# City of Baltimore
## Maryland

Comprehensive Annual Financial Report
Year Ended June 30, 2010

# City of Baltimore, Maryland

## Comprehensive Annual Financial Report

Year Ended June 30, 2010

Prepared by the Department of Finance
Edward J. Gallagher
*Director of Finance*

Bureau of Accounting and Payroll Services
Michael E. Broache
*Bureau Chief*

469 City Hall, 100 N. Holliday Street, Baltimore, Maryland 21202

# ELECTED OFFICIALS

MAYOR
Stephanie Rawlings-Blake

PRESIDENT OF THE CITY COUNCIL
Bernard C. Young

COMPTROLLER
Joan M. Pratt

# BOARD OF ESTIMATES

PRESIDENT
Bernard C. Young

MAYOR
Stephanie Rawlings-Blake

COMPTROLLER
Joan M. Pratt

DIRECTOR OF PUBLIC WORKS
Alfred H. Foxx

CITY SOLICITOR
George A. Nilson

# CITY COUNCIL

Bernard C. Young, *President*
Edward Reisinger, *Vice-President*

FIRST DISTRICT
James B. Kraft

SECOND DISTRICT
Nicholas D'Adamo, Jr.

THIRD DISTRICT
Robert Curran

FOURTH DISTRICT
Bill Henry

FIFTH DISTRICT
Rochelle "Rikki" Spector

SIXTH DISTRICT
Sharon Green Middleton

SEVENTH DISTRICT
Belinda Conaway

EIGHTH DISTRICT
Helen Holton

NINTH DISTRICT
Agnes Welch

TENTH DISTRICT
Edward Reisinger

ELEVENTH DISTRICT
William H. Cole IV

TWELFTH DISTRICT
Carl Stokes

THIRTEENTH DISTRICT
Warren Branch

FOURTEENTH DISTRICT
Mary Pat Clarke

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# Introductory Section

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CITY OF BALTIMORE

STEPHANIE RAWLINGS-BLAKE, Mayor

DEPARTMENT OF FINANCE

EDWARD GALLAGHER, Director
469 City Hall
Baltimore, Maryland 21202

December 23, 2010

Honorable President and Members of
The Board of Estimates
City of Baltimore, Maryland

In compliance with Article VII, Section 8, of the revised City Charter (November, 1964), submitted herewith is the Comprehensive Annual Financial Report (CAFR) of the City of Baltimore, Maryland, (City) for the year ended June 30, 2010. The CAFR was prepared by the City's Department of Finance. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe that the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and changes in financial position of the City; and, that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been provided.

The CAFR is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the City's organization chart and the certificate of achievement for excellence in financial reporting. The financial section includes the auditor's opinion, Management's Discussion and Analysis (MD&A), basic financial statements with related notes, and required supplementary information with related notes. The financial section also includes the combining and individual fund financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multiyear basis.

Management has provided a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors in the Financial Section of the CAFR.

The City Charter established a Department of Audits under the general supervision of the City Comptroller. The Charter requires the City Auditor to "annually make a general comprehensive public report of the financial position of the City; in the discretion of the Comptroller, such report may be in the form of an opinion on the annual financial statements prepared by the Director of Finance." The Comptroller has elected to have the City Auditor render an opinion as to the fairness of the Director of Finance's presentation of the City's basic financial statements. Additionally, the Board of Estimates awarded a contract to the nationally recognized independent certified public accounting firm, Ernst & Young LLP, to perform a joint audit with the City Auditor of the basic financial statements of the City for the year ended June 30, 2010. Their joint audit report is contained herein. Their audit was conducted in accordance with auditing standards generally accepted in the United States and, for the basic financial statements of the City, the standards for financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. On the basis of this examination, the independent auditors have issued an unqualified opinion that the presentation of the basic financial statements conforms with accounting principles generally accepted in the United States. In conducting the audit, the auditors performed tests of the accounting records and such other procedures as were considered necessary in the circumstances to provide a reasonable basis for this opinion on the financial statements. The auditors also assessed the accounting principles used and significant estimates made by management, as well as evaluated the overall financial statement presentation.

The independent audit of the City's financial statements is part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. This audit was conducted by the City Auditor, and the Single Audit Report is available as a separate document.

This report includes all of the funds that we consider to be part of, controlled by or dependent on the City. Professional judgment must be used to determine whether or not a potential component unit should be included in the reporting entity. Various potential component units were evaluated to determine whether they should be reported in the City's CAFR. Three component units, the Baltimore Industrial Development Authority (blended component unit), the Baltimore City Public School System and the Baltimore Hotel Corporation (discretely presented component units), were considered to be part of the City's reporting entity when it was concluded that the City was financially accountable for these entities. The Housing Authority of Baltimore City and certain other organizations are not considered to be component units and are not included in the City's basic financial statements.

## PROFILE OF THE GOVERNMENT

The Mayor and City Council of Baltimore (City) is a body corporate and politic of the State of Maryland (State) in which all local governmental functions are performed by the City. The City has had a charter form of government since 1797; home rule powers since 1918, and is governed by an elected Mayor, Comptroller and a City Council. The City has a total area of approximately 92 square miles and an estimated 2008 population of 636,919. The City is a major deep-water seaport located on the Patapsco River, a tributary of the Chesapeake Bay. It is served by Baltimore/Washington International Thurgood Marshall Airport in adjacent Anne Arundel County. The City is almost completely surrounded by Baltimore County, a separate entity, which borders the City on the east, north, west and part of the south. Anne Arundel County adjoins the City on its southern border.

The City provides the full range of municipal services contemplated by statute or charter, which are provided or paid for by the City from local, State or Federal sources. These services include public safety (police and fire protection), water and waste water utilities, highways and streets, sanitation, health and human services, culture and recreation, education (elementary through high school, provided by a component unit, the Baltimore City Public School System), public improvements, planning and zoning, parking facilities, mortgage loan programs, industrial development, and general and administrative services. The City is also responsible for adoption and maintenance of building codes, and regulation of licenses and permits, collection of certain taxes and revenues, maintenance of public records and the conduct of elections. These activities are included in the reporting entity. There are no overlapping local governmental entities or taxing jurisdictions. Accordingly, there is no overlapping debt of the City.

Under the City Charter, the City's executive functions are vested in the Mayor, the Board of Estimates and an independent Comptroller. The City's legislative functions are vested in the City Council. The Mayor is the chief executive officer of the City. The Mayor is elected for a term of four years and is eligible to succeed herself without limitation as to the number of terms. If the Mayor is disabled or absent from the City, the President of the City Council acts as ex-officio Mayor. If the Mayor resigns, is permanently disqualified, or dies in office, the President of the City Council becomes Mayor for the remainder of the term. The Mayor has authority to veto ordinances, has power of appointment of most department heads and municipal officers, serves on the Board of Estimates and appoints two of the other four members of the Board of Estimates.

The Board of Estimates is the highest administrative body of the City. It is composed of the President of the City Council, who serves as President of the Board, the Mayor, the Comptroller, the City Solicitor and the Director of Public Works. The Board of Estimates formulates and determines City fiscal policy with its primary policy tool being the recommended annual Ordinance of Estimates, the City's budget.

### Key Budgetary Policies

*Balanced Budget:* The City Charter requires the operating budget to be balanced. Any difference between non-property tax revenues and total expenditures are to be made up by adjusting the property tax rate or enactment of new revenue measures.

*Public Hearings:* The City Charter mandates that both the Board of Estimates and the City Council conduct public hearings on the proposed budget.

*Timely Adoption:* The City Charter sets forth a schedule requiring the budget to be adopted before the beginning of the fiscal year, July 1.

*Budget Amendment:* The Charter provides means for adopting supplemental appropriations funded from unanticipated revenues and/or new grants and sources that materialize during the year. The City's policy is to minimize the use of supplemental appropriations. In addition, the City Charter allows for and spells out the procedures for amending the budget to transfer appropriations between programs within an agency and between agencies.

*Six-Year Capital Plan:* Guiding the physical development budget plan of the City is the Charter requirement for a six year capital improvement plan, the first year comprising the capital budget year. The plan is prepared in conformance with basic capital budgeting policies, which include appropriating funds in the year in which projects are likely to begin, financing a portion of capital improvements from current revenues, and estimating the impact of capital projects on the operating budget.

*Budget Monitoring and Execution:* Budget analysts maintain ongoing contact with agency fiscal officers in the process of implementation and execution of the budget. Expenditure and revenue projections are developed and reviewed on a monthly basis. The Mayor, through the Department of Finance, exercises appropriate fiscal management to adjust budget policy, as necessary, to be within the limits of the current adopted plan. The City Council has the practice of reviewing budget performance at mid-year and during the fourth quarter of the fiscal year.

*Debt Policy:* In 1990, the City adopted a formal debt policy which set annual borrowing limits, consolidated all financing arrangements within the Department of Finance, established refunding and refinancing policies, and set limits on key debt management ratios. The objective is to maintain the City's reputation as a locality having a conservative approach to all aspects of debt management, including debt service expenses, debt retirement schedules, and debt capacity ratios. During the summer of 2007, the City worked with a team of consultants from Public Resources Advisory Group and Evergreen Capital to perform a comprehensive debt study and review of the 1990 debt policy. The study did not result in any changes to the debt policy.

*Budget Stabilization Reserve Policy:* In November 2008, the City's Board of Estimates approved a Budget Stabilization Reserve Policy that establishes the basis for having a Budget Stabilization Reserve as well as identifying its maintenance level, scope of coverage, circumstances under which funds shall be drawn down from the reserve, and the requirements to replenish the reserve when utilized. The policy stipulates that the reserve serves to provide a budget defense to stabilize a post-adopted budget that has been impacted by an uncorrectable shortfall in revenues and/or an unanticipated and uncorrectable emergency expense. The reserve is the revenue source of last resort to avoid a budget deficit. Under no circumstances is the reserve to be used as a revenue source to balance a planning year budget. The policy further stipulates that the reserve shall be maintained on any June 30th at a minimum level of 8% of the combined value of the General Fund and Motor Vehicle Fund operating budgets of the subsequent fiscal year.

## OTHER FINANCIAL INFORMATION

### Retirement Plans

Professional employees of both the Baltimore City Public School System and the Enoch Pratt Free Library, an agency of the City, are members of the State of Maryland Retirement System to which the City is not required to contribute. The City contributes to four retirement plans established for all other City employees and elected officials.

City laws require that contributions to its three funded pension systems be based on actuarial valuations. City contributions to the Unfunded Fire and Police Plan (for eligible employees hired prior to January 1, 1947, all of whom are now retired, or their beneficiaries) are not actuarially determined, and these benefits are paid from annual appropriations.

### Temporary Investment of Cash Balances

The City, through the Office of the Director of Finance, pursues an aggressive cash management and investment program to achieve maximum financial return on available funds. Depending on cash needs, excess funds are invested on a short, intermediate or long-term basis at best obtainable rates. Investments are limited generally to direct or indirect obligations of the U.S. government and fully collateralized repurchase agreements. The City utilizes the practice of recording investment income in the period in which it is earned.

### Risk Management

The City is self-insured in the area of casualty and property losses, including the uninsured portion of losses to City buildings and contents, vehicles, watercraft, boilers, machinery, workers' compensation and employers' liability, employees' health insurance, third party general liability and automobile liability losses. The Office of Risk Management, within the Department of Finance, administers the fund.

### Internal Control

City management is responsible for establishing and maintaining effective internal control over financial reporting. There are no material weaknesses in internal control over financial reporting and there have been no significant changes in internal control since June 30, 2010.

## ECONOMIC PROFILE AND OUTLOOK

Baltimore is the historic, business, education and cultural center of Maryland. The City benefits from being in one of the wealthiest states in the nation and is the northern anchor of the Washington-Baltimore-Northern Virginia Combined Statistical Area—one of the largest, wealthiest and best educated population centers in the country. The City's economy has traditionally benefited from its location as it is accessible to a large and diversified workforce. Also, with an excellent highway and rail transportation system the City is able to access both mid-western and north-eastern markets thus supporting its international port activity. About 326,654 or 27.0% of the 1.21 million jobs in the metropolitan area are located in the City.

For several decades, the City has become less reliant on traditional manufacturing industries. Manufacturing jobs comprise only 4.7% of the City's total jobs, which represents a lower percentage than the region and the State. However, health and education related services continue to be the leading employment industry, representing 28.9% of the 2009 jobs located in the City. This proportion is considerably higher than the State and region's total of 15.4% and 18.2%, respectively. The prominent health and knowledge-related industries is reflected in the City's major employers. Among the ten largest non-governmental employers, eight are health and education-related entities, one is a utility service provider, and one provides administrative services. The City derives economic strength from the number of jobs in the fast growing health sector, and in knowledge and information-based education and information services sectors. An increasing number of workers in the Washington, D.C. and Northern Virginia area commute to jobs from homes in Baltimore.

The City supports and builds on the strengths of its internationally renowned higher education and health care institutions, most notably the Johns Hopkins Hospital and Health System—the world's premier medical facility, and the University of Maryland School of Medicine—the nation's first public medical school and one of the nation's largest public medical school research dollar recipients. A total of $1.6 billion of major development in the City related to higher education and health care institutions was under construction during Fiscal 2010, including the expansion of the Maryland General Hospital, the Johns Hopkins Hospital—New Clinical Building, the Pharmacy Hall addition to the University of Maryland and the Mercy Medical Center—Mary Catherine Bunting Center, expected to open to the public in Fiscal 2011.

The population trend is often considered the single most important economic factor in the City due to the fact that Baltimore's population peaked at 949,708 in 1950 and has declined to 651,154 in 2000. This 50 year trend reflects an average monthly drop of 498 persons with some decades experiencing faster drops than others. The 1970's saw the greatest declines. During this period, population loss approached 12,000 per year, or 1,000 per month; however, this rate of loss has declined in recent years and we currently experience an average monthly drop of 82 people since 2001. The Census Bureau recently released the preliminary July 1, 2009 population estimate of 637,418 for Baltimore City. This estimate shows a loss of 673 City residents from the 2008 estimate of 638,091. In recent years, the City has been successful in challenging the annual bureau's estimates for upward revisions; however, unlike prior years, the City has not pursued challenging the last two estimates in order to gather efforts for a more accurate estimate in the 2010 Census. The leveling of population losses during this decade confirms the City's efforts to address the challenges associated with being the State's oldest urban center with a disproportionate share of the State's poor and areas of disinvestment and abandonment.

**Economic Outlook**

The economic outlook for the Fiscal 2012 budget planning cycle is, perhaps, the most challenging the City has experienced in several years. A reduction in housing market activity has affected the major City revenue sources. Home sales are down approximately 14.8% from last year to date levels as of August and 65.7% below their peak in June 2005. This has impacted property tax collections, the City's main source of revenue. The lower activity level has also caused a decline in transfer and recordation tax collection, resulting in a $70.6 million decline since their peak in Fiscal 2006. This represents the lowest level of collections since Fiscal 2003.

The unemployment rate in the City reached 11.5% as in January 2010, contributing to a reduction of income tax collections. Lower employment and reduced capital gains resulted in a 5.0% decline in income taxes for Fiscal 2010. Although, employment is expected to grow, the growth will be limited by high unemployment. Fiscal 2011 income tax is expected to grow at around 2.5%.

Additionally, the State faces one of the most difficult budget crises, which in turn diminishes the level of State aid to the City. The Administration expects these conditions to continue through Fiscal 2011 and Fiscal 2012. In order to weather these financial challenges, the City has implemented plans to reduce expenditures in Fiscal 2011 and is taking an especially conservative approach to budget planning for Fiscal 2012.

**Jobs and Employment**

The most recent data from the State Department of Labor, Licensing and Regulation (DLLR) indicates that the City has continued to experience a decline in the number of jobs during calendar 2009. The DLLR reported an average of 326,654 jobs located in the City during 2009, which represents a 3.8% decline compared to the average of 339,640 jobs in calendar 2008. Total jobs in the City peaked in 2000 with 387,557 jobs; since then, the City has experienced an average decline of about 564 per month through calendar 2009. In 2009, the City's job market reflected the impact of the national recession.

In January of 2010 there were an estimated 243,712 City residents employed. The difference between employed residents and jobs in the City reflects a net contribution of approximately 83,000 jobs to surrounding communities. The annual average unemployment rate for residents in the City increased from 6.7% in 2008 to 10.4% in 2009, with an 11.5% unemployment rate as of January 2010, the highest since 1992.

**Retail Sales**

Retail sales reported by the State of Maryland for the City showed a decline of 1.6% in Fiscal 2010, the second and consecutive decline in the last eight years. The total value of sales generated in the City decreased $87.5 million to reach the annual total of $5.35 billion. Additionally, sales generated in the City have declined as a percentage of the total retail sales in the State from 9.4% in Fiscal 2000 to an average 8.4% during the last four years. The City has experienced a gross increase of 113 new businesses, mostly restaurants and bars that started operations in 2010. Retail sales activity continues to be a leading indicator of economic activity as the City continues experiencing the impacts of the national economic recession.

**Housing**

The Fiscal 2010 housing market continued showing downward adjustments; however, Fiscal 2010 results have been potentially biased by the availability of the federal funded program for first-time homebuyers. This program granted $8,000 for buyers whose settlement occurred before June 30, 2010. Single-family home sales in the City as reported through the Metropolitan Regional Information System (MRIS) reflected an increase of 5.9% in total dollar sales value compared to fiscal year 2009; additionally, the total number of units sold increased by 13.2% in Fiscal 2010. On the other hand, prices showed more dramatic adjustments while the housing market continued stabilizing from the boom years' speculative prices. The average sale price of properties sold in the City declined to $158,114 or 6.8% from the $169,652 experienced in Fiscal 2009 and a total 15.3% drop from its peak in 2008, representing the second consecutive year of downward market adjustment in prices since 1998.

The housing market conditions are not promising. It is estimated that prices will continue adjusting through 2010 and into 2011. The housing market collapse also extended to the development of new apartments. Only 184 apartments were completed in the downtown for both rental and sale between 2009 and 2010, bringing the total number of new apartments built in downtown to 4,663 since calendar 1999. Another 364 apartment units are currently under construction in the downtown area with expected delivery time between Fiscal 2011 and Fiscal 2012, and another 154 units are on the planning phase. The City maintains a strategic position as a market for affordable housing for buyers in the region. This is particularly important as the regional market has grown to include more Washington and Northern Virginia commuters.

**Port**

Port activity is sensitive to factors affecting the world trade: the state of the economies abroad and currency markets, among other factors. Calendar 2009 was marked by one of the worse recessionary periods in the national economy and the Port of Baltimore could not be exempt from its impact. For the first time in five years, the total foreign cargo volume handled by the port did not exceed the 30 million ton mark, and decreased 32.3% to 22.4 million tons from the 33.0 million tons handled in 2008, while cargo value experienced a decline of 33.4% to $30.2 billion. The national port industry experienced in 2009 a decrease of 12% in the total volume of foreign cargo and 28.4% decrease in the dollar value of transactions; however, the Port of Baltimore maintained its standing as the 12th largest nationwide port in dollar value, and 15th largest nationwide in tonnage. In addition, the Port of Baltimore declined 18% in the volume of import and export on roll-on roll-off cargo, but continued to be ranked as the first port in this category out of about 360 U.S. ports, with a total 0.78 million tons in 2009. The level of activity at the Port will depend on the status of international foreign policies and the challenges of foreign trade in a depressed economy. In 2009, the Maryland Port Administration signed a long term renovation contract including construction of a 50-foot berth and four cranes which are scheduled to be completed in 2014. This contract, which includes a 50-year leasing agreement with Port of America, and about $500 million in capital investment, will prepare the port for the upcoming challenges resulting from the widening of the Panama Canal which is expected to be completed in 2014. This new agreement is expected to not only benefit the Port, but also to spur the areas' economic activity with about 2,700 new permanent direct, indirect and induced new jobs, and 3,000 one-time construction jobs over the next three years.

**Tourism and Travel Industry**

The tourism and travel industries experienced mixed effect in 2009 and during the first semester of 2010. For a second year in a row, the number of events held in the Baltimore Convention Center declined. During Fiscal 2010, the Baltimore Convention Center hosted 131 events, eight events less than the 139 in Fiscal 2009 and 46 less compared to the 177 held in Fiscal 2008. The

average attendance per event dropped 10.2% in Fiscal 2010 from 3,137 to 2,816. The City experienced an increase of 8.9% in total rooms due to five new hotels that started operation in Fiscal 2010; however, the average occupancy rate decreased to 55.0%, 2.3% lower than the average 57.3% experienced in Fiscal 2009. Due to lower demand, the average rate per room decreased 9.5% to $135 per room, representing the lowest daily average room rate charged since Fiscal 2003. On the other hand, the travel industry improved in calendar year 2009. There were about 21.0 million commercial passengers that used the Baltimore Washington International Thurgood Marshall Airport (BWI), representing an increase of 2.7% compared to Calendar 2008. Two new carriers, JetBlue and Cape Air, added Baltimore to their destinations and other carriers increased the volume of passengers landing and departing from BWI. Cruise activity through the Port of Baltimore experienced a record year in 2009. A total of 81 cruises departed from the port, representing 54 cruises more than in 2008. The Carnival Cruise Lines launched the year-round cruising from Baltimore to the Caribbean while other major companies such as Celebrity, Norwegian, Peter Deilmann and Royal Caribbean continued to choose the Port of Baltimore as an option in the industry.

**Office Development**

In Fiscal 2010, the City's office market experienced an increase on its total market size and number of office buildings; however, the increase in supply was not fully absorbed by demand, generating an increase in City's vacancy rate and a decrease in the average price. The City increased its office market size by 4.6% to 22.7 million square foot compared to 21.7 million square foot in June, 2009. There were 12 new buildings contributing to the additional 995,000 square feet available in office space, with a net absorption of 43,700 square feet; therefore, vacancy rate increased 3.7% to 24.2%, and the average retail price was slightly reduced by $0.50 to $22.10 per square feet. The change in the vacancy rate was mostly experienced in the Downtown area, which increased to 19.6% from 15.2% as of June 30, 2009. This change was explained by the high number of new leasing contracts of companies relocating within City facilities, with no material net absorption. Some of the most relevant relocations include the 156,000 square feet on 1300 Thames Street leased by Morgan Stanley to consolidate its previous two office locations, Weber Shandwick which relocated their offices from Tide Point to Boston Street and Barton Malow Company which relocated from West Pratt Street to Aliceanna Street. The new Legg Mason building located on 100 International Drive, with more than 540,000 square feet office space, was fully leased before completion. Among its new tenants are the Johns Hopkins University Carey Business School and RSM McGladery, Inc, comprising 118,930 square feet. Other major leases that occurred in Fiscal 2010 are the law firm Ober/Kaler with 92,778 square feet on 100 Charles Street and Stifel, Nicolaus & Co with 75,724 square feet on 1 South Street. The Lieber Institute for Brain Development, the American Cancer Institute, Brick Mill Marketing, Moodlerooms, CyberPoint International and First Health Systems also leased a combined total of 90,283 square feet.

## FINANCIAL ACCOMPLISHMENTS

Providing a broad range of urban services with a limited tax base requires maximizing use of scarce resources and constant improvement to all aspects of financial management—treasury, collections, budgeting, payroll, risk management, accounting and procurement. Selected highlights of financial management accomplishments in Fiscal 2010 follow:

- The City maintained a General Obligation (G.O.) bond rating of 'Aa2' from Moody's Investors Service and 'AA-' from Standard & Poor's in May 2010. As Moody's noted in its 2009 report when discussing the City's stable rating outlook given the current economic climate, "the rating reflects the City's sound financial position, characterized by recently-enhanced fiscal policies, healthy fund balance levels, and sustained operating stability through several economic cycles".
- The City has completed its transition to Outcome Budgeting, which is a new way of budgeting for Baltimore. Whereas traditional budgeting starts with last year's spending and adjusts agency allocations based on projected revenue, Outcome Budgeting starts with the results that matter to citizens and funds programs based on their value in achieving those results. Through Outcome Budgeting, agencies were required to demonstrate in their budget proposals for Fiscal 2011 the relationship between the dollars they plan to spend and achieving measurable results, such as cleaner waterways, smoother roads, and healthier babies. This new budget process gives City leaders more information to make strategic funding decisions. Furthermore, to find out what results matter most to citizens, the City will continue to conduct the annual Baltimore Citizen Survey, which was started in Fiscal Year 2009.
- In calendar 2009, the City completed the final piece of the Department of Finance's Strategic Plan for Information Technology and Financial Systems. The City transitioned from its 38-year-old legacy system to a new general ledger system that incorporates many best practices. The new system, CityDynamics, provides timely financial reporting and streamlines the City's accounts payable and billing systems. This is the latest in a series of upgrades over the past few fiscal years that include new human resources, payroll, and procurement systems.

- The City has taken important steps to comply with Governmental Accounting Standards Board Statement No. 45 on Other Post-employment Benefits (OPEB), including the creation of a Retiree Benefit Trust, a Memorandum of Understanding with the Employees' Retirement System to manage the Trust, and regular contributions to the Trust including a dedicated revenue stream from the Medicare Part D employer subsidy. The long-term investment balance in the City's OPEB Trust as of June 30, 2010 was $118,720,000. Despite significant budget challenges, the City was still able to budget a new contribution of $6.4 million to the OPEB Trust in Fiscal Year 2010 for future benefit costs.
- The Bureau of Revenue Collections has implemented various reforms aimed at reducing operational expenses, boosting collections and improving customer service. The Bureau now offers 10 bill types that can be paid online via electronic debit from the customer's checking account or by credit card, thus reducing processing costs. The percent of payments made online has grown from 10.5% in Fiscal 2008 to 19.2% in Fiscal 2010. The Customer Service section has been reorganized to include the refunds and adjustments section which was previously a part of the Bureau of Accounting and Payroll Services. This re-organization makes the refund process more seamless and efficient for customers and reduces the administrative processing time associated with refunds. In addition, the Bureau implemented a service request tracking mechanism for all walk-in, mail, or telephone requests and has improved overall accountability related to citizen and customer requests.
- The City continues to focus on Workers' Compensation reform by holding managers throughout City government accountable for the timely reporting of claims and for the prevention of on-the-job injuries. The percentage of Workers Compensation claims that were reported to the claims administrator within five days from the date of incident increased from 50 percent in Fiscal 2004 to 85 percent in Fiscal 2010. The City has also reduced the number of Workers' Compensation claims filed by 26 percent in Fiscal 2010 compared to Fiscal 2002 (4,905 claims in Fiscal 2002 versus 3,630 in Fiscal 2010). In addition, claim payments made for all claims have decreased by 12% since Fiscal 2004 ($48 million in Fiscal 2004 versus $42 million in Fiscal 2010).

The positive outcome of effective financial management is evident in the City's General Fund balance sheet position. Despite a global recession and two record snowstorms, the City still maintained a balance of $79,875,000 in its budget stabilization fund as of June 30, 2010. When combined with an undesignated unreserved fund balance of $2,695,000, the total of $82,570,000 comprises 6.2% of General Fund revenues, a positive reflection on the strength of the City's balance sheet.

## MAJOR INITIATIVES AND ACCOMPLISHMENTS

The Administration focuses on the critical long-term concerns facing the City. Baltimore, like many older cities, is faced with many challenges: population loss, an unemployment rate which remains above the state and national average, wealth levels that are well below the state and national average, and a population which includes a disproportionate number of citizens facing issues ranging from mental illness, homelessness, addiction, affordable housing and crime.

The following sections will highlight key recent actions and accomplishments towards meeting the Administration's five major objectives.

### Objective 1: Safer Streets

#### Crime Reduction

Making Baltimore safer is one key component to increasing Baltimore's population, promoting economic growth, and creating and retaining jobs. In 2008, Baltimore achieved a 25.0% reduction in homicides and shootings. In 2009, Baltimore continued to reduce violent crime. Strategies developed by Mayor Rawlings-Blake and implemented by the Baltimore Police Department have led to an additional 4.0% reduction of homicides and shootings.

#### Gun Tracing Task Force

Established on June 1, 2007, the Gun Tracing Task Force (GTTF), made up of members of the Baltimore Police Department, Baltimore County Police Department, Maryland State Police, and Bureau of Alcohol, Tobacco and Firearms (ATF), suppresses gun trafficking and unlawful firearms possession by targeting straw purchasers and gun dealers who fail to comply with State and Federal laws.

**Violent Crime Impact Division (VCID)**

In 2007, the Police Department's Organized Crime Division was reorganized, renamed and restructured into the Violent Crime Impact Division (VCID). VCID detectives target the most violent offenders in specific violent zones within the city. This focus has resulted in significant violent crime reductions within the targeted zones.

**Citizens on Patrol (COP)**

Experience has proven that a small group of concerned, dedicated citizens with the proper training, and the support of their community and law enforcement, can make a difference. In communities with an active COP program, there has been a significant decrease in criminal activity. Additionally, members of COP groups have helped improve the relationships between the Police Department and communities. Not only is a COP group a crime deterrent, it is also an opportunity for community members to identify infrastructure issues in their neighborhoods.

**Safe Streets**

Safe Streets is a community based violence prevention initiative modeled on CeaseFire Chicago. This program relies on credible outreach workers, community members, faith leaders and other community organizations to intervene in conflicts, or potential conflicts, and promote alternatives to violence. Along with cooperation from the Health and Police Departments, Safe Streets includes a strong public education campaign to provide the message that shootings and violence are unacceptable in our communities. In August 2008 the City expanded this program, and since that time, the program has successfully: increased the work of the Living Classrooms Foundation to include approximately 24 city blocks in East Baltimore and three teams of outreach workers; developed a hospital response component with Johns Hopkins Hospital and added a new site in the Cherry Hill area to be overseen by Family Health Centers of Baltimore.

**Objective 2: Cleaner and Healthier City**

**Energy Office**

The Energy Office within the Department of General Services has been instrumental in reducing energy costs throughout the City. Beginning in Fiscal 2010, the Energy Office produced enough savings and revenue to become a self-sufficient organization, and is no longer dependent on General Fund support.

**Single Stream Recycling**

In Fiscal 2009, the Department of Public Works (DPW), Bureau of Solid Waste, instituted a city-wide single stream recycling program whereby paper, plastic, glass, bottles and jars are now placed in one container and collected in one pick-up. The results have been immediate: a 30% increase in residential recycling tonnage; reduced route time and operating costs, including a 90% reduction in overtime; and, increased recycling participation in areas of the City that previously had very low participation. In Fiscal 2010, DPW Bureau of Solid Waste instituted once a week mixed refuse and single stream recyclables collection (a shift from twice weekly trash and bi-weekly recycling pick-up). The new collection methodology again boosted recycling, saved the City approximately $7 million a year in operating costs, and reduced the amount of household mixed refuse collected.

**Baltimore City's Sustainability Plan**

The Baltimore Sustainability Plan (BSP) was developed over a nine-month period and engaged over 1,000 citizens. The BSP was adopted by City Council in March 2009. The Sustainability Plan lays out 29 priority goals within seven theme chapters: Cleanliness, Pollution Prevention, Resource Conservation, Greening, Transportation, Education & Awareness, and Green Economy. Each of the 29 goals is accompanied by a set of recommended strategies, with timelines, lead partners, and funding sources identified. The Plan can be viewed and downloaded from the City's website at www.baltimorecity.gov/sustainability.

**Buprenorphine Initiative**

The City is supporting expansion of effective substance abuse treatment using buprenorphine as an alternative for drug treatment. To date, more than 1,000 patients have been treated and more than 200 have transferred from substance abuse treatment to long-term support in the medical system. The Health Department has a leadership role in coordinating this effort.

### Objective 3: Growing Economy

#### East Baltimore Development Initiative

The nonprofit East Baltimore Development Inc., in partnership with the City, is working to transform an 88-acre site into a market-oriented, mixed-income community with housing opportunities for all income ranges and a continuum of social and economic programs that enable residents to benefit from the area's rebirth. Currently the single largest redevelopment effort in the City, this revitalization initiative is expected to generate over 8,000 new jobs, produce over 2,000 units of mixed-income housing and represent $1.8 billion of investment.

#### Westside Initiative

The Westside Initiative is a public/private partnership to renew the west side of downtown Baltimore into a vibrant mixed-use neighborhood. Nearly $800 million in capital funds have been invested in the Westside creating more than 1,000,000 square feet (sq. ft.) of additional institutional and cultural space, 250,000 sq. ft. of retail space, 137,000 sq. ft. of office space and 900 hotel rooms. More than 2,700 new market rate apartments and condominiums have been developed with approximately 1,900 units in the planning phase and an additional 300 units in the conceptual phase.

#### Job Development

The Baltimore Development Corporation's (BDC) mission is to stabilize and expand the City's job base by retaining existing City-based employers, helping them grow and recruiting new employers to the City. Since 2000, BDC has provided financial assistance to 973 businesses and development projects, resulting in the retention and creation of 41,144 jobs.

### Objective 4: Stronger Neighborhoods

#### Affordable Housing Program (AHP)

Initiated in 2006, the Baltimore City Affordable Housing Program's mission is to improve and expand housing opportunities for working families and other persons of low and moderate income and to promote economic diversity in City neighborhoods. The AHP is intended to facilitate large-scale site assembly and blight elimination, thereby creating new development opportunities in neighborhoods throughout the City. Examples of projects funded through the Affordable Housing Program include: the construction of Preston Place, the first new housing built in the Oliver community in more than 50 years; and the demolition of the former Freedom Village Apartments and Claremont Homes, now Orchard Ridge, the former Uplands Apartments and former Byrd properties.

#### Operation Orange Cone

In 2007, the Department of Transportation was challenged to find new ways of coordinating its resources to make road construction more efficient. The result, known as Operation Orange Cone, has led to a record amount of road resurfacing throughout the City. In 2008, the City paved 220 lane miles and through July 2009, 87.2 miles had been completed, which exceeds the goal of 200 lane miles repaved.

### Objective 5: Innovative Government

#### CitiStat

The Mayor's Office of CitiStat is a performance based management group tasked with improving service delivery in Baltimore City through the effective use of data-driven decision making. In addition to assessing individual agency performance, the Mayor has encouraged inter-agency cooperation to tackle some of the City's largest problems. An example of agencies working together towards a common goal is CleanStat, an inter-agency meeting focused on cleaning Baltimore through coordination among the Mayor's Office, the Bureau of Solid Waste, Housing's Code Enforcement section and the Department of Transportation Maintenance Division.

## AWARDS AND ACKNOWLEDGEMENTS

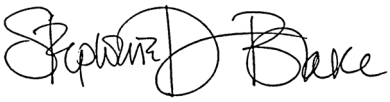
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Baltimore, Maryland, for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2009.

To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this annual report could not have been accomplished without the efficient and dedicated services of the entire staff of the Bureau of Accounting and Payroll Services of the Department of Finance. We wish to express our appreciation to all members of the Bureau who assisted and contributed to its preparation. We are also grateful to the City's independent auditors, Ernst & Young LLP, and the City Auditor for the professional assistance and advice they provided during the course of their audit. Finally, we would like to thank the members of the Board of Estimates and the City Council for their interest and support in planning and conducting the financial affairs of the City in a responsible and professional manner.

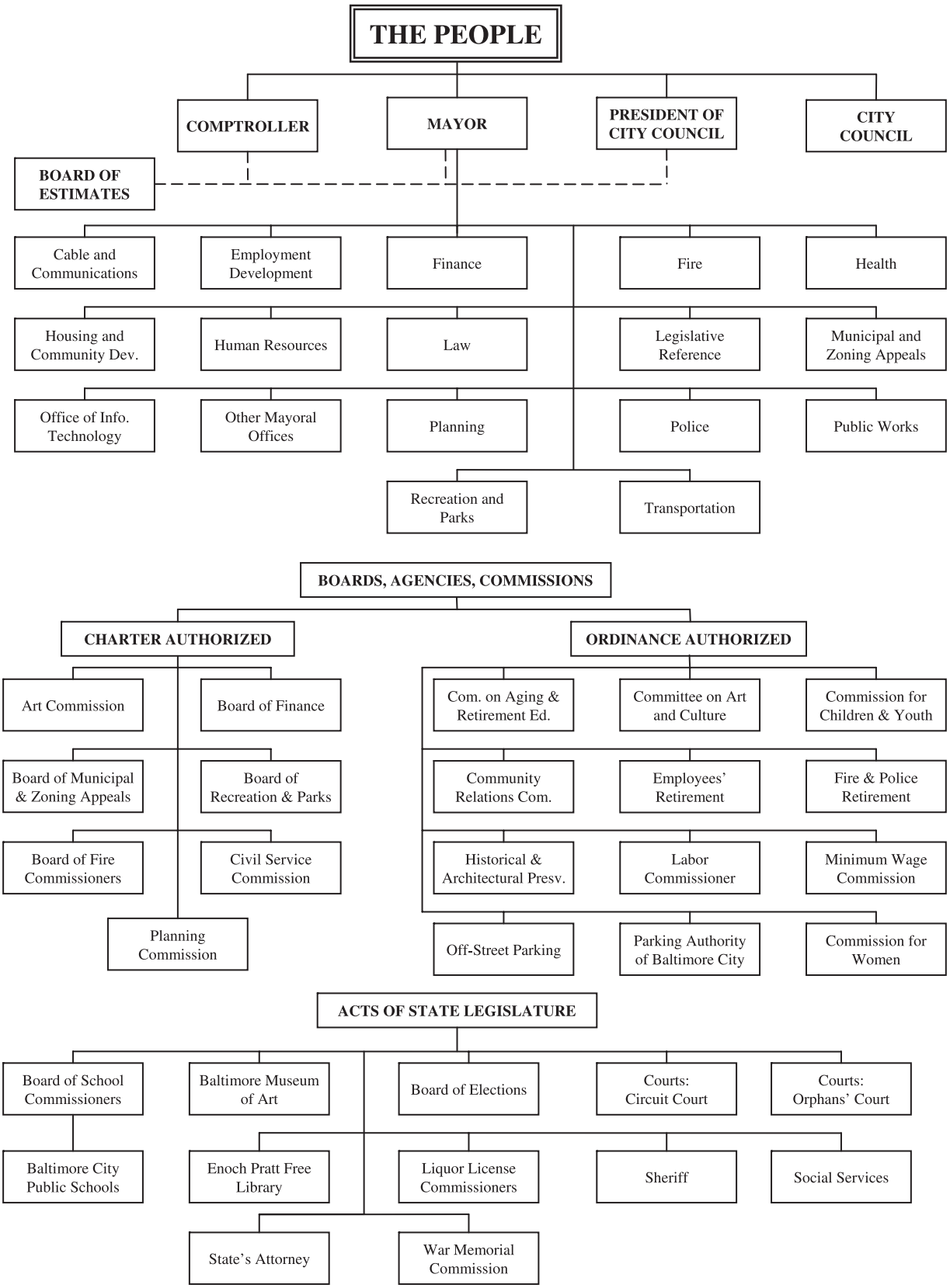
Respectfully submitted,



Stephanie Rawlings-Blake
Mayor

Edward J. Gallagher
Director of Finance

# MUNICIPAL ORGANIZATION CHART



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

# City of Baltimore Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

# Financial Section

- **Report of Independent Auditors**
- **Management's Discussion and Analysis**
- **Basic Financial Statements**
- **Notes to the Basic Financial Statements**
- **Required Supplementary Information**
- **Combining and Individual Fund Statements and Schedules**

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**CITY OF BALTIMORE**
STEPHANIE RAWLINGS-BLAKE
*Mayor*

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

ERNST & YOUNG

Ernst & Young LLP
621 East Pratt Street
Baltimore, Maryland 21202
Tel: + 1 410 539 7940
Fax: +1 410 783 3832
www.ey.com

December 23, 2010

**Report of Independent Auditors**

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

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Baltimore, Maryland, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Baltimore, Maryland's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not jointly audit the financial statements of the Pension Trust Funds, the Baltimore City Public School System and the Baltimore Hotel Corporation discretely presented component units. The financial statements of the Pension Trust Funds were audited by the City Auditor acting separately, and the Baltimore City Public School System and the Baltimore Hotel Corporation were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Pension Trust Funds, the Baltimore City Public School System and the Baltimore Hotel Corporation, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. The most recent peer review for the Department of Audits was performed on July 26, 2006 and a peer review for the current cycle is being arranged. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Baltimore Hotel Corporation were not audited in accordance with *Governmental Auditing Standards*. We were not engaged to perform an audit of the City of Baltimore, Maryland's internal control over financial reporting. Our audit included 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 of Baltimore, Maryland'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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Baltimore, Maryland, as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

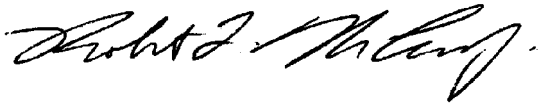
As discussed in Note 20, the City adopted Governmental Accounting Standards Board Statement No. 51 "Accounting and Financial Reporting for Intangible Assets" and Statement No. 53 "Accounting and Financial Reporting for Derivative Instruments".

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2010, on our consideration of the City of Baltimore, Maryland'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 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.

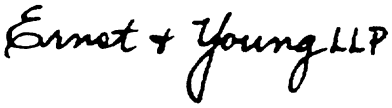
A member firm of Ernst & Young Global Limited

The management's discussion and analysis on pages 3 through 15, and the additional required supplementary information on pages 71 through 74, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Baltimore, Maryland's basic financial statements. The introductory section, combining and individual fund statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.



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



Ernst & Young LLP
Independent Auditors

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Baltimore's (City) Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

## FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $4.3 billion (net assets). This amount includes $213.6 million (restricted net assets) and is net of an unrestricted deficit of $155.8 million. During the fiscal year, the City's total net assets decreased by $24.8 million.

As of June 30, 2010, the City's governmental funds reported combined ending fund balances of $214.4 million. At the close of the current fiscal year, unreserved fund balance for the general fund was $27.7 million or 2.1% of total general fund expenditures of $1.2 billion.

The City's total long-term debt decreased by $3.2 million, during the current fiscal year.

## OVERVIEW OF THE FINANCIAL STATEMENTS

Governmental Accounting Standards Board Statement No. 34 requires the utilization of dual focus financial reporting. The purpose of this overview is to provide the reader with an introduction to the City's basic financial statements prepared under these reporting requirements.

The City's basic financial statements comprise three components:

(1) Government-wide financial statements,
(2) Fund financial statements, and
(3) Notes to the basic financial statements.

The report also contains required and other supplementary information including notes to the Required Supplementary Information in addition to the basic financial statements themselves.

