

# *City of Baltimore* *Maryland*



*Comprehensive Annual Financial Report*  
*Year Ended June 30, 2004*

# **City of Baltimore, Maryland**

## **Comprehensive Annual Financial Report**

Year Ended June 30, 2004

Prepared by the Department of Finance

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*Director of Finance*

Bureau of Accounting and Payroll Services

Michael E. Broache

*Bureau Chief*





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## ELECTED OFFICIALS

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MAYOR

Martin O'Malley

PRESIDENT OF THE CITY COUNCIL

Sheila Dixon

COMPTROLLER

Joan M. Pratt

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## BOARD OF ESTIMATES

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PRESIDENT

Sheila Dixon

MAYOR

Martin O'Malley

COMPTROLLER

Joan M. Pratt

DIRECTOR OF PUBLIC WORKS

George L. Winfield

CITY SOLICITOR

Ralph S. Tyler

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## CITY COUNCIL

Sheila Dixon, *President*

Stephanie C. Rawlings, *Vice-President*

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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

City of Baltimore  
Comprehensive Annual Financial Report  
Year Ended June 30, 2004

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# Introductory Section



- **Letter of Transmittal**
- **Certificate of Achievement — Government Finance Officers Association**
- **Organization Chart**

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CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor



DEPARTMENT OF FINANCE

PEGGY J. WATSON, Director  
469 City Hall  
Baltimore, Maryland 21202

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

December 3, 2004

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, 2004. 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, 2004. 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 642,700. 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 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 over financial reporting. There have been no significant changes in internal control since June 30, 2004.

## **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 367,000 or 30.1% 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 — I-95 northeast corridor. The recent decisions of two bio-medical businesses to locate in the newest bio-medical technology center under construction in the City is just one example of growing recognition of the location advantages.

Employment structure factors affect the City favorably. This is of increasing importance as global re-location decisions rapidly shift job and have eroded manufacturing jobs. The City has been less reliant for several decades on traditional manufacturing industries than the region, State and nation. Manufacturing jobs comprise only 5.6% of the City's jobs. This is a lower percentage than the region, the State and the nation. Over 24.0% 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 related 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 knowledge and information based industry sectors of health, education, and information.

An increasing number of knowledge based workers of the Washington, D.C. and Northern Virginia area commute to jobs from homes in Baltimore. One of several positive indicators is that from Fiscal 2000 through 2003, the State has reported that commuter use of the State-run "MARC" train lines from the Baltimore area to Washington, D.C. increased from 4.1 million to 4.8 million or 18.4%. The City expanded its aggressive marketing efforts in the Washington, D.C. area of its low cost, high value housing and business location options in Fiscal 2004, and realtors and rental agents report increased volume of immigrants from the District area.

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 projects. Land acquisition, land clearance and design for the east-side project continued in 2004. Construction began on the first facility, a 120,000 square foot building at the University of Maryland's Westside bio-science park. Leases have been announced for a Japanese bio-medical company and an American Red Cross research lab, both re-locating operations to the City. In addition, a local pharmaceutical manufacturing company will open a facility in a new building. Expansion continues at other major health institutions in the City. For instance, Mercy Hospital opened a major facility, the Harry and Jeannette Weinberg Center in downtown Baltimore in Fiscal 2004.

Population trend is often considered the single most important economic factor. Baltimore City's population peaked at 949,708 in 1950 and declined to 651,154 by 2000. This 50-year trend reflects an average monthly drop of 498 persons. Some decades saw faster drops than others. The 1970's saw the greatest declines. During this period, population loss approached nearly 12,000 per year, or nearly 1,000 per month. More recently the annual drop in the 1990's was about 8,500 or a little over 700 per month. The City successfully appealed the latest U. S. Bureau of the Census population estimate of 628,670 for July 1, 2003. The Census revised the population estimate upward to 643,304. Based on the revised population estimate the three year period 2000 to 2003 averaged a decline of 218 per month. This is a dramatic change. It positively reflects the City's efforts to address the problems associated with being the State's old urban center with a disproportionate share of the State's poor and areas of disinvestment and abandonment. In order to support redevelopment and strengthen the revenue base careful application of tax and development incentives have been and will continue to be used.

Positive outcomes of development efforts are reflected in current development activity underway or completed in 2004, estimated to be about \$2.5 billion. These redevelopment investment projects are at numerous 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 and historic property rehabilitation. Job creation projects are also used.

### **Local Economic Outlook**

With the exception of trends in certain travel and visitor indicators, the key factors affecting the local economy show reason for measured optimism looking forward. But the local situation could be dramatically altered as the local economy is affected by national and international political and economic events and changes. There are many uncertainties in the national and international outlook that require a cautious outlook.

## **Jobs and Employment**

Calendar 2003 data, the most recent full year of reliable data on jobs located in the City, indicates that the number of jobs were essentially unchanged from calendar 2002 with a slight decline from 368.9 thousand to 367.9 thousand jobs. This represents a positive and marked change from the large job decline in the prior two change periods. Employment most recently peaked at 387.6 thousand in calendar 2000 and declined dramatically annually until calendar 2003. The resident unemployment rate for Fiscal 2004 (before annual benchmarking) declined to 8.1% compared to 8.6% in Fiscal 2003. A stabilization in the rate of change in jobs will hopefully provide a new base for job growth.

## **Retail Sales**

Retail sales reported by the State of Maryland for the City grew from \$4.80 billion to \$5.07 billion, a healthy increase of 5.6%. This growth reflects the cyclical pattern of recovery from the last recession, the effects of the City's efforts to attract retailers, and the marketing decisions of retailers as they rediscover urban centers. In particular the City has benefited by opening of major grocery, pharmacy/convenience stores, chain food operations, home improvement and office supply outlets.

## **Housing**

Housing development, both new construction and the conversion of existing uses/sites to apartments, condominiums, town homes and single family homes continues to be very strong. Fiscal 2004 saw ground breaking on the first large scale housing development project with planned asking prices in excess of \$1.0 million. Single family home sales through the multiple listing service reflect strong positive trends as the percentage increase in total dollar sales volume increased between calendar 2003 and calendar 2002 at 25.1%, and the average selling price increased 17.0%. Both rates of change were greater than the metropolitan area. The number of units sold increased 7.0%, nearly matching the region's 7.2% increase. If the "for sale" homes inventory in the City been greater, it is likely that the rate of change would have surpassed that of the region. Nevertheless, the likelihood of interest rate increases and the possible bursting of what some see as a real estate bubble are a concern nationwide. The apartment market is robust as well. In Fiscal 2004 over 600 newly constructed apartments opened or were near completion in the downtown area. This brings the total number of new downtown apartments built downtown to 1,582 since 1999. In addition, another 1,263 units are under construction. Another 500 apartments are under construction in neighborhoods adjacent to downtown.

## **Port**

Port activity is sensitive to factors that affect world trade, the state of economies abroad, currency markets and other factors. Calendar year 2003 was a strong year for the port and calendar year 2004 has continued to show positive trends. Total tonnage at the port was a record in calendar 2003, increasing 4.3% over calendar year 2002. The port maintained its position as the number one "roll on / roll off" port in the nation. Automobile tonnage increase 31.0% in calendar 2003. Calendar 2003 saw the Port claim the spot as the number one forest products port in the nation. While not a major container port, container tonnage increased 10.0%. International foreign policy and economic factors will determine the near term outcome. Assuming no major changes, the outlook is positive.

## **Tourism and Travel Industry**

Positive signs are reflected in air travel and cruise boat travel. In calendar 2003 about 19.7 million passengers used Baltimore- Washington International Airport. Usage for the first time reached pre September 11, 2001 levels. Cruise ships utilizing the Port of Baltimore in 2003 doubled in number the ships calling in 2002. However future planned cruise ship port calls are below this level. The City's hotel, convention center and admissions and amusement tax receipts each declined in Fiscal 2004 as compared with Fiscal 2003. Events at the Baltimore Convention Center declined from 207 in Fiscal 2003 to 195 in Fiscal 2004. Nevertheless, some hotel consultants view the Baltimore Market (the airport in particular and downtown as well) as an investment opportunity. Baltimore City had two new downtown hotels, one opened and one under construction, adding 300 rooms to the City's inventory in Fiscal 2004.

## **Office Development**

Strong development activity and major additions to the inventory of available space have contributed to a decline in occupancy rates. However, rental rates are showing signs of firming. The vacancy rate, which increased substantially from its low point in Fiscal 2002 of 9.3% as it jumped to 14.6% in Fiscal 2003, increased at a much lower rate to 16.1% in Fiscal 2004. The strong development activity is reflected in that fact that the three largest office complex projects under development in the region in calendar 2003 were all located in the City providing a combined 800,000 square feet of space.

## 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, budgeting, payroll, accounting and procurement. Selected highlights of financial management action accomplishments in Fiscal 2004 follow:

- In order to meet a projected cash flow shortfall of the Baltimore City Public School System (BCPSS), on March 17, 2004, the Mayor and City Council of Baltimore entered into a funding agreement with the Commissioners of the BCPSS in an amount not to exceed \$42.0 million for the fiscal year ending June 30, 2004. The City determined that the funding was necessary to ensure uninterrupted operation of the school system. The City advanced \$42.0 million to BCPSS from the City's budget stabilization reserve fund. The agreement required the repayment of \$34.0 million on August 2, 2004, and the remaining \$8.0 million is due on or before June 30, 2006. Interest accrues at the rate of one and one half percent per annum on the \$8.0 million. The \$34.0 million was repaid on August 2, 2004. If BCPSS fails to timely reimburse the City as required under the agreement, the City reserved the right to deduct sums owed it from the City's annual appropriation to BCPSS.

The City's budget stabilization reserve position has not been impaired and in fact has improved compared to June 30, 2003 as discussed below.

- The City continues to seek the lowest cost financing options for debt issuance. In Fiscal 2004 the City utilized State drinking water and clean water revolving loan funds for water and waste water capital project funding. The interest costs on \$39.2 million in Water and Waste Water capital project financing is only 1.0%.
- In addition the City issued \$12.8 million of Refunding Certificates of Participation. The net present values savings as a result of this refunding was over \$1.0 million or about 8.0% of the refunded bonds.
- Tax sale processes were enhanced by implementation of a competitive sealed bid for bundled set of properties which proved to provide a more efficient tax sale eliminating the need for a live auction. The new process resulted in the sale of a larger number of liens and higher bid values. The City continued to work with mortgage companies to make tax payments more accurate, timely and complete, thus reducing the number of properties that had to go to tax sale. This additional effort allowed the City to process sale notifications in a more timely manner. Finally, improvements to upgrade the content of the tax sale web site were made in the second year of the City's use of the internet for the tax sale.
- Work continued to enhance the administration of the workers compensation and employee health system. By first reorganizing the administration of these programs from a fragmented system managed by three different agencies to a coordinated system under one roof housed in the Finance Department and, second, by outsourcing the health clinic and workers compensation claims management and litigation services to service providers that are better able to professionally manage the City's caseload and to provide quality services to the City workforce, the City has achieved some dramatic results. Using fiscal year 2002 as a baseline, in fiscal year 2004, the City reduced its job injury leave time costs by 73% (excluding Fire and Police employees); decreased the percent of injury claims with leave-time granted from 92% of claims to 42% of claims; cut the number of new injury claims reported by 9%; shrunk the inventory of open claims by two thirds from 12,805 to 4,302 claims; more than doubled the number of cases closed through litigation; and reduced the average amount of award per case closed by 41%.
- Changes were made to the cost-sharing arrangements for employee and retiree health care and prescription drug coverage, in an effort to bring these benefits more in line with what the City can afford and with what other employers provide. For calendar year 2004, the City increased the percentage that retirees contribute toward their medical premiums to 50% of the cost for Blue Cross/Blue Shield coverage; increased the prescription drug co-pays for retirees and active employees; increased the percentage that some groups of active employees contribute toward their Blue Cross/Blue Shield medical premiums so that management and unrepresented employees contribute 20% of the premium cost and other represented groups contribute 15%; and increased the co-pays for certain services under the Blue Cross/Blue Shield plans. The City and its Fire and Police unions have already approved changes that will further increase the percentage of the premium cost that active employees pay for managed care plans from 0% to 10% by 2006. This change will take effect for management and unrepresented employees in January 2005 and for Fire and Police employees in January 2006. The City is pursuing a similar increase with its other municipal unions that are currently negotiating contract changes for fiscal year 2006.
- The City completed the first phase of a three phase-payroll system project to replace a 35 year old COBOL mainframe based system. The first phase, to automate time and attendance reporting, was a pilot project in a

typical City agency. The Enoch Pratt Free Library was successfully completed as 500 employees were migrated to the new state-of-the-art system. The second phase to be initiated in Fiscal 2005 will involve about 10,000 non-uniform employees. The final phase will involve the uniformed fire and police service which have unique scheduling and reporting requirements. The new system efficiently streamlines time and attendance reporting and allows for the generation of management information essential for effective financial control and planning.

- The City continued testing in advance of implementation a system to replace the 29-year old real property tax accounting and collections system and related applications. Testing continues on aspects of the new integrated user and customer friendly system. Implementation of the first phase of the project is targeted for July 2005.

The positive outcome of effective financial management is evident in the City's General Fund Balance position which improved substantially in Fiscal 2004. An addition of \$782 thousand was made to the budget stabilization fund, which, at June 30, 2004, had a balance of \$57.0 million. When combined with the undesignated unreserved fund balance of \$9.9 million, the total of \$66.9 million comprises about 6.5% 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 the State's unwillingness to enact meaningful revenue programs to fund its legal mandates and provide the support local governments and their residents require.

## **MAJOR INITIATIVES AND ACCOMPLISHMENTS**

The Administration focuses on the critical long-term concerns facing the City – the decline in population and jobs, the need to provide children and entire neighborhoods with opportunities and hope for the future, reducing crime and increasing drug treatment. This requires that the City have strong management tools and an excellent management team to find and implement “best practices” and take risks investing in innovations. The primary management tool is Citistat, the management innovation that has demonstrated that problems of the scale of Baltimore's can be managed. The success of this tool is reflected by the fact that numerous cities are formally implementing processes modeled on Citistat. Most notable, Citistat competed with nearly 1,000 applicants to receive in July 2004 what many consider to be the most prestigious award in local government management, the Innovations in American Government Award from the John F. Kennedy School of Government at Harvard University. Supporting the central management tools individual agency heads received national recognition for leadership and innovation. The Director of the Enoch Pratt Free Library served as President of the American Library Association. The City's Chief Information Officer was recognized as one of the “CIO 100” top information enterprise managers by CIO Magazine, recognition almost always garnered by private sector managers in businesses such as Dell Computer and General Motors. In addition, the City's Housing Commissioner was named “Commissioner of the Year” in September 2003 by the National Public Housing Residents Association.

### **Objective 1: Make Baltimore a safe, clean city**

Changing the public perceptions about crime, safety and the scourge of drugs in the City requires reducing the magnitude of those problems. Improving real performance in these areas is paramount. In the last three years, the City has made great strides in reducing violent crime compared both to national trends and trends in the largest cities. Between 1999 and 2003, the City has reduced violent crime by 40.0% the largest reduction among the 25 largest cities in the nation. In addition, total crimes have been cut 35.0%, and the homicide rate has been cut 19.0% percent compared to the average rate of the 1990's. The other major public perception issue, drugs, has also seen improvement. One sign of progress is reflected by the fact that the wait for methadone treatment, the City's largest drug treatment category has been cut nearly in half. The Fiscal 2004 budget supported sustained reduction in the crime rate and drug addiction with the following actions:

- The General Fund added support for police positions formerly funded by federal grants, absorbing 129 positions at a cost of \$6.8 million, highlighting the importance of public safety needs.
- The Police Department made organizational and operational changes with the unveiling of an Organized Crime Division focused on felony narcotics trafficking, the creation of district stabilization units to better utilize rookie officers and the institution of extensive new detective training initiatives to decrease the level of street level narcotics activity and its residual violence through an aggressive enforcement strategy that includes undercover buys, increased civil enforcement and more focused patrol efforts.
- Following the best practices of several European cities, the City initiated the Citiwatch CCTV project to install 50 closed-circuit television cameras in the public space in the City's West Side Revitalization Zone. The system provides round-the-clock monitoring with this state-of-the-art crime prevention/reduction tool.
- The City increased funding for the fourth consecutive year for the State's Attorney's Office. Since Fiscal 2000, the State's Attorney's Office budget has increased almost 39.0%.

- The City spent \$3.2 million in local funds on homeland security activities during Fiscal 2004. This total does not include the City's cost for supporting those employees who are deployed on active duty in the military or National Guard.
- The False Alarm Reduction program was implemented raising revenues of about \$893,000 in Fiscal 2004 to support implementation costs and the costs of false alarm response. The program is already credited with a material reduction in false reports as alarm monitoring companies now have a customer service cost incentive to check carefully and retract unnecessary false alarms before police are dispatched to the scene.

Health Department appropriations are inextricably linked to the success of public safety initiatives, since much of the City's crime is drug-related.

- Maryland General Assembly, State substance abuse funds increased by \$1.2 million (\$47.9 million in Fiscal 2003 and \$49.1 million in Fiscal 2004).
- Additional private foundation grant funds were used to support the Staying Alive Program, an overdose prevention project, which served approximately 500 addicts.
- Additional grant funds provided for a new initiative that will increase HIV education to substance abusers. The training will also include information on hepatitis.
- One-time only grant funds provided an innovative tool to access high risk communities through an educational program and media campaign. The campaign increased knowledge of Human Immunodeficiency Virus counseling and testing, encouraged testing and decreased the stigma associated with testing.
- The Health Department received in excess of \$1.5 million in foundation and federal grant funds to serve juvenile offenders involved in the drug trade including a \$1.1 million grant from the Substance Abuse and Mental Health Services Administration to establish a substance abuse assessment, referral and case management service in the Circuit Court for non violent offenders. Operation Safe Kids, initiated in Fiscal 2003, served over 100 at-risk youth in Fiscal 2004. The program, which is intended to reduce juvenile violence and homicide, consists of intensive case management, monitoring, mentoring and educational and vocational training. The Maternal and Child Health program provided \$209,000 in additional funds for this program in Fiscal 2004.

Substance abuse programs are managed through the use of private resources under the aegis of the Baltimore Substance Abuse Systems, Inc. Treatment resources have been increased substantially since fiscal year 1998.

Fiscal Year	Treatment Slots	Treatments	Total Funding
1998	5,763	17,986	\$28.3 million
1999	6,468	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
2004	8,042	24,211	\$56.9 million

**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 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 have been applied aggressively. Fiscal 2004 actions included:

- An increase in lead paint prevention efforts was achieved with the purchase of 10,000 home lead dust kits for expectant mothers and new parents.
- The Childhood Lead Poisoning Prevention Program received an additional \$75,000 in State funding to improve the response to children with elevated blood lead levels. Lead poisoning in Baltimore City children has been on a continuous decline from calendar year 1999 through calendar year 2003.
- The Mayor's Lead Paint Poisoning Prevention Initiative has improved abatement efforts nine-fold. Despite funding constraints, 300 homes were abated in Fiscal 2004, a 46% increase from Fiscal 2003.

- Healthy Start and other Health Department children and youth programs saw positive results announced in Fiscal 2004. For instance, the infant mortality figures available in Fiscal 2004 showed that the City had reached a record low rate of 10.4 per thousand population and had infant mortality rates lower than the national rates for both African-Americans and Caucasian babies. The fetal mortality rate also reached a record low declining 21.0% from 16.3 per thousand in calendar 2002 to 12.8 in calendar 2003.
- Related to infant mortality the City was also able to report that it achieved the lowest teen birth rate in City history (83.1 per 1,000 population in calendar 2001). The City which had ranked 8<sup>th</sup> highest among large cities in teen birth, dramatically improved as its ranking fell to 16<sup>th</sup>.
- After birth, immunization is essential. Baltimore continues to be a national model for childhood immunization programs increasing its immunization rate for children in school to 99.7% and ranking number one or two in the nation's urban areas for chickenpox and measles vaccination coverage.

Appropriations serving educational and cultural objectives for children include the following:

- Locally funded per pupil school spending increased as the budget provides \$201.1 million in local support for the Public School System, an amount that is \$1.6 million more than the State required per pupil spending. Per pupil spending increased to more than \$8,500.
- An additional \$1.0 million in the General Fund supported the Office of Employment Development youth summer jobs program.
- Locally financed capital improvement projects for the elementary and secondary school system totaled more than \$35.0 million between Fiscal 2001 and Fiscal 2003, and cover costs ranging from asbestos removal to information system development. Appropriations in Fiscal 2004 total \$16.0 million.
- Essential State funding to meet education objectives came from General Assembly action on recommendations of the legislative education study group, the Thornton Commission. Additional funding to the school system amounted to \$35.5 million comparing Fiscal 2003 and Fiscal 2004.
- An increase of \$5.8 million in federal funding for the Head Start program allowed for a major increase in program participants.
- State funding for library services increased by more than \$900,000 due to the increase in the State Library Resource Center grant from \$1.70 to \$1.85 per capita. The additional funding supported a variety of service improvements that enhanced educational opportunities for Baltimore's children and Maryland residents. One innovative program, the nationally recognized young reader program, Mother Goose on the Loose, has become a model for programs in other parts of the country.
- The Enoch Pratt Free Library's New Library Annex opened in November 2004.
- The state-wide electronic network operated by the Library that provides free electronic information to all Maryland citizens saw site hits in Fiscal 2004 increase to 438.0 million, a 25% increase over Fiscal 2003.
- The Library's own web site had 35.0 million hits, an increase of 15% over the previous year. Traditional library materials circulation increased 4.5% and user registration increased 11%.
- New Fiscal 2004 locally funded capital appropriations were made for facilities for children and families as follows: \$2.1 million for library construction projects; \$16.0 million for eight school construction projects; \$2.6 million for recreation facilities including \$2.0 million for major swimming pool and playground initiatives; and \$5.0 million for capital improvements to cultural facilities including the Maryland Science Center, Meyerhoff Symphony Hall, National Aquarium and the Baltimore Zoo.

