

City of Baltimore, Maryland

Comprehensive Annual Financial Report

Year Ended June 30, 2003

Prepared by the Department of Finance

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[CITY OF BALTIMORE LOGO APPEARS HERE]

[To Come]

ELECTED OFFICIALS

MAYOR

Martin O'Malley

PRESIDENT OF THE CITY COUNCIL

Sheila Dixon

COMPTROLLER

Joan M. Pratt

BOARD OF ESTIMATES

PRESIDENT

Sheila Dixon

MAYOR

Martin O'Malley

COMPTROLLER

Joan M. Pratt

DIRECTOR OF PUBLIC WORKS

George L. Winfield

CITY SOLICITOR

Thurman Zollicoffer

CITY COUNCIL

Sheila Dixon, *President*

Stephanie C. Rawlings, *Vice-President*

FIRST DISTRICT

John L. Cain

Nicholas C. D'Adamo, Jr.

Lois Garey

SECOND DISTRICT

Paula Johnson Branch

Pamela V. Carter

Bernard C. Young

THIRD DISTRICT

Robert W. Curran

Kenneth N. Harris, Sr.

Lisa Joi Stancil

FOURTH DISTRICT

Keiffer J. Mitchell, Jr.

Catherine E. Pugh

Agnes Welch

FIFTH DISTRICT

Stephanie Rawlings Blake

Helen Holton

Rochelle "Rikki" Spector

SIXTH DISTRICT

Dr. Kwama Osayaba Abayomi

Edward L. Reisinger

Melvin L. Stukes

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Introductory Section

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

December 9, 2003

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, (the City) for the year ended June 30, 2003. 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 organizational chart, a list of principal officials and the certificate of achievement for excellence in financial reporting. The financial section includes the auditor's opinion, management's discussion and analysis and basic financial statements with related notes, and required supplementary information. 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 Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment 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, 2003. Their joint audit report is contained herein. Their audit was conducted in accordance with auditing standards generally accepted in the United States of America 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. Two

component units, the Baltimore Industrial Development Authority (blended component unit) and the Baltimore City Public School System (discretely presented component unit), 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 (the City) is a body corporate and politic of the State of Maryland (the 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 population of 631,500. 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 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 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 (or for the current term, five years) and is eligible to succeed himself 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 latter two members hold their positions on the Board through appointments by the Mayor. 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 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 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 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 Finance Department, exercises appropriate fiscal management to adjust budget policy as necessary to live 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.

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 community having a conservative approach to all aspects of debt management, including debt service expenses, debt retirement schedules, and debt capacity ratios.

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) 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 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. There have been no significant changes in internal control since June 30, 2003.

ECONOMIC PROFILE AND OUTLOOK

Baltimore is the historic business, education and cultural center of Maryland. The City benefits from being in the second wealthiest State in the nation and one of the few states in the nation that experienced job growth annually since 1999 despite the recession and economic slowdown. The City 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 location factors including access to mid-western and northeastern markets, an excellent highway and rail transportation system, international port, and access to a large and diversified work force. About 370,000, or 30.8% of the 1.2 million jobs in the metropolitan area are located in the City. The City's development efforts have resulted in benefits as a growing number of business location specialists identify it as a low cost option in the AMTRAK — I95 northeast corridor. The relocation of certain operations of the Morgan Stanley and Co. Inc. from New York to Baltimore reflects this.

Employment structure factors affect the City favorably. This is of increasing importance as global markets rapidly shift job locations. The City has been less reliant for several decades on traditional manufacturing industries than the region, state and nation as a whole. Manufacturing jobs comprise 6.2% of the City's jobs. This is a lower percentage than the region, the state and the nation. Over 23.5% of the jobs located in the City are in health and education related services which is a significantly higher proportion than in the region, State and nation. The growing prominence of health and knowledge industries are reflected in major employers. Among the ten largest non-governmental employers in the City, eight are health and education related entities, one is a manufacturer and one is a financial institution. The City derives economic strength from the growing share of jobs in the knowledge and information based industries of health and education.

An increasing number of knowledge based workers and residents of the Washington, D.C. — and Northern Virginia area commute to and from jobs and homes in Baltimore and the Baltimore area. The City is aggressively marketing its low cost, high value housing and business location options.

The City supports and builds on the strengths of growth sector employers, the internationally renowned health and hospital institutions, most notably the Johns Hopkins Hospital & 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. The National Institutes of Health (NIH) programs facilities are also expanding in the City. The City continued work with its health and education partners for two major bio-medical business centers planned for areas adjacent to the campuses of the Johns Hopkins and University of Maryland Medical Centers on the east and west side of downtown, respectively. The two major medical institutions have jointly promoted the bio med projects. Land acquisition and design moved forward and land clearance for the east-side project began in 2003. In addition, in 2003 the City broke ground on the third Emerging Technology Center with the support of the Johns Hopkins University and state and federal funding.

In contrast to these positive economic factors working in the City's favor, the City is challenged with overcoming the stigma and economic burdens of an old port and industrial city with unacceptably high crime rates, antiquated housing, vacant industrial brownfield sites, and other problems that contribute to neighborhood instability. The crime problem arises in a large part from substance abuse. These factors lead to job and residential sprawl which the City must counter. As of July 1, 2002, the census estimate of City population was 638,614, down 1.0% from the prior year .

While population decline continues, the figures have improved relative to past decades. Annual population decline peaked at nearly 12,000 in the decade of the 1970's and declined to an average annual loss of about 8,500 in the 1990's. The net out migration is currently an estimated 6,300 annually. Key to altering this trend will be addressing the concentration of a disproportionate share of the State's poor in the City and redeveloping areas of disinvestment and abandoned residential, warehouse and brownfields sites. Careful application of tax and development incentives in order to strengthen the revenue base have been and will continue to be used.

Positive outcomes of these efforts are reflected in current private development activity underway or completed in 2003, estimated to be about \$1.5 billion, and a conservative estimate of over \$1.0 billion in development projects now in the planning, design and financing stages. These redevelopment investment projects are in progress at sites spread widely throughout the City. A portion of these have been assisted through the use of public subsidies such as low interest loans, negotiated payments in lieu of taxes for major commercial and apartment developments, tax increment financing for redevelopment of facilities in neighborhoods, old industrial sites, and on the waterfront. Property tax credit programs for new owner occupied residential construction, historic property rehab and re-use, job creation projects are also used throughout the City.

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, purchasing, budgeting accounting and procurement. To this end the following highlights financial management actions in Fiscal 2003:

- Continued design work with private contractors to replace the 28 year old real property tax accounting and collections system and related applications and began testing aspects of the new integrated user and customer friendly system. Full implementation of the first phase of the project is intended to be for the property tax bills for Fiscal 2005.
- Implemented new property tax sale bidder requirements, mailed notices and bills earlier, introduced competitive bid for advertising, worked with mortgage payment service companies, implemented new customer service and web site enhancements to secure improved collections and more efficient tax sale.

- Implemented new contract for outsourcing the occupational medicine program and for third party administration of worker compensation claims. It is too early to conclude the savings magnitude conclusively. However, it is clear that there has been a drop in job injury leave attributable to improved medical evaluation practices, that vendors are being paid in about 20 days, (a six fold improvement over the prior experience), and that there has been a drop in initial claims from about 5,000 in Fiscal 2002 to about 4,100 in Fiscal 2003. After three years with incurred claims costs in excess of \$30.0 million, Fiscal 2003 incurred claims costs declined to \$25.9 million.
- Changed the cost-sharing arrangement for health care costs increasing the share born by the active and retired employees. The program has been put in place for all represented and unrepresented employee groups except for public health nurses and is to be effective January, 2004. Estimated total 12 month savings of \$18.4 million are anticipated (\$7 million from active employees and about \$11.4 million for retirees).
- Successfully refunded \$129.4 million in General Obligation debt in May 2003 resulting in net present value savings of \$3.4 million due to favorable interest rate environment.
- Improved processes for purchase requisitions and substantially reduced number of requisitions not processed within benchmark target times.

Supporting innovative programming with a balanced budget requires on-going action to manage expenditure requirements and increase limited local, own source revenues. On June 18, 2002, a budget for Fiscal 2003 was adopted. It incorporated a full year of major income tax distributions that reflected the largest income tax increase in the City's history and a \$2.0 million increase in payments by major non-profit institutions. Part of a four-year, \$20 million payment in lieu of taxes agreement, the City recognizes the need to implement a plan to provide funding to account for the four year agreement term. The second and final phase of the new parking tax structure that reduced reliance on transaction-based tax and improving audit potential was implemented. The General Fund budget also included about \$1.4 million in new fee and service charge revenues, many arising from CitiStat management reviews. All these actions combined to put the City on a more solid financial footing.

Positive effects are evident in the City's General Fund Balance position which improved substantially. While the economy showed signs of weakness, revenue estimates were exceeded and effective financial management enabled the City to enhance its fund balance position. A significant addition of \$4.4 million was made to the budget stabilization fund, which, at June 30, 2003, had a balance of \$56.2 million or about 5.8% of General Fund revenues. When combined with the undesignated unreserved fund balance of \$9.0 million, the total of \$65.2 million comprises about 6.6% of General Fund revenues, a major step to strengthen the City's balance sheet. Meeting and surpassing the City's goal of 5.0% is critical in view of State's recent actions cutting aid to and programs benefiting local governments and their residents. Given the current performance of the national economy, the prospects for additional state aid cuts remain high, even if there is modest and continued improvement in the economy. This makes it essential that the City strengthen its fund balance as the outlook calls for modest but insufficient improvement in economic performance at best.

MAJOR INITIATIVES

The Administration focuses on the critical long-term concerns facing the City — the loss of population and jobs, providing children and entire neighborhoods with opportunities and hope for the future, reducing crime and increasing drug treatment. This requires that the City find and implement "best practices" and take risks investing in innovations. Limited resources are focused on top priority police and the public safety spending. Nevertheless, notable accomplishments are found in a wide range of traditional urban public services and services unique to Baltimore. Substantial intergovernmental aid is essential to address the sometimes unique and too often disproportionate needs facing the City such as crime, drug treatment, lead paint abatement and other issues. The success of CitiStat, the management innovation that shows that problems of the scale of Baltimore's can be managed, is reflected by the fact that at least eight cities are formally implementing processes modeled on CitiStat. Just as the Inner Harbor and related redevelopment of the past two decades continues to draw urban policy makers to Baltimore, CitiStat has become an attraction drawing visitors from around the nation and the world. A sampling of Fiscal 2003 initiatives and accomplishments follows.

Objective 1: Make Baltimore a safe, clean city

Violent crime is a primary negative image that must be changed. The City devotes the largest share of local resources to reducing crime. For instance between Fiscal 2002 and 2003 actual spending on police personnel rose about \$21.8 million, an

amount equivalent to 51% of the total General Fund expenditure increase for operating and pay-as-you-go capital purposes. The results of the investment have been positive. The City continued to be the leader of 25 of the largest cities reporting data to the Federal Bureau of Investigation in the reduction of index crime with a 26% decrease from 1999 to 2002.

To sustain these trends, the City increased its investment in the Police Department, criminal justice system, drug treatment and other areas with the following Fiscal 2003 actions:

- The City made police salaries competitive with the surrounding jurisdictions and adding an additional 67 former grant funded positions to the General Fund increased actual personnel costs in the Police Department by \$21.8 million in Fiscal 2003 compared to Fiscal 2002.
- The City selected a vendor to implement a false alarm reduction program, a best practice adopted from models found around the nation to better use scarce police resources by reducing the number of responses to false alarm calls.
- The City increased funding for the third year for the State’s Attorney’s Office.
- The State’s Attorney received a new federal grant of \$277,000 to prosecute cases involving violent crimes committed with guns and other violations of gun statutes involving drug trafficking and gang-related crimes.
- A contractor was selected to implement the City’s new False Alarm Reduction program.
- The Sheriff’s Office has increased courthouse security from 8 to 24 hours per day as part of expanded Homeland Security efforts.
- \$1.5 million was provided for switching to new water and waste water treatment chemicals that can not readily be used for a terrorist attack

Because the “drug problem” is the cause of much of the City’s crime problem Health Department actions are inextricably linked to the success of public safety initiatives:

- The City successfully advocated for additional state and federal funding for substance abuse treatment. The data below traces the increase in number of slots, number of treatment or service units provided, and total funding for drug treatment managed through Baltimore Substance Abuse Systems, Inc.

Year	Treatment slots	Treatments	Total Funding
1998	5,763	17,986	\$28.3 million
1999	6,448	18,136	\$31.4 million
2000	6,515	18,118	\$29.4 million
2001	7,420	19,558	\$46.0 million
2002	7,698	21,573	\$55.3 million
2003	8,863	25,949	\$59.7 million

- Additional grant funds support HIV prevention initiatives for hard to serve populations. The major increase was in Ryan White CARE Act Title I funds from \$17.9 million 2002 to \$21.4 million in 2003. These funds represent 18% of all the funds distributed to metropolitan areas nationally.
- Additional grant funds also support new therapy, outreach, and education programs for substance abusers and AIDS victims at a variety of new locations including youth centers, correctional facilities, Drug Court, and educational institutions.
- The City continues to be a national leader in the control of communicable diseases. For instance the rate of syphilis was reduced to the lowest level in 25 years.

Objective 2: Increase educational, cultural and recreational opportunities for children

Making the City safer and cleaner is a necessary starting point for securing and enhancing the opportunities for a child to live a full life. A harsh reality is that the leading cause of death for youth ages 15 to 24 in Baltimore is murder. Investment in public safety and health is the necessary starting point to secure a promising future. Innovation is essential and use of databases and management tools has been applied aggressively. In Fiscal 2003 actions included:

- The CitiStat interagency management process was used to review, merge and map data on juvenile crime and homicide and recreation programs. This resulted in resource shifts, and schedule changes for recreation centers in targeted areas.

- Beyond management, legislative policy action was taken to curb illegal ammunition sales to minors, and reduce availability of fire arms.
- An increase in lead paint prevention efforts allowed for the purchase of 10,000 home lead dust kits for expectant mothers and new parents that was provided with support of a number of private grants.
- City Health Department acted to maintain leadership in childhood immunization programs with 80% of the pre-school population having the “4:3:1” immunization series compared to a national rate of 78%. In addition, 99.8% of all K-12 public school attendees have had their shots.
- Actions like the lead paint program, immunization program, and efforts to continue the reduction in the teen pregnancy rate were reflected in the achievement of the lowest infant mortality rate in the City’s history in calendar 2003.

Budget actions supporting educational and cultural objectives for children and families included the following:

- Locally funded per pupil school spending increased to a total of \$200.9 million for the Public School System, an amount that was \$4.0 million more than the State required per pupil spending amount. Funding supports actions such as increasing the number of full day kindergarten programs from 109 in 1999 to 275 in 2003.
- Locally financed capital improvement projects for the elementary and secondary school system totaled \$12.0 million and cover projects ranging from asbestos removal to information system development.
- Essential state funding to meet education objectives came from General Assembly Fiscal 2003 action on recommendations of the legislative education study group, the Thornton Commission. The school system received \$18.7 million in new revenues.
- State funding for library services increased by about \$1.1 million due to the increase in the State Library Resource Center grant from \$1.55 to \$1.70 per capita. The additional funding supported service improvements that enhanced opportunities for Baltimore’s children and Maryland residents. The efforts have received national recognition. The Young Adult Library Service Association gave its annual award for Excellence in Young Adult Services to the Pratt. The library also received the Godfrey Award of Excellence in Public Library Services for Families and Children. National consultants ranked the library in the top five public libraries in terms of technology capabilities.
- Fiscal 2003 locally funded capital appropriations were made to improve facilities for children and families as follows: \$3.5 million for library construction projects, \$10.5 million for ten public school projects, \$1.8 million for recreation facilities included a major play lot renovation initiative, and \$5.5 million for cultural facilities that included the Maryland Science Center, the National Aquarium, and the Baltimore Zoo expansions.
- Other 2003 cultural attraction highlights included the opening of the \$4.5 million Patterson Arts Center and groundbreaking for the \$33 million Maryland Museum of African American History and Culture.

Objective 3: Make government responsive, accountable and cost effective

The City examines all options to operate in the most cost-effective manner while being responsive and accountable. In 2003, the nationally recognized CitiStat management program received the “Urban Innovator Award” from the Manhattan Institute. Reliance on use and integration of available management information, using current technology tools is at the core of the effort. Government Technology Magazine recognized Baltimore as one of the “top 25 IT drivers” in IT innovations in 2003. In Fiscal 2003, the following privatization, reorganization, and information technology actions served this management objective:

- Based on the recommendation of the Greater Baltimore Committee and the Presidents’ Roundtable, the Divisions of Occupational Medicine and Safety and the Worker’s Compensation Claims Processing Unit of the Department of Human Resources are transferred to a new Risk Management Operations program in the Office of Risk Management. Initial impacts are summarized under the Financial Accomplishments section.
- The Recreation and Parks Department outsourced about 60% of the parks mowing requirements, with estimated savings of about \$400,000, and outsourced custodial services, eliminating 49 custodial worker positions with estimated annual savings of about \$600,000.
- Privatization actions included preventive maintenance of heating, ventilation and air conditioning systems in Public Works and the privatization of the staff of the Baltimore Museum of Art.

- The Mayor’s Advisory Committee on Art and Culture was merged with the Office of Promotion to create a new agency, the Baltimore Office of Promotion and the Arts, and eliminate six positions.
- Fiscal 2003 was the first full year of operation for the City’s customer oriented “311” central intake one-call system allowing access to all City service information on a “24/7” basis. It is supported by a new work order tracking system and a customer satisfaction survey implemented in 2003. The system received national recognition including the Gartner Customer Relationship Management (CRM) Excellence Award in the large enterprise category. The City competed with 150 applicants including major private sector corporations such as finalists York International and Washington Mutual.
- Pioneering IT work included the design and implementation of a “first of its kind” wireless broadband network to connect all City firehouses to the core metropolitan area network. This is an application that will be extended to other remote locations.

Objective 4: Strengthen Baltimore’s economy by increasing the tax base, jobs, and minority business opportunities

The trend in jobs located in the City clearly defines the need to create an environment for private investment job creation. Joblessness underlies much of the cause of drug addiction and the resulting crime problems. The economic health and prosperity of the City can only be sustained if it is inclusive of all its residents:

- In Fiscal 2003, \$135,000 was provided for creation of three positions in the Law Department’s Minority Business Enterprise (MBE) compliance unit to fulfill City Code mandates and continue to improve information technology for the MBE on-line reporting system.
- By mid-year the City had increased the amount and percentage of contract awards to MBE/WBEs moving towards the policy goal of 30% as follows:

Fiscal Year	Dollar Awards	Percent of Dollars
2000	\$45 million	14%
2001	\$67 million	23%
2002	\$79 million	26%

- The capital budget provided local funding of \$8.9 million for economic development projects and a substantial increase in conduit capital spending of \$3.1 million to improve this right-of-way system essential to local development.
- The promotion of Baltimore through the Baltimore Area Convention and Visitors Association is a fundamental development tool. The General Fund support was increased by \$200,000.
- Continued improvement in visitor facilities is essential and the budget continues investment in maintenance of the Convention Complex with a \$300,000 increase in facility improvements. Investment in visitor promotion is reflected in direct Convention Center revenues which have more than tripled from \$3.2 million to \$10.6 million since the expanded center opened in Fiscal 1996.
- The Department of Housing and Community Development implemented an Automated Workflow System to increase customer service capacity in the permitting and code enforcement sections. Building permit processing time has been cut.
- In addition, in December 2002, the “One Stop Shop” for building and related permitting was opened. A best practice, it supports construction and neighborhood revitalization.
- A new signage system for major landmarks, “Trailblazers” was funded and the first signs installed in the spring of 2003.

Objective 5: Create stable and healthy neighborhoods

Neighborhood stability is threatened on many fronts, most fundamentally by crime and its causes, which is addressed in a number of objectives. Beyond the basic issues of public safety and health, the following Fiscal 2003 actions focused resources on a wide range of services aimed at neighborhood development:

- The destabilizing influence of vacant residential properties was addressed by the Project 5000 Initiative, which brought the first properties to foreclosure from the 2001 tax sale.

- Grant funds provided a major increase in homeless services funding of about \$3.6 million in addition to local source capital funding of \$12.1 million for housing, commercial areas and other projects to benefit neighborhoods.
- The Healthy Neighborhood Initiative, a collaborative effort of the City, State and private groups received additional federal funds of \$250,000 to assist in tasks such as attracting retailers to neighborhoods. Success is reflected as three new major grocers opened or started work on stores, bringing to seventeen the total number of modern retail grocery outlets opened in the City over the last four years.
- To improve neighborhoods, BGE, the private sector electric utility that maintains street lights, is working with the City to integrate the City's 311 customer service request system with BGE's Legacy System to eliminate unnecessary work orders and improve the accuracy of data. The result was a reduced backlog of open street light service requests.
- Improved the cleanliness of neighborhoods through actions such as the expanded graffiti removal programs where the square feet of graffiti removed increased from 375,000 feet in 2001 to 1.7 million square feet in Fiscal 2003.
- Expanded the Believe Trash Can Program, in cooperation with the Rubbermaid Corporation, from 4 to 9 neighborhoods distributing over 33,000 trash cans.
- An Environmental Crimes unit was created in the Police Department to address illegal dumping in neighborhoods and use a privately funded informant cash award program to convict more dumpers.
- The second Arts and Entertainment District was created in Highlandtown and the first ever mixed use artist Planned Unit Development went to the City Council.

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—Government Finance Officers Association to the City of Baltimore, Maryland, for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002.

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 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,

Martin O'Malley
Mayor

Peggy J. Watson
Director of Finance

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Financial Section

SEAL

- **Report of Independent Auditors**
- **Management's Discussion and Analysis**
- **Basic Financial Statements**
- **Notes to the Basic Financial Statements**

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((LETTERHEAD))

Report of Independent Auditors

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

December 9, 2003

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Baltimore, Maryland, as of and for the year ended June 30, 2003, 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 audit the financial statements of the Baltimore City Public School System component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Baltimore City Public School System, is based on the report 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Baltimore, Maryland, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

The management's discussion and analysis on pages 3 through 14, and the additional required supplementary information on pages 61 through 64, are not a required part of the basic financial statements but are supplementary information required by accounting principals generally accepted in the United States. We and the other auditors 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 and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of the other auditors, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Yovonda D. Brooks, CPA
City Auditor
Department of Audits

Ernst & Young LLP
Independent Auditors

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Baltimore's (the 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, 2003. 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 \$3.7 billion (net assets). This amount includes \$239.6 million (restricted net assets) and is net of a \$187.3 million unrestricted deficit. During the fiscal year, the City's total net assets decreased by \$1.9 million.

