

COMMUNITY DEVELOPMENT ADMINISTRATION
INFRASTRUCTURE PROGRAM FUNDS

Financial Statements

For the year ended June 30, 2002 with Report of Independent Auditors

Community Development Administration
Infrastructure Program Funds

Financial Statements

June 30, 2002

Contents

Report of Independent Auditors.....	1
Audited Financial Statements	
Balance Sheet.....	2
Statement of Revenues, Expenses and Changes in Net Assets.....	3
Statement of Cash Flows.....	4
Notes to Financial Statements.....	6

Report of Independent Auditors

Office of the Secretary
Department of Housing and Community Development:

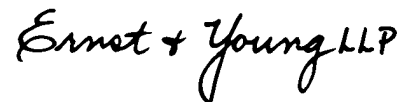
We have audited the accompanying financial statements of the Community Development Administration Infrastructure Program Funds (the Funds) as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the Funds' management. Our responsibility 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.

As discussed in Note 1, the financial statements present only the Community Development Administration Infrastructure Program Funds 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, 2002, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States.

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 Funds of the Department of Housing and Community Development of the State of Maryland at June 30, 2002, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the financial statements, the Community Development Administration Infrastructure Program Funds adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and GASB Statement No. 38, *Certain Financial Statement Disclosures*.

The logo for Ernst & Young LLP is written in a cursive, handwritten style. The letters are dark and the overall appearance is that of a signature or a stylized brand mark.

September 30, 2002

Community Development Administration
Infrastructure Program Funds

Balance Sheet

June 30, 2002
(in thousands)

	Infrastructure Financing Bonds (AMBAC Insured)	Infrastructure Financing Bonds (MBIA Insured)	Local Government Infrastructure Bonds (Ambac Insured)	Combined
Restricted assets				
Restricted current assets:				
Cash on deposit with trustee	\$ 419	\$ 2,367	\$ 10,607	\$ 13,393
Community facilities loans	440	3,340	320	4,100
Accrued interest and other receivables	90	705	50	845
Total restricted current assets	949	6,412	10,977	18,338
Restricted long-term assets:				
Community facilities loans, net of current portion	8,730	66,423	11,470	86,623
Other receivables, net of current portion	-	843	-	843
Total restricted long-term assets	8,730	67,266	11,470	87,466
Total restricted assets	\$ 9,679	\$ 73,678	\$ 22,447	\$ 105,804
Liabilities and net assets				
Current liabilities:				
Accrued interest payable	\$ 43	\$ 295	\$ 42	\$ 380
Bonds payable	440	3,340	320	4,100
Other liabilities	-	1,980	10,571	12,551
Total current liabilities	483	5,615	10,933	17,031
Long-term liabilities:				
Bonds payable, net of current portion	8,730	67,390	11,470	87,590
Other liabilities, net of current portion	14	103	1	118
Total long-term liabilities	8,744	67,493	11,471	87,708
Total liabilities	9,227	73,108	22,404	104,739
Net assets:				
Restricted	452	570	43	1,065
Total net assets	452	570	43	1,065
Total liabilities and net assets	\$ 9,679	\$ 73,678	\$ 22,447	\$ 105,804

See accompanying notes.

Community Development Administration
Infrastructure Program Funds

Statement of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2002
(in thousands)

	Infrastructure Financing Bonds (AMBAC Insured)	Infrastructure Financing Bonds (MBIA Insured)	Local Government Infrastructure Bonds (Ambac Insured) (March 1, 2002 to June 30, 2002)	Combined
Operating revenues				
Interest on community facilities loans	\$ 793	\$ 3,651	\$ 194	\$ 4,638
Operating expenses				
Trustee and legal costs	9	-	-	9
Operating income	784	3,651	194	4,629
Nonoperating revenues (expenses)				
Interest income on cash accounts	10	19	1	30
Interest expense on bonds	(773)	(3,663)	(152)	(4,588)
	(763)	(3,644)	(151)	(4,558)
Changes in net assets	\$ 21	\$ 7	\$ 43	\$ 71
Changes in net assets				
Net assets at beginning of year	\$ 431	\$ 563	\$ -	\$ 994
Changes in net assets	21	7	43	71
Net assets at end of year	\$ 452	\$ 570	\$ 43	\$ 1,065

See accompanying notes.

