

City of Baltimore
Maryland

Comprehensive Annual Financial Report
Year Ended June 30, 2006

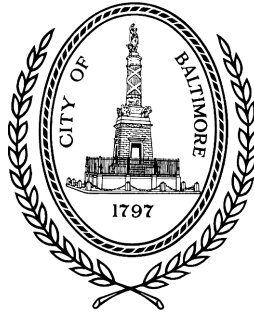
City of Baltimore, Maryland

Comprehensive Annual Financial Report

Year Ended June 30, 2006

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 Rawlings-Blake, *Vice-President*

FIRST DISTRICT James B. Kraft	EIGHTH DISTRICT Helen Holton
SECOND DISTRICT Nicholas D'Adamo, Jr.	NINTH DISTRICT Agnes Welch
THIRD DISTRICT Robert Curran	TENTH DISTRICT Edward Reisinger
FOURTH DISTRICT Kenneth N. Harris, Sr.	ELEVENTH DISTRICT Keiffer Jackson Mitchell
FIFTH DISTRICT Rochelle "Rikki" Spector	TWELFTH DISTRICT Bernard "Jack" Young
SIXTH DISTRICT Stephanie Rawlings-Blake	THIRTEENTH DISTRICT Paula Johnson Branch
SEVENTH DISTRICT Belinda Conaway	FOURTEENTH DISTRICT Mary Pat Clarke

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Introductory Section

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

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CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor



DEPARTMENT OF FINANCE

EDWARD GALLAGHER, Director
469 City Hall
Baltimore, Maryland 21202

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

December 8, 2006

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, 2006. 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 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 with related notes. The financial section also includes the combining and individual fund financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multiyear basis.

Management has provided a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (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, 2006. 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 635,815. 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 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 Department of Finance, 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, 2006.

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. 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 350,000 or 28.5% of the 1.23 million jobs in the metropolitan area are located in the City. The rapid completion and leasing out of the first building at the University of Maryland's westside bio-technology park, and the immediate decision to begin construction on the second business park building in the center is one example of growing recognition of the location advantages. The East Baltimore Development Initiative broke ground in April 2006 on the Institute for Basic Biomedical Sciences of the Johns Hopkins School of Medicine, an anchor project of the multi use residential, commercial and bio-medical park being developed on the north side of the medical campus.

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 5.1% of the City's jobs. This is a lower percentage than the region, the state and the nation. A total of 25.6% 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 utility service providers, and two are financial institutions. The City derives economic strength from concentration of jobs in the fast growing health sector, and in knowledge and information-based education and information services sectors.

An increasing number of workers in the Washington, D.C. and Northern Virginia area commute to jobs from homes in Baltimore. The City expanded its aggressive marketing efforts in the Washington, D.C. area of its low cost, high value housing and business location options in Fiscal 2006.

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 and Health System, the world's premier medical facility, and the University of Maryland School of Medicine, the nation's first public medical school and one of the nation's largest public medical school research dollar recipients. 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 635,815 for July 1, 2005. Based on this estimate, the four-year period 2001 to 2005 averaged a decline of 198 per month. It is believed that an accurate mid-decade count would show that the City's population has stabilized and perhaps increased slightly. The positive results of the City's multiple appeals of the Census population estimates point to that possibility. This is a dramatic change from the prior three decades. It confirms 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 2006, estimated to be in excess of \$2.0 billion. These redevelopment investments 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

The data from the U.S. Bureau of Labor Statistics (BLS) for the period ending March 31, 2006, the most recent reliable data available, indicates a leveling off in the job loss that the City has experienced since employment last peaked in 2000. The BLS reports that the 348,400 jobs were located in the City as of March 2006 represented a minimal 0.3 percent decline compared to March 2005. The 2006 first calendar quarter to quarter numbers were down only 0.4%. The most recent peak in employment was 387,600 in calendar 2000. Jobs located in the City declined on average about 680 per month from Calendar 2000 through calendar 2004. In calendar 2005 the average monthly decline was down from 680 to 407.

The resident unemployment rate for Fiscal 2006 also improved. The Fiscal 2006 rate declined to 6.6% compared to 7.5% in Fiscal 2005. This improvement in the rate of change in jobs will hopefully be sustained as the City's development efforts expand and take hold providing a broader base for job growth.

Retail Sales

Retail sales reported by the State of Maryland for the City grew from \$5.35 billion in Fiscal 2005 to \$5.65 billion in Fiscal 2006, a healthy increase of 5.6%. This growth reflects the cyclical pattern of recovery from the last recession, the effects of the City's efforts to attract retailers, and the marketing decisions of retailers as they rediscover urban centers. In particular, the City has benefited by opening 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 calendar 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 year 2005 by 39.2% compared to 2004 and the average selling price increased by 23.7%. Both rates of change were greater than the metropolitan area. The number of units sold increased 12.5%, more than four times the region's 2.9% increase. The City has some concern about the proportion of these properties that have been bought by investors and the number of condominiums being constructed. However, this realistic cautious view is offset by the City's underlying role in the regional housing market as the location of reasonable and low cost housing alternatives provided buyers in tight and/or contracting housing markets. This is particularly important as the regional market has grown to include more Washington and Northern Virginia commuters.

The City builds on this market strength by assembling and making available to developers land parcels of significant magnitude to maximize opportunities. Notably the City recently began demolition on a site in west Baltimore comprised of 77 acres near the Baltimore Beltway with easy access to Interstates 95 and 70. This development site is thought to be perhaps the largest parcel currently available for residential development in an east coast urban center.

The apartment market in the City is strong. In Fiscal 2006, 473 newly constructed apartments were completed in the downtown area. This brings the total number of new apartments built downtown to 2,867 since 1999. Another 463 apartment units were under construction in Fiscal 2006. The City's 2007 budget outlook correctly pegged the turning point in the housing market as October 2006. Still market activity remains at historically high levels.

Port

Port activity is sensitive to factors that affect world trade, the state of economies abroad, currency markets and other factors. Calendar year 2005 was a strong year for the port and 2006 has continued to show positive trends. Total tonnage passing through the Port increased by more than 5% during calendar year 2005. Additionally, for calendar year 2005, the Port is in the top ten nationwide in total value of cargo, its position as the number one "roll on / roll off" port in the nation, and for the third 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 9.8% during calendar year 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 2005, about 17.7 million passengers used Baltimore Washington International Thurgood Marshall Airport. Cruise ships utilizing the Port of Baltimore in 2005 increased by 28 the number of ships calling in comparison to 2004. The hotel occupancy rate increased from 68.8% in calendar year 2004 to 70.7% in 2005. The City's hotel, convention center, and admissions and amusement tax receipts increased during Fiscal 2006 by 4.6%. The number of events held at the Baltimore Convention Center increased from 182 in Fiscal 2005 to 201 or 10.4% in Fiscal 2006. Additionally, the Baltimore Area Convention and Visitors Association has an aggressive agenda for boosting the number of convention bookings for the Fiscal 2007.

Office Development

Strong development activity and major additions to the inventory of available space have contributed to stabilize the City's office occupancy rates as well as rental rates. The vacancy rate, which decreased from 16.1% in Fiscal 2005 to 12.6% in

Fiscal 2006, registered a slight increase to 12.7% at the end of Fiscal 2006. There is also 1,171,000 square feet of office space under construction that will increase the City's inventory to 26.3 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 2006 follow:

- Strong budget performance in recent years enabled the City in Fiscal 2006 to implement a plan to attack its greatest competitive disadvantage by reducing the real property tax rate—which is almost twice as high as any other Maryland county's rate—by 2 cents per year over the subsequent five years. Now in the second year of the rate reduction effort, the Fiscal 2007 tax rate represents the lowest City property tax rate in at least the past 35 years. The reduction saved taxpayers approximately \$5 million in Fiscal 2006, with cumulative savings of \$95 million estimated over the course of the five-year reduction period.
- Due to unexpectedly high revenue growth, fueled primarily by the strong activity in the real property market in Baltimore City during this period, the City re-allocated \$76 million of surplus General Fund revenues in Fiscal 2006 towards high priority needs. Of this total, nearly \$40 million, or 52 percent, was allocated towards child-related programs including enhancements to after-school programming, and contributions to school construction and maintenance. The remaining funds were allocated largely to neighborhood capital improvements as well as to the overhaul of the City's aging financial systems, the replacement of fully-depreciated fleet equipment, and the creation of a reserve to begin to fund the City's liability for Other Post Employment Benefits pursuant to GASB 45.
- The recovery of the Baltimore City Public School System to fiscal solvency has been a remarkable accomplishment. A cumulative operating budget deficit that stood at \$58 million, which if left unchecked could have swelled to close to \$90 million, has been reversed in just two years and left the System on sound financial footing for the future. In accordance with a March 2004 funding agreement between the Mayor and City Council and the Baltimore Board of School Commissioners, the City advanced \$42 million from its "Rainy Day Fund" to the Baltimore City Public School System to provide necessary cash flow to avoid fiscal insolvency due to a series of accumulated budget deficits. The funding agreement also laid out requirements as to the reimbursement of the \$42 million; \$34 million on or before August 2, 2004 and the remaining \$8 million on or before June 30, 2006. Additionally, the agreement provided for the creation of a Fiscal Operating Committee to develop a financial recovery plan, implement that recovery plan and monitor the system's financial performance until such time as the full reimbursement of the advance had been made and the recovery of fiscal solvency had been accomplished.

The City school system, working with the Fiscal Operating Committee, has accomplished much since the spring of 2004 including:

- Eliminated the accumulated deficit at the close of this past fiscal year, June 30, 2006;
 - Established a \$20 million Budget Stabilization Reserve (Rainy Day Fund);
 - Created new monthly budget reporting systems and put in place a new annual budgetary process to help enable and ensure better financial management practices in the future; and
 - The entire advance was repaid by June 30, 2006.
- In May 2006 Standard & Poor's raised Baltimore City's outlook from stable to positive, affirming that the City is on the right course and that the economic development and financial management strategies employed by the O'Malley Administration are working. Standard & Poor's writes: "...its [the City's] continued improvement in key economic indicators is improving credit quality. This, combined with the City's historical financial performance and position and low debt levels, could lead to the rating rising to the lower end of the AA category within a few years."
 - The City continues to seek the lowest cost financing options for debt issuance. In Fiscal 2006 the City utilized the State clean water revolving loan program for waste water capital project funding. The City borrowed \$41.2 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.
 - The City also utilizes energy conservation measures to finance upgrades to certain public facilities. On June 16, 2006, the City financed the replacement of City-wide traffic signals at approximately 1,300 Baltimore intersections. The financing totaled \$6.7 million and was completed through the City's master lease program at a rate of 4.35%. Energy

savings related to the installation and operation of the new traffic signals will be sufficient to pay debt service over the 10-year lease.

- 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. The City reduced the number of Workers Compensation claims filed by 22 percent in Fiscal 2006 compared to four years earlier (4,905 claims in Fiscal 2002 v. 3,816 in Fiscal 2006), and reduced the amount of incurred costs for those claims (as of June 30th of each year) by 62 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 77 percent in Fiscal 2006.

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 \$17.2 million was made to the budget stabilization fund, which, at June 30, 2006, had a balance of \$82.8 million. When combined with the undesignated unreserved fund balance of \$12.0 million, the total of \$94.8 million comprises about 7.6% of General Fund revenues, a major step to strengthen the City's balance sheet.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

The Administration focuses on the critical long-term concerns facing the City. Baltimore, like many older cities is faced with many challenges: population loss, an unemployment rate which remains 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 2006 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 five 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 25 largest American cities, with a 39.6 percent reduction in incidents of violent crime between 1999 and 2005.

- During Fiscal 2006, the Police Department implemented a new neighborhood-based crime-fighting strategy called "Safe Zones." The purpose of the project is to immediately reduce violent crime in a small area and then to help stabilize a neighborhood so that violent crime remains low after the Safe Zone initiative ends. The immediate crime reduction is achieved by deterring non-residential traffic, redirecting traffic patterns, supplementing street lighting, and having a visible uniformed presence on the street. The longer-term stabilization is achieved by having community partners and City agencies conduct extensive outreach in the neighborhoods. Each Safe Zone has encompassed an area of approximately ten square blocks, and the initiative lasts for approximately four weeks. In the initial five Safe Zone areas in the City's Western District, homicides and non-fatal shootings were reduced by 86.0% over a one-year period. In Fiscal 2006, twenty Safe Zones were created, and an additional twenty are planned for Fiscal 2007.
- In mid-2005, the Police Department began installation and use of two types of video cameras (closed-circuit television cameras and portable "PODSS" cameras) on city streets. The function of the cameras is two-fold: deterrence and detection of crime. The camera programs are supported by a combination of City funds along with federal and private foundation grant funds as well as asset forfeiture funds. The Police Department determines camera locations based on extensive crime analysis and has experienced a 17.0 percent reduction in violent crime over a three year period in areas where cameras have been installed.

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. From the period beginning September 11, 2001 through June 2006 the City had spent an estimated

\$30.9 million in local funds on homeland security enhancements and initiatives as well as receiving \$23.5 million in Federal and State grants. The City has also shared in three Urban Area Security Initiative grants—\$10.9 million in Fiscal Year 2003, \$15.6 million in Fiscal Year 2004, \$11.2 million in Fiscal Year 2005, and \$9.7 million in Fiscal Year 2006—with the five surrounding counties and the City of Annapolis. All of these funds have been invested in the purchase of protective equipment against chemical and biological terror attacks for first responders, police and fire boats for port security, helicopter video surveillance, closed-circuit television cameras, enhanced security at water and waste water facilities, and other equipment and training initiatives.

Other initiatives toward making Baltimore a safe, clean city in Fiscal 2006 included the following:

- **Operation Safe Kids.** 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 and providing them with intensive case management. With supplemental City funding, the program has doubled its caseload capacity from approximately 75 in Fiscal 2005 to 150 in Fiscal 2006 and Fiscal 2007. Since its inception in 2002, OSK has achieved a 33% reduction in arrests in participants' first year after enrollment, a 44% reduction in arrests for violent crimes, and a 55% job placement rate for eligible youth.
- **Cleaning and Boarding Vacant Properties.** The cleaning and boarding of vacant and abandoned houses in the City is a proven deterrent to crime. With \$1.0 million in supplemental General Funds from Fiscal 2005, in Fiscal 2006, the Department of Housing and Community Development eliminated its backlog for cleaning and boarding service requests, reduced the turnaround time on new boarding requests from 190 days to 21 days, and reduced the turnaround time on new cleaning requests from 60 days to 21 days.

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. As mentioned earlier, nearly \$40 million of the City's General Fund surplus in Fiscal 2006 was targeted to one-time programmatic enhancements for the city's children. Fiscal 2006 actions include the following:

- **Local Contribution to the Baltimore City Public School System (BCPSS).** Funding for the BCPSS in the Fiscal 2006 budget was \$204.1 million; the General Fund local share component was \$197.8 million, an amount which exceeded the State mandated Maintenance of Effort requirement by \$6.2 million and represented a per pupil funding increase. In addition to the original adopted budget amount, the City contributed \$3 million in supplemental funds toward building maintenance and facility improvements at the schools (in addition to \$3 million in Fiscal 2005) and another \$25 million in General Fund surplus in Fiscal 2006 toward school construction and renovation. Over and above the annually budgeted contribution, the City directly pays the cost of health benefits for retired BCPSS employees, supports the school health program, and funds the schools' crossing guard program.
- **City School Students Post Significant Gains on 2006 Test Scores.** The City's elementary and middle school students outperformed statewide average gains on the 2006 Maryland School Assessment (MSA) for reading in grades three and seven and math in grades three, four, five and seven, according to results released by the Maryland State Department of Education. Across the board, City public school students continue to advance on the MSA with students in grades three through eight making impressive gains in math, and students in grades three, four, five and seven posting gains in reading.
- **After School Programs.** Over the past year, Baltimore City has succeeded in markedly expanding its school-based after-school programs (from approximately 12 schools to 47) and in initiating the establishment of community schools throughout the city. In Fiscal 2006, \$5.0 million was allocated from the General Fund surplus to expand after-school program opportunities for City children, in addition to \$1.5 million included in the base budget. All told, in Fiscal 2006, Baltimore City supported the provision of quality after-school programming and opportunities to more than 5,800 of the city's school-age children.
- **Reducing Childhood Lead Poisoning.** In July 2006, the Maryland Department of the Environment released its *Childhood Blood Lead Surveillance Annual Report*, which finds that 854 children under age 6 in 2005 were identified with blood lead levels of 10 micrograms per deciliter or more in Baltimore City, a 28% decline from 1,183 children in 2004. The report also finds that in 2005, 70 children in Baltimore City were identified with lead levels over 20 micrograms per deciliter, a 52% decline from 147 children in 2004.

- **Creating New Play Spaces.** Since 1999 the Department of Recreation and Parks has constructed or renovated 120 playgrounds. There are currently 27 additional playgrounds planned for renovation/construction.

Objective 3: Make government responsive, accountable and cost effective

- **CitiStat.** Baltimore City's CitiStat Office continued to serve as the primary management tool for the government during Fiscal 2006. 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 since its inception has produced over \$350 million in positive financial impacts for the City. The CitiStat program has been awarded both the Government Finance Officers Association (GFOA) Excellence in Government award (2005) and 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 (2004).
- **311 System.** Coupled with the CitiStat accountability program, in Fiscal 2006 the City continued use of its 311 "One Call to City Hall" service, which has recorded and memorialized 2.5 million service request calls, of which almost 99 percent have been closed by the responsible City agencies. The 311 system leaves a detailed audit trail of what actions by which individuals were involved in each service request closure.
- **New Financial Systems.** During 2006, the City completed the implementation of an electronic time and attendance reporting system as the first step in replacing its entire 30-year old mainframe based payroll system. This initiative is modernizing one of the City's most basic business practices—how it pays its employees. The new system efficiently streamlines time and attendance reporting and allows for easy reporting of management information essential for effective financial control and planning. This implementation will be followed up with a new back-end payroll system, a new human resources management system, a new e-procurement system, a new revenue management system, and ultimately a new general ledger/financial system—all components of the complete strategic overhaul of the City's core administrative systems infrastructure. The overhaul is expected to be completed incrementally, with each system coming online in staggered timeframes running through 2008.

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

- **Convention Center Hotel.** During Fiscal 2006, the City began construction of a new \$300 million publicly-financed convention center headquarters hotel that is providing 700 temporary new construction jobs and will provide 600 new permanent positions when completed in August 2008.
- **East Baltimore Development Inc.** 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 April 2006, EBDI broke ground on its new Life Sciences Center.
- **Baltimore Development Corporation.** The Baltimore Development Corporation's (BDC) mission is to stabilize and expand the City's job base by retaining existing city-based employers, helping them grow, and recruiting new employers to the city. In calendar year 2005, BDC directly assisted 101 small, medium, and large companies, accounting for 2,320 jobs retained and created. Since 2000, BDC has assisted over 525 businesses and development projects, resulting in the retention and creation of just under 30,000 jobs. On average, 84% of the businesses and projects assisted by BDC in any given year are outside of downtown in Baltimore's industrial areas, retail districts, and neighborhoods.

- **Westside Initiative.** The Baltimore Development Corporation (BDC) is leading the City's West Side Initiative, anchored by the restored Hippodrome Performing Arts Center and a University of Maryland Biotech Park. The Biotech Park is a \$40 million, 800,000 square foot project located on 4.7 acres that will create 3,000 jobs with completion expected in calendar year 2006. 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 the historic central business district.
- **Cultural and Recreational Amenities.** In 2005, the National Aquarium in Baltimore completed a \$65 million, 80,000 square foot expansion including waterfront park and promenade and the \$35 million, 70,000 square foot Reginald F. Lewis Museum of African American History was also completed during 2005. In April 2006, the West Shore Park, a \$4.5 million Inner Harbor park featuring a lawn, public gardens, trees and a fountain was completed.
- **Minority Business Development.** 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 more than doubled from \$44.7 million in 2000 to \$93.4 million in 2005. In this time, the City has awarded 92 contracts of \$1 million or more to minority- and women-owned businesses. More importantly, a large number of minority- and women-owned enterprises are developing equity stakes in major development projects in the city. Four major construction projects with a total development cost of \$174.0 million have had an MBE equity ownership interest of more than half since 2000. Currently, more than half (53.0%) of Baltimore Development Corporation (BDC) projects receiving support from the City include minority ownership.

Objective 5: Create stable and healthy neighborhoods

- **Project 5000.** Project 5000, an initiative under Department of Housing and Community Development, 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. Through the fall of 2006, more than 6,100 vacant and abandoned properties had been acquired through Project 5000.
- **Affordable Housing Fund.** The City has created an Affordable Housing Fund with \$60 million in projected revenues through Fiscal 2010, \$19.2 million of which has been allocated in the first two years (Fiscal 2006 and 2007). The funds are targeted primarily to defray costs associated with clearing land to make it available for affordable housing development.
- **Park Heights Master Plan.** In Fiscal 2006, \$6.0 million in supplemental funds were allocated for the implementation of the Park Heights Master Plan, which represents a collective multi-agency effort to plan the revitalization and renaissance of the Parks Heights neighborhood. The funds in the first phase of the plan will be used for blight elimination activity, particularly in a ten-block area that is almost entirely vacant; home improvement incentives in the form of forgivable loans; and seed money for human and social service projects.
- **Healthy Neighborhoods.** In Fiscal 2006, \$1.0 million in supplemental funds were allocated to expand the Healthy Neighborhoods Initiative (HNI), which is an effort of area foundations and the City to invest strategically in targeted blocks within certain neighborhoods. Special purchase-rehab mortgages and home improvement loans are available for properties on HNI blocks.
- **Demolition Activities.** Also in Fiscal 2006, \$1.0 million in supplemental funds were allocated for demolition on 15 blocks throughout the city that consist of completely vacant structures along with \$3 million to support demolition activities in the East Baltimore Development Initiative and another \$1 million for demolition of the Lutheran Hospital building by the Coppin State campus, which has been vacant for 16 years. This is in addition to \$3.07 million allocated for demolition in the Fiscal 2007 capital budget.
- **New Southeast Anchor Library.** Construction is underway on the first new library in Baltimore City in more than 30 years, expected to open in the spring of 2007. The new library replaces the Highlandtown branch and will have a significantly larger collection, more convenient service hours, and space for public programs and meetings not available at the present branch. The Fiscal 2006 surplus provided \$250,000 for the purchase of books and materials.
- **HIV Early Detection.** The City continues to increase the amount of local funds invested in HIV/AIDS prevention and outreach. With the support of \$300,000 in supplemental appropriations from the Fiscal 2006 General Fund

surplus, as well as \$700,000 in additional funding in the Fiscal 2007 budget, the Health Department is launching a new laboratory testing system that uses HIV RNA screening to detect HIV infections within days or weeks after they occur. HIV RNA tests can detect the presence of the virus itself among people who have not yet formed antibodies and who will falsely test negative with traditional antibody testing. This early identification, when a traditional blood test would indicate a false negative result, is a public health opportunity to improve HIV detection and prevention strategies. Early estimates suggest that detection of early infection may avert up to 25% of subsequent HIV transmission, with possibilities for even greater prevention impact from a population with a high prevalence of HIV infection, such as Baltimore City. The Health Department, through its five public clinics, field outreach efforts, and mobile programs, performs over 16,000 HIV tests annually.

