

**Community Development Administration
Housing Revenue Bond Program Fund**

**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 Housing Revenue Bond Program Fund (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 Housing Revenue Bond Program Fund 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The change in fair value of investments held on June 30, 2000 supplementary information on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on it.

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

Baltimore, Maryland
September 22, 2000

Community Development Administration Housing Revenue Bond Program Fund

Table of contents

	Page
Balance sheets	
As of June 30, 2000 and 1999	1
Statements of revenues, expenses and changes in fund equity	
For the years ended June 30, 2000 and 1999	2
Statements of cash flows	
For the years ended June 30, 2000 and 1999	3
Notes to financial statements	
June 30, 2000 and 1999	4
Supplemental disclosure of change in fair value of investments	
June 30, 2000	12

Community Development Administration Housing Revenue Bond Program Fund

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

	2000	1999
Assets:		
Cash on deposit with trustee	\$ 41,832	\$ 39,838
Investments	24,428	21,210
Mortgage-backed securities	79,568	67,995
Mortgage loans – single-family	1,102	1,275
Mortgage loans – multi-family	114,513	112,767
Accrued interest and other receivables	1,753	1,597
Deferred bond issuance costs	1,007	1,134
Due from other funds	—	267
Total assets	\$ 264,203	\$ 246,083
Liabilities and fund equity:		
Accrued interest payable	\$ 6,529	\$ 5,487
Accounts payable	105	161
Bonds payable	222,365	203,760
Other liabilities – principally deposits by borrowers	24,195	24,146
Total liabilities	253,194	233,554
Commitments and contingencies		
Fund equity	11,009	12,529
Total liabilities and fund equity	\$ 264,203	\$ 246,083

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

**Community Development Administration
Housing Revenue Bond Program Fund**

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

	2000	1999
Revenues:		
Interest on mortgage loans	\$ 9,380	\$ 9,688
Interest on mortgage-backed securities	4,432	3,394
Interest on investments	2,695	2,116
Loan fees	36	24
Increase (decrease) on fair value of investments	48	(407)
Decrease in fair value of mortgage-backed securities	(3,825)	—
Other income	115	112
Total revenues	<u>12,881</u>	<u>14,927</u>
Expenses:		
Interest on bonds payable	12,068	10,969
Other expense	174	160
Trustee, legal and mortgage servicing costs	37	34
Amortization of bond issuance costs	46	49
Total expenses	<u>12,325</u>	<u>11,212</u>
Income before extraordinary item	556	3,715
Extraordinary item – loss on early extinguishment of bonds payable	(81)	(66)
Net income	475	3,649
Transfers of funds, net, at CDA's discretion, in accordance with the General Certificate Of Revenue Bond authorization and the Certificate Of General Authorization	(1,995)	(3,217)
Fund equity, beginning of period	12,529	12,097
Fund equity, end of period	\$ 11,009	\$12,529

The accompanying notes are an integral part of these statements.

Community Development Administration Housing Revenue Bond Program Fund

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

	2000	1999
Cash flows from operating activities:		
Net income	\$ 475	\$ 3,649
Adjustments to reconcile net income to net cash used in operating activities—		
(Increase) decrease in fair value of investments	(48)	407
Purchase and origination of mortgage loans	(7,889)	—
Purchase of mortgage-backed securities	(15,698)	(22,742)
Decrease in fair value of mortgage-backed securities	3,825	—
Repayment of mortgage loans	5,756	9,208
Repayment of mortgage-backed securities	300	—
Interest on investments	(2,695)	(2,116)
Increase in other deferred income	127	—
(Increase) decrease in accrued interest and other receivables	(156)	410
Decrease (increase) in due from other funds	267	(267)
Decrease in accounts payable	(56)	(112)
Increase (decrease) in accrued and other liabilities	49	(628)
Transfer of funds	(1,995)	(3,217)
Transfer of deferred fees from other fund	97	—
Deferred loan fees collected	368	411
Amortization of deferred bond issuance costs	46	49
Amortization of investment premiums or discounts	4	4
Amortization of deferred loan fees	(32)	(20)
Interest expense	12,068	10,969
Net cash used in operating activities	(5,187)	(3,995)
Cash flows from investing activities:		
Proceeds from maturity and sale of investments	14,934	25,405
Purchase of investments	(18,108)	(16,345)
Interest on investments	2,695	2,116
Net cash (used in) provided by investing activities	(479)	11,176
Cash flows from noncapital financing activities:		
Proceeds from the sale of bonds	\$ 30,925	\$ 16,345
Principal payments	(12,320)	(10,370)
Decrease in deferred bond issuance costs due to redemption of related bonds	81	66
Interest payments	(11,026)	(10,880)
Net cash provided by (used in) noncapital financing activities	7,660	(4,839)
Net increase in cash on deposit with trustee	1,994	2,342
Cash on deposit with trustee, beginning of period	39,838	37,496
Cash on deposit with trustee, end of period	\$ 41,832	\$ 39,838

The accompanying notes are an integral part of these statements.

