>67,690</u>	<u>49,961</u>
<b>Noncurrent liabilities:</b>		
Compensated absences	4,465	3,961
Derivative instrument liability	15,581	21,368
Net pension liability	60,877	—
Revenue bonds payable, net	<u>749,473</u>	<u>643,871</u>
Total noncurrent liabilities	<u>830,396</u>	<u>669,200</u>
Total liabilities	<u>898,086</u>	<u>719,161</u>
<b>Deferred inflows of resources:</b>		
Deferred inflow related to pension	<u>13,270</u>	<u>—</u>
Total deferred inflows of resources	<u>13,270</u>	<u>—</u>
Total liabilities and deferred inflow of resources	<u>911,356</u>	<u>719,161</u>
<b>Net position:</b>		
Net investment in capital assets	519,743	536,159
Restricted for:		
Debt service	58,289	68,885
Unrestricted	<u>43,841</u>	<u>46,172</u>
Total net position	<u>\$ 621,873</u>	<u>\$ 651,216</u>

See accompanying notes to financial statements.

**CITY OF BALTIMORE  
WATER UTILITY FUND**

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2015 and 2014

(Expressed in thousands)

	2015	2014
Operating revenues:		
Water service	\$ 162,540	\$ 144,942
Rents, fees, and other income	559	2,409
Interest income	13,341	11,327
Total operating revenues	176,440	158,678
Operating expenses:		
Salaries and wages	38,153	39,454
Other personnel costs	17,729	17,181
Contractual services	43,276	46,581
Materials and supplies	11,952	10,052
Minor equipment	745	679
Depreciation	24,195	22,118
Total operating expenses	136,050	136,065
Operating income	40,390	22,613
Nonoperating revenues (expenses):		
Loss on disposal of assets	(117)	—
Gain (loss) on sale of investments	490	(83)
Bond issuance costs	(259)	(687)
Interest income	4,353	1,527
Interest expense	(17,977)	(17,136)
Total nonoperating expenses, net	(13,510)	(16,379)
Income before capital contributions	26,880	6,234
Capital contributions	13,716	12,445
Changes in net position	40,596	18,679
Total net position – beginning (as restated) (note 13)	581,277	632,537
Total net position – ending	\$ 621,873	\$ 651,216

See accompanying notes to financial statements.

**CITY OF BALTIMORE  
WATER UTILITY FUND**

Statements of Cash Flow

Years ended June 30, 2015 and 2014

(Expressed in thousands)

	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 176,521	\$ 166,604
Payments to employees	(61,123)	(56,171)
Payments to suppliers	(68,895)	(72,806)
	<u>46,503</u>	<u>37,627</u>
<b>Cash flow from capital and related financing activities:</b>		
Proceeds from revenue bonds	201,064	344,396
Principal paid on revenue bonds	(12,250)	(10,830)
Paid to escrow account for refunding of bonds	(87,121)	(191,549)
Interest received	4,353	1,527
Interest paid	(16,940)	(11,328)
Acquisition and construction of capital assets	(84,038)	(67,030)
Capital contributions received	13,390	13,371
Bond issuance costs paid	(259)	(687)
Swap termination payment	(4,101)	(18,158)
	<u>14,098</u>	<u>59,712</u>
<b>Cash flows from investing activities:</b>		
Gain (loss) on sale of investments	490	(83)
	<u>490</u>	<u>(83)</u>
Net cash provided by investing (used in) investing activities	490	(83)
Net increase in cash and cash equivalents	61,091	97,256
Cash and cash equivalents, beginning of year	<u>186,708</u>	<u>89,452</u>
Cash and cash equivalents, end of year	<u>\$ 247,799</u>	<u>\$ 186,708</u>
<b>Reconciliation of operating income to net cash provided by Operating activities:</b>		
Operating income	\$ 40,390	\$ 22,613
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	24,195	22,118
Changes in assets and liabilities:		
Accounts receivable – service billings	372	7,844
Accounts receivable – other	(290)	82
Inventories	1,400	1,465
Deferred outflows pensions	(10,454)	—
Accounts payable and accrued liabilities	364	759
Accrued Salaries	414	—
Due to other funds	—	(17,600)
Deferred inflows pensions	13,270	—
Pension liability (current period)	(9,062)	—
Compensated Absences	591	346
Due to other governments	(14,687)	—
Total adjustments	<u>6,113</u>	<u>15,014</u>
Net cash provided by operating activities	<u>\$ 46,503</u>	<u>\$ 37,627</u>
<b>Noncash activity from capital and related financing activities:</b>		
Acquisition and construction of capital assets financed by debt	<u>\$ 11,450</u>	<u>\$ 4,939</u>

See accompanying notes to financial statements.

