CITY OF BALTIMORE

PARKING FACILITIES FUND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2012

(WITH REPORT OF INDEPENDENT AUDITORS THEREON)

CITY OF BALTIMORE
PARKING FACILITIES FUND
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

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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 Parking Facilities Fund of the City of Baltimore, Maryland (the City), as of June 30, 2012 and the statements of revenue, expenses, and changes in net assets and cash flows for the year ended June 30, 2012. 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.

As discussed in Note 1, the financial statements present only the Parking Facilities Fund and do not purport to, and do not, present fairly the financial position of the City of Baltimore, Maryland, as of June 30, 2012, its changes in financial position or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the June 30, 2012 financial statements referred to above present fairly, in all material respects, the financial position of the Parking Facilities Fund as of June 30, 2012, 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.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 6 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2013 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 Parking Facilities Fund. 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

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

Independent Auditors

August 19, 2013

City of Baltimore
Parking Facilities Fund

Management's Discussion and Analysis

This section of the City of Baltimore's Parking Facilities Fund's (Fund) financial report presents our discussion and analysis of the Fund's financial activities for the fiscal years ended June 30, 2012 and 2011.

Highlights

- The assets of the Fund exceeded its liabilities at the close of fiscal year 2012 by $62.5 million (net assets). This amount includes $39.6 million of restricted net assets, $6.7 million invested in capital assets, net of related debt, and $16.2 million of unrestricted net assets.
- During the fiscal year, the Fund's total net assets increased by $5.7 million. This increase is primarily attributable to operations for FY2012.

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 explain some of the information in the financial statements and provide more detailed information.

The Fund'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 in the Fund result from services provided by the fund; all other revenues are considered to be non-operating.

Financial Analysis of the Fund

City of Baltimore
Net Assets
Parking Facilities Fund
(Expressed in Thousands)

	June 30, 2012	June 30, 2011
Assets:		
Assets and deferred outflows of resources	$ 143,116	$ 128,770
Capital assets, net	109,588	111,810
Total assets and deferred outflows of resources	252,704	240,580
Liabilities:		
Current liabilities	11,644	10,755
Noncurrent liabilities	178,551	173,014
Total liabilities	190,195	183,769
Net assets:		
Invested in capital assets, net of related debt	6,710	5,591
Restricted	39,615	27,669
Unrestricted	16,184	23,551
Total net assets	$ 62,509	$ 56,811

Analysis of Net Assets

Capital assets, net, decreased from $111.8 million to $109.6 million, a decrease of $2.2 million.

Total outstanding liabilities were $190.2 million in fiscal year 2012 and $183.8 million in fiscal year 2011, an increase of $6.4 million. This is mainly due to the derivative instrument liability that, during fiscal year 2012, increased by $13.7 million, while $8.4 million in revenue bonds were retired.

City of Baltimore
Revenues, Expenses, and Changes in Fund Net Assets
Parking Facilities Fund
(Expressed in Thousands)

	Years Ended June 30,	
Operating revenues:	**2012**	**2011**
Parking garage space rentals	$ 18,642	$ 18,069
Interest income	2,576	2,915
City pledged revenues:		
Parking fines and penalties	21,118	23,830
Parking meter collections	11,706	11,691
Other parking income	27,434	26,535
Total operating revenues	81,476	83,040
Operating expenses:		
Contractual services	10,901	10,728
Minor Equipment	36	-
Depreciation	2,429	2,437
Total operating expenses	13,366	13,165
Operating income	68,110	69,875
Nonoperating revenues (expenses):		
Gain on Sale of Garages	-	5,042
Interest expense	(11,966)	(11,730)
Total nonoperating expenses, net	(11,966)	(6,688)
Income before transfers	56,144	63,187
Transfers to other funds	(50,446)	(58,252)
Changes in net assets	5,698	4,935
Net assets - beginning of year	56,811	51,876
Net assets - end of year	$ 62,509	$ 56,811

Analysis of Revenues, Expenses and Changes in Fund Net Assets

Parking Garage operating revenue decreased by $1.5 million from $83.0 million in fiscal year 2011, to $81.5 million in fiscal year 2012. This was a result mainly of a decrease in parking fines and penalties collected during fiscal year 2012.

Capital Assets

The Fund's capital assets as of June 30, 2012 amounted to $109.6 million (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, and construction in progress.