Community Development Administration Housing Revenue Bond Program Fund

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

1. Program description:

The Community Development Administration (CDA) was created in 1970 by Sections 266 DD-1 to 266 DD-8 of Article 41 of the Annotated Code of Maryland to meet the shortage of adequate, safe and sanitary housing in the State of Maryland, particularly for persons or families of limited income. 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 Housing Revenue Bond Program Fund (the Fund). CDA's other programs are not included. The Fund was established to issue bonds to provide funds to finance or refinance loans for various types of housing.

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.

Investments

Investments are stated at fair value, based on quoted market prices. The cost of securities sold is determined by the specific identification method.

Loan fees

Loan fees are deferred over the life of the related loans and amortized using the effective interest rate method.

Bond issuance costs

Expenses incurred in issuing bonds are capitalized and amortized on a straight-line basis over the lives of the respective bond issues.

Allowance for loan losses

Substantially all the mortgage loans of the Fund are insured or guaranteed by agencies of the U.S. Government, the Maryland Housing Fund or private insurers. As such, no allowances for loan losses were necessary as of June 30, 2000 and 1999.

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 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 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 period. Actual results could differ from these estimates.

3. Cash, investments and mortgage-backed securities:

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.

Cash

As of June 30, 2000 and 1999, the Fund had \$41,832 and \$39,838, 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.

Investments

Obligations of the U. S. Treasury are held in CDA's account by the trustee.

The repurchase agreements also include guaranteed investment contracts. For all these investments, collateral is held by the trustee of the fund group or its agent. The agreements and contracts are at fixed interest rates, with maturities ranging from less than two years up to 32 years.

As of June 30, 2000 and 1999, the amortized cost and fair value of the Fund's investments, by type of investment, were as follows:

	2000		1999	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Obligations of the U.S. Treasury	\$ 5,670	\$ 5,549	\$ 5,626	\$ 5,553
Securities held under repurchase agreements or guaranteed investment contracts	<u>18,758</u>	<u>18,758</u>	<u>15,584</u>	<u>15,584</u>
	<u>\$ 24,428</u>	<u>\$ 24,307</u>	<u>\$ 21,210</u>	<u>\$ 21,137</u>

Mortgage-backed securities

All mortgage-backed securities held by CDA are guaranteed by the Government National Mortgage Association (GNMA), an instrumentality of the United States. A security guaranteed by GNMA is a "fully modified pass through" mortgage-backed security which requires monthly payments by an FHA-approved lender, as the issuer of the Guaranteed Security, to the registered holder of the Guaranteed Security of principal and interest on such Guaranteed Security when due. GNMA guarantees timely payment of principal of and interest on Guaranteed Securities. It is the intention of CDA to hold these securities until the underlying loan is paid in full.

As of June 30, 2000 and 1999, the cost and fair value of mortgage-backed securities were as follows:

	<u>Fair Value</u>	<u>Cost</u>
1999	\$67,995	\$67,995
2000	79,568	83,393

Category of risk

Investments and mortgage-backed securities are classified as to credit risk by the three categories described below:

Category 1 – Insured or registered, with securities held by CDA or its agent in CDA's name.

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department in CDA's name.

Category 3 – Uninsured and unregulated, with securities held by the counterparty, or by its trust department or agent, but not in CDA's name.

All investments and mortgage-backed securities of the Fund are classified as Category 1.

