

**Community Development Administration  
Infrastructure Program Fund –  
MBIA Insured**

**Financial statements  
As of June 30, 2000 and 1999  
Together with report of independent public accountants**





## **Report of independent public accountants**

To the Office of the Secretary of the  
Department of Housing and Community Development:

We have audited the accompanying balance sheets of the Community Development Administration Infrastructure Program Fund – MBIA Insured (the Fund) as of June 30, 2000 and 1999, and the related statements of revenues, expenses and changes in fund equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community Development Administration Infrastructure Program Fund – MBIA Insured as of June 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Baltimore, Maryland  
September 22, 2000

A handwritten signature in black ink that reads "Arthur Andersen LLP". The signature is written in a cursive, flowing style.

**Community Development Administration  
Infrastructure Program Fund – MBIA Insured**

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**Community Development Administration  
Infrastructure Program Fund – MBIA Insured**

**Balance sheets  
As of June 30, 2000 and 1999  
(in thousands)**

	<u>2000</u>	<u>1999</u>
<b>Assets:</b>		
Cash on deposit with trustee	\$ 9,336	\$ 9,500
Community facilities loans	65,303	59,903
Accrued interest and other receivables	<u>1,633</u>	<u>1,759</u>
Total assets	<u>\$ 76,272</u>	<u>\$ 71,162</u>
<b>Liabilities and fund equity:</b>		
Accrued interest payable	\$ 275	\$ 248
Other liabilities	8,972	9,210
Bonds payable	<u>66,545</u>	<u>61,300</u>
Total liabilities	75,792	70,758
<b>Commitments and contingencies</b>		
Fund equity	<u>480</u>	<u>404</u>
Total liabilities and fund equity	<u>\$ 76,272</u>	<u>\$ 71,162</u>

The accompanying notes are an integral part of these balance sheets.

**Community Development Administration  
Infrastructure Program Fund – MBIA Insured**

**Statements of revenues, expenses and changes in fund equity  
For the years ended June 30, 2000 and 1999  
(in thousands)**

	<u>2000</u>	<u>1999</u>
<b>Revenues:</b>		
Interest on mortgage loans	\$ 3,124	\$ 2,835
Interest on cash deposits	<u>48</u>	<u>40</u>
Total revenues	<u>3,172</u>	<u>2,875</u>
<b>Expenses:</b>		
Interest on bonds payable	<u>3,096</u>	<u>2,842</u>
Total expenses	<u>3,096</u>	<u>2,842</u>
Net income	76	33
Transfers of funds, net, at CDA's discretion, in accordance with the General Certificate Of Revenue Bond authorization and the certificate of General Authorization	—	238
<b>Fund equity, beginning of period</b>	<u>404</u>	<u>133</u>
<b>Fund equity, end of period</b>	<u>\$ 480</u>	<u>\$ 404</u>

The accompanying notes are an integral part of these statements.

**Community Development Administration  
Infrastructure Program Fund – MBIA Insured**

**Statements of cash flows  
For the years ended June 30, 2000 and 1999  
(in thousands)**

	<b>2000</b>	<b>1999</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 76	\$ 33
Adjustments to reconcile net income to net cash used in operating activities–		
Purchase and origination of mortgage loans	(8,065)	(17,275)
Interest on cash deposits	(48)	(40)
Repayment of mortgage loans	2,665	2,562
Loans transferred	—	(21,320)
Decrease (increase) in accrued interest and other receivables	126	(1,629)
Decrease in accounts payable	—	(333)
(Decrease) increase in other liabilities	(238)	1,525
Transfer of funds	—	238
Interest expense	3,096	2,842
Net cash used in operating activities	(2,388)	(33,397)
<b>Cash flows from investing activities:</b>		
Interest on cash deposits	48	40
Net cash provided by investing activities	48	40
<b>Cash flows from noncapital financing activities:</b>		
Proceeds from the sale of bonds	8,065	40,150
Principal payments	(2,820)	(2,720)
Interest payments	(3,069)	(2,778)
Net cash provided by noncapital financing activities	2,176	34,652
<b>Net (decrease) increase in cash on deposit with trustees</b>	(164)	1,295
<b>Cash on deposit with trustee, beginning of period</b>	9,500	8,205
<b>Cash on deposit with trustee, end of period</b>	\$ 9,336	\$ 9,500

The accompanying notes are an integral part of these statements.