		Balance June 30, 2011		Net Change		Balance June 30, 2012
Land	$	15,125		-	$	15,125
Buildings and improvements		89,375	$	(2,424)		86,951
Equipment		24		(5)		19
Construction in progress		7,286		207		7,493
Total capital assets, net	$	111,810	$	(2,222)	$	109,588

As of June 30, 2012, the Fund had outstanding commitments of $68,000 for the acquisition and construction of capital assets.

See note 5 on capital assets for additional information.

Debt Administration

At the end of the current fiscal year, the fund had total long-term obligations of $150.3 million. These long-term obligations consisted entirely of revenue bonds which are secured by revenue derived from City parking fines and meters, as well as off-street parking fees. During the current fiscal year, the Fund's debt decreased by $7.0 million. See note 6 on revenue bonds for more information.

CITY OF BALTIMORE
Parking Facilities Fund
Statement of Fund Net Assets
June 30, 2012
(Expressed in Thousands)

Assets:	
Current assets:	
Cash and cash equivalents	$ 16,655
Accounts receivable net	220
Total current assets	16,875
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	48,143
Mortgages receivable	62,325
Capital assets, net of accumulated depreciation	86,970
Capital not being depreciated	22,618
Issuance costs	1,911
Deferred outflow of resources interest rate swaps	13,862
Total noncurrent assets	235,829
Total assets	252,704
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	438
Accrued interest payable	2,796
Revenue bonds payable, net	8,410
Total current liabilities	11,644
Noncurrent liabilities:	
Revenue bonds payable, net	141,897
Derivative instrument liability	36,654
Total noncurrent liabilities	178,551
Total liabilities	190,195
Net assets:	
Invested in capital assets, net of related debt	6,710
Restricted for:	
Debt service	39,615
Unrestricted	16,184
Total net assets	$ 62,509

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

CITY OF BALTIMORE
Parking Facilities Fund
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended June 30, 2012
(Expressed in Thousands)

Operating revenues:	
Parking garage space rentals	$ 18,642
Interest income	2,576
City pledged revenues:	
Parking fines and penalties	21,118
Parking meter collections	11,706
Other parking income	27,434
Total operating revenues	81,476
Operating expenses:	
Contractual services	10,901
Minor equipment	36
Depreciation	2,429
Total operating expenses	13,366
Operating income	68,110
Nonoperating expenses:	
Interest expense	11,966
Total nonoperating expenses	11,966
Income before contributions and transfers	56,144
Operating transfers out	50,446
Change in net assets	5,698
Beginning net assets	56,811
Ending net assets	$ 62,509

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

CITY OF BALTIMORE

Parking Facilities Fund

Statement of Cash Flows

For the Year Ended June 30, 2012

(Expressed in Thousands)

Cash flows from operating activities:	
Receipts from customers	$ 81,486
Payments to suppliers	(11,240)
Net cash provided by operating activities	70,246
Cash flows from noncapital financing activities:	
Transfers out	(50,446)
Cash flows from capital and related financing activities:	
Mortgages receivable principal payments	3,328
Principal paid on revenue bonds	(8,395)
Acquisition and construction of capital assets	(207)
Interest expense	(10,471)
Net cash used by capital and related financing activities	(15,745)
Net increase in cash and cash equivalents	4,055
Cash and cash equivalents July 1, 2011	60,743
Cash and cash equivalents June 30, 2012	$ 64,798
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 68,110
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	2,429
Changes in assets and liabilities:	
Accounts receivable	10
Accounts payable and accrued liabilities	29
Accrued interest payable	(332)
Total adjustments	2,136
Net cash provided by operating activities	$ 70,246

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

1. Description of the Fund

The City of Baltimore, Maryland's Parking Facilities Fund (Fund) was established to provide funds to finance and refinance the cost of acquisition and construction of certain parking facilities in Baltimore City (City).

These financial statements are only of the operations of the Fund and are not intended to present the net assets, changes in net assets, or, where applicable, cash flows of the City. The City provides administrative and operating support for the Fund without charge.

2. Summary of Significant Accounting Policies

The accounting and financial reporting policies of the Fund 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 Fund has elected not to follow Financial Accounting Standards Board pronouncements 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. Operating revenues result from the services provided by the Fund, and all other revenue is considered nonoperating.

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 Fund.

Interest

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

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.

Use of Restricted Net Assets

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.

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

Amortization

Bond issuance costs are amortized over the life of the issue using the straight-line method, the effect of which is not materially different than the effective interest method. Gains and losses on the early extinguishment of debt are amortized over the shorter of the life of the new or old debt.

