CITY OF BALTIMORE

WATER UTILITY FUND

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

JUNE 30, 2012 and 2011

(WITH REPORT OF INDEPENDENT AUDITORS THEREON)

CITY OF BALTIMORE
WATER UTILITY FUND
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 and 2011

TABLE OF CONTENTS

CITY OF BALTIMORE
STEPHANIE RAWLINGS-BLAKE
Mayor

DEPARTMENT OF AUDITS
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Washington, DC 20006

Independent Auditors' Report

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

We have jointly audited the statement of net assets of the Water Utility Fund of the City of Baltimore, Maryland (the City), as of June 30, 2012 and 2011 and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the City's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements 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, 2012 and 2011, its changes in financial position or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Utility Fund as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 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 principally 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2013 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, which include the Water Utility Fund. 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

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

Independent Auditors

August 19, 2013

City of Baltimore
Water Utility Fund

Management's Discussion and Analysis

This section of the City of Baltimore, Maryland's Water Utility Fund (Water Utility) financial statements presents our discussion and analysis of the Water Utility's financial performance during the years ended June 30, 2012 and 2011.

Background

The Water Utility supplies water to the City, as well as to portions of Baltimore, Anne Arundel, Carroll, Harford, and Howard Counties. The Water Utility serves over 1,800,000 people by supplying approximately 93 billion gallons of water annually. Approximately 51% of the Water Utility'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 2012, total operating revenues were $132.3 million, which represents a increase of 2.3% from fiscal year 2011 revenues. For fiscal year 2011, total operating revenues were $129.3 million, which represented a decrease of 1.1% below fiscal year 2010 revenues.

- Total operating expenses for fiscal year 2012 were $114.9 million, an increase of $7.6 million over fiscal year 2011 operating expenses of $107.3 million. Total operating expenses for fiscal year 2011 were $107.3 million, an increase of $4.3 million over fiscal year 2010 operating expenses of $103.0 million.

- Net assets increased in fiscal years 2012 and 2011, by $31.8 million and $34.3 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 Water Utility's overall financial status. The notes to the financial statements explain some of the financial information in the financial statements and provide more detailed information.

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

Financial Analysis of the Water Utility

Net Assets
Water Utility Fund
(Expressed in Thousands)

	2012	2011	2010	Change 2012-2011	Change 2011-2010
Current and other assets.........	$236,657	$250,706	$236,074	$(14,049)	$14,632
Capital assets....................	956,713	894,870	840,423	61,843	54,447
Total assets......................	1,193,370	1,145,576	1,076,497	47,794	69,079
Current liabilities................	39,134	34,755	38,726	4,379	(3,971)
Noncurrent liabilities............	561,511	549,892	511,163	11,619	38,729
Total liabilities..................	600,645	584,647	549,889	15,998	34,758
Net assets:					
Invested in capital assets,					
net of related debt............	499,486	433,421	418,242	66,065	15,179
Restricted........................	52,321	49,431	40,520	2,890	8,911
Unrestricted.....................	40,918	78,077	67,846	(37,159)	10,231
Total net assets................	$592,725	$560,929	$526,608	$31,796	$34,321

Analysis of Net Assets

Net assets may serve as a useful indicator of the Water Utility's financial position. For the Water Utility, assets exceeded liabilities by $592.7 million, $560.9 million, and $526.6 million in fiscal years 2012, 2011, and 2010, respectively. The Water Utility's net assets include its investment of $499.5 million, $433.4 million and $418.2 million in capital assets (e.g., land, buildings, and equipment); less any related outstanding debt used to acquire those assets, at the end of fiscal years 2012, 2011, and 2010, respectively.

The Water Utility uses these capital assets to provide water services to citizens; consequently, these assets are not available for future spending. Although the Water Utility'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 Water Utility through rates and charges, since the capital assets themselves cannot be liquidated for these liabilities. An additional portion of the Water Utility's restricted net assets, $52.3 million, represents restricted resources that are legally obligated for revenue bond repayment requirements. The Water Utility had unrestricted net assets of $40.9

million, $78.1 million, and $67.8 million as of June 30, 2012, 2011, and 2010, respectively.

