

# **City of Baltimore, Maryland**

## **Comprehensive Annual Financial Report**

Year Ended June 30, 2002

Prepared by the Department of Finance

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Bureau of Accounting and Payroll

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## ELECTED OFFICIALS

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MAYOR

Martin O'Malley

PRESIDENT OF THE CITY COUNCIL

Sheila Dixon

COMPTROLLER

Joan M. Pratt

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## BOARD OF ESTIMATES

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PRESIDENT

Sheila Dixon

MAYOR

Martin O'Malley

COMPTROLLER

Joan M. Pratt

DIRECTOR OF PUBLIC WORKS

George L. Winfield

CITY SOLICITOR

Thurman Zollicoffer

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## CITY COUNCIL

Sheila Dixon, *President*

Stephanie C. Rawlings, *Vice-President*

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FIRST DISTRICT

John L. Cain

Nicholas C. D'Adamo, Jr.

Lois Garey

SECOND DISTRICT

Paula Johnson Branch

Pamela V. Carter

Bernard C. Young

THIRD DISTRICT

Robert W. Curran

Kenneth N. Harris, Sr.

Lisa Joi Stancil

FOURTH DISTRICT

Keiffer J. Mitchell, Jr.

Catherine E. Pugh

Agnes Welch

FIFTH DISTRICT

Stephanie Rawlings Blake

Helen Holton

Rochelle "Rikki" Spector

SIXTH DISTRICT

Dr. Kwama Osayaba Abayomi

Edward L. Reisinger

Melvin L. Stukes

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# Introductory Section

**SEAL**

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

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January 27, 2003

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

In compliance with Article VII, Section 8, of the revised City Charter (November, 1964), submitted herewith is the Comprehensive Annual Financial Report (CAFR) of the City of Baltimore, Maryland, (the City) for the year ended June 30, 2002. The CAFR was prepared by the City's Department of Finance. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe that the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and changes in financial position of the City; and, that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been provided.

The CAFR is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the City's organizational chart, a list of principal officials and the certificate of achievement for excellence in financial reporting. The financial section includes the auditor's opinion, management's discussion and analysis and basic financial statements with related notes, and required supplementary information. The financial section also includes the combining and individual fund financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multiyear basis.

This is the first year that the City prepared its CAFR using the new financial reporting standards prescribed by GASB 34. Compliance with these new requirements entailed major modifications to previous reporting formats and statement presentations. One of these modifications requires management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors in the Financial Section of the CAFR.

The City Charter established a Department of Audits under the general supervision of the City Comptroller. The Charter requires the City Auditor to "annually make a general comprehensive public report of the financial position of the City; in the discretion of the Comptroller, such report may be in the form of an opinion on the annual financial statements prepared by the Director of Finance." The Comptroller has elected to have the City Auditor render an opinion as to the fairness of the Director of Finance's presentation of the City's basic financial statements. Additionally, the Board of Estimates awarded a contract to the nationally recognized independent certified public accounting firm, Ernst & Young LLP to perform a joint audit with the City Auditor of the basic financial statements of the City for the year ended June 30, 2002. Their joint audit report is contained herein. Their audit was conducted in accordance with auditing standards generally accepted in the United States of America and, for the basic financial statements of the City, the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. On the basis of this examination, the independent auditors have issued an unqualified opinion that the presentation of the financial statements, taken as a whole, conforms with accounting principles generally accepted in the United States of America. In conducting the audit, the auditors performed tests of the accounting records and such other procedures as were considered necessary in the circumstances to provide a reasonable basis for this opinion on the financial statements. The auditors also assessed the accounting principles used and significant estimates made by management, as well as evaluated the overall financial statement presentation.

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

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

## PROFILE OF THE GOVERNMENT

The Mayor and City Council of Baltimore (the City) is a body corporate and politic of the State of Maryland (the State) in which all local governmental functions are performed by the City. The City has had a charter form of government since 1797; home rule powers since 1918, and is governed by an elected Mayor, Comptroller and a City Council. The City has a total area of approximately 92 square miles and an estimated population of 631,500. The City is a major deep-water seaport located on the Patapsco River, a tributary of the Chesapeake Bay. It is served by Baltimore-Washington International Airport in adjacent Anne Arundel County. The City is almost completely surrounded by Baltimore County, a separate entity, which borders the City on the east, north, west and part of the south. Anne Arundel County adjoins the City on its southern border.

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

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

The Board of Estimates is the highest administrative body of the City. It is composed of the President of the City Council, who serves as President of the Board, the Mayor, the Comptroller, the City Solicitor and the Director of Public Works. The latter two members hold their positions on the Board through appointments by the Mayor. The Board of Estimates formulates and determines city fiscal policy with its primary policy tool being the recommended annual Ordinance of Estimates, the City's budget.

### **Key Budgetary Policies**

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

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

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



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

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

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

*Debt Policy:* In 1990, the City adopted a formal debt policy which set annual borrowing limits, consolidated all financing arrangements within the Department of Finance, established refunding and refinancing policies, and set limits on key debt management ratios. The objective is to maintain the City's reputation as a community having a conservative approach to all aspects of debt management, including debt service expenses, debt retirement schedules, and debt capacity ratios.

## **OTHER FINANCIAL INFORMATION**

### **Retirement Plans**

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

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

### **Temporary Investment of Cash Balances**

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

### **Risk Management**

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

### **Internal Control**

City management is responsible for establishing and maintaining effective internal control over financial reporting. There are no material weaknesses in internal control. There have been no significant changes in internal control since June 30, 2002.

## **ECONOMIC PROFILE AND OUTLOOK**

Baltimore is the center of the 14<sup>th</sup> largest metropolitan statistical area, an area where employment grew nearly 1% between calendar years 2000 and 2001. This rate of growth was about six times the rate of growth for the nation as a whole. About

381,000, or 31.6%, of the 1.2 million area jobs were located in the City. The City's economic condition is affected favorably by a number of factors. The City's development efforts have resulted in benefits as a growing number of commercial and industrial location specialists identify it as a low cost option in the AMTRAK — I95 northeast corridor. Maryland is the second wealthiest State in the nation. The City is the northern anchor of the Washington — Baltimore Consolidated Metropolitan Statistical Area (CMSA) — the fourth largest, and one of the wealthiest and best-educated population centers in the country. The City's economy has traditionally benefited from additional location factors including access to mid-western and northeastern markets, an excellent highway and rail transportation system, an international port, and access to a large and diversified work force.

Employment structure factors affect the City favorably. This is of increasing importance as global markets become local market factors. The City is less reliant on traditional manufacturing industries than the region, state and nation as a whole. Indeed, manufacturing jobs comprise only 7.1% of the City's jobs. This is less than the region's 8.1%; the state's 7.5%; and the nation's 14.5%. The Washington-Baltimore CMSA is the southern anchor of the nation's evolving Northeastern United States health care industry corridor. Over 14% of the jobs located in the City are in health related services while the proportion in the region is 9%; the proportion in the State, 8%; and the national proportion about 8%. The growing prominence of the health and knowledge industries are reflected in major employers. The largest non-governmental employers in the City are the Johns Hopkins health and university systems, the University of Maryland medical and university complexes, General Motors Corporation, Sinai Hospital, St. Agnes Hospital, and T. Rowe Price Associates.

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

In summary, the City derives economic strength from the fact that it is the location of a large share of jobs associated with growth sectors in the current economy — the knowledge and information based industries of health and education. The City supports and builds on the strengths of primary growth sector employers, the internationally renowned health and hospital institutions, most notably Johns Hopkins, 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 and facilities are also expanding in the City. The City is working with its non-governmental partners on plans 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.

In contrast to these positive economic factors working in the City's favor, the City is challenged with overcoming the stigma and economic burdens of an old port and industrial city with unacceptably high crime rates, antiquated housing, often with lead paint abatement requirements, vacant industrial brownfield sites, and other problems that contribute to neighborhood instability. Crime arises in substantial part from substance abuse and illegal drug markets. These factors contribute to the effects of job and residential sprawl, which the City must counter. The City's population decline over the last decade, though not as great as initial State and census forecasts, drives public policy action that has had positive results. On October 28, 2002, the Census Bureau announced that it was increasing the City population estimate from 635,210 to 645,305 based on housing productivity data that City development efforts and local economic improvement yielded. Slowing and ultimately reversing population movement requires careful use of limited resources, creative partnering with the private sector, and substantial intergovernmental aid. Addressing the concentration of a disproportionate share of the State's poor and a revenue base that is weak relative to the balance of the State is essential. Positive outcomes have resulted from successful partnerships, State support and economic development efforts.

In stark contrast to the weak economic trends of most of the 1990's, the last four years have featured relatively strong job creation and unemployment rate numbers. The unemployment rate peaked in April 2002, after the onset of the last recession and the September 11, 2001 tragedy. At the end of fiscal year 2002 at 7.8%, the rate was lower than the year earlier figure of 8.5%. Trends in subsequent months have improved relative to the same period of the prior year as well. Key economic performance indicators reflect relative strength compared to much of the rest of the nation in the aftermath of September 11, 2001 and the last recession:

- The real property tax base grew for the fourth consecutive year.
- Calendar year 2001 was the third year of increase in the number of residential home sales. The City, for the third year in a row, led its suburban neighbors with a 12.2% increase.

- Passenger volume at the Baltimore-Washington International Airport grew 3.9% in calendar year 2001, despite the September 11, 2001 tragedy, from 19.64 million to 20.36 million passengers — the eighth straight year of growth.
- In stark contrast to national trends, hotel tax receipts in the post 9-11 world grew for the eleventh consecutive year, posting about 5.5% growth for fiscal year 2002 tax returns.
- On the other hand, foreign commerce at the Port of Baltimore, after several years of substantial growth, reflected the impact of the worldwide economic slowdown and international tensions and declined 1.9% in calendar year 2001 compared to calendar year 2000.

## FINANCIAL ACCOMPLISHMENTS

Providing a broad range of urban services with a limited tax base requires best use of scarce resources. To this end in fiscal year 2002, the City:

- Implemented new parking tax structure reducing reliance on transaction-based tax and improving revenue potential.
- Initiated action to employ contactors to replace the 27 year old real property tax system and related tax system applications in an integrated tax, billing, accounting, and customer friendly system.
- Enacted major income tax increase putting the City on more solid financial footing.
- Inaugurated a pioneering Payment In Lieu of Taxes Program with 20 of the City's largest non profit entities — a four year, \$20 million program.
- Initiated in January 2002, the bid process for the outsourcing of occupational medicine program and third party administration of the worker compensation claims
- Initiated an evaluation process to seek a more cost effective Deferred Compensation program administrator.

While funding innovative programs and producing balanced budgets, continued budgetary improvements must be realized in order to balance expenditure requirements with the limited growth in local, own source revenues. In the spring of fiscal year 2001, a budget was adopted that contributed toward reducing the future year's structural deficit.

The strong economy and effective budget management enabled the City to substantially improve its fund balance position. A significant addition of \$14.0 million was made to the budget stabilization fund, which, at June 30, 2002, had a balance of \$51.8 million or about 5.4% of General Fund revenues. When combined with the undesignated unreserved fund balance of \$7.8 million, the total of \$59.7 million comprises about 6.2% of General Fund revenues, a major step to strengthen the City's balance sheet. This positive trend is important in face of the national economic downturn.

## MAJOR INITIATIVES

The Administration's objectives are focused on the critical long-term concerns facing the City: the loss of population, the need to create jobs, and to provide children with opportunities and hope for the future. Tackling urban ills, like Baltimore's, requires that the City adopt the best practices that can be found anywhere and take the risk to pioneer innovations. Even with the intensive focus of limited resources on police, and the public safety priority, notable accomplishments are found in a wide range of public services, both traditional urban services and services unique to Baltimore. A sampling of fiscal year 2002 initiatives and accomplishments is summarized under the objectives established by the Mayor. Perhaps the most important accomplishment, the one that has drawn the most national attention, is the management tool known as CitiStat. This tool has proven that a complex city, a city with problems on the scale of Baltimore's, is manageable. Cities around the nation are imitating the practices developed in Baltimore, thus validating it, and hopefully even improving upon it in their governing efforts.

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

In calendar year 2001, the nation experienced its first violent crime increase since 1991, while in Baltimore, violent crime was down over 20% and Baltimore led the 20 largest cities with a 15.3% total index crime reduction:

- Crime reduction is achieved by increased warrant service for murder and shootings (warrant service increasing by over 20% for both); by increased firearms recoveries/seizures (up over 20%); and by increasing crime clearance rates.

- Internal policing efforts were increased to deter and reduce police misconduct, complaints of excessive force, and to identify officers requiring training in conduct and performance.
- The Office of Town Watch was created to foster the growth of Citizens on Patrol.
- Obtained \$1 million for the State’s Attorney to enhance handgun prosecutions of the City’s most violent offenders.

The root cause of so much of Baltimore’s crime problem is drug addiction, the illegal drug market, and the need to provide drug treatment and hope for recovering addicts. Actions to achieve this end have included the following:

- Since 1999, five new substance abuse treatment facilities have opened in Baltimore City — Second Genesis, Turning Point, Druid Heights, Metropolitan Transition Center and Gaudenzia, which is the largest single-site drug treatment center in Maryland.
- Expanded the availability of drug treatment dramatically, with funding more than doubling from \$29.4 million in fiscal year 2000 to \$59.7 million in fiscal year 2002, and thus increasing drug treatment services by 36%.
- Instituted Treatment Options Through Education (TOTE) and Directly Observed Therapy (DOT) — two new programs to combat the HIV AIDS infection.

Treatment expansion efforts have been accompanied by hopeful positive trends. 2001 Federal national comparative data marked the largest two-year drop (18% decrease) in drug-related hospital emergency department (ED) visits, the largest two-year drop (36% decrease) in heroin-related ED visits, and the second largest two-year drop (28.8% decrease) in cocaine-related ED visits.

Tackling blight and cleaning up the more traditional forms of “grime” is critical. Fiscal year 2002 initiatives include the following:

- Launched the Remove Abandoned Vehicles Program (RAVP), which increased the towing of abandoned vehicles and the auction of unclaimed vehicles by over 20%; and responded to a record number of abandoned vehicle complaints.
- Increased the cleaning and boarding of vacant and abandoned properties, resulting in the boarding of more than 8,500 properties in each of the last two years.
- Continued to improve the rate of recycling of waste stream, passing the 30% level, a level well above the state mandated 20%.
- Obtained pro-bono legal commitments to foreclose on 700 properties through Project 5000. Properties are located in 92 neighborhoods, with 30% of the properties identified to date located in the Middle East and Sandtown-Winchester areas.
- Decreased the number of outstanding service requests for lot, alley and illegal dumping clean-up, while reducing the average response times.

## **Objective 2: Increase education, cultural and recreational opportunities for children**

The City has received national recognition for a number of efforts to secure the opportunities of children beginning with their basic health needs. The City’s PACE pre and post natal care program for children of HIV infected mothers has evolved into a national model. The City received national recognition from the U.S. Conference of Mayors for the most innovative new approach to lead poisoning prevention for the lead-dust kit project — which will allow for distribution of lead-dust kits to all pregnant women and new mothers. This is part of the City’s on-going initiatives to reduce childhood lead poisoning. The City has successfully secured support from State and other funding sources for lead paint abatement. The effort continues to pay off as:

- A continued reduction in 2002 in the number of children with elevated blood lead levels, and the number of children considered moderately to severely poisoned. The percentage of one and two year old children tested for lead poisoning grew to about 80% in calendar year 2002.
- An increase in 2002 of the number of homes either abated or having settled funding for abatement of a documented lead hazard and the number of homes abated due to legal actions initiated by City Lead Enforcement attorneys. As 2002 ended, about 600 newly lead safe homes have been created for children.

Active private sector partnering paid off in 2002 as The Family League of Baltimore City, Inc. raised funding to provide bridge financing of the Baltimore City Healthy Start sites to enable continuation of services to over 1,700 of the City's highest risk women and infants. After addressing life threatening diseases like HIV and lead poisoning, nothing serves the interest of a child more than providing a safe home environment. The Department of Social Services reported a 18% increase in adoption recruitment efforts and an increase in the number of adoptions. The results of a safe and healthy environment for children can be measured. For instance, Baltimore first grade pupils realized substantial improvement in standardized testing placing above the 50<sup>th</sup> national percentile in Total Reading and Total Mathematics, and above the 60<sup>th</sup> percentile in Total Language scores. The City continues to increase per pupil spending for the public schools. In fiscal year 2002, the City's contribution was \$5.12 million more than the State mandated minimum. To enrich the child's environment in Baltimore is a critical objective towards which progress was made as evidenced by the following 2002 activity:

- Secured \$18 million in funding for Baltimore City Schools as a result of passage of bridge funding for the Thornton State Legislative Commission Recommendations, which when fully funded in fiscal year 2008, will increase funding by \$256.7 million.
- Worked with the school system to secure increased State and other funding in order to continue expansion for key programs including: expansion of free breakfast program from 52 schools in 1999/2000 to 92 schools in 2002/2003; increase of the number of schools providing one computer for every five children from 29 schools in 2001 to 79 schools in 2002; growth in Pre-K full-day programs from one school in 1999/2000 to 80 schools in 2002/2003; and more than doubling the size of Baltimore City's full-day kindergarten program to 275 full-day programs compared to 109 in 1999.
- Implemented new middle school configurations to increase the number of smaller neighborhood K through 8 schools, smaller career focused high schools, and new promotion and summer school policies.
- Enhanced school programs through the following: the innovative competitive standards and performance measurement system developed by the Family League, used to evaluate, prioritize, and redirect limited program funding to provide more and better after school programs; and Harvard University selecting Baltimore as the second site for a Dr. Martin Luther King After School Academy linked to Harvard's Encarta Africana software and training project.
- Program efforts outside of the schools to enrich youth opportunities included the following. By June 2002, 34 playgrounds were rebuilt and about another dozen were under construction; the biggest summer jobs programs in city history with enrollment of 5,500 was sustained in 2001 and 2002; and, the faith based organization initiative, Baltimore Rising, expanded to link over 500 troubled youths to mentors.

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

The City is committed to the idea that government can work and that systems can be put into place to manage government. Accountability is at the core of this process. The nationally acclaimed and imitated CitiStat process is the tool. CitiStat's cumulative fiscal impact is estimated to exceed \$43 million in cost reductions and avoidance that allow the reallocation of scarce resources to implement initiatives related to the objectives discussed here. The CitiStat management tool has been extended to 16 agencies. Monthly budget review processes were implemented as part of the monitoring process in fiscal year 2002.

- Created CitiTrack in order to provide the critical and real-time information which makes up the management "dashboard" of the City.
- Inaugurated on March 28, 2002, the 3-1-1 One Call Center connecting customer service complaints and needs to the CitiTrack, perhaps becoming the first major city in the nation to link customer input to a work order tracking system. Careful input and output monitoring has results such as in "pothole" complaints, which have decreased by 30% from 2001 to 2002, since the institution of a 48-hour pothole guarantee and CitiStat monitoring.
- CitiStat review and evaluation resulted in savings and reallocation of resources. For instance, analysis of outsourcing solid waste transfer station operations resulted in internal management improvements — and \$450,000 in savings. Recycling schedule changes resulted in savings of \$900,000. These savings provide resources to support alley, lot, and other cleaning efforts.
- Initiated work to outsource the City Occupational Medicine Clinic and third party administration for Workers Compensation Claims to achieve better management, improved care, and cost savings estimated to be between \$15 and \$20 million over five years.

- Instituted The FASTER System for Fleet Management Operations designed to track vehicle maintenance cost, vehicle downtime, fuel usage, depreciation, mechanics' productivity and other fleet data needs.

In fiscal year 2002, Baltimore moved from the 46<sup>th</sup> place into the top 20 most wired and internet savvy cities according to the *Yahoo Internet — Life Magazine* survey. The City's local government web site was recognized as the best in the nation by the survey. A sampling of web based applications implemented in 2002 and the City's interest in applying technology to improve customer service, cost savings, and accountability follow:

- Web based technology to allow for payment of 89 types of bills;
- A paperless debit card program for the elderly and disabled taxi voucher program;
- An automated "pay-on-foot" parking garage payment technology;
- A web enabled public procurement system to generate and post bid solicitations and to support automated vendor registration and bidding and provide MBE/WBE information.

The Police Department has been a national leader in promoting technology, for instance in the use of DNA evidence. Efforts have brought national attention and nearly \$3.3 million in grant funds, for a DNA lab. Passage of needed state legislation for annual funding is being sought.

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

In fiscal year 2002, the City's first ever comprehensive economic growth strategy to guide neighborhood specific development, capital program planning, housing initiatives and major East and West side revitalization strategies was completed. The plan, while focused on land use in the City, recognizes the place of Baltimore in a region and world economy. In 2002, Baltimore participated in a regional consortium known as "MetroTech", a regional training program bringing together Washington, D.C. and Northern Virginia interests in an U.S. Department of Labor funded program to provide custom training for IT/Biotech employees. As 2002 ended, nearly \$2 million in training funds were used to meet employer needs in the Baltimore region. Within the City, promoting minority opportunities is critical. *Black Enterprise Magazine* recently named Baltimore number seven in its "top 10" ranking cities. *Entrepreneur Magazine* raised Baltimore's ranking among the best locations for small businesses.

Highlights of Baltimore's development efforts in 2002 follow:

- *Minority Business Opportunities:* Provided for minority contractors for major development projects including Montgomery Business Park, Centerpoint, Hampton Inn Inner Harbor, Broadway Homes, Heritage Crossing Community, and the Stanbalt Apartments. Increased spending with minority and women owned businesses moving towards achievement of the 30% minority participation goal. Recruited several minority owned businesses to Baltimore, including the first 100% African-American owned biotech company. Completed work on design and implementation of Baltimore City's Local Contractors Development Program, which has assisted local construction companies in obtaining qualified minority subcontractors.
- *Major Redevelopment Project East Side:* Completion of the East Baltimore Development Initiative Plan, including passage of five Urban Renewal Bills which will result in about 2 million square feet of Biotech Research Park space north of the Johns Hopkins Medical Institution; and the rehabilitation and new construction of about 2,000 dwelling units and community amenities.
- *Major Redevelopment Project West Side:* Work continued on the complex of development projects comprising the Westside Development with Lexington Market undergoing a \$3 million renovation. Began the permanent reconstruction of Lexington Street from Eutaw to Liberty Streets at a total cost of \$4 million. The Hippodrome — a \$63 million development, and Centerpoint, a \$78 million mixed-use development (housing, retail and parking) are underway.
- *Office Buildings:* Work was in progress or completed on three Class A office buildings in fiscal year 2002. Work progressed on three major Class B type renovations of major projects providing Class A amenities. The largest, Montgomery Park, a 1.3 million square foot project, is the largest office building development in the entire region. It is a "green" building conversion of a long abandoned brownfield site completed with critical public redevelopment public incentives.

