

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

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

JUNE 30, 2004 AND 2003

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 years ended June 30, 2004 and 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 audits.

We conducted our audits 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 audits provide 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, 2004 and 2003, and the changes in its net assets and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph 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, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Baltimore, Maryland
September 28, 2004

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

STATEMENTS OF NET ASSETS
(in thousands)

June 30, 2004 and 2003

	2004	2003
RESTRICTED ASSETS		
Restricted current assets		
Cash and cash equivalents on deposit with trustee	\$ 437	\$ 852
Community facilities loans	3,705	3,537
Accrued interest and other receivables	656	677
Total restricted current assets	4,798	5,066
Restricted long-term assets		
Community facilities loans, net of current portion	59,305	63,011
Other receivables, net of current portion	626	730
Total restricted long-term assets	59,931	63,741
Total restricted assets	\$ 64,729	\$ 68,807
LIABILITIES AND NET ASSETS		
Current liabilities		
Bonds payable	\$ 3,705	\$ 3,650
Accrued interest payable	269	283
Due to local governments	-	441
Total current liabilities	3,974	4,374
Long-term liabilities		
Bonds payable, net of current portion	60,035	63,740
Advance trustee fees	145	126
Total long-term liabilities	60,180	63,866
Total liabilities	64,154	68,240
NET ASSETS		
Restricted	575	567
Total liabilities and net assets	\$ 64,729	\$ 68,807

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, 2004 and 2003

	2004	2003
Operating revenue		
Interest on community facilities loans	\$ 3,376	\$ 3,511
Interest income on cash equivalents	7	9
	3,383	3,520
Operating expenses		
Interest expense on bonds	3,375	3,523
Operating income (loss)	8	(3)
CHANGES IN NET ASSETS	8	(3)
Net assets at beginning of year	567	570
Net assets at end of year	\$ 575	\$ 567

See notes to financial statements

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

STATEMENTS OF CASH FLOWS
(in thousands)

Years ended June 30, 2004 and 2003

	2004	2003
Cash flows from operating activities		
Principal and interest received on community facilities loans	\$ 7,038	\$ 6,867
Origination of community facilities loans	(441)	(1,539)
Advance trustee fees received	54	55
Trustee fees paid	(35)	(33)
	6,616	5,350
Net cash provided by operating activities		
Cash flows from investing activities		
Interest received on cash equivalents	7	10
	7	10
Net cash provided by investing activities		
Cash flows from noncapital financing activities		
Payments on bond principal	(3,650)	(3,340)
Interest on bonds	(3,388)	(3,535)
	(7,038)	(6,875)
Net cash used in noncapital financing activities		
NET DECREASE IN CASH AND CASH EQUIVALENTS ON DEPOSIT WITH TRUSTEE	(415)	(1,515)
Cash and cash equivalents on deposit with trustee at beginning of year	852	2,367
Cash and cash equivalents on deposit with trustee at end of year	\$ 437	\$ 852

(continued)

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

STATEMENTS OF CASH FLOWS - CONTINUED
(in thousands)

Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Reconciliation of operating income (loss) to net cash from operating activities		
Operating income (loss)	\$ 8	\$ (3)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Decrease in community facilities loans	3,538	3,216
Decrease in accrued interest and other receivables	125	140
Decrease in accrued interest payable	(14)	(11)
Decrease in other liabilities	(422)	(1,517)
Interest received on cash equivalents	(7)	(10)
Interest on bonds	3,388	3,535
	<u>3,388</u>	<u>3,535</u>
Net cash provided by operating activities	<u>\$ 6,616</u>	<u>\$ 5,350</u>

See notes to financial statements

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

NOTES TO FINANCIAL STATEMENTS
(in thousands)

June 30, 2004 and 2003

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 Financing 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.

CDA has adopted GASB Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis*. 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, 2004 and 2003

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Annual Financial Report may include 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. CDA prepares a Management's Discussion and Analysis for the General Accounting Division of the State of Maryland that is not part of these financial statements.

Cash and Cash Equivalents on Deposit with Trustee

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, 2004 and 2003, 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, 2004 and 2003.

Accrued Interest and Other Receivables

Accrued interest includes both income on cash deposits and interest on loans. As of June 30, 2004 and 2003, 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, 2004 and 2003

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, G and I for additional information.

Administrative Support

In addition to expenses incurred directly by the Fund, CDA receives certain support services from other divisions of DHCD. Support services and the operating expenses of CDA have been allocated to CDA's General Bond Reserve Fund and are 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.

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 charged to CDA's General Bond Reserve Fund. See Note J for additional information.

Revenue and Expenses

The Fund distinguishes operating revenue and expenses from nonoperating items in conformity with GASB Statement No. 34. Operating revenue and expenses are identified as those activities that are directly related to financing public facilities for local governments. All of the Fund's activities are considered to be operating.

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.

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2004 and 2003

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Due to Local Governments

CDA records the total loan amount when the loan closes and collects interest from the local government on this full amount from the date of closing. Due to local governments represents the undrawn loan amount which is held by CDA as an escrow until the funds are needed by the local government.

Reclassifications

Certain 2003 amounts have been reclassified to conform to 2004 financial statement presentation.

NOTE C - CASH AND CASH EQUIVALENTS ON DEPOSIT WITH TRUSTEE

Proceeds from bonds are invested in authorized investments as defined in the Resolution 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, 2004 and 2003, the Fund had \$437 and \$852, respectively, invested in money market mutual funds (Federated Treasury Obligations Fund and ARK U.S. Government Cash Management Corporate II Class Fund, respectively) which are classified as cash and cash equivalents. The Federated Treasury Obligations Fund invests exclusively in U.S. Treasuries and in repurchase agreements collateralized by Treasury securities and is rated AAAM by Standard & Poor's and Aaa by Moody's Investors Services. As of June 30, 2003, the ARK U.S. Government Cash Management Corporate II Class Fund invested exclusively in obligations of the U.S. Government and its agencies and instrumentalities and in repurchase agreements. It was rated AAA by Standard & Poor's and Aaa by Moody's Investors Services as of June 30, 2003.