Measurement focus refers to what is measured and reported in a fund's operating statement while basis of accounting determines when a transaction or event is recognized in these funds. Under the accrual basis of accounting, most transactions are recorded when they occur, regardless of when cash is received or disbursed. Under the modified accrual basis of accounting, revenues and other financial resources are recognized when they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized when the fund liability is incurred with certain exceptions.

### Financial Report Layout and Structure

The total economic resources focus is intended to determine if a fund is better or worse off economically as a result of events and transactions of the period. This focus utilizes the accrual basis of accounting to record events and transactions that improve (revenues or gains) or diminish (expenses or losses) a fund's economic position. It is the focus used by businesses. Until the advent of GASB 34, this focus was utilized by the public sector only to report on its business (self-supporting) activities.

The current financial resources focus is intended to determine if there are more or less resources that can be spent in the near future as a result of events and transactions of the period. This focus utilizes the modified accrual basis of accounting to record increases (revenues or other financing sources) or decreases (expenditures and other financing uses) in a fund's spendable resources. For most state and local governments, this focus is their legally mandated accounting method and with the incorporation of encumbrances (spending commitments), the one utilized to determine adherence to budgetary requirements.

Layout and Structure of the City of Baltimore Comprehensive Annual Financial Report

| C A F R | | | | | |
|---|---|---|---|---|---|
| | Introductory Section | | | | |
| | Financial Section | | | | |
| | | **Management's Discussion and Analysis** | | | |
| | | **Government-wide Statements** | **Fund Statements** | | |
| | | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| | **View** | Broad overview similar to a private sector business | Grouping of related activities used by state and local governments to ensure and demonstrate compliance with finance-related legal requirements | | |
| | **TYPES OF FINANCIAL STATEMENTS** | Statement of Net Assets | Balance Sheet | Statement of Fund Net Assets | Statement of Fiduciary Net Assets |
| | | | Statement of Revenues, Expenditures, and Changes in Fund Balances | Statement of Revenues, Expenses, and Changes in Fund Net Assets | |
| | | | | Statement of Cash Flows | Statement of Changes in Fiduciary Net Assets |
| | | Statement of Activities | | | |
| | | Full accrual basis for revenues and expenses, includes all assets and liabilities. Economic resource focus | Modified accrual basis for revenues and expenses. Financial resource measurement focus | Full accrual basis for revenues and expenses, includes all assets and liabilities. Economic resource focus | Accrual basis-agency funds do not have measurement focus |
| | | **Notes to the Basic Financial Statements** | | | |
| | | **Required Supplementary Information** | | | |
| | **Combining and Individual Fund Statements and Schedules** | | | | |
| | **Statistical Section** | | | | |

**Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. This section contains the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as, revenues pertaining to uncollected taxes and expenses pertaining to earned, but unused, vacation and sick leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all, or a significant portion, of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety and regulation, conservation of health, social services, education, public

library, recreation and culture, highways and streets, sanitation and waste removal, public service, economic development, and interest expense. The business-type activities of the City include water and sewer utilities, parking facilities and several other fee supported activities.

The government-wide financial statements include, not only the City itself (known as the primary government), but also the legally separate activities of the Baltimore City Public School System and the Baltimore Hotel Corporation. Summary financial information for these component units are reported separately from the financial information presented for the primary government itself. The Baltimore City Public School System and the Baltimore Hotel Corporation prepared their own financial statements, which are also prepared in conformity with GASB 34 and audited.

**Fund Financial Statements**

The fund financial statements are designed to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: governmental funds, proprietary funds, and fiduciary funds.

*Governmental funds*

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements, i.e., most of the City's basic services are reported in governmental funds. These statements, however, focus on; (1) how cash and other financial assets can readily be converted to available resources and (2) the balances left at year-end that are available for spending. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several major governmental funds (general, motor vehicle, grants revenue, and capital projects). Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances for these major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements as presented in supplementary information herein.

*Proprietary funds*

Proprietary funds are generally used to account for services for which the City charges customers — either outside customers, or internal units or departments of the City. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges for customer services including: water, sewer, parking fees, commercial and industrial rents, printing services, vehicle maintenance fees, telecommunication, central post office fees and risk management. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary funds provide the same type of information as shown in the government-wide financial statements.

The City maintains the following two types of proprietary funds:

- *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Enterprise funds are used to account for the operations of the City's business-type activities and include water and sewer utilities, and parking facilities, all of which are considered to be major funds of the City, and several other non-major fee supported activities.

- *Internal Service funds* are used to report activities that provide supplies and services for certain City programs and activities. The City uses internal service funds to account for its fleet of vehicles, printing and mail services, telecommunications services, and risk management program. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the propriety fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

*Fiduciary funds*

Fiduciary funds are used to report assets held in a trust or agency capacity for others. These resources cannot be used to support the City's own programs and are not reflected in the government-wide financial statements. The City's fiduciary funds are comprised of pension trust, OPEB trust and agency funds.

**Notes to the Basic Financial Statements**

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Required Supplementary Information and Combining and Individual Fund Statements and Schedules**

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. The combining financial statements and schedules referred to earlier in connection with non-major governmental funds and internal service funds are also presented. Budgetary comparison schedules have been provided for the general fund and motor vehicle fund to demonstrate compliance with their budgets.

**Statistical Section**

The statistical section provides supplemental financial and statistical information intended to provide a broader understanding of the City's financial and economic environment. Much of the data presented is multi-year and some of it is derived from records external to the City's accounting records, therefore the statistical section is unaudited.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Primary Government)**

The City's financial statements are prepared in conformity with the reporting model required by Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements — and Management's Discussion and Analysis (MD&A) — for State and Local Governments. The report includes prior fiscal year results for the purpose of providing comparative information for the MD&A.

**CITY OF BALTIMORE**

**Net Assets**
**For the fiscal years 2010 and 2009**

(Expressed in Thousands)

| | Governmental activities | | Business-type activities | | Total | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Current and other assets | $1,096,368 | $1,170,115 | $ 642,964 | $ 599,222 | $1,739,332 | $1,769,337 |
| Capital assets, net | 3,641,105 | 3,562,800 | 2,620,435 | 2,495,249 | 6,261,540 | 6,058,049 |
| Total assets | 4,737,473 | 4,732,915 | 3,263,399 | 3,094,471 | 8,000,872 | 7,827,386 |
| Long-term liabilities outstanding | 1,606,070 | 1,496,825 | 1,258,255 | 1,279,838 | 2,864,325 | 2,776,663 |
| Other liabilities | 581,972 | 581,506 | 212,015 | 101,826 | 793,987 | 683,332 |
| Total liabilities | 2,188,042 | 2,078,331 | 1,470,270 | 1,381,664 | 3,658,312 | 3,459,995 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 2,886,381 | 3,117,296 | 1,398,453 | 1,264,259 | 4,284,834 | 4,381,555 |
| Restricted | 14,787 | 13,191 | 198,714 | 260,575 | 213,501 | 273,766 |
| Unrestricted | (351,737) | (475,903) | 195,962 | 187,973 | (155,775) | (287,930) |
| Total net assets | $2,549,431 | $2,654,584 | $1,793,129 | $1,712,807 | $4,342,560 | $4,367,391 |

## Analysis of Net Assets

As noted earlier, net assets may serve as a useful indicator of the City's financial position. For the City, assets exceeded liabilities by $4.3 billion at the close of the current fiscal year. The City's net assets include its investment of $4.3 billion in capital assets (e.g., land, buildings, and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City'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 other sources, since the capital assets themselves cannot be liquidated for these liabilities. An additional portion of the City's net assets, $213.6 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance is a deficit in unrestricted net assets of $155.8 million.

**CITY OF BALTIMORE**

**Changes in Net Assets**
**For the fiscal years 2010 and 2009**

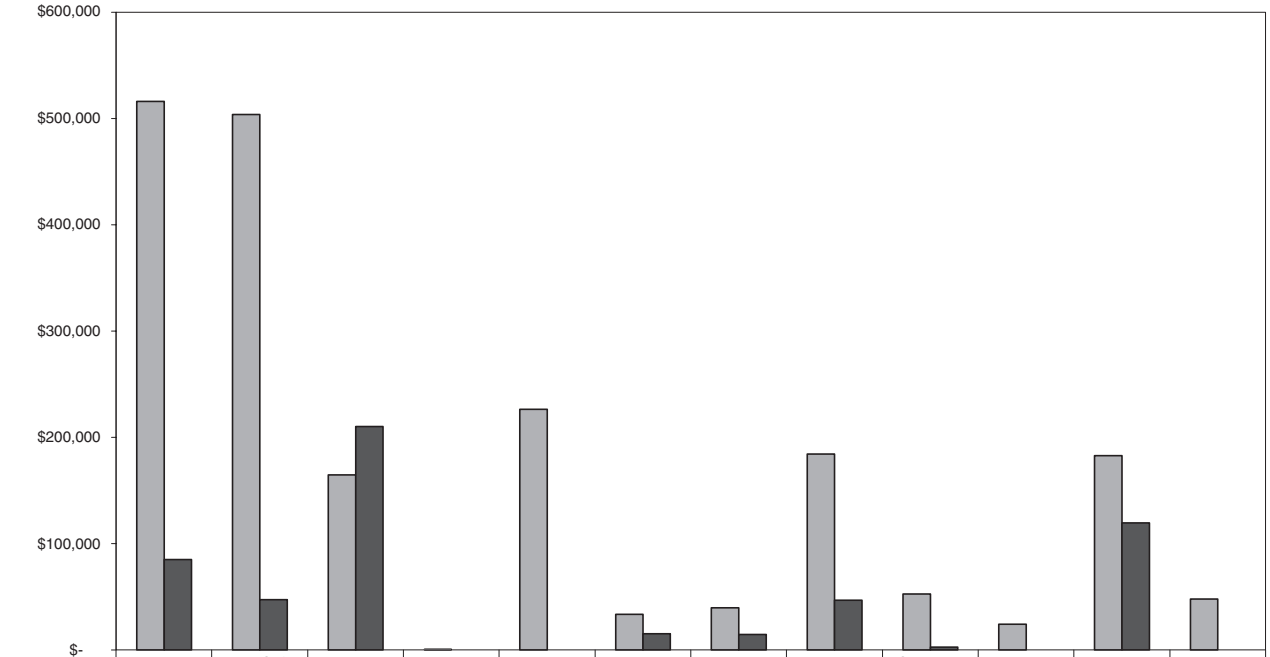
(Expressed in Thousands)

| | Governmental activities | | Business-type activities | | Total | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | $ 92,483 | $ 94,297 | $ 379,093 | $ 354,965 | $ 471,576 | $ 449,262 |
| Operating grants and contributions | 384,961 | 371,520 | | | 384,961 | 371,520 |
| Capital grants and contributions | 63,437 | 23,181 | 44,287 | 22,818 | 107,724 | 45,999 |
| General revenues: | | | | | | |
| Property taxes | 755,708 | 693,767 | | | 755,708 | 693,767 |
| Income taxes | 251,731 | 262,901 | | | 251,731 | 262,901 |
| State shared revenue | 135,226 | 187,986 | | | 135,226 | 187,986 |
| Transfer and recordation tax | 26,023 | 46,095 | | | 26,023 | 46,095 |
| Electric and gas tax | 30,163 | 28,816 | | | 30,163 | 28,816 |
| Telecommunications tax | 26,292 | 29,200 | | | 26,292 | 29,200 |
| Admission | 7,475 | 9,432 | | 747 | 7,475 | 10,179 |
| Other | 68,633 | 85,150 | | | 68,633 | 85,150 |
| Total revenues | 1,842,132 | 1,832,345 | 423,380 | 378,530 | 2,265,512 | 2,210,875 |
| Expenses: | | | | | | |
| General government | 518,030 | 521,242 | | | 518,030 | 521,242 |
| Public safety and regulation | 503,753 | 541,778 | | | 503,753 | 541,778 |
| Conservation of health | 164,734 | 147,054 | | | 164,734 | 147,054 |
| Social services | 435 | 6,096 | | | 435 | 6,096 |
| Education | 226,429 | 221,829 | | | 226,429 | 221,829 |
| Public library | 33,475 | 33,728 | | | 33,475 | 33,728 |
| Recreation and culture | 38,098 | 42,565 | | | 38,098 | 42,565 |
| Highways and streets | 183,255 | 135,992 | | | 183,255 | 135,992 |
| Sanitation and waste removal | 52,558 | 51,167 | | | 52,558 | 51,167 |
| Public service | 24,161 | 24,637 | | | 24,161 | 24,637 |
| Economic development | 182,808 | 204,557 | | | 182,808 | 204,557 |
| Interest | 50,105 | 37,885 | | | 50,105 | 37,885 |
| Water | | | 107,423 | 116,407 | 107,423 | 116,407 |
| Waste water | | | 151,073 | 152,595 | 151,073 | 152,595 |
| Parking | | | 20,487 | 23,422 | 20,487 | 23,422 |
| Conduits | | | 5,947 | 7,312 | 5,947 | 7,312 |
| Development loans | | | 3,258 | 3,212 | 3,258 | 3,212 |
| Industrial development | | | 2,333 | 1,829 | 2,333 | 1,829 |
| Total expenses | 1,977,841 | 1,968,530 | 290,521 | 304,777 | 2,268,362 | 2,273,307 |
| Increase (decrease) in net assets before transfers | (135,709) | (136,185) | 132,859 | 73,753 | (2,850) | (62,432) |
| Transfers: | | | | | | |
| Transfers in (out) | 40,707 | 34,339 | (40,707) | (34,339) | | |
| Change in net assets | (95,002) | (101,846) | 92,152 | 39,414 | (2,850) | (62,432) |
| Net assets — beginning (as restated) | 2,644,433 | 2,756,430 | 1,700,977 | 1,673,393 | 4,345,410 | 4,429,823 |
| Net assets — ending | $2,549,431 | $2,654,584 | $1,793,129 | $1,712,807 | $4,342,560 | $4,367,391 |

### Analysis of Changes in Net Assets

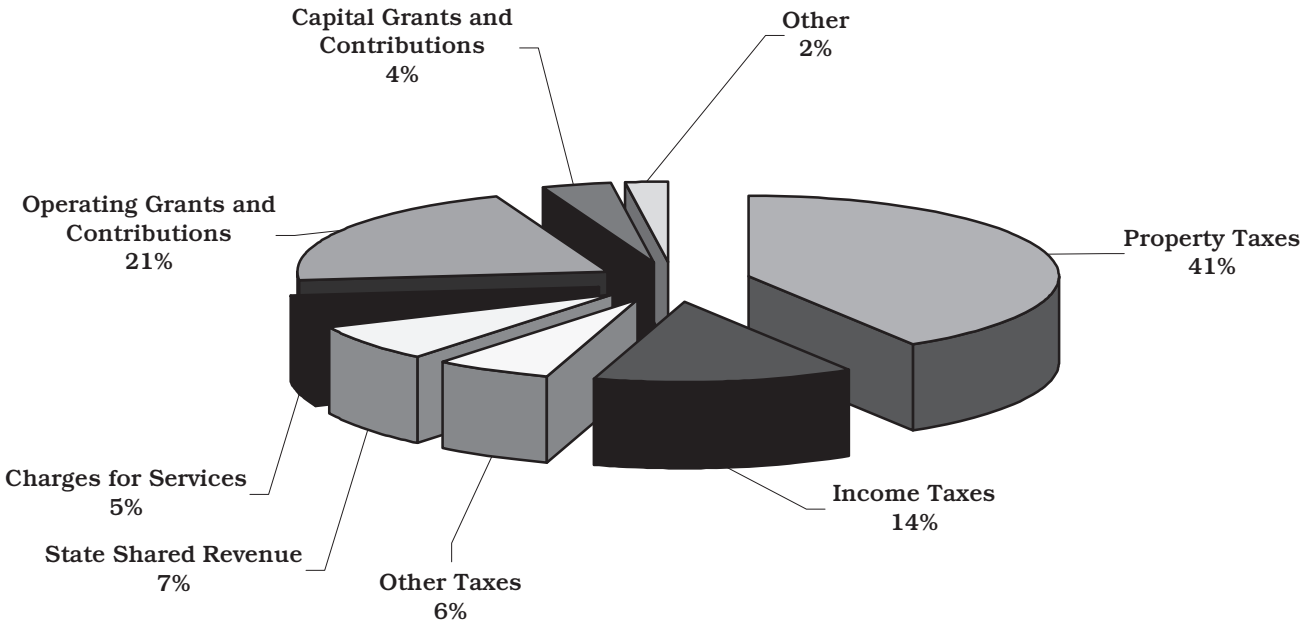
The overall decrease in the City's net assets amounted to $24.8 million during the current fiscal year. These changes are explained in the government and business-type activities discussion below.

**Expenses and Program Revenues — Governmental Activities (expressed in thousands)**




| | General Government | Public Safety and Regulation | Conservation of Health | Social Services | Education | Public Library | Recreation and Culture | Highways and Streets | Sanitation and Waste Removal | Public Service | Economic Development | Interest |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Expenses | $518,030 | $503,753 | $164,734 | $435 | $226,429 | $33,475 | $38,098 | $183,255 | $52,558 | $24,161 | $182,808 | $50,105 |
| Program Rev | $84,915 | $47,295 | $210,180 | | | $15,245 | $14,413 | $46,718 | $2,615 | | $119,500 | |

**Revenues By Source — Governmental Activities**




### Governmental Activities

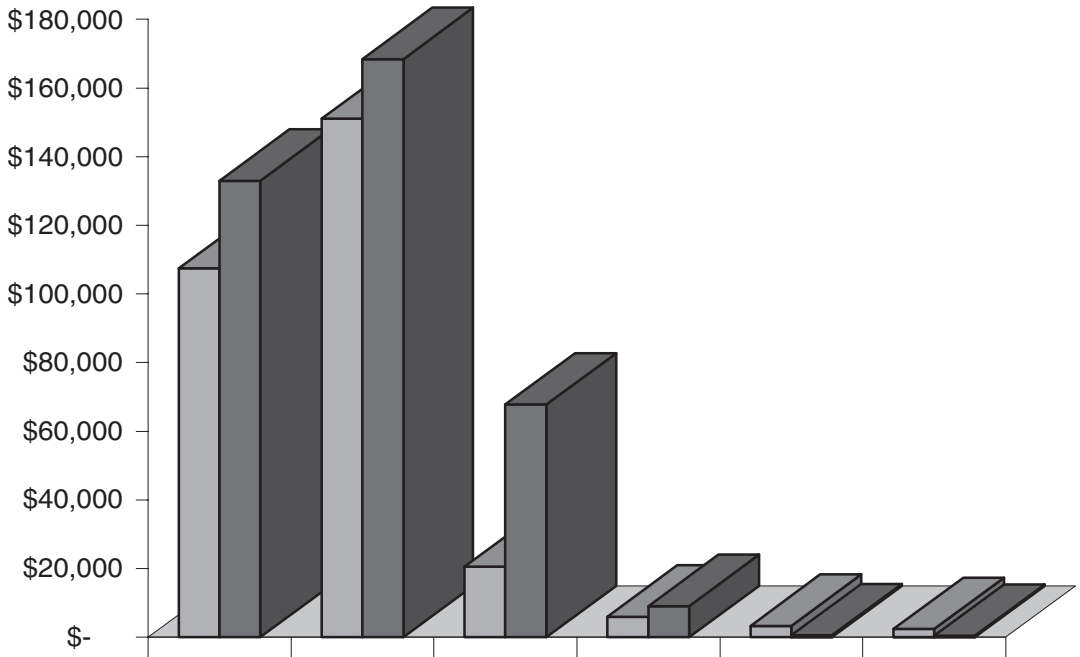
During the current fiscal year, expenses related to governmental activities amounted to $2.0 billion, this is more than revenues by $135.7 million. Total revenue of $1.8 billion is comprised of program revenues totaling $540.9 million, or

30.0%, and general revenues of $1.3 billion, or 70.0%. Program revenues are the principal source of funding for the City's general government, health, and economic development activities. Other major activities including public safety and regulation, as well as the highways and streets program, are primarily supported by general revenues. A more detailed analysis of the governmental activities is discussed in the "Financial Analysis of the City's Funds" section.

During fiscal year 2010, governmental revenues increased by $9.8 million. This increase in revenue is primarily attributable to an increase in property taxes of $61.9 million in fiscal year 2010, offset by a decline in State shared revenue of $52.8 million.

Governmental expenses increased by $9.3 million during fiscal year 2010. This increase is primarily attributable to increases in conservation of health, and highways and streets in the amounts $17.7 million and $47.3 million, respectively. The increase in conservation of health is attributable to an increase in Federal and State aid. The increase in highways and streets is due to the increased cost of snow removal. These increases were offset by decreases in public safety and economic development in the amounts of $38.0 million and $21.7 million, respectively. The decrease in public safety is attributable to reductions in overtime. The decrease in economic development is attributable to reduced funding available to be used for economic projects.

**Expenses and Program Revenues—Business-type Activities (expressed in thousands)**




| | Water | Waste Water | Parking | Conduits | Development Loans | Industrial Development |
|---|---|---|---|---|---|---|
| Expenses | $107,423 | $151,073 | $20,487 | $5,947 | $3,258 | $2,333 |
| Charges for Services | $132,956 | $168,389 | $67,760 | $9,044 | $554 | $390 |

**Business-type Activities**

Charges for services represent the principal revenue source for the City's business-type activities. During the current fiscal year, revenue from business-type activities totaled $423.4 million. Expenses and transfers for these activities totaled $331.2 million and resulted in an increase in net assets of $92.2 million.

Operating revenues increased by $23.2 million in fiscal year 2010 in the Water and Waste Water Utility Funds. The increase in revenues is attributable to rate increases effective for 2010. Capital assets increased by $125.2 million as a result of the two utilities funds' efforts to build environmentally sound facilities.

Increases in capital assets in the Parking Facilities Fund of $0.4 million are part of the fund's effort to upgrade existing facilities and the City's effort to replace existing parking meters with more advanced electronic meters.

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, an unreserved fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year. Types of major governmental funds reported by the City include the General Fund, Motor Vehicle Fund, Grants Revenue Fund, and Capital Projects Fund. Data from the remaining governmental funds are combined into a single, aggregated presentation as Other Funds.

**CITY OF BALTIMORE**
**Comparative Statement of Revenues, Expenditures and Changes in Fund Balances**
**Governmental Funds**

**For the Fiscal Years 2010 and 2009**

(Expressed in Thousands)

| | 2010 | 2009 | Variance Amount |
|---|---|---|---|
| Revenues: | | | |
| General fund: | | | |
| Property taxes | $ 755,708 | $ 693,767 | $ 61,941 |
| Income taxes | 251,731 | 262,901 | (11,170) |
| Other local — taxes | 115,471 | 148,369 | (32,898) |
| Total local taxes | 1,122,910 | 1,105,037 | 17,873 |
| Licenses and permits | 34,438 | 29,390 | 5,048 |
| Interest, rentals, and other investment income | 24,148 | 23,616 | 532 |
| State grants | 97,320 | 99,423 | (2,103) |
| Other | 41,154 | 49,068 | (7,914) |
| Total revenues — general fund | 1,319,970 | 1,306,534 | 13,436 |
| Other governmental funds: | | | |
| Motor vehicle fund | 156,590 | 206,015 | (49,425) |
| Grants revenue fund | 284,800 | 248,662 | 36,138 |
| Capital projects fund | 75,296 | 46,028 | 29,268 |
| Other funds | 28,641 | 33,030 | (4,389) |
| Total revenues other governmental funds | 545,327 | 533,735 | 11,592 |
| Total revenues all governmental funds | 1,865,297 | 1,840,269 | 25,028 |
| Expenditures: | | | |
| General fund: | | | |
| General government | 388,860 | 368,279 | 20,581 |
| Public safety and regulation | 437,031 | 474,031 | (37,000) |
| Conservation of health | 44,950 | 33,066 | 11,884 |
| Social services | 396 | 6,057 | (5,661) |
| Education | 207,657 | 205,909 | 1,748 |
| Public library | 24,246 | 25,720 | (1,474) |
| Recreation and culture | 30,212 | 35,163 | (4,951) |
| Highways and streets | 16,376 | 244 | 16,132 |
| Sanitation and waste removal | 37,862 | 40,593 | (2,731) |
| Public service | 21,455 | 17,510 | 3,945 |
| Economic development | 36,186 | 36,573 | (387) |
| Total expenditures — general fund | 1,245,231 | 1,243,145 | 2,086 |
| Other governmental funds: | | | |
| Motor vehicle fund | 191,558 | 173,570 | 17,988 |
| Grants revenue fund | 280,603 | 238,399 | 42,204 |
| Capital projects fund | 275,701 | 267,641 | 8,060 |
| Other funds | 120,778 | 110,792 | 9,986 |
| Total expenditures other governmental funds | 868,640 | 790,402 | 78,238 |
| Total expenditures all governmental funds | 2,113,871 | 2,033,547 | 80,324 |
| Excess of expenditures over revenue | (248,574) | (193,278) | (55,296) |
| Other financing sources: | | | |
| Transfers, net | 40,707 | 27,839 | 12,868 |
| Capital Projects Fund: | | | |
| Capital leases | 75,099 | 3,956 | 71,143 |
| Face value of federal loans | | 1,499 | (1,499) |
| Face value of funding and refunding general obligation bonds | 54,688 | 30,070 | 24,618 |
| Face value of transportation revenue bonds | | 45,000 | (45,000) |
| Proceeds from sale of TIFS | | 23,595 | (23,595) |
| Total other financing sources | 170,494 | 131,959 | 38,535 |
| Net changes in fund balances | (78,080) | (61,319) | (16,761) |
| Fund balances beginning | 292,459 | 353,778 | (61,319) |
| Fund balances ending | $ 214,379 | $ 292,459 | $(78,080) |

Revenues for governmental functions overall totaled approximately $1.9 billion in the fiscal year ended June 30, 2010, which represents an increase of 1.4% from the fiscal year ended June 30, 2009. Expenditures for governmental functions, totaling $2.1 billion, increased by approximately 3.9% from the fiscal year ended June 30, 2009. In the fiscal year ended June 30, 2010, expenditures for governmental functions exceeded revenues by $248.6 million, or 13.3%.

The General Fund is the chief operating fund of the City. Revenue in the General Fund increased $13.4 million as compared to last year. During fiscal year 2010, the City continued to experience growth in property taxes attributable to increased assessments in fiscal year 2010. Actual property tax revenue grew by $61.9 million during fiscal year 2010. However, this increase was offset by a decline in transfer and recordation tax of $20.1 million caused by a decrease in sales of housing and other properties. Other tax revenue including income tax, admissions tax, and telecommunications tax also experienced declines because of the effect of the recent down-turn in the economy. During fiscal year 2010, General Fund expenditures increased by $2.1 million.

The primary areas of change in General Fund expenditures were in General Government and Public Service.

- General Government expenditures increased by $20.6 million as a result of the City's increased fixed costs and lease payments.
- Public Service expenditures decreased $37.0 million primarily as a result of decreased fire and police overtime.

At the end of the current fiscal year, the unreserved undesignated fund balance of the General Fund was $2.7 million, while total fund balance was $184.8 million. The fund balance in the City's General Fund decreased by $32.1 million during the fiscal year.

The Motor Vehicle Fund was established to account for operating and capital transportation programs supported primarily by State-shared revenues. Every effort is made to spend available proceeds from these funding sources in the year received. For the current year, receipts of $156.6 million were less than outlays of $191.6 million by $35.0 million. The fund balance increased from $10.6 million to $16.7 million during the fiscal year, of which $6.3 million was unreserved and undesignated.

The Grants Revenue Fund is used to account for the spending of various Federal, State and special purpose grant funds. Most of these grants are funded on an expenditure reimbursement basis and the application of Governmental Accounting Standards Board Statement No. 33 rules on revenue recognition results in year-to-year fluctuations in the fund balance.

The Capital Projects Fund is used to account for the overall financing and expenditures of uncompleted projects. The fund balance of $82.7 million represents authorized projects which are still in progress.

**Proprietary Funds**

The City's business-type activities are comprised of the funds listed below. The nonmajor funds include the Loan and Guarantee Program, Industrial Development Authority, and Conduit Fund.

| | (Expressed in Thousands) | | | | | |
|---|---|---|---|---|---|---|
| | Water and Waste Water Utility Funds | | Parking Facility Fund | | Nonmajor Other Funds | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Operating revenue | $301,607 | $278,145 | $ 67,760 | $ 64,380 | $ 9,989 | $12,440 |
| Operating expenses | 244,664 | 252,703 | 11,835 | 13,240 | 11,560 | 12,382 |
| Operating income | 56,943 | 25,442 | 55,925 | 51,140 | (1,571) | 58 |
| Non operating revenues (expenses), capital contributions, and transfers | 28,230 | 6,073 | (50,724) | (45,886) | 2,261 | 1,624 |
| Change in net assets | $ 85,173 | $ 31,515 | $ 5,201 | $ 5,254 | $ 690 | $ 1,682 |

As discussed in the Business-type activities section, both the Water and Waste Water Utilities Funds experienced operating revenue increases in fiscal year 2010. These increases are attributable to rate increases effective for fiscal year 2010.

The Parking Facilities Fund revenues have remained level during the current year as a result of competition from private garages.

## General Fund budgetary highlights

**CITY OF BALTIMORE**
**Schedule of Revenues, Expenditures and Encumbrances**
**and Changes in Fund Balance — Budget and Actual**
**Budgetary Basis — General Fund**
**For the Year Ended June 30, 2010**

(Expressed in Thousands)

| | Original Budget | Final Budget | Actual | Variance With Original Budget Positive (Negative) | Variance With Final Budget Positive (Negative) |
|---|---|---|---|---|---|
| Total revenues | $1,323,294 | $1,323,294 | $1,318,238 | $ (5,056) | $ (5,056) |
| Expenditures and encumbrances: | | | | | |
| General government | 401,036 | 461,036 | 385,225 | 15,811 | 75,811 |
| Public safety and regulation | 470,512 | 470,512 | 457,956 | 12,556 | 12,556 |
| Conservation of health | 33,583 | 33,583 | 32,852 | 731 | 731 |
| Social services | 7,138 | 7,138 | 6,427 | 711 | 711 |
| Education | 207,693 | 207,693 | 207,611 | 82 | 82 |
| Public library | 23,901 | 23,901 | 22,160 | 1,741 | 1,741 |
| Recreation and culture | 32,678 | 32,678 | 30,627 | 2,051 | 2,051 |
| Highways and streets | 403 | 403 | 403 | | |
| Sanitation and waste removal | 42,337 | 42,337 | 35,625 | 6,712 | 6,712 |
| Public service | 20,646 | 20,646 | 18,674 | 1,972 | 1,972 |
| Economic development | 39,086 | 39,086 | 36,891 | 2,195 | 2,195 |
| Total expenditures | 1,279,013 | 1,339,013 | 1,234,451 | $44,562 | $104,562 |
| Excess of revenues over expenditures and encumbrances | 44,281 | (15,719) | 83,787 | | |
| Other financing uses: | | | | | |
| Transfers in | 40,513 | 40,513 | 37,312 | | |
| Transfers out | (145,653) | (145,653) | (144,135) | | |
| Total other financing uses | (105,140) | (105,140) | (106,823) | | |
| Net changes in fund balances | (60,859) | (120,859) | (23,036) | | |
| Fund balances beginning | 166,463 | 166,463 | 166,463 | | |
| Fund balances ending | $ 105,604 | $ 45,604 | 143,427 | | |
| Adjustments to reconcile to GAAP basis: | | | | | |
| Addition of encumbrances outstanding | | | 54,255 | | |
| Less: Accounts payable not recorded for budgetary purposes | | | (12,837) | | |
| Fund balance June 30, 2010 - GAAP Basis | | | $ 184,845 | | |

The City's final budget differs from the original budget in that it contains carry-forward appropriations for various programs and projects, and supplemental appropriations approved after adoption, and during the fiscal year. Supplemental appropriations totaling $60.0 million were approved, all of which were approved from prior year surplus or from unexpected increases in revenue sources. Actual expenditures for the year were less than the original budget by $44.6 million, but were $104.6 million less than adjusted appropriations. Of this amount, $99.4 million was related to five governmental activities: lower than budgeted cost for general government operations amounted to $75.8 million; lower than budgeted cost for public safety operations amounted to $12.6 million; lower than budgeted cost for economic development operations amounted to $2.2 million, lower than budgeted cost for recreation and culture amounted to $2.1 million, and lower than budgeted cost for sanitation and waste removal amounted to $6.7 million.

On a budgetary basis, revenue for fiscal year 2010 totaled $1,318.2 million and expenditures and transfers totaled $1,341.3 million. The excess of expenditures and transfers over revenues resulted in a budget basis fund balance at June 30, 2010 of $143.4 million, a decrease of $23.0 million.

## Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2010, amount to $6.3 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, machinery and equipment, park facilities, roads, streets, bridges, and library books. The total increase in the City's net capital assets for the current fiscal year was 3.3% (a 2.0% increase for governmental activities and a 5.0% increase for business-type activities) as shown in the table which follows.

**Capital Assets, Net of Depreciation**
**For the Fiscal Years 2010 and 2009**

(Expressed in Thousands)

| | Governmental activities | | Business-type activities | | Total | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Land | $ 142,202 | $ 142,202 | $ 23,846 | $ 23,846 | $ 166,048 | $ 166,048 |
| Buildings and Improvements | 629,281 | 642,139 | 1,114,493 | 1,145,973 | 1,743,774 | 1,788,112 |
| Machinery and Equipment | 92,374 | 95,879 | 31,312 | 35,348 | 123,686 | 131,227 |
| Infrastructure | 1,126,349 | 1,171,598 | 39,883 | 40,627 | 1,166,232 | 1,212,225 |
| Library Books | 27,217 | 29,298 | | | 27,217 | 29,298 |
| Construction in Progress | 1,623,682 | 1,481,684 | 1,410,901 | 1,249,455 | 3,034,583 | 2,731,139 |
| Total | $3,641,105 | $3,562,800 | $2,620,435 | $2,495,249 | $6,261,540 | $6,058,049 |

See note number 5 on capital assets.

## Debt Administration

At the end of the current fiscal year, the City had total long-term obligations outstanding of $2.6 billion. Of this amount, $632.6 million was general obligation bonds backed by the full faith and credit of the City, $431.1 million was revenue bonds for governmental activity at the Convention Center, the Convention Center Hotel, for various storm water projects and transportation bonds, and $1.4 billion was revenue bonds related to commercial business activity. The remainder includes revenue bonds, and other obligations of City business and governmental activities.

During fiscal year 2010, the City sold $55.0 million in general obligation bonds and $20.8 million in revenue bonds.

The ratio of net general obligation bonded debt to taxable valuation and the amount of bonded debt per capita are useful indicators of the City's debt position for management, citizens, and investors. A comparison of these indicators follows:

| | FY 2010 | FY 2009 |
|---|---|---|
| Net general bonded debt (expressed in thousands) | $590,674 | $587,738 |
| Net general bonded debt per capita | N/A | 922.12 |
| Ratio of net general bonded debt to net assessed value | 1.6% | 1.7% |

See note number 7 on long-term obligations.
N/A Information not available

As of June 30, 2010, the City had $632.6 million in authorized, outstanding property tax-supported general obligation bonds. This amount is reduced by net assets in the Debt Service Fund of $41.3 million for net tax-supported bonded debt of $591.3 million, which is equal to approximately 2.0% of the assessed value of property (net of exemptions). There are an additional $202.4 million in bonds that are authorized, but unissued.

## Economic Factors and Next Year's Budget and Rates

The Fiscal 2011 budget submitted by the Board of Estimates to the Baltimore City Council proposed total appropriations of $2,935,977,000 of which $1,382,820,000 were for General Fund operations and Pay-As-You-Go (PAYGO) capital; $152,788,000 was for Motor Vehicle Fund operations and PAYGO capital; and $60,769,000 was for Special Fund operations. The City Council, after deliberations pursuant to Charter requirement and power, made no reductions to the total General Fund appropriations or other fund appropriations. The property tax rates on real property and personal property were maintained at $2.268 and $5.67 per $100 of assessed valuation, respectively. The locally imposed and State mandated income tax rate was increased to 3.20% from 3.05%. The Ordinance of Estimates was adopted by the City Council and signed by the Mayor on June 24, 2010.

**Fiscal 2011 Budget—Economic Factors**

The economic outlook for the current fiscal year 2011 and the fiscal year 2012 budget planning cycle requires, like no other in recent years, an exhaustive analysis and revision of all alternatives for a healthy budget. The gap between operating expenses and revenues continue to increase. The City has experienced a shrinking of the major revenue sources such as income, recordation and transfer taxes.

There are three key factors to consider while looking forward to the next budget cycles: employment, housing market activity, and the state of the State's economy. The employment levels have fallen to levels not experienced since fiscal year 2005, which has weakened the generation of income tax, the second most important source of revenue for the City.

In fiscal year 2010, activity in the housing market reached its lowest price levels since 1998, and the level of speculative prices generated during the housing boom have been subject to a continued downward adjustment. This has resulted in a contraction of recordation and transfer taxes. The adjustment in prices will have a negative effect in the assessment growth for properties in the City and will impact revenue growth in property taxes through fiscal year 2015.

Finally, an important portion of the City's budget relies on resources provided by the State. These resources have been reduced while the State has taken actions in fiscal year 2010 to lessen its budget deficit. These reductions are expected to become permanent with additional reductions in fiscal year 2011.

The City acted swiftly to address these challenges. The fiscal year 2011 adopted budget included $65 million in pension reforms, $73 million in expenditure reductions and $48 million in new revenues. The reduction plan consists of position reductions, employee furloughs, and reductions in pay-as-you-go capital funding, and other measures. The City, in addition to making large cuts in expenditures, also passed ten new revenue measures including a beverage container tax and increased rates for income, telecommunications, energy, hotel and parking taxes. The City continues to update its projections and is planning additional corrective actions for both fiscal years 2011 and 2012.

**Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Director of Finance at the following address:

Room 469, City Hall
100 N. Holliday Street
Baltimore, Maryland 21202

# CITY OF BALTIMORE

## Statement of Net Assets

## June 30, 2010

(Expressed in Thousands)

| | Primary Government | | | Component Units | |
|---|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total | Baltimore City Public School System | Baltimore Hotel Corporation |
| Assets: | | | | | |
| Cash and cash equivalents | $ 275,722 | $ 185,745 | $ 461,467 | $150,152 | $ 3,145 |
| Investments | 119,701 | | 119,701 | 14,992 | 34,174 |
| Property taxes receivable, net | 30,459 | | 30,459 | | |
| Other receivables, net | 33,181 | 67,812 | 100,993 | 4,200 | 1,294 |
| Due from other governments | 272,899 | 34,318 | 307,217 | 68,931 | |
| Internal balances | 1,315 | (1,315) | | | |
| Due from primary government | | | | 3,887 | |
| Inventories | 6,315 | 4,714 | 11,029 | 2,181 | 123 |
| Restricted: | | | | | |
| Cash and cash equivalents | | 192,976 | 192,976 | | |
| Accounts receivable | | 13,525 | 13,525 | | |
| Notes and mortgages receivable, net | 310,974 | 48,045 | 359,019 | | |
| Other assets | 24,406 | 32 | 24,438 | 468 | 4,070 |
| Issuance costs | | 5,233 | 5,233 | 145 | 11,444 |
| Capital assets, net of accumulated depreciation | 1,875,221 | 1,185,688 | 3,060,909 | 580,617 | 241,850 |
| Capital assets, not depreciated | 1,765,884 | 1,434,747 | 3,200,631 | | |
| Deferred outflow SWAPS | 21,396 | 91,879 | 113,275 | | |
| Total assets | 4,737,473 | 3,263,399 | 8,000,872 | 825,573 | 296,100 |
| Liabilities: | | | | | |
| Accounts payable and accrued liabilities | 193,716 | 14,384 | 208,100 | 128,184 | 4,419 |
| Accrued interest payable | 14,624 | 20,619 | 35,243 | | 5,296 |
| Estimated claims in progress: | | | | | |
| Due within one year | 56,053 | | 56,053 | | |
| Due in more than one year | 127,716 | | 127,716 | | |
| Unamortized premiums on bonds | 13,894 | 4,263 | 18,157 | | |
| Matured bonds payable | 2 | | 2 | | |
| Unearned revenue | 129,537 | | 129,537 | 2,242 | 2,244 |
| Notes Payable | | | | | 300,940 |
| Due to other governments | | 3,124 | 3,124 | | |
| Deposits subject to refund | 14,900 | 15 | 14,915 | | |
| Restricted accounts payable | | 14,250 | 14,250 | | |
| Revenue bonds payable: | | | | | |
| Due within one year | 9,145 | 35,391 | 44,536 | | |
| Due in more than one year | 422,011 | 1,258,192 | 1,680,203 | | |
| Long term debt payable: | | | | | |
| Due within one year | 61,537 | 658 | 62,195 | 5,350 | |
| Due in more than one year | 724,597 | 63 | 724,660 | 90,750 | |
| Derivative instrument liability | 21,396 | 105,027 | 126,423 | | |
| Capital leases payable: | | | | | |
| Due within one year | 19,177 | | 19,177 | 6,611 | |
| Due in more than one year | 149,923 | | 149,923 | 56,685 | |
| Compensated absences: | | | | | |
| Due within one year | 43,901 | 5,054 | 48,955 | 5,422 | |
| Due in more than one year | 76,897 | 7,832 | 84,729 | 48,801 | |
| Landfill closure due in more than one year | 18,226 | | 18,226 | | |
| Other postemployment benefits obligation | 86,700 | | 86,700 | | |
| Other liabilities | 4,090 | 1,398 | 5.488 | 3,339 | 14,603 |
| Total liabilities | 2,188,042 | 1,470,270 | 3,658,312 | 347,384 | 327,502 |
| Net assets (deficits): | | | | | |
| Invested in capital assets, net of related debt | 2,886,381 | 1,398,453 | 4,284,834 | 417,123 | |
| Restricted for: | | | | | |
| Construction | | 73,958 | 73,958 | | |
| Debt service | | 124,756 | 124,756 | | |
| Perpetual care: | | | | | |
| Expendable | 8,211 | | 8,211 | | |
| Nonexpendable | 6,576 | | 6,576 | | |
| Unrestricted (deficits) | (351,737) | 195,962 | (155,775) | 61,066 | (31,402) |
| Total net assets | $2,549,431 | $1,793,129 | $4,342,560 | $478,189 | $ (31,402) |

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

# CITY OF BALTIMORE

## Statement of Activities

## For the Year Ended June 30, 2010

(Expressed in Thousands)

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Primary Government | | | Component Units | |
| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total | Baltimore City Public School System | Baltimore Hotel Corporation |
| Primary Government: | | | | | | | | | |
| Governmental activities: | | | | | | | | | |
| General government | $ 518,030 | $ 46,594 | $ 38,321 | | $ (433,115) | | $ (433,115) | | |
| Public safety and regulation | 503,753 | 13,244 | 34,051 | | (456,458) | | (456,458) | | |
| Conservation of health | 164,734 | 2,110 | 208,070 | | 45,446 | | 45,446 | | |
| Social services | 435 | | | | (435) | | (435) | | |
| Education | 226,429 | | | | (226,429) | | (226,429) | | |
| Public library | 33,475 | 254 | 14,991 | | (18,230) | | (18,230) | | |
| Recreation and culture | 38,098 | 769 | 1,484 | $ 12,160 | (23,685) | | (23,685) | | |
| Highways and streets | 183,255 | 26,897 | 262 | 19,559 | (136,537) | | (136,537) | | |
| Sanitation and waste removal | 52,558 | 2,615 | | | (49,943) | | (49,943) | | |
| Public service | 24,161 | | | | (24,161) | | (24,161) | | |
| Economic development | 182,808 | | 87,782 | 31,718 | (63,308) | | (63,308) | | |
| Interest | 50,105 | | | | (50,105) | | (50,105) | | |
| Total governmental activities | 1,977,841 | 92,483 | 384,961 | 63,437 | (1,436,960) | | (1,436,960) | | |
| Business-type activities: | | | | | | | | | |
| Water | 107,423 | 132,956 | | 18,403 | | $ 43,936 | 43,936 | | |
| Waste water | 151,073 | 168,389 | | 24,988 | | 42,304 | 42,304 | | |
| Parking | 20,487 | 67,760 | | | | 47,273 | 47,273 | | |
| Conduits | 5,947 | 9,044 | | 145 | | 3,242 | 3,242 | | |
| Development loans | 3,258 | 554 | | 751 | | (1,953) | (1,953) | | |
| Industrial development | 2,333 | 390 | | | | (1,943) | (1,943) | | |
| Total business-type activities | 290,521 | 379,093 | | 44,287 | | 132,859 | 132,859 | | |
| Total primary government | $ 2,268,362 | $471,576 | $ 384,961 | $107,724 | (1,436,960) | 132,859 | (1,304,101) | | |
| Component units: | | | | | | | | | |
| Baltimore City Public School System | $ 1,372,984 | $ 1,261 | $1,345,725 | $ 36,074 | | | | $ 10,076 | |
| Baltimore Hotel Corporation | $ 63,108 | $ 48,058 | | | | | | | $(15,050) |
| General revenues: | | | | | | | | | |
| Property taxes | | | | | 755,708 | | 755,708 | | |
| Income taxes | | | | | 251,731 | | 251,731 | | |
| Transfer and recordation tax | | | | | 26,023 | | 26,023 | | |
| Electric and gas tax | | | | | 30,163 | | 30,163 | | |
| Telecommunications tax | | | | | 26,292 | | 26,292 | | |
| Admission tax | | | | | 7,475 | | 7,475 | | |
| Other local taxes | | | | | 25,519 | | 25,519 | | |
| State shared revenues | | | | | 135,226 | | 135,226 | | |
| Unrestricted investment income | | | | | 27,308 | | 27,308 | 515 | 799 |
| Miscellaneous | | | | | 15,806 | | 15,806 | 7,045 | |
| Transfers | | | | | 40,707 | (40,707) | | | |
| Total general revenues and transfers | | | | | 1,341,958 | (40,707) | 1,301,251 | 7,560 | 799 |
| Change in net assets | | | | | (95,002) | 92,152 | (2,850) | 17,636 | (14,251) |
| Net assets — beginning (as restated) | | | | | 2,644,433 | 1,700,977 | 4,345,410 | 460,553 | (17,151) |
| Net assets — ending | | | | | $ 2,549,431 | $1,793,129 | $4,342,560 | $478,189 | $(31,402) |

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

# CITY OF BALTIMORE

## Balance Sheet

## Governmental Funds

## June 30, 2010

(Expressed in Thousands)

| | General Fund | Motor Vehicle Fund | Grants Revenue Fund | Capital Projects Fund | Other Funds | Total |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Cash and cash equivalents | $125,601 | | | $ 26,104 | $ 30,822 | $ 182,527 |
| Investments | 78,159 | | | 10,969 | 25,579 | 114,707 |
| Property taxes receivable, net | 30,459 | | | | | 30,459 |
| Other receivables, net | 9,240 | $ 526 | | 5,786 | 270 | 15,822 |
| Due from other governments | 43,228 | 25,253 | $ 37,159 | 56,663 | 212 | 162,515 |
| Due from other funds | 62,021 | | | 1,519 | 1,358 | 64,898 |
| Notes, mortgages receivable, net | 6,070 | | | | 2,704 | 8,774 |
| Inventories, at cost | | 2,021 | | | | 2,021 |
| Other assets | 21,917 | | | | | 21,917 |
| Total assets | 376,695 | 27,800 | 37,159 | 101,041 | 60,945 | 603,640 |
| Liabilities and fund balances: | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable and accrued liabilities | 137,615 | 9,015 | 19,006 | 7,551 | 547 | 173,734 |
| Retainages payable | | | | 9,446 | | 9,446 |
| Due to other funds | | 1,557 | 41,292 | 1,358 | 11,555 | 55,762 |
| Deposits subject to refund | 14,900 | | | | | 14,900 |
| Deferred revenue | 39,335 | 526 | 91,225 | | 4,331 | 135,417 |
| Matured bonds payable | | | | | 2 | 2 |
| Total liabilities | 191,850 | 11,098 | 151,523 | 18,355 | 16,435 | 389,261 |
| Fund balances: | | | | | | |
| Reserved for: | | | | | | |
| Budget stabilization | 79,875 | | | | | 79,875 |
| Landfill closure | 17,356 | | | | | 17,356 |
| Landfill development | 13,471 | | | | | 13,471 |
| Encumbrances | 40,275 | 8,387 | | 126,660 | | 175,322 |
| Inventories | | 2,021 | | | | 2,021 |
| Other assets | 1,433 | | | | | 1,433 |
| Long term receivable | 4,721 | | | | | 4,721 |
| Non-major special revenue funds | | | | | 8,211 | 8,211 |
| Non-major permanent funds | | | | | 6,576 | 6,576 |
| Unreserved (deficit): | | | | | | |
| Designated for subsequent years' expenditures | 25,019 | 4,298 | | | | 29,317 |
| Undesignated (deficit) | 2,695 | 1,996 | (114,364) | (43,974) | | (153,647) |
| Unreserved reported in: | | | | | | |
| Debt service fund | | | | | 41,319 | 41,319 |
| Special revenue funds | | | | | (11,596) | (11,596) |
| Total fund balances | 184,845 | 16,702 | (114,364) | 82,686 | 44,510 | 214,379 |
| Total liabilities and fund balances | $376,695 | $27,800 | $ 37,159 | $101,041 | $ 60,945 | |

| | |
|---|---|
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds | 3,578,329 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds | 411,342 |
| Internal service funds are used by management to charge the cost of fleet management, mailing, communications, printing, and risk management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. | 4,382 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. | (1,659,001) |
| Net assets of governmental activities | $ 2,549,431 |

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

## CITY OF BALTIMORE

## Statement of Revenues, Expenditures, and Changes in Fund Balances

## Governmental Funds

## For the Year Ended June 30, 2010

(Expressed in Thousands)

| | General Fund | Motor Vehicle Fund | Grants Revenue Fund | Capital Projects Fund | Other Funds | Total |
|---|---|---|---|---|---|---|
| Revenues: | | | | | | |
| Taxes — local | $1,122,910 | | | | | $1,122,910 |
| State shared revenue | | $ 134,756 | | | $ 470 | 135,226 |
| Licenses and permits | 34,438 | 630 | | | | 35,068 |
| Fines and forfeitures | 7,116 | 12,203 | | | | 19,319 |
| Interest, rentals and other investment income | 24,148 | 156 | | $ 581 | 2,423 | 27,308 |
| Federal grants | 213 | | $ 191,863 | 41,951 | 25,748 | 259,775 |
| State grants | 97,320 | | 64,137 | 21,486 | | 182,943 |
| Other grants | 46 | | 28,800 | | | 28,846 |
| Charges for services | 29,251 | 8,845 | | | | 38,096 |
| Miscellaneous | 4,528 | | | 11,278 | | 15,806 |
| Total revenues | 1,319,970 | 156,590 | 284,800 | 75,296 | 28,641 | 1,865,297 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| General government | 388,860 | 31,647 | 45,748 | | 2,198 | 468,453 |
| Public safety and regulation | 437,031 | 31,766 | 33,794 | | 49 | 502,640 |
| Conservation of health | 44,950 | 268 | 119,031 | | | 164,249 |
| Social services | 396 | | | | | 396 |
| Education | 207,657 | 3,654 | | | 154 | 211,465 |
| Public library | 24,246 | | 6,710 | | 47 | 31,003 |
| Recreation and culture | 30,212 | 255 | 1,484 | | 35 | 31,986 |
| Highways and streets | 16,376 | 117,203 | 262 | | | 133,841 |
| Sanitation and waste removal | 37,862 | 6,456 | | | | 44,318 |
| Public service | 21,455 | | | | | 21,455 |
| Economic development | 36,186 | 309 | 73,574 | 61,734 | 9,380 | 181,183 |
| Debt service: | | | | | | |
| Principal | | | | | 60,054 | 60,054 |
| Interest | | | | | 39,014 | 39,014 |
| Other bond costs | | | | | 9,847 | 9,847 |
| Capital outlay | | | | 138,868 | | 138,868 |
| Capital leases | | | | 75,099 | | 75,099 |
| Total expenditures | 1,245,231 | 191,558 | 280,603 | 275,701 | 120,778 | 2,113,871 |
| Excess (deficiency) of revenues over (under) expenditures | 74,739 | (34,968) | 4,197 | (200,405) | (92,137) | (248.574) |
| Other financing sources (uses): | | | | | | |
| Transfers in | 37,312 | 55,267 | 4,760 | 16,233 | 108,403 | 221,975 |
| Transfers out | (144,135) | (14,169) | | (9,340) | (13,624) | (181,268) |
| Capital leases | | | | 75,099 | | 75,099 |
| Face value of funding and general obligation bonds | | | | 54,688 | | 54,688 |
| Total other financing sources (uses) | (106,823) | 41,098 | 4,760 | 136,680 | 94,779 | 170,494 |
| Net change in fund balance | (32,084) | 6,130 | 8,957 | (63,725) | 2,642 | (78,080) |
| Fund balances — beginning | 216,929 | 10,572 | (123,321) | 146,411 | 41,868 | 292,459 |
| Fund balances — ending | $ 184,845 | $ 16,702 | $ (114,364) | $ 82,686 | $ 44,510 | $ 214,379 |

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

**CITY OF BALTIMORE**

**Reconciliation of the Statement of Revenues,**

**Expenditures, and Changes in Fund Balances of Governmental Funds**

**to the Statement of Activities**

**For the Year Ended June 30, 2010**

(Expressed in Thousands)

| | |
|---|---|
| Amounts reported for governmental activities in the statement of activities (page 17) are different because: | |
| Net change in fund balance — total governmental funds (page 19) | $ (78,080) |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year | 251,312 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds | 23,166 |
| The issuance of long-term debt (e.g. bonds, leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in treatment of long-term debt and related items | (129,787) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds | (149,903) |
| The net expense of certain activities of internal service funds is reported with governmental activities | (11,710) |
| Change in net assets of governmental activities (page 17) | $ (95,002) |

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

# CITY OF BALTIMORE

## Statement of Fund Net Assets

## Proprietary Funds

## June 30, 2010

(Expressed in Thousands)

| | Enterprise Funds | | | | | |
|---|---|---|---|---|---|---|
| | Water Utility Fund | Waste Water Utility Fund | Parking Facilities Fund | Other Funds | Total | Governmental Activities Internal Service Funds |
| Assets: | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | $ 47,862 | $ 68,339 | $ 23,412 | $ 46,132 | $ 185,745 | $ 93,195 |
| Investments | | | | | | 4,994 |
| Accounts receivable, net: | | | | | | |
| Service billings | 42,893 | 21,700 | | 2,146 | 66,739 | |
| Other | 364 | 282 | 391 | 36 | 1,073 | 17,359 |
| Due from other governments | 17,286 | 17,032 | | | 34,318 | |
| Inventories | 4,483 | 231 | | | 4,714 | 4,295 |
| Current restricted assets: | | | | | | |
| Cash and cash equivalents | 79,688 | 84,542 | 24,943 | 3,803 | 192,976 | |
| Accounts receivable | 7,062 | 6,463 | | | 13,525 | |
| Total current assets | 199,638 | 198,589 | 48,746 | 52,117 | 499,090 | 119,843 |
| Noncurrent assets: | | | | | | |
| Restricted assets: | | | | | | |
| Notes and mortgages receivable | | | 48,045 | | 48,045 | |
| Capital assets, net | 865,332 | 1,575,072 | 134,551 | 45,480 | 2,620,435 | 62,776 |
| Other assets | | | | 32 | 32 | 2,489 |
| Issuance costs | 3,559 | | 1,467 | 207 | 5,233 | |
| Deferred outflow SWAPS | 32,566 | 24,877 | 24,949 | 9,487 | 91,879 | |
| Total noncurrent assets | 901,457 | 1,599,949 | 209,012 | 55,206 | 2,765,624 | 65,265 |
| Total assets | 1,101,095 | 1,798,538 | 257,758 | 107,323 | 3,264,714 | 185,108 |
| Liabilities: | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable and accrued liabilities | 3,606 | 9,579 | 1,020 | 179 | 14,384 | 10,536 |
| Accrued interest payable. | 8,359 | 9,905 | 2,326 | 29 | 20,619 | |
| Deposits subject to refund | 15 | | | | 15 | |
| Due to other funds | | | | 1,519 | 1,519 | 7,617 |
| Due to other governments | 3,124 | | | | 3,124 | |
| Estimated liability for claims in progress | | | | | | 56,053 |
| Other liabilities | 2,094 | 2,809 | | 151 | 5,054 | 4,089 |
| Accounts payable from restricted assets | 6,017 | 7,881 | 106 | 246 | 14,250 | |
| Revenue bonds payable | 8,036 | 20,105 | 7,250 | | 35,391 | |
| General long-term debt payable | 118 | 540 | | | 658 | |
| Total current liabilities | 31,369 | 50,819 | 10,702 | 2,124 | 95,014 | 78,295 |
| Noncurrent liabilities: | | | | | | |
| Revenue bonds payable, net. | 463,814 | 624,135 | 146,729 | 23,514 | 1,258,192 | |
| Other liabilities. | 3,311 | 3,992 | | 1,925 | 9,228 | |
| Unamortized bond premiums | | 4,263 | | | 4,263 | |
| General long-term debt payable | | 63 | | | 63 | |
| Estimated liability for claims in progress | | | | | | 102,225 |
| Derivative instrument liability | 44,038 | 25,022 | 24,949 | 11,018 | 105,027 | |
| Total noncurrent liabilities | 511,163 | 657,475 | 171,678 | 36,457 | 1,376,773 | 102,225 |
| Total liabilities | 542,532 | 708,294 | 182,380 | 38,581 | 1,471,787 | 180,520 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 396,923 | 925,966 | 30,084 | 45,480 | 1,398,453 | 62,776 |
| Restricted for: | | | | | | |
| Debt service | 40,520 | 67,560 | 16,676 | | 124,756 | |
| Future capital construction | 46,230 | 23,444 | 8,267 | | 77,941 | |
| Unrestricted (deficit) | 74,890 | 73,274 | 20,351 | 23,262 | 191,777 | (58,188) |
| Total net assets | $ 558,563 | $1,090,244 | $ 75,378 | $ 68,742 | 1,792,927 | $ 4,588 |
| Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds | | | | | 202 | |
| Net assets of business-type activities | | | | | $1,793,129 | |

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

## CITY OF BALTIMORE

## Statement of Revenues, Expenses, and Changes in Fund Net Assets

## Proprietary Funds

## For the Year Ended June 30, 2010

(Expressed in Thousands)

| | Enterprise Funds | | | | | |
|---|---|---|---|---|---|---|
| | Water Utility Fund | Waste Water Utility Fund | Parking Facilities Fund | Other Funds | Total | Governmental Activities Internal Service Funds |
| Operating revenues: | | | | | | |
| Charges for sales and services: | | | | | | |
| Water and sewer service | $132,951 | $ 168,446 | | | $301,397 | |
| Rents, fees and other income | | | $ 67,760 | $ 9,899 | 77,659 | $223,701 |
| Interest income | 154 | 56 | | 90 | 300 | |
| Total operating revenues | 133,105 | 168,502 | 67,760 | 9,989 | 379,356 | 223,701 |
| Operating expenses: | | | | | | |
| Salaries and wages | 35,548 | 37,984 | | 2,472 | 76,004 | 18,535 |
| Other personnel costs | 11,813 | 13,957 | | 1,050 | 26,820 | 6,874 |
| Contractual services | 30,879 | 59,373 | 10,757 | 1,691 | 102,700 | 31,677 |
| Materials and supplies | 10,288 | 7,556 | | 157 | 18,001 | 15,575 |
| Minor equipment | 268 | 110 | 9 | 25 | 412 | 32 |
| Claims paid and incurred | | | | | | 142,394 |
| Postage and delivery services | | | | | | 1,632 |
| Depreciation | 11,593 | 25,295 | 1,069 | 744 | 38,701 | 7,910 |
| Program expenses | | | | 3,487 | 3,487 | |
| Interest | | | | 1,934 | 1,934 | |
| Total operating expenses | 100,389 | 144,275 | 11,835 | 11,560 | 268,059 | 224,629 |
| Operating income (loss) | 32,716 | 24,227 | 55,925 | (1,571) | 111,297 | (928) |
| Nonoperating revenues (expenses): | | | | | | |
| Loss on sale of investments | (151) | (112) | | | (263) | |
| Interest income (expense), net | (7,534) | (7,364) | (8,652) | | (23,550) | 136 |
| Total nonoperating revenues (expenses), net | (7,685) | (7,476) | (8,652) | | (23,813) | 136 |
| Income (loss) before capital contributions and transfers | 25,031 | 16,751 | 47,273 | (1,571) | 87,484 | (792) |
| Capital contributions | 18,403 | 24,988 | | 896 | 44,287 | 13,593 |
| Transfers in | | | | 1,365 | 1,365 | |
| Transfers out | | | (42,072) | | (42,072) | |
| Change in net assets | 43,434 | 41,739 | 5,201 | 690 | 91,064 | 12,801 |
| Total net assets — beginning (as restated) | 515,129 | 1,048,505 | 70,177 | 68,052 | | (8,213) |
| Total net assets — ending | $558,563 | $1,090,244 | $ 75,378 | $68,742 | | $ 4,588 |
| Adjustment to reflect the consolidation of internal service activities related to enterprise funds | | | | | 1,088 | |
| Change in net assets of business-type activities | | | | | $ 92,152 | |

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

# CITY OF BALTIMORE

## Statement of Cash Flows

## Proprietary Funds

## For the Year Ended June 30, 2010

(Expressed in Thousands)

| | Enterprise Funds | | | | | |
|---|---|---|---|---|---|---|
| | Water Utility Fund | Waste Water Utility Fund | Parking Facilities Fund | Other Funds | Total | Governmental Activities-Internal Service Funds |
| Cash flow from operating activities: | | | | | | |
| Receipts from customers | $109,842 | $182,208 | $ 67,760 | $ 9,658 | $ 369,468 | $ 224,505 |
| Payments to employees | (47,192) | (51,774) | | (3,522) | (102,488) | (25,032) |
| Payments to suppliers | (33,954) | (73,550) | (11,400) | (7,379) | (126,283) | (202,839) |
| Net cash provided (used) by operating activities | 28,696 | 56,884 | 56,360 | (1,243) | 140,697 | (3,366) |
| Cash flows from noncapital financing activities: | | | | | | |
| Transfers in (out) | | | (42,072) | 1,365 | (40,707) | |
| Net cash provided (used) by noncapital financing activities | | | (42,072) | 1,365 | (40,707) | |
| Cash flows from capital and related financing activities: | | | | | | |
| Mortgages receivable principal payments | | | 3,258 | | 3,258 | |
| Proceeds from revenue bonds | 17,000 | 3,750 | | | 20,750 | |
| Principal paid on revenue bonds | (6,264) | (18,978) | (6,750) | (4,825) | (36,817) | |
| Principal paid on general long-term debt | (823) | (56) | | | (879) | |
| Interest income (expense) | (7,373) | (7,759) | (8,581) | 1,565 | (22,148) | |
| Acquisition and construction of capital assets | (69,965) | (88,844) | (1,420) | (3,659) | (163,888) | (6,770) |
| Capital contributions | 18,403 | 24,988 | | 896 | 44,287 | 13,593 |
| Net cash provided (used) by capital and related financing activities | (49,022) | (86,899) | (13,493) | (6,023) | (155,437) | 6,823 |
| Cash flows from investing activities: | | | | | | |
| Proceeds (loss) from the sale and maturities of investments | | | | | | 21 |
| Interest on investments | | | | | | 136 |
| Net cash provided (used) by investing activities | | | | | | 157 |
| Net increase (decrease) in cash and cash equivalents | (20,326) | (30,015) | 795 | (5,901) | (55,447) | 3,614 |
| Cash and cash equivalents, beginning of year | 147,876 | 182,896 | 47,560 | 55,836 | 434,168 | 89,581 |
| Cash and cash equivalents, end of year | $127,550 | $152,881 | $ 48,355 | $49,935 | $ 378,721 | $ 93,195 |
| Reconciliation of operating income to net cash provided by operating activities: | | | | | | |
| Operating income (loss) | $ 32,716 | $ 24,227 | $ 55,925 | $ (1,571) | $ 111,297 | $ (928) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | | | |
| Depreciation expense | 11,593 | 25,295 | 1,069 | 744 | 38,701 | 7,910 |
| Changes in assets and liabilities: | | | | | | |
| Accounts receivables | (7,880) | 5,341 | 158 | (331) | (2,712) | 9,066 |
| Due from other governments | (13,833) | 3,921 | | | (9,912) | |
| Inventories | 12 | (25) | | | (13) | (3,211) |
| Restricted accounts receivable | (1,550) | 4,444 | | | 2,894 | |
| Other assets | | | | | | (240) |
| Accounts payable and accrued liabilities | 24 | 1,988 | (381) | (473) | 1,158 | (9,487) |
| Other liabilities | 94 | (6,578) | | 576 | (5,908) | 205 |
| Estimated liability for claims in progress | | | | | | (1,870) |
| Accrued interest payable | 2,694 | 472 | (187) | (5) | 2,974 | |
| Restricted accounts payable | 1,702 | (2,201) | (224) | (133) | (856) | |
| Due to other funds | | | | (50) | (50) | (4,811) |
| Due to other governments | 3,124 | | | | 3,124 | |
| Total adjustments | (4,020) | 32,657 | 435 | 328 | 29,400 | (2,438) |
| Net cash provided (used) by operating activities | $ 28,696 | $ 56,884 | $ 56,360 | $ (1,243) | $ 140,697 | $ (3,366) |

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

## CITY OF BALTIMORE

## Statement of Fiduciary Net Assets

## Fiduciary Funds

## June 30, 2010

(Expressed in Thousands)

| | Pension and OPEB Trust Funds | Agency Funds |
|---|---|---|
| Assets: | | |
| Cash and cash equivalents | $ 150,156 | $1,407 |
| Investments: | | |
| Stocks | 1,748,170 | |
| Bonds | 995,537 | 51 |
| Real estate | 256,685 | |
| Securities lending collateral | 367,169 | |
| Accounts receivable, net: | | |
| Other | 6,408 | |
| Forward foreign contracts | 44,607 | |
| Other assets | 46,213 | |
| Total assets | 3,614,945 | 1,458 |
| Liabilities: | | |
| Obligations under securities lending program | 367,169 | |
| Forward foreign contracts | 44,305 | |
| Accounts payable | 87,510 | |
| Other | 8,757 | 1,458 |
| Total liabilities | 507,741 | 1,458 |
| Net assets: | | |
| Held in trust for benefits | $3,107,204 | |

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

## CITY OF BALTIMORE

## Statement of Changes in Fiduciary Net Assets
## Pension and OPEB Trust Funds

## For the Year Ended June 30, 2010

(Expressed in Thousands)

| | Pension and OPEB Trust Funds |
|---|---|
| Additions: | |
| Contributions: | |
| Employer | $ 285,461 |
| Employee | 57,627 |
| Total contributions | 343,088 |
| Investment income: | |
| Net appreciation in fair value of investments | 319,000 |
| Securities lending income | 703 |
| Interest and dividend income | 66,452 |
| Total investment income | 386,155 |
| Less: investment expense | 11,716 |
| Net investment income | 374,439 |
| Total additions | 717,527 |
| Deductions: | |
| Retirement allowances | 303,701 |
| Health benefits | 151,863 |
| Death benefits | 946 |
| Administrative expenses | 6,402 |
| Other | 1,528 |
| Total deductions | 464,440 |
| Changes in net assets | 253,087 |
| Net assets — beginning of the year | 2,854,117 |
| Net assets — end of the year | $3,107,204 |

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

**CITY OF BALTIMORE**

**Index to the Notes to Basic Financial Statements**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## 1. Summary of Significant Accounting Policies

### A. Reporting Entity

The City of Baltimore (City) was incorporated under the laws of the State of Maryland in 1797 and operates under an elected Mayor-Council form of government. As required by accounting principles generally accepted in the United States for governmental entities (GAAP), the accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the City.

*Blended Component Unit*

The Baltimore Industrial Development Authority (IDA), an entity legally separate from the City, finances capital construction projects, which solely benefit the City. The IDA is administered by a Board appointed by the Mayor and is financially accountable to the City. This component unit is so intertwined with the City that it is, in substance, the same as the City and, therefore, is blended and reported as if it is part of the City. The IDA is reported as an enterprise fund.

*Discretely Presented Component Units*

The Baltimore City Public School System (BCPSS) is responsible for elementary and secondary education within the City's jurisdiction. The BCPSS receives significant funding from the City. The City is also required to pay certain benefits to its employees. However, the BCPSS is legally separate from the City since it has the authority and responsibility for all its system functions and the Governor of the State of Maryland appoints a majority of its nine-member board.

Complete financial statements for BCPSS may be obtained from the Chief Financial Officer, Baltimore City Public School System, 200 East North Avenue, Baltimore, Maryland 21202.

The Baltimore Hotel Corporation (BHC) was incorporated on October 14, 2005 as a nonprofit non-stock corporation. BHC is financially accountable to the City. The BHC assists the Mayor and City Council of Baltimore on enhancing the economic development in the City by operating a downtown convention center headquarters hotel and parking structure. The City has pledged certain site-specific occupancy tax revenue to pay shortfalls in hotel operating revenues and is responsible for operating deficits.

Complete financial statements for BHC may be obtained from the Director of Finance, Baltimore City, 469 City Hall, 100 N. Holliday St., Baltimore, Maryland 21202.

*Related Organizations*

There are other governmental entities that provide services within the City of Baltimore. While the City is responsible for appointing the board members of these entities, the City's accountability for these organizations does not extend beyond making appointments. The City's basic financial statements do not reflect the operations of the:

Baltimore City Foundation
Lexington Market
Baltimore Area Convention and Visitors Association
City of Baltimore Development Corporation
Baltimore Community Development Finance Corporation
Empower Baltimore Management Corporation
Special Benefits Taxing Districts
Community Media of Baltimore City, Incorporated
Baltimore Healthcare Access, Incorporated
Family League of Baltimore City
Live Baltimore Home Center

In addition, the Housing Authority of Baltimore City (HABC) is considered a related organization. The HABC is a separate legal entity and is governed by a Commission of five citizens with staggered terms appointed by the Mayor. The Commission establishes the operating policies of the HABC, which was implemented under the direction of an Executive Director appointed by the Commission. The HABC develops, maintains, and manages low-rent housing and administers housing assistance payment programs primarily for the citizenry's benefit and not that of the primary government. These activities are subsidized by the U. S. Department of Housing and Urban Development and other grantors. Consequently, the primary government is not able to exert influence over or to impose a burden relationship upon the HABC. This organization is not financially accountable to the City and maintains its own separate accounting systems.

B. Basis of Presentation, Basis of Accounting

*Basis of Presentation*

*Government-wide Statements.* The statement of net assets and the statement of activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operations or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements.* The fund financial statements provide information about the City's funds, including its fiduciary funds and blended component units. Separate statements for each fund category – *governmental, proprietary and fiduciary* — are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition are reported as non-operating expenses.

The City reports the following major governmental funds:

*General Fund.* This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*Grants Revenue and Motor Vehicle Special Revenue Funds.* These funds account for revenues derived from certain State shared taxes, governmental grants and other revenue sources that are restricted by law or administrative action to expenditures for specific purposes.

*Capital Projects Fund.* The proceeds of general obligation bond issues, State construction loans, governmental and other grants, and revenues from other sources appropriated for capital improvements, acquisitions and related programs are accounted for in this fund, except for those accounted for in the proprietary fund types.

The City reports the following major enterprise funds:

*Water Utility Fund.* This fund accounts for the operation, maintenance, and development of the City's water supply system.

*Waste Water Utility Fund.* This fund accounts for the operation, maintenance, and development of the City's sewerage system.

*Parking Facilities Fund.* This fund accounts for the operation, maintenance, and development of the City-owned off-street parking facilities.

The City reports the following other fund types:

*Internal Service Funds*. These funds account for mobile equipment, reproduction and printing, municipal post office, municipal telephone exchange, electronic equipment maintenance, municipal communications and risk management, which provided goods and services to other departments on a cost-reimbursement basis.

*Fiduciary Funds.* These funds account for assets and activities when a government unit is functioning either as a trustee or an agent of another party, transactions related to assets held by the City in a trustee capacity or as an agent for individuals, private organizations and other governments. The fiduciary funds include the following:

*Pension Trust Funds.* These funds account for the receipt, investment and distribution of retirement contributions made for the benefit of police officers, firefighters, elected officials and other City employees.

*Other Postemployment Benefits Trust Fund.* This fund accounts for the receipt, investment and distribution of retiree health and life insurance benefits.

- Agency Funds account for assets held by the City as custodians. Agency funds include:
    - Unpresented Stock and Coupon Bonds account for principal payments held by the City for matured bonds not yet presented for payment.
    - Property Sold for Taxes accounts for the proceeds of tax sales in excess of the City liens that remain unclaimed by the taxpayer.
    - Bid Deposit Refunds account for bid deposits held by the City to secure vendors bids not yet awarded.
    - Recreation Accessory accounts for assets held by the City for the benefit of recreation centers throughout the City.
    - Waterloo Summit accounts for assets held by the City as a surety deposit from a developer.
    - Insurance Deposits accounts for assets held by the City as deposits from insurance companies.

*Measurement Focus, Basis of Accounting*

*Government-wide, Proprietary, and Fiduciary Fund Financial Statements.* The government-wide, proprietary, and fiduciary fund financial statements with the exception of agency funds, which have no measurement focus, are reported using the economic resources measurement focus and are reported on the accrual basis of accounting. Revenues are recorded when earned and expenses recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Operating revenue in the proprietary funds are those that result from the services provided by the funds, all other revenue is considered to be non-operating.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end, except for grant and entitlement revenue which have a 90 day availability period. Property taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General

capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of the grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general fund revenues.

All governmental and business-type activities and enterprise funds of the City follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The City has elected not to follow subsequent FASB Statements and Interpretations.

C. Assets, Liabilities, and Equity

*Cash and Cash Equivalents*

Cash and cash equivalents include demand deposits, as well as short-term investments with a maturity date within three months of the date acquired by the City.

*Deposits and Investments*

The cash balances of substantially all funds are pooled and invested by the City for the purpose of increasing earnings through investment activities. The pool's investments are reported at fair value at June 30, 2010, based on market prices. The individual funds' portions of the pool's fair value are presented as "Pooled Cash and Investments." Earnings on the pooled funds are apportioned and paid or credited to the funds quarterly based on the average daily balance of each participating fund.

*Receivables and Payables*

All property tax receivables are shown net of an allowance for uncollectibles.

Mortgage receivables reported in governmental fund and government-wide financial statements, and notes receivable reported in proprietary fund statements consist of loans that are generally not expected or scheduled to be collected in the subsequent year.

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

*Inventories*

Inventories are valued at cost using the moving average method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

*Capital Assets*

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of receipt. Infrastructure assets acquired prior to July 1, 2001 are reported at estimated historical cost using deflated replacement cost. Infrastructure assets, such as streets, highways, bridges, sidewalks, street lighting, traffic poles and signals, and storm sewers are required to be capitalized under GAAP. Capitalization thresholds are: $250,000 for buildings, improvements and infrastructure; and $5,000 for equipment. Library books are capitalized as a collection based on total purchases. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| Asset Class | Estimated Useful Lives |
|---|---|
| Infrastructure | 5-80 |
| Buildings | 50 |
| Building improvements | 20-50 |
| Equipment | 2-25 |
| Library books | 10 |

*Compensated Absences*

The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated annual sick, vacation, and personal leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Payments made to terminated employees for accumulated leave are charged as expenditures/expenses, primarily in the General Fund, Special Revenue Funds, and Proprietary Funds, when paid.

*Estimated Liability for Claims in Process*

The liability for claims in process represents estimates for all personal injury, workers' compensation, unemployment, property damage, and medical claims at June 30, 2010. This liability, which includes estimates for known and incurred but not reported claims, is based upon an actuarial valuation of the City's claim payment history discounted at a rate of 4.5%, for all claims except medical, for which claims are not discounted.

*Property Tax and Property Tax Calendar*

The City levies an annual tax for the fiscal year beginning July 1 and ending June 30, on real and personal property located in the City, due and payable each July 1 (lien date), based on assessed values as of the previous January 1. These assessed values are established by the State of Maryland Department of Assessments and Taxation at various rates of estimated market value. A discount of ½% is allowed for payments made in July. Unpaid property taxes are considered in arrears on October 1, and penalty and interest of 2% is assessed each month. Real property subject to tax liens is sold at public auction in May in instances where the taxes have remained delinquent since the preceding October 1.

The City is responsible for the assessment, collection, and apportionment of property taxes. The City levies an annual tax for the fiscal year ending June 30, due and payable each July 1, based on assessed values as of the previous January 1.

State law requires that all real property be reassessed every three years, and further provides that the amount of any increase over previous established market values be phased in over a three-year period. To accomplish the triennial assessment requirement, approximately one-third of all real property is reviewed annually. The City Council, effective with the fiscal year beginning July 1, 1991, enacted a 104% homestead tax credit program which will protect home owners from increases in assessments that are greater than 4% in any one year. The assessed value of real property in Baltimore City for fiscal year 2010 was $28,511,521,000 which was approximately 80.1% of the estimated market value.

The tax rate in Baltimore City for real property taxes for fiscal year 2010 was $2.268 per $100 of assessed value. Pursuant to State Law, the personal property tax and tax rate applied to operating property of public utilities is 2.5 times the real property rate or $5.67 per $100 of assessed value. Current collections were 98.6% of the total tax levy.

At June 30, 2010, the City had property taxes receivable of $30,459,000, net of an allowance for uncollectible accounts of $20,897,000.

*Gains and Losses on Early Extinguishment of Debt from Refundings*

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

*Encumbrances*

Encumbrance accounting, under which purchase orders, contracts, approved requisitions and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the General, Motor Vehicle, Special Race Track and Capital Projects Funds. Encumbrances are treated as reservations of fund balance in these funds because they do not constitute expenditures or liabilities. Encumbrances are reported with expenditures in all budgetary basis schedules.

*Sick, Vacation and Personal Leave*

Employees earn one day of sick leave for each completed month of service, and there is no limitation on the number of sick days that employees can accumulate. A portion of unused sick leave earned annually during each twelve-month base period may be converted to cash at 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 days accumulated and unused at the date of separation; under any other conditions of separation, unused sick leave is forfeited.

Employees earn vacation and personal leave for each completed month of service and 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 at termination or retirement.

The City accrues for all salary-related items in the government-wide and proprietary fund types in the fund financial statements for which they are liable to make a payment directly and incrementally associated with payments made for compensated absences on termination or retirement. The City includes its share of social security and Medicare payments made on behalf of the employees in the accrual for sick, vacation and personal leave pay.

The Baltimore City Public School System's employees are granted sick, vacation and personal leave in varying amounts based on length of service and bargaining unit. A limited number of sick, vacation and personal leave days may be carried forward from year to year and upon retirement with pension benefits or separation of employment with twenty years of service, employees are paid accumulated sick, vacation and personal leave days at appropriate formula and rates. The unpaid vested sick, vacation and personal leave days have been reported as vested compensated absences.

*Restricted Assets*

The proceeds of the Water Utility Fund, Waste Water Utility Fund, and Parking Facilities Fund revenue bonds and Federal and State grants, and restricted accounts receivables are restricted for the purpose of the construction of water, sewer, and parking facilities.

*Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balances for accounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The following is a description of the reservations in the governmental fund financial statements:

Reserved for budget stabilization — Maryland State law authorizes its political subdivisions to establish reserve accounts for the purpose of maintaining fiscal stability in the event of economic downturns affecting local revenues. As of June 30, 2010, the City had reserved $79,875,000 of its General Fund fund balance for that purpose. The reserve can be used in case of emergency at the discretion of the Board of Estimates.

Reserved for landfill closure — This represents the portion of the fund balance reserved for landfill closure and is to provide for amounts to be required when the landfill closes.

Reserve for landfill development — This represents the portion of the fund balance reserved for landfill development and is to provide for amounts to be used to develop new landfills in the City.

Reserved for encumbrances — Encumbrances outstanding at year-end represent the estimated amount the City intends to honor as a commitment regardless of the lapse in appropriation.

Reserved for inventories — This represents the portion of the fund balance that is not available as spendable resources even though the inventories are a component of net assets.

Reserved for other assets — This represents the portion of the fund balance that is not available as spendable resources even though the other assets are a component of net assets.

Reserved for long term receivable — This represents the portion of the fund balance that is not available as spendable resources even though the long term receivable is a component of net assets.

*Interfund Transactions*

The City has three types of transactions among funds:

Statutory transfers — Legally required transfers that are reported when incurred as "Transfers in" by the recipient fund and as "Transfers out" by the disbursing fund.

Transfers of Expenditures (Reimbursements) — Reimbursement of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Interfund payments — Charges or collections for services rendered by one fund to another that are recorded as revenues of the recipient fund and as expenditures or expenses of the disbursing fund.

D. New Government Accounting Standard Board Pronouncements

The City will be required to adopt the following Government Accounting Standards Board (GASB) Pronouncement:

*GASB Statement No. 54*

In March 2009, the GASB issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The City is required to adopt GASB Statement No. 54 for its fiscal year 2011 financial statements.

## 2. Reconciliation of Government-wide and Fund Financial Statements

A summary reconciliation of the difference between total fund balances as reflected on the governmental funds balance sheet and the net assets for governmental activities as shown on the government-wide statement of net assets is presented on the face of the governmental funds balance sheets. The asset and liability elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting, while the government-wide financial statements use the economic resources measurement focus and accrual basis of accounting.

A summary reconciliation of the difference between net changes in fund balance as reflected on the governmental funds statement of revenues, expenditures, and changes in fund balances and change in net assets for governmental activities as shown on the government-wide statement of activities is presented in an accompanying schedule to the governmental funds statement of revenues, expenditures, and changes in fund balances. The revenues and expense elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting, while the government-wide financial statements use the economic resources measurement focus and accrual basis of accounting.

A summary reconciliation of the difference between total net assets as reflected on the proprietary funds statement of net assets and the net assets for business activities as shown on the government-wide statement of net assets is presented on the face of the proprietary funds statement of net assets. The asset element which comprises the reconciliation difference stems from the allocation of internal service fund balance to the business activities on the government-wide statement of net assets.

A summary reconciliation of the difference between net changes in net assets as reflected on the proprietary funds statement of revenues, expense and changes in net assets and changes in net assets for business activities as shown on the government-wide statement of activities is presented on the face of the proprietary funds statement of net assets. The expense element, which comprises the reconciliation difference, stems from the allocation of internal service funds deficit to the business-type activities on the government-wide statement of changes in net assets.

## Explanation of differences between the governmental fund balance sheet and the government-wide statement of net assets (amounts expressed in thousands):

| | |
|---|---|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds: | |
| Capital assets | $ 5,623,549 |
| Less: Accumulated depreciation | (2,045,220) |
| Total | $ 3,578,329 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds: | |
| Due from other governments | $ 110,384 |
| Notes receivable | 302,200 |
| Deferred outflows derivative investments | 21,396 |
| Deferred revenue | 5,880 |
| Accrued interest payable | (14,624) |
| Unamortized bond premiums | (13,894) |
| Total | $ 411,342 |
| Internal service funds are used by management to charge the cost of fleet management, mailing, communications, printing and risk management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. | $ 4,382 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds: | |
| Long-term bonds | $ (786,134) |
| Revenue bonds | (431,156) |
| Capital leases | (169,100) |
| Compensated absences | (120,798) |
| OPEB liability | (86,700) |
| Estimated claims in progress | (25,491) |
| Landfill closure liability | (18,226) |
| Derivative instrument liability | (21,396) |
| Total | $(1,659,001) |

## Explanation of difference between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities (amounts expressed in thousands):

| | |
|---|---|
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: | |
| Capital outlay | $ 176,213 |
| Capital leases | 75,099 |
| Total | $ 251,312 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds: | |
| Grant reimbursements not received for several months after the fiscal year end are not considered as available revenues in the governmental funds | $ 23,166 |
| The issuance of long-term debt (e. g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities: | |
| Proceeds from general obligation bonds | $ (54,688) |
| Proceeds from capital leases | (75,099) |
| Total | $ (129,787) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds: | |
| Debt service principal | $ 60,054 |
| Debt service interest (capital leases, GO bonds, and accrued interest) | (10,827) |
| Claims liability | (25,491) |
| Capital related expenditures | (103,308) |
| Compensated absences | (8,831) |
| OPEB liability | (61,500) |
| Total | $ (149,903) |
| The net expense of certain activities of internal service funds is reported with governmental activities: | |
| Internal service funds net expenses attributed to governmental activities | $ (11,710) |

## 3. Deposits and Investments

### A. Summary of Deposit and Investment Balances

The following is a reconciliation of the City's deposit and investment balances as of June 30, 2010 (amounts expressed in thousands):

| | Pooled Cash and Investments | Other | Total |
|---|---|---|---|
| Carrying value of bank deposits | $ 6,966 | $ 150,156 | $ 157,122 |
| Investments | 768,636 | 3,367,561 | 4,136,197 |
| Total | $775,602 | $3,517,717 | $4,293,319 |

| | Government-wide Statement of Net Assets | Fiduciary Funds Statement of Net Assets | Total |
|---|---|---|---|
| Cash and cash equivalents | $461,467 | $ 151,563 | $ 613,030 |
| Investments | 119,701 | 3,367,612 | 3,487,313 |
| Restricted cash and cash equivalents | 192,976 | | 192,976 |
| Total | $774,144 | $3,519,175 | $4,293,319 |

### B. Cash Deposits

As of June 30, 2010, the carrying amount of the City's bank deposits was $6,966,000 and the respective bank balances totaled $16,281,000. All of the City's 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.

