

**CITY OF BALTIMORE
LOAN AND GUARANTEE PROGRAM FUND**

Financial Statements

June 30, 2014

(With Independent Auditors' Report Thereon)

**CITY OF BALTIMORE
LOAN AND GUARANTEE PROGRAM FUND**

Financial Statements

June 30, 2014

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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 statement of the Loan and Guarantee Program Fund (Fund) of the City of Baltimore, Maryland (City), which comprise the statement of net position as of June 30, 2014 and the related statement of revenues, expenses, and changes in net position and cash flows for the year 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. 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 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 net position of the Loan and Guarantee Program Fund of the City of Baltimore, Maryland, as of June 30, 2014, and the changes in net position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

Reporting Entity

As discussed in Note 1(a), the financial statements present only the Loan and Guarantee Program Fund and do not purport to, and do not, present fairly the net position of the City of Baltimore, Maryland, as of June 30, 2014, its changes in net position or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1(c), to the financial statements, in fiscal year 2014, the fund implemented the Governmental Accounting Standards Board (GASB) Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Our opinion is not modified with respect to these matters.

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 principally 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.

KPMG LLP

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

November 4, 2016

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LOAN AND GUARANTEE PROGRAM FUND**

Management's Discussion and Analysis

June 30, 2014

This section of the City of Baltimore Maryland's Loan and Guarantee Program Fund (Fund) financial report presents a narrative overview and financial analysis of the Fund's financial activities for the fiscal year ended June 30, 2014.

Highlight

- The assets of the Fund exceeded its liabilities at the close of fiscal year 2014 by \$5.5 million (*net position*).

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 Fund's overall financial status. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the Fund's financial statements.

The Fund's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

Condensed Financial Information

	June 30,	
	2014	2013
	(Expressed in thousands)	
Assets:		
Assets	\$ 5,556	1,575
Liabilities:		
Current liabilities	18	16
Long-term liabilities outstanding	69	1,559
Total liabilities	87	1,575
Net position:		
Unrestricted	\$ 5,469	

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LOAN AND GUARANTEE PROGRAM FUND

Management's Discussion and Analysis

June 30, 2014

Analysis of Financial Position

The Fund's net position of \$5,469 is comprised primarily of transfers received from the General Fund. In fiscal year 2014 management elected to transfer funds of \$6,639 into the Fund, thereby increasing the net position to \$5,469 in fiscal year 2014.

	Years ended June 30,	
	2014	2013
	(Expressed in thousands)	
Operating revenues:		
Rents, fees, and other income	\$ 125	281
Interest income on loans		4
Total operating revenues	125	285
Operating expenses:		
Salaries and wages	138	104
Other personnel costs	52	48
Program expenses	1,174	3,000
Total operating expenses	1,364	3,152
Operating loss	(1,239)	(2,867)
Loss before capital and transfer	(1,239)	(2,867)
Capital contributions	69	2,321
Transfers in	6,639	
Change in net assets	5,469	(546)
Total net position – beginning		546
Total net position – ending	\$ 5,469	

Analysis of Revenues, Expenses and Changes in Net Position

Rents, fees, and other income decreased from \$281,000 in fiscal year 2013 to \$125,000 in fiscal year 2014 because there were no collections on the delinquent accounts. Interest income decreased from \$4,000 in fiscal year 2013 to none in fiscal year 2014. Fund expenses decreased in fiscal year 2014 to \$1.2 million from \$3.0 million in fiscal year 2013 because the loan guarantee for the Golf Course was written off during fiscal year 2014. The write-off occurred because it was determined that the loan would most likely be paid by the Golf Course and would not become a liability to the City. The transfer in from the General Fund is up from \$4.1 million in fiscal year 2013 to \$6.6 million in fiscal 2014 to cover the losses incurred by the Fund and to have the necessary funds to purchase the Lexington Market Arcade during fiscal year 2015.