- **Buprenorphine Pilot Initiative.** The Fiscal 2006 surplus provided \$250,000 for the Health Department to initiate a pilot program using buprenorphine as an alternative for drug treatment. Buprenorphine is a drug similar to methadone but has the potential for wider prescription. As with methadone, research and expert consensus indicate a high success rate among heroin addicts, with about one half of the participants in research trials remain abstinent from heroin for at least six months after the start of treatment. Buprenorphine is not a substitute for methadone, but it presents an incredible opportunity. It challenges Baltimore City to expand access to drug treatment by calling on its comprehensive medical system. The \$250,000 will be utilized to educate physicians about buprenorphine, to utilize patient insurance for prescription of the drug, and to explore ways to make buprenorphine treatment in primary care affordable for potentially thousands of city residents.

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, 2005.

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,

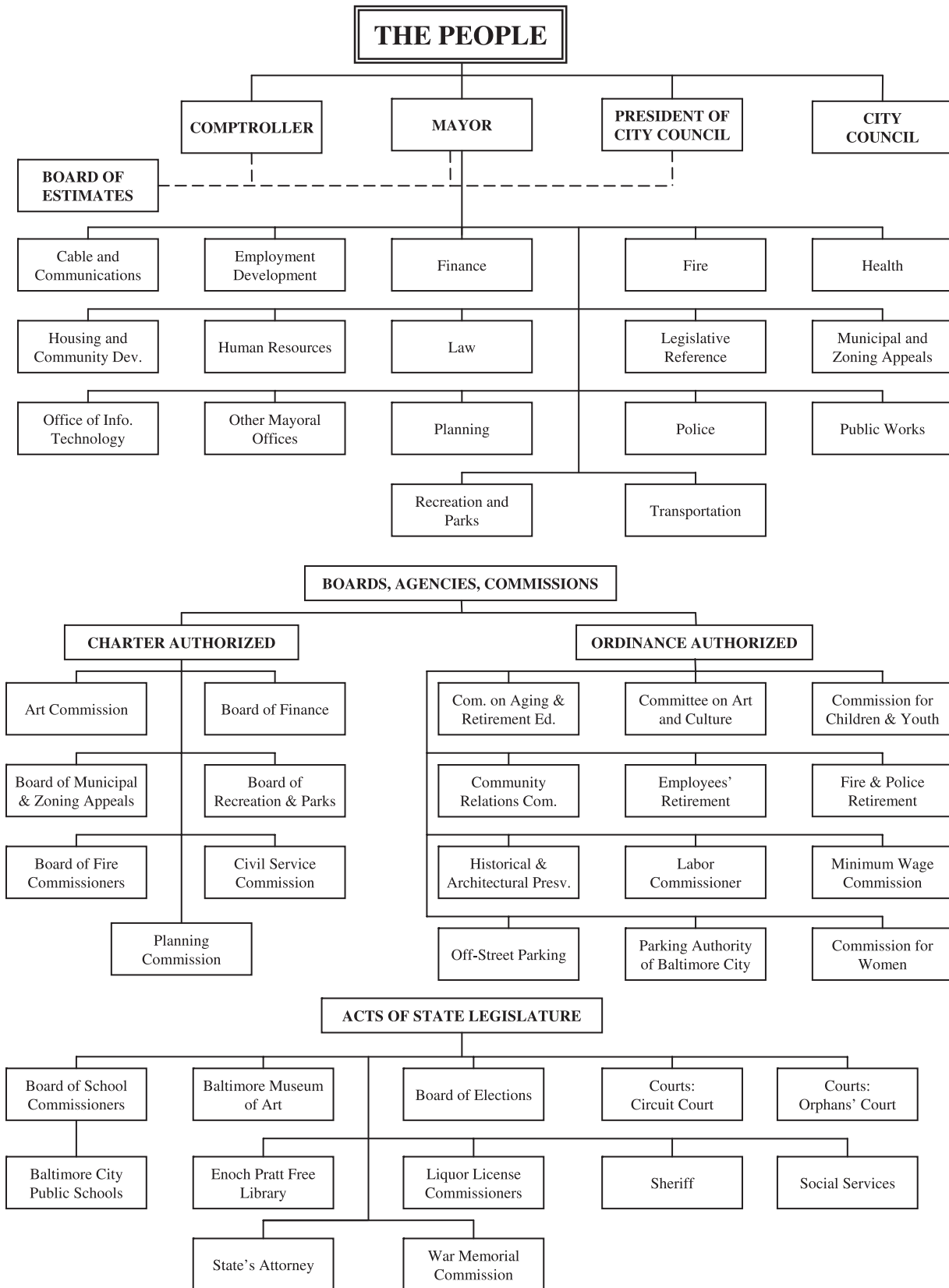


Martin O'Malley
Mayor



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, 2005

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



President

Executive Director

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Financial Section

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

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CITY OF BALTIMORE

MARTIN O'MALLEY

Mayor



621 E. Pratt Street

Baltimore, Maryland 21202

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

December 8, 2006

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, 2006, 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.

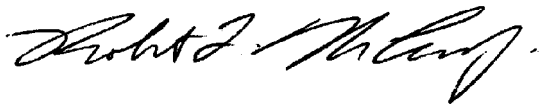
We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform 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, 2006, 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.

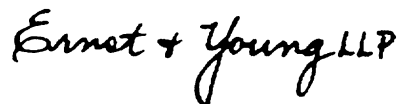
In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2006, on our consideration of the City of Baltimore, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 68, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



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



Ernst & Young LLP
Independent Auditors

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Baltimore's (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, 2006. 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 \$3.8 billion (net assets). This amount includes \$296.7 million (restricted net assets) and is net of an unrestricted deficit \$306.9 million. During the fiscal year, the City's total net assets decrease by \$60.9 million.

As of June 30, 2006, the City's governmental funds reported combined ending fund balances of \$281.5 million. At the close of the current fiscal year, unreserved fund balance for the general fund was \$65.4 million or 6.1% of total general fund expenditures of \$1.06 billion.

The City's total long-term debt increased by \$8.6 million (1.5%), during the current fiscal year. The key factors in this increase were issuances of \$47.5 million in general obligation bonds, \$11.7 million in new federal loans, and \$3.0 million in new special obligation bonds.

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 including notes to the Required Supplementary Information in addition to the basic financial statements themselves.

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

Financial Report Layout and Structure

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

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

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

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

Government-wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

Governmental funds

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

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

Proprietary funds

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

The City maintains the following two types of proprietary funds:

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

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

Fiduciary funds

Fiduciary funds are used to report assets held in a trust or agency capacity for others. These resources cannot be used to support the City’s own programs and are not reflected in the government-wide financial statements. The City’s fiduciary funds are comprised of pension trust 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	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 882,476	\$ 738,764	\$ 560,279	\$ 528,299	\$1,442,755	\$1,267,063
Capital assets, net	3,345,855	3,232,579	2,016,783	1,843,433	5,362,638	5,076,012
Total assets	4,228,331	3,971,343	2,577,062	2,371,732	6,805,393	6,343,075
Long-term liabilities outstanding	1,222,382	849,444	1,012,384	912,496	2,234,766	1,761,940
Other liabilities	675,127	638,435	93,899	80,180	769,026	718,615
Total liabilities	1,897,509	1,487,879	1,106,283	992,676	3,003,792	2,480,555
Net assets:						
Invested in capital assets, net of related debt	2,684,600	2,898,611	1,127,216	1,001,112	3,811,816	3,899,723
Restricted	13,773	13,774	282,924	252,812	296,697	266,586
Unrestricted	(367,551)	(428,921)	60,639	125,132	(306,912)	(303,789)
Total net assets	\$2,330,822	\$2,483,464	\$1,470,779	\$1,379,056	\$3,801,601	\$3,862,520

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 \$3.8 billion at the close of the current fiscal year. The City's net assets include its investment of \$5.4 billion in capital assets (e.g., land, buildings, and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities. An additional portion of the City's net assets, \$297.0 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance is a deficit in unrestricted net assets of \$307.0 million.

CITY OF BALTIMORE

Changes in Net Assets

(Expressed in Thousands)

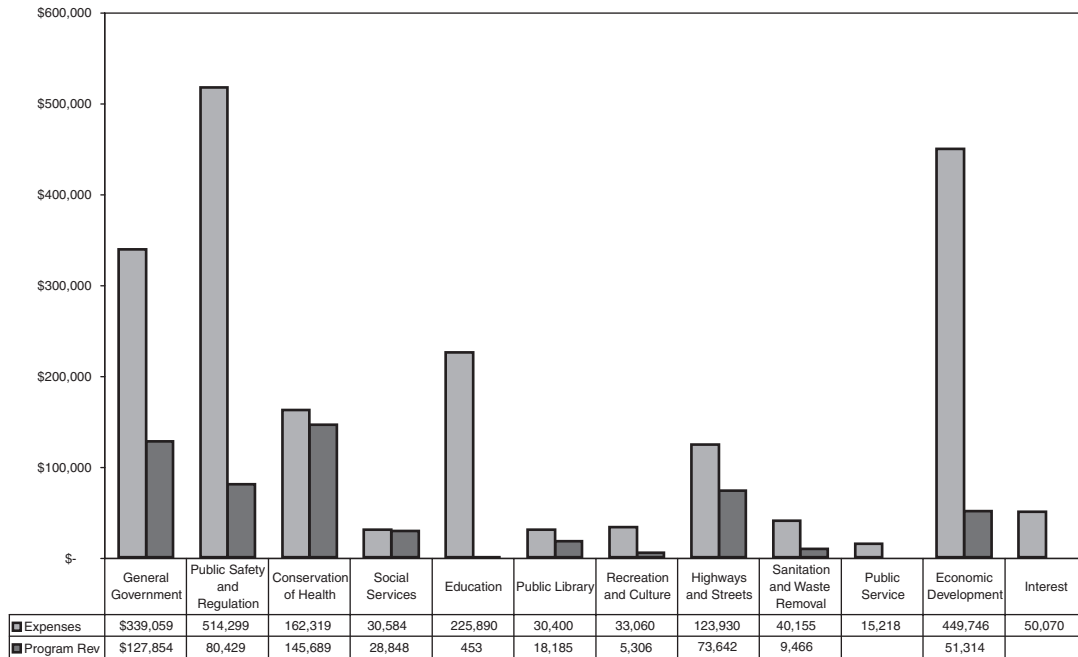
	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 90,545	\$ 83,950	\$ 317,743	\$ 298,163	\$ 408,288	\$ 382,113
Operating grants and contributions	393,328	401,958			393,328	401,958
Capital grants and contributions	57,313	49,013	69,370	51,057	126,683	100,070
General revenues:						
Property taxes	558,089	539,195			558,089	539,195
Income taxes	225,517	199,635			225,517	199,635
State shared revenue	222,911	200,199			222,911	200,199
Transfer and recordation tax	116,515				116,515	
Electric and gas tax	27,595				27,595	
Telecommunications tax	28,874				28,874	
Admission	8,562				8,562	
Other	98,815	238,924	1,665	1,103	100,480	240,027
Total revenues	1,828,064	1,712,874	388,778	350,323	2,216,842	2,063,197
Expenses:						
General government	339,059	406,849			339,059	406,849
Public safety and regulation	514,299	476,157			514,299	476,157
Conservation of health	162,319	142,218			162,319	142,218
Social services	30,584	29,451			30,584	29,451
Education	225,890	226,913			225,890	226,913
Public library	30,400	23,303			30,400	23,303
Recreation and culture	33,060	36,304			33,060	36,304
Highways and streets	123,930	132,909			123,930	132,909
Sanitation and waste removal	40,155	36,836			40,155	36,836
Public service	15,218	15,695			15,218	15,695
Economic development	449,746	80,045			449,746	80,045
Interest	50,070	40,944			50,070	40,944
Water			95,010	96,893	95,010	96,893
Waste water			134,290	133,463	134,290	133,463
Parking			19,441	17,478	19,441	17,478
Conduits			8,065	3,917	8,065	3,917
Development loans			2,999	3,193	2,999	3,193
Industrial development			3,226	2,173	3,226	2,173
Total expenses	2,014,730	1,647,624	263,031	257,117	2,277,761	1,904,741
Increase (decrease) in net assets before transfers	(186,666)	65,250	125,747	93,206	(60,919)	158,456
Transfers:						
Transfers in (out)	34,024	32,865	(34,024)	(32,865)		
Change in net assets	(152,642)	98,115	91,723	60,341	(60,919)	158,456
Net assets — beginning	2,483,464	2,385,349	1,379,056	1,318,715	3,862,520	3,704,064
Net assets — ending	\$2,330,822	\$2,483,464	\$1,470,779	\$1,379,056	\$3,801,601	\$3,862,520

Analysis of Changes in Net Assets

The overall decrease in the City’s net assets amounted to \$61.0 million during the current fiscal year. These changes are explained in the government and business-type activities discussion below.

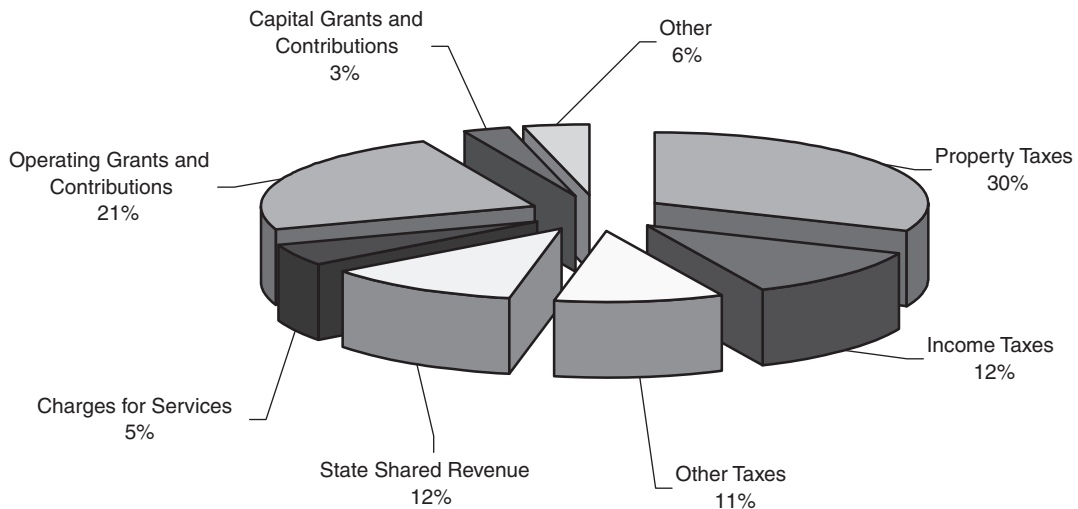
Expenses and Program Revenues — Governmental Activities

Expenses and Program Revenue - Governmental Activity (in thousands)



Revenues By Source — Governmental Activities

Revenues By Sources - Governmental Activities

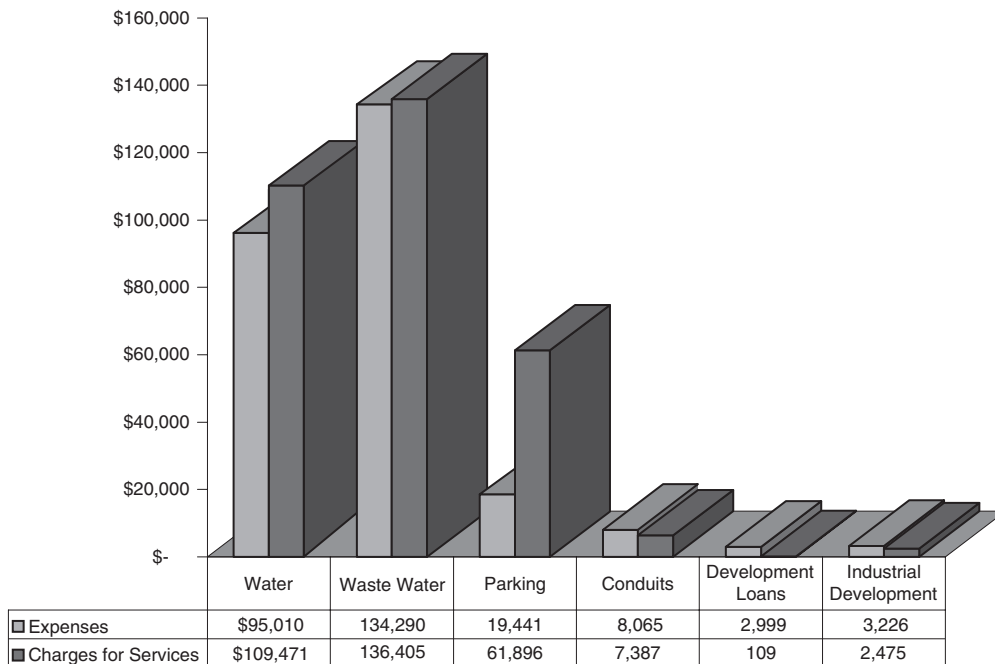


Governmental activities

During the current fiscal year, expenses related to governmental activities amounted to \$2.0 billion, this exceeds revenues by \$186.7 million. Total revenue of \$1.8 billion is comprised of program revenues totaling \$541.2 million, or 30.0%, and general revenues of \$1.3 billion, or 70.0%. Program revenues are the principal source of funding for the City’s general government, health, and economic development activities. Other major activities including public safety and regulation, as well as the highways and streets program, are primarily supported by general revenues. A more detailed analysis of the governmental activities is discussed in the “Financial Analysis of the City’s Funds” section.

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 \$388.7 million. Expenses and transfers for these activities totaled \$297.0 million and resulted in an increase in net assets of \$91.7 million.

The Water/Waste Water Utility Funds realized an increase in net assets of \$82.6 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 \$6.9 million due to improvements made to existing garages.

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 2006 and 2005

(Expressed in Thousands)

	2006	2005	Variance Amount
Revenues:			
General fund:			
Property taxes	\$ 552,538	\$ 539,195	\$ 13,343
Income taxes	225,250	199,635	25,615
Other local — taxes	214,676	171,871	42,805
Total local taxes	<u>992,464</u>	<u>910,701</u>	<u>81,763</u>
Licenses and permits	31,143	28,570	2,573
Interest, rentals, and other investment income	31,206	25,364	5,842
State grants	91,331	92,240	(909)
Other	54,597	50,312	4,285
Total revenues — general fund	<u>1,200,741</u>	<u>1,107,187</u>	<u>93,554</u>
Other governmental funds:			
Motor vehicle fund	238,002	212,477	25,525
Grants revenue fund	280,232	263,542	16,690
Capital projects fund	84,247	64,031	20,216
Other funds	32,251	37,334	(5,083)
Total revenues other governmental funds	<u>634,732</u>	<u>577,384</u>	<u>57,348</u>
Total revenues all governmental funds	<u>1,835,473</u>	<u>1,684,571</u>	<u>150,902</u>
Expenditures:			
General fund:			
General government	290,727	273,606	17,121
Public safety and regulation	416,781	383,318	33,463
Conservation of health	30,507	24,442	6,065
Social services	2,138	2,146	(8)
Education	205,552	205,067	485
Public library	20,853	18,093	2,760
Recreation and culture	29,151	26,464	2,687
Highways and streets	312	407	(95)
Sanitation and waste removal	37,474	28,109	9,365
Public service	12,448	12,715	(267)
Economic development	21,420	18,854	2,566
Total expenditures — general fund	<u>1,067,363</u>	<u>993,221</u>	<u>74,142</u>
Other governmental funds:			
Motor vehicle fund	157,248	148,974	8,274
Grants revenue fund	272,814	282,888	(10,074)
Capital projects fund	568,951	208,219	360,732
Other funds	102,527	98,654	3,873
Total expenditures other governmental funds	<u>1,101,540</u>	<u>738,735</u>	<u>362,805</u>
Total expenditures all governmental funds	<u>2,168,903</u>	<u>1,731,956</u>	<u>436,947</u>
Excess of expenditures over revenue	<u>(333,430)</u>	<u>(47,385)</u>	<u>(286,045)</u>
Other financing sources (uses):			
Transfers, net	16,568	33,873	(17,305)
Capital Projects Fund:			
Capital leases	10,265	10,189	76
Face value of federal loans	11,700	15,000	(3,300)
Face value of funding and refunding general obligation bonds	47,535	34,689	12,846
Face value of funding revenue bonds	300,940		300,940
Face value of special obligation bonds	2,977		2,977
Proceeds from revenue bond premium	16,524		16,524
Demand obligation transferred from fund liability	38,531	(38,531)	77,062
Total other financing sources (uses)	<u>445,040</u>	<u>55,220</u>	<u>389,820</u>
Net changes in fund balances	111,610	7,835	103,775
Fund balances beginning (as restated see note)	193,523	155,688	37,835
Fund balances ending	<u>\$ 305,133</u>	<u>\$ 163,523</u>	<u>\$ 141,610</u>

Revenues for governmental functions overall totaled approximately \$1.8 billion in the fiscal year ended June 30, 2006, which represents an increase of 8.9% from the fiscal year ended June 30, 2005. Expenditures for governmental functions, totaling \$2.2 billion, increased by approximately 25.2% from the fiscal year ended June 30, 2005. In the fiscal year ended June 30, 2006, expenditures for governmental functions exceeded revenues by \$333 million, or 15.4%.