During fiscal years 2012, 2011, and 2010, the Water Utility expended $91.1 million, $72.4 million, and $69.9 million for capital assets, respectively. These assets primarily represent facility enhancements to comply with environmental regulations. The assets were funded primarily through new issues of revenue bonds of $4.4 million, $53.1 million, and $17.0 million in fiscal years 2012, 2011, and 2010, respectively. Fitch Ratings, Moody's Investor Services, Inc., and Standard & Poor's Rating Services gave the Series 2009 Bonds insured ratings of AAA, Aaa, and AAA, respectively.

Revenues, Expenses, and Changes in Fund Net Assets
Water Utility Fund
(Expressed in Thousands)

Years Ended June 30, 2012

	2012	2011	2010	Change 2012-2011	Change 2011-2010
Operating revenues	$ 132,340	$ 129,292	$ 130,666	$3,048	$(1,374)
Operating expenses:					
Salaries and wages	36,099	34,792	35,548	1,307	(756)
Other personnel costs	14,777	11,964	11,813	2,813	151
Contractual services	35,305	34,325	30,477	980	3,848
Material and supplies	8,591	9,189	10,288	(598)	(1,099)
Minor Equipment	614	316	268	298	48
Depreciation	19,551	16,728	14,568	2,823	2,160
Total operating expenses	114,937	107,314	102,962	7,623	4,352
Operating income	17,403	21,978	27,704	(4,575)	(5,726)
Non-operating expense, net	(12,465)	(9,422)	(5,520)	(3,043)	(3,902)
Income before capital contributions	4,938	12,556	22,184	(7,618)	(9,628)
Capital contributions	26,858	21,765	13,798	5,093	7,967
Change in net assets	31,796	34,321	35,982	$ (2,525)	$ (1,661)
Beginning net assets	560,929	526,608	490,626		
Ending net assets	$ 592,725	$ 560,929	$ 526,608		

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

The overall increase in the Water Utility's net assets amounted to $31.8 million and $34.3 million for fiscal years 2012, and 2011, respectively, due to the implementation of a 9% water rate increased in fiscal years 2012 and 2011, 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.

Capital Assets

The Water Utility's capital assets as of June 30, 2012, 2011, and 2010 amounted to $956.7 million, $894.9 million, and $840.4 million (net of accumulated depreciation), respectively. Capital assets include land, equipment, buildings, improvements and construction in progress. Total increases in the Water Utility's net capital assets for fiscal years 2012 and, 2011 were $72.4 million and $54.4 million, respectively. These increases were funded primarily by issuance of revenue bonds. The following schedule presents the capital asset activities for fiscal years 2012, 2011, and 2010 (amounts expressed in thousands):

	Balance June 30, 2012	Net Change	Balance June 30, 2011	Net Change	Balance June 30, 2010
Land	$ 12,540	–	$ 12,540	–	$ 12,540
Buildings and improvements	654,809	$ (16,744)	671,553	$ 251,221	420,332
Equipment	11,022	1,109	9,913	(1,658)	11,571
Construction in progress	216,052	15,188	200,864	(195,116)	395,980
Infrastructure	62,290	62,290	–	–	–
Total capital assets, net	$ 956,713	$ 61,843	$ 894,870	$ 54,447	$ 840,423

As of June 30, 2012, the Water Utility had commitments of $80.8 million for the acquisition and construction of capital assets. See Note 5 for further information.

Debt Administration

For fiscal years 2012, 2011, and 2010, the Water Utility had long-term obligations of $512.6 million, $517.1 million, and $472.0 million, respectively. These long-term obligations consisted primarily of revenue bonds, which are secured by revenue from the sale of water. The Water Utility issued $4.4 million in revenue bonds during fiscal year 2012 to fund the cost of acquisition and construction of various capital projects, all of which remained outstanding at June 30, 2012. During fiscal years 2012, 2011, and 2010, the Water Utility's debt decreased by $ 4.5 million, and increased by $45 million, and $10.8 million, respectively. See Note 6 for further information.