- *Parking Facilities:* In fiscal year 2002, parking garage construction was underway or facilities opened that provided over 5,000 garage spaces stretching from downtown west to the University of Maryland, north to Symphony Center, east to Little Italy and south below the Cross Street Market. The City was involved in several of these projects.
- *Major employment activities:* Provided assistance to retain major employers like Sierra Military Health Services (500 jobs). Recruited major new employers like NCO, a publicly traded collections agency, resulting in the relocation of 650 jobs. Assisted employers like Mercy Health Services to relocate and consolidate offices in the City (160 jobs).
- *Expanding retail:* Home Depot began construction on a second store; Giant Foods announced plans to add a new store; Fresh Fields opened a store; and Sam's Club and Wal-Mart — the nation's largest retailer, opened its first Baltimore City stores at Port Covington.

### **Objective 5: Create stable and healthy neighborhoods**

The effort to stabilize neighborhoods involves increasing the number of homeowners, increasing the level of investment by residents, making the neighborhoods safer by addressing health and safety problems, redeveloping high rise public housing projects that had become a destabilizing influence, and encouraging development of neighborhood retail services.

The most important neighborhood initiative, Project 5000, was launched in mid-2002. The program recognizes that the City must act aggressively to take ownership of abandoned property, clear title, and package properties for redevelopment. By the end of 2002, properties were identified in 92 neighborhoods, work was completed on over 500 title abstracts and foreclosure was completed on the first 100 properties. Several hundred condemnation cases were in various states of preparation. Currently, cleared sites of a more substantial proportion are taking shape.

Fostering neighborhood preservation and development requires better services on a number of fronts, including the following:

- *Land Use Control:* The Board of Municipal and Zoning Appeals has acted to reduce the time it takes to hear appeals substantially, while the Planning Department continues work on the most problematic portions of land use regulation as part of its efforts to overhaul the Comprehensive Zoning Ordinance.
- *Targeted Development:* Created the City's first arts and entertainment district, the Station North Arts and Entertainment District; used the Baltimore Main Streets program to leverage \$17.4 million in private investment in designated neighborhoods; and completed six streetscape projects in Belair-Edison, East Monument Street, Federal Hill, Pennsylvania Avenue, Washington Boulevard, and Waverly.
- *Creating a 24 Hour downtown:* Creating a residential "24 hour in downtown" has been a priority. In fiscal year 2002, 563 new apartment units were completed and another 672 were under construction for a total of 1,235 units. This figure more than triples the number of units that were completed and opened in the preceding three years.
- *Neighborhood Housing:* Development spreads well beyond the Inner Harbor and water front communities. Projects include the following: going east, the Broadway Overlook project (84 subsidized units and 48 market rate rental units); north to the North of Hopkins apartment project; westward to apartment renovation projects on Druid Park Drive and on to the Sandtown Winchester community where the Baltimore Community Development Financing Corporation completed financing of over 150 new homes. Moving west, Harlem Park was identified as the site for a major private investment by the Bank of America for 160 market rate town homes and 94 subsidized senior housing units.

Efforts to deal with the thorniest issue of abandoned property resulted in ten neighborhoods benefiting from an innovative lien packaging program assembling 220 parcels in ten packages taken to a special tax sale targeted to developers.

### **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, 2001.

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

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

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

Respectfully submitted,

Martin O'Malley  
*Mayor*

Peggy J. Watson  
*Director of Finance*



**MUNICIPAL ORGANIZATION CHART**

**[To Come]**

**CERTIFICATE OF ACHIEVEMENT**

**[To Come]**

# Financial Section

**SEAL**

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

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**Report of Independent Auditors**

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

January 27, 2003

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Baltimore, Maryland, as of and for the year ended June 30, 2002, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Baltimore, Maryland's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Baltimore City Public School System component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Baltimore City Public School System, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Baltimore, Maryland, as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the City has implemented a new financial reporting model, required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as modified by GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2001.

The management's discussion and analysis on pages 3 through 14, and the additional required supplementary information on pages 56 through 58, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2003, on our consideration of the City of Baltimore, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Yovonda D. Brooks, CPA  
City Auditor  
Department of Audits

Ernst & Young LLP  
Independent Auditors

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Baltimore's (the City) Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

### FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$3.7 billion (net assets). This amount includes \$231.3 million (restricted net assets) and is net of a \$119.7 million unrestricted deficit. During the fiscal year, the City's total net assets increased by \$7.6 million.

As of June 30, 2002, the City's governmental funds reported combined ending fund balances of \$231.7 million. At the close of the current fiscal year, unreserved fund balance for the general fund was \$33.5 million or 3.7% of total general fund expenditures of \$895.5 million.

The City's total long-term debt increased by \$171.0 million (31.8%), during the current fiscal year. The key factors in this increase were issuances of \$39.9 million in General Obligation Bonds, \$10.1 million in long-term financing with the Federal Government and \$165.8 million in new and refunding revenue bonds in business-type activities.

### OVERVIEW OF THE FINANCIAL STATEMENTS

GASB 34 requires the utilization of dual focus financial reporting. The purpose of this overview is to provide the reader with an introduction to the City's first set of financial statements prepared under these reporting requirements.

The City's basic financial statements comprise three components:

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

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

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

### Financial Report Layout and Structure

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

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

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

C A F R	Introductory Section				
	Financial Section				
	<b>Management's Discussion and Analysis</b>				
	<b>Government-wide Statements</b>		<b>Fund Statements</b>		
			Governmental Funds	Proprietary Funds	Fiduciary Funds
	<b>View</b>	Broad overview similar to a private sector business	Grouping of related activities used by state and local governments to ensure and demonstrate compliance with finance-related legal requirements		
	<b>TYPES OF FINANCIAL STATEMENTS</b>	Statement of Net Assets	Balance Sheet	Statement of 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
<b>Notes to the Basic Financial Statements</b>					
<b>Required Supplementary Information</b>					
<b>Combining Financial Statements and Schedules</b>					
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 audited financial statements, which are also prepared in conformity with GASB 34.

### **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 organized according to their type (general, motor vehicle, grants revenue, capital projects). Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances for these major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements as presented in supplementary information herein. The City adopts an annual appropriated budget for its general fund and the motor vehicle fund.

#### *Proprietary funds*

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

The City maintains the following two types of proprietary funds:

- *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Enterprise funds are used to account for the operations of the City’s business-type activities and include water and sewer utilities, parking facilities, all of which are considered to be major funds of the City, and several other non-major fee supported activities.
- *Internal Service funds* are used to report activities that provide supplies and services for certain City programs and activities. The City uses internal service funds to account for its fleet of vehicles, printing and mail services, telecommunications services, and risk management program. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the propriety fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

*Fiduciary funds*

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

**Notes to the Basic Financial Statements**

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

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

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City’s progress in funding its obligation to provide pension benefits to its employees. The combining financial statements and schedules referred to earlier in connection with nonmajor 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 budget.

**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)**

This is the first year that the City has presented its financial statements under the new reporting model required by the 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. This reporting model changes significantly both the recording and presentation of financial data. In future years the City will include prior fiscal year results for the purpose of providing comparative information for the MD&A.

**CITY OF BALTIMORE**

**Net Assets**

**June 30, 2002**

(Expressed in Thousands)

	Governmental activities	Business-type activities	Total
Current and other assets	\$ 712,042	\$ 460,501	\$1,172,543
Capital assets, net	3,099,578	1,519,611	4,619,189
Total assets	3,811,620	1,980,112	5,791,732
Long-term liabilities outstanding	798,031	675,663	1,473,694
Other liabilities	533,548	76,379	609,927
Total liabilities	1,331,579	752,042	2,083,621
Net assets:			
Invested in capital assets, net of related debt	2,643,306	953,214	3,596,520
Restricted	15,650	215,671	231,321
Unrestricted	(178,915)	59,185	(119,730)
Total net assets	\$2,480,041	\$1,228,070	\$3,708,111

**Analysis of Net Assets**

As noted earlier, net assets may serve as a useful indicator of the City’s financial position. For the City, assets exceeded liabilities by \$3.7 billion at the close of the current fiscal year. The City’s net assets include its investment of \$3.6 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, \$231.3 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 \$119.7 million.

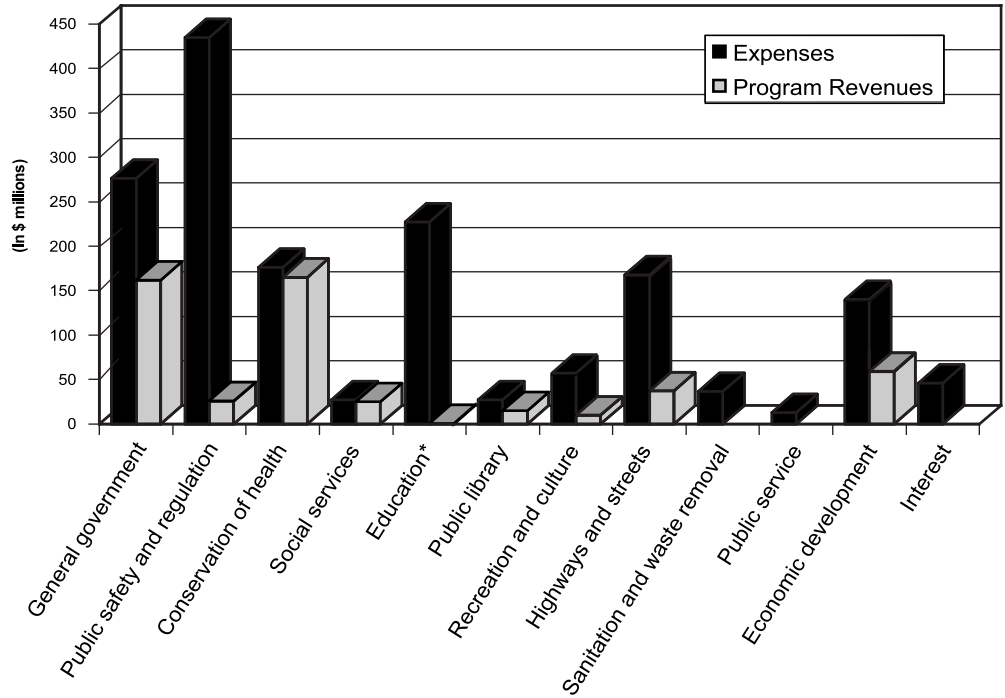
**CITY OF BALTIMORE**  
**Changes in Net Assets**  
**For the year ended June 30, 2002**  
(Expressed in Thousands)

	Governmental activities	Business-type activities	Total
<b>Revenues:</b>			
<b>Program revenues:</b>			
Charges for services .....	\$ 66,089	\$ 266,936	\$ 333,025
Operating Grants and contributions .....	429,036		429,036
Capital grants and contributions .....	41,863	37,840	79,703
<b>General revenues:</b>			
Property taxes .....	487,776		487,776
Income taxes .....	181,574		181,574
State shared revenue .....	173,604		173,604
Other .....	164,106	2,416	166,522
<b>Total revenues .....</b>	<b>1,544,048</b>	<b>307,192</b>	<b>1,851,240</b>
<b>Expenses:</b>			
General government .....	280,380		280,380
Public safety and regulation .....	434,567		434,567
Conservation of health .....	176,159		176,159
Social services .....	26,966		26,966
Education .....	224,218		224,218
Public library .....	27,159		27,159
Recreation and culture .....	53,199		53,199
Highways and streets .....	159,481		159,481
Sanitation and waste removal .....	36,569		36,569
Public service .....	12,646		12,646
Economic development .....	134,031		134,031
Interest .....	46,037		46,037
Water .....		84,454	84,454
Waste water .....		125,859	125,859
Parking .....		13,733	13,733
Conduits .....		2,754	2,754
Development loans .....		3,227	3,227
Industrial development .....		2,241	2,241
<b>Total expenses .....</b>	<b>1,611,412</b>	<b>232,268</b>	<b>1,843,680</b>
Increase (Decrease) in net assets before transfers .....	(67,364)	74,924	7,560
<b>Transfers:</b>			
Transfers in .....	27,661	(27,661)	
<b>Change in net assets .....</b>	<b>(39,703)</b>	<b>47,263</b>	<b>7,560</b>
Net assets — beginning .....	2,519,744	1,180,807	3,700,551
<b>Net assets — ending .....</b>	<b>\$2,480,041</b>	<b>\$1,228,070</b>	<b>\$3,708,111</b>

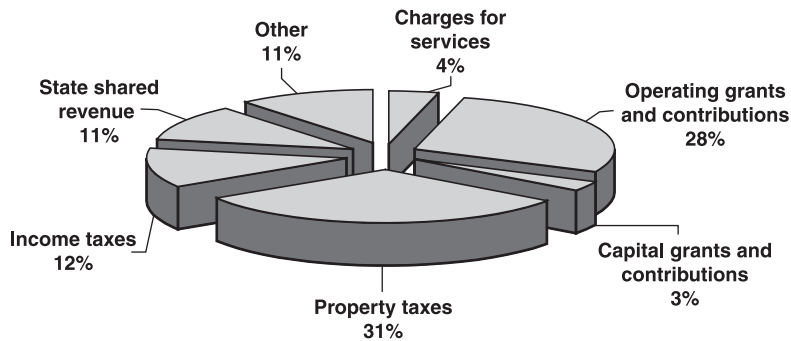
**Analysis of Changes in Net Assets**

The overall increase in the City's net assets amounted to \$7.6 million during the current fiscal year. These increases are explained in the government and business-type activities discussion below, and are primarily a result of revenues increasing faster than ongoing expenses for the business-type activities.

## Expenses and Program Revenues — Governmental Activities



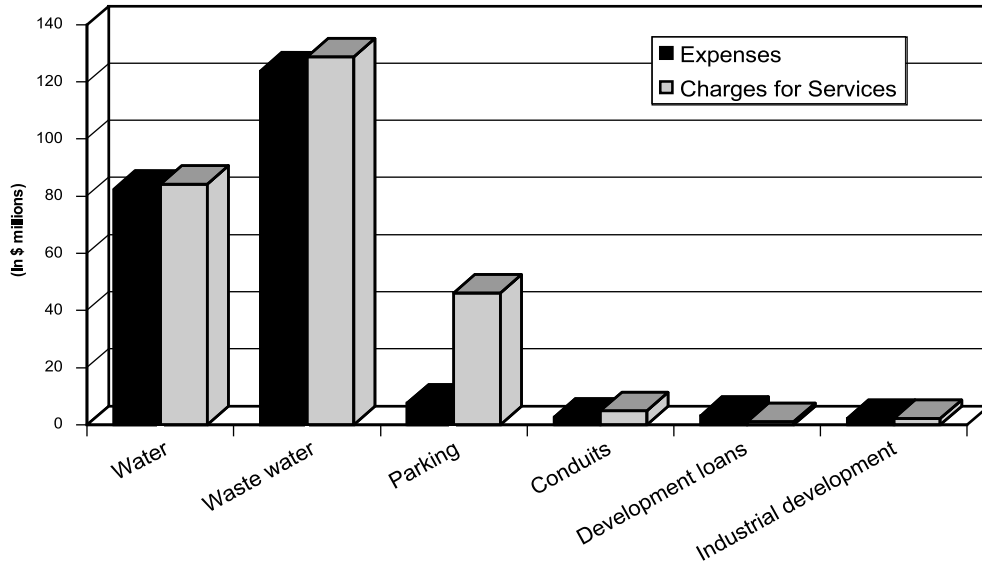
## Revenues By Source — Governmental Activities



### Governmental activities

During the current fiscal year, expenses related to governmental activities amounted to \$1.6 billion, this exceeds revenue by \$67.4 million. Total revenue of \$1.5 billion is comprised of program revenues totaling \$ 537.0 million, or 35%, and general revenues of \$1.0 billion, or 65%. Program revenues are the principal source of funding for the City’s general government, health, and economic development activities. Other major activities including public safety and regulation, as well as the highways and streets program, are primarily supported by general revenues.

**Expenses and Program Revenues — Business-type Activities**



**Business-type Activities**

Charges for services represent the principal revenue source for the City’s business-type activities. During the current fiscal year, revenue from business-type activities totaled \$307.2 million. Expenses and transfers for these activities totaled \$259.9 million and resulted in an increase in net assets of \$47.3 million.

The Water/Waste Water Utility Funds realized an increase in net assets of \$45.7 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 \$2.6 million.

**FINANCIAL ANALYSIS OF THE CITY’S FUNDS**

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

**Governmental funds**

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

**CITY OF BALTIMORE**  
**Comparative Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Years 2001 and 2002**  
(Expressed in Thousands)

	2001	2002	Variance Amount
<b>Revenues:</b>			
<b>General fund:</b>			
Property taxes .....	\$ 498,296	\$ 487,776	\$ (10,520)
Income taxes .....	170,908	181,574	10,666
Other local — taxes .....	89,147	98,034	8,887
Total taxes local .....	<u>758,351</u>	<u>767,384</u>	<u>9,033</u>
Licenses and permits .....	21,347	22,051	704
Interest, rentals, and other investment income .....	36,637	27,468	(9,169)
State grants .....	79,985	87,580	7,595
Other .....	39,339	51,009	11,670
Total revenues — general fund .....	<u>935,659</u>	<u>955,492</u>	<u>19,833</u>
<b>Other governmental funds:</b>			
Motor vehicle fund .....	188,115	185,538	(2,577)
Grants revenue fund .....	297,900	287,578	(10,322)
Capital projects fund .....	21,640	40,913	19,273
Other funds .....	51,404	48,986	(2,418)
Total revenues other governmental funds .....	<u>559,059</u>	<u>563,015</u>	<u>3,956</u>
Total revenues all governmental funds .....	<u>1,494,718</u>	<u>1,518,507</u>	<u>23,789</u>
<b>Expenditures:</b>			
<b>General fund:</b>			
General government .....	204,564	214,288	(9,724)
Public safety and regulation .....	332,315	350,941	(18,626)
Conservation of health .....	24,355	24,102	253
Social services .....	754	1,743	(989)
Education .....	205,736	205,771	(35)
Public library .....	19,521	19,680	(159)
Recreation and culture .....	24,685	26,255	(1,570)
Highways and streets .....	3,348	175	3,173
Sanitation and waste removal .....	33,751	29,435	4,316
Public service .....	12,039	12,170	(131)
Economic development .....	23,672	14,631	9,041
Total expenditures general fund .....	<u>884,740</u>	<u>899,191</u>	<u>(14,451)</u>
<b>Other governmental funds:</b>			
Motor vehicle fund .....	125,781	128,463	(2,682)
Grants revenue fund .....	278,635	316,563	(37,928)
Capital projects fund .....	125,214	171,910	(46,696)
Other funds .....	92,482	92,160	322
Total expenditures other governmental funds .....	<u>622,112</u>	<u>709,096</u>	<u>(86,984)</u>
Total expenditures all governmental funds .....	<u>1,506,852</u>	<u>1,608,287</u>	<u>(101,435)</u>
Excess of revenue over expenditures .....	<u>(12,134)</u>	<u>(89,780)</u>	<u>(77,646)</u>
<b>Other financing sources (uses):</b>			
Transfers, net .....	30,295	27,661	(2,634)
Capital leases .....	21,082	12,400	(8,682)
Federal loans .....	7,870	10,124	2,254
General obligation bonds issued .....	26,584	32,745	6,161
Total other financing sources (uses) .....	<u>85,831</u>	<u>82,930</u>	<u>(2,901)</u>
Net changes in fund balances .....	73,697	(6,850)	
Fund balances beginning .....	<u>164,812</u>	<u>238,509</u>	
Fund balances ending .....	<u>\$ 238,509</u>	<u>\$ 231,659</u>	

Revenues for governmental functions overall totaled approximately \$1.5 billion in the fiscal year ended June 30, 2002, which represents an increase of 1.6% from the fiscal year ended June 30, 2001. Expenditures for governmental functions, totaling \$1.6 billion, increased by approximately 6.7% from the fiscal year ended June 30, 2001. In the fiscal year ended June 30, 2002, expenditures for governmental functions exceeded revenues by approximately \$89.8 million, or approximately 5.6%. The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved undesignated fund balance of the general fund was \$7.8 million, while total fund balance was \$122.7 million. The fund balance in the City's general fund increased by \$15.6 million during the fiscal year mainly due to continued growth in local taxes. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$231.7 million, a decrease of \$6.9 million in comparison with the prior year.

The Motor Vehicle Fund was established to account for operating and capital transportation programs supported primarily from state shared highway user revenues. Every effort is made to spend available proceeds from these funding sources in the year received. For the current year, outlays exceed receipts by \$7.9 million resulting in an ending fund balance of \$20.1 million.

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

The Capital Projects Fund is used to account for the overall financing and expenditure of uncompleted projects. The fund balance of \$122.8 million represents authorized projects which are still in progress.

### Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

### 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, 2002**

(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Original Budget Positive (Negative)	Variance with Final Budget Positive (Negative)	Increases to Original Budget
Total revenues .....	\$ 924,611	\$ 943,867	\$ 954,475	\$ 29,864	\$10,608	\$19,256
Expenditures and encumbrances:						
General government .....	215,175	219,041	218,362	(3,187)	679	3,866
Public safety and regulation .....	344,640	353,448	350,014	(5,374)	3,434	8,808
Conservation of health .....	22,329	22,327	22,239	90	88	(2)
Social services .....	1,840	1,840	1,775	65	65	
Education .....	1,110	1,310	1,310	(200)		200
Public library .....	17,983	18,083	17,368	615	715	100
Recreation and culture .....	21,996	24,996	24,996	(3,000)		3,000
Highways and streets .....	643	643	180	463	463	
Sanitation and waste removal .....	22,168	29,468	29,468	(7,300)		7,300
Public service .....	12,125	12,125	12,125			
Economic development .....	16,602	18,528	17,362	(760)	1,166	1,926
Total expenditures .....	676,611	701,809	695,199	\$(18,588)	\$ 6,610	\$25,198
Excess of revenues over expenditures and encumbrances .....	248,000	242,058	259,276			
Other financing sources (uses):						
Transfers in .....	24,660	24,660	29,925			
Transfers out .....	(74,920)	(74,920)	(74,321)			
Transfers to component unit .....	(200,806)	(200,806)	(200,806)			
Total other financing sources (uses) .....	(251,066)	(251,066)	(245,202)			
Net changes in fund balances .....	(3,066)	(9,008)	14,074			
Fund balances beginning .....	83,727	83,727	83,727			
Fund balances ending .....	\$ 80,661	\$ 74,719	97,801			
Adjustments to reconcile to GAAP basis:						
Addition of encumbrances outstanding .....			30,433			
Less: Accounts payable not recorded for budgetary purposes .....			(5,497)			
Fund—balance June 30, 2002—GAAP Basis .....			\$ 122,737			

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 \$25.2 million were approved. The bulk of these, \$16.1 million, were approved after enactment of new revenue measures, including an income tax rate increase and a "payment in lieu of tax" agreement with major non-profit organizations. Actual expenditures for the year exceeded the original budget by \$18.6 million, but were \$6.6 million less than adjusted appropriations. Of this amount, \$15.7 million was related to three governmental activities: higher than budgeted costs for police operations amounted to \$5.4 million; program restorations funded by new revenue sources amounted to \$3 million for recreation and culture for recreation center and swimming pool operating costs; and \$7.3 million for the restoration of sanitation and waste functions, including twice weekly trash collection, curbside recycling, and transition expenses related to the privatization of building maintenance.

