CITY OF BALTIMORE
WATER UTILITY FUND

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

CITY OF BALTIMORE
WATER UTILITY FUND

Financial Statements

June 30, 2013 and 2012

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CITY OF BALTIMORE
STEPHANIE RAWLINGS-BLAKE
Mayor

DEPARTMENT OF AUDITS
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Independent Auditors' Report

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

Report on the Financial Statements

We have jointly audited the accompanying financial statements of the Water Utility Fund of the City of Baltimore, Maryland (the Fund), which comprise the statements of financial position as of June 30, 2013 and 2012, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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.

KPMG

Opinion

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, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

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, 2013 and 2012, the changes in its financial position, or its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

KPMG LLP

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

Independent Auditors

June 20, 2014

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, 2013 and 2012.

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 2013, total operating revenues were $154.7 million, which represents an increase of 16.9% from fiscal year 2012 revenues. For fiscal year 2012, total operating revenues were $132.3 million, which represents a increase of 2.4% from fiscal year 2011 revenues.
- Total operating expenses for fiscal year 2013 were $122.0 million, an increase of $7.1 million over fiscal year 2012 operating expenses of $114.9 million. 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.
- Net position increased in fiscal years 2013 and 2012, by $42.1 million and $31.8 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 position. All assets and liabilities associated with the operation of the Water Utility are included in the statement of financial position.

Financial Analysis of the Water Utility

Financial Position

Water Utility Fund

(Expressed in thousands)

	2013	2012	2011	Change 2013-2012	Change 2012-2011
Current and other assets	$167,273	$189,814	$222,008	($22,541)	($32,194)
Capital assets	1,026,480	956,713	894,870	69,767	61,843
Total assets	$1,193,753	$1,146,527	$1,116,878	$47,226	$29,649
Deferred outflows of resources	33,739	46,843	28,698	(13,104)	18,145
Current liabilities	54,429	39,134	34,755	15,295	4,379
Noncurrent liabilities	538,255	561,511	549,892	(23,256)	11,619
Total liabilities	$592,684	$600,645	$584,647	($7,961)	$15,998
Net position:					
Invested in capital assets, net of related debt	536,188	499,486	433,421	36,702	66,065
Restricted	53,772	52,321	49,431	1,451	2,890
Unrestricted	44,848	40,918	78,077	3,930	(37,159)
Total net position	$634,808	$592,725	$560,929	$42,083	$31,796

Analysis of Financial Position

Net position may serve as a useful indicator of the Water Utility's financial position. For the Water Utility, assets exceeded liabilities by $634.8 million, $592.7 million, and $560.9 million in fiscal years 2013, 2012, and 2011, respectively. The Water Utility's net position include its investment of $536.2 million, $499.5 million and $433.4 million net investment in capital assets (e.g., land, buildings, and equipment) used to acquire those assets, at the end of fiscal years 2013, 2012, and 2011, 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 net investment in 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 position, $53.8 million, represents restricted resources that are legally obligated for revenue bond repayment requirements. The Water Utility had unrestricted net position of $44.9 million, $40.9 million, and $78.1 million as of June 30, 2013, 2012, and 2011, respectively.

During fiscal years 2013, 2012, and 2011, the Water Utility expended $90.6 million, $91.1 million, and $72.4 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 issues of revenue bonds of $4.4 million, and $53.1 million in fiscal years 2012, and 2011, respectively. Moody's Investor Services, Inc., and Standard & Poor's Rating Services show the utilities' bonds are rated Aa2 and AA for senior lien debt and Aa3 and AA- for subordinate lien debt, respectively.

Revenues, Expenses, and Changes in Net Position

Water Utility Fund

(Expressed in thousands)

Years Ended June 30, 2013

	2013	2012	2011	Change 2013-2012	Change 2012-2011
Operating revenues	$154,680	$132,340	$129,292	$22,340	$3,048
Operating expenses:					
Salaries and wages	37,093	36,099	34,792	994	1,307
Other personnel costs	16,341	14,777	11,964	1,564	2,813
Contractual services	37,638	35,305	34,325	2,333	980
Material and supplies	8,982	8,591	9,189	391	(598)
Minor equipment	791	614	316	177	298
Depreciation	21,122	19,551	16,728	1,571	2,823
Total operating expenses	121,967	114,937	107,314	7,030	7,623
Operating income	32,713	17,403	21,978	15,310	(4,575)
Nonoperating expense, net	$ (12,937)	(12,465)	(9,422)	(472)	(3,043)
Income before capital contributions	19,776	4,938	12,556	14,838	(7,618)
Capital contributions	22,307	26,858	21,765	(4,551)	5,093
Change in net position	42,083	31,796	34,321	$ 10,287	(2,525)
Beginning net position	592,725	560,929	526,608		
Ending net position	$ 634,808	592,725	560,929		