**CITY OF BALTIMORE
LOAN AND GUARANTEE PROGRAM**

Statement of Net Position

June 30, 2014

(Expressed in thousands)

Assets:	
Current assets:	
Cash and cash equivalents	\$ 5,399
Accounts Receivable, Other	125
Total current assets	<u>5,524</u>
Noncurrent assets:	
Other noncurrent	32
Total noncurrent assets	<u>32</u>
Total assets	<u>\$ 5,556</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 15
Compensated Absences	3
Total current liabilities	<u>18</u>
Noncurrent liabilities:	
Compensated Absences	69
Total noncurrent liabilities	<u>69</u>
Total liabilities	<u>\$ 87</u>
Net position:	
Unrestricted	\$ 5,469
Total net position	<u>\$ 5,469</u>

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, 2014

(Expressed in thousands)

Operating revenues:	
Rents, fees, and other income	\$ <u>125</u>
Total operating revenues	<u>125</u>
Operating expenses:	
Salaries and wages	138
Other personnel costs	52
Program expenses	<u>1,174</u>
Total operating expenses	<u>1,364</u>
Operating loss	(1,239)
Capital contributions	69
Transfer in	<u>6,639</u>
Change in net position	5,469
Total net position – beginning	<u> </u>
Total net position – ending	<u>\$ <u>5,469</u></u>

See accompanying notes to financial statements.

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Statement of Cash Flows

Year ended June 30, 2014

(Expressed in thousands)

Cash flows from operating activities:	
Payments to employees	\$ (177)
Payments to suppliers	(2,675)
Net cash used by operating activities	<u>(2,852)</u>
Cash flows from noncapital financing activities:	
Transfers in	6,639
Net cash provided by noncapital financing activities:	<u>6,639</u>
Cash flows from capital and related financing activities:	
Capital contributions	69
Net cash provided by capital and related financing activities	<u>69</u>
Net increase in cash and cash equivalents	3,856
Cash and cash equivalents, beginning of year	<u>1,543</u>
Cash and cash equivalents, end of year	<u>\$ 5,399</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (1,239)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Accounts receivable	(125)
Accounts payable and accrued liabilities	(1)
Compensated absences	13
Other noncurrent liabilities	
Reserve for losses on guarantees	<u>(1,500)</u>
Total adjustments	<u>(1,613)</u>
Net cash used by operating activities	<u>\$ (2,852)</u>

See accompanying notes to financial statements.

CITY OF BALTIMORE
LOAN AND GUARANTEE PROGRAM FUND

Notes to the Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The Loan and Guarantee Program Fund (Fund) is an enterprise fund of the City of Baltimore, Maryland (City). The Fund 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 Fund with the Director of Finance of the City of Baltimore, Maryland.

In general terms, this Fund 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 of 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 Fund are the expansion of the tax base and achievement of certain employment objectives of the City. The Fund 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 Fund and are not intended to present the financial position, changes in financial position, or, where applicable, cash flows of the City.

(b) Basis of Accounting

The enterprise fund financial statements are reported using the economic resources management focus and are prepared on 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 Fund.

(c) New Government Accounting Standards Board Pronouncements

In fiscal year 2014, the City implemented the Governmental Accounting Standards Board (GASB) Statement (Statement) No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued in April 2013. This Statement requires “a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. This Statement requires a government that has issued an obligation guarantee in a nonexchange transaction to report the obligation until legally released as an obligor. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guarantee obligation to continue to recognize a liability until legally released as an

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obligor. When a government is released as an obligor, the government should recognized revenue as a result of being relieved of the obligation”.

(d) Deposits and Investments

The Fund participates in the City’s pooled cash account. At June 30, 2014, the Fund’s share of the City’s pooled cash account was \$5,399,000. The pool’s investments are reported at fair value at June 30, 2014, based on market prices. 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.

(e) Notes and Loan Guarantees

A provision for loss guarantees is recognized in accordance with GASB Statement No. 70 when, in management’s judgment a loss is expected.

(2) Transfers

The Fund received transfers of \$6,639,000 from the City’s General Fund in anticipation of the purchase of the Lexington Market Arcade which was completed during fiscal year 2015.