Community Development Administration
Infrastructure Program Funds

Statement of Cash Flows

For the year ended June 30, 2002
(in thousands)

	Infrastructure Financing Bonds (AMBAC Insured)	Infrastructure Financing Bonds (MBIA Insured)	Local Government Infrastructure Bonds (Ambac Insured) (March 1, 2002 to June 30, 2002)	Combined
Operating activities				
Principal and interest received on community facilities loans	\$ 5,475	\$ 6,707	\$ 144	\$ 12,326
Origination of community facilities loans	-	(7,215)	(1,219)	(8,434)
Advance trustee fees received	6	57	1	64
Trustee fees paid	(13)	(32)	-	(45)
Net cash from operating activities	5,468	(483)	(1,074)	3,911
Investing activities				
Interest received on cash accounts	11	19	1	31
Net cash from investing activities	11	19	1	31
Noncapital financing activities				
Proceeds from sale of bonds	-	-	11,790	11,790
Payments on bond principal	(4,630)	(3,160)	-	(7,790)
Interest on bonds	(799)	(3,674)	(110)	(4,583)
Net cash from noncapital financing activities	(5,429)	(6,834)	11,680	(583)
Net increase (decrease) in cash on deposit with trustee	50	(7,298)	10,607	3,359
Cash on deposit with trustee at beginning of year	369	9,665	-	10,034
Cash on deposit with trustee at end of year	\$ 419	\$ 2,367	\$ 10,607	\$ 13,393

Community Development Administration
Infrastructure Program Funds

Statement of Cash Flows (continued)

(in thousands)

	Infrastructure Financing Bonds (AMBAC Insured)	Infrastructure Financing Bonds (MBIA Insured)	Local Government Infrastructure Bonds (Ambac Insured) (March 1, 2002 to June 30, 2002)	Combined
Reconciliation of operating income to net cash from operating activities				
Operating income	\$ 784	\$ 3,651	\$ 194	\$ 4,629
Adjustments to reconcile operating income to net cash from operating activities:				
Decrease (increase) in community facilities loans	4,631	(4,187)	(1,219)	(775)
Decrease (increase) in accrued interest and other receivables	51	28	(50)	29
Increase in other liabilities	2	25	1	28
Net cash from operating activities	<u>\$ 5,468</u>	<u>\$ (483)</u>	<u>\$ (1,074)</u>	<u>\$ 3,911</u>

See accompanying notes.

Community Development Administration
Infrastructure Program Funds

Notes to Financial Statements

June 30, 2002
(in thousands)

1. 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 Program Funds (the Funds). CDA's other programs are not included. However, CDA has also issued audited financial statements for the Revenue Obligation Funds. Both the Infrastructure Program Funds and the Revenue Obligation Funds are enterprise funds of the State of Maryland and are included in the State of Maryland's Comprehensive Annual Financial Report.

Infrastructure Program Funds include three fund groups: Infrastructure Financing Bonds (AMBAC Insured), Infrastructure Financing Bonds (MBIA Insured), and Local Government Infrastructure Bonds (Ambac Insured). Within each fund group are separate funds maintained for each obligation in accordance with the respective resolutions and series resolutions. All bonds in the Infrastructure Program Funds were issued to provide funds for construction and permanent financing to local governments for public facilities.

The first Local Government Infrastructure Bonds (Ambac Insured) were issued on March 1, 2002. Consequently, the changes in financial position and cash flows of that Fund cover the period from March 1, 2002 to June 30, 2002 in these financial statements.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accounts are organized on the basis of funds, each of which is a separate accounting entity. The Funds are set up primarily in accordance with CDA's enabling legislation and the various bond resolutions. The Funds use the accrual basis of accounting. The Funds are included in the State of Maryland's Comprehensive Annual Financial Report.