Analysis of Revenues, Expenses, and Changes in Net Position

The overall increase in the Water Utility's net position amounted to $42.1 million and $31.8 million for fiscal years 2013, and 2012, respectively, due to the implementation of a 9% water rate increased in fiscal years 2013 and 2012, 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, 2013, 2012, and 2011 amounted to $1,026.5 million, $956.7 million, and $894.9 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 2013 and, 2012 were $69.8 million and $61.8 million, respectively. These increases were funded primarily by issuance of revenue bonds. The following schedule presents the capital asset activities for fiscal years 2013, 2012, and 2011 (amounts expressed in thousands):

	Balance June 30, 2013	Net change	Balance June 30, 2012	Net change	Balance June 30, 2011
Land	$12,540	—	$12,540	—	$12,540
Buildings and improvements	653,997	($812)	654,809	($16,744)	671,553
Equipment	10,352	(670)	11,022	1,109	9,913
Construction in progress	230,614	14,562	216,052	15,188	200,864
Infrastructure	118,977	56,687	62,290	62,290	—
Total capital assets, net	$1,026,480	$69,767	$956,713	$61,843	$894,870

As of June 30, 2013, the Water Utility had commitments of $72.8 million for the acquisition and construction of capital assets. See note 5 for further information.

Debt Administration

For fiscal years 2013, 2012, and 2011, the Water Utility had long-term obligations of $502.5 million, $512.6 million, and $517.1 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 no revenue bonds during fiscal year 2013 to fund the cost of acquisition and construction of various capital projects. During fiscal years 2013, 2012, and 2011, the Water Utility's debt decreased by $10.1 million, decreased by $4.5 million, and increased by $45.2 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 Financial Position

June 30, 2013 and 2012

(Expressed in thousands)

		2013	2012
Assets and deferred outflow of resources:			
Current assets:			
Cash and cash equivalents	$	25,075	18,834
Accounts receivable, net:			
Service billings		53,400	47,424
Other		132	378
Due from other governments		5,063	1,582
Inventories		9,355	6,398
Total current assets		93,025	74,616
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents		64,377	99,841
Accounts receivable		8,999	14,198
Capital assets, net of accumulated depreciation		783,326	728,121
Capital assets not being depreciated		243,154	228,592
Issuance costs		872	1,159
Total noncurrent assets		1,100,728	1,071,911
Total assets		1,193,753	1,146,527
Deferred outflow of resources:			
Interest rate swaps		33,739	46,843
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities		2,415	3,504
Accrued interest payable		9,011	9,299
Deposit subject to refund		15	15
Due to other funds		17,600	—
Due to other governments		—	7,639
Compensated Absences		2,419	2,228
Revenue bonds payable		10,830	10,343
Accounts payable from restricted assets		12,139	6,106
Total current liabilities		54,429	39,134
Noncurrent liabilities:			
Revenue bonds payable, net		491,666	502,237
Compensated Absences		3,609	3,486
Derivative instrument liability		42,980	55,788
Total noncurrent liabilities		538,255	561,511
Total liabilities		592,684	600,645
Net position			
Net investment in capital assets		536,188	499,486
Restricted for:			
Debt service		53,772	52,321
Unrestricted		44,848	40,918
Total net position	$	634,808	592,725

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, 2013 and 2012

(Expressed in thousands)

		2013	2012
Operating revenues:			
Water service	$	142,960	127,544
Rents, fees, and other income		11,720	4,796
Total operating income		154,680	132,340
Operating expenses:			
Salaries and wages		37,093	36,099
Other personnel costs		16,341	14,777
Contractual services		37,638	35,305
Materials and supplies		8,982	8,591
Minor equipment		791	614
Depreciation		21,122	19,551
Total operating expenses		121,967	114,937
Operating income		32,713	17,403
Nonoperating revenues (expenses):			
Gain (loss) on sale of investments		6	(120)
Interest income		1,184	1,960
Interest expense		(14,127)	(14,305)
Total nonoperating expenses, net		(12,937)	(12,465)
Income before capital contributions		19,776	4,938
Capital contributions		22,307	26,858
Changes in net position		42,083	31,796
Total net position – beginning		592,725	560,929
Total net position – ending	$	634,808	592,725

See accompanying notes to financial statements.