At June 30, 2010, BCPSS and BHC had demand deposits with carrying values of $9,100,000 and $3,145,000, respectively.

### C. Investments

***Primary Government***

For other than pension funds, BCPSS and BHC, 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 deposits, commercial paper with highest letter and numerical rating, mutual funds registered with the Securities and Exchange Commission and the Maryland Local Government Investment Pool. 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.

Investments are reported at fair value, except that investments with maturities of less than one year from purchase date are reported at cost which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at the current exchange rates. Real estate holdings are valued based on current appraisals.

The primary government's investments at June 30, 2010, are presented below. All investments are presented by investment type, and debt securities are presented by maturity (amounts expressed in thousands):

| Investment Type | Fair Market Value | Investment Maturities (In Months) | | |
|---|---|---|---|---|
| | | Less Than 6 | 6 to 12 | Greater Than 12 |
| Debt Securities: | | | | |
| U.S. Treasury | $177,103 | $ 65,208 | | $111,895 |
| U.S. Agencies | 187,805 | 183,811 | $3,994 | |
| Repurchase agreements | 45,252 | 45,252 | | |
| Money market mutual funds | 176,575 | 176,575 | | |
| Maryland Local Government Investment Pool | 127,500 | 127,500 | | |
| Commercial paper | 46,963 | 46,963 | | |
| Guaranteed investment contracts | 5,205 | 5,205 | | |
| | 766,403 | $650,514 | $3,994 | $111,895 |
| Other investment: | | | | |
| Equity mutual funds | 1,940 | | | |
| | 768,343 | | | |
| Less: cash equivalents | 648,591 | | | |
| Total investments | $119,752 | | | |

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

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 the Maryland Local Government Investment Pool, and by limiting the par value of the portfolio invested for a period greater than one year at or below $100 million.

The Maryland Local Government Investment Pool is operated in accordance with Rule 2a7 of the Investment Company Act of 1940.

*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 Board of Finance limits City investments to only the highest rated investments in the categories discussed above. The City's rated debt investments as of June 30, 2010 were rated by a nationally recognized statistical rating agency and are presented below using the Standard and Poor's rating scale (amounts expressed in thousands):

| Investment Type | Fair Value | Quality Ratings | |
|---|---|---|---|
| | | AAA | A1-P1 |
| Debt securities: | | | |
| U.S. Agencies | $187,805 | $187,805 | |
| Money market mutual funds | 176,575 | 176,575 | |
| Maryland Local Government Investment Pool | 127,500 | 127,500 | |
| Commercial paper | 46,963 | | $46,963 |
| Total rated debt investments | $538,843 | $491,880 | $46,963 |

The guaranteed investment contracts are collateralized by U.S. Treasury and AAA rated U.S. Agency securities.

*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 City had the following debt security investments at June 30, 2010, that were more than five percent of total investments (dollar amounts expressed in thousands):

| Investment | Fair Value | Percentage of Portfolio |
|---|---|---|
| M&T Bank Repurchase Agreement | $45,252 | 5.69% |
| Federal Agricultural Mortgage Corp. | 77,996 | 9.81 |
| Federal Home Loan Bank Discount Notes | 79,297 | 9.98 |

***Retirement Systems***

The City's three Retirement Systems are authorized by the Baltimore City Code to make investments in accordance with the guidelines and limitations set forth in the Code. The Board of Trustees of each system accomplishes the daily management of the Systems' investments through an external investment advisor, who acts as a fiduciary for each system, and through external investment managers. The Board of Trustees for each system invests the assets of the system using the "prudent person standard" which allows the Board to consider the probable safety of investments, avoid speculative investments, and invest as people of prudence, discretion, and intelligence would in a similar situation. The Boards of Trustees have adopted an investment policy and guidelines for each system to formally document their investment objectives and responsibilities.

The invested assets of the retirement systems at June 30, 2010, are as follows (amounts expressed in thousands):

| | Carrying Value | | | |
|---|---|---|---|---|
| Investment Type | Employees' Retirement System | Elected Officials' Retirement System | Fire and Police Employees' Retirement System | Total |
| Debt Securities: | | | | |
| U.S. Treasury notes and bonds | $ 83,499 | | $ 139,449 | $ 222,948 |
| U.S. Government agency bonds | 62,993 | | 117,392 | 180,385 |
| Corporate bonds | 108,917 | $ 6,186 | 372,413 | 487,516 |
| Barclay aggregate index | | | 7,493 | 7,493 |
| Mutual funds | 78,697 | 13 | 43,383 | 122,093 |
| Absolute return strategic funds | | | 66,755 | 66,755 |
| Total debt securities | 334,106 | 6,199 | 746,885 | 1,087,190 |
| Other: | | | | |
| Domestic equities | 503,458 | 5,152 | 496,945 | 1,005,555 |
| International equities | 143,750 | 2,845 | 320,970 | 467,565 |
| Hedge funds | 57,308 | | 81,874 | 139,182 |
| Private equity funds | | | 81,662 | 81,662 |
| Real estate | 79,244 | | 143,367 | 222,611 |
| Total other | 783,760 | 7,997 | 1,124,818 | 1,916,575 |
| Total investments | 1,117,866 | 14,196 | 1,871,703 | 3,003,765 |
| Less: Cash and cash equivalents | 78,697 | 13 | 43,383 | 122,093 |
| Total net investments | $1,039,169 | $14,183 | $1,828,320 | $2,881,672 |

*Foreign Currency Risk Exposure*—Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

The Fire and Police Employees' Retirement System Board of Trustees has adopted a policy that the external managers demonstrate sensitivity to currency risk. The foreign currency exposure of the system may be hedged back to the U.S.

dollar using forward foreign exchange contracts. From 0% to 100% of the foreign currency exposure of the portfolio may be hedged. Cross-hedging to currency other than the U.S. dollar may reach 25% of the total portfolio. Currency speculation is not permitted.

The Employees' Retirement System Board of Trustees has not adopted a formal policy to limit foreign currency risk.

The foreign currency risk for each system at June 30, 2010, is presented on the following table (amounts expressed in thousands):

| Currency | Employees' Retirement System | Fire and Police Employees' Retirement System | Total |
|---|---|---|---|
| Euro Currency Unit | $16,749 | $ 63,741 | $ 80,490 |
| British Pound Sterling | 14,933 | 34,048 | 48,981 |
| Japanese Yen | 10,564 | 31,693 | 42,257 |
| South Korean Won | 673 | 6,472 | 7,145 |
| Hong Kong Dollar | 7,739 | 9,781 | 17,520 |
| Swiss Franc | 6,199 | 21,859 | 28,058 |
| Mexican New Peso | (554) | 920 | 366 |
| South African Comm Rand | | 1,805 | 1,805 |
| Malaysian Ringgit | | 153 | 153 |
| Taiwan Dollar | | 3,427 | 3,427 |
| Brazil Real | 1,209 | 4,912 | 6,121 |
| Canadian Dollar | 3,039 | 5,719 | 8,758 |
| New Turkish Lira | 465 | 1,028 | 1,493 |
| Israeli Shekel | | 1,047 | 1,047 |
| Australian Dollar | 2,822 | 965 | 3,787 |
| Swedish Krona | 1,216 | 2,090 | 3,306 |
| Norwegian Krone | 957 | 3,516 | 4,473 |
| Singapore Dollar | 1,205 | 5,145 | 6,350 |
| Chinese Yuan Renminbi | 3,576 | | 3,576 |
| Indonesian Rupian | | 2,707 | 2,707 |
| Danish Krone | 1,774 | 1,887 | 3,661 |
| Egyptian Pound | | 354 | 354 |
| Thailand Baht | | 236 | 236 |
| Chilean Peso | | 422 | 422 |
| Polish Zloty | | 5 | 5 |
| Total Foreign Currency | $72,566 | $203,932 | $276,498 |
| U.S. Dollars (Held in international equity) | $80,846 | $117,039 | $197,885 |

*Interest rate risk* — The Fire and Police Employees' Retirement System Board of Trustees uses the Option Adjusted Duration as a measure of interest rate sensitivity for bonds. Duration is a measure of the approximate sensitivity of a bond's value to interest rate changes. The Fire and Police Employees' Retirement System Board of Trustees' fixed income interest rate policy states that the effective duration of a portfolio may not exceed 20% of the effective duration of the underlying benchmark of 100%.

Both the Employees' Retirement System and the Elected Officials' Retirement System have selected the duration method as a measure of interest rate sensitivity for bonds. However, both plans have not adopted a formal policy to limit interest rate risk.

*Credit Risk* — The Boards of Trustees of the City's three retirement systems have not adopted a formal policy to limit credit risk.

The credit ratings and durations of investments at June 30, 2010 are as follows (amounts expressed in thousands):

| Asset Type | Duration | Carrying Value | AAA thru A | BBB thru B | CCC Thru C | DDD thru D | Not Rated |
|---|---|---|---|---|---|---|---|
| *Employees' Retirement System:* | | | | | | | |
| U.S. Treasury notes and bonds | 8.32 | $ 83,499 | $ 83,499 | | | | |
| U.S. Government agency bonds | 3.64 | 62,993 | 62,993 | | | | |
| Corporate bonds | 4.44 | 108,917 | 56,391 | $ 21,187 | $5,076 | | $ 26,263 |
| Mutual funds | 0.09 | 78,697 | | | | | 78,697 |
| Total debt securities | | 334,106 | 202,883 | 21,187 | 5,076 | | 104,960 |
| *Elected Officials' Retirement System:* | | | | | | | |
| Corporate bonds | 0.00 | 6,186 | | | | | 6,186 |
| Mutual funds | 0.00 | 13 | | | | | 13 |
| Total debt securities | | 6,199 | | | | | 6,199 |
| *Fire and Police Employees' Retirement System:* | | | | | | | |
| U.S. Treasury notes and bonds | 14.23 | 139,449 | 139,449 | | | | |
| U.S. Government agency bonds | 4.95 | 117,392 | 117,392 | | | | |
| Barclay aggregate index | 4.30 | 7,493 | 7,493 | | | | |
| Corporate bonds | 4.96 | 372,413 | 196,462 | 141,901 | 8,359 | $13 | 25,678 |
| Mutual funds | 0.08 | 43,383 | | | | | 43,383 |
| Absolute return strategic funds | 2.57 | 66,755 | 66,755 | | | | |
| Total debt securities | | $746,885 | $527,551 | $141,901 | $8,359 | $13 | $ 69,061 |

The City's Retirement Systems has entered into a Securities Lending Authorization Agreement with Mellon Bank (the Custodian) authorizing them to lend its available securities. All individual securities which are readily marketable and which are not restricted due to an outstanding short option are eligible for loan at the discretion of the custodian bank. The fund manager may loan securities held in custody of commingled funds if authorized in a fund's contract with the retirement systems.

Collateral received in exchange for securities lent is deposited into an escrow account for the Retirement Systems' benefit for the duration of the loan. At no time do the Retirement Systems lose custody of either the security or the collateral. Collateral in exchange for the principal lent may be in the form of cash, or securities issued or guaranteed by the U.S. government, or its agencies or instrumentalities. The minimum levels of collateral are set at 102% of the market value of domestic securities lent, including all accrued income, and 105% of the market value of international securities lent, including all accrued income. If the market value of the collateral falls below 100% of the lent securities, additional collateral is deposited to adjust up to the appropriate minimum level of collateral. All collateral amounts are adjusted to market daily. The City's Retirement Systems do not have the right to sell or pledge securities received as collateral without borrower default.

At June 30, 2010, the Retirement Systems had no credit risk exposure to borrowers because the amounts they owed borrowers exceeded the amounts the borrowers owed the Retirement Systems. The market value of securities on loan at June 30, 2010, was $356,675,000, and the market value of the collateral received for those securities on loan was $367,169,000. The Retirement Systems did not impose any restrictions during the fiscal year on the amount of loans the custodian made on its behalf. The terms of the Securities Lending Authorization Agreement require that the custodian indemnify the retirement systems against: (1) the failure to demand adequate and appropriate collateral from a borrower as and when required pursuant hereto; (2) the failure to comply with the investment guidelines in connection with the investment and reinvestment of cash collateral; (3) the failure to obtain and perfect a security interest or rights equivalent thereto in and to the collateral; or (4) the failure to make a reasoned determination of the creditworthiness of any borrower. There were no such failures by any borrowers during the fiscal year. Moreover, there were no losses during the fiscal year resulting from default of the borrowers or the custodian.

Substantially all securities loans can be terminated on demand either by the custodian or by the borrower, although generally the average term of these loans is one week. Cash collateral is invested in the custodian's short-term

investment pool. The short-term investment pool guidelines specify that a minimum of 20% of the invested cash collateral is to be available each business day and the dollar-weighted average maturity of holdings must not exceed 90 days.

***Other Postemployment Benefits Fund***

The City's Other Postemployment Benefits Trust Fund (Trust) is authorized by the Baltimore City Code to make investments in accordance with the guidelines and limitations set forth in the code. The Baltimore City Director of Finance was made Trustee of the Trust and under a Memorandum of Understanding between the Director of Finance and the Board of Trustees of the Employees' Retirement System (Board), the Board is charged with administration of the Trust and investment of its assets. As part of its responsibility, the Board has adopted investment policies and guidelines which formally document its investment objectives and responsibilities.

The invested assets of the OPEB Trust Fund at June 30, 2010 are as follows (expressed in thousands):

| | | Investment Maturities (In Months) | | |
|---|---|---|---|---|
| Investment Type | Fair Value | Less than 6 | 6 to 12 | Greater than 12 |
| Cash and cash equivalents | $ 28,063 | $28,063 | | |
| Bonds | 30,441 | | | $30,441 |
| Mutual funds | 34,074 | 34,074 | | |
| Total | 92,578 | $62,137 | | $30,441 |
| Stock | 54,205 | | | |
| Total investments | 146,783 | | | |
| Less: Cash and cash equivalents | 28,063 | | | |
| Total net investments | $118,720 | | | |

*Interest Rate and Credit Risk*—The Board has not adopted a formal policy to limit interest rate and credit risk.

Bonds held by the OPEB Trust Fund have ratings from AA1 to AA2.

***Baltimore City Public School System***

The BCPSS, through the office of the Chief Financial Officer, pursues a cash management and investment program to achieve the maximum financial return on available funds. Depending on the projected cash needs of the BCPSS, excess funds may be invested on a short, intermediate or long-term basis at the best obtainable rates. Investments are generally in direct or indirect obligations of the U.S. Government and are fully collateralized.

The BCPSS is authorized by State law to invest in direct or indirect obligations of the U.S. Government, certificates of deposit, repurchase agreements and related mutual funds. The BCPSS's investments at June 30, 2010 are presented below. All investments are presented by investment type (expressed in thousands).

| | | Investments Maturities (In Months) | | | |
|---|---|---|---|---|---|
| Investment Type | Fair Market Value | Less Than 6 | 6 to 12 | Percent | Max. allowed per Investment Policy |
| Money Market Funds | $109,437 | $109,437 | | 65% | 100% |
| Commercial Paper | 2,297 | 2,297 | | 1 | 5 |
| U.S. Government Agencies | 51,181 | 36,189 | $14,992 | 31 | 100 |
| MLGIP (Other) | 3,058 | 3,058 | | 2 | 100 |
| MLGIP (Bonds) | 2,230 | 2,230 | | 1 | 100 |
| Total Invested Funds | 168,203 | $153,211 | $14,992 | 100% | |
| Less: Cash and cash equivalents | 153,211 | | | | |
| Total net investments | $ 14,992 | | | | |

***Investment Ratings***

Ratings apply to all Money Market funds, Checking, Commercial Paper, U.S. Government Agencies, Certificates of Deposit and MLGIP (dollar amounts expressed in thousands).

| Investment Ratings | Percent | Fair Value |
|---|---|---|
| AAA/AAA | 42.50% | $ 71,457 |
| A-1+/P-1 | 25.40 | 42,792 |
| A-1/P-1 | 1.40 | 2,297 |
| Not rated | 30.70 | 51,657 |
| | 100.00% | $168,203 |

*Risk Classifications*

*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 BCPSS limits its interest rate risk in accordance with their policy by maintaining a minimum of 20% of the BCPSS's investment in funds in liquid investments which include U.S. Government Securities, Maryland Local Government Investment Pool (MLGIP) Investments, Overnight Repurchase Agreements and Money Market Mutual Funds.

*Credit Risk*—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

As stated above, the BCPSS limits investments to highly rated investments in the categories discussed above.

Cash and cash equivalents includes Money Market deposits and MLGIP investments.

***Baltimore Hotel Corporation***

The Baltimore Hotel Corporation (BHC) pursues a cash management and investment program to achieve the maximum financial return on available funds. Investments consist of private debt obligations and money market funds with varying maturity dates. Certain portions of the investments are used to fund operating activities of the entity and other portions are used for debt repayment. These investments are stated at market value.

The BHC has no formal policy for limiting risk associated with these investments. The City of Baltimore Department of Finance directs the selection of investment funds. At year-end BHC held investments in the amount of $34,174,000; consisting of repurchase agreements with various financial institutions and government money market funds.

## 4. Receivables

Receivables at year-end of the City's major individual governmental funds, enterprise funds, and nonmajor and other funds (including internal service and fiduciary funds) are as follows (expressed in thousands):

| Receivables | General Fund | Motor Vehicle Fund | Grants Revenue Fund | Capital Projects Fund | Enterprise Funds | Nonmajor and Other Funds | Total |
|---|---|---|---|---|---|---|---|
| Property taxes | $30,459 | | | | | | $ 30,459 |
| Service billings | | | | | $ 64,593 | $ 2,146 | 66,739 |
| Due from other governments | 43,228 | $25,253 | $37,159 | $56,663 | 34,318 | 212 | 196,833 |
| Notes and mortgages receivable | 6,070 | | | | 48,045 | 2,704 | 56,819 |
| Other | 9,240 | 526 | | 5,786 | 1,037 | 24,073 | 40,662 |
| Restricted accounts receivable | | | | | 13,525 | | 13,525 |
| Total | $88,997 | $25,779 | $37,159 | $62,449 | $161,518 | $29,135 | $405,037 |

Service billings are reported net of an allowance for doubtful accounts of $13,578,000. Bad debt expense for fiscal year 2010 was $1,645,000.

## 5. Capital Assets

Capital assets activity for the year ended June 30, 2010, are as follows (expressed in thousands):

*Governmental Activities Capital Assets:*

| Class | Balance June 30, 2009(1) | Additions | Deductions | Balance June 30, 2010 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 142,202 | | | $ 142,202 |
| Construction in progress | 808,528 | $ 87,673 | $23,329 | 872,872 |
| Construction in progress—infrastructure | 663,005 | 89,339 | 1,534 | 750,810 |
| Total capital assets, not being depreciated | 1,613,735 | 177,012 | 24,863 | 1,765,884 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 1,445,868 | 23,240 | | 1,469,108 |
| Equipment | 386,111 | 18,708 | | 404,819 |
| Infrastructure | 2,069,242 | 1,534 | | 2,070,776 |
| Library books | 51,435 | 2,727 | 3,354 | 50,808 |
| Total capital assets, being depreciated | 3,952,656 | 46,209 | 3,354 | 3,995,511 |
| Less: accumulated depreciation for: | | | | |
| Buildings and improvements | 803,729 | 36,098 | | 839,827 |
| Equipment | 290,232 | 22,685 | 472 | 312,445 |
| Infrastructure | 897,644 | 46,783 | | 944,427 |
| Library books | 22,137 | 4,808 | 3,354 | 23,591 |
| Total accumulated depreciation | 2,013,742 | 110,374 | 3,826 | 2,120,290 |
| Total capital assets, being depreciated, net | 1,938,914 | (64,165) | (472) | 1,875,221 |
| Governmental activities capital assets, net | $3,552,649 | $112,847 | $24,391 | $3,641,105 |

(1) Amounts for the fiscal year ended June 30, 2009 have been restated as discussed in Note 20.

*Business-type Activities Capital Assets:*

| Class | Balance June 30, 2009 | Additions | Deductions | Balance June 30, 2010 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 23,846 | | | $ 23,846 |
| Construction in progress | 1,249,455 | $166,262 | $4,816 | 1,410,901 |
| Total capital assets, not being depreciated | 1,273,301 | 166,262 | 4,816 | 1,434,747 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 1,837,883 | 1,039 | | 1,838,922 |
| Equipment | 158,993 | 1,402 | | 160,395 |
| Infrastructure | 59,482 | | | 59,482 |
| Total capital assets, being depreciated | 2,056,358 | 2,441 | | 2,058,799 |
| Less: accumulated depreciation for: | | | | |
| Buildings and improvements | 691,910 | 32,519 | | 724,429 |
| Equipment | 123,645 | 5,438 | | 129,083 |
| Infrastructure | 18,855 | 744 | | 19,599 |
| Total accumulated depreciation | 834,410 | 38,701 | | 873,111 |
| Total capital assets, being depreciated, net | 1,221,948 | (36,260) | | 1,185,688 |
| Business-type activities capital assets, net | $2,495,249 | $130,002 | $4,816 | $2,620,435 |

Depreciation expense was charged to functions/programs of the City for the fiscal year ended June 30, 2010 (amounts expressed in thousands):

*Governmental activities:*

| | |
|---|---|
| General government | $ 5,277 |
| Public safety and regulation | 10,616 |
| Conservation of health | 360 |
| Social services | 39 |
| Education | 14,964 |
| Public library | 5,092 |
| Recreation and parks | 5,939 |
| Highways and streets | 50,300 |
| Sanitation and waste removal | 6,562 |
| Public service | 2,799 |
| Economic development | 761 |
| Internal service funds | 7,665 |
| Total | $110,374 |

*Business-type activities:*

| | |
|---|---|
| Water | $ 11,593 |
| Waste water | 25,295 |
| Parking | 1,069 |
| Conduits | 744 |
| Total | $ 38,701 |

At June 30, 2010, the outstanding commitments relating to projects of the City of Baltimore amount to approximately $131,147,000 for governmental activities and $263,084,000 for business-type activities. Interest is capitalized on business-type 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 borrowing until completion of the project, with interest earned on invested proceeds over the period. Interest is also capitalized on proprietary fund capital assets acquired with tax-exempt debt. During fiscal year 2010, net interest cost of $34,354,000 (net of interest income of $2,751,000) was capitalized.

## 6. Interfund Balances and Activity

### A. Balance Due to/from Other Funds

Balances due to/from other funds at June 30, 2010, were as follows (amounts expressed in thousands):

| Fund | Interfund Receivable | Interfund Payable |
|---|---|---|
| General | $62,021 | |
| Motor vehicle | | $ 1,557 |
| Grants revenue | | 41,292 |
| Capital projects | 1,519 | 1,358 |
| Nonmajor governmental funds | 1,358 | 11,555 |
| Nonmajor proprietary funds | | 1,519 |
| Internal service funds | | 7,617 |
| Totals | $64,898 | $64,898 |

The interfund balances are primarily the result of the City's policy not to reflect cash deficits in its individual funds. Also, at June 30, 2010, certain transactions between funds had not been completed.

### B. Transfers to/from Other Funds

Transfers to/from other funds at June 30, 2010, consist of the following (amounts expressed in thousands):

| Fund | General | Capital Projects | Nonmajor Special Revenue | Motor Vehicle | Parking | Total Transfers To |
|---|---|---|---|---|---|---|
| General | | | | | $37,312 | $ 37,312 |
| Debt service | $ 86,361 | $7,873 | | $14,169 | | 108,403 |
| Loan and guarantee | 1,365 | | | | | 1,365 |
| Capital projects | 2,609 | | $13,624 | | | 16,233 |
| Motor vehicle | 53,800 | 1,467 | | | | 55,267 |
| Grants revenue | | | | | 4,760 | 4,760 |
| Totals transfers from | $144,135 | $9,340 | $13,624 | $14,169 | $42,072 | $223,340 |

Transfers were primarily to the Debt Service and General funds to provide funds for debt service and to transfer excess revenue from the Proprietary Funds to the General fund.

### C. Deficits

The following funds had a deficit in unrestricted net assets/fund balances at June 30, 2010, (amounts expressed in thousands):

| | |
|---|---|
| Special Revenue Funds: | |
| Grants Revenue | $114,364 |
| CDBG | 12,268 |
| Internal Services Funds: | |
| Risk management | 97,874 |
| Energy conservation | 265 |
| Municipal Post Office | 635 |
| Reproduction and printing | 5,333 |

The deficit in the Grants Revenue Fund is the result of timing differences. Revenues to cover this deficit are expected to be received in fiscal year 2011.

The City plans to continue to charge City agencies premiums in excess of that needed to cover expected operating expenses, including claims paid and incurred, and thereby eliminate the accumulated Risk Management Fund deficit over the next ten years.

## 7. Long-term Obligations

### A. Long-term Obligation Activity

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

- Act of the General Assembly of Maryland or resolution of the majority of Baltimore City delegates
- Ordinance of the Mayor and City Council
- Ratification by the voters of Baltimore City

Changes in long-term obligations for the year ended June 30, 2010, are as follows (amounts expressed in thousands):

| | June 30, 2009 | Appreciation(a) | New Debt Issued | Debt Retired | June 30, 2010 | Due Within One Year |
|---|---|---|---|---|---|---|
| GOVERNMENTAL ACTIVITIES | | | | | | |
| *General Obligation Bonds:* | | | | | | |
| Highways | $ 13,755 | $ 97 | | $ 2,784 | $ 11,068 | $ 2,290 |
| Health | 3,342 | | $ 132 | 134 | 3,340 | 171 |
| Public safety | 10,730 | 80 | 773 | 1,585 | 9,998 | 2,150 |
| Off-street parking | 18,847 | 86 | | 3.127 | 15,806 | 2,818 |
| Parks and recreation | 21,372 | 53 | 3,706 | 1,665 | 23,466 | 2,568 |
| Public buildings and facilities | 54,880 | 57 | 4,248 | 2,981 | 56,204 | 6,157 |
| Schools | 193,356 | 468 | 22,476 | 13,562 | 202,738 | 13,411 |
| Storm water | 4,093 | 158 | | 1,067 | 3,184 | 1,589 |
| Urban renewal | 286,051 | 524 | 23,665 | 25,775 | 284,465 | 24,510 |
| Waste disposal | 325 | 8 | | 123 | 210 | 168 |
| Unallocated | 22,267 | 462 | | 1,215 | 21,514 | 1,338 |
| Total general obligation bonds | 629,018 | 1,993 | 55,000 | 54,018 | 631,993 | 57,170 |
| *Special Obligation Bonds:* | | | | | | |
| Special Obligation Bonds | 116,508 | | | 303 | 116,205 | 605 |
| *Long-term financing with the Federal Government:* | | | | | | |
| Federal economic development loans | 50,803 | | | 5,367 | 45,436 | 3,285 |
| *Long-term financing with the State of Maryland:* | | | | | | |
| State economic development loans | 1,553 | | | 367 | 1,186 | 256 |
| Total Governmental Activities | $797,882 | $1,993 | $55,000 | $60,055 | $794,820 | $61,316 |
| BUSINESS-TYPE ACTIVITIES | | | | | | |
| *General Obligation Bonds:* | | | | | | |
| Water | $ 941 | $ 17 | | $ 840 | $ 118 | $ 81 |
| Waste Water | 438 | 20 | | | 458 | 495 |
| Total general obligation bonds | 1,379 | 37 | | 840 | 576 | 576 |
| *Long-term financing with the State of Maryland:* | | | | | | |
| Sewer construction loans | 221 | | | 76 | 145 | 82 |
| Total Business-type Activities | $ 1,600 | $ 37 | | $ 916 | $ 721 | $ 658 |
| COMPONENT UNIT — BALTIMORE CITY PUBLIC SCHOOL SYSTEM | | | | | | |
| *Bonds:* | | | | | | |
| Schools | $ 50,880 | | $83,135 | $37,915 | $ 96,100 | $ 5,350 |

(a) The Mayor and City Council of Baltimore issued, as fully registered bonds, $67,602,000 in Series A General Obligation Bonds dated March 1, 1995 and $44,284,000 in Series C General Obligation Bonds dated May 1, 1998. The Series A and C Bonds consist of current interest bonds and capital appreciation bonds issued to advance refund certain non-callable maturities of the City's general obligation bonds.

No current interest is payable on the Series A or C Capital Appreciation Bonds, which are scheduled to mature on October 15 in each of the years 2010 to 2011, inclusive. Interest on the Series A and C Capital Appreciation Bonds accrues from the date of delivery, is compounded semiannually on each April 15 and October 15 and will be paid at the maturity or redemption date thereon. The accreted amount due at maturity is $18,204,000 as of June 30, 2010. The Series A Capital Appreciation Bonds are subject to redemption prior to maturity beginning on October 15, 2005, as a whole at any time or in part thereafter on October 15 or April 15.

*Variable Rate Demand General Obligation Bonds*

The City has issued $34,600,000 in taxable variable rate demand Consolidated Public Improvement Bonds Series C and D to construct various capital projects throughout the City. The bonds mature on October 15, 2020 and 2022, respectively.

The bonds bear interest at a variable rate that is reset by the Remarking Agent on a weekly basis. Under terms of the indenture the City at its options may change the bond rate to a monthly or long-term rate at any time until maturity upon notification of bondholders.

In conjunction with the issuance of the bonds, Bank of America N/A (Bank) issued a standby purchase agreement (Agreement) in the amount of $44,793,000 in favor of the City and Manufactures and Traders Trust Company as Tender Agent. The agreement expires May 14, 2011, but can be extended for additional years. The existing Agreement permits the fiscal agent to draw amounts necessary to pay the principal portion and related accrued interest on the bonds tendered for purchase and not remarked.

Pursuant to the Agreement between the City and the Bank, the issuer is required to reimburse the Bank the amount drawn upon remarketing or in a lump sum payment as of May 14, 2011. If the takeout agreement were to be exercised because issue of bonds was put but not sold, the City would be required to pay approximately $1,722,000 in interest annually with a lump sum payment of principal at the end of the agreement. The interest rate on draws made under this agreement is the LIBOR one month rate plus 1% for draws of less than 90 days, the LIBOR rate plus 2% for draws greater than 90 days, and after 180 days the Bank of America Prime plus 0.5%.

The City is required to pay the Bank fees throughout the effective dates of the Agreement of 0.2% per annum of the average daily amount of available commitment.

During fiscal year 2010, the City made no draws under the Agreement, and no amounts drawn against the Agreement were outstanding at June 30, 2010.

The liabilities for governmental activities are principally liquidated by the general, capital projects and motor vehicle funds, while liabilities for business-type activities are liquidated by the Water and Waste Water Funds. Long-term debt payable on the Statement of Net Assets is presented net of $8,686,000 of unamortized losses on early extinguishment of debt.

The following is a summary of debt activity other than general obligation bonds:

- *Special Obligation Bonds:* The City has borrowed funds to provide funds for capital projects in the development district. At June 30, 2010, principal owed for these bonds was $116,205,000, and interest of $164,994,000 at the interest rates ranging from 5.5% to 7.0% per annum will be due in future years.
- *Federal Economic Development Loan:* The City has borrowed funds from the Federal government to provide for various development projects. At June 30, 2010, the principal owed to the Federal government was $45,436,000, and interest of $18,088,000 will be due thereon in future years. The loan bears interest at rates ranging from 6.0% to 10.9% and matures serially through 2024.
- *State Economic Development Loans:* The City has borrowed $24,685,000 from the State of Maryland to provide for various economic development projects under the Maryland Industrial Land Act and the Industrial Commercial Redevelopments Act. At June 30, 2010, the principal owed to the State was $1,186,000, and interest of $96,000 will be due thereon in future years. These loans bear interest at rates ranging from 2.0% to 11.2% and the final payment is due in 2016.
- *Sewer Construction Loans:* Under the provisions of Chapter 445, laws of Maryland 1968, and Chapter 286, laws of Maryland 1974, loans were made available to counties and municipalities charged with providing sewerage facilities to assist in the construction of such facilities. Since December 1980, the City has borrowed a total of $1,184,000 for sewer projects. At June 30, 2010, the principal owed to the State was $145,000, and interest of $15,000 will be due thereon in future years.

*Compensated Absences*

Compensated absences at June 30, 2010 totaled $120,798,000 for governmental activities and $12,856,00 for business-type activities, of which $43,901,000 and $5,054,000 respectively, were due within one year. For the Baltimore City Public School System, compensated absences totaled $54,223,000, of which $5,422,000 were due within one year.

Changes in compensated absences during fiscal year 2010 (amounts expressed in thousands):

| | Governmental Activities | Business-type Activities | Total |
|---|---|---|---|
| Balance, July 1, 2009 | $111,967 | $12,500 | $124,467 |
| Leave earned | 52,732 | 5,410 | 58,142 |
| Leave used | (43,901) | (5,054) | (48,955) |
| Balance, June 30, 2010 | $120,798 | $12,856 | $133,654 |

## B. Debt Service Requirements

Debt service requirements on long-term debt at June 30, 2010, are as follows (amounts expressed in thousands):

| | Governmental Activities | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | General Obligation Bonds | | | Long-Term Financing with State of Maryland | | Long-Term Financing with Federal Government | | Special Obligation Bonds | |
| Fiscal Year | Principal | Interest | Interest Rate Swap Net(a) | Principal | Interest | Principal | Interest | Principal | Interest |
| 2011 | $ 57,170 | $ 25,751 | $ 6,147 | $ 256 | $33 | $ 3,285 | $ 2,339 | $ 605 | $ 6,207 |
| 2012 | 59,670 | 25,377 | 5,870 | 220 | 23 | 2,796 | 2,201 | 655 | 6,279 |
| 2013 | 49,065 | 22,036 | 5,496 | 195 | 17 | 2,894 | 2,059 | 610 | 6,690 |
| 2014 | 37,844 | 20,277 | 4,990 | 184 | 12 | 3,000 | 1,906 | 667 | 6,650 |
| 2015 | 31,892 | 18,759 | 4,482 | 182 | 7 | 3,104 | 1,744 | 730 | 6,607 |
| 2016-2020 | 155,636 | 73,531 | 16,806 | 149 | 4 | 13,650 | 5,142 | 4,896 | 30,923 |
| 2021-2025 | 165,930 | 35,796 | 3,613 | | | 13,451 | 2,558 | 9,517 | 37,043 |
| 2026-2030 | 71,095 | 8,460 | | | | 3,256 | 139 | 21,763 | 31,969 |
| 2031-2035 | 3,691 | 111 | | | | | | 33,320 | 22,493 |
| 2036-2040 | | | | | | | | 39,662 | 9,842 |
| 2041-2045 | | | | | | | | 3,780 | 291 |
| Totals | $631,993 | $230,098 | $47,404 | $1,186 | $96 | $45,436 | $18,088 | $116,205 | $164,994 |

(a) Interest Rate Swap Net payments represent estimated payments for additional interest resulting from swap agreements to counterparties for additional interest resulting from swap agreements. The additional payments were computed using rates as of June 30, 2010, assuming current interest rates remain the same for their term. As rates vary, variable rate bond interest payments and net swap payments will vary.

| | Business-type Activities | | | |
|---|---|---|---|---|
| | General Obligation Bonds | | Long-Term Financing with State of Maryland | |
| Fiscal Year | Principal | Interest | Principal | Interest |
| 2011 | $576 | $8 | $ 82 | $ 9 |
| 2012 | | | 42 | 4 |
| 2013 | | | 21 | 2 |
| Totals | $576 | $8 | $145 | $15 |

A summary of general obligation bonds outstanding and bonds authorized but unissued (amounts expressed in thousands) at June 30, 2010, are as follows:

| Purpose | Outstanding Due Dates | Outstanding Interest Rates | Outstanding Amount | Authorized But Unissued Amount |
|---|---|---|---|---|
| Fire, police and public protection | 2011 to 2016 | 4.7% to 9.0% | $ 9,998 | $ 169 |
| Off-street parking | 2011 to 2017 | 1.5% to 9.0% | 15,806 | 345 |
| Parks and recreation | 2011 to 2017 | 2.7% to 9.0% | 23,466 | 25,007 |
| Public building and facilities | 2011 to 2017 | 2.7% to 9.5% | 56,204 | 36,886 |
| Schools | 2011 to 2021 | 2.7% to 9.0% | 202,738 | 36,964 |
| Waste water and storm sewer | 2011 to 2012 | 2.5% to 9.0% | 3,642 | |
| Urban renewal and development | 2011 to 2021 | 2.7% to 9.5% | 284,465 | 78,693 |
| Water | 2011 to 2012 | 4.0% to 9.0% | 118 | |
| Highways | 2011 to 2021 | 4.7% to 9.0% | 11,068 | 220 |
| Waste disposal | 2011 to 2012 | 4.75% to 8.9% | 210 | |
| Finance | | | | 20,000 |
| Health | 2011 to 2018 | 5.125% to 5.3% | 3,340 | 4,140 |
| Unallocated | 2011 to 2012 | 4.7% to 5.5% | 21,514 | |
| Totals | | | $632,569 | $202,424 |

*Baltimore City Public School System (BCPSS) Bonds*

BCPSS has issued $25,000,000 of Series 2000 revenue bonds (the Series 2000 Bonds), maturing through the year ended June 30, 2015. The net proceeds of the Series 2000 Bonds will be used to fund various capital improvements to existing schools within the BCPSS, including technical writing projects to accommodate Internet connectivity, and various renovations and repairs to school buildings. As the BCPSS enters into capital project contracts with one or more contractors, funds are to be drawn from the Series 2000 Bonds escrow account to fund capital expenditures. Interest rates range from 4.25% to 5.125% and interest is payable semiannually on November and May 1 of each year. The Series 2000 Bonds are the debt and obligation of the BCPSS and are not a debt and obligation of, or pledge of, the faith and credit of the City of Baltimore. As of June 30, 2010, the outstanding balance on the Series 2000 Bonds is $1,780,000.

BCPSS has also issued $52,460,000 of Series 2003A revenue bonds (the Series 2003A Bonds), maturing through the year ending June 30, 2018. The net proceeds of the Series 2003A Bonds will be used to finance and refinance the costs of acquisition, construction, renovation and certain capital improvements of the BCPSS. These include various capital improvements of the existing schools within the BCPSS, renovations to facilitate the conversion of Pre K to 8 schools, and the conversion of existing large neighborhood high schools to smaller community based high schools, other capital improvements associated with alleviating overcrowding at certain facilities, water filtration equipment for installation at certain facilities with drinking water determined to have higher than normal lead content and certain other capital projects included in the fiscal year 2005 Strategic Facilities Plan approved by the School Board.

The bonds payable balance maturing on or after May 1, 2014 is subject to redemption at the option of the Board of School Commissioners on or after May 1, 2013 as a whole or in part at any time, at par plus accrued interest thereon to the date fixed for redemption.

As the BCPSS enters into the capital project contracts with one or more contractors, funds are to be drawn from the Series 2003A Bonds escrow account to fund capital expenditures. Interest rates range from 2.0% to 5.0% and interest is payable semiannually on November and May 1 of each year.

The Series 2003A Bonds are the debt and obligation of the BCPSS and are not a debt and obligation of, or pledge of, the faith and credit of the City of Baltimore. On December 17, 2009, BCPSS refunded $25,295,000 of the Series 2003A Bonds. As of June 30, 2010, the outstanding balance on the 2003A bonds is $11,185,000.

BCPSS has issued the City Schools Qualified School Construction Bonds Series 2009 (the Series 2009 Construction Bonds) in the amount of $50,800,000, maturing through the year ending June 30, 2025. The net proceeds of the Series 2009 Construction Bonds were used to fund various capital improvements to existing schools within BCPSS.

As BCPSS enters into capital project contracts with one or more contractors, funds are to be drawn from the Series 2009 Construction Bonds escrow account to fund capital expenditures. The interest rates on the bonds include a Tax Credit rate of 5.90% and an interest rate of 1.25%, and interest is payable quarterly on March 15, June 15, September 15, and December 15 of each year.

BCPSS has issued the City School Refunding Bonds Series 2009 (the Series 2009 Refunding Bonds) in the amount of $32,335,000, maturing through the year ending June 30, 2018. The proceeds of the Series 2009 Refunding Bonds were used to refund a portion of the Series 2000 and Series 2003A Bonds. The interest rate ranges from 4.00% to 5.00% and interest is payable semiannually on May 1 and November 1 of each year. As of June 30, 2010 the outstanding balance on the Series 2009 Refunding Bonds is $32,335,000.

The net proceeds of the sale, $39,700,000 ($32,335,000 from the sale of the bonds, plus the premium of $5,115,000, and unspent funds transferred from the refunded bonds of $2,283,000, minus issuance cost of $33,000), were used to purchase US government securities and deposited in an irrevocable trust with an escrow agent for the purpose of generating resources for all future debt service payments of $40,700,000 of the portion of the Series 2000 and 2003A refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The refunding resulted in a net present value savings of $1,700,000.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1,600,000. This difference, reported in the BCPSS financial statements as a deduction from bonds payable, is being charged to operations through the year 2018 using a straight-line method which approximates the effective-interest method. BCPSS completed the advance refunding to reduce its total debt service payments over the next 8 years by $1,600,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $1,700,000.