4. Mortgage loans:

Substantially all the mortgage loans are secured by first liens on the related property and are insured or guaranteed by either the Federal Housing Administration, the Federal Home Loan Mortgage Corporation, the Maryland Housing Fund or GNMA. Interest rates on such loans range from 3.7 to 14.5 percent, with maturities ranging up to 40 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 following table summarizes the outstanding debt of the Fund, as of June 30, 2000 and 1999:

2000

Series 1996 A dated November 1, 1996. \$36,035 due serially from 2000 to 2008, with interest rates of 4.3% to 5.3%; \$8,135 term bonds due January 1, 2010, with interest at 5.5%; \$1,245 term bonds due January 1, 2016, with interest at 5.8%, \$39,930 term bonds due July 1, 2016, with interest at 5.875%, \$17,590 term bonds due July 1, 2023, with interest at 5.95%.	\$ 102,935
Series 1996 B dated November 1, 1996. \$480 due serially from 2000 to 2008, with interest rates of 4.3% to 5.3%; \$640 term bonds due July 1, 2016, with interest at 5.875%; \$1,345 term bonds due July 1, 2028, with interest at 5.95%.	2,465
Series 1997 A dated June 1, 1997. \$3,070 due serially from 2000 to 2009, with interest rates of 4.30% to 5.20%; \$4,200 term bonds due July 1, 2017, with interest at 5.70%; \$9,110 term bonds due July 1, 2027, with interest at 5.85%; \$20,600 term bonds due July 1, 2039, with interest at 6.00%.	36,980
Series 1997 B dated September 1, 1997. \$650 due serially from 2000 to 2009, with interest rates of 4.15% to 5.00%; \$860 term bonds due July 1, 2017, with interest at 5.55%; \$1,850 term bonds due July 1, 2027, with interest at 5.65%; \$4,300 term bonds due July 1, 2039, with interest at 5.75%.	7,660
Series 1997 C dated December 1, 1997. \$1,390 due serially from 2000 to 2010, with interest rates of 4.00% to 5.00%; \$1,465 term bonds due July 1, 2017, with interest at 5.45%; \$1,140 term bonds due July 1, 2021, with interest at 5.5%; \$2,300 term bonds due July 1, 2027, with interest at 5.55%; \$7,730 term bonds due July 1, 2039, with interest at 5.65%.	14,025
Series 1998 A dated April 1, 1998. \$1,920 due serially from 2000 to 2015, with interest rates of 4.00% to 5.30%; \$1,020 term bonds due July 1, 2020, with interest at 5.45%; \$3,090 term bonds due July 1, 2030, with interest at 5.50%; \$5,000 term bonds due January 1, 2040, with interest at 5.625%.	11,030
Series 1999 A dated February 1, 1999. \$1,820 due serially from 2002 to 2012, with interest rates of 3.7% to 4.7%; \$1,475 term bonds due July 1 2018, with interest at 5.05%; \$1,655 term bonds due July 1, 2023, with interest at 5.1%; \$2,165 term bonds due July 1, 2028, with interest at 5.15%; \$1,610 term bonds due July 1, 2031, with interest at 5.2%; \$7,620 term bonds due July 1, 2041, with interest at 5.35%.	16,345
Series 1999 B dated October 15, 1999. \$2,810 due serially from 2000 to 2014, with interest rates of 4.15% to 5.85%; \$2,150 term bonds due January 1, 2021, with interest at 6.15%; \$4,270 term bonds due July 1, 2029, with interest at 6.25%; \$1,945 term bonds due July 1, 2032, with interest at 6.25%; \$4,575 term bonds due January 1, 2042, with interest at 6.4%; \$90 term bonds due July 1, 2042, with interest at 6.4%.	15,840

Series 1999 C dated October 15, 1999. \$60 term bonds due July 1, 2014, with interest at 5.85%; \$60 term bonds due January 1, 2021, with interest at 6.15%; \$185 term bonds due July 1, 2032, with interest at 6.25%; \$215 term bonds due July 1, 2040, with interest at 6.4%.	\$ 520
Series 1999 D dated December 1, 1999. \$2,975 due serially from 2000 to 2009, with interest rates of 4.15% to 5.40%; \$1,900 term bonds due July 1, 2013, with interest at 5.9%; \$3,995 term bonds due July 1, 2023, with interest at 6.2%; \$1,685 term bonds due July 1, 2030, with interest at 6.25%; \$1,010 term bonds due July 1, 2031, with interest at 6.25%; \$3,000 term bonds due July 1, 2042, with interest at 6.35%.	<u>14,565</u>
Total	<u>\$ 222,365</u>