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2004 and 2003

NOTE C - CASH AND CASH EQUIVALENTS ON DEPOSIT WITH TRUSTEE (Continued)

As of June 30, 2004 and 2003, the cost of the money market mutual funds approximates fair value.

The money market mutual funds are not categorized by credit risk because they are not evidenced by securities that exist in physical or book entry form.

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, 2004 and 2003. As of June 30, 2004, interest rates on such loans range from 4.07% to 6.81% with remaining loan terms ranging from less than 1 year to 27 years. 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.

NOTE E - ACCRUED INTEREST AND OTHER CURRENT RECEIVABLES

Current accrued interest and other receivables as of June 30, 2004 and 2003, were as follows:

	<u>2004</u>	<u>2003</u>
Accrued interest on community facilities loans	\$ 552	\$ 564
Additional loan principal as a result of bond refundings	<u>104</u>	<u>113</u>
	<u>\$ 656</u>	<u>\$ 677</u>

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 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 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 101% of the principal amount. All bonds have fixed interest rates and all bonds are tax-exempt except for 2001 Series B.

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2004 and 2003

NOTE F - BONDS PAYABLE (Continued)

The following is a summary of the bond activity for the year ended June 30, 2004 and bonds payable as of June 30, 2004:

Bond	Issue dated	Range of interest rates	Range of maturities	Bonds payable at June 30, 2003	Bond Activity		Bonds payable at June 30, 2004
					New bonds issued	Scheduled maturity payments	
Infrastructure Financing Bonds (MBIA Insured)							
1996 Series A	5/1/1996	5.00%-5.90%	2004-2026	\$ 6,610	\$ -	\$ (325)	\$ 6,285
1997 Series A	4/15/1997	5.05%-5.75%	2004-2027	7,610	-	(430)	7,180
1998 Series A	2/15/1998	4.125%-5.00%	2004-2018	4,470	-	(355)	4,115
1998 Series B	6/1/1998	4.25%-5.20%	2004-2028	23,295	-	(1,495)	21,800
1998 Series C	6/1/1998	4.15%-5.15%	2003-2020	1,610	-	(180)	1,430
1999 Series A	3/1/1999	4.20%-5.00%	2004-2029	6,380	-	(190)	6,190
2000 Series A	3/1/2000	5.125%-5.875%	2004-2030	7,275	-	(295)	6,980
2001 Series A	3/1/2001	4.00%-5.00%	2004-2031	8,210	-	(320)	7,890
2001 Series B	3/1/2001	6.25%-6.80%	2006-2021	1,930	-	(60)	1,870
Totals				\$ 67,390	\$ -	\$ (3,650)	\$ 63,740

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	5/1/1996	4.90%-5.90%	2003-2026	\$ 6,920	\$ -	\$ (310)	\$ 6,610
1997 Series A	4/15/1997	5.00%-5.625%	2003-2027	8,020	-	(410)	7,610
1998 Series A	2/15/1998	4.00%-5.00%	2003-2018	4,870	-	(400)	4,470
1998 Series B	6/1/1998	4.15%-5.20%	2003-2028	24,745	-	(1,450)	23,295
1998 Series C	6/1/1998	4.05%-5.15%	2002-2020	1,785	-	(175)	1,610
1999 Series A	3/1/1999	4.20%-5.00%	2003-2029	6,565	-	(185)	6,380
2000 Series A	3/1/2000	5.125%-5.875%	2003-2030	7,555	-	(280)	7,275
2001 Series A	3/1/2001	4.00%-5.00%	2003-2031	8,340	-	(130)	8,210
2001 Series B	3/1/2001	6.25%-6.80%	2006-2021	1,930	-	-	1,930
Totals				\$ 70,730	\$ -	\$ (3,340)	\$ 67,390

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2004 and 2003

NOTE G - DEBT SERVICE REQUIREMENTS

As of June 30, 2004, 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>
2005	\$ 3,226	\$ 3,705
2006	3,057	3,835
2007	2,884	3,695
2008	2,711	3,770
2009	2,534	3,635
2010 - 2014	10,199	15,240
2015 - 2019	6,483	14,110
2020 - 2024	3,131	9,205
2025 - 2029	963	6,170
2030 - 2034	24	375
Total	<u>\$ 35,212</u>	<u>\$ 63,740</u>

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:

<u>Years ended June 30,</u>	<u>Interest</u>	<u>Principal</u>
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, 2004 and 2003

NOTE H - LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended June 30, 2004, 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	\$ 63,740	\$ -	\$ -	\$ (3,705)	\$ 60,035
Advance trustee fees	<u>126</u>	<u>54</u>	<u>(35)</u>	<u>-</u>	<u>145</u>
Total long-term liabilities	<u>\$ 63,866</u>	<u>\$ 54</u>	<u>\$ (35)</u>	<u>\$ (3,705)</u>	<u>\$ 60,180</u>

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	<u>103</u>	<u>56</u>	<u>(33)</u>	<u>-</u>	<u>126</u>
Total long-term liabilities	<u>\$ 67,493</u>	<u>\$ 56</u>	<u>\$ (33)</u>	<u>\$ (3,650)</u>	<u>\$ 63,866</u>

NOTE I - BOND INSURANCE

All outstanding bonds of the Fund are insured by MBIA Insurance Corporation. 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.

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2004 and 2003

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.