3. Cash Deposits

The Fund participates in the City's pooled cash account. At June 30, 2012, the Fund's share of the City's pooled cash account, including both restricted and unrestricted cash, was $17,321,000. 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 Fund was invested primarily in money market mutual funds at June 30, 2012 totaling $35,493,000. These investments are classified as cash equivalents, with investment maturities of less than six months.

Interest rate risk – Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of the investments. The Fund limits its interest rate risk in accordance with the City's Board of Finance policy by maintaining a minimum of 20 percent of the Fund's investment in funds in liquid investments, to include United States Government securities, and by limiting the par value of the portfolio invested for a period greater than one year at or below $100 million. The securities underlying the money market mutual funds have maturities of less than one year.

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 $35,493,000 are rated AAA by a nationally recognized statistical rating agency.

4. Mortgages Receivable

The Fund has mortgages receivable at June 30, 2012 from various parking garage operators of $3,900,000 current and $58,425,000 non-current, collateralized by real property. The notes bear interest at rates ranging from 6.1% to 6.9% and mature over 30 years.

5. Capital Assets

Capital assets and the related accumulated depreciation recorded in the Fund as of June 30, 2012, are as follows (amounts expressed in thousands):

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
Capital assets not being depreciated:				
Land..	$ 15,125	-	-	$ 15,125
Construction in progress.........................	7,286	$ 207	-	7,493
Total capital assets not being depreciated	22,411	207	-	22,618
Capital assets being depreciated:				
Buildings and improvements....................	121,190	-	-	121,190
Equipment	538	-	-	538
Total capital assets being depreciated........	121,728	-	-	121,728
Less: accumulated depreciation for:				
Buildings and improvements....................	31,815	2,424	-	34,239
Equipment	514	5	-	519
Total accumulated depreciation................	32,329	2,429	-	34,758
Total capital assets being depreciated, net........	89,399	(2,429)	-	86,970
Total capital assets, net	$ 111,810	$ (2,222)	-	$ 109,588

Interest is capitalized on assets constructed with tax-exempt debt. The amount of interest capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested proceeds over the same period. During fiscal year 2012, interest expense of $205,000 was capitalized.

At June 30, 2012, the Fund had outstanding commitments for construction of $68,000.

6. 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, 2012 consist of (amounts expressed in thousands):

Term bonds series 1997-A with interest at 5.9%, payable semiannually, due July 1, 2013	$ 9,460
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	1,770
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	5,950
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	74,655
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	4,620
Term bonds series 2010 with interest at 4.336%, payable semiannually, due July 1, 2017	2,835
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, before unamortized charges	171,820
Less: deferred loss on bonds refunding and unamortized charges	21,513
Total Bonds Outstanding	$150,307

Changes in long-term obligations for the year ended June 30, 2012 are as follows (amounts expressed in thousands):

	Balance June 30, 2011	New Debt Issues	Debt Retired	Balance June 30, 2012	Amounts Due Within One Year
Revenue Bonds....................	$ 180,215	-	$ 8,395	$ 171,820	
Less: Deferred loss on bond refunding and unamortized charges........	22,910	-	1,397	21,513	
Total Revenue Bonds Payable...	$ 157,305	-	$ 6,998	$ 150,307	$ 8,410

The City had $74,655,000 of Series 2008 refunding taxable variable rate demand bonds outstanding as of June 30, 2012. The bonds mature serially starting on July 1, 2012 through July 1, 2032. The Series 2008 Bonds are subject to redemption prior to maturity at any time, at a redemption price of 100% of the principal amount plus interest accrued to the redemption date. The Series 2008 Bonds annual principal amounts range from $915,000 to $7,965,000.

The bonds bear interest at a variable rate that is reset by the Remarketing Agent on a weekly basis. Initially, the Remarketing Agent will use a "Dutch Auction" to set the weekly rate that will be used to remarket the bonds. Under the terms of the indenture, the City at its option may change the bond rate to a monthly or long-term rate at any time until maturity upon notification of the bond holders.

In conjunction with the issuance of the bonds, Bank of America, NA (Bank) issued a direct pay letter of credit in the amount of $78,774,000 in favor of the City and Manufacturers and Traders Trust Company as Tender Agent. The Agreement expires November 19, 2014, but can be extended for additional years. The existing Agreement permits the fiscal agent to draw amounts necessary to pay the principal portion and related accrued interest on the bonds tendered for purchase and not remarketed. The interest rate on draws made under this Agreement is a defined base rate plus, up to an additional 2.00% depending on the terms of the draw.