CITY OF BALTIMORE
WATER UTILITY FUND

Statements of Cash Flows

Years ended June 30, 2013 and 2012

(Expressed in thousands)

	2013	2012
Cash flows from operating activities:		
Receipts from customers	$150,668	$128,530
Payments to employees	(53,433)	(50,876)
Payments to suppliers	(35,437)	(32,517)
Net cash provided by operating activities	61,798	45,137
Cash flows from capital and related financing activities:		
Proceeds from revenue bonds	—	(4,553)
Interest expense, net	(12,682)	(13,809)
Principal paid on revenue bonds	(10,344)	285
Issuance costs	287	—
Acquisition and construction of capital assets	(90,589)	(91,133)
Capital contributions	22,307	26,858
Net cash used by capital and related financing activities	(91,021)	(82,352)
Net decrease in cash and cash equivalents	(29,223)	(37,215)
Cash and cash equivalents, beginning of year	118,675	155,890
Cash and cash equivalents, end of year	$89,452	$118,675
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$32,713	$17,403
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	21,122	19,551
Changes in assets and liabilities:		
Accounts receivable	(5,976)	(4,651)
Accounts receivables-other	246	(132)
Due from other governments	(3,481)	6,719
Accounts receivables-restricted	5,199	(5,746)
Inventories	(2,957)	(1,495)
Accounts payable and accrued liabilities	(1,089)	10,855
Accrued interest payable	(288)	867
Other liabilities	314	(17)
Restricted accounts payable	6,034	1,234
Due to other funds	17,600	—
Due to/from other governments	(7,639)	549
Total adjustments	29,085	27,734
Net cash provided by operating activities	$61,798	$45,137

See accompanying notes to financial statements.

(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 net 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.

(a) *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 nonoperating.

(b) *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.

(c) *Investments*

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

(d) *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 9 provides more information on the various rewards and risks typical to these types of financing arrangements.

(e) *Inventories*

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

(f) *Unbilled Water Utility User Charges*

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

(g) 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.

(h) 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 Water Utility's policy to apply the expense first to restricted resources, then to unrestricted resources.

(i) Capital Assets

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

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

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

(j) 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.

(k) 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, 2013, it is estimated that accumulated nonvested sick leave for the Water Utility approximated $5.3 million. 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.

(Continued)

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, 2013 and 2012 is $6.0 million and $5.6 million, respectively.

(3) Deposits and Investments

The Water Utility participates in the City's pooled cash account. At June 30, 2013 and 2012, the Water Utility's share of the City's pooled cash account, including both restricted and unrestricted cash, was $13.4 million and $26.7 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 Sates 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, 2013 and 2012 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, 2013			
		Investment maturities (in months)		
Investment type	Fair value	Less than 6	6 to 12	Greater than 12
Debt securities:				
U.S. Agencies	$3,710	$3,710	—	—
Money market mutual funds	57,803	57,803	—	—
Commercial paper	6,178	6,178	—	—
	67,691	$67,691	—	—
Less cash equivalents	67,691			
Total investments	—			

(Continued)

	June 30, 2012			
		Investment maturities (in months)		
Investment type	Fair value	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	$ —			

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. 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, 2013 and 2012 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, 2013		
		Quality ratings	
Investment type	Fair value	AAA	A1 – P1
U.S. Agencies:			
Federal Home Loan Mortgage Corp. Securities	$3,710	$3,710	—
Money market mutual funds:			
Wilmington Bank US Government Money Market Fund	57,803	57,803	—
Commercial paper	6,178	—	6,178
Total rated debt investments	$67,691	$61,513	$6,178

	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

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, 2013 and 2012, which were more than five percent of total investments (amounts expressed in thousands):

	June 30, 2013	
Investment	**Fair value**	**Percentage of portfolio**
Commercial paper – Mountcliff	$6,178	9.13%

	June 30, 2012	
Investment	**Fair value**	**Percentage of portfolio**
Commercial paper – Silver Tower	$6,563	9.42%

(4) Allowance for Doubtful Accounts

Accounts receivable as of June 30, 2013 and 2012 are shown net of allowances of $9.8 million and $9.5 million, respectively.