**CITY OF BALTIMORE  
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2015 and 2014

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

**(a) Reporting Entity**

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

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

**(b) Basis of Presentation**

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

**(c) New Government Accounting Standards Board Pronouncements**

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

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

The Fund's unrestricted cash is recorded in the operating and capital projects general ledger accounts "due to/due from fund" and the renovation and "restricted cash" (maintained in Trust with M&T Bank general ledger accounts titled principal, interest, construction, and debt service reserve), respectively. Cash equivalents result from short-term investments made by M&T Bank, to maximize interest earnings, for the various trust accounts they manage on behalf of the Fund. The trust accounts fund future capital asset construction, the debt service reserve, the renovation account (for surplus operating/unrestricted funds) and pay principal and interest on capital asset financing. The renovation

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WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2015 and 2014

account is included in the “Statement of Net Position” as unrestricted cash and cash equivalents, while the remaining trust accounts are classified as current & noncurrent restricted cash and cash equivalents.

**(e) Swaps**

Interest rate swaps are entered into to take advantage of lower cost interest rates, through conversion of variable rate to fixed rates and fixed rate to variable rates. Swap related transactions are recorded as payments are received and made. Note 6 provides information on the various rewards and risks typical to these types of financing arrangements.

**(f) Inventories**

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

**(g) Service Billings Accounts Receivable**

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

**(h) Restricted Cash**

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

**(i) Due from Other Governments**

The restricted portion of due from other governments consists of bond proceeds held by the Maryland Water Quality Financing Administration, which are available to draw down upon submission of eligible expense reimbursements. The unrestricted portion consists of amounts due from Baltimore County for its portion of operational costs that are not covered by the revenue collected from the County’s individual customers and construction progress billings to local jurisdictions for their cost share on a specific capital project(s). The fund deems this account fully collectable based on historical collections.

**(j) 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.

**(k) 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.

**CITY OF BALTIMORE  
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2015 and 2014

**(l) Capital Assets**

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

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

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

**(m) Gains and Losses on Early Extinguishment of Debt from Refundings**

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

**FY 2015**

On December 3, 2014, the fund issued Water Revenue Bonds, Series 2014-A, 2014-B, and 2014-C in the amounts of \$99,210,000, \$39,200,000, and \$36,010,000, respectively, and totaling \$174,420,000. Of these amounts \$99,210,000 were issued for various capital projects, and \$75,210,000 were refunding bonds that refunded certain maturities totaling \$76,910,000. A majority of the savings facilitated the refunding of the fund's auction rate debt portfolio and the termination of the underlying interest rate exchange agreements. Interest on the bonds is due on July 1st and January 1st, and the bonds mature between 2015 and 2044 depending on the particular series.

The Series 2014 Water Refunding Revenue Bond issuance reduced total debt service payments by approximately \$2,195,000, to obtain an economic gain of approximately \$859,000. Additionally, the City used \$4,101,000 to reduce its derivative swap exposure.

**FY 2014**

On December 3, 2013, the fund issued Water Revenue Bonds, Series 2013-A, 2013-B, and 2013-C in the amounts of \$130,110,000, \$155,990,000, and \$31,740,000, respectively, and totaling \$317,840,000. Of these amounts \$130,110,000 were issued for various capital projects, and \$187,730,000 were refunding bonds that refunded certain maturities totaling \$188,240,000. A majority of the savings facilitated the refunding of the fund's auction rate debt portfolio and the termination of the underlying interest rate exchange agreements. Interest on the bonds is due on July 1st and January 1st, and the bonds mature between 2015 and 2044 depending on the particular series.

The Series 2013 Water Refunding Revenue Bond issuance reduced total debt service payments by approximately \$1,405,000, to obtain an economic gain of approximately \$755,000. Additionally, the City used \$18,672,000 to reduce its derivative swap exposure.

**CITY OF BALTIMORE  
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Notes to Financial Statements

June 30, 2015 and 2014

**(n) *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 at the date of separation; under any other conditions of separation, unused sick leave is forfeited. At June 30, 2015, it is estimated that accumulated non vested sick leave for the fund approximated \$5,815,000. 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 either may be taken 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 to unused sick leave recorded as a liability for compensated absences at June 30, 2015 and 2014, is \$6,964,000 and \$6,373,000, respectively.

**(o) *Long Term Debt Obligation***

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

**(p) *Capital Contributions***

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

**(q) *Net Position***

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

**Net Investment in Capital Assets**

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



**CITY OF BALTIMORE  
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June 30, 2015 and 2014

**Restricted for Debt Service**

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

**Unrestricted**

Residual fund balance not included in the above categories.

**(2) Deposit and Investment**

The fund participates in the City's pooled cash account. At June 30, 2015 and 2014, the fund's share of the pooled cash account, including both restricted and unrestricted cash, was \$55.4 million and \$46.5 million, respectively. All of the City's pooled cash deposits are either insured through the Federal Depository Insurance Corporation or collateralized by securities held in the name of the City by the City's agent.