Economic Condition of the Water Utility

The Water Utility 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 Water Utility'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 Water Utility with additional capacity. Although the Water Utility 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 Fund Net Assets
For the Years Ended June 30, 2012 and 2011
(Expressed in Thousands)

	2012	2011
Assets:		
Current assets:		
Cash and cash equivalents	$ 18,834	$ 50,736
Accounts receivable, net:		
Service billings	47,424	42,772
Other	378	246
Due from other governments	1,582	8,301
Inventories	6,398	4,903
Total current assets	74,616	106,958
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents	99,841	105,154
Accounts receivable	14,198	8,452
Capital assets not being depreciated	228,592	213,404
Capital assets, net of accumulated depreciation	728,121	681,466
Unamortized bond issuance costs	1,159	1,444
Deferred outflow of resources - interest rate swaps	46,843	28,698
Total noncurrent assets	1,118,754	1,038,618
Total assets	1,193,370	1,145,576
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	3,504	3,256
Accrued interest payable	9,299	8,432
Deposit subject to refund	15	15
Due to other governments	7,639	7,090
Other liabilities	2,228	2,155
Revenue bonds payable	10,343	8,936
Accounts payable from restricted assets	6,106	4,871
Total current liabilities	39,134	34,755
Noncurrent liabilities:		
Revenue bonds payable, net	502,237	508,197
Other liabilities	3,486	3,575
Derivative instrument liability	55,788	38,120
Total noncurrent liabilities	561,511	549,892
Total liabilities	600,645	584,647
Net assets:		
Invested in capital assets, net of related debt	499,486	433,421
Restricted for:		
Debt service	52,321	49,431
Unrestricted	40,918	78,077
Total net assets	$ 592,725	$ 560,929

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

CITY OF BALTIMORE
Water Utility Fund
Statements of Revenues, Expenses, and Changes in Fund Net Assets
For the Years Ended June 30, 2012 and 2011
(Expressed in Thousands)

	2012	2011
Operating revenues:		
Water service	$ 127,544	$ 129,292
Other income	4,796	-
Total operating income	132,340	129,292
Operating expenses:		
Salaries and wages	36,099	34,792
Other personnel costs	14,777	11,964
Contractual services	35,305	34,325
Materials and supplies	8,591	9,189
Minor equipment	614	316
Depreciation	19,551	16,728
Total operating expenses	114,937	107,314
Operating income	17,403	21,978
Nonoperating revenues (expenses):		
Loss on sale of investments	(120)	(115)
Interest income	1,960	4,435
Interest expense	(14,305)	(13,742)
Total nonoperating expenses, net	(12,465)	(9,422)
Income before capital contributions	4,938	12,556
Capital contributions	26,858	21,765
Changes in net assets	31,796	34,321
Total net assets - beginning	560,929	526,608
Total net assets - ending	$ 592,725	$ 560,929

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

CITY OF BALTIMORE
Water Utility Fund
Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011
(Expressed in Thousands)

	2012	2011
Cash flows from operating activities:		
Receipts from customers	$ 128,530	$ 137,438
Payments to employees	(50,876)	(46,756)
Payments to suppliers	(32,517)	(47,666)
Net cash provided by operating activities	45,137	43,016
Cash flows from capital and related financing activities:		
Proceeds from revenue bonds	(4,553)	53,060
Interest income (expense) net	(13,809)	(9,026)
Principal paid on revenue bonds	285	(8,036)
Acquisition and construction of capital assets	(91,133)	(72,439)
Capital contributions	26,858	21,765
Net cash used by capital and related financing activities	(82,352)	(14,676)
Net increase (decrease) in cash and cash equivalents	(37,215)	28,340
Cash and cash equivalents, beginning of year	155,890	127,550
Cash and cash equivalents, end of year	$ 118,675	$ 155,890
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 17,403	$ 21,978
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	19,551	16,728
Changes in assets and liabilities:		
Accounts receivables	(4,651)	10,196
Accounts receivables-other	(132)	-
Due from other governments	6,719	-
Accounts receivables-restricted	(5,746)	-
Inventories	(1,495)	(420)
Accounts payable and accrued liabilities	10,855	(4,295)
Accrued interest payable	867	-
Other liabilities	(17)	(3,087)
Restricted accounts payable	1,234	(2,050)
Due to/from other governments	549	3,966
Total adjustments	27,734	21,038
Net cash provided by operating activities	$ 45,137	$ 43,016

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

1. Description of the Water Utility

The Water Utility is a separate utility in the Bureau of Water and Waste Water, one of the three bureaus in the City of Baltimore, Maryland's Department of Public Works. In November 1978, the voters approved a Charter Amendment establishing the Water Utility 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 Baltimore City (City).

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

2. Summary of Significant Accounting Policies

The accounting and financial reporting policies of the Water Utility conform to accounting principles generally accepted in the United States and reporting standards as promulgated by the Governmental Accounting Standards Board for enterprise funds.

The Water Utility has elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting whereby 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 Water Utility, and all other revenue is considered non-operating.

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 Water Utility.