# Community Development Administration Infrastructure Program Fund – MBIA Insured

## Notes to financial statements June 30, 2000 and 1999 (in Thousands)

### 1. Program description:

The Community Development Administration (CDA) is authorized to issue Infrastructure Program Bonds pursuant to Sections 2-201 through 2-208 of Article 83B of the Annotated Code of Maryland to provide a mechanism for financing the infrastructure needs of local governments. CDA is in the Division of Development Finance in the Department of Housing and Community Development (DHCD) of the State of Maryland.

The accompanying financial statements only include CDA's Infrastructure Program Fund - MBIA Insured (the Fund). CDA's other programs are not included. However, CDA has also issued audited financial statements for the Revenue Obligations Funds and audited financial statements for the Infrastructure Program Fund.

The Fund was established to issue bonds to provide funds for construction and permanent financing to local governments for public facilities. Bonds issued under this Fund require a policy of insurance from MBIA Insurance Corporation (MBIA).

### 2. Summary of significant accounting policies:

#### Basis of presentation

The Fund is set up primarily in accordance with CDA's enabling legislation and the various note and bond certificates. The Fund is an enterprise fund of the State of Maryland and uses the accrual basis of accounting.

#### Administrative support

In addition to expenses incurred directly by the Fund, CDA receives certain support services from other divisions of DHCD. The cost of these services are allocated to CDA's General Bond Reserve Fund based on the size and level of activity of all of CDA's Revenue Obligation Funds relative to the other programs of CDA and DHCD. The General Bond Reserve Fund records these expenses as invoiced by DHCD for the fiscal year.

For the years ended June 30, 2000 and 1999, the allocation to CDA's General Bond Reserve Fund was:

	<u>2000</u>	<u>1999</u>
Salaries and related costs	\$ 5,719	\$ 5,952
General and administrative expenses	<u>1,857</u>	<u>2,245</u>
	<u>\$ 7,576</u>	<u>\$ 8,197</u>

The accompanying notes are an integral part of these statements.

The employees of CDA are covered by the Maryland State Retirement and Pension System (the System). Additional information about the System is presented in the State of Maryland's Comprehensive Annual Financial Report and in the Consolidated Annual Report of the Maryland State Retirement and Pension Systems.

The retirement benefit cost of employees is included in the salaries and related costs allocation discussed above. This allocation includes the Fund's total liability, relating to the System, as of June 30, 2000 and 1999.

### **Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains and losses during the reporting periods. Actual results could differ from these estimates.

### **3. Cash on deposit with trustee:**

Proceeds from bonds are invested in authorized investments as defined in the respective indentures until required for financing projects, redemption of outstanding bonds and notes, and funding program expenses. Authorized investments include obligations of the U.S. Treasury, U.S. Government agencies and corporations, political subdivisions of the U.S., bankers acceptances, repurchase agreements, corporate debt securities and certificates of deposit with foreign or domestic banks. All CDA accounts held in trust by the trustee are kept separate from the assets of the bank and from other trust accounts.

As of June 30, 2000 and 1999, the Fund had \$9,336 and \$9,500, respectively, invested in a money market mutual fund (ARK U.S. Government Cash Management Corporate II Class Fund) which is classified as cash. This fund invests exclusively in obligations of the U.S. Government and its agencies and instrumentalities and in repurchase agreements. It is rated AAAM by Standard & Poor's and Aaa by Moody's Investor Services.

As of June 30, 2000 and 1999, the cost of this money market mutual fund approximates fair value.

The money market mutual fund is not categorized by credit risk because it is not evidenced by securities that exist in physical or book entry form.

### **4. Community facilities loans:**

Community facilities loans are secured by the full faith and credit of the applicable local government. As such, no allowance for loan losses was necessary as of June 30, 2000 and 1999. Interest rates on such loans range from 4.0% to 7.5 percent, with maturities ranging up to 30 years.



**5. Bonds payable:**

The bonds issued by CDA are special obligations of CDA and are payable from the revenues and special funds of the applicable program. These bonds and notes do not constitute debt and are not guaranteed by the State of Maryland or any other program of the State of Maryland or any political subdivision.