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

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

Investment type	Fair value	June 30, 2015	
		Investment maturities (in months)	
		Less than 6	6 to 12
Debt securities:			
U.S. agencies	\$ 18,612	\$ —	\$ 18,612
Money market mutual funds	50,554	50,554	—
Federated government obligation fund	26,694	26,694	—
Blackrock Liquidity Fund	96,163	96,163	—
Commercial paper	1,836	1,836	—
	193,859	\$ 175,247	\$ 18,612
Less cash equivalents	193,859		
Total investments	\$ —		

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June 30, 2015 and 2014

<u>Investment type</u>	<u>Fair value</u>	<u>June 30, 2014</u>	
		<u>Investment maturities (in months)</u>	
		<u>Less than 6</u>	<u>6 to 12</u>
Debt securities:			
U.S. agencies	\$ 225	\$ 180	\$ 45
Money market mutual funds	69,981	69,981	—
Federated government obligation fund	67,770	67,770	—
Commercial paper	1,836	1,836	—
	<u>139,812</u>	<u>\$ 139,767</u>	<u>\$ 45</u>
Less cash equivalents	<u>139,812</u>		
Total investments	<u>\$ —</u>		

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

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

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

As discussed above, the City’s Board of Finance limits City investments to only the highest rated investments in the categories discussed above. The fund’s portions of the City’s rated debt investments as of June 30,

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WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2015 and 2014

2015 and 2014 were rated by a nationally recognized statistical rating agency, and are presented below using the Standard and Poor's rating scale (amounts expressed in thousands):

Investment type	June 30, 2015		
	Fair value	Quality ratings	
		AAA	A1 – P1
U.S. agencies:			
Federal Home Loan Mortgage Corp. Securities	\$ 18,612	\$ 18,612	\$ —
Money market mutual funds:			
Wilmington Bank U.S. Government Money Market Fund	50,554	50,554	—
Federated government obligation fund	26,694	26,694	—
Blackrock Liquidity Fund	96,163	96,163	—
Commercial paper	1,836	—	1,836
Total rated debt investments	<u>\$ 193,859</u>	<u>\$ 192,023</u>	<u>\$ 1,836</u>

Investment type	June 30, 2014		
	Fair value	Quality ratings	
		AAA	A1 – P1
U.S. agencies:			
Federal Home Loan Mortgage Corp. Securities	\$ 225	\$ 225	\$ —
Money market mutual funds:			
Wilmington Bank U.S. Government Money Market Fund	69,981	69,981	—
Federated government obligation fund	67,770	67,770	—
Commercial paper	1,836	—	1,836
Total rated debt investments	<u>\$ 139,812</u>	<u>\$ 137,976</u>	<u>\$ 1,836</u>

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City has not adopted a formal policy on the concentration of credit risk.

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

**(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 as of June 30, 2015 and 2014 are shown net of allowances of \$17,882,000 and \$20,274,000, respectively.

**CITY OF BALTIMORE  
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Notes to Financial Statements

June 30, 2015 and 2014

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's customer service costs attributable to billing inquiries were paid by the Water Utility Fund.

Adjustments determined during administrative conferences resulted in reduction to income of \$2.9 million and \$5.5 million in FY 2015 and FY 2014, respectfully. All adjustments were posted to the Water Utility Fund, although adjustments could apply to the other funds.

**(4) Capital Assets**

Capital assets activities for the years ended June 30, 2015, 2014 and 2013 were as follows (expressed in thousands):

	<b>Balance June 30, 2014</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2015</b>
Capital assets, not being depreciated:				
Land	\$ 12,540	\$ —	\$ —	\$ 12,540
Construction in progress	256,990	96,069	202,113	150,946
Total capital assets, not being depreciated	<u>269,530</u>	<u>96,069</u>	<u>202,113</u>	<u>163,486</u>
Capital assets, being depreciated:				
Buildings and improvements	1,030,623	155,999	—	1,186,622
Equipment	65,487	2,725	720	67,492
Infrastructure	163,877	42,807	—	206,684
Total capital assets, being depreciated	<u>1,259,987</u>	<u>201,531</u>	<u>720</u>	<u>1,460,798</u>
Less accumulated depreciation for:				
Buildings and improvements	390,911	18,731	—	409,642
Equipment	56,951	1,759	603	58,107
Infrastructure	5,325	3,706	—	9,031
Total accumulated depreciation	<u>453,187</u>	<u>24,196</u>	<u>603</u>	<u>476,780</u>
Total capital assets, being depreciated, net	<u>806,800</u>	<u>177,335</u>	<u>117</u>	<u>984,018</u>
Total capital assets, net	<u>\$ 1,076,330</u>	<u>\$ 273,404</u>	<u>\$ 202,230</u>	<u>\$ 1,147,504</u>

**CITY OF BALTIMORE  
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2015 and 2014

	<u>Balance June 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>
Capital assets, not being depreciated:				
Land	\$ 12,540	\$ —	\$ —	\$ 12,540
Construction in progress	230,614	71,712	45,336	256,990
Total capital assets, not being depreciated	<u>243,154</u>	<u>71,712</u>	<u>45,336</u>	<u>269,530</u>
Capital assets, being depreciated:				
Buildings and improvements	1,027,719	2,904	—	1,030,623
Equipment	65,226	261	—	65,487
Infrastructure	121,450	42,427	—	163,877
Total capital assets, being depreciated	<u>1,214,395</u>	<u>45,592</u>	<u>—</u>	<u>1,259,987</u>
Less accumulated depreciation for:				
Buildings and improvements	373,722	17,189	—	390,911
Equipment	54,874	2,077	—	56,951
Infrastructure	2,473	2,852	—	5,325
Total accumulated depreciation	<u>431,069</u>	<u>22,118</u>	<u>—</u>	<u>453,187</u>
Total capital assets, being depreciated, net	<u>783,326</u>	<u>23,474</u>	<u>—</u>	<u>806,800</u>
Total capital assets, net	<u>\$ 1,026,480</u>	<u>\$ 95,186</u>	<u>\$ 45,336</u>	<u>\$ 1,076,330</u>

Interest is capitalized on capital assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest cost incurred from the date of the borrowing until completion of the project, with interest earned on invested proceeds over the period. During fiscal years 2015 and 2014, interest cost of \$11,982,000 and \$10,676,000, respectively (net of interest earned of \$806,100 and \$1,394,000, respectively), was capitalized.