Investments

Investments are reported at fair value on the date of the Statement of Net Assets, based on market prices. Investments with maturities of less than one year from purchase date are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price.

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. It is the policy of the Water Utility to not record the fair value of the swap arrangements. Swap related transactions are recorded as payments are received and made. Note 9 provides more information on the various rewards and risks typical to these types of financing arrangements.

Inventories

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

Unbilled Water Utility User Charges

Unbilled water user charges are estimated and accrued at year-end.

Restricted Assets

The proceeds of the Water Utility revenue bonds, Federal and State grants, and restricted accounts receivable are restricted for the purpose of the construction of water facilities and revenue bond repayment requirements.

Use of Restricted Net Assets

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

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

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.

Sick, Vacation, and Personal Leave

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 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 one day's pay for every four sick leave days accumulated and unused at the date of separation; under any other conditions of separation, unused sick leave is forfeited. At June 30, 2012, it is estimated that accumulated non-vested sick leave for the Water Utility approximated $5,156,000. 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 of unused sick leave recorded as a liability for compensated absences at June 30, 2012 and 2011 is $5,756,000 and $5,731,000, respectively.

3. Deposits and Investments

The Water Utility participates in the City's pooled cash account. At June 30, 2012 and 2011, the Water Utility's share of the City's pooled cash account, including both restricted and unrestricted cash, was $26,664,000 and $62,209,000, 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 Water Utility's investments at June 30, 2012 and 2011 are presented in the following table. All investments are presented by investment type, and debt securities are presented by maturity (amounts expressed in thousands):

June 30, 2012 Investment Type	Fair Value	Investment Maturities (In Months) Less than 6	6 to 12	Greater than 12
Debt Securities:				
U.S. Agencies	$21,725	$21,725	–	–
Money market mutual funds	41,265	41,265	–	–
Commercial paper	6,563	6,563	–	–
	69,553	$69,553	–	–
Less: Cash equivalents	69,553			
Total investments	–			

June 30, 2011 Investment Type	Fair Value	Investment Maturities (In Months) Less than 6	6 to 12	Greater than 12
Debt Securities:				
U.S. Agencies	$21,856	$21,856	–	–
Money market mutual funds	65,773	65,773	–	–
Commercial paper	6,052	6,052	–	–
	93,681	$93,681	–	–
Less: Cash equivalents	93,681			
Total investments	–			

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 percent of the City's investment in funds in liquid investments to include United States Government securities, overnight repurchase agreements, and by limiting the par value of the portfolio invested for a period greater than one year at or below $100 million. The Water Utility 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 Water Utility's portions of the City's rated debt investments as of June 30, 2012 and 2011 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):

June 30, 2012		Quality Ratings	
Investment Type	Fair Value	AAA	A1 – P1
U.S. Agencies:			
Federal Home Loan Mortgage Corp. Securities	$21,725	$21,725	–
Money market mutual funds:			
Wilmington Bank US Government Money Market Fund	41,265	41,265	–
Commercial paper	6,563	–	$6,563
Total rated debt investments	$69,553	$62,990	$6,563

June 30, 2011		Quality Ratings	
Investment Type	Fair Value	AAA	A1 – P1
U.S. Agencies:			
Federal Home Loan Mortgage Corp. Securities	$136	$136	–
Federal Home Loan Mortgage Corp. Discounts	21,720	21,720	–
Money market mutual funds:			
M&T Bank US Government Money Market Fund	65,773	65,773	–
Commercial paper	6,052	–	$6,052
Total rated debt investments	$93,681	$87,629	$6,052

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 Water Utility had the following debt security investments at June 30, 2012 and 2011, which were more than five percent of total investments (amounts expressed in thousands):

June 30, 2012 Investment	Fair Value	Percentage of Portfolio
Commercial paper – Silver Tower	$6,563	9.42%

June 30, 2011 Investment	Fair Value	Percentage of Portfolio
Commercial paper – Silver Tower	$6,052	6.46%

4. Allowance for Doubtful Accounts

Accounts receivable as of June 30, 2012 and 2011 are shown net of allowances of $9,534,000 and $6,655,000, respectively.