As of June 30, 2003, the City's governmental funds reported combined ending fund balances of \$136.2 million. At the close of the current fiscal year, unreserved fund balance for the general fund was \$40.9 million or 4.2% of total general fund expenditures of \$967.2 million.

The City's total long-term debt increased by \$116.9 million (7.5%), during the current fiscal year. The key factors in this increase were issuances of \$193.9 million in general obligation bonds, \$7.5 million in new special obligation bonds, and \$76.5 million in new and refunding revenue bonds in business-type activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

GASB 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 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 financial statements.

The report also contains required and other 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.

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 Changes in Fiduciary Net Assets
		Statement of Activities		Statement of Cash Flows	
		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 Financial 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. Summary financial information for this component unit is reported separately from the financial information presented for the primary government itself. The Baltimore City Public School System prepared its own financial statements, which are also prepared in conformity with GASB 34 and also 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, 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, 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 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 Financial Statements

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

(Expressed in Thousands)

	Governmental activities		Business-type activities		Total	
	2003	2002	2003	2002	2003	2002
Current and other assets	653,209	\$ 712,042	457,251	\$ 460,501	1,110,460	\$1,172,543
Capital assets, net	3,139,430	3,099,578	1,599,849	1,519,611	4,739,279	4,619,189
Total assets	3,792,639	3,811,620	2,057,100	1,980,112	5,849,739	5,791,732
Long-term liabilities outstanding	795,629	798,031	756,025	675,663	1,551,654	1,473,694
Other liabilities	538,332	533,548	53,576	76,379	591,908	609,927
Total liabilities	1,333,961	1,331,579	809,601	752,042	2,143,562	2,083,621
Net assets:						
Invested in capital assets, net of related debt	2,812,963	2,643,306	840,900	953,214	3,653,863	3,596,520
Restricted	15,444	15,650	224,150	215,671	239,594	231,321
Unrestricted	(369,729)	(178,915)	182,449	59,185	(187,280)	(119,730)
Total net assets	2,458,678	\$2,480,041	\$1,247,499	\$1,228,070	\$3,706,177	\$3,708,111

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 \$3.7 billion at the close of the current fiscal year. The City's net assets include its investment of \$3.7 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, \$239.6 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 \$187.2 million.

CITY OF BALTIMORE

Changes in Net Assets

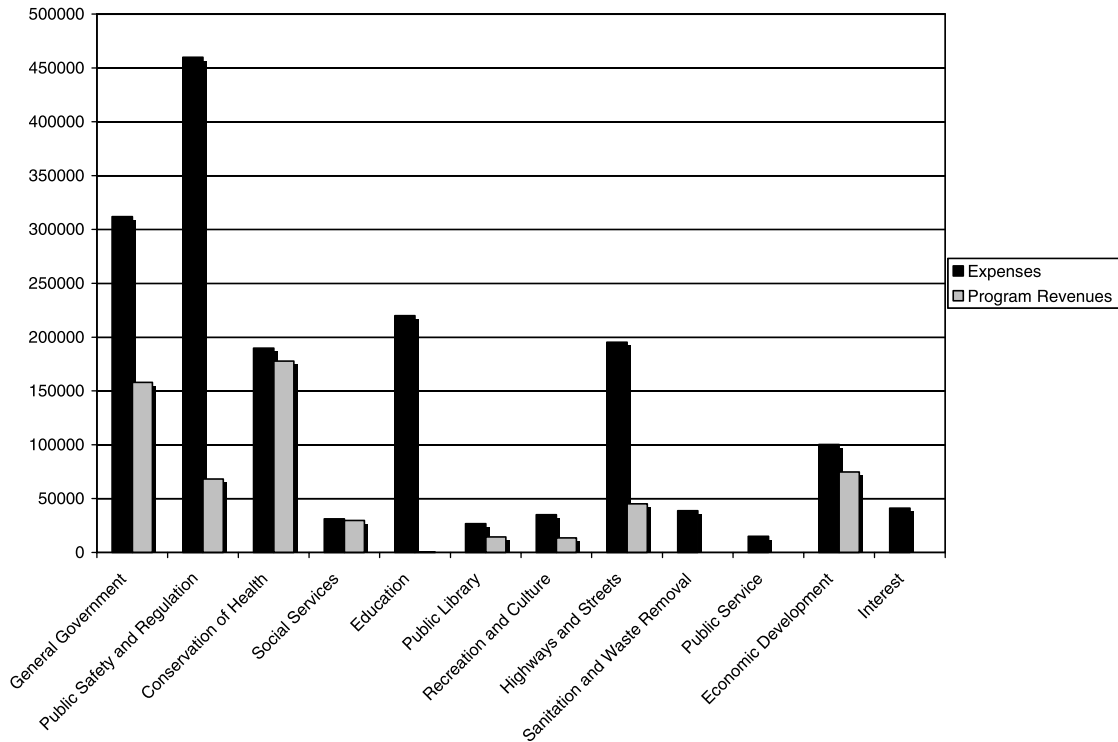
(Expressed in Thousands)

	Governmental activities		Business-type activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program revenues:						
Charges for services	\$ 73,636	\$ 66,089	\$ 272,084	\$ 266,936	\$ 345,720	\$ 333,025
Operating grants and contributions	472,628	429,036			472,628	429,036
Capital grants and contributions	35,873	41,863	30,580	37,840	66,453	79,703
General revenues:						
Property taxes	517,452	487,776			517,452	487,776
Income taxes	173,466	181,574			173,466	181,574
State shared revenue	173,412	173,604			173,412	173,604
Other	166,064	164,106		2,416	166,064	166,522
Total revenues	\$1,612,531	1,544,048	\$ 302,664	307,192	\$1,915,195	1,851,240
Expenses:						
General government	\$ 311,906	280,380			\$ 311,906	280,380
Public safety and regulation	459,806	434,567			459,806	434,567
Conservation of health	189,881	176,159			189,881	176,159
Social services	31,382	26,966			31,382	26,966
Education	219,904	224,218			219,904	224,218
Public library	26,877	27,159			26,877	27,159
Recreation and culture	35,119	53,199			35,119	53,199
Highways and streets	195,148	159,481			195,148	159,481
Sanitation and waste removal	38,882	36,569			38,882	36,569
Public service	14,945	12,646			14,945	12,646
Economic development	100,343	134,031			100,343	134,031
Interest	41,271	46,037			41,271	46,037
Water			\$ 97,883	84,454	97,883	84,454
Waste water			132,785	125,859	132,785	125,859
Parking			13,062	13,733	13,062	13,733
Conduits			3,075	2,754	3,075	2,754
Development loans			3,202	3,227	3,202	3,227
Industrial development			1,660	2,241	1,660	2,241
Total expenses	\$1,665,464	1,611,412	\$ 251,667	\$ 232,268	\$1,917,131	1,843,680
Increase (decrease) in net assets before transfers	(52,933)	(67,364)	50,997	74,924	(1,936)	7,560
Transfers:						
Transfers in	31,570	27,661	(31,570)	(27,661)		
Change in net assets	(21,363)	(39,703)	19,427	47,263	(1,936)	7,560
Net assets — beginning	2,480,041	2,519,744	1,228,070	1,180,807	3,708,111	3,700,551
Net assets — ending	\$2,458,678	\$2,480,041	\$1,247,497	\$1,228,070	\$3,706,175	\$3,708,111

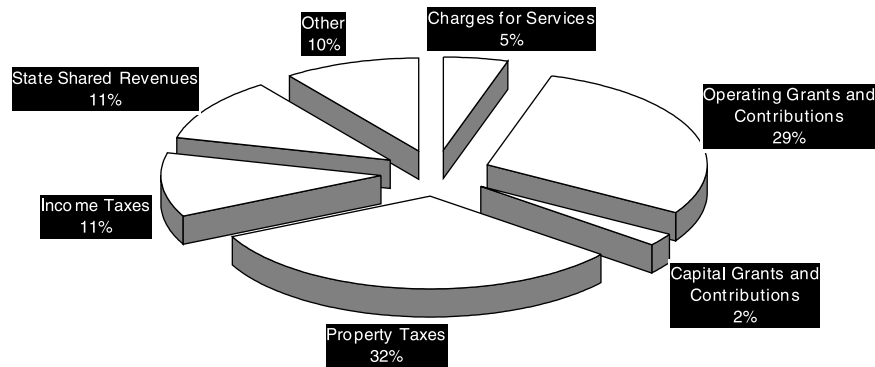
Analysis of Changes in Net Assets

The overall decrease in the City's net assets amounted to \$1.9 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



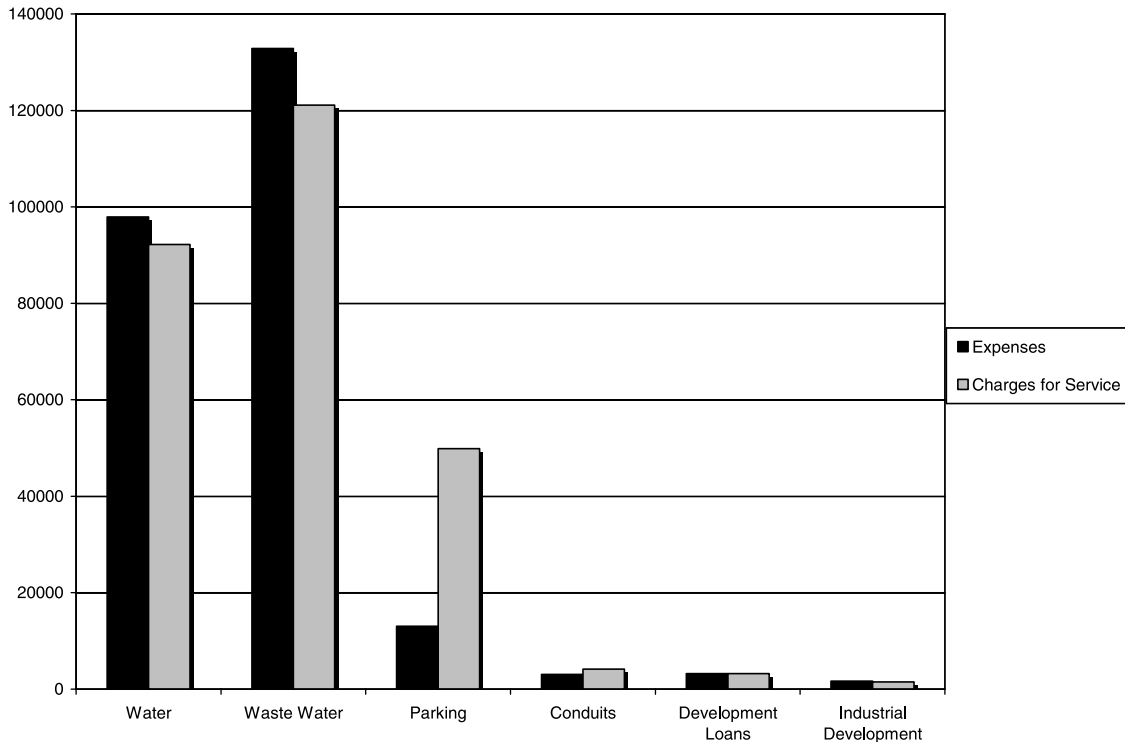
Revenues By Source — Governmental Activities



Governmental activities

During the current fiscal year, expenses related to governmental activities amounted to \$1.6 billion, this exceeds revenue by \$52.9 million. Total revenue of \$1.6 billion is comprised of program revenues totaling \$ 582.1 million, or 36%, and general revenues of \$1.0 billion, or 64%. 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.

Expenses and Program Revenues—Business-type Activities



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 \$302.7 million. Expenses and transfers for these activities totaled \$283.3 million and resulted in an increase in net assets of \$19.4 million.

The Water/Waste Water Utility Funds realized an increase in net assets of \$15.1 million due to improved operating margins and increases in the total value of property, plant and equipment.

Parking Facilities Fund operations realized an increase in net assets of \$4.8 million.

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, 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 2003 and 2002

(Expressed in Thousands)

	2003	2002	Variance Amount
Revenues:			
General fund:			
Property taxes	\$ 517,452	\$ 487,776	\$ 29,676
Income taxes	173,466	181,574	(8,108)
Other local — taxes	102,899	98,034	4,865
Total local taxes	793,817	767,384	26,433
Licenses and permits	21,429	22,051	(622)
Interest, rentals, and other investment income	24,968	27,468	(2,500)
State grants	98,778	87,580	11,198
Other	51,599	51,009	590
Total revenues — general fund	990,591	955,492	35,099
Other governmental funds:			
Motor vehicle fund	187,891	185,538	2,353
Grants revenue fund	340,989	287,578	53,411
Capital projects fund	60,345	40,913	19,432
Other funds	25,555	48,986	(23,431)
Total revenues other governmental funds	614,780	563,015	51,765
Total revenues all governmental funds	1,605,371	1,518,507	86,864
Expenditures:			
General fund:			
General government	253,812	214,288	39,524
Public safety and regulation	377,494	350,941	26,553
Conservation of health	24,760	24,102	658
Social services	1,952	1,743	209
Education	202,046	205,771	(3,725)
Public library	19,493	19,680	(187)
Recreation and culture	25,998	26,255	(257)
Highways and streets	153	175	(22)
Sanitation and waste removal	30,617	29,435	1,182
Public service	11,889	12,170	(281)
Economic development	19,077	14,631	4,446
Total expenditures — general fund	967,291	899,191	68,100
Other governmental funds:			
Motor vehicle fund	144,495	128,463	16,032
Grants revenue fund	344,830	316,563	28,267
Capital projects fund	206,246	171,910	34,336
Other funds	89,349	92,160	(2,811)
Total expenditures other governmental funds	784,920	709,096	75,824
Total expenditures all governmental funds	1,752,211	1,608,287	143,924
Excess of revenue over expenditures	(146,840)	(89,780)	(57,060)
Other financing sources (uses):			
Transfers, net	31,570	27,661	3,909
Capital leases	433	12,400	(11,967)
Federal loans		10,124	(10,124)
Face value of special obligation bonds	7,479		7,479
Face value of funding and refunding general obligation bonds	193,920	32,745	161,175
Payments to escrow agents	(128,030)		(128,030)
Bond discounts	(2,064)		(2,064)
Demand obligation transferred to fund liability	(51,900)		(51,900)
Total other financing sources (uses)	51,408	82,930	(31,522)
Net changes in fund balances	(95,432)	(6,850)	(88,582)
Fund balances beginning	231,659	238,509	(6,850)
Fund balances ending	\$ 136,227	\$ 231,659	\$ (95,432)

Revenues for governmental functions overall totaled approximately \$1.6 billion in the fiscal year ended June 30, 2003, which represents an increase of 5.7% from the fiscal year ended June 30, 2002. Expenditures for governmental functions, totaling \$1.75 billion, increased by approximately 9.1% from the fiscal year ended June 30, 2002. In the fiscal year ended June 30, 2003, expenditures for governmental functions exceeded revenues by approximately \$148.9 million, or approximately 9.2%. The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved undesignated

fund balance of the general fund was \$8.9 million, while total fund balance was \$129.3 million. The fund balance in the City's general fund increased by \$6.6 million during the fiscal year mainly due to continued growth in local taxes. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$136.2 million, a decrease of \$95.4 million in comparison with the prior year.

The Motor Vehicle Fund was established to account for operating and capital transportation programs supported primarily from state shared highway user revenues. Every effort is made to spend available proceeds from these funding sources in the year received. For the current year, outlays exceed receipts by \$10.0 million resulting in an ending fund balance of \$10.1 million, of which \$1.3 million was unreserved and undesignated.

The Grants Revenue Fund is used to account for the spending of various Federal, State and special purpose funds. Most of these grants are funded on an expenditure reimbursement basis and the application of GASB 33 rules on revenue recognition results in year-to-year fluctuations in fund balance.

The Capital Projects Fund is used to account for the overall financing and expenditure of uncompleted projects. The fund balance of \$43.4 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.

	Water and Waste Water Utility Funds		Parking Facility Fund		Nonmajor Other Funds	
	2003	2002	2003	2002	2003	2002
Operating revenue	\$213,345	\$212,764	\$ 49,883	\$ 46,043	\$ 8,856	\$8,129
Operating expenses	207,711	196,768	7,915	6,991	7,842	8,105
Operating income	5,634	15,996	41,968	39,052	1,014	24
Non operating revenues (expenses), capital contributions, and transfers	9,554	29,736	(37,139)	(36,475)	(1,604)	3,792
Change in net assets	\$ 15,188	\$ 45,762	\$ 4,829	\$ 2,577	\$ (590)	\$3,816

All of the City's business-type activities realized operating income during the current fiscal year and except for the nonmajor funds all experienced an increase in net assets. For the principal business-type activities, increases in operating revenues compared to the previous year were less than increases in operating expenses. This resulted in a modest decline in operating margins for these funds.

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, 2003

(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance With Original Budget Positive (Negative)	Variance With Final Budget Positive	Increases to Original Budget
Total revenues	\$ 977,659	\$ 977,774	\$ 989,544	\$ 11,885	\$ 11,770	\$ 115
Expenditures and encumbrances:						
General government	254,095	254,095	253,668	427	427	
Public safety and regulation	374,122	374,122	373,695	427	427	
Conservation of health	24,040	24,040	24,040			
Social services	1,881	1,881	1,874	7	7	
Education	1,128	1,128	1,128			
Public library	18,483	18,483	18,392	91	91	
Recreation and culture	24,734	24,734	24,730	4	4	
Highways and streets	232	232	189	43	43	
Sanitation and waste removal	30,339	30,339	30,339			
Public service	12,038	12,038	12,038			
Economic development	17,487	19,303	19,031	(1,544)	272	1,816
Total expenditures	758,579	760,395	759,124	\$ (545)	\$ 1,271	\$1,816
Excess of revenues over expenditures and encumbrances	219,080	217,379	230,420			
Other financing sources (uses):						
Transfers in	27,720	27,720	31,992			
Transfers out	(49,827)	(51,334)	(48,705)			
Payments to component unit	(200,946)	(200,946)	(200,946)			
Total other financing sources (uses)	(223,053)	(224,560)	(217,659)			
Net changes in fund balances	(3,973)	(7,181)	12,761			
Fund balances beginning	97,801	97,801	97,801			
Fund balances ending	\$ 93,828	\$ 90,620	110,562			
Adjustments to reconcile to GAAP basis:						
Addition of encumbrances outstanding			24,625			
Less: Accounts payable not recorded for budgetary purposes			(5,863)			
Fund-balance June 30, 2003-GAAP Basis			\$ 129,324			

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 \$3.3 million were approved, all of which were approved from prior year surplus. Actual expenditures for the year exceeded the original budget by \$.5 million, but were \$1.3 million less than adjusted appropriations. Of this amount, \$1.1 million was related to three governmental activities: lower than budgeted costs for public safety operations amounted to \$.4 million; lower than budgeted cost for court system operation amounted to \$.4 million and lower than budgeted cost for economic development operations amounted to \$.3 million.

On a budgetary basis, revenue for fiscal year 2003 totaled \$989.5 million and expenditures and transfers totaled \$940.4 million. The excess of revenues over expenditures resulted in a budget basis fund balance at June 30, 2003 of \$110.6 million, an increase of \$12.8 million. In creating its budget for the fiscal year ended June 30, 2003, the City used \$31.9 million of this fund balance for subsequent year's expenditures.

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2003, amount to \$4.7 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 net increase in the City's capital assets for the current fiscal year was 2.6% (a 1.26% increase for governmental activities and a 5.33% increase for business-type activities) as shown in the table below.

Capital Assets, Net of Depreciation

(Expressed in Thousands)

	Governmental activities		Business-type activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 134,300	\$ 134,300	\$ 17,361	\$ 17,329	\$ 151,661	\$ 151,629
Building and Improvements	660,894	619,236	777,540	784,729	1,438,434	1,403,965
Machinery and Equipment	97,313	102,029	41,262	43,966	138,575	145,995
Infrastructure	1,447,485	1,494,790	39,556	40,235	1,487,041	1,535,025
Library Books	18,100	17,446			18,100	17,446
Construction in Progress	781,338	731,777	724,130	633,352	1,505,468	1,365,129
Total	\$3,139,430	\$3,099,578	\$1,599,849	\$1,519,611	4,739,279	\$4,619,189

See footnote number 5 on capital assets.

Debt Administration

At the end of the current fiscal year, the City had total long-term obligations outstanding of \$1.4 billion. Of this amount, \$564.4 million is general obligation bonds backed by the full faith and credit of the City, \$51.7 million is revenue bonds for governmental activity at the Convention Center, and \$850.3 million is revenue bonds related to commercial business activity. The remainder includes revenue bonds, certificates of participation, and other obligations of City business and governmental activities.

During fiscal year 2003, the City's total bonded debt increased by approximately \$116.9 million. The key factors were the issuances of \$193.9 million in general obligation bonds, \$7.5 million in new special obligation bonds, and \$76.5 million in new and refunding business activity 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 to management, citizens, and investors. A comparison of these indicators follows:

	FY 2002	FY 2003
Net general bonded debt (Expressed in thousands)	\$453,232	\$514,195
Net general bonded debt per capita (Rounded to nearest dollar)	714	805
Ratio of net general bonded debt to net assessed value	2.4%(1)	2.7%(1)

See footnote number 7 on long-term obligations.

(1) The Maryland General Assembly passed legislation in 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.

As of June 30, 2003, the City had \$531.9 million in authorized, outstanding property tax-supported general obligation bonds. This amount is reduced by net assets in the Debt Service Fund of \$17.7 million for net tax-supported bonded debt of \$514.2 million, which is equal to approximately 2.7% of the assessed value of property (net of exemptions). There are an additional \$163.6 million in bonds that are authorized, but unissued.

