

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

**COMMUNITY DEVELOPMENT ADMINISTRATION
INFRASTRUCTURE FINANCING BONDS
(MBIA INSURED)**

JUNE 30, 2003 AND 2002

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

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INDEPENDENT AUDITORS' REPORT

Office of the Secretary
Department of Housing and Community Development

We have audited the accompanying financial statements of the Community Development Administration Infrastructure Financing Bonds (MBIA Insured) (the Fund) of the Department of Housing and Community Development of the State of Maryland as of and for the year ended June 30, 2003, as listed in the table of contents. 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. The financial statements of the Fund as of and for the year ended June 30, 2002, were audited by other auditors whose report, dated September 30, 2002, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

As discussed in Note A, the financial statements present only the Community Development Administration Infrastructure Financing Bonds (MBIA Insured) and do not purport to, and do not, present fairly the financial position of the Department of Housing and Community Development of the State of Maryland as of June 30, 2003, and the changes in its net assets and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the 2003 financial statements referred to above present fairly, in all material respects, the financial position of the Community Development Administration Infrastructure Financing Bonds (MBIA Insured) of the Department of Housing and Community Development of the State of Maryland as of June 30, 2003, and the changes in its net assets and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Baltimore, Maryland
September 26, 2003

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

BALANCE SHEETS
(in thousands)

June 30, 2003 and 2002

	2003	2002
RESTRICTED ASSETS		
Restricted current assets		
Cash and cash equivalents on deposit with trustee	\$ 852	\$ 2,367
Community facilities loans	3,537	3,340
Accrued interest and other receivables	677	705
Total restricted current assets	5,066	6,412
Restricted long-term assets		
Community facilities loans, net of current portion	63,011	66,423
Other receivables, net of current portion	730	843
Total restricted long-term assets	63,741	67,266
Total restricted assets	\$ 68,807	\$ 73,678
LIABILITIES AND NET ASSETS		
Current liabilities		
Bonds payable	\$ 3,650	\$ 3,340
Accrued interest payable	283	295
Due to local governments	441	1,980
Total current liabilities	4,374	5,615
Long-term liabilities		
Bonds payable, net of current portion	63,740	67,390
Advance trustee fees	126	103
Total long-term liabilities	63,866	67,493
Total liabilities	68,240	73,108
NET ASSETS		
Restricted	567	570
Total liabilities and net assets	\$ 68,807	\$ 73,678

See notes to financial statements

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

STATEMENTS OF REVENUE, EXPENSES AND
CHANGES IN NET ASSETS
(in thousands)

Years ended June 30, 2003 and 2002

	2003	2002
Operating revenue		
Interest on community facilities loans	\$ 3,511	\$ 3,651
Operating income	3,511	3,651
Nonoperating revenue (expenses)		
Interest income on cash accounts	9	19
Interest expense on bonds	(3,523)	(3,663)
Total nonoperating revenue (expenses)	(3,514)	(3,644)
CHANGES IN NET ASSETS	(3)	7
Net assets at beginning of year	570	563
Net assets at end of year	\$ 567	\$ 570

See notes to financial statements

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

STATEMENTS OF CASH FLOWS
(in thousands)

Years ended June 30, 2003 and 2002

	2003	2002
Cash flows from operating activities		
Principal and interest received on community facilities loans	\$ 6,867	\$ 6,707
Origination of community facilities loans	(1,539)	(7,215)
Advance trustee fees received	55	57
Trustee fees paid	(33)	(32)
	5,350	(483)
Net cash provided by (used in) operating activities		
Cash flows from investing activities		
Interest received on cash accounts	10	19
	10	19
Net cash provided by investing activities		
Cash flows from noncapital financing activities		
Payments on bond principal	(3,340)	(3,160)
Interest on bonds	(3,535)	(3,674)
	(6,875)	(6,834)
Net cash used in noncapital financing activities		
NET DECREASE IN CASH AND CASH EQUIVALENTS ON DEPOSIT WITH TRUSTEE	(1,515)	(7,298)
Cash and cash equivalents on deposit with trustee at beginning of year	2,367	9,665
Cash and cash equivalents on deposit with trustee at end of year	\$ 852	\$ 2,367

(continued)

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

STATEMENTS OF CASH FLOWS - CONTINUED
(in thousands)