On a budgetary basis, revenue for fiscal year 2002 totaled \$954.5 million and expenditures and transfers totaled \$940.4 million. The excess of revenues over expenditures resulted in a budget basis fund balance at June 30, 2002 of \$97.8 million, an increase of \$14.1 million. In creating its budget for the fiscal year ended June 30, 2003, the City used \$25.6 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, 2002, amount to \$4.6 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, machinery and equipment, park facilities, roads, streets, bridges, and library books. The total net increase in the City's capital assets for the current fiscal year was 1.25% (a 0.48% decrease for governmental activities and a 4.98% increase for business-type activities) as shown in the table below.

### Capital Assets, Net of Depreciation

(Expressed in Thousands)

	Governmental activities		Business-type activities		Total	
	2001	2002	2001	2002	2001	2002
Land .....	\$ 134,300	\$ 134,300	\$ 16,952	\$ 17,329	\$ 151,252	\$ 151,629
Buildings and improvements .....	627,475	619,236	445,589	784,729	1,073,064	1,403,965
Machinery and equipment .....	109,628	102,029	45,081	43,966	154,709	145,995
Infrastructure .....	1,542,095	1,494,790	40,378	40,235	1,582,473	1,535,025
Library books .....	16,631	17,446			16,631	17,446
Construction in progress .....	684,397	731,777	899,460	633,352	1,583,857	1,365,129
<b>Total .....</b>	<b>\$3,114,526</b>	<b>\$3,099,578</b>	<b>\$1,447,460</b>	<b>\$1,519,611</b>	<b>\$4,561,986</b>	<b>\$4,619,189</b>

See footnote number 7 on capital assets.

### Debt Administration

At the end of the current fiscal year, the City had total long-term obligations outstanding of \$1.2 billion. Of this amount, \$506.1 million is general obligation bonds backed by the full faith and credit of the City, \$53.7 million is revenue bonds for governmental activity at the Convention Center, and \$682.0 million is revenue bonds related to commercial business activity. The remainder includes revenue bonds, certificates of participation, and other obligations of City business and governmental activities.

During fiscal year 2002, the City's total bonded debt increased by approximately \$171.0 million. The key factors were the issuances of \$39.9 million in general obligation bonds, \$10.1 million in long-term financing with the Federal Government and \$165.8 million in new and refunding in business activity revenue bonds.

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

	FY 2001	FY 2002
Net general bonded debt (Expressed in thousands) .....	\$439,359	\$453,232
Net general bonded debt per capita (Rounded to nearest dollar) .....	\$ 687	\$ 714
Ratio of net general bonded debt to net assessed value .....	5.0%	2.4%(1)

See footnote number 9 on long-term obligations.

(1) The Maryland General Assembly passed legislation in the 2000 Session to change the system of real property assessment from 40% to 100% of market value. This change was implemented on July 1, 2001.

As of June 30, 2002, the City had \$476.2 million in authorized, outstanding property tax-supported general obligation bonds. This amount is reduced by net assets in the Debt Service Fund of \$23.0 million for net tax-supported bonded debt of \$453.2 million, which is equal to approximately 2.4% of the assessed value of property (net of exemptions). There are an additional \$163.8 million in bonds that are authorized, but unissued.



## **Economic factors and next year's budget and rates**

The adopted Ordinance of Estimates for the fiscal year 2003 budget does not propose any tax rate changes. The real and personal property tax rates remain at \$2,328 and \$5.82 per \$100 of assessed valuation, respectively, and the locally imposed income tax rate remains unchanged. The General Fund total revenue estimate of \$989.8 million represents growth of slightly more than 4.6%. The City's outlook for growth in property taxes is estimated at 1.6% on a budget to budget basis. Included is a 2.5% growth in real property taxes, the largest seen in nine years. On a budget to budget basis, income tax revenue is estimated to increase about 6.0%. The estimate reflects the full year impact of the recent rate increase enacted into law last spring. The City's largest source of General Fund State Aid, the income tax disparity aid grant, increases 18.0% as a result of the continuing gap between the City's per capita income tax revenue yield and the statewide average.

Despite certain negative effects of the recession and events of September 11<sup>th</sup>, the Baltimore economy ended fiscal year 2002 on a positive footing relative to many local governments across the nation. Softening the impact of the national recession and slow down, is the fact that the City is less reliant, not only on manufacturing, but also on telecommunication and computer technology employment, than the State and nation as a whole. The City benefits by the relative strength of the Maryland economy, where overall employment rates have been more positive than the nation as a whole. Finally, proximity to Washington, D. C. and federal government spending generally contributes to stability. While a slow down is evident in some key statistics, the City had strong performance in an important number of arenas setting the stage for modest local revenue growth to sustain critical development program initiatives. Accordingly, growth was anticipated, albeit modest, in key revenues based on these positive factors reflected in year end figures:

- The combined Class A and B commercial office vacancy rate at the end of fiscal year 2002, as tallied by commercial real estate indexes, stood at about 10.0% essentially, unchanged from fiscal year 2001 and about the lowest rate in the last 15 years.
- The City's office vacancy rate, as reported by industry surveys in the last quarter of fiscal year 2002, was substantially lower than that in the suburban counties.
- The Planning Department reported a second year of substantial increase in the number of subdivision plan reviews, 11% over fiscal year 2001, a good indicator of increased economic activity.
- Building construction permit revenue grew about 26% from \$5.0 million to \$6.3 million.
- Transfer tax receipts grew to a record amount of \$20.5 million, an increase of 11.3%, compared to fiscal year 2001.
- Average residential property sales price (owner occupied and rental) increased 9.3% in fiscal year 2002.
- On a majority of Baltimore's medical campuses, major construction of health care, research, or professional office space was underway, with the University of Maryland having the largest number of projects — a new Dental School, expanded Emergency, Surgery and Patient Care facilities, a new Health Services Facility building, a new 900 space parking garage, and a building maintenance facility.

While strong real estate indicators bode well for property based revenues, the need for the cautious view set forth in the fiscal year 2003 economic forecast, is reflected in year end income and employment data:

- The fiscal year 2002 average unemployment rate of 8.3%, though higher than the 7.7% annual average of the prior year, was trending down towards year end and subsequent months.
- The unemployment rate at year ended June 2002 of 7.8% was lower than the 8.5% rate in June 2001 (the same lower rate has characterized subsequent months). But, trends in job growth reflected in the unemployment insurance data base point to a slow down in net job creation in the City.
- Reflecting the state-wide income tax base decline, net taxable income declined 3.9% and the number of taxable income tax returns declined 2.1% in the City. Maryland experienced historic firsts due to the impact of September 11<sup>th</sup>, the stock market dive, the decrease in the capital gains tax, and the recession — namely a reduction in reported state-wide net taxable income of 2.8% and a small decline in the number of reported taxable returns.

Despite the national economic slowdown, numerous development and job generating projects were completed or initiated in fiscal year 2002. There was substantial development activity throughout the City, well beyond the Inner Harbor and waterfront. This development activity reflects the renewed confidence of individuals and investors in the policy initiatives of the current administration and the intense focus of this administration's widely acclaimed CitiStat effort puts on making the best use of extremely scarce resources in order to undertake initiatives to support private investment.

## **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, 2002**

(Expressed in Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Baltimore City Public School System
<b>Assets:</b>				
Cash and cash equivalents	\$ 196,663	\$ 118,953	\$ 315,616	\$ 29,978
Investments	169,743	451	170,194	
Property taxes receivable	36,507		36,507	
Other receivables, net	18,350	65,505	83,855	1,964
Due from other governments	212,516	3,682	216,198	35,172
Internal balances	25,725		25,725	
Due from component unit	8,632		8,632	
Due from primary government				23,262
Inventories	4,535	5,082	9,617	787
<b>Restricted:</b>				
Cash and cash equivalents		174,278	174,278	
Investments		14,943	14,943	
Accounts receivable		19,662	19,662	
Notes and mortgages receivable	18,512	44,878	63,390	
Other assets	20,859		20,859	
Issuance costs		13,067	13,067	368
Capital assets, net of accumulated depreciation	3,099,578	1,519,611	4,619,189	182,553
<b>Total assets</b>	<b>3,811,620</b>	<b>1,980,112</b>	<b>5,791,732</b>	<b>274,084</b>
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	84,974	11,689	96,663	90,766
Accrued interest payable	7,092	9,373	16,465	
Property taxes payable	704		704	
Estimated claims in progress	140,752		140,752	
Due to component unit	23,262		23,262	
Internal balances		25,725	25,725	
Due to other governments	923		923	566
Due to primary government				8,632
Matured bonds payable	5,197		5,197	
Deferred revenue	159,107		159,107	5,739
Deposits subject to refund	23,307	13	23,320	
Restricted accounts payable		13,894	13,894	
Notes payable		124	124	
<b>Revenue bonds payable:</b>				
Due within one year	1,930	8,109	10,039	
Due in more than one year	51,730	668,925	720,655	
<b>Long term debt payable:</b>				
Due within one year	32,894	426	33,320	1,255
Due in more than one year	523,786	3,790	527,576	22,540
<b>Capital leases payable:</b>				
Due within one year	24,771		24,771	892
Due in more than one year	161,641		161,641	13,262
<b>Compensated absences:</b>				
Due within one year	25,153	7,026	32,179	7,262
Due in more than one year	49,458	2,948	52,406	58,528
Landfill closure	11,416		11,416	
Other liabilities	3,482		3,482	
<b>Total liabilities</b>	<b>1,331,579</b>	<b>752,042</b>	<b>2,083,621</b>	<b>209,442</b>
<b>Net Assets:</b>				
Invested in capital assets, net of related debt	2,643,306	953,214	3,596,520	144,604
<b>Restricted for:</b>				
Construction		153,305	153,305	6,641
Debt Service		62,366	62,366	1,024
<b>Perpetual Care:</b>				
Expendable	9,091		9,091	
Nonexpendable	6,559		6,559	
Inventories				573
Unrestricted	(178,915)	59,185	(119,730)	(88,200)
<b>Total net assets</b>	<b>\$2,480,041</b>	<b>\$1,228,070</b>	<b>\$3,708,111</b>	<b>\$ 64,642</b>

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

**CITY OF BALTIMORE**  
**Statement of Activities**  
**For the Year Ended June 30, 2002**  
(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	Governmental Activities	Business- type Activities	Total	
<b>Primary Government:</b>								
<b>Governmental activities:</b>								
General government .....	\$ 280,380	\$ 21,588	\$139,744	\$ 500	\$ (118,548)		\$ (118,548)	
Public safety and regulation .....	434,567	13,945	24,608		(396,014)		(396,014)	
Conservation of health .....	176,159	2,178	162,839		(11,142)		(11,142)	
Social services .....	26,966	118	24,964		(1,884)		(1,884)	
Education .....	224,218		453		(223,765)		(223,765)	
Public library .....	27,159	317	14,488		(12,354)		(12,354)	
Recreation and culture .....	53,199	669	5,112	4,024	(43,394)		(43,394)	
Highways and streets .....	159,481	27,274		9,972	(122,235)		(122,235)	
Sanitation and waste removal .....	36,569				(36,569)		(36,569)	
Public service .....	12,646				(12,646)		(12,646)	
Economic development .....	134,031		56,828	27,367	(49,836)		(49,836)	
Interest .....	46,037				(46,037)		(46,037)	
<b>Total governmental activities .....</b>	<b>1,611,412</b>	<b>66,089</b>	<b>429,036</b>	<b>41,863</b>	<b>(1,074,424)</b>		<b>(1,074,424)</b>	
<b>Business-type activities:</b>								
Water .....	84,454	84,083		13,452		\$13,081	13,081	
Waste water .....	125,859	128,681		22,860		25,682	25,682	
Parking .....	13,733	46,043				32,310	32,310	
Conduits .....	2,754	4,858		1,015		3,119	3,119	
Development loans .....	3,227	1,092		513		(1,622)	(1,622)	
Industrial development .....	2,241	2,179				(62)	(62)	
<b>Total business-type activities .....</b>	<b>232,268</b>	<b>266,936</b>		<b>37,840</b>		<b>72,508</b>	<b>72,508</b>	
<b>Total primary government .....</b>	<b>\$1,843,680</b>	<b>\$333,025</b>	<b>\$429,036</b>	<b>\$79,703</b>	<b>(1,074,424)</b>	<b>72,508</b>	<b>(1,001,916)</b>	
<b>Component unit:</b>								
Baltimore City Public School System .....	\$ 963,314	\$ 4,860	\$494,864	\$47,057				\$ (416,533)
<b>General revenues:</b>								
Property taxes .....					487,776		487,776	
Income taxes .....					181,574		181,574	
Other local taxes .....					97,239		97,239	
State shared revenues .....					173,604		173,604	431,796
Franchise fees .....					3,956		3,956	
Unrestricted investment income .....					40,290	2,416	42,706	3,077
Miscellaneous .....					22,621		22,621	3,005
Transfers .....					27,661	(27,661)		
<b>Total general revenues and transfers .....</b>					<b>1,034,721</b>	<b>(25,245)</b>	<b>1,009,476</b>	<b>437,878</b>
Change in net assets .....					(39,703)	47,263	7,560	21,345
Net assets — beginning .....					2,519,744	1,180,807	3,700,551	43,297
Net assets — ending .....					\$ 2,480,041	\$1,228,070	\$3,708,111	\$ 64,642

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

**CITY OF BALTIMORE**

**Balance Sheet**

**Governmental Funds**

**June 30, 2002**

(Expressed in Thousands)

	General Fund	Motor Vehicle Fund	Grants Revenue Fund	Capital Projects Fund	Other Funds	Total
<b>Assets:</b>						
Cash and cash equivalents	\$ 67,271		\$ 75	\$ 8,676	\$27,208	\$103,230
Investments	38,881			104,195	15,370	158,446
Property taxes receivable, net	36,507					36,507
Other receivables, net	10,153	\$ 343	3,231		64	13,791
Due from other governments	22,132	39,414	57,739	3,501	17,104	139,890
Due from other funds	77,385			26,774	1,295	105,454
Due from component unit	8,632					8,632
Notes, mortgages receivable, net	9,252				9,260	18,512
Inventories, at cost	2,049	1,476				3,525
Other assets	20,466	122				20,588
<b>Total assets</b>	<b>\$292,728</b>	<b>\$41,355</b>	<b>\$ 61,045</b>	<b>\$143,146</b>	<b>\$70,301</b>	<b>\$608,575</b>
<b>Liabilities And Fund Balances:</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities	\$ 20,628	\$ 4,515	\$ 28,057	\$ 12,573	\$ 1,829	\$ 67,602
Retainages payable				5,230		5,230
Property taxes payable—State	704					704
Due to other funds	1,717	16,413	50,477		15,842	84,449
Due to other governments				923		923
Due to component unit	23,262					23,262
Deposits subject to refund	23,307					23,307
Deferred revenue	100,373	343	54,249	1,628	9,649	166,242
Matured bonds payable					5,197	5,197
<b>Total liabilities</b>	<b>169,991</b>	<b>21,271</b>	<b>132,783</b>	<b>20,354</b>	<b>32,517</b>	<b>376,916</b>
<b>Fund Balances:</b>						
<b>Reserved for:</b>						
Budget stabilization	51,828					51,828
Landfill closure	3,526					3,526
Encumbrances	30,434	3,714		85,767		119,915
Inventories	2,049	1,476				3,525
Other assets	1,441	122				1,563
<b>Unreserved:</b>						
Designated for subsequent year's expenditures	25,614					25,614
Undesignated	7,845	14,772	(71,738)	37,025		(12,096)
<b>Unreserved reported in:</b>						
Debt Service Fund					22,990	22,990
Non-major special revenue funds					8,135	8,135
Non-major permanent funds					6,659	6,659
<b>Total fund balances</b>	<b>122,737</b>	<b>20,084</b>	<b>(71,738)</b>	<b>122,792</b>	<b>37,784</b>	<b>231,659</b>
<b>Total liabilities and fund balances</b>	<b>\$292,728</b>	<b>\$41,355</b>	<b>\$ 61,045</b>	<b>\$143,146</b>	<b>\$70,301</b>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	3,054,178
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	77,606
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.	(623)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	(882,779)
<b>Net assets of governmental activities</b>	<b>\$2,480,041</b>

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

**CITY OF BALTIMORE**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2002**  
(Expressed in Thousands)

	General Fund	Motor Vehicle Fund	Grants Revenue Fund	Capital Projects Fund	Other Funds	Total
<b>Revenues:</b>						
Taxes—local	\$767,384					\$ 767,384
State shared revenue		\$173,061			\$ 543	173,604
Licenses and permits	22,051	560				22,611
Fines and forfeitures	2,162	5,096				7,258
Interest, rentals and other investment income	27,468	3,153		\$ 4,420	3,330	38,371
Federal grants	45		\$212,090	17,982	42,708	272,825
State grants	87,580		65,189	5,326		158,095
Other grants	4,139		10,299			14,438
Charges for services	35,718	3,662				39,380
Miscellaneous	8,945	6		13,185	2,405	24,541
<b>Total Revenues</b>	<b>955,492</b>	<b>185,538</b>	<b>287,578</b>	<b>40,913</b>	<b>48,986</b>	<b>1,518,507</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General government	214,288	9,983	64,904		3,594	292,769
Public safety and regulation	350,941	36,771	23,506		795	412,013
Conservation of health	24,102		150,471			174,573
Social services	1,743		24,964			26,707
Education	202,117	3,654			2,016	207,787
Public library	19,680		7,309		139	27,128
Recreation and culture	26,255		4,904		235	31,394
Highways and streets	175	81,709			10	81,894
Sanitation and waste removal	29,435					29,435
Public service	12,170					12,170
Economic development	14,631		40,505	43,248	16,391	114,775
<b>Debt service:</b>						
Principal					34,080	34,080
Interest					34,900	34,900
Capital outlay				116,262		116,262
Capital leases				12,400		12,400
<b>Total expenditures</b>	<b>895,537</b>	<b>132,117</b>	<b>316,563</b>	<b>171,910</b>	<b>92,160</b>	<b>1,608,287</b>
Excess (deficiency) of revenues over (under) expenditures	59,955	53,421	(28,985)	(130,997)	(43,174)	(89,780)
<b>Other financing sources (uses):</b>						
Transfers in	29,925			95,260	67,376	192,561
Transfers out	(74,321)	(61,288)		(10,125)	(19,166)	(164,900)
Capital leases				12,400		12,400
Federal loans				10,124		10,124
General obligation bonds issued				32,745		32,745
<b>Total other financing sources (uses)</b>	<b>(44,396)</b>	<b>(61,288)</b>		<b>140,404</b>	<b>48,210</b>	<b>(82,930)</b>
Net change in fund balance	15,559	(7,867)	(28,985)	9,407	5,036	(6,850)
Fund balances — beginning	107,178	27,951	(42,753)	113,385	32,748	238,509
<b>Fund balances — ending</b>	<b>\$122,737</b>	<b>\$ 20,084</b>	<b>\$(71,738)</b>	<b>\$ 122,792</b>	<b>\$ 37,784</b>	<b>\$ 231,659</b>

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

**CITY OF BALTIMORE**  
**Reconciliation of the Statement of Revenues**  
**Expenditures, and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2002**

(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) .....	\$ (6,850)
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. . .	128,662
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. ....	25,541
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. ....	(55,269)
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. ....	(96,785)
The net expense of certain activities of internal service funds is reported with governmental activities. ....	<u>(35,002)</u>
<u>Change in net assets of governmental activities (page 16) .....</u>	<u>\$ (39,703)</u>

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

**CITY OF BALTIMORE**  
**Statement of Fund Net Assets**

**Proprietary Funds**

**June 30, 2002**

(Expressed in Thousands)

	Enterprise Funds					Governmental Activities Internal Service Funds
	Water Utility Fund	Waste Water Utility Fund	Parking Facilities Fund	Other Funds	Total	
<b>Assets:</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$ 17,225	\$ 28,021	\$ 14,249	59,458	\$ 118,953	\$ 93,433
Investments				451	451	11,297
Accounts receivable, net:						
Service billings	26,873	37,296	365	600	65,134	
Other			50	321	371	4,559
Due from other funds	852				852	
Due from other governments	1,578	2,104			3,682	
Inventories	5,006	76			5,082	1,010
<b>Current restricted assets:</b>						
Cash and cash equivalents	52,781	49,095	72,402		174,278	
Investments	5,607	4,954	4,382		14,943	
Accounts receivable, net	3,702	15,960			19,662	
Due from other funds	3,191	4,607			7,798	
<b>Total current assets</b>	<b>116,815</b>	<b>142,113</b>	<b>91,448</b>	<b>60,830</b>	<b>411,206</b>	<b>110,299</b>
<b>Noncurrent assets:</b>						
<b>Restricted assets:</b>						
Mortgages receivable			43,039	1,839	44,878	
Property, plant and equipment, net	465,282	921,671	87,881	44,778	1,519,612	45,400
Other assets						271
Issuance costs	5,734	3,455	3,395	483	13,067	
<b>Total noncurrent assets</b>	<b>471,016</b>	<b>925,126</b>	<b>134,315</b>	<b>47,100</b>	<b>1,577,557</b>	<b>45,671</b>
<b>Total assets</b>	<b>587,831</b>	<b>1,067,239</b>	<b>225,763</b>	<b>107,930</b>	<b>1,988,763</b>	<b>155,970</b>
<b>Liabilities:</b>						
<b>Current liabilities:</b>						
Accounts payable and accrued liabilities	2,242	6,153	466	67	8,928	12,142
Accrued interest payable	3,420	2,474	3,381	99	9,374	
Deposits subject to refund	13				13	
Due to other funds		3,189	4,124	22,125	29,438	217
Estimated liability for claims in progress						59,670
Other liabilities	3,229	3,670		127	7,026	3,482
Accounts payable from restricted assets	4,439	7,861	1,534	60	13,894	
Revenue bonds payable	2,185	2,234	3,690	9,080	17,189	
General long-term debt payable	313	113			426	
<b>Total current liabilities</b>	<b>15,841</b>	<b>25,694</b>	<b>13,195</b>	<b>31,558</b>	<b>86,288</b>	<b>75,511</b>
<b>Noncurrent liabilities:</b>						
Revenue bonds payable, net	238,438	231,443	189,964		659,845	
Notes payable				124	124	
Other liabilities	944	1,964		2,801	5,709	
General long-term debt payable	1,104	2,686			3,790	
Estimated liability for claims in progress						81,082
<b>Total noncurrent liabilities</b>	<b>240,486</b>	<b>236,093</b>	<b>189,964</b>	<b>2,925</b>	<b>669,468</b>	<b>81,082</b>
<b>Total liabilities</b>	<b>256,327</b>	<b>261,787</b>	<b>203,159</b>	<b>34,483</b>	<b>755,756</b>	<b>156,593</b>
<b>Net assets:</b>						
Invested in capital assets, net of debt	223,242	685,194		44,778	953,214	45,400
<b>Restricted for:</b>						
Debt service	22,477	19,077	20,812		62,366	
Future capital expenditures	42,804	55,539	54,962		153,305	
Unrestricted	42,981	45,642	(53,170)	28,669	64,122	(46,023)
<b>Total net assets</b>	<b>\$331,504</b>	<b>\$ 805,452</b>	<b>\$ 22,604</b>	<b>\$ 73,447</b>	<b>\$1,233,007</b>	<b>\$ (623)</b>
<b>Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds</b>						
					(4,937)	
<b>Net assets of business-type activities</b>					<b>\$1,228,070</b>	