Community Development Administration
Infrastructure Program Funds

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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.

Recent Accounting Pronouncements

Both GASB Statement No. 34 *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and GASB Statement No. 37 *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* were adopted for the period ended June 30, 2002.

Adoption of these statements required the following principal changes from the prior year's presentation:

- Balance Sheet is now modified to a classified presentation;
- Fund Balances are now designated as Net Assets, which are classified as Restricted or Unrestricted;
- Statement of Revenues, Expenses and Changes in Net Assets is now formatted to identify operating income and expenses;
- Statement of Cash Flows presentation is now based on the direct method; and
- 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 Report, a separate Management's Discussion and Analysis is not required in these financial statements.

Community Development Administration
Infrastructure Program Funds

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

CDA has also adopted GASB Statement No. 38 *Certain Financial Note Disclosures* which require additional disclosure on debt. See Note 6 and Note 7 for additional information. GASB Statement No. 38 also requires additional disclosures on receivables and payables which is more fully described in Note 5.

The adoption of these GASB statements for the period ended June 30, 2002 had no effect on the financial results of the Funds.

Under implementation guidance for GASB Statement No. 34 and GASB Statement No. 38, the presentation of comparative statements would have necessitated restatement of the June 30, 2001 Balance Sheet on a classified basis and the June 30, 2001 Statement of Cash Flows using the direct method. Since the financial statements as of June 30, 2001 were audited by other auditors who have ceased operations, there was no practical means to obtain these audited restatements without performing a complete reaudit. Therefore, the June 30, 2002 financial statements have a single year presentation.

Cash 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, 2002, all of CDA's cash equivalents are invested in a money market mutual fund which is more fully described in Note 3.

Community Facilities Loans

Community facilities loans are carried at their unpaid principal balances. See Note 4 for additional information on community facilities loans.

Community Development Administration
Infrastructure Program Funds

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Allowance for Loan Losses

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

Accrued Interest and Other Receivables

Accrued interest includes both interest on cash deposits and interest on loans. As of June 30, 2002, no loans were delinquent. Therefore, all accrued interest on loans was recorded during the year. Other receivables includes additional principal due from local governments on refunded bonds. See Note 5 for additional information.

Bonds Payable

Bonds payable are carried at their unpaid principal balances. There are no premiums or discounts to amortize. See Notes 6 and 7 for additional information Other Liabilities

This account consists primarily of undisbursed loan proceeds.

Restricted Net Assets

Under GASB Statement No. 34, net assets should be reported as restricted when constraints placed on net asset 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 Funds are restricted as to their use.

Administrative Support

In addition to expenses incurred directly by the Funds, CDA receives certain support services from other divisions of DHCD. The cost 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.

Community Development Administration
Infrastructure Program Funds

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Administrative Support (continued)

For the year ended June 30, 2002 the allocation to CDA's General Bond Reserve Fund was:

Salaries and related costs	\$ 5,646
General and administrative expenses	<u>1,977</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 9 for additional information.

Revenue and Expenses

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

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.

Community Development Administration
Infrastructure Program Funds

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Combined Totals

The totals of similar accounts of the Funds in the accompanying financial statements are presented for informational purposes only. The totals only represent an aggregation of the Funds and do not represent consolidated financial information.

3. Cash on Deposit with Trustee

Proceeds from bonds are invested in authorized investments as defined in the respective resolutions 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, 2002, the Funds had \$13,393 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, 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.

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, 2002. Interest rates on such loans range from 3.78% to 6.81%, with remaining loan terms ranging from less than 1 year to 30 years.