At June 30, 2015 and 2014, the fund had outstanding commitments for construction of \$167,541,000 and \$92,833,000, 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

**CITY OF BALTIMORE  
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Notes to Financial Statements

June 30, 2015 and 2014

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

	<u>Balance June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2015</u>	<u>Amounts due within one year</u>
Revenue bonds	\$ 627,794	\$ 174,420	\$ 89,160	\$ 713,054	\$ 15,880
Add bond premiums	28,327	26,644	2,672	52,299	—
Total revenue bonds payable	<u>\$ 656,121</u>	<u>\$ 201,064</u>	<u>\$ 91,832</u>	<u>\$ 765,353</u>	<u>\$ 15,880</u>
Compensated absences	<u>\$ 6,373</u>	<u>\$ 591</u>	<u>\$ —</u>	<u>\$ 6,964</u>	<u>\$ 2,499</u>

	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>	<u>Amounts due within one year</u>
Revenue bonds	\$ 509,024	\$ 317,840	\$ 199,070	\$ 627,794	\$ 12,250
Add bond premiums	1,399	28,333	1,405	28,327	—
Total revenue bonds payable	<u>\$ 510,423</u>	<u>\$ 346,173</u>	<u>\$ 200,475</u>	<u>\$ 656,121</u>	<u>\$ 12,250</u>
Compensated absences	<u>\$ 6,027</u>	<u>\$ 346</u>	<u>\$ —</u>	<u>\$ 6,373</u>	<u>\$ 2,412</u>

The fund has issued revenue bonds, the proceeds of which were used to provide funds for capital improvements to water facilities. Certain assets and revenues of the fund are pledged as collateral for the bonds and notes.

During fiscal year 2015, the fund issued Water Revenue Bonds, Series 2014-A, 2014-B, and 2014-C, which totaled \$174,420,000. A portion of these bonds was used to refund serial bonds Series 2005-A, 2006A, 2007C, 2008-A and 2009A, and auction rate notes Series 2002-B, and 2002-C.

During fiscal year 2014, the fund issued Water Revenue Bonds, Series 2013-A, 2013-B, and 2013-C, which totaled \$317,840,000. A portion of these bonds was used to refund term bonds Series 2002-A, serial bonds Series 2002-A, and auction rate notes Series 2004-B.

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June 30, 2015 and 2014

Bonds and notes outstanding as of June 30, 2015 and 2014, consist of (amounts expressed in thousands) in the following table:

	<u>2015</u>	<u>2014</u>
Term bonds series 1993-A with interest at 5.65%, payable semiannually, due July 1, 2020	\$ 21,000	\$ 23,900
Term bonds series 1994-A with interest at 6.00%, payable semiannually, due July 1, 2015	1,200	2,330
Term bonds series 1994-A with interest at 5.00%, payable semiannually, due July 1, 2024	10,280	10,280
Term bonds series 2002-A with interest at 5.125%, payable semiannually, due July 1, 2042	3,300	5,625
Term bonds series 2006-A with interest at 4.625%, payable semiannually, due July 1, 2031	—	5,930
Term bonds series 2006-A with interest at 4.625%, payable semiannually, due July 1, 2036	3,175	7,435
Term bonds series 2007-B with interest at 4.50%, payable semiannually, due July 1, 2032	22,995	22,995
Term bonds series 2007-B with interest at 4.50%, payable semiannually, due July 1, 2035	7,910	7,910
Term bonds series 2007-C with interest at 5.00%, payable semiannually, due July 1, 2032	—	9,115
Term bonds series 2007-C with interest at 5.00%, payable semiannually, due July 1, 2037	—	11,630
Term bonds series 2008-A with interest at 4.625%, payable semiannually, due July 1, 2033	5,740	5,740
Term bonds series 2008-A with interest at 4.73%, payable semiannually, due July 1, 2038	1,115	1,115
Term bonds series 2008-A with interest at 5.00%, payable semiannually, due July 1, 2038	6,150	6,150
Term bonds series 2009-A with interest at 5.00%, payable semiannually, due July 1, 2024	—	1,220
Term bonds series 2009-A with interest at 5.125%, payable semiannually, due July 1, 2029	1,560	3,630
Term bonds series 2009-A with interest at 5.375%, payable semiannually, due July 1, 2034	2,955	4,680
Term bonds series 2009-A with interest at 5.75%, payable semiannually, due July 1, 2039	—	6,120
Serial bonds series 2003-B maturing in annual installments from \$66,000 to \$984,000 through February 1, 2024, with interest rate at 0.40%, payable semiannually	1,105	1,174
Serial bonds series 2005-A maturing in annual installments from \$535,000 to \$580,000 from July 1, 2023 through July 1, 2025, with interest rate of 4.00% to 5.00%, payable semiannually	—	1,670