5. Capital Assets

Capital assets activity for the years ended June 30, 2012 and 2011 was as follows (expressed in thousands):

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$12,540	–	–	$12,540
Construction in progress	200,864	$81,171	$65,983	216,052
Total capital assets, not being depreciated	213,404	81,171	65,983	228,592
Capital assets, being depreciated:				
Buildings and improvements	1,011,323	164	–	1,011,487
Equipment	60,551	3,124	–	63,675
Infrastructure	–	62,919	–	62,919
Total capital assets, being depreciated	1,071,874	66,207	–	1,138,081
Less: accumulated depreciation for:				
Buildings and improvements	339,770	16,908	–	356,678
Equipment	50,638	2,015	–	52,653
Infrastructure	–	629	–	629
Total accumulated depreciation	390,408	19,552	–	409,960
Total capital assets, being depreciated, net	681,466	46,655	–	728,121
Total capital assets, net	$894,870	$127,826	$65,983	$956,713

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011
Capital assets, not being depreciated:				
Land	$12,540	–	–	$12,540
Construction in progress	395,980	$70,820	$265,938	200,864
Total capital assets, not being depreciated	408,520	70,820	265,938	213,404
Capital assets, being depreciated:				
Buildings and improvements	745,385	265,938	–	1,011,323
Equipment	60,198	353	–	60,551
Total capital assets, being depreciated	805,583	266,291	–	1,071,874
Less: accumulated depreciation for:				
Buildings and improvements	325,053	14,717	–	339,770
Equipment	48,627	2,011	–	50,638
Total accumulated depreciation	373,680	16,728	–	390,408
Total capital assets, being depreciated, net	431,903	244,563	–	681,466
Total capital assets, net	$840,423	$320,383	$265,938	$894,870

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 2012 and 2011, interest cost of $9,697,000 and $9,688,000, respectively (net of interest earned of $1,287,000 and $2,061,000, respectively), was capitalized.

At June 30, 2012, the Water Utility had outstanding commitments for construction of $80,838,000.

6. Long-term Obligations

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

Changes in long-term debt obligations for the years ended June 30, 2012 and 2011 are as follows (amounts expressed in thousands):

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
Revenue bonds	$524,179	$4,356	$9,168	$519,367	–
Less: unamortized charges	7,046	–	259	6,787	–
Total Revenue bonds payable	$ 517,133	$4,356	$8,909	$512,580	$10,343
Compensated absences	$ 5,731	$25	–	$5,756	$2,228

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
General obligation bonds payable	$ 118	$ 2	$ 120	–	–
Revenue bonds	479,155	53,060	8,036	524,179	–
Less: unamortized charges	7,305	–	$259	$7,046	–
Total Revenue bonds payable	$ 471,850	$ 53,060	$ 7,777	$ 517,133	$ 8,936
Compensated absences	$ 5,448	$ 83	–	$ 5,731	$ 2,003

The City 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 Water Utility are pledged as collateral for the bonds and notes. Bonds and notes outstanding as of June 30 consist of (amounts expressed in thousands):

	2012	2011
Term bonds series 1993-A with interest at 5.60%, payable semiannually, due July 1, 2013	$5,300	$7,700
Term bonds series 1993-A with interest at 5.65%, payable semiannually, due July 1, 2020	23,900	23,900
Term bonds series 1994-A with interest at 6.00%, payable semiannually, due July 1, 2015	4,405	5,355
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 5.00%, payable semiannually, due July 1, 2023	4,250	4,250
Term bonds series 2002-A with interest at 5.00%, payable semiannually, due July 1, 2027	9,845	9,845
Term bonds series 2002-A with interest at 5.125%, payable semiannually, due July 1, 2032	15,385	15,385
Term bonds series 2002-A with interest at 5.125%, payable semiannually, due July 1, 2042	64,840	64,840
Term bonds series 2003-A with interest at 4.20%, payable semiannually, due July 1, 2028	12,835	12,835
Term bonds series 2006-A with interest at 4.625%, payable semiannually, due July 1, 2031	5,930	5,930
Term bonds series 2006-A with interest at 4.625%, payable semiannually, due July 1, 2036	7,435	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