Future minimum bond payments are as follows at year ending June 30, 2010 (amounts expressed in thousands):

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2011 | $ 5,350 | $ 2,752 | $ 8,102 |
| 2012 | 5,235 | 2,545 | 7,780 |
| 2013 | 5,825 | 2,338 | 8,163 |
| 2014 | 6,095 | 2,067 | 8,162 |
| 2015 | 6,859 | 1,762 | 8,621 |
| 2016-2020 | 34,227 | 4,688 | 38,915 |
| 2021-2025 | 32,509 | 2,857 | 35,366 |
| Total | $96,100 | $19,009 | $115,109 |

## C. Capital Leases

*Primary Government*

The City has entered into various conditional purchase agreements to construct and purchase certain facilities and equipment to be used by municipal agencies. These conditional purchase agreements do not constitute a pledge of the full faith and credit or taxing power of the City and are subject to termination if sufficient funds are not appropriated by the City Council. Since termination of these agreements is not foreseen, the agreements have been capitalized. During fiscal year 2010, the City's capital lease obligations increased by $9,985,000 (which is net of new leases in the amount of $28,089,000 and lease principal payments of $18,104,000) over the fiscal year 2009 total of $159,115,000. Future minimum lease payments at June 30, 2010, are as follows (amounts expressed in thousands):

| Fiscal Year | |
|---|---|
| 2011 | $ 27,884 |
| 2012 | 29,280 |
| 2013 | 28,558 |
| 2014 | 24,252 |
| 2015 | 22,130 |
| 2016-2020 | 71,164 |
| 2021-2023 | 4,759 |
| Total minimum lease payments | 208,027 |
| Less: deferred interest | (38,927) |
| Present value minimum lease payments | $169,100 |

The following is a schedule of leased property under capital leases by major class at June 30, 2010 (amounts expressed in thousands):

| Classes of Property | |
|---|---|
| Buildings | $173,756 |
| Equipment | 217,342 |
| Total | $391,098 |

Amortization of assets recorded under capital leases is included in depreciation expense.

*Baltimore City Public School System (BCPSS)*

BCPSS has entered into a $12,370,000 fifteen year capital lease (the 1999 Lease Agreement) with First Municipal Credit Corporation (FMCC) for the purchase and repair of certain boilers at various school locations. Under the terms of the 1999 Lease Agreement, funds were to be deposited into an "Acquisition Account." As the BCPSS entered into purchase agreements with one or more vendors related to the purchase and repair of certain boilers, monies were to be drawn from an "Acquisition Account" to fund actual purchases. As of June 30, 2010, the outstanding balance on the 1999 lease is $6,367,000.

Additionally, BCPSS has entered into a $25,000,000 capital lease agreement (the Master Equipment Lease) with US Bank, National Association, for the lease of "Equipment," which includes General Equipment ($1,500,000 at an interest rate of 3.06% for 7 years), Oracle Equipment ($13,000,000 at an interest rate of 3.56% for 10 years), Vehicles ($4,500,000 at an interest rate of 2.68% for 5 years) and Computers ($6,000,000 at an interest rate of 2.68% for 5 years). Under the terms of the lease, funds were to be deposited into four separate Escrow Fund Accounts at the US Bank. As the Board entered into purchase agreements with one or more vendors, monies were to be drawn from the Escrow Accounts to fund actual purchases. Interest earned on the escrow balance remains in the escrow account and is to be used for the same purposes as the principal. As of June 30, 2010 the outstanding balance on the 2003 Master Lease is $5,145,000 .

On June 13, 2006, BCPSS contracted with six (6) financial institutions for the ability to issue capital leases to help finance its Energy System Conservation Program (ESCO) on a competitive basis. Funds available on the master leases after all addendums have been issued will not be used and the contracts could be terminated at that time. During fiscal

year 2010, the System issued $60,300,000 in various ESCO projects. As of June 30, 2010 the outstanding balance on the 2006 Master Lease Addendums is $51,784,000.

Future minimum lease payments as of June 30, 2010, are as follows (expressed in thousands):

| Fiscal Year | Capital Leases Principal |
|---|---|
| 2011 | $ 9,248 |
| 2012 | 8,680 |
| 2013 | 8,879 |
| 2014 | 9,067 |
| 2015 | 8,053 |
| 2016-2020 | 25,832 |
| 2021-2025 | 7,622 |
| Total minimum lease payments | 77,381 |
| Less: deferred interest | (14,085) |
| Present value minimum lease payments | $ 63,296 |

## 8. Revenue Bonds

*Water and Waste Water Revenue Bonds*

The City has issued revenue bonds, the proceeds of which were used to provide funds for capital improvements to water and waste water facilities. Assets with a carrying value of $108,080,000 at June 30, 2010, and revenues of the Water and Waste Water Funds are pledged as collateral for the bonds. Bonds outstanding as of June 30, 2010, consist of (amounts expressed in thousands):

| | Water Utility Fund | Waste Water Utility Fund |
|---|---|---|
| Term bonds series 1993-A with interest at 5.60%, payable semiannually, due July 1, 2013 | $10,000 | $ 5,800 |
| Term bonds series 1993-A with interest at 5.65%, payable semiannually, due July 1, 2020 | 23,900 | 14,000 |
| Term bonds series 1994-A with interest at 6.00%, payable semiannually, due July 1, 2015 | 6,250 | 4,330 |
| Term bonds series 1994-A with interest at 5.00%, payable semiannually, due July 1, 2022 | | 7,115 |
| Term bonds series 1994-A with interest at 5.00%, payable semiannually, due July 1, 2024 | 10,280 | |
| Serial bonds series 1994-B maturing in annual installments from $332,000 to $406,000 through February 1, 2015, with interest rate at 2.25%, payable semiannually | | 1,940 |
| Serial bonds series 1994-C maturing in annual installments from $310,000 to $387,000 through February 1, 2015, with interest rate at 2.50%, payable semiannually | | 1,843 |
| Serial bonds series 1994-D maturing in annual installments from $215,000 to $296,000 through February 1, 2015, with interest rate at 3.60%, payable semiannually | | 1,379 |
| Serial bonds series 1996-B maturing in annual installments from $148,000 to $208,000 through February 1, 2017, with interest at 3.17%, payable semiannually | | 1,330 |
| Serial bonds series 1998-A maturing in annual installments from $287,000 to $414,000 through February 1, 2019, with interest at 2.87%, payable semiannually | | 3,340 |
| Serial bonds series 1999-A maturing in annual installments from $122,000 to $167,000 through February 1, 2019, with interest rate at 2.52%, payable semiannually | | 1,370 |
| Serial bonds series 1999-B maturing in annual installments from $433,000 to $652,000 through February 1, 2021, with interest rate at 2.61%, payable semiannually | | 5,767 |
| Serial bonds series 2001-A maturing in annual installments from $569,000 to $819,000 through February 1, 2022, with interest rate at 2.30%, payable semiannually | | 8,509 |
| Serial bonds series 2002-A maturing in annual installments from $1,145,000 to $1,660,000 from July 1, 2010 through July 1, 2021, with variable interest through July 1, 2016 and a fixed rate of 4.85% to 5.00% thereafter payable semiannually | | 17,265 |
| Serial bonds series 2002-A maturing in annual installments from $1,855,000 to $1,975,000 from July 1, 2010 through July 1, 2021, with variable interest through July 1, 2016 and a fixed rate of 4.85% to 5.00% thereafter payable semiannually | 22,745 | |
| Term bonds series 2002-A with interest at 5.00%, payable semiannually, due July 1, 2023 | 4,250 | 2,470 |
| Term bonds series 2002-A with interest at 5.00%, payable semiannually, due July 1, 2027 | 9,845 | 6,070 |
| Term bonds series 2002-A with interest at 5.20%, payable semiannually, due July 1, 2032 | | 9,480 |
| Term bonds series 2002-A with interest at 5.125%, payable semiannually, due July 1, 2032 | 15,385 | |
| Term bonds series 2002-A with interest at 5.125%, payable semiannually, due July 1, 2042 | 64,840 | 31,630 |
| Auction rate notes series 2002-B, payable monthly, due July 1, 2032 | | 25,300 |
| Auction rate notes series 2002-B, payable monthly, due July 1, 2037 | 18,300 | |
| Auction rate notes series 2002-C, payable monthly, due July 1, 2032 | | 46,900 |
| Auction rate notes series 2002-C, payable monthly, due July 1, 2037 | 40,800 | |
| Serial bonds series 2003-A maturing in annual installments from $1,930,000 to $2,095,000 from July 1, 2023 through July 1, 2025, with interest rate at 4.125% to 4.20%, payable semiannually | | 6,035 |
| Term bonds series 2003-A with interest at 4.20%, payable semiannually, due July 1, 2028 | 12,835 | |
| Serial bonds series 2003-B maturing in annual installments from $308,000 to $984,000 through February 1, 2024, with interest rate at 0.40%, payable semiannually | | 4,140 |
| 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 | 1,446 | |
| Auction rate notes series 2004-A, payable monthly, due July 1, 2034 | | 17,500 |
| 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 | 4,589 | |
| Serial bonds series 2004-B maturing in annual installments from $917,000 to $984,000 through February 1, 2024, with interest rate at 0.45%, payable semiannually | | 13,421 |
| Auction rate notes series 2004-B, payable monthly, due July 1, 2034 | 47,500 | |
| Serial bonds series 2004-C maturing in annual installments from $846,000 to $984,000 through February 1, 2024, with interest rate at 0.25%, payable semiannually | | 12,381 |

| | Water Utility Fund | Waste Water Utility Fund |
|---|---|---|
| Serial bonds series 2005-A maturing in annual installments from $984,000 to $1,030,000 through February 1, 2024, with interest rate at 0.25%, payable semiannually | | 14,093 |
| 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 | |
| Serial bonds series 2005-B maturing in annual installments from $750,000 to $1,010,000 from July 1, 2010 through July 1, 2016, with interest rate of 3.25% to 5.00%, payable semiannually | | 15,090 |
| Serial bonds series 2005-C maturing in annual installments from $599,000 to $735,000 through July 1, 2012, with interest at 0.70%, payable semiannually | | 1,432 |
| Serial bonds series 2006-A maturing in annual installments from $515,000 to $1,035,000 from July 1, 2010 through July 1, 2026, with interest rates of 4.00% to 4.50%, payable semiannually | 12,795 | |
| Term bond series 2006-A with interest at 4.625%, payable semiannually, due July 1, 2031 | 5,930 | |
| Term bond series 2006-A with interest at 4.625%, payable semiannually, due July 1, 2036 | 7,435 | |
| Serial bonds series 2006-A maturing in annual installments from $1,380,000 to $1,561,000 through February 1, 2026, with interest rate at 0.40%, payable semiannually | | 24,240 |
| Serial bonds series 2006-B maturing in annual installments from $338,000 to $362,000 through February 1, 2026, with interest rate at 0.40%, payable semiannually | | 5,447 |
| Serial bonds series 2006-C maturing in annual installments from $990,000 to $2,090,000 from July 1, 2010 through July 1, 2026, with interest rates of 4.00% to 5.00%, payable semiannually | | 25,115 |
| Term bond series 2006-C with interest at 5.00%, payable semiannually, due July 1, 2029 | | 6,920 |
| 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 | 2,040 | |
| Serial bonds series 2007-A maturing in annual installments from $1,833,000 to $2,184,000 through February 1, 2026, with interest rate at 0.40%, payable semiannually | | 33,913 |
| Serial bonds series 2007-B maturing in annual installments from $134,000 to $161,000 through February 1, 2027, with interest rate at 0.40%, payable semiannually | | 2,655 |
| Serial bonds series 2007-B maturing in annual installments from $30,000 to $3,860,000 from July 1, 2010 through July 1, 2027, with interest rates of 3.60% to 4.50%, payable semiannually | 19,805 | |
| Term bond series 2007-B with interest at 4.50%, payable semiannually, due July 1, 2032 | 22,995 | |
| Term bond series 2007-B with interest at 4.50%, payable semiannually, due July 1, 2035 | 7,910 | |
| Serial bonds series 2007-C maturing in annual installments from $35,000 to $3,935,000 from July 1, 2010 through July 1, 2027, with interest rates of 3.60% to 4.50%, payable semiannually | | 11,045 |
| Term bond series 2007-C with interest at 4.50%, payable semiannually, due July 1, 2032 | | 29,795 |
| Term bond series 2007-C with interest at 4.50%, payable semiannually, due July 1, 2036 | | 19,255 |
| Serial bonds series 2007-C maturing in annual installments from $740,000 to $1,570,000 from July 1, 2010 through July 1, 2027, with interest rates of 3.75% to 5.00%, payable semiannually | 19,530 | |
| Term bond series 2007-C with interest at 5.00%, payable semiannually, due July 1, 2032 | 9,115 | |
| Term bond series 2007-C with interest at 5.00%, payable semiannually, due July 1, 2037 | 11,630 | |
| Serial bonds series 2007-D maturing in annual installments from $1,890,000 to $4,330,000 from July 1, 2010 through July 1, 2027, with interest rates of 5.00%, payable semiannually | | 53,140 |
| Term bond series 2007-D with interest at 5.00%, payable semiannually, due July 1, 2032 | | 25,120 |
| Term bond series 2007-D with interest at 5.00%, payable semiannually, due July 1, 2037 | | 32,050 |
| Serial bonds series 2008-A maturing in annual installments from $475,000 to $1,005,000 from July 1, 2010 through July 1, 2028, with interest rates of 2.00% to 4.50%, payable semiannually | 13,695 | |
| Term bond series 2008-A with interest at 4.625%, payable semiannually, due July 1, 2033 | 5,740 | |
| Term bond series 2008-A with interest at 4.73%, payable semiannually, due July 1, 2038 | 1,115 | |
| Term bond series 2008-A with interest at 5.00%, payable semiannually, due July 1, 2038 | 6,150 | |
| Serial bonds series 2008-A maturing in annual installments from $475,000 to $1,005,000 from July 1, 2010 through July 1, 2028, with interest rates of 2.00% to 5.00%, payable semiannually | | 27,915 |
| Term bond series 2008-A with interest at 5.00%, payable semiannually, due July 1, 2033 | | 12,205 |
| Term bond series 2008-A with interest at 5.00%, payable semiannually, due July 1, 2038 | | 15,575 |
| Serial bonds series 2009-A maturing in annual installments from $475,000 to $1,005,000 from July 1, 2010 through July 1, 2021, with interest rates of 2.00% to 4.50%, payable semiannually | 5,985 | |
| Term bond series 2009-A with interest at 5.00%, payable semiannually, due July 1, 2024 | 1,220 | |
| Term bond series 2009-A with interest at 5.125%, payable semiannually, due July 1, 2029 | 3,630 | |
| Term bond series 2009-A with interest at 5.375%, payable semiannually, due July 1, 2034 | 4,680 | |
| Term bond series 2009-A with interest at 5.75%, payable semiannually, due July 1, 2039 | 6,120 | |
| Serial bonds series 2009-A maturing in annual installments of $426,000 from February 1, 2011 through February 1, 2029, with an interest rate at 0.00% | | 8,098 |
| Serial bonds series 2009-B maturing in annual installments of $95,000 from February 1, 2012 through February 1, 2030, with an interest rate at 0.00% | | 1,814 |
| Serial bonds series 2009-B maturing in annual installments of $586,000 from February 1, 2015 through February 1, 2042, with an interest rate of 0.00% | 17,000 | |
| Serial bonds series 2009-C maturing in annual installments from $370,000 to $570,000 from July 1, 2010 through July 1, 2022, with interest rates of 2.00% to 4.50%, payable semiannually | | 7,430 |
| Term bond series 2009-C with interest at 5.00%, payable semiannually, due July 1, 2024 | | 1,720 |
| Term bond series 2009-C with interest at 5.00%, payable semiannually, due July 1, 2029 | | 5,115 |
| Term bond series 2009-C with interest at 5.125%, payable semiannually, due July 1, 2034 | | 6,545 |
| Term bond series 2009-C with interest at 5.625%, payable semiannually, due July 1, 2039 | | 8,490 |
| Serial bonds series 2009-E maturing in annual installments of $158,000 from February 1, 2014 through February 1, 2032, with an interest rate of 0.00% | | 3,000 |
| Serial bonds series 2010-A maturing in annual installments of $16,000 to $37,000 from February 1, 2011 through February 1, 2040, with an interest rate of 0.00% | | 750 |
| | 479,155 | 647,282 |
| Less: unamortized charges | 7,305 | 3,042 |
| | $471,850 | $644,240 |

At June 30, 2010, the Water Utility fund had $106,600,000 of auction rate notes outstanding. 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 was in the 1% range or less.

At June 30, 2010, the Waste Water Utility fund had $89,700,000 of auction rate notes outstanding. 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 interest rate in the event of a failed auction on these notes was in the range of 1% or less.

*Parking Facilities Revenue Bonds*

The City has issued various funding and refunding revenue bonds, the proceeds of which were used to finance construction of parking facilities and refinance existing debt of the Parking Facilities Fund. Assets with a carrying value of $16,676,000 at June 30, 2010, and revenues of the Parking Facilities Fund are pledged as collateral for the bonds. Bonds outstanding as of June 30, 2010, consist of (amounts expressed in thousands):

| | |
|---|---|
| Serial bonds series 2005 maturing in annual installments from $400,000 to $1,590,000 through July 1, 2015 with interest rates ranging from 4.69% to 5.07%, payable semiannually | $ 10,475 |
| Term bonds series 1997-A with interest at 5.90%, payable semiannually, due July 1, 2013 | 17,900 |
| Term bonds series 1997-A with interest at 6.00%, payable semiannually, due July 1, 2018 | 29,040 |
| Term bonds series 1998-A with interest at 4.90%, payable semiannually, due July 1, 2011 | 45 |
| Term bonds series 1998-A with interest at 5.25%, payable semiannually, due July 1, 2014 | 1,770 |
| Term bonds series 1998-A with interest at 5.25%, payable semiannually, due July 1, 2017 | 2,060 |
| Term bonds series 1998-A with interest at 5.25%, payable semiannually, due July 1, 2021 | 3,300 |
| Term bonds series 2005 with interest at 5.27%, payable semiannually, due July 1, 2018 | 5,315 |
| Term bonds series 2005 with interest at 5.30%, payable semiannually, due July 1, 2027 | 10,470 |
| Term bonds series 2005 with interest at 5.62%, payable semiannually, due July 1, 2035 | 1,000 |
| Variable rate demand bonds series 2008, payable weekly, due July 1, 2032 | 76,585 |
| | 157,960 |
| Less: unamortized charges | 3,981 |
| | $153,979 |

The City has $76,585,000 of Series 2008 refunding taxable variable rate demand revenue bonds outstanding as of June 30, 2010. The bonds mature serially starting on July 1, 2010 through July 1, 2032. The Series 2008 Bonds are subject to redemption prior to maturity at anytime, at a redemption price of 100% of the principal amount plus interest accrued to the redemption date. The Series 2008 Bonds annual principal amounts range from $915,000 to $7,965,000.

The bonds bear interest at a variable rate that is reset by the Remarketing Agent on a weekly basis. Initially, the Remarketing Agent will use a “Dutch Auction” to set the weekly rate that will be used to remarket the bonds. Under the terms of the indenture, the City at its options may change the bond rate to a monthly or long-term rate at any time until maturity upon notification of the bondholders.

In conjunction with the issuance of the bonds, Bank of America, NA (Bank) issued a direct pay letter of credit in the amount of the Series 2008 Bonds available principal and interest commitment in favor of the City and Manufacturer and Traders Trust Company (formerly Allfirst Trust Company National Association) as trustee. The Agreement expires November 19, 2011, but can be extended for additional years. The existing Agreement permits the fiscal agent to draw amounts necessary to pay the principal portion and related accrued interest on the bonds tendered for purchase and not remarketed. The interest rate on draws made under this agreement is a defined base rate plus, up to an additional 2.00% depending on the terms of the draw.

The City is required to pay the Bank’s fee throughout the effectiveness of the Agreement equal to 0.58% per annum of the average daily amount of the available commitment.

Since issuance of the bonds, no draws have been made under the Agreement, and no draws were outstanding at June 30, 2010.

*Industrial Development Revenue Bonds*

The City has $86,100,000 variable rate demand revenue bonds Series 1986 outstanding as of June 30, 2010. These bonds were issued through the Baltimore Industrial Development Authority of the Mayor and City Council (IDA). The purpose of these bonds is to finance various municipal capital projects. The bonds mature on August 1, 2016, but are subject to optional or mandatory redemptions in whole or in part prior to maturity.

The bonds bear interest at a variable rate that is reset by the Remarketing Agent on a weekly basis. During fiscal year 2010, the variable interest rate paid by the City on these bonds ranged from 0.25% to 0.52%. It is the objective of the

Remarketing Agent to set interest rates high enough to assure that the bonds are readily marketable, yet maintain the lowest possible interest cost for the IDA.

After the expiration of the letter of credit issued in conjunction with the issuance of the bonds, Bayerische Landesbank (BL) issued an irrevocable letter of credit in the amount of $88,223,014 in favor of the City and M&T Bank as trustee and The Chase Manhattan Bank as fiscal agent for the bondholders. The letter of credit will expire on November 30, 2015. The City may request an extension beyond November 30, 2015. The existing letter of credit permits the fiscal agent to draw amounts necessary to pay the principal portion and related accrued interest on bonds when tendered for purchase and not remarketed. Pursuant to the letter of credit agreement between the City, BL and the fiscal agent, the issuer is required to reimburse BL the amount drawn upon remarketing. If the takeout agreement were to be exercised because the outstanding bonds in the amount of $86,100,000 of demand bonds was put and not resold, the City would be required to pay approximately $6,888,000 per year through the expiration of the agreement. The interest rate draws made from the letter of credit is at BL's prime interest rate.

The City is required to pay BL a fee throughout the period of effectiveness of the letter of credit equal to 0.35% per annum of the daily average unutilized amount and 0.2% per annum of the daily average utilized amount.

During fiscal year 2010, the City made no draws under the letter of credit and no amounts drawn against the letter of credit were outstanding at June 30, 2010.

*Convention Center Refunding Revenue Bonds*

The Convention Center Refunding Revenue Bonds, Series 1998 were issued May 1, 1998 and are special, limited obligations of the City to refund the $56,385,000 Mayor and City Council Convention Center Revenue Bonds Series 1994. The bonds are payable solely from the revenues which consist of certain hotel taxes and certain receipts derived from the ownership and operation of the Baltimore Convention Center. These bonds include $22,915,000 in serial bonds, which are due to mature on September 1, in each of the years 2009 to 2012, inclusive; $6,695,000 in 5.5% term bonds due to mature on September 1, 2014; $3,625,000 in 5.5% term bonds due to mature on September 1, 2015 and $16,485,000 in 5.0% term bonds due to mature on September 1, 2019. Interest on the bonds is payable on March 1 and September 1 in each year. The bonds maturing on or after September 1, 2009 are subject to redemption prior to maturity beginning on or after September 1, 2008 at redemption prices ranging from 102% to 100% of the principal amount. The term bonds due September 1, 2014 are subject to redemption at par prior to maturity by operation of a sinking fund on or after September 1, 2013, at annual principal amounts ranging from $3,260,000 to $3,345,000. The term bonds due September 1, 2019 are subject to redemption at par prior to maturity by operation of a sinking fund on or after September 1, 2016, at annual principal amounts ranging from $3,825,000 to $4,425,000. These revenue bonds have been recorded in governmental activities because they are expected to be paid by general revenues.

*Stormwater Special Revenue Bond*

The City has issued a Stormwater Special Revenue Bond, Series 2004 in the amount of $6,881,000. This bond will fund various City stormwater capital projects associated with road construction. The bond is secured by a pledge of the City's share of state highway user revenues.

*County Transportation Revenue Bonds*

The City has entered into agreements with the State of Maryland to borrow $105,000,000 in County Transportation Revenue Bonds. The proceeds from these bonds will be used to fund certain highway improvements throughout the City. These bonds are secured by a pledge of the City's share of the highway user revenues.

*Convention Center Hotel Revenue Bonds*

The City issued Convention Center Hotel Revenue Bonds in the amount of $300,940,000. The proceeds of these bonds were used to finance the acquisition, demolition, construction and equipping of a convention center hotel in the City. The bonds are secured by pledges of revenues from the operation of the hotel, certain City hotel taxes and limited guarantees from the hotel operator. Bonds outstanding at June 30, 2010, consist of (amounts expressed in thousands):

| | |
|---|---|
| Serial bond series 2006 A maturing in installments from $1,680,000 to $9,345,000 through September 2028, with interest rates ranging from 3.61% to 4.38% payable semiannually | $ 84,170 |
| Term bonds series 2006 A with interest at 4.60% due September 1, 2030 | 20,935 |
| Term bonds series 2006 A with interest at 5.00% due September 1, 2032 | 24,080 |
| Term bonds series 2006 A with interest at 5.25% due September 1, 2039 | 118,315 |
| Term bonds series 2006 B with interest at 5.00% due September 1, 2016 | 2,555 |
| Term bonds series 2006 B with interest at 5.875% due September 1, 2039 | 50,885 |
| Totals | $300,940 |

Changes in revenue bond obligations for the year end June 30, 2010, are as follows (amounts expressed in thousands):

| | June 30, 2009 | New Debt Issues | Debt Retired | June 30, 2010 | Due within One Year |
|---|---|---|---|---|---|
| *Governmental Activities* | | | | | |
| Convention Center and Hotel | $ 339,190 | | $ 2,645 | $ 336,545 | $ 2,770 |
| Storm Water | 5,829 | | 354 | 5,475 | 355 |
| Transportation | 95,060 | | 5,925 | 89,135 | 6,020 |
| Total Governmental Activities | $ 440,079 | | $ 8,924 | 431,155 | $ 9,145 |
| *Business-Type Activities* | | | | | |
| Water | $ 468,419 | $17,000 | $ 6,264 | $ 479,155 | $ 8,036 |
| Waste Water | 662,643 | 3,750 | 19,111 | 647,282 | 20,105 |
| Parking Facilities | 164,875 | | 6,915 | 157,960 | 7,250 |
| Industrial Development | 100,000 | | 13,900 | 86,100 | |
| Total Business-Type Activities | $1,395,937 | $20,750 | $46,190 | $1,370,497 | $35,391 |

Principal maturities and interest of revenue bonds, shown at gross, are as follows (amounts expressed in thousands):

| | Governmental Activities | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Baltimore Hotel Corporation | | Convention Center | | Storm Water | | Transportation Revenue Bonds | |
| Fiscal Year | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2011 | | $ 15,886 | $ 2,770 | $1,796 | $ 355 | $ 22 | $ 6,020 | $ 3,566 |
| 2012 | $ 2,065 | 15,886 | 2,935 | 1,637 | 356 | 20 | 6,285 | 3,375 |
| 2013 | 2,420 | 15,783 | 3,095 | 1,475 | 358 | 19 | 6,565 | 3,177 |
| 2014 | 2,795 | 15,651 | 3,260 | 1,302 | 359 | 18 | 6,860 | 2,981 |
| 2015 | 3,190 | 15,522 | 3,435 | 1,118 | 361 | 16 | 7,185 | 2,750 |
| 2016-2020 | 17,250 | 60,531 | 15,685 | 2,512 | 1,457 | 50 | 30,070 | 7,696 |
| 2021-2025 | 34,155 | 68,932 | 4,425 | 111 | 1,854 | 30 | 26,150 | 3,148 |
| 2026-2030 | 52,590 | 57,918 | | | 375 | 2 | | |
| 2031-2035 | 76,290 | 42,169 | | | | | | |
| 2036-2040 | 110,185 | 18,712 | | | | | | |
| Totals | $300,940 | $326,990 | $35,605 | $9,951 | $5,475 | $177 | $89,135 | $26,693 |

| | Business-type Activities | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Water Utility | | | Waste Water Utility | | | Parking Facilities | | | Industrial Development Authority | | |
| Fiscal Year | Principal | Interest | Swap Interest Rate Net(a) | Principal | Interest | Swap Interest Rate Net(a) | Principal | Interest | Swap Interest Rate Net(a) | Principal | Interest | Swap Interest Rate Net(a) |
| 2011 | $ 8,036 | $ 16,857 | $ 4,920 | $ 20,105 | $ 20,625 | $ 4,091 | $ 7,250 | $ 4,679 | $ 4,316 | | $ 319 | $ 2,758 |
| 2012 | 8,937 | 16,533 | 4,865 | 20,704 | 20,150 | 4,052 | 7,690 | 4,316 | 4,262 | | 319 | 2,758 |
| 2013 | 9,428 | 16,188 | 4,794 | 21,188 | 19,644 | 4,008 | 7,650 | 3,942 | 4,202 | | 319 | 2,758 |
| 2014 | 9,835 | 15,823 | 4,717 | 22,258 | 19,112 | 3,950 | 8,035 | 3,558 | 4,140 | | 318 | 2,758 |
| 2015 | 11,023 | 15,437 | 4,633 | 22,830 | 18,555 | 3,880 | 8,515 | 3,150 | 4,074 | | 318 | 2,757 |
| 2016-2020 | 63,323 | 70,807 | 21,379 | 120,038 | 83,979 | 17,522 | 43,055 | 8,904 | 19,201 | $86,100 | 478 | 4,136 |
| 2021-2025 | 72,933 | 58,410 | 18,021 | 119,790 | 68,108 | 13,527 | 22,275 | 3,196 | 16,180 | | | |
| 2026-2030 | 84,754 | 45,503 | 13,738 | 110,632 | 51,278 | 8,142 | 30,215 | 1,202 | 10,483 | | | |
| 2031-2035 | 107,297 | 29,443 | 7,768 | 113,952 | 30,417 | 1,852 | 23,125 | 246 | 1,975 | | | |
| 2036-2040 | 73,400 | 14,032 | 785 | 63,055 | 9,550 | | 150 | 4 | | | | |
| 2041-2045 | 30,189 | 2,239 | (75) | 12,730 | 1,118 | | | | | | | |
| Totals | $479,155 | $301,272 | $85,545 | $647,282 | $342,536 | $61,024 | $157,960 | $33,197 | $68,833 | $86,100 | $2,071 | $17,925 |

(a) Interest Rate Swap Net payments represent estimated payments for additional interest resulting from swap agreements to counterparties for additional interest resulting from swap agreements. The additional payments were computed using rates as of June 30, 2010, assuming current interest rates remain the same for their term. As rates vary, variable rate bond interest payments and net swap payments will vary.

## 9. Pledged Revenue

*The Water and Waste Water Utility Funds*

The Water and Waste Water Utility Funds have pledged future customer revenues to repay $479,155,000 and $647,282,000 of revenue bond debt, respectively. Proceeds from these revenue bonds were used to build and improve various aspects of the City's Water and Waste Water Utility systems. The bonds are payable solely from the revenues of the two Utility Funds 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 and Waste Water Utility Funds are $865,972,000 and $1,050,842,000 respectively. Principal and interest paid for the current year and current pledged revenue for the Water Utility Fund were $26,466,000 and $131,397,000, respectively. Principal and interest paid for the current year and current pledged revenue for the Waste Water Utility Fund were $44,740,000 and $170,329,000, respectively.

*The Parking Facility Fund*

The Parking Facility fund has pledged future revenue from parking fees and fines to repay $157,960,000 of revenue bond debt. Proceeds from these revenue bonds were used to construct various garages throughout the City. The bonds are payable solely from the pledged revenue and are payable through 2038. Annual principal and interest payments are expected to require less than 24% of pledged revenue. Total principal and interest remaining to be paid on these revenue bonds is $259,990,000. For the current year, principal and interest payments and current pledged revenue were $16,267,000 and $67,760,000, respectively.

*Tax Increment Revenue Pledges*

The City has pledged a portion of future property tax revenues to repay $116,205,000 in incremental property taxes bonds issued to finance various development projects. The pledged revenue is limited to the incremental taxes on the projects financed by the bond. Should the incremental taxes fail to generate the sufficient incremental taxes to pay principal and interest requirements, the City has established special taxing districts to generate additional taxes sufficient to pay principal and interest on the bonds. Total principal and interest remaining to be paid on these bonds is $281,199,000. For the current year, principal and interest payments and current pledged revenue were $2,035,000 and $6,668,000, respectively.

*Baltimore Hotel Corporation*

The City has pledged a portion of its hotel occupancy tax as security for revenue bonds, the proceeds of which were used to build the City's Convention Center Headquarters Hotel. The City's hotel occupancy tax is one of several pledged revenue sources the City used to issue $300,940,000 Convention Center Headquarter Hotel Bonds. Following the net

operating income and the property tax increment for the Hotel, the site specific occupancy tax is pledged to pay principal and interest payments on the bonds. If these sources are insufficient, 15% (of the maximum annual debt service) of the citywide occupancy tax is also pledged. If a shortfall still remains, and following a Hilton Hotel guarantee of 10% of the Maximum Annual Debt Service, 10% (maximum annual debt service) is pledged. The Hotel opened August 22, 2008. Total principal and interest remaining to be paid on these bonds is $627,930,000. For the current year, there were no principal payments due, and interest payments were $15,886,000.

## 10. Prior-Year Defeasance of Debt

In prior years, the City defeased certain revenue bonds and other obligations 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 City's financial statements. At June 30, 2010, $259,100,000 of debt outstanding is considered defeased.

## 11. 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 financing (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 rating of the outstanding swaps as of June 30, 2010, were as follows. The notional amounts of the swaps match the principal amount of the associated debt. The City's swap agreements contain scheduled reductions to outstanding notional amounts that are designed to track the scheduled or anticipated reductions in the associated "bonds payable" category.

## Hedged Derivative Instruments

At June 30, 2010, the City had deferred liabilities for various hedged derivative instruments with the total fair values of these instruments in the amounts of $21,396,000 and $91,878,000, for governmental and business-type activities, respectively. The notional amounts for these hedged derivative instruments at June 30, 2010, were $297,945,000 and $384,015,000, for governmental and business-type activities, respectively. During fiscal year 2010, the fair values of these instruments decreased $5,798,000 and $16,080,340, for governmental and business-type activities, respectively. All hedges are cash flow hedges. The following schedule provides a detailed analysis of derivative instruments held at June 30, 2010:

| Outstanding Bonds | Effective Date | Termination Date | Interest Rate Paid by City | Interest Rate Received | Notional Amount | Fair Value | Counterparty Credit Rating |
|---|---|---|---|---|---|---|---|
| **Hedged Derivative Instruments — Governmental Activities** | | | | | | | |
| **General Obligation Bonds** | | | | | | | |
| *Floating to Fixed Swaps* | | | | | | | |
| 2001 Bonds | 6/27/2001 | 10/1/2020 | 4.595% | Bond Rate/BMA | $ 20,400,000 | $ (2,616,700) | A/A2 |
| 2001 Bonds | 6/27/2001 | 10/1/2022 | 5.060% | Bond Rate/BMA | 22,500,000 | (4,629,869) | A/A2 |
| 2003 Bonds | 12/23/2009 | 10/15/2020 | 2.950% | BMA/67% LIBOR | 63,750,000 | (3,957,879) | AA-/Aa1 |
| 2003 Bonds | 12/23/2009 | 10/15/2022 | 3.450% | BMA/67% LIBOR | 47,350,000 | (6,372,603) | AA-/Aa1 |
| 2003 Bonds | 1/15/2010 | 10/15/2020 | 4.215% | 1M LIBOR | 15,690,000 | (1,327,620) | A+/Aa3 |
| 2003 Bonds | 1/15/2010 | 10/15/2022 | 4.970% | 1M LIBOR | 17,155,000 | (3,258,096) | A+/Aa3 |
| *Basis Swaps:* | | | | | | | |
| 2003 Bonds | 6/29/2004 | 10/15/2020 | 67% LIBOR | 60% LIBOR + 29.5 bps | 63,750,000 | 382,225 | A+/Aa3 |
| 2003 Bonds | 6/29/2004 | 10/15/2020 | 67% LIBOR | 60% LIBOR + 29.5 bps | 47,350,000 | 384,737 | A+/Aa3 |
| **Total Governmental Activities** | | | | | $297,945,000 | $(21,395,805) | |
| **Hedged Derivative Instruments — Business-type Activities** | | | | | | | |
| **Industrial Development Authority Revenue Bonds Series** | | | | | | | |
| *Floating to Fixed Swaps* | | | | | | | |
| 1986 Revenue Bonds | 11/1/2001 | 8/1/2016 | 3.4975% | BMA Index | $ 86,100,000 | $ (9,486,718) | A/A2 |
| **Water Utility Fund Revenue Bonds Series** | | | | | | | |
| *Floating to Fixed Swaps* | | | | | | | |
| 2002 Revenue Bonds | 5/7/2002 | 7/1/2037 | 4.555% | BMA/67% LIBOR | $ 59,100,000 | $(18,832,444) | A/A2 |
| 2002 Revenue Bonds | 5/7/2002 | 7/1/2010 | 4.00% | Bond Rate/CPI | 1,900,000 | (9,461) | A/A2 |
| 2002 Revenue Bonds | 5/7/2002 | 7/1/2011 | 4.10% | Bond Rate/CPI | 1,955,000 | (45,167) | A/A2 |
| 2002 Revenue Bonds | 5/7/2002 | 7/1/2012 | 4.20% | Bond Rate/CPI | 2,110,000 | (75,564) | A/A2 |
| 2002 Revenue Bonds | 5/7/2002 | 7/1/2013 | 4.30% | Bond Rate/CPI | 2,170,000 | (94,996) | A/A2 |
| 2002 Revenue Bonds | 5/7/2002 | 7/1/2014 | 4.39% | Bond Rate/CPI | 2,325,000 | (117,330) | A/A2 |
| 2002 Revenue Bonds | 5/7/2002 | 7/1/2015 | 4.50% | Bond Rate/CPI | 1,615,000 | (89,140) | A/A2 |
| 2002 Revenue Bonds | 5/7/2002 | 7/1/2016 | 4.61% | Bond Rate/CPI | 1,685,000 | (98,806) | A/A2 |
| 2004 Revenue Bonds | 6/1/2004 | 7/1/2034 | 5.21% | BMA Index | 47,500,000 | (13,202,463) | A/A2 |
| Total Water Utility Fund | | | | | $120,360,000 | $(32,565,371) | |
| **Wastewater Utility Fund Revenue Bonds Series** | | | | | | | |
| *Floating to Fixed Swaps:* | | | | | | | |
| 2002 Revenue Bonds | 5/7/2002 | 7/1/2032 | 4.555% | BMA/67% LIBOR | $ 72,200,000 | $(19,363,599) | A/A2 |
| 2002 Revenue Bonds | 5/7/2002 | 7/1/2010 | 4.00% | Bond Rate/CPI | 1,785,000 | (8,888) | A/A2 |
| 2002 Revenue Bonds | 5/7/2002 | 7/1/2011 | 4.10% | Bond Rate/CPI | 1,820,000 | (42,048) | A/A2 |
| 2002 Revenue Bonds | 5/7/2002 | 7/1/2012 | 4.20% | Bond Rate/CPI | 1,930,000 | (69,118) | A/A2 |
| 2002 Revenue Bonds | 5/7/2002 | 7/1/2013 | 4.30% | Bond Rate/CPI | 1,960,000 | (85,803) | A/A2 |
| 2002 Revenue Bonds | 5/7/2002 | 7/1/2014 | 4.39% | Bond Rate/CPI | 2,040,000 | (102,948) | A/A2 |
| 2002 Revenue Bonds | 5/7/2002 | 7/1/2015 | 4.50% | Bond Rate/CPI | 1,240,000 | (68,441) | A/A2 |
| 2002 Revenue Bonds | 5/7/2002 | 7/1/2016 | 4.61% | Bond Rate/CPI | 1,280,000 | (75,057) | A/A2 |
| 2004 Revenue Bonds | 6/1/2004 | 7/1/2034 | 5.21% | BMA Index | 17,500,000 | (5,060,919) | A/A2 |
| Total Wastewater Utility Fund | | | | | $101,755,000 | $(24,876,821) | |
| **Parking Revenue Bonds Series** | | | | | | | |
| *Floating to Fixed Swaps:* | | | | | | | |
| 2002 Bonds | 6/19/2002 | 7/1/2032 | 6.098% | 1M LIBOR | $ 66,700,000 | $(22,803,645) | A+/Aa3 |
| 2002 Bonds | 6/19/2002 | 7/1/2025 | 5.915% | 1M LIBOR | 9,100,000 | (2,145,425) | A+/Aa3 |
| Total Parking Facilities Fund | | | | | $ 75,800,000 | $(24,949,070) | |
| **Total Business-type Activities** | | | | | $384,015,000 | $(91,877,980) | |

*Credit risk* — As of June 30, 2010, the City is not exposed to credit risk on all but two of the outstanding swaps because the swaps have negative fair value. 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 City would be exposed to credit risk in the amount of the derivatives' fair value. For the two swap agreements that have positive fair value, the City has credit exposure to the counterparty as of June 30, 2010. Should the counterparty to these transactions fail to perform according to the terms of the swap contracts, the City faces a maximum loss equivalent to the swaps' $766,962 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 may be in the form of cash or U. S. government securities held by the City.

Although the City executes transactions with various counterparties, twenty-one swaps or approximating 46% of the notional amount of swaps outstanding, are held with one counterparty that is currently rated A/A2. Of the remaining swaps, the City holds one swap with one counterparty, rated AAA/Aa1, approximating 9% of the outstanding notional value, two swaps are with one counterparty rated AA-/Aa1, approximately 14% of the outstanding notional value, ten swaps are with one counterparty rated AA/A2, approximating 12% of the outstanding notional value, and fourteen swaps are with two counterparties rated A+/Aa3, approximately 31% of the outstanding notional value.

*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 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, 2010, the SIFMA rate for the prior 52-week period ranged from 0.15% to 0.43%, whereas the City tax-exempt market ranged from 0.07% to 0.75%. For seven of the swaps, the City will receive a percent of LIBOR or a percent of LIBOR plus a basis point spread, each rate was chosen to closely approximate the City's tax-exempt variable rate bond payments. Because these swaps are LIBOR-based, there is an additional degree of basis risk.