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



**CITY OF BALTIMORE**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2002**  
(Expressed in Thousands)

	Enterprise Funds				Total	Governmental Activities Internal Service Funds
	Water Utility Fund	Waste Water Utility Fund	Parking Facilities Fund	Other Funds		
Operating revenues:						
Charges for sales and services					\$212,764	
Water and sewer service	\$ 84,083	\$128,681				
Rents, fees and other income			\$ 46,043	\$ 6,720	52,763	\$315,014
Interest income on loans				1,409	1,409	
Total operating revenues	84,083	128,681	46,043	8,129	266,936	315,014
Operating expenses:						
Salaries and wages	24,734	29,746		1,233	55,713	14,066
Other personnel costs	9,026	10,977		431	20,434	4,608
Contractual services	20,006	46,035	5,790	511	72,342	25,076
Materials and supplies	6,012	7,149		84	13,245	9,234
Minor equipment	326	1,607		5	1,938	262
Claims paid and incurred						293,104
Postage and delivery services						967
General governmental overhead	3,824	5,638			9,462	
Bad debts	2,010	3,172			5,182	
Depreciation	9,511	16,685	1,070	789	28,055	8,597
Program expenses				3,353	3,353	
Amortization of bond issuance costs	184	126	131	34	475	
Interest				1,665	1,665	
Total operating expenses	75,633	121,135	6,991	8,105	211,864	355,914
Operating income (loss)	8,450	7,546	39,052	24	55,072	(40,900)
Nonoperating revenues (expenses):						
Gain (loss) on sale of investments	(1,008)	(1,051)	3		(2,056)	
Loss on disposal of property						(663)
Interest income (expense)	(3,363)	(1,214)	(6,553)		(11,130)	1,052
Total nonoperating revenues (expenses)	(4,371)	(2,265)	(6,550)		(13,186)	389
Income (loss) before contributions and transfers	4,079	5,281	32,502	24	41,886	(40,511)
Capital contributions	13,452	22,860		1,528	37,840	705
Transfers in (out)			(29,925)	2,264	(27,661)	
Change in net assets	17,531	28,141	2,577	3,816	52,065	(39,806)
Total net assets — beginning	313,973	777,311	20,027	69,631		39,183
Total net assets — ending	\$331,504	\$805,452	\$ 22,604	\$73,447		\$ (623)
Adjustment to reflect the consolidation of internal service activities related to enterprise funds					(4,802)	
Change in net assets of business-type activities					\$ 47,263	

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

**CITY OF BALTIMORE**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2002**  
(Expressed in Thousands)

	Enterprise Funds					Governmental Activities- Internal Service Funds
	Water Utility Fund	Waste Water Utility Fund	Parking Facilities Fund	Other Funds	Total	
<b>Cash flow from operating activities:</b>						
Receipts from customers	\$ 80,359	\$105,661	\$ 45,868	\$ 7,765	\$ 239,653	\$ 317,958
Receipts from interfund services provided	2,655	6,920			9,575	
Payments to employees	(33,317)	(43,196)		717	(75,796)	(18,429)
Payments to suppliers	(38,004)	(59,223)	(21,832)	(23,578)	(142,637)	(290,775)
Payments for interfund services used	(5,601)	(5,638)			(11,239)	
Net cash provided (used) by operating activities	6,092	4,524	24,036	(15,096)	19,556	8,754
<b>Cash flows from noncapital financing activities:</b>						
Transfers in (out)			(29,925)	2,264	(27,661)	
<b>Cash flows from capital and related financing activities:</b>						
Mortgages receivable principal payments			1,507		1,507	
Transfers to escrow agent for early extinguishment of debt	(141,951)	(95,825)			(237,776)	
Proceeds from revenue bonds	176,428	141,700	80,770	(4,163)	394,735	
Principal paid on bonds	(285)	(122)			(407)	
Principal paid on revenue bonds	(3,860)	(2,155)	(3,515)		(9,530)	
Notes receivable repayments				1,472	1,472	
Interest paid	(7,477)	(4,798)	(5,747)		(18,022)	
Acquisition and construction of capital assets	(34,422)	(54,161)	(10,135)	(1,488)	(100,206)	(6,968)
(Loss) on disposal of property						(663)
Capital contributions	13,452	22,860		1,528	37,840	705
Changes in restricted assets	39,310	31,019	1,391		71,720	
Net cash provided (used) by capital and related financing activities	41,195	38,518	64,271	(2,651)	141,333	(6,926)
<b>Cash flows from investing activities:</b>						
Proceeds from the sale and maturities of investments						6,784
Purchase of investments	5	3		(12)	(4)	(6,202)
Interest on investments	4,123	3,584	3		7,710	1,052
Net cash provided (used) by investing activities	4,128	3,587	3	(12)	7,706	1,634
Net increase (decrease) in cash and cash equivalents	51,415	46,629	58,385	(15,495)	140,934	3,462
Cash and cash equivalents, beginning of year	18,591	30,487	28,266	74,953	152,297	89,971
Cash and cash equivalents, end of year	\$ 70,006	\$ 77,116	\$ 86,651	\$ 59,458	\$ 293,231	\$ 93,433
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>						
Operating income (loss)	\$ 8,450	\$ 7,546	\$ 39,052	\$ 24	\$ 55,072	\$ (40,900)
<b>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</b>						
Depreciation expense	9,511	16,685	1,070	789	28,055	8,597
Amortization of bond issuance costs	184	126	131		441	
Amortization of early extinguishment of debt	(7,833)	(2,072)			(9,905)	
Loss on early extinguishment of debt	(1,013)	(1,053)			(2,066)	
<b>Changes in assets and liabilities:</b>						
(Increase) decrease in accounts receivables	5,222	(10,823)	(175)	(363)	(6,139)	(752)
Decrease in due from component unit						3,435
(Increase) in due from other funds	(852)				(852)	
(Increase) in due from other governments	(1,577)	(2,105)			(3,682)	
(Increase) in other assets						(29)
(Increase) decrease in inventories	(998)	26			(972)	290
(Increase) in bond issuance costs			(1,493)		(1,493)	
Increase in accounts payable and accrued liabilities	389	1,309	152	38	1,888	3,738
Increase (decrease) in other liabilities	413	700		(2,782)	(1,669)	444
(Decrease) in notes payable				(54)	(54)	
Increase in estimated liability for claims in progress						34,415
(Decrease) in accrued interest payable	(1,327)	(2,060)	(68)	(116)	(3,571)	
Increase (decrease) in restricted accounts payable	(848)	447		54	(347)	
(Decrease) in due to other governments	(1,852)	(1,013)			(2,865)	
(Decrease) in due to other funds	(1,777)	(3,189)	(14,633)	(12,686)	(32,285)	(484)
Total adjustments	(2,358)	(3,022)	(15,016)	(15,120)	(35,516)	49,654
Net cash provided (used) by operating activities	\$ 6,092	\$ 4,524	\$ 24,036	\$ (15,096)	\$ 19,556	\$ 8,754

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

**CITY OF BALTIMORE**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2002**  
(Expressed in Thousands)

	Pension Trust Funds	Agency Funds
<b>Assets:</b>		
Cash and cash equivalents .....	\$ 82,746	\$1,960
<b>Investments:</b>		
Stocks .....	1,046,222	58
Bonds .....	1,050,440	
Mutual funds .....	738,983	
Real estate .....	103,030	
Guaranteed investment contracts .....	37,304	
Securities lending collateral .....	389,054	
Other assets .....	60,011	
Total assets .....	<u>3,507,790</u>	<u>2,018</u>
<b>Liabilities:</b>		
Obligations under securities lending program .....	389,054	
Accounts payable .....	80,550	43
Pension benefits payable .....	3,326	
Other .....		1,975
Total liabilities .....	<u>472,930</u>	<u>2,018</u>
<b>Net assets:</b>		
Held in trust for pension benefits .....	<u>\$3,034,860</u>	

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

**CITY OF BALTIMORE**  
**Statement of Changes in Fiduciary Net Assets**  
**Pension Trust Funds**  
**For the Year Ended June 30, 2002**  
(Expressed in Thousands)

	Pension Trust Funds
<hr/>	
Additions:	
Contributions:	
Employer .....	\$ 18,034
Employee .....	<u>15,163</u>
Total contributions .....	<u>33,197</u>
Investment income:	
Net decline in fair market value of investments .....	(235,705)
Securities lending income .....	2,165
Interest and dividend income .....	<u>96,168</u>
Total investment earnings .....	(137,372)
Less investment expense .....	<u>9,154</u>
Net investment earnings .....	(146,526)
Total additions .....	<u>(113,329)</u>
Deductions:	
Retirement allowances .....	199,258
Death benefits .....	1,839
Administrative expenses .....	3,371
Other .....	<u>8,635</u>
Total deductions .....	<u>213,103</u>
Changes in net assets .....	(326,432)
Net assets—beginning of the year .....	<u>3,361,292</u>
Net assets—end of the year .....	<u>\$3,034,860</u>

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

**CITY OF BALTIMORE**  
**Index to the Notes to Basic Financial Statements**

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**CITY OF BALTIMORE**  
**Notes to Basic Financial Statements**

**1. Summary of significant accounting policies**

A. REPORTING ENTITY

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

*Blended Component Unit*

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

*Discretely Presented Component Unit*

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

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

*Related Organizations*

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

Baltimore City Foundation  
Lexington Market  
Baltimore Area Convention and Visitors Association  
City of Baltimore Development Corporation  
Baltimore Community Development Finance Corporation  
Empower Baltimore Management Corporation  
Special Benefits Taxing Districts

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

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

**B. BASIS OF PRESENTATION, BASIS OF ACCOUNTING**

*Basis of Presentation*

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

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

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

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

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

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

The City reports the following major enterprise funds:

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

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

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

The City reports the following fund types:

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

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

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

- Pension Trust Funds, which account for the receipt, investment and distribution of retirement contributions made for the benefit of police officers, firefighters, elected officials and other City employees.
- Agency Funds, which account for assets held by the City as a custodian.

*Measurement Focus, Basis of Accounting*

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

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end, except for grant and entitlement revenue which have a 120 day availability period. Property taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

**C. ASSETS, LIABILITIES, AND EQUITY**

*Deposits and Investments*

The cash balances of substantially all funds are pooled and invested by the City for the purpose of increasing earnings through investment activities. The pool's investments are reported at fair value at June 30, 2002, 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.



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

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

*Inventories*

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

*Capital Assets*

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

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

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

*Compensated Absences*

The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

*Estimated Liability for Claims in Process*

The liability for claims in process represents estimates for all personal injury, workers' compensation, unemployment, property damage, and medical claims at June 30, 2002. This liability, which includes estimates for known and incurred but not reported claims, is based upon an actuarial valuation of the City's claim payment history discounted at a rate of 3.0%, for all claims except medical, for which claims are not discounted.

*Property Tax and Property Tax Calendar*

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

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

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

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 2002 was \$16,893,662,000, which was approximately 100% of the estimated market value.

The tax rate in Baltimore City for real and personal property for fiscal year 2002 was \$2.328 per \$100 of assessed value. Current collections were 95.9% of the total tax levy.

At June 30, 2002, the City had property taxes receivable of \$36,507,000, net of an allowance for uncollectible accounts of \$68,013,000.

*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.

*Bond Anticipation Notes*

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

*Sick, Vacation and Personal Leave*

Employees earn one day of sick leave for each completed month of service and there is no limitation on the number of sick days that employees can accumulate. A portion of unused sick leave earned annually during each twelve-month base period may be converted to cash at a maximum of three days, computed on an attendance formula. Upon retirement with pension benefits, or termination of employment after completion of twenty or more years of service without pension benefits, employees receive one day's pay for every four sick days accumulated and unused at the date of separation; under any other conditions of separation, unused sick leave is forfeited.

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

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

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

*Restricted Assets*

The proceeds of the Water Utility Fund, Waste Water Utility Fund, and Parking Facilities Fund revenue bonds and Federal and State grants, 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.

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

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, 2002, the City had reserved \$51,828,000 of its General Fund fund balance for that purpose. The reserve can be used in case of emergency at the discretion of the Board of Estimates.

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

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

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

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

*Interfund Transactions*

The City has three types of transactions among funds:

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

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

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

**2. Implementation of New Accounting Principles**

**A. GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENT NO. 34 (AS MODIFIED BY GASB STATEMENT NO. 37)**

Effective July 1, 2001, the City adopted the provisions of GASB Statement No. 34, *Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments*. This statement affects the manner in which the City records transactions and presents financial information. State and local governments have traditionally used a financial reporting model substantially different from the one used to prepare private-sector financial reports.

GASB Statement No. 34 establishes new requirements and a new reporting model for the annual financial reports of state and local governments. The statement was developed to make annual reports of state and local governments easier to understand and more useful to the people who use governmental financial information to make decisions.

Management’s Discussion and Analysis — GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the City’s financial activities in the form of “management’s discussion and analysis” (MD&A). This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

Government-wide Financial Statements — The reporting model includes financial statements prepared using full accrual accounting for all the City’s activities. This approach includes not just current assets and liabilities, but also capital and other long-term assets as well as long-term liabilities. Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.

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

Statement of Net Assets — The statement of net assets is designed to display the financial position of the primary government (governmental and business-type activities). The City now reports all capital assets in the government-wide statement of net assets and reports depreciation expense — the cost of “using up” capital assets — in the statement of activities. The net assets of the City are broken down into three categories — (1) invested in capital assets, net of related debt; (2) restricted; and (3) unrestricted.

Statement of Activities — The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the City’s functions. The expense of individual functions is compared to the revenue generated directly by the function.

Accordingly, the City has recorded capital and certain other long-term assets and liabilities in the statement of net assets, and has reported all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities.

The impact of GASB Statement No. 34 on the City’s accounting and financial reporting practices was to (1) classify certain activities as governmental that were previously reported as fiduciary, (2) report the residual balances of certain internal activities within the net assets of governmental activities, (3) report all long-term assets, including capital assets, and liabilities in the statement of net assets, and (4) report all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities.

**B. GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 38**

Effective July 1, 2001, the City adopted the provisions of GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. This statement modifies, establishes, and rescinds certain financial statement disclosure requirements. Accordingly, certain footnote disclosures have been revised to conform to the provisions of GASB Statement No. 38.

**3. 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.

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

- (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 2002, supplemental appropriation ordinances were required for the General Fund in the amount of \$24.7 million.

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

**4. 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.

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

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

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:	
Capital assets	\$ 4,453,320
Less: Accumulated depreciation	(1,399,142)
Total	<u>\$ 3,054,178</u>
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:	
Due from other governments	\$ 72,626
Deferred revenue	7,135
Due to business-type activities	4,937
Accrued interest payable	(7,092)
Total	<u>\$ 77,606</u>
Internal service funds are used by management to charge the cost of fleet management, mailing, communications, printing and risk management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	
	<u>\$ (623)</u>
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Long-term bonds	\$ (556,680)
Revenue bonds	(53,660)
Capital leases	(186,412)
Compensated absences	(74,611)
Landfill closure liability	(11,416)
Total	<u>\$ (882,779)</u>

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	\$ 116,262
Capital leases	12,400
Total	<u>\$ 128,662</u>
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Grant reimbursements not received for several months after the fiscal year end are not considered as available revenues in the governmental funds	<u>\$ 25,541</u>
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:	
Proceeds from general obligation bonds	\$ (32,745)
Proceeds from capital leases	(12,400)
Proceeds from federal loans	(10,125)
Total	<u>\$ (55,270)</u>
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	
Debt service principal	\$ 34,080
Debt service interest (capital leases, GO bonds, and accrued interest)	(11,137)
Capital related expenditures	(115,720)
Compensated absences	(4,006)
Total	<u>\$ (96,783)</u>
The net expense of certain activities of internal service funds is reported with governmental activities:	
Internal service funds net expenses attributed to governmental activities	<u>\$ (35,002)</u>

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

**5. Deposits and Investments**

A. SUMMARY OF DEPOSIT and INVESTMENT BALANCES

Reconciliation of the City's deposit and investment balances as of June 30, 2002 (amounts expressed in thousands):

	Pooled Cash and Investments	Other	Total
Carrying value of bank deposits .....	\$ (9,666)		\$ (9,666)
Investments .....	419,572	\$3,714,922	4,134,494
<b>Total .....</b>	<b>\$409,906</b>	<b>\$3,714,922</b>	<b>\$4,124,828</b>

	Government-wide Statement of Net Assets	Fiduciary Funds Statement of Net Assets	Total
Cash and cash equivalents .....	\$315,616	\$ 84,706	\$ 400,322
Investments .....	170,194	3,365,091	3,535,285
Restricted cash and equivalents .....	174,278		174,278
Restricted investments .....	14,943		14,943
<b>Total .....</b>	<b>\$675,031</b>	<b>\$3,449,797</b>	<b>\$4,124,828</b>

B. CASH DEPOSITS

As of June 30, 2002, the carrying amount of the City's bank deposits was a net overdraft of \$9,666,000 and the respective bank balances totaled \$7,684,000. 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, 2002, the BCPSS has demand deposits with a carrying value of \$36,081,000. The bank balance for all deposits at June 30, 2002 was \$38,132,000. These funds are collateralized (expressed in thousands) as follows:

Amounts insured by the FDIC or collateralized with securities held by the BCPSS or its agent in BCPSS's name .....	\$16,526
Amounts insured by the FDIC or collateralized with securities held by the BCPSS or its agent but not in the BCPSS's name .....	\$19,555

C. INVESTMENTS

For other than its pension funds, the City is authorized by State law to invest in direct or indirect obligations of the U. S. government, certificates of deposit, repurchase agreements and related mutual funds.

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

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

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

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

The following schedule classifies the investments of the City as of June 30, 2002, into the above noted categories:

(Expressed in Thousands)	Category		Carrying Value
	1	2	
Repurchase agreements .....	\$ 81,014	\$32,104	\$ 113,118
U. S. Treasury and Agencies:			
Not on securities loan .....	687,938		687,938
On securities loan for cash collateral .....	292,431		292,431
Corporate bonds:			
Not on securities loan .....	320,129		320,129
On securities loan for cash collateral .....	31,253		31,253
Stocks:			
Not on securities loan .....	992,110		992,110
On securities loan for cash collateral .....	54,112		54,112
	<u>\$2,458,987</u>	<u>\$32,104</u>	<u>2,491,091</u>
Investments not subject to categorization:			
Mutual funds .....			1,114,014
Guaranteed investment contracts .....			37,304
Real estate equity investments .....			103,030
Securities lending collateral pool .....			<u>389,055</u>
			4,134,494
Less: cash equivalents .....			<u>584,266</u>
Total .....			<u>\$3,550,228</u>

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.

At June 30, 2002, the City's retirement systems held foreign investments with a fair value of \$367,179,000. These securities are subject to foreign exchange risk. At June 30, 2002, the retirement systems held currency options and forward contracts hedging their foreign investment position totaling approximately \$3,121,000 in U. S. currency in Japanese Yen, British Pound, Thailand Baht, and Euro denominations. Gains and losses on these forward contracts are recorded as investment income or expense.

On June 7, 1999, the City's retirement systems entered into a Securities Lending Authorization Agreement with Mellon Bank (the Custodian) authorizing them to lend its available securities. All individual securities which are readily marketable and which are not restricted due to an outstanding short option are eligible for loan at the discretion of the custodian bank. The fund manager may loan securities held in custody of commingled funds if authorized in a fund's contract with the retirement systems.

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

At June 30, 2002, 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, 2002, was \$377,796,000, and the market value of the collateral received for those securities on loan was \$389,055,000. 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



**CITY OF BALTIMORE**  
**Notes to Basic Financial Statements**  
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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.

The Baltimore City Public School System held investments of \$19,555,000 in the Maryland Local Government Investment Pool, and this amount is included in their total cash and cash equivalents of \$29,978,000.

**6. Receivables**

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

Receivables	General Fund	Motor Vehicle Fund	Grants Revenue Fund	Capital Projects Fund	Enterprise Funds	Nonmajor and Other Funds	Total
Property taxes .....	\$36,507						\$ 36,507
Service billings .....					\$64,534	\$ 664	65,198
Due from other governments .....	22,132	\$39,414	\$57,739	\$3,501	3,682	17,104	143,572
Due from component unit .....	8,632						8,632
Other .....	10,153	343	3,231		19,712	64,891	98,330
Total .....	\$77,424	\$39,757	\$60,970	\$3,501	\$87,928	\$82,659	\$352,239

**7. Capital Assets**

Capital assets activity for the year ended June 30, 2002, was as follows (expressed in thousands):

*Governmental Activities Capital Assets:*

Class	Balance June 30, 2001	Additions	Deductions	Balance June 30, 2002
Capital assets, not being depreciated:				
Land .....	\$ 134,300			\$ 134,300
Construction in progress .....	684,397	\$ 35,767	\$36,558	683,606
Construction in progress—infrastructure .....		48,171		48,171
Total capital assets, not being depreciated .....	818,697	83,938	36,558	866,077
Capital assets, being depreciated:				
Buildings and improvements .....	1,216,249	16,414		1,232,663
Equipment .....	304,546	16,472	11,951	309,067
Infrastructure .....	2,061,425			2,061,425
Library books .....	26,066	3,422		29,488
Total capital assets, being depreciated .....	3,608,286	36,308	11,951	3,632,643
Less: accumulated depreciation for:				
Buildings and improvements .....	588,774	24,653		613,427
Equipment .....	194,918	21,153	9,033	207,038
Infrastructure .....	519,330	47,305		566,635
Library books .....	9,435	2,607		12,042
Total accumulated depreciation .....	1,312,457	95,718	9,033	1,399,142
Total capital assets, being depreciated, net .....	2,295,829	(59,410)	2,918	2,233,501
Governmental activities capital assets, net .....	\$3,114,526	\$ 24,528	\$39,476	\$3,099,578

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**Notes to Basic Financial Statements**  
**(Continued)**

*Business-type Activities Capital Assets:*

Class	Balance June 30, 2001	Additions	Deductions	Balance June 30, 2002
Capital assets, not being depreciated:				
Land .....	\$ 16,952	\$ 377		\$ 17,329
Construction in progress .....	899,460	118,251	\$384,359	633,352
Total capital assets, not being depreciated .....	916,412	118,628	384,359	650,681
Capital assets, being depreciated:				
Buildings and improvements .....	916,256	362,026		1,278,282
Equipment .....	128,369	3,375		131,744
Infrastructure .....	53,770	536		54,306
Total capital assets, being depreciated .....	1,098,395	365,937		1,464,332
Less: accumulated depreciation for:				
Buildings and improvements .....	470,667	22,886		493,553
Equipment .....	83,288	4,490		87,778
Infrastructure .....	13,392	679		14,071
Total accumulated depreciation .....	567,347	28,055		595,402
Total capital assets, being depreciated, net .....	531,048	337,882		868,930
Business-type activities capital assets, net .....	\$1,447,460	\$456,510	\$384,359	\$1,519,611

Depreciation expense was charged to functions/programs of the City for the fiscal year ended June 30, 2002 (amounts expressed in thousands):

*Governmental activities:*

General government .....	\$ 8,950
Public safety and regulation .....	4,216
Conservation of health .....	500
Social services .....	51
Education .....	16,085
Public library .....	3,144
Recreation and parks .....	4,615
Highways and streets .....	43,700
Sanitation and waste removal .....	4,932
Public service .....	50
Economic development .....	879
Internal service funds .....	8,597
Total .....	\$95,719

*Business-type activities:*

Water .....	\$ 9,511
Waste water .....	16,685
Parking .....	1,070
Conduits .....	789
Total .....	\$28,055

*Capital Commitments:*

At June 30, 2002, the outstanding commitments relating to projects of the City of Baltimore amount to approximately \$93,516,000 for governmental activities and \$106,099,000 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 2002, net interest expense of \$12,089,000 (net of interest income of \$4,405,000) was capitalized.