Community Development Administration
Infrastructure Program Funds

Notes to Financial Statements (continued)

5. Accrued Interest and Other Current Receivables and Other Current Liabilities

Accrued interest and other current receivables as of June 30, 2002, were as follows:

	Infrastructure Financing Bonds (AMBAC Insured)	Infrastructure Financing Bonds (MBIA Insured)	Local Government Infrastructure Bonds (Ambac Insured)	Combined
Accrued interest on community facilities loans	\$ 89	\$ 580	\$ 50	\$ 719
Accrued interest on cash deposits	1	1	-	2
Additional principal due on refunded bonds	-	124	-	124
Total	\$ 90	\$ 705	\$ 50	\$ 845

Other current liabilities as of June 30, 2002, were as follows:

	Infrastructure Financing Bonds (AMBAC Insured)	Infrastructure Financing Bonds (MBIA Insured)	Local Government Infrastructure Bonds (Ambac Insured)	Combined
Due to local governments	\$ -	\$ 1,602	\$ 10,571	\$ 12,173
Debt service escrow	-	378	-	378
Total	\$ -	\$ 1,980	\$ 10,571	\$ 12,551

Community Development Administration
Infrastructure Program Funds

Notes to Financial Statements (continued)

6. Bonds Payable

The bonds issued by CDA are special obligations of CDA and are payable from the revenues and special funds of the applicable programs. These bonds 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 provisions of the various bond resolutions 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 bond activity for the year ended June 30, 2002 and bonds payable as of June 30, 2002:

	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 Payment	Redemption	
Infrastructure Financing Bonds (AMBAC Insured)								
1992 Series A	02/01/92	6.00%-6.625%	2002-2012	\$ 4,905	\$ -	\$ (320)	\$ (3,935)	\$ 650
1994 Series A	02/01/94	4.85%-5.70%	2003-2024	6,205	-	(205)	-	6,000
1995 Series A	04/01/95	5.40%-6.20%	2003-2025	2,690	-	(170)	-	2,520
Infrastructure Financing Bonds (AMBAC Insured)				<u>\$ 13,800</u>	<u>\$ -</u>	<u>\$ (695)</u>	<u>\$ (3,935)</u>	<u>\$ 9,170</u>
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
Infrastructure Financing Bonds (MBIA Insured)				<u>\$ 73,890</u>	<u>\$ -</u>	<u>\$ (3,160)</u>	<u>\$ -</u>	<u>\$ 70,730</u>
Local Government Infrastructure Bonds (Ambac Insured)								
2002 Series A	03/01/02	3.00%-5.00%	2003-2032	\$ -	\$ 11,790	\$ -	\$ -	\$ 11,790
Local Government Infrastructure Bonds (Ambac Insured)				<u>\$ -</u>	<u>\$ 11,790</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,790</u>

Community Development Administration
Infrastructure Program Funds

Notes to Financial Statements (continued)

7. Debt Service Requirements

As of June 30, 2002, the required 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:

For the Year Ended June 30,	Infrastructure Financing Bonds (AMBAC Insured)		Infrastructure Financing Bonds (MBIA Insured)		Local Government Infrastructure Bonds (Ambac Insured)	
	Interest	Principal	Interest	Principal	Interest	Principal
2003	\$ 522	\$ 440	\$ 3,536	\$ 3,340	\$ 510	\$ 320
2004	499	460	3,389	3,650	500	330
2005	474	475	3,226	3,705	490	340
2006	449	420	3,057	3,835	480	355
2007	426	450	2,883	3,695	469	365
2008–2012	1,732	2,340	11,822	17,070	2,138	2,040
2013–2017	1,090	1,975	7,976	14,275	1,693	2,465
2018–2022	530	1,830	4,304	11,585	1,097	2,905
2023–2027	73	780	1,756	7,510	556	1,175
2028–2032	–	–	187	2,065	232	1,495
Total	\$ 5,795	\$ 9,170	\$ 42,136	\$ 70,730	\$ 8,165	\$ 11,790

8. Bond Insurance

All outstanding bonds in the Infrastructure Program Funds are insured. The Local Government Infrastructure Bonds 2002 Series A and the Infrastructure Financing Bonds 1992 Series A through 1995 Series A are insured by Ambac Assurance Corporation. The Infrastructure Financing Bonds 1996 Series A through 2001 Series B are insured by MBIA Insurance Corporation. The provisions of the policies require the insurer to pay that portion of the principal of 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 canceled by the insurer.

9. 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 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.