The General Fund is the chief operating fund of the City. Revenues in the General Fund increased by \$93.6 million over last fiscal year. The primary factor in this increase was the continued growth in local taxes, which increased by \$81.7 million. Property taxes increased by \$13.3 million as a result of low interest rates driving continued growth in the housing market across the region. Income taxes increased by \$25.6 million as a result of the improving economy. Other local taxes increased by \$42.8 million. Expenditures in the General Fund grew by \$74.1 million. The primary areas of increase were in general government and public safety and regulation expenditures. General government expenditures increased by \$17.1 million, the major component was a \$12.0 million increase in the funding of employee retirement and benefits representing the City's commitment to retirees, \$2.0 million increase in the funding of information technology improvements and \$3.0 million increase in the funding of the State's Attorney office for the prosecution of criminals. Public safety and regulation expenditures increased by \$33.5 million, the primary components were an increase of \$26.4 million in the Police Department and an increase of \$5.4 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 \$12.0 million, while total fund balance was \$211.5 million. The fund balance in the City's General Fund increased by \$19.0 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 \$238.0 million were less than outlays of \$231.1 by \$6.9 million. The fund balance increased from \$10.0 to \$16.9 million during the fiscal year, of which \$9.5 million was unreserved and undesignated.

The Grants Revenue Fund is used to account for the spending of various Federal, State and special purpose grant funds. Most of these grants are funded on an expenditure reimbursement basis and the application of 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 \$145.7 million represent authorized projects which are still in progress. The \$360.0 million increase in expenditures is the construction costs of the new Convention Center Hotel.

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	
	2006	2005	2006	2005	2006	2005
Operating revenue	\$245,876	\$234,087	\$ 61,896	\$ 56,613	\$11,636	\$8,566
Operating expenses	223,645	210,615	10,767	8,055	14,447	9,189
Operating income	22,231	23,472	51,129	48,558	(2,811)	(623)
Non operating revenues (expenses), capital contributions, and transfers	60,394	33,433	(44,193)	(45,189)	1,572	2,930
Change in net assets	\$ 82,625	\$ 56,905	\$ 6,936	\$ 3,369	\$ (1,239)	\$2,307

All of the City's business-type activities realized operating income during the current fiscal year, and all experienced an increase in net assets except for the nonmajor funds. For the principal business-type activities, increases in operating revenues compared to the previous year were more than increases in operating expenses. This resulted in a modest increase 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, 2006

(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance With Original Budget Positive (Negative)	Variance With Final Budget Positive
Total revenues	\$1,117,795	\$1,162,105	\$1,199,697	\$ 81,902	\$37,592
Expenditures and encumbrances:					
General government	294,757	307,225	294,380	377	12,845
Public safety and regulation	402,748	420,129	419,666	(16,918)	463
Conservation of health	30,654	32,374	31,204	(550)	1,170
Social services	2,537	2,537	2,489	48	48
Education	205,531	205,531	205,531		
Public library	20,205	20,455	20,173	32	282
Recreation and culture	30,369	31,519	30,347	22	1,172
Highways and streets	63	312	312	(249)	
Sanitation and waste removal	39,436	39,876	39,870	(434)	6
Public service	12,291	12,291	12,291		
Economic development	21,277	22,869	21,677	(400)	1,192
Total expenditures	1,059,868	1,095,118	1,077,940	\$(18,072)	\$17,178
Excess of revenues over expenditures and encumbrances	57,927	66,987	121,757		
Other financing uses:					
Transfers in	31,499	31,499	36,819		
Transfers out	(148,943)	(148,943)	(151,228)		
Total other financing uses	(117,444)	(117,444)	(114,409)		
Net changes in fund balances	(59,517)	(50,457)	7,348		
Fund balances beginning	\$ 168,106	\$ 168,106	168,106		
Fund balances ending	108,589	117,649	175,454		
Adjustments to reconcile to GAAP basis:					
Addition of encumbrances outstanding			44,482		
Less: Accounts payable not recorded for budgetary purposes			(8,412)		
Fund balance June 30, 2006 - GAAP Basis			\$ 211,524		

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 \$35.2 million were approved, all of which were approved from prior year surplus or from unexpected increases in revenue sources. Actual expenditures for the year exceeded the original budget by \$18.0 million, but were \$17.2 million less than adjusted appropriations. Of this amount, \$17.1 million was related to six governmental activities: lower than budgeted cost for public safety operations amounted to \$0.4 million; lower than budgeted cost for general government operations amounted to \$12.8 million; lower than budgeted cost for economic development operations amounted to \$1.2 million, lower than budgeted cost for conservation of health operations amounted to \$1.2 million, and lower than budgeted cost for recreation and culture amounted to \$1.2 million, and lower than budget cost for public library amounted to \$0.3 million.

On a budgetary basis, revenue for fiscal year 2006 totaled \$1,199.7 million and expenditures and transfers totaled \$1,229.2 million. The excess of revenues over expenditures resulted in a budget basis fund balance at June 30, 2006 of \$175.4 million, an increase of \$7.3 million. In creating its budget for the fiscal year ended June 30, 2006, the City used \$53.4 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, 2006, amount to \$5.4 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 5.6% (a 2.2% increase for governmental activities and a 9.4% 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	
	2006	2005	2006	2005	2006	2005
Land	\$ 142,202	\$ 134,598	\$ 23,846	\$ 17,384	\$ 166,048	\$ 151,982
Building and Improvements	621,108	636,044	1,206,586	875,754	1,827,694	1,511,798
Machinery and Equipment	97,132	89,264	37,104	36,474	134,236	125,738
Infrastructure	1,307,809	1,355,159	37,520	38,198	1,345,329	1,393,357
Library Books	21,876	20,076			21,876	20,076
Construction in Progress	1,155,728	997,438	711,727	875,623	1,867,455	1,873,061
Total	\$3,345,855	\$3,232,579	\$2,016,783	\$1,843,433	\$5,362,638	\$5,076,012

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 \$2.1 billion. Of this amount, \$590.8 million is general obligation bonds backed by the full faith and credit of the City, \$381.7 million is revenue bonds for governmental activity at the Convention Center, the Convention Center Hotel, for various stormwater projects and transportation bonds, and \$1.02 billion is revenue bonds related to commercial business activity. The remainder includes revenue bonds, and other obligations of City business and governmental activities.

The City debt increased by \$500 million during the current year. The major factors in the increase are the issuance of \$47.535 million in General Obligation Bonds, \$11.7 million in Federal Economic Development Loans, \$2.9 million in Special Obligation Bonds and \$451.3 million in Revenue Bonds. Included in the Revenue Bonds was \$390.9 million for the development of a Convention Center Hotel.

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 2006	FY 2005
Net general bonded debt (Expressed in thousands)	\$544,649	\$523,286
Net general bonded debt per capita (Rounded to nearest dollar)	856	822
Ratio of net general bonded debt to net assessed value	2.5%	2.5%

See note number 7 on long-term obligations.

As of June 30, 2006, the City had \$590.8 million in authorized, outstanding property tax-supported general obligation bonds. This amount is reduced by net assets in the Debt Service Fund of \$26.1 million for net tax-supported bonded debt of \$504.7 million, which is equal to approximately 2.6% of the assessed value of property (net of exemptions). There are an additional \$214.9 million in bonds that are authorized, but unissued.

Economic Factors and Next Year's Budget and Rates

The Fiscal 2007 budget submitted by the Board of Estimates to the Baltimore City Council proposed total appropriations of \$2,396,988,944 of which \$1,203,923,000 were for General Fund operations and Pay-As-You-Go (PAYGO) capital; \$253,467,000 was for Motor Vehicle Fund operations and PAYGO capital; and \$42,419,000 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 on real property was reduced by \$0.02 to \$2.288 per \$100 of assessed valuation, and by \$0.05 to \$5.72 per \$100 of assessed valuation on personal property. This was the second year

of a five year plan to reduce the real property tax rate by ten cents. In the first two years of the plan the real property rate has been reduced by four cents. 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 16, 2006.

Fiscal 2007 Budget—Economic Factors

In the near term, the nation, State and City are expected to benefit from continued moderate economic growth, without a recession anticipated. Prior year concerns over the relationships between short and long term interest rates have lessened. The City enters Fiscal 2007 with the largest General Fund surplus in memory. Like the State, and other Maryland subdivisions, the City has benefited from current economic conditions. The American economy continues to be a good performer, as measured by traditional indicators such as Gross Domestic Product (GDP). The nation's GDP grew about 3.6% in calendar 2005, and economists' forecasts for GDP are in the 3.0% to 4.0% range in calendar 2006 with possible slowing in calendar 2007. The most recent data available for the Maryland Gross State Product (GSP) shows that it grew 4.2% in 2005. The most recent data prepared for the U.S. Conference of Mayors by Global Insight, Inc. estimates that the Baltimore-Towson Metropolitan Product (GMP) for 2006 will grow at 6.2%. This growth rate exceeds the State and national growth rates and reflects the fact that growth is concentrated in metropolitan areas. The estimated 2005 growth rate of 6.3% and the projected 2006 growth rate of 6.2% both compare favorably with the national average metropolitan area growth rates of 6.3% and 6.4% respectively. However, there are reasons to be cautious that require prudence in budget decision making.

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, 2006

(Expressed in Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Baltimore City Public School System
Assets:				
Cash and cash equivalents	\$ 266,752	\$ 164,484	\$ 431,236	\$ 44,658
Investments	254,788	4	254,792	90,147
Property taxes receivable, net	24,098	68,324	92,422	
Other receivables, net	26,873		26,873	2,460
Due from other governments	206,341	2,765	209,106	75,159
Internal balances	28,443	(28,443)		
Due from primary government				18,567
Inventories	4,299	4,390	8,689	912
Restricted:				
Cash and cash equivalents		194,327	194,327	
Investments		8,014	8,014	
Accounts receivable		80,583	80,583	
Notes and mortgages receivable, net	11,322	58,991	70,313	
Other assets	59,560		59,560	373
Issuance costs		6,840	6,840	668
Capital assets, net of accumulated depreciation	2,047,925	1,281,210	3,329,135	278,684
Capital assets, not depreciated	1,297,930	735,573	2,033,503	
Total assets	4,228,331	2,577,062	6,805,393	511,628
Liabilities:				
Accounts payable and accrued liabilities	168,057	13,477	181,534	132,742
Accrued interest payable	12,841	13,618	26,459	
Estimated claims in progress	164,840		164,840	
Due to other governments		1,657	1,657	517
Unamortized premiums on bonds	15,657	145	15,802	
Matured bonds payable	1,092		1,092	
Unearned revenue	144,242		144,242	19,139
Deposits subject to refund	67,919	15	67,934	
Restricted accounts payable		35,738	35,738	
Revenue bonds payable:				
Due within one year	1,995	17,219	19,214	
Due in more than one year	379,687	1,006,174	1,385,861	
Long term debt payable:				
Due within one year	43,426	349	43,775	4,545
Due in more than one year	614,863	2,235	617,098	60,540
Capital leases payable:				
Due within one year	22,968		22,968	4,751
Due in more than one year	146,039		146,039	23,574
Compensated absences:				
Due within one year	28,624	7,358	35,982	1,473
Due in more than one year	66,320	3,979	70,299	69,378
Landfill closure	15,473		15,473	
Other liabilities	3,466	4,319	7,785	364
Total liabilities	1,897,509	1,106,283	3,003,792	317,023
Net assets:				
Invested in capital assets, net of related debt	2,684,600	1,127,216	3,811,816	181,021
Restricted for:				
Construction		187,013	187,013	5,478
Debt service		95,911	95,911	2,282
Perpetual care:				
Expendable	7,468		7,468	
Nonexpendable	6,305		6,305	402
Unrestricted	(367,551)	60,639	(306,912)	5,422
Total net assets	\$2,330,822	\$1,470,779	\$3,801,601	\$194,605

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, 2006

(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		Total	
					Governmental Activities	Business- type Activities		
Primary Government:								
Governmental activities:								
General government	\$ 339,059	\$ 21,853	\$ 106,001		\$ (211,205)		\$ (211,205)	
Public safety and regulation	514,299	29,199	51,230		(433,870)		(433,870)	
Conservation of health	162,319	2,357	143,332		(16,630)		(16,630)	
Social services	30,584	441	28,407		(1,736)		(1,736)	
Education	225,890		453		(225,437)		(225,437)	
Public library	30,400	325	17,860		(12,215)		(12,215)	
Recreation and culture	33,060	698	142	\$ 4,466	(27,754)		(27,754)	
Highways and streets	123,930	26,206		47,436	(50,288)		(50,288)	
Sanitation and waste removal	40,155	9,466			(30,689)		(30,689)	
Public service	15,218				(15,218)		(15,218)	
Economic development	449,746		45,903	5,411	(398,432)		(398,432)	
Interest	50,070				(50,070)		(50,070)	
Total governmental activities	2,014,730	90,545	393,328	57,313	(1,473,544)		(1,473,544)	
Business-type activities:								
Water	95,010	109,471		33,291		\$ 47,752	47,752	
Waste water	134,290	136,405		36,002		38,117	38,117	
Parking	19,441	61,896				42,455	42,455	
Conduits	8,065	7,387		149		(529)	(529)	
Development loans	2,999	109		(72)		(2,962)	(2,962)	
Industrial development	3,226	2,475				(751)	(751)	
Total business-type activities	263,031	317,743		69,370		124,082	124,082	
Total primary government	\$2,277,761	\$408,288	\$ 393,328	\$ 126,683	(1,473,544)	124,082	(1,349,462)	
Component unit:								
Baltimore City Public School System	\$1,071,611	\$ 3,050	\$1,069,569	\$ 20,449				\$ 21,457
General revenues:								
Property taxes					558,089		558,089	
Income taxes					225,517		225,517	
Transfer and recordation tax					116,515		116,515	
Electric and gas tax					27,595		27,595	
Telecommunications tax					28,874		28,874	
Admission tax					8,562		8,562	
Other local taxes					27,312		27,312	
State shared revenues					222,911		222,911	
Unrestricted investment income					41,776	1,665	43,441	7,359
Miscellaneous					29,727		29,727	17,365
Transfers					34,024	(34,024)		
Total general revenues and transfers					1,320,902	(32,359)	1,288,543	46,181
Change in net assets					(152,642)	91,723	(60,919)	
Net assets — beginning					2,483,464	1,379,056	3,862,520	148,424
Net assets — ending					\$ 2,330,822	\$1,470,779	\$3,801,601	\$194,605

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

CITY OF BALTIMORE

Balance Sheet

Governmental Funds

June 30, 2006

(Expressed in Thousands)

	General Fund	Motor Vehicle Fund	Grants Revenue Fund	Capital Projects Fund	Other Funds	Total
Assets:						
Cash and cash equivalents	\$159,963	\$ 3,587	\$ 75	\$ 10,647	\$20,248	\$194,520
Investments	120,388			109,190	20,497	250,075
Property taxes receivable, net	24,098					24,098
Other receivables, net	14,030	448		8,281	202	22,961
Due from other governments	27,014	17,535	25,468	23,612	4,103	97,732
Due from other funds	39,089			21,785	1,358	62,232
Due from component unit						
Notes, mortgages receivable, net	5,747				5,575	11,322
Inventories, at cost	777	1,497				2,274
Other assets	59,373					59,373
Total assets	\$450,479	\$23,067	\$ 25,543	\$173,515	\$51,983	\$724,587
Liabilities and fund balances:						
Liabilities:						
Accounts payable and accrued liabilities	\$113,841	\$ 5,671	\$ 14,326	\$ 16,730	\$ 655	\$151,223
Retainages payable			100	9,639		9,739
Due to other funds	192		30,772	1,358	5,777	38,099
Deposits subject to refund	67,919					67,919
Deferred revenue	57,003	448	86,121		7,810	151,382
Matured bonds payable					1,092	1,092
Total liabilities	238,955	6,119	131,319	27,727	15,334	419,454
Fund balances:						
Reserved for:						
Budget stabilization	82,787					82,787
Landfill closure	12,753					12,753
Landfill development	3,878					3,878
Encumbrances	44,482	5,825		117,418	99	167,824
Inventories	777	1,497				2,274
Other assets	1,430	122				1,552
Non-major special revenue funds					7,468	7,468
Non-major permanent funds					6,305	6,305
Unreserved:						
Designated for subsequent year's expenditures	53,410					53,410
Undesignated	12,007	9,504	(105,776)	28,370		(55,895)
Unreserved reported in:						
Debt Service Fund					26,082	26,082
Special revenue funds					(3,305)	(3,305)
Total fund balances	211,524	16,948	(105,776)	145,788	36,649	305,133
Total liabilities and fund balances	\$450,479	\$23,067	\$ 25,543	\$173,515	\$51,983	

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	3,314,808
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	90,253
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.	(56,975)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	(1,322,397)
Net assets of governmental activities	\$ 2,330,822

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, 2006

(Expressed in Thousands)

	General Fund	Motor Vehicle Fund	Grants Revenue Fund	Capital Projects Fund	Other Funds	Total
Revenues:						
Taxes — local	\$ 992,464					\$ 992,464
State shared revenue		\$ 222,323			\$ 588	222,911
Licenses and permits	31,143	815				31,958
Fines and forfeitures	3,372	6,017				9,389
Interest, rentals and other investment income	31,206	1,725		\$ 6,592	2,253	41,776
Federal grants	90		\$ 180,295	52,530	29,009	261,924
State grants	91,331		63,149	4,783		159,263
Other grants	75		36,788			36,863
Charges for services	42,243	6,955				49,198
Miscellaneous	8,817	167		20,342	401	29,727
Total revenues	1,200,741	238,002	280,232	84,247	32,251	1,835,473
Expenditures:						
Current:						
General government	290,727	26,225	30,099		3,302	350,353
Public safety and regulation	416,781	42,182	50,534		569	510,066
Conservation of health	30,507		131,754			162,261
Social services	2,138		28,407			30,545
Education	205,552	3,654			1,079	210,285
Public library	20,853		11,313		75	32,241
Recreation and culture	29,151				132	29,283
Highways and streets	312	85,187				85,499
Sanitation and waste removal	37,474					37,474
Public services	12,448					12,448
Economic development	21,420		20,707	390,853	16,881	449,861
Debt service:						
Principal					48,073	48,073
Interest					30,555	30,555
Other bond costs					1,861	1,861
Capital outlay				167,833		167,833
Capital leases				10,265		10,265
Total expenditures	1,067,363	157,248	272,814	568,951	102,527	2,168,903
Excess (deficiency) of revenues over (under) expenditures	133,378	80,754	7,418	(484,704)	(70,276)	(333,430)
Other financing sources (uses):						
Transfers in	36,819			140,078	77,675	254,572
Transfers out	(151,228)	(73,890)		(4,015)	(8,871)	(238,004)
Capital leases				10,265		10,265
Face value of federal loans				11,700		11,700
Face value of funding and refunding general obligation bonds				47,535		47,535
Face value of special obligation bonds				2,977		2,977
Face value of revenue bonds				300,940		300,940
Proceeds from revenue bond premium				16,524		16,524
Demand obligation bonds transferred from fund liability				38,531		38,531
Total other financing sources (uses)	(114,409)	(73,890)		564,535	68,804	445,040
Net change in fund balance	18,969	6,864	7,418	79,831	(1,472)	111,610
Fund balances — beginning (as restated)	192,555	10,084	(113,194)	65,957	38,121	193,523
Fund balances — ending	\$ 211,524	\$ 16,948	\$ (105,776)	\$ 145,788	\$ 36,649	\$ 305,133

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, 2006

(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)	\$ 111,610
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year ..	178,098
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	(1,021)
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	(434,860)
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	(30,396)
The net expense of certain activities of internal service funds is reported with governmental activities	<u>23,927</u>
Change in net assets of governmental activities (page 16)	<u>\$(152,642)</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, 2006
(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	\$ 42,001	\$ 61,632	\$ 13,065	\$47,786	\$ 164,484	\$ 66,905
Investments				4	4	4,713
Accounts receivable, net:						
Service billings	34,769	29,296	309	3,480	67,854	
Other			50	420	470	3,913
Due from other governments		2,765			2,765	
Inventories	4,198	192			4,390	2,025
Current restricted assets:						
Cash and cash equivalents	78,347	83,707	32,273		194,327	5,327
Investments	4,277	3,737			8,014	
Accounts receivable, net	11,956	68,627			80,583	
Total current assets	175,548	249,956	45,697	51,690	522,891	82,883
Noncurrent assets:						
Restricted assets:						
Mortgages receivable			58,991		58,991	
Capital assets, net	669,470	1,182,393	121,293	43,627	2,016,783	31,047
Other assets						187
Issuance costs	3,769		2,726	345	6,840	
Total noncurrent assets	673,239	1,182,393	183,010	43,972	2,082,614	31,234
Total assets	848,787	1,432,349	228,707	95,662	2,605,505	114,117
Liabilities:						
Current liabilities:						
Accounts payable and accrued liabilities	2,461	8,222	1,545	1,249	13,477	7,096
Accrued interest payable	6,003	4,064	3,255	296	13,618	
Deposits subject to refund	15				15	
Due to other funds		19,101		2,492	21,593	2,540
Due to other governments	1,657				1,657	
Estimated liability for claims in progress						60,902
Other liabilities	3,370	7,284		412	11,066	3,466
Accounts payable from restricted assets	12,810	22,662	253	13	35,738	
Revenue bonds payable	2,920	9,219	5,080		17,219	
General long-term debt payable	100	253			353	
Total current liabilities	29,336	70,805	10,133	4,462	114,736	74,004
Noncurrent liabilities:						
Revenue bonds payable, net	377,588	438,495	173,389	16,702	1,006,174	
Other liabilities	1,400	2,578		612	4,590	
Unamortized bond premiums		145			145	
General long-term debt payable	646	1,585			2,231	
Estimated liability for claims in progress						103,938
Total noncurrent liabilities	379,634	442,803	173,389	17,314	1,013,140	103,938
Total liabilities	408,970	513,608	183,522	21,776	1,127,876	177,942
Net assets:						
Invested in capital assets, net of related debt	288,216	732,841	62,301	43,858	1,127,216	31,047
Restricted for:						
Debt service	42,063	36,766	17,082		95,911	
Future capital expenditures	52,517	119,305	15,191		187,013	
Unrestricted (deficit)	57,021	29,829	(49,389)	30,028	67,489	(94,872)
Total net assets	\$439,817	\$ 918,741	\$ 45,185	\$73,886	1,477,629	\$(63,825)
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds					(6,850)	
Net assets of business-type activities					\$1,470,779	