Economic Factors and Next Year's Budget and Rates

The adopted Ordinance of Estimates for the fiscal year 2004 budget does not propose any tax rate changes. The real and personal property tax rates remain at \$2.328 and \$5.82 per \$100 of assessed valuation, respectively, and the locally imposed income tax rate remains unchanged at 3.05%. The General Fund total revenues and funding sources are estimated to be \$1,005.6 million, which represents growth of slightly more than 1.6%. The City's outlook for growth in property taxes is estimated at 1.7% on a budget-to-budget basis. Included is a 4.1% growth in real property taxes, which is anticipated to be the largest taxable base growth rate since 1990. On a budget-to-budget basis, income tax revenue is estimated to decrease about 1.7% which reflects the slow down in the economy and the impact of reduced capital gains taxes. The City's largest source of General Fund State Aid, the income tax disparity aid grant, a grant based on the gap between the City's per capita income tax revenue yield and the statewide average, is reduced due to a decline in the difference between the per capita income tax yield between Maryland's wealthy and poor counties. Much of this change is due to the decline in income tax yield from capital gains. To offset in part this reduction and other reductions in aid the State budget included discretionary payments of income tax disparity monies. The City's grant is reduced from \$76.0 million to \$75.1 million.

The long economic downturn has stalled growth and increased unemployment in almost every U.S. city. Baltimore has been no exception. Jobs located in the City as reported for unemployment insurance purposes to the State, dropped from 380,865 in calendar 2001 to 369,871 calendar 2002, about 2.9% down. Job declines were spread widely among employment sectors with only education and health services showing job growth between 2001 and 2002. The City resident unemployment rate at the end of Fiscal 2003 rose to 8.6%, a 0.3% hike from the end of the prior year. On the other hand the most recent available unemployment survey data shows a slight increase in resident employment in the City, from 267,050 to 269,802, a 1.0% increase from calendar 2001 to calendar 2002. The reported increase in resident employment was not yet reflected in income tax base growth. The weak jobs situation and the effects of capital gains losses combined to reduce both net taxable income and the number of tax returns filed. Baltimore City was one of five Maryland counties to have two successive years of decline in net taxable income in calendar 2001 and 2002. The counties included three of the wealthiest counties in the State, reflecting the combined effects of the job market and the decline in capital gains income. The City's employment situation is affected positively by growth in health and education employment. The slowdown in the economic situation in 2003 is reflected in the following:

- The tourism sector was hit by the weak national economy. Passenger volume at Baltimore Washington International airport decreased 6.4% in calendar 2002. Hotel tax receipts, reflected the slow down.
- Foreign trade cargo volume at the Port of Baltimore decreased 7.9%,
- After a record Fiscal 2002, building permit revenue slowed slightly, declining from \$6.3 million to \$6.1 million.

Despite the recession and the current slowdown certain key economic indicators performed positively:

- The real property tax base grew for the fifth consecutive year at a rate of 3.4% the strongest growth rate since Fiscal 1992. This results from a number of factors including the national surge in real estate prices, renewed confidence in the City, and City development efforts.
- The City shared in the strength seen around the nation in the real estate market as home sale prices increased 16.6% and total residential sales dollar volume increased 21.3% to \$794.2 million between calendar 2001 and 2002.
- The City, for the fourth year in a row, has a higher rate of growth in the number of residential units sold than the five county Baltimore area as a whole, 4.1% versus 3.2%.
- Retail sales grew modestly with an increase of 0.7% in Fiscal 2003 over the prior year.

The value of Port of Baltimore trade increased 11.4%. High value automobile shipments at the port surged 31.0% strengthening the Port's position as the major east coast roll on roll off cargo port. Total cargo volume at the BWI airport increased 11.7%.

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

CITY OF BALTIMORE

Statement of Net Assets

June 30, 2003

(Expressed in Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Baltimore City Public School System
Assets:				
Cash and cash equivalents	\$ 231,802	\$ 120,988	\$ 352,790	\$ 76,752
Investments	120,323	476	120,799	
Property taxes receivable	27,393		27,393	
Other receivables, net	27,928	67,314	95,242	3,652
Due from other governments	163,515	1,535	165,050	28,929
Internal balances	23,212	(23,212)		
Due from component unit	18,433		18,433	
Due from primary government				18,926
Inventories	3,613	5,580	9,193	877
Restricted:				
Cash and cash equivalents		189,415	189,415	
Investments		14,668	14,668	
Accounts receivable		12,692	12,692	
Notes and mortgages receivable, net	15,929	57,189	73,118	
Other assets	19,074		19,074	
Issuance costs	1,987	10,606	12,593	854
Capital assets, net of accumulated depreciation	3,139,430	1,599,849	4,739,279	250,114
Total assets	3,792,639	2,057,100	5,849,739	380,104
Liabilities:				
Accounts payable and accrued liabilities	98,395	11,783	110,178	92,302
Accrued interest payable	5,930	12,457	18,387	
Property taxes payable	575		575	
Estimated claims in progress	120,187		120,187	
Due to component unit	18,926		18,926	
Due to other governments		220	220	1,497
Due to primary government				18,433
Matured bonds payable	5,148		5,148	
Deferred revenue	142,582		142,582	
Deposits subject to refund	24,379	13	24,392	11,848
Restricted accounts payable		15,006	15,006	
Notes payable		65	65	
Revenue bonds payable:				
Due within one year	2,010	11,310	13,320	
Due in more than one year	49,720	743,822	793,542	
Long term debt payable:				
Due within one year	81,768	302	82,070	
Due in more than one year	516,004	3,514	519,518	80,332
Capital leases payable:				
Due within one year	11,831		11,831	
Due in more than one year	159,923		159,923	38,262
Compensated absences:				
Due within one year	25,257	1,670	26,927	
Due in more than one year	55,651	8,699	64,350	67,601
Landfill closure	12,321		12,321	
Other liabilities	3,354	740	4,094	
Total liabilities	1,333,961	809,601	2,143,562	310,275
Net assets:				
Invested in capital assets, net of related debt	2,812,963	840,900	3,653,863	131,521
Restricted for:				
Construction		136,579	136,579	62,094
Debt service		87,571	87,571	1,052
Perpetual care:				
Expendable	8,842		8,842	
Nonexpendable	6,602		6,602	
Inventories				593
Unrestricted	(369,729)	182,449	(187,280)	(125,431)
Total net assets	\$2,458,678	\$1,247,499	\$3,706,177	\$ 69,829

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

CITY OF BALTIMORE

Statement of Activities

For the Year Ended June 30, 2003

(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit Baltimore City Public School System
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business- type Activities	Total	
Primary Government:								
Governmental activities:								
General government	\$ 311,906	\$ 17,472	\$140,383		\$ (154,051)		\$(154,051)	
Public safety and regulation	459,806	20,376	47,821		(391,609)		(391,609)	
Conservation of health	189,881	2,331	175,410		(12,140)		(12,140)	
Social services	31,382	613	29,296		(1,473)		(1,473)	
Education	219,904		453		(219,451)		(219,451)	
Public library	26,877	302	14,100		(12,475)		(12,475)	
Recreation and culture	35,119	728	3,859	\$ 8,912	(21,620)		(21,620)	
Highways and streets	195,148	31,814		13,362	(149,972)		(149,972)	
Sanitation and waste removal	38,882				(38,882)		(38,882)	
Public service	14,945				(14,945)		(14,945)	
Economic development	100,343		61,306	13,599	(25,438)		(25,438)	
Interest	41,271				(41,271)		(41,271)	
Total governmental activities	1,665,464	73,636	472,628	35,873	(1,083,327)		(1,083,327)	
Business-type activities:								
Water	97,883	92,214		9,459		\$ 3,790	3,790	
Waste water	132,785	121,131		23,147		11,493	11,493	
Parking	13,060	49,883				36,823	36,823	
Conduits	3,075	4,137		550		1,612	1,612	
Development loans	3,202	3,219		(2,576)		(2,559)	(2,559)	
Industrial development	1,660	1,500				(160)	(160)	
Total business-type activities	251,665	272,084		30,580		50,999	50,999	
Total primary government	\$1,917,129	\$345,720	\$472,628	\$66,453	(1,083,327)	50,999	(1,032,328)	
Component unit:								
Baltimore City Public School System	\$ 992,027	\$ 4,540	\$267,092	\$56,975				\$(663,420)
General revenues:								
Property taxes					517,452		517,452	
Income taxes					173,466		173,466	
Other local taxes					102,899		102,899	
State shared revenues					173,412		173,412	663,919
Unrestricted investment income					31,841		31,841	968
Miscellaneous					31,324		31,324	3,720
Transfers					31,570	(31,570)		
Total general revenues and transfers					1,061,964	(31,570)	1,030,394	668,607
Change in net assets					(21,363)	19,429	(1,934)	5,187
Net assets — beginning					2,480,041	1,228,070	3,708,111	64,642
Net assets — ending					\$ 2,458,678	\$1,247,499	3,706,177	\$ 69,829

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

CITY OF BALTIMORE

Balance Sheet

Governmental Funds

June 30, 2003

(Expressed in Thousands)

	General Fund	Motor Vehicle Fund	Grants Revenue Fund	Capital Projects Fund	Other Funds	Total
Assets:						
Cash and cash equivalents	\$103,770	\$ 451	\$ 75	\$ 15,806	\$28,042	\$ 148,144
Investments	26,801			72,321	15,381	114,503
Property taxes receivable, net	27,393					27,393
Other receivables, net	12,947	269	5,587	6,576	271	25,650
Due from other governments	20,545	13,253	42,340		7,591	83,729
Due from other funds	45,074			21,115		66,189
Due from component unit	18,433					18,433
Notes, mortgages receivable, net	8,051				7,878	15,929
Inventories, at cost	1,759	1,107				2,866
Other assets	18,159	122				18,281
Total assets	\$282,932	\$15,202	\$ 48,002	\$115,818	\$59,163	\$ 521,117
Liabilities and fund balances:						
Liabilities:						
Accounts payable and accrued liabilities	\$ 45,152	\$ 4,842	\$ 16,754	\$ 11,642	\$ 1,405	\$ 79,795
Retainages payable				7,080		7,080
Property taxes payable—State	575					575
Due to other funds			39,703		7,667	47,370
Due to component unit	18,926					18,926
Deposits subject to refund	24,379					24,379
Deferred revenue	64,576	269	67,124	1,728	16,020	149,717
Matured bonds payable					5,148	5,148
Demand general obligation bonds payable				51,900		51,900
Total liabilities	153,608	5,111	123,581	72,350	30,240	384,890
Fund balances:						
Reserved for:						
Budget stabilization	56,221					56,221
Landfill closure	4,387					4,387
Encumbrances	24,625	2,037		131,047		157,709
Inventories	1,759	1,107				2,866
Other assets	1,430	122				1,552
Unreserved:						
Designated for subsequent year's expenditures	31,937	3,650				35,587
Undesignated	8,965	3,175	(75,579)	(87,579)		(151,018)
Unreserved reported in:						
Debt Service Fund					17,715	17,715
Non-major special revenue funds					4,606	4,606
Non-major permanent funds					6,602	6,602
Total fund balances	129,324	10,091	(75,579)	43,468	28,923	136,227
Total liabilities and fund balances	\$282,932	\$15,202	\$ 48,002	\$115,818	\$59,163	

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	3,096,957
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	87,817
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.	262
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	(862,585)
Net assets of governmental activities	\$2,458,678

The notes to the 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, 2003

(Expressed in Thousands)

	General Fund	Motor Vehicle Fund	Grants Revenue Fund	Capital Projects Fund	Other Funds	Total
Revenues:						
Taxes—local	\$793,817					\$ 793,817
State shared revenue		\$172,813			\$ 599	173,412
Licenses and permits	21,429	491				21,920
Fines and forfeitures	2,401	8,526				10,927
Interest, rentals and other investment income	24,968	1,327		\$ 4,239	1,307	31,841
Federal grants	77		\$212,016	26,590	19,512	258,195
State grants	98,778		98,139	9,283		206,200
Other grants	6,112		30,834			36,946
Charges for services	36,315	4,474				40,789
Miscellaneous	6,694	260		20,233	4,137	31,324
Total Revenues	990,591	187,891	340,989	60,345	25,555	1,605,371
Expenditures:						
Current:						
General government	253,812	19,612	54,949		3,655	332,028
Public safety and regulation	377,494	35,069	47,421		673	460,657
Conservation of health	24,760		163,558			188,318
Social services	1,952		29,296			31,248
Education	202,046	3,654			965	206,665
Public library	19,493		7,407		112	27,012
Recreation and culture	25,998		3,724		402	30,124
Highways and streets	153	86,160			10	86,323
Sanitation and waste removal	30,617					30,617
Public service	11,889					11,889
Economic development	19,077		38,475	29,531	15,707	102,790
Debt service:						
Principal					36,065	36,065
Interest					31,760	31,760
Capital outlay				176,282		176,282
Capital leases				433		433
Total expenditures	967,291	144,495	344,830	206,246	89,349	1,752,211
Excess (deficiency) of revenues over (under) expenditures	23,300	43,396	(3,841)	(145,901)	(63,794)	(146,840)
Other financing sources (uses):						
Transfers in	31,992			57,579	58,120	147,691
Transfers out	(48,705)	(53,389)		(10,840)	(3,187)	(116,121)
Capital leases				433		433
Face value of special obligation bonds				7,479		7,479
Face value of funding and refunding general obligation bonds				193,920		193,920
Payments to escrow agent				(128,030)		(128,030)
Bond discounts				(2,064)		(2,064)
Demand obligation bonds transferred to fund liability				(51,900)		(51,900)
Total other financing sources (uses)	(16,713)	(53,389)		66,577	54,933	51,408
Net change in fund balance	6,587	(9,993)	(3,841)	(79,324)	(8,861)	(95,432)
Fund balances — beginning	122,737	20,084	(71,738)	122,792	37,784	231,659
Fund balances — ending	\$129,324	\$ 10,091	\$(75,579)	\$ 43,468	\$ 28,923	\$ 136,227

The notes to the 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, 2003

(Expressed in Thousands)

Amounts reported for governmental activities in the statement of activities (page 16) are different because:

Net change in fund balance — total governmental funds (page 18)	\$(95,432)
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. . .	178,779
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	7,160
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.	(21,898)
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.	(90,759)
The net expense of certain activities of internal service funds is reported with governmental activities.	<u>787</u>
Change in net assets of governmental activities (page 16)	<u>\$(21,363)</u>

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

CITY OF BALTIMORE

Statement of Fund Net Assets

Proprietary Funds

June 30, 2003

(Expressed in Thousands)

	Enterprise Funds				Total	Governmental Activities Internal Service Funds
	Water Utility Fund	Waste Water Utility Fund	Parking Facilities Fund	Other Funds		
Assets:						
Current assets:						
Cash and cash equivalents	\$ 14,216	\$ 33,847	\$ 13,785	\$ 59,140	\$ 120,988	\$ 83,658
Investments				476	476	5,820
Accounts receivable, net:						
Service billings	28,501	37,080	326	1,083	66,990	
Other			50	274	324	2,278
Due from other governments	1,535				1,535	
Inventories	5,470	110			5,580	747
Current restricted assets:						
Cash and cash equivalents	86,332	56,158	46,925		189,415	
Investments	5,457	4,829	4,382		14,668	
Accounts receivable, net	3,876	8,816			12,692	
Due from other funds	3,031	4,344			7,375	
Total current assets	148,418	145,184	65,468	60,973	420,043	92,503
Noncurrent assets:						
Restricted assets:						
Mortgages receivable			57,189		57,189	
Property, plant and equipment, net	490,932	966,176	98,714	44,027	1,599,849	42,473
Other assets						793
Issuance costs	4,393	2,526	3,239	448	10,606	
Total noncurrent assets	495,325	968,702	159,142	44,475	1,667,644	43,266
Total assets	643,743	1,113,886	224,610	105,448	2,087,687	135,769
Liabilities:						
Current liabilities:						
Accounts payable and accrued liabilities	2,438	8,550	684	111	11,783	11,520
Accrued interest payable	5,462	3,566	3,351	78	12,457	
Deposits subject to refund	13				13	
Due to other funds	1,365	8,042	2,185	14,156	25,748	446
Due to other governments		220			220	
Estimated liability for claims in progress						58,741
Other liabilities	3,286	3,821		197	7,304	3,354
Accounts payable from restricted assets	5,335	9,388	188	95	15,006	
Revenue bonds payable	2,295	4,660	4,355		11,310	
General long-term debt payable	86	216			302	
Total current liabilities	20,280	38,463	10,763	14,637	84,143	74,061
Noncurrent liabilities:						
Revenue bonds payable, net	286,285	253,951	186,414	17,172	743,822	
Notes payable				65	65	
Other liabilities	894	2,098		813	3,805	
General long-term debt payable	1,027	2,487			3,514	
Estimated liability for claims in progress						61,446
Total noncurrent liabilities	288,206	258,536	186,414	18,050	751,206	61,446
Total liabilities	308,486	296,999	197,177	32,687	835,349	135,507
Net assets:						
Invested in capital assets, net of related debt	201,238	704,863		44,027	950,128	42,473
Restricted for:						
Debt service	39,666	23,490	24,415		87,571	
Future capital expenditures	59,030	50,657	26,892		136,579	
Unrestricted (deficit)	35,323	37,877	(23,874)	28,734	78,060	(42,211)
Total net assets	\$335,257	\$ 816,887	\$ 27,433	\$ 72,761	1,252,338	\$ 262
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds					(4,839)	
Net assets of business-type activities					\$1,247,499	

The notes to the 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, 2003

(Expressed in Thousands)

	Enterprise Funds					Governmental Activities Internal Service Funds
	Water Utility Fund	Waste Water Utility Fund	Parking Facilities Fund	Other Funds	Total	
Operating revenues:						
Charges for sales and services						
Water and sewer service	\$ 92,214	\$121,131			\$213,345	
Rents, fees and other income			\$ 49,883	\$ 8,270	58,153	\$302,855
Interest income on loans				586	586	
Total operating revenues	92,214	121,131	49,883	8,856	272,084	302,855
Operating expenses:						
Salaries and wages	27,282	30,873		1,604	59,759	14,418
Other personnel costs	9,365	11,270		525	21,160	5,012
Contractual services	23,019	46,784	6,845	459	77,107	26,188
Materials and supplies	6,879	7,497		41	14,417	9,087
Minor equipment	2,405	1,864		9	4,278	123
Claims paid and incurred						242,448
Postage and delivery services						1,027
General governmental overhead	4,379	5,766			10,145	
Other expenses	1,645	1,920			3,565	
Depreciation	9,550	17,213	1,070	899	28,732	7,761
Program expenses				3,096	3,096	
Interest				1,305	1,305	
Total operating expenses	84,524	123,187	7,915	7,938	223,564	306,064
Operating income (loss)	7,690	(2,056)	41,968	918	48,520	(3,209)
Nonoperating revenues (expenses):						
Gain (loss) on sale of investments	(480)	(309)	23		(766)	8
Gain (loss) on disposal of property			385		385	(350)
Interest income (expense)	(3,377)	(3,260)	(5,555)		(12,192)	947
Loss on interest rate swap termination	(9,539)	(6,087)			(15,626)	
Total nonoperating revenues (expenses)	(13,396)	(9,656)	(5,147)		(28,199)	605
Income (loss) before contributions and transfers	(5,706)	(11,712)	36,821	918	20,321	(2,604)
Capital contributions	9,459	23,147		(2,026)	30,580	3,489
Transfers in (out)			(31,992)	422	(31,570)	
Change in net assets	3,753	11,435	4,829	(686)	19,331	885
Total net assets — beginning	331,504	805,452	22,604	73,447		(623)
Total net assets — ending	\$335,257	\$816,887	\$ 27,433	\$72,761		\$ 262
Adjustment to reflect the consolidation of internal service activities related to enterprise funds					98	
Change in net assets of business-type activities					\$ 19,429	

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

CITY OF BALTIMORE
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2003
(Expressed in Thousands)

	Enterprise Funds					Governmental Activities- Internal Service Funds
	Water Utility Fund	Waste Water Utility Fund	Parking Facilities Fund	Other Funds	Total	
Cash flow from operating activities:						
Receipts from customers	\$ 85,105	\$ 114,281	\$ 49,922	\$ 8,421	\$ 257,729	\$ 304,301
Receipts from interfund services provided	4,729	7,470			12,199	
Payments to employees	(36,434)	(41,657)		(2,450)	(80,541)	(19,198)
Payments to suppliers	(29,837)	(51,353)	(8,598)	(14,476)	(104,264)	(299,616)
Payments for interfund services used	(3,013)	(913)			(3,926)	
Net cash provided (used) by operating activities	20,550	27,828	41,324	(8,505)	81,197	(14,513)
Cash flows from noncapital financing activities:						
Transfers out			(31,992)	(2,154)	(34,146)	
Cash flows from capital and related financing activities:						
Mortgages receivable principal payments			1,649		1,649	
Proceeds from revenue bonds	50,938	27,623			78,561	
Principal paid on bonds	(313)	(113)			(426)	
Principal paid on revenue bonds	(2,185)	(2,233)	(3,690)	8,091	(17)	
Payments to buyout interest rate swaps	(9,539)	(6,087)			(15,626)	
Notes receivable repayments				1,839	1,839	
Interest paid	(9,818)	(12,732)	(6,908)		(29,458)	
Acquisition and construction of capital assets	(29,811)	(53,213)	(9,588)	(113)	(92,725)	(4,833)
Gain (loss) on disposal of property			385		385	(350)
Capital contributions	9,460	23,147		549	33,156	3,489
Changes in restricted assets	137	7,533	(17,145)		(9,475)	
Net cash provided (used) by capital and related financing activities	8,869	(16,075)	(35,297)	10,366	(32,137)	(1,694)
Cash flows from investing activities:						
Proceeds from the sale and maturities of investments			24		24	10,962
Purchase of investments				(25)	(25)	(5,485)
Interest on investments	1,123	1,136			2,259	955
Net cash provided (used) by investing activities	1,123	1,136	24	(25)	2,258	6,432
Net increase (decrease) in cash and cash equivalents	30,542	12,889	(25,941)	(318)	17,172	(9,775)
Cash and cash equivalents, beginning of year	70,006	77,116	86,651	59,458	293,231	93,433
Cash and cash equivalents, end of year	\$ 100,548	\$ 90,005	\$ 60,710	\$ 59,140	\$ 310,403	\$ 83,658
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 7,690	\$ (2,056)	\$ 41,968	\$ 918	\$ 48,520	\$ (3,209)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense						
Depreciation expense	9,550	17,213	1,070	899	28,732	7,761
Amortization of bond discounts						
Amortization of bond discounts				34	34	
Changes in assets and liabilities:						
Accounts receivables	(1,628)	216	38	(434)	(1,808)	2,282
Due from other funds	852				852	
Due from other governments	42	2,104			2,146	
Other assets						(522)
Inventories	(464)	(34)			(498)	263
Accounts payable and accrued liabilities	197	2,397	217	45	2,856	(623)
Other liabilities	7	295		(1,918)	(1,616)	(128)
Notes payable				(59)	(59)	
Estimated liability for claims in progress						(20,565)
Accrued interest payable	2,043	1,092	(30)	(21)	3,084	
Restricted accounts payable	896	1,527			2,423	
Due to other governments		4,854			4,854	
Due to other funds	1,365	220	(1,939)	(7,969)	(8,323)	228
Total adjustments	12,860	29,884	(644)	(9,423)	32,677	(11,304)
Net cash provided (used) by operating activities	\$ 20,550	\$ 27,828	\$ 41,324	\$ (8,505)	\$ 81,197	\$ (14,513)

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

CITY OF BALTIMORE
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003
(Expressed in Thousands)

	Pension Trust Funds	Agency Funds
Assets:		
Cash and cash equivalents	\$ 116,071	\$947
Investments:		
Stocks	1,357,441	51
Bonds	1,231,197	
Mutual funds	206,905	
Real estate	76,816	
Guaranteed investment contracts	36,238	
Securities lending collateral	524,548	
Other assets	33,209	
Total assets	<u>3,582,425</u>	<u>998</u>
Liabilities:		
Obligations under securities lending program	524,548	
Accounts payable	79,148	43
Pension benefits payable	2,945	
Other		955
Total liabilities	<u>606,641</u>	<u>998</u>
Net assets:		
Held in trust for pension benefits	\$2,975,784	

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

CITY OF BALTIMORE
Statement of Changes in Fiduciary Net Assets
Pension Trust Funds

For the Year Ended June 30, 2003

(Expressed in Thousands)

	Pension Trust Funds
<hr/>	
Additions:	
Contributions:	
Employer	\$ 52,415
Employee	15,743
Total contributions	<u>68,158</u>
Investment income:	
Net appreciation in fair value of investments	19,534
Securities lending income	1,666
Interest and dividend income	81,370
Total investment income	102,570
Less investment expense	<u>8,075</u>
Net investment income	94,495
Total additions	<u>162,653</u>
Deductions:	
Retirement allowances	203,775
Death benefits	1,071
Administrative expenses	3,321
Other	13,562
Total deductions	<u>221,729</u>
Changes in net assets	(59,076)
Net assets—beginning of the year	<u>3,034,860</u>
Net assets—end of the year	<u>\$2,975,784</u>

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

CITY OF BALTIMORE

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CITY OF BALTIMORE
Notes to Basic Financial Statements

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 of America 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 Unit

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, and is financially accountable to, the City. 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 the discretely presented component unit may be obtained from the Chief Financial Officer, Baltimore City Public School System, 200 East North Avenue, 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

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 appointed to staggered terms 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.