The City is required to pay the letter of credit fee throughout the effectiveness of the Agreement equal to 0.53% per annum of the average daily amount of the available commitment. During fiscal year 2012, the City made no draws under the letter of credit and no amounts drawn against the letter of credit were outstanding at June 30, 2012.

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)]
2013	$ 8,410	$ 9,826	$ 4,278
2014	9,280	9,351	4,214
2015	9,800	8,837	4,147
2016	10,600	8,278	4,075
2017	10,710	7,686	3,997
2018-2022	37,885	30,391	18,572
2023-2027	29,840	21,971	14,493
2028-2032	39,980	11,438	7,327
2033-2037	15,315	1,299	231
Total	$ 171,820	$ 109,077	$ 61,334

(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, 2012, 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.

7. Pledged Revenue

The Parking Facility fund has pledged future revenue from parking fees and fines to repay $171,820,000 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 less than 24% of pledged revenue. Total principal and interest remaining to be paid on these revenue bonds is $342,231,000. For the current year, principal and interest payments and current pledged revenue were $18,719,000 and $81,476,000, respectively.

8. Prior-Year Defeasance of Debt

At June 30, 2012, there is no prior-year defeased debt for the Fund.

9. 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, 2012, 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.

Summary

At June 30, 2012, the City had deferred liabilities for various hedged derivative instruments in the amount of $36,654,000, including $22,791,000 loss on refunding series 2002 bonds. The notional amounts for these hedged derivative instruments were $73,900,000. During fiscal Year 2012, the fair value of these instruments decreased by $13,726,919. All of these hedges were cash flow hedges. The follow schedule provides a detailed analysis of the derivative instruments at June 30, 2012:

Outstanding Bonds	Effective Date	Termination Date	Interest Rate Paid by City	Interest Rate Received [a]	Notional Amount	Fair Value	Counterparty Credit Rating
Hedge Derivative Instruments							
Floating to Fixed Swaps:							
2008 Bonds	6/19/2002	7/1/2032	6.10%	1M LIBOR	$ 65,500,000	$ (12,685,556)	A/A2
2008 Bonds	6/19/2002	7/1/2025	5.92%	1M LIBOR	8,400,000	(1,176,895)	A/A2
Total Outstanding Swaps					$ 73,900,000	$ (13,862,451)	

Fair Value – Because interest rates have declined, the two swaps had an overall negative fair value as of June 30, 2012. For these fixed rate swap agreements, the fair value was $(13,862,451). The fair values were calculated using the mark-to-market or par value method. These methods calculate the net future settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit Risk - As of June 30, 2012, the Parking Facilities Fund is not exposed to credit risk on any of the outstanding swaps because the swaps have negative fair values. All fair values were calculated using the mark-to-market or par value method. However, should interest rates change and the fair values of the swaps become positive, the Fund would be exposed to credit risk in the amount of the derivatives' fair value. Should the counterparties to these transactions fail to perform according to the terms of the swap contracts, the Fund faces a maximum loss equivalent to the swap's fair value. However, because the swaps' counterparties are also party to other swaps, the Fund could use netting provisions to offset the potential loss.

The swap agreements contain varying collateral agreements with counterparties. In general, these agreements require full collateralization of the fair value of the swap should the counterparty's credit rating fall below Baa as issued by Moody's or BBB as issued by Standard and Poor's. The Fund's swap agreements are with counterparty with a rating of A/A2. Collateral on all swaps is to be in the form of cash or United States Government securities held by the City.

Basis risk - The City's Parking Fund swaps relate to remarketed variable rate demand bonds ("VRDBs). For those swaps associated with VRDBs the Fund receives a floating rate based on one-month LIBOR. For these swaps, the Fund will receive a percent of LIBOR or a percent of LIBOR plus a basis points spread. Each rate was chosen to closely approximate the City's taxable variable rate bond payments. Because these swaps are based on the one month LIBOR-taxable rate, there is an additional degree of basis risk. As of June 30, 2012, LIBOR for the prior 52-weeks ranged from 0.13% to 0.26%, whereas the City's taxable market rate ranged from 0.13% to 0.40%.

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.

10. Transfers

During fiscal year 2012, the Fund transferred $44,959,000 to the City's General Fund and $5,487,000 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.