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, 2006
(Expressed in Thousands)

	Enterprise Funds					Governmental Activities Internal Service Funds
	Water Utility Fund	Waste Water Utility Fund	Parking Facilities Fund	Other Funds	Total	
Operating revenues:						
Charges for sales and services:						
Water and sewer service	\$109,471	\$136,405			\$245,876	
Rents, fees and other income			\$ 61,896	\$ 9,971	71,867	\$287,969
Interest income on loans				1,665	1,665	
Total operating revenues	109,471	136,405	61,896	11,636	319,408	287,969
Operating expenses:						
Salaries and wages	26,387	30,517		1,400	58,304	14,326
Other personnel costs	10,268	11,657		559	22,484	4,892
Contractual services	29,408	53,716	9,697	5,129	97,950	27,415
Materials and supplies	7,136	8,298		126	15,560	14,281
Minor equipment		2,945		289	3,234	80
Claims paid and incurred						218,560
Postage and delivery services						1,602
General governmental overhead	4,567	6,409			10,976	
Depreciation	10,544	21,793	1,070	997	34,404	6,065
Program expenses				2,895	2,895	
Interest				3,052	3,052	
Total operating expenses	88,310	135,335	10,767	14,447	248,859	287,221
Operating income (loss)	21,161	1,070	51,129	(2,811)	70,549	748
Nonoperating revenues (expenses):						
Gain on sale of investments	137				137	1,188
Loss on disposal of property						(6,757)
Interest expense, net	(8,454)	(582)	(8,674)		(17,710)	
Total nonoperating revenues (expenses)	(8,317)	(582)	(8,674)		(17,573)	(5,569)
Income (loss) before contributions and transfers	12,844	488	42,455	(2,811)	52,976	(4,821)
Capital contributions	33,291	36,002		77	69,370	14,698
Transfers in (out)			(35,519)	1,495	(34,024)	17,456
Change in net assets	46,135	36,490	6,936	(1,239)	88,322	27,333
Total net assets — beginning	393,682	882,251	38,249	75,125		(91,158)
Total net assets — ending	\$439,817	\$918,741	\$ 45,185	\$73,886		\$(63,825)
Adjustment to reflect the consolidation of internal service activities related to enterprise funds					3,401	
Change in net assets of business-type activities					\$ 91,723	

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, 2006
(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	\$ 108,617	\$ 138,960	\$ 61,797	\$ 10,891	\$ 320,265	\$ 292,906
Receipts from interfund services provided		9,102			9,102	
Bay restoration fee collection		1,018			1,018	
Payments to employees	(30,958)	(31,983)		(1,652)	(64,593)	(19,262)
Payments to suppliers	(38,506)	(73,569)	(8,732)	(20,387)	(141,194)	(270,008)
Payments for interfund services used	(4,567)	(6,409)			(10,976)	
Net cash provided (used) by operating activities	34,586	37,119	53,065	(11,148)	113,622	3,636
Cash flows from noncapital financing activities:						
Transfers in (out)			(35,519)	1,644	(33,875)	17,456
Net cash provided (used) by noncapital financing activities			(35,519)	1,644	(33,875)	17,456
Cash flows from capital and related financing activities:						
Mortgages receivable principal payments			2,256		2,256	
Proceeds from revenue bonds	3,613	59,172	(3,485)		59,300	
Principal paid on bonds	(162)	(366)			(528)	
Principal paid on revenue bonds	(3,699)	(7,376)		1,924	(9,151)	
Interest paid	(12,276)	(870)	(8,740)		(21,886)	
Acquisition and construction of capital assets	(62,019)	(80,320)	(8,009)	(74)	(150,422)	(718)
Capital contributions	33,291	36,002		(72)	69,221	
Net cash provided (used) by capital and related financing activities	(41,252)	6,242	(17,978)	1,778	(51,210)	(718)
Cash flows from investing activities:						
Proceeds from the sale and maturities of investments	12,759	1,146		(4)	13,901	1,640
Purchase of investments						(1,475)
Interest on investments						1,188
Net cash provided (used) by investing activities	12,759	1,146		(4)	13,901	1,353
Net increase (decrease) in cash and cash equivalents	6,093	44,507	(432)	(7,730)	42,438	21,727
Cash and cash equivalents, beginning of year	114,255	100,832	45,770	55,516	316,373	50,505
Cash and cash equivalents, end of year	\$ 120,348	\$ 145,339	\$ 45,338	\$ 47,786	\$ 358,811	\$ 72,232
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 21,161	\$ 1,070	\$ 51,129	\$ (2,811)	\$ 70,549	\$ 748
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	10,544	21,793	1,070	997	34,404	6,064
Amortization of bond discounts				35	35	
Changes in assets and liabilities:						
Accounts receivables	(2,747)	5,514	(99)	(2,145)	523	3,650
Due from other governments	1,388	592			1,980	
Inventories	887	47			934	(447)
Other assets	3,494	1,165			4,659	447
Accounts payable and accrued liabilities	1,073	2,064	965	832	4,934	(8,609)
Other liabilities	388	(530)			(142)	233
Estimated liability for claims in progress						263
Accrued interest payable				64	64	
Restricted accounts payable	(1,602)	(3,698)			(5,300)	
Due to other funds		9,102		(8,120)	982	1,287
Total adjustments	13,425	36,049	1,936	(8,337)	43,073	2,888
Net cash provided (used) by operating activities	\$ 34,586	\$ 37,119	\$ 53,065	\$ (11,148)	\$ 113,622	\$ 3,636

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, 2006
(Expressed in Thousands)

	Pension Trust Funds	Agency Funds
Assets:		
Cash and cash equivalents	\$ 92,984	\$ 2,121
Investments:		
Stocks	2,086,695	
Bonds	1,122,041	10,257
Mutual funds	16,198	
Real estate	239,750	
Securities lending collateral	479,064	
Other assets	33,844	
Total assets	<u>4,070,576</u>	<u>12,378</u>
Liabilities:		
Obligations under securities lending program	479,064	
Accounts payable	147,393	
Other	677	12,378
Total liabilities	<u>627,134</u>	<u>12,378</u>
Net assets:		
Held in trust for pension benefits	\$3,443,442	

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, 2006

(Expressed in Thousands)

	Pension Trust Funds
<hr/>	
Additions:	
Contributions:	
Employer	\$ 81,181
Employee	<u>15,629</u>
Total contributions	<u>96,810</u>
Investment income:	
Net appreciation in fair value of investments	211,713
Securities lending income	946
Interest and dividend income	<u>93,302</u>
Total investment income	305,961
Less: investment expense	<u>13,577</u>
Net investment income	292,384
Total additions	<u>389,194</u>
Deductions:	
Retirement allowances	255,576
Death benefits	1,503
Administrative expenses	5,079
Other	<u>1,782</u>
Total deductions	<u>263,940</u>
Changes in net assets	125,254
Net assets — beginning of the year	<u>3,318,188</u>
Net assets — end of the year	<u>\$3,443,442</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. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition are reported as non-operating expenses.

The City reports the following major governmental funds:

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

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

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

The City reports the following major enterprise funds:

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

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

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

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

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.

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

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

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

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

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

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, 2006, based on market prices. The individual funds' portions of the pool's fair value are presented as "Pooled Cash and Investments." Earnings on the pooled funds are apportioned and paid or credited to the funds quarterly based on the average daily balance of each participating fund.

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 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, 2006. This liability, which includes estimates for known and incurred

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

but not reported claims, is based upon an actuarial valuation of the City's claim payment history discounted at a rate of 3.0%, for all claims except medical, for which claims are not discounted.

Property Tax and Property Tax Calendar

The City levies an annual tax for the fiscal year beginning July 1 and ending June 30, on real and personal property located in the City, due and payable each July 1 (lien date), based on assessed values as of the previous January 1. These assessed values are established by the State of Maryland Department of Assessments and Taxation at various rates of estimated market value. A discount of 1% and 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 2006 was \$19,918,443,000, which was approximately 93.4% of the estimated market value.

The tax rate in Baltimore City for real property taxes for fiscal year 2006 was \$2.308 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 \$5.77 per \$100 of assessed value. Current collections were 96.3% of the total tax levy.

At June 30, 2006, the City had property taxes receivable of \$24,098,000, net of an allowance for uncollectible accounts of \$112,579,000.

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, 2006, the City had reserved \$82,787,000 of its General Fund fund balance for that purpose. The reserve can be used in case of emergency at the discretion of the Board of Estimates.

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

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

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

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

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

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	\$ 4,994,006
Less: Accumulated depreciation	(1,679,198)
Total	\$ 3,314,808
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:	
Due from other governments	\$ 111,611
Deferred revenue	7,140
Accrued interest payable	(12,841)
Unamortized bond premiums	(15,657)
Total	\$ 90,253
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.	
	\$ (56,975)
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	\$ (658,289)
Revenue bonds	(381,682)
Capital leases	(169,007)
Compensated absences	(97,946)
Landfill closure liability	(15,473)
Total	\$(1,322,397)

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	\$ 167,833
Capital leases	10,265
Total	\$ 178,098
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	\$ (1,021)
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	\$ (47,535)
Proceeds from capital leases	(10,265)
Proceeds from federal loans	(11,700)
Proceeds from revenue bonds	(307,328)
Proceeds from special obligation bonds	(2,977)
Premiums on bonds	(16,524)
Reclassification of short-term debt as fund liability	(38,531)
Total	\$ (434,860)
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	\$ 48,073
Debt service interest (capital leases, GO bonds, and accrued interest)	(19,515)
Capital related expenditures	(44,738)
Compensated absences	(14,216)
Total	\$ (30,396)
The net expense of certain activities of internal service funds is reported with governmental activities:	
Internal service funds net expenses attributed to governmental activities	\$ 23,927

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, 2006 (amounts expressed in thousands):

	Pooled Cash and Investments	Other	Total
Carrying value of bank deposits	\$ (14,194)		\$ (14,194)
Investments	914,941	\$3,557,668	4,472,609
Total	\$900,747	\$3,557,668	\$4,458,415

	Government- wide Statement of Net Assets	Fiduciary Funds Statement of Net Assets	Total
Cash and cash equivalents	\$431,236	\$ 95,105	\$ 526,341
Investments	254,792	3,474,941	3,729,733
Restricted cash and equivalents	194,327		194,327
Restricted investments	8,014		8,014
Total	\$888,369	\$3,570,046	\$4,458,415

B. CASH DEPOSITS

As of June 30, 2006, the carrying amount of the City's bank deposits was a net overdraft of \$(14,194,000) and the respective bank balances totaled \$10,936,000. 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, 2006, the BCPSS has demand deposits with a carrying value of \$8,297,000.

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.

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.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

The primary government's investments at June 30, 2006, 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	\$ 71,582	\$ 53,507	\$17,797	\$ 278
U.S. Agencies	450,838	407,754	32,886	10,198
Repurchase agreements	114,834	114,834		
Money market mutual funds	224,769	224,769		
Maryland Local Government Investment Pool	7,904	7,904		
Commercial paper	28,931	28,931		
Guaranteed investment contracts	3,812			3,812
	902,670	\$837,699	\$50,683	\$14,288
Other investment:				
Equity mutual funds	12,271			
	914,941			
Less: cash equivalents	(641,878)			
Total investments	\$ 273,063			

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

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

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

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

As discussed above the City Board of Finance limits City investments to only the highest rated investments in the categories discussed above. The City's rated debt investments as of June 30, 2006 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	\$450,838	\$450,838	
Repurchase agreements:			
Underlying securities	114,834	114,834	
Money market mutual funds	224,769	224,769	
Maryland Local Government Investment Pool	7,904	7,904	
Commercial paper	20,931		\$20,931
Guaranteed investment contracts:			
Underlying securities	3,812	3,812	
Total rated debt investments	\$823,088	\$802,157	\$20,931

CITY OF BALTIMORE
Notes to Basic Financial Statements

(Continued)

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

The City had the following debt security investments at June 30, 2006 that were more than five percent of total investments (amounts dollars expressed in thousands):

Investment	Fair Value	Percentage of Portfolio
Repurchase Agreement-Citigroup	\$ 71,135	7.7%
Federal Home Loan Board	107,136	11.6%
Federal Home Loan Mortgage Corporation	65,402	7.1%
Federal National Mortgage Corporation	276,738	29.9%

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, 2006 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	\$ 142,578		\$ 69,348	\$ 211,926
U.S. Government agency bonds	151,428		283,129	434,557
Corporate bonds	161,844		171,213	333,057
Lehmann aggregate index			142,500	142,500
Mutual funds	41,447	\$16,323	51,413	109,183
Total debt securities	497,297	16,323	717,603	1,231,223
Other:				
Domestic equities	607,809		836,334	1,444,143
International equities	186,698		296,322	483,020
Hedge funds	61,577		90,190	151,767
Real estate	69,342		178,173	247,515
Total other	925,426		1,401,019	2,326,445
Total investments	1,422,723	16,323	2,118,622	3,557,668
Less: Cash and cash equivalents	41,446	125	51,413	92,984
Total net investments	\$1,381,277	\$16,198	\$2,067,209	\$3,464,684

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

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

may be hedged. Cross-hedging to currency other than the U.S. dollar may reach 25% of the total portfolio. Currency speculation is not permitted.

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

The Elected Officials' Retirement System was not subject to foreign currency risk at June 30, 2006.

The foreign currency risk for each system at June 30, 2006 is presented on the following table (amounts expressed in thousands):

Currency	Employees' Retirement System	Fire and Police Employees' Retirement System	Total
Euro Currency Unit	\$ 63,317	\$ 67,271	\$130,588
British Pound Sterling	26,898	41,240	68,138
Japanese Yen	32,262	28,980	61,242
South Korean Won	4,539	27,280	31,819
Hong Kong Dollar	5,695	16,134	21,829
Swiss Franc	7,955	14,805	22,760
Mexican New Peso	912	9,028	9,940
South African Comm Rand		9,821	9,821
Malaysian Ringgit		3,446	3,446
Taiwan Dollar		12,527	12,527
Brazil Real		8,916	8,916
Canadian Dollar	3,881	7,300	11,181
Thailand Baht		7,974	7,974
Turkish Lira		1,063	1,063
Australian Dollar	2,189	3,981	6,170
Swedish Krona	554	1,283	1,837
Norwegian Krone	1,830	4,633	6,463
Chilean Peso		3,049	3,049
Singapore Dollar	1,758	2,916	4,674
New Zealand Dollar	619		619
Indonesian Rupin		163	163
Danish Krone	3,331		3,331
Israel's Shekel		2,047	2,047
Total Foreign Currency	\$155,740	\$273,857	\$429,597

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, 2006 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	6.42	\$142,578	\$142,578			
U.S. Government agency bonds	2.85	151,428	151,428			
Corporate bonds	4.05	161,844	97,393	\$43,650	\$107	\$ 20,694
Mutual funds	.09	41,447				41,447
Total Debt Securities		497,297	391,399	43,650	107	62,141
<i>Elected Officials' Retirement System:</i>						
Mutual funds	.08	16,323				16,323
<i>Fire and Police Employees' Retirement System:</i>						
U.S. Treasury notes and bonds	3.62	69,348	69,348			
U.S. Government agency bonds	8.79	283,129	257,293			25,836
Lehmann aggregate index	4.73	142,500				142,500
Corporate bonds	3.59	171,213	79,060	82,428	773	8,952
Mutual funds	.08	51,413				51,413
Total Debt Securities		\$717,603	\$405,701	\$82,428	\$773	\$228,701

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

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

At June 30, 2006, 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, 2006, was \$470,129,000, and the market value of the collateral received for those securities on loan was \$479,064,000. 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

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

The BCPSS is authorized by State law to invest in direct or indirect obligations of the U.S. Government, certificates of deposit, repurchase agreements and related mutual funds. The BCPSS's investments at June 30, 2006 are presented below. All investments are presented by investment type.

Risk Classifications

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

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

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

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

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 BCPSS has not adopted a formal policy on the concentration of credit risk. At June 30, 2006, BCPSS has no concentration risk.

Investment Type	Fair Market Value	Investments Maturities (In Months)		
		Less Than 6	6 to 12	Greater Than 12
Money Market Funds	\$ 6,516,259	\$ 6,516,259		
Overnight Repurchase Agreements	818,000	818,000		
Commercial Paper	7,976,026	2,996,051	\$ 4,979,975	
U.S. Government Agencies	69,603,802	53,417,840	7,452,300	\$8,733,662
Certificates of Deposit	12,567,050	7,650,000	4,917,050	
MLGIP (Capital Lease)	11,688,900	11,688,900		
MLGIP (Bonds)	23,353,168	23,353,168		
MLGIP (Debt Service)	2,281,615	2,281,615		
Total Invested Funds	\$134,804,820	\$108,721,833	\$17,349,325	\$8,733,662

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

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	\$24,098						\$ 24,098
Service billings					\$ 64,374	\$ 3,480	67,854
Due from other governments	27,014	\$17,535	\$25,468	\$23,612	2,765	4,103	100,497
Notes and mortgages receivable	5,747					5,575	11,322
Other	14,030	448		8,281	50	622	23,431
Restricted accounts receivable					80,583		80,583
Total	\$70,889	\$17,983	\$25,468	\$31,893	\$147,772	\$13,780	\$307,785

5. Capital Assets

Capital assets activity for the year ended June 30, 2006, are as follows (expressed in thousands):

Governmental Activities Capital Assets:

Class	Balance June 30, 2005	Additions	Decreases	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 134,598	\$ 7,604		\$ 142,202
Construction in progress	696,449	66,215	\$10,194	752,470
Construction in progress—infrastructure	300,989	102,269		403,258
Total capital assets, not being depreciated	1,132,036	176,088	10,194	1,297,930
Capital assets, being depreciated:				
Buildings and improvements	1,328,154	11,850		1,340,004
Equipment	338,557	30,946	13,486	356,017
Infrastructure	2,063,799			2,063,799
Library books	35,994	5,178	2,210	38,962
Total capital assets, being depreciated	3,766,504	47,974	15,696	3,798,782
Less: accumulated depreciation for:				
Buildings and improvements	692,110	26,786		718,896
Equipment	249,293	18,295	8,703	258,885
Infrastructure	708,640	47,350		755,990
Library books	15,918	3,378	2,210	17,086
Total accumulated depreciation	1,665,961	95,809	10,913	1,750,857
Total capital assets, being depreciated, net	2,100,543	(47,835)	4,783	2,047,925
Governmental activities capital assets, net	\$3,232,579	\$128,253	\$14,977	\$3,345,855

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

Business-type Activities Capital Assets:

Class	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 17,384	\$ 6,462		\$ 23,846
Construction in progress	875,623	213,881	\$377,777	711,727
Total capital assets, not being depreciated	893,007	220,343	377,777	735,573
Capital assets, being depreciated:				
Buildings and improvements	1,441,092	359,314	17,127	1,783,279
Equipment	139,179	5,777		144,956
Infrastructure	54,306			54,306
Total capital assets, being depreciated	1,634,577	365,091	17,127	1,982,541
Less: accumulated depreciation for:				
Buildings and improvements	565,338	11,355		576,693
Equipment	102,705	5,147		107,852
Infrastructure	16,108	678		16,786
Total accumulated depreciation	684,151	17,180		701,331
Total capital assets, being depreciated, net	950,426	347,911	17,127	1,281,210
Business-type activities capital assets, net	\$1,843,433	\$568,254	\$394,904	\$2,016,783

Depreciation expense was charged to functions/programs of the City for the fiscal year ended June 30, 2006 (amounts expressed in thousands):

Governmental activities:

General government	\$ 4,854
Public safety and regulation	7,273
Conservation of health	555
Social services	39
Education	15,610
Public library	3,679
Recreation and parks	5,079
Highways and streets	43,691
Sanitation and waste removal	4,619
Public service	2,912
Economic development	1,128
Internal service funds	6,370
Total	\$95,809

Business-type activities:

Water	\$10,544
Waste water	21,793
Parking	1,070
Conduits	997
Total	\$34,404

At June 30, 2006, the outstanding commitments relating to projects of the City of Baltimore amount to approximately \$125,557,500 for governmental activities and \$270,673,000 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 2006, net interest expense of \$15,647,000 (net of interest income of \$6,288,000) was capitalized.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

6. Interfund Balances and Activity

A. BALANCE DUE TO/FROM OTHER FUNDS

Balances due to/from other funds at June 30, 2006 were as follows (amounts expressed in thousands):

Fund	Interfund	
	Receivable	Payable
General	\$39,089	\$192
Grant revenue		30,772
Capital projects	21,785	1,358
Nonmajor governmental funds	1,358	5,777
Waste water		19,101
Nonmajor proprietary funds		2,492
Internal service funds		2,540
Totals	\$62,232	\$62,232

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, 2006, certain transactions between funds had not been completed.

B. TRANSFERS TO/FROM OTHER FUNDS

Transfers to/from other funds at June 30, 2006, consist of the following (amounts expressed in thousands):

Fund	General	Capital Projects	Nonmajor Special Revenue	Motor Vehicle	Parking	Total Transfers To
General					\$36,819	\$ 36,819
Debt service	\$ 66,100	\$4,015		\$ 7,560		77,675
Loan and guarantee	1,495					1,495
Capital projects	64,877		\$8,871	66,330		140,078
Internal service funds	17,456					17,456
Parking	1,300					1,300
Totals transfers from	\$151,228	\$4,015	\$8,871	\$73,890	\$36,819	\$274,823

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, 2006 (amounts expressed in thousands):

Special Revenue Funds:		
Grants Revenue		\$105,776
Community Development Block Grant		3,136
Special Race Track		70
Internal Services Funds:		
Risk management		131,986
Municipal Post Office		224
Reproduction and printing		2,698

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 2007.

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.