Years ended June 30, 2003 and 2002

	2003	2002
Reconciliation of operating income to net cash from operating activities		
Operating income	\$ 3,511	\$ 3,651
Adjustments to reconcile operating income to net cash provided by (used in) operating activities		
Changes in assets and liabilities		
Decrease (increase) in community facilities loans	3,216	(4,187)
Decrease in accrued interest and other receivables	140	28
(Decrease) increase in other liabilities	(1,517)	25
	\$ 5,350	\$ (483)
Net cash provided by (used in) operating activities	\$ 5,350	\$ (483)

See notes to financial statements

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

NOTES TO FINANCIAL STATEMENTS
(in thousands)

June 30, 2003 and 2002

NOTE A - AUTHORIZING LEGISLATION AND 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 Financing Bonds (MBIA Insured) (the Fund). CDA's other funds are not included.

The Fund was established to issue bonds to provide funds for construction and permanent financing to local governments for public facilities.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Fund is set up in accordance with CDA's enabling legislation and the Resolution providing for the issuance of Infrastructure Bonds (MBIA Insured) (the Resolution). The Fund is an enterprise fund of the State of Maryland and uses the accrual basis of accounting.

Generally Accepted Accounting Principles

CDA reports its financial activities by applying Standards of Governmental Accounting and Financial Reporting as promulgated by the Governmental Accounting Standards Board (GASB). CDA has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. Consequently, CDA applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions, and ARBS of the Committee on Accounting Procedure issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Under GASB Statement No. 34, net assets should be reported as restricted when constraints placed on net assets use are either: externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or are imposed by law through constitutional provisions or enabling legislation. Accordingly, all net assets of the Fund are restricted as to their use as all net assets are pledged to bondholders.

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2003 and 2002

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Annual Financial Report normally includes a Management's Discussion and Analysis. Since CDA is an enterprise fund included in the State of Maryland's Comprehensive Annual Financial Reports, a separate Management's Discussion and Analysis is not required in these financial statements.

Cash and Cash Equivalents on Deposit with Trustee

Cash on deposit is primarily cash equivalents. Cash equivalents may include commercial paper, money market funds, repurchase agreements, investment agreements and any other investments, primarily U.S. Treasuries and agencies, which have maturities of 90 or less days at the time of purchase. As of June 30, 2003 and 2002, all of CDA's cash equivalents are invested in a money market mutual fund which is more fully described in Note C.

Community Facilities Loans

Community facilities loans are carried at their unpaid principal balances. See Note D for additional information on community facilities loans.

Allowance for Loan Losses

Community facilities loans are secured by the full faith and credit of the applicable local governments. Therefore, CDA has determined that no allowance for loan losses was necessary as of June 30, 2003 and 2002.

Accrued Interest and Other Receivables

Accrued interest includes both income on cash deposits and interest on loans. As of June 30, 2003 and 2002, all loans were current. Therefore, all accrued interest on loans was recorded during the year. Other receivables include additional principal due from local governments on refunded bonds. See Note E for additional information.

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2003 and 2002

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bonds Payable

Bonds payable are carried at their unpaid principal balances. There are no premiums or discounts to amortize. See Notes F and G for additional information.

Administrative Support

In addition to expenses incurred directly by the Fund, CDA receives certain support services from other divisions of DHCD. The costs of these services are allocated to CDA's General Bond Reserve Fund and reported in the financial statements of CDA's Revenue Obligation Funds. The General Bond Reserve Fund records these expenses as invoiced by DHCD for the fiscal year.

For the years ended June 30, 2003 and 2002, the costs for all of CDA's bond programs charged to CDA's General Bond Reserve Fund were:

	<u>2003</u>	<u>2002</u>
Salaries and related costs	\$ 5,473	\$ 5,646
General and administrative expenses	<u>2,350</u>	<u>1,977</u>
	<u>\$ 7,823</u>	<u>\$ 7,623</u>

The employees of CDA are covered by the Maryland State Retirement and Pension System (the System) and the costs of employees' retirement benefits are included in the salaries and related costs discussed above. See Note J for additional information.