1999

Series 1996 a dated November 1, 1996. \$42,530 due serially from 1999 to 2008, with interest rates of 4.2% to 5.3%; \$8,775 term bonds due January 1, 2010, with interest at 5.5%; \$1,395 term bonds due January 1, 2016, with interest at 5.8%, \$43,110 term bonds due July 1, 2016, with interest at 5.875%, \$19,200 term bonds due July 1, 2023, with interest at 5.95%.	\$ 115,010
Series 1996 B dated November 1, 1996. \$520 due serially from 1999 to 2008, with interest rates of 4.2% to 5.3%; \$640 term bonds due July 1, 2016, with interest at 5.875%; \$1,345 term bonds due July 1, 2028, with interest at 5.95%.	2,505
Series 1997 A dated June 1, 1997. \$3,225 due serially from 2000 to 2009, with interest rates of 4.30% to 5.20%; \$4,200 term bonds due July 1, 2017, with interest at 5.70%; \$9,110 term bonds due July 1, 2027, with interest at 5.85%; \$20,600 term bonds due July 1, 2039, with interest at 6.00%.	37,135
Series 1997 B dated September 1, 1997. \$650 due serially from 2000 to 2009, with interest rates of 4.15% to 5.00%; \$860 term bonds due July 1, 2017, with interest at 5.55%; \$1,850 term bonds due July 1, 2027, with interest at 5.65%; \$4,300 term bonds due July 1, 2039, with interest at 5.75%.	7,660
Series 1997 C dated December 1, 1997. \$1,440 due serially from 2000 to 2010, with interest rates of 4.00% to 5.00%; \$1,465 term bonds due July 1, 2017, with interest at 5.45%; \$1,140 term bonds due July 1, 2021, with interest at 5.5%; \$2,300 term bonds due July 1, 2027, with interest at 5.55%; \$7,730 term bonds due July 1, 2039, with interest at 5.65%.	14,075

Series 1998 A dated April 1, 1998.

\$1,920 due serially from 2000 to 2015, with interest rates of 4.00% to 5.30%; \$1,020 term bonds due July 1, 2020, with interest at 5.45%; \$3,090 term bonds due July 1, 2030, with interest at 5.50%; \$5,000 term bonds due January 1, 2040, with interest at 5.625%.

\$ 11,030

Series 1999 A dated February 1, 1999.

\$1,820 due serially from 2002 to 2012, with interest rates of 3.7% to 4.7%; \$1,475 term bonds due July 1 2018, with interest at 5.05%; \$1,655 term bonds due July 1, 2023, with interest at 5.1%; \$2,165 term bonds due July 1, 2028, with interest at 5.15%; \$1,610 term bonds due July 1, 2031, with interest at 5.2%; \$7,620 term bonds due July 1, 2041, with interest at 5.35%.

16,345

Total

\$ 203,760

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
\$4,205	\$4,610	\$5,085	\$5,340	\$5,635

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 percent of the principal amount.

6. Redemption of bonds and extraordinary item:

The provisions of the bond certificates require or allow for the redemption of bonds through the use of unexpended bond proceeds and excess funds accumulated primarily through prepayment of mortgage loans. Series 1996 A bonds were redeemed during the years ended June 30, 2000 and 1999. The redemption of bonds resulted in the write-off of any unamortized deferred issuance costs or original issue discounts net of unamortized original issue premiums. The corresponding loss has been recorded as an extraordinary item in the accompanying statements of revenues, expenses and changes in fund equity.

7. 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.

8. Subsequent event:

On August 24, 2000, CDA redeemed the following bonds:

Series 1996 A

\$315

**Community Development Administration
Housing Revenue Bond Program Fund**

**Supplemental disclosure of change in fair value of investments
June 30, 2000
(Unaudited)**

During fiscal year 1997, CDA adopted the provisions of The Government Accounting Standards Board (GASB) Statement No. 31. This statement requires the financial statements of CDA to reflect investments and mortgage-backed securities at fair value, and the increase or decrease in fair value is included on the statement of revenues, expenses and changes in fund equity.

For investments held by CDA as of June 30, 2000, the following schedule summarizes the differences between fair value and amortized costs attributable for each of these years:

Cumulative FY 1996 and prior periods	\$ —
FY 1997	(352)
FY 1998	832
FY 1999	(407)
FY 2000	<u>48</u>
Cumulative total	<u>\$ 121</u>

For mortgage-backed securities held by CDA as of June 30, 2000, the following schedule summarizes the differences between fair value and cost attributable for each of these years:

Cumulative FY 1996 and prior periods	\$ —
FY 1997	—
FY 1998	—
FY 1999	—
FY 2000	<u>(3,825)</u>
Cumulative total	<u>\$ (3,825)</u>