

City of Baltimore *Maryland*



Comprehensive Annual Financial Report
Year Ended June 30, 2005

City of Baltimore, Maryland

Comprehensive Annual Financial Report

Year Ended June 30, 2005

Prepared by the Department of Finance

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ELECTED OFFICIALS

MAYOR

Martin O'Malley

PRESIDENT OF THE CITY COUNCIL

Sheila Dixon

COMPTROLLER

Joan M. Pratt

BOARD OF ESTIMATES

PRESIDENT

Sheila Dixon

MAYOR

Martin O'Malley

COMPTROLLER

Joan M. Pratt

DIRECTOR OF PUBLIC WORKS

George L. Winfield

CITY SOLICITOR

Ralph S. Tyler

CITY COUNCIL

Sheila Dixon, *President*

Stephanie C. Rawlings, *Vice-President*

FIRST DISTRICT

James B. Kraft

SECOND DISTRICT

Nicholas D'Adamo, Jr.

THIRD DISTRICT

Robert Curran

FOURTH DISTRICT

Kenneth N. Harris, Sr.

FIFTH DISTRICT

Rochelle "Rikki" Spector

SIXTH DISTRICT

Stephanie Rawlings Blake

SEVENTH DISTRICT

Belinda Conaway

EIGHTH DISTRICT

Helen Holton

NINTH DISTRICT

Agnes Welch

TENTH DISTRICT

Edward Reisinger

ELEVENTH DISTRICT

Keiffer Jackson Mitchell

TWELFTH DISTRICT

Bernard "Jack" Young

THIRTEENTH DISTRICT

Paula Johnson Branch

FOURTEENTH DISTRICT

Mary Pat Clarke

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Introductory Section



- **Letter of Transmittal**
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- **Organization Chart**

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CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor



DEPARTMENT OF FINANCE

EDWARD GALLAGHER, Director
469 City Hall
Baltimore, Maryland 21202

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

December 6, 2005

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, 2005. 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, 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 a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors in the Financial Section of the CAFR.

The City Charter established a Department of Audits under the general supervision of the City Comptroller. The Charter requires the City Auditor to "annually make a general comprehensive public report of the financial position of the City; in the discretion of the Comptroller, such report may be in the form of an opinion on the annual financial statements prepared by the Director of Finance." The Comptroller has elected to have the City Auditor render an opinion as to the fairness of the Director of Finance's presentation of the City's basic financial statements. Additionally, the Board of Estimates awarded a contract to the nationally recognized independent certified public accounting firm, Ernst & Young LLP, to perform a joint audit with the City Auditor of the basic financial statements of the City for the year ended June 30, 2005. Their joint audit report is contained herein. Their audit was conducted in accordance with auditing standards generally accepted in the United States and, for the basic financial statements of the City, the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. On the basis of this examination, the independent auditors have issued an unqualified opinion that the presentation of the basic financial statements conforms with accounting principles generally accepted in the United States. In conducting the audit, the auditors performed tests of the accounting records and such other procedures as were considered necessary in the circumstances to provide a reasonable basis for this opinion on the financial statements. The auditors also assessed the accounting principles used and significant estimates made by management, as well as evaluated the overall financial statement presentation.

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

This report includes all of the funds that we consider to be part of, controlled by or dependent on the City. Professional judgment must be used to determine whether or not a potential component unit should be included in the reporting entity. Various potential component units were evaluated to determine whether they should be reported in the City's CAFR. 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 Thurgood Marshall Airport in adjacent Anne Arundel County. The City is almost completely surrounded by Baltimore County, a separate entity, which borders the City on the east, north, west and part of the south. Anne Arundel County adjoins the City on its southern border.

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

Under the 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, 2005.

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 355,000 or 29.2% of the 1.2 million jobs in the metropolitan area are located in the City. The recent decision 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.

With regard to the employment market, the City has been less reliant for several decades on traditional manufacturing industries than other jurisdictions. Manufacturing jobs comprise only 5.2% of the City's jobs. This is a lower percentage than the region, the state and the nation. Nearly 25% of the jobs located in the City are in health-related 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, six are health and education-related entities, two are service providers, and two are financial institutions. The City derives economic strength from the knowledge and information-based industry sectors of health, education, and information services.

An increasing number of knowledge-based workers and residents of the Washington, D.C. and Northern Virginia area commute to jobs from homes in Baltimore. 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 2005.

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.

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. Since 2001, however, the rate of population loss has rapidly declined, with the City's resident population beginning to stabilize. The latest U. S. Bureau of the Census population estimate is 636,251 for July 1, 2004. Based on this estimate, the three-year period 2001 to 2004 averaged a decline of 252 per month. This is a dramatic change from the prior three decades. It positively reflects the City's efforts to address the problems associated with being the State's oldest 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 in 2005, estimated to be about \$2.1 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, historic property rehabilitation, and job creation projects are also used.

Local Economic Outlook

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

Data from the U.S. Bureau of Labor Statistics (BLS) for the period ending March 31, 2005, the most recent reliable data available, indicates a leveling off in the job loss that the City has experienced since 2000. The BLS reports that the 357,500 jobs located in the City as of March 2005 represented a slight 0.1 percent increase compared to March 2004. Employment most recently peaked at 387,600 in calendar 2000 and declined dramatically annually until calendar 2004. During 2004, the rate of job loss declined steadily as the City made ground toward stabilizing its job base. The resident unemployment rate for Fiscal 2005 declined slightly to 7.4% compared to 7.5% in Fiscal 2004. This stabilization in the rate of change in jobs will hopefully be sustained and provide a new base for job growth.

Retail Sales

Retail sales reported by the State of Maryland for the City grew from \$5.07 billion in Fiscal 2004 to \$5.35 billion in Fiscal 2005, a healthy increase of 5.5%. 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 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 sites to apartments, condominiums, town homes and single-family homes continues to be very strong. In fiscal 2005, single-family home sales through the multiple listing services reflect strong positive trends as the percentage in total dollar sales volume increased in calendar 2004 by 45.3% compared to 2003 and the average selling price increased by 19.6%. Both rates of change were greater than the metropolitan area. The number of units sold increased 20.8%, nearly doubling the region's 11.6% increase. The apartment market in the City is robust as well. In Fiscal 2005, over 700 newly constructed apartments opened or were near completion in the downtown area. This brings the total number of new apartments built downtown to 2,394 since 1999. Nevertheless, an increase in interest rates and the possible bursting of what some see as a real estate bubble are a concern in Baltimore as they are nation-wide.

Port

Port activity is sensitive to factors that affect world trade, the state of economies abroad, currency markets and other factors. Calendar year 2004 was a strong year for the port and 2005 has continued to show positive trends. Total tonnage at the Port increased by more than 10% during Fiscal 2005. Additionally, for calendar year 2004, the Port maintained its eighth position nationwide in total value of cargo, its position as the number one "roll on / roll off" port in the nation, and for the second year in a row, its number two position in the nation in importing and exporting vehicles. While not a major container port, the number of containers increased by 12.9% during Fiscal 2005. International foreign policy and economic factors will determine the near term outcome, but assuming no major changes, the outlook is positive.

Tourism and Travel Industry

Positive signs are reflected in air and cruise boat travel. In calendar year 2004, about 20.3 million passengers used Baltimore Washington International Thurgood Marshall Airport. Cruise ships utilizing the Port of Baltimore in 2004 increased by about 50% the number of ships calling in comparison to 2003. The hotel occupancy rate increased from 66.5% in calendar year 2003 to 68.8% in 2004. The City's hotel, convention center and admissions and amusement tax receipts, which each declined in Fiscal 2004, increased during Fiscal 2005. While events at the Baltimore Convention Center declined from 195 in Fiscal 2004 to 182 in Fiscal 2005, the Baltimore Area Convention and Visitors Association has an aggressive agenda for boosting the number of convention bookings going forward.

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 from 14.6% in Fiscal 2003 to 16.1% in Fiscal 2004, registered a decline to 11.5% at the fourth quarter of Fiscal 2005. There is also 510,000 square feet of office space under construction that will increase the City's inventory to 25.8 million square feet in the near future.

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 accomplishments in Fiscal 2005 follow:

- The Mayor and City Council implemented a historic revenue package as part of the Fiscal 2005 budget. In an effort to begin to address the City's fiscal challenges as well as to diversify the City's tax base, which relies heavily on traditional property tax and income tax revenues, the City implemented three key revenue measures. These measures included an expansion of the Energy Tax, which is based on units consumed and now includes nonprofit customers, manufacturers as well as non-manufacturing businesses, and residents; an increase in the Recordation Tax rate from \$2.75 to \$5.00 per \$500 of consideration; and an expansion of the Telecommunications Tax to include not only land lines but also wireless accounts. These measures added a total of \$30 million to the Fiscal 2005 budgeted General Fund revenues. The measures also helped enable the Administration in the spring of 2005 to announce a plan to gradually reduce the City's real property tax rate—which is twice as high as any other Maryland county's rate—by a modest 2 cents per year for the next five years.
- Due to unexpectedly high revenue growth in Fiscal 2005, fueled primarily by the strong activity in the real property market in Baltimore City during this period, the City re-allocated \$37.5 million of surplus General Fund revenues in

Fiscal 2005 towards high priority needs. Of this total, \$14.4 million or nearly 38 percent, was allocated towards child-related programs including enhancements to after-school programming through which City contributions are expected to elicit further private, State and Federal funding in future years. The remaining funds were allocated to public safety capital needs including an investment of \$4 million in the expansion of the City's use of closed-circuit television cameras—a key factor in the Administration's efforts to reduce violent crime—as well as allocations to important infrastructure needs including the replacement of fully-depreciated fleet equipment and replacement of the City's aging financial systems.

- In May 2005, Fitch Ratings assigned an 'A+' rating to the City's general obligation bonds and removed a negative outlook. The negative outlook had been assigned a year earlier out of precaution after the City made an emergency loan to the Baltimore City Public School System (BCPSS) equal to \$42 million, representing 75 percent of the City's budget stabilization reserve, in order to alleviate a cash flow shortage at the BCPSS. The BCPSS made its first repayment of \$34 million according to schedule in August 2004 and is on target to repay the remainder of the loan according to schedule in Fiscal 2006. In its statement affirming Baltimore City's 'A+' rating and removing the negative outlook, Fitch wrote:

“The 'A+' rating reflects...the city's conservative budgeting practices, moderate debt levels, and its demonstrated ability to deal with ongoing fiscal pressures...Baltimore's financial management is excellent.”
- The City continues to seek the lowest cost financing options for debt issuance. In Fiscal 2005 the City utilized the State clean water revolving loan program for waste water capital project funding. The City borrowed \$38.0 million from the loan program at a true interest cost of approximately 1.0%. These loan funds are being used to finance City sewer system rehabilitation projects to eliminate sanitary sewer overflows and combined sewer overflows as required by a Consent Decree voluntarily entered into among the City, the Maryland Department of the Environment, the U.S. Environmental Protection Agency, and the U.S. Department of Justice.
- In addition, in December 2004, the City participated in a \$30 million County Transportation Revenue Bond issued by the State of Maryland Department of Transportation. This program is an “AA” credit that dedicates the City's share of Highway User Revenues as repayment for the bonds. Proceeds of this issue will fund a backlog of citywide transportation projects.
- Tax sale processes continued to be improved and enhanced, with the second year of a competitive sealed bid for bundled sets of properties. As a result of the improvements made over the past two years, proceeds from the annual tax sale increased by \$7.3 million or 59 percent in Fiscal 2005, with total proceeds of \$19.7 million compared to \$12.4 million in Fiscal 2004.
- The City continued to enhance the administration of the Workers Compensation program by holding managers throughout City government accountable for the timely reporting of claims and for the occurrence of on-the-job injuries in the first place. The City reduced the number of Workers Compensation claims filed by 19 percent in Fiscal 2005 compared to three years earlier (4,905 claims in Fiscal 2002 v. 3,988 in Fiscal 2005), and reduced the amount of incurred costs for those claims (as of June 30th of each year) by 54 percent. Furthermore, the percentage of Workers Compensation claims that were reported to the claims administrator within five days from the date of incident increased from 50 percent in Fiscal 2004 to 66 percent in Fiscal 2005 for the eight large agencies that generate the majority of the City's claims.
- The City's Finance Department supported the extraordinary amount of activity in the local real estate market during Fiscal 2005 by producing a record number of lien certificates and processing a historically high amount of transfer tax collections. These real estate transaction revenues were a significant factor contributing to the City's General Fund budget surplus in Fiscal 2005, which is discussed earlier in this section. The City's Lien Processing Unit increased its output of lien certificates by 29 percent over the past three years in order to meet the heavy demand. Lien certificates processed increased from 44,729 in Fiscal 2003 to 51,229 in Fiscal 2004 and 57,510 in Fiscal 2005. Similarly, the Transfer Tax Unit increased its output of transfers processed by 38 percent, increasing the amount of transfer tax collected by 79 percent over the past two years. Transfer Tax collections increased from \$26.0 million in Fiscal 2003 to \$31.7 million in Fiscal 2004 and \$46.6 million in Fiscal 2005.
- The Finance Department continues to work with City agencies to shorten the amount of time it takes the City to process and pay vendor invoices. The average number of calendar days for total processing dropped by 28 percent from 60 days in Fiscal 2004 to 43 days in Fiscal 2005.
- The City completed the second phase of a three phase-payroll system project to replace a thirty-year-old mainframe-based system. The scope of the project is to replace the time and attendance reporting function of the payroll system. This initiative is modernizing one of the City's most basic business practices—how it pays its employees—and will

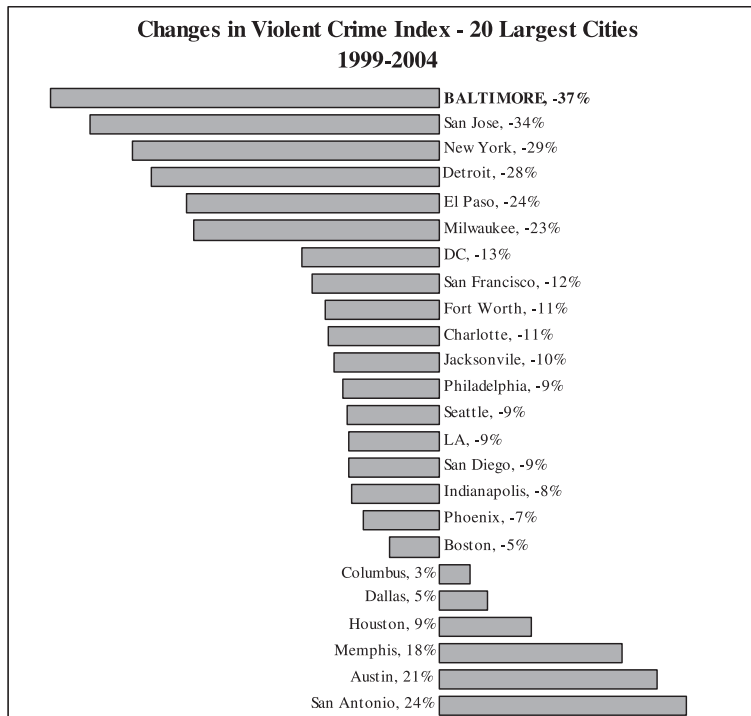
be the first step in replacing the entire payroll system. By the end of Fiscal 2005, more than 2,400 City employees had been converted to electronic time and attendance reporting. The rest of the City's non-uniformed employees were converted to the new system by the end of the first quarter of Fiscal 2006, and the final phase, to be completed by the end of Fiscal 2006, involves 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 positive outcome of effective financial management is evident in the City's General Fund Balance position which continued to improve substantially in Fiscal 2005. An addition of \$6.0 million was made to the budget stabilization fund, which, at June 30, 2005, had a balance of \$65.7 million. When combined with the undesignated unreserved fund balance of \$10.1 million, the total of \$75.8 million comprises about 6.8% of General Fund revenues, a major step to strengthen the City's balance sheet. Meeting and surpassing the City's standard 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. Baltimore, like many older cities is faced with many challenges: population loss, an unemployment rate which remains well above the state and national average, wealth levels that are well below the state and national average, and a population which includes a disproportionate number of citizens facing issues ranging from mental illness, homelessness, addiction, affordable housing and crime.

The following sections will highlight key Fiscal 2005 actions and accomplishments towards meeting the Administration's five major objectives.



Objective 1: Make Baltimore a safe, clean city

Crime Reduction

Budget priorities are driven by the concerns associated with the fear and reality of crime. Making Baltimore a safe city is one key component to reversing the City’s population and job loss. In the last four years, the number of murders has been well below 300, a barrier that had not been broken for over a decade. Since 1999, Baltimore City has led the nation in the rate of reduction of violent crime for the 24 largest American cities, with a 37 percent reduction in incidents of violent crime between 1999 and 2004.

- During Fiscal 2005, the General Fund continued to add support for police positions formerly funded by federal grants, absorbing 90 positions at a cost of \$4.6 million. This was after absorbing 129 positions at a cost of \$6.8 million in Fiscal 2004. The absorption of these grant funded positions highlights the importance given to public safety needs.
- During Fiscal 2005, the Police Department refined its crime-fighting strategy around the concept of “mini” police districts. The objective of the mini-districts is to reduce violence with a focus on homicides and shootings. The mini-districts were drawn by identifying three areas within the Eastern, Western and Northwestern City police districts where areas of historically concentrated violence, including homicides and shootings have occurred.
- Discretionary mobile resources, including the Organized Crime Division, Traffic Enforcement, K-9 unit, Quick Response Teams, and the Aviation unit concentrate on these mini-district areas. The Patrol Division, Housing and Detectives units continue to deploy Citywide. Approximately 73 sworn personnel were assigned specifically to the mini-districts, working the hours of highest crime. Results of the mini-district deployment have been positive. In less than seven months, violent crime in those areas was reduced 19.0% compared with the prior seven months, including a 45.0% reduction in homicides and 47.0% reduction in non-fatal shootings.
- Key City agencies such as Public Works, the Department of Housing and Community Development (DHCD), Transportation, and Health began in Fiscal 2005 to target resources into the mini-districts to address priority service issues such as clearing dirty alleys and lots of debris, improving the street lighting, trimming overgrown trees to improve visibility, boarding vacant buildings, eradicating rats and sweeping dirty streets and alleys. In six months, over 12,000 service requests in these areas were addressed, leaving the mini-districts not just safer but also more livable.

Homeland Security

A major challenge facing cities nationwide is homeland security; the goal is to make Baltimore one of the most prepared cities in the United States. Since September 11, 2001 through January 1, 2005 the City had allocated an estimated \$41.7

million on homeland security expenditures. This amount included \$23.0 million in local City funds, and \$18.7 million in Federal and State grants. The City has also shared in three urban Area Security Initiative grants—\$10.9 million in Fiscal 2003, \$15.6 million in Fiscal 2005, and \$11.2 million in Fiscal 2006 with six partners including five surrounding counties and the City of Annapolis.

Areas of expenditure include the purchase of protective equipment to defend against chemical and biological terror attacks for firefighters and paramedics, police boats for port security, a new fireboat, helicopter video surveillance, closed circuit television cameras and miscellaneous equipment. Other uses include salaries for epidemiological staff and biosurveillance, training exercise expenses and reimbursement for security costs associated with heightened periods of alert.

Other initiatives toward making Baltimore a safe, clean City in Fiscal 2005 included the following:

- The City increased funding for the fifth consecutive year for the State’s Attorney’s Office. Since Fiscal 2000, the State’s Attorney’s Office budget increased by nearly \$7 million or 38 percent between Fiscal 2000 and Fiscal 2005, with a further increase of \$3.2 million in Fiscal 2006.
- The Mayor’s Office of Information Technology (MOIT) received an additional \$4.0 million from the Fiscal 2005 surplus to expand the City’s closed circuit television (CCTV) program. This includes the acquisition and implementation of approximately 100-125 cameras. Camera locations are determined by the Police Department through the use of extensive crime analysis. CCTV, in conjunction with other Police crime-fighting strategies and tactics, will tend to reduce criminal activity, thereby enhancing the safety and security of residents, workers and visitors.
- Since much of the City’s crime is drug-related, substance abuse treatment efforts have been as important to the City’s battle against violent crime as traditional crime-fighting techniques. Toward the goal of the reduction of violent crime, the City has increased dramatically the treatment resources available for City residents since Fiscal 1998. Substance abuse programs are managed through the use of public and private resources under the aegis of the Baltimore Substance Abuse Systems, Inc.:

Fiscal Year	Treatment		Total Funding
	Slots	Treatments	
1998	5,763	17,986	\$28.3 million
1999	6,448	18,136	\$31.4 million
2000	6,515	18,118	\$29.4 million
2001	7,484	19,558	\$46.0 million
2002	7,598	22,274	\$48.1 million
2003	8,544	25,337	\$60.3 million
2004	8,042	24,211	\$56.9 million
2005	7,506	23,320	\$52.9 million

- Illicit drug overdose deaths reached a five-year low in 2004, showing a 19% decline from 2000. In 2004, 261 deaths were attributed to illicit drug overdose, down from 321 deaths in 2000. This decline is due, in part, to the tremendous efforts of the City’s Staying Alive program, which trains injection drug users to reverse opiate overdoses in their peers and partners. The Staying Alive program was launched in April 2004, funded by The Open Society Institute and the City.
- The City’s adolescent drug treatment programs continued to show strong results in the areas of arrests, education, and employment. The City’s Health Commissioner announced in May 2005 that in 2004, for all adolescents discharged from drug treatment, there was a 77% decrease in arrest rate, as well as a 68% improvement rate in education or employment, and an 89% retention rate for education and employment.
- Homicide is the leading cause of death for 15 to 24 year olds in Baltimore City. The Health Department’s Operation Safe Kids (OSK) Program takes an exciting and innovative approach to targeting 13-18 year olds, under community-based Department of Juvenile Services supervision, who live in neighborhoods with disproportionately high rates of violent crime. Since its inception in 2002, OSK has achieved a 43.0% reduction in arrests, placed 75.0% of eligible youth in jobs and ensured that 92.0% of youth receive needed mental health treatment. With an additional \$1.0 million from the Fiscal 2005 surplus, OSK has doubled its caseload capacity from approximately 87 youths to approximately 174 youths.
- The Baltimore Truancy Assessment Center (B-TAC) was established to address the issue of truancy in Baltimore City Public Schools. B-TAC was developed, reviewed and implemented by the BCPSS and its school police force in a collaborative effort with the Baltimore City Police Department and the State Departments of Social Services and Juvenile Services to intervene with truant students, and to address the many underlying social and personal reasons

why students are truant from school. B-TAC is unique in its combination of law enforcement officials working with a team of counselors under one roof. For the school year 2004-2005, the center served 1,873 students, an average of 10 students per day. School attendance increased by 34.0% among the students that visited the center, and truancy rates system-wide decreased.