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June 30, 2015 and 2014

	2015	2014
Serial bonds series 2006-A maturing in annual installments from \$515,000 to \$1,035,000 through July 1, 2026, with interest rate of 4.00% to 4.50%, payable semiannually	\$ 1,325	\$ 10,525
Serial bonds series 2007-A maturing in annual installments from \$64,000 to \$80,000 through February 1, 2037, with interest rate at 0.40%, payable semiannually	1,447	1,520
Serial bonds series 2008-A maturing in annual installments from \$475,000 to \$1,005,000 through July 1, 2028, with interest rates of 2.00% to 4.50%, payable semiannually	9,260	11,505
Serial bonds series 2007-C maturing in annual installments from \$740,000 to \$1,570,000 through July 1, 2027, with interest rates of 3.75% to 5.00%, payable semiannually	2,790	16,390
Serial bonds series 2009-A maturing in annual installments from \$475,000 to \$1,005,000 through July 1, 2021, with interest rates of 2.00% to 4.50%, payable semiannually	3,975	4,400
Serial bonds series 2009-B maturing in annual installments of \$586, 172 from February 1, 2015 through February 1, 2043, with an interest rates of 0.00%	16,413	17,000
Auction rate notes series 2002-B, payable monthly, due July 1, 2037	12,800	18,300
Auction rate notes series 2002-C, payable monthly, due July 1, 2037	8,000	12,700
Serial bonds series 2004-A maturing in annual installments from \$197,000 to \$984,000 through February 1, 2024, with interest rate at 0.45%, payable semiannually	3,574	3,779
Serial bonds series 2007-B maturing in annual installments from \$30,000 to \$3,860,000 through July 1, 2027, with interest rate of 3.60% to 4.50%, payable semiannually	19,645	19,680
Serial bonds series, 2011-A maturing in annual installments of \$915,000 to \$3,940,000 through February 1, 2031, with interest rates from 2.00% to 5.00%	24,390	25,405
Serial bonds series, 2011-B maturing in annual installments of \$130,193 to \$172,023 from February 1, 2015 through February 1, 2043, with interest rates of 1.00%	4,225	4,356
Term bond series 2011-A with interest at 4.57%, payable semiannually, due July 1, 2036	11,400	11,400
Term bond series 2011-A with interest at 5.00%, payable semiannually, due July 1, 2041	14,345	14,345
Serial bonds series, 2013-A maturing in annual installments of \$1,185,000 to \$4,980,000 from July 1, 2014 through July 1, 2033, with interest rates from 3.00% to 5.00% payable semiannually	63,185	64,370



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	2015		2014
Term bond series 2013-A with interest at 5.00%, payable semiannually, due July 1, 2038	\$ 28,880	\$	28,880
Term bond series 2013-A with interest at 5.00%, payable semiannually, due July 1, 2043	36,860		36,860
Serial bonds series, 2013-B maturing in annual installments of \$85,000 to \$6,690,000 from July 1, 2014 through July 1, 2033, with interest rates from 2.00% to 5.00% payable semiannually	91,185		91,270
Term bond series 2013-B with interest at 5.00%, payable semiannually, due July 1, 2038	26,705		26,705
Term bond series 2013-B with interest at 4.50%, payable semiannually, due July 1, 2038	1,115		1,115
Term bond series 2013-B with interest at 5.00%, payable semiannually, due July 1, 2042	36,900		36,900
Serial bonds series, 2013-C maturing in annual installments of \$10,000 to \$2,000,000 from July 1, 2014 through July 1, 2025, with interest rates from 3.00% to 5.00% payable semiannually	31,730		31,740
Serial bonds series, 2014-A maturing in annual installments of \$950,000 to \$3,785,000 from July 1, 2034, with interest rates from 2.00% to 5.00% payable semiannually	49,205		—
Term bond series 2014-A with interest at 5.00%, payable semiannually, due July 1, 2037	12,535		—
Term bond series 2014-A with interest at 5.00%, payable semiannually, due July 1, 2039	9,430		—
Term bond series 2014-A with interest at 5.00%, payable semiannually, due July 1, 2044	28,040		—
Serial bonds series, 2014-B maturing in annual installments of \$960,000 to \$2,135,000 from July 1, 2034, with interest rates of 5.00% payable semiannually	32,135		—
Term bond series 2014-B with interest at 5.00%, payable semiannually, due July 1, 2037	7,065		—
Serial bonds series, 2014-C maturing in annual installments of \$675,000 to \$3,905,000 from July 1, 2034, with interest rates from 3.00% of 5.00% payable semiannually	29,785		—
Term bond series 2014-C with interest at 5.00%, payable semiannually, due July 1, 2039	6,225		—
	713,054		627,794
Unamortized bond premium	52,299		28,327
	\$ 765,353	\$	656,121

At June 30, 2015 and 2014, the fund had \$20,800,000 and \$31,000,000 of auction rate notes outstanding, respectively. Interest rates for these notes are determined every 7 days. In the event of a failed auction, the auction agent assesses the failed auction rate to the issuers of the notes. Interest paid under these conditions

**CITY OF BALTIMORE  
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Notes to Financial Statements

June 30, 2015 and 2014

is currently limited to 150% of the nonfinancial commercial paper rate depending on the rating of each bond issue. The failed auction rate on these notes during the fiscal year was less than 1%.