For four of the swaps, the City receives the one month LIBOR, chosen to approximate the City's taxable variable rate bond payments. As of June 30, 2010, LIBOR for the prior 52-weeks ranged from 0.23% to 0.35%, whereas the City's taxable market ranged from 0.20% to 1.00%. 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, 2010, classified by type and the changes in fair value of such derivative instruments for the year ended June 30, 2010 are as follows:

| | Changes in Fair Value | | Fair Value at June 30, 2010 | | |
|---|---|---|---|---|---|
| | Classification | Amount | Classification | Amount | Notional |
| **Business-type activities** | | | | | |
| ***Water Utility Fund*** | | | | | |
| Fixed to Floating | Investment Revenue | $ 99,620 | Debt | $ (223,125) | $ (13,220,453) |
| Floating to Floating | Investment Revenue | 54,188 | Debt | (11,249,188) | (71,455,000) |
| Total Water Utility Fund | | 153,808 | | (11,472,313) | (84,675,453) |
| ***Waste Water Utility Fund*** | | | | | |
| Fixed to Floating | Investment Revenue | $ 56,198 | Debt | $ (144,852) | $ (7,469,047) |
| ***Industrial Development Authority*** | | | | | |
| Fixed to Floating | Investment Revenue | $(1,531,537) | Debt | $ (1,531,537) | $ (13,900,000) |
| Total business-type activities | | $(1,321,531) | | $(13,148,702) | $(106,044,500) |

*Credit Risk:* At June 30, 2010, 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 City would have exposure to credit risk. The counterparty's credit rating at June 30, 2010, was AA/Aa2 for derivative instruments held by the Water and Waste Water Utility Funds and a/A2 for derivative instruments held by the Industrial Development Authority. The change in the fair value of investment swaps in the amount of a loss of $1,322,000 is netted and reported within the investment revenue classification.

*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.

### Fiduciary Fund Types

*Forward Currency Contracts*

The City's Retirement Systems entered into forward currency contracts to manage exposure to fluctuations in foreign currency exchange rates on portfolio holdings. They also entered into forward exchange contracts to settle future obligations. A forward exchange contract is a commitment to purchase (payable) or sell (receivable) a foreign currency at a future date at a negotiated forward rate. Risk associated with such contracts includes movement in the value of a foreign currency relative to the U.S. dollar. Unrealized gains or losses on forward currency contracts are the difference between the contract and the closing market value of such contract and is included in the statement of changes in plan net assets as net appreciation/depreciation in the fair value of investments. The table below summarizes the market value of foreign currency contracts as of June 30, 2010:

| Currency | Forward Foreign Contracts Cost Receivable (a) | Forward Foreign Contracts Cost Payable (b) | Forward Foreign Contracts Fair Value Receivable (c) | Forward Foreign Contracts Fair Value Payable (d) | Unrealized Net Gain/(Loss) (c-a) + (b-d) |
|---|---|---|---|---|---|
| Australian Dollar | $ 303,844 | $ 289,899 | $ 303,717 | $ 285,276 | $ 4,496 |
| Brazil Real | 242,888 | 235,772 | 241,318 | 235,772 | (1,570) |
| British Pound Sterling | 2,234,503 | 4,711,744 | 2,234,207 | 4,819,439 | (107,991) |
| Canadian Dollar | 402,227 | 402,227 | 396,798 | 402,227 | (5,429) |
| Chinese Yaun Renminbi | 6,734,971 | 3,060,234 | 6,607,853 | 3,037,024 | (103,908) |
| Danish Krone | 67,150 | 67,150 | 67,150 | 67,285 | (135) |
| Euro Currency Unit | 7,498,123 | 12,536,235 | 7,479,743 | 11,887,948 | 629,907 |
| Hong Kong Dollar | 1,664,829 | 1,664,829 | 1,664,739 | 1,664,775 | (36) |
| Israel Shekel | 26,806 | 26,806 | 26,806 | 26,902 | (96) |
| Japanese Yen | 4,255,280 | 4,044,037 | 4,257,135 | 4,049,459 | (3,567) |
| Malaysian Ringgit | 124,000 | 120,623 | 124,025 | 124,025 | (3,377) |
| Mexican New Paso | 367,994 | 1,719,933 | 369,925 | 1,732,747 | (10,883) |
| New Taiwan Dollar | 140,133 | 136,880 | 136,839 | 136,839 | (3,253) |
| Norwegian Krone | 44,308 | 43,910 | 44,028 | 44,329 | (699) |
| Philippines Peso | 356,000 | 338,976 | 343,259 | 343,259 | (17,024) |
| South African Rand | 92,125 | 92,125 | 91,624 | 92,152 | (528) |
| Singapore Dollar | 1,492,431 | 1,492,431 | 1,490,827 | 1,492,431 | (1,604) |
| South Korean Won | 1,571,981 | 1,515,231 | 1,500,295 | 1,501,559 | (58,014) |
| Swiss Franc | 14,093 | 14,093 | 14,113 | 14,093 | 20 |
| U.S. Dollar | 17,212,868 | 12,347,114 | 17,212,868 | 12,347,114 | |
| Total | $44,846,554 | $44,860,249 | $44,607,269 | $44,304,655 | $ 316,309 |

## 12. Pension Plans

*Plan Descriptions*

All City employees, other than the professional employees of the Enoch Pratt Free Library and the Baltimore City Public School System (BCPSS), who are members of the Maryland State Retirement and Pension Systems to which the City and the BCPSS make no contributions, are covered under one of the following Public Employees Retirement Systems (PERS).

The City contributes to two single-employer defined benefit pension plans, the Fire and Police Employees' Retirement System, established July 1, 1962, and the Elected Officials' Retirement System, established December 5, 1983, and a cost sharing multiple employer plan, the Employees' Retirement System, established January 1, 1926. Each plan provides retirement benefits as well as disability benefits to plan members and their beneficiaries. The plans are each managed by a Board of Trustees in accordance with Article 22 of the Baltimore City Code. Plan benefits provisions may be amended only by the City Council. Certain provisions related to retirement benefits for the Fire and Police Retirement System have been amended during fiscal year 2010. Details can be found in the separately issued System's annual financial statements. The plans are considered part of the City's reporting entity and their financial statements are included in the City's basic financial statements as pension trust funds. Each plan issues a publicly available financial report that includes financial statements and the required supplementary information for that plan. Those reports may be obtained by writing to the Retirement Systems at the following addresses:

For Employees' Retirement System and Elected Officials' Retirement System, mail request to:

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

For Fire and Police Employees' Retirement System, mail request to:

Baltimore City Retirement Systems
7 East Redwood Street, 18th Floor
Baltimore, Maryland 21202-3470

Significant Accounting Policies

*Basis of Accounting.* The financial statements for the City's three Plans are prepared using the accrual basis of accounting. Employer and member contributions are recognized in the period that the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the Plan.

*Method Used to Value Investments.* Plan investments are reported at fair value. Securities traded on national and international exchanges are valued at the last reported sale price at the current exchange rates. Real estate holdings are valued based on current appraisals.

*Funding Policy and Annual Pension Cost*

The Baltimore City Code establishes the contribution requirements for plan members and the City for each of the three plans. The City's annual pension cost for the current year and related information for each plan is as follows:

(Dollars Expressed in Thousands)

| | Fire and Police Employees' Retirement System | Employees' Retirement System | Elected Officials' Retirement System |
|---|---|---|---|
| Contribution ratios as a percentage of covered payroll: | | | |
| Employer | 34.1% | 12.4% | 28.2% |
| Employee | 6.3% | 0.1% | 4.9% |
| Annual pension cost | $94,098 | $48,748 | $340 |
| Contributions made | $94,098 | $48,748 | $340 |
| Actuarial cost method | Projected Unit Credit Cost | Projected Unit Credit Cost | Projected Unit Credit Cost |
| Amortization method | Level Dollar Open | Level Dollar Open | Level Dollar Open |
| Remaining amortization period | 20 years | 20 years | 10 years |
| Assets valuation method | 5 year smoothed market | 5 year smoothed market | 5 year smoothed market |
| Actuarial assumptions: | | | |
| Investment rate of return: | | | |
| Pre-retirement | 8.0% | 8.0% | 7.5% |
| Post-retirement | 8.0% | 6.8% | 6.0% |
| Projected salary increases | 4.0%-8.0% | 4.25%-6.95% | 6.0% |
| Includes inflation rate at | 3.0% | 3.0% | 6.0% |
| Cost-of-living adjustment | 1%-2% | 1.5% | 6.0% |

The information presented in the following schedules for the Fire and Police Employees' Retirement System, the Employees' Retirement System, and the Elected Officials' Retirement System is from the financial report dated June 30, 2010 and the actuarial valuation dated June 30, 2010.

### Three-Year Trend Information

(Dollars Expressed in Thousands)

| | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| Fire and Police Employees' Retirement System: | | | |
| June 30, 2010 | $94,098 | 100% | $0 |
| June 30, 2009 | 69,513 | 100 | 0 |
| June 30, 2008 | 72,688 | 100 | 0 |
| Employees' Retirement System: | | | |
| June 30, 2010 | $48,748 | 100% | $0 |
| June 30, 2009 | 43,673 | 100 | 0 |
| June 30, 2008 | 43,918 | 100 | 0 |
| Elected Officials' Retirement System: | | | |
| June 30, 2010 | $ 340 | 100% | $0 |
| June 30, 2009 | 0 | N/A | 0 |
| June 30, 2008 | 144 | 100 | 0 |

### Schedule of Funding Progress for Fiscal Year Ended June 30, 2010
### Pension Trust Funds

(Dollars Expressed in Thousands)

| Actual Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded (Excess of) AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL (Excess of) as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| Fire and Police Employees' Retirement System: | | | | | | |
| June 30, 2010 | $2,524,754 | $3,033,724 | $508,970 | 83.2% | $276,577 | 184.0% |
| June 30, 2009 | 2,587,235 | 3,050,887 | 463,652 | 84.8 | 281,424 | 164.8 |
| Employees' Retirement System: | | | | | | |
| June 30, 2010 | $1,390,055 | $1,819,340 | $428,285 | 76.4% | $393,178 | 95.5% |
| June 30, 2009 | 1,424,203 | 1,724,931 | 300,728 | 82.6 | 398,009 | 75.6 |
| Elected Officials' Retirement System: | | | | | | |
| June 30, 2010 | $15,616 | $18,636 | $3,020 | 83.8% | $1,206 | 250.4% |
| June 30, 2009 | 14,161 | 16,957 | 2,796 | 83.5 | 1,182 | 236.5 |

*The Unfunded Fire and Police Pension Plan*

Additionally, the City's Fire and Police Departments are the administrators of the City's unfunded single-employer defined benefit local retirement plan. The plan is managed by the City's Fire and Police Departments under the Code of Local Laws of Baltimore. All employees eligible for this plan were hired prior to January 1, 1947. All members of this plan are currently retired and the City plans to pay benefits on a pay-as-you-go basis until all obligations have been fulfilled. The unfunded accrued liability represents the actuarial present value of future benefits based on assumed annual salary increases of 3.0%. There is no covered payroll for the plan. The City's annual contributions equal the employee benefits paid under the terms of the plan. The City's employer contributions for the last three years are as follows:

### Three -Year Trend Information

(Expressed in Thousands)

| | Employer Contribution | Unfunded Accrued Liability |
|---|---|---|
| June 30, 2010 | $1,250 | $5,182 |
| June 30, 2009 | 1,521 | 6,529 |
| June 30, 2008 | 1,902 | 7,920 |

*The Maryland State Retirement and Pension Systems*

Under Maryland law, the Baltimore City Public School System (BCPSS) is not required to make any contributions to the State Systems. The covered employees are required by State statute to contribute to the State Systems. The contribution from employees is 5% for participants in the State Systems retirements plans (with a 5% limit on the annual living allowance and 7% for those who elect a limit on the cost of living allowance commensurate with the Consumer Price Index) and 5% for participants in the State System's pension plans to the extent their regular earnings exceed the Social Security wage base. Contributions are deducted from participant's salary and wage payments and are remitted to the State on a regular, periodic basis.

The State of Maryland pays, on behalf of the BCPSS, the employer's share of retirement and pension costs to the State Systems for teachers and related positions. During the fiscal year ended June 30, 2010, the State paid $73,800,000 in such costs. This amount has been recorded by the BCPSS as both a revenue and an expenditure in the General Fund in the accompanying Statement of Activities.

The State also makes contributions on behalf of the Enoch Pratt Free Library employees. The State's contributions for the fiscal year ended June 30, 2010 was $1,734,000. This amount has also been recognized as both a revenue and an expenditure in the accompanying Statement of Activities.

*Deferred Compensation*

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

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

## 13. Other Postemployment Benefits

*Plan Description*

The City of Baltimore provides other postemployment benefits (OPEB) to all qualified City and BCPSS employees. All costs of the Plan for employees of the BCPSS are the responsibility of the City and reflected as such in this Note and the City's financial statements. The 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 and prescription drug benefits to retirees and their beneficiaries. Retirees may choose from five health plan options and four levels of coverage.

The following schedule outlines the eligibility requirements to participants in the Plan by employee group:

Post Retirement Medical Benefit Eligibility Requirement*

| Employee Group | Requirement |
|---|---|
| Maryland State Retirement and Pension Systems | If hired before January 1, 1980: Age 60 or 30 years of service |
| | If hired on or after January 1, 1980: Based on age at retirement and years of service |
| Fire and Police Employees' Retirement System | If hired before July 1, 2003: Age 50 or 20 years of service |
| | If hired on or after July 1, 2003: Age 50 and 10 years of service or 20 years of service |
| Employees' Retirement System & Elected Officials' Retirement System | If hired after July 1, 1979, age 55 with at least 5 years of service or any age with 30 years of service |

*All employees are eligible for disability benefits depending on years of service and reasons for disability.

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 Saving 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 an other postemployment benefits trust fund.

The number of participants in the Plan as of July 1, 2010 is as follows:

Number of Participants

| | City | School | Total |
|---|---|---|---|
| Active | 15,147 | 9,194 | 24,341 |
| Retired | 14,332 | 7,302 | 21,634 |
| Total | 29,479 | 16,496 | 45,975 |

*Significant Accounting Policies of the OPEB Trust Fund:*

*Basis of Accounting.* The financial statements for the OPEB Trust Fund are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

*Method Used to Value Investments.* Plan investments are reported at fair value. Securities traded on national and international exchanges are valued at the last reported sale price at the current exchange rates.

*Funding Policy:*

The City's policy is to fund benefits on a pay-as–you-go basis plus make additional contributions comprising the federal retiree drug subsidy payments and an additional annual appropriation. Retirees are required to contribute at various rates ranging from approximately $166 to $2,933 on a monthly basis, depending on the health plan and level of coverage elected and whether Medicare supplemental coverage is present. Administrative costs of the Plan are covered by the City.

For fiscal year 2010, City contributions to the Plan were $142.2 million which was less than the annual OPEB cost of $203.7 million resulting in a net increase to the OPEB liability of $61.5 million for the current year. Interest on the OPEB liability amounted to $1.6 million in fiscal year 2010. The OPEB liability at June 30, 2010 was $86.7 million. An additional adjustment in the amount of ($1.3) million was made to the annual required contribution (ARC) based on claims' experience.

*Annual OPEB Cost and Net OPEB Assets (Obligations):*

The City's annual OPEB cost (expense) is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The City's annual OPEB cost (expense) for fiscal 2010 was $203.7 million. The following table shows the components of the City's annual OPEB cost for the years ended June 30, 2010, June 30, 2009 and June 30, 2008, respectively, and the amount actually contributed to the plan (dollars expressed in millions):

| | Fiscal Year Ended | | |
|---|---|---|---|
| | June 30, 2008 | June 30, 2009 | June 30, 2010 |
| Normal Cost | $ 59.2 | $ 73.2 | $ 81.5 |
| Amortization of Unfunded Actuarial Liability | 105.4 | 106.3 | 121.9 |
| Annual Required Contribution (ARC) | 164.6 | 179.5 | 203.4 |
| Interest on Unfunded ARC | | (0.7) | 1.6 |
| Adjustment of ARC | | 0.5 | (1.3) |
| Annual OPEB Cost | 164.6 | 179.3 | 203.7 |
| Actual Contributions | 176.5 | 142.2 | 142.2 |
| Increase/(Decrease) in OPEB Obligation | (11.9) | 37.1 | 61.5 |
| Net OPEB (Asset) Liability | (11.9) | 25.2 | 86.7 |
| Percentage Contributed | 107.2% | 79.3% | 69.8% |

*Funded Status and Funding Progress:*

(Dollars Expressed in Millions)

| Fiscal Year Ended | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded Actuarial Accrued Liability (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| June 30, 2010 | $149.1 | $2,564.3 | $2,415.2 | 5.8% | $1,337.8 | 180.5% |
| June 30, 2009 | 110.5 | 2,497.6 | 2,387.1 | 4.4 | 1,346.4 | 177.3 |
| June 30, 2008 | 76.0 | 2,149.8 | 2,073.8 | 3.5 | 1,307.6 | 158.6 |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Method and Assumptions:*

Data in the above tables were obtained from an actuarial valuation prepared by an independent actuary made as of June 30, 2010, using census data as of that date and health care claims costs for the year ended June 30, 2010.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The City has selected the Projected Unit Credit Cost (PUCC) method. Under the projected unit credit cost method, the actuary develops the discounted present value of all future benefit payments. For a retiree, this amount is the actuarial accrued liability. For an employee that has not retired, the actuarial accrued liability is determined as the ratio of the employee's service as of the valuation date to the expected service at retirement. As the valuation uses rates of retirement, the PUCC method determines the Actuarial Accrued Liability as the weighted sum of the pro-rata calculations for expected retirement at each expected retirement age. The unfunded actuarial accrued liability is being amortized over 30 years on a level dollar basis.

In performing their valuation, the actuary used a discount rate of 6.25%, which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the Plan at valuation date. Assets are valued at fair value. Past service costs are calculated using the level dollar method with a closed amortization period of 30 years. The valuation also assumes an 8.0% healthcare trend for fiscal year 2010, reduced by decrements to a rate of 5.0% in 2016 and continuing through fiscal year 2017. Pharmacy benefits are assumed to decrease to 7.0% in 2010, reduced by decrements to a rate of 5.0% by fiscal year 2014 and continuing through fiscal year 2017. Salary increases were not considered as OPEB benefits and OPEB benefits are not based on pay.

There were no significant changes in the number of participants and types of coverage since the date of the actuarial valuation.

## 14. Risk Management

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 internal service fund.

All funds of the City and the Baltimore City Public School System 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. As of June 30, 2010, the City has determined that the range of potential claims liability for the fund to be between $167,329,000 and $246,249,000. The claims liability of $183,769,000 reported in the fund is based on the requirement that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). This liability, which has been discounted at 4.5% at June 30, 2010, does not include the effects of inflation, incremental or other allocated or unallocated claim adjustment expenses, salvage, or subrogation, as such factors are not considered material. Any claims in excess of $183,769,000 will be charged to expense in the periods in which they are made.

Changes in the Risk Management Fund's claims liability in fiscal years 2009 and 2010 were (amounts expressed in thousands):

| | 2010 | 2009 |
|---|---|---|
| Unpaid claims, beginning | $ 160,148 | $ 165,699 |
| Claims incurred | 166,015 | 130,230 |
| Claims paid | (142,394) | (135,781) |
| Unpaid claims, ending | $ 183,769 | $ 160,148 |

The City estimates that $56,053,000 of the estimated claims liability is due within one year.

## 15. Operating Leases

The City has entered into a number of operating leases for rental of office facilities and equipment, some of which provide for increased rentals based upon increases in real estate taxes and common area maintenance fees. As of June 30, 2010, future minimum lease payments are as follows (amounts expressed in thousands):

| | |
|---|---|
| 2011 | $ 6,986 |
| 2012 | 5,525 |
| 2013 | 4,969 |
| 2014 | 3,976 |
| 2015 | 2,265 |
| 2016-2020 | 3,201 |
| 2021-2025 | 786 |
| 2026-2030 | 489 |
| Total | $28,197 |

All leases contain cancellation provisions and are subject to annual appropriations by the City Council. During fiscal year 2010, rent expenditures approximated $31,296,000 for all types of leases. These expenditures were made primarily from the General Fund.

The BCPSS has entered into several leases for rental of office equipment. During the year ended June 30, 2010, rent and lease expenditures approximated $2,200,000. These expenditures were made primarily from the General Fund. As of June 30, 2010, future minimum lease payments approximate $1,600,000, which relates to July 1, 2010 through March 31, 2011 when the leases expire.

## 16. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require that the City place a final cover on its landfill site and perform certain maintenance and monitoring functions at the landfill site for a minimum of thirty years after closure. In addition to operating expenses related to current activities of the landfill site, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs is $18,226,000 as of June 30, 2010, which is based on 64.94% usage (filled) of the landfill. This is an increase in the liability of $654,000 since June 30, 2009. This increase is primarily caused by an increase in the estimated usage (filled) of the landfill of 63.23% for the fiscal year 2009 to 64.94% in fiscal year 2010. It is estimated that an additional $9,840,000 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity (the year 2028). The estimated total current cost of the landfill closure and postclosure care, $28,066,000, is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill was acquired as of June 30, 2010. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in the landfill laws and regulations. The City does not expect to pay any closure and postclosure care costs during fiscal year 2011.

In addition, the City is required by State and Federal laws and regulations to make annual contributions to finance closure and postclosure care. The City is in compliance with these requirements, and at June 30, 2010, investments of $17,356,000 were held in the City's General Fund. In addition, the General Fund's fund balance was appropriately reserved. It is anticipated that future inflation costs will be financed in part from earnings on investments held by the City. The remaining portion of anticipated future inflation costs (including inadequate earnings on investments, if any) and additional costs that might arise from changes in closure and postclosure requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both.

## 17. Notes and Mortgages Receivable

Notes and mortgages receivable as of June 30, 2010, consist of the following:

A. The General Fund has notes receivable of $6,070,000, net of a $1,000,000 allowance for losses. These notes bear interest rates ranging from 1.0% to 12.0% and mature over 30 years.

B. The Debt Service Fund has mortgages receivable of $2,704,000 collateralized by real property. These mortgages bear interest at rates ranging from 5.46% to 11.16% and mature over 30 years.

C. The Parking Facilities Fund has mortgages receivable of $48,045,000 collateralized by real property. These notes bear interest at rates ranging from 6.1% to 6.9% and mature over 30 years.

D. Governmental activities have notes receivable of $310,974,000 due from the Baltimore Hotel Corporation. These notes bear interest at rates ranging from 3.6% to 5.6% and mature over 30 years.

## 18. Deferred Revenue

Deferred revenue in the General Fund is associated with property taxes, mortgages receivable and other miscellaneous items.

Deferred revenue in the Grants Revenue Fund is associated with grant funds received as of June 30, 2010, for which related expenditures have not been incurred or the expenditures have been incurred and the reimbursement funding is not available as of June 30, 2010.

## 19. Commitments and Contingencies

The City is party to legal proceedings which normally occur in governmental operations. The City provides for the estimated losses on certain outstanding claims as discussed in Note 14. The City has determined, in consultation with outside counsel, that certain claims are in too early of a stage to make a reasonable assessment of the City's liability. The City vigorously contests such claims as a matter of policy and will fully assert all available remedies, including the $200,000 ceiling per individual claim. It is the opinion of City management, in consultation with outside legal counsel, that any additional liability for remaining litigation will not be material to the City's financial position or results of operations.

As of June 30, 2010, the City is contingently liable for loans guaranteed by the Loan and Guarantee Program in an aggregate amount of approximately $1,500,000.

The City receives significant financial assistance from the U.S. Government and the State of Maryland in the form of 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 City. As of June 30, 2010, the City estimates that no material liabilities will result from such audits.

Under the terms of a Waste Disposal Agreement, the City has committed to deliver 900 tons of solid waste per day to the Northeast Maryland Waste Disposal Authority. The City's current tipping fee expense for delivering the solid waste is $37.00 per ton. Such tipping fee is subject to adjustment for inflation and certain other factors as provided for in the Waste Disposal Agreement.

The City has entered into a 20-year Sewerage Sludge Disposal Agreement with the Northeast Maryland Waste Disposal Authority in connection with the financing of a sludge composting facility in Baltimore City. The agreement obligates the City to deliver approximately 55,000 tons of sewerage sludge per year and to pay a tipping fee comparable to alternative methods currently being used by the City. The debt service on variable rate bonds is a component of the tipping fee. These fees are recorded in the Waste Water Utility Enterprise Fund. The City's current tipping fee expense for delivering sewerage sludge is $119.98 per wet ton.

The City has also entered into 20-year Service Agreements with Wheelabrator Water Technologies Baltimore L.L.C. in connection with the financing of heat drying facilities for processing biosolids at the City's Back River and Patapsco Waste Water Treatment Plants. The agreements obligate the City to deliver approximately 20,000 dry tons of biosolids per year at each facility and to pay a tipping fee. The debt service on the bonds is a component of the tipping fee. These fees are recorded in the Waste Water Utility Enterprise Fund. The City's current tipping fee expense for delivering biosolids is $573.55 per dry ton.

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 the U.S. Department of Justice is and has currently negotiated with major east coast cities with aged sewer and storm water infrastructures. The City is proactively negotiating to ramp up its remedial efforts to address discharge and overflow concerns of the State and Federal regulatory agencies. These efforts are ambitious and the cost of the construction and maintenance are estimated to be greater than $1 billion 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.

In March of 2003, the Office of the Inspector General (OIG) of the U.S. Department of Health and Human Services (DHHS) issued an audit alleging that school systems in Maryland had over-billed Medicaid more than $23,000,000 based on the OIG's interpretation of payment procedures for school-based health services. Approximately $13,000,000 of that figure is attributable to billings from the BCPSS. DHHS accepted the OIG's findings and the State filed an appeal to the Departmental Appeal Board in Washington, D.C. Briefs were filed by related parties and the DHHS Departmental Appeal Board issued its ruling on June 11, 2007, in which the Board reduced the amount due from the State by approximately $4.3 million, most of which related to claims submitted by City Schools. Based upon this decision by DHHS, the State Superintendent of Schools and the Secretary of State Department of Health and Mental Hygiene (DHMH) notified the Chief Executive Officer of City Schools of its intent to recoup approximately $8.1 million from City Schools as its alleged share of the funds disallowed by DHHS (the "recoupment decision"). Starting on July 1, 2008, DHMH began to recoup $2.7 million. As of June 30, 2009, BCPSS has $5,385,000 due to DHMH that is reported as an accounts payable. The State's recoupment decision has been appealed to the Office of Administrative Hearings of the State. On September 3, 2009, the Administrative Law Judge issued her Proposed Decision, agreeing with the City Schools and ruling that the State acted "in an arbitrary and capricious manner" when it apportioned the recoupment among the local school boards. The decision is subject to revision and approval by the agency. No final amount has been determined and much of the recoupment has already been made.

An audit performed by the Maryland State Department of Education (MSDE), dated July 9, 2004, covering fiscal years 2001-2004, resulted in MSDE requesting repayment of Title I and IDEA funds totaling $18.0 million. The BCPSS filed a timely appeal. However, rather than proceeding with the appeal, the BCPSS and MSDE agreed to take part in the federally created Cooperative Audit Resolution and Oversight Initiative (CAROI) process. Teams from MSDE and the BCPSS have been meeting since November 1, 2004, in an attempt to resolve the audit findings and to determine the underlying causes for the findings. An agreement was reached, which requires the BCPSS to use state and local funds for specific purposes over 4 school years (beginning with 2005-2006 school year) in lieu of repayment. The unspent, unencumbered balance of the settlement amount at June 30, 2010 was $1.3 million.

## 20. Beginning Balance Restatement

*Primary Government*

During fiscal year 2010, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 51 "Accounting and Financial Reporting for Intangible Assets". Under the provisions of this statement, the City had previously capitalized costs related to implementation of a new accounting and payroll system that should not have been capitalized. Accordingly, the City decreased both capital assets and net assets in the Governmental Activities Entity-wide Statement of Net Assets as of July 1, 2009, which amounted to $3,562,800 and $2,654,584,000, respectively, in the amount of $10,151,000.

Additionally, during fiscal year 2010, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 53 "Accounting and Financial Reporting for Derivative Instruments". As of June 30, 2010, the City determined that certain interest rate swaps of the proprietary funds did not meet the criteria for hedging effectiveness. Accordingly, the fair value of the swaps as of June 30, 2009, which were previously not recorded, were recorded as decreases to beginning net assets in both the Entity-wide Business-type Activities Statement of Net Assets and the Major Proprietary Funds' Statement of Fund Net Assets for the Water Utility Fund and Waste Water Utility Fund in the amounts of $11,627,000 and $201,000, respectively. During fiscal year 2010, the fair values of these derivatives, which were recorded as investment income, increased by $154,000 and $56,000, for the Water Utility Fund and Waste Water Utility Fund, respectively.

## 21. Subsequent Events

On November 30, 2010, the City issued the Baltimore City Parking System Facilities Taxable Revenue Bonds, Series 2010, in the amount of $29,505,000 to be used to finance the construction and acquisition of two parking garages. The interest rate on these bonds range from 1.988% to 7.000% with a term of 25 years.

In the fall of 2010, BCPSS plans to issue up to $60,800,000 in revenue bonds that were authorized by the American Recovery and Reinvestment Act of 2009.

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# Required Supplementary Information

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## CITY OF BALTIMORE

### Schedule of Revenues, Expenditures and Encumbrances,

### and Changes in Fund Balance — Budget and Actual — Budgetary Basis(1), (2)

### General Fund

### For the Year Ended June 30, 2010

(Expressed in Thousands)

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| Revenues: | | | | |
| Taxes — local | $1,121,039 | $1,121,039 | $1,122,910 | $ 1,871 |
| Licenses and permits | 29,949 | 29,949 | 34,438 | 4,489 |
| Fines and forfeitures | 6,896 | 6,896 | 7,116 | 220 |
| Interest, rentals, and other investment income | 22,268 | 22,268 | 24,148 | 1,880 |
| Federal grants | 179 | 179 | 213 | 34 |
| State grants | 98,707 | 98,707 | 95,588 | (3,119) |
| Other grants | 126 | 126 | 46 | (80) |
| Charges for current services | 42,247 | 42,247 | 29,251 | (12,996) |
| Miscellaneous | 1,883 | 1,883 | 4,528 | 2,645 |
| Total revenues | 1,323,294 | 1,323,294 | 1,318,238 | (5,056) |
| Expenditures and encumbrances: | | | | |
| Civil Service Commission | 4,403 | 4,403 | 4,403 | |
| Community Relations Commission | 921 | 921 | 894 | 27 |
| Comptroller | 4,602 | 4,602 | 3,735 | 867 |
| City Council | 4,957 | 4,957 | 4,696 | 261 |
| Office of Financial Review | 516 | 516 | 515 | 1 |
| Courts | 9,013 | 9,013 | 8,415 | 598 |
| Supervisors of Elections | 4,219 | 4,219 | 1,652 | 2,567 |
| Department of Finance | 14,071 | 14,071 | 11,583 | 2,488 |
| Department of Fire | 139,158 | 139,158 | 137,572 | 1,586 |
| Department of Health | 25,335 | 25,335 | 24,605 | 730 |
| Department of Housing and Community Development | 36,110 | 36,110 | 29,448 | 6,662 |
| Department of Law | 3,785 | 3,785 | 3,728 | 57 |
| Department of Legislative Reference | 788 | 788 | 813 | (25) |
| Enoch Pratt Library | 23,901 | 23,901 | 22,160 | 1,741 |
| Board of Liquor License Commissioners | 2,305 | 2,305 | 2,009 | 296 |
| Mayoralty | 327,252 | 387,252 | 325,951 | 61,301 |
| Department of Planning | 1,749 | 1,749 | 1,472 | 277 |
| Department of Police | 312,619 | 312,619 | 303,826 | 8,793 |
| Department of Public Works | 86,788 | 86,788 | 76,482 | 10,306 |
| Department of Recreation and Parks | 25,868 | 25,868 | 23,825 | 2,043 |
| Office of Sheriff | 16,558 | 16,558 | 13,564 | 2,994 |
| Office of State's Attorney | 26,859 | 26,859 | 26,160 | 699 |
| Wage Commission | 428 | 428 | 292 | 136 |
| Department of Municipal and Zoning Appeals | 444 | 444 | 287 | 157 |
| Baltimore City Public School System | 206,364 | 206,364 | 206,364 | |
| Total expenditures and encumbrances | 1,279,013 | 1,339,013 | 1,234,451 | 104,562 |
| Excess of revenues over expenditures and encumbrances | 44,281 | (15,719) | 83,787 | 99,506 |
| Other financing sources (uses): | | | | |
| Transfers in | 40,513 | 40,513 | 37,312 | (3,201) |
| Transfers out | (145,653) | (145,653) | (144,135) | 1,518 |
| Total other financing sources (uses) | (105,140) | (105,140) | (106,823) | (1,683) |
| Net change in fund balances | (60,859) | (120,859) | (23,036) | 97,823 |
| Fund balances — beginning | 166,463 | 166,463 | 166,463 | |
| Fund balances — ending | $ 105,604 | $ 45,604 | 143,427 | $ 97,823 |
| Adjustments to reconcile to GAAP basis: | | | | |
| Addition of encumbrances outstanding | | | 54,255 | |
| Less: accounts payable not recorded for budgetary purposes | | | (12,837) | |
| Fund balance — June 30, 2010 (GAAP basis) | | | $ 184,845 | |

(1) Annual budgets are adopted for the General Fund and all Special Revenue Funds, except for Grants Revenue, Community Development Block Grant Funds and the Scholarship Fund, on a basis consistent with Generally Accepted Accounting Principles, except for certain miscellaneous general expenditures which are not budgeted and encumbrances which are recognized as expenditures for budgetary purposes.

The budget of the City is a detailed operating plan, which identifies estimated costs and results in relation to estimated revenues. The budget includes: (1) the programs, projects, services, and activities to be provided during the fiscal year, (2) the estimated resources (inflows) and amounts available for appropriation, and (3) the estimated charges to appropriations. The budget represents a process through which policy decisions are made, implemented, and controlled. The City Charter prohibits expending funds for which there is no legal appropriation.

(2) This schedule does not include a non-budgetary revenue and expense item in the amount of $1,734,000 which was paid by the Maryland State Retirement System on behalf of the City of Baltimore for certain employees of the Enoch Pratt Free Library.

## CITY OF BALTIMORE

## Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance — Budget and Actual — Budgetary Basis(1)

## Motor Vehicle Fund

## For the Year Ended June 30, 2010

(Expressed in Thousands)

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| Revenues: | | | | |
| State shared revenue | $165,381 | $165,381 | $134,756 | $(30,625) |
| Licenses and permits | 737 | 737 | 630 | (107) |
| Fines and forfeitures | 15,435 | 15,435 | 12,203 | (3,232) |
| Interest, rentals, and other investment income | 975 | 975 | 156 | (819) |
| Charges for current services | 8,336 | 8,336 | 8,845 | 509 |
| Total revenues | 190,864 | 190,864 | 156,590 | (34,274) |
| Expenditures and encumbrances: | | | | |
| Department of Recreation and Parks | 4,104 | 4,104 | 3,040 | 1,064 |
| Department of Transportation | 100,784 | 124,984 | 124,105 | 879 |
| Department of Planning | 794 | 794 | 586 | 208 |
| Department of Police | 12,882 | 12,882 | 12,795 | 87 |
| Department of Public Works | 35,133 | 35,133 | 31,893 | 3,240 |
| Mayoralty | 19,344 | 19,344 | 19,253 | 91 |
| Baltimore City Public School System | 3,654 | 3,654 | 3,654 | |
| Total expenditures and encumbrances | 176,695 | 200,895 | 195,326 | 5,569 |
| Excess of revenues over expenditures and encumbrances | 14,169 | (10,031) | (38,736) | (28,705) |
| Other financing sources (uses): | | | | |
| Transfers in | | | 55,267 | 55,267 |
| Transfers out | (14,169) | (14,169) | (14,169) | |
| Total other financing sources (uses) | (14,169) | (14,169) | 41,098 | 55,267 |
| Net change in fund balances | | (24,200) | 2,362 | 26,562 |
| Fund balances — beginning | 6,859 | 6,859 | 6,859 | |
| Fund balances — ending | $ 6,859 | $ (17,341) | 9,221 | $ 26,562 |
| Adjustments to reconcile to GAAP Basis: | | | | |
| Addition of encumbrances outstanding | | | 11,649 | |
| Less: accounts payable not recorded for budgetary purposes | | | (4,168) | |
| Fund balance — June 30, 2010 (GAAP basis) | | | $ 16,702 | |

(1) Annual budgets are adopted for the General Fund and all Special Revenue Funds, except for Grants Revenue, Community Development Block Grant Funds and the Scholarship Fund, on a basis consistent with Generally Accepted Accounting Principles, except for certain miscellaneous general expenditures which are not budgeted and encumbrances which are recognized as expenditures for budgetary purposes.

The budget of the City is a detailed operating plan, which identifies estimated costs and results in relation to estimated revenues. The budget includes: (1) the programs, projects, services, and activities to be provided during the fiscal year, (2) the estimated resources (inflows) and amounts available for appropriation, and (3) the estimated charges to appropriations. The budget represents a process through which policy decisions are made, implemented, and controlled. The City Charter prohibits expending funds for which there is no legal appropriation.

## CITY OF BALTIMORE

### Schedule of Funding Progress(1)
### Pension Trust Funds

(Dollars Expressed in Thousands)

| Actuarial Valuation Dates | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded (Excess of) AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL (Excess of) as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| Fire and Police Employees' Retirement System | | | | | | |
| June 30, 2010 | $2,524,754 | $3,033,724 | $508,970 | 83.2% | $276,577 | 184.0% |
| June 30, 2009 | 2,587,235 | 3,050,887 | 463,652 | 84.8 | 281,424 | 164.8 |
| June 30, 2008 | 2,676,355 | 2,994,394 | 318,039 | 89.4 | 269,690 | 117.9 |
| Employees' Retirement System | | | | | | |
| June 30, 2010 | $1,390,019 | $1,765,328 | $375,309 | 78.7% | $393,178 | 95.4% |
| June 30, 2009 | 1,424,203 | 1,724,931 | 300,728 | 82.6 | 398,009 | 75.6 |
| June 30, 2008 | 1,475,533 | 1,664,078 | 188,545 | 88.7 | 367,517 | 51.3 |
| Elected Officials' Retirement System | | | | | | |
| June 30, 2010 | $ 15,616 | $ 18,636 | $ 3,020 | 83.7% | $ 1,206 | 250.4% |
| June 30, 2009 | 14,161 | 16,957 | 2,796 | 83.5 | 1,182 | 236.6 |
| June 30, 2008 | 18,273 | 16,953 | (1,320) | 107.8 | 1,142 | (115.6) |

(1) Analysis of dollar amounts of actuarial value of assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of funding status on a going concern basis. Analysis of the plans over time indicates whether the plans are becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the plans' progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller the percentage, the stronger the plan.

## CITY OF BALTIMORE

### Schedule of Funding Progress(1)
### OPEB Trust Fund

(Dollars Expressed in Millions)

| Fiscal Year Ended | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded Actuarial Accrued Liability (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| June 30, 2010 | $149.1 | $2,564.3 | $2,415.2 | 5.8% | $1,337.8 | 180.5% |
| June 30, 2009 | 110.5 | 2,497.6 | 2,387.1 | 4.4 | 1,346.4 | 177.3 |
| June 30, 2008 | 76.0 | 2,149.8 | 2,073.8 | 3.5 | 1,307.6 | 158.6 |

(1) Analysis of dollar amounts of actuarial value of assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of funding status on a going concern basis. Analysis of the plans over time indicates whether the plans are becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the plans' progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller the percentage, the stronger the plan.

## CITY OF BALTIMORE

### Schedule of Employer Contributions
### OPEB Trust Fund

(Dollars Expressed in Millions)

| Fiscal Year Ended | Annual OPEB Cost (a) | Employer Contributions (b) | Percentage Contributed (c) = (b)/(a) |
|---|---|---|---|
| June 30, 2010 | $203.7 | $142.2 | 69.8% |
| June 30, 2009 | 179.3 | 142.2 | 79.3 |
| June 30, 2008 | 164.6 | 176.5 | 107.2 |

## 1. Budgetary Data

Annual budgets are adopted for the General Fund and all Special Revenue Funds, except for Grants Revenue, Community Development Block Grant Funds and the Scholarship Fund, on a basis consistent with Generally Accepted Accounting Principles, except for certain miscellaneous general expenditures which are not budgeted and encumbrances which are recognized as expenditures for budgetary purposes.

The budget of the City is a detailed operating plan, which identifies estimated costs and results in relation to estimated revenues. The budget includes: (1) the programs, projects, services, and activities to be provided during the fiscal year, (2) the estimated resources (inflows) and amounts available for appropriation, and (3) the estimated charges to appropriations. The budget represents a process through which policy decisions are made, implemented, and controlled. The City Charter prohibits expending funds for which there is no legal appropriation.

The following procedures establish the budgetary data reflected in the financial statements:

*Original Budget*

(1) City agencies submit their anticipated annual budget needs to the Department of Finance during December.

(2) From December through March, the Mayor and the Department of Finance analyze, review, and refine the budget submittals.

(3) In April, the Director of Finance sends its recommended budget plan to the Board of Estimates. The Board then holds hearings and the recommended budget is amended as necessary. Citizens have the opportunity to offer input before the Board votes on the budget.

(4) In May, a majority vote of the Board of Estimates approves the total budget and sends it to the City Council. The Board of Estimates must submit the proposed budget for the next fiscal year to the City Council at least 45 days before the beginning of said fiscal year. The Board of Estimates prepares a proposed Ordinance of Estimates to be submitted to the City Council. The Ordinance of Estimates is the legal authority for the enactment of the budget.

(5) The City Council then holds hearings on the proposed Ordinance of Estimates, with additional citizen input before it votes in June. The City Council shall adopt the budget at least five days before the beginning of the fiscal year. The City Council then sends the approved Ordinance of Estimates to the Mayor.

(6) The Mayor then either approves the total Ordinance of Estimates, or disapproves some items and approves the rest of the Ordinance of Estimates.

*Final Budget*

The final budgetary data presented in the basic financial statements reflects the following changes to the original budget:

(1) Appropriations for a particular program, purpose, activity, or project may, upon the recommendation of the head of the municipal agency concerned and the Director of Finance, and with the approval of the Board of Estimates, be carried over to the subsequent fiscal year to carry out the initial appropriation objectives. All appropriations not carried over lapse at the end of the fiscal year in which they were made. In addition, funds encumbered for contracts, purchase orders, approved requisitions or other actual commitments, as well as funds dedicated to grant programs and capital improvements are carried out over the ensuing fiscal year until utilized or cancelled.