The outstanding debt of the Fund, as of June 30, 2000 and 1999, consisted of the following:

<u>2000</u>	
1996 Series A dated May 1, 1996. \$4,615 due serially from 2001 to 2014, with interest rates of 4.7% to 5.85%; \$1,200 term bonds due June 1, 2019, with interest at 5.9%; \$1,680 term bonds due June 1, 2026, with interest at 5.9%.	\$ 7,495
1997 Series A dated April 15, 1997. \$5,895 due serially from 2001 to 2015, with interest rates of 5.0% to 5.625%; \$1,435 term bonds due June 1, 2021, with interest at 5.75%; \$1,490 term bonds due June 1, 2027, with interest at 5.625%.	8,820
1998 Series A dated February 15, 1998. \$5,620 due serially from 2001 to 2018, with interest rates of 4.0% to 5.0%.	5,620
1998 Series B dated June 1, 1998. \$16,735 due serially from 2001 to 2013, with interest rates of 4.0% to 4.9%; \$4,125 term bonds due June 1, 2017, with interest at 5.125%; \$3,615 term bonds due June 1, 2022, with interest at 5.15%, \$2,940 term bonds due June 1, 2028, with interest at 5.2%.	27,415
1998 Series C dated June 1, 1998. \$1,740 due serially from 2000 to 2010, with interest rates of 3.90% to 4.7%; \$525 term bonds due December 1, 2020, with interest at 5.15%.	2,265
1999 Series A dated March 1, 1999. \$4,520 due serially from 2001 to 2019, with interest rates of 4.125% to 5.00%; \$1,020 term bonds due June 1, 2024, with interest at 5.00%; \$1,325 term bonds due June 1, 2029, with interest at 5.00%.	6,865
2000 Series A dated March 1, 2000. \$5,320 due serially from 2001 to 2020, with interest rates of 5.125% to 5.75%; \$1,635 term bonds due June 1, 2025, with interest at 5.75%; \$1,110 term bonds due June 1, 2030, with interest at 5.875%.	<u>8,065</u>
Total	<u>\$ 66,545</u>

**1999**

1996 Series A dated May 1, 1996. \$4,885 due serially from 2000 to 2014, with interest rates of 4.7% to 5.85%; \$1,200 term bonds due June 1, 2019, with interest at 5.9%; \$1,680 term bonds due June 1, 2026, with interest at 5.9%	\$ 7,765
1997 Series A dated April 15, 1997. \$6,260 due serially from 2000 to 2015, with interest rates of 5.0% to 5.625%; \$1,435 term bonds due June 1, 2021, with interest at 5.75%; \$1,490 term bonds due June 1, 2027, with interest at 5.625%	9,185
1998 Series A dated February 15, 1998 \$5,975 due serially from 2000 to 2018, with interest rates of 4.0% to 5.0%	5,975
1998 Series B dated June 1, 1998. \$18,140 due serially from 2000 to 2013, with interest rates of 3.9% to 4.9%; \$4,125 term bonds due June 1, 2017, with interest at 5.125%; \$3,615 term bonds due June 1, 2022, with interest at 5.15%, \$2,940 term bonds due June 1, 2028, with interest at 5.2%.	28,820
1998 Series C dated June 1, 1998. \$2,045 due serially from 1999 to 2010, with interest rates of 3.75% to 4.7%; \$525 term bonds due December 1, 2020, with interest at 5.15%.	2,570
1999 Series A dated March 1, 1999. \$4,640 due serially from 2000 to 2019, with interest rates of 4.125% to 5.00%; \$1,020 term bonds due June 1, 2024, with interest at 5.00%; \$1,325 term bonds due June 1, 2029, with interest at 5.00%.	<u>6,985</u>
Total	<u>\$ 61,300</u>

As of June 30, 2000, the required principal payments including mandatory sinking fund payments for each of the next five years are as follows:

	<u>For the year ended June 30,</u>				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Required payments	\$3,045	\$3,040	\$3,210	\$3,270	\$3,310

All outstanding bonds are subject to redemption at the option of CDA, as a whole at any time after certain dates or in part on any interest payment date, as specified in the respective series certificates. The prescribed redemption prices range from 100% to 102% of the principal amount.

**6. Pension and other postretirement benefits:**

Eligible employees of CDA and employees of the State of Maryland are covered under the retirement plans of the State Retirement and Pension System of Maryland (System) and are also entitled to certain healthcare benefits upon retirement. CDA's only liability for retirement and postemployment benefits is its required annual contribution, which it has fully funded during the years ended June 30, 2000 and 1999. The System prepares a separate audited Comprehensive Annual Financial Report which can be obtained from the State Retirement and Pension System of Maryland, 301 West Preston Street, Baltimore, Maryland 21201.