	2012	2011
Term bonds series 2007-C with interest at 5.00%, payable semiannually, due July 1, 2032	9,115	9,115
Term bonds series 2007-C with interest at 5.00%, payable semiannually, due July 1, 2037	11,630	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	1,220
Term bonds series 2009-A with interest at 5.125%, payable semiannually, due July 1, 2029........	3,630	3,630
Term bonds series 2009-A with interest at 5.375%, payable semiannually, due July 1, 2034........	4,680	4,680
Term bonds series 2009-A with interest at 5.75%, payable semiannually, due July 1, 2039........	6,120	6,120
Serial bonds series 2002-A maturing in annual installments from \$1,855,000 to \$1,975,000 from July 1, 2012 through July 1, 2021, with variable interest through July 1, 2016 and a fixed rate of 4.85% to 5.0% thereafter payable semiannually........	18,890	20,845
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........	1,311	1,379
Serial bonds series 2005-A maturing in annual installments from \$580,000 to \$3,500,000 from July 1, 2021 through July 1, 2025, with interest rate of 4.00% to 5.00%, payable semiannually........	1,670	1,670
Serial bonds series 2006-A maturing in annual installments from \$515,000 to \$1,035,000 from July 1, 2012 through July 1, 2026, with interest rate of 4.00% to 4.50%, payable semiannually........	11,705	12,260
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........	1,665	1,967
Serial bonds series 2008-A maturing in annual installments from \$475,000 to \$1,005,000 from July 1, 2012 through July 1, 2028, with interest rates of 2.00% to 4.50%, payable semiannually........	12,630	13,170

	2012	2011
Serial bonds series 2007-C maturing in annual installments from $740,000 to $1,570,000 from July 1, 2012 through July 1, 2027, with interest rates of 3.75% to 5.00%, payable semiannually....................	18,020	18,790
Serial bonds series 2009-A maturing in annual installments from $475,000 to $1,005,000 from July 1, 2012 through July 1, 2021, with interest rates of 2.00% to 4.50%, payable semiannually....................	5,220	5,615
Serial bonds series 2009-B maturing in annual installments of $586,172 from February 1, 2015 through February 1, 2042, with an interest rates of 0.00%..	17,000	17,000
Auction rate notes series 2002-B, payable monthly, due July 1, 2037...	18,300	18,300
Auction rate notes series 2004-B, payable monthly, due July 1, 2034...	46,100	47,100
Auction rate notes series 2002-C, payable monthly, due July 1, 2037...	40,800	40,800
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..	4,185	4,388
Serial bonds series 2007-B maturing in annual installments from $30,000 to $3,860,000 from July 1, 2012 through July 1, 2027, with interest rate of 3.60% to 4.50%, payable semiannually.....................	19,745	19,775
Serial bonds series, 2011-A maturing in annual installments of $915,000 to $2,000,000 from July 1, 2012 through February 1, 2031, with interest rates from 2.00% to 5.00%..	27,315	27,315
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%	4,356	–
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
	519,367	524,179
Less: Unamortized Charges	6,787	7,046
	$512,580	$517,133

Utility Fund and are payable through 2043. Annual principal and interest payments on these revenue bonds are expected to require 23% of pledged revenues. Total principal and interest remaining to be paid on the revenue bonds for the Water Utility Fund is $830,864,000 and $933,290,000 at June 30, 2012 and 2011, respectively. Principal and interest paid for the current year and current pledged revenue for the Water Utility Fund was $31,405,000 and $132,340,000 respectively. While principal and interest and pledged revenue for 2012 and 2011 were $30,543,000 and $129,292,000, respectively.

8. Prior-Year Defeasance of Debt

In prior years, the Water Utility 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 Water Utility's financial statements. At June 30, 2012 and 2011, $122,030,000 and $124,020,000 of debt outstanding is considered defeased, respectively.

9. Interest Rate Swaps

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.

Terms, fair value, and credit risk - The terms, fair values and credit risk ratings of the outstanding swaps, as of June 30, 2012, were as follows. 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.

Hedged Derivative Instruments:

At June 30, 2012 and 2011, the Water Utility Fund had deferred liabilities for various hedged derivative instruments with total fair values of these instruments in the amount of ($46,843,000) and ($28,698,000), respectively. The notional amounts for these hedged derivative instruments at June 30, 2012 and 2011 were $115,105,000 and $118,060,000, respectively. During fiscal year 2012 and 2011, the fair values of these instruments decreased by $18,145,000 and increased $3,867,000, respectively. All hedges are cash flow hedges. The following schedule provides a detailed analysis of derivative instruments held at June 30, 2012:

At June 30, 2012 and 2011, the Water Utility fund had $105,200,000 and $106,200,000 of auction rate notes outstanding, respectively. Interest rates for these notes are determined every 7 to 35 days depending on the date of issue. In the event of a failed auction, the auction agent assesses the failed auction rate to the issuers of the notes. Interest paid under these conditions is currently limited to 150% to 175% of the non-financial commercial paper rate depending on the rating of the insurance provider on each note issue. The failed auction rate on these notes is in the 1% range or less.