- The cleaning and boarding of vacant and abandoned houses in the City is a proven deterrent to crime. In Fiscal 2005, the City supplemented the Department of Housing and Community Development's cleaning and boarding activity with an extra \$1.0 million from the Fiscal 2005 surplus. These funds are being used to provide an additional estimated 6,000 cleanings through the use of private contractors and will help the Department to eliminate its standing backlog of requests for the cleaning of vacant property.

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. Investment in education and health is a necessary starting point to secure a promising future. Innovation is essential and the use of management and accountability tools have been applied aggressively. Fiscal 2005 actions include the following.

- Funding for the BCPSS in Fiscal 2005 was \$207.6 million; the General Fund local share component is \$197.8 million, an amount which exceeds the State mandated Maintenance of Effort requirement by \$4.0 million and represents a per pupil funding increase. The City has partnered with BCPSS to improve the interior and exterior conditions of school facilities. Through the Fiscal 2005 surplus, \$3.0 million was provided to assist with custodial and maintenance needs. In addition to these dedicated funds, beginning in Fiscal 2005, City agencies conducted weekly inspections that helped eliminate work orders and other 311 service requests for BCPSS. To build management capacity and increase productivity, City managers and BCPSS facilities managers began participating in "Facilities Stat" meetings each week in order to review crew performance and develop new strategies for improving service to all school buildings.
- In Fiscal 2005, the City contributed \$16.0 million in General Obligation Bond funds to the capital budget for the BCPSS. City funding of \$32.0 million over Fiscal 2004 and 2005 represents an increase of 33% over the total funding for Fiscal 2002 and 2003, signaling improved educational facilities as a clear priority of the current Administration.
- In Fiscal 2005, \$1.5 million from the Fiscal 2005 Ordinance of Estimates as well as \$4.6 million from the Fiscal 2005 General Fund surplus was allocated to fund after school programs. It is estimated that 4,000 children are served by these initiatives. The After School to Community School Initiative (ASCSI) is the major recipient of these funds. The long term goals for this initiative are to establish a number of extended service community schools strategically across the City, which bring resources, opportunities and services into school buildings, enrich student achievement, and better support the students, their families and communities as they grow and thrive.
- Youthworks, the City's summer jobs program for City youth, helps young people ages 14-21 find summer employment in a variety of settings. Fiscal 2005 provided \$2.3 million for this program, including \$1.1 million from the Fiscal 2005 budget and \$1.2 million from the Fiscal 2005 surplus. For every \$1,000, a participant is provided meaningful summer employment for six weeks.
- The vast majority of homes in Baltimore City were built before 1950, almost guaranteeing that they contain lead paint and more than 3,000 City children are exposed each year. Through enforcement, abatement and education efforts, the Health Department has reduced the incidence of lead poisoning among infants to three-year olds by 65.0% since 1999.
- Fiscal 2005 surplus funds in the amount of \$1.0 million were allocated to the Department of Recreation and Parks to complete Heating, Ventilation and Air Conditioning (HVAC) repairs at ten recreation centers. These repairs will positively impact the agency's ability to continue quality programming throughout the summer and winter months and to ensure that all participants are comfortable and fully engaged in quality recreation activities.
- Since 1999 the Department of Recreation and Parks has constructed or renovated 96 playgrounds. There are currently 21 additional playgrounds planned for renovation/construction. The long-term goal is to renovate or construct an additional 70 playgrounds so that all schools and/or parks will have playgrounds.
- In June 2005, Baltimore's first newly constructed recreation center in 20 years was opened. The Edgewood Recreation Center, a \$765,000 facility, was funded by \$500,000 in Federal grant funds and \$300,000 of City General

Funds. Located in Lyndhurst Park, this recreation center will attract residents from the surrounding neighborhoods of Allendale, Irvington and South Hilton. These neighborhoods consist of 2.3 square miles and include over 18,000 people. The center will offer general recreational programming for youth as well as a host of seasonal activities.

Objective 3: Make government responsive, accountable and cost effective

Baltimore City's CitiStat Office continued to serve as the primary management tool for the government during Fiscal 2005. The CitiStat program, which is based on the same concept and underlying principles as the ComStat crime-fighting program in New York City, provides a layer of accountability and operations analysis that has become an integral part of the day-to-day operations and decision-making in Baltimore City government. During CitiStat sessions, strategies are developed and employed, managers are held accountable, inter-agency cooperation is fostered, and results are measured bi-weekly. Though in existence just five years, CitiStat has already produced a profound impact on operation and management of City government by establishing a culture of accountability and creating a framework within which the policy, operational and financial impacts of critical decisions can be rapidly evaluated. It is conservatively estimated that the CitiStat program has produced over \$140.0 million in positive financial impacts for the City.

- In 2005 CitiStat was awarded the Government Finance Officers Association's (GFOA) Excellence in Government award. This award recognizes contributions to the practice of government finance that exemplify outstanding management. The award stresses practical, documented work that offers leadership to the profession and promotes improved public finance.
- In July of 2004 CitiStat won the prestigious Innovations in American Government Award from the Ash Institute for Democratic Governance and Innovation at Harvard University and the Council for Excellence in Government. CitiStat was selected from among nearly 1,000 applicants for this award. For 17 years, the Innovations in American Government Award has recognized quality and responsiveness at all levels of government, honored government efforts that are creative, effective and address significant problems, and has fostered the replication for innovative approaches to the challenges facing government.
- During Fiscal 2005, the Police Department implemented a plan to drastically reduce the number of police officers performing administrative duties under "limited/light duty" status. These officers were relegated to non-enforcement duties that did not require police authority, thereby draining on-street personnel strength from the patrol districts. As of August 2005 the number of officers in permanent limited/light duty status had been reduced from a high of 169 a year earlier to 59—a reduction of 65%. The administrative duties formerly performed by these limited duty officers are now performed by a combination of retired officers serving under contract, civilian employees better suited to the duties and police cadets. As a result of these efforts, on-street, full-duty patrol strength has been enhanced with an increase of 96 officers deployed on the street.
- The City invested a total of \$9.5 million, including \$5.5 million from the Fiscal 2006 Ordinance of Estimates and \$4.0 million from the Fiscal 2005 General Fund surplus, into the replacement of aging motor vehicle equipment, which will significantly improve operational efficiency by increasing overall vehicle availability. Across targeted classes, the average age will be reduced by two years and the fully depreciated units will be reduced by 15.6%. It is expected that savings derived from deferred maintenance and repair costs will exceed \$1.8 million annually.

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

- The City's East Baltimore Development Initiative (EBDI), a cooperative effort among the City's Department of Housing and Community Development, Maryland State Government, and the Johns Hopkins Institutions, is laying the groundwork for the City's east side's future. EBDI's objective is to create a privately-owned biotechnology center north of the Johns Hopkins Medical Institutions and to revitalize the surrounding neighborhoods through the construction and selective renovation of homes and commercial properties. Expected results include 8,000 new jobs and over 2,000 new and rehabilitated properties. The strategy is to simultaneously develop a new biotech building, to create a mixture of new and restored properties for a mix of family incomes north of the biotech building, and to rehabilitate vacant substandard homes in surrounding neighborhoods. Development is planned in three phases over 10 years. In December 2004, the EBDI Board of Directors selected Forest City-New East Baltimore Partnership, LLC to develop thirty acres in the first phase of the 80-acre mixed-use community adjacent to Johns Hopkins Medical Campus. Project activities in the first phase will include the development of life sciences and office space, 850 mixed-income residential housing units, retail and parking spaces, and more than three acres of parks and public green spaces.

- The Baltimore Development Corporation (BDC) is leading the City's West Side Initiative, anchored by the restored Hippodrome Performing Arts Center and several new residential and mixed-use projects. This effort is transforming the long-neglected Howard Street district into an urban showplace by building on the strengths of the University of Maryland at Baltimore, University of Maryland Medical Center, and historic central business district.
- BDC's mission is to stabilize and expand the City's job base by retaining existing City-based employers and helping them grow. In calendar year 2004, BDC directly assisted 140 small, medium and large companies accounting for 4,832 jobs retained and created. Since 2000, BDC has assisted over 500 businesses and development projects, resulting in the retention and creation of more than 27,000 jobs. On average, 80.0% of the businesses and projects assisted by BDC in any given year are located outside of downtown in Baltimore's industrial areas, retail districts, and neighborhoods. In 2006, with approval from the Mayor and City Council, BDC will eliminate blight and assemble property in industrial and commercial districts to create new development opportunities. Target areas include Westside of downtown, Gateway South, Fairfield Industrial Area, Oldtown, Washington Village commercial district, Charles North Arts and Entertainment districts, Howard Park retail district and Lauraville.
- The Mayor's Office of Employment Development received \$250,000 from the Fiscal 2005 General Fund surplus for its Ex-Offender Program. This program offers ex-offenders a menu of workforce development activities, including pre-employment workshops, group counseling, needs assessment and placement services.
- The Mayor's Office of Minority Business Development was established in April 2001 with a stated mission of creating wealth and opportunities for minority and women-owned businesses through City contracting practices. Board of Estimates contract awards to minority and women-owned businesses increased nearly 46.0% from \$44.7 million in 2000 to \$83.1 million in 2004. More importantly, a large number of minority and women-owned businesses are developing ownership stakes in major development deals in the City. To date, 24 of 45 (53.0%) BDC projects receiving support from the City include minority ownership.
- The Baltimore Area Convention and Visitors Association (BACVA) received \$500,000 from the Fiscal 2005 General Fund surplus to fund a Convention Center Opportunity Fund. A state-led task force ("The Schaefer Commission") studied ways to draw more conventions to the City of Baltimore. These funds will be used as a resource to pursue and help close highly valued convention deals.

Objective 5: Create stable and healthy neighborhoods

- Project 5000, an initiative under DHCD whose goal is to acquire 5,000 vacant and abandoned properties and lots in Baltimore City and return them to productive use, exemplifies this Administration's efforts to provide attractive and affordable housing in safe, stable neighborhoods. Under the supervision of Baltimore Housing, the City has partnered with the legal and real estate communities to guide this monumental task, with the intention of assembling land to spur new private investment. As of the fall of 2005, 5,725 acquisitions had been completed, representing a ten-fold increase in the number of annual acquisitions and dispositions, with an average acquisition time of 8 months compared to 18 months prior to Project 5000.
- In April 2005, Baltimore City joined with local investors to announce a major redevelopment program for Baltimore's Poppleton neighborhood to include 14 acres of new and rehabbed housing. What is particularly significant about this development is that it was inspired by the 3,000 new jobs being created by the expansion of the University of Maryland BioPark. The partnership will redevelop 300 vacant lots, nearly 80 vacant buildings, and 500 properties, 175 of which were acquired through Project 5000. The total project investment is estimated at \$70 million, with completion slated for 2007.
- In May of 2003, the City acquired the 52-acre Uplands Apartments site from the U.S. Department of Housing & Community Development with the intent of developing a new mixed income neighborhood that offers a modern, urban housing product for the region's middle class, yet retains affordable rental and for-sale options for lower income families. Baltimore Housing engaged national award winning design and market analysis firms to master plan the site with the full engagement of the surrounding community. The master plan calls for the development of 696 new units, including 481 affordable and market-rate for sale units. Phase Two of the development project entails construction of approximately 450 for sale housing units on two nearby sites – the former Gundry Glass estate and the New Psalmist Baptist Church campus. This additional 34 acres will provide an opportunity to support significant homeownership development and to stabilize the surrounding community and property values.
- In October 2004, the City announced its plans to redevelop over 750 vacant and blighted housing units in the City's Claremont neighborhood. A massive redevelopment plan will combine the 15-acre Freedom Village apartments site

with the nearby 43-acre Claremont Homes public housing site and offer both to developers. The project will include the development, construction, ownership and operation of more than 340 units of mixed income family rental and for sale housing. Financing for the project includes an \$8.2 million grant from FHA, City HOME funds, City infrastructure funds, and private investment. Affordable rental units constructed on the site will be made available to Claremont public housing residents and other public housing residents in Baltimore who have been displaced by development activity. Over half of the units will be marketed to middle and upper income families to achieve economic diversity and stability in the new neighborhood.

- The Fiscal 2005 General Fund surplus provided an additional \$1.0 million to DHCD to supplement its demolition program. Together with \$1.9 million from the original budget, the total amount allocated from Fiscal 2005 was \$2.9 million. The funds are used to demolish properties in areas identified as code enforcement priority including blight elimination or development priority.
- Recently, DHCD, working cooperatively with the Office of Real Estate in the City's Comptroller's Office, the Greater Baltimore Board of Realtors, and the Baltimore Economic and Efficiency Foundation, launched an initiative to sell City-held assets through the Multiple List Service, utilizing private brokers. This initiative is known as "Selling City Owned Properties Efficiently" or SCOPE. During Fiscal 2005, SCOPE sales generated nearly \$1.3 million in proceeds for the City. These funds are being used in Fiscal 2006 to cover the operating expenses associated with the City's asset management functions within DHCD.
- The Fiscal 2005 surplus provided \$1.5 million to the Enoch Pratt Free Library for capital improvements to neighborhood branch libraries, purchase of books and materials, and funding to help support a marketing campaign aimed at increasing the public's awareness and usage of the Library's services. The City's Capital Improvement Program in Fiscal 2005 also supported a \$60 million renovation of the Central Library to include upgrades to the safety and telecommunications systems, as well as improved plumbing and HVAC. To date, a total of \$5.35 million in City General Obligation bond funds have been allocated to support the Central Library renovation.
- The Department of Recreation and Parks received Fiscal 2005 General Fund surplus funds in the amount of \$600,000 to replace aging mower and park maintenance equipment. The purchase of this equipment will impact the Bureau of Parks' efficiency and performance to include reduction in grass cutting service requests and other park maintenance efforts that have been slowed down due to the poor condition of some of its current equipment. This additional funding will assist the Department's objective to make City parks safe, clean and beautiful.
- In 2003, the Department of Recreation and Parks developed the Office of Partnerships to promote public and private partnership to assist in increasing the quality of city parks for public use. These partnership initiatives help to create, restore and improve parks, greenways and trails, allowing the city to make some significant improvements to park grounds, develop public programs and to encourage groups to become active stewards. In two years, the Office of Partnerships has engaged 22 official partners and continues to grow by fostering positive relationships with neighborhood, civic, nonprofit organizations and local businesses. Through Fiscal 2005, the estimated combined total in contributions, including in-kind and cash contributions, exceeded \$520,000.
- Baltimore has the fifth highest AIDS incidence of any major metropolitan area, with 48.7 cases per 100,000 persons infected, a rate that has improved since 2001 when Baltimore was ranked number one in the nation. Outreach and testing is a critical component of the Health Department's continuum of HIV/AIDS related services, which includes education, counseling, testing, linkage to care and treatment adherence. In 2004, the Health Department significantly increased outreach and testing, from 625 in 2003 to more than 5,000 individuals across the City. Through the use of Fiscal 2005 General Fund surplus funds in the amount of \$700,000, the Health Department will increase outreach and testing efforts and develop a social marketing campaign called "Live, Love, Be Safe".

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, 2004.

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

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

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

Respectfully submitted,

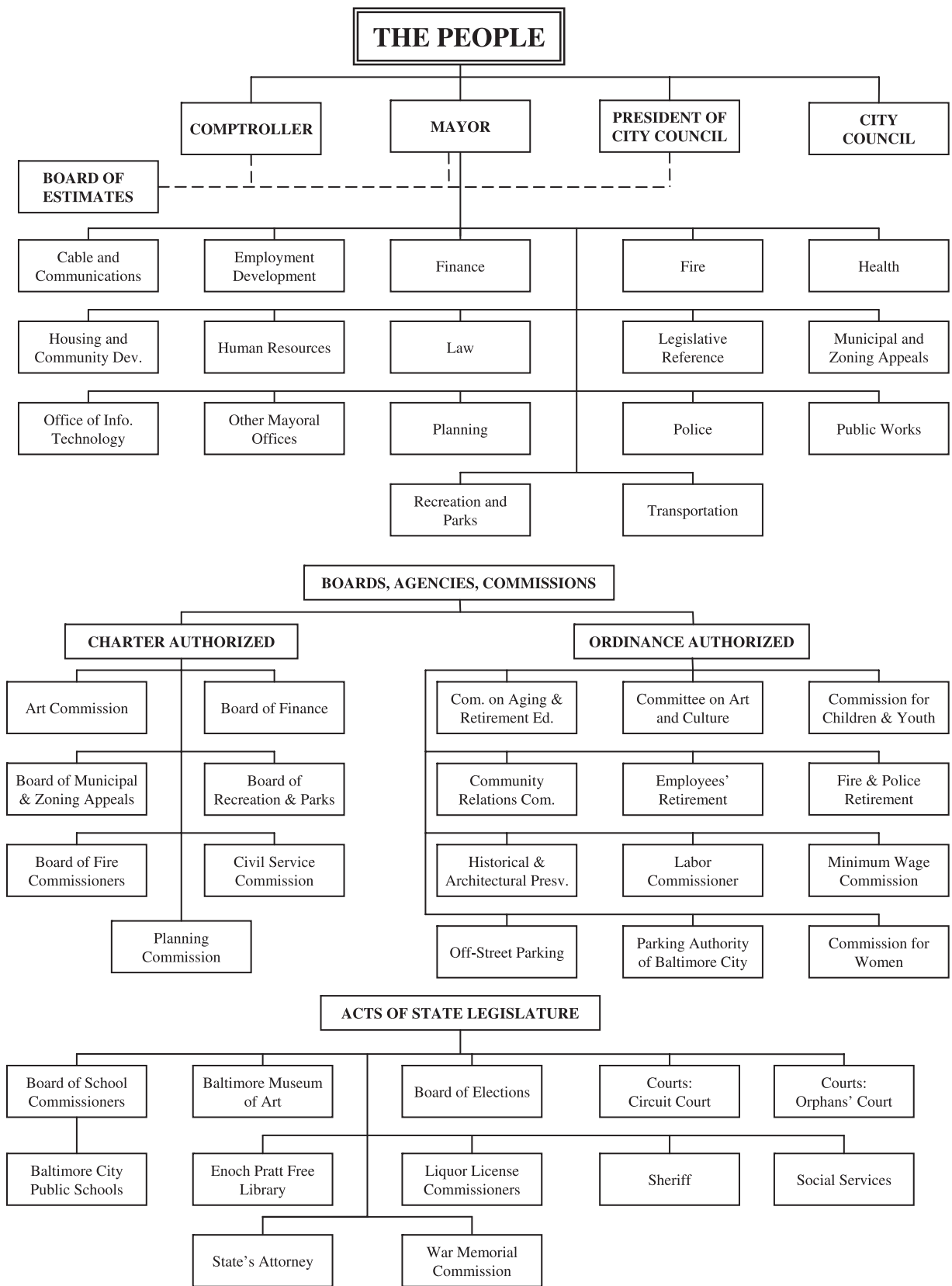


Martin O'Malley
Mayor



Edward J. Gallagher
Director of Finance

MUNICIPAL ORGANIZATION CHART



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Baltimore,
Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

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



Nancy L. Zjelle

President

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**



CITY OF BALTIMORE
MARTIN O'MALLEY
Mayor



621 E. Pratt Street
Baltimore, Maryland 21202

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

December 6, 2005

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, 2005, 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 auditor.

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. We were not engaged to perform an audit of the City of Baltimore, Maryland's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Baltimore, Maryland's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

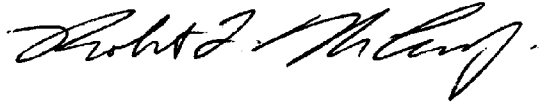
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Baltimore, Maryland, as of June 30, 2005, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2005, on our consideration of the City of Baltimore, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

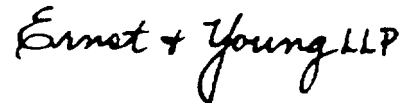
The management's discussion and analysis on pages 3 through 14, and the additional required supplementary information on pages 65 through 86, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Baltimore, Maryland's basic financial statements. The introductory section, combining and individual fund statements and

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



Robert L. McCarty, CPA
Acting 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, 2005. 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 \$3.9 billion (net assets). This amount includes \$270.4 million (restricted net assets) and is net of an unrestricted deficit \$307.6 million. During the fiscal year, the City's total net assets increased by \$148.6 million.