### **Objective 3: Make government responsive, accountable and cost effective**

Responsible public management requires the City to examine all options to operate in the most cost-effective manner while being responsive and accountable. The City's nationally recognized CitiStat management program, which has drawn hundreds of visiting government delegations, has been a keystone in the effort to reduce, avoid, and contain millions of dollars in spending during its first four years of operation. The Fiscal 2004 budget included the following actions to serve this management objective.

- The Fiscal 2004 budget privatized the operations of the Bureau of Solid Waste's Northwest Transfer Station, enabling the reallocation of personnel resources and a cost reduction involving seven positions and estimated to be about \$200,000.



- Privatization efforts also included fully implementing with private realtors the Selling City Owned Property Efficiently (SCOPE) vacant property disposition program and the use of private accounting services for the Baltimore Area Convention and Visitors Association (BACVA) and the Baltimore Office of Promotion and Arts (BOPA).
- This budget provided the second full year of funding, \$4.4 million, 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. In Fiscal 2004, the Call Center began accepting citizen service requests via the Internet as well as conducting weekly citizen satisfaction surveys.
- The Bureau of Purchases improved its requisition processing time to the point where the benchmarks for filling requisitions were lowered by one-third, to sixty days for large, formal competitive bid work, and thirty days for less complicated smaller purchases.
- The Bureau of Purchases opened a copy center at the Baltimore City Public School System headquarters which is serving an expanding share of the System's needs at a reduced cost. An online printing requisitions system was implemented to speed up processing and support new services.
- The City implemented a comprehensive geographic-based interactive map accessible through the City website. Residents and other users visit "iMap On-Line" and enter an address, intersection or neighborhood name to search relevant facts ranging from the mundane such as trash pick up days to more esoteric information, such as historical monuments and census facts as well as aerial photographs of the selected area.
- Changes in outsourcing requirements of the Health Department's Animal Control unit for handling animals resulted in estimated savings of about \$130,000.
- New staffing and district assignment of Housing Inspectors increased code enforcement effectiveness and compliance actions. Improved service has also been accompanied by increased revenues.
- To make the snow removal program more responsive and effective, the Department of Transportation has equipped nearly all the snow removal vehicles with Geographic Information System tools to allow tracking in almost real-time fashion the activities of snow removal crews.

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

The trend in jobs 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 could only be sustained if it's inclusive of all residents.

- The capital budget provided new local funding of \$13.1 million for economic or job development projects throughout the City ranging from brownfield site reclamation to mainstreet commercial redevelopment.
- Creative financing for job development activity is reflected in the City's expanded use of tax increment financing districts as three projects were financed in Fiscal 2004 compared to one in Fiscal 2003. The projects fund a total of \$15.8 million in public facility improvements to support housing, retail and commercial office space development to expand the tax base.
- The City continued to support major job creation projects including the East Baltimore Development Initiative and bio-technology center near the Johns Hopkins medical campus, where land acquisition actions made significant progress, and the University of Maryland's west side bio-technology center where building construction began and first tenants have committed to locate in the facility.
- The promotion of Baltimore by the Baltimore Area Convention and Visitors Association (BACVA) is a fundamental development tool. The General Fund appropriation was increased by \$300,000 in Fiscal 2004.
- Continued improvement in visitor facilities is essential. The Fiscal 2004 budget provided the Convention Complex with a \$300,000 appropriation for audio and restroom facility improvements.
- Investment in visitor promotion is reflected in direct Convention Center revenues, which have nearly tripled comparing \$3.2 million in Fiscal 1996, when the expanded Center opened, to \$9.3 million in Fiscal 2004. Hotel tax receipts have increased from \$9.6 million to \$16.8 million in the same period.
- In May 2004, the new 8,000 square foot Inner Harbor Visitor Center opened taking advantage of this prime tourism location to inform visitors of city-wide resources in all neighborhoods and areas well beyond the world famous Inner Harbor.

- The Department of Housing and Community Development opened its “One-Stop Permit Shop” which made it easier for residents, builders and developers to do business.
- The One-Stop-Shop has improved the processing time for permits. Over 99.0% of plans are reviewed within 30 days as compared with 89.0% one year ago. Large complicated project plan and permit review time has been reduced from 40 to 25 working days in the past year.
- Customer service has been enhanced in the building permit process by providing parking vouchers and designated parking spaces in a nearby garage for contractors using the One-Stop-Shop.
- In August 2003 the Department of Transportation launched the Advance Traffic Management System project, a \$21.0 million, three-year project to replace 1,210 traffic signal controllers. The new system is to replace the legacy system, already 10 years beyond its useful life. It will improve the safety and flow of traffic to benefit all transportation modes, help businesses, commuters, the flow of goods, and the transit of residents.
- The City continues to increase the share of business done with Minority Business Enterprises (MBE). The dollar value of contracts awarded to MBE’s has increased every year since 1999 as follows: Calendar Year 2000, \$44.8 million; 2001, \$68.2 million; 2002, \$95.5 million; 2003, \$96.1 million.

### **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 are samples of Fiscal 2004 budget actions that focused resources on neighborhood development in areas throughout the City.

- The City’s expanded use of tax increment financing (TIF) districts saw three projects financed in Fiscal 2004. Two of the projects included major housing elements to improve neighborhoods. The \$6.0 million Strathdale Manor TIF project on the City’s far east side provides 170 housing units and the \$7.9 million Clipper Mill TIF project supports development of 223 market rate units.
- On the far westside acquisition was completed on the first 47 acres of the massive Uplands residential project. Second phase land acquisition will involve an additional 53 acres for a total of about 100 acres. The scale of this site makes this one of the largest urban housing redevelopment parcels including market rate housing on the East Coast. Initial plans call for about 1,100 new homes.
- On the near eastside construction continued on the redevelopment of the last of the demolished high rise public housing projects, Flag House Courts now known as Albermarle Square, an 11.3 acre site with 336 townhomes, apartments and condominiums under construction. Capital appropriations supported required site infrastructure improvements.
- On the near westside Fiscal 2004 General Fund capital appropriations of \$2.5 million added to the major public/private investment in commercial, residential, office, and retail that includes landmark projects such as the \$63.0 million renovation of the Hippodrome Theater which opened to stellar reviews in Fiscal 2004.
- Destabilizing influences in neighborhoods include vacant residential properties addressed by the Project 5000 initiative that seeks to acquire and dispose of 5,000 vacant properties in the City over a two-year period. An operating appropriation of \$2.0 million was made for Project 5000 efforts in Fiscal 2004. On the near north side Project 5000 appropriations are combined with the privatization effort, “SCOPE”, involving private realtors in the marketing of homes in the Reservoir Hill neighborhood. As fiscal 2004 drew to a close, the City had nearly 5,000 acquisitions in the pipeline, thus closing in on the original goal.
- In Fiscal 2004 the backlog of 8,000 vacant properties requiring securing and boarding was eliminated as the Department of Housing and Community Development implemented a new data management, property tracking and performance accountability system along with two new boarding crews and additional equipment.
- A new appropriation of \$345,000 for the Main Streets Revitalization project was provided for.
- The Departments of Housing and Community Development, Public Works and Recreation and Parks collaborated on an initiative, modeled after a “best practice” in Chicago, where mulch and ornamental fencing was applied to vacant lots located along major City gateways.
- Department of Transportation actions, beyond ongoing extensive transportation system improvements, included increased towing of abandoned vehicles, achieving record levels of auctioned vehicles at the impoundment lot, expanded sidewalk repairs and a “Brighten Up Baltimore” lighting program for high crime areas, City gateways and historic sites.

## AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Baltimore, Maryland, for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003.

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.

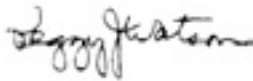
A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

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,

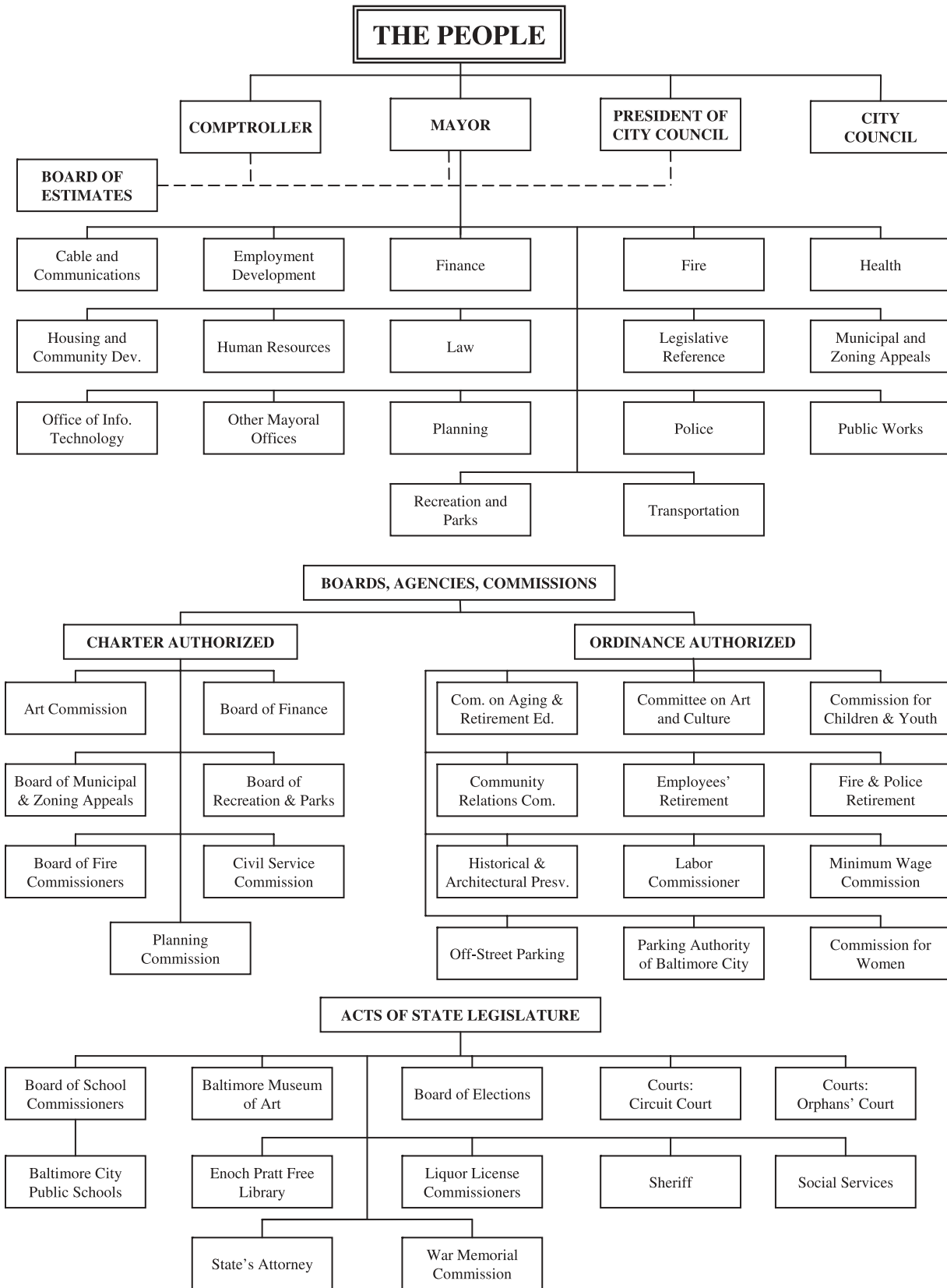


Martin O'Malley  
*Mayor*



Peggy J. Watson  
*Director of Finance*

# MUNICIPAL ORGANIZATION CHART



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## City of Baltimore, Maryland

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2003

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



A handwritten signature in black ink, appearing to read "Edward Hand".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emswiler".

Executive Director

# Financial Section



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

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

December 3, 2004

### **Report of Independent Auditors**

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

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2004, 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, 2004, 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.

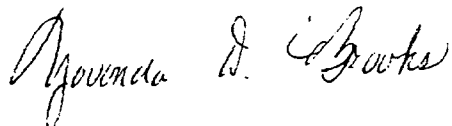
In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2004, on our consideration of the City of Baltimore, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

The management's discussion and analysis on pages 3 through 16, and the additional required supplementary information on pages 62 through 85, are not a required part of the basic financial statements but are supplementary information required by accounting principles 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.



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, 2004. 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 \$272.0 million (restricted net assets) and is net of an unrestricted deficit \$232.1 million. During the fiscal year, the City's total net assets decreased by \$2.1 million.

As of June 30, 2004, the City's governmental funds reported combined ending fund balances of \$155.7 million. At the close of the current fiscal year, unreserved fund balance for the general fund was \$37.9 million or 3.8% of total general fund expenditures of \$979.5 million.

The City's total long-term debt increased by \$162.3 million (10.80%), during the current fiscal year. The key factors in this increase were issuances of \$43.2 million in general obligation bonds, \$15.8 million in new special obligation bonds, and \$97.3 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.

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

C A R F A	Introductory Section				
	Financial Section				
	<b>Management's Discussion and Analysis</b>				
		<b>Government-wide Statements</b>	<b>Fund Statements</b>		
			Governmental Funds	Proprietary Funds	Fiduciary Funds
	<b>View</b>	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		
	<b>TYPES OF FINANCIAL STATEMENTS</b>	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 Activities		Statement of Cash Flows	Statement of Changes in Fiduciary Net Assets
		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
	<b>Notes to the Basic Financial Statements</b>				
	<b>Required Supplementary Information</b>				
	<b>Combining Financial Statements and Schedules</b>				
	<b>Statistical Section</b>				

**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 proprietary 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	
	2004	2003	2004	2003	2004	2003
Current and other assets .....	\$ 602,915	\$ 653,209	\$ 520,419	\$ 457,251	\$1,123,334	\$1,110,460
Capital assets, net .....	3,168,672	3,139,430	1,704,697	1,599,849	4,873,369	4,739,279
Total assets .....	3,771,587	3,792,639	2,225,116	2,057,100	5,996,703	5,849,739
Long-term liabilities outstanding .....	867,403	795,629	850,690	756,025	1,718,093	1,551,654
Other liabilities .....	518,835	538,332	55,711	53,576	574,546	591,908
Total liabilities .....	1,386,238	1,333,961	906,401	809,601	2,292,639	2,143,562
Net assets:						
Invested in capital assets, net of related debt .....	2,810,155	2,812,963	854,007	840,900	3,664,162	3,653,863
Restricted .....	15,084	15,444	256,964	224,150	272,048	239,594
Unrestricted .....	(439,890)	(369,729)	207,744	182,449	(232,146)	(187,280)
Total net assets .....	\$2,385,349	\$2,458,678	\$1,318,715	\$1,247,499	\$3,704,064	\$3,706,177

## 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 \$4.4 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, \$272.0 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 \$949.2 million.

### CITY OF BALTIMORE

#### Changes in Net Assets

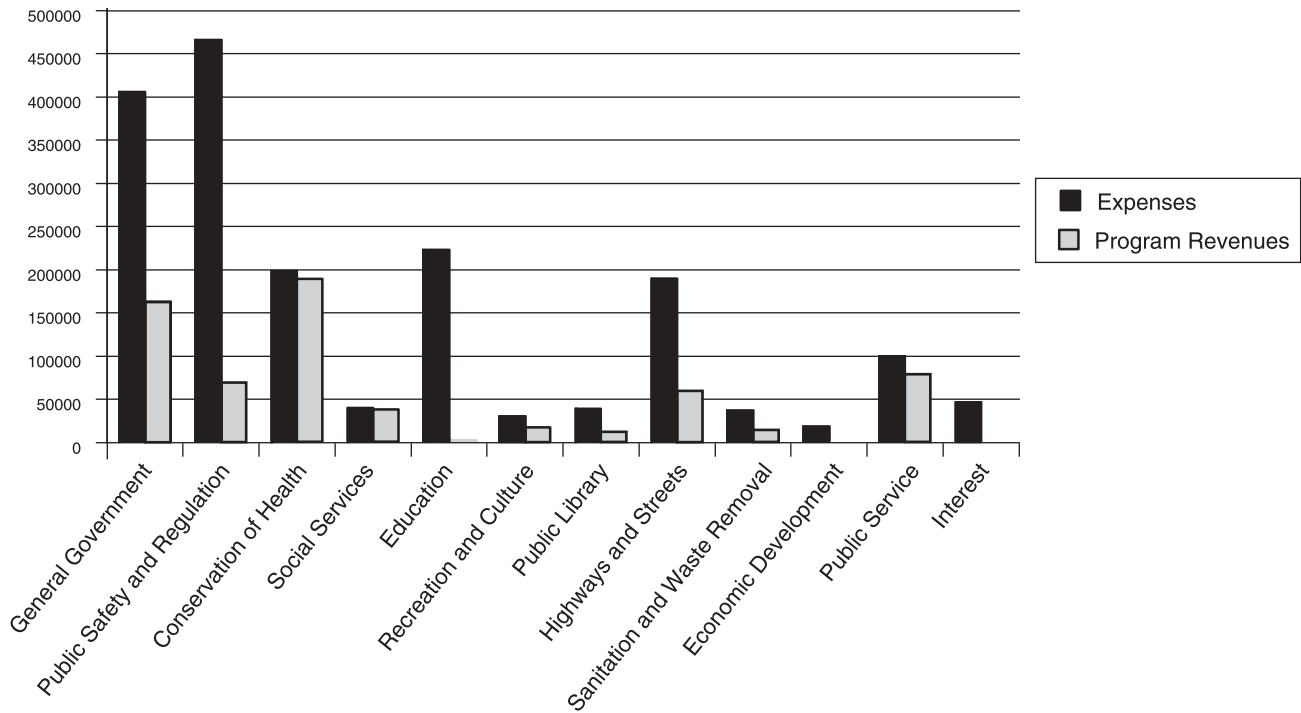
(Expressed in Thousands)

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 88,587	\$ 73,636	\$ 290,833	\$ 272,084	\$ 379,420	\$ 345,720
Operating grants and contributions	477,870	472,628			477,870	472,628
Capital grants and contributions	51,910	35,873	55,165	30,580	107,075	66,453
General revenues:						
Property taxes	527,215	517,452			527,215	517,452
Income taxes	182,506	173,466			182,506	173,466
State shared revenue	169,703	173,412			169,703	173,412
Other	161,510	166,064			161,510	166,064
Total revenues	\$1,659,301	\$1,612,531	\$ 345,998	\$ 302,664	\$2,005,299	\$1,915,195
Expenses:						
General government	\$ 406,520	\$ 311,906			\$ 406,520	\$ 311,906
Public safety and regulation	462,910	459,806			462,910	459,806
Conservation of health	195,024	189,881			195,024	189,881
Social services	36,822	31,382			36,822	31,382
Education	219,932	219,904			219,932	219,904
Public library	27,251	26,877			27,251	26,877
Recreation and culture	36,326	35,119			36,326	35,119
Highways and streets	186,393	195,148			186,393	195,148
Sanitation and waste removal	34,151	38,882			34,151	38,882
Public service	15,150	14,945			15,150	14,945
Economic development	96,964	100,343			96,964	100,343
Interest	43,588	41,271			43,588	41,271
Water			\$ 95,745	\$ 97,883	95,745	97,883
Waste water			127,009	132,785	127,009	132,785
Parking			15,272	13,062	15,272	13,062
Conduits			3,481	3,075	3,481	3,075
Development loans			3,430	3,202	3,430	3,202
Industrial development			1,444	1,660	1,444	1,660
Total expenses	\$1,761,031	\$1,665,464	\$ 246,381	\$ 251,667	\$2,007,412	\$1,917,131
Increase (decrease) in net assets before transfers	(101,730)	(52,933)	99,617	50,997	(2,113)	(1,936)
Transfers:						
Transfers in	28,401	31,570	(28,401)	(31,570)		
Change in net assets	(73,329)	(21,363)	71,216	19,427	(2,113)	(1,936)
Net assets — beginning	2,458,678	2,480,041	1,247,499	1,228,070	3,706,177	3,708,111
Net assets — ending	\$2,385,349	\$2,458,678	\$1,318,715	\$1,247,497	\$3,704,064	\$3,706,175

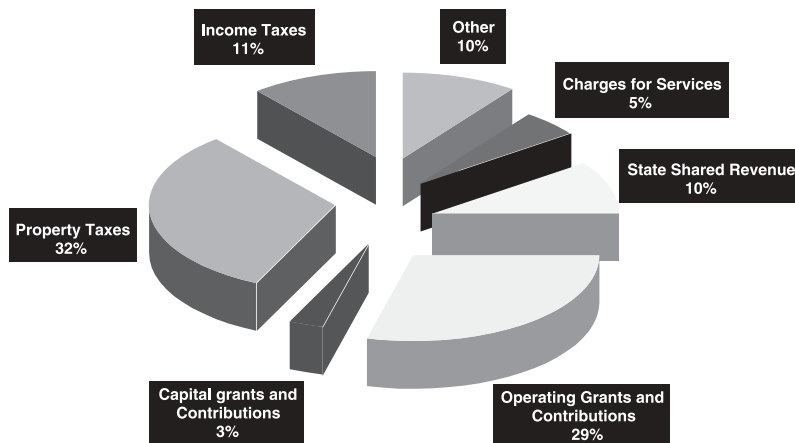
## Analysis of Changes in Net Assets

The overall decrease in the City's net assets amounted to \$2.1 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



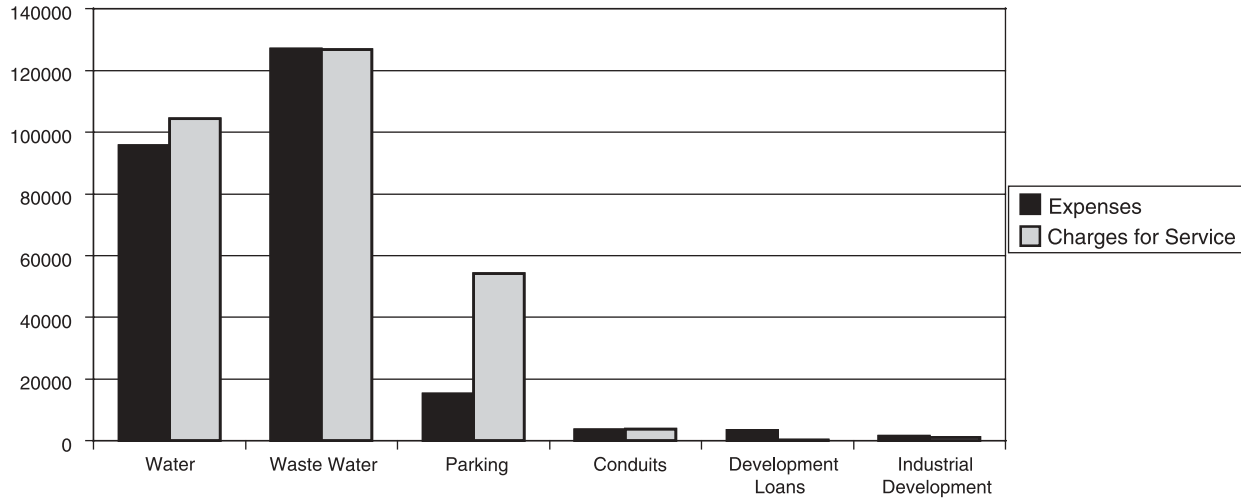
### Revenues By Source — Governmental Activities



### Governmental activities

During the current fiscal year, expenses related to governmental activities amounted to \$1.8 billion, this exceeds revenue by \$101.7 million. Total revenue of \$1.6 billion is comprised of program revenues totaling \$618.4 million, or 37%, and general revenues of \$1.0 billion, or 63%. Program revenues are the principal source of funding for the City’s general government, health, and economic development activities. Other major activities including public safety and regulation, as well as the highways and streets program, are primarily supported by general revenues. A more detailed analysis of the governmental activities is discussed in the “Financial Analysis of the City’s Funds” section.