(Continued)

(5) Capital Assets

Capital assets activity for the years ended June 30, 2013 and 2012 was as follows (expressed in thousands):

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013
Capital assets, not being depreciated:				
Land	$12,540	—	—	$12,540
Construction in progress	216,052	$89,506	$74,944	230,614
Total capital assets, not being depreciated	228,592	89,506	74,944	243,154
Capital assets, being depreciated:				
Buildings and improvements	1,011,487	16,232	—	1,027,719
Equipment	63,675	1,570	19	65,226
Infrastructure	62,919	58,531	—	121,450
Total capital assets, being depreciated	1,138,081	76,333	19	1,214,395
Less accumulated depreciation for:				
Buildings and improvements	356,678	17,044	—	373,722
Equipment	52,653	2,235	14	54,874
Infrastructure	629	1,844	—	2,473
Total accumulated depreciation	409,960	21,123	14	431,069
Total capital assets, being depreciated, net	728,121	55,210	5	783,326
Total capital assets, net	$956,713	$144,716	$74,949	$1,026,480

(Continued)

	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

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 2013 and 2012, interest cost of $9.658 million and $9.697 million, respectively (net of interest earned of $1.635 million and $1.287 million, respectively), was capitalized.

At June 30, 2013, the Water Utility had outstanding commitments for construction of $72.818 million.

(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, 2013 and 2012 are as follows (amounts expressed in thousands):

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amounts due within one year
Revenue bonds	$519,367	—	$10,343	$509,024	$10,830
Less: unamortized charges	6,787	—	259	6,528	—
Total revenue bonds payable	$512,580	—	10,084	502,496	—
Compensated absences	$5,756	$271	—	$6,027	$2,419

	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	$10,343
Less unamortized charges	7,046	—	259	6,787	—
Total revenue bonds payable	$517,133	$4,356	$8,909	$512,580	—
Compensated absences	$5,731	$25	—	$5,756	$2,228

(Continued)

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):

	2013	2012
Term bonds series 1993-A with interest at 5.60%, payable semiannually, due July 1, 2013	$2,700	$5,300
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	3,400	4,405
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

	2013	2012
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, 2013 through July 1, 2021, with variable interest through July 1, 2016 and a fixed rate of 4.85% to 5.0% thereafter payable semiannually	16,780	18,890
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	1,242	1,311
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, 2013 through July 1, 2026, with interest rate of 4.00% to 4.50%, payable semiannually	11,125	11,705

	2013	2012
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	1,592	1,665
Serial bonds series 2008-A maturing in annual installments from $475,000 to $1,005,000 from July 1, 2013 through July 1, 2028, with interest rates of 2.00% to 4.50%, payable semiannually	12,075	12,630
Serial bonds series 2007-C maturing in annual installments from $740,000 to $1,570,000 from July 1, 2013 through July 1, 2027, with interest rates of 3.75% to 5.00%, payable semiannually	17,220	18,020
Serial bonds series 2009-A maturing in annual installments from $475,000 to $1,005,000 from July 1, 2013 through July 1, 2021, with interest rates of 2.00% to 4.50%, payable semiannually	4,815	5,220
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	45,100	46,100
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	3,983	4,185
Serial bonds series 2007-B maturing in annual installments from $30,000 to $3,860,000 from July 1, 2013 through July 1, 2027, with interest rate of 3.60% to 4.50%, payable semiannually	19,715	19,745

	2013	2012
Serial bonds series, 2011-A maturing in annual installments of $915,000 to $2,000,000 from July 1, 2013 through February 1, 2031, with interest rates from 2.00% to 5.00%	26,400	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	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
	509,023	519,367
Less: unamortized charges	6,527	6,787
	$502,496	$512,580

At June 30, 2013 and 2012, the Water Utility fund had $104.200 million and $105.200 million 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 nonfinancial 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):

	Principal	Interest	Interest rate swap net [a]
Fiscal year:			
2014	$10,830	$17,907	($196)
2015	12,170	17,515	(156)
2016	12,740	17,103	(120)
2017	13,403	16,683	(89)
2018	13,851	16,218	(74)
2019-2023	77,655	72,996	(402)
2024-2028	85,861	59,086	(696)
2029-2033	109,241	42,659	(856)
2034-2038	108,403	23,964	(724)
2029-2043	64,869	7,449	(309)
	$509,023	$291,580	($3,622)

[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, 2013, 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, 2013, 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 $509.023 million and $519.367 million of revenue bond debt, at June 30, 2013 and 2012, 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 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 $796.981 million and $830.864 million at June 30, 2013 and 2012, respectively. Principal and interest paid for the current year and current pledged revenue for the Water Utility Fund was $33.887 million and $27.054 million respectively. While principal and interest and pledged revenue for 2012 were $31.405 million and $132.340 million, 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, 2013 and 2012, $92.560 million and $122.030 million 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, 2013, 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.