As of June 30, 2005, the City's governmental funds reported combined ending fund balances of \$163.5 million. At the close of the current fiscal year, unreserved fund balance for the general fund was \$72.7 million or 7.3% of total general fund expenditures of \$993.2 million.

The City's total long-term debt increased by \$11.6 million (1.82%), during the current fiscal year. The key factors in this increase were issuances of \$34.7 million in general obligation bonds, \$15.0 million in new federal loans, 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 basic financial statements prepared under these reporting requirements.

The City's basic financial statements comprise three components:

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

The report also contains required and other supplementary information in addition to the basic financial statements themselves.

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

Financial Report Layout and Structure

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

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

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

C A F R	Introductory Section				
	Financial Section				
	Management's Discussion and Analysis				
		Government-wide Statements	Fund Statements		
			Governmental Funds	Proprietary Funds	Fiduciary Funds
	View	Broad overview similar to a private sector business	Grouping of related activities used by state and local governments to ensure and demonstrate compliance with finance-related legal requirements		
	TYPES OF FINANCIAL STATEMENTS	Statement of Net Assets	Balance Sheet	Statement of Fund Net Assets	Statement of Fiduciary Net Assets
			Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Revenues, Expenses, and Changes in Fund Net Assets	
		Statement of 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
	Notes to the Basic Financial Statements				
	Required Supplementary Information				
	Combining Financial Statements and Schedules				
	Statistical Section				

Government-wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

Governmental funds

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

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

Proprietary funds

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

The City maintains the following two types of proprietary funds:

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

- *Internal Service funds* are used to report activities that provide supplies and services for certain City programs and activities. The City uses internal service funds to account for its fleet of vehicles, printing and mail services, telecommunications services, and risk management program. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the 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	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 738,764	\$ 602,915	\$ 528,299	\$ 520,419	\$1,267,063	\$1,123,334
Capital assets, net	3,232,579	3,168,672	1,843,433	1,704,697	5,076,012	4,873,369
Total assets	3,971,343	3,771,587	2,371,732	2,225,116	6,343,075	5,996,703
Long-term liabilities outstanding	849,444	867,403	912,496	850,690	1,761,940	1,718,093
Other liabilities	638,435	518,835	80,180	55,711	718,615	574,546
Total liabilities	1,487,879	1,386,238	992,676	906,401	2,480,555	2,292,639
Net assets:						
Invested in capital assets, net of related debt	2,898,611	2,810,155	1,001,112	854,007	3,899,723	3,664,162
Restricted	13,774	15,084	252,812	256,964	266,586	272,048
Unrestricted	(428,921)	(439,890)	125,132	207,744	(303,789)	(232,146)
Total net assets	\$2,483,464	\$2,385,349	\$1,379,056	\$1,318,715	\$3,862,520	\$3,704,064

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 \$3.9 billion at the close of the current fiscal year. The City's net assets include its investment of \$5.1 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, \$266.6 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance is a deficit in unrestricted net assets of \$303.8 million.

CITY OF BALTIMORE

Changes in Net Assets

(Expressed in Thousands)

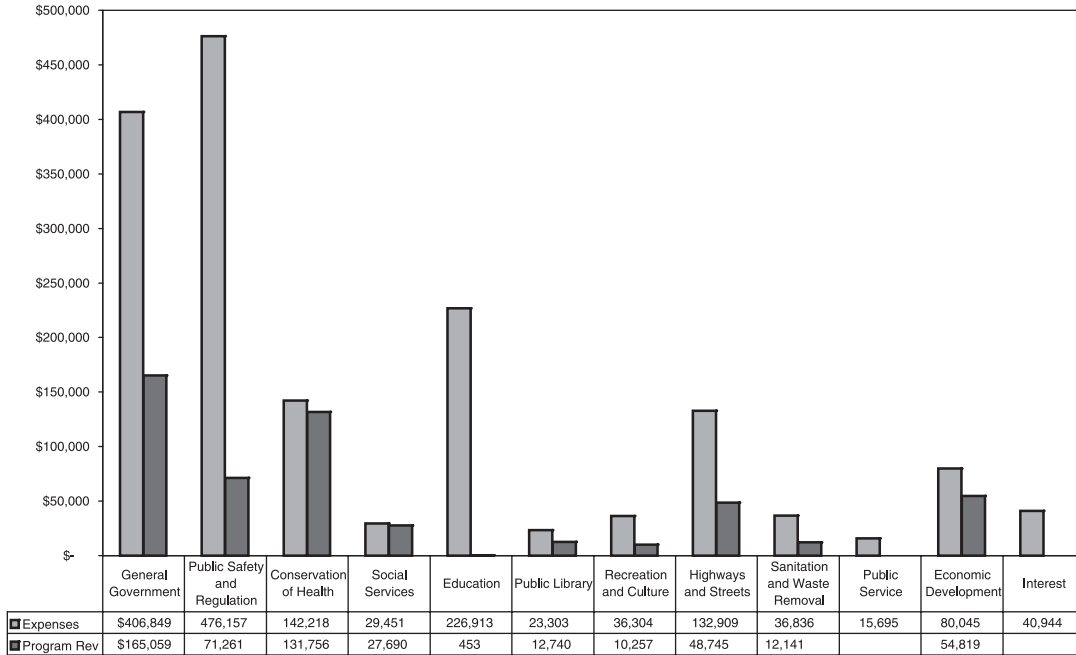
	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 83,950	\$ 88,587	\$ 298,163	\$ 290,833	\$ 382,113	\$ 379,420
Operating grants and contributions	401,958	477,870			401,958	477,870
Capital grants and contributions	49,013	51,910	51,057	55,165	100,070	107,075
General revenues:						
Property taxes	539,195	527,215			539,195	527,215
Income taxes	199,635	182,506			199,635	182,506
State shared revenue	200,199	169,703			200,199	169,703
Other	238,924	161,510	1,103		240,027	161,510
Total revenues	1,712,874	1,659,301	350,323	350,323	2,063,197	2,005,299
Expenses:						
General government	406,849	406,520			406,849	406,520
Public safety and regulation	476,157	462,910			476,157	462,910
Conservation of health	142,218	195,024			142,218	195,024
Social services	29,451	36,822			29,451	36,822
Education	226,913	219,932			226,913	219,932
Public library	23,303	27,251			23,303	27,251
Recreation and culture	36,304	36,326			36,304	36,326
Highways and streets	132,909	186,393			132,909	186,393
Sanitation and waste removal	36,836	34,151			36,836	34,151
Public service	15,695	15,150			15,695	15,150
Economic development	80,045	96,964			80,045	96,964
Interest	40,944	43,588			40,944	43,588
Water			96,893	95,745	96,893	95,745
Waste water			133,463	127,009	133,463	127,009
Parking			17,478	15,272	17,478	15,272
Conduits			3,917	3,481	3,917	3,481
Development loans			3,193	3,430	3,193	3,430
Industrial development			2,173	1,444	2,173	1,444
Total expenses	1,647,624	1,761,031	257,117	246,381	1,904,741	2,007,412
Increase (decrease) in net assets before transfers	65,250	(101,730)	93,206	99,617	158,456	(2,113)
Transfers:						
Transfers in (out)	32,865	28,401	(32,865)	(28,401)		
Change in net assets	98,115	(73,329)	60,341	71,216	158,456	(2,113)
Net assets — beginning	2,385,349	2,458,678	1,318,715	1,247,499	3,704,064	3,706,177
Net assets — ending	\$2,483,464	\$2,385,349	\$1,379,056	\$1,318,715	\$3,862,520	\$3,704,064

Analysis of Changes in Net Assets

The overall increase in the City’s net assets amounted to \$158.5 million during the current fiscal year. These changes are explained in the government and business-type activities discussion below.

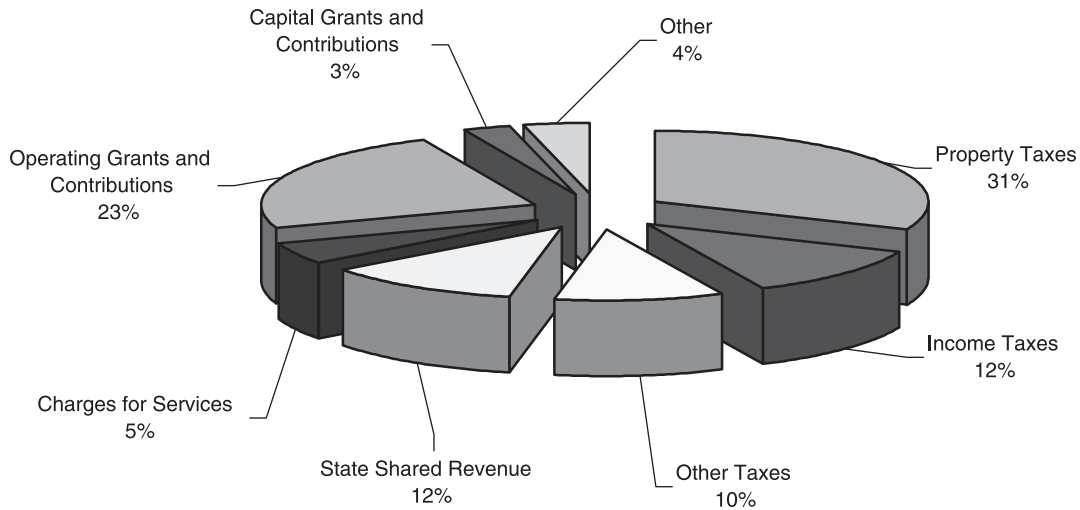
Expenses and Program Revenues — Governmental Activities

Expenses and Program Revenue - Governmental Activity (in thousands)



Revenues By Source — Governmental Activities

Revenues By Sources - Governmental Activities

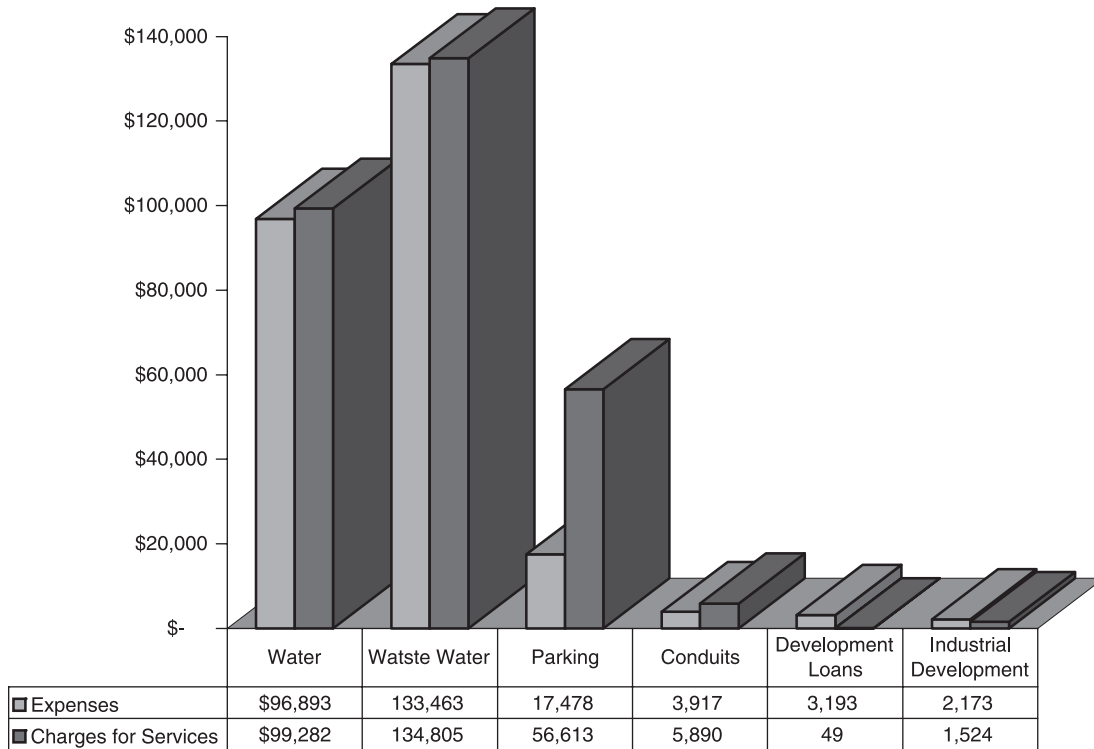


Governmental activities

During the current fiscal year, revenues related to governmental activities amounted to \$1.7 billion, this exceeds expenses by \$65.2 million. Total revenue of \$1.7 billion is comprised of program revenues totaling \$534.9 million, or 32%, and general revenues of \$1.1 billion, or 68%. 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

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



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 \$350.3 million. Expenses and transfers for these activities totaled \$290.0 million and resulted in an increase in net assets of \$61.3 million.

The Water/Waste Water Utility Funds realized an increase in net assets of \$57.0 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 \$3.4 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, an unreserved fund balance may serve as a useful measure of a City’s net resources available for spending at the end of the fiscal year. Types of major governmental funds reported by the City include the General Fund, Motor Vehicle Fund, Grants Revenue Fund, and Capital Projects Fund. Data from the remaining governmental funds are combined into a single, aggregated presentation as Other Funds.

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

For the Fiscal Years 2005 and 2004

(Expressed in Thousands)

	2005	2004	Variance Amount
Revenues:			
General fund:			
Property taxes	\$ 539,195	\$ 527,215	\$ 11,980
Income taxes	199,635	182,506	17,129
Other local — taxes	171,871	111,980	59,891
Total local taxes	910,701	821,701	89,000
Licenses and permits	28,570	26,805	1,765
Interest, rentals, and other investment income	25,364	20,729	4,635
State grants	92,240	96,412	(4,172)
Other	50,312	60,164	(9,852)
Total revenues — general fund	1,107,187	1,025,811	81,376
Other governmental funds:			
Motor vehicle fund	212,477	187,119	25,358
Grants revenue fund	263,542	324,317	(60,775)
Capital projects fund	64,031	68,647	(4,616)
Other funds	37,334	29,820	7,514
Total revenues other governmental funds	577,384	609,903	(32,519)
Total revenues all governmental funds	1,684,571	1,635,714	48,857
Expenditures:			
General fund:			
General government	273,606	267,527	6,079
Public safety and regulation	383,318	376,052	7,266
Conservation of health	24,442	23,528	914
Social services	2,146	2,032	114
Education	205,067	202,192	2,875
Public library	18,093	20,124	(2,031)
Recreation and culture	26,464	27,143	(679)
Highways and streets	407	244	163
Sanitation and waste removal	28,109	29,209	(1,100)
Public service	12,715	12,234	481
Economic development	18,854	19,262	(408)
Total expenditures — general fund	993,221	979,547	13,674
Other governmental funds:			
Motor vehicle fund	148,974	148,268	706
Grants revenue fund	282,888	342,586	(59,698)
Capital projects fund	208,219	217,621	(9,402)
Other funds	98,654	88,635	10,019
Total expenditures other governmental funds	738,735	797,110	(58,375)
Total expenditures all governmental funds	1,731,956	1,776,657	(44,701)
Excess of expenditures over revenue	(47,385)	(140,943)	93,558
Other financing sources (uses):			
Transfers, net	33,873	28,401	5,472
Capital leases	10,189	25,136	(14,947)
Face value of federal loans	15,000	15,885	(885)
Face value of funding and refunding general obligation bonds	34,689	43,961	(9,272)
Face value of funding revenue bonds		6,881	(6,881)
Payments to escrow agents		(11,760)	11,760
Demand obligation transferred from fund liability	(38,531)	51,900	(90,431)
Total other financing sources (uses)	55,220	160,404	(105,184)
Net changes in fund balances	7,835	19,461	(11,626)
Fund balances beginning	155,688	136,227	19,461
Fund balances ending	\$ 163,523	\$ 155,688	\$ 7,835

Revenues for governmental functions overall totaled approximately \$1.7 billion in the fiscal year ended June 30, 2005, which represents an increase of 3.1% from the fiscal year ended June 30, 2004. Expenditures for governmental functions, totaling \$1.7 billion, decreased by approximately 2.5% from the fiscal year ended June 30, 2004. In the fiscal year ended June 30, 2005, expenditures for governmental functions exceeded revenues by approximately \$47.4 million, or approximately 2.8%.

The General Fund is the chief operating fund of the City. Revenues in the General Fund increased by \$81.4 million over the last fiscal year. The primary factor in this increase was the continued growth in local taxes, which increased by \$89.0 million. Property taxes increased by \$12.0 million as a result of low interest rates and the continued growth in the housing market across the region. Income taxes increased by \$19.0 million as a result of the improving economy. Other local taxes increased by \$58.0 million. Expenditures in the General Fund grew by \$13.7 million. The primary areas of increase were in general government and public safety and regulation expenditures. General government expenditures increased by \$6.1 million, the major component was a \$6.1 million increase in the funding of employee retirement and benefits representing the City's commitment to retirees. Public safety and regulation expenditures increased by \$7.1 million, the primary components were an increase of \$4.4 million in the Police Department and an increase of \$2.3 million in the Fire Department. Both represent the City's commitment to the safety of its citizens. At the end of the current fiscal year, the unreserved undesignated fund balance of the General Fund was \$11.0 million, while total fund balance was \$192.6 million. The fund balance in the City's General Fund increased by \$52.9 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 \$212.5 million less than outlays of \$212.9 by \$0.4 million. The fund balance decreased from \$10.5 to \$10.1 million during the fiscal year, of which \$8.0 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 \$38.1 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	
	2005	2004	2005	2004	2005	2004
Operating revenue	\$234,087	\$228,554	\$ 56,613	\$ 53,539	\$8,566	\$ 5,332
Operating expenses	210,615	208,744	8,055	8,516	9,189	8,318
Operating income	23,472	19,810	48,558	45,023	(623)	(2,986)
Non operating revenues (expenses), capital contributions, and transfers	33,433	47,074	(45,189)	(37,576)	2,930	3,043
Change in net assets	\$ 56,905	\$ 66,884	\$ 3,369	\$ 7,447	\$2,307	\$ 57

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, 2005

(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance With Original Budget Positive (Negative)	Variance With Final Budget Positive
Total revenues	\$1,047,628	\$1,071,230	\$1,106,136	\$ 58,508	\$34,906
Expenditures and encumbrances:					
General government	275,098	283,490	277,153	(2,055)	6,337
Public safety and regulation	373,185	384,385	383,893	(10,708)	492
Conservation of health	21,665	27,066	25,365	(3,700)	1,701
Social services	2,069	2,169	2,006	63	163
Education	205,089	205,288	205,017	72	271
Public library	18,612	19,142	18,555	57	587
Recreation and culture	26,573	27,323	26,572	1	751
Highways and streets	202	402	402	(200)	
Sanitation and waste removal	27,116	27,116	27,115	1	1
Public service	12,890	12,890	12,890		
Economic development	18,173	20,873	18,673	(500)	2,200
Total expenditures	980,672	1,010,144	997,641	(\$16,969)	\$12,503
Excess of revenues over expenditures and encumbrances	66,956	61,086	108,495		
Other financing sources (uses):					
Transfers in	25,816	25,816	36,771		
Transfers out	(98,261)	(98,261)	(97,837)		
Total other financing sources (uses)	(72,445)	(72,445)	(61,066)		
Net changes in fund balances	(5,489)	(11,359)	47,429		
Fund balances beginning	120,677	120,677	120,677		
Fund balances ending	\$ 115,188	\$ 109,318	168,106		
Adjustments to reconcile to GAAP basis:					
Addition of encumbrances outstanding			33,989		
Less: Accounts payable not recorded for budgetary purposes			(9,540)		
Fund-balance June 30, 2005-GAAP Basis			\$ 192,555		

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 \$29.5 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 \$16.9 million, but were \$12.5 million less than adjusted appropriations. Of this amount, \$12.1 million was related to six governmental activities: lower than budgeted cost for public safety operations amounted to \$0.5 million; lower than budgeted cost for general government operations amounted to \$6.3 million; lower than budgeted cost for economic development operations amounted to \$2.2 million, lower than budgeted cost for conservation of health operations amounted to \$1.7 million, and lower than budgeted cost for recreation and culture amounted to \$0.8 million, and lower than budget cost for public library amounted to \$0.6 million.

On a budgetary basis, revenue for fiscal year 2005 totaled \$1,106.1 million and expenditures and transfers totaled \$1,095.4 million. The excess of revenues over expenditures resulted in a budget basis fund balance at June 30, 2005 of \$168.1 million, an increase of \$47.4 million. In creating its budget for the fiscal year ended June 30, 2005, the City used \$61.7 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, 2005, amount to \$5.1 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 1.9% (a 2.0% increase for governmental activities and a 8.1% increase for business-type activities) as shown in the table which follows.

Capital Assets, Net of Depreciation

(Expressed in Thousands)

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 134,598	\$ 134,598	\$ 17,384	\$ 17,384	\$ 151,982	\$ 151,982
Building and Improvements	636,044	641,509	875,754	845,643	1,511,798	1,487,152
Machinery and Equipment	89,264	92,828	36,474	39,366	125,738	132,194
Infrastructure	1,355,159	1,402,509	38,198	38,877	1,393,357	1,441,386
Library Books	20,076	19,013			20,076	19,013
Construction in Progress	997,438	878,215	875,623	763,427	1,873,061	1,641,642
Total	\$3,232,579	\$3,168,672	\$1,843,433	\$1,704,697	\$5,076,012	\$4,873,369

See note number 6 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, \$580.0 million is general obligation bonds backed by the full faith and credit of the City, \$84.5 million is revenue bonds for governmental activity at the Convention Center, for various stormwater projects and transportation bonds, and \$1,017.0 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.