**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 \$346.0 million. Expenses and transfers for these activities totaled \$274.8 million and resulted in an increase in net assets of \$71.2 million.

The Water/Waste Water Utility Funds realized an increase in net assets of \$66.9 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 \$7.4 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 2004 and 2003**

(Expressed in Thousands)

	2004	2003	Variance Amount
Revenues:			
General fund:			
Property taxes .....	\$ 527,215	\$ 517,452	\$ 9,763
Income taxes .....	182,506	173,466	9,040
Other local — taxes .....	111,980	102,899	9,081
Total local taxes .....	821,701	793,817	27,884
Licenses and permits .....	26,805	21,429	5,376
Interest, rentals, and other investment income .....	20,729	24,968	(4,239)
State grants .....	96,412	98,778	(2,366)
Other .....	60,164	51,599	8,565
Total revenues — general fund .....	1,025,811	990,591	35,220
Other governmental funds:			
Motor vehicle fund .....	187,119	187,891	(772)
Grants revenue fund .....	324,317	340,989	(16,672)
Capital projects fund .....	68,647	60,345	8,302
Other funds .....	29,820	25,555	4,265
Total revenues other governmental funds .....	609,903	614,780	(4,877)
Total revenues all governmental funds .....	1,635,714	1,605,371	30,343
Expenditures:			
General fund:			
General government .....	267,527	253,812	13,715
Public safety and regulation .....	376,052	377,494	(1,442)
Conservation of health .....	23,528	24,760	(1,232)
Social services .....	2,032	1,952	80
Education .....	202,192	202,046	146
Public library .....	20,124	19,493	631
Recreation and culture .....	27,143	25,998	1,145
Highways and streets .....	244	153	91
Sanitation and waste removal .....	29,209	30,617	(1,408)
Public service .....	12,234	11,889	345
Economic development .....	19,262	19,077	185
Total expenditures — general fund .....	979,547	967,291	12,256
Other governmental funds:			
Motor vehicle fund .....	148,268	144,495	3,773
Grants revenue fund .....	342,586	344,830	(2,244)
Capital projects fund .....	217,621	206,246	11,375
Other funds : .....	88,635	89,349	(714)
Total expenditures other governmental funds .....	797,110	784,920	12,190
Total expenditures all governmental funds .....	1,776,657	1,752,211	24,446
Excess of revenue over expenditures .....	(140,943)	(146,840)	5,897
Other financing sources (uses):			
Transfers, net .....	28,401	31,570	(3,169)
Capital leases .....	25,136	433	24,703
Face value of special obligation bonds .....	15,885	7,479	8,406
Face value of funding and refunding general obligation bonds .....	43,961	193,920	(149,959)
Face value of funding revenue bonds .....	6,881	6,881	
Payments to escrow agents .....	(11,760)	(128,030)	116,270
Bond discounts .....		(2,064)	2,064
Demand obligation transferred from fund liability .....	51,900	(51,900)	103,800
Total other financing sources (uses) .....	160,404	51,408	108,996
Net changes in fund balances .....	19,461	(95,432)	114,893
Fund balances beginning .....	136,227	231,659	(95,432)
Fund balances ending .....	\$ 155,688	\$ 136,227	\$ 19,461

Revenues for governmental functions overall totaled approximately \$1.63 billion in the fiscal year ended June 30, 2004, which represents an increase of 2.0% from the fiscal year ended June 30, 2003. Expenditures for governmental functions, totaling \$1.78 billion, increased by approximately 2.2% from the fiscal year ended June 30, 2003. In the fiscal year ended June 30, 2004, expenditures for governmental functions exceeded revenues by approximately \$140.9 million, or approximately 9.5%.

The General Fund is the chief operating fund of the City. Revenues in the General Fund increased by \$30.8 million over the last fiscal year. The primary factor in this increase was the continued growth in local taxes, which increased by \$27.9 million. Property taxes increased by \$9.8 million as a result of low interest rates and the continued growth in the housing market across the region. Income taxes increased by \$9.0 million as a result of the improving economy. Other local taxes increased by \$9.0 million. Expenditures in the General Fund grew by \$12.2 million. The primary area of increase was in general government expenditures which increased \$13.7 million the major components were: \$3.1 million increase in the funding of risk management programs; \$12.2 million increase in the funding employee retirement and benefits; \$4.8 million increase in expenditures for public building management and \$3.3 million increase of expenditures for information technology improvements. At the end of the current fiscal year, the unreserved undesignated fund balance of the General Fund was \$9.9 million, while total fund balance was \$139.7 million. The fund balance in the City's General Fund increased by \$10.3 million during the fiscal year.

The Motor Vehicle Fund was established to account for operating and capital transportation programs supported primarily by state-shared revenues. Every effort is made to spend available proceeds from these funding sources in the year received. For the current year, receipts of \$187.1 million exceed outlays of \$187.0 by \$0.1 million. The fund balance increased from \$9.6 to \$9.7 million during the fiscal year, of which \$8.2 million was unreserved and undesignated.

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

The Capital Projects Fund is used to account for the overall financing and expenditures of uncompleted projects. The fund balance of \$76.0 million represent 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	
	2004	2003	2004	2003	2004	2003
Operating revenue .....	\$228,554	\$213,345	\$ 53,539	\$ 49,883	\$ 5,332	\$ 8,856
Operating expenses .....	208,744	207,711	8,516	7,915	8,318	7,842
Operating income .....	19,810	5,634	45,023	41,968	(2,986)	1,014
Non operating revenues (expenses), capital contributions, and transfers .....	47,074	9,554	(37,576)	(37,139)	3,043	(1,604)
Change in net assets .....	\$ 66,884	\$ 15,188	\$ 7,447	\$ 4,829	\$ 57	\$ (590)

All of the City's business-type activities realized operating income during the current fiscal year, except for the nonmajor funds, and 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, 2004**

(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance With Original Budget Positive (Negative)	Variance With Final Budget Positive
Total revenues .....	\$ 984,889	\$ 996,596	\$1,024,768	\$ 39,879	\$27,442
Expenditures and encumbrances:					
General government .....	262,447	269,578	269,084	(6,637)	494
Public safety and regulation .....	365,826	375,326	374,660	(8,834)	666
Conservation of health .....	21,221	23,949	23,949	(2,728)	
Social services .....	2,064	2,064	2,026	38	38
Education .....	1,134	1,134	1,134		
Public library .....	18,974	18,974	18,900	74	74
Recreation and culture .....	25,482	26,577	26,575	(1,093)	2
Highways and streets .....	214	214	214		
Sanitation and waste removal .....	29,052	29,852	29,809	(757)	43
Public service .....	12,129	12,129	11,769	360	360
Economic development .....	20,369	20,369	19,499	870	870
Total expenditures .....	758,912	780,166	777,619	\$(18,707)	\$ 2,547
Excess of revenues over expenditures and encumbrances .....	225,977	216,430	247,149		
Other financing sources (uses):					
Transfers in .....	28,506	28,506	31,477		
Transfers out .....	(70,766)	(67,497)	(67,410)		
Payments to component unit .....	(201,101)	(201,101)	(201,101)		
Total other financing sources (uses) .....	(243,361)	(240,092)	(237,034)		
Net changes in fund balances .....	(17,384)	(23,662)	10,115		
Fund balances beginning .....	93,828	90,620	110,562		
Fund balances ending .....	\$ 76,444	\$ 66,958	120,677		
Adjustments to reconcile to GAAP basis:					
Addition of encumbrances outstanding .....			26,490		
Less: Accounts payable not recorded for budgetary purposes .....			(7,512)		
Fund-balance June 30, 2004-GAAP Basis .....			\$ 139,655		

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 \$21.3 million were approved, all of which were approved from prior year surplus or from unexpected increases in revenue sources. Actual expenditures for the year exceeded the original budget by \$18.7 million, but were \$2.6 million less than adjusted appropriations. Of this amount, \$2.5 million was related to four governmental activities: lower than budgeted cost for public safety operations amounted to \$0.7 million; lower than budgeted cost for court system operations amounted to \$0.5 million; lower than budgeted cost for economic development operations amounted to \$0.9 million, and lower than budgeted cost for public service operations amounted to \$0.4 million.

On a budgetary basis, revenue for fiscal year 2004 totaled \$1,024.8 million and expenditures and transfers totaled \$1,014.6 million. The excess of revenues over expenditures resulted in a budget basis fund balance at June 30, 2004 of \$120.7 million, an increase of \$10.1 million. In creating its budget for the fiscal year ended June 30, 2004, the City used \$28.0 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, 2004, amount to \$3.2 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, machinery and equipment, park facilities, roads, streets, bridges, and library books. The total increase in the City's net capital assets for the current fiscal year was 2.8% (a 0.9% increase for governmental activities and a 6.6% 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	
	2004	2003	2004	2003	2004	2003
Land .....	\$ 134,598	\$ 134,300	\$ 17,384	\$ 17,361	\$ 151,982	\$ 151,661
Building and Improvements .....	641,509	660,894	845,643	777,540	1,487,152	1,438,434
Machinery and Equipment .....	92,828	97,313	39,366	41,262	132,194	138,575
Infrastructure .....	1,402,509	1,447,485	38,877	39,556	1,441,386	1,487,041
Library Books .....	19,013	18,100			19,013	18,100
Construction in Progress .....	878,215	781,338	763,427	724,130	1,641,642	1,505,468
Total .....	\$3,168,672	\$3,139,430	\$1,704,697	\$1,599,849	\$4,983,369	\$4,739,279

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 \$1.6 billion. Of this amount, \$582.4 million is general obligation bonds backed by the full faith and credit of the City, \$56.6 million is revenue bonds for governmental activity at the Convention Center and for various stormwater projects, and \$936.1 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 2004, the City's total bonded debt increased by approximately \$117.4 million. The key factors were the issuances of \$42.3 million in general obligation bonds, \$15.8 million in new special obligation bonds, and \$104.2 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 2003	FY 2004
Net general bonded debt (Expressed in thousands) .....	\$514,195	\$530,166
Net general bonded debt per capita (Rounded to nearest dollar) .....	805	825
Ratio of net general bonded debt to net assessed value .....	2.7%(1)	2.7%(1)

See footnote number 8 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, 2004, the City had \$548.3 million in authorized, outstanding property tax-supported general obligation bonds. This amount is reduced by net assets in the Debt Service Fund of \$18.1 million for net tax-supported bonded debt of \$530.2 million, which is equal to approximately 2.7% of the assessed value of property (net of exemptions). There are an additional \$177.0 million in bonds that are authorized, but unissued.

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

### Budget Adoption

The budget submitted by the Board of Estimates to the Baltimore City Council proposed total appropriations of \$2,124,611,820, of which \$1,002,263,000 was for General Fund operations and Pay-As-You-Go (PAYGO) capital; \$184,830,000 was for Motor Vehicle Fund operations and PAYGO capital and \$39,018,596 was for Special Fund operations. The City Council, after deliberations pursuant to Charter requirement and powers, made no reductions to the total General Fund or other fund appropriations. No change in taxes rates were reflected in the adopted budget. 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 Ordinance of Estimates was adopted by the City Council and signed by the Mayor on June 23, 2004.

**Post Budget Adoption — Council Actions**

**General Fund:**

The budget adopted by Council contained several proposals to reduce costs, increase efficiencies and responsiveness as well as for the imposition of significant reductions in public services including such areas as public safety, rodent eradication, sanitation, public building maintenance and children’s programs. The Mayor submitted to Council four revenue measures for consideration for basic service requirement funding. The Council adopted with amendments all four measures which supported the adoption of supplemental appropriations to eliminate the most significant public service reductions. The revenue measures also helped to broaden significantly the City’s tax base within the limits of State law and the City Charter. The first of these measures expands the energy tax base and imposes an energy tax based on units of energy delivered to manufacturing and residential consumers. The expanded base is taxed a rate is estimated to yield the equivalent of a 2% sales tax. The second measure increases the recordation tax rate from \$2.75 to \$5.00 per each \$500 of consideration. This tax is applies to deeds transferring real property. An exemption is provided for the first \$22,000 of consideration for properties being recorded that are owner occupied residential properties. The third measure broadens the telecommunication tax base. It imposes a \$3.50 per month tax on land lines and adds cell phones to the tax base. This measure repealed the current 12.0% tax per month. It provides for a \$0.35 tax rate for centrex lines. The fourth measure appropriates estimated revenue from the State grant for Public Utility Deregulation provided by the State to the City and eleven other jurisdictions. Revenue from this grant was not included in the Fiscal 2005 adopted budget because at the time of the formulation of the proposed Ordinance of Estimates the General Assembly had not yet enacted the required legislation to fund this grant program. In addition to the four Administration proposals, the Council initiated and adopted a revenue proposal to increase revenues from the amusement device licensing program. All these measures provide the basis for supplemental appropriations totaling \$30.6 million to fund Fiscal 2005 operations.

Total Adopted Budget Revenue Estimate ..... \$1,002,263,000

**Revenues Adjustments**

Energy Tax .....	\$ 10,600,000
Recordation Tax. ....	5,400,000
Telecommunications Tax .....	13,900,000
Amusement Device License Fees .....	266,000
Public Utility Deregulation—State grant .....	<u>453,000</u>
Total Additional Revenue .....	<u>\$ 30,619,000</u>
Adjusted Budget Revenue Estimate .....	\$1,032,882,000

**Motor Vehicle Fund:**

The Mayor submitted to Council 31 measures for additional supplemental funding totaling \$18.2 million. They included 4 supplemental operating appropriations (\$1.7 million) and 27 PAYGO supplemental capital appropriations (\$16.5 million). The Council approved these measures providing funding for the Departments of Public Works, Recreation and Parks and Transportation. The source of revenue for these measures included an additional \$18.1 million in Highway User Revenues and \$30,200 from General Highway Revenues. The increase in the City’s share of Highway User Revenues was the result of the Maryland General Assembly’s approval of an increase in vehicle registration fees. This action was taken subsequent to the transmittal of the proposed Ordinance of Estimates by the Board of Estimates to the Council.

Total Adopted Budget Revenue Estimate ..... \$184,830,000

**Revenues Adjustments**

Highway User Revenues .....	\$ 18,126,000
General Revenue Highways .....	<u>30,200</u>
Total Additional Revenue .....	<u>\$ 18,156,200</u>
Adjusted Budget Revenue Estimate .....	\$202,986,200

**Special Fund:**

The budget adopted by Council contained several proposals associated with service reductions in the areas of public safety and sanitation enforcement. The Mayor submitted to Council three measures for consideration of additional funding. The

Council acted on these measures to restore funding for the Departments of Fire, Police and Public Works. The sources of revenue for these measures include ambulance transport fees, an increase from \$0.47 to \$0.75, or \$0.28 per month, for all 911 accessible telephone services and environmental citation fines. In addition, the Council approved a measure to fund a new initiative for the Comptroller's Office. The East Baltimore Development Initiative will reimburse the Comptroller's Office when it performs various real estate appraisal and disposition services for this project.

Total Adopted Budget Revenue Estimate .....	\$39,018,596
<u>Revenues Adjustments</u>	
Ambulance Transport fees .....	\$ 1,000,000
911 Call fees .....	1,600,000
Environmental Citation fees .....	500,000
Comptroller — reimbursement from the East Baltimore Development Initiative .....	<u>172,096</u>
Total Additional Revenue .....	<u>\$ 3,272,096</u>
Adjusted Budget Revenue Estimate .....	\$42,290,692

**Fiscal 2005 Budget — Economic Factors**

A unique set of uncertainties and potentially negative factors required that the Fiscal 2005 budget be constructed with a cautious revenue outlook. After a declared victory in Iraq, there remains the uncertainties of a stubborn urban guerrilla war unlike any America has ever fought. The costs of the war for securing the homeland impact Baltimore City's public service responsibilities ranging from water supply to securing the port facilities. On the other hand the City has benefited by being in the orbit of Washington, D. C. and the significant federal spending associated with military preparedness. Witnessed is born to this by the fact that Maryland has been one of the few state's in the nation where the unemployment rate has bested the national rate each year since the last recession. During the summer the state led the nation in job creation rate followed by the neighboring state of Virginia. However, this positive job growth has not been reflected directly in City jobs data. In addition to the impact of war several major economic factors requires a cautious outlook. Most notably job trends in the City have not mirrored the State. Other critical factors included the ballooning U. S. trade deficit; the decline of the value of the dollar; the prospects for a dramatically changing interest rate environment; pricing pressures in the commodities markets; the failure of national political leaders to finance current expenses by appropriate tax policy and address the record Federal budget deficits. On top of Federal deficits there has been an unwillingness to raise taxes at the State level to meet spending requirements which impacts the City directly. Finally, the growing recognition of a likely major real estate market bubble, housing costs growing out of proportion to income and record levels of personal and corporate debt add to the set of potentially negative . Nevertheless, the absolute slow down in revenue growth that followed the recession of 2000 and the aftermath of the September 11, 2001 tragedy appears to have ended in Fiscal 2004. The slow down in the economic situation that was reflected in Fiscal 2003 has been reversed at Fiscal 2004 data indicates. This is reflected in most major revenue sources. The discussion below reviews the major General Fund revenues.

**Property Taxes**

Current year property tax growth of 3.6% is called for in the Fiscal 2005 budget compared to the Fiscal 2004 budget. Actual current year receipt growth in Fiscal 2004 equaled 2.9%. Substantial new construction and the strong valuation growth in the downtown core and the northern tier of the city will support this growth rate.

**Income Taxes**

The weak jobs situation is reflected in the number of taxable returns filed which declined from about 198,000 to about 195,000 between calendars 2002 and 2003. Nevertheless net taxable income still grew 2.2% and increases in delinquent return payments, prior year receipts, and other factors resulted in the Fiscal 2004 income tax estimate being exceeded by 1.0%. Assuming no major impact from potential negative factors, the outlook for Fiscal 2005 income tax receipts is positive.

**Recordation and Transfer Taxes**

As the nation as a whole and the east and west coasts have in particular experienced record home price inflation, so has Baltimore. The City, in calendar 2003 led the region in terms of both the percentage increase in total dollar volume of multiple-listing properties sold, up 25.1% and average sales price, up 17.0% from \$94,564 to \$107,623. Transfer and

recording tax receipts combined to reach a record high of \$49.2 million in Fiscal 2004 compared to \$39.9 million in Fiscal 2003, an increase of 23.4%. The Fiscal 2005 budget presumed a material slowdown in activity and receipts were budgeted at \$35.5 million.

**Tourism (Convention Center, Admission and Amusement tax, and Hotel tax)**

Reflecting the continued impact of the slow down in travel and tourism in the aftermath of September 11, 2001, Fiscal 2004 receipts from hotel and admissions and amusement taxes and convention center income totaled \$17.2 million, down slightly from \$17.7 million in Fiscal 2003. The Fiscal 2005 budget calls for receipts to increase to about \$18.0 million or about 4.7%.

**Building Permits**

The strong interest in residential, commercial and institutional construction continued in Fiscal 2004. The City also improved its inspection and permitting process making it easier to comply with permitting requirements and increasing the enforcement and inspection efforts to make it more costly not to do so. The outcome is reflected in record Fiscal 2004 receipts of \$7.8 million. The budget assumed some slow down in Fiscal 2005, primarily due to the changing interest rate environment, slow down in the real estate market and the cost of building supplies, with receipts anticipated to total about \$6.7 million.