7. Long-term Obligations

A. LONG-TERM OBLIGATION ACTIVITY

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

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

Changes in long-term obligations for the year ended June 30, 2006, are as follows (amounts expressed in thousands):

	June 30, 2005	Adjustments(a)	New Debt Issued	Debt Retired	June 30, 2006	Due within One Year
GOVERNMENTAL ACTIVITIES						
<i>General Obligation Bonds:</i>						
Highways	\$ 22,507	\$ 156		\$ 2,101	\$ 20,562	\$ 2,064
Health	2,188		\$ 371	88	2,471	146
Public safety	13,387	129	433	948	13,001	875
Off-street parking	29,171	145		2,443	26,873	2,321
Parks and recreation	19,767	86	2,691	1,115	21,429	1,060
Public buildings and facilities	47,066	120	7,080	2,253	52,013	2,140
Schools	133,466	325	8,535	7,248	135,078	6,596
Storm water	8,665	222		1,280	7,607	918
Urban renewal	278,165	840	28,425	21,883	285,547	20,949
Waste disposal	2,959	39		523	2,475	335
Unallocated	22,619	3		1,074	21,548	1,110
Total general obligation bonds	579,960	2,065	47,535	40,956	588,604	38,514
<i>Special Obligation Bonds</i>						
Special Obligation Bonds	23,324		2,977		26,301	90
<i>Long-term financing with the Federal Government:</i>						
Federal economic development loans	41,855		11,700	2,435	51,120	4,195
Environmental Protection Agency loans	286			95	191	191
Total long-term financing with the Federal Government	42,141		11,700	2,530	51,311	4,386
<i>Long-term financing with the State of Maryland:</i>						
State economic development loans	4,519			822	3,697	436
Total Governmental Activities	\$649,944	\$2,065	\$62,212	\$44,308	\$669,913	\$43,426
BUSINESS-TYPE ACTIVITIES						
<i>General Obligation Bonds:</i>						
Water	\$ 908	\$ 11		\$ 173	\$ 746	\$ 100
Waste Water	1,719	21		327	1,413	189
Total general obligation bonds	2,627	32		500	2,159	289
<i>Long-term financing with the State of Maryland:</i>						
Sewer construction loans	485			60	425	60
Total Business-type Activities	\$ 3,112	\$ 32		\$ 560	\$ 2,584	\$ 349
COMPONENT UNIT — BALTIMORE CITY PUBLIC SCHOOL SYSTEM						
<i>General Obligation Bonds:</i>						
Schools	\$ 69,475			\$ 4,390	\$ 65,085	\$ 4,545

(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 \$17,462,000 as of June 30, 2006. 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)

Variable Rate Demand General Obligation Bonds

The City has issued \$40,425,000 in taxable variable rate demand Consolidated Public Improvement Bonds Series C and D to construct various capital projects throughout the City. The bonds mature on October 15, 2020 and 2022, respectively.

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

In conjunction with the issuance of the bonds, Bank of America N/A (Bank) issued a standby purchase agreement (Agreement) in the amount of \$44,793,237 in favor of the City and Manufacturers and Traders Trust Company as Tender Agent. The agreement expires May 14, 2011 but can be extended for additional years. The existing Agreement permits the fiscal agent to draw amounts necessary to pay the principal portion and related accrued interest on the bonds tender for purchase and not remarked.

Pursuant to the Agreement between the City and the Bank, the issuer is required to reimburse the Bank the amount drawn upon remarketing or in a lump sum payment as of May 14, 2011. If the takeout agreement were to be exercised because issue of bonds was put but not sold, the City would be required to pay approximately \$2,022,000 in interest annually with a lump sum payment of principal at the end of the agreement. The interest rate on draws made under this agreement is the LIBOR one month rate plus 1% for draws of less than 90 days and the LIBOR rate plus 2% for draws greater the 90 days.

The City is required to pay the Bank fees throughout the effective dates of the Agreement of .20% per annum of the average daily amount of available commitment.

During fiscal year 2006, the City made no draws under the Agreement, and no amounts drawn against the Agreement were outstanding at June 30, 2006.

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 \$11,624,000 of unamortized losses on early extinguishment of debt.

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

- *Special Obligation Bonds:* The City has borrowed funds to provide funds for capital projects in the development district. At June 30, 2006, principal owed for these bonds was \$26,301,000 and interest of \$31,332,095 at the interest rates ranging from 5.50% to 7.00% 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, 2006, the principal owed to the Federal government was \$51,120,000 and interest of \$25,728,000 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, 2006, the principal owed the EPA was \$191,000. The principal shall be repaid in annual installments of approximately \$191,000 at zero percent interest and final payment is due on July 31, 2006.
- *State Economic Development Loans:* The City has borrowed \$24,685,000 from the State of Maryland to provide for various economic development projects under the Maryland Industrial Land Act and the Industrial Commercial Redevelopments Act. At June 30, 2006, the principal owed to the State was \$3,697,000 and interest of \$438,000 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 2016.
- *Sewer Construction Loans:* Under the provisions of Chapter 445, laws of Maryland 1968, and Chapter 286, laws of Maryland 1974, loans were made available to counties and municipalities charged with providing sewerage facilities to assist in the construction of such facilities. Since December 1980, the City has borrowed a total of \$1,184,000 for sewer projects. At June 30, 2006, the principal owed to the State was \$425,000 and interest of \$98,000 will be due thereon in future years.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

Compensated Absences

Compensated absences at June 30, 2006 totaled \$94,944,000 for governmental activities and \$11,337,000 for business-type activities, of which \$28,624,000 and \$7,358,000 respectively, were due within one year. For the Baltimore City Public School System, compensated absences totaled \$70,851,000, of which \$1,473,000 were due within one year.

Changes in compensated absences during fiscal year 2006 (amounts expressed in thousands):

	Governmental Activities	Business-type Activities	Total
Balance, July 1, 2005	\$ 80,728	\$11,214	\$ 91,942
Leave earned	42,840	7,481	50,321
Leave used	(28,624)	(7,358)	(35,982)
Balance, June 30, 2006	\$ 94,944	\$11,337	\$106,281

B. DEBT SERVICE REQUIREMENTS

Debt service requirements on long-term debt at June 30, 2006, 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
2007	\$ 38,863	\$ 28,924	\$(256)	\$ 436	\$114	\$ 4,386	\$ 3,000	\$ 90	\$ 1,697
2008	43,823	27,036	(209)	462	96	2,025	2,826	98	1,691
2009	45,092	25,106	(161)	490	77	3,373	2,666	136	1,684
2010	45,603	23,904	(107)	526	56	3,867	2,452	316	1,669
2011	45,619	23,774	(46)	369	33	3,285	2,237	356	1,648
2012-2016	168,628	69,089	239	1,414	62	15,019	8,414	2,481	7,815
2017-2021	112,311	30,872	441			13,598	3,537	3,996	6,781
2022-2026	84,230	7,145	32			5,567	596	6,145	5,154
2027-2031	4,435	91						8,079	2,802
2032-2034								4,604	391
	\$588,604	\$235,941	\$ (67)	\$3,697	\$438	\$51,120	\$25,728	\$26,301	\$31,332

(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, 2006, 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
2007	\$ 306	\$ 272	\$ 64	\$27
2008	246	124	68	23
2009	588	357	73	19
2010	511	350	77	14
2011	343	263	82	9
2012-2016	303		61	6
2017-2021	62			
Totals	\$2,159	\$1,366	\$425	\$98

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

A summary of general obligation and bond anticipation notes outstanding and bonds authorized but unissued (amounts expressed in thousands) at June 30, 2006, are as follows:

Purpose	Outstanding			Authorized
	Due Dates	Interest Rates	Amount	But Unissued Amount
Fire, police and public protection	2007 to 2016	4.7% to 9.0%	\$ 13,001	\$ 2,302
Off-street parking	2007 to 2017	1.5% to 9.0%	26,873	345
Parks and recreation	2007 to 2017	2.7% to 9.0%	21,429	8,345
Public building and facilities	2007 to 2017	2.7% to 9.5%	52,013	24,115
Schools	2007 to 2021	2.7% to 9.0%	135,078	54,495
Waste water and storm sewer	2007 to 2012	2.5% to 9.0%	7,934	
Urban renewal and development	2007 to 2021	2.7% to 9.5%	285,547	99,488
Water	2007 to 2011	4.0% to 9.0%	173	
Highways	2007 to 2021	4.7% to 9.0%	20,562	220
Waste disposal	2007 to 2011	4.75% to 8.9%	2,475	
Finance				20,000
Health	2007 to 2018	5.125% to 5.3%	2,471	5,544
Unallocated	2007 to 2011	4.7% to 5.5%	21,548	
Totals			\$589,104	\$214,854

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 will be maintained by the US Bank (formerly Wachovia). Interest rates range from 2.0% to 5.0% and interest is payable semiannually on November and May 1 of each year.

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.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

Future minimum bond payments are as follows for the year ending June 30, 2006 (amounts expressed in thousands):

Fiscal Year	Series 2000 Bonds	Series 2003 A Bonds	Interest	Total
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	1,780	3,570	2,188	7,538
2012-2016	10,290	20,460	6,894	37,644
2017-2021		9,665	731	10,396
Total	\$18,440	\$46,645	\$20,670	\$85,755

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 2006, the City's capital lease obligations decreased by \$2,033,000 (which is net of new leases in the amount of \$10,265,000 and lease principal payments of \$12,298,000) over the fiscal year 2005 total of \$171,040,000. Future minimum lease payments at June 30, 2006, are as follows (amounts expressed in thousands):

Fiscal Year	
2007	\$ 22,968
2008	23,442
2009	23,177
2010	21,885
2011	21,831
2012-2016	92,363
2017-2021	17,157
Total minimum lease payments	222,823
Less: deferred interest	(53,816)
Present value minimum lease payments	\$169,007

The following is a schedule of leased property under capital leases by major class at June 30, 2006 (amounts expressed in thousands):

Classes of Property	
Buildings	\$170,806
Equipment	142,713
Total	\$313,519

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

Baltimore City Public School System (BCPSS)

BCPSS has entered into a \$12,370,000 fifteen year capital lease (the 1999 Lease Agreement) with First Municipal Credit Corporation (FMCC) for the purchase and repair of certain boilers at various school locations. Under the terms of the 1999 Lease Agreement, funds were to be deposited into an "Acquisition Account" 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.

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.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

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, (US 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 (\$13,000,000 at an interest rate of 3.56% for 10 years), Vehicles (\$4,500,000 at an interest rate of 2.68% for 5 years) and Computers (\$6,000,000 at an interest rate of 2.68% for 5 years). Under the terms of the lease, funds were to be deposited into four separate Escrow Fund Accounts at the Wachovia Bank (US 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.

Additionally, on June 13, 2006, the BCPSS contracted with six (6) financial institutions for the ability to issue a maximum of \$25 million, with each financial institution, in capital leases to help finance its' Energy Conservation Program (ESCO) on a competitive basis. It is anticipated that approximately \$60 million in capital leases will be issued during fiscal 2007 in five (5) addendums to the master leases. The remaining funds available in the master leases will not be used and the contracts could be terminated at that time.

Future minimum lease payments as of June 30, 2006, are as follows (amounts expressed in thousands):

Fiscal Year	Capital Leases	
	Principal	Interest
2007	\$ 4,750,456	\$1,194,142
2008	4,737,295	1,019,398
2009	4,721,546	886,394
2010	2,622,407	693,044
2011	2,743,565	571,089
2012-2016	8,749,335	2,901,283
Present value minimum lease payments	\$28,324,604	\$7,265,350

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

8. Revenue Bonds

Water and Waste Water Revenue Bonds:

The City has issued revenue bonds, the proceeds of which were used to provide funds for capital improvements to water and waste water facilities. Assets with a carrying value of \$78,830,000 at June 30, 2006, and revenues of the Water and Waste Water Funds are pledged as collateral for the bonds. Bonds outstanding as of June 30, 2006, 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		\$ 3,555
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	\$ 6,055	
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		2,195
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	3,175	
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		3,345
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		3,162
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		2,319
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		1,780
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		4,572
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		1,887
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		8,219
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		11,105
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	1,897	5,426
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	5,858	
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		17,120
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		15,793
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		20,367
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 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
Serial bonds series 2005-C maturing in annual installments from \$599,000 to \$735,000 through July 1, 2012, with interest at 0.70%, payable semiannually		3,995
Serial bonds series 2006-A maturing in annual installments from \$515,000 to \$1,035,000 from July 1, 2009 through July 1, 2026 with interest rates of 4.00% to 4.50%, payable semiannually	13,310	
Term bond series 2006-A with interest at 4.625%, payable semiannually, due July 1, 2031	5,930	
Term bond series 2006-A with interest at 4.625%, payable semiannually, due July 1, 2036	7,435	
Serial bonds series 2006-A maturing in annual installments from \$338,000 to \$362,000 through February 1, 2026, with interest rate at 0.40%, payable semiannually		6,640
Serial bonds series 2006-B maturing annual installments from \$1,380,000 to \$1,561,000 through February 1, 2026, with interest rate of 0.40%, payable semiannually		29,994
Serial bonds series 2006-C maturing in annual installments from \$990,000 to \$2,090,000 from July 1, 2009 through July 1, 2026, with interest rates of 4.00% to 5.00%, payable semiannually		26,105
Term Bond series 2006-C with interest at 5.00%, payable semiannually, due July 1, 2031		12,125
Term Bond series 2006-C with interest at 5.00%, payable semiannually, due July 1, 2036		12,125
Less: unamortized charges	\$ 380,508	\$447,714

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 \$17,082,000 at June 30, 2006, and revenues of the Parking Facilities Fund are pledged as collateral for the bonds. Bonds outstanding as of June 30, 2006, 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	\$ 10,920
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	795
Serial bonds series 2005 maturing in annual installments from \$400,000 to 1,590,000 through July 1, 2015 with interest rates ranging from 4.69% to 5.07%, payable semiannually	15,375
Auction rate notes series 2002, payable monthly due July 1, 2032	79,100
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 1998-A with interest at 4.9%, payable semiannually, due July 1, 2011	125
Term bonds series 1998-A with interest at 5.25%, payable semiannually, due July 1, 2014	1,770
Term bonds series 1998-A with interest at 5.25%, payable semiannually, due July 1, 2017	2,060
Term bonds series 1998-A with interest at 5.25%, payable semiannually, due July 1, 2021	3,300
Term bonds series 2005 with interest at 5.27%, payable semiannually, due July 1, 2018	5,315
Term bonds series 2005 with interest at 5.30%, payable semiannually, due July 1, 2027	10,470
Term bonds series 2005 with interest at 5.62%, payable semiannually, due July 1, 2035	<u>1,000</u>
	181,030
Less: unamortized charges	<u>2,561</u>
	<u>\$ 178,469</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 2006, the City made no draws under the Agreement, and no amounts drawn against the Agreement were outstanding at June 30, 2006.

On November 29, 2005, the City sold \$32,160,000 of Taxable Project and Refunding Revenue Bonds. This transaction was taken to refund certain revenue bonds and to provide additional capital for future projects. The City placed \$31,329,628 of the proceeds into irrevocable trusts for the purpose of generating all future principal and interest requirements to extinguish \$29,695,000 in existing debt. The advance refunding met the requirements of an in-substance defeasance and accordingly the assets and liabilities have been removed from the statement of the net assets.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

As a result of the advanced refunding, the City decreased its debt service requirements by \$4,726,000. The economic gain resulting from this transaction was \$1,107,000.

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.

The bonds bear interest at a variable rate that is reset by the Remarketing Agent on a weekly basis. During fiscal year 2006, the variable interest rate paid by the City on these bonds ranged from 2.02% to 3.82%. 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 2006, the City made no draws under the letter of credit and no amounts drawn against the letter of credit were outstanding at June 30, 2006.

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.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

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.

Convention Center Hotel Revenue Bonds

On January 26, 2006, the City issued Convention Center Revenue Bonds in the amount of \$300,940,000. The proceeds of these bonds are to be used to finance the acquisition, demolition, construction and equipping of a convention center hotel in the City. The bonds are secured by pledges of revenues from the operating of the hotel, certain City hotel taxes and limited guarantees from the hotel operator. Bonds outstanding at June 30, 2006 consist of (amount expressed in thousands)

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

Changes in revenue bond obligations for the year end June 30, 2006, are as follows (amounts expressed in thousands):

	June 30, 2005	New Debt Issues	Debt Retired	June 30, 2006	Due within One Year
<i>Governmental Activities</i>					
Convention Center	\$ 47,625	\$300,940	\$ 2,185	\$ 346,380	\$ 2,080
Storm Water	6,882			6,882	350
Transportation	30,000		1,580	28,420	1,645
Total Governmental Activities	\$ 84,507	\$300,940	\$ 3,765	\$ 381,682	\$ 4,075
<i>Business Type Activities</i>					
Water	\$ 363,909	\$ 26,675	\$ 2,779	\$ 387,805	\$ 2,920
Waste Water	370,579	91,568	12,343	449,804	9,219
Parking Facilities	183,465	32,160	34,595	181,030	5,080
Industrial Development	100,000			100,000	
Total Business Type Activities	\$1,017,953	\$150,403	\$49,717	\$1,118,639	\$17,219

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

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

Fiscal Year	Governmental Activities							
	Convention Center Hotel		Convention Center		Storm Water		Transportation Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007		\$ 15,886	\$ 2,280	\$ 2,310	\$ 350	\$ 29	\$ 1,645	\$ 1,011
2008		15,886	2,395	2,193	351	26	1,710	956
2009		15,886	2,515	2,070	352	25	1,780	900
2010		15,886	2,645	1,941	354	23	1,850	841
2011		15,886	2,770	1,795	355	22	1,945	779
2012-2016	\$ 14,075	78,505	16,350	6,456	1,796	88	11,280	2,765
2017-2021	25,425	73,470	16,485	1,700	1,832	52	8,210	503
2022-2026	40,895	65,096			1,492	15		
2027-2036	61,365	52,251						
2037-2041	87,930	33,876						
2042-2046	71,250	7,906						
Totals	\$300,940	\$390,534	\$45,440	\$18,465	\$6,882	\$280	\$28,420	\$7,755

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)
2007	\$ 2,920	\$ 17,201	\$ 1,290	\$ 9,219	\$ 14,604	\$ 711	\$ 5,080	\$ 9,835	\$ 562		\$ 4,000	\$ (503)
2008	3,056	17,526	1,290	11,060	15,375	709	5,815	9,487	557		4,000	(503)
2009	3,202	17,373	1,290	11,290	15,147	706	6,060	9,197	552		4,000	(503)
2010	5,688	17,167	1,287	13,658	14,870	702	6,900	8,862	546		4,000	(503)
2011	6,299	16,895	1,278	14,494	14,530	695	7,235	8,474	540		4,000	(503)
2012-2016	40,002	79,375	6,064	76,569	66,758	3,263	40,820	35,861	2,592		20,000	(2,512)
2017-2021	51,834	68,725	5,354	83,655	55,103	2,690	37,875	23,481	2,363	\$100,000	2,000	(251)
2022-2026	57,112	55,963	4,639	74,327	42,570	2,022	23,670	16,158	1,944			
2027-2031	68,421	42,494	3,720	69,480	28,876	1,141	31,605	8,731	1,146			
2032-2036	81,862	24,961	2,264	59,245	12,843	193	15,970	931	114			
2037-2041	47,955	10,576	824	17,545	4,471							
2042-2046	19,454	1,012	76	9,262	549							
Totals	\$387,805	\$369,268	\$29,376	\$449,804	\$285,696	\$12,832	\$181,030	\$131,017	\$10,916	\$100,000	\$42,000	\$(5,278)

(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, 2006, assuming current interest rates remain the same for their term. As rates vary, variable rate bond interest payments and net swap payments will vary.

9. Prior-Year Defeasance of Debt

In prior years, the City defeased certain revenue bonds and other obligations by placing the proceeds of new debt issues in an irrevocable trust to provide for all future debt service payments on the old debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the City's financial statements. At June 30, 2006, \$325,350,000 of debt outstanding is considered defeased, which includes debt defeased during the current year.

10. 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, 2006, 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.

CITY OF BALTIMORE
Notes to Basic Financial Statements

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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	\$ (852,203)	A+/Aa3
2001 Bonds	6/27/2001	10/1/2022	5.060%	BMA Index	22,500,000	(1,674,059)	A+/Aa3
2003 Bonds	5/14/2003	10/15/2020	2.950%	BMA/67% LIBOR	91,475,000	3,849,427	A/A2
2003 Bonds	5/14/2003	10/15/2022	3.450%	BMA/67% LIBOR	47,350,000	2,830,626	A/A2
2003 Bonds	5/14/2003	10/15/2020	4.215%	1M LIBOR	21,375,000	1,456,316	A/A2
2003 Bonds	5/14/2003	10/15/2022	4.970%	1M LIBOR	17,155,000	1,182,612	A/A2
<i>Basis Swaps:</i>							
2003 Bonds	6/29/2004	10/15/2020	67% LIBOR	60% LIBOR+0.295%	91,475,000*	(442,759)	AAA/Aaa
2003 Bonds	6/29/2004	10/15/2022	67% LIBOR	60% LIBOR+0.295%	47,350,000*	(482,308)	AAA/Aaa
Total General Obligation Bonds					\$359,280,000*	\$ 5,867,652	
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	\$ (696,650)	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	\$ (115,394)	AA+/Aa2
1994 Revenue Bonds	1/1/2008	7/1/2024	BMA Index	5.26%	4,108,595	(178,798)	AA+/Aa2
1998 Revenue Bonds	2/1/2001	7/1/2028	BMA Index	5.17%	26,005,000	318,182	AA+/Aa2
1998 Revenue Bonds	7/1/2008	7/1/2028	BMA Index	5.08%	1,927,360	(113,659)	AA+/Aa2
2000 Revenue Bonds	7/1/2003	7/1/2030	BMA Index	5.70%	2,907,750	(96,048)	AA+/Aa2
<i>Floating to Fixed Swaps:</i>							
1998 Revenue Bonds	10/26/2001	7/1/2008	5.17%	BMA Index	26,005,000*	(880,907)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2037	4.555%	BMA/67% LIBOR	59,100,000	(4,874,154)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2009	3.87%	CPI Index	1,855,000	14,951	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2010	4.00%	CPI Index	1,900,000	17,759	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2011	4.10%	CPI Index	1,955,000	14,729	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2012	4.20%	CPI Index	2,110,000	8,758	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2013	4.30%	CPI Index	2,170,000	4,319	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2014	4.39%	CPI Index	2,325,000	(4,242)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2015	4.50%	CPI Index	1,615,000	(10,086)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2016	4.61%	CPI Index	1,685,000	(15,950)	A+/Aa3
2004 Revenue Bonds	6/1/2004	7/1/2034	5.21%	BMA Index	47,500,000	(4,840,735)	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	(7,305,575)	AAA/Aaa
Total Water Utility Fund					\$258,900,453*	\$(18,056,850)	
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	\$ (67,653)	AA+/Aa2
1994 Revenue Bonds	1/1/2008	7/1/2024	BMA Index	5.26%	1,229,550	(53,508)	AA+/Aa2
1998 Revenue Bonds	2/1/2001	7/1/2027	BMA Index	5.17%	23,910,000	346,350	AA+/Aa2
1998 Revenue Bonds	7/1/2008	7/1/2028	BMA Index	5.08%	1,876,278	(110,647)	AA+/Aa2
2000 Revenue Bonds	7/1/2003	7/1/2030	BMA Index	5.686%	1,855,869	(72,024)	AA+/Aa2
<i>Floating to Fixed Swaps:</i>							
1998 Revenue Bonds	10/26/2001	7/1/2008	5.17%	BMA Index	23,910,000*	(809,913)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2032	4.5475%	BMA/67% LIBOR	73,200,000	(5,095,391)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2009	3.87%	CPI Index	1,660,000	13,380	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2010	4.00%	CPI Index	1,785,000	16,684	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2011	4.10%	CPI Index	1,820,000	13,712	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2012	4.20%	CPI Index	1,930,000	8,011	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2013	4.30%	CPI Index	1,960,000	3,901	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2014	4.39%	CPI Index	2,040,000	(6,354)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2015	4.50%	CPI Index	1,240,000	(7,744)	A+/Aa3
2002 Revenue Bonds	5/7/2002	7/1/2016	4.61%	CPI Index	1,280,000	(12,116)	A+/Aa3
2004 Revenue Bonds	6/1/2004	7/1/2034	5.21%	BMA Index	17,500,000	(1,819,110)	A+/Aa3
Total Wastewater Utility Funds					\$159,704,047*	\$ (7,652,422)	
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	\$ 68,800,000	\$ (2,915,496)	AA+/Aa2
2002 Revenue Bonds	6/19/2002	7/1/2025	5.915%	1M LIBOR	10,300,000	(182,769)	AA+/Aa2
Total Parking Facilities Fund					\$ 79,100,000	\$ (3,098,265)	
Grand Total Swaps Outstanding					\$956,984,500*	\$(23,636,535)	

* 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 \$220,455,000; Water Utility \$232,895,453; Wastewater Utility \$135,794,047; Grand Total Swaps Outstanding \$768,244,500.