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**Notes to Basic Financial Statements**  
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**8. Interfund Balances and Activity**

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

Balances due to/from other funds at June 30, 2002 (amounts expressed in thousands):

Fund	Interfund	
	Receivable	Payable
General	\$ 77,385	\$ 1,717
Motor vehicle		16,413
Grant revenue		50,477
Capital projects	26,774	
Nonmajor governmental funds		14,547
Water	4,043	
Waste water	1,418	
Parking facilities		4,124
Nonmajor proprietary funds		22,125
Internal service funds		217
Totals	\$109,620	\$109,620

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, 2002, certain transactions between funds had not been completed.

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

Transfers to/from other funds at June 30, 2002, consist of the following (amounts expressed in thousands):

Fund	General	Capital Projects	Nonmajor Special Revenue	Motor Vehicle	Parking	Total Transfers From
Transfers To:						
General					\$29,925	\$ 29,925
Debt service	\$53,463	\$10,125		\$ 3,788		67,376
Loan and guarantee	2,264					2,264
Capital projects	18,594		\$19,166	57,500		95,260
Totals transfers to	\$74,321	\$10,125	\$19,166	\$61,288	\$29,925	\$194,825

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

**C. DEFICITS**

The following funds had a deficit (amounts expressed in thousands) in unrestricted net assets/fund balances at June 30, 2002:

Special Revenue Funds:	
Grant Revenue	\$(71,738)
Community Development Block Grant	(888)
Special Racetrack	(68)
Internal Services Funds:	
Municipal Post Office	(112)
Risk management	(69,776)
Component Unit:	
Baltimore City Public School System	(84,046)

The deficits in the Grants Revenue Fund and Community Development Block Grants Fund are the results of timing differences. Revenue to cover these deficits are expected to be received in fiscal year 2003.

**CITY OF BALTIMORE**  
**Notes to Basic Financial Statements**  
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The deficit in the Special Racetrack Fund will be eliminated by reducing transfers in fiscal year 2003.

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

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

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

**9. 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, 2002, are as follows (amounts expressed in thousands):

	June 30, 2001	Adjustments	New Debt Issued	Debt Retired	June 30, 2002	Due within One Year
<b>GOVERNMENTAL ACTIVITIES</b>						
<i>General Obligation Bonds:</i>						
Highways	\$ 21,837	\$ 273	\$ 1,795	\$ 679	\$ 23,226	
Health	1,445		370	15	1,800	
Public safety	14,021	101	1,000	382	14,740	
Off-street parking	30,589	115		1,236	29,468	
Parks and recreation	12,119	68	4,185	362	16,010	
Public buildings and facilities	30,725	95	3,795	824	33,791	
Schools	91,767	332	7,135	1,425	97,809	
Storm water	11,717	176		792	11,101	
Urban renewal	258,556	662	21,600	13,185	267,633	
Waste disposal	3,732	31		57	3,706	
Unallocated	6,792	3			6,795	
Total general obligation bonds	483,300	1,856	39,880	18,957	506,079	\$22,589
<i>Bond Anticipation Notes</i>	7,295			4,115	3,180	3,180
<i>Long term financing with the Federal Government:</i>						
Federal economic development loans	34,069		10,125	5,992	38,202	
Environmental Protection Agency loans	1,046			191	855	
Total long-term financing with the Federal Government	35,115		10,125	6,183	39,057	5,236
<i>Long-term financing with the State of Maryland:</i>						
Highway construction loans	619			619		
State economic development loans	7,201			734	6,467	
Total long-term financing with the Sate of Maryland	7,820			1,353	6,467	716
<i>Private:</i>						
Fannie Mae loans	3,519			1,622	1,897	1,173
Total Governmental Activities	\$537,049	\$1,856	\$50,005	\$32,230	\$556,680	\$32,894
<b>BUSINESS-TYPE ACTIVITIES</b>						
<i>General Obligation Bonds:</i>						
Water	\$ 1,692	\$ 9		\$ 284	\$ 1,417	
Waste Water	2,228	16		92	2,152	
Total general obligation bonds	3,920	25		376	3,569	\$ 376
<i>Long-term financing with the State of Maryland:</i>						
Sewer construction loans	694			47	647	50
Total Business-type Activities	\$ 4,614	\$ 25		\$ 423	\$ 4,216	\$ 426
<b>COMPONENT UNIT — BALTIMORE CITY PUBLIC SCHOOL SYSTEM</b>						
<i>General Obligation Bonds:</i>						
Schools	\$ 25,000			\$ 1,205	\$ 23,795	\$ 1,255

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.

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**Notes to Financial Statements**  
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*Variable Rate Demand General Obligation Bonds*

The City has issued \$51,900,000 in variable rate demand general obligation bonds, Series A and B. The purpose of these bonds was to refund certain tax-exempt public improvement bonds and to fund various public improvements. The bonds mature on October 1, 2022 (Series A) and October 1, 2012 (Series B) and are subject to mandatory sinking fund redemptions prior to maturity at a redemption price of 100 percent. The bonds bear interest at a variable rate that is set by the Remarketing Agent on a weekly (Series A) and monthly (Series B) basis. 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 to the City.

In conjunction with the issuance of the bonds, Toronto-Dominion Bank (Bank) issued a standby bond purchase agreement (Agreement) in the amount of \$52,398,000 in favor of the City and Allfirst Trust of Maryland as trustee and Allfirst Bank of Maryland as fiscal agents for the bondholders. The Agreement expires June 27, 2004, 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 bonds tendered for purchase and not remarketed. Pursuant to the Agreement between the City, the Bank and the fiscal agent, the issuer is required to reimburse the Bank the amount drawn upon remarketing or in a lump sum as of June 27, 2004, whichever is earlier. If the takeout agreement were to be exercised because the entire issue of \$51,900,000 of demand bonds was put and not resold, the City would be required to pay approximately \$4,282,000 per year with a lump sum payment of all outstanding principal balances at the expiration of the Agreement. The interest rate on draws from the Agreement ranges from the Federal Fund Rate plus 1.00% or the Prime Rate plus 0.50% up to the Federal Fund Rate plus 2.00% or the Prime Rate plus 1.50% depending on the length of time the draw remains outstanding.

The City is required to pay the Bank fee throughout the period of effectiveness of the letter equal to 0.14% per annum of the daily average unutilized amount.

During fiscal year 2002, the City made no draws under the letter of credit, and no amounts drawn against the letter of credit were outstanding at June 30, 2002.

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

- *Federal Economic Development Loan:* The City has borrowed funds from the Federal government to provide for various development projects. At June 30, 2002, the principal owed to the Federal government was \$38,202,000 and interest of \$18,417,000 will be due thereon in future years. The loan bears interest at rates ranging from 6.0% to 10.9% and matures serially through 2022.
- *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, 2002, the principal owed the EPA was \$855,000. The principal shall be repaid in annual installments of approximately \$191,000 at zero percent interest and final payment is due on July 31, 2006.
- *Private Financing:* The City has borrowed funds from the Federal National Mortgage Corporation to provide construction financing for various housing projects. Since 1997, the City has borrowed a total of \$7,730,000 for such purposes. The principal will be paid in semi-annual installments through January 31, 2004. At June 30, 2002, the principal owed to the Federal National Mortgage Corporation was \$1,897,000; and interest of \$156,000, at interest rates ranging from 7.0% to 8.16%, will be due thereon in future years.
- *State Economic Development Loans:* The City has borrowed \$24,685,000 from the State of Maryland to provide for various economic development projects under the Maryland Industrial Land Act and the Industrial Commercial Redevelopments Act. At June 30, 2002, the principal owed to the State was \$6,467,000 and interest of \$3,257,000 will be due thereon in future years. These loans bear interest at rates ranging from 2.0% to 11.16% and the final payment is due in 2029.
- *Sewer Construction Loans:* Under the provisions of Chapter 445, laws of Maryland 1968, and Chapter 286, laws of Maryland 1974, loans were made available to counties and municipalities charged with providing sewerage facilities to assist in the construction of such facilities. Since December 1980, the City has borrowed a total of \$1,184,000 for sewer projects. At June 30, 2002, the principal owed to the State was \$647,000 and interest of \$243,000 will be due thereon in future years.

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**Notes to Basic Financial Statements**  
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*Compensated Absences*

Compensated absences at June 30, 2002 totaled \$74,611,000 for governmental activities and \$9,974,000 for business-type activities, of which \$25,153,000 and \$7,026,000, respectively, were due within one year. For the Baltimore City Public School System, compensated absences totaled \$65,790,000, of which \$7,262,000 were due within one year.

**B. DEBT SERVICE REQUIREMENTS**

Debt service requirements on long-term debt at June 30, 2002, are as follows (amounts expressed in thousands):

Governmental Activities										
Fiscal Year	General Obligation Bonds		Bond Anticipation Notes		Long-Term Financing with State Of Maryland		Long-Term Financing with Federal Government		Private Financing	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 22,589	\$ 29,975	\$3,180	\$21	\$ 716	\$ 338	\$ 5,236	\$ 2,314	\$1,173	\$125
2004	29,914	28,228			782	305	2,760	2,036	724	31
2005	35,639	25,759			337	273	3,350	1,832		
2006	47,832	25,899			307	256	2,435	1,657		
2007	34,935	25,811			324	239	4,195	1,476		
2008-2012	186,408	109,617			1,757	867	8,580	5,329		
2013-2017	109,705	29,304			1,269	501	6,430	3,037		
2018-2022	36,055	7,761			440	295	6,071	736		
2023-2027	3,002	80			350	159				
2028-2032					185	24				
Totals	\$506,079	\$282,434	\$3,180	\$21	\$6,467	\$3,257	\$39,057	\$18,417	\$1,897	\$156

Business-type Activities				
Fiscal Year	General Obligation Bonds		Long-Term Financing with State Of Maryland	
	Principal	Interest	Principal	Interest
2003	\$ 376	\$ 97	\$ 50	\$ 41
2004	248	75	53	38
2005	403	51	57	35
2006	499	18	60	31
2007	436	272	64	27
2008-2012	1,607	1,094	342	70
2013-2017			21	1
Totals	\$3,569	\$1,607	\$647	\$243

A summary of general obligation and bond anticipation notes outstanding and bonds authorized but unissued (amounts expressed in thousands) at June 30, 2002, is as follows:

Purpose	Due Dates	Outstanding		Authorized But Unissued
		Interest Rates	Amount	Amount
Fire, police and public protection	2003 to 2016	4.7% to 9.0%	\$ 15,146	\$ 2,985
Off-street parking	2003 to 2017	1.5% to 9.0%	29,468	4,930
Parks and recreation	2003 to 2017	2.7% to 9.0%	16,690	6,351
Public building and facilities	2003 to 2017	2.7% to 9.5%	33,791	20,658
Schools	2003 to 2021	2.7% to 9.0%	98,485	43,940
Waste water and storm sewer	2003 to 2012	2.5% to 9.0%	13,252	
Urban renewal and development	2003 to 2021	2.7% to 9.5%	269,053	57,343
Water	2003 to 2011	4.0% to 9.0%	1,417	
Highways	2003 to 2021	4.7% to 9.0%	23,226	3,491
Waste disposal	2003 to 2011	4.75% to 8.9%	3,705	
Finance				20,000
Health	2003 to 2018	5.125% to 7.5%	1,800	4,125
Unallocated	2003 to 2011	4.7% to 5.5%	6,795	
Totals			\$512,828	\$ 163,823

*Baltimore City Public School System (BCPSS) General Obligation Bonds*

On October 18, 2000, the BCPSS issued \$25,000,000 of Series 2000 general obligation bonds (Series 2000 Bonds), maturing through the year ended June 30, 2015. The net proceeds of the Series 2000 Bonds will be used to fund various capital improvements to existing schools within the BCPSS, including technical writing projects to accommodate Internet connectivity, and various renovations and repairs to school buildings. As the BCPSS enters into capital project contracts with one or more contractors, funds are to be drawn from the Series 2000 Bonds escrow account to fund capital expenditures. Under the terms of the Series 2000 Bonds, funds initially will be maintained at

**CITY OF BALTIMORE**  
**Notes to Basic Financial Statements**  
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the Depository Trust Company. Interest rates range from 4.25% to 5.125%. 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.

Future minimum bond payments are as follows for the year ending June 30, 2002 (amounts expressed in thousands):

Fiscal Year	Series 2000 bonds
2003 .....	\$ 2,352
2004 .....	2,352
2005 .....	2,350
2006 .....	2,348
2007 .....	2,348
2008-2012 .....	11,697
2013-2017 .....	9,309
	32,756
Less: interest component .....	8,961
	Total .....
	\$23,795

**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 2002, the City's capital lease obligations decreased by \$4,480,000 (which includes an increase of \$12,400,000 in additional leases) over the fiscal year 2001 total of \$190,892,000. Future minimum lease payments at June 30, 2002, are as follows (amounts expressed in thousands):

Fiscal Year	
2003 .....	\$ 24,771
2004 .....	21,469
2005 .....	20,673
2006 .....	19,237
2007 .....	19,116
2008-2012 .....	89,916
2013-2017 .....	66,513
2018-2021 .....	7,593
Total minimum lease payments .....	269,288
Less: deferred interest .....	82,876
	Present value minimum lease payments .....
	\$186,412

The following is a schedule of leased property under capital leases by major class (amounts expressed in thousands) at June 30, 2002:

Classes of Property	
Buildings .....	\$142,063
Equipment .....	120,429
Total .....	\$262,492

*Baltimore City Public School System (BCPSS)*

On December 17, 1998, the BCPSS entered into a lease purchase agreement with the First Municipal Credit Corporation (FMCC) to provide financing for the \$24,768,000 purchase of the ORACLE computer system (the 1998 Lease Agreement). Under the terms of the 1998 Lease Agreement, funds were to be deposited into an "Acquisition Account." As the BCPSS entered into purchase agreements with one or more vendors for various items of equipment, moneys were to be drawn from the "Acquisition Account" to fund actual purchases. Interest earned on the escrow balance remains in the escrow account and is to be used for the same purposes as the principal.

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On October 1, 1999, the BCPSS entered into a \$12,370,000 thirty-year capital lease (the 1999 Lease Agreement) with FMCC for the purchase and repair of certain boilers at various school locations. Under the terms of the 1999 Lease Agreement, funds were to be deposited into an "Acquisition Account." As the BCPSS entered into purchase agreements with one or more vendors related to the purchase and repair of certain boilers, moneys were to be drawn from an "Acquisition Account" to fund actual purchases. Interest earned on the escrow balance is to be paid to FMCC as set forth in the escrow agreement.

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

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

Interest earned during fiscal year 2002 relating to the 1998 Lease Agreement, the 1999 Lease Agreement and the Vehicle Lease was \$75,086 and \$3,378 and \$5,548, respectively. The interest earned is included in the cash and cash equivalents balance and in investment income under the component unit column.

Fiscal year 2002 interest expenditures on the 1998 Lease Agreement, the 1999 Lease Agreement and the Vehicle Lease were \$311,684 and \$855,747 and \$37,900, respectively. The interest expenditure for the 1998 Lease Agreement and the 1999 Lease Agreement is included under the component unit column.

During fiscal year 2002, the BCPSS had purchases of \$2,000,000 related to the 2002 Vehicle Lease Agreement. Of these purchases, \$157,000 was unpaid as of June 30, 2002. The unpaid balance of the 1999 Lease Agreement and the 2002 Vehicle Lease Agreement was \$12,304,000 and \$1,850,000 respectively at June 30, 2002.

Future minimum lease payments as of June 30, 2002, are as follows (amounts expressed in thousands):

Fiscal Year	
2003	\$ 1,777
2004	1,777
2005	1,777
2006	1,777
2007	1,777
2008-2012	7,196
2013-2016	4,907
Total minimum lease payments	20,988
Less: deferred interest	6,834
Present value minimum lease payments	\$14,154



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**10. 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 \$41,555,000 at June 30, 2002, and certain revenues of the Water and Waste Water Funds are pledged as collateral for the bonds. Bonds outstanding as of June 30, 2002, consist of (amounts expressed in thousands):

	Water Utility Fund	Waste Water Utility Fund
Serial bonds series 1993-A maturing in annual installments from \$925,000 to \$1,250,000 from July 1, 2002 through July 1, 2008, with interest ranging from 4.9% to 5.5%, payable semiannually		\$ 6,600
Serial bonds series 1993-A maturing in annual installments from \$1,570,000 to \$2,125,000 from July 1, 2002 through July 1, 2008, with interest ranging from 4.9% to 5.5%, payable semiannually	\$ 12,820	
Serial bonds series 1994-A maturing in annual installments from \$430,000 to \$590,000 from July 1, 2002 through July 1, 2009, with interest ranging from 4.4% to 5.0%, payable semiannually		3,595
Serial bonds series 1994-A maturing in annual installments from \$615,000 to \$850,000 from July 1, 2002 through July 1, 2009, with interest ranging from 4.4% to 5.0%, payable semiannually	5,900	
Serial bonds series 1994-B maturing in annual installments from \$310,000 to \$406,000 from February 1, 2003 through February 1, 2015, with interest rate at 2.25%, payable semiannually		4,629
Serial bonds series 1994-C maturing in annual installments from \$288,000 to \$387,000 from February 1, 2003 through February 1, 2015, with interest rate at 2.5%, payable semiannually		4,358
Serial bonds series 1994-D maturing in annual installments from \$193,000 to \$297,000 from February 1, 2003 through February 1, 2015, with interest rate at 3.6%, payable semiannually		3,135
Serial bonds series 1996-B maturing in annual installments from \$134,000 to \$208,000 from February 1, 2003 through February 1, 2017, with interest rate at 3.18%, payable semiannually		2,532
Serial bonds series 1998-A maturing in annual installments from \$264,000 to \$414,000 from February 1, 2003 through February 1, 2019, with interest rate at 2.87%, payable semiannually		5,673
Serial bonds series 1999-A maturing in annual installments from \$113,000 to \$167,000 from August 1, 2002 through February 1, 2019, with interest rate at 2.52%, payable semiannually		2,356
Serial bonds series 1999-B maturing in annual installments from \$410,000 to \$652,000 from February 1, 2003 through February 1, 2021, with interest rate at 2.61%, payable semiannually		9,925
Serial bonds series 2001-A maturing in annual installments from \$545,000 to \$819,000 from August 1, 2003 through February 1, 2022, with interest rate at 2.3%, payable semiannually		12,774
Serial bonds series 2002-A maturing in annual installments from \$1,855,000 to \$1,975,000 from July 1, 2009 through July 1, 2021, with interest rate at Muni-CPA to 5.0% payable semiannually	24,600	
Serial bonds series 2002-A maturing in annual installments from \$1,855,000 to \$1,975,000 from July 1, 2009 through July 1, 2021, with interest rate at Muni-CPA to 5.0% payable semiannually		18,925
Term bonds series 1990-B with interest at 3.806%, payable semiannually, due February 1, 2012		6,201
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	10,190	
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 5.125%, payable semiannually, due July 1, 2032	15,385	9,480
Term bonds series 2002-A with interest at 5.125%, payable semiannually, due July 1, 2042	64,840	31,630
Term bonds series 2002-B with interest at Auction Rate, payable monthly, due July 1, 2037	18,300	
Term bonds series 2002-B with interest at Auction Rate, payable monthly, due July 1, 2032		25,300
Term bonds series 2002-C with interest at Auction Rate, payable monthly, due July 1, 2037	40,800	
Term bonds series 2002-C with interest at Auction Rate, payable monthly, due July 1, 2032		48,300
	<u>249,280</u>	<u>236,498</u>
Less unamortized charges	8,657	2,821
	<u>\$240,623</u>	<u>\$233,677</u>

The portion of revenue bonds payable that is due within one year for the Water and Waste Water Utility Funds are \$2,185,000 and \$2,234,000, respectively.

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

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

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

On April 24, 2002 the City sold \$178,020,000 and \$142,075,000 of project and refunding revenue bonds for the Water and Waste Water Utility Funds, respectively. This transaction was taken to refund certain revenue bonds and to provide additional capital for future projects. The City placed \$124,945,000 of the Water Utility Bond proceeds and \$80,294,000 of the Waste Water Utility Bond proceeds into two separate irrevocable trusts for the purpose of generating all future principal and interest requirements to extinguish \$127,065,000 and \$80,415,000 of the Water and Waste Water Utility Funds existing debt, respectively. The advance refunding met the requirements of an in-substance defeasance and accordingly the assets and the liabilities have been removed from the statement of net assets.

As a result of the advance refunding, the City increased its debt service requirement by \$48,007,000 in the Water Utility Fund and by \$21,090,000 in the Waste Water Utility Fund. The economic gains resulting from the Water Utility Fund transaction was \$781,000. The economic gain resulting from the Waste Water transaction was \$291,000.

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

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

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**Notes to Basic Financial Statements**  
**(Continued)**

The City has issued refunding revenue bonds, the proceeds of which were used to refinance existing debt of the Parking Facilities Fund. Assets with a carrying value of \$21,823,000 at June 30, 2002, and certain other revenues of the Parking Facilities Fund are pledged as collateral for the bonds. Bonds outstanding as of June 30, 2002, consist of (amounts expressed in thousands):

Serial bonds series 1992-B maturing in annual installments from \$475,000 to \$510,000 from July 1, 2002 through July 1, 2003, with interest ranging from 7.75% to 7.95%, payable semiannually .....	\$ 985
Serial bonds series 1993-A maturing in annual installments from \$2,915,000 to \$3,810,000 from July 1, 2002 through July 1, 2008, with interest ranging from 4.05% to 4.7%, payable semiannually .....	23,370
Serial bonds series 1997-B maturing in annual installments from \$300,000 to \$495,000 from July 1, 2002 through July 1, 2010, with interest ranging from 6.2% to 6.5%, payable semiannually .....	3,510
Serial bonds series 2002 maturing in annual installments from \$470,000 to \$7,900,000 from July 1, 2003, through July 1, 2032, with interest at variable rates, payable semiannually .....	80,770
Term bonds series 1992-B with interest at 8.4%, payable semiannually, due July 1, 2011 .....	5,955
Term bonds series 1993 with interest at 5.1%, payable semiannually, due July 1, 2013 .....	3,395
Term bonds series 1993 with interest at 5.0%, payable semiannually, due July 1, 2018 .....	4,330
Term bonds series 1997-A with interest at 5.9%, payable semiannually, due July 1, 2013 .....	21,760
Term bonds series 1997-A with interest at 6.0%, payable semiannually, due July 1, 2018 .....	29,040
Term bonds series 1997-B with interest at 6.75%, payable semiannually, due July 1, 2017 .....	4,510
Term bonds series 1997-B with interest at 6.625%, payable semiannually, due July 1, 2022 .....	4,735
Term bonds series 1997-B with interest at 6.625%, payable semiannually, due July 1, 2027 .....	6,525
Term bonds series 1998-A with interest at 4.9%, payable semiannually, due July 1, 2011 .....	175
Term bonds series 1998-A with interest at 5.25%, payable semiannually, due July 1, 2014 .....	1,770
Term bonds series 1998-A with interest at 5.25%, payable semiannually, due July 1, 2017 .....	2,060
Term bonds series 1998-A with interest at 5.25%, payable semiannually, due July 1, 2021 .....	3,300
	196,190
Less unamortized charges .....	2,536
	\$193,654

The portion of revenue bonds payable that is due with one year for the Parking Facilities Fund is \$3,690,000.