(3) Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2014, are as follows (amounts expressed in thousands):

	<u>Balance</u> <u>June 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Amounts due</u> <u>within</u> <u>one year</u>
Loan Guarantee	\$ 1,500		1,500	\$	
Compensated Absences	59	13		72	3
	<u>\$ 1,559</u>	<u>13</u>	<u>1,500</u>	<u>\$ 72</u>	<u>3</u>

(4) Loan Guarantee of Five Municipal Golf Courses

On December 12, 2007, the Mayor and City Council of Baltimore guaranteed a \$1.5 million, 6% interest bearing loan made between Municipal Employees Credit Union of Baltimore (MECU), the lender, and the Baltimore Municipal Golf Corporation (the borrower, non-profit corporation in Maryland) for the term of the note. The agreement with MECU provides that in the event of a default, the City of Baltimore will have one of the following options:

- Pay all installments in arrears with interest and continue to pay the installments as they come due;
 - Prepay the entire balance of the loan including interest without penalty; and direct the lender to institute collection proceedings against the golf course and pay the amount in default plus interest;
- or

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- Pay the deficiency plus interest in equal installments over the remaining term of the loan.

The City is the owner of a reversionary interest in the property and its improvements financed by the loan agreement. If the City cures any default by the borrower, it will have the right of subrogation and be entitled to all rights and remedies that inured to the Lender.

On February 1, 2012, a modification was approved which allowed for a 20 year amortization of the principal and interest with the note coming due on October 27, 2031. It also adjusted the interest rate to 5% with the provision that the interest rate would be adjusted on October 27, 2016 and every 5th year thereafter to the prime on that date plus 1.75%.

The balance due on the loan on June 30, 2014 was \$845,125. The City believes that more likely than not, that the Baltimore Municipal Golf Corporation will continue to pay the loan in accordance with the agreement.

(5) Pension Plan

Classified employees of the fund are required to join the City of Baltimore's Employees' Retirement System (ERS). The ERS is a cost sharing multiple employer defined benefit pension plan which provides retirement, disability, and death benefits to plan members and beneficiaries. The plan is managed by a Board of Trustees in accordance with Article 22 of the Baltimore City Code. Plan provisions may be amended only by the City Council. The Fund's share of contributions to the plan was \$25,654 in 2014. The ERS issues a publicly available financial report that may be obtained by writing to the Baltimore City Retirement Systems, 7 East Redwood Street, 12th Floor, Baltimore, MD 21202 3470.

(6) Other Postemployment Benefits

Baltimore City administrative policy provides that other postemployment benefits, other than pension benefits, be provided to all qualified employees of the City. These benefits include certain healthcare and life insurance benefits. All employees who retire are eligible to receive these benefits. The OPEB Plan (Plan) is a contributory, single employer defined benefit plan established by the City and may be amended by the City. The Plan provides postemployment healthcare, prescription and life insurance benefits to retirees and their beneficiaries. In order to effectively manage the Plan, the City established an OPEB Trust Fund.

At June 30, 2014, the City's policy is to fund benefits on a pay as you go basis plus make additional contributions comprising the federal retiree drug subsidy payments and additional annual appropriation. Retirees are required to contribute on a monthly basis. At June 30, 2014, there were a total of 16,251 retirees eligible for these benefits. For fiscal year's 2014, total contributions to the Plan were \$139.9 from the General Fund.

(7) Risk Management

The Fund participates in the City's risk management program. 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

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insurance. The Risk Management Fund services all claims for risk of loss, including general liability, property and casualty, workers' compensation, unemployment compensation, automobile physical damage and bodily injury, and sundry other risks. Commercial insurance coverage is provided for each property damage claim in excess of \$500,000 with a cap of \$500,000,000. 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 medical plans, and the remaining costs are paid by the City's internal service fund.

Most City funds participate in the Risk Management Fund based on actuarial estimates and historical cost. During fiscal years 2014, the fund was not allocated any share of the City's cost.

(8) Subsequent Events

Council Bill 13-0247 established a new defined benefit and defined contribution Retirement System to provide separate eligibility, contributions, and benefits provisions for employees initially employed or re-employed with the City on or after July 1, 2014. These employees must, as a condition of employment, elect either: (i) a non-hybrid membership in the Retirement Savings Plan, or (ii) a hybrid membership consisting of a Class D membership in the Employees' Retirement System and membership in the Retirement Savings Plan. This change was enacted to strengthen the City's Employees' Retirement System starting in fiscal year 2015.