

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Financial Statements

June 30, 2014

(With Independent Auditors' Report Thereon)



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 Parking Facilities 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 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, except for the matter discussed in the following paragraph. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

The City Auditor did not have an external peer review by an unaffiliated audit organization as required by Chapter 3 of *Government Auditing Standards* at least once every three years. The last external peer review was for the period ending December 31, 2011. The City Auditor is in the process of engaging an unaffiliated audit organization to conduct an external peer review for the three-year period ending December 31, 2014.

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.

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Management's Discussion And Analysis

(Unaudited)

June 30, 2014

This section of the City of Baltimore, Maryland's Parking Facilities fund (Fund) financial report presents our discussion and analysis of the fund's financial activities for the fiscal years ended June 30, 2014.

Highlights

- The assets of the fund exceeded its liabilities at the close of fiscal year 2014 by \$80.0 million (net position). This amount includes \$28.5 million of restricted net position, \$11.1 million invested in capital assets, net of related debt, and \$40.4 million of unrestricted net position.
- During the fiscal year, the fund's total net position decreased by \$0.6 million. This decrease is primarily attributable to an increase in operating expenses for fiscal year 2014.

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 basic financial statements provide additional information that is essential to a full understanding of the data provided in the fund's financial statements.

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Management's Discussion And Analysis

(Unaudited)

June 30, 2014

Summary of Revenues, Expenses, and Changes in Net Position
(Expressed in thousands)

	<u>June 30</u>		<u>Change 2014-2013</u>
	<u>2014</u>	<u>2013</u>	
Operating revenues:			
Parking garage space rentals	\$ 20,523	\$ 19,645	\$ 878
Interest income	3,447	3,308	139
City pledged revenues:			
Parking fines and penalties	20,931	19,753	1,178
Parking meter collections	12,201	12,064	137
Other parking income	27,054	28,772	(1,718)
Total operating revenues	<u>84,156</u>	<u>83,542</u>	<u>614</u>
Operating expenses:			
Contractual services	7,677	9,705	(2,028)
Minor Equipment	—	32	(32)
Depreciation	2,767	2,598	169
Total operating expenses	<u>10,444</u>	<u>12,335</u>	<u>(1,891)</u>
Operating income	73,712	71,207	2,505
Nonoperating revenues (expenses):			
Interest expenses	(9,842)	(5,346)	(4,496)
Total operating expenses, net	<u>(9,842)</u>	<u>(5,346)</u>	<u>(4,496)</u>
Income before transfers	63,870	65,861	(1,991)
Operating transfers out	(62,717)	(47,742)	(14,975)
Change in net position	1,153	18,119	\$ (16,966)
Net position – beginning of year, as restated*	<u>78,814</u>	<u>62,509</u>	
Net position – end of year	<u>\$ 79,967</u>	<u>\$ 80,628</u>	

* As a result of implementing GASB 65 the City restated beginning net position for fiscal year 2014. However, fiscal year 2013 was not restated as it was not practical to adjust those amounts. See note 9 for additional information.

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Statement of Net Position

June 30, 2014

(Expressed in thousands)

Assets:	
Current assets:	
Cash and cash equivalents	\$ 39,374
Other	443
Restricted assets:	
Mortgages receivable	3,845
Total current assets	43,662
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	36,012
Mortgages receivable	48,613
Capital assets, net of accumulated depreciation	90,119
Capital not being depreciated	15,126
Total noncurrent assets	189,870
Total assets	233,532
Deferred outflows of resources:	
Deferred loss on bond refundings	20,027
Interest rate swaps	6,552
Total deferred outflows of resources	26,579
Total assets and deferred outflows of resources	260,111
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	377
Accrued interest payable	2,378
Revenue bonds payable	9,800
Total current liabilities	12,555
Noncurrent liabilities:	
Revenue bonds payable	144,330
Derivative instrument liability	23,259
Total noncurrent liabilities	167,589
Total liabilities	180,144
Net position:	
Net investment in capital assets	11,098
Restricted for:	
Debt service	28,487
Unrestricted	40,382
Total net position	\$ 79,967

See accompanying notes to financial statements.

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Statement of Cash Flows

Year ended June 30, 2014

(Expressed in thousands)

Cash flows from operating activities:	
Receipts from customers	\$ 87,417
Payments to suppliers	<u>(11,288)</u>
Net cash provided by operating activities	<u>76,129</u>
Cash flows from noncapital financing activities:	
Transfers out	<u>(62,717)</u>
Net cash used for noncapital financing activities	<u>(62,717)</u>
Cash flows from capital and related financing activities:	
Mortgages receivable principal payments	5,973
Principal paid on revenue bonds	(9,280)
Interest expense	<u>(9,896)</u>
Net cash used for capital and related financing activities	<u>(13,203)</u>
Net increase in cash and cash equivalents	209
Cash and cash equivalents, beginning of year	<u>75,177</u>
Cash and cash equivalents, end of year	<u><u>\$ 75,386</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 73,712
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	2,767
Changes in assets and liabilities:	
Accounts receivable	19
Accounts payable and accrued liabilities	<u>(369)</u>
Total adjustments	<u>2,417</u>
Net cash provided by operating activities	<u><u>\$ 76,129</u></u>

See accompanying notes to financial statements.