**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, 2004**

(Expressed in Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Baltimore City Public School System
<b>Assets:</b>				
Cash and cash equivalents	\$ 102,004	\$ 135,221	\$ 237,225	\$ 64,192
Investments	131,953	482	132,435	
Property taxes receivable, net	15,068		15,068	
Other receivables, net	29,019	74,908	103,927	4,326
Due from other governments	194,641	6,303	200,944	30,320
Internal balances	27,725	(27,725)		
Due from component unit	42,000		42,000	
Due from primary government				25,525
Inventories	3,888	5,582	9,470	782
<b>Restricted:</b>				
Cash and cash equivalents		181,502	181,502	
Investments		15,718	15,718	
Accounts receivable		53,633	53,633	
Notes and mortgages receivable, net	14,225	64,142	78,367	
Other assets	41,041		41,041	148
Issuance costs	1,351	10,653	12,004	792
Capital assets, net of accumulated depreciation	3,168,672	1,704,697	4,873,369	275,274
<b>Total assets</b>	<b>3,771,587</b>	<b>2,225,116</b>	<b>5,996,703</b>	<b>401,359</b>
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	98,928	10,019	108,947	99,045
Accrued interest payable	7,958	13,146	21,104	
Property taxes payable	445		445	
Estimated claims in progress	155,215		155,215	
Due to component unit	17,770		17,770	
Due to other governments				516
Due to primary government				42,000
Matured bonds payable	5,148		5,148	
Unearned revenue	149,323		149,323	8,064
Deposits subject to refund		15	15	
Restricted accounts payable		20,994	20,994	
<b>Revenue bonds payable:</b>				
Due within one year	2,095	12,047	14,142	
Due in more than one year	54,507	835,102	889,609	
<b>Long term debt payable:</b>				
Due within one year	39,793	459	40,252	4,215
Due in more than one year	585,493	3,083	588,516	69,475
<b>Capital leases payable:</b>				
Due within one year	12,002		12,002	
Due in more than one year	160,784		160,784	37,319
<b>Compensated absences:</b>				
Due within one year	27,046	7,564	34,610	5,154
Due in more than one year	53,316	3,330	56,646	61,963
Landfill closure	13,363		13,363	
Other liabilities	3,112	642	3,754	105
<b>Total liabilities</b>	<b>1,386,238</b>	<b>906,401</b>	<b>2,292,639</b>	<b>327,856</b>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	2,810,155	854,007	3,664,162	159,293
<b>Restricted for:</b>				
Construction		165,461	165,461	36,683
Debt service		91,503	91,503	1,554
<b>Perpetual care:</b>				
Expendable	8,847		8,847	
Nonexpendable	6,237		6,237	
Inventories				363
Unrestricted	(439,890)	207,744	(232,146)	(124,390)
<b>Total net assets</b>	<b>\$2,385,349</b>	<b>\$1,318,715</b>	<b>\$3,704,064</b>	<b>\$ 73,503</b>

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, 2004**  
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total
<b>Primary Government:</b>							
<b>Governmental activities:</b>							
General government . . . . .	\$ 406,520	\$ 21,044	\$138,623	\$ 131	\$ (246,722)		\$ (246,722)
Public safety and regulation . . . . .	462,910	25,342	41,254		(396,314)		(396,314)
Conservation of health . . . . .	195,024	2,301	184,042		(8,681)		(8,681)
Social services . . . . .	36,822	488	34,990		(1,344)		(1,344)
Education . . . . .	219,932		340		(219,592)		(219,592)
Public library . . . . .	27,251	231	14,294	459	(12,267)		(12,267)
Recreation and culture . . . . .	36,326	683	4,261	4,695	(26,687)		(26,687)
Highways and streets . . . . .	186,393	26,589		30,559	(129,245)		(129,245)
Sanitation and waste removal . . . . .	34,151	11,909			(22,242)		(22,242)
Public service . . . . .	15,150				(15,150)		(15,150)
Economic development . . . . .	96,964		60,066	16,066	(20,832)		(20,832)
Interest . . . . .	43,588				(43,588)		(43,588)
<b>Total governmental activities . . . . .</b>	<b>1,761,031</b>	<b>88,587</b>	<b>477,870</b>	<b>51,910</b>	<b>(1,142,664)</b>		<b>(1,142,664)</b>
<b>Business-type activities:</b>							
Water . . . . .	95,745	104,436		24,461		\$ 33,152	33,152
Waste water . . . . .	127,009	126,869		30,736		30,596	30,596
Parking . . . . .	15,272	54,196				38,924	38,924
Conduits . . . . .	3,481	3,783		(33)		269	269
Development loans . . . . .	3,430	359		1		(3,070)	(3,070)
Industrial development . . . . .	1,444	1,190				(254)	(254)
<b>Total business-type activities . . . . .</b>	<b>246,381</b>	<b>290,833</b>		<b>55,165</b>		<b>99,617</b>	<b>99,617</b>
<b>Total primary government . . . . .</b>	<b>\$2,007,412</b>	<b>\$379,420</b>	<b>\$477,870</b>	<b>\$107,075</b>	<b>(1,142,664)</b>	<b>99,617</b>	<b>(1,043,047)</b>
<b>Component unit:</b>							
Baltimore City Public School System . . . . .	\$ 953,205	\$ 4,150	\$124,193	\$ 29,281			\$(795,581)
<b>General revenues:</b>							
Property taxes . . . . .					527,215		527,215
Income taxes . . . . .					182,506		182,506
Other local taxes . . . . .					111,980		111,980
State shared revenues . . . . .					169,703		169,703
Unrestricted investment income . . . . .					25,032		25,032
Miscellaneous . . . . .					24,498		24,498
Transfers . . . . .					28,401	(28,401)	
<b>Total general revenues and transfers . . . . .</b>					<b>1,069,335</b>	<b>(28,401)</b>	<b>1,040,934</b>
Change in net assets . . . . .					(73,329)	71,216	(2,113)
Net assets — beginning . . . . .					2,458,678	1,247,499	3,706,177
Net assets — ending . . . . .					\$ 2,385,349	\$1,318,715	\$3,704,064
							\$ 73,503

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

**CITY OF BALTIMORE**

**Balance Sheet**

**Governmental Funds**

**June 30, 2004**

(Expressed in Thousands)

	General Fund	Motor Vehicle Fund	Grants Revenue Fund	Capital Projects Fund	Other Funds	Total
<b>Assets:</b>						
Cash and cash equivalents	\$ 4,188	\$ 73	\$ 75	\$ 24,815	\$19,041	\$ 48,192
Investments	69,443			38,610	19,168	127,221
Property taxes receivable, net	15,068					15,068
Other receivables, net	10,011	329	3,231	13,231	124	26,926
Due from other governments	27,754	14,166	41,330		8,017	91,267
Due from other funds	58,030			20,180		78,210
Due from component unit	42,000					42,000
Notes, mortgages receivable, net	7,101				7,124	14,225
Inventories, at cost	1,152	1,437				2,589
Other assets	40,223	122				40,345
<b>Total assets</b>	<b>\$274,970</b>	<b>\$16,127</b>	<b>\$ 44,636</b>	<b>\$ 96,836</b>	<b>\$53,474</b>	<b>\$ 486,043</b>
<b>Liabilities and fund balances:</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities	\$ 45,220	\$ 5,336	\$ 20,518	\$ 13,756	\$ 903	\$ 85,733
Retainages payable				7,032		7,032
Property taxes payable—State	445					445
Due to other funds			42,650		15,119	57,769
Deposits subject to refund	17,770					17,770
Deferred revenue	71,880	329	75,316		8,933	156,458
Matured bonds payable					5,148	5,148
<b>Total liabilities</b>	<b>135,315</b>	<b>5,665</b>	<b>138,484</b>	<b>20,788</b>	<b>30,103</b>	<b>330,355</b>
<b>Fund balances:</b>						
<b>Reserved for:</b>						
Budget stabilization	57,003					57,003
Long-term advance	8,000					8,000
Landfill closure	7,701					7,701
Encumbrances	26,490	2,278		120,154		148,922
Inventories	1,152	1,437				2,589
Other assets	1,431	122				1,553
<b>Unreserved:</b>						
Designated for subsequent year's expenditures	28,030					28,030
Undesignated	9,848	6,625	(93,848)	(44,106)		(121,481)
<b>Unreserved reported in:</b>						
Debt Service Fund					18,099	18,099
Non-major special revenue funds					(965)	(965)
Non-major permanent funds					6,237	6,237
<b>Total fund balances</b>	<b>139,655</b>	<b>10,462</b>	<b>(93,848)</b>	<b>76,048</b>	<b>23,371</b>	<b>155,688</b>
<b>Total liabilities and fund balances</b>	<b>\$274,970</b>	<b>\$16,127</b>	<b>\$ 44,636</b>	<b>\$ 96,836</b>	<b>\$53,474</b>	

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	3,125,608
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	103,902
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.	(51,510)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	(948,339)
<b>Net assets of governmental activities</b>	<b>\$2,385,349</b>

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, 2004**

(Expressed in Thousands)

	General Fund	Motor Vehicle Fund	Grants Revenue Fund	Capital Projects Fund	Other Funds	Total
<b>Revenues:</b>						
Taxes—local	\$ 821,701					\$ 821,701
State shared revenue		\$ 169,090			\$ 613	169,703
Licenses and permits	26,805	1,349				28,154
Fines and forfeitures	4,408	11,072				15,480
Interest, rentals and other investment income	20,729	223		\$ 3,206	874	25,032
Federal grants	111		\$ 179,291	42,869	27,378	249,649
State grants	96,412		109,524	9,040		214,976
Other grants	6,064		35,502	1		41,567
Charges for services	39,692	5,261				44,953
Miscellaneous	9,889	124		13,531	955	24,499
<b>Total Revenues</b>	<b>1,025,811</b>	<b>187,119</b>	<b>324,317</b>	<b>68,647</b>	<b>29,820</b>	<b>1,635,714</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General government	267,527	21,207	52,527		2,368	343,629
Public safety and regulation	376,052	35,793	40,358		813	453,016
Conservation of health	23,528		172,759			196,287
Social services	2,032		34,990			37,022
Education	202,192	3,654			441	206,287
Public library	20,124		7,723		149	27,996
Recreation and culture	27,143		3,695		808	31,646
Highways and streets	244	87,614				87,858
Sanitation and waste removal	29,209					29,209
Public service	12,234					12,234
Economic development	19,262		30,534	27,541	18,173	95,510
<b>Debt service:</b>						
Principal					36,209	36,209
Interest					29,674	29,674
Capital outlay				176,704		176,704
Capital leases				13,376		13,376
<b>Total expenditures</b>	<b>979,547</b>	<b>148,268</b>	<b>342,586</b>	<b>217,621</b>	<b>88,635</b>	<b>1,776,657</b>
Excess (deficiency) of revenues over (under) expenditures	46,264	38,851	(18,269)	(148,974)	(58,815)	(140,943)
<b>Other financing sources (uses):</b>						
Transfers in	31,477			58,974	65,104	155,555
Transfers out	(67,410)	(38,480)		(9,423)	(11,841)	(127,154)
Capital leases				25,136		25,136
Face value of special obligation bonds				15,845		15,845
Face value of funding and refunding general obligation bonds				43,270		43,270
Face value of funding revenue bonds				6,881		6,881
Premium on sale of bonds				731		731
Payments to escrow agent				(11,760)		(11,760)
Demand obligation bonds transferred from fund liability				51,900		51,900
<b>Total other financing sources (uses)</b>	<b>(35,933)</b>	<b>(38,480)</b>		<b>181,554</b>	<b>53,263</b>	<b>160,404</b>
Net change in fund balance	10,331	371	(18,269)	32,580	(5,552)	19,461
Fund balances — beginning	129,324	10,091	(75,579)	43,468	28,923	136,227
<b>Fund balances — ending</b>	<b>\$ 139,655</b>	<b>\$ 10,462</b>	<b>\$ (93,848)</b>	<b>\$ 76,048</b>	<b>\$ 23,371</b>	<b>\$ 155,688</b>

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, 2004**

(Expressed in Thousands)

Amounts reported for governmental activities in the statement of activities (page 18) are different because:

Net change in fund balance — total governmental funds (page 20) .....	19,461
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. . .	198,612
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. ....	23,588
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. ....	(132,004)
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. ....	(126,375)
The net expense of certain activities of internal service funds is reported with governmental activities. ....	<u>(56,611)</u>
Change in net assets of governmental activities (page 18) .....	<u>(73,329)</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, 2004**  
(Expressed in Thousands)

	Enterprise Funds				Total	Governmental Activities Internal Service Funds
	Water Utility Fund	Waste Water Utility Fund	Parking Facilities Fund	Other Funds		
<b>Assets:</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$ 25,806	\$ 31,024	\$ 15,053	\$ 63,338	\$ 135,221	\$ 53,812
Investments				482	482	4,732
Accounts receivable, net:						
Service billings	33,310	40,436	191	752	74,689	
Other			50	169	219	2,093
Due from other governments	3,284	3,019			6,303	
Inventories	5,434	148			5,582	1,299
<b>Current restricted assets:</b>						
Cash and cash equivalents	100,159	44,048	37,295		181,502	
Investments	8,265	6,697	756		15,718	
Accounts receivable, net	15,756	37,877			53,633	
Due from other funds	1,526	137			1,663	
<b>Total current assets</b>	<b>193,540</b>	<b>163,386</b>	<b>53,345</b>	<b>64,741</b>	<b>475,012</b>	<b>61,936</b>
<b>Noncurrent assets:</b>						
<b>Restricted assets:</b>						
Mortgages receivable			64,142		64,142	
Property, plant and equipment, net	538,679	1,017,411	104,396	44,211	1,704,697	43,064
Other assets						696
Issuance costs	4,605	2,551	3,083	414	10,653	
<b>Total noncurrent assets</b>	<b>543,284</b>	<b>1,019,962</b>	<b>171,621</b>	<b>44,625</b>	<b>1,779,492</b>	<b>43,760</b>
<b>Total assets</b>	<b>736,824</b>	<b>1,183,348</b>	<b>224,966</b>	<b>109,366</b>	<b>2,254,504</b>	<b>105,696</b>
<b>Liabilities:</b>						
<b>Current liabilities:</b>						
Accounts payable and accrued liabilities	2,629	6,381	905	104	10,019	6,163
Accrued interest payable	6,235	4,247	2,562	102	13,146	
Deposits subject to refund	15				15	
Due to other funds		8,157	95	13,125	21,377	727
Estimated liability for claims in progress						67,235
Other liabilities	3,339	3,983		242	7,564	3,112
Accounts payable from restricted assets	8,889	12,037		68	20,994	
Revenue bonds payable	2,655	4,712	4,680		12,047	
General long-term debt payable	139	320			459	
<b>Total current liabilities</b>	<b>23,901</b>	<b>39,837</b>	<b>8,242</b>	<b>13,641</b>	<b>85,621</b>	<b>77,237</b>
<b>Noncurrent liabilities:</b>						
Revenue bonds payable, net	339,876	291,125	181,844	22,257	835,102	
Other liabilities	1,154	2,169		650	3,973	
General long-term debt payable	897	2,185			3,082	
Estimated liability for claims in progress						87,980
<b>Total noncurrent liabilities</b>	<b>341,927</b>	<b>295,479</b>	<b>181,844</b>	<b>22,907</b>	<b>842,157</b>	<b>87,980</b>
<b>Total liabilities</b>	<b>365,828</b>	<b>335,316</b>	<b>190,086</b>	<b>36,548</b>	<b>927,778</b>	<b>165,217</b>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	195,112	719,068		44,211	958,391	43,064
<b>Restricted for:</b>						
Debt service	41,085	25,266	25,152		91,503	
Future capital expenditures	84,622	63,494	12,899		161,015	
Unrestricted (deficit)	50,177	40,204	(3,171)	28,607	115,817	(102,585)
<b>Total net assets</b>	<b>\$370,996</b>	<b>\$ 848,032</b>	<b>\$ 34,880</b>	<b>\$ 72,818</b>	<b>1,326,726</b>	<b>\$ (59,251)</b>
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds					(8,011)	
<b>Net assets of business-type activities</b>					<b>\$1,318,715</b>	

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, 2004**  
(Expressed in Thousands)

	Enterprise Funds				Total	Governmental Activities Internal Service Funds
	Water Utility Fund	Waste Water Utility Fund	Parking Facilities Fund	Other Funds		
Operating revenues:						
Charges for sales and services:						
Water and sewer service .....	\$102,612	\$125,942			\$228,554	
Rents, fees and other income .....			\$ 53,539	\$ 5,053	58,592	\$293,737
Interest income on loans .....				279	279	
Total operating revenues .....	102,612	125,942	53,539	5,332	287,425	293,737
Operating expenses:						
Salaries and wages .....	27,756	30,779		1,436	59,971	13,836
Other personnel costs .....	9,943	11,065		512	21,520	4,466
Contractual services .....	26,020	48,692	7,447	654	82,813	35,795
Materials and supplies .....	6,216	5,586		96	11,898	8,656
Minor equipment .....	2,140	2,650		204	4,994	270
Claims paid and incurred .....						284,887
Postage and delivery services .....						839
General governmental overhead .....	4,541	6,087			10,628	
Depreciation .....	9,258	18,011	1,069	899	29,237	7,499
Program expenses .....				3,476	3,476	
Interest .....				1,041	1,041	
Total operating expenses .....	85,874	122,870	8,516	8,318	225,578	356,248
Operating income (loss) .....	16,738	3,072	45,023	(2,986)	61,847	(62,511)
Nonoperating revenues (expenses):						
Gain (loss) on sale of investments .....	(469)	(302)	21		(750)	
Gain (loss) on disposal of property .....			225		225	(505)
Interest income (expense), net .....	(6,085)	(1,267)	(6,345)		(13,697)	17
Total nonoperating revenues (expenses) .....	(6,554)	(1,569)	(6,099)		(14,222)	(488)
Income (loss) before contributions and transfers .....	10,184	1,503	38,924	(2,986)	47,625	(62,999)
Capital contributions .....	25,555	29,642		(33)	55,164	3,216
Transfers in (out) .....			(31,477)	3,076	(28,401)	
Change in net assets .....	35,739	31,145	7,447	57	74,388	(59,783)
Total net assets — beginning .....	335,257	816,887	27,433	72,761		262
Total net assets — ending .....	\$370,996	\$848,032	\$ 34,880	\$72,818		\$(59,521)
Adjustment to reflect the consolidation of internal service activities related to enterprise funds .....					(3,172)	
Change in net assets of business-type activities .....					\$ 71,216	

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, 2004**

(Expressed in Thousands)

	Enterprise Funds					Governmental Activities- Internal Service Funds
	Water Utility Fund	Waste Water Utility Fund	Parking Facilities Fund	Other Funds	Total	
<b>Cash flow from operating activities:</b>						
Receipts from customers	\$ 91,711	\$ 110,626	\$ 53,674	\$ 5,767	\$ 261,778	\$ 293,464
Receipts from interfund services provided	4,342	8,720			13,062	
Payments to employees	(37,148)	(41,343)		(754)	(79,245)	(18,472)
Payments to suppliers	(30,059)	(56,074)	(9,315)	(7,828)	(103,276)	(300,566)
Payments for interfund services used	(5,906)	(5,972)			(11,878)	
Net cash provided (used) by operating activities	22,940	15,957	44,359	(2,815)	80,441	(25,574)
<b>Cash flows from noncapital financing activities:</b>						
Transfers out			(31,477)	3,076	(28,401)	
<b>Cash flows from capital and related financing activities:</b>						
Mortgages receivable principal payments			2,025		2,025	
Proceeds from revenue bonds	55,312	41,408			96,720	
Principal paid on bonds	(86)	(216)			(302)	
Principal paid on revenue bonds	(2,295)	(4,660)	(4,245)	5,085	(6,115)	
Interest paid	(15,346)	(11,168)	(10,632)		(37,146)	
Acquisition and construction of capital assets	(49,791)	(60,429)	(12,038)	(1,110)	(123,368)	(8,089)
Disposal of property						(505)
Capital contributions	25,555	29,642		(32)	55,165	3,216
Changes in restricted assets	(13,172)	(26,695)			(39,867)	
Net cash provided (used) by capital and related financing activities	177	(32,118)	(24,890)	3,943	(52,888)	(5,378)
<b>Cash flows from investing activities:</b>						
Proceeds from the sale and maturities of investments	8		3,646		3,654	13,776
Purchase of investments				(6)	(6)	(12,687)
Interest on investments	2,292	1,228			3,520	17
Net cash provided (used) by investing activities	2,300	1,228	3,646	(6)	7,168	1,106
Net increase (decrease) in cash and cash equivalents	25,417	(14,933)	(8,362)	4,198	6,320	(29,846)
Cash and cash equivalents, beginning of year	100,548	90,005	60,710	59,140	310,403	83,658
Cash and cash equivalents, end of year	\$ 125,965	\$ 75,072	\$ 52,348	\$ 63,338	\$ 316,723	\$ 53,812
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>						
Operating income (loss)	\$ 16,738	\$ 3,072	\$ 45,023	\$ (2,986)	\$ 61,847	\$ (62,511)
<b>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</b>						
Depreciation expense	9,258	18,011	1,069	899	29,237	7,499
Amortization of bond discounts				34	34	
<b>Changes in assets and liabilities:</b>						
Accounts receivables	(4,809)	(3,356)	135	435	(7,595)	184
Due from other funds						(558)
Due from other governments	(1,749)	(3,019)			(4,768)	
Inventories	36	(38)			(2)	102
Accounts payable and accrued liabilities	191	(2,170)	221	(6)	(1,764)	(5,358)
Other liabilities	312	232		(118)	426	(241)
Notes payable				(65)	(65)	
Estimated liability for claims in progress						35,028
Accrued interest payable	773	681		24	1,478	
Restricted accounts payable	3,555	2,649			6,204	
Due to other governments		(220)			(220)	
Due to other funds	(1,365)	115	(2,089)	(1,032)	(4,371)	281
Total adjustments	6,202	12,885	(664)	171	18,594	36,937
Net cash provided (used) by operating activities	\$ 22,940	\$ 15,957	\$ 44,359	\$ (2,815)	\$ 80,441	\$ (25,574)

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, 2004**  
(Expressed in Thousands)

	Pension Trust Funds	Agency Funds
<b>Assets:</b>		
Cash and cash equivalents .....	\$ 100,601	\$1,564
<b>Investments:</b>		
Stocks .....	1,491,364	51
Bonds .....	1,121,723	
Mutual funds .....	300,528	
Real estate .....	185,789	
Guaranteed investment contracts .....	16,233	
Securities lending collateral .....	486,451	
Other assets .....	39,411	
Total assets .....	<u>3,742,100</u>	<u>1,615</u>
<b>Liabilities:</b>		
Obligations under securities lending program .....	486,451	
Accounts payable .....	91,615	43
Pension benefits payable .....	7,790	
Other .....		1,572
Total liabilities .....	<u>585,856</u>	<u>1,615</u>
<b>Net assets:</b>		
Held in trust for pension benefits .....	<u>\$3,156,244</u>	

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, 2004**  
(Expressed in Thousands)

	Pension Trust Funds
<hr/>	
Additions:	
Contributions:	
Employer .....	\$ 60,459
Employee .....	<u>15,923</u>
Total contributions .....	<u>76,382</u>
Investment income:	
Net appreciation in fair value of investments .....	270,424
Securities lending income .....	987
Interest and dividend income .....	<u>86,104</u>
Total investment income .....	357,515
Less investment expense .....	<u>(8,395)</u>
Net investment income .....	<u>349,120</u>
Total additions .....	<u>425,502</u>
Deductions:	
Retirement allowances .....	213,263
Death benefits .....	2,189
Administrative expenses .....	3,817
Other .....	<u>25,773</u>
Total deductions .....	<u>245,042</u>
Changes in net assets .....	180,460
Net assets — beginning of the year .....	<u>2,975,784</u>
Net assets — end of the year .....	<u>\$3,156,244</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 with staggered terms appointed by the Mayor. The Commission establishes the operating policies of the HABC, which was implemented under the direction of an Executive Director appointed by the Commission. The HABC develops, maintains, and manages low-rent housing and administers housing assistance payment programs primarily for the citizenry's benefit and not that of the primary government. These activities are subsidized by the U. S. Department of Housing and Urban Development and other grantors. Consequently, the primary government is not able to exert influence over or to impose a burden relationship upon the HABC. This organization is not financially accountable to the City and maintains its own separate accounting systems.