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Notes to Basic Financial Statements
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Credit risk — As of June 30, 2006, the City is not exposed to credit risk on all but sixteen 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, 2006. 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' \$10,099,717 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 approximately 44% 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 4 swaps with another counterparty, rated A/A2, approximating 19% of the outstanding notional value, 12 swaps are with a counterparty rated AA+/Aa2, approximating 16% of the outstanding notional value, 2 swaps are with a counterparty rated A/A1, approximately 15% of the outstanding notional value, and 1 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 the VRDBs and ARBs, the City receives a floating rate based on the either the BMA Index or one-month LIBOR. For the BMA based swaps, the City is exposed to basis risk should the spread between the BMA and the VRDBs or ARBs rate change. If a change occurs that results in the spread widening, the expected cost savings may not be realized. 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 was 2.66%. 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.

11. Pension Plans

Plan Descriptions

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

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 as a percentage of covered payroll:			
Employer	19.9%	9.56%	47.81%
Employee	6.0%	4%	5.0%
Annual pension cost	\$49,248	\$31,003	\$517
Contributions made	\$49,248	\$31,003	\$517
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, 2006 and the actuarial valuation dated June 30, 2006.

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, 2006	\$49,248	100	\$0
June 30, 2005	48,667	100	0
June 30, 2004	42,699	100	0
Employees' Retirement System:			
June 30, 2006	31,003	100	0
June 30, 2005	23,625	100	0
June 30, 2004	17,352	100	0
Elected Officials' Retirement System:			
June 30, 2006	517	100	0
June 30, 2005	575	100	0
June 30, 2004	408	100	0

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Notes to Basic Financial Statements
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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 3.0%. There is no covered payroll for the plan. The City's annual contributions equal the employee benefits paid under the terms of the plan. The City's employer contributions for the last three years are as follows:

Three -Year Trend Information

(Expressed in Thousands)

	Employer Contribution	Unfunded Accrued Liability
June 30, 2006	\$2,266	\$10,792
June 30, 2005	2,967	13,418
June 30, 2004	3,526	16,946

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, 2006, the State paid \$41,966,000 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, 2006 was \$1,044,000. This amount has also been recognized as both a revenue and an expenditure in the accompanying Statement of Activities.

Deferred Compensation

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

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

12. Risk Management

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

CITY OF BALTIMORE
Notes to Basic Financial Statements
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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, 2006, the City has determined that the range of potential claims liability for the fund to be between \$164,840,000 and \$189,326,000. The claims liability of \$164,840,000 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, 2006, 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 \$164,840,000 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 2005 and 2006 were (amounts expressed in thousands):

	2006	2005
Unpaid claims, beginning	\$ 164,577	\$ 155,215
Claims incurred	208,824	242,666
Claims paid	<u>(208,561)</u>	<u>(233,304)</u>
Unpaid claims, ending	\$ 164,840	\$ 164,577

13. Operating Leases

The City has entered into a number of operating leases for rental of office facilities and equipment, some of which provide for increased rentals based upon increases in real estate taxes and common area maintenance fees. As of June 30, 2006, future minimum lease payments are as follows (amounts expressed in thousands):

2007	\$ 5,923
2008	5,331
2009	4,839
2010	4,712
2011	4,460
2012-2016	12,284
2017-2021	587
2022-2026	587
2027-2031	<u>371</u>
Total	\$39,094

All leases contain cancellation provisions and are subject to annual appropriations by the City Council. During fiscal year 2006, rent expenditures approximated \$18,250,000 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, 2006, rent and lease expenditures approximated \$2,290,000. These expenditures were made primarily from the General Fund. As of June 30, 2006, future minimum lease payments approximate \$3,064,000 of which \$2,163,000 is due in FY 2007 and \$901,000 relates to FY 2008.

14. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require that the City place a final cover on its landfill site and perform certain maintenance and monitoring functions at the landfill site for a minimum of thirty years after closure. In addition to 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
Notes to Basic Financial Statements
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the landfill used during the year. The estimated liability for landfill closure and postclosure care costs is \$15,473,000 as of June 30, 2006, which is based on 60.6% usage (filled) of the landfill. This is an increase in the liability of \$1,145,000 since June 30, 2005. It is estimated that an additional \$10,059,000 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 (\$25,532,000) 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, 2006. 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 2007.

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, 2006, investments of \$10,853,000 were held in the City's General Fund. In addition, the General Fund's fund balance was appropriately reserved. It is anticipated that future inflation costs will be financed in part from earnings on investments held by the City. The remaining portion of anticipated future inflation costs (including inadequate earnings on investments, if any) and additional costs that might arise from changes in closure and postclosure requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both.

15. Notes and Mortgages Receivable

Notes and mortgages receivable as of June 30, 2006, consist of the following:

- A. The General Fund has notes receivable of \$5,747,000.00, net of a \$1,000,000.00 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 \$3,754,000.00 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 \$58,991,000.00 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 \$1,821,000.00 in mortgages receivable collateralized by real property, bearing interest rates ranging from 1.0% to 12.0% and mature over 30 years.

16. Deferred Revenue

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

Deferred revenue in the Grants Revenue Fund is associated with grant funds received as of June 30, 2006, 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, 2006.

17. Postemployment Benefits

City administrative policy provides that certain postemployment benefits, other than pension benefits, be provided to all its employees, including those in the BCPSS. These benefits include certain health care and life insurance benefits. All employees who retire are eligible to receive these benefits. At June 30, 2006, there were 19,976 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 2006, these postemployment benefits amounted to \$120,646,000.

The Governmental Accounting Standards Board has issued Statement No. 45 "Accounting and Financial Reporting by employers for Postemployment Benefits Other Than Pension" and Statement No. 47 "Accounting for Termination Benefits". The City must implement these two statements for the fiscal year beginning July 1, 2007.

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Notes to Basic Financial Statements
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18. Commitments and Contingencies

The City is party to legal proceedings which normally occur in governmental operations. The City provides for the estimated losses on certain outstanding claims as discussed in Note 12. The City has determined, in consultation with outside counsel, that certain claims are in too early of a stage to make a reasonable assessment of the City's liability. The City vigorously contests such claims as a matter of policy and will fully assert all available remedies, including the \$200,000 ceiling per individual claim. It is the opinion of City management, in consultation with outside legal counsel, that any additional liability for remaining litigation will not be material to the City's financial position or results of operations.

As of June 30, 2006, 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, 2006, 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 \$41 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 \$107.58 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 \$577.27 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. DHHS accepted the OIG's findings and the State filed an appeal to the Departmental Appeal Board in Washington, D.C. The Baltimore County School Board has joined the State in the appeal and the BCPSS anticipates that it will also join. Three other Boards affected by the findings are considering joining the appeal.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

19. Adjustment

During fiscal year 2006, the City adjusted the beginning fund balance of the Capital Projects Fund to reflect the proceeds of the City's Transportation Revenue Bonds. The bonds were recorded as a liability in the City's entity-wide governmental activities statement at June 30, 2005 but were not recorded as other financing source in the Capital Project Fund. This adjustment increased Capital Project Fund's beginning fund balance by \$30,000,000.

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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, 2006
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive
Revenues:				
Taxes — local	\$ 933,108	\$ 973,878	\$ 992,464	\$18,586
Licenses and permits	27,007	27,007	31,143	4,136
Fines and forfeitures	2,295	2,295	3,372	1,077
Interest, rentals, and other investment income	21,374	24,914	31,206	6,292
Federal grants	75	75	90	15
State grants	90,652	90,652	90,287	(365)
Other grants	75	75	75	
Charges for current services	41,963	41,963	42,243	280
Miscellaneous	1,246	1,246	8,817	7,571
Total revenues	1,117,795	1,162,105	1,199,697	37,592
Expenditures and encumbrances:				
Civil Service Commission	2,261	2,261	2,029	232
Community Relations Commission	880	880	847	33
Comptroller	4,061	4,061	3,725	336
City Council	4,021	4,021	4,018	3
Office of Financial Review	579	579	579	
Courts	8,765	8,765	8,632	133
Supervisors of Elections	5,675	5,675	5,565	110
Department of Finance	9,170	8,965	8,965	
Department of Fire	118,105	121,505	121,501	4
Department of Health	24,647	26,692	25,522	1,170
Department of Housing and Community Development	13,436	13,436	13,434	2
Department of Law	2,952	2,952	2,952	
Department of Legislative Reference	776	776	770	6
Enoch Pratt Library	20,206	20,456	20,175	281
Board of Liquor License Community	1,780	1,780	1,730	50
Mayorality	234,426	248,076	234,308	13,768
Department of Planning	1,348	1,348	1,348	
Department of Police	273,512	287,168	287,168	
Department of Public Works	71,547	71,787	71,765	22
Department of Recreation and Parks	23,890	23,890	23,868	22
Office of Sheriff	10,497	10,497	10,453	44
Office of State's Attorney	22,325	24,289	23,383	906
Department of Transportation	63	313	312	1
Wage Commission	461	461	456	5
Department of Municipal and Zoning Appeals	371	371	321	50
Baltimore City Public School System	204,114	204,114	204,114	
Total expenditures	1,059,868	1,095,118	1,077,940	17,178
Excess of revenues over expenditures	57,927	66,987	121,757	54,770
Other financing sources (uses):				
Transfers in	31,499	31,499	36,819	5,320
Transfers out	(148,943)	(148,943)	(151,228)	(2,285)
Total other financing sources (uses)	(117,444)	(117,444)	(114,409)	3,035
Net change in fund balances	(59,517)	(50,457)	7,348	57,805
Fund balances — beginning	168,106	168,106	168,106	
Fund balances — ending	\$ 108,589	\$ 117,649	175,454	\$57,805
Adjustments to reconcile to GAAP basis:				
Addition of encumbrances outstanding			44,482	
Less: accounts payable not recorded for budgetary purposes			(8,412)	
Fund balance — June 30, 2006 (GAAP basis)			\$ 211,524	

(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 \$1,044,000 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, 2006

(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
State shared revenue	\$220,669	\$220,669	\$222,323	\$1,654
Licenses and permits	675	675	815	140
Fines and forfeitures	7,000	7,000	6,017	(983)
Interest, rentals, and other investment income	1,127	1,127	1,725	598
Charges for current services	5,853	5,853	6,955	1,102
Miscellaneous	28	28	167	139
Total revenues	<u>235,352</u>	<u>235,352</u>	<u>238,002</u>	<u>2,650</u>
Expenditures and encumbrances:				
Department of Recreation and Parks	4,184	4,184	4,181	3
Department of Transportation	83,747	86,247	85,481	766
Department of Planning	759	759	725	34
Department of Police	11,392	11,392	11,024	368
Department of Public Works	37,264	37,264	35,512	1,752
Mayorality	21,475	21,475	21,224	251
Baltimore City Public School System	3,654	3,654	3,654	
Total expenditures and encumbrances	<u>162,475</u>	<u>164,975</u>	<u>161,801</u>	<u>3,174</u>
Excess of revenues over expenditures and encumbrances	<u>72,877</u>	<u>70,377</u>	<u>76,201</u>	<u>5,824</u>
Other financing uses:				
Transfers out	(73,890)	(73,890)	(73,890)	
Net change in fund balances	(1,013)	(3,513)	2,311	5,824
Fund balances — beginning	10,809	10,809	10,809	
Fund balances — ending	<u>\$ 9,796</u>	<u>\$ 7,296</u>	<u>13,120</u>	<u>\$5,824</u>
Adjustments to reconcile to GAAP Basis:				
Addition of encumbrances outstanding			6,028	
Less: accounts payable not recorded for budgetary purposes			(2,200)	
Fund balance — June 30, 2006 (GAAP basis)			<u>\$ 16,948</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, 2006	\$2,505,471	\$2,709,930	\$204,459	92.5%	\$245,558	83.3%
June 30, 2005	2,456,565	2,560,985	104,420	96.2	244,815	42.7
June 30, 2004	2,320,028	2,395,523	75,495	96.8	241,245	31.3
Employees' Retirement System						
June 30, 2006	1,411,165	1,530,526	119,361	92.2	331,888	36.0
June 30, 2005	1,403,207	1,466,857	63,650	95.7	320,986	19.8
June 30, 2004	1,397,582	1,429,231	31,649	97.8	322,915	9.8
Elected Officials' Retirement System						
June 30, 2006	15,940	13,546	(2,394)	117.7	963	(248.5)
June 30, 2005	15,183	14,447	(736)	105.1	963	(76.4)
June 30, 2004	14,854	14,709	(145)	101.0	1,150	(12.6)

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

CITY OF BALTIMORE

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 2006, supplemental appropriation ordinances were required for the General Fund in the amount of \$35.2 million, and Motor Vehicle Fund in the amount of \$2.5 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, 2006

(Expressed in Thousands)

	Special Revenue Funds				Permanent Funds			Total	Debt Service Fund	Total Nonmajor Governmental Funds
	Community Development Block Grant Fund	Special Racetrack Fund	Scholarship Fund	Total	Enoch Pratt Free Library Fund	Memorial Fund	Total			
Assets:										
Cash and cash equivalents			\$5,339	\$ 5,339	\$ 7	\$ 509	\$ 516	\$14,393	\$20,248	
Investments			2,115	2,115	2,030	3,705	5,735	12,647	20,497	
Other receivables, net			14	14	25	29	54	134	202	
Due from other governments		\$ 3,728	\$ 375	4,103					4,103	
Due from other funds		1,358		1,358					1,358	
Notes and mortgages receivable, net		1,821		1,821				3,754	5,575	
Total assets	6,907	375	7,468	14,750	2,062	4,243	6,305	30,928	51,983	
Liabilities and fund balances:										
Liabilities:										
Accounts payable and accrued liabilities	652	3		655					655	
Due to other funds	5,335	442		5,777					5,777	
Deferred revenue	4,056			4,056				3,754	7,810	
Matured bonds payable								1,092	1,092	
Total liabilities	10,043	445		10,488				4,846	15,334	
Fund balances:										
Reserved for encumbrances		99		99					99	
Reserved for Scholarship, Library and Memorial			7,468	7,468	2,062	4,243	6,305		13,773	
Unreserved (deficit)	(3,136)	(169)		(3,305)				26,082	22,777	
Total fund balances	(3,136)	(70)	7,468	4,262	2,062	4,243	6,305	26,082	36,649	
Total liabilities and fund balances	\$ 6,907	\$ 375	\$7,468	\$14,750	\$2,062	\$4,243	\$6,305	\$30,928	\$51,983	

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

Nonmajor Governmental Funds

For the Year Ended June 30, 2006

(Expressed in Thousands)

	Special Revenue Funds				Permanent Funds			Total	Debt Service Fund	Total Nonmajor Governmental Funds
	Community Development Block Grant Fund	Special Racetrack Fund	Scholarship Fund	Total	Enoch Pratt Free Library Fund	Memorial Fund	Total			
Revenues:										
State shared revenue		\$ 588		\$ 588					\$ 1,393	\$ 588
Interest, rentals and other investment income			\$ 787	787	\$ 12	\$ 61	\$ 73			2,253
Federal grants	\$29,009			29,009						29,009
Miscellaneous			401	401						401
Total revenues	29,009	588	1,188	30,785	12	61	73	1,393		32,251
Expenditures:										
Current:										
General government	3,277	25		3,302						3,302
Public safety and regulation	545	24		569						569
Education			1,079	1,079						1,079
Public library					75		75			75
Recreation and culture		24		24		108	108			132
Highways and streets										
Economic development	16,825	56		16,881						16,881
Debt service:										
Principal									48,073	48,073
Interest									30,555	30,555
Other bond cost									1,861	1,861
Total expenditures	20,647	129	1,079	21,855	75	108	183	80,489		102,527
Excess (deficiency) of revenues over (under) expenditures	8,362	459	109	8,930	(63)	(47)	(110)	(79,096)		(70,276)
Other financing sources (uses):										
Transfers in	(8,371)	(500)		(8,871)					77,675	77,675
Transfers out	(8,371)	(500)		(8,871)					(8,871)	(8,871)
Total other financing sources (uses)	(9)	(41)	109	59	(63)	(47)	(110)	(1,421)	77,675	68,804
Net change in fund balances	(3,127)	(29)	7,359	4,203	2,125	4,290	6,415	27,503		(1,472)
Fund balances—beginning										38,121
Fund balances—ending	\$(3,136)	\$ (70)	\$7,468	\$ 4,262	\$2,062	\$4,243	\$6,305	\$26,082		\$36,649

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, 2006
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive
Revenues:				
State shared revenues	\$ 228	\$ 228	\$ 588	\$360
Expenditures and encumbrances:				
Department of Planning	100	100	100	
Department of Police	18	18	18	
Department of Transportation	31	31	31	
Department of Recreation and Parks	24	24	24	
Department of Housing and Community Development	55	55	55	
Total expenditures	228	228	228	
Excess of revenues over expenditures			360	360
Other financing uses:				
Transfers out	(500)	(500)	(500)	
Net change in fund balances (deficit)	(500)	(500)	(140)	
Fund balances — beginning	(29)	(29)	(29)	
Fund balances — ending	\$(529)	\$(529)	(169)	
Addition of encumbrances outstanding			99	
Fund balances — June 30, 2001 (GAAP basis)			\$ (70)	

(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, 2006

(Expressed in Thousands)

	Loan and Guarantee Program	Industrial Development Authority	Conduit Fund	Total
Assets:				
Current assets:				
Cash and cash equivalents	\$11,544	\$33,051	\$ 3,191	\$47,786
Investments			4	4
Accounts receivable, net:				
Service billings	68		3,412	3,480
Other		420		420
Total current assets	11,612	33,471	6,607	51,690
Noncurrent assets:				
Capital assets, net			43,627	43,627
Issuance costs		345		345
Total noncurrent assets		345	43,627	43,972
Total assets	11,612	33,816	50,234	95,662
Liabilities:				
Current liabilities:				
Accounts payable and accrued liabilities	18	7	1,224	1,249
Accrued interest payable		296		296
Due to other funds		2,492		2,492
Other liabilities			412	412
Current liabilities payable from restricted assets:				
Accounts payable from restricted assets			13	13
Total current liabilities	18	2,795	1,649	4,462
Noncurrent liabilities:				
Revenue bonds payable, net		16,702		16,702
Other liabilities	612			612
Total noncurrent liabilities	612	16,702		17,314
Total liabilities	630	19,497	1,649	21,776
Net assets:				
Invested in capital assets, net of related debt			43,858	43,858
Unrestricted	10,982	14,319	4,727	30,028
Total net assets	\$10,982	\$14,319	\$48,585	\$73,886

CITY OF BALTIMORE
Combining Statement of Revenues, Expenses,
and Changes in Fund Net Assets
Nonmajor Proprietary Funds
For the Year Ended June 30, 2006

(Expressed in Thousands)

	Loan and Guarantee Program	Industrial Development Authority	Conduit Fund	Total
Operating revenues:				
Rents, fees, and other income	\$ 109	\$ 2,475	\$ 7,387	\$ 9,971
Interest income on loans	443	1,222		1,665
Total operating revenues	<u>552</u>	<u>3,697</u>	<u>7,387</u>	<u>11,636</u>
Operating expenses:				
Salaries and wages	11		1,389	1,400
Other personnel costs	17		542	559
Contractual services	256		4,873	5,129
Program expenses	2,721	174		2,895
Materials and supplies			126	126
Minor equipment			289	289
Depreciation			997	997
Interest		3,052		3,052
Total operating expenses	<u>3,005</u>	<u>3,226</u>	<u>8,216</u>	<u>14,447</u>
Operating income (loss)	<u>(2,453)</u>	<u>471</u>	<u>(829)</u>	<u>(2,811)</u>
Capital contributions	(72)		149	77
Transfers in	1,495			1,495
Changes in net assets	<u>(1,030)</u>	<u>471</u>	<u>(680)</u>	<u>(1,239)</u>
Total net assets — beginning	<u>12,012</u>	<u>13,848</u>	<u>49,265</u>	<u>75,125</u>
Total net assets — ending	<u>\$10,982</u>	<u>\$14,319</u>	<u>\$48,585</u>	<u>\$73,886</u>