CITY OF BALTIMORE
Notes to Basic Financial Statements

(Continued)

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.

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 fund types:

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

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

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, which account for the receipt, investment and distribution of retirement contributions made for the benefit of police officers, firefighters, elected officials and other City employees.
- Agency Funds account for assets held by the City as custodians. Agency funds include:
 - Unpresented Stock and Coupon Bond accounts 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 Refund accounts for bid deposits held by the City to secure vendors bids not yet awarded.
 - Waxter Center Accessory and Recreation Accessory accounts for assets held by the City for the benefit of various senior and recreation centers throughout the City.
 - Waterloo Summit accounts for assets held by the City as a surety deposit from a developer.

Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements. — The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary fund and fiduciary fund financial statements are reported using 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 120 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 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.

C. ASSETS, LIABILITIES, AND EQUITY

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, 2003, 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.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

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.

Receivables and Payables

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

Mortgage receivables reported in governmental fund, government-wide, 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 primarily 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 fixed 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, now 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 and sick 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.

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, 2003. 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 3.0%, 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 1% and 1/2% is allowed for payments made in July and August, respectively. 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.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

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 2003 was \$17,316,114,000, which was approximately 97% of the estimated market value.

The tax rate in Baltimore City for real property taxes for fiscal year 2003 was \$2.33 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 \$5.82 per \$100 of assessed value. Current collections were 96.6% of the total tax levy.

At June 30, 2003, the City had property taxes receivable of \$27,392,000, net of an allowance for uncollectible accounts of \$85,489,000.

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 statements.

Bond Anticipation Notes

All Bond Anticipation Notes (BANs) were initially sold as long-term debt with stated maturities greater than one year and cannot be accelerated by the note holders. Although the City has the authority to and may refinance these notes, it is not required to do so.

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.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

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, 2003, the City had reserved \$56,221,000 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.

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.

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.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

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.

CITY OF BALTIMORE
Notes to Basic Financial Statements

(Continued)

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	\$ 4,507,625
Less: Accumulated depreciation	(1,410,668)
Total	\$ 3,096,957
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:	
Due from other governments	\$ 79,786
Deferred revenue	7,135
Due to business-type activities	4,839
Accrued interest payable	(5,930)
Unamortized bond discounts	1,987
Total	\$ 87,817
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.	
	\$ 262
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	\$ (545,872)
Revenue bonds	(51,730)
Capital leases	(171,754)
Compensated absences	(80,908)
Landfill closure liability	(12,321)
Total	\$ (862,585)

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	\$ 178,346
Capital leases	433
Total	\$ 178,779
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	\$ 7,160
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	\$ (193,920)
Proceeds from capital leases	(433)
Proceeds from special obligation bonds	(7,479)
Transfers to escrow agent	128,034
Reclassification of demand debt as fund liability	51,900
Total	\$ (21,898)
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	\$ 36,065
Debt service interest (capital leases, GO bonds, and accrued interest)	16,378
Capital related expenditures	(136,905)
Compensated absences	(6,297)
Total	\$ (90,759)
The net expense of certain activities of internal service funds is reported with governmental activities:	
Internal service funds net expenses attributed to governmental activities	\$ 787

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

3. Deposits and Investments

A. SUMMARY OF DEPOSIT and INVESTMENT BALANCES

Reconciliation of the City's deposit and investment balances as of June 30, 2003 (amounts expressed in thousands):

	Pooled Cash and Investments	Other	Total
Carrying value of bank deposits	\$ (7,082)		\$ (7,082)
Investments	415,627	\$3,819,341	4,234,968
Total	\$408,545	\$3,819,341	\$4,227,886

	Government- wide Statement of Net Assets	Fiduciary Funds Statement of Net Assets	Total
Cash and cash equivalents	\$352,790	\$ 117,018	\$ 469,808
Investments	120,799	3,433,196	3,553,995
Restricted cash and equivalents	189,415		189,415
Restricted investments	14,668		14,668
Total	\$677,672	\$3,550,214	\$4,227,886

B. CASH DEPOSITS

As of June 30, 2003, the carrying amount of the City's bank deposits was a net overdraft of \$7,082,000 and the respective bank balances totaled \$6,848,000. 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, 2003, the BCPSS has demand deposits with a carrying value of \$76,752,000. The bank balance for all deposits at June 30, 2003 was \$85,360,381. These funds are collateralized (expressed in thousands) as follows:

Amounts insured by the FDIC or collateralized with securities held by the BCPSS or its agent in BCPSS's name	\$25,252
Amounts insured by the FDIC or collateralized with securities held by the BCPSS or its agent but not in the BCPSS's name	\$51,500

C. INVESTMENTS

For other than its pension funds, the City 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 City's Retirement Systems are authorized by City law to invest in pension fund obligations of the U. S. government and Canada, deposits in savings accounts, corporate bonds, publicly traded preferred and common stocks, bankers' acceptance notes, the State's local government investment pool, loans secured by first mortgages, guaranteed investment contracts, covered call options and real estate equity investments.

The City's investments have been classified into the following three categories of credit risk:

- (1) Insured or registered, or securities held by the City or its agent in the City's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- (3) Uninsured and unregistered, with securities held by the counterparty or by the counterparty's trust department or agent, but not in the City's name.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

The following schedule classifies the investments of the City as of June 30, 2003, into the above noted categories:

(Expressed in Thousands)	Category		Carrying Value
	1	2	
Repurchase agreements	\$ 63,014	\$40,504	\$ 103,518
U. S. Treasury and Agencies:			
Not on securities loan	616,531		616,531
On securities loan for cash collateral	391,735		391,735
Corporate bonds:			
Not on securities loan	487,151		487,151
On securities loan for cash collateral	29,019		29,019
Stocks:			
Not on securities loan	1,268,921		1,268,921
On securities loan for cash collateral	88,520		88,520
	\$2,944,891	\$40,504	2,985,395
Investments not subject to categorization:			
Mutual funds			611,971
Guaranteed investment contracts			36,238
Real estate equity investments			76,817
Securities lending collateral pool			524,547
			4,234,968
Less: cash equivalents			666,305
Total			\$3,568,663

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.

On June 7, 1999, the City's Retirement Systems 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 retirement systems' benefit for the duration of the loan. At no time does the retirement system 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, 2003, 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, 2003, was \$509,274,000, and the market value of the collateral received for those securities on loan was \$524,548,000. 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.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

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.

The Baltimore City Public School System held investments of \$53,315,000 in the Maryland Local Government Investment Pool, and this amount is included in their total cash and cash equivalents of \$76,752,000.

4. Receivables

Receivables at year-end of the City's major individual governmental funds, enterprise funds and nonmajor governmental funds and other funds (including internal service funds 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	\$27,393						\$ 27,393
Service billings					\$65,907	\$ 1,083	66,990
Due from other governments	20,545	\$13,253	\$42,340		1,535	7,591	85,264
Due from component unit	18,433						18,433
Other	12,947	269	5,587	\$6,576	50	36,032	61,461
Total	\$79,318	\$13,522	\$47,927	\$6,576	\$67,492	\$44,706	\$259,541

Other general fund receivables in the amount of \$3,100,000 are due after one year.

5. Capital Assets

Capital assets activity for the year ended June 30, 2003, was as follows (expressed in thousands):

Governmental Activities Capital Assets:

Class	Balance June 30, 2002	Additions	Deductions	Balance June 30, 2003
Capital assets, not being depreciated:				
Land	\$ 134,300			\$ 134,300
Construction in progress	683,606	\$ 40,160	\$68,619	655,147
Construction in progress—infrastructure	48,171	78,020		126,191
Total capital assets, not being depreciated	866,077	118,180	68,619	915,638
Capital assets, being depreciated:				
Buildings and improvements	1,232,663	67,665		1,300,328
Equipment	309,067	13,088	10,868	311,287
Infrastructure	2,061,425			2,061,425
Library books	29,488	3,445	1,571	31,362
Total capital assets, being depreciated	3,632,643	84,198	12,439	3,704,402
Less: accumulated depreciation for:				
Buildings and improvements	613,427	26,007		639,434
Equipment	207,038	8,884	1,948	213,974
Infrastructure	566,635	47,305		613,940
Library books	12,042	2,791	1,571	13,262
Total accumulated depreciation	1,399,142	84,987	3,519	1,480,610
Total capital assets, being depreciated, net	2,233,501	(789)	8,920	2,223,792
Governmental activities capital assets, net	\$3,099,578	\$117,391	\$77,539	\$3,139,430

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

Business-type Activities Capital Assets:

Class	Balance June 30, 2002	Additions	Deductions	Balance June 30, 2003
Capital assets, not being depreciated:				
Land	\$ 17,329	\$ 32		\$ 17,361
Construction in progress	633,352	111,500	\$20,722	724,130
Total capital assets, not being depreciated	650,681	111,532	20,722	741,491
Capital assets, being depreciated:				
Buildings and improvements	1,278,282	16,060	31	1,294,311
Equipment	131,744	2,131		133,875
Infrastructure	54,306			54,306
Total capital assets, being depreciated	1,464,332	18,191	31	1,482,492
Less: accumulated depreciation for:				
Buildings and improvements	493,553	23,217		516,770
Equipment	87,778	4,835		92,613
Infrastructure	14,071	680		14,751
Total accumulated depreciation	595,402	28,732		624,134
Total capital assets, being depreciated, net	868,930	(10,541)	31	858,358
Business-type activities capital assets, net	\$1,519,611	\$100,991	\$20,753	\$1,599,849

Depreciation expense was charged to functions/programs of the City for the fiscal year ended June 30, 2003 (amounts expressed in thousands):

Governmental activities:

General government	\$ 5,294
Public safety and regulation	3,863
Conservation of health	546
Social services	26
Education	14,273
Public library	3,121
Recreation and parks	4,663
Highways and streets	36,337
Sanitation and waste removal	4,936
Public service	2,943
Economic development	1,224
Internal service funds	7,761
Total	\$84,987

Business-type activities:

Water	\$ 9,550
Waste water	17,213
Parking	1,070
Conduits	899
Total	\$28,732

Capital Commitments:

At June 30, 2003, the outstanding commitments relating to projects of the City of Baltimore amount to approximately \$128,628,000 for governmental activities and \$124,112,000 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 expense 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 2003, net interest expense of \$16,210,000 (net of interest income of \$2,824,000) was capitalized.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

6. Interfund Balances and Activity

A. BALANCE DUE TO/FROM OTHER FUNDS

Balances due to/from other funds at June 30, 2003 (amounts expressed in thousands):

Fund	Interfund	
	Receivable	Payable
General	\$45,074	
Motor vehicle		
Grant revenue		\$39,703
Capital projects	21,115	
Nonmajor governmental funds		7,667
Water	3,031	1,365
Waste water	4,344	8,042
Parking facilities		2,185
Conduits		1,914
Nonmajor proprietary funds		12,242
Internal service funds		446
Totals	\$73,564	\$73,564

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, 2003, certain transactions between funds had not been completed.

B. TRANSFERS TO/FROM OTHER FUNDS

Transfers to/from other funds at June 30, 2003, consist of the following (amounts expressed in thousands):

Fund	General	Capital Projects	Nonmajor Special Revenue	Motor Vehicle	Parking	Total Transfers From
Transfers To:						
General					\$31,992	\$ 31,992
Debt service	\$43,891	\$10,840		\$ 3,389		58,120
Loan and guarantee	422					422
Capital projects	4,392		\$3,187	50,000		57,579
Totals transfers to	\$48,705	\$10,840	\$3,187	\$53,389	\$31,992	\$148,113

Transfers were primarily to the Capital Projects and Debt Service funds to provide funds for construction and debt service.

C. DEFICITS

The following funds had a deficit (amounts expressed in thousands) in unrestricted net assets/fund balances at June 30, 2003:

Special Revenue Funds:	
Grant Revenue	\$ 75,579
Community Development Block Grant	4,207
Special Racetrack	29
Internal Services Funds:	
Municipal Post Office	358
Risk management	68,149
Component Unit:	
Baltimore City Public School System	116,066

The deficits in the Grants Revenue Fund and Community Development Block Grants Fund are the results of timing differences. Revenues to cover these deficits are expected to be received in fiscal year 2004.

CITY OF BALTIMORE
Notes to Basic Financial Statements

(Continued)

The deficit in the Special Racetrack Fund will be eliminated by reducing transfers in fiscal year 2004.

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.

The deficit in the Municipal Post Office Fund will be eliminated by reduced salary expenses and increases in user fees.

The deficit of the Baltimore City Public School System, a component unit of the City, will be funded by future cost savings or by supplemental grants from the City or the State of Maryland.

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, 2003, are as follows (amounts expressed in thousands):

	June 30, 2002	Adjustments(a)	New Debt Issued	Debt Retired	June 30, 2003	Due within One Year
GOVERNMENTAL ACTIVITIES						
<i>General Obligation Bonds:</i>						
Highways	\$ 23,226	\$ (19)	\$ 6,009	\$ 3,536	\$ 25,680	\$ 2,749
Health	1,800		1,055	775	2,080	495
Public safety	14,740	108	1,268	1,726	14,390	1,723
Off-street parking	29,468	122	7,179	4,297	32,472	3,902
Parks and recreation	16,010	72	5,668	3,199	18,551	2,044
Public buildings and facilities	33,791	100	12,912	9,886	36,917	7,127
Schools	97,809	199	62,623	38,191	122,440	13,920
Storm water	11,101	186		825	10,462	1,128
Urban renewal	267,633	703	80,318	74,552	274,102	46,771
Waste disposal	3,706	33		139	3,600	283
Unallocated	6,795	3	16,888		23,686	1,626
Total general obligation bonds	506,079	1,507	193,920	137,126	564,380	81,768
<i>Bond Anticipation Notes</i>	3,180			3,180		
<i>Special Obligation Bonds</i>						
Harborview Special Obligation Bonds			7,479		7,479	
<i>Long-term financing with the Federal Government:</i>						
Federal economic development loans	38,202			5,237	32,965	2,760
Environmental Protection Agency loans	855			188	667	191
Total long-term financing with the Federal Government	39,057			5,425	33,632	2,951
<i>Long-term financing with the State of Maryland:</i>						
State economic development loans	6,467			1,172	5,295	389
<i>Private:</i>						
Fannie Mae loans	1,897			1,173	724	724
Total Governmental Activities	\$556,680	\$1,507	\$201,399	\$148,076	\$611,510	\$85,832
BUSINESS-TYPE ACTIVITIES						
<i>General Obligation Bonds:</i>						
Water	\$ 1,417	\$ 9		\$ 313	\$ 1,113	\$ 86
Waste Water	2,152	17		62	2,107	163
Total general obligation bonds	3,569	26		375	3,220	249
<i>Long-term financing with the State of Maryland:</i>						
Sewer construction loans	647			51	596	53
Total Business-type Activities	\$ 4,216	\$ 26		\$ 426	\$ 3,816	\$ 302
COMPONENT UNIT — BALTIMORE CITY PUBLIC SCHOOL SYSTEM						
<i>General Obligation Bonds:</i>						
Schools	\$ 23,795		\$ 52,460	\$ 1,255	\$ 75,000	\$ 1,402

(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 2006 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 \$11,954,000 as of June 30, 2003. 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.

CITY OF BALTIMORE
Notes to Basic Financial Statements

(Continued)

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 \$13,738,000 of unamortized losses on early extinguishment of debt.

Variable Rate Demand General Obligation Bonds

On May 13, 2003 the City sold \$193,920,000 of General Obligation Bonds consisting of consolidated public improvement refunding bonds and consolidated public improvement bonds. This transaction was taken to refund certain revenue bonds and to provide additional capital for future projects. The City placed \$128,030,000 of the General Obligation Bonds proceeds into irrevocable trusts for the purpose of generating all future principal and interest requirements to extinguish \$113,940,000 of the General Obligation Bonds existing debt. The advance refunding met the requirements of an in-substance defeasance and accordingly the assets and the liabilities have been removed from the statement of net assets.

As a result of the advance refunding, the City decreased its debt service requirements in the General Obligation Bonds by \$2,263,000. The economic gains resulting from this transaction was \$2,230,000.

In conjunction with the May 13, 2003 sale, the City issued \$40,425,000 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 Remarketing Agent on a weekly basis. 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 N.A. issued a standby purchase agreement (Agreement) in the amount of \$44,793,237 in favor of the City and Manufactures and Traders Trust Company as Tender Agent. The Agreement expires May 14, 2006 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.

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, 2006, whichever is earlier. If the takeout agreement were to be exercised because the entire issue of \$40,435,000 of demand bonds was put but not resold, the City would be required to pay approximately \$2,022,000 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 and the LIBOR rate plus 2% for draws greater than 90 days.

The City is required to pay the Bank fees throughout the effectiveness of the Agreement between .20% to .25% per annum of the average daily amount of the available commitment based on the financial strength ratings of the City.

During fiscal year 2003, the City made no draws under the Agreement, and no amounts drawn against the Agreement were outstanding at June 30, 2003.

The City's variable rate demand general obligation bonds, 2001 Series A and B, in the amount of \$51,900,000, have been reclassified as a fund liability in the capital projects fund. The back up financing agreement with the Toronto-Dominion Bank, which permits the fiscal agent to draw amounts necessary to pay the principal portion and related interest on bonds tendered for purchase and not remarked, expires in less than one year and, accordingly, these demand bonds are classified a fund liabilities.

The following is a summary of debt activity other than general obligation bonds and bond anticipation notes:

- *Special Obligation Bonds:* The City has borrowed funds to provide funds for various capital projects in the Harborview Development District. At June 30, 2003 principal owed for these bonds was \$7,479,000 and interest of \$9,648,000 at the interest rate of 6.5% 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, 2003, the principal owed to the Federal government was \$32,965,000 and interest of \$16,103,000 will be due thereon in future years. The loan bears interest at rates ranging from 6.0% to 10.9% and matures serially through 2022.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

- *Federal Environmental Protection Loan:* The United States Environmental Protection Agency (EPA) has granted the City a loan under the Asbestos School Hazard Abatement Act of 1984 to provide for asbestos removal. At June 30, 2003, the principal owed the EPA was \$667,000. The principal shall be repaid in annual installments of approximately \$191,000 at zero percent interest and final payment is due on July 31, 2006.
- *Private Financing:* The City has borrowed funds from the Federal National Mortgage Corporation to provide construction financing for various housing projects. Since 1997, the City has borrowed a total of \$7,730,000 for such purposes. The principal will be paid in semi-annual installments through January 31, 2004. At June 30, 2003, the principal owed to the Federal National Mortgage Corporation was \$724,000; and interest of \$52,108, at interest rates ranging from 7.0% to 8.16%, will be due thereon in future years.
- *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, 2003, the principal owed to the State was \$5,295,000 and interest of \$2,986,000 will be due thereon in future years. These loans bear interest at rates ranging from 2.0% to 11.16% and the final payment is due in 2029.
- *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, 2003, the principal owed to the State was \$596,000 and interest of \$202,000 will be due thereon in future years.

Compensated Absences

Compensated absences at June 30, 2003 totaled \$80,908,000 for governmental activities and \$10,369,000 for business-type activities, of which \$25,257,000 and \$1,670,000, respectively, were due within one year. For the Baltimore City Public School System, compensated absences totaled \$67,601,000, of which \$5,154,000 were due within one year.