**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 90 day availability period. Property taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of the grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general 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, 2004, based on market prices. The individual funds' portions of the pool's fair value are presented as "Pooled Cash and Investments." Earnings on the

**CITY OF BALTIMORE**  
**Notes to Basic Financial Statements**  
**(Continued)**

pooled funds are apportioned and paid or credited to the funds quarterly based on the average daily balance of each participating fund.

*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, 2004. 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

**CITY OF BALTIMORE**  
**Notes to Basic Financial Statements**  
**(Continued)**

estimated market value. A discount of 1% and ½% 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.

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 2004 was \$17,844,363,000, which was approximately 96% of the estimated market value.

The tax rate in Baltimore City for real property taxes for fiscal year 2004 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 97.6% of the total tax levy.

At June 30, 2004, the City had property taxes receivable of \$15,068,000, net of an allowance for uncollectible accounts of \$97,108,000.

*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

**CITY OF BALTIMORE**  
**Notes to Basic Financial Statements**  
**(Continued)**

compensated absences on termination or retirement. The City includes its share of social security and Medicare payments made on behalf of the employees in the accrual for sick, vacation and personal leave pay.

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

*Restricted Assets*

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

*Fund Equity*

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

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

Reserved for budget stabilization — Maryland State law authorizes its political subdivisions to establish reserve accounts for the purpose of maintaining fiscal stability in the event of economic downturns affecting local revenues. As of June 30, 2004, the City had reserved \$57,003,000 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 long-term advances — This represents the portion of the fund balance reserved for the long-term portion of cash advances made to the Baltimore City Public School System.

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.

**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.



**CITY OF BALTIMORE**  
**Notes to Basic Financial Statements**  
**(Continued)**

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 .....	\$ 4,620,316
Less: Accumulated depreciation .....	(1,494,708)
Total .....	<u>\$ 3,125,608</u>
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:	
Due from other governments .....	\$ 103,374
Deferred revenue .....	7,135
Accrued interest payable .....	(7,958)
Unamortized bond discounts .....	1,351
Total .....	<u>\$ 103,902</u>
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. ....	
	<u>\$ (51,510)</u>
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 .....	\$ (625,226)
Revenue bonds .....	(56,602)
Capital leases .....	(172,786)
Compensated absences .....	(80,362)
Landfill closure liability .....	(13,363)
Total .....	<u>\$ (948,339)</u>

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 .....	\$ 185,236
Capital leases .....	13,376
Total .....	<u>\$ 198,612</u>
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 .....	<u>\$ 23,588</u>
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 .....	\$ (43,961)
Proceeds from capital leases .....	(25,136)
Proceeds from special obligation bonds .....	(15,885)
Proceeds of revenue bonds .....	(6,881)
Transfers to escrow agent .....	11,759
Reclassification of short-term debt as long-term debt .....	(51,900)
Total .....	<u>\$ (132,004)</u>
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 .....	\$ 36,209
Debt service interest (capital leases, GO bonds, and accrued interest) .....	(4,472)
Capital related expenditures .....	(158,658)
Compensated absences .....	546
Total .....	<u>\$ (126,375)</u>
The net expense of certain activities of internal service funds is reported with governmental activities:	
Internal service funds net expenses attributed to governmental activities .....	<u>\$ (56,611)</u>

**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, 2004 (amounts expressed in thousands):

	Pooled Cash and Investments	Other	Total
Carrying value of bank deposits .....	\$ (10,387)		\$ (10,387)
Investments .....	300,165	\$3,981,406	4,281,571
<b>Total .....</b>	<b>\$289,778</b>	<b>\$3,981,406</b>	<b>\$4,271,184</b>

	Government- wide Statement of Net Assets	Fiduciary Funds Statement of Net Assets	Total
Cash and cash equivalents .....	\$237,225	\$ 102,165	\$ 339,390
Investments .....	132,435	3,602,139	3,734,574
Restricted cash and equivalents .....	181,502		181,502
Restricted investments .....	15,718		15,718
<b>Total .....</b>	<b>\$566,880</b>	<b>\$3,704,304</b>	<b>\$4,271,184</b>

B. CASH DEPOSITS

As of June 30, 2004, the carrying amount of the City's bank deposits was a net overdraft of \$10,387,000 and the respective bank balances totaled \$6,646,000. 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, 2004, the BCPSS has demand deposits with a carrying value of \$64,192,000. The bank balance for all deposits at June 30, 2004 was \$79,218,576. 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 .....	\$16,117
Amounts insured by the FDIC or collateralized with securities held by the BCPSS or its agent but not in the BCPSS's name .....	\$63,102

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 custodial 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, 2004, into the above noted categories:

(Expressed in Thousands)	Category		Carrying Value
	1	2	
Repurchase agreements	\$ 25,514	\$53,544	\$ 79,058
U. S. Treasury and Agencies:			
Not on securities loan	653,084		653,084
On securities loan for cash collateral	329,873		329,873
Corporate bonds:			
Not on securities loan	294,819		294,819
On securities loan for cash collateral	38,078		38,078
Stocks:			
Not on securities loan	1,381,653		1,381,653
On securities loan for cash collateral	109,711		109,711
	2,832,732	53,544	2,886,276
Investments not subject to categorization:			
Mutual funds			706,822
Guaranteed investment contracts			16,233
Real estate equity investments			185,789
Securities lending collateral pool			486,451
			4,281,571
Less: cash equivalents			531,279
Total			\$3,750,292

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, 2004, 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, 2004, was \$477,662,000, and the market value of the collateral received for those securities on loan was \$486,451,000. The retirement systems did not impose any restrictions during the fiscal year on the amount of loans the custodian made on its behalf. The terms of the Securities Lending Authorization Agreement require that the custodian indemnify the retirement systems against: (1) the failure to demand adequate and appropriate collateral from a borrower as and when required pursuant hereto; (2) the failure to comply with the investment guidelines in connection with the investment and reinvestment of cash collateral; (3) the failure to obtain and perfect a security interest or rights equivalent thereto in and to the collateral; or (4) the failure to make a reasoned determination of the creditworthiness of any borrower. There were no such failures by any borrowers during the fiscal year. Moreover, there were no losses during the fiscal year resulting from default of the borrowers or the custodian.

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

**CITY OF BALTIMORE**  
**Notes to Basic Financial Statements**  
**(Continued)**

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.

**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 .....	\$ 15,068						\$ 15,068
Service billings .....					\$ 73,937	\$ 752	74,689
Due from other governments .....	27,754	\$14,166	\$41,330		6,303	8,017	97,570
Due from component unit .....	42,000						42,000
Notes and mortgages receivable .....	7,101					7,124	14,225
Other .....	10,011	329	3,231	\$13,231	50	293	27,145
Restricted accounts receivable .....					117,775		117,775
Total .....	\$101,934	\$14,495	\$44,561	\$13,231	\$198,065	\$16,186	\$388,472

**5. Due from Component Unit**

In order to meet a projected cash flow shortfall of the Baltimore City Public School System (BCPSS), on March 17, 2004, the Mayor and City Council of Baltimore entered into a funding agreement with the Commissioners of the BCPSS in an amount not to exceed \$42.0 million for the fiscal year ending June 30, 2004. The City determined that the funding was necessary to ensure uninterrupted operation of the school system. On March 31, 2004 the City advanced \$42.0 million to BCPSS from the City's budget stabilization reserve fund.

The agreement required the repayment of \$34.0 million on August 2, 2004 and the remaining \$8.0 million is due on or before June 30, 2006. Interest accrues at the rate of one and one half percent per annum on the \$8.0 million. The agreement also provides that until such time that the repayments are made, a Fiscal Operating Committee shall be created to recommend the development and implementation of a financial recovery plan. The Committee consists of three members appointed by the Mayor and includes the City Finance Director and a representative of the BCPSS Board. The State Superintendent of Schools and the President of the City Council or their designees may serve as an ex officio member.

The \$34.0 million was repaid on August 2, 2004. The remaining \$8.0 million was fully reserved as of June 30, 2004.

If BCPSS fails to timely reimburse the City as required under the agreement, the City reserved the right to deduct sums owed it from the City's annual appropriation to BCPSS.

**CITY OF BALTIMORE**  
**Notes to Basic Financial Statements**  
**(Continued)**

**6. Capital Assets**

Capital assets activity for the year ended June 30, 2004, was as follows (expressed in thousands):

*Governmental Activities Capital Assets:*

Class	Balance June 30, 2003	Additions	Deductions	Balance June 30, 2004
Capital assets, not being depreciated:				
Land .....	\$ 134,300	\$ 298		\$ 134,598
Construction in progress .....	655,147	23,351	\$ 8,486	670,012
Construction in progress—infrastructure .....	126,191	85,238	3,226	208,203
Total capital assets, not being depreciated .....	915,638	108,887	11,712	1,012,813
Capital assets, being depreciated:				
Buildings and improvements .....	1,300,328	6,742		1,307,070
Equipment .....	311,287	16,151	7,391	320,047
Infrastructure .....	2,061,425	2,374		2,063,799
Library books .....	31,362	3,925	1,540	33,747
Total capital assets, being depreciated .....	3,704,402	29,192	8,931	3,724,663
Less: accumulated depreciation for:				
Buildings and improvements .....	639,434	26,127		665,561
Equipment .....	213,974	19,841	6,596	227,219
Infrastructure .....	613,940	47,350		661,290
Library books .....	13,262	3,012	1,540	14,734
Total accumulated depreciation .....	1,480,610	96,330	8,136	1,568,804
Total capital assets, being depreciated, net .....	2,223,792	(67,138)	795	2,155,859
Governmental activities capital assets, net .....	\$3,139,430	\$ 41,749	\$12,507	\$3,168,672

**CITY OF BALTIMORE**  
**Notes to Basic Financial Statements**  
**(Continued)**

*Business-type Activities Capital Assets:*

Class	Balance June 30, 2003	Additions	Deductions	Balance June 30, 2004
Capital assets, not being depreciated:				
Land .....	\$ 17,361	\$ 23		\$ 17,384
Construction in progress .....	724,130	142,967	\$103,670	763,427
Total capital assets, not being depreciated .....	741,491	142,990	103,670	780,811
Capital assets, being depreciated:				
Buildings and improvements .....	1,294,311	91,702	23	1,385,990
Equipment .....	133,875	3,085		136,960
Infrastructure .....	54,306			54,306
Total capital assets, being depreciated .....	1,482,492	94,787	23	1,577,256
Less: accumulated depreciation for:				
Buildings and improvements .....	516,770	23,577		540,347
Equipment .....	92,613	4,981		97,594
Infrastructure .....	14,751	678		15,429
Total accumulated depreciation .....	624,134	29,236		653,370
Total capital assets, being depreciated, net .....	858,358	65,551	23	923,886
Business-type activities capital assets, net .....	\$1,599,849	\$208,541	\$103,693	\$1,704,697

Depreciation expense was charged to functions/programs of the City for the fiscal year ended June 30, 2004 (amounts expressed in thousands):

*Governmental activities:*

General government .....	\$ 5,994
Public safety and regulation .....	4,589
Conservation of health .....	680
Social services .....	39
Education .....	14,464
Public library .....	3,451
Recreation and parks .....	4,750
Highways and streets .....	43,691
Sanitation and waste removal .....	4,987
Public service .....	2,954
Economic development .....	1,322
Internal service funds .....	9,409
Total .....	\$96,330

*Business-type activities:*

Water .....	\$ 9,258
Waste water .....	18,011
Parking .....	1,069
Conduits .....	898
Total .....	\$29,236

At June 30, 2004, the outstanding commitments relating to projects of the City of Baltimore amount to approximately \$127,941,000 for governmental activities and \$188,979,000 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 2004, net interest expense of \$19,685,000 (net of interest income of \$3,436,000) was capitalized.

**CITY OF BALTIMORE**  
**Notes to Basic Financial Statements**  
**(Continued)**

**7. Interfund Balances and Activity**

**A. BALANCE DUE TO/FROM OTHER FUNDS**

Balances due to/from other funds at June 30, 2004 (amounts expressed in thousands):

Fund	Interfund	
	Receivable	Payable
General	\$58,030	
Grant revenue		\$42,650
Capital projects	20,180	
Nonmajor governmental funds		15,119
Water	1,526	
Waste water	137	8,157
Parking facilities		95
Conduits		3,057
Nonmajor proprietary funds		10,068
Internal service funds		727
Totals	\$79,873	\$79,873

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, 2004, certain transactions between funds had not been completed.

**B. TRANSFERS TO/FROM OTHER FUNDS**

Transfers to/from other funds at June 30, 2004, consist of the following (amounts expressed in thousands):

Fund	General	Capital Projects	Nonmajor Special Revenue	Motor Vehicle	Parking	Total Transfers To
General					\$31,477	\$ 31,477
Debt service	\$51,406	\$9,423		\$ 4,275		65,104
Loan and guarantee	3,076					3,076
Capital projects	12,928		11,841	34,205		58,974
Totals transfers from	\$67,410	\$9,423	\$11,841	\$38,480	\$31,477	\$158,631

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, 2004:

Special Revenue Funds:		
Grant Revenue		\$ 93,848
Community Development Block Grant		9,829
Internal Services Funds:		
Risk management		124,304
Municipal Post Office		287
Reproduction and printing		600
Component Unit:		
Baltimore City Public School System		124,390

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 2005.



**CITY OF BALTIMORE**  
**Notes to Basic Financial Statements**  
**(Continued)**

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 deficits in the Municipal Post Office and the Reproduction and Printing Funds 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.

**8. 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, 2004, are as follows (amounts expressed in thousands):

	June 30, 2003	Adjustments(a)	New Debt Issued	Debt Retired	June 30, 2004	Due within One Year
<b>GOVERNMENTAL ACTIVITIES</b>						
<i>General Obligation Bonds:</i>						
Highways	\$ 25,680	\$ 139		\$ 1,578	\$ 24,241	\$ 1,882
Health	2,080			50	2,030	77
Public safety	14,390	114		657	13,847	833
Off-street parking	32,472	129	\$ 285	1,769	31,117	1,850
Parks and recreation	18,551	76	1,225	792	19,060	994
Public buildings and facilities	36,917	106	7,450	1,356	43,117	2,159
Schools	122,440	290	12,940	3,850	131,820	5,995
Storm water	10,462	198		1,129	9,531	1,075
Urban renewal	274,102	746	21,370	18,394	277,824	19,742
Waste disposal	3,600	35		283	3,352	430
Unallocated	23,686	3		246	23,443	827
Total general obligation bonds	564,380	1,836	43,270	30,104	579,382	35,864
<i>Special Obligation Bonds</i>						
Harborview Special Obligation Bonds	7,479		15,845		23,324	
<i>Long-term financing with the Federal Government:</i>						
Federal economic development loans	32,965			2,760	30,205	3,349
Environmental Protection Agency loans	667			191	476	191
Total long-term financing with the Federal Government	33,632			2,951	30,681	3,540
<i>Long-term financing with the State of Maryland:</i>						
State economic development loans	5,295	(3)		420	4,872	389
<i>Private:</i>						
Fannie Mae loans	724			724		
Total Governmental Activities	\$611,510	\$1,833	\$59,115	\$34,199	\$638,259	\$39,793
<b>BUSINESS-TYPE ACTIVITIES</b>						
<i>General Obligation Bonds:</i>						
Water	\$ 1,113	\$ 10		\$ 86	\$ 1,037	\$ 139
Waste Water	2,107	18		162	1,963	264
Total general obligation bonds	3,220	28		248	3,000	403
<i>Long-term financing with the State of Maryland:</i>						
Sewer construction loans	596			54	542	56
Total Business-type Activities	\$ 3,816	\$ 28		\$ 302	\$ 3,542	\$ 459
<b>COMPONENT UNIT — BALTIMORE CITY PUBLIC SCHOOL SYSTEM</b>						
<i>General Obligation Bonds:</i>						
Schools	\$ 75,000			\$ 1,310	\$ 73,690	\$ 4,215

(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 \$13,582,672 as of June 30, 2004. 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.

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**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 \$13,033,000 of unamortized losses on early extinguishment of debt.

*Variable Rate Demand General Obligation Bonds*

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 2004, the City made no draws under the Agreement, and no amounts drawn against the Agreement were outstanding at June 30, 2004.

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 capital projects in the development district. At June 30, 2004 principal owed for these bonds was \$23,324,000 and interest of \$31,438,000 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, 2004, the principal owed to the Federal government was \$30,205,000 and interest of \$14,067,000 will be due thereon in future years. The loan bears interest at rates ranging from 6.0% to 10.9% and matures serially through 2024.
- *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, 2004, the principal owed the EPA was \$476,000. 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.
- *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, 2004, the principal owed to the State was \$4,872,000 and interest of \$2,828,000 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 2034.
- *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

**CITY OF BALTIMORE**  
**Notes to Basic Financial Statements**  
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\$1,184,000 for sewer projects. At June 30, 2004, the principal owed to the State was \$542,000 and interest of \$164,000 will be due thereon in future years.

*Compensated Absences*

Compensated absences at June 30, 2004 totaled \$80,362,000 for governmental activities and \$10,894,000 for business-type activities, of which \$27,046,000 and \$7,564,000 respectively, were due within one year. For the Baltimore City Public School System, compensated absences totaled \$67,117,000, of which \$5,154,000 were due within one year.

Changes in compensated absences during fiscal year 2004 (expressed in thousands):

	Governmental Activities	Business-type Activities	Total
Balance, July 1, 2003	\$ 80,908	\$10,369	\$ 91,277
Leave earned	26,501	2,100	28,601
Leave used	(27,047)	(1,575)	(28,622)
Balance, June 30, 2004	\$ 80,362	\$10,894	\$ 91,256

**B. DEBT SERVICE REQUIREMENTS**

Debt service requirements on long-term debt at June 30, 2004, 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		Special Obligation Bonds	
	Principal	Interest	Interest Rate Swap Net(a)	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 35,864	\$ 17,656	\$ 7,876	\$ 389	\$ 381	\$ 3,540	\$ 1,832		\$ 1,536
2006	41,241	15,550	7,657	337	273	2,626	1,657		1,536
2007	38,270	18,622	7,411	307	256	4,290	1,476		1,535
2008	42,143	16,283	7,174	324	239	2,025	1,301	\$ 52	1,531
2009	41,411	15,157	6,934	342	221	2,125	1,178	87	1,526
2010-2014	192,144	54,477	29,487	1,687	766	6,820	4,338	1,715	7,361
2015-2019	90,032	13,209	18,164	1,073	451	7,090	2,063	2,951	6,603
2020-2024	94,707	4,520	6,150	398	241	2,165	222	4,705	5,357
2025-2029	3,570	80		15				6,582	3,479
2030-2034								7,232	974
	\$579,382	\$155,554	\$90,853	\$4,872	\$2,828	\$30,681	\$14,067	\$23,324	\$31,438

(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, 2004, assuming current interest rates remain the same for their term. As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year	Business-type Activities			
	General Obligation Bonds		Long-Term Financing with State Of Maryland	
	Principal	Interest	Principal	Interest
2005	\$ 403	\$ 74	\$ 56	\$ 35
2006	216	51	60	31
2007	517	18	64	27
2008	307	272	68	23
2009	358	124	73	19
2010-2014	1,199	1,320	221	29
Totals	\$3,000	\$1,859	\$542	\$164

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A summary of general obligation and bond anticipation notes outstanding and bonds authorized but unissued (amounts expressed in thousands) at June 30, 2004, is as follows:

Purpose	Due Dates	Outstanding		Authorized
		Interest Rates	Amount	But Unissued Amount
Fire, police and public protection	2005 to 2016	4.7% to 9.0%	\$ 13,848	\$ 2,985
Off-street parking	2005 to 2017	1.5% to 9.0%	31,116	345
Parks and recreation	2005 to 2017	2.7% to 9.0%	19,060	5,711
Public building and facilities	2005 to 2017	2.7% to 9.5%	43,117	22,555
Schools	2005 to 2021	2.7% to 9.0%	131,819	36,365
Waste water and storm sewer	2005 to 2012	2.5% to 9.0%	11,494	
Urban renewal and development	2005 to 2021	2.7% to 9.5%	277,825	84,047
Water	2005 to 2011	4.0% to 9.0%	1,037	
Highways	2005 to 2021	4.7% to 9.0%	24,241	220
Waste disposal	2005 to 2011	4.75% to 8.9%	3,352	
Finance				20,000
Health	2005 to 2018	5.125% to 5.3%	2,030	4,850
Unallocated	2005 to 2011	4.7% to 5.5%	23,443	
<b>Totals</b>			<b>\$582,382</b>	<b>\$177,078</b>

*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. 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 2005 Strategic Facilities Plan approved by the School Board.