(2) The adopted budget is prepared and appropriated on an agency, program, activity, and object of expenditure basis by fund. Purchase orders which result in an operating or capital overrun are not released until additional appropriations are made available. Expenditures for each adopted operating budget may not legally exceed appropriations at the agency level. Administratively, the Department of Finance has the authority to move appropriations between activities of the same program within the same agency. The Board of Estimates has the authority to transfer appropriations between programs within the same agency. Only the City Council can transfer appropriations between agencies.

(3) The City Charter permits further appropriations for programs included in the original Ordinance of Estimates made necessary by material changes in circumstances and additional appropriations for new programs or grant awards which could not reasonably be anticipated when formulating the original Ordinance of Estimates. These changes require supplemental appropriation ordinances. During fiscal year 2010, supplemental appropriation ordinances were required for the General Fund in the amount of $60,000,000. During fiscal year 2010, supplemental appropriation ordinances were required for the Motor Vehicle Fund in the amount of $24,200,000.

Budgetary data, as revised, is presented as required supplementary information for the General Fund and the Motor Vehicle Fund.

# Combining and Individual Fund Statements and Schedules

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# Nonmajor Governmental Funds

## Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

*Community Development Block Grant and Special Racetrack Funds* — These funds account for revenues derived from certain State shared taxes, governmental grants and other revenue sources that are restricted by law or administrative action to expenditures for specific purposes.

*Scholarship Fund* — This fund accounts for the contributions received and related interest income. The fund can be used to provide scholarships to City residents.

## Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for the purposes that fund and support the reporting government's programs.

*Enoch Pratt Free Library Fund* — This fund accounts for principal trust amounts received and the related interest income. The interest portion of the trust can be used for the operations of the Enoch Pratt Free Library.

*Memorial Fund* — This fund accounts for the principal trust amounts received and the related interest income. The interest portion of the trust can be used by the City for memorials.

## Debt Service Fund

*Debt Service Fund* — This fund accounts for the accumulation of financial resources for the payment of interest and principal on the general long-term debt of the City, other than debt service payments made by the Enterprise Funds.

# CITY OF BALTIMORE

## Combining Balance Sheet

## Nonmajor Governmental Funds

## June 30, 2010

(Expressed in Thousands)

| | Special Revenue Funds | | | | Permanent Funds | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Community Development Block Grant Fund | Special Racetrack Fund | Scholarship Fund | Total | Enoch Pratt Free Library Fund | Memorial Fund | Total | Debt Service Fund | Total Nonmajor Governmental Funds |
| Assets: | | | | | | | | | |
| Cash and cash equivalents | | $463 | $7,556 | $ 8,019 | $ 10 | $ 376 | $ 386 | $22,417 | $30,822 |
| Investments | | | 630 | 630 | 2,079 | 3,994 | 6,073 | 18,876 | 25,579 |
| Other receivables, net | | | 25 | 25 | 60 | 57 | 117 | 128 | 270 |
| Due from other governments | | 212 | | 212 | | | | | 212 |
| Due from other funds | $ 1,358 | | | 1,358 | | | | | 1,358 |
| Notes and mortgages receivable, net | | | | | | | | 2,704 | 2,704 |
| Total assets | 1,358 | 675 | 8,211 | 10,244 | 2,149 | 4,427 | 6,576 | 44,125 | 60,945 |
| Liabilities and fund balances: | | | | | | | | | |
| Liabilities: | | | | | | | | | |
| Accounts payable and accrued liabilities | 444 | 3 | | 447 | | | | 100 | 547 |
| Due to other funds | 11,555 | | | 11,555 | | | | | 11,555 |
| Deferred revenue | 1,627 | | | 1,627 | | | | 2,704 | 4,331 |
| Matured bonds payable | | | | | | | | 2 | 2 |
| Total liabilities | 13,626 | 3 | | 13,629 | | | | 2,806 | 16,435 |
| Fund balances: | | | | | | | | | |
| Reserved for Scholarship, Library and Memorial | | | 8,211 | 8,211 | 2,149 | 4,427 | 6,576 | | 14,787 |
| Unreserved (deficit) | (12,268) | 672 | | (11,596) | | | | 41,319 | 29,723 |
| Total fund balances (deficits) | (12,268) | 672 | 8,211 | (3,385) | 2,149 | 4,427 | 6,576 | 41,319 | 44,510 |
| Total liabilities and fund balances | $ 1,358 | $675 | $8,211 | $ 10,244 | $2,149 | $4,427 | $6,576 | $44,125 | $60,945 |

# CITY OF BALTIMORE

## Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

## Nonmajor Governmental Funds

## For the Year Ended June 30, 2010

(Expressed in Thousands)

| | Special Revenue Funds | | | | Permanent Funds | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Community Development Block Grant Fund | Special Racetrack Fund | Scholarship Fund | Total | Enoch Pratt Free Library Fund | Memorial Fund | Total | Debt Service Fund | Total Nonmajor Governmental Funds |
| Revenues: | | | | | | | | | |
| State shared revenue | | $ 470 | | $ 470 | | | | | $ 470 |
| Interest, rentals and other investment income | | | $1,558 | 1,558 | $ 74 | $ 200 | $ 274 | $ 591 | 2,423 |
| Federal grants | $ 25,748 | | | 25,748 | | | | | 25,748 |
| Total revenues | 25,748 | 470 | 1,558 | 27,776 | 74 | 200 | 274 | 591 | 28,641 |
| Expenditures: | | | | | | | | | |
| Current: | | | | | | | | | |
| General government | 2,179 | 19 | | 2,198 | | | | | 2,198 |
| Public safety and regulation | 44 | 5 | | 49 | | | | | 49 |
| Education | | | 154 | 154 | | | | | 154 |
| Public library | | | | | 47 | | 47 | | 47 |
| Recreation and culture | | | | | | 35 | 35 | | 35 |
| Economic development | 9,316 | 64 | | 9,380 | | | | | 9,380 |
| Debt service: | | | | | | | | | |
| Principal | | | | | | | | 60,054 | 60,054 |
| Interest | | | | | | | | 39,014 | 39,014 |
| Other bond costs | | | | | | | | 9,847 | 9,847 |
| Total expenditures | 11,539 | 88 | 154 | 11,781 | 47 | 35 | 82 | 108,915 | 120,778 |
| Excess (deficiency) of revenues over (under) expenditures | 14,209 | 382 | 1,404 | 15,995 | 27 | 165 | 192 | (108,324) | (92,137) |
| Other financing sources (uses): | | | | | | | | | |
| Transfers in | | | | | | | | 108,403 | 108,403 |
| Transfers out | (13,180) | (444) | | (13,624) | | | | | (13,624) |
| Total other financing sources (uses) | (13,180) | (444) | | (13,624) | | | | 108,403 | 94,779 |
| Net change in fund balances | 1,029 | (62) | 1,404 | 2,371 | 27 | 165 | 192 | 79 | 2,642 |
| Fund balances—beginning | (13,297) | 734 | 6,807 | (5,756) | 2,122 | 4,262 | 6,384 | 41,240 | 41,868 |
| Fund balances—ending | $(12,268) | $ 672 | $8,211 | $ (3,385) | $2,149 | $4,427 | $6,576 | $41,319 | $44,510 |

## CITY OF BALTIMORE

### Schedule of Revenues, Expenditures and Encumbrances

### and Changes in Fund Balance — Budget and Actual — Budgetary Basis(1)

### Special Racetrack Fund

### For the Year Ended June 30, 2010

(Expressed in Thousands)

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| Revenues: | | | | |
| State shared revenues | $ 275 | $ 275 | $ 470 | $195 |
| Expenditures and encumbrances: | | | | |
| Department of Police | 15 | 15 | | 15 |
| Department of Transportation | 27 | 27 | 27 | |
| Department of Recreation and Parks | 21 | 21 | | 21 |
| Department of Housing and Community Development | 55 | 55 | 61 | (6) |
| Total expenditures and encumbrances | 118 | 118 | 88 | 30 |
| Excess of revenues over expenditures and encumbrances | 157 | 157 | 382 | 225 |
| Other financing (uses): | | | | |
| Transfers out | (444) | (444) | (444) | |
| Total other financing (uses) | (444) | (444) | (444) | |
| Net change in fund balances | (287) | (287) | (62) | 225 |
| Fund balances — beginning | 734 | 734 | 734 | |
| Fund balances — June 30, 2010 (GAAP basis) | $ 447 | $ 447 | $ 672 | $225 |

(1) Annual budgets are adopted for the General Fund and all Special Revenue Funds, except for Grants Revenue, Community Development Block Grant Funds and the Scholarship Fund, on a basis consistent with Generally Accepted Accounting Principles, except for certain miscellaneous general expenditures which are not budgeted and encumbrances which are recognized as expenditures for budgetary purposes.

The budget of the City is a detailed operating plan, which identifies estimated costs and results in relation to estimated revenues. The budget includes: (1) the programs, projects, services, and activities to be provided during the fiscal year, (2) the estimated resources (inflows) and amounts available for appropriation, and (3) the estimated charges to appropriations. The budget represents a process through which policy decisions are made, implemented, and controlled. The City Charter prohibits expending funds for which there is no legal appropriation.

# Nonmajor Proprietary Funds

**Enterprise Funds**

Enterprise funds are used to account for the operating of various City activities that are provided to the public on a cost reimbursement basis.

*Loan and Guarantee Program* — This fund accounts for the City's economic development financial activities.

*Industrial Development Authority* — This fund accounts for the activities of the City's Industrial Development Authority.

*Conduit Fund* — This fund accounts for the rental and maintenance of the City's Conduits.

## CITY OF BALTIMORE

## Combining Statement of Fund Net Assets

## Nonmajor Proprietary Funds

## June 30, 2010

(Expressed in Thousands)

| | Loan and Guarantee Program | Industrial Development Authority | Conduit Fund | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $3,702 | $39,705 | $ 2,725 | $ 46,132 |
| Accounts receivable, net: | | | | |
| Service billings | | | 2,146 | 2,146 |
| Other | 1 | 35 | | 36 |
| Current restricted assets: | | | | |
| Cash and cash equivalents | | | 3,803 | 3,803 |
| Total current assets | 3,703 | 39,740 | 8,674 | 52,117 |
| Noncurrent assets: | | | | |
| Capital assets, net | | | 45,480 | 45,480 |
| Issuance costs | | 207 | | 207 |
| Other assets | 32 | | | 32 |
| Deferred outflow SWAPS | | 9,487 | | 9,487 |
| Total noncurrent assets | 32 | 9,694 | 45,480 | 55,206 |
| Total assets | 3,735 | 49,434 | 54,154 | 107,323 |
| Liabilities: | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | 19 | | 160 | 179 |
| Accrued interest payable | | 29 | | 29 |
| Due to other funds | | 1,519 | | 1,519 |
| Other liabilities | | | 151 | 151 |
| Current liabilities payable from restricted assets: | | | | |
| Accounts payable from restricted assets | | | 246 | 246 |
| Total current liabilities | 19 | 1,548 | 557 | 2,124 |
| Noncurrent liabilities: | | | | |
| Revenue bonds payable, net | | 23,514 | | 23,514 |
| Other liabilities | 1,528 | | 397 | 1,925 |
| Derivative instrument liability | | 11,018 | | 11,018 |
| Total noncurrent liabilities | 1,528 | 34,532 | 397 | 36,457 |
| Total liabilities | 1,547 | 36,080 | 954 | 38,581 |
| Net assets: | | | | |
| Invested in capital assets, net of related debt | | | 45,480 | 45,480 |
| Unrestricted | 2,188 | 13,354 | 7,720 | 23,262 |
| Total net assets | $2,188 | $13,354 | $53,200 | $ 68,742 |

## CITY OF BALTIMORE

## Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

## Nonmajor Proprietary Funds

## For the Year Ended June 30, 2010

(Expressed in Thousands)

| | Loan and Guarantee Program | Industrial Development Authority | Conduit Fund | Total |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Rents, fees, and other income | $ 479 | $ 376 | $ 9,044 | $ 9,899 |
| Interest income on loans | 76 | 14 | | 90 |
| Total operating revenues | 555 | 390 | 9,044 | 9,989 |
| Operating expenses: | | | | |
| Salaries and wages | 125 | | 2,347 | 2,472 |
| Other personnel costs | 44 | | 1,006 | 1,050 |
| Contractual services | | | 1,691 | 1,691 |
| Program expenses | 3,089 | 398 | | 3,487 |
| Materials and supplies | | | 157 | 157 |
| Minor equipment | | | 25 | 25 |
| Depreciation | | | 744 | 744 |
| Interest | | 1,934 | | 1,934 |
| Total operating expenses | 3,258 | 2,332 | 5,970 | 11,560 |
| Operating income (loss) | (2,703) | (1,942) | 3,074 | (1,571) |
| Capital contributions | 145 | | 751 | 896 |
| Transfers in | 1,365 | | | 1,365 |
| Changes in net assets | (1,193) | (1,942) | 3,825 | 690 |
| Total net assets — beginning | 3,381 | 15,296 | 49,375 | 68,052 |
| Total net assets — ending | $ 2,188 | $13,354 | $53,200 | $68,742 |

## CITY OF BALTIMORE

## Combining Statement of Cash Flows

## Nonmajor Proprietary Funds

## For the Year Ended June 30, 2010

(Expressed in Thousands)

| | Loan and Guarantee Program | Industrial Development Authority | Conduit Fund | Total |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Receipts from customers | $ 554 | $ 389 | $ 8,715 | $ 9,658 |
| Payments to employees | (169) | | (3,353) | (3,522) |
| Payments to suppliers | (3,076) | (2,387) | (1,916) | (7,379) |
| Net cash provided (used) by operating activities | (2,691) | (1,998) | 3,446 | (1,243) |
| Cash flows from non-capital financing activities: | | | | |
| Transfers in | 1,365 | | | 1,365 |
| Net cash provided by non-capital financing activities | 1,365 | | | 1,365 |
| Cash flows from capital and related financing activities: | | | | |
| Acquisition and construction of capital assets | | | (3,659) | (3,659) |
| Capital contributions | 145 | | 751 | 896 |
| Principal paid on revenue bonds | | (4,825) | | (4,825) |
| Interest income | | 1,565 | | 1,565 |
| Net cash provided (used) by capital and related financing activities | 145 | (3,260) | (2,908) | (6,023) |
| Net increase (decrease) in cash and cash equivalents | (1,181) | (5,258) | 538 | (5,901) |
| Cash and cash equivalents, beginning of year | 4,883 | 44,963 | 5,990 | 55,836 |
| Cash and cash equivalents, end of year | $ 3,702 | $39,705 | $ 6,528 | $49,935 |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Operating income (loss) | $(2,703) | $ (1,942) | $ 3,074 | $ (1,571) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Depreciation expense | | | 744 | 744 |
| Accounts receivable | (1) | (1) | (329) | (331) |
| Accounts payable and accrued liabilities | (15) | | (458) | (473) |
| Accrued interest payable | | (5) | | (5) |
| Accounts payable from restricted assets | | | (133) | (133) |
| Other liabilities | 28 | | 548 | 576 |
| Due to other funds | | (50) | | (50) |
| Total adjustments | 12 | (56) | 372 | 328 |
| Net cash provided (used) by operating activities | $(2,691) | $ (1,998) | $ 3,446 | $ (1,243) |

# Internal Service Funds

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government, and to other governmental units, on a cost reimbursement basis.

*Municipal Communication Fund* — This fund accounts for the repair and maintenance of the City's radios.

*Mobile Equipment Fund* — This fund accounts for the service, repair, operation, and replacement of the City's equipment fleet.

*Reproduction and Printing Fund* — This fund accounts for the operation of the City's printing shop.

*Municipal Post Office Fund* — This fund accounts for the operations of the City's internal post office facility.

*Municipal Telephone Exchange Fund* — This fund accounts for the administration and operations of the City's telephone exchange.

*Risk Management Fund* — This fund accounts for the administration and payment of claims resulting from the City's self-insurance programs, including the Baltimore City Public School System, for general claims, workers' compensation claims, real property liability, motor vehicle liability, fleet driver liability and property damage claims, as well as medical and unemployment insurance for City employees.

*Energy Conservation Fund* — This fund accounts for the operation of the City's energy conservation office.

## CITY OF BALTIMORE

## Combining Statement of Fund Net Assets

## Internal Service Funds

## June 30, 2010

(Expressed in Thousands)

| | Energy Conservation | Municipal Communication | Mobile Equipment | Reproduction and Printing | Municipal Post Office | Municipal Telephone Exchange | Risk Management | Total |
|---|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | | |
| Current assets: | | | | | | | | |
| Cash and cash equivalents | | $932 | $ 48,560 | | | $1,271 | $ 42,432 | $93,195 |
| Investments | | | | | | | 4,994 | 4,994 |
| Accounts receivable, net: | | | | | | | | |
| Other | | | 197 | $ 888 | | 12 | 16,262 | 17,359 |
| Inventories | | | 3,541 | 731 | $ 23 | | | 4,295 |
| Total current assets | | 932 | 52,298 | 1,619 | 23 | 1,283 | 63,688 | 119,843 |
| Noncurrent assets: | | | | | | | | |
| Capital assets, net | | | 62,774 | | | | 2 | 62,776 |
| Other assets | | | | | | | 2,489 | 2,489 |
| Total noncurrent assets | | | 62,774 | | | | 2,491 | 65,265 |
| Total assets | | 932 | 115,072 | 1,619 | 23 | 1,283 | 66,179 | 185,108 |
| Liabilities: | | | | | | | | |
| Current liabilities: | | | | | | | | |
| Accounts payable and accrued liabilities | $ 56 | 47 | 4,350 | 190 | 24 | 618 | 5,251 | 10,536 |
| Due to other funds | 101 | | 300 | 6,638 | 578 | | | 7,617 |
| Estimated liability for claims in progress | | | | | | | 56,053 | 56,053 |
| Other liabilities | 108 | | 3,111 | 124 | 56 | 166 | 524 | 4,089 |
| Total current liabilities | 265 | 47 | 7,761 | 6,952 | 658 | 784 | 61,828 | 78,295 |
| Noncurrent liabilities: | | | | | | | | |
| Estimated liability for claims in progress | | | | | | | 102,225 | 102,225 |
| Total liabilities | 265 | 47 | 7,761 | 6,952 | 658 | 784 | 164,053 | 180,520 |
| Net assets: | | | | | | | | |
| Invested in capital assets | | | 62,774 | | | | 2 | 62,776 |
| Unrestricted (deficit) | (265) | 885 | 44,537 | (5,333) | (635) | 499 | (97,876) | (58,188) |
| Total net assets (deficits) | $(265) | $885 | $107,311 | $(5,333) | $(635) | $ 499 | $ (97,874) | $ 4,588 |

## CITY OF BALTIMORE

## Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

## Internal Service Funds

## For the Year Ended June 30, 2010

(Expressed in Thousands)

| | Energy Conservation | Municipal Communication | Mobile Equipment | Reproduction and Printing | Municipal Post Office | Municipal Telephone Exchange | Risk Management | Total |
|---|---|---|---|---|---|---|---|---|
| Operating revenues: | | | | | | | | |
| Charges for services | $ 657 | $3,102 | $ 47,383 | $ 3,215 | $1,862 | $ 9,718 | $ 157,764 | $223,701 |
| Operating expenses: | | | | | | | | |
| Salaries and wages | 641 | | 13,008 | 1,082 | 351 | 838 | 2,615 | 18,535 |
| Other personnel costs | 128 | | 4,761 | 561 | 110 | 380 | 934 | 6,874 |
| Contractual services | 106 | 2,867 | 9,140 | 1,322 | 50 | 8,892 | 9,300 | 31,677 |
| Materials and supplies | 47 | | 14,438 | 1,049 | 18 | 3 | 20 | 15,575 |
| Minor equipment | | | | 23 | 1 | 2 | 6 | 32 |
| Claims paid and incurred | | | | | | | 142,394 | 142,394 |
| Postage and delivery service | | | | | 1,632 | | | 1,632 |
| Depreciation | | | 7,905 | | | | 5 | 7,910 |
| Total operating expenses | 922 | 2,867 | 49,252 | 4,037 | 2,162 | 10,115 | 155,274 | 224,629 |
| Operating income (loss) | (265) | 235 | (1,869) | (822) | (300) | (397) | 2,490 | (928) |
| Nonoperating revenues: | | | | | | | | |
| Investment income | | | | | | | 136 | 136 |
| Total nonoperating revenues | | | | | | | 136 | 136 |
| Income (loss) before contributions and transfers | (265) | 235 | (1,869) | (822) | (300) | (397) | 2,626 | (792) |
| Capital contributions | | | 13,593 | | | | | 13,593 |
| Total net assets — beginning | | 650 | 95,587 | (4,511) | (335) | 896 | (100,500) | (8,213) |
| Total net assets — ending | $(265) | $ 885 | $107,311 | $(5,333) | $ (635) | $ 499 | $ (97,874) | $ 4,588 |

## CITY OF BALTIMORE

## Combining Statement of Cash Flows

## Internal Service Funds

## For the Year Ended June 30, 2010

(Expressed in Thousands)

| | Energy Conservation | Municipal Communication | Mobile Equipment | Reproduction and Printing | Municipal Post Office | Municipal Telephone Exchange | Risk Management | Total |
|---|---|---|---|---|---|---|---|---|
| Cash flow from operating activities: | | | | | | | | |
| Receipts from customers | $ 758 | $ 3,102 | $ 37,358 | $ 4,108 | $ 2,148 | $ 9,708 | $ 167,323 | $224,505 |
| Payments to employees | (621) | | (17,408) | (1,634) | (450) | (1,205) | (3,714) | (25,032) |
| Payments to suppliers | (137) | (2,861) | (23,810) | (2,474) | (1,698) | (9,053) | (162,806) | (202,839) |
| Net cash provided (used) by operating activities | | 241 | (3,860) | | | (550) | 803 | (3,366) |
| Cash flows from capital and related financing activities: | | | | | | | | |
| Acquisition and construction of capital assets | | | (6,770) | | | | | (6,770) |
| Capital contributions | | | 13,593 | | | | | 13,593 |
| Net cash provided by capital and related financing activities | | | 6,823 | | | | | 6,823 |
| Cash flows from investing activities: | | | | | | | | |
| Proceeds from the sale and maturities of investments | | | | | | | 21 | 21 |
| Interest on investments | | | | | | | 136 | 136 |
| Net cash provided by investing activities | | | | | | | 157 | 157 |
| Net increase (decrease) in cash and cash equivalents | | 241 | 2,963 | | | (550) | 960 | 3,614 |
| Cash and cash equivalents, beginning of year | | 691 | 45,597 | | | 1,821 | 41,472 | 89,581 |
| Cash and cash equivalents, end of year | | $ 932 | $ 48,560 | | | $ 1,271 | $ 42,432 | $ 93,195 |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | | | | | |
| Operating income (loss) | $(265) | $ 235 | $ (1,869) | $ (822) | $ (300) | $ (397) | $ 2,490 | $ (928) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | | | | |
| Depreciation | | | 7,905 | | | | 5 | 7,910 |
| Changes in assets and liabilities: | | | | | | | | |
| Accounts receivable | | | (91) | (632) | | (10) | 9,799 | 9,066 |
| Inventories | | | (3,028) | (180) | (3) | | | (3,211) |
| Other assets | | | | | | | (240) | (240) |
| Accounts payable and accrued liabilities | 56 | 6 | (149) | (77) | 6 | (156) | (9,173) | (9,487) |
| Other liabilities | 108 | | 278 | 6 | 8 | 13 | (208) | 205 |
| Due to other funds | 101 | | (6,906) | 1,705 | 289 | | | (4,811) |
| Estimated liability for claims in progress | | | | | | | (1,870) | (1,870) |
| Total adjustments | 265 | 6 | (1,991) | 822 | 300 | (153) | (1,687) | (2,438) |
| Net cash provided (used) by operating activities | | $ 241 | $ (3,860) | | | $ (550) | $ 803 | $ (3,366) |

# Fiduciary Funds

Fiduciary funds include the following funds, which account for assets held by the City as a trustee or as an agent for individuals.

*Pension Trust Funds* - These funds account for the receipt, investment, and distribution of retirement contributions made for the benefit of police officers, firefighters, elected officials, and other City employees.

*OPEB Trust Fund* - This fund accounts for the receipt, investment and distribution of retiree health and life insurance benefits.

*Agency Funds* - These funds account for assets held by the City as a custodian.

## CITY OF BALTIMORE

## Combining Statement of Fiduciary Net Assets

## Pension and OPEB Trust Funds

## June 30, 2010

(Expressed in Thousands)

| | OPEB Trust Fund | Employees' Retirement System | Elected Officials' Retirement System | Fire and Police Employees' Retirement System | Total |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Cash and cash equivalents | $ 28,063 | $ 78,697 | $ 13 | $ 43,383 | $ 150,156 |
| Investments: | | | | | |
| Stocks | 54,205 | 704,516 | 7,997 | 981,452 | 1,748,170 |
| Bonds | 30,441 | 255,409 | 6,186 | 703,501 | 995,537 |
| Real estate | 34,074 | 79,244 | | 143,367 | 256,685 |
| Securities lending collateral | | 122,199 | | 244,970 | 367,169 |
| Accounts receivable, net: | | | | | |
| Other | 6,408 | | | | 6,408 |
| Forward foreign contracts | | 29,330 | | 15,277 | 44,607 |
| Other assets | 193 | 32,869 | 2 | 13,149 | 46,213 |
| Total assets | 153,384 | 1,302,264 | 14,198 | 2,145,099 | 3,614,945 |
| Liabilities: | | | | | |
| Obligations under securities lending program | | 122,199 | | 244,970 | 367,169 |
| Forward foreign contracts | | 28,968 | | 15,337 | 44,305 |
| Accounts payable | 4,307 | 65,906 | 3 | 17,294 | 87,510 |
| Pension benefits payable | | | | 8,757 | 8,757 |
| Total liabilities | 4,307 | 217,073 | 3 | 286,358 | 507,741 |
| Net assets held in trust for pension and OPEB benefits | $149,077 | $1,085,191 | $14,195 | $1,858,741 | $3,107,204 |

## CITY OF BALTIMORE

## Combining Statement of Changes in Fiduciary Net Assets

## Pension and OPEB Trust Funds

## For the Year Ended June 30, 2010

(Expressed in Thousands)

| | OPEB Trust Fund | Employees' Retirement System | Elected Officials' Retirement System | Fire and Police Employees' Retirement System | Total |
|---|---|---|---|---|---|
| Additions: | | | | | |
| Contributions: | | | | | |
| Employer | $142,275 | $ 48,748 | $ 340 | $ 94,098 | $ 285,461 |
| Employee | 40,098 | 216 | 59 | 17,254 | 57,627 |
| Total contributions | 182,373 | 48,964 | 399 | 111,352 | 343,088 |
| Investment income (loss): | | | | | |
| Net appreciation in fair value of investments | 5,685 | 91,458 | 1,691 | 220,166 | 319,000 |
| Securities lending income | | 203 | | 500 | 703 |
| Interest and dividend income | 2,456 | 26,028 | 1 | 37,967 | 66,452 |
| Total investment income | 8,141 | 117,689 | 1,692 | 258,633 | 386,155 |
| Less: investment expense | 83 | 5,641 | 5 | 5,987 | 11,716 |
| Net investment income | 8,058 | 112,048 | 1,687 | 252,646 | 374,439 |
| Total additions | 190,431 | 161,012 | 2,086 | 363,998 | 717,527 |
| Deductions: | | | | | |
| Retirement allowances | | 108,226 | 736 | 194,739 | 303,701 |
| Health benefits | 151,863 | | | | 151,863 |
| Death benefits | | 791 | | 155 | 946 |
| Administrative expenses | | 3,062 | 28 | 3,312 | 6,402 |
| Other | | 156 | | 1,372 | 1,528 |
| Total deductions | 151,863 | 112,235 | 764 | 199,578 | 464,440 |
| Changes in net assets | 38,568 | 48,777 | 1,322 | 164,420 | 253,087 |
| Net assets — beginning of the year | 110,509 | 1,036,414 | 12,873 | 1,694,321 | 2,854,117 |
| Net assets — end of the year | 149,077 | $1,085,191 | $14,195 | $1,858,741 | $3,107,204 |

## CITY OF BALTIMORE

## Combining Statement of Assets and Liabilities

## Agency Funds

## June 30, 2010

(Expressed in Thousands)

| | Unpresented Stock and Coupon Bonds | Property Sold for Taxes | Bid Deposit Refunds | Waterloo Summit | Recreation Accessory | Total |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Cash and cash equivalents | $55 | $86 | $79 | | $1,187 | $1,407 |
| Investments | | | | $51 | | 51 |
| Total assets | 55 | 86 | 79 | 51 | 1,187 | 1,458 |
| Liabilities: | | | | | | |
| Other | 55 | 86 | 79 | 51 | 1,187 | 1,458 |
| Total liabilities | $55 | $86 | $79 | $51 | $1,187 | $1,458 |

## CITY OF BALTIMORE

## Combining Statement of Changes in Assets and Liabilities

## Agency Funds

## For the Year Ended June 30, 2010

(Expressed in Thousands)

| | Balance June 30, 2009 | Additions | Deductions | Balance June 30, 2010 |
|---|---|---|---|---|
| *Unpresented Stock and Coupon Bonds* | | | | |
| Assets: | | | | |
| Cash | $ 55 | | | $ 55 |
| Total assets | 55 | | | 55 |
| Liabilities: | | | | |
| Other | 55 | | | 55 |
| Total liabilities | 55 | | | 55 |
| *Property Sold for Taxes* | | | | |
| Assets: | | | | |
| Cash | 86 | | | 86 |
| Total assets | 86 | | | 86 |
| Liabilities: | | | | |
| Other | 86 | | | 86 |
| Total liabilities | 86 | | | 86 |
| *Bid Deposit Refunds* | | | | |
| Assets: | | | | |
| Cash | 88 | | $ 9 | 79 |
| Total assets | 88 | | 9 | 79 |
| Liabilities: | | | | |
| Other | 88 | | 9 | 79 |
| Total liabilities | 88 | | 9 | 79 |
| *Waterloo Summit* | | | | |
| Assets: | | | | |
| Investments | 51 | | | 51 |
| Total assets | 51 | | | 51 |
| Liabilities: | | | | |
| Other | 51 | | | 51 |
| Total liabilities | 51 | | | 51 |
| *Recreation Accessory* | | | | |
| Assets: | | | | |
| Cash | 1,871 | $3,553 | 4,237 | 1,187 |
| Total assets | 1,871 | 3,553 | 4,237 | 1,187 |
| Liabilities: | | | | |
| Other | 1,871 | 3,553 | 4,237 | 1,187 |
| Total liabilities | 1,871 | 3,553 | 4,237 | 1,187 |
| *Insurance Deposits* | | | | |
| Assets: | | | | |
| Cash | 5,369 | | 5,369 | |
| Investments | | | | |
| Total assets | 5,369 | | 5,369 | |
| Liabilities: | | | | |
| Other | 5,369 | | 5,369 | |
| Total liabilities | 5,369 | | 5,369 | |
| *Total All Agency Funds* | | | | |
| Assets: | | | | |
| Cash | 7,469 | 3,553 | 9,615 | 1,407 |
| Investments | 51 | | | 51 |
| Total assets | 7,520 | 3,553 | 9,615 | 1,458 |
| Liabilities: | | | | |
| Other | 7,520 | 3,553 | 9,615 | 1,458 |
| Total liabilities | $7,520 | $3,553 | $9,615 | $1,458 |

# Statistical Section

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**CITY OF BALTIMORE**

**Statistical Section**

**(Unaudited)**

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Source: Unless otherwise noted, the information in these tables is derived from the annual financial reports for the relevant year. The City implemented Governmental Accounting Standards Board Statement No. 34 in fiscal year 2002; therefore, tables presenting government-wide information include only eight years.

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# Financial Trends

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# CITY OF BALTIMORE

## Net Assets by Component

## Last Nine Fiscal Years

(Accrual Basis of Accounting)

(Expressed in Thousands)

| | Fiscal Year | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Governmental activities | | | | | | | | | |
| Invested in capital assets, net of related debt | $2,643,306 | $2,812,963 | $2,810,155 | $2,898,611 | $2,684,600 | $2,622,303 | $3,138,558 | $3,117,296 | $2,886,381 |
| Restricted | 15,650 | 15,444 | 15,084 | 13,774 | 13,773 | 26,516 | 13,250 | 13,191 | 14,787 |
| Unrestricted | (178,915) | (369,729) | (439,890) | (428,921) | (367,551) | 112,270 | (395,378) | (475,903) | (351,737) |
| Total governmental activities net assets | $2,480,041 | $2,458,678 | $2,385,349 | $2,483,464 | $2,330,822 | $2,761,089 | $2,756,430 | $2,654,584 | $2,549,431 |
| Business-type activities | | | | | | | | | |
| Invested in capital assets, net of related debt | $ 953,214 | $ 840,900 | $ 854,007 | $1,001,112 | $1,127,216 | $1,088,511 | $1,196,193 | $1,264,259 | $1,398,453 |
| Restricted | 215,671 | 224,150 | 256,964 | 252,812 | 282,924 | 369,069 | 231,382 | 260,575 | 198,714 |
| Unrestricted | 59,185 | 182,449 | 207,744 | 125,132 | 60,639 | 138,070 | 245,818 | 187,973 | 195,962 |
| Total Business-type activities | $1,228,070 | $1,247,499 | $1,318,715 | $1,379,056 | $1,470,779 | $1,595,650 | $1,673,393 | $1,712,807 | $1,793,129 |
| Primary government | | | | | | | | | |
| Invested in capital assets, net of related debt | $3,596,520 | $3,653,863 | $3,664,162 | $3,899,723 | $3,811,816 | $3,710,814 | $4,334,751 | $4,381,555 | $4,284,834 |
| Restricted | 231,321 | 239,594 | 272,048 | 266,586 | 296,697 | 395,585 | 244,632 | 273,766 | 213,501 |
| Unrestricted | (119,730) | (187,280) | (232,146) | (303,789) | (306,912) | 250,340 | (149,560) | (287,930) | (155,775) |
| Total primary government net assets | $3,708,111 | $3,706,177 | $3,704,064 | $3,862,520 | $3,801,601 | $4,356,739 | $4,429,823 | $4,367,391 | $4,342,560 |

# CITY OF BALTIMORE

## Changes in Net Assets

## Last Nine Fiscal Years

(Accrual Basis of Accounting)

(Expressed in Thousands)

| | Fiscal Year | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| **Expenses** | | | | | | | | | |
| Governmental activities: | | | | | | | | | |
| General government | $ 280,380 | $ 311,906 | $ 406,520 | $ 406,849 | $ 339,059 | $452,353 | $468,113 | $521,242 | $518,030 |
| Public safety and regulation | 434,567 | 459,806 | 462,910 | 476,157 | 514,299 | 536,508 | 575,859 | 541,778 | 503,753 |
| Conservation of health | 176,159 | 189,881 | 195,024 | 142,219 | 162,319 | 104,879 | 157,549 | 147,054 | 164,734 |
| Social services | 26,966 | 31,382 | 36,822 | 29,451 | 30,584 | 2,252 | 36,202 | 6,096 | 435 |
| Education | 224,218 | 219,904 | 219,932 | 226,913 | 225,890 | 227,377 | 224,830 | 221,829 | 226,429 |
| Public library | 27,159 | 26,877 | 27,251 | 23,303 | 30,400 | 24,006 | 31,736 | 33,728 | 33,475 |
| Recreation and culture | 53,199 | 35,119 | 36,326 | 36,304 | 33,060 | 42,420 | 44,295 | 42,565 | 38,098 |
| Highways and streets | 159,481 | 195,148 | 186,393 | 132,909 | 123,930 | 122,212 | 143,340 | 135,992 | 183,255 |
| Sanitation and waste removal | 36,569 | 38,882 | 34,151 | 36,836 | 40,155 | 44,169 | 45,366 | 51,167 | 52,558 |
| Public service | 12,646 | 14,945 | 15,150 | 15,695 | 15,218 | 15,141 | 16,769 | 24,637 | 24,161 |
| Economic development | 134,031 | 100,343 | 96,964 | 80,045 | 449,746 | 145,160 | 184,286 | 204,557 | 182,808 |
| Interest | 46,037 | 41,271 | 43,588 | 40,944 | 50,070 | 58,327 | 63,070 | 37,885 | 50,105 |
| Total governmental activities expenses | 1,611,412 | 1,665,464 | 1,761,031 | 1,647,625 | 2,014,730 | 1,774,804 | 1,991,415 | 1,968,530 | 1,977,841 |
| Business-type activities: | | | | | | | | | |
| Water | 84,454 | 97,883 | 95,745 | 96,893 | 95,010 | 95,576 | 105,882 | 116,407 | 107,423 |
| Waste water | 125,859 | 132,785 | 127,009 | 133,463 | 134,290 | 131,610 | 145,611 | 152,595 | 151,073 |
| Parking | 13,733 | 13,060 | 15,272 | 17,478 | 19,441 | 16,520 | 20,317 | 23,422 | 20.487 |
| Conduits | 2,754 | 3,075 | 3,481 | 3,917 | 8,065 | 5,937 | 11,207 | 7,312 | 5,947 |
| Development loans | 3,227 | 3,202 | 3,430 | 3,193 | 2,999 | 3,033 | 4,900 | 3,212 | 3,258 |
| Industrial development | 2,241 | 1,660 | 1,444 | 2,173 | 3,226 | 3,687 | 3,339 | 1,829 | 2,333 |
| Total business-type activities expenses | 232,268 | 251,665 | 246,381 | 257,117 | 263,031 | 256,363 | 291,256 | 304,777 | 290,521 |
| Total primary government expenses | 1,843,680 | 1,917,129 | 2,007,412 | 1,904,742 | 2,277,761 | 2,031,167 | 2,282,671 | 2,273,307 | 2,268,362 |
| **Program revenues** | | | | | | | | | |
| Governmental activities: | | | | | | | | | |
| Charges for services (a) | 66,089 | 73,636 | 88,587 | 83,950 | 90,545 | 93,046 | 99,185 | 94,297 | 92,483 |
| Operating grants and contributions | 429,036 | 472,628 | 477,870 | 401,958 | 393,328 | 382,316 | 386,972 | 371,520 | 384,961 |
| Capital grants and contributions | 41,863 | 35,873 | 51,910 | 49,013 | 57,313 | 48,085 | 51,559 | 23,181 | 63,437 |
| Total governmental activities revenue | 536,988 | 582,137 | 618,367 | 534,921 | 541,186 | 523,447 | 537,716 | 488,998 | 540,881 |
| Business-type activities: | | | | | | | | | |
| Charges for services: | | | | | | | | | |
| Water | 84,083 | 92,214 | 104,436 | 99,282 | 109,471 | 111,052 | 131,233 | 119,840 | 132,956 |
| Waste water | 128,681 | 121,131 | 126,869 | 134,805 | 136,405 | 151,462 | 157,974 | 158,305 | 168,389 |
| Parking | 46,043 | 49,883 | 54,196 | 56,613 | 61,896 | 62,706 | 69,868 | 64,380 | 67,760 |
| Conduits | 4,858 | 4,137 | 3,783 | 5,890 | 7,387 | 7,247 | 7,603 | 10,511 | 9,044 |
| Development loans | 1,092 | 3,219 | 359 | 49 | 109 | 860 | 363 | 299 | 554 |
| Industrial development | 2,179 | 1,500 | 1,190 | 1,524 | 2,475 | 4,491 | 3,711 | 1,630 | 390 |
| Capital grants and contributions | 37,840 | 30,580 | 55,165 | 51,057 | 69,370 | 78,032 | 40,928 | 22,818 | 44,287 |
| Total business-type activities revenues | 304,776 | 302,664 | 345,998 | 349,220 | 387,113 | 415,850 | 411,680 | 377,783 | 423,380 |
| Total primary government revenues | 841,764 | 884,801 | 964,365 | 884,141 | 928,299 | 939,297 | 949,396 | 866,781 | 964,261 |
| **Net (Expense)/Revenue** | | | | | | | | | |
| Governmental activities | (1,074,424) | (1,083,327) | (1,142,664) | (1,112,704) | (1,473,544) | (1,251,357) | (1,453,699) | (1,479,532) | (1,436,960) |
| Business-type activities | 72,508 | 50,999 | 99,617 | 92,103 | 124,082 | 159,487 | 120,424 | 73,006 | 132,859 |
| Total primary government net expenses | (1,001,916) | (1,032,328) | (1,043,047) | (1,020,601) | (1,349,462) | (1,091,870) | (1,333,275) | (1,406,526) | (1,304,101) |
| **General Revenues and Other Changes in Net Assets** | | | | | | | | | |
| Governmental activities: | | | | | | | | | |
| Property Taxes | 487,776 | 517,452 | 527,215 | 539,195 | 558,089 | 592,065 | 626,420 | 693,767 | 755,708 |
| Income Taxes | 181,574 | 173,466 | 182,506 | 199,635 | 225,517 | 243,611 | 267,625 | 262,901 | 251,731 |
| Other local taxes | 97,239 | 102,899 | 111,980 | 171,871 | 208,858 | 204,685 | 180,189 | 148,369 | 115,472 |
| State shared revenues | 173,604 | 173,412 | 169,703 | 200,199 | 222,911 | 226,692 | 213,899 | 187,986 | 135,226 |
| Franchise fees | 3,956 | | | | | | | | |
| Unrestrictive investment income | 40,290 | 31,841 | 25,032 | 30,170 | 41,776 | 47,560 | 53,503 | 35,756 | 27,308 |
| Miscellaneous | 22,621 | 31,324 | 24,498 | 36,884 | 29,727 | 41,557 | 34,398 | 14,568 | 15,806 |
| Transfers | 27,661 | 31,570 | 28,401 | 32,865 | 34,024 | 33,870 | 42,681 | 34,339 | 40,707 |
| Total governmental activities | 1,034,721 | 1,061,964 | 1,069,335 | 1,210,819 | 1,320,902 | 1,390,040 | 1,418,715 | 1,377,686 | 1,341,958 |
| Business-type activities: | | | | | | | | | |
| Unrestrictive investment income | 2,416 | | | 1,103 | 1,665 | | | 747 | |
| Transfers | (27,661) | (31,570) | (28,401) | (32,865) | (34,024) | (33,870) | (42,681) | (34,339) | (40,707) |
| Total business-type activities | (25,245) | (31,570) | (28,401) | (31,762) | (32,359) | (33,870) | (42,681) | (33,592) | (40,707) |
| Total primary government | 1,009,476 | 1,030,394 | 1,040,934 | 1,179,057 | 1,288,543 | 1,356,170 | 1,376,034 | 1,344,094 | 1,301,251 |
| **Change in Net Assets** | | | | | | | | | |
| Governmental activities | (39,703) | (21,363) | (73,329) | 98,115 | (152,642) | 138,683 | (34,984) | (101,846) | (95,002) |
| Business-type activities | 47,263 | 19,429 | 71,216 | 60,341 | 91,723 | 125,617 | 77,743 | 39,414 | 92,152 |
| Total primary government | $ 7,560 | $ (1,934) | $ (2,113) | $ 158,456 | $ (60,919) | $264,300 | $ 42,759 | $ (62,432) | $ (2,850) |

(a) Charges for services include charges for various City services such as rental of recreational facilities, solid waste disposal fees, port and stadium security services, impound lot fees and library video rental.