Changes in compensated absences during fiscal year 2003 (expressed in thousands):

	Governmental Activities	Business-type Activities	Total
Balance, July 1, 2002	\$ 74,611	\$ 9,974	\$ 84,585
Leave earned	31,554	2,065	33,619
Leave used	(25,257)	(1,670)	(26,927)
Balance, June 30, 2003	\$ 80,908	\$10,369	\$ 91,277

B. DEBT SERVICE REQUIREMENTS

Debt service requirements on long-term debt at June 30, 2003, are as follows (amounts expressed in thousands):

Fiscal Year	Governmental Activities										
	General Obligation Bonds			Long-Term Financing with State Of Maryland		Long-Term Financing with Federal Government		Private Financing		Special Obligation Bonds	
	Principal	Interest	Interest Rate Swap Net(a)	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 82,004	\$ 24,869	\$ 6,767	\$ 389	\$ 381	\$ 2,951	\$ 2,036	\$724	\$52		\$ 324
2005	36,059	20,187	5,676	337	273	3,540	1,832				486
2006	39,467	19,584	6,515	307	256	2,626	1,657				486
2007	37,111	19,542	6,329	324	239	4,290	1,476				486
2008	40,789	18,282	6,153	342	221	2,025	1,301				486
2009-2013	183,649	64,351	27,657	1,687	766	7,720	4,814			\$ 657	2,349
2014-2018	70,321	9,743	19,600	1,073	451	6,750	2,564			1,094	2,048
2019-2023	74,980	3,528	9,220	398	264	3,730	423			1,498	1,631
2024-2028				377	132					2,053	1,058
2029-2033				61	3					2,177	294
Totals	\$564,380	\$180,086	\$87,917	\$5,295	\$2,986	\$33,632	\$16,103	\$724	\$52	\$7,479	\$9,648

(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, 2003, assuming current interest rates remain the same for their term. As rates vary, variable rate bond interest payments and net swap payments will vary.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

Fiscal Year	Business-type Activities			
	General Obligation Bonds		Long-Term Financing with State Of Maryland	
	Principal	Interest	Principal	Interest
2004	\$ 248	\$ 74	\$ 53	\$ 38
2005	403	51	57	35
2006	499	18	60	31
2007	306	272	64	27
2008	246	124	68	23
2009-2013	1,491	970	294	48
2014-2018	27			
Totals	\$3,220	\$1,509	\$596	\$202

A summary of general obligation and bond anticipation notes outstanding and bonds authorized but unissued (amounts expressed in thousands) at June 30, 2003, is as follows:

Purpose	Due Dates	Outstanding Interest Rates	Authorized But Unissued	
			Amount	Amount
Fire, police and public protection	2004 to 2016	4.7% to 9.0%	\$ 14,390	\$ 2,985
Off-street parking	2004 to 2017	1.5% to 9.0%	32,472	630
Parks and recreation	2004 to 2017	2.7% to 9.0%	18,551	6,936
Public building and facilities	2004 to 2017	2.7% to 9.5%	36,917	30,005
Schools	2004 to 2021	2.7% to 9.0%	122,440	49,305
Waste water and storm sewer	2004 to 2012	2.5% to 9.0%	12,569	
Urban renewal and development	2004 to 2021	2.7% to 9.5%	274,102	105,417
Water	2004 to 2011	4.0% to 9.0%	1,113	
Highways	2004 to 2021	4.7% to 9.0%	25,680	220
Waste disposal	2004 to 2011	4.75% to 8.9%	3,600	
Finance				20,000
Health	2004 to 2018	5.125% to 5.3%	2,080	4,850
Unallocated	2004 to 2011	4.7% to 5.5%	23,686	
Totals			\$567,600	\$220,348

Baltimore City Public School System (BCPSS) General Obligation Bonds

On October 18, 2000, the BCPSS issued \$25,000,000 of Series 2000 general obligation bonds (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. Under the terms of the Series 2000 Bonds, funds initially will be maintained at the Depository Trust Company (DTC), New York, New York. Interest rates range from 4.25% to 5.125% and interest is payable semiannually. The Series 2000 Bonds are the debt and obligation of the BCPSS and are not a debt and obligation or pledge of the faith and credit of the City of Baltimore.

On May 1, 2003, the BCPSS 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 fiscal year 2004 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 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.

CITY OF BALTIMORE
Notes to Basic Financial Statements

(Continued)

As the BCPSS enters into the capital project contracts with one or more contractors, funds are to be drawn from the Series 2003 A Bonds escrow account to fund capital expenditures. Under the terms of the Series 2003 A Bonds, funds initially will be maintained at The Depository Trust Company (DTC), New York, New York. Interest rates range from 2.0% to 5.0% and interest is payable semiannually.

The Series 2003 A 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 and the State of Maryland.

The 2003 A bonds were issued at a premium of \$5,391,472.

Future minimum bond payments are as follows for the year ending June 30, 2003 (amounts expressed in thousands):

Fiscal Year	Series 2000 Bonds	Series 2003 A Bonds	Interest	Total
2004	\$ 1,310		\$ 3,392	\$ 4,702
2005	1,365	\$ 2,850	3,334	7,549
2006	1,425	2,965	3,159	7,549
2007	1,490	3,055	3,005	7,550
2008	1,555	3,180	2,807	7,542
2009-2013	8,925	17,900	10,865	37,690
2014-2018	6,470	22,510	3,993	32,973
	22,540	52,460	30,555	105,555
Less: bond premium			(5,332)	(5,332)
Total	\$22,540	\$52,460	\$25,223	\$100,223

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 2003, the City's capital lease obligations decreased by \$14,658,000 (which is net of new leases in the amount of \$433,000 and lease principal payments of 15,091,000) over the fiscal year 2002 total of \$186,412,000. Future minimum lease payments at June 30, 2003, are as follows (amounts expressed in thousands):

Fiscal Year	
2004	\$ 21,113
2005	20,906
2006	19,470
2007	19,349
2008	19,165
2009-2013	87,095
2014-2018	54,933
2019	1,772
Total minimum lease payments	243,803
Less: deferred interest	72,049
Present value minimum lease payments	\$171,754

The following is a schedule of leased property under capital leases by major class (amounts expressed in thousands) at June 30, 2003:

Classes of Property	
Buildings	\$155,976
Equipment	120,132
Total	\$276,108

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

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

Baltimore City Public School System (BCPSS)

On October 1, 1999, the BCPSS entered into a \$12,370,000 thirty-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, moneys were to be drawn from an "Acquisition Account" to fund actual purchases. Interest earned on the escrow balance is to be paid to FMCC as set forth in the escrow agreement.

On December 27, 2001, the BCPSS entered into a vehicle lease agreement with the Branch Banking and Trust Company (BB&T) to provide financing for the \$2,000,000 purchase of vehicles.

Under the terms of this lease, the amortization period is six years at a 3.79% annual interest rate. Payments of \$187,902 are due beginning on June 27, 2002 and semiannually thereafter with a final payment of all outstanding principal and accrued interest due on December 27, 2007.

On March 31, 2003, the BCPSS entered into a \$25,000,000 capital lease agreement (the Master Equipment Lease) with Wachovia Bank, National Association, for the lease of "Equipment", which includes General Equipment (\$4,500,000 at an interest rate of 3.06% for 7 years), Oracle Equipment (\$10,000,000 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 Wachovia Bank. As the Board entered into purchase agreements with one or more vendors, moneys 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. The lease agreement was amended as to payment terms on June 11, 2003.

Interest earned during fiscal year 2003 related to the capital leases and bonds was \$416,000 and is included in the cash and cash equivalents balance and in investment income under the component unit column.

Fiscal year 2003 interest expenditures were \$886,000 and \$1,097,000 on leases and bonds, respectively. The interest expenditure is included under the component unit column.

Future minimum lease payments as of June 30, 2003, are as follows (amounts expressed in thousands):

Fiscal Year	1999 Lease	Vehicle Lease	Master Equipment Lease
2004	\$ 1,402	\$ 376	\$ 788
2005	1,402	376	4,167
2006	1,402	376	4,167
2007	1,402	376	4,167
2008	1,402	187	4,167
2009-2013	7,008		12,182
2014-2016	3,501		1,197
Total minimum lease payments	17,519	1,691	30,835
Less: future interest component	5,798	150	5,835
Present value minimum lease payments	\$11,721	\$1,541	\$25,000

CITY OF BALTIMORE
Notes to Basic Financial Statements

(Continued)

8. 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 \$63,156,000 at June 30, 2003, and certain revenues of the Water and Waste Water Funds are pledged as collateral for the bonds. Bonds outstanding as of June 30, 2003, consist of (amounts expressed in thousands):

	Water Utility Fund	Waste Water Utility Fund
Serial bonds series 1993-A maturing in annual installments from \$970,000 to \$1,250,000 from July 1, 2003 through July 1, 2008, with interest ranging from 5.0% to 5.5%, payable semiannually		\$ 6,600
Serial bonds series 1993-A maturing in annual installments from \$1,650,000 to \$2,125,000 from July 1, 2003 through July 1, 2008, with interest ranging from 5.0% to 5.5%, payable semiannually	\$ 11,250	
Serial bonds series 1994-A maturing in annual installments from \$445,000 to \$590,000 from July 1, 2003 through July 1, 2009, with interest ranging from 4.5% to 5.0%, payable semiannually		3,595
Serial bonds series 1994-A maturing in annual installments from \$615,000 to \$850,000 from July 1, 2003 through July 1, 2009, with interest ranging from 4.1% to 5.0%, payable semiannually	5,195	
Serial bonds series 1994-B maturing in annual installments from \$317,498 to \$406,000 from August 1, 2003 through February 1, 2015, with interest rate at 2.25%, payable semiannually		4,319
Serial bonds series 1994-B maturing in annual installments from \$295,000 to \$387,000 from August 1, 2003 through February 1, 2015, with interest rate at 2.5%, payable semiannually		4,070
Serial bonds series 1994-D maturing in annual installments from \$200,287 to \$297,000 from August 1, 2003 through February 1, 2015, with interest rate at 3.6%, payable semiannually		2,941
Serial bonds series 1996-B maturing in annual installments from \$138,631 to \$208,000 from August 1, 2003 through February 1, 2017, with interest rate at 3.18%, payable semiannually		2,398
Serial bonds series 1998-A maturing in annual installments from \$271,114 to \$414,460 from August 1, 2003 through February 1, 2019, with interest rate at 2.87%, payable semiannually		5,409
Serial bonds series 1999-A maturing in annual installments from \$115,609 to \$167,000 from August 1, 2003 through February 1, 2019, with interest rate at 2.52%, payable semiannually		2,243
Serial bonds series 1999-B maturing in annual installments from \$420,851 to \$652,000 from August 1, 2003 through February 1, 2021, with interest rate at 2.61%, payable semiannually		9,515
Serial bonds series 2001-A maturing in annual installments from \$545,000 to \$819,000 from August 1, 2003 through February 1, 2022, with interest rate at 2.3%, payable semiannually		12,774
Serial bonds series 2002-A maturing in annual installments from \$1,145,000 to \$1,660,000 from July 1, 2009 through July 1, 2021, with interest rate at Muni-CPA to 5.0% payable semiannually		18,925
Serial bonds series 2002-A maturing in annual installments from \$1,855,000 to \$1,975,000 from July 1, 2009 through July 1, 2021, with interest rate at Muni-CPA to 5.0% payable semiannually	24,600	
Serial bonds series 2003-A maturing in annual installments from \$3,545,000 to \$3,910,000 from July 1, 2023 through July 1, 2025, with interest rate at 5.0% payable semiannually	11,175	
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 ranging from 4.125% to 4.20% payable semiannually		6,035
Term bonds series 1990-B with interest at 3.806%, payable semiannually, due February 1, 2012		5,681
Term bonds series 1993-A with interest at 5.6%, payable semiannually, due July 1, 2013	12,200	7,100
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 6.0%, payable semiannually, due July 1, 2015	6,250	4,330
Term bonds series 1994-A with interest at 5.0%, payable semiannually, due July 1, 2022		7,115
Term bonds series 1994-A with interest at 5.0%, payable semiannually, due July 1, 2024	10,280	
Term bonds series 2002-A with interest at 5.0%, payable semiannually, due July 1, 2023	4,250	2,470
Term bonds series 2002-A with interest at 5.0%, payable semiannually, due July 1, 2027	9,845	6,070
Term bonds series 2002-A with interest at 5.2%, payable semiannually, due July 1, 2032	15,385	9,480
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-C, payable monthly, due July 1, 2032		48,300
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, 2037	40,800	
Term bonds series 2003-A with interest at 4.20%, payable semiannually, due July 1, 2028	12,835	
Term bonds series 2003-A with interest at 5.00%, payable semiannually, due July 1, 2033	25,655	
Term bonds series 2003-A with interest at 5.00%, payable semiannually, due July 1, 2028		6,875
Term bonds series 2003-A with interest at 5.00%, payable semiannually, due July 1, 2033		13,950
	\$296,760	\$261,125
Less unamortized charges	8,180	2,514
	\$288,580	\$258,611

The portion of revenue bonds payable that is due within one year for the Water and Waste Water Utility Funds are \$2,295,000 and \$4,660,000, respectively.

CITY OF BALTIMORE

Notes to Basic Financial Statements

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The term bonds series 1990-B due February 1, 2012, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund in annual principal amounts ranging from \$484,000 to \$730,000. The term bonds series 1993-A due July 1, 2013, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2009, at annual principal amounts ranging from \$1,100,000 to \$1,350,000 for the Water Utility Fund and from \$650,000 to \$800,000 for the Waste Water Utility Fund. The term bonds series 1993-A due July 1, 2020, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2014, at annual principal amounts ranging from \$1,450,000 to \$2,000,000 for the Water Utility Fund and \$850,000 to \$1,150,000 for the Waste Water Utility Fund.

The serial bonds series 1994-A are subject to redemption prior to maturity beginning on and after July 1, 2004, at redemption prices ranging from 102% to 100% of the principal amount. The term bonds series 1994-A due July 1, 2015, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2010, at annual principal amounts ranging from \$895,000 to \$1,200,000 for the Water Utility Fund and \$620,000 to \$830,000 for the Waste Water Utility Fund. The term bonds series 1994-A due July 1, 2022, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2016, at annual principal amounts ranging from \$875,000 to \$1,170,000. The term bonds series 1994-A due July 1, 2024, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2016, at annual principal amounts ranging from \$1,265,000 to \$6,320,000.

The Water serial bonds 2002-A maturing on and after July 1, 2017 are subject to redemption prior to maturity beginning on and after July 1, 2012 at par plus accrued interest thereon. The term bonds series 2002-A due July 1, 2023 are subject to redemption at par prior to maturity by operation of a sinking fund on or after July 1, 2022 at an annual principal amount equal to \$2,075,000. The term bonds series 2002-A due July 1, 2027 are subject to redemption prior to maturity by operation of a sinking fund on or after July 1, 2024 at annual principal amounts ranging from \$2,280,000 to \$2,400,000. The term bonds series 2002-A due July 1, 2032 are subject to redemption prior to maturity by operation of a sinking fund on or after July 1, 2028 at annual principal amounts ranging from \$2,780,000 to \$3,070,000. The term bonds series 2002-A due July 1, 2042 are subject to redemption prior to maturity by operation of a sinking fund on or after July 1, 2033 at annual principal amounts ranging from \$3,565,000 to \$4,355,000. The term bonds series 2002-B due July 1, 2037 are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2032 at annual principal amounts ranging from \$2,700,000 to \$3,000,000. The term bonds series 2002-C due July 1, 2037 are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2015 at annual principal amounts ranging from \$1,000,000 to \$1,700,000.

The Waste Water serial bonds 2002-A maturing on and after July 1, 2017 are subject to redemption prior to maturity beginning on and after July 1, 2012 at par plus accrued interest thereon. The term bonds series 2002-A due July 1, 2023 are subject to redemption prior to maturity by operation of a sinking fund on or after July 1, 2022 at an annual principal amount equal to \$1,205,000. The term bonds series 2002-A due July 1, 2027 are subject to redemption prior to maturity by operation of a sinking fund on or after July 1, 2024 at annual principal amounts ranging from \$1,405,000 to \$1,480,000. The term bonds series 2002-A due July 1, 2032 are subject to redemption prior to maturity by operation of a sinking fund on or after July 1, 2028 at annual principal amounts ranging from \$1,710,000 to \$1,890,000. The term bonds series 2002-A due July 1, 2042 are subject to redemption prior to maturity by operation of a sinking fund on or after July 1, 2033 at annual principal amounts ranging from \$2,315,000 to \$2,825,000. The term bonds series 2002-B due July 1, 2032 are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2015 at annual principal amounts ranging from \$800,000 to \$1,400,000. The term bonds series 2002-C due July 1, 2032 are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2003 at annual principal amounts ranging from \$400,000 to \$1,700,000.

The Series 2003-A Water Bonds maturing on or after July 1, 2013 are subject to redemption prior to maturity at par plus accrued interest thereon to the date set for redemption, at the option of the City beginning on and after July 1, 2013 as a whole at the time or in part on any interest payment date, in any order of maturity selected by the City and by lot within any maturity unless the Trustee selects an alternate method it deems proper.

CITY OF BALTIMORE

Notes to Basic Financial Statements

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The Series 2003-A Waste Water Bonds maturing on or after July 1, 2013 are subject to redemption prior to maturity at par plus accrued interest thereon to the date set for redemption, at the option of the City beginning on and after July 1, 2013 as a whole at the time or in part on any interest payment date, in any order of maturity selected by the City and by lot within any maturity unless the Trustee selects an alternate method it deems proper.

The City has issued refunding revenue bonds, the proceeds of which were used to refinance existing debt of the Parking Facilities Fund. Assets with a carrying value of \$24,415,000 at June 30, 2003, and certain other revenues of the Parking Facilities Fund are pledged as collateral for the bonds. Bonds outstanding as of June 30, 2003, consist of (amounts expressed in thousands):

Serial bonds series 1992-B maturing July 1, 2003 in the amount of \$510,000 with interest of 7.95%	\$ 510
Serial bonds series 1993-A maturing in annual installments from \$3,040,000 to \$3,810,000 from July 1, 2003 through July 1, 2008, with interest ranging from 4.45% to 4.7%, payable semiannually	20,455
Serial bonds series 1997-B maturing in annual installments from \$320,000 to \$495,000 from July 1, 2003 through July 1, 2010, with interest ranging from 6.3% to 6.5%, payable semiannually	3,210
Auction rate notes series 2002, payable monthly due July 1, 2003	80,770
Term bonds series 1992-B with interest at 8.4%, payable semiannually, due July 1, 2011	5,955
Term bonds series 1993 with interest at 5.1%, payable semiannually, due July 1, 2013	3,395
Term bonds series 1993 with interest at 5.0%, payable semiannually, due July 1, 2018	4,330
Term bonds series 1997-A with interest at 5.9%, payable semiannually, due July 1, 2013	21,760
Term bonds series 1997-A with interest at 6.0%, payable semiannually, due July 1, 2018	29,040
Term bonds series 1997-B with interest at 6.75%, payable semiannually, due July 1, 2017	4,510
Term bonds series 1997-B with interest at 6.625%, payable semiannually, due July 1, 2022	4,735
Term bonds series 1997-B with interest at 6.625%, payable semiannually, due July 1, 2027	6,525
Term bonds series 1998-A with interest at 4.9%, payable semiannually, due July 1, 2011	175
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
	192,500
Less unamortized charges	1,731
	\$190,769

The portion of revenue bonds payable that is due within one year for the Parking Facilities Fund is \$4,355,000.

The series 1992-B term bonds due July 1, 2011, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2004, at annual principal amounts ranging from \$550,000 to \$970,000. The serial bonds series 1993 due July 1, 2004 and July 1, 2005, are subject to redemption prior to maturity beginning on or after July 1, 2003, at redemption prices ranging from 102% to 100% of the principal amount. The series 1993 term bonds due July 1, 2013 and July 1, 2018, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2009, at annual principal amounts ranging from \$615,000 to \$960,000. The series 1997-A term bonds due July 1, 2013 are subject to redemption at par prior to maturity by operation of a sinking fund on or after July 1, 2009, at annual principal amounts ranging from \$3,860,000 to \$4,870,000. The series 1997-A term bonds due July 1, 2018 are subject to redemption at par prior to maturity by operation of a sinking fund on or after July 1, 2014, at annual principal amounts ranging from \$5,160,000 to \$6,505,000. The serial bonds series 1997-B are subject to redemption prior to maturity beginning on or after July 1, 2007, at redemption prices ranging from 101% to 100% of the principal amount. The series 1997-B term bonds due July 1, 2017 are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2011, at annual principal amounts ranging from \$525,000 to \$775,000. The series 1997-B term bonds due July 1, 2022 are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2018, at annual principal amounts ranging from \$830,000 to \$1,070,000. The series 1997-B term bonds due July 1, 2027 are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2023, at annual principal amounts ranging from \$1,145,000 to \$1,475,000. The series 1998-A term bonds due July 1, 2011 are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2003, at annual principal amounts ranging from \$15,000 to \$25,000. The series 1998-A term bonds due July 1, 2014, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2012, at annual principal amounts ranging from \$560,000 to \$620,000. The series 1998-A term bonds due July 1, 2017, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2015, at annual principal amounts ranging from \$650,000 to \$725,000. The series 1998-A term bonds due July 1, 2021, are subject to redemption at par prior to maturity by

CITY OF BALTIMORE

Notes to Basic Financial Statements

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operation of a mandatory sinking fund on or after July 1, 2018, at annual principal amounts ranging from \$760,000 to \$890,000. On June 25, 2002 the City issued \$80,770,000 in taxable variable rate demand revenue bonds to construct various parking facilities in the City. The bonds mature serially starting on July 1, 2003 through July 1, 2032. The series 2002 bonds are subject to mandatory sinking fund redemption prior to maturity beginning on or after July 1, 2003, at a redemption price of 100% of the principal amount plus interest accrued to the redemption date. The series 2002 term bonds due July 1, 2032, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2003, at annual principal amounts ranging from \$470,000 to \$7,900,000.

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, Dexia Credit Local, New York (Bank) issued a standby purchase agreement (Agreement) in the amount of \$88,174,000 in favor of the City and Allfirst Trust Company National Association as trustee. The Agreement expires June 27, 2009, 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.

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 June 27, 2009, whichever is earlier. If the takeout agreement were to be exercised because the entire issue of \$80,770,000 of demand bonds was put but not resold, the City would be required to pay approximately \$4,600,000 in interest plus principal payments of approximately \$700,000 per year through 2008 with a lump sum payment of the remaining principal at the end of the agreement. The interest rate on draws made under this agreement is the prime rate plus 1%.