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

	FY 2005	FY 2004
Net general bonded debt (Expressed in thousands)	\$523,286	\$530,166
Net general bonded debt per capita (Rounded to nearest dollar)	822	825
Ratio of net general bonded debt to net assessed value	2.5%(1)	2.7%(1)

See note 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, 2005, the City had \$582.6 million in authorized, outstanding property tax-supported general obligation bonds. This amount is reduced by net assets in the Debt Service Fund of \$27.5 million for net tax-supported bonded debt of \$555.1 million, which is equal to approximately 2.7% of the assessed value of property (net of exemptions). There are an additional \$262.4 million in bonds that are authorized, but unissued.

Economic Factors and Next Year's Budget and Rates

The Fiscal 2006 budget submitted by the Board of Estimates to the Baltimore City Council proposes total appropriations of \$2,318,944,000, of which \$1,106,256,000 was for General Fund operations and Pay-As-You-Go (PAYGO) capital; \$235,352,000 was for Motor Vehicle Fund operations and PAYGO capital and \$43,739,000 was for Special Fund operations. The City Council, after deliberations pursuant to Charter requirement and power, made no reductions to the total General Fund or other fund appropriations. The property tax rate was reduced by \$0.02 to \$2.308 and \$5.77 per \$100 of assessed valuation, respectively. The locally imposed and State mandated 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 13, 2005.

Fiscal 2006 Budget—Economic Factors

The Federal budget deficit, trade deficit and trends in interest rates are the three principle economic factors weighing on the Fiscal 2006 budget. Certain negative factors in the structure of the national and international economy are the principle cause for concern for now and the foreseeable future. A record Federal budget deficit in 2004 of \$412.0 billion is anticipated to grow even larger in 2005. An unprecedented foreign trade deficit of nearly \$660.0 billion has grown to about 5.7% of gross

domestic product in calendar year 2004 and is expected grow larger. Continued historic low interest rates when combined with the above factors make the United States less attractive to foreign investment. The declining dollar may become less attractive as a reserve currency for foreign treasuries. Although few, a growing number of foreign governments have either stated their intention or taken action to rebalance their investment portfolio to reduce exposure to the dollar. The irony of this situation is that these three negative factors — federal budget deficit, trade deficit and low interest rate environment — support the positive growth in parts of the Mid-Atlantic region. To the extent these problems can be managed, there is a basis for a cautiously optimistic view for the next 16 months.

Despite major economic problems, the outlook for the next 16 months is positive. Recent job growth news after a four year stretch of weak job creation, increase in business confidence, strong corporate cash positions, moderate inflation and the likelihood for increased business spending contribute to a positive outlook. For the moment these positive indicators outweigh the negatives posed by the macro economy and the effects of interest rate increases, heavy consumer debt and the expected slowdown and deceleration in real estate activity and price increases. The anticipated cooling of the real estate market has been factored into the revenue forecast. The substantive question is whether events could turn moderate growth into a more severe slowdown. The possibility for a more severe slowdown, or collapse in economic growth, would hinge on a major shock. Such a shock might be caused by a homeland terrorist attack, an interruption in the flow of Middle East oil, a sudden reversal in real estate or the leverage business buyout market, or the failure of a major financial institution as a result of a collapse in the real estate or leverage business buyout market. The discussion below reviews the major General Fund revenues.

Property Taxes

Current year property tax growth of 4.2% is called for in the Fiscal 2006 budget compared to the 2005 budget. Actual current year receipt growth in Fiscal 2005 equaled 3.6%. Supporting this growth rate is substantial new construction, rehabilitation of residential property and the strong housing price growth in the middle tier of the City, which is also the City's poorest section.

Income Taxes

The improving employment situation is reflected in the number of taxable returns filed, which increased from about 195,000 to about 196,000 between calendar 2003 and 2004. Assuming no major impact from potential negative factors, the outlook for Fiscal 2006 income tax receipts is positive.

Recordation and Transfer Taxes

Baltimore City has experienced record home price increases. Calendar 2004 saw a 42.2% increase in total dollar volume of multiple-listing properties sold over the prior year. Average sales price was up 20.0% from \$108,472 to \$131,405. Transfer and recordation tax receipts combined to reach a record high of \$82.0 million in Fiscal 2005 compared to \$49.0 million in Fiscal 2004, an increase of 67.3%. The Fiscal 2006 budget presumed a material slowdown in activity and receipts were budgeted at \$66.8 million.

Building Permits

The strong interest in residential, commercial and institutional construction continued in Fiscal 2005. The outcome is reflected in Fiscal 2005 receipts of \$7.7 million. The budget assumed some slow down in Fiscal 2006, 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 \$7.1 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, 2005

(Expressed in Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Baltimore City Public School System
Assets:				
Cash and cash equivalents	\$ 244,617	\$ 149,134	\$ 393,751	\$129,277
Investments	102,620	7,506	110,126	
Property taxes receivable, net	22,537		22,537	
Other receivables, net	26,966	67,824	94,790	1,398
Due from other governments	234,452	3,357	237,809	30,852
Internal balances	30,863	(30,863)		
Due from component unit	8,000		8,000	
Due from primary government				26,611
Inventories	3,853	5,324	9,177	836
Restricted:				
Cash and cash equivalents		167,239	167,239	
Investments		14,282	14,282	
Accounts receivable		75,283	75,283	
Notes and mortgages receivable, net	12,830	61,247	74,077	
Other assets	51,458	4,660	56,118	143
Issuance costs	568	3,306	3,874	730
Capital assets, net of accumulated depreciation	2,100,543	950,426	3,050,969	274,323
Capital assets, not depreciated	1,132,036	893,007	2,025,043	
Total assets	3,971,343	2,371,732	6,343,075	464,170
Liabilities:				
Accounts payable and accrued liabilities	148,656	8,473	157,129	129,991
Accrued interest payable	7,317	14,163	21,480	
Estimated claims in progress	164,577		164,577	
Due to component unit	26,611		26,611	
Due to other governments		269	269	516
Due to primary government				8,000
Matured bonds payable	1,092		1,092	
Unearned revenue	125,055		125,055	10,035
Deposits subject to refund	23,120	15	23,135	
Restricted accounts payable		30,392	30,392	
Revenue bonds payable:				
Due within one year	3,765	15,337	19,102	
Due in more than one year	80,742	906,235	986,977	
Long term debt payable:				
Due within one year	82,620	560	83,180	4,390
Due in more than one year	554,995	2,552	557,547	65,085
Capital leases payable:				
Due within one year	21,355		21,355	4,576
Due in more than one year	149,685		149,685	28,325
Compensated absences:				
Due within one year	28,145	7,505	35,650	9,607
Due in more than one year	52,583	3,709	56,292	55,114
Landfill closure	14,328		14,328	
Other liabilities	3,233	3,466	6,699	107
Total liabilities	1,487,879	992,676	2,480,555	315,746
Net assets:				
Invested in capital assets, net of related debt	2,898,611	1,001,112	3,899,723	167,334
Restricted for:				
Construction		151,815	151,815	21,206
Debt service		100,997	100,997	2,105
Perpetual care:				
Expendable	6,415		6,415	
Nonexpendable	7,359		7,359	516
Unrestricted	(428,921)	125,132	(303,789)	(42,737)
Total net assets	\$2,483,464	\$1,379,056	\$3,862,520	\$148,424

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

CITY OF BALTIMORE
Statement of Activities
For the Year Ended June 30, 2005
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit Baltimore City Public School System
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business- type Activities	Total	
Primary Government:								
Governmental activities:								
General government	\$ 406,849	\$ 21,873	\$141,436	\$ 1,750	\$ (241,790)		\$ (241,790)	
Public safety and regulation	476,157	24,891	46,370		(404,896)		(404,896)	
Conservation of health	142,219	2,194	129,562		(10,463)		(10,463)	
Social services	29,451	424	27,266		(1,761)		(1,761)	
Education	226,913		453		(226,460)		(226,460)	
Public library	23,303	454	12,256	30	(10,563)		(10,563)	
Recreation and culture	36,304	730	3,409	6,118	(26,047)		(26,047)	
Highways and streets	132,909	21,243		27,502	(84,164)		(84,164)	
Sanitation and waste removal	36,836	12,141			(24,695)		(24,695)	
Public service	15,695				(15,695)		(15,695)	
Economic development	80,045		41,206	13,613	(25,226)		(25,226)	
Interest	40,944				(40,944)		(40,944)	
Total governmental activities	1,647,625	83,950	401,958	49,013	(1,112,704)		(1,112,704)	
Business-type activities:								
Water	96,893	99,282		19,141		\$ 21,530	21,530	
Waste water	133,463	134,805		31,884		33,226	33,226	
Parking	17,478	56,613				39,135	39,135	
Conduits	3,917	5,890		32		2,005	2,005	
Development loans	3,193	49				(3,144)	(3,144)	
Industrial development	2,173	1,524				(649)	(649)	
Total business-type activities	257,117	298,163		51,057		92,103	92,103	
Total primary government	\$1,904,742	\$382,113	\$401,958	\$100,070	(1,112,704)	92,103	(1,020,601)	
Component unit:								
Baltimore City Public School System	\$ 946,129	\$ 3,247	\$993,137	\$ 13,875				\$ 64,130
General revenues:								
Property taxes					539,195		539,195	
Income taxes					199,635		199,635	
Other local taxes					171,871		171,871	
State shared revenues					200,199		200,199	
Unrestricted investment income					30,170	1,103	31,273	3,032
Miscellaneous					36,884		36,884	7,759
Transfers					32,865	(32,865)		
Total general revenues and transfers					1,210,819	(31,762)	1,179,057	10,791
Change in net assets								
Net assets — beginning					98,115	60,341	158,456	74,921
Net assets — ending					2,385,349	1,318,715	3,704,064	73,503
Net assets — ending	\$ 2,483,464	\$1,379,056	\$3,862,520	\$148,424				

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

CITY OF BALTIMORE

Balance Sheet

Governmental Funds

June 30, 2005

(Expressed in Thousands)

	General Fund	Motor Vehicle Fund	Grants Revenue Fund	Capital Projects Fund	Other Funds	Total
Assets:						
Cash and cash equivalents	\$155,557		\$ 75	\$ 18,833	\$19,647	\$ 194,112
Investments	29,468			45,700	22,574	97,742
Property taxes receivable, net	22,537					22,537
Other receivables, net	9,396	\$ 312		9,548	148	19,404
Due from other governments	29,018	20,359	33,931		5,126	88,434
Due from other funds	60,805			21,988		82,793
Due from component unit	8,000					8,000
Notes, mortgages receivable, net	6,209				6,621	12,830
Inventories, at cost	951	1,324				2,275
Other assets	50,702	122				50,824
Total assets	\$372,643	\$22,117	\$ 34,006	\$ 96,069	\$54,116	\$ 578,951
Liabilities and fund balances:						
Liabilities:						
Accounts payable and accrued liabilities	\$ 80,919	\$ 4,987	\$ 24,419	\$ 14,741	\$ 1,050	\$ 126,116
Retainages payable				6,840		6,840
Due to other funds		6,735	48,350		5,843	60,928
Deposits subject to refund	23,120					23,120
Deferred revenue	76,049	311	74,431		8,010	158,801
Matured bonds payable					1,092	1,092
Demand obligation bonds payable				38,531		38,531
Total liabilities	180,088	12,033	147,200	60,112	15,995	415,428
Fund balances:						
Reserved for:						
Budget stabilization	65,747					65,747
Long-term advance	8,000					8,000
Landfill closure	9,675					9,675
Encumbrances	33,989	614		119,579		154,182
Inventories	951	1,324				2,275
Other assets	1,431	122				1,553
Unreserved:						
Designated for subsequent year's expenditures	61,742					61,742
Undesignated	11,020	8,024	(113,194)	(83,622)		(177,772)
Unreserved reported in:						
Debt Service Fund					27,503	27,503
Non-major special revenue funds					4,203	4,203
Non-major permanent funds					6,415	6,415
Total fund balances	192,555	10,084	(113,194)	35,957	38,121	163,523
Total liabilities and fund balances	\$372,643	\$22,117	\$ 34,006	\$ 96,069	\$54,116	

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	3,204,126
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	146,404
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.	(80,907)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	(949,682)
Net assets of governmental activities	\$2,483,464

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

CITY OF BALTIMORE
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

(Expressed in Thousands)

	General Fund	Motor Vehicle Fund	Grants Revenue Fund	Capital Projects Fund	Other Funds	Total
Revenues:						
Taxes — local	\$ 910,701					\$ 910,701
State shared revenue		\$ 199,650			\$ 549	200,199
Licenses and permits	28,570	837				29,407
Fines and forfeitures	3,575	5,335				8,910
Interest, rentals and other investment income	25,364	790		\$ 314	3,702	30,170
Federal grants	150		\$ 170,101	39,303	32,669	242,223
State grants	92,240		60,070	6,249		158,559
Other grants	4,174		33,371			37,545
Charges for services	39,770	5,865				45,635
Miscellaneous	2,643			18,165	414	21,222
Total Revenues	1,107,187	212,477	263,542	64,031	37,334	1,684,571
Expenditures:						
Current:						
General government	273,606	23,132	61,200		3,948	361,886
Public safety and regulation	383,318	37,520	45,649		518	467,005
Conservation of health	24,442		117,415			141,857
Social services	2,146		27,266			29,412
Education	205,067	3,654			1,471	210,192
Public library	18,093		5,705		74	23,872
Recreation and culture	26,464		3,249		160	29,873
Highways and streets	407	84,668			31	85,106
Sanitation and waste removal	28,109					28,109
Public services	12,715					12,715
Economic development	18,854		22,404	25,059	18,850	85,167
Debt service:						
Principal					42,048	42,048
Interest					30,197	30,197
Other bond costs					1,357	1,357
Capital outlay				183,160		183,160
Total expenditures	993,221	148,974	282,888	208,219	98,654	1,731,956
Excess (deficiency) of revenues over (under) expenditures	113,966	63,503	(19,346)	(144,188)	(61,320)	(47,385)
Other financing sources (uses):						
Transfers in	36,771			88,125	80,031	204,927
Transfers out	(97,837)	(63,881)		(5,375)	(3,961)	(171,054)
Capital leases				10,189		10,189
Face value of federal loans				15,000		15,000
Face value of funding and refunding general obligation bonds				34,689		34,689
Demand obligation bonds transferred to fund liability				(38,531)		(38,531)
Total other financing sources (uses)	(61,066)	(63,881)		104,097	76,070	55,220
Net change in fund balance	52,900	(378)	(19,346)	(40,091)	14,750	7,835
Fund balances — beginning	139,655	10,462	(93,848)	76,048	23,371	155,688
Fund balances — ending	\$ 192,555	\$ 10,084	\$ (113,194)	\$ 35,957	\$ 38,121	\$ 163,523

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

CITY OF BALTIMORE
Reconciliation of the Statement of Revenues
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2005

(Expressed in Thousands)

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

Net change in fund balance — total governmental funds (page 18)	\$ 7,835
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 ..	150,426
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	12,644
The issuance of long-term debt (e.g. bonds, leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in treatment of long-term debt and related items	(21,347)
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	(22,046)
The net expense of certain activities of internal service funds is reported with governmental activities	<u>(29,397)</u>
Change in net assets of governmental activities (page 16)	<u>\$ 98,115</u>

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

CITY OF BALTIMORE
Statement of Fund Net Assets
Proprietary Funds
June 30, 2005
(Expressed in Thousands)

	Enterprise Funds				Total	Governmental Activities Internal Service Funds
	Water Utility Fund	Waste Water Utility Fund	Parking Facilities Fund	Other Funds		
Assets:						
Current assets:						
Cash and cash equivalents	\$ 27,198	\$ 52,007	\$ 14,413	\$ 55,516	\$ 149,134	\$ 50,505
Investments	7,500			6	7,506	4,878
Accounts receivable, net:						
Service billings	32,022	33,792	210	1,362	67,386	
Other			50	388	438	7,562
Due from other governments		3,357			3,357	
Inventories	5,085	239			5,324	1,578
Current restricted assets:						
Cash and cash equivalents	87,057	48,825	31,357		167,239	
Investments	9,399	4,883			14,282	
Accounts receivable, net	10,354	64,929			75,283	
Total current assets	178,615	208,032	46,030	57,272	489,949	64,523
Noncurrent assets:						
Restricted assets:						
Mortgages receivable			61,247		61,247	
Capital assets, net	594,456	1,090,069	114,369	44,539	1,843,433	28,453
Other assets	3,495	1,165			4,660	634
Issuance costs			2,927	379	3,306	
Total noncurrent assets	597,951	1,091,234	178,543	44,918	1,912,646	29,087
Total assets	776,566	1,299,266	224,573	102,190	2,402,595	93,610
Liabilities:						
Current liabilities:						
Accounts payable and accrued liabilities	1,388	6,158	580	347	8,473	15,705
Accrued interest payable	6,056	4,353	3,522	232	14,163	
Deposits subject to refund	15				15	
Due to other funds		9,999		10,613	20,612	1,253
Due to other governments	269				269	
Estimated liability for claims in progress						62,547
Other liabilities	3,492	6,727		243	10,462	3,233
Accounts payable from restricted assets	13,457	16,496	268	171	30,392	
Revenue bonds payable	2,779	7,658	4,900		15,337	
General long-term debt payable	173	387			560	
Total current liabilities	27,629	51,778	9,270	11,606	100,283	82,738
Noncurrent liabilities:						
Revenue bonds payable, net	353,630	360,773	177,054	14,778	906,235	
Other liabilities	890	2,647		681	4,218	
General long-term debt payable	735	1,817			2,552	
Estimated liability for claims in progress						102,030
Total noncurrent liabilities	355,255	365,237	177,054	15,459	913,005	102,030
Total liabilities	382,884	417,015	186,324	27,065	1,013,288	184,768
Net assets:						
Invested in capital assets, net of related debt	237,139	719,434		44,539	1,001,112	28,453
Restricted for:						
Debt service	45,822	28,904	26,271		100,997	
Future capital expenditures	60,989	90,826			151,815	
Unrestricted (deficit)	49,732	43,087	11,978	30,586	135,383	(119,611)
Total net assets	\$393,682	\$ 882,251	\$ 38,249	\$ 75,125	1,389,307	\$ (91,158)
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds					(10,251)	
Net assets of business-type activities					\$1,379,056	

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

CITY OF BALTIMORE
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005
(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	\$ 99,282	\$134,805			\$234,087	
Rents, fees and other income			\$ 56,613	\$ 7,463	64,076	\$290,533
Interest income on loans				1,103	1,103	
Total operating revenues	99,282	134,805	56,613	8,566	299,266	290,533
Operating expenses:						
Salaries and wages	27,121	30,354		1,525	59,000	13,972
Other personnel costs	10,107	11,842		546	22,495	4,769
Contractual services	27,901	47,946	6,986	1,145	83,978	30,675
Materials and supplies	6,254	7,597		111	13,962	10,724
Minor equipment	1,065	1,379		96	2,540	367
Claims paid and incurred						242,666
Postage and delivery services						809
General governmental overhead	4,324	5,912			10,236	
Depreciation	9,709	19,104	1,069	899	30,781	5,836
Program expenses				2,964	2,964	
Interest				1,903	1,903	
Total operating expenses	86,481	124,134	8,055	9,189	227,859	309,818
Operating income (loss)	12,801	10,671	48,558	(623)	71,407	(19,285)
Nonoperating revenues (expenses):						
Gain (loss) on sale of investments	(122)	(5)	36		(91)	
Loss on disposal of property						(7,047)
Interest income (expense), net	(6,632)	(2,301)	(9,462)		(18,395)	1,155
Loss on interest rate swap termination	(2,502)	(6,030)			(8,532)	
Total nonoperating revenues (expenses)	(9,256)	(8,336)	(9,426)		(27,018)	(5,892)
Income (loss) before contributions and transfers	3,545	2,335	39,132	(623)	44,389	(25,177)
Capital contributions	19,141	31,884		32	51,057	(5,452)
Transfers in (out)			(35,763)	2,898	(32,865)	(1,008)
Change in net assets	22,686	34,219	3,369	2,307	62,581	(31,637)
Total net assets — beginning	370,996	848,032	34,880	72,818		(59,521)
Total net assets — ending	\$393,682	\$882,251	\$ 38,249	\$75,125		\$ (91,158)
Adjustment to reflect the consolidation of internal service activities related to enterprise funds					(2,240)	
Change in net assets of business-type activities					\$ 60,341	

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

CITY OF BALTIMORE
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005
(Expressed in Thousands)