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

Fiscal Year	Principal	Interest	Interest Rate Swap Net [a]
2013	$10,343	$18,553	$ (5)
2014	10,830	18,138	2
2015	12,169	17,695	7
2016	12,740	17,239	9
2017	13,403	16,781	10
2018–2022	75,081	76,080	9
2023–2027	83,572	62,259	(6)
2028–2032	102,200	46,485	(91)
2033–2037	114,959	27,620	(106)
2038–2042	73,292	10,650	(83)
2043–	10,778	258	(9)
	$519,367	$311,758	$(263)

(a) Interest Rate Swap Net payments represent estimated payments for additional interest resulting from swap agreements to counterparties. The additional payments were computed using rates as of June 30, 2012, 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 Water Utility has various revenue bond covenants that generally require the Utility to maintain rates sufficient to meet the operating requirements of the Utility and an operating reserve as defined in the revenue bond indentures. As of June 30, 2012, the rate requirements were met, and management believes the Water Utility is in compliance with all significant requirements of the indentures.

7. Pledged Revenue

The Water Utility Fund has pledged future customer revenues to repay $519,367,000 and $524,179,000 of revenue bond debt, at June 30, 2012 and 2011, 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 Water

Basis risk – The City's variable rate bonds are of three types: remarketed variable rate demand bonds ("VRDBs"), auction rate bonds ("ARBs"), and CPI index bonds. For those swaps associated with the VRDBs and ARBs, the City receives a floating rate based on either the SIFMA Index or the one-month LIBOR. For the SIFMA based swaps, the City is exposed to basis risk should the spread between the SIFMA and the VRDBs or ARBs rate change. If a change occurs that results in the spread widening, the expected cost savings may not be realized. As of June 30, 2012, the SIFMA rate for the 52-week period ranged from 0.07% to 0.26%, whereas the City tax-exempt market rate ranged from 0.06% to 0.46%. For one of the swaps, the City will receive 67% percent of LIBOR, a rate chosen to closely approximate the City's tax-exempt variable rate bond payments. Because this swap is LIBOR-based, there is an additional degree of basis risk. As of June 30, 2012, 67% of LIBOR for the 52-week period ranged from 0.13% to 0.26%. For those swaps associated with CPI index bonds, there is no basis risk, because the floating rate on the swaps is identical to the floating rate on the bonds.

Interest rate risk – For those swaps for which the City pays a floating rate and receives fixed rate payments, the City is exposed to interest rate risk. As floating rates increase, the City's expected savings could decrease. The City 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 rate environment.

Termination risk – The City 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, the City would be liable to the counterparty for that payment.

Investment derivative instruments:

The fair value balance and notional amounts of derivative instruments outstanding at June 30, 2012 and 2011, classified by type and the changes in fair value of such derivative instruments for the year ended June 30, 2012 and 2011 are as follows:

June 30, 2012

Investment Derivative Instruments

	Changes in Fair Value		Fair Value at June 30, 2012		
	Classification	Amount	Classification	Amount	Notional
Fixed to Floating	Investment Revenue	$ (139,430)	Debt	$ (208,443)	$ (13,220,453)
Floating to Fixed	Investment Revenue	(337,944)	Debt	(8,736,069)	(71,455,000)
		$ (477,374)		$(8,944,512)	$ (84,675,453)

June 30, 2011

Investment Derivative Instruments

	Changes in Fair Value		Fair Value at June 30, 2011		
	Classification	Amount	Classification	Amount	Notional
Fixed to Floating	Investment Revenue	$ (124,748)	Debt	$ (347,873)	$ (13,220,453)
Floating to Floating	Investment Revenue	2,175,175	Debt	(9,074,013)	(71,455,000)
		$ 2,050,427		$(9,421,886)	$ (84,675,453)

