

CITY OF BALTIMORE

LOAN AND GUARANTEE PROGRAM

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2011

(WITH REPORT OF INDEPENDENT AUDITORS THEREON)

CITY OF BALTIMORE  
LOAN AND GUARANTEE PROGRAM  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011

TABLE OF CONTENTS

	<u>Page</u>
Report of Independent Auditors.....	1
Management’s Discussion and Analysis.....	2-4
Statement of Net Assets.....	5
Statement of Revenues, Expenses and Changes in Fund Net Assets...	6
Statement of Cash Flows.....	7
Notes to the Basic Financial Statements .....	8-10



CITY OF BALTIMORE  
STEPHANIE RAWLINGS-BLAKE  
Mayor

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



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report

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

We have jointly audited the statement of net assets of the Loan and Guarantee Program, a component unit of the City of Baltimore, Maryland (the City), as of June 30, 2011 and the statements of revenues, expenses, and changes in net assets and cash flows for the year ended June 30, 2011. These financial statements are the responsibility of the City'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 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City'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, 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.

In our opinion, the June 30, 2011 financial statements referred to above present fairly, in all material respects, the financial position of the Loan and Guarantee Program as of June 30, 2011, 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 of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 6, 2012 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, which include the Loan and Guarantee Program. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

KPMG LLP

December 6, 2012

**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, 2011.

**Highlight**

- The assets of the Program exceeded its liabilities at the close of fiscal year 2011 by \$2.7 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

### Net Assets Loan and Guarantee Program (Expressed in Thousands)

	June 30,	
	<u>2011</u>	<u>2010</u>
<b>Assets:</b>		
Assets.....	\$ 4,296	\$ 3,735
<b>Liabilities:</b>		
Current liabilities .....	17	19
Long-term liabilities outstanding.....	1,537	1,528
Total liabilities.....	<u>1,554</u>	<u>1,547</u>
<b>Net Assets:</b>		
Unrestricted.....	<u>\$ 2,742</u>	<u>\$ 2,188</u>

### Analysis of Net Assets

The Loan and Guarantee Program's net assets of \$2.7 million are comprised primarily of contributions received from the General Fund and bond funds over the life of the Program. Net assets increased from \$2,188,000 in fiscal year 2010 to \$2,742,000 in fiscal year 2011.

**Revenues, Expenses and Changes in Fund Net Assets**  
**For the Years Ended June 30,**  
(Expressed in Thousands)

	2011	2010
Operating revenues:		
Rents, fees, and other income.....	\$ 152	479
Interest income on loans.....	5	76
Total operating revenues.....	157	555
Operating expenses:		
Salaries and wages.....	117	125
Other personnel costs.....	41	44
Program Expenses.....	3,085	3,089
Total operating expenses.....	3,243	3,258
Operating loss.....	(3,086)	(2,703)
Capital contributions.....	910	145
Transfers in.....	2,730	1,365
Change in net assets.....	554	(1,193)
Total net assets - beginning.....	2,188	3,381
Total net assets - ending.....	\$ 2,742	2,188

**Analysis of Revenues, Expenses and Changes in Fund Net Assets**

The Loan and Guarantee Program had operating revenues of \$157,000 during fiscal year 2011. Rents, fees, and other income decreased from \$479,000 in fiscal year 2010 to \$152,000 in fiscal year 2011. Interest income on loans decreased from \$76,000 in fiscal year 2010 to \$5,000 in fiscal year 2011. This was a result of a decrease in interest rate.

**CITY OF BALTIMORE**  
**Loan and Guarantee Program**  
**Statement of Fund Net Assets**  
**June 30, 2011**  
(Expressed in Thousands)

Assets:	
Current assets:	
Cash and cash equivalents.....	\$ 4,263
Other .....	<u>1</u>
Total current assets.....	<u>4,264</u>
Noncurrent assets:	
Other noncurrent.....	<u>32</u>
Total noncurrent assets.....	<u>32</u>
Total assets.....	<u>4,296</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities.....	<u>17</u>
Total current liabilities.....	<u>17</u>
Noncurrent liabilities:	
Reserve for losses on guarantees.....	<u>1,537</u>
Total noncurrent liabilities.....	<u>1,537</u>
Total liabilities.....	<u>1,554</u>
Net assets:	
Unrestricted.....	<u>2,742</u>
Total net assets.....	<u>\$ 2,742</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, 2011**  
(Expressed in Thousands)

Operating revenues:	
Rents, fees, and other income.....	\$ 152
Interest income on loans.....	5
Total operating revenues.....	<u>157</u>
Operating expenses:	
Salaries and wages.....	117
Other personnel costs.....	41
Program Expenses.....	3,085
Total operating expenses.....	<u>3,243</u>
Operating loss.....	<u>(3,086)</u>
Capital contributions.....	910
Transfers in.....	<u>2,730</u>
Change in net assets.....	<u>554</u>
Total net assets - beginning.....	2,188
Total net assets - ending.....	<u>\$ 2,742</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, 2011**  
(Expressed in Thousands)

Cash flows from operating activities:	
Receipts from customers.....	\$ 157
Payments to employees.....	(158)
Payments to suppliers.....	<u>(3,078)</u>
Net cash used by operating activities.....	<u>(3,079)</u>
Cash flows from non-capital financing activities:	
Transfers in.....	<u>2,730</u>
Net cash provided by non-capital financing activities.....	<u>2,730</u>
Cash flows from capital and related financing activities:	
Capital contributions.....	<u>910</u>
Net cash provided by capital and related financing activities.....	<u>910</u>
Net increase in cash and cash equivalents.....	561
Cash and cash equivalents, beginning of year.....	<u>3,702</u>
Cash and cash equivalents, end of year.....	<u>\$ 4,263</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss.....	<u>\$ (3,086)</u>
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Accounts payable and accrued liabilities.....	(2)
Other Liabilities.....	<u>9</u>
Total adjustments.....	<u>7</u>
Net cash used by operating activities.....	<u>\$ (3,079)</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, 2011**

**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, 2011**

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, 2011, the Program's share of the City's pooled cash account was \$4,263,000. 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, 2011**

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, 2011, the Program is contingently liable for insured and guaranteed loans totaling \$1,537,000.

**5. Transfers**

The Program received transfers of \$2,730,000 from the City's General Fund during fiscal year 2011. 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, 2011, are as follows (amounts expressed in thousands):

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011	Amounts Due Within One Year
Reserve for losses on guarantees	\$ 1,528	\$ 9		\$1,537	