

CITY OF BALTIMORE

LOAN AND GUARANTEE PROGRAM

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2010

(WITH REPORT OF INDEPENDENT AUDITORS THEREON)

CITY OF BALTIMORE
LOAN AND GUARANTEE PROGRAM
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

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CITY OF BALTIMORE
STEPHANIE RAWLINGS-BLAKE
Mayor

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Report of Independent Auditors

March 1, 2011

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

We have jointly audited the accompanying financial statements of the Loan and Guarantee Program of the City of Baltimore, Maryland, as of and for the year ended June 30, 2010, 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Loan and Guarantee Program's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Loan and Guarantee Program's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Loan and Guarantee Program and do not purport to, and do not present fairly, the financial position of the City of Baltimore, Maryland, as of June 30, 2010, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Loan and Guarantee Program of the City of Baltimore, Maryland, as of June 30, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

The management's discussion and analysis on pages 3 through 5 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



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



Ernst & Young LLP
Independent Auditors

**City of Baltimore
Loan and Guarantee Program**

Management's Discussion and Analysis

This section of the City of Baltimore's Loan and Guarantee Program's (Program) financial report presents our discussion and analysis of the Program's financial activities for the fiscal year ended June 30, 2010.

Highlight

- The assets of the Program exceeded its liabilities at the close of fiscal year 2010 by \$2.2 million (*net assets*).

Overview of the Financial Statements

This annual report consists of three parts: 1) management's discussion and analysis (this section), 2) financial statements, and 3) notes to the financial statements.

The financial statements provide both long-term and short-term information about the Program's overall financial status. The notes to the financial statements explain some of the information in the financial statements and provide more detailed information.

The Program's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Operating revenues result from the services provided by the Program.

Financial Analysis of the Program

Statements of Fund Net Assets Loan and Guarantee Program (Expressed in Thousands)

	June 30,	
	2010	2009
Assets:		
Assets.....	\$ 3,735	\$ 4,915
Liabilities:		
Current liabilities	19	34
Long-term liabilities outstanding.....	1,528	1,500
Total liabilities.....	1,547	1,534
Net Assets:		
Unrestricted.....	\$ 2,188	\$ 3,381

Analysis of the Statements of Fund Net Assets

The Loan and Guarantee Program's net assets of \$2.2 million are comprised primarily of contributions received from the General Fund and bond funds over the life of the Program. Net assets decreased from \$3,381,000 in fiscal year 2009 to \$2,188,000 in fiscal year 2010. This was primarily due to an unexpected shortfall in anticipated revenues combined with a lower than anticipated decrease in program expenditures.

Statements of Revenues, Expenses, and Changes in Fund Net Assets
Loan and Guarantee Program
(Expressed in Thousands)

	Years ended	
	June 30,	
	<u>2010</u>	<u>2009</u>
Operating revenues:		
Rents, fees and other income.....	\$ 479	\$ 125
Interest income on loans.....	76	174
Total operating revenues.....	<u>555</u>	<u>299</u>
Operating expenses:		
Salaries and wages.....	125	107
Other personnel costs.....	44	42
Program expenses.....	<u>3,089</u>	<u>3,063</u>
Total operating expenses.....	<u>3,258</u>	<u>3,212</u>
Operating loss.....	<u>(2,703)</u>	<u>(2,913)</u>
Capital contributions.....	145	140
Transfers in.....	<u>1,365</u>	<u>1,365</u>
Changes in net assets.....	(1,193)	(1,408)
Total net assets - beginning.....	<u>3,381</u>	<u>4,789</u>
Total net assets - ending.....	<u>\$ 2,188</u>	<u>\$ 3,381</u>

Analysis of the Statements of Revenues, Expenses and Changes in Fund Net Assets

The Loan and Guarantee Program had operating revenues of \$555,000 during fiscal year 2010. Rents, fees, and other income increased from \$125,000 in fiscal year 2009 to \$479,000 in fiscal year 2010. This was primarily due to a increase in rents collected. Interest income on loans decreased from \$174,000 in fiscal year 2009 to \$76,000 in fiscal year 2010. This was a result of a decrease in interest rates.

CITY OF BALTIMORE
Loan and Guarantee Program
Statement of Fund Net Assets
June 30, 2010
(Expressed in Thousands)

Assets:	
Current assets:	
Cash and cash equivalents.....	\$ 3,702
Other	<u>1</u>
Total current assets.....	<u>3,703</u>
Noncurrent assets:	
Other noncurrent.....	<u>32</u>
Total noncurrent assets.....	<u>32</u>
Total assets.....	<u>3,735</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities.....	<u>19</u>
Total current liabilities.....	<u>19</u>
Noncurrent liabilities:	
Reserve for losses on guarantees.....	<u>1,528</u>
Total noncurrent liabilities.....	<u>1,528</u>
Total liabilities.....	<u>1,547</u>
Net assets:	
Unrestricted.....	<u>2,188</u>
Total net assets.....	<u>\$ 2,188</u>

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

CITY OF BALTIMORE
Loan and Guarantee Program
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2010
(Expressed in Thousands)

Operating revenues:	
Rents, fees, and other income.....	\$ 479
Interest income on loans.....	76
Total operating revenues.....	<u>555</u>
Operating expenses:	
Salaries and wages.....	125
Other personnel costs.....	44
Program expenses.....	3,089
Total operating expenses.....	<u>3,258</u>
Operating loss.....	<u>(2,703)</u>
Capital contributions.....	145
Transfers in.....	1,365
Change in net assets.....	<u>(1,193)</u>
Total net assets - beginning.....	3,381
Total net assets - ending.....	<u>\$ 2,188</u>