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

As the BCPSS enters into the capital project contracts with one or more contractors, funds are to be drawn from the Series 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.

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Future minimum bond payments are as follows for the year ending June 30, 2004 (amounts expressed in thousands):

Fiscal Year	Series 2000 Bonds	Series 2003 A Bonds	Interest	Total
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 .....	1,625	3,300	2,619	7,544
2010-2014 .....	9,350	18,675	9,649	37,674
2015-2019 .....	4,420	18,435	2,590	25,445
	21,230	52,460	27,163	100,853
Less: bond premium .....			(4,972)	(4,972)
Total .....	\$21,230	\$52,460	\$22,191	\$ 95,881

**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 2004, the City's capital lease obligations increased by \$1,033,000 (which is net of new leases in the amount of \$25,136,000, debt refunded of \$11,759,000 and lease principal payments of \$12,344,000) over the fiscal year 2003 total of \$171,754,000. Future minimum lease payments at June 30, 2004, are as follows (amounts expressed in thousands):

Fiscal Year	
2005 .....	\$ 21,180
2006 .....	20,779
2007 .....	20,699
2008 .....	20,533
2009 .....	20,314
2010-2014 .....	88,942
2015-2019 .....	44,357
Total minimum lease payments .....	236,804
Less: deferred interest .....	64,018
Present value minimum lease payments .....	\$172,786

The following is a schedule of leased property under capital leases by major class (amounts expressed in thousands) at June 30, 2004:

Classes of Property	
Buildings .....	\$158,018
Equipment .....	132,448
Total .....	\$290,466

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

*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" at the Harbor Bank. All contractors have been paid and satisfied and the account at the Harbor Bank is now closed. 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 remains in the escrow account and is to be used for the same purposes as the principal.

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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 2004 related to the capital leases and bonds was \$577,000 and is included in the cash and cash equivalents balance and in investment income under the component unit column.

Fiscal year 2004 interest expenditures were \$834,000 and \$4,182,000 on leases and bonds, respectively. The interest expenditure is included under the component unit column.

Future minimum lease payments as of June 30, 2004, are as follows (amounts expressed in thousands):

Fiscal Year	1999 Lease	Vehicle Lease	Master Equipment Lease	Interest	Total
2005 .....	\$ 666	\$ 333	\$ 3,419	\$ 1,527	\$ 5,945
2006 .....	711	345	3,520	1,369	5,945
2007 .....	760	359	3,632	1,194	5,945
2008 .....	812	184	3,741	1,019	5,756
2009 .....	868		3,854	886	5,608
2010-2014 .....	5,313		6,834	4,031	16,178
2015-2016 .....	1,968			134	2,102
Present value minimum lease payments .....	\$11,098	\$1,221	\$25,000	\$10,160	\$47,479

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**9. 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 66,237,000 at June 30, 2004, and certain revenues of the Water and Waste Water Funds are pledged as collateral for the bonds. Bonds outstanding as of June 30, 2004, consist of (amounts expressed in thousands):

	Water Utility Fund	Waste Water Utility Fund
Serial bonds series 1993-A maturing in annual installments from \$1,010,000 to \$1,250,000 through July 1, 2008, with interest ranging from 5.1% to 5.5%, payable semiannually		\$ 5,630
Serial bonds series 1993-A maturing in annual installments from \$1,730,000 to \$2,125,000 through July 1, 2008, with interest ranging from 5.1% to 5.5%, payable semiannually	\$ 9,600	
Serial bonds series 1994-A maturing in annual installments from \$470,000 to \$590,000 through July 1, 2009, with interest ranging from 4.6% to 5.0%, payable semiannually		3,150
Serial bonds series 1994-A maturing in annual installments from \$675,000 to \$850,000 through July 1, 2009, with interest ranging from 4.6% to 5.0%, payable semiannually	4,550	
Serial bonds series 1994-B maturing in annual installments from \$325,000 to \$406,000 through February 1, 2015, with interest rate at 2.25%, payable semiannually		4,001
Serial bonds series 1994-C maturing in annual installments from \$302,000 to \$387,000 through February 1, 2015, with interest rate at 2.5%, payable semiannually		3,775
Serial bonds series 1994-D maturing in annual installments from \$208,000 to \$296,000 through February 1, 2015, with interest rate at 3.6%, payable semiannually		2,741
Serial bonds series 1996-B maturing in annual installments from \$143,000 to \$208,000 through February 1, 2017, with interest rate at 3.18%, payable semiannually		2,259
Serial bonds series 1998-A maturing in annual installments from \$279,000 to \$414,000 through February 1, 2019, with interest rate at 2.87%, payable semiannually		5,138
Serial bonds series 1999-A maturing in annual installments from \$119,000 to \$167,000 through February 1, 2019, with interest rate at 2.52%, payable semiannually		2,127
Serial bonds series 1999-B maturing in annual installments from \$432,000 to \$652,000 through February 1, 2021, with interest rate at 2.61%, payable semiannually		9,094
Serial bonds series 2001-A maturing in annual installments from \$556,000 to \$819,000 through February 1, 2022, with interest rate at 2.3%, payable semiannually		12,230
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 variable interest through July 1, 2016 and a fixed rate of 4.85 - 5% thereafter 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 variable interest through July 1, 2016 and a fixed rate of 4.85 - 5% thereafter payable semiannually	24,600	
Serial bonds series, 2003-B maturing in annual installments from \$1,000 to \$984,000 from August 1, 2005 through February 1, 2024, with interest rate at 0.40%, payable semiannually		18,036
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
Serial bonds series, 2003-B maturing in annual installments from \$1,000 to \$329,000 from August 1, 2004 through February 1, 2023, with interest rate at 0.40%, payable semiannually		6,042
Serial bonds series 2003-B maturing in annual installments from \$1,000 to \$74,000 from August 1, 2004 through February 1, 2033, with interest rate at 0.40%, payable semi-annually	2,031	
Serial bonds series 2004-A maturing in annual installments from \$182,000 to \$221,000 from February 1, 2005 through February 1, 2034, with interest rate at 0.40%, payable semiannually	6,237	
Term bonds series 1990-B with interest at 3.806%, payable semiannually, due February 1, 2012		5,140
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		9,480
Term bonds series 2002-A with interest at 5.125%, payable semiannually, due July 1, 2032	15,385	
Term bonds series 2002-A with interest at 5.125%, payable semiannually, due July 1, 2042	64,840	31,630
Auction rate notes series 2002-B, payable monthly, due July 1, 2032		25,300
Auction rate notes series 2002-C, payable monthly, due July 1, 2032		47,900
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, 2028		6,875
Term bonds series 2003-A with interest at 5.00%, payable semiannually, due July 1, 2033	25,655	13,950
Auction Rate Notes Series 2004-B, payable weekly, due July 1, 2034	47,500	
Auction Rate Notes Series 2004-A, payable weekly, due July 1, 2034		17,500
	350,233	298,043
Less unamortized charges	7,702	2,206
	\$ 342,531	\$ 295,837

The portion of revenue bonds payable that is due within one year for the Water and Waste Water Utility Funds are \$2,655,000 and \$4,712,000, respectively.

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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.



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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 term bond series 2004-A Waste Water Utility Fund and the 2004-B Water Utility Fund shall be subject to redemption at the option of the City in whole or in part, at 100% of the principal amount thereof, plus interest accrued, if any, to the redemption date, on the business day immediately succeeding any auction date.

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 \$25,158,000 at June 30, 2004, and certain other revenues of the Parking Facilities Fund are pledged as collateral for the bonds. Bonds outstanding as of June 30, 2004, consist of (amounts expressed in thousands):

Serial bonds series 1993-A maturing in annual installments from \$3,175,000 to \$3,810,000 through July 1, 2008, with interest ranging from 4.45% to 4.7%, payable semiannually .....	\$ 17,415
Serial bonds series 1997-B maturing in annual installments from \$340,000 to \$495,000 through July 1, 2010, with interest ranging from 6.4% to 6.5%, payable semiannually .....	2,890
Auction rate notes series 2002, payable monthly due July 1, 2032 .....	80,300
Term bonds series 1992-B with interest at 8.4%, payable semiannually, due July 1, 2011 .....	5,955
Term bonds series 1993-A with interest at 5.1%, payable semiannually, due July 1, 2013 .....	3,395
Term bonds series 1993-A 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 .....	160
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
	188,145
Less unamortized charges .....	1,621
	\$186,524

The portion of revenue bonds payable that is due within one year for the Parking Facilities Fund is \$4,680,000.

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

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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 the Series 2004 Bonds available principal and interest commitment in favor of the City and Manufacturer and Traders Trust Company (formerly Allfirst Trust Company National Association) as trustee. The Agreement expires 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. 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 2004, the City made no draws under the Agreement, and no amounts drawn against the Agreement were outstanding at June 30, 2004.

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 prior to maturity.

The bonds bear interest at a variable rate that is reset by the Remarketing Agent on a weekly basis. During fiscal year 2004, 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.

After the expiration of the letter of credit issued in conjunction with the issuance of the bonds, Bayerische Landesbank (BL) issued an irrevocable letter of credit in the amount of \$102,500,000 in favor of the City and The First National Bank of Maryland as trustee and The Chase Manhattan Bank as fiscal agent for the bondholders. The letter of credit will expire on November 30, 2015, unless BL exercises its early termination rights on the third, sixth, or ninth anniversary of July 8, 2004. The City may request an extension beyond November 30, 2015. The existing letter of credit permits the fiscal agent to draw amounts necessary to pay the principal portion and related accrued interest on bonds when tendered for purchase and not remarketed. Pursuant to the letter of credit agreement between the City, BL and the fiscal agent, the issuer is required to reimburse BL the amount drawn upon remarketing. If the takeout agreement were to be exercised because the 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 BL’s prime interest rate.

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

During fiscal year 2004, the City made no draws under the letter of credit and no amounts drawn against the letter of credit were outstanding at June 30, 2004.

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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 \$22,915,000 in serial bonds, which are due to mature on September 1, in each of the years 2004 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.

On May 19, 2004 the City issued a Stormwater Special Revenue Bond, Series 2004 in the amount of \$6,881,000. This bond will fund various City stormwater capital projects associated with road construction. The bond is secured by a pledge of the City's share of state highway user revenues.

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		Storm Water		Water Utility		Waste Water Utility			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)	Principal	Interest	Swap Interest Rate Net(a)	Principal	Interest	Swap Interest Rate Net(a)
2005	\$ 2,095	\$ 2,508		\$ 7	\$ 2,655	\$ 12,808	\$ 3,049	\$ 4,712	\$ 9,326	\$ 2,345	\$ 4,680	\$ 7,131	\$ 1,966			\$ 1,080	\$ 2,418	
2006	2,185	2,415		21	2,778	12,932	4,037	5,787	9,165	2,345	4,900	7,429	3,895			1,080	2,418	
2007	2,280	2,310	\$ 349	29	2,920	12,799	4,037	5,960	8,993	2,345	5,330	7,220	3,880			1,080	2,417	
2008	2,395	2,193	351	26	3,056	12,656	4,037	6,633	8,810	2,337	5,570	6,996	3,865			1,080	2,417	
2009	2,515	2,070	352	25	3,202	12,503	4,038	6,824	8,615	2,319	5,825	6,753	3,831			1,080	2,417	
2010-2014	14,705	8,151	1,782	102	31,811	58,793	19,940	44,689	38,791	11,410	36,705	29,207	18,547			5,400	12,088	
2015-2019	19,120	3,630	1,818	66	43,658	50,695	18,510	50,320	30,861	10,530	47,365	19,227	17,284	\$100,000	2,250	5,036		
2020-2024	4,425	111	1,854	30	44,241	41,788	15,922	46,408	23,726	8,322	20,690	8,617	15,485					
2025-2029			375	2	54,224	33,835	12,546	45,060	18,298	5,157	28,180	4,603	12,065					
2030-2034					73,813	23,559	8,030	51,035	11,394	1,296	28,900	1,589	6,095					
2035-2039					50,905	13,590	1,732	14,765	5,863									
2040-2044					36,970	3,915		15,850	1,850									
Totals	\$49,720	\$23,388	\$6,881	\$308	\$350,233	\$289,873	\$95,878	\$298,043	\$175,692	\$48,406	\$188,145	\$98,772	\$86,913	\$100,000	\$13,050	\$29,211		

(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, 2004, assuming current interest rates remain the same for their term. As rates vary, variable rate bond interest payments and net swap payments will vary.

**10. Prior-Year Defeasance of Debt**

In prior years, the City defeased certain revenue bonds and other obligations by placing the proceeds of new debt issues in an irrevocable trust to provide for all future debt service payments on the old debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the City's financial statements. At June 30, 2004, \$42,636,000 of debt outstanding is considered defeased, which includes debt defeased during the current year.

**11. Interest Rate Swaps**

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

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the City has used basis swaps to amend the floating rate on certain of its existing synthetic fixed rate swaps in order to provide a better hedge on the underlying floating rate bonds.

*Terms, fair value and credit risk.* The terms, fair values and credit rating of the outstanding swaps as of June 30, 2004, were as follows. The notional amounts of the swaps match the principal amount of the associated debt. The City's swap agreements contain scheduled reductions to outstanding notional amounts that are designed to track the scheduled or anticipated reductions in the associated "bonds payable" category.

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<b>Outstanding Bonds</b>	<b>Effective Date</b>	<b>Termination Date</b>	<b>Interest Rate Paid by City</b>	<b>Interest Rate Received</b>	<b>Notional Amount</b>	<b>Fair Value</b>	<b>Counterparty Credit Rating</b>
<b>General Obligation Bonds</b>							
<i>Floating to Fixed Swaps</i>							
2001 Bonds	6/27/2001	10/1/2020	4.595%	BMA Index	\$ 20,600,000	\$ (1,969,761)	A+/Aa3
2001 Bonds	6/27/2001	10/1/2022	5.060%	BMA Index	22,500,000	(2,330,733)	A+/Aa3
2003 Bonds	5/14/2003	10/15/2020	2.950%	BMA/67% LIBOR	104,400,000	1,744,604	A/A2
2003 Bonds	5/14/2003	10/15/2022	3.450%	BMA/67% LIBOR	47,350,000	1,108,878	A/A2
2003 Bonds	5/14/2003	10/15/2020	4.215%	1M LIBOR	23,090,000	816,525	A/A2
2003 Bonds	5/14/2003	10/15/2022	4.970%	1M LIBOR	17,155,000	861,733	A/A2
<i>Basis Swaps</i>							
2003 Bonds	6/29/2004	10/15/2020	67% LIBOR	60% LIBOR + 0.295%	104,400,000*	(254,548)	AAA/Aaa
2003 Bonds	6/29/2004	10/15/2022	67% LIBOR	60% LIBOR + 0.295%	47,350,000*	(451,340)	AAA/Aaa
Total General Obligation Bonds					\$ 386,845,000*	\$ (474,642)	
<b>Industrial Development Authority Revenue Bonds</b>							
<i>Floating to Fixed Swaps</i>							
1986 Revenue Bonds	11/1/2001	11/1/2016	3.4975%	BMA Index	\$ 100,000,000	\$ (3,194,867)	A+/Aa3
<b>Water Utility Fund Revenue Bonds Series</b>							
<i>Fixed to Floating Swaps</i>							
1993 Revenue Bonds	1/1/2008	7/1/2020	BMA Index	5.54%	\$ 4,276,748	\$ (176,784)	AA+/Aa2
1994 Revenue Bonds	1/1/2008	7/1/2024	BMA Index	5.26%	4,108,595	(289,222)	AA+/Aa2
1998 Revenue Bonds	2/1/2001	7/1/2028	BMA Index	5.17%	27,210,000	1,274,108	AA+/Aa2
1998 Revenue Bonds	7/1/2008	7/1/2028	BMA Index	5.08%	1,927,360	(159,460)	AA+/Aa2
2000 Revenue Bonds	7/1/2003	7/1/2030	BMA Index	5.70%	2,907,750	(171,299)	AA+/Aa2
<i>Floating to Fixed Swaps</i>							
1998 Revenue Bonds	10/26/2001	7/1/2008	5.17%	BMA Index	27,210,000*	(2,700,207)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2037	4.555%	BMA/67% LIBOR	59,100,000	(5,312,937)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2009	3.87%	CPI Index	1,855,000	(27,192)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2010	4.00%	CPI Index	1,900,000	(25,566)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2011	4.10%	CPI Index	1,955,000	(30,688)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2012	4.20%	CPI Index	2,110,000	(36,998)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2013	4.30%	CPI Index	2,170,000	(39,838)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2014	4.39%	CPI Index	2,325,000	(52,068)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2015	4.50%	CPI Index	1,615,000	(40,743)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2016	4.61%	CPI Index	1,685,000	(44,077)	A+/Aa3
2004 Revenue Bonds	6/1/2004	7/1/2034	5.21%	BMA Index	47,500,000	(5,161,675)	A+/Aa3
2005 Revenue Bonds	6/1/2005	7/1/2035	5.30%	BMA Index	53,100,000	(4,457,201)	A+/Aa3
Total Water Utility Fund					\$ 242,955,453*	\$ (17,451,847)	
<b>Wastewater Utility Fund Revenue Bonds Series</b>							
<i>Fixed to Floating Swaps</i>							
1993 Revenue Bonds	1/1/2008	7/1/2020	BMA Index	5.54%	\$ 2,507,350	\$ (103,644)	AA+/Aa2
1994 Revenue Bonds	1/1/2008	7/1/2024	BMA Index	5.26%	1,229,550	(88,553)	AA+/Aa2
1998 Revenue Bonds	2/1/2001	7/1/2027	BMA Index	5.17%	25,020,000	1,386,280	AA+/Aa2
1998 Revenue Bonds	7/1/2008	7/1/2028	BMA Index	5.08%	1,876,278	(155,234)	AA+/Aa2
2000 Revenue Bonds	7/1/2003	7/1/2030	BMA Index	5.686%	1,855,869	(110,330)	AA+/Aa2
<i>Floating to Fixed Swaps</i>							
1998 Revenue Bonds	10/26/2001	7/1/2008	5.17%	BMA Index	25,020,000*	(2,482,671)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2032	4.5475%	BMA/67% LIBOR	73,600,000	(5,948,125)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2009	3.87%	CPI Index	1,660,000	(24,479)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2010	4.00%	CPI Index	1,785,000	(24,018)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2011	4.10%	CPI Index	1,820,000	(28,566)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2012	4.20%	CPI Index	1,930,000	(34,018)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2013	4.30%	CPI Index	1,960,000	(35,989)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2014	4.39%	CPI Index	2,040,000	(45,693)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2015	4.50%	CPI Index	1,240,000	(31,360)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2016	4.61%	CPI Index	1,280,000	(33,577)	A+/Aa3
2004 Revenue Bonds	6/1/2004	7/1/2034	5.21%	BMA Index	17,500,000	(1,903,093)	A+/Aa3
2005 Revenue Bonds	6/1/2005	7/1/2035	5.30%	BMA Index	32,600,000	(2,737,001)	A+/Aa3
Total Wastewater Utility Funds					\$ 194,924,047*	\$ (12,400,071)	
<b>Parking Facilities Fund Revenue Bonds Series</b>							
<i>Floating to Fixed Swaps</i>							
2002 Revenue Bonds	6/19/2002	7/1/2032	6.098%	1M LIBOR	\$ 69,600,000	\$ (5,133,797)	AA+/Aa2
2002 Revenue Bonds	6/19/2002	7/1/2025	5.915%	1M LIBOR	10,700,000	(646,772)	AA+/Aa2
Total Parking Facilities Fund					\$ 80,300,000	\$ (5,780,569)	
Grand Total Swaps Outstanding					\$1,005,024,500	\$ (39,301,996)	

\* Note: Notional principal totals include swaps that amended or partially reversed other swaps previously entered into by the City. If these offsetting and amended swaps are excluded, notional principal totals would be lower as follows: General Obligation \$235,095,000; Water Utility \$215,745,453; Wastewater Utility \$169,904,047; Grand Total Swaps Outstanding \$800,644,500.

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*Credit risk.* As of June 30, 2004, the City is not exposed to credit risk on all but six of the outstanding swaps because the swaps have negative fair value. All fair values were calculated using the mark-to-market or par value method. However, should interest rates change and the fair values of the swaps become positive, the City would be exposed to credit risk in the amount of the derivatives' fair value. For the six swap agreements that have positive fair value, the City has credit exposure to the counterparty as of June 30, 2004. 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' \$7,192,128 fair value. However, because certain of these swap counterparties are also party to other swaps whose fair value is currently negative, the City could use netting provisions to offset the potential loss.

The swap agreements contain varying collateral agreements with counterparties. In general, these agreements require full collateralization of the fair value of the swap should the counterparty's credit rating fall below Baa as issued by Moody's or BBB as issued by Standard and Poor's. Collateral on all swaps is to be in the form of U. S. Government securities held by the City.

