

**Community Development Administration
Infrastructure Program Fund**

**Financial statements
As of June 30, 2000
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 sheet of the Community Development Administration Infrastructure Program Fund (the Fund) as of June 30, 2000, and the related statements of revenues, expenses and changes in fund equity and cash flows for the year 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 audit.

We conducted our audit 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 audit provides 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 as of June 30, 2000, and the results of its operations and its cash flows for the year 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

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Community Development Administration Infrastructure Program Fund

Balance sheet As of June 30, 2000 (in thousands)

Assets:

Cash on deposit with trustee	\$ 9,917
Community facilities loans	84,271
Accrued interest and other receivables	<u>1,839</u>
Total assets	<u>\$ 96,027</u>

Liabilities and fund equity:

Accrued interest payable	\$ 374
Accounts payable	1
Other liabilities	8,981
Bonds payable	<u>85,477</u>
Total liabilities	94,833

Commitments and contingencies

Fund equity	<u>1,194</u>
Total liabilities and fund equity	<u>\$ 96,027</u>

The accompanying notes are an integral part of this balance sheet.

Community Development Administration Infrastructure Program Fund

Statement of revenues, expenses and changes in fund equity For the year ended June 30, 2000 (in thousands)

Revenues:	
Interest on mortgage loans	\$ 4,374
Interest on cash deposits	<u>90</u>
Total revenues	<u>4,464</u>
Expenses:	
Interest on bonds payable	4,321
Trustee, legal and mortgage servicing fees	14
Other expense	<u>2</u>
Total expenses	<u>4,337</u>
Net income	127
Transfers of funds, net, at CDA's discretion, in accordance with the General Certificate Of Revenue Bond authorization and the certificate of General Authorization	(100)
Fund equity, beginning of period	<u>1,167</u>
Fund equity, end of period	<u>\$ 1,194</u>

The accompanying notes are an integral part of this statement.

Community Development Administration Infrastructure Program Fund

Statement of cash flows For the year ended June 30, 2000 (in thousands)

Cash flows from operating activities:

Net income	\$ 127
Adjustments to reconcile net income to net cash used in operating activities—	
Purchase and origination of mortgage loans	(8,065)
Interest on cash deposits	(90)
Repayment of mortgage loans	3,500
Decrease in accrued interest and other receivables	132
Decrease in other liabilities	(233)
Transfer of funds	(100)
Interest expense	<u>4,321</u>
Net cash used in operating activities	<u>(408)</u>

Cash flows from investing activities:

Interest on cash deposits	<u>90</u>
Net cash provided by investing activities	<u>90</u>

Cash flows from noncapital financing activities:

Proceeds from the sale of bonds	8,065
Principal payments	(3,654)
Interest payments	<u>(4,297)</u>
Net cash provided by noncapital financing activities	<u>114</u>
Net decrease in cash on deposit with trustee	(204)
Cash on deposit with trustee, beginning of period	<u>10,121</u>
Cash on deposit with trustee, end of period	<u><u>\$ 9,917</u></u>

The accompanying notes are an integral part of this statement.

Community Development Administration Infrastructure Program Fund

Notes to financial statements June 30, 2000 (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 (the Fund). CDA's other programs are not included. However, CDA has also issued audited financial statements for the Revenue Obligation Funds.

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 are insured by AMBAC Indemnity Corporation or MBIA Insurance Corporation.

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 year ended June 30, 2000, the allocation to CDA's General Bond Reserve Fund was:

Salaries and related costs	\$ 5,719
General and administrative expenses	<u>1,857</u>
	<u>\$ 7,576</u>

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.

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, the Fund had \$9,917 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 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. 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 of and are not guaranteed by the State of Maryland or any other program of the State of Maryland or any political subdivision.

The following table summarizes the outstanding debt of the Fund, as of June 30, 2000:

1990 Series I dated October 1, 1990. \$94 due serially to 2000, with interest rate of 6.9%; \$1,453 term bonds, net of \$12 unamortized discount due December 1, 2010, with interest at 7.3%; \$2,920 term bonds, net of \$24 unamortized discount, due December 1, 2020, with interest at 7.3%.	\$ 4,467
1992 Series A dated February 1, 1992. \$620 due serially from 2001 to 2002, with interest rates of 5.9% to 6.0%; \$4,585 term bonds due June 1, 2012, with interest at 6.625%.	5,205
1994 Series A dated February 1, 1994. \$2,120 due serially from 2001 to 2009, with interest rates of 4.65% to 5.35%; \$1,860 term bonds due June 1, 2016, with interest at 5.60%; \$2,425 term bonds due June 1, 2024, with interest at 5.7%.	6,405
1995 Series A dated April 1, 1995. \$1,575 due serially from 2001 to 2010, with interest rates of 5.25% to 5.9%; \$655 term bonds due June 1, 2015, with interest at 6.1%; \$625 term bonds due June 1, 2025, with interest at 6.2%.	2,855
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%.	8,065
Total	<u>\$ 85,477</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:

	For the year ended June 30,				
	2001	2002	2003	2004	2005
Required payments	\$3,804	\$3,837	\$4,051	\$4,160	\$4,243

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 year ended June 30, 2000. 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.