	Enterprise Funds					Governmental Activities- Internal Service Funds
	Water Utility Fund	Waste Water Utility Fund	Parking Facilities Fund	Other Funds	Total	
Cash flow from operating activities:						
Receipts from customers	\$ 99,280	\$128,139	\$ 56,594	\$ 7,744	\$ 291,757	\$ 285,126
Receipts from interfund services provided	4,841	13,111			17,952	
Bay Restoration Fee collection		2,862			2,862	
Payments to employees	(37,207)	(41,692)		(2,060)	(80,959)	(18,621)
Payments to suppliers	(31,854)	(52,815)	(7,406)	(8,309)	(100,384)	(266,090)
Payments for interfund services used	(4,324)	(4,071)			(8,395)	
Net cash provided (used) by operating activities	30,736	45,534	49,188	(2,625)	122,833	415
Cash flows from noncapital financing activities:						
Transfers in (out)			(35,763)	2,898	(32,865)	(1,008)
Net cash provided (used) by noncapital financing activities			(35,763)	2,898	(32,865)	(1,008)
Cash flows from capital and related financing activities:						
Mortgages receivable principal payments			2,895		2,895	
Proceeds from revenue bonds	17,206	78,381			95,587	
Principal paid on bonds	(139)	(320)			(459)	
Principal paid on revenue bonds	(2,654)	(4,794)	(4,570)	(7,479)	(19,497)	
Payments to buyout interest rate swaps	(2,502)	(6,030)			(8,532)	
Interest paid	(17,019)	(12,340)	(8,346)		(37,705)	
Acquisition and construction of capital assets	(58,234)	(83,477)	(10,775)	(1,124)	(153,610)	(3,723)
Capital contributions	19,141	31,884		32	51,057	
Changes in restricted assets	5,794	(25,100)			(19,306)	
Net cash provided (used) by capital and related financing activities	(38,407)	(21,796)	(20,796)	(8,571)	(89,570)	(3,723)
Cash flows from investing activities:						
Proceeds from the sale and maturities of investments			793	476	1,269	400
Purchase of investments	(7,419)				(7,419)	(546)
Interest on investments	3,380	2,022			5,402	1,155
Net cash provided (used) by investing activities	(4,039)	2,022	793	476	(748)	1,009
Net increase (decrease) in cash and cash equivalents	(11,710)	25,760	(6,578)	(7,822)	(350)	(3,307)
Cash and cash equivalents, beginning of year	125,965	75,072	52,348	63,338	316,723	53,812
Cash and cash equivalents, end of year	\$114,255	\$100,832	\$ 45,770	\$55,516	\$ 316,373	\$ 50,505
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 12,801	\$ 10,671	\$ 48,558	\$ (623)	\$ 71,407	\$ (19,285)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	9,709	19,104	1,069	899	30,781	5,836
Amortization of bond discounts				34	34	
Changes in assets and liabilities:						
Accounts receivables	1,287	6,644	(19)	(829)	7,083	(5,469)
Due from other funds		137		(2,512)	(2,375)	491
Due from other governments	3,283	(337)			2,946	
Inventories	350	(91)			259	(279)
Other assets						62
Accounts payable and accrued liabilities	(1,241)	(222)	(325)	243	(1,545)	9,542
Other liabilities	(111)	3,222		33	3,144	120
Estimated liability for claims in progress						9,362
Accrued interest payable	(179)	106		130	57	
Restricted accounts payable	4,568	4,459			9,027	
Due to other governments	269				269	
Due to other funds		1,841	(95)		1,746	35
Total adjustments	17,935	34,863	630	(2,002)	51,426	19,700
Net cash provided (used) by operating activities	\$ 30,736	\$ 45,534	\$ 49,188	\$ (2,625)	\$ 122,833	\$ 415

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

CITY OF BALTIMORE
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005
(Expressed in Thousands)

	Pension Trust Funds	Agency Funds
Assets:		
Cash and cash equivalents	\$ 224,953	\$ 1,878
Investments:		
Stocks	1,852,181	
Bonds	1,079,700	8,842
Mutual funds	14,480	
Real estate	223,496	
Securities lending collateral	373,516	
Other assets	66,899	
Total assets	<u>3,835,225</u>	<u>10,720</u>
Liabilities:		
Obligations under securities lending program	373,516	
Accounts payable	143,521	43
Other		10,677
Total liabilities	<u>517,037</u>	<u>10,720</u>
Net assets:		
Held in trust for pension benefits	\$3,318,188	

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

CITY OF BALTIMORE
Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2005
(Expressed in Thousands)

	Pension Trust Funds
Additions:	
Contributions:	
Employer	\$ 72,867
Employee	<u>15,887</u>
Total contributions	<u>88,754</u>
Investment income:	
Net appreciation in fair value of investments	260,316
Securities lending income	700
Interest and dividend income	<u>78,034</u>
Total investment income	339,050
Less: investment expense	<u>(9,767)</u>
Net investment income	<u>329,283</u>
Total additions	<u>418,037</u>
Deductions:	
Retirement allowances	248,714
Death benefits	1,746
Administrative expenses	4,054
Other	<u>1,579</u>
Total deductions	<u>256,093</u>
Changes in net assets	161,944
Net assets — beginning of the year	<u>3,156,244</u>
Net assets — end of the year	<u>\$3,318,188</u>

The notes to the basic 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 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.
 - Insurance Deposits accounts for assets held by the City as deposits from insurance companies.

Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements. — The government-wide, proprietary, and fiduciary fund financial statements with the exception of agency funds, are reported using the economic resources measurement focus and the Agency funds are reported on the accrual basis of accounting. Revenues are recorded when earned and expenses recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Operating revenue in the proprietary funds are those that result from the services provided by the funds, all other revenue is considered to be non-operating.

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

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

All governmental and business-type activities and enterprise funds of the City follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

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, 2005, 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.

Effective July 1, 2004, the City adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosure*. This statement modifies and establishes certain financial statement disclosure requirements. Accordingly, certain footnote disclosures have been revised to conform to the provisions of GASB Statement No. 40.

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

Estimated Liability for Claims in Process

The liability for claims in process represents estimates for all personal injury, workers' compensation, unemployment, property damage, and medical claims at June 30, 2005. 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.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

Property Tax and Property Tax Calendar

The City levies an annual tax for the fiscal year beginning July 1 and ending June 30, on real and personal property located in the City, due and payable each July 1 (lien date), based on assessed values as of the previous January 1. These assessed values are established by the State of Maryland Department of Assessments and Taxation at various rates of estimated market value. A discount of 1% and 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 2005 was \$18,781,171,000, which was approximately 95% of the estimated market value.

The tax rate in Baltimore City for real property taxes for fiscal year 2005 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, 2005, the City had property taxes receivable of \$22,537,000, net of an allowance for uncollectible accounts of \$102,048,000.

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.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

Employees earn vacation and personal leave for each completed month of service and can accumulate a maximum of 224 vacation and personal leave days depending upon length of service, which either may be taken through time off or carried until paid at termination or retirement.

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

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

Restricted Assets

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

Fund Equity

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

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

Reserved for budget stabilization — Maryland State law authorizes its political subdivisions to establish reserve accounts for the purpose of maintaining fiscal stability in the event of economic downturns affecting local revenues. As of June 30, 2005, the City had reserved \$65,747,000 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.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

2. Reconciliation of Government-wide and Fund Financial Statements

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

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

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

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

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:	
Capital assets	\$ 4,796,095
Less: Accumulated depreciation	(1,591,969)
Total	<u>\$ 3,204,126</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	\$ 146,018
Deferred revenue	7,135
Accrued interest payable	(7,317)
Unamortized bond discounts	568
Total	<u>\$ 146,404</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>\$ (80,907)</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	\$ (599,079)
Revenue bonds	(84,507)
Capital leases	(171,040)
Compensated absences	(80,728)
Landfill closure liability	(14,328)
Total	<u>\$ (949,682)</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	\$ 138,491
Capital leases	11,935
Total	<u>\$ 150,426</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>\$ 12,644</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	\$ (34,689)
Proceeds from capital leases	(10,189)
Proceeds from federal loans	(15,000)
Reclassification of short-term debt as fund liability	38,531
Total	<u>\$ (21,347)</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	\$ 42,047
Debt service interest (capital leases, GO bonds, and accrued interest)	(9,390)
Capital related expenditures	(54,337)
Compensated absences	(366)
Total	<u>\$ (22,046)</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>\$ (29,397)</u>

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

3. Deposits and Investments

A. SUMMARY of DEPOSIT and INVESTMENT BALANCES

The following is a reconciliation of the City's deposit and investment balances as of June 30, 2005 (amounts expressed in thousands):

	Pooled Cash and Investments	Other	Total
Carrying value of bank deposits	\$ (12,230)		\$ (12,230)
Investments	708,348	\$3,394,810	4,103,158
Total	\$696,118	\$3,394,810	\$4,090,928

	Government- wide Statement of Net Assets	Fiduciary Funds Statement of Net Assets	Total
Cash and cash equivalents	\$393,751	\$ 226,831	\$ 620,582
Investments	110,126	3,178,699	3,288,825
Restricted cash and equivalents	167,239		167,239
Restricted investments	14,282		14,282
Total	\$685,398	\$3,405,530	\$4,090,928

B. CASH DEPOSITS

As of June 30, 2005, the carrying amount of the City's bank deposits was a net overdraft of \$(12,230,000) and the respective bank balances totaled \$11,559,000. 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, 2005, the BCPSS has demand deposits with a carrying value of \$16,532,000.

C. INVESTMENTS

Primary Government

For other than pension funds and the BCPSS, the City is authorized by State Law to invest in direct or indirect obligations of the United States Government, repurchase agreements that are secured by direct or indirect obligations of the United States Government, certificates of deposits, commercial paper with highest letter and numerical rating, mutual funds registered with the Securities and Exchange Commission and the Maryland Local Government Investment Pool. The City's investment policy limits the percentage of certain types of securities with the exception of obligations for which the United States Government has pledged its full faith and credit. For investments held by the City in trust and/or to secure certain debt obligations, the City complies with the terms of the trust agreements. The City's Board of Finance has formally adopted the above policies and reviews and approves all security transactions.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

The primary government's investments at June 30, 2005, are presented below. All investments are presented by investment type, and debt securities are presented by maturity (amounts expressed in thousands):

Investment Type	Fair Market Value	Investment Maturities (In Months)		
		Less Than 6	6 to 12	Greater Than 12
Debt Securities:				
U.S. Treasury	\$ 28,108	\$ 27,802		\$ 306
U.S. Agencies	269,812	210,271	\$18,740	40,801
Repurchase Agreements	141,517	133,504		8,013
Money Market Mutual Funds	222,849	222,849		
Maryland Local Government Investment Pool	20,000	20,000		
Commercial Paper	7,912	7,912		
Guaranteed Investment Contracts	6,573		6,573	
	696,771	\$622,338	\$25,313	\$49,120
Other Investment:				
Equity Mutual Funds	11,577			
	708,348			
Less: Cash Equivalents	575,098			
Total investments	\$133,250			

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

The City limits its interest rate risk in accordance with the City's Board of Finance policy by maintaining a minimum of 20 percent of the City's investment in funds in liquid investments to include United States Government securities, overnight repurchase agreements, and the Maryland Local Government Investment Pool, and by limiting the par value of the portfolio invested for a period greater than one year at or below \$100 million.

Credit risk of debt securities—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

As discussed above the City Board of Finance limits City investments to only the highest rated investments in the categories discussed above. The City's rated debt investments as of June 30, 2005 were rated by a nationally recognized statistical rating agency and are presented below using the Standard and Poor's rating scale (amounts expressed in thousands):

Investment Type	Fair Value	Quality Ratings	
		AAA	A1-P1
Debt Securities:			
U.S. Agencies	\$269,812	\$269,812	
Repurchase Agreements:			
Underlying Securities	141,517	141,517	
Money Market Mutual Funds	222,849	222,849	
Maryland Local Government Investment Pool	20,000	20,000	
Commercial Paper	7,912		\$7,912
Guaranteed Investment Contracts:			
Underlying Securities	6,573	6,573	
Total rated debt investments	\$668,663	\$660,751	\$7,912

Concentration of credit risk—Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City has not adopted a formal policy on the concentration of credit risk.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

The City had the following debt security investments at June 30, 2005 that were more than five percent of total investments (amounts dollars expressed in thousands):

Investment	Fair Value	Percentage of Portfolio
Repurchase Agreement-M&T Bank	\$ 41,504	5.8%
Repurchase Agreement-Citigroup	92,000	12.9%
Federal Home Loan Board	135,777	19.1%
Federal Home Loan Mortgage Corporation	54,310	7.6%
Federal National Mortgage Corporation	73,163	10.3%

Retirement Systems

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

The invested assets of the retirement systems at June 30, 2005 are as follows (amounts expressed in thousands):

Investment Type	Carrying Value			Total
	Employees' Retirement System	Elected Officials' Retirement System	Fire and Police Employees' Retirement System	
Debt Securities:				
U.S. Treasury notes and bonds	\$ 167,099		\$ 157,675	\$ 324,774
U.S. Government agency bonds	121,260		186,930	308,190
Corporate bonds	136,044		167,061	303,105
Lehmann aggregate index			143,630	143,630
Mutual funds	150,296	\$14,581	74,556	239,433
Total debt securities	574,699	14,581	729,852	1,319,132
Other:				
Domestic equities	575,540		793,711	1,369,251
International equities	65,536		280,839	346,375
Hedge Funds	56,851		79,705	136,556
Real estate	54,269		169,227	223,496
Total other	752,196		1,323,482	2,075,678
Total investments	1,326,895	14,581	2,053,334	3,394,810
Less: Cash and cash equivalents	150,296	101	74,556	224,953
Total net investments	\$1,176,599	\$14,480	\$1,978,778	\$3,169,857

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

The Fire and Police Employees' Retirement System Board of Trustees has adopted a policy that the external managers demonstrate sensitivity to currency risk. The foreign currency exposure of the system may be hedged back to the U.S. dollar using forward foreign exchange contracts. From 0% to 100% of the foreign currency exposure of the portfolio may be hedged. Cross-hedging to currency other than the U.S. dollar may reach 25% of the total portfolio. Currency speculation is not permitted.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

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

The Elected Officials' Retirement System was not subject to foreign currency risk at June 30, 2005.

The foreign currency risk for each system at June 30, 2005 is presented on the following table (amounts expressed in thousands):

Currency	Employees' Retirement System	Fire and Police Employees' Retirement System	Total
Euro Currency Unit	\$ 1	\$ 52,728	\$ 52,729
British Pound Sterling	32	41,200	41,232
Japanese Yen		26,200	26,200
South Korean Won		22,374	22,374
Hong Kong Dollar		16,861	16,861
Swiss Franc		11,465	11,465
Mexican New Peso		9,720	9,720
South African Comm Rand		9,341	9,341
Malaysian Ringgit		9,285	9,285
Taiwan Dollar		8,862	8,862
Brazil Real		7,052	7,052
Canadian Dollar		6,988	6,988
Thailand Baht		6,168	6,168
Turkish Lira		6,096	6,096
Australian Dollar	1	5,078	5,079
Swedish Krona		3,552	3,552
Norwegian Krone		3,575	3,575
Chilean Peso		2,689	2,689
Hungarian Forint		2,400	2,400
Singapore Dollar		1,671	1,671
New Zealand Dollar		1,637	1,637
Indonesian Rupin		455	455
Moldovan Leu		91	91
Total Foreign Currency	\$34	\$255,488	\$255,522

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

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

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

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

The credit ratings of investments at June 30, 2005 are as follows (amounts expressed in thousands):

Asset Type	Duration	Carrying Value	AAA thru A	BBB thru B	CCC Thru C	Not Rated
<i>Employees' Retirement System:</i>						
U.S. Treasury notes and bonds	5.78	\$167,099	\$167,099			
U.S. Government agency bonds	2.63	121,260	121,260			
Corporate bonds	4.08	136,044	85,609	\$31,878	\$18,557	
Mutual funds	0.08	150,296				\$150,296
Total Debt Securities		574,699	373,968	31,878	18,557	150,296
<i>Elected Officials' Retirement System:</i>						
Mutual funds	0.08	14,582				14,582
<i>Fire and Police Employees' Retirement System:</i>						
U.S. Treasury notes and bonds	5.77	157,675	157,675			
U.S. Government agency bonds	5.70	186,930	186,930			
Lehmann aggregate index	4.16	143,630				143,630
Corporate bonds	3.99	167,061	80,599	70,924	3,876	11,662
Mutual funds	0.05	74,556				74,556
Total Debt Securities		\$729,852	\$425,204	\$70,924	\$ 3,876	\$229,848

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

At June 30, 2005, 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, 2005, was \$365,317,000, and the market value of the collateral received for those securities on loan was \$373,516,000. The Retirement Systems did not impose any restrictions during the fiscal year on the amount of loans the custodian made on its behalf. The terms of the Securities Lending Authorization Agreement require that the custodian indemnify the retirement systems against: (1) the failure to demand adequate and appropriate collateral from a borrower as and when required pursuant hereto; (2) the failure to comply with the investment guidelines in connection with the investment and reinvestment of cash collateral; (3) the failure to obtain and perfect a security interest or rights equivalent thereto in and to the collateral; or (4) the failure to make a reasoned determination of the creditworthiness of any borrower. There were no such failures by any borrowers during the fiscal year. Moreover, there were no losses during the fiscal year resulting from default of the borrowers or the custodian.

Substantially all securities loans can be terminated on demand either by the custodian or by the borrower, although generally the average term of these loans is one week. Cash collateral is invested in the custodian's short-term investment pool. The short-term investment pool guidelines specify that a minimum of 20% of the invested cash collateral is to be available each business day and the dollar-weighted average maturity of holdings must not exceed 90 days.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

Baltimore City Public School System

Baltimore City Public School System (BCPSS) is authorized by State law to invest in direct or indirect obligations of the U. S. Government, certificates of deposit, repurchase agreements and related mutual funds. BCPSS investments at June 30, 2005 are presented below (amounts expressed in thousands):

Investment Type	Fair Value
Debt Securities	
Repurchase Agreements	\$ 14,510
Money Market Mutual Funds	11,283
Maryland Local Government Investment Pool	<u>86,952</u>
	112,745
Less: Cash and cash equivalents	<u>112,745</u>
Total net investments	\$

Interest Rate Risk—BCPSS does not have a formal policy limiting interest rate risk. However, BCPSS limits its interest rate risk by maintaining in funds in liquid investments which include demand deposits, overnight repurchase agreements, and the Maryland Local Government Investment Pool. At June 30, 2005, BCPSS had no investment with maturities greater than 6 months.

Credit Risk—BCPSS does not have a formal policy that limits credit risk. However, BCPSS limits its credit risk by investing only in the Maryland Local Government Investment Pool, fully collateralized repurchase agreements and mutual funds. At June 30, 2005, the Maryland Local Government Investment Pool was rated AAA. The underlying collateral for the repurchase agreements was rated AAA. The other investments were not rated.

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.

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 (amounts expressed in thousands):

Receivables	General Fund	Motor Vehicle Fund	Grants Revenue Fund	Capital Projects Fund	Enterprise Funds	Nonmajor and Other Funds	Total
Property taxes	\$22,537						\$ 22,537
Service billings					\$ 66,024	\$ 1,362	67,386
Due from other governments	29,018	\$20,359	\$33,931		3,357	5,126	91,791
Due from component unit	8,000						8,000
Notes and mortgages receivable	6,209					6,621	12,830
Other	9,396	312		\$9,548	50	536	19,842
Restricted accounts receivable					75,283		75,283
Total	\$75,160	\$20,671	\$33,931	\$9,548	\$144,714	\$13,645	\$297,669

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

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 for an amount not to exceed \$42.0 million for the fiscal year ended 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, 2005.

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.

6. Capital Assets

Capital assets activity for the year ended June 30, 2005, was as follows (expressed in thousands):

Governmental Activities Capital Assets:

Class	Balance June 30, 2004	Additions	Decreases	Balance June 30, 2005
Capital assets, not being depreciated:				
Land	\$ 134,598			\$ 134,598
Construction in progress	670,012	\$ 45,740	\$19,303	696,449
Construction in progress—infrastructure	208,203	92,786		300,989
Total capital assets, not being depreciated	1,012,813	138,526	19,303	1,132,036
Capital assets, being depreciated:				
Buildings and improvements	1,307,070	21,084		1,328,154
Equipment	320,047	28,214	9,704	338,557
Infrastructure	2,063,799			2,063,799
Library books	33,747	4,238	1,991	35,994
Total capital assets, being depreciated	3,724,663	53,536	11,695	3,766,504
Less: accumulated depreciation for:				
Buildings and improvements	665,561	26,549		692,110
Equipment	227,219	18,511	(3,563)	249,293
Infrastructure	661,290	47,350		708,640
Library books	14,734	3,175	1,991	15,918
Total accumulated depreciation	1,568,804	95,585	(1,572)	1,665,961
Total capital assets, being depreciated, net	2,155,859	(42,049)	13,267	2,100,543
Governmental activities capital assets, net	\$3,168,672	\$ 96,477	\$32,570	\$3,232,579

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

Business-type Activities Capital Assets:

Class	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
Capital assets, not being depreciated:				
Land	\$ 17,384			\$ 17,384
Construction in progress	763,427	\$169,352	\$57,156	875,623
Total capital assets, not being depreciated	780,811	169,352	57,156	893,007
Capital assets, being depreciated:				
Buildings and improvements	1,385,990	55,102		1,441,092
Equipment	136,960	2,219		139,179
Infrastructure	54,306			54,306
Total capital assets, being depreciated	1,577,256	57,321		1,634,577
Less: accumulated depreciation for:				
Buildings and improvements	540,347	24,991		565,338
Equipment	97,594	5,111		102,705
Infrastructure	15,429	679		16,108
Total accumulated depreciation	653,370	30,781		684,151
Total capital assets, being depreciated, net	923,886	26,540		950,426
Business-type activities capital assets, net	\$1,704,697	\$195,892	\$57,156	1,843,433

Depreciation expense was charged to functions/programs of the City for the fiscal year ended June 30, 2005 (amounts expressed in thousands):

Governmental activities:

General government	\$ 4,647
Public safety and regulation	6,712
Conservation of health	599
Social services	39
Education	16,653
Public library	3,570
Recreation and parks	4,973
Highways and streets	43,691
Sanitation and waste removal	4,884
Public service	2,948
Economic development	1,033
Internal service funds	5,836
Total	\$95,585

Business-type activities:

Water	\$ 9,709
Waste water	19,104
Parking	1,069
Conduits	899
Total	\$30,781

At June 30, 2005, the outstanding commitments relating to projects of the City of Baltimore amount to approximately \$122,111,000 for governmental activities and \$223,029,000 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 2005, net interest expense of \$18,406,000 (net of interest income of \$5,778,000) 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, 2005 were as follows (amounts expressed in thousands):

Fund	Interfund	
	Receivable	Payable
General	\$60,805	
Motor Vehicles		\$ 6,735
Grant revenue		48,350
Capital projects	21,988	
Nonmajor governmental funds		5,843
Waste water		9,999
Nonmajor proprietary funds		10,613
Internal service funds		1,253
Totals	\$82,793	\$82,793

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, 2005, certain transactions between funds had not been completed.