(a) Hedged Derivative Instruments

At June 30, 2013 and 2012, the Water Utility Fund had liabilities for various hedged derivative instruments with total fair values of these instruments in the amount of $(33.739) million and $(46.843) million, respectively. The notional amounts for these hedged derivative instruments at June 30, 2013 and 2012 were $111.995 million and $115.105 million, respectively. During fiscal year 2013 and 2012, the fair values of these instruments increased by $13.104 million and decreased $18,145 million, respectively. All hedges are cash flow hedges. The following schedule provides a detailed analysis of derivative instruments held at June 30, 2013:

	June 30, 2013						
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	($19,620,620)	A /Baa1
2002 revenue bonds	5/7/2002	7/1/2013	4.30	Bond rate/CPI	2,170,000	(19,986)	A-/Baa1
2002 revenue bonds	5/7/2002	7/1/2014	4.39	Bond rate/CPI	2,325,000	(51,836)	A-/Baa1
2002 revenue bonds	5/7/2002	7/1/2015	4.50	Bond rate/CPI	1,615,000	(51,835)	A-/Baa1
2002 revenue bonds	5/7/2002	7/1/2016	4.61	Bond rate/CPI	1,685,000	(68,396)	A-/Baa1
2004 revenue bonds	6/1/2004	7/1/2034	5.21	SIFMA	45,100,000	(13,926,572)	A-/Baa1
Total swaps outstanding					$111,995,000	($33,739,245)	

	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)	

Credit risk – As of June 30, 2013, 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, 2013, none of the City's swap agreements met this requirement.

Although the City executes transactions with various counterparties, the 6 Water Utility Fund swaps are held with one counterparties. That counterparty is rated A-/Baa1.

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, 2013, the SIFMA rate for the 52-week period ranged from 0.06% to 0.23%, whereas the City tax-exempt market rate ranged from 0.04% to.038%. For one of the swaps, the City will receive a 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, 2013, LIBOR for the 52-week period ranged from 0.19% to 0.24%. 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.

(b) *Investment Derivative Instruments*

The fair value balance and notional amounts of derivative instruments outstanding at June 30, 2013 and 2012, classified by type and the changes in fair value of such derivative instruments for the year ended June 30, 2013 and 2012 are as follows:

	Changes in fair value		Fair value at June 30, 2013		
	Classification	Amount	Classification	Amount	Notional
Fixed to floating	Investment revenue	($53,073)	Debt	($261,516)	($13,220,453)
Floating to fixed	Investment revenue	(242,857)	Debt	(8,978,926)	(71,455,000)
		($295,930)		($9,240,442)	($84,675,453)

	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)

Credit Risk – At June 30, 2013 and 2012, 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, 2013, 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 \$6.829 million in 2013, \$5.402 million in 2012 and \$2.815 million in 2011. 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, 2013, 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 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, 2013 there were 10,238 City retirees eligible for these benefits.

For fiscal year 2013 and 2012, the City's total contributions to the Plan were \$125.9 and \$142.4 million, respectively, from its General Fund.

(Continued)

(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 thousand with a cap of $500 million. 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 2013 and 2012, the Water Utility's share of the City's cost was $1.835 million and $1.792 million, 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, 2013, 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 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.

(14) Interfund Activity

Balances due to/from other funds at June 30, 2013 (amounts expressed in thousands):

	Interfund	
Fund	Receivable	Payable
Water	$ —	$ 17,600
General Fund	17,600	—
Total	$ 17,600	$ 17,600

The interfund balances reflect the fact that at June 30, 2013, the General Fund provided a loan to Water Fund to fund capital construction costs. Repayment will be made from the proceeds of a bond sale schedule in fiscal year 2014.

(15) Subsequent Event

On December 3, 2013, the City issued Water Project and Refunding Revenue Bonds, Series 2013 in the amount of $317.8 million, of which $191.5 million is applicable to bond refunding. The bonds will fund capital projects and refund certain outstanding auction and fixed rate bonds. The majority savings was used to terminate outstanding swaps associated with the refunded auction bonds. The interest rates range from 3.00% to 5.00%, and interest is payable semiannually on July 1 and January 1 of each year beginning on July 1, 2014.