



**CITY OF BALTIMORE
LOAN AND GUARANTEE PROGRAM**

Financial Statements

For the Year Ended

June 30, 2013

(With Independent Auditors' Report Thereon)

**CITY OF BALTIMORE
LOAN AND GUARANTEE PROGRAM**

Financial Statements

June 30, 2013

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CITY OF BALTIMORE
STEPHANIE RAWLINGS-BLAKE
Mayor



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Independent Auditors' Report

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

Report on the Financial Statements

We have jointly audited the accompanying financial statements of the Loan and Guarantee Program of the City of Baltimore, Maryland (the Fund), which comprise the statement of financial position as of June 30, 2013, and the related statement of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Loan and Guarantee Program as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

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, 2013, the changes in its financial position, or its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management’s discussion and analysis on pages 3 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2014 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City’s internal control over financial reporting and compliance.

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

Independent Auditors

June 20, 2014

**CITY OF BALTIMORE
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Management's Discussion and Analysis

June 30, 2013

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, 2013.

Highlight

- The assets of the Program equaled its liabilities at the close of fiscal year 2013.

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 Position

Loan and Guarantee Program

(Expressed in thousands)

	June 30	
	2013	2012
Assets:		
Assets	\$1,575	\$2,108
Liabilities:		
Current liabilities	16	14
Long-term liabilities outstanding	1,559	1,548
Total liabilities	\$1,575	\$1,562
Net position:		
Unrestricted	—	\$546

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Management's Discussion and Analysis

June 30, 2013

Analysis of Net Position

The Loan and Guarantee Program's net position was \$0 at June 30, 2013. In prior years, management elected to transfer funds into the Loan and Guarantee Program; however, in fiscal year 2013, no transfers were made. Therefore, net position decreased from \$546,000 in fiscal year 2012 to \$0 in fiscal year 2013.

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Rents, fees, and other income	\$281	\$352
Interest income on loans	4	8
Total operating revenues	<u>285</u>	<u>360</u>
Operating expenses:		
Salaries and wages	104	94
Other personnel costs	48	44
Program expenses	3,000	3,031
Total operating expenses	<u>3,152</u>	<u>3,169</u>
Operating loss	(2,867)	(2,809)
Capital contributions	2,321	613
Change in net position	(546)	(2,196)
Total net position – beginning	<u>546</u>	<u>2,742</u>
Total net position – ending	<u>—</u>	<u>\$546</u>

Analysis of Revenues, Expenses and Changes in Net Position

The Loan and Guarantee Program had operating revenues of \$285,000 during fiscal year 2013. Rents, fees, and other income decreased from \$352,000 in fiscal year 2012 to \$281,000 in fiscal year 2013 primarily due to the reduction in the collection of delinquent mortgages. Interest income on loans decreased from \$8,000 in fiscal year 2012 to \$4,000 in fiscal year 2013.

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LOAN AND GUARANTEE PROGRAM**

Statement of Financial Position

June 30, 2013

(Expressed in thousands)

Assets:

Current assets:

Cash and cash equivalents \$ 1,543

Total current assets 1,543

Noncurrent assets:

Other noncurrent 32

Total noncurrent assets 32

Total assets \$ 1,575

Liabilities:

Current liabilities:

Accounts payable and accrued liabilities \$ 16

Total current liabilities 16

Noncurrent liabilities:

Reserve for losses on guarantees 1,559

Total noncurrent liabilities 1,559

Total liabilities \$ 1,575

Net position:

Unrestricted \$ —

Total net position \$ —

See accompanying notes to financial statements.

**CITY OF BALTIMORE
LOAN AND GUARANTEE PROGRAM**

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2013

(Expressed in thousands)

Operating revenues:	
Rents, fees, and other income	\$ 281
Interest income on loans	4
	<hr/>
Total operating revenues	285
	<hr/>
Operating expenses:	
Salaries and wages	104
Other personnel costs	48
Program expenses	3,000
	<hr/>
Total operating expenses	3,152
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Operating loss	(2,867)
Capital contributions	2,321
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Change in net position	(546)
Total net position – beginning	546
	<hr/>
Total net position – ending	\$ —
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See accompanying notes to financial statements.

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LOAN AND GUARANTEE PROGRAM**

Statement of Cash Flows

Year ended June 30, 2013

(Expressed in thousands)

Cash flows from operating activities:	
Receipts from customers	\$ 285
Payments to employees	(152)
Payments to suppliers	(2,986)
Net cash used by operating activities	<u>(2,853)</u>
Cash flows from capital and related financing activities:	
Capital contributions	<u>2,321</u>
Net cash provided by capital and related financing activities	<u>2,321</u>
Net decrease in cash and cash equivalents	(532)
Cash and cash equivalents, beginning of year	<u>2,075</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,543</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (2,867)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Accounts receivable	1
Accounts payable and accrued liabilities	2
Other liabilities	<u>11</u>
Total adjustments	<u>14</u>
Net cash used by operating activities	<u><u>\$ (2,853)</u></u>

See accompanying notes to financial statements.

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LOAN AND GUARANTEE PROGRAM

Notes to the Basic Financial Statements

June 30, 2013

(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.

(a) 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.

Operating revenues result from the services provided by the Program. All other revenue is considered nonoperating.

(b) 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.

(c) 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

CITY OF BALTIMORE
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Notes to the Basic Financial Statements

June 30, 2013

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.

(d) *Statement of Financial Position*

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

(3) Deposits and Investments

The Program participates in the City's pooled cash account. At June 30, 2013, the Program's share of the City's pooled cash account was \$1.543 million. 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.

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, 2013, the Program is contingently liable for insured and guaranteed loans totaling \$1.559 million.

(5) Transfers

The Program did not receive any transfers from the City's General Fund during fiscal year 2013.

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Notes to the Basic Financial Statements

June 30, 2013

(6) Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2013, are as follows (amounts expressed in thousands):

	<u>Balance June 30, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2013</u>	<u>Amounts due within one year</u>
Reserve for losses on guarantees	\$1,548	\$11	—	\$1,559	—