June 30, 2012

Outstanding Bonds	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	$ 59,100,000	$(27,589,725)	A-/Baa1
2002 Revenue Bonds	5/7/2002	7/1/2012	4.20%	Bond Rate/CPI	2,110,000	4,209	A-/Baa1
2002 Revenue Bonds	5/7/2002	7/1/2013	4.30%	Bond Rate/CPI	2,170,000	(34,580)	A-/Baa1
2002 Revenue Bonds	5/7/2002	7/1/2014	4.39%	Bond Rate/CPI	2,325,000	(62,880)	A-/Baa1
2002 Revenue Bonds	5/7/2002	7/1/2015	4.50%	Bond Rate/CPI	1,615,000	(56,522)	A-/Baa1
2002 Revenue Bonds	5/7/2002	7/1/2016	4.61%	Bond Rate/CPI	1,685,000	(67,430)	A-/Baa1
2004 Revenue Bonds	6/1/2004	7/1/2034	5.21%	SIFMA	46,100,000	(19,036,508)	A-/Baa1
Total Swaps Outstanding					$115,105,000	$(46,843,436)	

June 30, 2011

Outstanding Bonds	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	4.56%	67% LIBOR	$ 59,100,000	$ (16,322,187)	A/A2
2002 Revenue Bonds	5/7/2002	7/1/2011	4.10%	Bond Rate/CPI	1,955,000	28,289	A/A2
2002 Revenue Bonds	5/7/2002	7/1/2012	4.20%	Bond Rate/CPI	2,110,000	7,844	A/A2
2002 Revenue Bonds	5/7/2002	7/1/2013	4.30%	Bond Rate/CPI	2,170,000	(5,735)	A/A2
2002 Revenue Bonds	5/7/2002	7/1/2014	4.39%	Bond Rate/CPI	2,325,000	(16,694)	A/A2
2002 Revenue Bonds	5/7/2002	7/1/2015	4.50%	Bond Rate/CPI	1,615,000	(15,713)	A/A2
2002 Revenue Bonds	5/7/2002	7/1/2016	4.61%	Bond Rate/CPI	1,685,000	(17,846)	A/A2
2004 Revenue Bonds	6/1/2004	7/1/2034	5.21%	SIFMA	47,100,000	(12,356,376)	A/A2
Total Swaps Outstanding					$ 118,060,00	$ (28,698,418)	

Credit risk – As of June 30, 2012, the Water Utility Fund is not exposed to credit risk on all but one 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[1]. Should the counterparties to these transactions fail to perform according to the terms of the swap contracts, the Fund faces a maximum loss equivalent to the swap's $4,209 fair value. However, because the swaps' counterparties are also party to other swaps, the Fund could use netting provisions to offset the potential loss.

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, 2012, none of the City's swap agreements met this requirement.

Although the City executes transactions with various counterparties, the 9 Water Utility Fund swaps are held with one counterparties. That counterparty is rated A-/Baa1.

[1] For the one swap agreement that has positive fair value, the City has credit exposure to the counterpart as of June 30, 2012

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. As of June 30, 2012 there were 10,477 City retirees eligible for these benefits.

For fiscal year 2012 and 2011, the City's total contributions to the Plan were \$142.4 and \$142.8 million, respectively, from its General Fund.

12. Risk Management

The Water Utility 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 2012 and 2011, the Water Utility's share of the City's cost was \$1,792,000 and \$1,795,000, respectively.

13. Commitments and Contingencies

The Water Utility has received Federal and State grants. 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 Water Utility. As of June 30, 2012, the Water Utility estimates that no material liabilities will result from such audits.

The City has voluntarily entered into a Consent Decree to rehabilitate its aging sewer infrastructure and correct historical overflow mechanisms. The Consent Decree is one of many that the 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

Credit Risk – At June 30, 2012 and 2011, 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 Water Utility Fund would have exposure to credit risk. The counterparty's credit rating at June 30, 2012, was AA/Aa2 for derivative instruments held by the Water Utility Fund.

Interest rate risk – For those swaps for which the Water Utility Fund pays a floating rate and receives fixed rate payments, the fund is exposed to interest rate risk. As floating rates increase, the Water Utility 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.

10. Pension Plan

Classified employees of the Water Utility 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 Water Utility's share of contributions to the plan was \$5,402,000 in 2012, \$2,815,000 in 2011 and \$3,056,000 in 2010. The Water Utility contributed 100% of the required contribution each of the three years. 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.

11. Other Postemployment Benefits

Baltimore City administrative policy provides that other postemployment benefits, other than pension benefits, be provided to all employees of the City. These benefits include certain healthcare and life insurance benefits. All employees who retire are eligible to receive these 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 Employees' 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, 2012, the city 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 appropriations. Retirees are required to contribute at various rates the construction and maintenance are estimated to range between $500 to $700 million dollars 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.