The serial bonds series 1992-B are subject to redemption prior to maturity beginning on or after July 1, 2002, at redemption prices ranging from 102% to 100% of the principal amount. The series 1992-B term bonds due July 1, 2011, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2004, at annual principal amounts ranging from \$550,000 to \$970,000. The serial bonds series 1993 due July 1, 2004 and July 1, 2005, are subject to redemption prior to maturity beginning on or after July 1, 2003, at redemption prices ranging from 102% to 100% of the principal amount. The series 1993 term bonds due July 1, 2013 and July 1, 2018, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2009, at annual principal amounts ranging from \$615,000 to \$960,000. The series 1997-A term bonds due July 1, 2013 are subject to redemption at par prior to maturity by operation of a sinking fund on or after July 1, 2009, at annual principal amounts ranging from \$3,860,000 to \$4,870,000. The series 1997-A term bonds due July 1, 2018 are subject to redemption at par prior to maturity by operation of a sinking fund on or after July 1, 2014, at annual principal amounts ranging from \$5,160,000 to \$6,505,000. The serial bonds series 1997-B are subject to redemption prior to maturity beginning on or after July 1, 2007, at redemption prices ranging from 101% to 100% of the principal amount. The series 1997-B term bonds due July 1, 2017 are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2011, at annual principal amounts ranging from \$525,000 to \$775,000. The series 1997-B term bonds due July 1, 2022 are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2018, at annual principal amounts ranging from \$830,000 to \$1,070,000. The series 1997-B term bonds due July 1, 2027 are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2023, at annual principal amounts ranging from \$1,145,000 to \$1,475,000. The series 1998-A term bonds due July 1, 2011 are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2003, at annual principal amounts ranging from \$15,000 to \$25,000. The series 1998-A term bonds due July 1, 2014, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2012, at annual principal amounts ranging from \$560,000 to \$620,000. The series 1998-A term bonds due July 1, 2017, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2015, at annual principal amounts ranging from \$650,000 to \$725,000. The series 1998-A term bonds due July 1, 2021, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2018, at annual principal amounts ranging from \$760,000 to \$890,000.

On June 25, 2002 the City issued \$80,770,000 in taxable variable rate demand revenue bonds to construct various parking facilities in the City. The bonds mature serially starting on July 1, 2003 through July 1, 2032.

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

In conjunction with the issuance of the bonds, Dexia Credit Local, New York (Bank) issued a standby purchase agreement (Agreement) in the amount of \$88,174,000 in favor of the City and Allfirst Trust Company National Association as trustee. The Agreement expires June 27, 2009, but can be extended for additional years. The existing Agreement permits the fiscal agent to draw amounts necessary to pay the principal portion and related accrued interest on the bonds tendered for purchase and not remarketed.

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

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

During fiscal year 2002, the City made no draws under the Agreement, and no amounts drawn against the Agreement were outstanding at June 30, 2002.

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

The bonds bear interest at a variable rate that is reset by the Remarketing Agent on a weekly basis. During fiscal year 2002, the variable interest rate paid by the City on these bonds ranged from 1.1% to 3.05%. It is the objective of the Remarketing Agent to set interest rates high enough to assure that the bonds are readily marketable, yet maintain the lowest possible interest cost for the IDA.

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

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

During fiscal year 2002, the City made no draws under the letter of credit and no amounts drawn against the letter of credit were outstanding at June 30, 2002.

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 \$26,855,000 in serial bonds, which are due to mature on September 1, in each of the years 2002 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,

**CITY OF BALTIMORE**  
**Notes to Basic Financial Statements**  
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2015 and \$16,485,000 in 5.0% term bonds due to mature on September 1, 2019. Interest on the bonds is payable on each March 1 and September 1 in each year. The bonds maturing on or after September 1, 2009 are subject to redemption prior to maturity beginning on or after September 1, 2008 at redemption prices ranging from 102% to 100% of the principal amount. The term bonds due September 1, 2014 are subject to redemption at par prior to maturity by operation of a sinking fund on or after September 1, 2013, at annual principal amounts ranging from \$3,260,000 to \$3,345,000. The term bonds due September 1, 2019 are subject to redemption at par prior to maturity by operation of a sinking fund on or after September 1, 2016, at annual principal amounts ranging from \$3,825,000 to \$4,425,000. These revenue bonds have been recorded as Governmental Activities because they are expected to be paid by general revenues.

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

Fiscal Year	Governmental Activities		Business-type Activities						Industrial Development Authority	
	Convention Center		Water Utility		Waste Water utility		Parking Facilities		Principal	Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest		
2003	\$ 1,930	\$ 2,679	\$ 2,185	\$ 9,453	\$ 2,234	\$ 8,041	\$ 3,690	\$ 9,140		\$ 8,000
2004	2,010	2,596	2,295	12,360	4,660	10,399	4,355	11,357		8,000
2005	2,095	2,508	2,405	12,244	4,405	10,249	4,680	11,120		8,000
2006	2,185	2,415	2,515	12,121	4,558	10,084	4,900	10,862		8,000
2007	2,280	2,310	2,655	11,988	4,729	9,916	5,330	10,584		8,000
2008-2012	13,260	9,638	20,030	57,269	33,507	46,240	32,665	47,754		8,000
2013-2017	17,240	5,548	32,075	50,277	40,234	38,489	42,205	36,510	\$100,000	8,000
2018-2022	12,660	970	37,310	40,822	40,752	29,572	32,170	24,102		
2023-2027			20,940	33,613	27,980	21,378	25,220	16,668		
2028-2032			24,440	28,264	34,015	14,163	33,075	7,684		
2033-2037			45,785	19,848	17,780	7,299	7,900	241		
2038-2042			45,625	8,268	15,645	3,622				
2043-2047			11,020	257	5,999	154				
	\$53,660	\$28,664	\$249,280	\$296,784	\$236,498	\$209,606	\$196,190	\$186,022	\$100,000	\$56,000

**11. 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, 2002, \$97,291,000 of debt outstanding is considered defeased, which includes debt defeased during the current year.

**12. Pension Plans**

*Plan Descriptions*

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

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

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

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**Notes to Basic Financial Statements**  
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*Funding Policy and Annual Pension Cost*

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

(Dollars Expressed in Thousands)

	Fire and Police Employees' Retirement System	Employees' Retirement System	Elected Officials' Retirement System
Contribution ratios:			
Employer .....	0.1%	5.8%	5.9%
Employee .....	6.3%	.3%	5.0%
Annual pension cost .....	\$252	\$17,714	\$68
Contributions made .....	\$252	\$17,714	\$68
Basis of accounting .....	Accrual	Accrual	Accrual
Actuarial cost method .....	Projected Unit Credit Cost	Projected Unit Credit Cost	Projected Unit Credit Cost
Amortization method .....	Level Dollar Open	Level Dollar Open	Level Dollar Open
Remaining amortization period .....	20 years	20 years	10 years
Assets valuation method .....	5 year smoothed market	5 year smoothed market	5 year smoothed market
Actuarial assumptions:			
Investment rate of return:			
Pre-retirement .....	8.25%	8.0%	7.5%
Post-retirement .....	6.8%	6.8%	6.0%
Projected salary increases .....	4.5%-10.0%	4.75%-7.0%	6.0%
Includes inflation rate at .....	3.75%	3.75%	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, 2002 and the actuarial valuation dated June 30, 2001, which is the most recent data available.

**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, 2002 .....	\$ 252*	100%	\$0
June 30, 2001 .....	217**	100	0
June 30, 2000 .....	235***	100	0
Employees' Retirement System			
June 30, 2002 .....	17,714	100	0
June 30, 2001 .....	16,592	100	0
June 30, 2000 .....	18,869	100	0
Elected Officials' Retirement System			
June 30, 2002 .....	68	100	0
June 30, 2001 .....	0	100	0
June 30, 2000 .....	165	100	0

\* Fiscal year 2002 was reduced by \$29 million of interest surplus as provided by law.  
\*\* Fiscal year 2001 was reduced by \$27 million of interest surplus as provided by law.  
\*\*\* Fiscal year 2000 was reduced by \$28 million of interest surplus as provided by law.

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**Notes to Basic Financial Statements**  
**(Continued)**

*The Unfunded Fire and Police Pension Plan*

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

**Three -Year Trend Information**

(Expressed in Thousands)

	Employer Contribution	Unfunded Accrued Liability
June 30, 2002 .....	\$6,296	\$21,602
June 30, 2001 .....	6,839	23,661
June 30, 2000 .....	5,585	32,370

*The Maryland State Retirement and Pension Systems*

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

The State of Maryland pays, on behalf of the BCPSS, the employer's share of retirement and pension costs to the State Systems for teachers and related positions. During the fiscal year ended June 30, 2002, the State paid \$38,200,000 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, 2002 was \$1,016,000. This amount has also been recognized as both a revenue and an expenditure in the accompanying Statement of Activities.

*Deferred Compensation*

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

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

**13. Risk Management**

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

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

injury, and sundry other risks. Commercial insurance coverage is provided for each property damage claim in excess of \$750,000 with a cap of \$250,000,000. Settled claims have not exceeded this commercial coverage in any of the past three years. The City also provides medical insurance coverage for all employees and retirees. Employees are required to pay a percentage of the annual cost of the medical plans and the remaining costs are paid by the internal service fund.

All funds of the City and the Baltimore City Public School System participate and make payments to the Risk Management Fund based on actuarial estimates and historical cost information of the amounts needed to pay prior and current year claims. As of June 30, 2002, the City has determined that the range of potential claims liability for the fund to be between \$140,752,000 and \$175,738,000. The claims liability of \$140,752,000 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, 2002, 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 \$140,752,000 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 2001 and 2002 were (amounts expressed in thousands):

	2002	2001
Unpaid claims, beginning .....	\$ 106,337	\$ 102,372
Claims incurred .....	293,104	234,982
Claims paid .....	(258,689)	(231,017)
Unpaid claims, ending .....	\$ 140,752	\$ 106,337

**14. Operating Leases**

The City has entered into a number of operating leases for rental of office facilities and equipment, some of which provide for increased rentals based upon increases in real estate taxes and common area maintenance fees. As of June 30, 2002, future minimum lease payments (amounts expressed in thousands) are as follows:

2003 .....	\$ 5,736
2004 .....	5,533
2005 .....	4,900
2006 .....	4,005
2007 .....	3,279
2008-2012 .....	13,073
2013-2017 .....	4,013
2018-2022 .....	636
2023-2027 .....	587
2028-2029 .....	235
Total .....	\$41,997

All leases contain cancellation provisions and are subject to annual appropriations by the City Council. During fiscal year 2002, rent expenditures approximated \$12,562,000 for all types of leases. These expenditures were made primarily from the General Fund.

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

State and Federal laws and regulations require that the City place a final cover on its landfill site and perform certain maintenance and monitoring functions at the landfill site for a minimum of thirty years after closure. In addition to operating expenses related to current activities of the landfill site, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs is \$11,416,000 as of June 30, 2002, which is based on 49.06% percent usage (filled) of the landfill. It is estimated that an additional



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

\$11,855,000 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 2020). The estimated total current cost of the landfill closure and postclosure care (\$23,271,000) 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, 2002. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in the landfill laws and regulations. The City does not expect to pay any closure and post closure care costs during fiscal year 2003.

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, 2002, investments of \$3,526,000 were held in the City's General Fund. In addition, the General Fund's fund balance was appropriately reserved. It is anticipated that future inflation costs will be financed in part from earnings on investments held by the City. The remaining portion of anticipated future inflation costs (including inadequate earnings on investments, if any) and additional costs that might arise from changes in closure and postclosure requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both.

**16. Notes and Mortgages Receivable**

Notes and mortgages receivable as of June 30, 2002, consist of the following:

- A. The General Fund has notes receivable of \$9,252,000, net of a \$1,000,000 allowance for losses. These notes bear interest rates ranging from 1.0% to 12.0% and mature over 30 years.
- B. The Debt Service Fund has mortgages receivable of \$6,466,000 collateralized by real property. These mortgages bear interest at rates ranging from 5.46% to 11.16% and mature over 30 years.
- C. The Parking Facilities Fund has notes receivable of \$43,039,000 collateralized by real property. These notes bear interest at rates ranging from 6.1% to 6.9% and mature over 30 years.
- D. The Community Development Block Grant Fund has \$2,794,000 in mortgages receivable collateralized by real property, bearing interest rates ranging from 1.0% to 12.0% and mature over 30 years.

**17. Deferred Revenue**

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

Deferred revenue in the Grants Revenue Fund is associated with grant funds received as of June 30, 2002, 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, 2002.

**18. Postemployment Benefits**

City administrative policy provides that certain postemployment benefits, other than pension benefits, be provided to all its employees, including those in the BCPSS. These benefits include certain health care and life insurance benefits. All employees who retire are eligible to receive these benefits. At June 30, 2002, there were 19,434 retirees eligible for these benefits. The City reimburses approximately 63% of the premium cost incurred by pre-Medicare retirees and their dependents. The City also reimburses approximately 84% of the cost for Medicare supplement for each retiree or dependent eligible for Medicare. Such benefits are accounted for on a cash basis so that payments during the current year represent benefit coverage for currently retired employees or their beneficiaries. During fiscal year 2002, these postemployment benefits amounted to \$63,321,000.

**19. Commitments and Contingencies**

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

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

\$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, 2002, the City is contingently liable for loans guaranteed by the Loan and Guarantee Program in an aggregate amount of approximately \$880,000.

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, 2002, the City estimates that no material liabilities will result from such audits.

Under the terms of a Waste Disposal Agreement, the City has committed to deliver 900 tons of solid waste per day through May 2005 to the Northeast Maryland Waste Disposal Authority. The City's current tipping fee expense for delivering the solid waste is \$40 per ton. Such tipping fee is subject to adjustment for inflation and certain other factors as provided for in the Waste Disposal Agreement.

The City has entered into a 20-year Sewerage Sludge Disposal Agreement with the Northeast Maryland Waste Disposal Authority in connection with the financing of a sludge composting facility in Baltimore City. The agreement obligates the City to deliver approximately 55,000 tons of sewerage sludge per year and to pay a tipping fee comparable to alternative methods currently being used by the City. The debt service on variable rate bonds is a component of the tipping fee. These fees are recorded in the Waste Water Utility Enterprise Fund. The City's current tipping fee expense for delivering sewerage sludge is \$105.36 per wet ton.

The City has also entered into 20-year Service Agreements with Wheelabrator Water Technologies Baltimore L.L.C. in connection with the financing of heat drying facilities for processing biosolids at the City's Back River and Patapsco Waste Water Treatment Plants. The agreements obligate the City to deliver approximately 20,000 dry tons of biosolids per year at each facility and to pay a tipping fee. The debt service on the bonds is a component of the tipping fee. These fees are recorded in the Waste Water Utility Enterprise Fund. The City's current tipping fee expense for delivering biosolids is \$526.80 per dry ton.

The City has voluntarily entered into a Consent Decree to rehabilitate its aging sewer infrastructure and correct historical overflow mechanisms. The Consent Decree is one of many the U.S. Department of Justice is and has currently negotiated with major east coast cities with aged sewer and storm water infrastructures. The City is proactively negotiating to ramp up its remedial efforts to address discharge and overflow concerns of the State and Federal regulatory agencies. These efforts are ambitious and the cost of the construction and maintenance are estimated to range between \$500 to \$700 million dollars over the next decade and beyond. The City has committed to financing these remedial efforts through a combination of water and waste water revenue bonds in conjunction with all available State and Federal assistance.

# 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, 2002**  
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Taxes — local .....	\$ 745,315	\$ 758,815	\$ 766,589	\$ 7,774
Licenses and permits .....	22,016	22,016	22,846	830
Fines and forfeitures .....	2,356	2,356	2,162	(194)
Interest, rentals and other investment income .....	31,572	32,015	27,468	(4,547)
Federal grants .....	60	60	45	(15)
State grants .....	84,406	84,406	86,564	2,158
Other grants .....	468	4,131	4,139	8
Charges for current services .....	35,125	35,975	35,718	(257)
Miscellaneous .....	3,293	4,093	8,944	4,851
Total revenues .....	924,611	943,867	954,475	10,608
<b>Expenditures and encumbrances:</b>				
General government .....	215,175	219,041	218,362	679
Public safety and regulation .....	344,640	353,448	350,014	3,434
Conservation of health .....	22,329	22,327	22,239	88
Social services .....	1,840	1,840	1,775	65
Education .....	1,110	1,310	1,310	
Public library .....	17,983	18,083	17,368	715
Recreation and culture .....	21,996	24,996	24,996	
Highways and streets .....	643	643	180	463
Sanitation and waste removal .....	22,168	29,468	29,468	
Public service .....	12,125	12,125	12,125	
Economic development .....	16,602	18,528	17,362	1,166
Total expenditures .....	676,611	701,809	695,199	6,610
Excess of revenues over expenditures .....	248,000	242,058	259,276	17,218
<b>Other financing sources (uses):</b>				
Transfers in .....	24,660	24,660	29,925	5,265
Transfers out .....	(74,920)	(74,920)	(74,321)	599
Transfers to component unit .....	(200,806)	(200,806)	(200,806)	
Total other financing sources (uses) .....	(251,066)	(251,066)	(245,202)	5,864
Net change in fund balances .....	(3,066)	(9,008)	14,074	23,082
Fund balances — beginning .....	83,727	83,727	83,727	
Fund balances — ending .....	\$ 80,661	\$ 74,719	97,801	\$23,082
<b>Adjustments to reconcile to GAAP basis:</b>				
Addition of encumbrances outstanding .....			30,433	
Less: accounts payable not recorded for budgetary purposes .....			(5,497)	
Fund balance — June 30, 2002 (GAAP basis) .....			\$ 122,737	

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

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

(2) This schedule does not include a non-budgetary revenue and expense item in the amount of \$1,016,000 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, 2002**  
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
State shared revenue .....	\$170,100	\$170,100	\$173,061	\$ 2,961
Licenses and permits .....	170	170	560	390
Fines and forfeitures .....	6,765	6,765	5,096	(1,669)
Interest, rentals and other investment income .....	2,712	2,712	3,153	441
Charges for current services .....	2,412	2,412	3,662	1,250
Miscellaneous .....	10	10	6	(4)
<b>Total revenues .....</b>	<b>182,169</b>	<b>182,169</b>	<b>185,538</b>	<b>3,369</b>
<b>Expenditures and encumbrances:</b>				
General government .....	10,028	10,028	9,910	(118)
Public safety and regulation .....	35,960	35,960	35,320	(640)
Highways and streets .....	81,091	81,091	80,989	(102)
<b>Total expenditures .....</b>	<b>127,079</b>	<b>127,079</b>	<b>126,219</b>	<b>(860)</b>
<b>Excess of revenues over expenditures .....</b>	<b>55,090</b>	<b>55,090</b>	<b>59,319</b>	<b>4,229</b>
<b>Other financing sources (uses):</b>				
Transfers out .....	(61,436)	(61,436)	(61,288)	(148)
Transfers to component unit .....	(3,654)	(3,654)	(3,654)	
<b>Total other financing uses .....</b>	<b>(65,090)</b>	<b>(65,090)</b>	<b>(64,942)</b>	<b>(148)</b>
<b>Net change in fund balances .....</b>	<b>(10,000)</b>	<b>(10,000)</b>	<b>(5,623)</b>	<b>4,377</b>
Fund balances — beginning .....	23,335	23,335	23,335	
Fund balances — ending .....	<u>\$ 13,335</u>	<u>\$ 13,335</u>	17,712	<u>\$ 4,377</u>
<b>Adjustments to reconcile to GAAP basis:</b>				
Addition of encumbrances outstanding .....			3,714	
Less: accounts payable not recorded for budgetary purposes .....			<u>(1,342)</u>	
Fund balance — June 30, 2002 (GAAP basis) .....			<u>\$ 20,084</u>	

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

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

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

(Dollars Expressed in Thousands)

**(Unaudited)**

Actuarial Valuation Dates	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess of) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess of) as a Percentage of Covered Payroll ((b-a)/c)
<b>Fire and Police Employees' Retirement System</b>						
June 30, 2001 .....	\$2,098,741	\$2,096,803	\$ (1,938)	100.1%	\$209,528	(0.9)%
June 30, 2000 .....	2,078,331	2,029,568	(48,763)	102.4	191,003	(25.5)
June 30, 1999 .....	1,974,471	1,919,288	(55,183)	102.9	183,068	(30.1)
<b>Employees' Retirement System</b>						
June 30, 2001 .....	1,374,100	1,283,030	(91,070)	107.1	309,602	(29.4)
June 30, 2000 .....	1,309,548	1,217,622	(91,926)	107.5	308,896	(29.8)
June 30, 1999 .....	1,247,952	1,193,031	(54,921)	104.6	305,212	(18.0)
<b>Elected Officials' Retirement System</b>						
June 30, 2001 .....	14,255	10,935	(3,320)	130.4	1,150	(288.7)
June 30, 2000 .....	13,100	11,231	(1,869)	116.6	1,150	(162.5)
June 30, 1999 .....	12,650	10,140	(2,510)	124.8	893	(281.1)

- (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. All City funded plans at June 30, 1999, 2000 and 2001, are funded in excess of the actuarial accrued liability

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# Combining and Individual Fund Statements and Schedules

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# Nonmajor Governmental Funds