Although the City executes transactions with various counterparties, approximating 51 percent of the notional amount of swaps outstanding are held with one counterparty that is currently rated A+/Aa3. Of the remaining swaps, the City holds 12 swaps with another counterparty, rated AA+/Aa2, approximating 15 percent of the outstanding notional value, 4 swaps are with a counterparty rated A/A2, approximating 19 percent of the outstanding swap and 2 swaps are with a counterparty rated AAA/Aaa, approximating 15 percent of the outstanding swaps.

*Basis Risk.* The City's variable rate bonds are of three types: remarketed variable rate demand bonds ("VRDBs"), auction rate bonds ("ARBs"), and CPI index bonds. The City believes the VRDBs and ARBs will closely approximate the BMA rate over time. For those swaps associated the VRDBs and ARBs, the City receives a floating rate based on the either the BMA Index or one-month LIBOR. For the BMA based swaps, the City is exposed to basis risk should the spread between the BMA and the VRDBs or ARBs rate change. If a change occurs that results in the spread widening, the expected cost savings may not be realized. As of June 30, 2004, the BMA rate was 1.05%, whereas the City market rate ranges from 0.98% to 1.05%. For four of the swaps, the City will receive 67% percent of LIBOR, a rate chosen to closely approximate the City's tax-exempt variable rate bond payments. Because these swaps are LIBOR-based, there is an additional degree of basis risk. As of June 30, 2004, 67% of LIBOR was 0.92%. For those swaps associated with CPI index bonds, there is no basis risk, because the floating rate on the swaps is identical to the floating rate on the bonds.

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

*Termination risk.* The City or the counterparty may terminate a swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap contract has a negative fair value, the City would be liable to the counterparty for that payment.

## **12. Pension Plans**

### *Plan Descriptions*

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

The City contributes to two single-employer defined benefit pension plans, the Fire and Police Employees' Retirement System, established July 1, 1962, and the Elected Officials' Retirement System, established December 5, 1983, and a cost sharing multiple employer plan, the Employees' Retirement System, established January 1, 1926. Each plan provides retirement benefits as well as disability benefits to plan members and their beneficiaries. The plans are each managed by a Board of Trustees in accordance with Article 22 of the Baltimore City Code. Plan benefits provisions may be amended only by the City Council. 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

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available financial report that includes financial statements and the required supplementary information for that plan. Those reports may be obtained by writing to the Retirement Systems at the following addresses:

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

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

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

Baltimore City Retirement Systems  
7 East Redwood Street, 4<sup>th</sup> Floor  
Baltimore, Maryland 21202-3470

*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 .....	17.6%	5.4%	35.4%
Employee .....	6.0%	4%	5.0%
Annual pension cost .....	\$42,699	\$17,352	\$408
Contributions made .....	\$42,699	\$17,352	\$408
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, 2004 and the actuarial valuation dated June 30, 2004.

**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, 2004 .....	\$42,699	100%	\$0
June 30, 2003 .....	34,679	100	0
June 30, 2002 .....	252*	100	0
Employees' Retirement System			
June 30, 2004 .....	17,352	100	0
June 30, 2003 .....	17,736	100	0
June 30, 2002 .....	17,714	100	0
Elected Officials' Retirement System			
June 30, 2004 .....	408	100	0
June 30, 2003 .....	0	100	0
June 30, 2002 .....	68	100	0

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

**CITY OF BALTIMORE**  
**Notes to Basic Financial Statements**  
**(Continued)**

*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, 2004 .....	\$3,526	\$16,946
June 30, 2003 .....	4,417	21,731
June 30, 2002 .....	6,296	21,602

*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, 2004, the State paid \$43,647,000 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, 2004 was \$1,043,000. This amount has also been recognized as both a revenue and an expenditure in the accompanying Statement of Activities.

*Deferred Compensation*

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

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

**13. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1987, the City established the Risk Management Fund (an internal service fund) to account for and finance its uninsured risks. The City's risk financing techniques include a combination of risk retention through self-insurance and risk transfer through the purchase of commercial insurance. The Risk Management Fund services all claims for risk of loss, including general liability, property and casualty, workers' compensation, unemployment compensation, automobile physical damage and bodily injury, and sundry other risks. Commercial insurance coverage is provided for each property damage claim in excess of



**CITY OF BALTIMORE**  
**Notes to Basic Financial Statements**  
**(Continued)**

\$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, 2004, the City has determined that the range of potential claims liability for the fund to be between \$155,215,000 and \$208,155,000. The claims liability of \$155,215,000 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, 2004, 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 \$155,215,000 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 2003 and 2004 were (amounts expressed in thousands):

	2004	2003
Unpaid claims, beginning .....	\$ 120,187	\$ 140,752
Claims incurred .....	284,887	242,448
Claims paid .....	<u>(249,859)</u>	<u>(263,013)</u>
Unpaid claims, ending .....	\$ 155,215	\$ 120,187

**14. 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, 2004, future minimum lease payments (amounts expressed in thousands) are as follows:

2005 .....	\$ 5,747
2006 .....	5,151
2007 .....	4,024
2008 .....	3,465
2009 .....	3,184
2010-2014 .....	12,459
2015-2019 .....	1,169
2020-2024 .....	587
2025-2029 .....	<u>606</u>
Total .....	<u>\$36,392</u>

All leases contain cancellation provisions and are subject to annual appropriations by the City Council. During fiscal year 2004, rent expenditures approximated \$16,672,000 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, 2004, rent and lease expenditures approximated \$2,884,839. These expenditures were made primarily from the General Fund. As of June 30, 2004, future minimum lease payments approximate \$4,263,629.

**15. Landfill Closure and Postclosure Care Costs**

State and Federal laws and regulations require that the City place a final cover on its landfill site and perform certain maintenance and monitoring functions at the landfill site for a minimum of thirty years after closure. In addition to operating expenses related to current activities of the landfill site, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill

**CITY OF BALTIMORE**  
**Notes to Basic Financial Statements**  
**(Continued)**

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 \$13,363,000 as of June 30, 2004, which is based on 55.2% usage (filled) of the landfill. This is an increase in the liability of \$1,043,000 since June 30, 2003. It is estimated that an additional \$10,847,000 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 (\$24,211,000) 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, 2004. 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 2005.

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, 2004, investments of \$5,201,000 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.

**16. Notes and Mortgages Receivable**

Notes and mortgages receivable as of June 30, 2004, consist of the following:

- A. The General Fund has notes receivable of \$7,101,000, 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 \$4,872,000 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 \$64,142,000 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 \$2,252,000 in mortgages receivable collateralized by real property, bearing interest rates ranging from 1.0% to 12.0% and mature over 30 years.

**17. 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, 2004, 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, 2004.

**18. 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, 2004, there were 20,114 retirees eligible for these benefits. The City reimburses approximately 50% of the premium cost incurred by pre-Medicare retirees and their dependents. The City also reimburses approximately 50% 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 2004, these postemployment benefits amounted to \$55,230,000.

**19. Commitments and Contingencies**

The City is party to legal proceedings which normally occur in governmental operations. The City provides for the estimated losses on certain outstanding claims as discussed in Note 13. The City has determined, in consultation with

**CITY OF BALTIMORE**  
**Notes to Basic Financial Statements**  
**(Continued)**

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, 2004, the City is contingently liable for loans guaranteed by the Loan and Guarantee Program in an aggregate amount of approximately \$641,000.

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, 2004, 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 \$104.34 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 \$521.70 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. As of October 29, 2004, there has been no further movement on the part of OIG to collect these funds.

An audit performed by the State of Maryland, dated May 17, 2004, covering the fiscal years 2001 through 2004, resulted in MSDE requesting repayment of Title I and IDEA funds totaling \$18 million. The System has entered into a resolution process with the federal government, CAROI (Cooperative Audit Resolution and Oversight Initiative). The points of

**CITY OF BALTIMORE**  
**Notes to Basic Financial Statements**  
**(Continued)**

contention concern the disallowed fiscal Title I funds in FY01-FY 04 and the disallowed IDEA funds of FY02. The System strongly disagrees with the findings.

**20. Subsequent Events**

On October 26, 2004 the City of Baltimore issued \$16,638,681 of Subordinate Project Revenue Bonds (Wastewater Projects) Series 2004C, for various wastewater projects, maturing through the year ending 2024.

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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, 2004**  
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Taxes — local	\$787,491	\$794,259	\$ 821,701	\$27,442
Licenses and permits	24,013	24,723	26,805	2,082
Fines and forfeitures	2,635	4,435	4,408	(27)
Interest, rentals and other investment income	21,996	23,425	20,729	(2,696)
Federal grants	75	75	111	36
State grants	96,019	96,019	95,369	(650)
Other grants	6,142	6,142	6,064	(78)
Charges for current services	39,244	40,244	39,692	(552)
Miscellaneous	7,274	7,274	9,889	2,615
<b>Total revenues</b>	<b>984,889</b>	<b>996,596</b>	<b>1,024,768</b>	<b>28,172</b>
<b>Expenditures and encumbrances:</b>				
Civil Service Commission	1,656	1,656	1,656	
Community Relations Commission	830	830	820	10
Comptroller	3,941	4,094	4,094	
City Council	3,866	3,866	3,866	
Office of Financial Review	481	481	481	
Courts	7,771	7,771	7,575	196
Supervisors of Elections	4,032	4,032	3,713	319
Department of Finance	8,450	8,450	8,448	2
Department of Fire	108,646	111,174	111,174	
Department of Health	18,619	18,819	18,819	
Department of Housing and Community Development	12,198	12,198	11,929	269
Department of Law	3,116	3,116	2,878	238
Department of Legislative Reference	710	710	681	29
Enoch Pratt Library	18,974	18,974	18,900	74
Board of Liquor License Community	1,683	1,683	1,670	13
Mayoralty	212,982	212,982	212,186	796
Department of Planning	878	940	940	
Department of Police	245,384	254,884	254,883	1
Department of Public Works	57,493	64,809	64,442	367
Department of Recreation and Parks	19,190	20,285	20,283	2
Office of Sheriff	9,435	9,435	9,248	187
Office of State's Attorney	17,621	18,021	18,021	
Department of Transportation	214	214	214	
Wage Commission	442	442	413	29
Department of Municipal and Zoning Appeals	300	300	285	15
Baltimore City Public School System	201,101	201,101	201,101	
<b>Total expenditures</b>	<b>960,013</b>	<b>981,267</b>	<b>978,720</b>	<b>2,547</b>
Excess of revenues over expenditures	24,876	15,329	46,048	30,719
<b>Other financing sources (uses):</b>				
Transfers in	28,506	28,506	31,477	2,971
Transfers out	(67,497)	(67,497)	(67,410)	87
<b>Total other financing sources (uses)</b>	<b>(38,991)</b>	<b>(38,991)</b>	<b>(35,933)</b>	<b>3,058</b>
Net change in fund balances	(14,115)	(23,662)	10,115	33,777
Fund balances — beginning	110,562	110,562	110,562	
Fund balances — ending	<b>\$ 96,447</b>	<b>\$ 86,900</b>	<b>\$ 120,677</b>	<b>\$33,777</b>
<b>Adjustments to reconcile to GAAP basis:</b>				
Addition of encumbrances outstanding			26,490	
Less: accounts payable not recorded for budgetary purposes			(7,512)	
Fund balance — June 30, 2004 (GAAP basis)			<b>\$ 139,655</b>	

(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 \$1,043,000 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, 2004**  
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
State shared revenue .....	\$169,150	\$169,150	\$169,090	\$ (60)
Licenses and permits .....	615	615	1,349	734
Fines and forfeitures .....	7,000	7,000	11,072	4,072
Interest, rentals and other investment income .....	1,208	1,208	223	(985)
Charges for current services .....	5,521	5,521	5,261	(260)
Miscellaneous .....	31	31	124	93
<b>Total revenues .....</b>	<b>183,525</b>	<b>183,525</b>	<b>187,119</b>	<b>3,594</b>
<b>Expenditures and encumbrances:</b>				
Department of Recreation and Parks .....	2,415	2,693	2,644	49
Department of Transportation .....	68,432	77,132	77,132	
Department of Planning .....	735	735	735	
Department of Police .....	10,865	10,865	10,865	
Department of Public Works .....	34,157	35,757	35,562	195
Mayoralty .....	17,904	17,904	17,904	
Baltimore City Public School System .....	3,654	3,654	3,654	
<b>Total Expenditures and Encumbrances .....</b>	<b>138,162</b>	<b>148,740</b>	<b>148,496</b>	<b>244</b>
<b>Excess of revenues over expenditures and encumbrances .....</b>	<b>45,363</b>	<b>34,785</b>	<b>38,623</b>	<b>3,838</b>
<b>Other financing sources (uses):</b>				
Transfers out .....	(38,480)	(38,480)	(38,480)	
<b>Net change in fund balances .....</b>	<b>6,883</b>	<b>(3,695)</b>	<b>143</b>	<b>3,838</b>
Fund balances — beginning .....	4,931	4,931	9,601	4,670
Fund balances — ending .....	<u>\$ 11,814</u>	<u>\$ 1,236</u>	<u>9,744</u>	<u>\$8,508</u>
<b>Adjustments to reconcile to GAAP Basis:</b>				
Addition of encumbrances outstanding .....			2,278	
Less: accounts payable not recorded for budgetary purposes .....			<u>(1,560)</u>	
Fund balance — June 30, 2004 (GAAP basis) .....			<u>\$ 10,462</u>	

(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)
<b>Fire and Police Employees' Retirement System</b>						
June 30, 2004 .....	\$2,320,028	\$2,395,523	\$ 75,495	96.8%	\$241,245	31.3%
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
<b>Employees' Retirement System</b>						
June 30, 2004 .....	1,404,850	1,436,892	32,042	97.8	322,915	9.9
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)
<b>Elected Officials' Retirement System</b>						
June 30, 2004 .....	14,854	14,709	(145)	101.0	1,150	(12.6)
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)

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

## CITY OF BALTIMORE

### 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 2004, supplemental appropriation ordinances were required for the General Fund in the amount of \$21.4 million, and Motor Vehicle Fund in the amount of \$10.6 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, 2004**  
(Expressed in Thousands)

	Special Revenue Funds				Permanent Funds			Total	Debt Service Fund	Total Nonmajor Governmental Funds
	Community Development Block Grant Fund	Special Race/track Fund	Scholarship Fund	Total	Enoch Pratt Free Library Fund	Memorial Fund	Total			
<b>Assets:</b>										
Cash and cash equivalents			\$8,060	\$ 8,060	\$ 47	\$ 272	\$ 319	\$10,662	\$19,041	
Investments			778	778	1,949	3,936	5,885	12,505	19,168	
Other receivables, net			9	9	8	25	33	82	124	
Due from other governments	\$ 7,660	\$357		8,017					8,017	
Notes and mortgages receivable, net	2,252			2,252				4,872	7,124	
<b>Total assets</b>	<b>9,912</b>	<b>357</b>	<b>8,847</b>	<b>19,116</b>	<b>2,004</b>	<b>4,233</b>	<b>6,237</b>	<b>28,121</b>	<b>53,474</b>	
<b>Liabilities and fund balances:</b>										
<b>Liabilities:</b>										
Accounts payable and accrued liabilities	891	12		903					903	
Due to other funds	14,791	328		15,119				4,874	15,119	
Deferred revenue	4,059			4,059				5,148	8,933	
Matured bonds payable									5,148	
<b>Total liabilities</b>	<b>19,741</b>	<b>340</b>		<b>20,081</b>				<b>10,022</b>	<b>30,103</b>	
<b>Fund balances:</b>										
Reserved for Scholarship, Library and Memorial	(9,829)	17	8,847	8,847	2,004	4,233	6,237	18,099	15,084	
Unreserved (deficit)	(9,829)	17	8,847	(965)	2,004	4,233	6,237	18,099	8,287	
<b>Total fund balances</b>	<b>\$ 9,912</b>	<b>\$357</b>	<b>\$8,847</b>	<b>\$19,116</b>	<b>\$2,004</b>	<b>\$4,233</b>	<b>\$6,237</b>	<b>\$28,121</b>	<b>\$23,371</b>	
<b>Total liabilities and fund balances</b>										

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

**Nonmajor Governmental Funds**

**For the Year Ended June 30, 2004**

(Expressed in Thousands)

	Special Revenue Funds				Permanent Funds				Total	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				
<b>Revenues:</b>											
State shared revenue	\$ 613	\$ 24	\$ 613	\$ 613	\$ 64	\$ 79	\$ 143	\$ 707	\$ 613	\$ 874	
Interest, rentals and other investment income			24	24						27,378	
Federal grants	\$ 27,378		27,378	27,378						456	
Miscellaneous		499	499	499						955	
<b>Total revenues</b>	<b>27,378</b>	<b>613</b>	<b>28,514</b>	<b>28,514</b>	<b>64</b>	<b>79</b>	<b>143</b>	<b>1,163</b>	<b>29,820</b>		
<b>Expenditures:</b>											
<b>Current:</b>											
General government	2,266	25	2,368	2,368						2,368	
Public safety and regulation	779	34	813	813						813	
Education		441	441	441						441	
Public library					149		149			149	
Recreation and culture	423	26	449	449		359	359			808	
Highways and streets											
Economic development	18,139	34	18,173	18,173						18,173	
Debt service:											
Principal								36,209		36,209	
Interest								29,674		29,674	
<b>Total expenditures</b>	<b>21,607</b>	<b>119</b>	<b>22,244</b>	<b>22,244</b>	<b>149</b>	<b>359</b>	<b>508</b>	<b>65,883</b>	<b>88,635</b>		
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>5,771</b>	<b>494</b>	<b>6,270</b>	<b>6,270</b>	<b>(85)</b>	<b>(280)</b>	<b>(365)</b>	<b>(64,720)</b>	<b>(58,815)</b>		
<b>Other financing sources (uses):</b>											
Transfers in	(11,393)	(448)	(11,841)	(11,841)				65,104		65,104	
Transfers out	(11,393)	(448)	(11,841)	(11,841)					(11,841)		
<b>Total other financing sources (uses)</b>	<b>(5,622)</b>	<b>46</b>	<b>(5,571)</b>	<b>(5,571)</b>	<b>(85)</b>	<b>(280)</b>	<b>(365)</b>	<b>384</b>	<b>(5,552)</b>		
<b>Net change in fund balances</b>	<b>(4,207)</b>	<b>(29)</b>	<b>4,606</b>	<b>4,606</b>	<b>2,089</b>	<b>4,513</b>	<b>6,602</b>	<b>17,715</b>	<b>28,923</b>		
<b>Fund balances—beginning</b>	<b>\$ (9,829)</b>	<b>\$ 17</b>	<b>\$ (9,65)</b>	<b>\$ (9,65)</b>	<b>\$ 2,004</b>	<b>\$ 4,233</b>	<b>\$ 6,237</b>	<b>\$ 18,099</b>	<b>\$ 23,371</b>		
<b>Fund balances—ending</b>											



**CITY OF BALTIMORE**  
**Schedule of Revenues, Expenditures,**  
**and Changes in Fund Balance — Budget and Actual — Budgetary Basis(1)**  
**Special Racetrack Fund**  
**For the Year Ended June 30, 2004**  
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
State shared revenues	\$ 392	\$ 392	\$ 613	\$221
Expenditures and encumbrances:				
Department of Police	28	28	28	
Department of Transportation	31	31	31	
Department of Recreation and Parks	20	20	20	
Department of Housing and Community Development	34	34	34	
Total expenditures	113	113	113	
Excess of revenues over expenditures	279	279	500	221
Other financing (uses):				
Transfers out	(448)	(448)	(448)	
Net change in fund balances (deficit)	(169)	(169)	52	221
Fund balances — beginning	(29)	(29)	(29)	
Fund balances — ending	\$(198)	\$(198)	23	\$221
Adjustments to reconcile to GAAP basis:				
Less: accounts payable not recorded for budgetary purposes			(6)	
Fund balance—June 30, 2004 (GAAP basis)			\$ 17	

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

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

# Nonmajor Proprietary Funds

## Enterprise Funds

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

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

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

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

**CITY OF BALTIMORE**  
**Combining Statement of Fund Net Assets**  
**Nonmajor Proprietary Funds**  
**June 30, 2004**

(Expressed in Thousands)

	Loan and Guarantee Program	Industrial Development Authority	Conduit Fund	Total
<b>Assets:</b>				
<b>Current Assets:</b>				
Cash and cash equivalents .....	\$12,005	\$45,680	\$ 5,653	\$ 63,338
Investments .....	482			482
Accounts receivable, net:				
Service billings .....			752	752
Other .....	45	124		169
<b>Total current assets .....</b>	<b>12,532</b>	<b>45,804</b>	<b>6,405</b>	<b>64,741</b>
<b>Noncurrent Assets:</b>				
<b>Restricted assets:</b>				
Mortgages receivable .....			44,211	44,211
Property, plant and equipment, net .....				
Issuance costs .....		414		414
<b>Total noncurrent assets .....</b>		<b>414</b>	<b>44,211</b>	<b>44,625</b>
<b>Total assets .....</b>	<b>12,532</b>	<b>46,218</b>	<b>50,616</b>	<b>109,366</b>
<b>Liabilities:</b>				
<b>Current Liabilities:</b>				
Accounts payable and accrued liabilities .....	21	4	79	104
Accrued interest payable .....		102		102
Due to other funds .....		10,068	3,057	13,125
Other liabilities .....			242	242
Current liabilities payable from restricted assets:				
Accounts payable from restricted assets .....			68	68
<b>Total current liabilities .....</b>	<b>21</b>	<b>10,174</b>	<b>3,446</b>	<b>13,641</b>
<b>Noncurrent liabilities:</b>				
Revenue bonds payable, net .....		22,257		22,257
Other liabilities .....	650			650
<b>Total noncurrent liabilities .....</b>	<b>650</b>	<b>22,257</b>		<b>22,907</b>
<b>Total liabilities .....</b>	<b>671</b>	<b>32,431</b>	<b>3,446</b>	<b>36,548</b>
<b>Net assets:</b>				
Invested in capital assets, net of related debt .....			44,211	44,211
Unrestricted .....	11,861	13,787	2,959	28,607
<b>Total net assets .....</b>	<b>\$11,861</b>	<b>\$13,787</b>	<b>\$47,170</b>	<b>\$ 72,818</b>