The City is required to pay the Bank's fee throughout the effectiveness of the Agreement equal to 0.225% per annum of the average daily amount of the available commitment.

During fiscal year 2003, the City made no draws under the Agreement, and no amounts drawn against the Agreement were outstanding at June 30, 2003.

The City has issued \$100,000,000 in variable rate demand revenue bonds Series 1986, 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 to maturity.

The bonds bear interest at a variable rate that is reset by the Remarketing Agent on a weekly basis. During fiscal year 2003, the variable interest rate paid by the City on these bonds ranged from 1.0% to 1.85%. 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.

In conjunction with the issuance of the bonds, Bayerische Landesbank Girozentrale (BLG) issued an irrevocable letter of credit in the amount of \$102,500,000 in favor of the City and Allfirst Trust of Maryland as trustee and Chemical Bank as fiscal agent for the bondholders. The letter of credit expires July 13, 2004, but can be extended for an additional two years. 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, BLG and the fiscal agent, the issuer is required to reimburse BLG the amount drawn upon remarketing or in a lump sum on July 13, 2004, whichever is earlier. If the takeout agreement were to be exercised because the entire issue of \$100,000,000 of demand bonds was put and not resold, the City would be required to pay approximately \$8,000,000 per year through the expiration of the agreement. The interest rate draws made from the letter of credit is at BLG's prime interest rate.

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The City is required to pay BLG a fee throughout the period of effectiveness of the letter of credit equal to 0.275% per annum of the daily average unutilized amount and 0.2% per annum of the daily average utilized amount.

During fiscal year 2003, the City made no draws under the letter of credit and no amounts drawn against the letter of credit were outstanding at June 30, 2003.

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 consists of certain hotel taxes and certain receipts derived from the ownership and operation of the Baltimore Convention Center. These bonds include \$24,925,000 in serial bonds, which are due to mature on September 1, in each of the years 2003 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 each 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 as Governmental Activities because they are expected to be paid by general revenues.

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

Fiscal Year	Governmental Activities					Business-type Activities								
	Convention Center		Water Utility		Swap Interest Rate Net(a)	Waste Water Utility		Swap Interest Rate Net(a)	Parking Facilities			Industrial Development Authority		
	Principal	Interest	Principal	Interest		Principal	Interest		Principal	Interest	Swap Interest Rate Net(a)	Principal	Interest	Swap Interest Rate Net(a)
2004	\$ 2,010	\$ 2,596	\$ 2,295	\$ 11,104	\$ 2,645	\$ 4,660	\$ 8,049	3,103	\$ 4,355	\$ 7,312	\$ 4,046		\$ 5,703	\$ 2,298
2005	2,095	2,508	2,405	11,981	2,645	4,404	8,445	3,096	4,680	7,101	4,019		5,703	2,298
2006	2,185	2,415	2,515	11,857	2,645	4,558	8,280	3,096	4,900	6,873	3,990		5,703	2,298
2007	2,280	2,310	2,655	11,724	2,645	4,729	8,113	3,096	5,330	6,630	3,954		5,703	2,298
2008	2,395	2,193	2,790	11,582	2,645	5,397	7,934	3,087	5,570	6,370	3,914		5,703	2,297
2009-2013	13,960	8,919	23,955	55,265	12,761	35,743	36,540	14,802	34,620	26,815	18,922		28,513	11,487
2014-2018	18,160	4,606	33,815	49,464	10,999	40,784	30,557	12,635	44,620	16,400	17,544	\$100,000	31,956	8,040
2019-2023	8,645	437	35,020	62,774	9,511	38,544	24,192	10,011	26,600	6,834	15,507			
2024-2028			39,775	34,041	8,190	38,740	18,741	6,680	26,825	3,538	11,510			
2029-2033			52,750	25,059	6,483	48,865	12,553	2,444	35,000	965	4,639			
2034-2038			53,695	15,011	2,651	15,880	6,606							
2039-2043			45,090	6,018		18,820	2,739							
2044-2047														
Totals	\$51,730	\$25,984	\$296,760	\$305,880	\$63,820	\$261,124	\$172,749	\$62,050	\$192,500	\$88,838	\$88,045	\$100,000	\$88,984	\$31,016

(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, 2003, 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. 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, 2003, \$78,816,000 of debt outstanding is considered defeased, which includes debt defeased during the current year.

10. Interest Rate Swaps

Objectives of the swaps. In order to protect the City against fluctuations in interest rates, the City has entered into 43 interest rate swap agreements. The City's asset/liability strategy is to have a mixture of fixed and variable rate debt to take advantage of anticipated fluctuations in future interest rates, and also to provide the City with low synthetically created rates while providing reasonably predictable future debt service requirements.

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Terms, fair value and credit risk. The terms, fair values and credit rating of the outstanding swaps as of June 30, 2003, 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 expected to approximately follow scheduled or anticipated reductions in the associated "bonds payable" category.

Outstanding Bonds	Effective Date	Termination Date	Interest Rate Paid by City	Interest Rate Received	Notional Amount	Fair Value	Counterparty Credit Rating
General Obligation Bond Series							
<i>Floating to Fixed SWAPS</i>							
2001 Bonds	6/27/2001	10/1/2020	4.595%	BMA Index	\$ 20,600,000	\$ (2,965,389)	AA-/Aa3
2001 Bonds	6/27/2001	10/1/2022	5.060%	BMA Index	22,500,000	(3,986,841)	AA-/Aa3
2003 Bonds	5/14/2003	10/15/2020	2.950%	BMA/67% LIBOR	106,325,000	(3,164,718)	A/A2
2003 Bonds	5/14/2003	10/15/2022	3.450%	BMA/67% LIBOR	47,350,000	(2,255,043)	A/A2
2003 Bonds	5/14/2003	10/15/2020	4.215%	1M LIBOR	23,090,000	(935,910)	A/A2
2003 Bonds	5/14/2003	10/15/2022	4.970%	1M LIBOR	17,155,000	(1,012,595)	A/A2
Total General Obligation Bonds					\$237,020,000	\$(14,320,496)	
Industrial Development Authority Revenue Bonds							
<i>Floating to Fixed SWAPS</i>							
1986 Revenue Bonds	11/1/2001	11/1/2016	3.4975%	BMA Index	\$100,000,000	\$ (8,203,394)	AA-/Aa3
Water Utility Fund Revenue Bonds Series							
<i>Fixed to Floating SWAPS</i>							
1993 Revenue Bonds	1/1/2008	7/1/2020	BMA Index	5.54%	\$ 4,276,748	\$ (222,741)	AA+/Aa2
1994 Revenue Bonds	1/1/2008	7/1/2024	BMA Index	5.26%	4,108,595	(306,560)	AA+/Aa2
1998 Revenue Bonds	2/1/2001	7/1/2027	BMA Index	5.17%	27,780,000	2,369,892	AA/Aa2
1998 Revenue Bonds	7/1/2008	7/1/2028	BMA Index	5.08%	1,927,360	(173,889)	AA+/Aa2
2000 Revenue Bonds	7/1/2003	7/1/2030	BMA Index	5.70%	2,907,750	(192,185)	AA+/Aa2
<i>Floating to Fixed SWAPS</i>							
1998 Revenue Bonds	10/26/2001	7/1/2008	5.17%	BMA Index	27,780,000	(4,073,102)	AA-/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2037	4.555%	BMA/67% LIBOR	59,100,000	(10,604,695)	AA-/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2009	3.87%	BMA Index	1,855,000	(108,787)	AA-/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2010	4.00%	BMA Index	1,900,000	(125,591)	AA-/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2011	4.10%	BMA Index	1,955,000	(148,040)	AA-/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2012	4.20%	BMA Index	2,110,000	(177,626)	AA-/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2013	4.30%	BMA Index	2,170,000	(196,585)	AA-/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2014	4.39%	BMA Index	2,325,000	(230,798)	AA-/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2015	4.50%	BMA Index	1,615,000	(170,710)	AA-/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2016	4.61%	BMA Index	1,685,000	(185,661)	AA-/Aa3
2004 Revenue Bonds	6/1/2004	7/1/2034	5.21%	BMA Index	47,500,000	(7,291,197)	AA-/Aa3
2005 Revenue Bonds	6/1/2005	7/1/2035	5.30%	BMA Index	53,100,000	(6,832,993)	AA-/Aa3
Total Water Utility Fund					\$244,095,453	\$(28,671,268)	
Waste Water Utility Fund Revenue Bonds Series							
<i>Fixed to Floating SWAPS</i>							
1993 Revenue Bonds	1/1/2008	7/1/2020	BMA Index	5.54%	\$ 2,507,350	\$ (130,587)	AA+/Aa2
1994 Revenue Bonds	1/1/2008	7/1/2024	BMA Index	5.26%	1,229,550	(91,742)	AA+/Aa2
1998 Revenue Bonds	2/1/2001	7/1/2027	BMA Index	5.17%	25,540,000	2,578,165	AA+/Aa2
1998 Revenue Bonds	7/1/2008	7/1/2028	BMA Index	5.08%	1,876,278	(169,281)	AA+/Aa2
2000 Revenue Bonds	7/1/2003	7/1/2030	BMA Index	5.70%	1,855,869	(123,709)	AA+/Aa2
<i>Floating to Fixed SWAPS</i>							
1998 Revenue Bonds	10/26/2001	7/1/2008	5.17%	BMA Index	25,540,000	(3,744,958)	AA-/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2037	4.555%	BMA/67% LIBOR	73,600,000	(11,855,470)	AA-/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2009	3.87%	BMA Index	1,660,000	(97,350)	AA-/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2010	4.00%	BMA Index	1,785,000	(117,990)	AA-/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2011	4.10%	BMA Index	1,820,000	(137,565)	AA-/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2012	4.20%	BMA Index	1,930,000	(162,474)	AA-/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2013	4.30%	BMA Index	1,960,000	(177,561)	AA-/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2014	4.39%	BMA Index	2,040,000	(202,507)	AA-/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2015	4.50%	BMA Index	1,240,000	(131,071)	AA-/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2016	4.61%	BMA Index	1,280,000	(141,036)	AA-/Aa3
2004 Revenue Bonds	6/1/2004	7/1/2034	5.21%	BMA Index	17,500,000	(2,711,921)	AA-/Aa3
2005 Revenue Bonds	6/1/2005	7/1/2035	5.30%	BMA Index	32,600,000	(4,916,491)	AA-/Aa3
Total Waste Water Utility Funds					\$195,964,047	\$(22,333,548)	
Parking Facilities Fund Revenue Bonds Series							
<i>Floating to Fixed SWAPS</i>							
2002 Revenue Bonds	6/19/2002	7/1/2032	6.098%	1M LIBOR	\$ 69,950,000	\$(14,372,925)	AA+/Aa2
2002 Revenue Bonds	6/19/2002	7/1/2025	5.915%	1M LIBOR	10,820,000	(1,834,083)	AA+/Aa2
Total Parking Facilities Fund					\$ 80,770,000	\$(16,207,008)	
Total Outstanding SWAPS					\$857,849,500	\$(89,735,714)	

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Fair Value. Because interest rates have declined, all but 2 swaps had a negative fair value as of June 30, 2003. For the variable rate swap agreements, the fair value of the agreements was \$3,537,363 calculated using the par-value method: the fixed rate on the swap was compared with the current fixed rates that could be achieved in the marketplace should the swap be unwound. The fixed rate bond component was valued by discounting the fixed rate cash flows using the current yield to maturity of a comparable bond. The variable rate component was assumed to be at par value because of the rate resets to market rate at every reset date. The fair value was then calculated by subtracting the established market value of the fixed component from the established value of the variable component. For the fixed rate swap agreements, the fair value was (\$93,273,077). The fair values were estimated using the zero-coupon method. This method calculates the net future settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit risk. As of June 30, 2003, the City is not exposed to credit risk on all but two of the outstanding swaps because the swaps have negative fair value. However, should the 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, 2003. Should the counterparty to these transactions fail to perform according to the terms of the swap contract, the City faces a maximum loss equivalent to the swaps' \$4,948,057 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 Poors. Collateral on all swaps is to be in the form of U. S. government securities held by the City.

Although the City executes transactions with various counterparties, 27 swaps, approximating 59 percent of the notional amount of swaps outstanding, are held with one counterparty. That counterparty is rated AA-/Aa3. Of the remaining swaps, the City holds 12 swaps with another counterparty, rated AA+/Aa2, approximating 38 percent of the outstanding notional value. The remaining 4 swaps are with another counterparty, with a rating of A/A2, approximating 3 percent of the outstanding swaps.

Basis Risk. The City's variable rate bond coupon payments are based on weekly market rate, which closely approximates the BMA rate. For those swaps for which the City receives variable rate payment other than the weekly market rate, the City is exposed to basis risk should the spread between the BMA and weekly market rate change. If a change occurs that results in the spread widening, the expected cost savings may not be realized. As of June 30, 2003, the BMA rate was .98%, whereas the City market rate ranges from .90% to .95%.

Interest rate risk. For those swaps for which the City receives fixed rate payments, the City is exposed to interest rate risk. As the BMA/LIBOR rate changes, expected savings could increase or decrease depending on the relationship between the fixed payments and the variable rate.

Termination risk. The City or the counterparty may terminate the 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. During fiscal year 2003, the City terminated swap agreements in the Water and Waste Water Utility funds resulting in losses of \$9,539,000 and \$6,087,000, respectively.

11. 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).

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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. 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 address:

Baltimore City Retirement Systems
Room 640, City Hall
100 North Holliday Street
Baltimore, Maryland 21202-3431

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:			
Employer	14.1%	5.6%	0%
Employee	6.0%	.2%	5.0%
Annual pension cost	\$34,679	\$17,736	\$0-
Contributions made	\$34,679	\$17,736	\$0-
Basis of accounting	Accrual	Accrual	Accrual
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	8.25%	8.0%	7.5%
Post-retirement	6.8%	6.8%	6.0%
Projected salary increases	4.0%-8.5%	4.75%-7.0%	6.0%
Includes inflation rate at	3.0%	3.0%	4.0%

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, 2003 and the actuarial valuation dated June 30, 2003.

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, 2003	\$34,679	100%	\$0
June 30, 2002	252*	100	0
June 30, 2001	217**	100	0
Employees' Retirement System			
June 30, 2003	17,736	100	0
June 30, 2002	17,714	100	0
June 30, 2001	16,592	100	0
Elected Officials' Retirement System			
June 30, 2003	0	100	0
June 30, 2002	68	100	0
June 30, 2001	0	100	0

* Fiscal year 2002 was reduced by \$29 million of interest surplus as provided by law.

** Fiscal year 2001 was reduced by \$27 million of interest surplus as provided by law.

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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 4.0%. 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, 2003	\$4,417	\$21,731
June 30, 2002	6,296	21,602
June 30, 2001	6,839	23,661

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 Systems 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, 2003, the State paid \$40,193,000 in such costs. This amount has been recorded by the BCPSS as both a revenue and an expenditure 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, 2003 was \$1,047,000. 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.

12. 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

CITY OF BALTIMORE
Notes to Basic Financial Statements

(Continued)

injury, and sundry other risks. Commercial insurance coverage is provided for each property damage claim in excess of \$750,000 with a cap of \$250,000,000. 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, 2003, the City has determined that the range of potential claims liability for the fund to be between \$120,187,000 and \$138,651,000. The claims liability of \$120,187,000 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 3.0% at June 30, 2003, 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 \$120,187,000 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 2002 and 2003 were (amounts expressed in thousands):

	2003	2002
Unpaid claims, beginning	\$ 140,752	\$ 106,337
Claims incurred	242,448	293,104
Claims paid	(263,013)	(258,689)
Unpaid claims, ending	\$ 120,187	\$ 140,752

13. 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, 2003, future minimum lease payments (amounts expressed in thousands) are as follows:

2004	\$ 5,820
2005	4,957
2006	4,089
2007	3,432
2008	3,150
2009-2013	13,430
2014-2018	2,811
2019-2023	587
2024-2028	587
2029	137
Total	\$39,000

All leases contain cancellation provisions and are subject to annual appropriations by the City Council. During fiscal year 2003, rent expenditures approximated \$13,955,000 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, 2003, rent and lease expenditures approximated \$2,582,494. These expenditures were made primarily from the General Fund. As of June 30, 2003, future minimum lease payments approximate \$4,263,629 all of which relate to the fiscal year ending June 30, 2004.

14. 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

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

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 \$12,321,000 as of June 30, 2003, which is based on 51.9% usage (filled) of the landfill. This is an increase in the liability of \$905,000 since June 30, 2002. It is estimated that an additional \$11,415,000 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 2019). The estimated total current cost of the landfill closure and postclosure care (\$23,736,000) 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, 2003. 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 post closure care costs during fiscal year 2004.

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, 2003, investments of \$4,387,000 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.

15. Notes and Mortgages Receivable

Notes and mortgages receivable as of June 30, 2003, consist of the following:

- A. The General Fund has notes receivable of \$8,051,000, 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 \$5,420,000 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 notes receivable of \$57,189,000 collateralized by real property. These notes bear interest at rates ranging from 6.1% to 6.9% and mature over 30 years.
- D. The Community Development Block Grant Fund has \$2,458,000 in mortgages receivable collateralized by real property, bearing interest rates ranging from 1.0% to 12.0% and mature over 30 years.

16. 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, 2003, 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, 2003.

17. Postemployment Benefits

City administrative policy provides that certain postemployment benefits, other than pension benefits, be provided to all its employees, including those in the BCPSS. These benefits include certain health care and life insurance benefits. All employees who retire are eligible to receive these benefits. At June 30, 2003, there were 19,556 retirees eligible for these benefits. The City reimburses approximately 63% of the premium cost incurred by pre-Medicare retirees and their dependents. The City also reimburses approximately 84% of the cost for Medicare supplement for each retiree or dependent eligible for Medicare. Such benefits are accounted for on a cash basis so that payments during the current year represent benefit coverage for currently retired employees or their beneficiaries. During fiscal year 2003, these postemployment benefits amounted to \$70,747,000.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

18. 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 13. 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, 2003, the City is contingently liable for loans guaranteed by the Loan and Guarantee Program in an aggregate amount of approximately \$723,000.

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, 2003, 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 through May 2005 to the Northeast Maryland Waste Disposal Authority. The City's current tipping fee expense for delivering the solid waste is \$40 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 \$105.36 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 \$526.80 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 range between \$500 to \$700 million dollars over the next decade and beyond. The City has committed to financing these remedial efforts through a combination of water and waste water revenue bonds in conjunction with all available State and Federal assistance.

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. The OIG recommended that DHHS seek reimbursement from the State of Maryland, who ultimately may seek reimbursement from the county boards of education, but no final decision has been made by DHHS. The BCPSS intends vigorously to defend the allegations and to oppose any attempt to obtain reimbursement.

CITY OF BALTIMORE
Notes to Basic Financial Statements

(Continued)

19. Subsequent Events

On October 1, 2003, the City of Baltimore issued \$6,041,587 Water and \$2,030,810 Waste Water Quality Bonds Series 2003-B, maturing through the year ending 2033.

On September 1, 2003, the City of Baltimore issued \$2,000,000 of Tax Incremental Financing Bonds for the Belvedere Square project, maturing through the year ending 2025.

On August 1, 2003, the City of Baltimore issued \$5,968,000 of Tax Incremental Financing Bonds for the Strathdale project, maturing through the year ending 2034.

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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, 2003
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes — local	\$ 780,393	\$ 780,393	\$ 793,817	\$13,424
Licenses and permits	23,495	23,495	21,429	(2,066)
Fines and forfeitures	2,355	2,355	2,401	46
Interest, rentals and other investment income	26,793	26,793	24,968	(1,825)
Federal grants	75	75	77	2
State grants	96,985	96,985	97,731	746
Other grants	6,137	6,137	6,112	(25)
Charges for current services	37,414	37,414	36,315	(1,099)
Miscellaneous	4,012	4,127	6,694	2,567
Total revenues	977,659	977,774	989,544	11,770
Expenditures and encumbrances:				
General government	254,095	254,095	253,668	427
Public safety and regulation	374,122	374,122	373,695	427
Conservation of health	24,040	24,040	24,040	
Social services	1,881	1,881	1,874	7
Education	1,128	1,128	1,128	
Public library	18,483	18,483	18,392	91
Recreation and culture	24,734	24,734	24,730	4
Highways and streets	232	232	189	43
Sanitation and waste removal	30,339	30,339	30,339	
Public service	12,038	12,038	12,038	
Economic development	17,487	19,303	19,031	272
Total expenditures	758,579	760,395	759,124	1,271
Excess of revenues over expenditures	219,080	217,379	230,420	13,041
Other financing sources (uses):				
Transfers in	27,720	27,720	31,992	4,272
Transfers out	(49,827)	(51,334)	(48,705)	2,629
Transfers to component unit	(200,946)	(200,946)	(200,946)	
Total other financing sources (uses)	(223,053)	(224,560)	(217,659)	6,901
Net change in fund balances	(3,973)	(7,181)	12,761	19,942
Fund balances — beginning	97,801	97,801	97,801	
Fund balances — ending	\$ 93,828	\$ 90,620	110,562	\$19,942
Adjustments to reconcile to GAAP basis:				
Addition of encumbrances outstanding			24,625	
Less: accounts payable not recorded for budgetary purposes			(5,863)	
Fund balance — June 30, 2003 (GAAP basis)			\$ 129,324	

(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 \$1,047,000 which was paid by the Maryland State Retirement System on behalf of the City of Baltimore for the 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, 2003

(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
State shared revenue	\$170,600	\$170,600	\$172,813	\$2,213
Licenses and permits	222	222	491	269
Fines and forfeitures	5,700	7,710	8,526	816
Interest, rentals and other investment income	1,717	1,717	1,327	(390)
Charges for current services	3,725	4,400	4,474	74
Miscellaneous	21	21	260	239
Total revenues	181,985	184,670	187,891	3,221
Expenditures and encumbrances:				
General government	19,578	19,712	19,630	82
Public safety and regulation	32,384	35,528	34,516	1,012
Highways and streets	82,298	85,120	84,814	306
Total expenditures	134,260	140,360	138,960	1,400
Excess of revenues over expenditures			48,931	4,621
Other financing sources (uses):				
Transfers out	(53,436)	(53,436)	(53,389)	47
Transfers to component unit	(3,654)	(3,654)	(3,654)	
Total other financing uses	(57,090)	(57,090)	(57,043)	47
Net change in fund balances	(9,365)	(12,780)	(8,112)	4,668
Fund balances — beginning	13,335	13,335	17,712	4,377
Fund balances — ending	\$ 3,970	\$ 555	9,600	\$9,045
Adjustments to reconcile to GAAP basis:				
Addition of encumbrances outstanding			2,037	
Less: accounts payable not recorded for budgetary purposes			(1,546)	
Fund balance — June 30, 2003 (GAAP basis)			\$ 10,091	

(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, 2003	\$2,205,206	\$2,286,873	\$ 81,667	96.4%	\$245,711	33.2%
June 30, 2002	2,127,393	2,173,188	45,795	97.9	227,785	20.1
June 30, 2001	2,098,741	2,096,803	(1,938)	100.1	209,528	(0.9)
Employees' Retirement System						
June 30, 2003	1,408,544	1,374,747	(33,797)	102.5	316,311	(10.7)
June 30, 2002	1,365,617	1,271,606	(94,011)	107.4	305,521	(30.8)
June 30, 2001	1,374,100	1,283,030	(91,070)	107.1	309,602	(29.4)
Elected Officials' Retirement System						
June 30, 2003	13,086	13,670	584	95.7	1,150	50.8
June 30, 2002	13,098	12,810	(288)	102.2	1,150	(25.0)
June 30, 2001	14,255	10,935	(3,320)	130.4	1,150	(288.7)

(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.