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

	<u>Principal</u>	<u>Interest</u>	<u>Interest rate swap net<sup>(a)</sup></u>
Fiscal year:			
2016	\$ 15,880	\$ 32,798	\$ 714
2017	17,298	31,437	734
2018	17,881	30,679	744
2019	18,573	29,900	744
2020	19,331	29,060	744
2021–2025	104,838	131,303	3,720
2026–2030	125,610	104,878	3,720
2031–2035	159,293	71,436	3,720
2036–2040	139,330	38,138	642
2041–2045	95,020	9,252	(109)
	<u>\$ 713,054</u>	<u>\$ 508,881</u>	<u>\$ 15,373</u>

<sup>(a)</sup> Interest rate swap net payments represent estimated payments for additional interest resulting from swap agreements to counterparties. The additional payments were computed using rates as of June 30, 2015, assuming current interest rates remain the same for the entire term of the bonds. As rates vary, variable rate bond interest payments and net swap payments will vary.

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

***Pledge Revenue***

The fund has pledged future customer revenues to repay \$713,054,000 and \$627,794,000 of revenue bond debt, at June 30, 2015 and 2014, respectively. Proceeds from these revenue bonds were used to build and improve various aspects of the City's water utility system. The bonds are payable solely from the revenues of the fund and are payable through 2045. Annual principal and interest payments on these revenue bonds are expected to require 67.2% of pledged revenues. Total principal and interest remaining to be paid on the revenue bonds for the fund is \$1,237,308,000 and \$1,089,932,000 at June 30, 2015 and 2014, respectively. Principal and interest paid and pledged revenue for fiscal year 2015 were \$40,144,000 and \$59,663,000 respectively. Principal and interest and pledged revenue for fiscal year 2014 were \$31,956,000 and \$44,731,000, respectively.

**CITY OF BALTIMORE  
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Notes to Financial Statements

June 30, 2015 and 2014

**(6) Interest Rate Swaps**

**(a) Objectives of the Swaps**

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

**(b) Terms, Fair Value, and Credit Risk**

The terms, fair values and credit risk ratings of the outstanding swaps, as of June 30, 2015 and 2014 are presented in the following table. The notional amounts of the swaps generally match the principal amount of the associated debt. The City's swap agreements contain scheduled reductions to outstanding notional amounts that are intended to track the scheduled or anticipated reductions in the associated "bonds payable" category.

**(c) Hedged Derivative Instruments**

At June 30, 2015 and 2014, the fund had deferred outflows for various hedged derivative instruments with total fair values of these instruments in the amount of \$(9,474,000) and \$(12,318,000), respectively. The notional amounts for these hedged derivative instruments at June 30, 2015 and 2014, were \$24,100,000 and \$36,625,000, respectively. During fiscal year 2015 and 2014, the fair values of these instruments increased by \$2,844,000 and \$21,421,000, respectively. All hedges are cash flow hedges. The following schedule provides a detailed analysis of derivative instruments held at June 30, 2015:

Outstanding bonds	Effective date	Termination date	Interest rate paid by city	June 30, 2015		Counterparty credit rating	
				Interest rate received	Notional amount		
Floating to fixed swaps:							
2002 revenue bonds	5/7/2002	7/1/2037	4.555%	67% 1M LIBOR	\$ 20,800,000	\$ (9,386,827)	A-/A3
2002 revenue bonds	5/7/2002	7/1/2015	4.50%	Bond Rate/CPI	1,615,000	(30,157)	A-/A3
2002 revenue bonds	5/7/2002	7/1/2016	4.61%	Bond Rate/CPI	1,685,000	(56,670)	A-/A3
Total swaps outstanding					\$ 24,100,000	\$ (9,473,654)	

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Outstanding bonds	June 30, 2014						
	Effective date	Termination date	Interest rate paid by city	Interest rate received	Notional amount	Fair value	Counterparty credit rating
Floating to fixed swaps							
2002 revenue bonds	5/7/2002	7/1/2037	4.55%	67% LIBOR	\$ 31,000,000	\$ (12,273,957)	A-/Baa2
2002 revenue bonds	5/7/2002	7/1/2014	4.39	CPI	2,325,000	(6,168)	A-/Baa2
2002 revenue bonds	5/7/2002	7/1/2015	4.50	CPI	1,615,000	(12,294)	A-/Baa2
2002 revenue bonds	5/7/2002	7/1/2016	4.61	CPI	1,685,000	(25,465)	A-/Baa2
Total swaps outstanding					<u>\$ 36,625,000</u>	<u>\$ (12,317,884)</u>	

**i. Credit Risk**

As of June 30, 2015 and 2014, the Water Utility Fund is not exposed to credit risk on all of the outstanding swaps because the swaps have negative fair values. All fair values were calculated using the mark-to-market or par value method. However, should interest rates change and the fair values of the swaps become positive, the Fund would be exposed to credit risk in the amount of the derivatives' fair value.