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Notes to Financial Statements

June 30, 2014

(e) Interest

Interest income includes interest earned on mortgages and is recognized as operating income. Interest expense represents bond interest expense net of investment income and is recognized as nonoperating revenue.

(f) Restricted Assets

Restricted assets consist of resources that are legally restricted for the acquisition, construction and improvement of capital facilities and for revenue bond requirements.

(g) Use of Restricted Net Position

When an expense is incurred for which restricted and unrestricted resources are available to pay the expense, it is the fund's policy to apply the expense first to restricted resources and then to unrestricted resources.

(h) Capital Assets

Purchased or constructed capital assets are reported at historical cost. Capitalization thresholds are \$50,000 for buildings and improvements, and \$5,000 for equipment.

Capital assets are depreciated using the straight-line method over the estimated useful lives, as follows:

Buildings	50 years
Building improvements	20–50 years
Equipment	2–25 years

(2) 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, including both restricted and unrestricted cash, was \$39.8 million. All of the City's pooled cash deposits are either insured by the Federal Deposit Insurance Corporation (FDIC), 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, repurchase agreements that are secured by direct or indirect obligations of the United States Government, commercial paper with the highest letter and numerical rating, mutual funds registered with the Securities and Exchange Commission, and the Maryland Local Government Investment Pool. The City's investment policy limits the percentage of certain types of securities, with the exception of obligations for which the United States Government has pledged its full faith and credit. For investments held by the City in trust and/or to secure certain debt obligations, the City complies with the terms of the trust agreements. The City's Board of Finance has formally adopted the above policies and reviews and approves all security transactions.

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Notes to Financial Statements

June 30, 2014

Credit risk of debt securities – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. As discussed above, the City’s Board of Finance limits City investments to only the highest rated investments in the categories discussed above. The fund’s money market mutual funds of \$35.5 million are rated AAA by a nationally recognized statistical rating agency, and are presented below using the Standard and Poor’s rating scale (amounts expressed in thousands):

Investment type	June 30, 2014			
	Fair value	Quality ratings		
		AA+	AAA	A1
Debt securities:				
U.S. Agencies	\$ —	\$ —	\$ —	\$ —
Money market mutual funds:				
Fidelity Tax-Exempt Fund	621	—	621	—
Wilmington U.S. government money market fund	34,923	—	34,923	—
Federal government obligation fund	—	—	—	—
Total rated debt investments	<u>\$ 35,544</u>	<u>\$ —</u>	<u>\$ 35,544</u>	<u>\$ —</u>

(3) Mortgages Receivable

The fund has mortgages receivable at June 30, 2014 from various parking garage operators of \$52.5 million, collateralized by real property. The notes bear interest at rates ranging from 6.1% to 6.9% and mature over 30 years. The mortgages receivable are deemed to be fully collectible. The amounts of mortgages receivable projected to be collectible for the next five years and thereafter are as follows (expressed in thousands):

Fiscal year	Projected mortgages receivable collections
2015	\$ 3,845
2016	4,062
2017	4,311
2018	4,574
2019	2,397
2020–2035	33,269

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Notes to Financial Statements

June 30, 2014

(5) Revenue Bonds

The City has issued various funding and refunding revenue bonds, the proceeds of which were used to finance construction of parking facilities and refinance existing debt of the fund. Certain assets and revenues of the fund are pledged as collateral for the bonds. Bonds outstanding as of June 30, 2014 consist of (amounts expressed in thousands):

Term bonds series 1997-A with interest at 6.0%, payable semiannually, due July 1, 2018	\$	29,040
Term bonds series 1998-A with interest at 5.25%, payable semiannually, due July 1, 2014		620
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
Serial bonds series 2005 maturing in annual installments from \$400,000 to \$1,590,000 through July 1, 2015, with interest ranging from 4.69% to 5.07%, payable semiannually		3,110
Term bonds series 2005 with interest at 5.27%, payable semiannually, due July 1, 2018		5,315
Term bonds series 2005 with interest at 5.30%, payable semiannually, due July 1, 2027		10,470
Term bonds series 2005 with interest at 5.62%, payable semiannually, due July 1, 2035		1,000
Variable rate demand bonds series 2008, payable weekly, due July 1, 2032		72,420
Serial bonds series 2010 maturing in annual installments from \$705,000 to \$1,330,000 through July 1, 2015, with interest ranging from 1.988% to 3.537%, payable semiannually		3,375
Term bonds series 2010 with interest at 4.336%, payable semiannually, due July 1, 2017		2,075
Term bonds series 2010 with interest at 5.225%, payable semiannually, due July 1, 2020		3,045
Term bonds series 2010 with interest at 6.10%, payable semiannually, due July 1, 2025		4,275
Term bonds series 2010 with interest at 7.00%, payable semiannually, due July 1, 2035		14,025
Total Bonds Outstanding	\$	<u>154,130</u>