## Special Revenue Funds

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

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

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

## Permanent Funds

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

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

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

## Debt Service Fund

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

**CITY OF BALTIMORE**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2002**  
**(Expressed in Thousands)**

	Special Revenue Funds				Permanent Funds			Debt Service Fund	Total Nonmajor Governmental Funds
	Community Development Block Grant Fund	Special Race Track Fund	Scholarship Fund	Total	Enoch Pratt Free Library Fund	Memorial Fund	Total		
<b>Assets:</b>									
Cash and cash equivalents			\$ 8639	\$ 8,639	\$ 19	\$ 414	\$ 433	\$18,136	\$27,208
Investments			448	448	2,088	4,108	6,196	8,726	15,370
Other receivables, net			4	4	13	17	30	30	64
Due from other governments	\$16,782	\$322		17,104					17,104
Due from other funds								1,295	1,295
Notes and mortgages receivable, net	2,794			2,794				6,466	9,260
<b>Total assets</b>	<b>19,576</b>	<b>322</b>	<b>9,091</b>	<b>28,989</b>	<b>2,120</b>	<b>4,539</b>	<b>6,659</b>	<b>34,653</b>	<b>70,301</b>
<b>Liabilities and fund balances:</b>									
<b>Liabilities:</b>									
Accounts payable and accrued liabilities	1,817	12		1,829					1,829
Due to other funds	15,464	378		15,842					15,842
Deferred revenue	3,183			3,183				6,466	9,649
Matured bonds payable								5,197	5,197
<b>Total liabilities</b>	<b>20,464</b>	<b>390</b>		<b>20,854</b>				<b>11,663</b>	<b>32,517</b>
<b>Fund balances:</b>									
Reserved for Scholarship, Library and Memorial			9,091	9,091	2,120	4,539	6,659		15,750
Unreserved (deficit)	(888)	(68)		(956)				22,990	22,034
<b>Total fund balances</b>	<b>(888)</b>	<b>(68)</b>	<b>9,091</b>	<b>8,135</b>	<b>2,120</b>	<b>4,539</b>	<b>6,659</b>	<b>22,990</b>	<b>37,784</b>
<b>Total liabilities and fund balances</b>	<b>\$19,576</b>	<b>\$322</b>	<b>\$9,091</b>	<b>\$28,989</b>	<b>\$2,120</b>	<b>\$4,539</b>	<b>\$6,659</b>	<b>\$34,653</b>	<b>\$70,301</b>

**CITY OF BALTIMORE**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2002**  
(Expressed in Thousands)

	Special Revenue Funds				Permanent Funds			Debt Service Fund	Total Nonmajor Governmental Funds
	Community Development Block Grant Fund	Special Racetrack Fund	Scholarship Fund	Total	Enoch Pratt Free Library Fund	Memorial Fund	Total		
<b>Revenues:</b>									
State shared revenue		\$ 543		\$ 543					\$ 543
Interest, rentals and other investment income			\$ 296	296	\$ 383	\$ 542	\$ 925	\$ 2,109	3,330
Federal grants	\$ 42,708			42,708					42,708
Miscellaneous			567	567				1,838	2,405
<b>Total revenues</b>	<b>42,708</b>	<b>543</b>	<b>863</b>	<b>44,114</b>	<b>383</b>	<b>542</b>	<b>925</b>	<b>3,947</b>	<b>48,986</b>
<b>Expenditures:</b>									
<b>Current:</b>									
General government	3,574	20		3,594					3,594
Public safety and regulation	745	50		795					795
Education			2,016	2,016					2,016
Public library					139		139		139
Recreation and culture	67	21		88		147	147		235
Highways and streets		10		10					10
Economic development	16,323	68		16,391					16,391
<b>Debt service:</b>									
Principal								34,080	34,080
Interest								34,900	34,900
<b>Total expenditures</b>	<b>20,709</b>	<b>169</b>	<b>2,016</b>	<b>22,894</b>	<b>139</b>	<b>147</b>	<b>286</b>	<b>68,980</b>	<b>92,160</b>
Excess (deficiency) of revenues over (under) expenditures	21,999	374	(1,153)	21,220	244	395	639	(65,033)	(43,174)
<b>Other financing sources (uses):</b>									
Transfers in								67,376	67,376
Transfers out	(18,555)	(611)		(19,166)					(19,166)
<b>Total other financing sources (uses)</b>	<b>(18,555)</b>	<b>(611)</b>		<b>(19,166)</b>				<b>67,376</b>	<b>48,210</b>
<b>Net change in fund balances</b>	<b>3,444</b>	<b>(237)</b>	<b>(1,153)</b>	<b>2,054</b>	<b>244</b>	<b>395</b>	<b>639</b>	<b>2,343</b>	<b>5,036</b>
Fund balances—beginning	(4,332)	169	10,244	6,081	1,876	4,144	6,020	20,647	32,748
<b>Fund balances—ending</b>	<b>\$ (888)</b>	<b>\$ (68)</b>	<b>\$ 9,091</b>	<b>\$ 8,135</b>	<b>\$2,120</b>	<b>\$4,539</b>	<b>\$6,659</b>	<b>\$22,990</b>	<b>\$37,784</b>

**CITY OF BALTIMORE**  
**Schedule of Revenues, Expenditures,**  
**and Changes in Fund Balance — Budget and Actual — Budgetary Basis**  
**Special Racetrack Fund**  
**For the Year Ended June 30, 2002**  
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
State shared revenues .....	\$ 224	\$ 224	\$ 543	\$319
Expenditures and encumbrances:				
General government .....	20	20	20	
Public safety and regulation .....	50	50	50	
Recreation and culture .....	20	20	20	
Highways and streets .....	10	10	10	
Economic development .....	68	68	68	
Total expenditures .....	168	168	168	
Excess of revenues over expenditures .....	56	56	375	319
Other financing (uses):				
Transfers out .....	(611)	(611)	(611)	
Total other financing (uses) .....	(611)	(611)	(611)	
Net change in fund balances (deficit) .....	(555)	(555)	(236)	319
Fund balances — beginning .....	169	169	169	
Fund balances — ending .....	\$(386)	\$(386)	(67)	\$319
Adjustments to reconcile to GAAP basis:				
Less: accounts payable not recorded for budgetary purposes .....			(1)	
Fund Balance — June 30, 2002 (GAAP basis) .....			\$ (68)	

# 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, 2002**

(Expressed in Thousands)

	Loan and Guarantee Program	Industrial Development Authority	Conduit Fund	Total
<b>Assets:</b>				
<b>Current Assets:</b>				
Cash and cash equivalents .....	\$16,279	\$40,735	\$ 2,444	\$ 59,458
Investments .....	451			451
Accounts receivable, net:				
Service billings .....			600	600
Other .....	159	162		321
<b>Total current assets .....</b>	<b>16,889</b>	<b>40,897</b>	<b>3,044</b>	<b>60,830</b>
<b>Noncurrent Assets:</b>				
<b>Restricted assets:</b>				
Mortgages receivable .....	1,839			1,839
Property, plant and equipment, net .....			44,778	44,778
Issuance costs .....		483		483
<b>Total noncurrent assets .....</b>	<b>1,839</b>	<b>483</b>	<b>44,778</b>	<b>47,100</b>
<b>Total assets .....</b>	<b>18,728</b>	<b>41,380</b>	<b>47,822</b>	<b>107,930</b>
<b>Liabilities:</b>				
<b>Current Liabilities:</b>				
Accounts payable and accrued liabilities .....		24	43	67
Accrued interest payable .....		99		99
Due to other funds .....	1,799	17,976	2,350	22,125
Other liabilities .....			103	103
Current liabilities payable from restricted assets:				
Accounts payable from restricted assets .....			60	60
Revenue bonds payable, net .....		9,080		9,080
<b>Total current liabilities .....</b>	<b>1,799</b>	<b>27,179</b>	<b>2,556</b>	<b>31,534</b>
<b>Noncurrent liabilities:</b>				
Notes payable .....	124			124
Other liabilities .....	2,825			2,825
<b>Total noncurrent liabilities .....</b>	<b>2,949</b>			<b>2,949</b>
<b>Total liabilities .....</b>	<b>4,748</b>	<b>27,179</b>	<b>2,556</b>	<b>34,483</b>
<b>Net assets:</b>				
Invested in capital assets, net of debt .....			44,778	44,778
Unrestricted .....	13,980	14,201	488	28,669
<b>Total net assets .....</b>	<b>\$13,980</b>	<b>\$14,201</b>	<b>\$45,266</b>	<b>\$ 73,447</b>



**CITY OF BALTIMORE**  
**Combining Statement of Revenues, Expenses,**  
**and Changes in Fund Net Assets**  
**Nonmajor Proprietary Funds**  
**For the Year Ended June 30, 2002**

(Expressed in thousands)

	Loan and Guarantee Program	Industrial Development Authority	Conduit Fund	Total
Operating revenues:				
Rents, fees and other income .....	\$ 409	\$ 1,453	\$ 4,858	\$ 6,720
Interest income on loans .....	683	726		1,409
Total operating revenues .....	1,092	2,179	4,858	8,129
Operating expenses:				
Salaries and wages .....	111		1,122	1,233
Other personnel costs .....	30		401	431
Contractual services .....	258		253	511
Program expenses .....	2,811	542		3,353
Materials and supplies .....			84	84
Minor equipment .....			5	5
Depreciation .....			789	789
Amortization of bond issuance costs .....		34		34
Interest .....		1,665		1,665
Total operating expenses .....	3,210	2,241	2,654	8,105
Operating income (loss) .....	(2,118)	(62)	2,204	24
Capital contributions .....	513		1,015	1,528
Transfers in .....	2,264			2,264
Changes in net assets .....	659	(62)	3,219	3,816
Total net assets—beginning .....	13,321	14,263	42,047	69,631
Total net assets—ending .....	\$13,980	\$14,201	\$45,266	\$73,447

**CITY OF BALTIMORE**  
**Statement of Cash Flows**  
**Combining Nonmajor Proprietary Funds**  
**For the Year Ended June 30, 2002**

(Expressed in Thousands)

	Loan and Guarantee Program	Industrial Development Authority	Conduit Fund	Total
Cash flows from operating activities:				
Receipts from customers .....	\$ 1,101	\$ 2,407	\$ 4,257	\$ 7,765
Payments to employees .....	(141)		858	717
Payments to suppliers .....	(5,915)	(17,392)	(271)	(23,578)
Net cash provided (used) by operating activities .....	(4,955)	(14,985)	4,844	(15,096)
Cash flows from non-capital financing activities:				
Transfers in .....	2,264			2,264
Cash flows from capital and related financing activities:				
Notes receivable — repayments .....	1,472			1,472
Acquisition and construction of capital assets .....			(1,488)	(1,488)
Capital contributions .....	513		1,015	1,528
Principal paid on revenue bonds .....		(4,163)		(4,163)
Net cash provided (used) by capital and related financing activities .....	1,985	(4,163)	(473)	(2,651)
Cash flows from investing activities:				
Purchase of investments .....	(12)			(12)
Net increase (decrease) in cash and cash equivalents .....	(718)	(19,148)	4,371	(15,495)
Cash and cash equivalents, beginning of year .....	16,997	59,883	(1,927)	74,953
Cash and cash equivalents, end of year .....	\$16,279	\$ 40,735	\$ 2,444	\$ 59,458
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss) .....	\$ (2,118)	\$ (62)	\$ 2,204	\$ 24
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation .....			789	789
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable .....	9	228	(600)	(363)
Increase (decrease) in accounts payable and accrued liabilities .....	(2)	(3)	43	38
Increase (decrease) in other liabilities .....	(2,786)		4	(2,782)
(Decrease) in notes payable .....	(54)			(54)
(Decrease) in accrued interest payable .....		(116)		(116)
Increase in restricted accounts payable .....			54	54
Increase (decrease) in due to other funds .....	(4)	(15,032)	2,350	(12,686)
Total adjustments .....	(2,837)	(14,923)	2,640	(15,120)
Net cash provided (used) by operating activities .....	\$ (4,955)	\$ (14,985)	\$ 4,844	\$ (15,096)

## Internal Service Funds

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

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

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

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

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

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

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

**CITY OF BALTIMORE**  
**Combining Statement of Fund Net Assets**  
**Internal Service Funds**

**June 30, 2002**

(Expressed in Thousands)

	Mobile Equipment	Reproduction and Printing	Municipal Post Office	Municipal Telephone Exchange	Electronic Equipment Maintenance	Risk Management	Total
<b>Assets:</b>							
<b>Current assets:</b>							
Cash and cash equivalents	\$25,744			\$3,469	\$1,549	\$ 62,671	\$93,433
Investments						11,297	11,297
Accounts receivable, net:							
Other	513	\$ 13			3	4,030	4,559
Inventories	134	792	\$ 15		69		1,010
<b>Total current assets</b>	<b>26,391</b>	<b>805</b>	<b>15</b>	<b>3,469</b>	<b>1,621</b>	<b>77,998</b>	<b>110,299</b>
<b>Noncurrent assets:</b>							
Property, plant and equipment, net	44,624	67	7	264		438	45,400
Other assets						271	271
<b>Total noncurrent assets</b>	<b>44,624</b>	<b>67</b>	<b>7</b>	<b>264</b>		<b>709</b>	<b>45,671</b>
<b>Total assets</b>	<b>71,015</b>	<b>872</b>	<b>22</b>	<b>3,733</b>	<b>1,621</b>	<b>78,707</b>	<b>155,970</b>
<b>Liabilities:</b>							
<b>Current liabilities:</b>							
Accounts payable and accrued liabilities	4,342	222	20	755	62	6,741	12,142
Due to other funds		166	51				217
Estimated liability for claims in progress						59,670	59,670
Other liabilities	2,630	162	56	60	22	552	3,482
<b>Total current liabilities</b>	<b>6,972</b>	<b>550</b>	<b>127</b>	<b>815</b>	<b>84</b>	<b>66,963</b>	<b>75,511</b>
<b>Noncurrent liabilities:</b>							
Estimated liability for claims in progress						81,082	81,082
<b>Total liabilities</b>	<b>6,972</b>	<b>550</b>	<b>127</b>	<b>815</b>	<b>84</b>	<b>148,045</b>	<b>156,593</b>
<b>Net assets:</b>							
Invested in capital assets, net of debt	44,624	67	7	264		438	45,400
Unrestricted (deficit)	19,419	255	(112)	2,654	1,537	(69,776)	(46,023)
<b>Total net assets</b>	<b>\$64,043</b>	<b>\$322</b>	<b>\$(105)</b>	<b>\$2,918</b>	<b>\$1,537</b>	<b>\$(69,338)</b>	<b>\$ (623)</b>

**CITY OF BALTIMORE**  
**Combining Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Internal Service Funds**

**June 30, 2002**

(Expressed in Thousands)

	Mobile Equipment	Reproduction and Printing	Municipal Post Office	Municipal Telephone Exchange	Electronic Equipment Maintenance	Risk Management	Total
<b>Operating revenues:</b>							
Charges for services	\$34,166	\$2,364	\$1,369	\$11,272	\$ 524	\$265,319	\$315,014
<b>Operating expenses:</b>							
Salaries and wages	9,225	952	292	569	211	2,817	14,066
Other personnel costs	3,172	318	120	196	72	730	4,608
Contractual services	8,456	647	74	9,662	143	6,094	25,076
Materials and supplies	8,958	129	2	5	120	20	9,234
Minor equipment	244	3	3	8		4	262
Claims paid and incurred						293,104	293,104
Postage and delivery service			967				967
Depreciation	8,373	45	5	84		90	8,597
<b>Total operating expenses</b>	<b>38,428</b>	<b>2,094</b>	<b>1,463</b>	<b>10,524</b>	<b>546</b>	<b>302,859</b>	<b>355,914</b>
<b>Operating income (loss)</b>	<b>(4,262)</b>	<b>270</b>	<b>(94)</b>	<b>748</b>	<b>(22)</b>	<b>(37,540)</b>	<b>(40,900)</b>
<b>Nonoperating revenues (expenses):</b>							
Investment income						1,052	1,052
Loss on disposal of property	(663)						(663)
<b>Total nonoperating revenues (expenses)</b>	<b>(663)</b>					<b>1,052</b>	<b>389</b>
<b>Net income (loss) before contributions</b>	<b>(4,925)</b>	<b>270</b>	<b>(94)</b>	<b>748</b>	<b>(22)</b>	<b>(36,488)</b>	<b>(40,511)</b>
Contributions	705						705
<b>Total net assets—beginning</b>	<b>68,263</b>	<b>52</b>	<b>(11)</b>	<b>2,170</b>	<b>1,559</b>	<b>(32,850)</b>	<b>39,183</b>
<b>Total net assets—ending</b>	<b>\$64,043</b>	<b>\$ 322</b>	<b>\$(105)</b>	<b>\$ 2,918</b>	<b>\$1,537</b>	<b>\$(69,338)</b>	<b>\$ (623)</b>

**CITY OF BALTIMORE**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended June 30, 2002**

(Expressed in Thousands)

	Mobile Equipment	Reproduction and Printing	Municipal Post Office	Municipal Telephone Exchange	Electronic Equipment Maintenance	Risk Management	Total
<b>Cash flow from operating activities:</b>							
Receipts from customers .....	\$ 34,984	\$ 2,118	\$ 1,374	\$ 11,273	\$ 572	\$ 267,637	\$317,958
Payments to employees .....	(12,103)	(1,246)	(408)	(746)	(279)	(3,647)	(18,429)
Payments to suppliers .....	(17,668)	(872)	(996)	(11,796)	(206)	(259,237)	(290,775)
Net cash provided (used) by operating activities .....	5,213		(30)	(1,269)	87	4,753	8,754
<b>Cash flows from capital and related financing activities:</b>							
Acquisition and construction of capital assets .....	(6,657)		3	(314)			(6,968)
Loss on disposal of property .....	(663)						(663)
Capital contributions .....	705						705
Net cash provided (used) by capital and related financing activities .....	(6,615)		3	(314)			(6,926)
<b>Cash flows from investing activities:</b>							
Proceeds from the sale and maturities of investments .....						6,784	6,784
Purchase of investments .....						(6,202)	(6,202)
Interest on investments .....						1,052	1,052
Net cash provided by investing activities .....						1,634	1,634
Net increase (decrease) in cash and cash equivalents .....	(1,402)		(27)	(1,583)	87	6,387	3,462
Cash and cash equivalents, beginning of year .....	27,146		27	5,052	1,462	56,284	89,971
Cash and cash equivalents, end of year .....	\$ 25,744			\$ 3,469	\$ 1,549	\$ 62,671	\$ 93,433
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>							
Operating income (loss) .....	\$ (4,262)	\$ 270	\$ (94)	\$ 748	\$ (22)	\$ (37,540)	\$ (40,900)
<b>Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:</b>							
Depreciation .....	8,373	45	5	84		90	8,597
<b>Changes in assets and liabilities:</b>							
(Increase) decrease in accounts receivable .....	2	334		1	(1)	(1,088)	(752)
Decrease in due from component unit .....						3,435	3,435
(Increase) decrease in inventories .....	816	(580)	5		49		290
(Increase) in other assets .....						(29)	(29)
Increase (decrease) in accounts payable and accrued liabilities .....	313	20	(1)	(2,121)	57	5,470	3,738
Increase in other liabilities .....	294	24	4	19	4	99	444
Increase (decrease) in due to other funds .....	(323)	(113)	51			(99)	(484)
Increase in estimated liability for claims in progress .....						34,415	34,415
Total adjustments .....	9,475	(270)	64	(2,017)	109	42,293	49,654
Net cash provided (used) by operating activities .....	\$ 5,213		\$ (30)	\$ (1,269)	\$ 87	\$ 4,753	\$ 8,754

## **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, 2002**  
(Expressed in Thousands)

	Employees' Retirement System	Elected Officials' Retirement System	Fire and Police Employees' Retirement System	Total
<b>Assets:</b>				
Cash and cash equivalents .....	\$ 39,095	\$ 20	\$ 43,631	\$ 82,746
<b>Investments:</b>				
Stocks .....	371,157		675,065	1,046,222
Bonds .....	546,401		504,039	1,050,440
Mutual funds .....	248,842	11,901	478,240	738,983
Real estate .....	21,863		81,167	103,030
Guaranteed investment contracts .....	11,107		26,197	37,304
Securities lending collateral .....	175,164		213,890	389,054
Other assets, principally accrued interest receivable .....	34,072	4	25,935	60,011
Total assets .....	<u>1,447,701</u>	<u>11,925</u>	<u>2,048,164</u>	<u>3,507,790</u>
<b>Liabilities:</b>				
Obligations under securities lending program .....	175,164		213,890	389,054
Accounts payable .....	58,736	13	21,801	80,550
Pension benefits payable .....	1,506	6	1,814	3,326
Total liabilities .....	<u>235,406</u>	<u>19</u>	<u>237,505</u>	<u>472,930</u>
Net assets held in trust for pension benefits .....	<u>\$1,212,295</u>	<u>\$11,906</u>	<u>\$1,810,659</u>	<u>\$3,034,860</u>

**CITY OF BALTIMORE**  
**Combining Statement of Changes in Fiduciary Net Assets**  
**Pension Trust Funds**  
**For the Year Ended June 30, 2002**  
(Expressed in Thousands)

	Employees' Retirement System	Elected Officials' Retirement System	Fire and Police Employees' Retirement System	Total
<b>Additions:</b>				
<b>Contributions:</b>				
Employer .....	\$ 17,714	\$ 68	\$ 252	\$ 18,034
Employee .....	864	58	14,241	15,163
<b>Total contributions</b> .....	<b>18,578</b>	<b>126</b>	<b>14,493</b>	<b>33,197</b>
<b>Investment income:</b>				
Net decline in fair market value of investments .....	(71,951)	(1,564)	(162,190)	(235,705)
Securities lending income .....	994		1,171	2,165
Interest and dividend income .....	44,861	385	50,922	96,168
<b>Total investment (loss)</b> .....	<b>(26,096)</b>	<b>(1,179)</b>	<b>(110,097)</b>	<b>(137,372)</b>
Less: investment expense .....	3,742	19	5,393	9,154
<b>Net investment (loss)</b> .....	<b>(29,838)</b>	<b>(1,198)</b>	<b>(115,490)</b>	<b>(146,526)</b>
<b>Total additions</b> .....	<b>(11,260)</b>	<b>(1,072)</b>	<b>(100,997)</b>	<b>(113,329)</b>
<b>Deductions:</b>				
Retirement allowances .....	80,624	496	118,138	199,258
Death benefits .....	1,266	32	541	1,839
Administrative expenses .....	1,834	17	1,520	3,371
Other .....	288		8,347	8,635
<b>Total deductions</b> .....	<b>84,012</b>	<b>545</b>	<b>128,546</b>	<b>213,103</b>
<b>Changes in net assets</b> .....	<b>(95,272)</b>	<b>(1,617)</b>	<b>(229,543)</b>	<b>(326,432)</b>
Net assets — beginning of the year .....	1,307,567	13,523	2,040,202	3,361,292
Net assets — end of the year .....	<b>\$1,212,295</b>	<b>\$11,906</b>	<b>\$1,810,659</b>	<b>\$3,034,860</b>



**CITY OF BALTIMORE**  
**Combining Statement of Fiduciary Net Assets**  
**Agency Funds**  
**June 30, 2002**

(Expressed in Thousands)

	Unpresented Stock and Coupon Bonds	Property Sold for Taxes	Bid Deposit Refunds	Waxter Center Accessory	Waterloo Summit	Recreation Accessory	Total
<b>Assets:</b>							
Cash and cash equivalents .....	\$55	\$198	\$82	\$13		\$1,612	\$1,960
Investments .....					\$58		58
<b>Total assets</b> .....	<b>55</b>	<b>198</b>	<b>82</b>	<b>13</b>	<b>58</b>	<b>1,612</b>	<b>2,018</b>
<b>Liabilities:</b>							
Accounts payable and accrued liabilities .....	43						43
Other .....	12	198	82	13	58	1,612	1,975
<b>Total Liabilities</b> .....	<b>\$55</b>	<b>\$198</b>	<b>\$82</b>	<b>\$13</b>	<b>\$58</b>	<b>\$1,612</b>	<b>\$2,018</b>