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

Although the fund originally executed transactions with various counterparties, the remaining three Water Utility Fund swaps are held with a single counterparty. That counterparty is rated A-/A3.

**ii. Basic Risk**

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

**iii. Termination Risk**

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

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**(d) Investment Derivative Instruments**

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

	Changes in fair value		Fair value at June 30, 2015		
	Classification	Amount	Classification	Amount	Notional
Fixed to floating	Investment revenue	\$ 2,549,443	Debt	\$ (6,297,710)	\$ (71,455,000)
		<u>\$ 2,549,443</u>		<u>\$ (6,297,710)</u>	<u>\$ (71,455,000)</u>

	Changes in fair value		Fair value at June 30, 2014		
	Classification	Amount	Classification	Amount	Notional
Fixed to floating	Investment revenue	\$ 58,179	Debt	\$ (203,337)	\$ (13,220,453)
Floating to fixed	Investment revenue	<u>131,722</u>	Debt	<u>(8,847,153)</u>	<u>(71,455,000)</u>
		<u>\$ 189,901</u>		<u>\$ (9,050,490)</u>	<u>\$ (84,675,453)</u>

i. Credit Risk – At June 30, 2015 and 2014, the government is not exposed to credit risk on the interest rate swaps, because they are in a negative fair value or liability position. However, if interest rates change and the fair values become positive, the fund would have exposure to credit risk. The counterparty's credit rating at June 30, 2015, was AA/Aa2 for derivative instruments held by the fund.

ii. Interest rate risk – For those swaps for which the fund pays a floating rate and receives fixed rate payments, the fund is exposed to interest rate risk. As floating rates increase, the fund's expected savings could decrease. The fund would, however, benefit from offsetting increases in its earnings on short-term investments, whose return would be expected to go up in a higher interest environment.

**(7) Prior-Year Defeasance of Debt**

In prior years, the City defeased certain revenue bonds by placing the proceeds of new debt issues in an irrevocable trust to provide for all future debt service payments on the old debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the fund's financial statements. At June 30, 2015 and 2014, \$120,645,000 and \$54,855,000 of debt outstanding is considered defeased, respectively.

**(8) Pension Plan**

The City contributes to a cost-sharing multiple employer defined benefit plan, the Employees' Retirement System Plan (ERS Plan or The Plan), established January 1, 1926. The ERS Plan provides retirement benefits as well as disability benefits to plan members and their beneficiaries. The ERS Plan is managed by a Board

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of Trustees in accordance with Article 22 of the Baltimore City Code. The Plan benefits provisions may be amended only by the City Council. The ERS Plan issues separate financial statements which may be obtained by writing to the ERS Plan at the following addresses:

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

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

**(a) Plan Description**

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

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

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	<u>1,043</u>
Total	<u><u>18,840</u></u>

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

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

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

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

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

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

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

Membership classes	Percentage of compensation
A	4.0 %
C	1.0-5.0%*

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

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

**Classes A and B – The sum of**

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

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**Class C**

A pension of (1) 1.6% of average final compensation times years of service up to 30 years, plus (2) .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.

**Class D**

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

**(b) Proportionate Share of Net Pension Liability**

The measurement date for the Plan is June 30, 2014. Measurements are based on the fair value of assets as of June 30, 2014. The Water Fund's proportionate share of NPL is 9.55%. The following schedules are the proportionate share of net pension liability (NPL) and the sensitivity of the NPL to the discount rate.

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

(Dollars expressed in thousands)	<b>Employees' Retirement System (Water Portion)</b>
Total pension liability	\$ 204,054
Less plan fiduciary net position	143,177
Net pension liability	\$ 60,877
Plan fiduciary net position as a percentage of total pension liability	70.2 %



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

(Dollars expressed in thousands)	
	Employees' Retirement System (Wastewater Portion)
Proportionate share of contributions made	\$9,065
Actuarial assumptions:	
Investment rate of return:	
Pre-retirement	7.75%
Post retirement	6.55%
Projected salary increases	2.65%
Includes inflation rate at	2.75%
Cost-of-living adjustment	1.5-2.0%
Mortality	Sex distinct 1994 Uninsured Pensioners Generational Mortality with adjustments and improvement using Scale AA
Last experience study covered	July 1, 2006-June 30, 2010

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

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

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

Assets class	Employees' Retirement System
U.S. equities	5.7%/36%
International equities	6.5%/14%
Private equities	10.4%/10%
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 ending 2014 were 1% of pay increasing to 2% of pay for fiscal year ending 2015 will continue to increase annually up to 5% of compensation thereafter. Employer contributions

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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.