## CITY OF BALTIMORE

## Fund Balances, Governmental Funds

## Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

(Expressed in Thousands)

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| General Fund | | | | | | | | | | |
| Reserved | $ 76,741 | $ 89,278 | $ 88,422 | $101,777 | $119,793 | $146,107 | $168,912 | $180,794 | $181,585 | $157,131 |
| Unreserved | 30,437 | 33,459 | 40,902 | 37,878 | 72,762 | 65,417 | 56,043 | 33,629 | 35,344 | 27,714 |
| Total General Fund | $107,178 | $122,737 | $129,324 | $139,655 | $192,555 | $211,524 | $224,955 | $214,423 | $216,929 | $184,845 |
| All Other Governmental Funds | | | | | | | | | | |
| Reserved | $ 42,481 | $ 91,079 | $134,313 | $123,991 | $121,639 | $138,734 | $149,684 | $166,551 | $119,928 | $151,855 |
| Unreserved reported in: | | | | | | | | | | |
| Special revenue funds | (25,805) | (48,831) | (64,148) | (88,188) | (108,326) | (99,577) | (100,707) | (140,026) | (133,766) | (119,666) |
| Capital projects fund | 77,743 | 37,025 | (87,579) | (44,106) | (83,622) | 28,370 | 56,661 | 30,251 | 48,128 | (43,974) |
| Debt service fund | 20,647 | 22,990 | 17,715 | 18,099 | 27,503 | 26,082 | 30,296 | 82,579 | 41,240 | 41,319 |
| Permanent funds | 16,264 | 6,659 | 6,602 | 6,237 | 13,774 | | | | | |
| Total all other governmental funds | $131,330 | $108,922 | $ 6,903 | $ 16,033 | $ (29,032) | $ 93,609 | $135,934 | $139,355 | $ 75,530 | $ 29,534 |

# CITY OF BALTIMORE

## Changes in Fund Balances

## Governmental Funds

## Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

(Expressed in Thousands)

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Revenues: | | | | | | | | | | |
| General fund: | | | | | | | | | | |
| Taxes — Local | $ 758,351 | $ 767,384 | $ 793,817 | $ 821,701 | $ 910,701 | $ 992,464 | $1,040,361 | $1,074,234 | $1,105,037 | $1,122,910 |
| Licenses and permits | 21,347 | 22,051 | 21,429 | 26,805 | 28,570 | 31,143 | 32,784 | 34,717 | 29,390 | 34,438 |
| Fines and forfeitures | 1,298 | 2,162 | 2,401 | 4,408 | 3,575 | 3,372 | 2,900 | 7,321 | 6,896 | 7,116 |
| Interest, rentals, and other investment income | 36,637 | 27,468 | 24,968 | 20,729 | 25,364 | 31,206 | 34,047 | 38,602 | 23,616 | 24,148 |
| Federal grants | 68 | 45 | 77 | 111 | 150 | 90 | 93 | 99 | 224 | 213 |
| State grants | 79,985 | 87,580 | 98,778 | 96,412 | 92,240 | 91,331 | 98,120 | 101,235 | 99,423 | 97,320 |
| Other grants | 159 | 4,139 | 6,112 | 6,064 | 4,174 | 75 | 173 | 153 | 154 | 46 |
| Charges for services | 34,581 | 35,718 | 36,315 | 39,692 | 39,770 | 42,243 | 43,697 | 42,646 | 41,560 | 29,251 |
| Miscellaneous | 3,233 | 8,945 | 6,694 | 9,889 | 2,643 | 8,817 | 6,420 | 12,429 | 234 | 4,528 |
| Total revenues — general fund | 935,659 | 955,492 | 990,591 | 1,025,811 | 1,107,187 | 1,200,741 | 1,258,595 | 1,311,436 | 1,306,534 | 1,319,970 |
| Other governmental funds: | | | | | | | | | | |
| Motor vehicle fund | 188,115 | 185,538 | 187,891 | 187,119 | 212,477 | 238,002 | 244,316 | 232,716 | 206,015 | 156,590 |
| Grants revenue fund | 334,831 | 287,578 | 340,989 | 324,317 | 263,542 | 280,232 | 258,288 | 231,047 | 248,662 | 284,800 |
| Capital projects fund | 21,640 | 40,913 | 60,345 | 68,647 | 64,031 | 84,247 | 66,341 | 65,129 | 46,028 | 75,296 |
| Other funds | 12,773 | 48,986 | 25,555 | 29,820 | 37,334 | 32,251 | 55,941 | 36,696 | 33,030 | 28,641 |
| Total revenues — other governmental funds | 557,359 | 563,015 | 614,780 | 609,903 | 577,384 | 634,732 | 624,886 | 565,588 | 533,735 | 545,327 |
| Total revenues all governmental funds | 1,493,018 | 1,518,507 | 1,605,371 | 1,635,714 | 1,684,571 | 1,835,473 | 1,883,481 | 1,877,024 | 1,840,269 | 1,865,297 |
| Expenditures: | | | | | | | | | | |
| General fund: | | | | | | | | | | |
| General government | 204,564 | 214,288 | 253,812 | 267,527 | 273,606 | 290,727 | 337,700 | 368,022 | 368,279 | 388,860 |
| Public safety and regulation | 332,315 | 350,941 | 377,494 | 376,052 | 383,318 | 416,781 | 446,072 | 475,629 | 474,031 | 437,031 |
| Conservation of health | 24,355 | 24,102 | 24,760 | 23,528 | 24,442 | 30,507 | 28,948 | 29,371 | 33,066 | 44,950 |
| Social services | 754 | 1,743 | 1,952 | 2,032 | 2,146 | 2,138 | 3,007 | 4,498 | 6,057 | 396 |
| Education | 1,308 | 202,117 | 202,046 | 202,192 | 205,067 | 205,552 | 206,016 | 205,858 | 205,909 | 207,657 |
| Public library | 19,521 | 19,680 | 19,493 | 20,124 | 18,093 | 20,853 | 23,135 | 24,253 | 25,720 | 24,246 |
| Recreation and culture | 24,685 | 26,255 | 25,998 | 27,143 | 26,464 | 29,151 | 34,568 | 37,707 | 35,163 | 30,212 |
| Highways and streets | 3,348 | 175 | 153 | 244 | 407 | 312 | 484 | 720 | 244 | 16,376 |
| Sanitation and waste removal | 33,751 | 29,435 | 30,617 | 29,209 | 28,109 | 37,474 | 39,754 | 40,032 | 40,593 | 37,862 |
| Public service | 12,039 | 12,170 | 11,889 | 12,234 | 12,715 | 12,448 | 12,210 | 13,259 | 17,510 | 21,455 |
| Economic development | 23,672 | 14,631 | 19,077 | 19,262 | 18,854 | 21,420 | 30,440 | 39,616 | 36,573 | 36,186 |
| Total expenditures — general fund | 680,312 | 895,537 | 967,291 | 979,547 | 993,221 | 1,067,363 | 1,162,334 | 1,238,965 | 1,243,145 | 1,245,231 |
| Other governmental funds: | | | | | | | | | | |
| Motor vehicle fund | 125,781 | 132,117 | 144,495 | 148,268 | 148,974 | 157,248 | 164,419 | 175,354 | 173,570 | 191,558 |
| Grants revenue fund | 298,551 | 316,563 | 344,830 | 342,586 | 282,888 | 272,814 | 257,756 | 259,387 | 238,399 | 280,603 |
| Capital projects fund | 125,214 | 171,910 | 206,246 | 217,621 | 208,219 | 568,951 | 246,775 | 317,031 | 267,641 | 275,701 |
| Debt service fund: | | | | | | | | | | |
| Principal | 39,121 | 34,080 | 36,065 | 36,209 | 42,048 | 48,073 | 53,351 | 56,694 | 52,651 | 60,054 |
| Interest | 32,528 | 34,900 | 31,760 | 29,674 | 30,197 | 30,555 | 47,302 | 51,198 | 26,144 | 39,014 |
| Other bond costs | 462 | | | | 1,357 | 1,861 | 6,829 | | 13,945 | 9,847 |
| Other funds | 241 | 23,180 | 21,524 | 22,752 | 25,052 | 22,038 | 17,015 | 14,161 | 18,052 | 11,863 |
| Total expenditures other governmental funds | 621,898 | 712,750 | 784,920 | 797,110 | 738,735 | 1,101,540 | 793,447 | 873,825 | 790,402 | 868,640 |
| Total expenditures all governmental funds | 1,302,210 | 1,608,287 | 1,752,211 | 1,776,657 | 1,731,956 | 2,168,903 | 1,955,781 | 2,112,790 | 2,033,547 | 2,113,871 |
| Excess (deficiency) of revenues over expenditures | 190,808 | (89,780) | (146,840) | (140,943) | (47,385) | (333,430) | (72,300) | (235,766) | (193,278) | (248,574) |
| Other financing sources (uses): | | | | | | | | | | |
| Transfers, net | (174,133) | 27,661 | 31,570 | 28,401 | 33,873 | 16,568 | 20,694 | 36,044 | 27,839 | 40,707 |
| Capital leases | 21,082 | 12,400 | 433 | 25,136 | 10,189 | 10,265 | 25,447 | 7,372 | 3,956 | 75,099 |
| Face value of bonds and loans | 34,454 | 42,869 | 201,399 | 65,996 | 49,689 | 379,676 | 81,915 | 154,914 | 100,164 | 54,688 |
| Premium (discount) on sale of bonds | | | (2,064) | 731 | | | | | | |
| Payments to escrow agents | | | (128,030) | (11,760) | | | | | | |
| Demand obligation transferred from fund liability | | | (51,900) | 51,900 | (38,531) | 38,531 | | | | |
| Total other financing sources (uses) | (118,597) | 82,930 | 51,408 | 160,404 | 55,220 | 445,040 | 128,056 | 198,330 | 131,959 | 170,494 |
| Net changes in fund balances | $ 72,211 | $ (6,850) | $ (95,432) | $ 19,461 | $ 7,835 | $ 111,610 | $ 55,756 | $ (37,436) | $ (61,319) | $ (78,080) |
| Debt service as a percentage of noncapital expenditures | 6.77% | 4.54% | 4.25% | 3.83% | 4.58% | 3.84% | 5.48% | 5.41% | 3.50% | 4.93% |

# Revenue Capacity

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## CITY OF BALTIMORE

## Property Tax Levies and Collections

## Last Ten Fiscal Years

(Dollars Expressed in Thousands)

| Fiscal Year | Total Tax Levy | Collected within the Fiscal Year of the Levy | Percent of Levy Collected | Delinquent Tax Collections | Total Tax Collections | Percent of Total Tax Collections to Tax Levy |
|---|---|---|---|---|---|---|
| 2001 | $505,064 | $486,170 | 96.3% | $17,167 | $503,337 | 99.7% |
| 2002 | 515,463 | 494,379 | 95.9 | 8,613 | 502,992 | 97.6 |
| 2003 | 517,977 | 500,522 | 96.6 | 12,836 | 513,358 | 99.1 |
| 2004 | 523,226 | 510,710 | 97.6 | 14,235 | 524,945 | 100.3 |
| 2005 | 548,552 | 529,074 | 96.4 | 6,144 | 535,218 | 97.6 |
| 2006 | 565,648 | 544,463 | 96.3 | 8,161 | 552,624 | 97.7 |
| 2007 | 599,534 | 577,759 | 96.4 | 6,776 | 584,535 | 97.5 |
| 2008 | 655,080 | 605,961 | 92.5 | 10,601 | 616,562 | 94.1 |
| 2009 | 728,359 | 671,869 | 92.2 | 16,238 | 688,107 | 94.5 |
| 2010 | 751,510 | 723,533 | 96.3 | 17,224 | 740,757 | 98.6 |

## CITY OF BALTIMORE

## Assessed and Estimated Actual Value of Taxable Property

## Last Ten Fiscal Years

(Dollars Expressed in Thousands)

| | Real Property | | Personal Property | | Total | | | |
|---|---|---|---|---|---|---|---|---|
| Fiscal Year | Assessed Value | Estimated Actual Value | Assessed Value | Estimated Actual Value | Assessed Value | Estimated Actual Value | Ratio of Total Assessed Value to Total Estimated Actual Value | Total Direct Tax Rate(2) |
| 2001 | $ 6,828,402 | $16,963,236 | $1,893,784 | $1,893,784 | $ 8,722,186 | $18,857,020 | 46.3% | 6.030 |
| 2002 | 16,893,662(1) | 17,257,859 | 1,955,068 | 1,955,068 | 18,848,730(1) | 19,212,927 | 98.1(1) | 2.412 |
| 2003 | 17,316,114(1) | 17,846,735 | 1,820,389 | 1,820,389 | 19,136,503(1) | 19,667,124 | 97.3(1) | 2.412 |
| 2004 | 17,844,363(1) | 18,594,723 | 1,764,282 | 1,764,282 | 19,608,645(1) | 20,359,005 | 96.3(1) | 2.460 |
| 2005 | 18,781,171(1) | 19,783,195 | 1,847,190 | 1,847,190 | 20,628,361(1) | 21,630,385 | 95.4(1) | 2.460 |
| 2006 | 19,918,443(1) | 21,334,553 | 1,783,249 | 1,783,249 | 21,701,692(1) | 23,117,802 | 93.9(1) | 2.440 |
| 2007 | 21,254,392(1) | 23,236,872 | 1,893,973 | 1,893,973 | 23,148,365(1) | 25,130,845 | 92.1(1) | 2.400 |
| 2008 | 23,943,402(1) | 27,398,671 | 1,965,726 | 1,965,726 | 25,909,128(1) | 29,364,397 | 88.2(1) | 2.380 |
| 2009 | 26,601,299(1) | 32,038,540 | 2,145,251 | 2,145,251 | 28,746,550(1) | 34,183,791 | 84.1(1) | 2.380 |
| 2010 | 28,511,521(1) | 35,600,999 | 1,805,889 | 1,805,889 | 30,317,410(1) | 37,406,888 | 81.0(1) | 2.380 |

Note: Assessed values are established by the Maryland State Department of Assessments on July 1 of each year. Each real property's assessment is reevaluated every three years.

(1) The Maryland General Assembly passed legislation at the 2000 session to change the system of real property assessment from 40% to 100% of market value. This change was implemented on July 1, 2001. Accordingly, the ratio of total assessed value to total estimated actual value reflects this change.

(2) Tax rates are for each $100 of assessed valuation.

Source: Baltimore City Department of Finance

## CITY OF BALTIMORE

### Direct and Overlapping Property Tax Rates

### Last Ten Fiscal Years(1)

| Fiscal Year | City Tax Rate | State Tax Rate (2) | Total (3) |
|---|---|---|---|
| 2001 | 5.820 | .210 | 6.030 |
| 2002(4) | 2.328 | .084 | 2.412 |
| 2003(4) | 2.328 | .084 | 2.412 |
| 2004(4) | 2.328 | .132 | 2.460 |
| 2005(4) | 2.328 | .132 | 2.460 |
| 2006(4) | 2.308 | .132 | 2.440 |
| 2007(4) | 2.288 | .112 | 2.400 |
| 2008(4) | 2.268 | .112 | 2.380 |
| 2009(4) | 2.268 | .112 | 2.380 |
| 2010(4) | 2.268 | .112 | 2.380 |

Notes:

(1) Tax rates are for each $100 of assessed valuation.

(2) The State tax rate is shown for informational purposes only, since the City acts in the role of collector and does not report this portion of the property tax as revenue.

(3) The City has no special assessments.

(4) As of fiscal year 2002, real property taxes are assessed at the property's full estimated actual value; previously, real property taxes were assessed at 40% of the property's estimated actual value. Accordingly, the tax rates were adjusted to maintain the same effective tax rate.

Source: Baltimore City Department of Finance

## CITY OF BALTIMORE

### Principal Property Taxpayers

### Current Year and Nine Years Ago

(Dollars Expressed in Thousands)

| | 2010 | | | 2001 | | |
|---|---|---|---|---|---|---|
| | Taxable Assessed Value | Rank | Percentage of Total City Assessed Value | Taxable Assessed Value | Rank | Percentage of Total City Assessed Value |
| BGE (Baltimore Gas & Electric Company) | $ 603,525 | 1 | 2.0% | $ 577,947 | 1 | 6.6% |
| Verizon - Maryland | 247,975 | 2 | 0.8 | 344,854 | 2 | 4.0 |
| 100 East Pratt Street Business | 185,399 | 3 | 0.6 | | | |
| Baltimore Center Associate | 185,311 | 4 | 0.6 | 51,961 | 4 | 0.6 |
| Baltimore Hotel Corporation | 162,321 | 5 | 0.5 | | | |
| Harbor East Limited | 140,066 | 6 | 0.5 | | | |
| CSX Corporation | 132,401 | 7 | 0.4 | | | |
| ABB South Street Associates, LLC | 81,400 | 8 | 0.3 | | | |
| Canton Crossing Tower, LLC | 77,073 | 9 | 0.3 | | | |
| Harbor East Limited - Parcel B | 70,796 | 10 | 0.2 | | | |
| AT & T Communications of Maryland | | | | 82,531 | 3 | 0.9 |
| Boston Properties, Inc. | | | | 49,319 | 5 | 0.6 |
| MCI Worldcom | | | | 38,345 | 6 | 0.4 |
| Baltimore Refuse Energy System Corp. (BRESCO) | | | | 34,264 | 7 | 0.4 |
| United Cable Television of Baltimore, LTD | | | | 25,241 | 8 | 0.3 |
| Pratt Street Hotel | | | | 24,400 | 9 | 0.3 |
| Xerox Corporation | | | | 24,001 | 10 | 0.3 |
| Total | $1,886,267 | | 6.2% | $1,252,863 | | 14.4% |

# DEBT CAPACITY

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# CITY OF BALTIMORE

## Ratios of Outstanding Debt by Type, Primary Government

## Last Ten Fiscal Years

(Dollars Expressed in Thousands)

| | Governmental Activities | | | | | | Business-Type Activities | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fiscal Year | General Obligation Bonds | Bond Anticipation Notes | Special Obligation Bonds | Long-term Financing with Federal Government | Long-term Financing with State of Maryland | Private | Water | Waste Water | Sewer Construction Loans | Total Primary Government | Percentage of Personal Income(b) | Per Capita(a) |
| 2001 | $483,300 | $7,295 | | $35,115 | $7,820 | $3,519 | $1,693 | $2,227 | $694 | $541,663 | 3.09% | $847 |
| 2002 | 506,079 | 3,180 | | 39,057 | 6,467 | 1,897 | 1,417 | 2,152 | 647 | 560,896 | 3.09 | 883 |
| 2003 | 564,380 | | $ 7,479 | 33,632 | 5,295 | 724 | 1,113 | 2,107 | 596 | 615,326 | 2.89 | 964 |
| 2004 | 579,382 | | 23,324 | 30,681 | 4,872 | | 1,037 | 1,963 | 542 | 641,801 | 2.92 | 999 |
| 2005 | 579,960 | | 23,324 | 42,141 | 4,519 | | 908 | 1,719 | 485 | 653,056 | 2.72 | 1,028 |
| 2006 | 588,604 | | 26,301 | 51,311 | 3,697 | | 746 | 1,413 | 425 | 672,497 | 3.48 | 1,051 |
| 2007 | 609,950 | | 26,211 | 46,926 | 2,266 | | 855 | 1,616 | 360 | 688,184 | 3.47 | 1,073 |
| 2008 | 646,533 | | 93,018 | 51,429 | 1,945 | | 897 | 1,330 | 292 | 795,444 | 3.43 | 1,248 |
| 2009 | 629,018 | | 116,508 | 50,803 | 1,553 | | 941 | 438 | 221 | 799,482 | N/A | 1,254 |
| 2010 | 631,993 | | 116,205 | 45,436 | 1,186 | | 118 | 458 | 143 | 795,539 | N/A | N/A |

(a) Per capita calculations utilize calendar year figures provided by U.S. Department of Commerce, Census Bureau in thousands.

(b) Personal Income data from the Bureau of Economic Analysis, U.S. Dept. of Commerce.

N/A Information not available.

## CITY OF BALTIMORE

## Ratios of General Bonded Debt Outstanding

## Last Ten Fiscal Years

(Dollars Expressed in Thousands)

| Fiscal Year | General Obligation Bonds | Bond Anticipation Notes | Total | Funds Available in Debt Service Funds(b) | Net General Bonded Debt | Percentage of Actual Taxable Value of Property | Per Capita(a) |
|---|---|---|---|---|---|---|---|
| 2001 | $483,300 | $7,295 | $490,595 | $20,647 | $469,948 | 2.49% | $734.98 |
| 2002 | 506,079 | 3,180 | 509,259 | 22,990 | 486,269 | 2.53 | 765.54 |
| 2003 | 564,380 | | 564,380 | 17,715 | 546,665 | 2.78 | 856.04 |
| 2004 | 579,382 | | 579,382 | 18,099 | 561,283 | 2.76 | 873.32 |
| 2005 | 579,960 | | 579,960 | 27,503 | 552,457 | 2.55 | 868.23 |
| 2006 | 588,604 | | 588,604 | 26,082 | 562,522 | 2.43 | 884.73 |
| 2007 | 609,950 | | 609,950 | 30,296 | 579,654 | 2.31 | 909.33 |
| 2008 | 646,533 | | 646,533 | 82,579 | 563,954 | 1.92 | 885.44 |
| 2009 | 629,018 | | 629,018 | 41,240 | 587,778 | 1.72 | 922.12 |
| 2010 | 631,993 | | 631,993 | 41,319 | 590,674 | 1.58 | N/A |

(a) Per capita calculations utilize calendar year figures provided by U.S. Department of Commerce, Census Bureau in thousands.

(b) Externally restricted for repayment of principal on debt.

N/A Information not available.

## CITY OF BALTIMORE

### Direct and Overlapping Governmental Activities Debt

### June 30, 2010

The City of Baltimore has no Overlapping Debt.

## CITY OF BALTIMORE

### Legal Debt Margin Information

### June 30, 2010

The City has no Legal Debt Margin.

## CITY OF BALTIMORE

### Pledged Revenue Coverage

### Last Ten Fiscal Years

(Dollars Expressed in Thousands)

| | Water Revenue Bonds | | | | | | Waste Water Revenue Bonds | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Debt Service | | | | | | Debt Service | | |
| Fiscal Year | Water Utility Revenues | Less: Operating Expenses | Net Available Revenue | Principal | Interest | Coverage | Waste Water Utility Revenues | Less: Operating Expenses | Net Available Revenue | Principal | Interest | Coverage |
| 2001 | $ 83,961 | $ 64,353 | $19,608 | $3,190 | $ 9,936 | 1.49 | $114,945 | $ 99,112 | $15,833 | $ 3,877 | $ 7,201 | 1.43 |
| 2002 | 84,083 | 65,938 | 18,145 | 3,860 | 10,737 | 1.24 | 128,681 | 104,324 | 24,357 | 4,789 | 7,834 | 1.93 |
| 2003 | 92,214 | 74,974 | 17,240 | 2,185 | 6,972 | 1.88 | 121,131 | 105,974 | 15,157 | 2,234 | 8,344 | 1.43 |
| 2004 | 102,612 | 76,616 | 25,996 | 2,295 | 10,529 | 2.03 | 125,942 | 104,859 | 21,083 | 4,660 | 9,595 | 1.48 |
| 2005 | 99,282 | 76,772 | 22,510 | 2,655 | 16,091 | 1.20 | 134,805 | 105,030 | 29,775 | 4,794 | 12,559 | 1.72 |
| 2006 | 109,471 | 77,776 | 31,695 | 2,779 | 17,137 | 1.59 | 136,405 | 113,542 | 22,863 | 7,658 | 12,630 | 1.13 |
| 2007 | 111,052 | 81,722 | 29,330 | 2,920 | 15,818 | 1.57 | 151,462 | 110,877 | 40,585 | 9,405 | 16,631 | 1.56 |
| 2008 | 131,233 | 95,909 | 35,324 | 3,574 | 16,279 | 1.78 | 157,974 | 143,856 | 14,118 | 13,027 | 13,517 | .53 |
| 2009 | 120,292 | 106,435 | 13,857 | 3,273 | 20,692 | .58 | 161,061 | 146,268 | 14,793 | 13,480 | 22,133 | .42 |
| 2010 | 133,105 | 100,389 | 32,716 | 6,264 | 20,202 | 1.24 | 168,502 | 144,275 | 24,227 | 16,822 | 25,627 | .57 |

| | Parking Facilities Revenue Bonds | | | | | | Convention Center Revenue Bonds | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Debt Service | | | | | Debt Service | | |
| Fiscal Year | Parking Facilities Revenues | Less: Operating Expenses | Net Available Revenue | Principal | Interest | Coverage | Convention Center Revenues | Net Available Revenue | Principal | Interest | Coverage |
| 2001 | $46,176 | $ 4,963 | $41,213 | $3,360 | $ 6,977 | 3.99 | $4,631 | $4,631 | $1,780 | $2,832 | 1.00 |
| 2002 | 46,043 | 5,790 | 40,253 | 3,515 | 6,813 | 3.90 | 4,636 | 4,636 | 1,850 | 2,578 | 1.05 |
| 2003 | 49,883 | 6,845 | 43,038 | 3,690 | 7,803 | 3.74 | 4,637 | 4,637 | 1,930 | 2,679 | 1.01 |
| 2004 | 53,539 | 7,447 | 46,092 | 4,355 | 11,999 | 2.82 | 4,579 | 4,579 | 2,010 | 2,596 | .99 |
| 2005 | 56,613 | 6,986 | 49,627 | 4,680 | 11,812 | 3.01 | 4,566 | 4,566 | 2,095 | 2,508 | .99 |
| 2006 | 61,896 | 9,697 | 52,199 | 4,900 | 9,828 | 3.54 | 3,904 | 3,904 | 2,185 | 2,415 | .85 |
| 2007 | 62,706 | 8,509 | 54,197 | 5,080 | 6,967 | 4.50 | 4,523 | 4,523 | 2,280 | 2,310 | .99 |
| 2008 | 69,868 | 11,692 | 58,176 | 5,815 | 8,956 | 3.94 | 4,516 | 4,516 | 2,193 | 2,395 | .98 |
| 2009 | 64,380 | 13,240 | 51,140 | 6,060 | 14,224 | 2.52 | 4,463 | 4,463 | 2,515 | 2,070 | .97 |
| 2010 | 67,760 | 11,835 | 55,925 | 6,915 | 9,352 | 3.44 | 4,344 | 4,344 | 2,645 | 1,794 | .98 |

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation or amortization expenses.

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# DEMOGRAPHIC AND ECONOMIC INFORMATION

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## CITY OF BALTIMORE

## Demographic and Economic Statistics

## Last Ten Calendar Years

| Calendar Year | Population(a) | Personal Income(b) *(thousands of dollars)* | Per Capita Personal Income(c) | Total Employment(d) | Unemployment Rate(d) |
|---|---|---|---|---|---|
| 2001 | 645,253 | $16,852,237 | 26,117 | 261,808 | 6.1% |
| 2002 | 642,246 | 17,395,319 | 27,085 | 254,830 | 7.1 |
| 2003 | 642,324 | 17,941,556 | 27,932 | 255,083 | 7.4 |
| 2004 | 641,004 | 19,027,949 | 29,685 | 253,695 | 7.3 |
| 2005 | 640,064 | 20,061,001 | 31,342 | 255,081 | 6.9 |
| 2006 | 640,961 | 20,925,150 | 32,647 | 257,382 | 6.2 |
| 2007 | 640,150 | 21,978,718 | 34,334 | 261,355 | 5.6 |
| 2008 | 638,091 | 23,188,241 | 36,340 | 259,710 | 6.7 |
| 2009 | 637,418 | N/A | N/A | 247,600 | 10.4 |
| 2010 | N/A | N/A | N/A | N/A | N/A |

Source:
(a) Maryland State Department of Planning

(b) U.S. Bureau of Economic Analysis

(c) Per capita personal income is calculated based on the personal income divided by the estimated population

(d) Maryland Department of Labor, Licensing and Regulation

N/A Information not available

# CITY OF BALTIMORE

## Principal Employers

## Current Year and Nine Years Ago

| | 2010 | | | 2001 | | |
|---|---|---|---|---|---|---|
| Employer | Employees | Rank | Percentage of Total City Employment | Employees | Rank | Percentage of Total City Employment |
| Government[1] | | | | | | |
| State | 41,093 | 1 | 12.58% | 38,347 | 1 | 10.07% |
| Other Government authority (City, Schools, etc) | 28,579 | 2 | 8.75 | 31,808 | 2 | 8.35 |
| Federal | 8,204 | 3 | 2.51 | 10,648 | 3 | 2.80 |
| Subtotal Government | 77,876 | | 23.84 | 80,803 | | 21.22 |
| Ten Largest Private Sector Employers[2] | | | | | | |
| Johns Hopkins University | 22,700 | 1 | 6.95 | 23,374 | 1 | 6.14 |
| Johns Hopkins Hospital and Health System | 15,753 | 2 | 4.82 | 14,120 | 2 | 3.71 |
| University of Maryland Medical System | 8,900 | 3 | 2.72 | 8,871 | 4 | 2.33 |
| University System of Maryland | 9,790 | 4 | 3.00 | | | |
| MedStar Health | 6,202 | 5 | 1.90 | 9,000 | 3 | 2.36 |
| LifeBridge Health | 4,940 | 6 | 1.51 | 5,281 | 6 | 1.39 |
| Constellation Energy / BGE | 3,150 | 7 | 0.96 | 7,500 | 5 | 1.97 |
| St. Agnes HealthCare | 2,730 | 8 | 0.84 | 3,000 | 8 | 0.79 |
| Abacus | 2,482 | 9 | 0.76 | | | |
| Mercy Health Services | 2,305 | 10 | 0.71 | 2,800 | 9 | 0.73 |
| M&T Bank | | | | 3,051 | 7 | 0.80 |
| Bank of America Corporation | | | | 2,604 | 10 | 0.68 |
| Subtotal Ten Largest Private Sector Employers | 78,952 | | 24.17 | 79,601 | | 20.90 |
| Total Government and Ten Largest Private Sector Employers | 156,828 | | 48.01% | 160,404 | | 42.12% |

Source:

[1] For the government sector: Maryland Dept of Labor Licensing and Regulations, Employment data files for the period ending 12/31/2009.

[2] For the private sector: For 2010, Baltimore Development Corporation; For 2001, Baltimore Business Journal, Book of Lists 2003.

# OPERATING INFORMATION

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## CITY OF BALTIMORE

## Full Time Equivalent Employees By Function

## Last Ten Years

| | Full-time equivalent Employees at June 30 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Function/program | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| General government | 1,816 | 1,766 | 1,725 | 1,695 | 1,722 | 1,710 | 1,690 | 1,720 | 1,733 | 1,725 |
| Public safety | | | | | | | | | | |
| Police | 3,961 | 4,131 | 4,102 | 4,030 | 3,983 | 3,935 | 3,937 | 3,930 | 3,909 | 3,897 |
| Fire | 1,754 | 1,750 | 1,748 | 1,737 | 1,741 | 1,743 | 1,743 | 1,796 | 1,800 | 1,795 |
| Other | 692 | 714 | 738 | 725 | 727 | 735 | 752 | 766 | 793 | 795 |
| Conservation of health | 760 | 773 | 770 | 742 | 719 | 680 | 671 | 761 | 883 | 878 |
| Public library | 402 | 411 | 416 | 432 | 421 | 417 | 418 | 437 | 430 | 432 |
| Recreation and parks | 326 | 433 | 372 | 368 | 362 | 364 | 364 | 369 | 404 | 400 |
| Highways and streets | 1,636 | 1,511 | 1,511 | 1,511 | 1,515 | 1,510 | 1,518 | 1,523 | 1,514 | 1,499 |
| Public Works | | | | | | | | | | |
| Water | 957 | 942 | 952 | 957 | 936 | 926 | 900 | 901 | 893 | 878 |
| Waste Water | 1,103 | 1,093 | 1,088 | 1,091 | 1,086 | 1,069 | 1,059 | 1,031 | 1,014 | 1,011 |
| Solid Waste | 972 | 974 | 954 | 891 | 872 | 868 | 863 | 899 | 876 | 875 |
| Other | 856 | 826 | 626 | 609 | 570 | 598 | 606 | 607 | 627 | 621 |
| Public service | 58 | 55 | 63 | 64 | 64 | 64 | 68 | 68 | 68 | 68 |
| Economic development | 578 | 522 | 528 | 533 | 528 | 518 | 541 | 518 | 598 | 564 |
| | 15,871 | 15,901 | 15,593 | 15,385 | 15,246 | 15,137 | 15,130 | 15,326 | 15,542 | 15,438 |

Source: Baltimore City Bureau of Budget and Management Research

# CITY OF BALTIMORE

## Operating Indicators By Function/Program

## Last Ten Fiscal Years

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Function/Program | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| *Police* | | | | | | | | | | |
| Arrests* | 93,780 | 102,397 | 110,167 | 100,388 | 99,981 | 92,904 | 76,587 | 86,027 | 81,895 | 82,369 |
| *Fire* | | | | | | | | | | |
| Fire Suppression Units Dispatched | N/A | N/A | N/A | 106,822 | 120,906 | 126,942 | 132,560 | 137,272 | 136,003 | 135,421 |
| Structural Fires | 2,884 | 2,758 | 2,223 | 2,132 | 2,370 | 2,372 | 2,275 | 2,177 | 2,100 | 2,154 |
| EMS Transports | 81,029 | 83,026 | 82,453 | 83,348 | 83,828 | 86,881 | 89,331 | 88,831 | 86,128 | 86,985 |
| Inspections | 24,795 | 21,805 | 12,560 | 14,707 | 20,250 | 20,543 | 23,630 | 26,594 | 25,654 | 24,156 |
| *Solid Waste* | | | | | | | | | | |
| Refuse Collected (tons) | 206,851 | 208,970 | 212,711 | 218,324 | 220,063 | 218,194 | 206,333 | 195,601 | 180,693 | 178,121 |
| Recyclables Collected (tons) | N/A | N/A | N/A | N/A | N/A | 166,656 | 167,236 | 217,026 | 229,654 | 256,422 |
| *Water/Wastewater* | | | | | | | | | | |
| Number of Accounts | N/A | N/A | N/A | N/A | N/A | 409,208 | 439,327 | 439,676 | 440,215 | 441,209 |
| Average Daily Water Production (MGD) | N/A | N/A | N/A | N/A | N/A | 251 | 251 | 226 | 226 | 226 |
| Average Daily Sewage Treatment (MGD) | N/A | N/A | N/A | N/A | N/A | 210 | 210 | 192 | 192 | 192 |
| *Transportation* | | | | | | | | | | |
| Miles Streets Resurfaced/Reconstructed | 73.7 | 103.2 | 144.1 | 38.7 | 113.5 | 13.5 | 94.8 | 69.5 | 75.5 | 82.3 |
| Potholes Repaired | N/A | N/A | 7,769 | 11,592 | 19,000 | 16,054 | 15,345 | 15,478 | 14,879 | 15,121 |
| Traffic Citations Issued | N/A | 2,660 | 3,233 | 9,760 | 12,422 | 7,744 | 4,488 | 4,909 | 5,009 | 6,231 |
| Parking Citations Issued | N/A | 328,038 | 331,422 | 340,448 | 340,444 | 364,041 | 400,263 | 368,099 | 389,642 | 379,633 |
| Traffic Signals Repaired | N/A | N/A | N/A | 8,274 | 10,973 | 11,482 | 9,737 | 5,513 | 5,124 | 6,901 |
| Street Lights Repaired | N/A | N/A | 12,248 | 13,345 | 12,982 | 21,527 | 27,459 | 24,847 | 22,008 | 25,415 |
| *Housing* | | | | | | | | | | |
| Number of inspections (housing and code enforcement) | N/A | N/A | N/A | 179,385 | 199,830 | 169,727 | 180,073 | 175,922 | 172,555 | 169,987 |
| Number of permits issued | 20,133 | 20,803 | 23,138 | 26,692 | 32,780 | 38,787 | 38,455 | 34,565 | 33,068 | 36,630 |
| Property Management Service Requests Completed** | N/A | N/A | N/A | 13,109 | 15,635 | 30,537 | 24,951 | 26,630 | 22,964 | 21,421 |
| *Recreation and Parks* | | | | | | | | | | |
| Enrollment at Recreation Centers | N/A | N/A | 170,440 | 152,660 | 155,193 | 138,583 | 141,232 | 142,009 | 139,632 | 135,547 |
| Permits Issued for Park Facilities | N/A | N/A | 526 | 572 | 808 | 661 | 723 | 698 | 789 | 653 |
| *Library* | | | | | | | | | | |
| Volumes in Circulation (millions) | 3.1 | 3.1 | 3.2 | 2.7 | 2.2 | 2.3 | 2.6 | 2.5 | 2.5 | 2.6 |
| Volumes Borrowed (millions) | 1.4 | 1.2 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.3 | 1.5 | 1.5 |

N/A Data not available.

* Yearly arrests are based on calendar year data, not fiscal year. The 2010 numbers are through 10/31/2010.

** Property Management represents primarily cleaning and boarding of vacant properties.

Source: Baltimore City Department of Finance

# CITY OF BALTIMORE

## Capital Asset Statistics by Function/Program

## Last Ten Fiscal Years

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Function/Program | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| *Police/Sheriff* | | | | | | | | | | |
| Buildings | N/A | N/A | N/A | N/A | 10 | 10 | 10 | 10 | 10 | 10 |
| Marked Patrol Units | N/A | N/A | N/A | N/A | N/A | 525 | 466 | 473 | 471 | 487 |
| Other vehicles | N/A | N/A | N/A | N/A | N/A | 616 | 654 | 639 | 645 | 633 |
| *Fire Stations* | | | | | | | | | | |
| Buildings | N/A | N/A | N/A | N/A | 39 | 39 | 39 | 39 | 39 | 39 |
| Fire/EMS Apparatus (Tankers/Ladders/Medics) (Fleet) | N/A | N/A | N/A | N/A | N/A | 160 | 160 | 160 | 160 | 160 |
| Other vehicles | N/A | N/A | N/A | N/A | N/A | 152 | 168 | 164 | 164 | 164 |
| *Recreation and Parks* | | | | | | | | | | |
| Buildings | N/A | N/A | N/A | N/A | 147 | 148 | 148 | 148 | 148 | 148 |
| Acreage | 6,500 | 6,500 | 5,827 | 5,827 | 5,827 | 5,827 | 5,827 | 5,827 | 5,827 | 5,827 |
| Vehicles | N/A | N/A | N/A | N/A | N/A | 127 | 129 | 125 | 119 | 123 |
| Equipment | N/A | N/A | N/A | N/A | N/A | 304 | 309 | 295 | 286 | 296 |
| *Public Works (Transportation, Solid Waste, and General Services)* | | | | | | | | | | |
| Buildings | N/A | N/A | N/A | N/A | 30 | 30 | 30 | 30 | 30 | 30 |
| Vehicles | N/A | N/A | N/A | N/A | N/A | 990 | 971 | 980 | 968 | 952 |
| Equipment | N/A | N/A | N/A | N/A | N/A | 496 | 509 | 515 | 503 | 515 |
| Streets (miles) | N/A | N/A | N/A | N/A | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| *Water/Wastewater* | | | | | | | | | | |
| Treatment plants | N/A | N/A | N/A | N/A | 4 | 4 | 4 | 4 | 4 | 4 |
| Other Buildings | N/A | N/A | N/A | N/A | 31 | 31 | 31 | 31 | 31 | 31 |
| Vehicles | N/A | N/A | N/A | N/A | N/A | 611 | 625 | 615 | 608 | 599 |
| Equipment | N/A | N/A | N/A | N/A | N/A | 411 | 412 | 420 | 418 | 429 |
| Water Mains (Miles) | N/A | 3,400 | 3,400 | 3,400 | 3,400 | 3,400 | 3,400 | 3,400 | 3,400 | 3,400 |
| Water Treatment capacity (MGD) | 360 | 360 | 360 | 360 | 360 | 360 | 360 | 360 | 360 | 360 |
| Sanitary sewers (miles) | N/A | 1,340 | 1,340 | 1,340 | 1,340 | 1,340 | 1,340 | 1,335 | 1,335 | 1,335 |
| Storm sewers (miles) | N/A | 1,080 | 1,080 | 1,080 | 1,080 | 1,080 | 1,080 | 1,100 | 1,100 | 1,100 |
| Wastewater Treatment capacity (MGD) | 250 | 250 | 250 | 250 | 250 | 253 | 253 | 253 | 253 | 253 |
| *Libraries* | | | | | | | | | | |
| Buildings | N/A | N/A | N/A | N/A | 32 | 32 | 33 | 34 | 34 | 34 |
| Vehicles | N/A | N/A | N/A | N/A | N/A | 17 | 17 | 17 | 16 | 16 |
| *Other-General Government* | | | | | | | | | | |
| Buildings | N/A | N/A | N/A | N/A | 1,353* | 1,353* | 1,353* | 1,353* | 1,353* | 1,353* |
| Vehicles | N/A | N/A | N/A | N/A | N/A | 197 | 211 | 201 | 197 | 201 |
| Equipment | N/A | N/A | N/A | N/A | N/A | 59 | 62 | 66 | 64 | 61 |

* The total number of buildings for this category, in addition to those used for General Government purposes, includes residential properties under the ownership of the Mayor and City Council.

N/A Data not available

Source: Baltimore City Department of Finance

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City of Baltimore

Stephanie Rawlings-Blake, Mayor

*The Greatest City in America*