Notes to the Required Supplementary Information

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 2003, supplemental appropriation ordinances were required for the General Fund in the amount of \$2.3 million, and Motor Vehicle Fund in the amount of \$6.1 million.

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 expenditure 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 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, 2003

(Expressed in Thousands)

	Special Revenue Funds				Permanent Funds			Debt Service Fund	Total Nonmajor Governmental Funds
	Community Development Block Grant Fund	Special Racetrack Fund	Scholarship Fund	Total	Enoch Pratt Free Library Fund	Memorial Fund	Total		
Assets:									
Cash and cash equivalents			\$8,070	\$ 8,070	\$ 318	\$ 287	\$ 605	\$19,367	\$28,042
Investments			767	767	1,750	4,197	5,947	8,667	15,381
Other receivables, net			5	5	21	29	50	216	271
Due from other governments	\$ 7,179	\$412		7,591					7,591
Due from other funds									
Notes and mortgages receivable, net	2,458			2,458				5,420	7,878
Total assets	9,637	412	8,842	18,891	2,089	4,513	6,602	33,670	59,163
Liabilities and fund balances:									
Liabilities:									
Accounts payable and accrued liabilities	1,389	16		1,405					1,405
Due to other funds	7,242	425		7,667					7,667
Deferred revenue	5,213			5,213				10,807	16,020
Matured bonds payable								5,148	5,148
Total liabilities	13,844	441		14,285				15,955	30,240
Fund balances:									
Reserved for Scholarship, Library and Memorial			8,842	8,842	2,089	4,513	6,602		15,444
Unreserved (deficit)	(4,207)	(29)		(4,236)				17,715	13,479
Total fund balances	(4,207)	(29)	8,842	4,606	2,089	4,513	6,602	17,715	28,923
Total liabilities and fund balances	\$ 9,637	\$412	\$8,842	\$18,891	\$2,089	\$4,513	\$6,602	\$33,670	\$59,163

CITY OF BALTIMORE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds
For the Year Ended June 30, 2003

(Expressed in Thousands)

	Special Revenue Funds				Permanent Funds			Debt Service Fund	Total Nonmajor Governmental Funds
	Community Development Block Grant Fund	Special Racetrack Fund	Scholarship Fund	Total	Enoch Pratt Free Library Fund	Memorial Fund	Total		
Revenues:									
State shared revenue		\$ 599		\$ 599					\$ 599
Interest, rentals and other investment income			\$ 312	312	\$ 81	\$ 122	\$ 203	\$ 792	1,307
Federal grants	\$19,512			19,512					19,512
Miscellaneous			499	499				3,638	4,137
Total revenues	19,512	599	811	20,922	81	122	203	4,430	25,555
Expenditures:									
Current:									
General government	3,540	20	95	3,655					3,655
Public safety and regulation	639	34		673					673
Education			965	965					965
Public library					112		112		112
Recreation and culture	235	19		254		148	148		402
Highways and streets		10		10					10
Economic development	15,674	33		15,707					15,707
Debt service:									
Principal								36,065	36,065
Interest								31,760	31,760
Total expenditures	20,088	116	1,060	21,264	112	148	260	67,825	89,349
Excess (deficiency) of revenues over (under) expenditures	(576)	483	(249)	(342)	(31)	(26)	(57)	(63,395)	(63,794)
Other financing sources (uses):									
Transfers in								58,120	58,120
Transfers out	(2,743)	(444)		(3,187)					(3,187)
Total other financing sources (uses)	(2,743)	(444)		(3,187)				58,120	54,933
Net change in fund balances	(3,319)	39	(249)	(3,529)	(31)	(26)	(57)	(5,275)	(8,861)
Fund balances—beginning	(888)	(68)	9,091	8,135	2,120	4,539	6,659	22,990	37,784
Fund balances—ending	\$ (4,207)	\$ (29)	\$8,842	\$ 4,606	\$2,089	\$4,513	\$6,602	\$17,715	\$28,923

CITY OF BALTIMORE
Schedule of Revenues, Expenditures,
and Changes in Fund Balance — Budget and Actual — Budgetary Basis
Special Racetrack Fund
For the Year Ended June 30, 2003
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
State shared revenues	\$ 392	\$ 392	\$ 599	\$207
Expenditures and encumbrances:				
General government	20	20	20	
Public safety and regulation	34	34	34	
Recreation and culture	20	20	20	
Highways and streets	10	10	10	
Economic development	34	34	33	1
Total expenditures	118	118	117	1
Excess of revenues over expenditures	274	274	482	208
Other financing (uses):				
Transfers out	(444)	(444)	(444)	
Total other financing (uses)	(444)	(444)	(444)	
Net change in fund balances (deficit)	(170)	(170)	38	208
Fund balances — beginning	(67)	(67)	(67)	
Fund balances — ending	\$(237)	\$(237)	\$ (29)	\$208

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, 2003

(Expressed in Thousands)

	Loan and Guarantee Program	Industrial Development Authority	Conduit Fund	Total
Assets:				
Current Assets:				
Cash and cash equivalents	\$12,068	\$42,987	\$ 4,085	\$ 59,140
Investments	476			476
Accounts receivable, net:				
Service billings			1,083	1,083
Other	171	103		274
Total current assets	<u>12,715</u>	<u>43,090</u>	<u>5,168</u>	<u>60,973</u>
Noncurrent Assets:				
Restricted assets:				
Mortgages receivable				
Property, plant and equipment, net			44,027	44,027
Issuance costs		448		448
Total noncurrent assets		<u>448</u>	<u>44,027</u>	<u>44,475</u>
Total assets	<u>12,715</u>	<u>43,538</u>	<u>49,195</u>	<u>105,448</u>
Liabilities:				
Current Liabilities:				
Accounts payable and accrued liabilities		5	106	111
Accrued interest payable		78		78
Due to other funds		12,242	1,914	14,156
Other liabilities			197	197
Current liabilities payable from restricted assets:				
Accounts payable from restricted assets			95	95
Total current liabilities		<u>12,325</u>	<u>2,312</u>	<u>14,637</u>
Noncurrent liabilities:				
Revenue bonds payable, net		17,172		17,172
Notes payable	65			65
Other liabilities	813			813
Total noncurrent liabilities	<u>878</u>	<u>17,172</u>		<u>18,050</u>
Total liabilities	<u>878</u>	<u>29,497</u>	<u>2,312</u>	<u>32,687</u>
Net assets:				
Invested in capital assets, net of related debt			44,027	44,027
Unrestricted	<u>11,837</u>	<u>14,041</u>	<u>2,856</u>	<u>28,734</u>
Total net assets	<u>\$11,837</u>	<u>\$14,041</u>	<u>\$46,883</u>	<u>\$ 72,761</u>

CITY OF BALTIMORE
Combining Statement of Revenues, Expenses,
and Changes in Fund Net Assets
Nonmajor Proprietary Funds
For the Year Ended June 30, 2003
(Expressed in Thousands)

	Loan and Guarantee Program	Industrial Development Authority	Conduit Fund	Total
Operating revenues:				
Rents, fees and other income	\$ 2,961	\$ 1,172	\$ 4,137	\$ 8,270
Interest income on loans	258	328		586
Total operating revenues	3,219	1,500	4,137	8,856
Operating expenses:				
Salaries and wages	117		1,487	1,604
Other personnel costs	31		494	525
Contractual services	319		140	459
Program expenses	2,741	355		3,096
Materials and supplies			41	41
Minor equipment			9	9
Depreciation			899	899
Interest		1,305		1,305
Total operating expenses	3,208	1,660	3,070	7,938
Operating income (loss)	11	(160)	1,067	918
Capital contributions	(2,576)		550	(2,026)
Transfers in	422			422
Changes in net assets	(2,143)	(160)	1,617	(686)
Total net assets—beginning	13,980	14,201	45,266	73,447
Total net assets—ending	\$11,837	\$14,041	\$46,883	\$72,761

CITY OF BALTIMORE
Statement of Cash Flows
Combining Nonmajor Proprietary Funds
For the Year Ended June 30, 2003

(Expressed in Thousands)

	Loan and Guarantee Program	Industrial Development Authority	Conduit Fund	Total
Cash flows from operating activities:				
Receipts from customers	\$ 3,207	\$ 1,560	\$ 3,654	\$ 8,421
Payments to employees	(148)		(2,302)	(2,450)
Payments to suppliers	(6,930)	(7,399)	(147)	(14,476)
Net cash provided (used) by operating activities	(3,871)	(5,839)	1,205	(8,505)
Cash flows from non-capital financing activities:				
Transfers out	(2,154)			(2,154)
Cash flows from capital and related financing activities:				
Notes receivable — repayments	1,839			1,839
Acquisition and construction of capital assets			(113)	(113)
Capital contributions			549	549
Principal paid on revenue bonds		8,091		8,091
Net cash provided (used) by capital and related financing activities	1,839	8,091	436	10,366
Cash flows from investing activities:				
Purchase of investments	(25)			(25)
Net increase (decrease) in cash and cash equivalents	(4,211)	2,252	1,641	(318)
Cash and cash equivalents, beginning of year	16,279	40,735	2,444	59,458
Cash and cash equivalents, end of year	\$12,068	\$42,987	\$ 4,085	\$ 59,140
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 11	\$ (160)	\$ 1,067	\$ 918
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation			899	899
Amortization of bond issuance costs		34		34
Changes in assets and liabilities:				
Accounts receivable	(12)	60	(482)	(434)
Accounts payable and accrued liabilities		(18)	63	45
Other liabilities	(2,012)		94	(1,918)
Notes payable	(59)			(59)
Accrued interest payable		(21)		(21)
Restricted accounts payable				
Due to other funds	(1,799)	(5,734)	(436)	(7,969)
Total adjustments	(3,882)	(5,679)	138	(9,423)
Net cash provided (used) by operating activities	\$ (3,871)	\$ (5,839)	\$ 1,205	\$ (8,505)

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.

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.

Electronic Equipment Maintenance Fund. This fund accounts for the administration and operations of the City's telecommunications system.

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.

CITY OF BALTIMORE
Combining Statement of Fund Net Assets

Internal Service Funds

June 30, 2003

(Expressed in Thousands)

	Mobile Equipment	Reproduction and Printing	Municipal Post Office	Municipal Telephone Exchange	Electronic Equipment Maintenance	Risk Management	Total
Assets:							
Current assets:							
Cash and cash equivalents	\$27,319			\$4,827	\$1,520	\$ 49,992	\$83,658
Investments						5,820	5,820
Accounts receivable, net:							
Other	310	\$ 18		1	1	1,948	2,278
Inventories	106	567	\$ 19		55		747
Total current assets	27,735	585	19	4,828	1,576	57,760	92,503
Noncurrent assets:							
Property, plant and equipment, net	41,887	36	4	196		350	42,473
Other assets						793	793
Total noncurrent assets	41,887	36	4	196		1,143	43,266
Total assets	69,622	621	23	5,024	1,576	58,903	135,769
Liabilities:							
Current liabilities:							
Accounts payable and accrued liabilities	4,769	178	27	167	8	6,371	11,520
Due to other funds		157	289				446
Estimated liability for claims in progress						58,741	58,741
Other liabilities	2,543	142	65	84	26	494	3,354
Total current liabilities	7,312	477	381	251	34	65,606	74,061
Noncurrent liabilities:							
Estimated liability for claims in progress						61,446	61,446
Total liabilities	7,312	477	381	251	34	127,052	135,507
Net assets:							
Invested in capital assets, net of related debt	41,887	36	4	196		350	42,473
Unrestricted (deficit)	20,423	108	(362)	4,577	1,542	(68,499)	(42,211)
Total net assets	\$62,310	\$144	\$(358)	\$4,773	\$1,542	\$(68,149)	\$ 262

CITY OF BALTIMORE
Combining Statement of Revenues, Expenses
and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2003

(Expressed in Thousands)

	Mobile Equipment	Reproduction and Printing	Municipal Post Office	Municipal Telephone Exchange	Electronic Equipment Maintenance	Risk Management	Total
Operating revenues:							
Charges for services	\$32,972	\$2,721	\$1,347	\$12,517	\$ 532	\$252,766	\$302,855
Operating expenses:							
Salaries and wages	9,176	930	347	662	236	3,067	14,418
Other personnel costs	3,175	323	137	221	78	1,078	5,012
Contractual services	9,729	745	81	9,672	146	5,815	26,188
Materials and supplies	8,130	856	2	5	67	27	9,087
Minor equipment	64	14	2	34		9	123
Claims paid and incurred						242,448	242,448
Postage and delivery service			1,027				1,027
Depreciation	7,570	31	4	68		88	7,761
Total operating expenses	37,844	2,899	1,600	10,662	527	252,532	306,064
Operating income (loss)	(4,872)	(178)	(253)	1,855	5	234	(3,209)
Nonoperating revenues (expenses):							
Gains on sale of investments						8	8
Investment income						947	947
Loss on disposal of property	(350)						(350)
Total nonoperating revenues (expenses)	(350)					955	605
Net income (loss) before contributions	(5,222)	(178)	(253)	1,855	5	1,189	(2,604)
Contributions	3,489						3,489
Total net assets — beginning	64,043	322	(105)	2,918	1,537	(69,338)	(623)
Total net assets — ending	\$62,310	\$ 144	\$(358)	\$ 4,773	\$1,542	\$(68,149)	\$ 262

CITY OF BALTIMORE
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2003

(Expressed in Thousands)

	Mobile Equipment	Reproduction and Printing	Municipal Post Office	Municipal Telephone Exchange	Electronic Equipment Maintenance	Risk Management	Total
Cash flow from operating activities:							
Receipts from customers	\$ 33,203	\$ 2,941	\$ 1,343	\$ 12,516	\$ (29)	\$ 254,327	\$304,301
Payments to employees	(12,377)	(1,275)	(477)	(872)		(4,197)	(19,198)
Payments to suppliers	(17,557)	(1,666)	(866)	(10,286)		(269,241)	(299,616)
Net cash provided (used) by operating activities	3,269			1,358	(29)	(19,111)	(14,513)
Cash flows from capital and related financing activities:							
Acquisition and construction of capital assets	(4,833)						(4,833)
Loss on disposal of property	(350)						(350)
Capital contributions	3,489						3,489
Net cash provided (used) by capital and related financing activities	(1,694)						(1,694)
Cash flows from investing activities:							
Proceeds from the sale and maturities of investments						10,962	10,962
Purchase of investments						(5,485)	(5,485)
Interest on investments						955	955
Net cash provided by investing activities						6,432	6,432
Net increase (decrease) in cash and cash equivalents	1,575			1,358	(29)	(12,679)	(9,775)
Cash and cash equivalents, beginning of year	25,744			3,469	1,549	62,671	93,433
Cash and cash equivalents, end of year	\$ 27,319			\$ 4,827	\$ 1,520	\$ 49,992	\$ 83,658
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating income (loss)	\$ (4,872)	\$ (178)	\$ (253)	\$ 1,855	\$ 5	\$ 234	\$ (3,209)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation							
Depreciation	7,570	31	4	68		88	7,761
Changes in assets and liabilities:							
Accounts receivable	203	(5)		(1)	2	2,083	2,282
Due from component unit	28	225	(4)		14		263
Other assets						(522)	(522)
Accounts payable and accrued liabilities	427	(44)	7	(588)	(54)	(371)	(623)
Other liabilities	(87)	(20)	9	24	4	(58)	(128)
Due to other funds		(9)	237				228
Estimated liability for claims in progress						(20,565)	(20,565)
Total adjustments	8,141	178	253	(497)	(34)	(19,345)	(11,304)
Net cash provided (used) by operating activities	\$ 3,269			\$ 1,358	\$ (29)	\$ (19,111)	\$ (14,513)

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.

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

CITY OF BALTIMORE
Combining Statement of Fiduciary Net Assets
Pension Trust Funds
June 30, 2003
(Expressed in Thousands)

	Employees' Retirement System	Elected Officials' Retirement System	Fire and Police Employees' Retirement System	Total
Assets:				
Cash and cash equivalents	\$ 71,632	\$ 9	\$ 44,430	\$ 116,071
Investments:				
Stocks	390,225		967,216	1,357,441
Bonds	562,196		669,001	1,231,197
Mutual funds	195,366	11,539		206,905
Real estate	13,431		63,385	76,816
Guaranteed investment contracts	10,680		25,558	36,238
Securities lending collateral	244,968		279,580	524,548
Other assets, principally accrued interest receivable	23,435	2	9,772	33,209
Total assets	<u>1,511,933</u>	<u>11,550</u>	<u>2,058,942</u>	<u>3,582,425</u>
Liabilities:				
Obligations under securities lending program	244,968		279,580	524,548
Accounts payable	71,141	14	7,993	79,148
Pension benefits payable	1,361	11	1,573	2,945
Total liabilities	<u>317,470</u>	<u>25</u>	<u>289,146</u>	<u>606,641</u>
Net assets held in trust for pension benefits	<u>\$1,194,463</u>	<u>\$11,525</u>	<u>\$1,769,796</u>	<u>\$2,975,784</u>

CITY OF BALTIMORE
Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2003
(Expressed in Thousands)

	Employees' Retirement System	Elected Officials' Retirement System	Fire and Police Employees' Retirement System	Total
Additions:				
Contributions:				
Employer	\$ 17,736		\$ 34,679	\$ 52,415
Employee	527	\$ 57	15,159	15,743
Total contributions	<u>18,263</u>	<u>57</u>	<u>49,838</u>	<u>68,158</u>
Investment income:				
Net appreciation (depreciation) in fair market value of investments	15,974	(145)	3,705	19,534
Securities lending income	778		888	1,666
Interest and dividend income	36,351	234	44,785	81,370
Total investment income	<u>53,103</u>	<u>89</u>	<u>49,378</u>	<u>102,570</u>
Less: investment expense	<u>3,314</u>	<u>20</u>	<u>4,741</u>	<u>8,075</u>
Net investment income	<u>49,789</u>	<u>69</u>	<u>44,637</u>	<u>94,495</u>
Total additions	<u>68,052</u>	<u>126</u>	<u>94,475</u>	<u>162,653</u>
Deductions:				
Retirement allowances	82,855	478	120,442	203,775
Death benefits	945		126	1,071
Administrative expenses	1,729	29	1,563	3,321
Other	355		13,207	13,562
Total deductions	<u>85,884</u>	<u>507</u>	<u>135,338</u>	<u>221,729</u>
Changes in net assets	<u>(17,832)</u>	<u>(381)</u>	<u>(40,863)</u>	<u>(59,076)</u>
Net assets — beginning of the year	<u>1,212,295</u>	<u>11,906</u>	<u>1,810,659</u>	<u>3,034,860</u>
Net assets — end of the year	<u>\$1,194,463</u>	<u>\$11,525</u>	<u>\$1,769,796</u>	<u>\$2,975,784</u>

CITY OF BALTIMORE
Combining Statement of Fiduciary Net Assets

Agency Funds

June 30, 2003

(Expressed in Thousands)

	Unpresented Stock and Coupon Bonds	Property Sold for Taxes	Bid Deposit Refunds	Waxter Center Accessory	Waterloo Summit	Recreation Accessory	Total
Assets:							
Cash and cash equivalents	\$55	\$86	\$86	\$13		\$707	\$947
Investments					\$51		51
Total assets	55	86	86	13	51	707	998
Liabilities:							
Accounts payable and accrued liabilities	43						43
Other	12	86	86	13	51	707	955
Total Liabilities	\$55	\$86	\$86	\$13	\$51	\$707	\$998

CITY OF BALTIMORE
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2003
(Expressed in Thousands)

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
<u>Unpresented Stock and Coupon Bonds</u>				
Assets:				
Cash	\$ 55			\$ 55
Total assets	55			55
Liabilities:				
Accounts payable and accrued liabilities	43			43
Other	12			12
Total liabilities	55			55
<u>Property Sold for Taxes</u>				
Assets:				
Cash	198	\$ 16	\$ 128	86
Total assets	198	16	128	86
Liabilities:				
Other	198	16	128	86
Total liabilities	198	16	128	86
<u>Bid Deposit Refunds</u>				
Assets:				
Cash	82	83	79	86
Total assets	82	83	79	86
Liabilities:				
Other	82	83	79	86
Total liabilities	82	83	79	86
<u>Waxter Center Accessory</u>				
Assets:				
Cash	13			13
Total assets	13			13
Liabilities:				
Other	13			13
Total liabilities	13			13
<u>Waterloo Summit</u>				
Assets:				
Investments	58		7	51
Total assets	58		7	51
Liabilities:				
Other	58		7	51
Total liabilities	58		7	51
<u>Recreation Accessory</u>				
Assets:				
Cash	1,612	2,200	3,105	707
Total assets	1,612	2,200	3,105	707
Liabilities:				
Other	1,612	2,200	3,105	707
Total liabilities	1,612	2,200	3,105	707
<u>Total All Agency Funds</u>				
Assets:				
Cash	1,960	2,299	3,312	947
Investments	58		7	51
Total assets	2,018	2,299	3,319	998
Liabilities:				
Accounts payable and accrued liabilities	43			43
Other	1,975	2,299	3,319	955
Total liabilities	\$2,018	\$2,299	\$3,319	\$998

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CITY OF BALTIMORE
Government-wide Expenses by Function

Last Ten Fiscal Years*

(Expressed in Thousands)

Unaudited

Fiscal Year	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
2002	\$276,361	\$434,567	\$176,159	\$26,966	\$ 19,758	\$27,159	\$37,759	\$159,481	\$36,237	\$12,646	\$116,340
2003	311,906	459,806	189,881	31,382	219,904	26,877	35,119	195,148	38,882	14,945	100,343

Fiscal Year	Interest	Water	Waste Water	Parking	Conduit	Development Loans	Industrial Development	Total
2002	\$46,037	\$82,101	\$123,719	\$ 7,573	\$2,654	\$3,210	\$2,241	\$1,590,968
2003	41,271	97,883	132,785	13,060	3,075	3,202	1,660	1,917,129

* The last eight fiscal years are not available

CITY OF BALTIMORE
Government-wide Revenues

Last Ten Fiscal Years*

(Expressed in Thousands)

Unaudited

Fiscal Year	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Grants and Contributions Not Restricted to Specific Programs	Unrestricted Investment Income	Miscellaneous	Total
2002	\$333,025	\$429,036	\$41,863	\$766,589	\$173,604	\$40,290	\$26,577	\$1,810,984
2003	345,720	472,628	66,453	793,817	173,412	31,841	31,324	1,915,195

* The last eight fiscal years are not available

CITY OF BALTIMORE
General Governmental Revenues by Source (GAAP Basis)
Last Ten Fiscal Years (1), (2)
(Expressed in Thousands)

Unaudited

Fiscal Year	State Shared Revenue and Taxes	Licenses and Permits	Federal, State and Other Grants (3)	Charges for Services	Fines and Forfeitures	Interest, Rental and Other Investment Income	Miscellaneous	Total
1994	\$824,907	\$15,569	\$740,932	\$42,727	\$ 2,657	\$41,981	\$20,125	\$1,688,898
1995	828,484	17,575	787,550	33,661	2,225	51,692	7,496	1,728,683
1996	828,756	16,636	852,279	33,065	2,218	55,480	33,052	1,821,486
1997	855,103	17,744	919,106	32,915	2,287	47,410	8,179	1,882,744
1998	837,392	18,265	324,877	34,191	2,219	54,249	21,296	1,292,489
1999	858,748	18,187	345,718	35,615	3,136	56,745	28,240	1,346,389
2000	877,115	22,105	386,993	36,584	6,837	48,255	22,266	1,400,155
2001	932,485	21,884	428,225	37,281	7,204	49,490	11,529	1,488,098
2002	940,988	22,611	445,358	39,380	7,258	38,371	24,541	1,518,507
2003	967,229	21,920	501,341	40,789	10,927	31,841	31,324	1,605,371

Notes:

- (1) Includes General, Special Revenue, Debt Service and Capital Projects Funds through fiscal year 2001.
- (2) Effective fiscal year 2002, includes General, Motor Vehicle, Grants Revenue, Capital Projects and other nonmajor governmental funds.
- (3) Effective fiscal year 1998, State grants for the Baltimore City Public School System are shown as a discretely presented component unit.