Revenue and Expenses

The Fund distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from the community facilities loans originated by the Fund in connection with the Fund's principal ongoing operations. Operating revenue arises from the collection of interest on community facilities loans. Operating expenses are those costs incurred in the collection of this income. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2003 and 2002

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue, expenses, gains and losses during the reporting period. Actual results could differ from these estimates.

NOTE C - CASH AND CASH EQUIVALENTS ON DEPOSIT WITH TRUSTEE

Proceeds from bonds are invested in authorized investments as defined in the respective indentures until required for financing projects, redeeming outstanding bonds and notes, and funding program expenses. Authorized investments include obligations of the U.S. Treasury, U.S. Government agencies, political subdivisions in the United States, 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, 2003 and 2002, the Fund had \$852 and \$2,367, 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 AAA by Standard & Poor's and Aaa by Moody's Investors Services.

As of June 30, 2003 and 2002, 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.

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2003 and 2002

NOTE D - 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, 2003 and 2002. As of June 30, 2003, interest rates on such loans range from 4.15% to 6.77% with remaining loan terms ranging from less than 3 years to 28 years. As of June 30, 2002, interest rates on such loans range from 4.0% to 6.81%, with remaining loan terms ranging from less than 1 year to 29 years.

NOTE E - ACCRUED INTEREST AND OTHER CURRENT RECEIVABLES

Current accrued interest and other receivables as of June 30, 2003 and 2002, were as follows:

	<u>2003</u>	<u>2002</u>
Accrued interest on community facilities loans	\$ 564	\$ 580
Accrued interest on cash deposits	-	1
Additional principal due on refunded bonds	<u>113</u>	<u>124</u>
	<u>\$ 677</u>	<u>\$ 705</u>

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2003 and 2002

NOTE F - BONDS PAYABLE

The bonds issued by CDA are special obligations of CDA and are payable from the revenue and special funds of the applicable programs. These bonds 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 provisions of the Resolution require or allow for the redemption of bonds through the use of unexpended bond proceeds and excess funds accumulated primarily through prepayment of community facilities loans. All outstanding bonds are subject to redemption at the option of CDA, in whole or in part at any time after certain dates, as specified in the respective series resolutions. The prescribed redemption prices range from 100% to 102% of the principal amount. All bonds have fixed interest rates.

The following is a summary of the bond activity for the year ended June 30, 2003, and bonds payable as of June 30, 2003:

Bond	Issue dated	Range of interest rates	Range of maturities	Bonds payable at June 30, 2002	Bond Activity		Bonds payable at June 30, 2003
					New bonds issued	Scheduled maturity payments	
Infrastructure Financing Bonds (MBIA Insured)							
1996 Series A	05/01/96	4.90%-5.90%	2003-2026	\$ 6,920	\$ -	\$ (310)	\$ 6,610
1997 Series A	04/15/97	5.00%-5.625%	2003-2027	8,020	-	(410)	7,610
1998 Series A	02/15/98	4.00%-5.00%	2003-2018	4,870	-	(400)	4,470
1998 Series B	06/01/98	4.15%-5.20%	2003-2028	24,745	-	(1,450)	23,295
1998 Series C	06/01/98	4.05%-5.15%	2003-2020	1,785	-	(175)	1,610
1999 Series A	03/01/99	4.20%-5.00%	2003-2029	6,565	-	(185)	6,380
2000 Series A	03/01/00	5.125%-5.875%	2003-2030	7,555	-	(280)	7,275
2001 Series A	03/01/01	4.00%-5.00%	2003-2031	8,340	-	(130)	8,210
2001 Series B	03/01/01	6.25%-6.80%	2006-2021	1,930	-	-	1,930
Totals				<u>\$ 70,730</u>	<u>\$ -</u>	<u>\$ (3,340)</u>	<u>\$ 67,390</u>

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2003 and 2002

NOTE F - BONDS PAYABLE (Continued)

The following is a summary of the bond activity for the year ended June 30, 2002, and bonds payable as of June 30, 2002:

Bond	Issue dated	Range of interest rates	Range of maturities	Bonds payable at June 30, 2001	Bond Activity		Bonds payable at June 30, 2002
					New bonds issued	Scheduled maturity payments	
Infrastructure Financing Bonds (MBIA Insured)							
1996 Series A	05/01/96	4.90%-5.90%	2003-2026	\$ 7,215	\$ -	\$ (295)	\$ 6,920
1997 Series A	04/15/97	5.00%-5.625%	2003-2027	8,430	-	(410)	8,020
1998 Series A	02/15/98	4.00%-5.00%	2003-2018	5,255	-	(385)	4,870
1998 Series B	06/01/98	4.15%-5.20%	2003-2028	26,100	-	(1,355)	24,745
1998 Series C	06/01/98	4.05%-5.15%	2002-2020	1,945	-	(160)	1,785
1999 Series A	03/01/99	4.20%-5.00%	2003-2029	6,740	-	(175)	6,565
2000 Series A	03/01/00	5.125%-5.875%	2003-2030	7,815	-	(260)	7,555
2001 Series A	03/01/01	4.00%-5.00%	2003-2031	8,460	-	(120)	8,340
2001 Series B	03/01/01	6.25%-6.80%	2006-2021	1,930	-	-	1,930
Totals				<u>\$ 73,890</u>	<u>\$ -</u>	<u>\$ (3,160)</u>	<u>\$ 70,730</u>

NOTE G - DEBT SERVICE REQUIREMENTS

As of June 30, 2003, the required principal payments for bonds (including mandatory sinking fund payments) and interest payments for each of the next five years and in five-year increments thereafter, are as follows:

Years ended June 30,	Interest	Principal
2004	\$ 3,389	\$ 3,650
2005	3,225	3,705
2006	3,057	3,835
2007	2,884	3,695
2008	2,711	3,770
2009 - 2013	10,994	16,185
2014 - 2018	7,234	14,265
2019 - 2023	3,681	10,200
2024 - 2028	1,348	7,120
2029 - 2033	77	965
Total	<u>\$ 38,600</u>	<u>\$ 67,390</u>

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2003 and 2002

NOTE G - DEBT SERVICE REQUIREMENTS (Continued)

As of June 30, 2002, the required principal payments for bonds (including mandatory sinking fund payments) and interest payments for each of the next five years and in five-year increments thereafter, are as follows:

<u>Years ended June 30,</u>	<u>Interest</u>	<u>Principal</u>
2003	\$ 3,536	\$ 3,340
2004	3,389	3,650
2005	3,226	3,705
2006	3,057	3,835
2007	2,883	3,695
2008 - 2012	11,822	17,070
2013 - 2017	7,976	14,275
2018 - 2022	4,304	11,585
2023 - 2027	1,756	7,510
2028 - 2032	187	2,065
Total	<u>\$ 42,136</u>	<u>\$ 70,730</u>

NOTE H - LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended June 30, 2003, were as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Due within one year</u>	<u>Ending balance</u>
Long-term bonds payable	\$ 67,390	\$ -	\$ -	\$ (3,650)	\$ 63,740
Advance trustee fees	103	56	(33)	-	126
Total long-term liabilities	<u>\$ 67,493</u>	<u>\$ 56</u>	<u>\$ (33)</u>	<u>\$ (3,650)</u>	<u>\$ 63,866</u>

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2003 and 2002

NOTE H - LONG-TERM OBLIGATIONS (Continued)

Changes in long-term obligations for the year ended June 30, 2002, were as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Due within one year</u>	<u>Ending balance</u>
Long-term bonds payable	\$ 70,730	\$ -	\$ -	\$ (3,340)	\$ 67,390
Advance trustee fees	<u>78</u>	<u>57</u>	<u>(32)</u>	<u>-</u>	<u>103</u>
Total long-term liabilities	<u>\$ 70,808</u>	<u>\$ 57</u>	<u>\$ (32)</u>	<u>\$ (3,340)</u>	<u>\$ 67,493</u>

NOTE I - BOND INSURANCE

All outstanding bonds of the Fund are insured by MBIA. The provisions of the policy require the insurer to pay that portion of the principal and interest on the bonds which become due for payment but are not paid by CDA. The insurance generally extends for the term of the bonds and cannot be cancelled by the insurer.

NOTE J - PENSION AND OTHER POST-RETIREMENT 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 post-employment benefits is its required annual contribution, which was paid in full by CDA to the State of Maryland prior to year end. The System prepares a separate audited Comprehensive Annual Financial Report which can be obtained from the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202, or by visiting the website at www.sra.state.md.us.