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

CITY OF BALTIMORE
Loan and Guarantee Program
Statement of Cash Flows
For the Year Ended June 30, 2010
(Expressed in Thousands)

Cash flows from operating activities:	
Receipts from customers.....	\$ 554
Payments to employees.....	(169)
Payments to suppliers.....	<u>(3,076)</u>
Net cash used by operating activities.....	<u>(2,691)</u>
Cash flows from non-capital financing activities:	
Transfers in.....	<u>1,365</u>
Net cash provided by non-capital financing activities.....	<u>1,365</u>
Cash flows from capital and related financing activities:	
Capital contributions.....	<u>145</u>
Net cash provided by capital and related financing activities.....	<u>145</u>
Net decrease in cash and cash equivalents.....	(1,181)
Cash and cash equivalents, beginning of year.....	<u>4,883</u>
Cash and cash equivalents, end of year.....	<u>\$ 3,702</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss.....	<u>\$ (2,703)</u>
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Accounts receivable.....	(1)
Accounts payable and accrued liabilities.....	(15)
Other liabilities.....	<u>28</u>
Total adjustments.....	<u>12</u>
Net cash used by operating activities.....	<u>\$ (2,691)</u>

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

CITY OF BALTIMORE
Loan and Guarantee Program
Notes to the Basic Financial Statements
June 30, 2010

1. Description of the Program

The Loan and Guarantee Program (Program), an enterprise fund of the City of Baltimore, Maryland (City), was created by resolution of the Board of Estimates of the City of Baltimore pursuant to four separate trust agreements. As of July 1, 1986, the Board of Estimates dissolved the then existing trust agreements and placed responsibility for the continuing management of the Program with the Director of Finance of the City of Baltimore.

In general terms, this Program provides for utilization of proceeds from certain bond issues, grants, donations and contributions appropriated by the City and also certain funds included in the capital portion of the annual Ordinance of Estimates. Such funds are used for direct loans or for guarantees for loans made by third parties for residential, commercial, and industrial rehabilitation and development, or for the construction of certain capital projects.

The major objectives of the Program are the expansion of the tax base and achievement of certain employment objectives of the City. The Program supports projects, which are consistent with the master plan for City development, and provides funds only when necessary financing is not forthcoming from private lenders.

These financial statements are only of the operations of the Program and are not intended to present the financial position, changes in financial position, or, where applicable, cash flows of the City.

2. Summary of Significant Accounting Policies

The accounting and financial reporting policies of the Program conform to accounting principles generally accepted in the United States and reporting standards as promulgated by the Governmental Accounting Standards Board for proprietary funds.

The Program has elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

CITY OF BALTIMORE
Loan and Guarantee Program
Notes to the Basic Financial Statements
June 30, 2010

Operating revenues result from the services provided by the Program. All other revenue is considered non-operating.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, as well as short-term investments with a maturity date within three months of the date acquired by the Program.

Notes and Loan Guarantees

The Program provides for losses on notes, loans, and accrued interest receivable when, in management's judgment, it is probable that the outstanding principal or accrued interest will not be repaid in accordance with the terms of the loan and the borrower or the collateral will be unable to otherwise fully satisfy the obligation. Many loans contain provisions for the accrual of current interest and payments thereof in future periods when collateralized property produces sufficient cash flow. The Program accrues interest income in accordance with the terms of the loan contracts. Interest accruals are suspended when payments of interest or principal are not being made in accordance with contract requirements or when, in management's judgment, a loss is expected on the loan. A provision for loss on loan guarantees is recognized when, in management's judgment, a loss is expected.

Statement of Net Assets

The statement of net assets is designed to display the financial position of the Program. Since the Program has no capital assets and no restricted net assets, all Program net assets are unrestricted.

3. Deposits and Investments

The Program participates in the City's pooled cash account. At June 30, 2010, the Program's share of the City's pooled cash account was \$3,702,000. All of the City's cash deposits are either insured through the Federal Deposit Insurance Corporation or collateralized by securities held in the name of the City by the City's agent.

CITY OF BALTIMORE
Loan and Guarantee Program
Notes to the Basic Financial Statements
June 30, 2010

In accordance with State law, the City is authorized to invest in direct or indirect obligations of the United States Government, certificates of deposit and repurchase agreements, and related mutual funds. City policy requires that securities underlying repurchase agreements must have a market value of at least 100% of the cost of the repurchase agreement and that the City take possession of the securities when the repurchase agreement's maturity is over five days. Management believes the City has complied with this policy throughout the year.

4. Contingencies

As of June 30, 2010, the Program is contingently liable for insured and guaranteed loans totaling \$1,528,000.

5. Transfers

The Program received transfers of \$1,365,000 from the City's General Fund during fiscal year 2010. This sum was applied toward operating deficits in keeping with the purpose of the Program.

6. Long-term Obligations

Changes in long-term obligations for the year ended June 30, 2010, are as follows (amounts expressed in thousands):

	Balance		Decreases	Balance	Amounts Due Within One Year
	June 30, 2009	Increases		June 30, 2010	
Reserve for losses on guarantees	\$ 1,500	\$ 28		\$ 1,528	

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