**CITY OF BALTIMORE**  
**Combining Statement of Changes in Assets and Liabilities**  
**Agency Funds**  
**For the Year Ended June 30, 2002**  
(Expressed in Thousands)

	Balance July 1, 2001	Additions	Deductions	Balance June 30, 2002
<u>Unrepresented Stock and Coupon Bonds</u>				
Assets:				
Cash .....	\$ 55			\$ 55
Total assets .....	55			55
Liabilities:				
Accounts payable and accrued liabilities .....	43			43
Other .....	12			12
Total liabilities .....	55			55
<u>Property Sold for Taxes</u>				
Assets:				
Cash .....	448	\$ 2	\$ 252	198
Total assets .....	448	2	252	198
Liabilities:				
Other .....	448	2	252	198
Total liabilities .....	448	2	252	198
<u>Bid Deposit Refunds</u>				
Assets:				
Cash .....	29	84	31	82
Total assets .....	29	84	31	82
Liabilities:				
Other .....	29	84	31	82
Total liabilities .....	29	84	31	82
<u>Waxter Center Accessory</u>				
Assets:				
Cash .....	13			13
Total assets .....	13			13
Liabilities:				
Other .....	13			13
Total liabilities .....	13			13
<u>Waterloo Summit</u>				
Assets:				
Investments .....	58	4	4	58
Total assets .....	58	4	4	58
Liabilities:				
Other .....	58	4	4	58
Total liabilities .....	58	4	4	58
<u>Recreation Accessory</u>				
Assets:				
Cash .....	1,529	2,054	1,971	1,612
Total assets .....	1,529	2,054	1,971	1,612
Liabilities:				
Other .....	1,529	2,054	1,971	1,612
Total liabilities .....	1,529	2,054	1,971	1,612
<u>Total All Agency Funds</u>				
Assets:				
Cash .....	2,074	2,140	2,254	1,960
Investments .....	58	4	4	58
Total assets .....	2,132	2,144	2,258	2,018
Liabilities:				
Accounts payable and accrued liabilities .....	43			43
Other .....	2,089	2,144	2,258	1,975
Total liabilities .....	\$2,132	\$2,144	\$2,258	\$2,018

# Statistical Section

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**CITY OF BALTIMORE**  
**Government-wide Expenses by Function**

**Last Ten Fiscal Years\***

(Expressed in Thousands)

**Unaudited**

Fiscal Year	General Government	Public Safety and Regulation	Conservation of Health	Social Services	Education	Public Library	Recreation and culture	Highways and Streets	Sanitation and Waste Removal	Public Service	Economic Development
2002	\$276,361	\$434,567	\$176,159	\$26,966	\$19,758	\$27,159	\$37,759	\$159,481	\$36,237	\$12,646	\$116,340

Fiscal Year	Interest	Water	Waste Water	Parking	Conduit	Development Loans	Industrial Development	Total
2002	\$46,037	\$82,101	\$123,719	\$7,573	\$2,654	\$3,210	\$2,241	\$1,590,968

\* The last nine fiscal years are not available

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

(Expressed in Thousands)

**Unaudited**

Fiscal Year	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Grants and Contributions Not Restricted to Specific Programs	Unrestricted Investment Income	Miscellaneous	Total
2002	\$333,025	\$429,036	\$41,863	\$766,589	\$173,604	\$40,290	\$26,577	\$1,810,984

\* The last nine fiscal years are not available

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

**Unaudited**

Fiscal Year	State Shared Revenue and Taxes	Licenses and Permits	Federal, State and Other Grants (3)	Charges for Services	Fines and Forfeitures	Interest, Rental and Other Investment Income	Miscellaneous	Total
1993	\$806,534	\$15,149	\$653,700	\$39,170	\$5,463	\$42,527	\$5,177	\$1,567,720
1994	824,907	15,569	740,932	42,727	2,657	41,981	20,125	1,688,898
1995	828,484	17,575	787,550	33,661	2,225	51,692	7,496	1,728,683
1996	828,756	16,636	852,279	33,065	2,218	55,480	33,052	1,821,486
1997	855,103	17,744	919,106	32,915	2,287	47,410	8,179	1,882,744
1998	837,392	18,265	324,877	34,191	2,219	54,249	21,296	1,292,489
1999	858,748	18,187	345,718	35,615	3,136	56,745	28,240	1,346,389
2000	877,115	22,105	386,993	36,584	6,837	48,255	22,266	1,400,155
2001	932,485	21,884	428,225	37,281	7,204	49,490	11,529	1,488,098
2002	940,988	22,611	445,358	39,380	7,258	38,371	24,541	1,518,507

Notes:

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

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

**Unaudited**

Fiscal Year	General Government	Public Safety and Regulation	Highways and Streets	Sanitation and Waste Removal	Public Library	Conservation of Health	Social Services	Recreation and Culture	Economic Development	Education (3)	Public Service	Debt Service	Capital Expenditures	Total
1993	\$168,313	\$299,704	\$43,927	\$54,378	\$16,416	\$134,655	\$13,536	\$38,448	\$76,270	\$560,578	\$8,979	\$102,615	\$105,189	\$1,623,008
1994	174,798	310,604	44,362	62,017	18,139	152,560	12,910	40,634	113,328	626,293	8,955	99,697	94,285	1,758,582
1995	178,597	320,873	43,888	60,681	18,701	173,231	14,628	41,907	105,681	637,729	8,377	129,341	124,682	1,858,316
1996	196,103	331,597	86,570	33,267	20,996	166,160	17,048	42,082	88,260	704,324	6,925	57,657	153,531	1,904,520
1997	197,620	319,234	79,504	31,839	21,770	180,654	19,026	41,138	74,817	744,639	9,049	44,486	162,534	1,926,310
1998	224,773	347,333	96,910	31,224	22,313	145,165	18,438	39,175	56,496	1,080	9,609	55,476	171,249	1,219,241
1999	239,389	346,758	84,361	31,040	24,173	143,482	18,737	27,267	88,221	776	9,798	57,936	162,408	1,234,346
2000	257,612	364,443	85,351	30,002	23,428	145,314	21,972	26,735	92,220	880	11,471	68,395	143,184	1,271,007
2001	275,569	394,033	83,911	33,751	26,170	153,615	23,915	30,529	92,342	1,308	12,039	72,111	102,676	1,301,969
2002	292,769	412,013	81,894	29,435	27,128	174,473	26,707	31,394	114,775	3,327	12,170	68,980	128,662	1,403,827

Notes:

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

**CITY OF BALTIMORE**  
**Property Tax Levies and Collections**

**Last Ten Fiscal Years**

(Dollars Expressed in Thousands)

**Unaudited**

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Current and Prior Years' Adjustments	Outstanding Delinquent Taxes (1)	Percent of Delinquent Taxes to Tax Levy
1993	\$486,949	\$469,004	96.3%	\$ 6,622	\$475,626	97.7%	\$ (9,605)	\$19,067	3.9%
1994	485,291	471,864	97.2	4,629	476,493	98.2	(13,942)	13,923	2.9
1995	481,529	469,075	97.4	3,336	472,411	98.1	(10,581)	12,460	2.6
1996	482,014	463,887	96.2	526	464,413	96.3	(11,861)	18,200	3.8
1997	483,009	466,782	96.6	7,043	473,825	98.1	(11,158)	16,226	3.4
1998	475,125	461,022	97.0	9,238	470,260	99.0	7,022	14,069	3.0
1999	483,042	467,651	96.8	9,606	477,257	98.8	4,489	15,365	3.2
2000	496,166	478,991	96.5	12,095	491,086	99.0	(6,879)	27,324	5.5
2001	505,064	486,170	96.3	17,167	503,337	99.7	6,357	22,694	4.5
2002	515,463	494,379	95.9	8,613	502,992	97.6	(819)	35,984	7.0

Note:

- (1) Excludes State portion of delinquent property taxes, which at June 30, 2002 totaled \$523,000. This column is net of additions, abatements and provision for doubtful accounts.

**CITY OF BALTIMORE**

**Assessed and Estimated Actual Value of Taxable Property**

**Last Ten Fiscal Years**

(Dollars Expressed in Thousands)

**Unaudited**

Fiscal Year	Real Property		Personal Property		Total		Ratio of Total Assessed Value to Total Estimated Actual Value
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1993	\$ 6,909,633	\$16,688,960	\$1,375,816	\$1,375,816	\$ 8,285,449	\$18,064,776	45.9%
1994	6,919,889	17,080,579	1,312,421	1,312,421	8,232,310	18,393,000	44.8
1995	6,878,428	16,941,298	1,361,857	1,361,857	8,240,285	18,303,155	45.0
1996	6,867,382	16,782,536	1,382,719	1,382,719	8,250,101	18,165,255	45.4
1997	6,864,457	16,695,103	1,416,870	1,416,870	8,281,327	18,111,973	45.7
1998	6,820,914	16,574,901	1,305,973	1,305,973	8,126,887	17,880,874	45.5
1999	6,828,724	16,638,885	1,482,570	1,482,570	8,311,294	18,121,455	45.9
2000	6,839,568	16,769,650	1,695,691	1,695,691	8,535,259	18,465,341	46.2
2001	6,828,402	16,963,236	1,893,784	1,893,784	8,722,186	18,857,020	46.3
2002	16,893,662(1)	17,257,859	1,955,068	1,955,068	18,848,730(1)	19,212,927	98.1(1)

Note:

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

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



**CITY OF BALTIMORE**

**Property Tax Rates**

**Last Ten Fiscal Years (1)**

**Unaudited**

Fiscal Year	City Tax Rate	State Tax Rate (2)	Total (3)
1993	\$5.900	\$.210	\$6.110
1994	5.900	.210	6.110
1995	5.850	.210	6.060
1996	5.850	.210	6.060
1997	5.850	.210	6.060
1998	5.850	.210	6.060
1999	5.820	.210	6.030
2000	5.820	.210	6.030
2001	5.820	.210	6.030
2002(4)	2.328	.084	2.412

Notes:

- (1) Tax rates are for each \$100 of assessed valuation.
- (2) The State tax rate is shown for informational purposes only, since the City acts in the role of collector and does not report this portion of the property tax as revenue.
- (3) The City has no special assessments.
- (4) As of fiscal year 2002, real property taxes are assessed at the property's full estimated actual value; previously, real property taxes were assessed at 40% of the property's estimated actual value. Accordingly, the tax rates were adjusted to maintain the same effective tax rate.

**CITY OF BALTIMORE**

**Ratio of Annual Debt Service Expenditures for  
General Bonded Debt to Total General Expenditures**

**Last Ten Fiscal Years (2)**

(Dollars Expressed in Thousands)

**Unaudited**

Fiscal Year	Principal	Interest	Total Debt Service	Total General Expenditures (1)	Ratio of Total Debt Service to Total General Expenditures (2)
1993	\$64,485(3)	\$29,166(4)	\$93,651	\$1,502,556	6.2%
1994	59,334(5)	29,751(6)	89,085	1,618,273	5.5
1995	47,464(7)	27,807(8)	75,271	1,693,767	4.4
1996	24,019(9)	29,481(10)	53,500	1,725,382	3.1
1997	13,618(11)	26,997(12)	40,615	1,739,062	2.3
1998	19,376(13)	31,460(14)	50,836	1,031,090	4.9
1999	26,936(15)	28,478(16)	55,414	1,049,381	5.3
2000	35,401(17)	30,124(18)	65,525	1,092,664	6.0
2001	32,241(19)	27,556(20)	59,797	1,173,174	5.1
2002	27,897(21)	28,395(22)	56,292	1,229,615	4.6

Notes:

- (1) Includes General, Special Revenue and Debt Service Funds.
- (2) The City has no legal debt margin, however, all bond issues must be approved by the State Legislature. The City has no overlapping debt.
- (3) Excludes \$7,010,000 in federal loans.
- (4) Excludes \$1,863,000 in federal loans.
- (5) Excludes \$7,390,000 in federal loans.
- (6) Excludes \$1,256,000 in federal loans.
- (7) Excludes \$3,390,000 in federal loans.
- (8) Excludes \$890,000 in federal loans.
- (9) Excludes \$3,315,000 in federal loans.
- (10) Excludes \$842,000 in federal loans.
- (11) Excludes \$3,376,000 in federal loans.
- (12) Excludes \$495,000 in federal loans.
- (13) Excludes \$3,721,000 in federal loans.
- (14) Excludes \$919,000 in federal loans.
- (15) Excludes \$1,240,000 in federal loans.
- (16) Excludes \$829,000 in federal loans.
- (17) Excludes \$6,421,000 in federal loans.
- (18) Excludes \$1,408,000 in federal loans.
- (19) Excludes \$6,880,000 in federal loans.
- (20) Excludes \$2,416,000 in federal loans.
- (21) Excludes \$6,183,000 in federal loans.
- (22) Excludes \$2,298,000 in federal loans.

**CITY OF BALTIMORE**  
**Ratio of Net General Bonded Debt to Assessed Value**  
**and Net General Bonded Debt Per Capita**  
**Last Ten Fiscal Years**

(Dollars Expressed in Thousands)

**Unaudited**

Fiscal Year	Population	Assessed Value	Gross Bonded Debt	Deduct Other Self-Supporting Debt	Funds Available In Debt Service Fund	Net General Bonded Debt	Ratio of Net General Bonded Debt to Assessed Value	Net General Bonded Debt Per Capita (Rounded to nearest dollar)
1993	723,500	\$ 8,285,449	\$407,190	\$50,406	\$29,356	\$327,428	4.0%	\$453
1994	709,200	8,232,310	392,840	45,190	21,388	326,262	4.0	460
1995	700,000	8,240,285	390,814	44,712	39,250	306,852	3.7	438
1996	683,300	8,250,101	416,293	43,826	34,926	337,541	4.1	494
1997	669,900	8,281,327	441,435	41,991	36,485	362,959	4.4	542
1998	650,900	8,126,887	457,039	39,097	30,379	387,563	4.8	595
1999	631,500	8,311,294	474,068	36,487	25,369	412,212	5.0	653
2000	627,000	8,535,259	488,306	35,356	22,051	430,899	5.0	687
2001	639,400	8,722,186	494,515	34,509	20,647	439,359	5.0	687
2002	635,200	18,848,730(1)	509,259	33,037(2)	22,990	453,232	2.4(1)	714

Notes:

(1) The Maryland General Assembly passed legislation at the 2000 Session to change the system of real property assessment from 40% to 100% of market value. This change was implemented on July 1, 2001. Accordingly, the Ratio of Net General Bonded Debt to Assessed Value reflects this change.

(2) Composition of other self-supporting debt at June 30, 2002 was:

Off-street parking facilities general obligation bonds and notes (portion reimbursable by private operators) .....	\$29,468
Water utility general obligation bonds .....	1,417
Waste water utility general obligation bonds .....	2,152
<b>Total .....</b>	<b><u>\$33,037</u></b>

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

**Last Ten Fiscal Years**

(Dollars Expressed in Thousands)

**Unaudited**

	Fiscal Year	Gross Revenue	Direct Operating Expense (1)	Net Revenue Available for Debt Service	Debt Service Requirements			
					Principal	Interest	Total	Coverage
Water Utility .....	1993	\$ 56,679	\$ 44,520	\$12,159		\$ 4,786	\$4,786	\$2.54
	1994	75,734	48,842	26,892		4,041	4,041	6.65
	1995	61,475	49,149	12,326	\$ 655	5,427	6,082	2.03
	1996	64,067	52,357	11,710	1,505	5,385	6,890	1.70
	1997	69,640	55,293	14,347	1,705	6,459	8,164	1.76
	1998	68,707	58,000	10,707	2,370	7,509	9,879	1.08
	1999	72,949	60,780	12,169	2,465	8,245	10,710	1.13
	2000	79,427	69,826	9,601	2,940	8,725	11,665	.82
	2001	83,961	64,353	19,608	3,190	9,936	13,126	1.45
	2002	84,083	65,938	18,145	3,860	10,737	14,597	1.24
Waste Water Utility .....	1993	88,043	67,519	20,524		1,903	1,903	10.79
	1994	89,988	74,804	15,184		1,954	1,954	7.77
	1995	87,064	80,627	6,437	3,167	3,172	6,339	1.02
	1996	91,466	82,095	9,371	2,094	3,594	5,688	1.65
	1997	100,405	88,060	12,345	2,112	4,180	6,292	1.96
	1998	103,643	88,933	14,710	2,632	5,010	7,642	1.92
	1999	105,718	92,350	13,368	2,830	5,851	8,681	1.54
	2000	117,028	107,829	9,199	3,544	5,163	8,707	1.02
	2001	114,945	99,112	15,833	3,877	7,201	11,078	1.53
	2002	128,681	104,324	24,357	4,789	7,834	12,623	1.93
Parking Facilities .....	1993	35,686	2,207	33,479	1,575	7,883	9,458	3.54
	1994	33,429	3,536	29,893		4,667	4,667	6.41
	1995	33,741	2,563	31,178	275	7,295	7,570	4.12
	1996	33,361	3,033	30,328	2,085	6,720	8,805	3.44
	1997	37,382	3,715	33,667	2,620	10,289	12,909	2.61
	1998	37,283	3,721	33,562	2,725	6,122	8,847	3.79
	1999	41,248	3,703	37,545	2,835	7,313	10,148	3.70
	2000	38,527	5,508	33,019	3,205	7,131	10,336	3.19
	2001	46,176	4,963	41,213	3,360	6,977	10,337	3.99
	2002	46,043	5,790	40,253	3,515	6,813	10,328	3.90
Convention Center (2) .....	1996	9,591		9,591		3,265	3,265	2.94
	1997	11,059		11,059		3,265	3,265	3.39
	1998	3,654		3,654		3,265	3,265	1.12
	1999	3,861		3,861		2,429	2,429	1.59
	2000	4,567		4,567	1,225	2,891	4,116	1.11
	2001	4,631		4,631	1,780	2,832	4,612	1.00
2002	4,636		4,636	1,850	2,578	4,428	1.05	

Notes:

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

**CITY OF BALTIMORE**  
**Computation of Overlapping Debt**  
**June 30, 2002**  
**Unaudited**

The City of Baltimore has no Overlapping Debt.

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

(Dollars Expressed in Thousands)

**Unaudited**

Fiscal Year	Commercial Construction(3)		Residential Construction(3)		Real Property Value (2)			Commercial Bank Deposits As of June 30th(5)
	Number of Permits (4)	Value (1)	Number of Units	Value	Commercial	Residential	Exempt	
1993	966	\$ 211,162	156	\$ 6,704	\$6,959,775	\$ 9,729,185	\$6,984,155	\$ 8,204,950
1994	1,015	128,089	304	15,276	7,218,642	9,861,937	7,080,398	7,584,447
1995	1,201	223,963	300	17,167	6,868,865	10,072,433	7,416,788	7,305,798
1996	1,472	563,801	310	29,593	6,527,246	10,255,289	8,326,719	6,442,122
1997	1,045	301,210	179	15,563	6,833,124	10,485,062	7,510,520	7,024,263
1998	1,153	532,405	171	19,158	6,756,076	10,853,717	7,537,284	8,743,095
1999	1,320	335,380	396	45,508	6,789,443	10,913,873	8,377,825	10,538,115
2000	1,979	861,674	102	64,188	6,854,669	11,142,555	8,355,897	11,567,509
2001	2,103	864,762	255	36,627	7,243,580	11,534,114	8,519,217	11,147,430
2002	1,869	1,231,585	153	35,686	7,303,440	11,798,628	8,779,229	

Notes:

- (1) Includes additions, conversions and razings.
- (2) Source: State of Maryland, Department of Assessments and Taxation.
- (3) Source: City of Baltimore, Mayor's Office of Information Technology.
- (4) Only permits with a value of \$10,000 or more are reported.
- (5) Source: Federal Deposit Insurance Corporation, Annual "Bank and Thrift Branch Office Data Book Northeast Region." The June 30, 2002 figure is unavailable.

**CITY OF BALTIMORE**  
**Principal Taxpayers**  
**For the Year Ended June 30, 2002**

(Dollars Expressed in Thousands)

**Unaudited**

Taxpayer	Type of Business	2002 Assessed Value	Percentage of Total Assessed Value
BGE (Baltimore Gas & Electric Company)	Power Utility	\$ 572,785	6.4%
Verizon—Maryland	Telephone/Communications	362,481	4.1
Baltimore Center Associates, LTD Partnership	Real Estate	135,241	1.5
Boston Properties, Inc.	Real Estate	126,985	1.5
CSX Transportation, Inc.	Rail Road	78,185	0.9
TMCT, LLC	Newspaper	60,470	0.7
ABB South Street Associates	Real Estate	59,153	0.7
MCI WorldCom	Telephone/Communications	58,430	0.7
Pratt Street Hotel, LLC	Hotel/Hospitality	49,246	0.6
AT&T Communications of Maryland	Telephone/Communications	39,346	0.4
		<b>\$1,542,322</b>	<b>17.5%</b>

**CITY OF BALTIMORE**  
**Demographic and Miscellaneous Statistics**  
**For the Year Ended June 30, 2002**

**Unaudited**

**Form and Structure**

City incorporated in 1797 with Home Rule Charter since 1918

**Executive and Legislative Officials:**

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

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

**Infrastructure:**

Police Stations	9
Fire Stations	41
Street miles	2,000
Storm Drain miles	1,000
Sanitary Sewer miles	3,100
Park acreage	6,500
<b>Recreation Facilities:</b>	
Zoo (attendance)	515,000
Arena (attendance)	633,000
Aquarium (attendance)	1.6 million
Pools and Beaches	10
Golf Courses	5
Ice Rinks	2
Indoor Soccer Fields	2
Library Facilities	22
Volumes (millions)	3.1
Circulation (millions)	1.2
<b>Other Facilities (attendance):</b>	
Oriole Park at Camden Yards	2.7 million
Ravens Stadium	676,000
Convention Center	583,000
Baltimore Museum of Art	282,000
Walters Art Museum	206,000
Meyerhoff Symphony Hall	307,000

**Principal Public Service Departments**

Department	Full Time Budgeted Positions		
	FY2002	FY1998	FY1994
Police	4,131	3,907	3,709
Fire	1,750	1,772	1,855
Public Works	3,524	5,631	5,842
Recreation and Parks	355	521	695
All Other Employees	5,743	4,256	4,209
<b>Totals</b>	<b>15,503</b>	<b>16,087</b>	<b>16,310</b>

**Economy**

	FY2002	FY1998	FY1994
Retail Sales (in billions) (1)	\$ 4.8	\$ 4.4	\$ 3.7
Income/Cap (2)	(3)\$ 26,897	\$ 27,518	\$ 20,511
Total Employment	275,299	274,241	286,394
% Unemployment	8.3%	9.8%	10.0%
Office Vacancy Rate	9.3%	14.5%	19.2%
Real Property Tax Rate	(4)\$2.328/100	\$5.85/100	\$5.90/100

- (1) FY1994 was not comparable with the rest of the years due to changes in reporting method effective January 1997.
- (2) Calendar year figures.
- (3) Calendar year 1999 is the latest year available.
- (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 full estimated actual value. Accordingly, the tax rate was adjusted to maintain the effective rate.

**Demographics (thousands)**

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

- (1) Calendar year figures, U.S. Department of Commerce, Census Bureau.
- (2) General election figure from 2002.
- (3) Imputed from 1970 ratio to population.

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