B. TRANSFERS TO/FROM OTHER FUNDS

Transfers to/from other funds at June 30, 2005, consist of the following (amounts expressed in thousands):

Fund	General	Capital Projects	Nonmajor Special Revenue	Motor Vehicle	Parking	Internal Service Fund	Total Transfers To
General					\$35,763	\$1,008	\$ 36,771
Debt service	\$66,873	\$5,375		\$ 7,783			80,031
Loan and guarantee	2,898						2,898
Capital projects	28,066		\$3,961	56,098			88,125
Totals transfers from	\$97,837	\$5,375	\$3,961	\$63,881	\$35,763	\$1,008	\$207,825

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 in unrestricted net assets/fund balances at June 30, 2005 (amounts expressed in thousands):

Special Revenue Funds:		
Grants Revenue		\$113,194
Community Development Block Grant		3,127
Special Race Track		29
Internal Services Funds:		
Risk management		142,121
Municipal Post Office		7
Reproduction and printing		1,277
Component Unit:		
Baltimore City Public School System		42,737

The deficits in the Grants Revenue Fund and Community Development Block Grant Fund are the result of timing differences. Revenues to cover these deficits are expected to be received in fiscal year 2006.

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 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, 2005, are as follows (amounts expressed in thousands):

	June 30, 2004	Adjustments(a)	New Debt Issued	Debt Retired	June 30, 2005	Due within One Year
GOVERNMENTAL ACTIVITIES						
<i>General Obligation Bonds:</i>						
Highways	\$ 24,241	\$ 147		\$ 1,881	\$ 22,507	\$ 2,103
Health	2,030		\$ 235	77	2,188	88
Public safety	13,847	122	250	832	13,387	948
Off-street parking	31,117	137		2,083	29,171	7,106
Parks and recreation	19,060	81	1,620	994	19,767	1,272
Public buildings and facilities	43,117	113	5,740	1,904	47,066	2,253
Schools	131,820	307	7,335	5,996	133,466	7,248
Storm water	9,531	210		1,076	8,665	1,280
Urban renewal	277,824	791	19,509	19,959	278,165	52,623
Waste disposal	3,352	37		430	2,959	523
Unallocated	23,443	3		827	22,619	4,054
Total general obligation bonds	579,382	1,948	34,689	36,059	579,960	79,498
<i>Special Obligation Bonds</i>	23,324				23,324	
<i>Long-term financing with the Federal Government:</i>						
Federal economic development loans	30,205		15,000	3,350	41,855	2,625
Environmental Protection Agency loans	476			190	286	190
Total long-term financing with the Federal Government	30,681		15,000	3,540	42,141	2,815
<i>Long-term financing with the State of Maryland:</i>						
State economic development loans	4,872			353	4,519	307
Total Governmental Activities	\$638,259	\$1,948	\$49,689	\$39,952	\$649,944	\$82,620
BUSINESS-TYPE ACTIVITIES						
<i>General Obligation Bonds:</i>						
Water	\$ 1,037	\$ 10		\$ 139	\$ 908	\$ 173
Waste Water	1,963	20		264	1,719	327
Total general obligation bonds	3,000	30		403	2,627	500
<i>Long-term financing with the State of Maryland:</i>						
Sewer construction loans	542			57	485	60
Total Business-type Activities	\$ 3,542	\$ 30		\$ 460	\$ 3,112	\$ 560
COMPONENT UNIT — BALTIMORE CITY PUBLIC SCHOOL SYSTEM						
<i>General Obligation Bonds:</i>						
Schools	\$ 73,690			\$ 4,215	\$ 69,475	\$ 4,390

(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 \$15,364,000 as of June 30, 2005. The Series A Capital Appreciation Bonds are subject to redemption prior to maturity beginning on October 15, 2005, as a whole at any time or in part thereafter on October 15 or April 15.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

The liabilities for governmental activities are principally liquidated by the general, capital projects and motor vehicle funds, while liabilities for business-type activities are liquidated by the water and waste water funds. Long-term debt payable on the Statement of Net Assets is presented net of \$12,329,000 of unamortized losses on early extinguishment of debt.

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, 2005, principal owed for these bonds was \$23,324,000 and interest of \$29,902,000 at the interest rates ranging from 6.25% to 7% 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, 2005, the principal owed to the Federal government was \$41,855,000 and interest of \$12,235,000 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, 2005, the principal owed the EPA was \$286,000. The principal shall be repaid in annual installments of approximately \$190,000 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, 2005, the principal owed to the State was \$4,519,000 and interest of \$2,339,000 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 \$1,184,000 for sewer projects. At June 30, 2005, the principal owed to the State was \$485,000 and interest of \$129,000 will be due thereon in future years.

Compensated Absences

Compensated absences at June 30, 2005 totaled \$80,728,000 for governmental activities and \$11,214,000 for business-type activities, of which \$28,145,000 and \$7,505,000 respectively, were due within one year. For the Baltimore City Public School System, compensated absences totaled \$64,721,000, of which \$9,607,000 were due within one year.

Changes in compensated absences during fiscal year 2005 (amounts expressed in thousands):

	Governmental Activities	Business-type Activities	Total
Balance, July 1, 2004	\$ 80,362	\$10,894	\$ 91,256
Leave earned	26,313	7,825	34,138
Leave used	(25,947)	(7,505)	(33,452)
Balance, June 30, 2005	\$ 80,728	\$11,214	\$ 91,942

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

B. DEBT SERVICE REQUIREMENTS

Debt service requirements on long-term debt at June 30, 2005, 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
2006	\$ 79,498	\$ 32,703	\$ 1,147	\$ 307	\$ 256	\$ 2,815	\$ 1,657		\$ 1,536
2007	38,592	27,538	1,163	324	239	4,385	1,475	\$ 49	1,534
2008	42,303	26,116	1,181	342	220	2,025	1,301	52	1,531
2009	40,727	22,481	1,202	362	201	2,125	1,178	87	1,526
2010	42,228	21,853	1,228	384	161	2,260	1,045	264	1,515
2011-2015	169,098	78,981	5,529	1,420	615	5,840	3,906	1,929	7,241
2016-2020	90,053	27,845	3,547	647	364	6,485	1,571	3,253	6,398
2021-2025	74,990	6,518	765	360	210	16,206	102	5,137	5,032
2026-2030	2,471	51		373	73			6,958	3,035
2031-2033								5,595	554
	\$579,960	\$244,086	\$15,762	\$4,519	\$2,339	\$42,141	\$12,235	\$23,324	\$29,902

(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
2006	\$ 500	\$ 18	\$ 60	\$ 31
2007	306	272	64	27
2008	246	124	68	23
2009	588	359	73	19
2010	511	350	77	14
2011-2015	447	261	143	15
2016-2020	29			
Totals	\$2,627	\$1,384	\$485	\$129

A summary of general obligation and bond anticipation notes outstanding and bonds authorized but unissued (amounts expressed in thousands) at June 30, 2005, are as follows:

Purpose	Due Dates	Outstanding		Authorized But Unissued	
		Interest Rates	Amount	Amount	Amount
Fire, police and public protection	2006 to 2016	4.7% to 9.0%	\$ 13,387	\$ 2,735	
Off-street parking	2006 to 2017	1.5% to 9.0%	29,171	345	
Parks and recreation	2006 to 2017	2.7% to 9.0%	19,767	11,036	
Public building and facilities	2006 to 2017	2.7% to 9.5%	47,066	31,195	
Schools	2006 to 2021	2.7% to 9.0%	133,466	63,030	
Waste water and storm sewer	2006 to 2012	2.5% to 9.0%	10,384		
Urban renewal and development	2006 to 2021	2.7% to 9.5%	278,165	127,913	
Water	2006 to 2011	4.0% to 9.0%	908		
Highways	2006 to 2021	4.7% to 9.0%	22,507	220	
Waste disposal	2006 to 2011	4.75% to 8.9%	2,959		
Finance					20,000
Health	2006 to 2018	5.125% to 5.3%	2,188	5,914	
Unallocated	2006 to 2011	4.7% to 5.5%	22,619		
Totals			\$582,587	\$262,388	

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

Baltimore City Public School System (BCPSS) General Obligation Bonds

BCPSS has 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.

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

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

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

Future minimum bond payments are as follows for the year ending June 30, 2005 (amounts expressed in thousands):

Fiscal Year	Series 2000 Bonds	Series 2003 A Bonds	Interest	Total
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	1,700	3,415	2,426	7,541
2011-2015	9,805	19,540	8,316	37,661
2016-2020	2,265	14,155	1,497	17,917
Total	\$19,865	\$49,610	\$23,829	\$93,304

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

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 2005, the City's capital lease obligations decreased by \$1,746,000 (which is net of new leases in the amount of \$10,189,000 and lease principal payments of \$11,935,000) over the fiscal year 2004 total of \$172,787,000. Future minimum lease payments at June 30, 2005, are as follows (amounts expressed in thousands):

Fiscal Year	
2006	\$ 21,355
2007	21,964
2008	21,786
2009	21,556
2010	20,273
2011-2015	90,436
2016-2020	31,668
Total minimum lease payments	229,038
Less: deferred interest	(57,998)
Present value minimum lease payments	\$171,040

The following is a schedule of leased property under capital leases by major class at June 30, 2005 (amounts expressed in thousands):

Classes of Property	
Buildings	\$170,806
Equipment	132,448
Total	\$303,254

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

Baltimore City Public School System (BCPSS)

BCPSS has entered into a \$12,370,000 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.

BCPSS has also 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.

Additionally, BCPSS has 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 (\$3,500,000 at an interest rate of 3.06% for 7 years), Oracle Equipment (\$11,000,000 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.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

Future minimum lease payments as of June 30, 2005, are as follows (amounts expressed in thousands):

Fiscal Year	1999 Lease	Vehicle Lease	Master Equipment Lease	Interest	Total
2006	\$ 711	\$345	\$ 3,520	\$1,368	\$ 5,944
2007	760	359	3,632	1,194	5,945
2008	812	184	3,741	1,019	5,756
2009	867		3,854	886	5,607
2010	927		1,696	693	3,316
2011-2015	5,677		5,138	3,450	14,265
2016-2020	678			24	702
Present value minimum lease payments	\$10,432	\$888	\$21,581	\$8,634	\$41,535

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

9. Revenue Bonds

Water and Waste Water Revenue Bonds:

The City has issued revenue bonds, the proceeds of which were used to provide funds for capital improvements to water and waste water facilities. Assets with a carrying value of 74,726,000 at June 30, 2005, and revenues of the Water and Waste Water Funds are pledged as collateral for the bonds. Bonds outstanding as of June 30, 2005, 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		\$ 4,620
Serial bonds series 1993-A maturing in annual installments from \$1,815,000 to \$2,125,000 through July 1, 2008, with interest ranging from 5.1% to 5.5%, payable semiannually	\$ 7,870	
Serial bonds series 1994-A maturing in annual installments from \$485,000 to \$590,000 through July 1, 2009, with interest ranging from 4.6% to 5.0%, payable semiannually		2,680
Serial bonds series 1994-A maturing in annual installments from \$700,000 to \$850,000 through July 1, 2009, with interest ranging from 4.6% to 5.0%, payable semiannually	3,875	
Serial bonds series 1994-B maturing in annual installments from \$332,000 to \$406,000 through February 1, 2015, with interest rate at 2.25%, payable semiannually		3,677
Serial bonds series 1994-C maturing in annual installments from \$310,000 to \$387,000 through February 1, 2015, with interest rate at 2.5%, payable semiannually		3,472
Serial bonds series 1994-D maturing in annual installments from \$215,000 to \$296,000 through February 1, 2015, with interest rate at 3.6%, payable semiannually		2,534
Serial bonds series 1996-B maturing in annual installments from \$148,000 to \$208,000 through February 1, 2017, with interest rate at 3.17%, payable semiannually		2,116
Serial bonds series 1998-A maturing in annual installments from \$287,000 to \$414,000 through February 1, 2019, with interest rate at 2.87%, payable semiannually		4,859
Serial bonds series 1999-A maturing in annual installments from \$122,000 to \$167,000 through February 1, 2019, with interest rate at 2.52%, payable semiannually		1,927
Serial bonds series 1999-B maturing in annual installments from \$433,000 to \$652,000 through February 1, 2021, with interest rate at 2.61%, payable semiannually		8,662
Serial bonds series 2001-A maturing in annual installments from \$569,000 to \$819,000 through February 1, 2022, with interest rate at 2.3%, payable semiannually		11,674
Serial bonds series 2002-A maturing in annual installments from \$1,660,000 to \$1,145,000 from July 1, 2009 through July 1, 2021, with variable interest through July 1, 2016 and a fixed rate of 4.85 - 5.0% 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 - 5.0% thereafter payable semiannually	24,600	
Serial bonds series 2003-B maturing in annual installments from \$66,000 to \$984,000 through February 1, 2024, with interest rate at 0.40%, payable semiannually	1,964	5,734
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 2004-A maturing in annual installments from \$197,000 to \$984,000 through February 1, 2024 with interest rate at 0.45%, payable semiannually	6,055	
Serial bonds series 2004-B maturing in annual installments from \$914,000 to \$984,000 through February 1, 2024 with interest rate at 0.45%, payable semiannually		18,036
Serial bonds series 2004-C maturing in annual installments from \$846,000 to \$984,000 through February 1, 2024 with interest rate at 0.25%, payable semiannually		16,639
Serial bonds series 2005-A maturing in annual installments from \$1,030,000 to \$984,000 through February 1, 2024 with interest rate at 0.25%, payable semiannually		21,396
Serial bonds series 2005-A maturing in annual installments from \$3,500,000 to \$580,000 from July 1, 2021 through July 1, 2025 with interest rate of 4.00% to 5.00%, payable semiannually	8,770	
Serial bonds series 2005-B maturing in annual installments from \$750,000 to \$1,010,000 from July 1, 2007 through July 1, 2016 with interest rates of 3.25% to 5.00%, payable semiannually		19,935
Term bonds series 1990-B with interest at 3.806%, payable semiannually, due February 1, 2012		4,578
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
Term bonds series 2005-A with interest at 5.00%, payable semiannually, due July 1, 2030	3,320	
Term bonds series 2005-A with interest at 5.00%, payable semiannually, due July 1, 2035	4,240	
Term bonds series 2005-B with interest at 5.00%, payable semiannually, due July 1, 2030		8,500
Term bonds series 2005-B with interest at 5.00%, payable semiannually, due July 1, 2035		10,860
	363,909	370,579
Less: unamortized charges	7,500	2,148
	<u>\$ 356,409</u>	<u>\$368,431</u>

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

Parking Facilities Revenue Bonds

The City has issued various funding and refunding revenue bonds, the proceeds of which were used to finance constructions of parking facilities and refinance existing debt of the Parking Facilities Fund. Assets with a carrying value of \$26,271,000 at June 30, 2005, and revenues of the Parking Facilities Fund are pledged as collateral for the bonds. Bonds outstanding as of June 30, 2005, consist of (amounts expressed in thousands):

Serial bonds series 1993-A maturing in annual installments from \$3,320,000 to \$3,810,000 through July 1, 2008, with interest ranging from 4.45% to 4.7%, payable semiannually	\$ 14,420
Serial bonds series 1997-B maturing in annual installments from \$360,000 to \$495,000 through July 1, 2010, with interest ranging from 6.4% to 6.5%, payable semiannually	2,550
Auction rate notes series 2002, payable monthly due July 1, 2032	79,700
Term bonds series 1992-B with interest at 8.4%, payable semiannually, due July 1, 2011	5,405
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	145
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
	<u>183,465</u>
Less: unamortized charges	<u>1,511</u>
	<u>\$181,954</u>

The City has 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, 2005.

Industrial Development Revenue Bonds

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.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

The bonds bear interest at a variable rate that is reset by the Remarketing Agent on a weekly basis. During fiscal year 2005, 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 M&T Bank as trustee and The Chase Manhattan Bank as fiscal agent for the bondholders. The letter of credit will expire on November 30, 2015, 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 2005, the City made no draws under the letter of credit and no amounts drawn against the letter of credit were outstanding at June 30, 2005.

Convention Center Refunding Revenue Bonds

The Convention Center Refunding Revenue Bonds, Series 1998 were issued May 1, 1998 and are special, limited obligations of the City to refund the \$56,385,000 Mayor and City Council Convention Center Revenue Bonds Series 1994. The bonds are payable solely from the revenues which 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.

Stormwater Special Revenue Bond

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

County Transportation Revenue Bonds

On December 1, 2004, the City entered into an agreement with the State of Maryland to borrow \$30,000,000 in County Transportation Revenue Bonds Series 2004. The proceeds from these bonds will be used to fund certain highway improvements throughout the City. These bonds are secured by a pledge of the City's share of the highway user revenues.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

Changes in revenue bond obligations for the year end June 30, 2005, are as follows (amounts expressed in thousands):

	June 30, 2004	New Debt Issues	Debt Retired	June 30, 2005	Due within One Year
<i>Governmental Activities</i>					
Convention Center	\$ 49,720		\$ 2,095	\$ 47,625	\$ 2,185
Storm Water	6,882			6,882	
Transportation		\$30,000		30,000	1,580
Total Governmental Activities	\$ 56,602	\$30,000	\$ 2,095	\$ 84,507	\$ 3,765
<i>Business Type Activities</i>					
Water	\$350,233	\$16,330	\$ 2,654	\$ 363,909	\$ 2,779
Waste Water	298,043	77,330	4,794	370,579	7,658
Parking Facilities	188,145		4,680	183,465	4,900
Industrial Development	100,000			100,000	
Total Business Type Activities	\$936,421	\$93,660	\$12,128	\$1,017,953	\$15,337

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					
	Convention Center		Storm Water		Transportation Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 2,185	\$ 2,415	\$ 21	\$ 1,580	\$1,061	
2007	2,280	2,310	350	29	1,645	1,011
2008	2,395	2,193	351	26	1,710	956
2009	2,515	2,070	352	25	1,780	900
2010	2,645	1,941	354	23	1,850	841
2011-2015	15,495	7,328	1,789	95	10,745	3,166
2016-2020	20,110	2,623	1,825	59	10,690	881
2021-2025			1,861	23		
Totals	\$47,625	\$20,880	\$6,882	\$301	\$30,000	\$8,816

Fiscal Year	Business-type Activities											
	Water Utility			Waste Water Utility			Parking Facilities			Industrial Development Authority		
	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)
2006	\$ 2,779	\$ 14,147	\$ 2,861	\$ 7,658	\$ 10,233	\$ 2,271	\$ 4,900	\$ 8,625	\$ 2,237		\$ 1,078	\$ 1,078
2007	2,920	15,280	2,861	7,839	12,860	2,271	5,330	8,366	2,218		1,077	1,077
2008	3,056	14,670	2,861	9,270	11,632	2,265	5,570	8,089	2,195		1,078	1,078
2009	3,202	14,513	2,865	9,493	11,401	2,258	5,825	7,797	2,173		1,077	1,077
2010	5,173	14,319	2,861	10,864	11,130	2,247	6,685	7,453	2,149		1,078	1,078
2011-2015	34,466	67,284	14,001	60,453	51,093	11,056	38,415	30,985	10,327		5,388	5,388
2016-2020	45,858	58,360	12,768	65,689	41,608	9,897	42,560	19,119	9,437	\$100,000	1,166	2,621
2021-2025	52,286	47,794	10,811	60,060	32,023	7,667	22,020	11,653	7,943			
2026-2030	59,960	37,300	8,273	55,175	23,371	4,630	29,860	6,406	5,139			
2031-2035	77,949	24,107	4,730	54,885	12,352	1,077	22,300	1,127	967			
2036-2040	47,830	12,265	647	16,454	5,208							
2041-2045	28,430	2,238		12,739	1,117							
Totals	\$363,909	\$322,277	\$65,539	\$370,579	\$224,028	\$45,639	\$183,465	\$109,620	\$44,785	\$100,000	\$11,942	\$13,397

(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, 2005, assuming current interest rates remain the same for their term. As rates vary, variable rate bond interest payments and net swap payments will vary.