CITY OF BALTIMORE
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the Year Ended June 30, 2006

(Expressed in Thousands)

	Loan and Guarantee Program	Industrial Development Authority	Conduit Fund	Total
Cash flows from operating activities:				
Receipts from customers	\$ 566	\$ 3,599	\$ 6,726	\$ 10,891
Payments to employees	(29)		(1,623)	(1,652)
Payments to suppliers	(3,084)	(7,101)	(10,202)	(20,387)
Net cash provided (used) by operating activities	(2,547)	(3,502)	(5,099)	(11,148)
Cash flows from non-capital financing activities:				
Transfers in	1,495		149	1,644
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets			(74)	(74)
Capital contributions	(72)			(72)
Principal paid on revenue bonds		1,924		1,924
Net cash provided (used) by capital and related financing activities	(72)	1,924	(74)	1,778
Cash flows from investing activities:				
Proceeds from sale of investments			(4)	(4)
Net decrease in cash and cash equivalents	(1,124)	(1,578)	(5,028)	(7,730)
Cash and cash equivalents, beginning of year	12,668	34,629	8,219	55,516
Cash and cash equivalents, end of year	\$11,544	\$33,051	\$ 3,191	\$ 47,786
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (2,453)	\$ 471	\$ (829)	\$ (2,811)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation			997	997
Amortization of bond issuance costs		35		35
Changes in assets and liabilities:				
Accounts receivable	3	(98)	(2,050)	(2,145)
Accounts payable and accrued liabilities	(97)	(4)	933	832
Other liabilities				
Notes payable				
Accrued interest payable		64		64
Due to other funds		(3,970)	(4,150)	(8,120)
Total adjustments	(94)	(3,973)	(4,270)	(8,337)
Net cash provided (used) by operating activities	\$ (2,547)	\$ (3,502)	\$ (5,099)	\$(11,148)

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, 2006
(Expressed in Thousands)

	Mobile Equipment	Reproduction and Printing	Municipal Post Office	Municipal Telephone Exchange	Risk Management	Total
Assets:						
Current assets:						
Cash and cash equivalents	\$28,767			\$12,601	\$ 25,537	\$ 66,905
Investments					4,713	4,713
Accounts receivable, net:						
Other	326	\$ 18			3,569	3,913
Inventories	1,778	246	\$ 1			2,025
Current restricted assets:						
Cash and cash equivalents	5,327					5,327
Total current assets	36,198	264	1	12,601	33,819	82,883
Noncurrent assets:						
Property, plant, and equipment, net	30,833	7		76	131	31,047
Other assets					187	187
Total noncurrent assets	30,833	7		76	318	31,234
Total assets	67,031	271	1	12,677	34,137	114,117
Liabilities:						
Current liabilities:						
Accounts payable and accrued liabilities	4,398	437	19	1,537	705	7,096
Due to other funds		2,385	155			2,540
Estimated liability for claims in progress					60,902	60,902
Other liabilities	2,562	147	51	128	578	3,466
Total current liabilities	6,960	2,969	225	1,665	62,185	74,004
Noncurrent liabilities:						
Estimated liability for claims in progress					103,938	103,938
Total liabilities	6,960	2,969	225	1,665	166,123	177,942
Net assets:						
Invested in capital assets, net of related debt	30,833	7		76	131	31,047
Unrestricted (deficit)	29,238	(2,705)	(224)	10,936	(132,117)	(94,872)
Total net assets	\$60,071	\$(2,698)	\$(224)	\$11,012	\$(131,986)	\$(63,825)

CITY OF BALTIMORE
Combining Statement of Revenues, Expenses,
and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2006
(Expressed in Thousands)

	Mobile Equipment	Reproduction and Printing	Municipal Post Office	Municipal Telephone Exchange	Risk Management	Total
Operating revenues:						
Charges for services	\$46,299	\$ 2,462	\$1,927	\$10,645	\$ 226,636	\$287,969
Operating expenses:						
Salaries and wages	9,683	918	304	843	2,578	14,326
Other personnel costs	3,368	351	116	307	750	4,892
Contractual services	11,302	1,019	118	6,817	8,159	27,415
Materials and supplies	12,663	1,548	4	4	62	14,281
Minor equipment		42		25	13	80
Claims paid and incurred					218,560	218,560
Postage and delivery service			1,602			1,602
Depreciation	5,905	5		88	67	6,065
Total operating expenses	42,921	3,883	2,144	8,084	230,189	287,221
Operating income (loss)	3,378	(1,421)	(217)	2,561	(3,553)	748
Nonoperating revenues (expenses):						
Investment income					1,188	1,188
Loss on disposal of property	(6,757)					(6,757)
Total nonoperating revenues (expenses)	(6,757)				1,188	(5,569)
Net income (loss) before contributions and transfers	(3,379)	(1,421)	(217)	2,561	(2,365)	(4,821)
Contributions	14,698					14,698
Transfers in	4,956				12,500	17,456
Total net assets — beginning	43,796	(1,277)	(7)	8,451	(142,121)	(91,158)
Total net assets — ending	\$60,071	\$(2,698)	\$(224)	\$11,012	\$(131,986)	\$(63,825)

CITY OF BALTIMORE
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2006

(Expressed in Thousands)

	Mobile Equipment	Reproduction and Printing	Municipal Post Office	Municipal Telephone Exchange	Risk Management	Total
Cash flow from operating activities:						
Receipts from customers	\$ 45,688	\$ 3,677	\$ 2,101	\$10,649	\$ 230,791	\$292,906
Payments to employees	(13,069)	(1,284)	(420)	(1,155)	(3,333)	(19,262)
Payments to suppliers	(23,498)	(2,393)	(1,733)	(5,676)	(236,709)	(270,008)
Net cash provided used by operating activities	9,121		(52)	3,818	(9,251)	3,636
Cash flows from noncapital financing activities						
Transfers in	4,956				12,500	17,456
Net cash used by noncapital financing activities	4,956				12,500	17,456
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(718)					(718)
Net cash used by capital and related financing activities	(718)					(718)
Cash flows from investing activities:						
Proceeds from the sale and maturities of investments					1,640	1,640
Purchase of investments					(1,475)	(1,475)
Interest on investments					1,188	1,188
Net cash provided by investing activities					1,353	1,353
Net increase (decrease) in cash and cash equivalents	13,359		(52)	3,818	4,602	21,727
Cash and cash equivalents, beginning of year	20,735		52	8,783	20,935	50,505
Cash and cash equivalents, end of year	\$ 34,094			\$12,601	\$ 25,537	\$ 72,232
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 3,378	\$(1,421)	\$ (217)	\$ 2,561	\$ (3,553)	\$ 748
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	5,905	5		88	66	6,064
Changes in assets and liabilities:						
Accounts receivable	(133)	72		3	3,708	3,650
Inventories	(443)	(23)	19			(447)
Other assets					447	447
Accounts payable and accrued liabilities	277	197	(15)	1,151	(10,218)	(8,608)
Other liabilities	172	4	6	15	36	233
Due to other funds	(35)	1,166	155			1,286
Estimated liability for claims in progress					263	263
Total adjustments	5,743	1,421	165	1,257	(5,698)	2,888
Net cash provided (used) by operating activities	\$ 9,121		\$ (52)	\$ 3,818	\$ (9,251)	\$ 3,636

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, 2006
(Expressed in Thousands)

	Employees' Retirement System	Elected Officials' Retirement System	Fire and Police Employees' Retirement System	Total
Assets:				
Cash and cash equivalents	\$ 41,446	\$ 125	\$ 51,413	\$ 92,984
Investments:				
Stocks	863,849		1,222,846	2,086,695
Bonds	455,851		666,190	1,122,041
Mutual funds		16,198		16,198
Real estate	61,577		178,173	239,750
Securities lending collateral	172,338		306,726	479,064
Other assets	18,182	18	15,644	33,844
Total assets	<u>1,613,243</u>	<u>16,341</u>	<u>2,440,992</u>	<u>4,070,576</u>
Liabilities:				
Obligations under securities lending program	172,338		306,726	479,064
Accounts payable	107,420	9	39,964	147,393
Pension benefits payable	261	1	415	677
Total liabilities	<u>280,019</u>	<u>10</u>	<u>347,105</u>	<u>627,134</u>
Net assets held in trust for pension benefits	<u>\$1,333,224</u>	<u>\$16,331</u>	<u>\$2,093,887</u>	<u>\$3,443,442</u>

CITY OF BALTIMORE
Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2006
(Expressed in Thousands)

	Employees' Retirement System	Elected Officials' Retirement System	Fire and Police Employees' Retirement System	Total
Additions:				
Contributions:				
Employer	\$ 31,003	\$ 517	\$ 49,661	\$ 81,181
Employee	423	48	15,158	15,629
Total contributions	31,426	565	64,819	96,810
Investment income:				
Net appreciation (depreciation) in fair market value of investments	79,601	1,718	130,394	211,713
Securities lending income	384		562	946
Interest and dividend income	36,965	15	56,322	93,302
Total investment income	116,950	1,733	187,278	305,961
Less: investment expense	5,465	12	8,100	13,577
Net investment income	111,485	1,721	179,178	292,384
Total additions	142,911	2,286	243,997	389,194
Deductions:				
Retirement allowances	93,706	491	161,379	255,576
Death benefits	983		520	1,503
Administrative expenses	2,496	31	2,552	5,079
Other	73		1,709	1,782
Total deductions	97,258	522	166,160	263,940
Changes in net assets	45,653	1,764	77,837	125,254
Net assets — beginning of the year	1,287,571	14,567	2,016,050	3,318,188
Net assets — end of the year	\$1,333,224	\$16,331	\$2,093,887	\$3,443,442

CITY OF BALTIMORE
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2006

(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		\$1,590	\$ 323	\$ 2,121
Investments				\$51		10,206	10,257
Total assets	55	86	67	51	1,590	10,529	12,378
Liabilities:							
Accounts payable and accrued liabilities							
Other	55	86	67	51	1,590	10,529	12,378
Total liabilities	\$55	\$86	\$67	\$51	\$1,590	\$10,529	\$12,378

CITY OF BALTIMORE

Combining Statement of Changes in Assets and Liabilities

Agency Funds

For the Year Ended June 30, 2006

(Expressed in Thousands)

	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
<i>Unpresented Stock and Coupon Bonds</i>				
Assets:				
Cash	\$ 55			\$ 55
Total assets	55			55
Liabilities:				
Accounts payable and accrued liabilities	43			43
Other	12			12
Total liabilities	55			55
<i>Property Sold for Taxes</i>				
Assets:				
Cash	86			86
Total assets	86			86
Liabilities:				
Other	86			86
Total liabilities	86			86
<i>Bid Deposit Refunds</i>				
Assets:				
Cash	67	\$ 38	\$ 38	67
Total assets	67	38	38	67
Liabilities:				
Other	67			67
Total liabilities	67			67
<i>Waterloo Summit</i>				
Assets:				
Investments	51			51
Total assets	51			51
Liabilities:				
Other	51			51
Total liabilities	51			51
<i>Recreation Accessory</i>				
Assets:				
Cash	1,463	2,906	2,779	1,590
Total assets	1,463	2,906	2,779	1,590
Liabilities:				
Other	1,463	2,906	2,779	1,590
Total liabilities	1,463	2,906	2,779	1,590
<i>Issuance Deposits</i>				
Assets:				
Cash	207	116		323
Investments	8,791	1,415		10,206
Total assets	8,998	1,531		10,529
Liabilities:				
Other	8,998	1,531		10,529
Total liabilities	8,998	1,531		10,529
<i>Total All Agency Funds</i>				
Assets:				
Cash	1,878	3,060	2,817	2,121
Investments	8,842	1,415		10,257
Total assets	10,720	4,475	2,817	12,378
Liabilities:				
Accounts payable and accrued liabilities	43			43
Other	10,677	4,437	2,779	12,335
Total liabilities	\$10,720	\$4,437	\$2,779	\$12,378

Statistical Section

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CITY OF BALTIMORE

Statistical Section

(Unaudited)

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Demographic and Economic Information	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City’s financial activities take place.	108
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These schedules contain service and infrastructure data to help the reader understand how the information in the City’s financial report relates to the services the City provides and the activities it performs.	112

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

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Financial Trends

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CITY OF BALTIMORE

Net Assets by Component

Last Five Fiscal Years

(Accrual Basis of Accounting)

(Expressed in Thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental activities					
Invested in capital assets, net of related debt	\$2,643,306	\$2,812,963	\$2,810,155	\$2,898,611	\$2,684,600
Restricted	15,650	15,444	15,084	13,774	13,773
Unrestricted	(178,915)	(369,729)	(439,890)	(428,921)	(367,551)
Total governmental activities net assets	\$2,480,041	\$2,458,678	\$2,385,349	\$2,483,464	\$2,330,822
Business-type activities					
Invested in capital assets, net of related debt	\$ 953,214	\$ 840,900	\$ 854,007	\$1,001,112	\$1,127,216
Restricted	215,671	224,150	256,964	252,812	282,924
Unrestricted	59,185	182,449	207,744	125,132	60,639
Total Business-type activities	\$1,228,070	\$1,247,499	\$1,318,715	\$1,379,056	\$1,470,779
Primary government					
Invested in capital assets, net of related debt	\$3,596,520	\$3,653,863	\$3,664,162	\$3,899,723	\$3,811,816
Restricted	231,321	239,594	272,048	266,586	296,697
Unrestricted	(119,730)	(187,280)	(232,146)	(303,789)	(306,912)
Total primary government net assets	\$3,708,111	\$3,706,177	\$3,704,064	\$3,862,520	\$3,801,601

CITY OF BALTIMORE

Changes in Net Assets

Last Five Fiscal Years

(Accrual Basis of Accounting)

(Expressed in Thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
Expenses					
Governmental activities:					
General government	\$ 280,380	\$ 311,906	\$ 406,520	\$ 406,849	\$ 339,059
Public safety and regulation	434,567	459,806	462,910	476,157	514,299
Conservation of health	176,159	189,881	195,024	142,219	162,319
Social Services	26,966	31,382	36,822	29,451	30,584
Education	224,218	219,904	219,932	226,913	225,890
Public library	27,159	26,877	27,251	23,303	30,400
Recreation and culture	53,199	35,119	36,326	36,304	33,060
Highways and streets	159,481	195,148	186,393	132,909	123,930
Sanitation and waste removal	36,569	38,882	34,151	36,836	40,155
Public service	12,646	14,945	15,150	15,695	15,218
Economic development	134,031	100,343	96,964	80,045	449,746
Interest	46,037	41,271	43,588	40,944	50,070
Total governmental activities expenses	1,611,412	1,665,464	1,761,031	1,647,625	2,014,730
Business-type activities:					
Water	84,454	97,883	95,745	96,893	95,010
Waste water	125,859	132,785	127,009	133,463	134,290
Parking	13,733	13,060	15,272	17,478	19,441
Conduits	2,754	3,075	3,481	3,917	8,065
Development loans	3,227	3,202	3,430	3,193	2,999
Industrial development	2,241	1,660	1,444	2,173	3,226
Total business type activity expenses	232,268	251,665	246,381	257,117	263,031
Total primary government expenses	\$ 1,843,680	\$ 1,917,129	\$ 2,007,412	\$ 1,904,742	\$ 2,277,761
Program revenues					
Governmental activities:					
Charges for services	\$ 66,089	\$ 73,636	\$ 88,587	\$ 83,950	\$ 90,545
Operating grants and contributions	429,036	472,628	477,870	401,958	393,328
Capital grants and contributions	41,863	35,873	51,910	49,013	57,313
Total governmental activity revenue	536,988	582,137	618,367	534,921	541,186
Business-type activity revenues					
Charges for services:					
Water	84,083	92,214	104,436	99,282	109,471
Waste Water	128,681	121,131	126,869	134,805	136,405
Parking	46,043	49,883	54,196	56,613	61,896
Conduits	4,858	4,137	3,783	5,890	7,387
Development loans	1,092	3,219	359	49	109
Industrial development	2,179	1,500	1,190	1,524	2,475
Capital grants and contributions	37,840	30,580	55,165	51,057	69,370
Total business — type program revenue	304,776	302,664	345,998	349,220	387,113
Total primary government program revenues	\$ 841,764	\$ 884,801	\$ 964,365	\$ 884,141	\$ 928,299
Net (Expense)/Revenue					
Governmental activities	\$(1,074,424)	\$(1,083,327)	\$(1,142,664)	\$(1,112,704)	\$(1,473,544)
Business-type activities	72,508	50,999	99,617	92,103	124,082
Total primary government net expense	\$(1,001,916)	\$(1,032,328)	\$(1,043,047)	\$(1,020,601)	\$(1,349,462)
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Property Taxes	\$ 487,776	\$ 517,452	\$ 527,215	\$ 539,195	\$ 558,089
Income Taxes	181,574	173,466	182,506	199,635	225,517
Other local taxes	97,239	102,899	111,980	171,871	208,858
State shared revenues	173,604	173,412	169,703	200,199	222,911
Franchise Fees	3,956				
Unrestrictive investment income	40,290	31,841	25,032	30,170	41,776
Miscellaneous	22,621	31,324	24,498	36,884	29,727
Transfers	27,661	31,570	28,401	32,865	34,024
Total governmental activities	1,034,721	1,061,964	1,069,335	1,210,819	1,320,902
Business-type activities:					
Unrestrictive investment income	2,416			1,103	1,665
Transfers	(27,661)	(31,570)	(28,401)	(32,865)	(34,024)
Total business-type activities	(25,245)	(31,570)	(28,401)	(31,762)	(32,359)
Total primary government	\$ 1,009,476	\$ 1,030,394	\$ 1,040,934	\$ 1,179,057	\$ 1,288,543
Change in Net Assets					
Governmental activities	\$ (39,703)	\$ (21,363)	\$ (73,329)	\$ 98,115	\$ (152,642)
Business-type activities	47,263	19,429	71,216	60,341	91,723
Total primary government	\$ 7,560	\$ (1,934)	\$ (2,113)	\$ 158,456	\$ (60,919)

CITY OF BALTIMORE
Fund Balances, Governmental Funds
Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

(Expressed in Thousands)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund										
Reserved	\$ 52,143	\$ 48,997	\$ 49,988	\$ 60,850	\$ 76,741	\$ 89,278	\$ 88,422	\$101,777	\$119,793	\$146,107
Unreserved	17,894	28,863	20,820	18,964	30,437	33,459	40,902	37,878	72,762	65,417
Total General Fund	\$ 70,037	\$ 77,860	\$ 70,808	\$ 79,814	\$107,178	\$122,737	\$129,324	\$139,655	\$192,555	\$211,524
All Other Governmental Funds										
Reserved	\$ 89,697	\$ 91,635	\$ 65,801	\$ 70,388	\$ 42,481	\$ 91,079	\$134,313	\$123,991	\$121,639	\$138,734
Unreserved reported in:										
Motor vehicle fund	16,469	11,398	3,485	6,823	21,112	14,772	6,825	6,625	8,024	9,504
Grants revenue fund					(47,086)	(71,738)	(75,579)	(93,848)	(113,194)	(105,776)
Capital projects fund	37,777	24,464	74,512	43,413	77,743	37,025	(87,579)	(44,106)	(83,622)	28,370
Debt service fund	36,485	30,379	25,369	22,051	20,647	22,990	17,715	18,099	27,503	26,082
Non-major special revenue funds	2,551	299	456	391	169	8,135	4,606	(965)	(3,156)	(3,305)
Non-major permanent funds	5,601	8,184	11,166	10,099	16,264	6,659	6,602	6,237	13,774	
Total all other governmental funds	\$188,580	\$166,359	\$180,789	\$153,165	\$131,330	\$108,922	\$ 6,903	\$ 16,033	\$(29,032)	\$ 93,609

CITY OF BALTIMORE
Changes in Fund Balances
Governmental Funds
Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