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

	<u>Balance June 30, 2013</u>	<u>New debt issues</u>	<u>Debt retired</u>	<u>Balance June 30, 2014</u>	<u>Amount due within one year</u>
Total revenue bonds payable	\$ 163,410	\$ —	\$ 9,280	\$ 154,130	\$ 9,800

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PARKING FACILITIES FUND**

Notes to Financial Statements

June 30, 2014

Principal maturities and interest on revenue bonds (amounts expressed in thousands) are as follows:

Fiscal year	Principal amount	Interest amount	Interest rate swap net ^(a)
2015	\$ 9,800	\$ 8,837	\$ 4,184
2016	10,600	8,278	4,111
2017	10,710	7,686	4,032
2018	11,490	7,062	3,950
2019	12,270	6,386	3,863
2020-2024	24,965	26,776	17,433
2025-2029	33,460	18,172	12,193
2030-2034	36,905	6,421	3,539
2035	3,930	276	—
Total	<u>\$ 154,130</u>	<u>\$ 89,894</u>	<u>\$ 53,305</u>

(a) Interest Rate Swap Net payments represent estimated payments for additional interest resulting from swap agreements to counterparties. The additional payments were computed using rates as of June 30, 2014, assuming current interest rates remain the same for the entire term of the bonds. As rates vary, variable rate bond interest payments and net swap payments will vary.

(6) Pledged Revenue

The fund has pledged future revenue from parking fees and fines to repay \$154.1 million of revenue bond debt. Proceeds from these revenue bonds were used to construct various garages throughout the City. The bonds are payable solely from the pledged revenue and are payable through 2035. Annual principal and interest payments are expected to require 24% of pledged revenue. Total principal and interest remaining to be paid on these revenue bonds is \$297.3 million. For the current year, principal and interest payments and current pledged revenue were \$18.6 million and \$76.4 million, respectively.

(7) Interest Rate Swaps

Objectives of the swaps – In order to protect the City against fluctuations in interest rates, the City has entered into two interest rate swap agreements for the Fund. The City’s asset/liability strategy is to have a mixture of fixed and variable rate debt to take advantage of anticipated fluctuations in future interest rates and also to provide the City with low synthetically created rates while providing reasonably predictable future debt service requirements.

Terms, fair value and credit risk – The terms, fair value, and credit risk of the outstanding swaps as of June 30, 2014, were as follows. The notional amounts of the swaps match the principal amount of the associated debt. The City’s swap agreements contain scheduled reductions to outstanding notional amounts that are intended to track the scheduled or anticipated reductions in the associated “bonds payable” category.

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Interest rate risk – Since the fund’s swaps receive fixed rate payments, the City is exposed to interest rate risk. As the LIBOR rate changes, expected savings could increase or decrease depending on the relationship between the fixed payments and the variable rate.

Termination risk – The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap contract has a negative fair value, the City would be liable to the counterparty for that payment.

(8) Transfers

During fiscal year 2014, the fund transferred \$56.7 million to the City’s General Fund and \$6.0 million to the City’s Grant Fund. These transfers represent revenues consisting of parking fines, penalties, meter collections and other parking revenues, which were initially pledged as security for the revenue bonds. The revenues are held by the fund until such time as it is determined, in accordance with the bond indentures, that the revenues will not be needed to pay current debt service.

(9) Beginning Net Position Adjustment

With the implementation of GASB Statement No. 65, a retrospective restatement adjustment of beginning net position was made to eliminate the unamortized portion of bond issuance costs. Under the provisions of this statement, the City can no longer amortize bond issuance costs over the life of the bonds, and any future issuance costs must be expensed in the period incurred. Therefore, the City has recalculated the fiscal year ending June 30, 2013 net position based on the effect of expensing the amounts carried as deferred bond issuance costs. The restated net position totals for the fund resulting from this accounting are as follows (amounts expressed in thousands):

Parking Facilities Fund	
Total net position at June 30, 2013, as previously reported	\$ 80,628
Deferred bond issuance costs written off	(1,814)
Total net position at June 30, 2013, as restated	\$ 78,814