CITY OF BALTIMORE
Notes to Basic Financial Statements
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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, 2005, \$240,956,000 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, 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, 2005, 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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Notes to Basic Financial Statements
(Continued)

Outstanding Bonds	Effective Date	Termination Date	Interest Rate Paid by City	Interest Rate Received	Notional Amount	Fair Value	Counterparty Credit Rating
General Obligation Bonds							
<i>Floating to Fixed Swaps:</i>							
2001 Bonds	6/27/2001	10/1/2020	4.595%	BMA Index	\$ 20,600,000	\$ (2,122,798)	A+/Aa3
2001 Bonds	6/27/2001	10/1/2022	5.060%	BMA Index	22,500,000	(3,451,215)	A+/Aa3
2003 Bonds	5/14/2003	10/15/2020	2.950%	BMA/67% LIBOR	98,725,000	(2,998)	A/A2
2003 Bonds	5/14/2003	10/15/2022	3.450%	BMA/67% LIBOR	47,350,000	(2,360,213)	A/A2
2003 Bonds	5/14/2003	10/15/2020	4.215%	1M LIBOR	22,390,000	(30,807)	A/A2
2003 Bonds	5/14/2003	10/15/2022	4.970%	1M LIBOR	17,155,000	(1,057,979)	A/A2
<i>Basis Swaps:</i>							
2003 Bonds	6/29/2004	10/15/2020	67% LIBOR	60% LIBOR+0.295%	98,725,000*	(84,230)	AAA/Aaa
2003 Bonds	6/29/2004	10/15/2022	67% LIBOR	60% LIBOR+0.295%	47,350,000*	83,788	AAA/Aaa
Total General Obligation Bonds					\$374,795,000*	\$ (9,026,452)	
Industrial Development Authority Revenue Bonds							
<i>Floating to Fixed Swaps:</i>							
1986 Revenue Bonds	11/1/2001	11/1/2016	3.4975%	BMA Index	\$100,000,000	\$ (5,055,764)	A+/Aa3
Water Utility Fund Revenue Bonds Series							
<i>Fixed to Floating Swaps:</i>							
1993 Revenue Bonds	1/1/2008	7/1/2020	BMA Index	5.54%	\$ 4,276,748	\$ (85,285)	AA+/Aa2
1994 Revenue Bonds	1/1/2008	7/1/2024	BMA Index	5.26%	4,108,595	(127,342)	AA+/Aa2
1998 Revenue Bonds	2/1/2001	7/1/2028	BMA Index	5.17%	26,620,000	1,426,638	AA+/Aa2
1998 Revenue Bonds	7/1/2008	7/1/2028	BMA Index	5.08%	1,927,360	(78,513)	AA+/Aa2
2000 Revenue Bonds	7/1/2003	7/1/2030	BMA Index	5.70%	2,907,750	(66,295)	AA+/Aa2
<i>Floating to Fixed Swaps:</i>							
1998 Revenue Bonds	10/26/2001	7/1/2008	5.17%	BMA Index	26,620,000*	(1,929,306)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2037	4.555%	BMA/67% LIBOR	59,100,000	(11,788,164)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2009	3.87%	CPI Index	1,855,000	(4,807)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2010	4.00%	CPI Index	1,900,000	(6,086)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2011	4.10%	CPI Index	1,955,000	(23,727)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2012	4.20%	CPI Index	2,110,000	(51,234)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2013	4.30%	CPI Index	2,170,000	(37,751)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2014	4.39%	CPI Index	2,325,000	(60,071)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2015	4.50%	CPI Index	1,615,000	(60,804)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2016	4.61%	CPI Index	1,685,000	(103,116)	A+/Aa3
2004 Revenue Bonds	6/1/2004	7/1/2034	5.21%	BMA Index	47,500,000	(9,647,294)	A+/Aa3
<i>Basis Swap:</i>							
2002 Revenue Bonds	4/20/2005	7/1/2042	BMA Index	63.5%LIBOR+0.20%	71,455,000	(9,129,584)	AAA/Aaa
Total Water Utility Fund					\$260,130,453*	\$(31,772,741)	
Wastewater Utility Fund Revenue Bonds Series							
<i>Fixed to Floating Swaps:</i>							
1993 Revenue Bonds	1/1/2008	7/1/2020	BMA Index	5.54%	\$ 2,507,350	\$ (50,000)	AA+/Aa2
1994 Revenue Bonds	1/1/2008	7/1/2024	BMA Index	5.26%	1,229,550	(38,109)	AA+/Aa2
1998 Revenue Bonds	2/1/2001	7/1/2027	BMA Index	5.17%	24,475,000	1,551,909	AA+/Aa2
1998 Revenue Bonds	7/1/2008	7/1/2028	BMA Index	5.08%	1,876,278	(76,432)	AA+/Aa2
2000 Revenue Bonds	7/1/2003	7/1/2030	BMA Index	5.686%	1,855,869	(46,314)	AA+/Aa2
<i>Floating to Fixed Swaps:</i>							
1998 Revenue Bonds	10/26/2001	7/1/2008	5.17%	BMA Index	24,475,000*	(1,773,830)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2032	4.5475%	BMA/67% LIBOR	73,200,000	(12,494,503)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2009	3.87%	CPI Index	1,660,000	(4,807)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2010	4.00%	CPI Index	1,785,000	(8,671)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2011	4.10%	CPI Index	1,820,000	(22,088)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2012	4.20%	CPI Index	1,930,000	(22,942)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2013	4.30%	CPI Index	1,960,000	(34,098)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2014	4.39%	CPI Index	2,040,000	(52,707)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2015	4.50%	CPI Index	1,240,000	(46,685)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2016	4.61%	CPI Index	1,280,000	(58,177)	A+/Aa3
2004 Revenue Bonds	6/1/2004	7/1/2034	5.21%	BMA Index	17,500,000	(3,635,639)	A+/Aa3
Total Wastewater Utility Funds					\$160,834,047*	\$(16,813,093)	
Parking Facilities Fund Revenue Bonds Series							
<i>Floating to Fixed Swaps:</i>							
2002 Revenue Bonds	6/19/2002	7/1/2032	6.098%	1M LIBOR	\$ 69,200,000	\$(14,328,728)	AA+/Aa2
2002 Revenue Bonds	6/19/2002	7/1/2025	5.915%	1M LIBOR	10,500,000	(1,453,596)	AA+/Aa2
Total Parking Facilities Fund					\$ 79,700,000	\$(15,782,324)	
Grand Total Swaps Outstanding					\$975,459,500*	\$(78,450,374)	

* 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 \$228,720,000; Water Utility \$233,510,453; Wastewater Utility \$136,359,047.

CITY OF BALTIMORE
Notes to Basic Financial Statements
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Credit risk — As of June 30, 2005, the City is not exposed to credit risk on all but three 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 three swap agreements that have positive fair value, the City has credit exposure to the counterparty as of June 30, 2005. 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' \$3,062,335 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, 25 swaps or approximating 43% 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 four swaps with another counterparty, rated A/A2, approximating 19% of the outstanding notional value, twelve swaps are with a counterparty rated AA+/Aa2, approximating 16% of the outstanding notional value, two swaps are with a counterparty rated A/A1, approximately 15% of the outstanding notional value, and one swap is with a counterparty rated AAA/Aaa, approximating 7% of the outstanding notional value.

Basis Risk — The City's variable rate bonds are of three types: remarketed variable rate demand bonds ("VRDBs"), auction rate bonds ("ARBs"), and CPI index bonds. The City believes the VRDBs and ARBs will closely approximate the BMA rate over time. For those swaps associated with the VRDBs and ARBs, the City receives a floating rate based on 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, 2005, the BMA rate for the 52-week period ranged from 1.00% to 3.00%, whereas the City market rate ranges from 2.00% to 3.50%. 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, 2005, 67% of LIBOR for the 52-week period ranged from 0.91% to 2.25%. 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. During fiscal year 2005, the City elected to voluntarily terminate swap agreements in the Water and Wastewater Utility funds resulting in payments by the City of \$2,502,000 and \$6,030,000, respectively.

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

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provides retirement benefits as well as disability benefits to plan members and their beneficiaries. The plans are each managed by a Board of Trustees in accordance with Article 22 of the Baltimore City Code. Plan benefits provisions may be amended only by the City Council. The plans are considered part of the City's reporting entity and their financial statements are included in the City's basic financial statements as pension trust funds. Each plan issues a publicly available financial report that includes financial statements and the required supplementary information for that plan. Those reports may be obtained by writing to the Retirement Systems at the following addresses:

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

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

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

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

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	19.9%	7.4%	60.0%
Employee	6.0%	4%	5.0%
Annual pension cost	\$48,667	\$23,625	\$575
Contributions made	\$48,667	\$23,625	\$575
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	5.0%	6.8%	6.0%
Projected salary increases	2.0%-3.0%	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, 2005 and the actuarial valuation dated June 30, 2005.

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, 2005	\$48,667	100%	\$0
June 30, 2004	42,699	100	0
June 30, 2003	34,679	100	0
Employees' Retirement System:			
June 30, 2005	23,625	100	0
June 30, 2004	17,352	100	0
June 30, 2003	17,736	100	0
Elected Officials' Retirement System:			
June 30, 2005	575	100	0
June 30, 2004	408	100	0
June 30, 2003	0	100	0

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The Unfunded Fire and Police Pension Plan

Additionally, the City's Fire and Police Departments are the administrators of the City's unfunded single-employer defined benefit local retirement plan. The plan is managed by the City's Fire and Police Departments under the Code of Local Laws of Baltimore. All employees eligible for this plan were hired prior to January 1, 1947. All members of this plan are currently retired and the City plans to pay benefits on a pay-as-you-go basis until all obligations have been fulfilled. The unfunded accrued liability represents the actuarial present value of future benefits based on assumed annual salary increases of 4.0%. There is no covered payroll for the plan. The City's annual contributions equal the employee benefits paid under the terms of the plan. The City's employer contributions for the last three years are as follows:

Three -Year Trend Information

(Expressed in Thousands)

	Employer Contribution	Unfunded Accrued Liability
June 30, 2005	\$2,967	\$13,418
June 30, 2004	3,526	16,946
June 30, 2003	4,417	21,731

The Maryland State Retirement and Pension Systems

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

The State of Maryland pays, on behalf of the BCPSS, the employer's share of retirement and pension costs to the State Systems for teachers and related positions. During the fiscal year ended June 30, 2005, the State paid \$46,339,000 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, 2005 was \$1,051,000. 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

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\$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, 2005, the City has determined that the range of potential claims liability for the fund to be between \$164,577,000 and \$212,695,000. The claims liability of \$164,577,000 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, 2005, 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 \$164,577,000 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 2004 and 2005 were (amounts expressed in thousands):

	2005	2004
Unpaid claims, beginning	\$ 155,215	\$ 120,187
Claims incurred	242,666	284,887
Claims paid	(233,304)	(249,859)
Unpaid claims, ending	\$ 164,577	\$ 155,215

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, 2005, future minimum lease payments are as follows (amounts expressed in thousands):

2006	\$ 5,999
2007	4,535
2008	3,870
2009	3,542
2010	3,317
2011-2015	10,002
2016-2020	589
2021-2025	587
2026-2030	489
Total	\$32,930

All leases contain cancellation provisions and are subject to annual appropriations by the City Council. During fiscal year 2005, rent expenditures approximated \$1,558,000 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, 2005, rent and lease expenditures approximated \$2,784,000. These expenditures were made primarily from the General Fund. As of June 30, 2005, future minimum lease payments approximate \$4,576,000.

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 no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of

CITY OF BALTIMORE
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(Continued)

the landfill used during the year. The estimated liability for landfill closure and postclosure care costs is \$14,328,000 as of June 30, 2005, which is based on 58% usage (filled) of the landfill. This is an increase in the liability of \$965,000 since June 30, 2004. It is estimated that an additional \$10,367,000 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 (\$24,695,000) 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, 2005. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in the landfill laws and regulations. The City does not expect to pay any closure and postclosure care costs during fiscal year 2006.

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, 2005, investments of \$8,675,000 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, 2005, consist of the following:

- A. The General Fund has notes receivable of \$6,209,000, 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 \$4,519,000 collateralized by real property. These mortgages bear interest at rates ranging from 5.46% to 11.16% and mature over 30 years.
- C. The Parking Facilities Fund has mortgages receivable of \$61,247,000 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 \$2,102,000 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, 2005, 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, 2005.

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, 2005, there were 20,415 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 2005, these postemployment benefits amounted to \$102,791,000.

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, 2005, the City is contingently liable for loans guaranteed by the Loan and Guarantee Program in an aggregate amount of approximately \$600,000.

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, 2005, 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 \$107.03 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 \$535.15 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 September 26, 2005, there has been no further movement on the part of OIG to collect these funds.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

20. Subsequent Events

On October 12, 2005 the City of Baltimore entered into a variable rate U.S. Department of Housing and Urban Development Section 108 loan. The loan amount totaling \$13,275,000 will be used to develop the Warner Street Business Center in Baltimore City.

On November 22, 2005 the City issued \$4,578,029 of Project Refunding Bonds (Wastewater Projects) Series 2005C through the State Clean Water Revolving Loan Fund. The bonds refunded the remaining balance of the Series 1990B Bonds.

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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, 2005
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive
Revenues:				
Taxes — local	\$ 864,439	\$ 887,341	\$ 910,701	\$23,360
Licenses and permits	25,609	25,609	28,570	2,961
Fines and forfeitures	1,675	2,375	3,575	1,200
Interest, rentals, and other investment income	21,398	21,398	25,364	3,966
Federal grants	75	75	150	75
State grants	90,368	90,368	91,189	821
Other grants	4,075	4,075	4,174	99
Charges for current services	38,864	38,864	39,770	906
Miscellaneous	1,125	1,125	2,643	1,518
Total revenues	1,047,628	1,071,230	1,106,136	34,906
Expenditures and encumbrances:				
Civil Service Commission	1,648	1,648	1,648	
Community Relations Commission	854	854	819	35
Comptroller	4,063	4,063	3,875	188
City Council	3,545	4,087	3,558	529
Office of Financial Review	495	495	495	
Courts	8,087	8,087	7,770	317
Supervisors of Elections	3,054	3,054	3,054	
Department of Finance	8,456	8,456	8,455	1
Department of Fire	106,155	111,755	111,749	6
Department of Health	20,141	22,241	20,541	1,700
Department of Housing and Community Development	10,731	11,431	10,718	713
Department of Law	2,525	2,525	2,482	43
Department of Legislative Reference	727	727	727	
Enoch Pratt Library	18,612	19,142	18,555	587
Board of Liquor License Community	1,735	1,735	1,662	73
Mayoralty	220,268	231,168	223,306	7,862
Department of Planning	802	802	801	1
Department of Police	253,507	262,407	262,407	
Department of Public Works	60,761	60,761	60,590	171
Department of Recreation and Parks	20,823	20,823	20,823	
Office of Sheriff	9,404	9,404	9,194	210
Office of State's Attorney	19,370	19,370	19,370	
Department of Transportation	202	402	402	
Wage Commission	449	449	387	62
Department of Municipal and Zoning Appeals	309	309	304	5
Baltimore City Public School System	203,949	203,949	203,949	
Total expenditures	980,672	1,010,144	997,641	12,503
Excess of revenues over expenditures	66,956	61,086	108,495	47,409
Other financing sources (uses):				
Transfers in	25,816	25,816	36,771	10,955
Transfers out	(98,261)	(98,261)	(97,837)	424
Total other financing sources (uses)	(72,445)	(72,445)	(61,066)	11,379
Net change in fund balances	(5,489)	(11,359)	47,429	58,788
Fund balances — beginning	120,677	120,677	120,677	
Fund balances — ending	\$ 115,188	\$ 109,313	\$ 168,106	\$58,788
Adjustments to reconcile to GAAP basis:				
Addition of encumbrances outstanding			33,989	
Less: accounts payable not recorded for budgetary purposes			(9,540)	
Fund balance — June 30, 2005 (GAAP basis)			\$ 192,555	

(1) Annual budgets are adopted for the General Fund and all Special Revenue Funds, except for Grant 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 \$1,051,000 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, 2005
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
State shared revenue	\$187,126	\$187,126	\$199,650	\$12,524
Licenses and permits	665	665	837	172
Fines and forfeitures	8,000	8,000	5,335	(2,665)
Interest, rentals, and other investment income	1,508	1,508	790	(718)
Charges for current services	5,651	5,651	5,908	257
Miscellaneous	36	36	(43)	(79)
Total revenues	202,986	202,986	212,477	9,491
Expenditures and encumbrances:				
Department of Recreation and Parks	2,792	2,792	2,523	269
Department of Transportation	69,771	75,871	75,871	
Department of Planning	719	719	574	145
Department of Police	10,519	10,519	10,297	222
Department of Public Works	35,381	35,381	34,313	1,068
Mayoralty	22,039	22,039	20,299	1,740
Baltimore City Public School System	3,654	3,654	3,654	
Total expenditures and encumbrances	144,875	150,975	147,531	3,444
Excess of revenues over expenditures and encumbrances	58,111	52,011	64,946	12,935
Other financing uses:				
Transfers out	(60,844)	(62,254)	(63,881)	(1,627)
Net change in fund balances	(2,733)	(10,243)	1,065	11,308
Fund balances — beginning	11,814	1,236	9,744	8,508
Fund balances — ending	<u>\$ 9,081</u>	<u>\$ (9,007)</u>	<u>10,809</u>	<u>\$19,816</u>
Adjustments to reconcile to GAAP Basis:				
Addition of encumbrances outstanding			614	
Less: accounts payable not recorded for budgetary purposes			(1,339)	
Fund balance — June 30, 2005 (GAAP basis)			<u>\$ 10,084</u>	

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

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

CITY OF BALTIMORE
Schedule of Funding Progress(1)
Pension Trust Funds

(Dollars Expressed in Thousands)

Actuarial Valuation Dates	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess of) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess of) as a Percentage of Covered Payroll ((b-a)/c)
Fire and Police Employees' Retirement System						
June 30, 2005	\$2,456,565	\$2,560,985	\$104,420	96.2%	\$244,815	39.3%
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
Employees' Retirement System						
June 30, 2005	1,403,207	1,466,857	63,651	95.7	320,986	19.8
June 30, 2004	1,397,582	1,429,231	31,649	97.8	322,915	9.8
June 30, 2003	1,408,544	1,374,747	(33,797)	102.5	316,311	(10.7)
Elected Officials' Retirement System						
June 30, 2005	15,183	14,447	(235)	105.1	963	(16.4)
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

- (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 2005, supplemental appropriation ordinances were required for the General Fund in the amount of \$29.5 million, and Motor Vehicle Fund in the amount of \$7.5 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 expenditures for particular purposes.

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

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

Permanent Funds

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

Enoch Pratt Free Library Fund — This fund accounts for principal trust amounts received and 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, 2005

(Expressed in Thousands)

	Special Revenue Funds				Permanent Funds			Debt Service Fund	Total Nonmajor Governmental Funds
	Community Development Block Grant Fund	Special Racetrack Fund	Scholarship Fund	Total	Enoch Pratt Free Library Fund	Memorial Fund	Total		
Assets:									
Cash and cash equivalents			\$4,994	\$ 4,994	\$ 1	\$ 202	\$ 203	\$14,450	\$19,647
Investments			2,351	2,351	2,100	4,060	6,160	14,063	22,574
Other receivables, net			14	14	24	28	52	82	148
Due from other governments	\$ 4,863	\$263		5,126					5,126
Notes and mortgages receivable, net	2,102			2,102				4,519	6,621
Total assets	6,965	263	7,359	14,587	2,125	4,290	6,415	33,114	54,116
Liabilities and fund balances:									
Liabilities:									
Accounts payable and accrued liabilities	1,046	4		1,050					1,050
Due to other funds	5,555	288		5,843					5,843
Deferred revenue	3,491			3,491				4,519	8,010
Matured bonds payable								1,092	1,092
Total liabilities	10,092	292		10,384				5,611	15,995
Fund balances:									
Reserved for Scholarship, Library and Memorial			7,359	7,359	2,125	4,290	6,415		13,774
Unreserved (deficit)	(3,127)	(29)		(3,156)				27,503	24,347
Total fund balances	(3,127)	(29)	7,359	4,203	2,125	4,290	6,415	27,503	38,121
Total liabilities and fund balances	\$ 6,965	\$263	\$7,359	\$14,587	\$2,125	\$4,290	\$6,415	\$33,114	\$54,116

CITY OF BALTIMORE
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2005
(Expressed in Thousands)

	Special Revenue Funds				Permanent Funds			Debt Service Fund	Total Nonmajor Governmental Funds
	Community Development Block Grant Fund	Special Racetrack Fund	Scholarship Fund	Total	Enoch Pratt Free Library Fund	Memorial Fund	Total		
Revenues:									
State shared revenue		\$ 549		\$ 549					\$ 549
Interest, rentals and other investment income			\$ 331	331	\$ 195	\$ 201	\$ 396	\$ 2,975	3,702
Federal grants	\$32,669			32,669					32,669
Miscellaneous			414	414					414
Total revenues	32,669	549	745	33,963	195	201	396	2,975	37,334
Expenditures:									
Current:									
General government	3,186		762	3,948					3,948
Public safety and regulation	518			518					518
Education			1,471	1,471					1,471
Public library					74		74		74
Recreation and culture		16		16		144	144		160
Highways and streets		31		31					31
Economic development	18,802	48		18,850					18,850
Debt service:									
Principal								42,048	42,048
Interest								30,197	30,197
Other bond cost								1,357	1,357
Total expenditures	22,506	95	2,233	24,834	74	144	218	73,602	98,654
Excess (deficiency) of revenues over (under) expenditures	10,163	454	(1,488)	9,129	121	57	178	(70,627)	(61,320)
Other financing sources (uses):									
Transfers in								80,031	80,031
Transfers out	(3,461)	(500)		(3,961)					(3,961)
Total other financing sources (uses)	(3,461)	(500)		(3,961)				80,031	76,070
Net change in fund balances	6,702	(46)	(1,488)	5,168	121	57	178	9,404	14,750
Fund balances—beginning	(9,829)	17	8,847	(965)	2,004	4,233	6,237	18,099	23,371
Fund balances—ending	\$ (3,127)	\$ (29)	\$ 7,359	\$ 4,203	\$2,125	\$4,290	\$6,415	\$27,503	\$38,121