(Expressed in Thousands)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues:										
General fund:										
Taxes — Local	\$ 674,534	\$ 680,627	\$ 700,625	\$ 712,536	\$ 758,351	\$ 767,384	\$ 793,817	\$ 821,701	\$ 910,701	\$ 992,464
Licenses and permits	17,477	18,099	17,954	22,011	21,347	22,051	21,429	26,805	28,570	31,143
Fines and forfeitures	2,287	2,219	2,679	3,337	1,298	2,162	2,401	4,408	3,575	3,372
Interest, rentals, and other investment income	34,068	32,645	34,912	33,878	36,637	27,468	24,968	20,729	25,364	31,206
Federal grants	75	45	37	13	68	45	77	111	150	90
State grants	441,562	68,437	70,374	75,981	79,985	87,580	98,778	96,412	92,240	91,331
Other grants	177	165	161	159	159	4,139	6,112	6,064	4,174	75
Charges for services	30,756	31,965	32,863	34,114	34,581	35,718	36,315	39,692	39,770	42,243
Miscellaneous	4,436	14,262	2,900	2,137	3,233	8,945	6,694	9,889	2,643	8,817
Total revenues — general fund	1,205,372	848,464	862,505	884,166	935,659	955,492	990,591	1,025,811	1,107,187	1,200,741
Other governmental funds:										
Motor vehicle fund	183,259	165,788	164,472	173,559	188,115	185,538	187,891	187,119	212,477	238,002
Grants revenue fund	426,653	244,321	263,550	293,697	334,831	287,578	340,989	324,317	263,542	280,232
Capital projects fund	48,339	32,699	53,085	32,987	21,640	40,913	60,345	68,647	64,031	84,247
Other funds	3,255	1,998	6,023	2,694	12,773	48,986	25,555	29,820	37,334	32,251
Total revenues other governmental funds	661,506	444,806	487,130	502,937	557,359	563,015	614,780	609,903	577,384	634,732
Total revenues all governmental funds	1,866,878	1,293,270	1,349,635	1,387,103	1,493,018	1,518,507	1,605,371	1,635,714	1,684,571	1,835,473
Expenditures:										
General fund:										
General government	153,729	182,438	177,895	187,425	204,564	214,288	253,812	267,527	273,606	290,727
Public safety and regulation	271,881	296,806	300,313	308,806	332,315	350,941	377,494	376,052	383,318	416,781
Conservation of health	24,360	21,593	22,364	24,061	24,355	24,102	24,760	23,528	24,442	30,507
Social Services	682	963	1,008	916	754	1,743	1,952	2,032	2,146	2,138
Education	599,834	1,080	776	880	1,308	202,117	202,046	202,192	205,067	205,552
Public library	17,805	18,239	20,134	18,817	19,521	19,680	19,493	20,124	18,093	20,853
Recreation and culture	38,499	35,954	22,627	21,417	24,685	26,255	25,998	27,143	26,464	29,151
Highways and streets	1,469	785	4,378	3,711	3,348	175	153	244	407	312
Sanitation and waste removal	31,839	31,224	31,040	30,002	33,751	29,435	30,617	29,209	28,109	37,474
Public service	9,049	9,609	9,798	11,471	12,039	12,170	11,889	12,234	12,715	12,448
Economic development	14,364	18,586	18,386	17,880	23,672	14,631	19,077	19,262	18,854	21,420
Total expenditures — general fund	1,163,511	617,277	608,719	625,386	680,312	895,537	967,291	979,547	993,221	1,067,363
Other governmental funds:										
Motor vehicle fund	120,637	120,663	120,098	125,983	125,781	132,117	144,495	148,268	148,974	157,248
Grants revenue fund	410,428	237,674	252,628	272,900	298,551	316,563	344,830	342,586	282,888	272,814
Capital projects fund	187,248	188,151	198,968	178,156	125,214	171,910	206,246	217,621	208,219	568,951
Debt Service Fund:										
Principal	16,993	23,097	28,177	35,408	39,121	34,080	36,065	36,209	42,048	48,073
Interest	27,296	29,160	29,306	31,532	32,528	34,900	31,760	29,674	30,197	30,555
Other bond costs	197	3,219	453	1,455	462				1,357	1,861
Other funds	42	40	350	815	241	23,180	21,524	22,752	25,052	22,038
Total expenditures other governmental funds	762,841	602,004	629,980	646,249	621,898	712,750	784,920	797,110	738,735	1,101,540
Total expenditures all governmental funds	1,926,352	1,219,281	1,238,699	1,271,635	1,302,210	1,608,287	1,752,211	1,776,657	1,731,956	2,168,903
Excess of expenditures over revenue	(59,474)	73,989	110,936	115,468	190,808	(89,780)	(146,840)	(140,943)	(47,385)	(333,430)
Other financing sources (uses):										
Transfers, net	23,698	(176,378)	(188,780)	(188,384)	(174,133)	27,661	31,570	28,401	33,873	16,568
Capital leases	500	67,954	23,253	9,064	21,082	12,400	433	25,136	10,189	10,265
Face value of bonds and loans	35,370	136,551	61,883	46,162	34,454	42,869	201,399	65,996	49,689	379,676
Premium (discount) on sale of bonds							(2,064)	731		
Payments to escrow agents		(104,088)					(128,030)	(11,760)		
Demand obligation transferred from fund liability							(51,900)	51,900	(38,531)	38,531
Total other financing sources (uses)	59,568	(75,961)	(103,644)	(133,158)	(118,597)	82,930	51,408	160,404	55,220	445,040
Net changes in fund balances	\$ 94	\$ (1,972)	\$ 7,292	\$ (17,690)	\$ 72,211	\$ (6,850)	\$ (95,432)	\$ 19,461	\$ 7,835	\$ 111,610
Debt service as a percentage of noncapital expenditures	2.56%	5.38%	5.57%	6.25%	6.13%	4.80%	4.39%	4.23%	4.83%	5.03%

Revenue Capacity

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CITY OF BALTIMORE
Property Tax Levies and Collections

Last Ten Fiscal Years

(Dollars Expressed in Thousands)

Fiscal Year	Total Tax Levy	Collected within the Fiscal Year of the Levy	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy
1997	\$483,009	\$466,782	96.6%	\$ 7,043	\$473,825	98.1%
1998	475,125	461,022	97.0	9,238	470,260	99.0
1999	483,042	467,651	96.8	9,606	477,257	98.8
2000	496,166	478,991	96.5	12,095	491,086	99.0
2001	505,064	486,170	96.3	17,167	503,337	99.7
2002	515,463	494,379	95.9	8,613	502,992	97.6
2003	517,977	500,522	96.6	12,836	513,358	99.1
2004	523,226	510,710	97.6	14,235	524,945	100.3
2005	548,552	529,074	96.4	6,144	535,218	97.6
2006	565,648	544,463	96.3	8,161	552,624	97.7

CITY OF BALTIMORE

Assessed and Estimated Actual Value of Taxable Property

Last Ten Fiscal Years

(Dollars Expressed in Thousands)

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	
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)
2006	19,918,443	21,334,553	1,783,249	1,783,249	21,701,692(1)	23,117,802	93.9(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
Direct and Overlapping Property Tax Rates

Last Ten Fiscal Years(1)

Fiscal Year	City Tax Rate	State Tax Rate (2)	Total (3)
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	.132	2.460
2005(4)	2.328	.132	2.460
2006(4)	2.308	.132	2.440

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
Principal Property Taxpayers
Current Year and Nine years ago

	2006			1997		
	Taxable Assessed Value	Rank	Percentage of Total City Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Assessed Value
BGE (Baltimore Gas & Electric Company)	\$ 581,637	1	2.7%	\$ 577,947	1	6.6%
Verizon-Maryland	357,268	2	1.6%	344,854	2	4.0%
Baltimore Center Associates, LTD Partnership	155,599	3	0.7%	51,961	4	0.6%
Boston Properties, Inc				49,319	5	0.6%
100 E. Pratt St.	138,043	4	0.6%			
Harbor East Limited	104,019	5	0.5%			
CSX Transportation, Inc.	100,260	6	0.5%			
ABB South Street Associates	69,000	7	0.3%			
TMCT, LLC	61,292	8	0.3%			
U.S. Bank National	60,186	9	0.3%			
Travis Real Estate Group	58,491	10	0.3%			
A T & T Communications of Maryland				82,531	3	0.9%
MCI Worldcom				38,345	6	0.4%
Baltimore Refuse Energy Systems, Comp (BRESKO)				34,264	7	0.4%
United Cable Television of Baltimore, LTD Partnership				25,421	8	0.3%
Pratt Street Hotel, LLC				24,400	9	0.3%
Xerox Corporation				24,001	10	0.3%
Total	\$1,685,795		7.8%	\$1,253,043		14.4%

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DEBT CAPACITY

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CITY OF BALTIMORE

Ratios of Outstanding Debt by Type, Primary Government

Last Ten Fiscal Years

(Expressed in Thousands)

Fiscal Year	Governmental Activities						Business-Type Activities					Total Primary Government	Percentage of Personal Income(b)	Per Capita(a)
	General Obligation Bonds	Bond Anticipation Notes	Special Obligation Bonds	Long-term Financing with Federal Government	Long-term Financing with State of Maryland	Private	Water	Waste Water	Sewer Construction Loans					
1997	\$413,094	\$21,184		\$21,713	\$16,469		\$3,913	\$3,244	\$856			\$480,473	3.06%	\$717
1998	432,595	18,100		14,261	13,056	\$2,246	3,403	2,941	819			487,421	3.09%	749
1999	453,987	14,810		31,176	10,353	5,006	2,729	2,542	780			521,383	3.01%	826
2000	472,554	11,295		30,155	10,044	4,692	2,034	2,423	738			533,935	3.01%	852
2001	483,300	7,295		35,115	7,820	3,519	1,693	2,227	694			541,663	3.09%	847
2002	506,079	3,180		39,057	6,467	1,897	1,417	2,152	647			560,896	3.09%	883
2003	564,380		\$ 7,479	33,632	5,295	724	1,113	2,107	596			615,326	2.89%	964
2004	579,382		23,324	30,681	4,872		1,037	1,963	542			641,801	2.92%	999
2005	579,960		23,324	42,141	4,519		908	1,719	485			653,056	2.72%	1,028
2006	588,604		26,301	51,311	3,697		746	1,413	425			672,497	N/A	N/A

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

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

CITY OF BALTIMORE
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years

(Dollars Expressed in Thousands)

Fiscal Year	General Obligation Bonds	Bond Anticipation Notes	Total	Funds Available in Debt Service Funds	Net General Bonded Debt	Percentage of Actual Taxable Value of Property	Per Capita(a)
1997	\$413,094	\$21,184	\$434,278	\$36,485	\$397,793	2.20%	\$593.81
1998	432,595	18,100	450,695	30,379	420,316	2.35%	645.75
1999	453,987	14,810	468,797	25,369	443,428	2.45%	702.18
2000	472,554	11,295	483,849	22,051	461,798	2.50%	736.52
2001	483,300	7,295	490,495	20,647	469,948	2.49%	734.98
2002	506,079	3,180	509,259	22,990	486,269	2.53%	765.54
2003	564,380		564,380	17,715	546,665	2.78%	856.04
2004	579,382		579,382	18,099	561,283	2.76%	873.32
2005	579,960		579,960	27,503	552,457	2.55%	868.23
2006	588,604		588,604	26,082	562,522	2.43%	884.73

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

CITY OF BALTIMORE
Direct and Overlapping Governmental Activities Debt
June 30, 2006

The City of Baltimore has no Overlapping Debt.

CITY OF BALTIMORE
Legal Debt Margin Information
June 30, 2006

The City has no Legal Debt Margin

CITY OF BALTIMORE
Pledged Revenue Coverage
Last Ten Fiscal Years
(dollars expressed in thousands)

Fiscal Year	Water Revenue Bonds						Waste Water Revenue Bonds					
	Water Utility Revenues	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage	Waste Water Utility Revenues	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principle	Interest					Principle	Interest	
1997	\$ 69,640	\$55,293	\$14,347	\$ 1,705	\$ 6,459	1.76	\$100,405	\$ 88,060	\$12,345	\$2,112	\$ 4,180	1.96
1998	68,707	58,000	10,707	2,370	7,509	1.08	103,643	88,933	14,710	2,632	5,010	1.92
1999	72,949	60,780	12,169	2,465	8,245	1.14	105,718	92,350	13,368	2,830	5,851	1.54
2000	79,427	69,826	9,601	2,940	8,725	0.82	117,028	107,829	9,199	3,544	5,163	1.06
2001	83,961	64,353	19,608	3,190	9,936	1.49	114,945	99,112	15,833	3,877	7,201	1.43
2002	84,083	65,938	18,145	3,860	10,737	1.24	128,681	104,324	24,357	4,789	7,834	1.93
2003	92,214	74,974	17,240	2,185	6,972	1.88	121,131	105,974	15,157	2,234	8,344	1.43
2004	102,612	76,616	25,996	2,295	10,529	2.03	125,942	104,859	21,083	4,660	9,595	1.48
2005	99,282	76,772	22,510	2,655	16,091	1.20	134,805	105,030	29,775	4,794	12,559	1.72
2006	109,471	77,776	31,695	2,779	17,137	1.59	136,405	113,542	22,863	7,658	12,630	1.13

Fiscal Year	Parking Facilities Revenue Bonds						Convention Center Revenue Bonds					
	Parking Facilities Revenues	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage	Convention Center Revenues	Net Available Revenue	Debt Service		Coverage	
				Principle	Interest				Principle	Interest		
1997	\$37,382	\$3,715	\$33,667	\$2,620	\$10,289	2.61	\$11,059	\$11,059		\$3,265	3.39	
1998	37,283	3,721	33,562	2,725	6,122	3.79	3,654	3,654		3,265	1.12	
1999	41,248	3,703	37,545	2,835	7,313	3.70	3,861	3,861		2,429	1.59	
2000	38,527	5,508	33,019	3,205	7,131	3.19	4,567	4,567	\$1,225	2,891	1.11	
2001	46,176	4,963	41,213	3,360	6,977	3.99	4,631	4,631	1,780	2,832	1.00	
2002	46,043	5,790	40,253	3,515	6,813	3.90	4,636	4,636	1,850	2,578	1.05	
2003	49,883	6,845	43,038	3,690	7,803	3.74	4,637	4,637	1,930	2,679	1.01	
2004	53,539	7,447	46,092	4,355	11,999	2.82	4,579	4,579	2,010	2,596	.99	
2005	56,613	6,986	49,627	4,680	11,812	3.01	4,566	4,566	2,095	2,508	.99	
2006	61,896	9,697	52,199	4,900	9,828	3.54	3,904	3,904	2,185	2,415	.85	

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

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DEMOGRAPHIC AND ECONOMIC INFORMATION

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CITY OF BALTIMORE
Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population	Personal Income(a) <i>(thousands of dollars)</i>	Per Capita Personal Income	Total Employment	Unemployment Rate
1997	669,900	14,707,551	21,714	284,680	8.7%
1998	650,900	15,041,485	22,535	274,241	9.8%
1999	631,500	15,680,975	23,852	268,384	7.3%
2000	627,000	16,076,869	24,789	274,059	7.1%
2001	639,400	16,727,455	25,922	274,833	7.7%
2002	635,200	17,305,179	27,180	274,241	9.8%
2003	638,600	17,764,760	27,615	267,106	8.1%
2004	642,700	18,714,868	29,153	267,106	8.1%
2005(a)	636,300	17,753,304	27,914	251,732	7.4%
2006	635,815	N/A	N/A	261,140	6.6%

Data from Bureau of Economic Analysis U.S. Dept of Commerce

(a) Estimate from the Maryland Dept of Planning

N/A Data not available

CITY OF BALTIMORE
Principal Employers
Current Year and Nine Years Ago

Employer	2006			1997		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Government[1]						
State	39,247	1	11.23%	38,511	1	10.07%
Other Government authority (City, Schools, etc)	27,543	2	7.88%	31,730	2	8.30%
Federal	8,266	3	2.36%	14,654	3	3.83%
Sub Total Government	75,056		21.47%	84,895		22.20%
Ten Largest Private Sector Employers[2]						
Johns Hopkins University	19,000	1	5.44%	15,000	1	3.92%
Johns Hopkins Health Systems Entity	12,800	2	3.66%	9,100	2	2.38%
University of Maryland Medical System	8,600	3	2.46%	6,000	5	1.57%
Medstar Health System	5,400	4	1.54%			
LifeBridge Health-Levindale	5,100	5	1.46%			
St. Agnes Health Care	3,100	6	0.89%	2,900	8	0.76%
Constellation Energy Group	2,800	7	0.80%			
Mercy Health Service	2,500	8	0.72%			
Kennedy Krieger Institute	2,100	9	0.60%			
Bon Secours Health System	1,100	10	0.40%			
Baltimore Gas & Electric				6,600	3	1.73%
Bell Atlantic				6,000	4	1.57%
General Motors Corporation				3,100	6	0.81%
Nations Bank Corporation				3,000	7	0.78%
Sinai Hospital of Baltimore				2,500	9	0.65%
First Maryland Bank Corp.				2,000	10	0.52%
Sub Total Private Sector	62,500		17.97%	56,200		14.69%
Total Government and Ten Largest Private Employers	137,556		39.44%	141,095		36.89%

Source:

[1] Maryland Dept of Labor Licensing and Regulations, Employment Data files for the Period Ending 3/31/2006 and average for calendar year 1997.

[2] Private employer list excludes temporary service/personnel agencies supporting other employers.

OPERATING INFORMATION

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CITY OF BALTIMORE
Full Time Equivalent Employees By Function
Last Ten Years

Function/program	Full-time equivalent Employees at June 30									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government	1,809	2,224	2,295	2,480	2,680	2,696	2,999	3,188	3,145	3,711
Public safety										
Police	3,878	3,907	4,043	4,160	3,961	4,131	4,102	4,030	3,982	3,935
Fire	1,770	1,772	1,777	1,830	1,754	1,748	1,737	1,741	1,743	1,743
Other	787	790	708	602	990	816	947	1,039	1,020	1,119
Conservation of health	789	812	793	780	760	773	770	742	719	680
Public library	447	443	447	445	437	438	430	424	420	417
Recreation and parks	657	345	321	326	433	372	368	362	364	364
Highways and streets	1,679	1,663	1,679	1,670	1,641	1,644	1,612	1,591	1,576	1,565
Public Works										
Water	511	506	511	504	499	500	490	484	479	476
Waste Water	869	861	869	864	849	851	834	823	816	810
Solid Waste	935	927	936	931	914	916	898	886	878	872
Public service	76	75	76	76	74	75	73	72	72	71
Economic development	930	921	930	925	909	911	893	861	873	476
	15,137	15,246	15,385	15,593	15,901	15,871	16,153	16,243	16,087	16,239

Source: Baltimore City budget

CITY OF BALTIMORE
Operating Indicators By Function/Program
Last Ten Fiscal Years

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<i>Police</i>										
Arrests*	71,711	82,379	80,778	81,226	93,780	102,397	110,167	100,388	99,981	69,678
<i>Fire</i>										
Fire Suppression Units Dispatched	NA	NA	NA	NA	NA	NA	NA	106,822	120,906	126,942
Structural Fires	NA	NA	NA	NA	2,884	2,758	2,223	2,132	2,370	2,372
EMS Transports	NA	NA	NA	NA	81,029	83,026	82,453	83,348	83,828	86,881
Inspections	NA	NA	NA	NA	24,795	21,805	12,560	14,707	20,250	20,543
<i>Solid Waste</i>										
Refuse Collected (tons)	NA	NA	NA	NA	206,851	208,970	212,711	218,324	220,063	218,194
Recyclables Collected (tons)	NA	NA	NA	NA	NA	NA	NA	NA	NA	166,656
<i>Water/Wastewater</i>										
Number of Accounts	NA	NA	NA	NA	NA	NA	NA	NA	NA	409,208
Average Daily Water Production (MGD)	NA	NA	NA	NA	NA	NA	NA	NA	NA	251
Average Daily Sewage Treatment (MGD)	NA	NA	NA	NA	NA	NA	NA	NA	NA	210
<i>Transportation</i>										
Miles Streets Resurfaced/Reconstructed	NA	NA	82.16	56.03	73.72	103.16	144.1	38.7	113.5	13.5
Potholes Repaired	NA	NA	NA	NA	NA	NA	7,769	11,592	19,000	16,054
Traffic Citations Issued	NA	NA	NA	NA	NA	2,660	3,233	9,760	12,422	7,744
Parking Citations Issued	NA	NA	NA	NA	NA	328,038	331,422	340,448	340,444	364,041
Traffic Signals Repaired	NA	NA	NA	NA	NA	NA	NA	8,274	10,973	11,482
Street Lights Repaired	NA	NA	NA	NA	NA	NA	12,248	13,345	12,982	21,527
<i>Housing</i>										
Number of inspections (housing and code enforcement)	NA	NA	NA	NA	NA	NA	NA	179,385	199,830	169,727
Number of permits issued	NA	NA	NA	NA	20,133	20,803	23,138	26,692	32,780	38,787
Property Management Service Requests Completed**	NA	NA	NA	NA	NA	NA	NA	13,109	15,635	30,537
<i>Recreation and Parks</i>										
Enrollment at Recreation Centers	NA	NA	NA	NA	NA	NA	170,440	152,660	155,193	138,583
Permits Issued for Park Facilities	NA	NA	NA	NA	NA	NA	526	572	808	661
<i>Library</i>										
Volumes in Collection (millions)	2.3	3.1	3.3	3.5	3.1	3.1	3.2	2.7	2.2	2.3
Volumes Borrowed (millions)	1.4	1.5	1.3	1.3	1.4	1.2	1.4	1.4	1.4	1.4

NA Data not available.

* Yearly arrests are based on calendar year data, not fiscal year. The 2006 numbers are through the end of September 2006.

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

CITY OF BALTIMORE
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Function/Program	Fiscal Years									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<i>Police/Sheriff</i>										
Buildings	NA	NA	NA	NA	NA	NA	NA	NA	10	10
Marked Patrol Units	NA	NA	NA	NA	NA	NA	NA	NA	NA	525
Other vehicles	NA	NA	NA	NA	NA	NA	NA	NA	NA	616
<i>Fire Stations</i>										
Buildings	NA	NA	NA	NA	NA	NA	NA	NA	39	39
Fire/EMS Apparatus (Tankers/Ladders/Medics) (Fleet)	NA	NA	NA	NA	NA	NA	NA	NA	NA	160
Other vehicles	NA	NA	NA	NA	NA	NA	NA	NA	NA	152
<i>Recreation and Parks</i>										
Buildings	NA	NA	NA	NA	NA	NA	NA	NA	147	148
Acreage	NA	NA	NA	6500	6500	6500	5827	5827	5827	5827
Vehicles	NA	NA	NA	NA	NA	NA	NA	NA	NA	127
Equipment	NA	NA	NA	NA	NA	NA	NA	NA	NA	304
<i>Public Works (Transportation, Solid Waste, and General Services)</i>										
Buildings	NA	NA	NA	NA	NA	NA	NA	NA	30	30
Vehicles	NA	NA	NA	NA	NA	NA	NA	NA	NA	990
Equipment	NA	NA	NA	NA	NA	NA	NA	NA	NA	496
Streets (miles)	NA	NA	NA	NA	NA	NA	NA	NA	2000	2000
<i>Water/Wastewater</i>										
Treatment plants	NA	NA	NA	NA	NA	NA	NA	NA	4	4
Other Buildings	NA	NA	NA	NA	NA	NA	NA	NA	31	31
Vehicles	NA	NA	NA	NA	NA	NA	NA	NA	NA	611
Equipment	NA	NA	NA	NA	NA	NA	NA	NA	NA	411
Water Mains (Miles)	NA	NA	NA	NA	NA	3400	3400	3400	3400	3400
Water Treatment capacity (MGD)	360	360	360	360	360	360	360	360	360	360
Sanitary sewers (miles)	NA	NA	NA	NA	NA	1340	1340	1340	1340	1340
Storm sewers (miles)	NA	NA	NA	NA	NA	1080	1080	1080	1080	1080
Wastewater Treatment capacity (MGD)	250	250	250	250	250	250	250	250	250	253
<i>Libraries</i>										
Buildings	NA	NA	NA	NA	NA	NA	NA	NA	32	32
Vehicles	NA	NA	NA	NA	NA	NA	NA	NA	NA	17
<i>Other-General Government</i>										
Buildings	NA	NA	NA	NA	NA	NA	NA	NA	1,353*	1,353*
Vehicles	NA	NA	NA	NA	NA	NA	NA	NA	NA	197
Equipment	NA	NA	NA	NA	NA	NA	NA	NA	NA	59

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

NA Data not available

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City of Baltimore
Martin O'Malley, Mayor

The Greatest City in America