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

**(Dollars expressed in thousands)**

<b>Employees' Retirement System (Water 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>
Net pension liability	\$ 91,361	\$ 60,877	\$ 48,084
Plan fiduciary net position as a percentage of total pension liability.	61.0%	70.2%	74.9%

*Deferred Inflows and Deferred Outflows.* Exclusive of contributions 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 deferred outflows/ (inflows) of resources to be recognized in pension expense in future years is presented below:

**(Dollars expressed in thousands)**

<b>Deferred outflows (inflows) for years ended December 31</b>	<b>Employees' Retirement System (Water Portion)</b>
2016	\$ 92
2017	92
2018	92
2019	(1,999)
	<u>\$ (1,723)</u>

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

<b>(Dollars Expressed In Thousands)</b>		<b>Amount</b>
Deferred Inflows of resources:		
Change in proportionate share	\$	(5,275)
Assumption change		(7,995)
Total Inflows	\$	(13,270)
Deferred outflows of resources:		
Differences between actual and expected experience	\$	1,000
Contributions subsequent to measurement date		9,454
Total Outflows	\$	10,454

**(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>(Dollars expressed in thousands)</b>	<b>Employees' Retirement System (Water Portion)</b>
Service cost	\$ 2,529
Interest on total pension liability	14,216
Change in benefits terms	(94)
Administrative expenses	354
Member contributions	(346)
Expected investment return net of investment expenses	(10,026)
Recognition of deferred inflows/outflows of resources:	
Recognition of change in proportionate share	(1,758)
Recognition of liability gains and losses	333
Recognition of investment (gains) and losses	(1,999)
Pension expense	\$ 3,209

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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:

(Dollars expressed in thousands)	<b>Employees' Retirement System (Water Portion)</b>
Net pension liability, beginning of year	\$ 79,003
Outflows:	
Differences between actual and expected experience	1,000
Total change outflows (1)	1,000
Inflows:	
Change in proportionate share	(5,275)
Assumption change	(7,995)
Total change inflows	(13,270)
Pension expense	3,209
Employer contributions	(9,065)
Net pension liability, end of year	\$ 60,877

(1) Contributions subsequent to the measurement date are \$9,454,000 and are not reflected in the net pension liability.

**(e) Deferred Compensation**

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

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

**(9) Other Postemployment Benefits**

The City of Baltimore provides other postemployment benefits (OPEB) to all qualified City employees. The OPEB Plan (Plan) is a contributory, single employer defined benefit plan. The benefit and contribution provisions of the Plan are established and may be amended by the City. The Plan provides postemployment healthcare, prescription and life insurance benefits to retirees and their beneficiaries. In order to effectively manage the Plan, the City established an OPEB Trust Fund. All retiree and City contributions are deposited into the Trust Fund and all retiree related health and life insurance benefits are paid from the Trust Fund. The City also contracted with the Board of Trustees of the Employee's Retirement System to act as

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investment manager for the Trust Fund. BNY Mellon Bank Asset Servicing is the Trust Fund's asset custodian. The Plan does not issue standalone financial statements; however, the OPEB Trust Fund is included in the City's financial statements as a Trust and Agency Fund.

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

For fiscal year 2015 and 2014, the Fund's total contributions to the Plan were \$5.4 and \$5.4 million, respectively.

**(10) Risk Management**

The fund participates in the City's risk management program. The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1987, the City established the Risk Management Fund (an internal service fund) to account for and finance its uninsured risks. The City's risk financing techniques include a combination of risk retention through self-insurance and risk transfer through the purchase of commercial insurance. The Risk Management Fund services all claims for risk of loss, including general liability, property and casualty, workers' compensation, unemployment compensation, automobile physical damage and bodily injury, and sundry other risks. Commercial insurance coverage is provided for each property damage claim in excess of \$500,000 with a cap of \$500,000,000. Settled claims have not exceeded this commercial coverage in any of the past three years. The City also provides medical insurance coverage for all employees and retirees. Employees are required to pay a percentage of the annual cost of the medical plans, and the remaining costs are paid by the City's internal service fund. All funds of the City participate and make payments to the Risk Management Fund based on actuarial estimates and historical cost information of the amounts needed to pay prior and current year claims. During fiscal years 2015 and 2014, the fund's share of the City's cost was \$2,405,000 and \$1,899,000, respectively.

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**(11) Commitment and Contingencies**

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

The City has voluntarily entered into a Consent Decree with the Department of Justice (DOJ), the Environmental Protection Agency (EPA), and the Maryland Department of the Environment (MDE) to rehabilitate its aging sewer infrastructure and correct historical overflow mechanisms. The Consent Decree is one of many that the United States Department of Justice has currently negotiated with major east coast cities with aged sewer and storm water infrastructures. The City is proactively negotiating to increase its remedial efforts to address discharge and overflow concerns of the State and Federal regulatory agencies. These efforts are ambitious, and the costs of the construction and maintenance are estimated to be greater than \$1 billion over the next decade and beyond. The City has committed to financing these remedial efforts through a combination of water and waste water revenue bonds in conjunction with all available State and Federal assistance.

**(12) Subsequent Event**

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

**(13) Beginning Balance Adjustment**

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

	<b>June 30, 2014 Net position</b>	<b>GASB 68 Pension adjustments</b>	<b>Restated June 30, 2014 Net position</b>
Water Utility Fund	\$ 651,216	(69,939)	\$ 581,277