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, 2005
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive
Revenues:				
State shared revenues	\$ 392	\$ 392	\$ 549	\$157
Expenditures and encumbrances:				
Department of Transportation	31	31	31	
Department of Recreation and Parks	22	22	22	
Department of Housing and Community Development	48	48	48	
Total expenditures	101	101	101	
Excess of revenues over expenditures	291	291	448	157
Other financing uses:				
Transfers out	(500)	(500)	(500)	
Net change in fund balances (deficit)	(209)	(209)	(52)	
Fund balances — beginning	23	23	23	
Fund balances — ending (GAAP basis)	\$(186)	\$(186)	\$ (29)	\$157

(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, 2005

(Expressed in Thousands)

	Loan and Guarantee Program	Industrial Development Authority	Conduit Fund	Total
Assets:				
Current assets:				
Cash and cash equivalents	\$12,668	\$34,629	\$ 8,219	\$ 55,516
Investments	6			6
Accounts receivable, net:				
Service billings			1,362	1,362
Other	65	323		388
Total current assets	12,739	34,952	9,581	57,272
Noncurrent assets:				
Property, plant and equipment, net			44,539	44,539
Issuance costs		379		379
Total noncurrent assets		379	44,539	44,918
Total assets	12,739	35,331	54,120	102,190
Liabilities:				
Current liabilities:				
Accounts payable and accrued liabilities	46	10	291	347
Accrued interest payable		232		232
Due to other funds		6,463	4,150	10,613
Other liabilities			243	243
Current liabilities payable from restricted assets:				
Accounts payable from restricted assets			171	171
Total current liabilities	46	6,705	4,855	11,606
Noncurrent liabilities:				
Revenue bonds payable, net		14,778		14,778
Other liabilities	681			681
Total noncurrent liabilities	681	14,778		15,459
Total liabilities	727	21,483	4,855	27,065
Net assets:				
Invested in capital assets, net of related debt			44,539	44,539
Unrestricted	12,012	13,848	4,726	30,586
Total net assets	\$12,012	\$13,848	\$49,265	\$ 75,125

CITY OF BALTIMORE
Combining Statement of Revenues, Expenses,
and Changes in Fund Net Assets
Nonmajor Proprietary Funds
For the Year Ended June 30, 2005
(Expressed in Thousands)

	Loan and Guarantee Program	Industrial Development Authority	Conduit Fund	Total
Operating revenues:				
Rents, fees, and other income	\$ 49	\$ 1,524	\$ 5,890	\$ 7,463
Interest income on loans	393	710		1,103
Total operating revenues	442	2,234	5,890	8,566
Operating expenses:				
Salaries and wages	172		1,353	1,525
Other personnel costs	36		510	546
Contractual services	287		858	1,145
Program expenses	2,694	270		2,964
Materials and supplies			111	111
Minor equipment			96	96
Depreciation			899	899
Interest		1,903		1,903
Total operating expenses	3,189	2,173	3,827	9,189
Operating income (loss)	(2,747)	61	2,063	(623)
Capital contributions			32	32
Transfers in	2,898			2,898
Changes in net assets	151	61	2,095	2,307
Total net assets — beginning	11,861	13,787	47,170	72,818
Total net assets — ending	\$12,012	\$13,848	\$49,265	\$75,125

CITY OF BALTIMORE
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the Year Ended June 30, 2005

(Expressed in Thousands)

	Loan and Guarantee Program	Industrial Development Authority	Conduit Fund	Total
Cash flows from operating activities:				
Receipts from customers	\$ 422	\$ 2,042	\$ 5,280	\$ 7,744
Payments to employees	(208)		(1,852)	(2,060)
Payments to suppliers	(2,925)	(5,614)	230	(8,309)
Net cash provided (used) by operating activities	(2,711)	(3,572)	3,658	(2,625)
Cash flows from non-capital financing activities:				
Transfers in	2,898			2,898
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets			(1,124)	(1,124)
Capital contributions			32	32
Principal paid on revenue bonds		(7,479)		(7,479)
Net cash provided (used) by capital and related financing activities		(7,479)	(1,092)	(8,571)
Cash flows from investing activities:				
Proceeds from sale of investments	476			476
Net increase (decrease) in cash and cash equivalents	663	(11,051)	2,566	(7,822)
Cash and cash equivalents, beginning of year	12,005	45,680	5,653	63,338
Cash and cash equivalents, end of year	\$12,668	\$ 34,629	\$ 8,219	\$55,516
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (2,747)	\$ 61	\$ 2,063	\$ (623)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation			899	899
Amortization of bond issuance costs		34		34
Changes in assets and liabilities:				
Accounts receivable	(20)	(199)	(610)	(829)
Accounts payable and accrued liabilities	25	6	212	243
Other liabilities	31		2	33
Notes payable				
Accrued interest payable		130		130
Due to other funds		(3,605)	1,093	(2,512)
Total adjustments	36	(3,634)	1,596	(2,002)
Net cash provided (used) by operating activities	\$ (2,711)	\$ (3,573)	\$ 3,659	\$ (2,625)

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.

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, 2005
(Expressed in Thousands)

	Mobile Equipment	Reproduction and Printing	Municipal Post Office	Municipal Telephone Exchange	Risk Management	Total
Assets:						
Current assets:						
Cash and cash equivalents	\$20,735		\$52	\$8,783	\$ 20,935	\$ 50,505
Investments					4,878	4,878
Accounts receivable, net:						
Other	193	\$ 89		3	7,277	7,562
Inventories	1,335	223	20			1,578
Total current assets	22,263	312	72	8,786	33,090	64,523
Noncurrent assets:						
Property, plant, and equipment, net	28,079	12		164	198	28,453
Other assets					634	634
Total noncurrent assets	28,079	12		164	832	29,087
Total assets	50,342	324	72	8,950	33,922	93,610
Liabilities:						
Current liabilities:						
Accounts payable and accrued liabilities	4,121	240	34	386	10,924	15,705
Due to other funds	35	1,218				1,253
Estimated liability for claims in progress					62,547	62,547
Other liabilities	2,390	143	45	113	542	3,233
Total current liabilities	6,546	1,601	79	499	74,013	82,738
Noncurrent liabilities:						
Estimated liability for claims in progress					102,030	102,030
Total liabilities	6,546	1,601	79	499	176,043	184,768
Net assets:						
Invested in capital assets, net of related debt	28,079	12		164	198	28,453
Unrestricted (deficit)	15,717	(1,289)	(7)	8,287	(142,319)	(119,611)
Total net assets	\$43,796	\$(1,277)	\$(7)	\$8,451	\$(142,121)	\$(91,158)

CITY OF BALTIMORE
Combining Statement of Revenues, Expenses,
and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2005
(Expressed in Thousands)

	Mobile Equipment	Reproduction and Printing	Municipal Post Office	Municipal Telephone Exchange	Electronic Equipment Maintenance	Risk Management	Total
Operating revenues:							
Charges for services	\$38,279	\$ 2,193	\$1,617	\$12,359	\$ 24	\$ 236,061	\$290,533
Operating expenses:							
Salaries and wages	9,218	914	297	835	206	2,502	13,972
Other personnel costs	3,235	344	127	294	79	690	4,769
Contractual services	12,094	913	96	8,395	138	9,039	30,675
Materials and supplies	9,968	610	6	4	79	57	10,724
Minor equipment	196	76		91	1	3	367
Claims paid and incurred						242,666	242,666
Postage and delivery service			809				809
Depreciation	5,667	13	2	78		76	5,836
Total operating expenses	40,378	2,870	1,337	9,697	503	255,033	309,818
Operating income (loss)	(2,099)	(677)	280	2,662	(479)	(18,972)	(19,285)
Nonoperating revenues (expenses):							
Investment income						1,155	1,155
Loss on disposal of property	(7,047)						(7,047)
Total nonoperating revenues (expenses)	(7,047)					1,155	(5,892)
Net income (loss) before contributions and transfers	(9,146)	(677)	280	2,662	(479)	(17,817)	(25,177)
Contributions	(5,452)						(5,452)
Transfers out					(1,008)		(1,008)
Total net assets — beginning	58,394	(600)	(287)	5,789	1,487	(124,304)	(59,521)
Total net assets — ending	\$43,796	\$(1,277)	\$(7)	\$ 8,451		\$(142,121)	\$(91,158)

CITY OF BALTIMORE
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2005

(Expressed in Thousands)

	Mobile Equipment	Reproduction and Printing	Municipal Post Office	Municipal Telephone Exchange	Electronic Equipment Maintenance	Risk Management	Total
Cash flow from operating activities:							
Receipts from customers	\$ 38,259	\$ 2,127	\$ 1,617	\$12,358	\$ 25	\$ 230,740	\$285,126
Payments to employees	(12,385)	(1,259)	(443)	(1,105)	(315)	(3,114)	(18,621)
Payments to suppliers	(22,252)	(862)	(1,122)	(9,090)	(181)	(232,583)	(266,090)
Net cash provided used by operating activities	3,622	6	52	2,163	(471)	(4,957)	415
Cash flows from noncapital financing activities							
Transfers out					(1,008)		(1,008)
Net cash used by noncapital financing activities					(1,008)		(1,008)
Cash flows from capital and related financing activities:							
Acquisition and construction of capital assets	(3,712)	(6)				(5)	(3,723)
Net cash used by capital and related financing activities	(3,712)	(6)				(5)	(3,723)
Cash flows from investing activities:							
Proceeds from the sale and maturities of investments						400	400
Purchase of investments						(546)	(546)
Interest on investments						1,155	1,155
Net cash provided by investing activities						1,009	1,009
Net increase (decrease) in cash and cash equivalents	(90)			2,163	(1,479)	(3,953)	(3,307)
Cash and cash equivalents, beginning of year	20,825		52	6,620	1,479	24,888	53,812
Cash and cash equivalents, end of year	\$ 20,735		\$ 52	\$ 8,783		\$ 20,935	\$ 50,505
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating income (loss)	\$ (2,099)	\$ (677)	\$ 280	\$ 2,662	\$ (479)	\$ (18,972)	\$ (19,285)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	5,667	13	2	78		76	5,836
Changes in assets and liabilities:							
Accounts receivable	(20)	(66)		(1)	1	(5,383)	(5,469)
Due from other funds		715	(224)				491
Inventories	(328)	12	(6)		43		(279)
Other assets						62	62
Accounts payable and accrued liabilities	281	14	20	(593)	(14)	9,834	9,542
Other liabilities	86	(5)	(20)	17	(22)	64	120
Due to other funds	35						35
Estimated liability for claims in progress						9,362	9,362
Total adjustments	5,721	683	(228)	(499)	8	14,015	19,700
Net cash provided (used) by operating activities	\$ 3,622	\$ 6	\$ 52	\$ 2,163	\$ (471)	\$ (4,957)	\$ 415

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, 2005
(Expressed in Thousands)

	Employees' Retirement System	Elected Officials' Retirement System	Fire and Police Employees' Retirement System	Total
Assets:				
Cash and cash equivalents	\$ 150,296	\$ 101	\$ 74,556	\$ 224,953
Investments:				
Stocks	697,927		1,154,254	1,852,181
Bonds	424,403		655,297	1,079,700
Mutual funds		14,480		14,480
Real estate	54,269		169,227	223,496
Securities lending collateral	118,207		255,309	373,516
Other assets	54,848	2	12,049	66,899
Total assets	<u>1,499,950</u>	<u>14,583</u>	<u>2,320,692</u>	<u>3,835,225</u>
Liabilities:				
Obligations under securities lending program	118,207		255,309	373,516
Accounts payable	94,172	16	49,333	143,521
Pension benefits payable				
Total liabilities	<u>212,379</u>	<u>16</u>	<u>304,642</u>	<u>517,037</u>
Net assets held in trust for pension benefits	<u>\$1,287,571</u>	<u>\$14,567</u>	<u>\$2,016,050</u>	<u>\$3,318,188</u>

CITY OF BALTIMORE
Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2005
(Expressed in Thousands)

	Employees' Retirement System	Elected Officials' Retirement System	Fire and Police Employees' Retirement System	Total
Additions:				
Contributions:				
Employer	\$ 23,625	\$ 575	\$ 48,667	\$ 72,867
Employee	476	51	15,360	15,887
Total contributions	24,101	626	64,027	88,754
Investment income:				
Net appreciation (depreciation) in fair market value of investments	80,661	1,207	178,448	260,316
Securities lending income	310		390	700
Interest and dividend income	31,462	66	46,506	78,034
Total investment income	112,433	1,273	225,344	339,050
Less: investment expense	3,098	12	6,657	9,767
Net investment income	109,335	1,261	218,687	329,283
Total additions	133,436	1,887	282,714	418,037
Deductions:				
Retirement allowances	90,034	476	158,204	248,714
Death benefits	1,125		621	1,746
Administrative expenses	1,882	29	2,143	4,054
Other	140	36	1,403	1,579
Total deductions	93,181	541	162,371	256,093
Changes in net assets	40,255	1,346	120,343	161,944
Net assets — beginning of the year	1,247,316	13,221	1,895,707	3,156,244
Net assets — end of the year	\$1,287,571	\$14,567	\$2,016,050	\$3,318,188

CITY OF BALTIMORE
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2005

(Expressed in Thousands)

	Unpresented Stock and Coupon Bonds	Property Sold for Taxes	Bid Deposit Refunds	Waterloo Summit	Recreation Accessory	Insurance Deposits	Total
Assets:							
Cash and cash equivalents	\$55	\$86	\$67		\$1,463	\$ 207	\$ 1,878
Investments				\$51		8,791	8,842
Total assets	55	86	67	51	1,463	8,998	10,720
Liabilities:							
Accounts payable and accrued liabilities	43						43
Other	12	86	67	51	1,463	8,998	10,677
Total liabilities	\$55	\$86	\$67	\$51	\$1,463	8,998	\$10,720

CITY OF BALTIMORE
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2005

(Expressed in Thousands)

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Unpresented Stock and Coupon Bonds				
Assets:				
Cash	\$ 55			\$ 55
Total assets	55			55
Liabilities:				
Accounts payable and accrued liabilities	43			43
Other	12			12
Total liabilities	55			55
Property Sold for Taxes				
Assets:				
Cash	86			86
Total assets	86			86
Liabilities:				
Other	86			86
Total liabilities	86			86
Bid Deposit Refunds				
Assets:				
Cash	115	\$ 64	\$ 112	67
Total assets	115	64	112	67
Liabilities:				
Other	115	64	112	67
Total liabilities	115	64	112	67
Waterloo Summit				
Assets:				
Investments	51			51
Total assets	51			51
Liabilities:				
Other	51			51
Total liabilities	51			51
Recreation Accessory				
Assets:				
Cash	1,308	2,859	2,704	1,463
Total assets	1,308	2,859	2,704	1,463
Liabilities:				
Other	1,308	2,859	2,704	1,463
Total liabilities	1,308	2,859	2,704	1,463
Issuance Deposits				
Assets:				
Cash		207		207
Investments		8,791		8,791
Total assets		8,998		8,998
Liabilities:				
Other		8,998		8,998
Total liabilities		8,998		8,998
Total All Agency Funds				
Assets:				
Cash	1,564	3,130	2,816	1,878
Investments	51	8,791		8,842
Total assets	1,615	11,921	2,816	10,720
Liabilities:				
Accounts payable and accrued liabilities	43			43
Other	1,572	11,921	2,816	10,677
Total liabilities	\$1,615	\$11,921	\$2,816	\$10,720

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
2005	406,849	476,157	142,219	29,451	226,913	23,303	36,304	132,909	36,836	15,695	80,045

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
2005	40,944	96,893	133,463	17,478	3,917	3,193	2,173	1,904,741

* The first six fiscal years are not available

CITY OF BALTIMORE
Government-wide Revenues
Last Ten Fiscal Years*

(Expressed in Thousands)

Unaudited

Fiscal Year	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Grants and Contributions Not Restricted to Specific Programs	Unrestricted Investment Income	Miscellaneous	Total
2002	\$333,025	\$429,036	\$ 41,863	\$766,589	\$173,604	\$40,290	\$26,577	\$1,810,984
2003	345,720	472,628	66,453	793,817	173,412	31,841	31,324	1,915,195
2004	379,420	477,870	107,075	821,701	169,703	25,032	24,195	2,004,996
2005	382,113	401,958	100,221	910,701	200,199	31,273	36,884	2,063,349

* The first six 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
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
2005	1,110,900	29,407	438,327	45,635	8,910	30,170	21,222	1,684,571

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 Services	Debt Service	Capital Expenditures	Total
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
2005	361,886	467,005	85,106	28,109	23,872	141,857	29,412	29,873	85,167	210,192	12,715	73,602	183,160	1,731,956

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, expenditures for the Baltimore City Public School System 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
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
2005	548,552	529,074	96.4	6,144	535,218	97.6	(5,997)	21,546	3.9

Note:

- (1) Excludes State portion of delinquent property taxes, which at June 30, 2005 totaled \$991,000. 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	
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)
2005	18,781,171(1)	19,783,195	1,847,190	1,847,190	20,628,361(1)	21,630,385	95.4(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)
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
2005(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)
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
2005	38,508(25)	28,187(26)	66,695	1,523,519	4.4

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.
- (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.
- (25) Excludes \$3,540,000 in federal loans.
- (26) Excludes \$2,010,000 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)
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	18,099	530,166	2.7(1)	825
2005	636,300	20,628,361(1)	582,587	31,798(2)	27,503	523,286	2.5(1)	822

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, 2005 was:

Off-street parking facilities general obligation bonds and notes (portion reimbursable by private operators)	\$29,171
Water utility general obligation bonds	908
Waste water utility general obligation bonds	1,719
Total	<u>\$31,798</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	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
	2005	99,282	76,772	22,510	2,655	16,091	18,746	1.20
Waste Water Utility	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
	2005	134,805	105,030	29,775	4,794	12,559	17,353	1.72
Parking Facilities	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
	2005	56,613	6,986	49,627	4,680	11,812	16,492	3.01
Convention Center	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
	2005	4,566		4,566	2,095	2,508	4,603	.99

Notes:

(1) Operating expenses — excluding depreciation and amortization.

CITY OF BALTIMORE
Computation of Overlapping Debt
June 30, 2005

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	
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	11,905,939
2005	2,215	699,001	708	473,817	7,013,448	13,907,381	8,513,970	

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, 2005 figure is unavailable.

CITY OF BALTIMORE
Principal Taxpayers
For the Year Ended June 30, 2005

(Dollars Expressed in Thousands)

Unaudited

Taxpayer	Type of Business	2005 Assessed Value	Percentage of Total Assessed Value
BGE (Baltimore Gas & Electric Company)	Power Utility	\$ 578,701	2.8%
Verizon—Maryland	Telephone/Communications	360,790	1.7%
Baltimore Center Associates, LTD Partnership	Real Estate	150,759	0.7%
Boston Properties, Inc.	Real Estate	136,201	0.7%
Harbor East Limited	Real Estate	103,681	0.5%
CSX Transportation, Inc.	Rail Road	84,264	0.4%
ABB South Street Associates	Real Estate	69,000	0.3%
TMCT, LLC	Newspaper	61,807	0.3%
Travis Real Estate Group	Real Estate	58,151	0.3%
U.S. Bank National	Financial Institution	57,670	0.3%
		\$1,661,024	8.0%

CITY OF BALTIMORE
Demographic and Miscellaneous Statistics
For the Year Ended June 30, 2005

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 fourteen Council Members, one for each district.	

Infrastructure:

Police Stations	9
Fire Stations	39
Street miles	2,000
Storm Drain miles	1,080
Sanitary Sewer miles	1,340
Park acreage	5,827
Recreation Facilities:	
Zoo (attendance)	363,000
Arena (attendance)	482,000
Aquarium (attendance)	1.4 million
Pools and Water Play facilities	43
Golf Courses	5
Ice Rinks	2
Indoor Soccer Fields	2
Library Facilities	22
Volumes (millions)	2.2
Circulation (millions)	1.4
Other Facilities (attendance):	
Oriole Park at Camden Yards	2.6 million
M & T Bank Stadium (Baltimore Ravens)	684,000
Convention Center	542,000
Baltimore Museum of Art	243,000
Walters Art Museum	125,000
Meyerhoff Symphony Hall	318,000

Principal Public Service Departments

Department	Full Time Budgeted Positions		
	FY2006	FY2001	FY1997
Police	3,983	3,961	3,878
Fire	1,741	1,754	1,770
Public Works	3,464	5,580	5,754
Recreation and Parks	362	326	582
All Other Employees	5,706	4,250	4,180
Totals	15,256	15,871	16,164

Economy

	FY2005	FY2001	FY1997
Retail Sales (in billions)	\$ 5.4	\$ 4.8	\$ 4.2
Income/Cap(1)	(2)\$ 27,828	\$ 26,555	\$ 23,705
Total Employment	251,732	274,833	284,680
% Unemployment	7.4%	7.7%	8.7%
Office Vacancy Rate	11.5%	11.2%	19.1%
Real Property Tax Rate	(3)\$2.328/100	\$5.82/100	\$5.82/100

- (1) Calendar year figures.
(2) Calendar year 2003 in the latest year available.
(3) 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