CITY OF BALTIMORE
General Governmental Expenditures by Function (GAAP Basis)
Last Ten Fiscal Years (1), (2)
(Expressed in Thousands)

Unaudited

Fiscal Year	General Government	Public Safety and Regulation	Highways and Streets	Sanitation and Waste Removal	Public Library	Conservation of Health	Social Services	Recreation and Culture	Economic Development	Education (3)	Public Service	Debt Service	Capital Expenditures	Total
1994	\$174,798	\$310,604	\$44,362	\$62,017	\$18,139	\$152,560	\$12,910	\$40,634	\$113,328	\$626,293	\$ 8,955	\$ 99,697	\$ 94,285	\$1,758,582
1995	178,597	320,873	43,888	60,681	18,701	173,231	14,628	41,907	105,681	637,729	8,377	129,341	124,682	1,858,316
1996	196,103	331,597	86,570	33,267	20,996	166,160	17,048	42,082	88,260	704,324	6,925	57,657	153,531	1,904,520
1997	197,620	319,234	79,504	31,839	21,770	180,654	19,026	41,138	74,817	744,639	9,049	44,486	162,534	1,926,310
1998	224,773	347,333	96,910	31,224	22,313	145,165	18,438	39,175	56,496	1,080	9,609	55,476	171,249	1,219,241
1999	239,389	346,758	84,361	31,040	24,173	143,482	18,737	27,267	88,221	776	9,798	57,936	162,408	1,234,346
2000	257,612	364,443	85,351	30,002	23,428	145,314	21,972	26,735	92,220	880	11,471	68,395	143,184	1,271,007
2001	275,569	394,033	83,911	33,751	26,170	153,615	23,915	30,529	92,342	1,308	12,039	72,111	102,676	1,301,969
2002	292,769	412,013	81,894	29,435	27,128	174,473	26,707	31,394	114,775	3,327	12,170	68,980	128,662	1,403,727
2003	332,028	460,657	86,323	30,617	27,012	188,318	31,248	30,124	102,790	206,665	11,889	67,825	176,715	1,752,211

Notes:

- (1) Includes General, Special Revenue, Debt Service and Capital Projects Funds through fiscal year 2001.
- (2) Effective fiscal year 2002, includes General, Motor Vehicle, Grants Revenue, Capital Projects and other nonmajor governmental funds.
- (3) Effective fiscal year 1998, education expenditures are reported as a discretely presented component unit.

CITY OF BALTIMORE
Property Tax Levies and Collections

Last Ten Fiscal Years

(Dollars Expressed in Thousands)

Unaudited

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Current and Prior Years' Adjustments	Outstanding Delinquent Taxes (1)	Percent of Delinquent Taxes to Tax Levy
1994	\$485,291	\$471,864	97.2	\$ 4,629	\$476,493	98.2	\$(13,942)	\$13,923	2.9
1995	481,529	469,075	97.4	3,336	472,411	98.1	(10,581)	12,460	2.6
1996	482,014	463,887	96.2	526	464,413	96.3	(11,861)	18,200	3.8
1997	483,009	466,782	96.6	7,043	473,825	98.1	(11,158)	16,226	3.4
1998	475,125	461,022	97.0	9,238	470,260	99.0	(7,022)	14,069	3.0
1999	483,042	467,651	96.8	9,606	477,257	98.8	(4,489)	15,365	3.2
2000	496,166	478,991	96.5	12,095	491,086	99.0	6,879	27,324	5.5
2001	505,064	486,170	96.3	17,167	503,337	99.7	(6,357)	22,694	4.5
2002	515,463	494,379	95.9	8,613	502,992	97.6	819	35,984	7.0
2003	517,977	500,522	96.6	12,836	513,358	99.1	(13,695)	26,908	5.2

Note:

- (1) Excludes State portion of delinquent property taxes, which at June 30, 2003 totaled \$484,000. This column is net of additions, abatements and provision for doubtful accounts.

CITY OF BALTIMORE
Assessed and Estimated Actual Value of Taxable Property

Last Ten Fiscal Years

(Dollars Expressed in Thousands)

Unaudited

Fiscal Year	Real Property		Personal Property		Total		Ratio of Total Assessed Value to Total Estimated Actual Value
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1994	\$ 6,919,889	\$17,080,579	\$1,312,421	\$1,312,421	\$ 8,232,310	\$18,393,000	44.8
1995	6,878,428	16,941,298	1,361,857	1,361,857	8,240,285	18,303,155	45.0
1996	6,867,382	16,782,536	1,382,719	1,382,719	8,250,101	18,165,255	45.4
1997	6,864,457	16,695,103	1,416,870	1,416,870	8,281,327	18,111,973	45.7
1998	6,820,914	16,574,901	1,305,973	1,305,973	8,126,887	17,880,874	45.5
1999	6,828,724	16,638,885	1,482,570	1,482,570	8,311,294	18,121,455	45.9
2000	6,839,568	16,769,650	1,695,691	1,695,691	8,535,259	18,465,341	46.2
2001	6,828,402	16,963,236	1,893,784	1,893,784	8,722,186	18,857,020	46.3
2002	16,893,662(1)	17,257,859	1,955,068	1,955,068	18,848,730(1)	19,212,927	98.1(1)
2003	17,316,114(1)	17,846,735	1,820,389	1,820,389	19,136,503(1)	19,667,124	97.3(1)

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.

CITY OF BALTIMORE

Property Tax Rates

Last Ten Fiscal Years (1)

Unaudited

Fiscal Year	City Tax Rate	State Tax Rate (2)	Total (3)
1994	\$5.900	\$.210	\$6.110
1995	5.850	.210	6.060
1996	5.850	.210	6.060
1997	5.850	.210	6.060
1998	5.850	.210	6.060
1999	5.820	.210	6.030
2000	5.820	.210	6.030
2001	5.820	.210	6.030
2002(4)	2.328	.084	2.412
2003(4)	2.328	.084	2.412

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.

CITY OF BALTIMORE

**Ratio of Annual Debt Service Expenditures for
General Bonded Debt to Total General Expenditures
Last Ten Fiscal Years (2)**

(Dollars Expressed in Thousands)

Unaudited

Fiscal Year	Principal	Interest	Total Debt Service	Total General Expenditures (1)	Ratio of Total Debt Service to Total General Expenditures (2)
1994	\$59,334(3)	\$29,751(4)	\$89,085	\$1,618,273	5.5
1995	47,464(5)	27,807(6)	75,271	1,693,767	4.4
1996	24,019(7)	29,481(8)	53,500	1,725,382	3.1
1997	13,618(9)	26,997(10)	40,615	1,739,062	2.3
1998	19,376(11)	31,460(12)	50,836	1,031,090	4.9
1999	26,936(13)	28,478(14)	55,414	1,049,381	5.3
2000	35,401(15)	30,124(16)	65,525	1,092,664	6.0
2001	32,241(17)	27,556(18)	59,797	1,173,174	5.1
2002	27,897(19)	28,395(20)	56,292	1,229,615	4.6
2003	30,638(21)	29,446(22)	60,084	1,545,705	3.9

Notes:

- | | |
|---|---|
| <ol style="list-style-type: none"> (1) Includes General, Special Revenue and Debt Service Funds. (2) The City has no legal debt margin, however, all bond issues must be approved by the State Legislature. The City has no overlapping debt. (3) Excludes \$7,390,000 in federal loans. (4) Excludes \$1,256,000 in federal loans. (5) Excludes \$3,390,000 in federal loans. (6) Excludes \$890,000 in federal loans. (7) Excludes \$3,315,000 in federal loans. (8) Excludes \$842,000 in federal loans. (9) Excludes \$3,376,000 in federal loans. | <ol style="list-style-type: none"> (10) Excludes \$495,000 in federal loans. (11) Excludes \$3,721,000 in federal loans. (12) Excludes \$919,000 in federal loans. (13) Excludes \$1,240,000 in federal loans. (14) Excludes \$829,000 in federal loans. (15) Excludes \$6,421,000 in federal loans. (16) Excludes \$1,408,000 in federal loans. (17) Excludes \$6,880,000 in federal loans. (18) Excludes \$2,416,000 in federal loans. (19) Excludes \$6,183,000 in federal loans. (20) Excludes \$2,298,000 in federal loans. (21) Excludes \$5,427,000 in federal loans. (22) Excludes \$2,314,000 in federal loans. |
|---|---|

CITY OF BALTIMORE
Ratio of Net General Bonded Debt to Assessed Value
and Net General Bonded Debt Per Capita

Last Ten Fiscal Years
(Dollars Expressed in Thousands)

Unaudited

Fiscal Year	Population	Assessed Value	Gross Bonded Debt	Deduct Other Self-Supporting Debt	Funds Available In Debt Service Fund	Net General Bonded Debt	Ratio of Net General Bonded Debt to Assessed Value	Net General Bonded Debt Per Capita (Rounded to nearest dollar)
1994	709,200	\$ 8,232,310	\$392,840	\$45,190	\$21,388	\$326,262	4.0	\$460
1995	700,000	8,240,285	390,814	44,712	39,250	306,852	3.7	438
1996	683,300	8,250,101	416,293	43,826	34,926	337,541	4.1	494
1997	669,900	8,281,327	441,435	41,991	36,485	362,959	4.4	542
1998	650,900	8,126,887	457,039	39,097	30,379	387,563	4.8	595
1999	631,500	8,311,294	474,068	36,487	25,369	412,212	5.0	653
2000	627,000	8,535,259	488,306	35,356	22,051	430,899	5.0	687
2001	639,400	8,722,186	494,515	34,509	20,647	439,359	5.0	687
2002	635,200	18,848,730(1)	509,259	33,037	22,990	453,232	2.4(1)	714
2003	638,600	19,136,503(1)	567,602	35,692(2)	17,715	514,195	2.7(1)	805

Notes:

(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 Net General Bonded Debt to Assessed Value reflects this change.

(2) Composition of other self-supporting debt at June 30, 2003 was:

Off-street parking facilities general obligation bonds and notes (portion reimbursable by private operators)	\$32,472
Water utility general obligation bonds	1,113
Waste water utility general obligation bonds	<u>2,107</u>
Total	<u>\$35,692</u>

CITY OF BALTIMORE
Revenue Bond Coverage
Water Utility, Waste Water Utility,
Parking Facilities and Convention Center Bonds

Last Ten Fiscal Years

(Dollars Expressed in Thousands)

Unaudited

	Fiscal Year	Gross Revenue	Direct Operating Expense (1)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
					Principal	Interest	Total	
Water Utility	1994	\$ 75,734	\$ 48,842	\$26,892		\$ 4,041	\$ 4,041	6.65
	1995	61,475	49,149	12,326	\$ 655	5,427	6,082	2.03
	1996	64,067	52,357	11,710	1,505	5,385	6,890	1.70
	1997	69,640	55,293	14,347	1,705	6,459	8,164	1.76
	1998	68,707	58,000	10,707	2,370	7,509	9,879	1.08
	1999	72,949	60,780	12,169	2,465	8,245	10,710	1.13
	2000	79,427	69,826	9,601	2,940	8,725	11,665	.82
	2001	83,961	64,353	19,608	3,190	9,936	13,126	1.49
	2002	84,083	65,938	18,145	3,860	10,737	14,597	1.24
	2003	92,214	74,974	17,240	2,185	6,972	9,157	1.88
Waste Water Utility	1994	89,988	74,804	15,184		1,954	1,954	7.77
	1995	87,064	80,627	6,437	3,167	3,172	6,339	1.02
	1996	91,466	82,095	9,371	2,094	3,594	5,688	1.65
	1997	100,405	88,060	12,345	2,112	4,180	6,292	1.96
	1998	103,643	88,933	14,710	2,632	5,010	7,642	1.92
	1999	105,718	92,350	13,368	2,830	5,851	8,681	1.54
	2000	117,028	107,829	9,199	3,544	5,163	8,707	1.06
	2001	114,945	99,112	15,833	3,877	7,201	11,078	1.43
	2002	128,681	104,324	24,357	4,789	7,834	12,623	1.93
	2003	121,131	105,974	15,157	2,234	8,344	10,578	1.43
Parking Facilities	1994	33,429	3,536	29,893		4,667	4,667	6.41
	1995	33,741	2,563	31,178	275	7,295	7,570	4.12
	1996	33,361	3,033	30,328	2,085	6,720	8,805	3.44
	1997	37,382	3,715	33,667	2,620	10,289	12,909	2.61
	1998	37,283	3,721	33,562	2,725	6,122	8,847	3.79
	1999	41,248	3,703	37,545	2,835	7,313	10,148	3.70
	2000	38,527	5,508	33,019	3,205	7,131	10,336	3.19
	2001	46,176	4,963	41,213	3,360	6,977	10,337	3.99
	2002	46,043	5,790	40,253	3,515	6,813	10,328	3.90
	2003	49,883	6,845	43,038	3,690	7,803	11,493	3.74
Convention Center (2)	1995	8,721		8,721		1,904	1,904	4.58
	1996	9,591		9,591		3,265	3,265	2.94
	1997	11,059		11,059		3,265	3,265	3.39
	1998	3,654		3,654		3,265	3,265	1.12
	1999	3,861		3,861		2,429	2,429	1.59
	2000	4,567		4,567	1,225	2,891	4,116	1.11
	2001	4,631		4,631	1,780	2,832	4,612	1.00
	2002	4,636		4,636	1,850	2,578	4,428	1.05
2003	4,637		4,637	1,930	2,679	4,609	1.01	

Notes:

- (1) Operating expenses — excluding depreciation and amortization.
- (2) Bonds issued during fiscal year 1995.

CITY OF BALTIMORE
Computation of Overlapping Debt

June 30, 2003

Unaudited

The City of Baltimore has no Overlapping Debt.

CITY OF BALTIMORE
Real Property Value, Construction Permits and Bank Deposits
Last Ten Fiscal Years

(Dollars Expressed in Thousands)

Unaudited

Fiscal Year	Commercial Construction(3)		Residential Construction(3)		Real Property Value (2)			Commercial Bank Deposits As of June 30th(5)
	Number of Permits (4)	Value (1)	Number of Units	Value	Commercial	Residential	Exempt	
1994	1,015	\$ 128,089	304	\$15,276	\$7,218,642	\$ 9,861,937	\$7,080,398	\$ 7,584,447
1995	1,201	223,963	300	17,167	6,868,865	10,072,433	7,416,788	7,305,798
1996	1,472	563,801	310	29,593	6,527,246	10,255,289	8,326,719	6,442,122
1997	1,045	301,210	179	15,563	6,833,124	10,485,062	7,510,520	7,024,263
1998	1,153	532,405	171	19,158	6,756,076	10,853,717	7,537,284	8,743,095
1999	1,320	335,380	396	45,508	6,789,443	10,913,873	8,377,825	10,538,115
2000	1,979	861,674	102	64,188	6,854,669	11,142,555	8,355,897	11,567,509
2001	2,103	864,762	255	36,627	7,243,580	11,534,114	8,519,217	11,147,430
2002	1,869	1,231,585	153	35,686	7,303,440	11,798,628	8,779,229	10,663,098
2003	1,277	574,233	208	50,808	7,574,267	12,731,452	8,282,269	

Notes:

- (1) Includes additions, conversions and razings.
- (2) Source: State of Maryland, Department of Assessments and Taxation.
- (3) Source: City of Baltimore, Department of Housing and Community Development.
- (4) Only permits with a value of \$10,000 or more are reported.
- (5) Source: Federal Deposit Insurance Corporation, Annual "Bank and Thrift Branch Office Data Book Northeast Region." The June 30, 2003 figure is unavailable.

CITY OF BALTIMORE
Principal Taxpayers
For the Year Ended June 30, 2003

(Dollars Expressed in Thousands)

Unaudited

Taxpayer	Type of Business	2003 Assessed Value	Percentage of Total Assessed Value
BGE (Baltimore Gas & Electric Company)	Power Utility	\$ 552,025	2.9%
Verizon—Maryland	Telephone/Communications	385,117	2.0
Baltimore Center Associates, LTD Partnership	Real Estate	140,580	0.7
Boston Properties, Inc.	Real Estate	130,672	0.7
Harbor East Limited	Real Estate	103,850	0.5
CSX Transportation, Inc.	Rail Road	77,652	0.4
ABB South Street Associates	Real Estate	69,576	0.4
TMCT, LLC	Newspaper	60,608	0.3
Pratt Street Hotel, LLC	Hotel/Hospitality	49,246	0.3
Travis Real Estate Group	Real Estate	47,241	0.2
		\$1,616,567	8.4%

CITY OF BALTIMORE

Demographic and Miscellaneous Statistics

For the Year Ended June 30, 2003

Unaudited

Form and Structure

City incorporated in 1797 with Home Rule Charter since 1918
Executive and Legislative Officials:

Mayor	runs city-wide
Comptroller	runs city-wide
City Council, President	runs city-wide
Other City Council Members	by district

Above officials serve concurrent four year terms with no term limits. There are three Council Members in each of the six districts.

Principal Public Service Departments

Department	Full Time Budgeted Positions		
	FY2003	FY1999	FY1995
Police	4,102	4,043	3,782
Fire	1,748	1,777	1,843
Public Works	3,620	5,826	5,872
Recreation and Parks	372	345	687
All Other Employees	5,751	4,252	4,366
Totals	15,593	16,243	16,550

Economy

	FY2003	FY1999	FY1995
Retail Sales (in billions) (1)	\$ 4.8	\$ 4.5	\$ 3.9
Income/Cap (2)	(3)\$ 26,702	\$ 25,292	\$ 21,213
Total Employment	(4)269,802	268,384	286,808
% Unemployment	(4)7.9%	7.3%	8.5%
Office Vacancy Rate	14.6%	11.5%	24.0%
Real Property Tax Rate	(5)\$ 2.328/100	\$5.82/100	\$5.85/100

(1) FY1994 was not comparable with the rest of the years due to changes in reporting method effective January 1997.
 (2) Calendar year figures.
 (3) Calendar year 2001 is the latest year available.
 (4) Calendar year 2002 in the latest year available.
 (5) 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 full estimated actual value. Accordingly, the tax rate was adjusted to maintain the effective rate.

Demographics (thousands)

Fiscal Year	Population(1)	65 or Older(1)	Registered Voters
2000	651.2	86.0	(2)295.5
1990	736.0	99.9	386.6
1980	786.8	100.6	392.8
1970	905.7	95.7	431.1
1960	925.2	85.9	(3)440.4

- (1) Calendar year figures, U.S. Department of Commerce, Census Bureau.
 (2) General election figure from 2002. There was no General election for Baltimore City in 2003.
 (3) Imputed from 1970 ratio to population.

Infrastructure:

Police Stations	9
Fire Stations	39
Street miles	2,000
Storm Drain miles	1,080
Sanitary Sewer miles	3,100
Park acreage	5,827
Recreation Facilities:	
Zoo (attendance)	409,000
Arena (attendance)	695,000
Aquarium (attendance)	1.4 million
Pools and Water Play facilities	43
Golf Courses	5
Ice Rinks	2
Indoor Soccer Fields	2
Library Facilities	
Volumes (millions)	3.2
Circulation (millions)	1.4
Other Facilities (attendance):	
Oriole Park at Camden Yards	2.4 million
M & T Bank Stadium (Baltimore Ravens)	673,000
Convention Center	602,000
Baltimore Museum of Art	230,000
Walters Art Museum	161,000
Meyerhoff Symphony Hall	362,000

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