**CITY OF BALTIMORE**  
**Combining Statement of Revenues, Expenses,**  
**and Changes in Fund Net Assets**  
**Nonmajor Proprietary Funds**  
**For the Year Ended June 30, 2004**

(Expressed in Thousands)

	Loan and Guarantee Program	Industrial Development Authority	Conduit Fund	Total
Operating revenues:				
Rents, fees and other income .....	\$ 290	\$ 980	\$ 3,783	\$ 5,053
Interest income on loans .....	69	210		279
Total operating revenues .....	<u>359</u>	<u>1,190</u>	<u>3,783</u>	<u>5,332</u>
Operating expenses:				
Salaries and wages .....	39		1,397	1,436
Other personnel costs .....	13		499	512
Contractual services .....	284		370	654
Program expenses .....	3,073	403		3,476
Materials and supplies .....	3		93	96
Minor equipment .....			204	204
Depreciation .....			899	899
Interest .....		1,041		1,041
Total operating expenses .....	<u>3,412</u>	<u>1,444</u>	<u>3,462</u>	<u>8,318</u>
Operating income (loss) .....	<u>(3,053)</u>	<u>(254)</u>	<u>321</u>	<u>(2,986)</u>
Capital contributions .....	1		(34)	(33)
Transfers in .....	3,076			3,076
Changes in net assets .....	24	(254)	287	57
Total net assets — beginning .....	<u>11,837</u>	<u>14,041</u>	<u>46,883</u>	<u>72,761</u>
Total net assets — ending .....	<u>\$11,861</u>	<u>\$13,787</u>	<u>\$47,170</u>	<u>\$72,818</u>

**CITY OF BALTIMORE**  
**Combining Statement of Cash Flows**  
**Nonmajor Proprietary Funds**  
**For the Year Ended June 30, 2004**

(Expressed in Thousands)

	Loan and Guarantee Program	Industrial Development Authority	Conduit Fund	Total
<b>Cash flows from operating activities:</b>				
Receipts from customers .....	\$ 485	\$ 1,169	\$ 4,113	\$ 5,767
Payments to employees .....	(52)		(702)	(754)
Payments to suppliers .....	(3,567)	(3,561)	(700)	(7,828)
Net cash provided (used) by operating activities .....	(3,134)	(2,392)	2,711	(2,815)
<b>Cash flows from non-capital financing activities:</b>				
Transfers in .....	3,076			3,076
<b>Cash flows from capital and related financing activities:</b>				
Acquisition and construction of capital assets .....			(1,110)	(1,110)
Capital contributions .....	1		(33)	(32)
Principal paid on revenue bonds .....		5,085		5,085
Net cash provided (used) by capital and related financing activities .....	1	5,085	(1,143)	3,943
<b>Cash flows from investing activities:</b>				
Purchase of investments .....	(6)			(6)
Net increase (decrease) in cash and cash equivalents .....	(63)	2,693	1,568	4,198
Cash and cash equivalents, beginning of year .....	12,068	42,987	4,085	59,140
Cash and cash equivalents, end of year .....	\$12,005	\$45,680	\$ 5,653	\$63,338
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss) .....	\$ (3,053)	\$ (254)	\$ 321	\$ (2,986)
<b>Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:</b>				
Depreciation .....			899	899
Amortization of bond issuance costs .....		34		34
<b>Changes in assets and liabilities:</b>				
Accounts receivable .....	126	(21)	330	435
Accounts payable and accrued liabilities .....	21	(1)	(26)	(6)
Other liabilities .....	(163)		45	(118)
Notes payable .....	(65)			(65)
Accrued interest payable .....		24		24
Due to other funds .....		(2,174)	1,142	(1,032)
Total adjustments .....	(81)	(2,138)	2,390	171
Net cash provided (used) by operating activities .....	\$ (3,134)	\$ (2,392)	\$ 2,711	\$ (2,815)

## 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, 2004**

(Expressed in Thousands)

	Mobile Equipment	Reproduction and Printing	Municipal Post Office	Municipal Telephone Exchange	Electronic Equipment Maintenance	Risk Management	Total
<b>Assets:</b>							
Current assets:							
Cash and cash equivalents	\$20,825			\$6,620	\$1,479	\$ 24,888	\$ 53,812
Investments						4,732	4,732
Accounts receivable, net:							
Other	173	\$ 23		2	1	1,894	2,093
Inventories	1,007	235	\$ 14		43		1,299
Total current assets	22,005	258	14	6,622	1,523	31,514	61,936
Noncurrent assets:							
Property, plant and equipment, net	42,533	19	2	242		268	43,064
Other assets						696	696
Total noncurrent assets	42,533	19	2	242		964	43,760
Total assets	64,538	277	16	6,864	1,523	32,478	105,696
<b>Liabilities:</b>							
Current liabilities:							
Accounts payable and accrued liabilities	3,840	226	14	979	14	1,090	6,163
Due to other funds		503	224				727
Estimated liability for claims in progress						67,235	67,235
Other liabilities	2,304	148	65	96	22	477	3,112
Total current liabilities	6,144	877	303	1,075	36	68,802	77,237
Noncurrent liabilities:							
Estimated liability for claims in progress						87,980	87,980
Total liabilities	6,144	877	303	1,075	36	156,782	165,217
<b>Net assets:</b>							
Invested in capital assets, net of related debt	42,533	19	2	242		268	43,064
Unrestricted (deficit)	15,861	(619)	(289)	5,547	1,487	(124,572)	(102,585)
Total net assets	\$58,394	\$(600)	\$(287)	\$5,789	\$1,487	\$(124,304)	\$(59,521)

**CITY OF BALTIMORE**  
**Combining Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Internal Service Funds**  
**For the Year Ended June 30, 2004**

(Expressed in Thousands)

	Mobile Equipment	Reproduction and Printing	Municipal Post Office	Municipal Telephone Exchange	Electronic Equipment Maintenance	Risk Management	Total
<b>Operating revenues:</b>							
Charges for services	\$33,072	\$2,508	\$1,425	\$13,723	\$ 409	\$ 242,600	\$293,737
<b>Operating expenses:</b>							
Salaries and wages	9,410	929	269	828	215	2,185	13,836
Other personnel costs	3,068	311	134	265	75	613	4,466
Contractual services	12,242	903	108	11,520	143	10,879	35,795
Materials and supplies	7,487	1,019	2	5	31	112	8,656
Minor equipment	183	64		8		15	270
Claims paid and incurred						284,887	284,887
Postage and delivery service			839				839
Depreciation	7,309	26	2	81		81	7,499
Total operating expenses	39,699	3,252	1,354	12,707	464	298,772	356,248
Operating income (loss)	(6,627)	(744)	71	1,016	(55)	(56,172)	(62,511)
<b>Nonoperating revenues (expenses):</b>							
Gains on sale of investments						17	17
Investment income							
Loss on disposal of property	(505)						(505)
Total nonoperating revenues (expenses)	(505)					17	(488)
Net income (loss) before contributions	(7,132)	(744)	71	1,016	(55)	(56,155)	(62,999)
Contributions	3,216						3,216
Total net assets — beginning	62,310	144	(358)	4,773	1,542	(68,149)	262
Total net assets — ending	\$58,394	\$(600)	\$(287)	\$5,789	\$1,487	\$(124,304)	\$(59,521)

**CITY OF BALTIMORE**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended June 30, 2004**

(Expressed in Thousands)

	Mobile Equipment	Reproduction and Printing	Municipal Post Office	Municipal Telephone Exchange	Electronic Equipment Maintenance	Risk Management	Total
<b>Cash flow from operating activities:</b>							
Receipts from customers	\$ 32,308	\$ 2,835	\$ 1,429	\$ 13,722	\$ 420	\$ 242,750	\$293,464
Payments to employees	(12,941)	(925)	(402)	(1,118)	(284)	(2,802)	(18,472)
Payments to suppliers	(20,617)	(1,902)	(1,027)	(10,685)	(177)	(266,158)	(300,566)
Net cash provided (used) by operating activities	(1,250)	8		1,919	(41)	(26,210)	(25,574)
<b>Cash flows from capital and related financing activities:</b>							
Acquisition and construction of capital assets	(7,955)	(8)		(126)			(8,089)
Disposal of property	(505)						(505)
Capital contributions	3,216						3,216
Net cash provided (used) by capital and related financing activities	(5,244)	(8)		(126)			(5,378)
<b>Cash flows from investing activities:</b>							
Proceeds from the sale and maturities of investments						13,776	13,776
Purchase of investments						(12,687)	(12,687)
Interest on investments						17	17
Net cash provided by investing activities						1,106	1,106
Net increase (decrease) in cash and cash equivalents	(6,494)			1,793	(41)	(25,104)	(29,846)
Cash and cash equivalents, beginning of year	27,319			4,827	1,520	49,992	83,658
Cash and cash equivalents, end of year	\$ 20,825			\$ 6,620	\$1,479	\$ 24,888	\$ 53,812
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>							
Operating income (loss)	\$ (6,627)	\$ (744)	\$ 71	\$ 1,016	\$ (55)	\$ (56,172)	\$ (62,511)
<b>Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:</b>							
Depreciation	7,309	26	2	81		81	7,499
<b>Changes in assets and liabilities:</b>							
Accounts receivable	137	(5)		(1)		53	184
Due from other funds	(901)	331			12		(558)
Other assets			5			97	102
Accounts payable and accrued liabilities	(929)	48	(13)	811	6	(5,281)	(5,358)
Other liabilities	(239)	6		12	(4)	(16)	(241)
Due to other funds		346	(65)				281
Estimated liability for claims in progress						35,028	35,028
Total adjustments	5,377	752	(71)	903	14	29,962	36,937
Net cash provided (used) by operating activities	\$ (1,250)	\$ 8		\$ 1,919	\$ (41)	\$ (26,210)	\$ (25,574)



## **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, 2004**  
(Expressed in Thousands)

	Employees' Retirement System	Elected Officials' Retirement System	Fire and Police Employees' Retirement System	Total
<b>Assets:</b>				
Cash and cash equivalents .....	\$ 43,507	\$ 23	\$ 57,071	\$ 100,601
Investments: .....				
Stocks .....	446,774	6,954	1,037,636	1,491,364
Bonds .....	471,177	2,337	648,209	1,121,723
Mutual funds .....	296,604	3,924		300,528
Real estate .....	29,871		155,918	185,789
Guaranteed investment contracts .....	4,090		12,143	16,233
Securities lending collateral .....	202,110		284,341	486,451
Other assets, principally accrued interest receivable .....	14,713	2	24,696	39,411
<b>Total assets .....</b>	<b>1,508,846</b>	<b>13,240</b>	<b>2,220,014</b>	<b>3,742,100</b>
<b>Liabilities:</b>				
Obligations under securities lending program .....	202,110		284,341	486,451
Accounts payable .....	56,298	3	35,314	91,615
Pension benefits payable .....	3,122	16	4,652	7,790
<b>Total liabilities .....</b>	<b>261,530</b>	<b>19</b>	<b>324,307</b>	<b>585,856</b>
<b>Net assets held in trust for pension benefits .....</b>	<b>\$1,247,316</b>	<b>\$13,221</b>	<b>\$1,895,707</b>	<b>\$3,156,244</b>

**CITY OF BALTIMORE**  
**Combining Statement of Changes in Fiduciary Net Assets**  
**Pension Trust Funds**  
**For the Year Ended June 30, 2004**  
(Expressed in Thousands)

	Employees' Retirement System	Elected Officials' Retirement System	Fire and Police Employees' Retirement System	Total
<b>Additions:</b>				
<b>Contributions:</b>				
Employer .....	\$ 17,352	\$ 408	\$ 42,699	\$ 60,459
Employee .....	443	59	15,421	15,923
Total contributions .....	<u>17,795</u>	<u>467</u>	<u>58,120</u>	<u>76,382</u>
<b>Investment income:</b>				
Net appreciation (depreciation) in fair market value of investments .....	92,484	1,381	176,559	270,424
Securities lending income .....	450		537	987
Interest and dividend income .....	35,587	346	50,171	86,104
Total investment income .....	128,521	1,727	227,267	357,515
Less: investment expense .....	(3,822)	(27)	(4,546)	(8,395)
Net investment income .....	<u>124,699</u>	<u>1,700</u>	<u>222,721</u>	<u>349,120</u>
Total additions .....	<u>142,494</u>	<u>2,167</u>	<u>280,841</u>	<u>425,502</u>
<b>Deductions:</b>				
Retirement allowances .....	85,923	456	126,884	213,263
Death benefits .....	1,637		552	2,189
Administrative expenses .....	1,897	15	1,905	3,817
Other .....	184		25,589	25,773
Total deductions .....	<u>89,641</u>	<u>471</u>	<u>154,930</u>	<u>245,042</u>
Changes in net assets .....	52,853	1,696	125,911	180,460
Net assets — beginning of the year .....	<u>1,194,463</u>	<u>11,525</u>	<u>1,769,796</u>	<u>2,975,784</u>
Net assets — end of the year .....	<u>\$1,247,316</u>	<u>\$13,221</u>	<u>\$1,895,707</u>	<u>\$3,156,244</u>

**CITY OF BALTIMORE**  
**Combining Statement of Fiduciary Net Assets**  
**Agency Funds**  
**June 30, 2004**  
(Expressed in Thousands)

	Unpresented Stock and Coupon Bonds	Property Sold for Taxes	Bid Deposit Refunds	Waterloo Summit	Recreation Accessory	Total
<b>Assets:</b>						
Cash and cash equivalents .....	\$55	\$86	\$115		\$1,308	\$1,564
Investments .....				\$51		51
<b>Total assets .....</b>	<b>55</b>	<b>86</b>	<b>115</b>	<b>51</b>	<b>1,308</b>	<b>1,615</b>
<b>Liabilities:</b>						
Accounts payable and accrued liabilities .....	43					43
Other .....	12	86	115	51	1,308	1,572
<b>Total Liabilities .....</b>	<b>\$55</b>	<b>\$86</b>	<b>\$115</b>	<b>\$51</b>	<b>\$1,308</b>	<b>\$1,615</b>

**CITY OF BALTIMORE**  
**Combining Statement of Changes in Assets and Liabilities**  
**Agency Funds**  
**For the Year Ended June 30, 2004**  
(Expressed in Thousands)

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
<u>Unrepresented 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 .....	86			86
Total assets .....	86			86
Liabilities:				
Other .....	86			86
Total liabilities .....	86			86
<u>Bid Deposit Refunds</u>				
Assets:				
Cash .....	86	\$ 98	\$ 69	115
Total assets .....	86	98	69	115
Liabilities:				
Other .....	86	98	69	115
Total liabilities .....	86	98	69	115
<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 .....	51			51
Total assets .....	51			51
Liabilities:				
Other .....	51			51
Total liabilities .....	51			51
<u>Recreation Accessory</u>				
Assets:				
Cash .....	707	2,295	1,694	1,308
Total assets .....	707	2,295	1,694	1,308
Liabilities:				
Other .....	707	2,295	1,694	1,308
Total liabilities .....	707	2,295	1,694	1,308
<u>Total All Agency Funds</u>				
Assets:				
Cash .....	947	2,393	1,776	1,564
Investments .....	51			51
Total assets .....	998	2,393	1,776	1,615
Liabilities:				
Accounts payable and accrued liabilities .....	43			43
Other .....	955	2,393	1,776	1,572
Total liabilities .....	\$998	\$2,393	\$1,776	\$1,615

# Statistical Section



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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	\$280,380	\$434,567	\$176,159	\$26,966	\$224,218	\$27,159	\$53,199	\$159,481	\$36,569	\$12,646	\$134,031
2003	311,906	459,806	189,881	31,382	219,904	26,877	35,119	195,148	38,882	14,945	100,343
2004	406,520	462,910	195,024	36,822	219,932	27,251	36,326	201,980	34,151	15,150	96,964

Fiscal Year	Interest	Water	Waste Water	Parking	Conduit	Development Loans	Industrial Development	Total
2002	\$46,037	\$84,454	\$125,859	\$13,733	\$2,754	\$3,227	\$2,241	\$1,843,680
2003	41,271	97,883	132,785	13,060	3,075	3,202	1,660	1,917,129
2004	43,588	95,745	127,009	15,272	3,481	3,430	1,444	2,022,999

\* The last seven 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			Total
					Restricted to Specific Programs	Unrestricted Investment Income	Miscellaneous	
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
2004	379,420	477,870	107,075	821,701	169,703	25,032	24,195	2,004,996

\* The last seven 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
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
2004	991,404	28,154	506,192	44,953	15,480	24,865	24,000	1,635,048

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
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
2004	343,552	453,016	87,858	29,209	27,847	196,287	37,022	31,287	95,510	205,846	12,234	65,883	190,080	1,775,631

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
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
2004	523,226	510,710	97.6	14,235	524,945	100.3	(10,980)	14,209	2.7

Note:

- (1) Excludes State portion of delinquent property taxes, which at June 30, 2004 totaled \$859,000. 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	
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)
2004	17,844,363(1)	18,594,723	1,764,282	1,764,282	19,608,645(1)	20,359,005	96.3(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)
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
2004(4)	2.328	.013	2.341

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)
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
2004	33,258(23)	27,579(24)	60,837	1,558,528	3.9

Notes:

- (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.
- (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.
- (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.
- (23) Excludes \$2,951,000 in federal loans.
- (24) Excludes \$2,095,000 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)
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	17,715	514,195	2.7(1)	805
2004	642,700	19,608,645(1)	582,382	34,117(2)	18,099	530,166	2.7(1)	825

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, 2004 was:

Off-street parking facilities general obligation bonds and notes	
(portion reimbursable by private operators) .....	\$31,117
Water utility general obligation bonds .....	1,037
Waste water utility general obligation bonds .....	1,963
Total .....	<u>\$34,117</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			
					Principal	Interest	Total	Coverage
Water Utility .....	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
	2004	102,612	76,616	25,996	2,295	10,529	12,824	2.03
Waste Water Utility .....	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
	2004	125,942	104,859	21,083	4,660	9,595	14,255	1.48
Parking Facilities .....	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
	2004	53,539	7,447	46,092	4,355	11,999	16,354	2.82
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
	2004	4,579		4,579	2,010	2,596	4,606	.99

Notes:

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

**CITY OF BALTIMORE**  
**Computation of Overlapping Debt**  
**June 30, 2004**  
**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	
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	11,696,826
2004	1,693	857,269	444	16,083	6,613,109	12,788,355	9,306,158	

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, 2004 figure is unavailable.

**CITY OF BALTIMORE**  
**Principal Taxpayers**  
**For the Year Ended June 30, 2004**

(Dollars Expressed in Thousands)

**Unaudited**

Taxpayer	Type of Business	2004 Assessed Value	Percentage of Total Assessed Value
BGE (Baltimore Gas & Electric Company)	Power Utility	\$ 565,845	2.9%
Verizon—Maryland	Telephone/Communications	390,601	2.0%
Baltimore Center Associates, LTD Partnership	Real Estate	145,919	0.7%
Boston Properties, Inc.	Real Estate	134,360	0.7%
Harbor East Limited	Real Estate	103,342	0.5%
CSX Transportation, Inc.	Rail Road	77,236	0.4%
ABB South Street Associates	Real Estate	76,000	0.4%
TMCT, LLC	Newspaper	61,128	0.3%
Travis Real Estate Group	Real Estate	57,811	0.3%
U.S. Bank National	Financial Institution	55,205	0.3%
		<u>\$1,667,447</u>	<u>8.5%</u>

**CITY OF BALTIMORE**  
**Demographic and Miscellaneous Statistics**  
**For the Year Ended June 30, 2004**  
**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.	

Infrastructure:

Police Stations	9
Fire Stations	39
Street miles	2,000
Storm Drain miles	2,000
Sanitary Sewer miles	3,100
Park acreage	5,827
Recreation Facilities:	
Zoo (attendance)	463,000
Arena (attendance)	629,000
Aquarium (attendance)	1.5 million
Pools and Water Play facilities	44
Golf Courses	5
Ice Rinks	2
Indoor Soccer Fields	2
Library Facilities	22
Volumes (millions)	2.7
Circulation (millions)	1.4
Other Facilities (attendance):	
Oriole Park at Camden Yards	2.7 million
M & T Bank Stadium (Baltimore Ravens)	745,000
Convention Center	583,000
Baltimore Museum of Art	269,000
Walters Art Museum	215,000
Meyerhoff Symphony Hall	386,000

**Principal Public Service Departments**

Department	Full Time Budgeted Positions		
	FY2004	FY2000	FY1996
Police	4,030	4,160	3,594
Fire	1,737	1,830	1,985
Public Works	3,548	5,680	4,408
Recreation and Parks	368	321	803
All Other Employees	5,702	4,162	6,457
<b>Totals</b>	<b>15,385</b>	<b>16,153</b>	<b>17,247</b>

**Economy**

	FY2004	FY2000	FY1996
Retail Sales (in billions)(1)	\$ 5.1	\$ 4.7	\$ 3.8
Income/Cap(2)	(3)\$ 26,702	(3)\$ 24,750	\$ 22,682
Total Employment	(4) 267,106	(4) 274,059	287,002
% Unemployment	(4) 8.1%	(4) 7.1%	8.3%
Office Vacancy Rate	16.1%	8.4%	21.9%
Real Property Tax Rate	(5)\$2.328/100	\$5.82/100	\$5.85/100

(1) FY1996 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 2003 is 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)311.1
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 2004.  
(3) Imputed from 1970 ratio to population.



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City of Baltimore  
Martin O'Malley, Mayor

*The Greatest City in America*