ARTHUR ANDERSEN

Community Development Administration Residential Revenue Bond Program Fund

Financial statements
As of June 30, 2000 and 1999
Together with report of independent public accountants

ARTHUR ANDERSEN

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 Residential 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 Residential 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 values 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. The 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.

Arthur Andersen LLP

Baltimore, Maryland
September 22, 2000

Community Development Administration
Residential Revenue Bond Program Fund

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

	2000	1999
Assets:		
Cash on deposit with trustee	$ 14,227	$ 1,814
Investments	397,893	267,338
Mortgage loans – single-family	386,861	175,054
Accrued interest and other receivables	7,931	4,736
Deferred bond issuance costs	5,482	2,868
Total assets	$ 812,394	$ 451,810
Liabilities and fund equity:		
Accrued interest payable	$ 11,267	$ 5,793
Accounts payable	463	472
Bonds payable	762,036	405,085
Due to other funds	20,068	26,595
Total liabilities	793,834	437,945
Commitments and contingencies		
Fund equity	18,560	13,865
Total liabilities and fund equity	$ 812,394	$ 451,810

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

Community Development Administration
Residential 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	$ 17,195	$ 6,967
Interest on investments	15,736	10,025
Decrease in fair value of investments	(227)	—
Loan fees	87	37
Other income	78	66
Total revenues	32,869	17,095
Expenses:		
Interest on bonds payable	26,712	13,841
Trustee, legal and mortgage servicing costs	942	396
Amortization of bond issuance costs	302	167
Other expense	911	886
Total expenses	28,867	15,290
Income before extraordinary item	4,002	1,805
Extraordinary item – loss on early extinguishment of bonds payable	(62)	(14)
Net income	3,940	1,791
Transfers of funds, net, at CDA's discretion, in accordance with the General Certificate Of Revenue Bond Authorization and the Certificate of General Authorization	755	260
Fund equity, beginning of period	13,865	11,814
Fund equity, end of period	$ 18,560	$ 13,865

The accompanying notes are an integral part of these statements.

Community Development Administration
Residential 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	$ 3,940	$ 1,791
Adjustments to reconcile net income to net cash used in operating activities–		
Decrease in fair value of investments	227	—
Purchase and origination of mortgage loans	(218,931)	(122,183)
Repayment of mortgage loans	5,528	2,771
Interest on investments	(15,736)	(10,025)
Increase in accrued interest and other receivables	(3,195)	(757)
(Decrease) increase in due to other funds	(6,527)	26,595
Increase in accrued and other liabilities	—	472
Decrease in accounts payable	(9)	—
Deferred loan fees collected	1,683	942
Amortization of investment premiums or discounts	(57)	—
Transfer of funds	755	260
Amortization of deferred loan fees	(87)	(37)
Amortization of deferred bond issuance costs	302	167
Interest expense	26,712	13,845
Net cash used in operating activities	(205,395)	(86,159)
Cash flows from investing activities:		
Proceeds from maturity and sale of investments	384,614	158,740
Purchase of investments	(469,431)	(232,557)
Interest on investments	15,736	10,025
Investments transferred to other fund	(45,908)	(26,595)
Net cash used in investing activities	(114,989)	(90,387)
Cash flows from noncapital financing activities:		
Proceeds from the sale of bonds	$ 464,751	$ 225,129
Principal payments	(107,795)	(33,710)
Decrease in deferred bond issuance costs due to redemption of related bonds	63	14
Bond issuance costs	(2,979)	(1,351)
Interest payments	(21,243)	(12,410)
Net cash provided by noncapital financing activities	332,797	177,672
Net increase in cash on deposit with trustee	12,413	1,126
Cash on deposit with trustee, beginning of period	1,814	688
Cash on deposit with trustee, end of period	$ 14,227	$ 1,814

The accompanying notes are an integral part of these statements.

Community Development Administration
Residential 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 Residential Revenue Bond Program Fund (the Fund). CDA's other programs are not included. The Fund was established to issue bonds to primarily originate or purchase single–family mortgage loans.

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 allowance for loan losses was 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:

	2000	1999
Salaries and related costs	$ 5,719	$ 5,952
General and administrative expenses	1,857	2,245
	$ 7,576	$ 8,197

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 and investments:

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 $14,227 and $1,814, 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 U.S. government agencies 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 U.S. government agencies	$ 167,020	$ 167,247	$ —	$ —
Securities held under repurchase agreements or guaranteed investment contracts	230,873	230,873	267,338	267,338
	$ 397,893	$ 398,120	$ 267,338	$ 267,338

Category of risk

Investments 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 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 or the Maryland Housing Fund. Interest rates on such loans range from 4.0% to 7.5%, with maturities ranging up to 30 years.

5. Bonds payable:

The bonds issued by CDA are special obligations of CDA and are payable from the revenues and special funds of the applicable program. These bonds and notes do not constitute debt 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

1997 Series A dated August 1, 1997. $17,325 term bonds due March 1, 2017, with interest at 5.60%.	$ 17,325
1997 Series B dated August 1, 1997. $16,955 due serially from 2000 to 2009, with interest rates of 4.40% to 5.25%; $8,765 term bonds due September 1, 2019, with interest at 5.05%; $26,975 term bonds due September 1, 2025, with interest at 5.875%; $26,360 term bonds due September 1, 2029, with interest at 5.875%.	79,055
1998 Series A dated January 1, 1998. $2,445 due serially from 2010 to 2014, with interest rates of 4.70% to 5.00%; $2,195 term bonds due September 1, 2017, with interest at 5.05%.	4,640
1998 Series B dated January 1, 1998. $17,959 due serially, net of $69 unamortized premium, from 2000 to 2012, with interest rates of 3.95% to 5.00%, $10,200 term bonds due September 1, 2018, with interest at 4.50%; $16,470 term bonds due September 1, 2023, with interest at 5.30%; $11,815 term bonds due March 1, 2030, with interest at 5.35%; $17,525 term bonds due September 1, 2030, with interest at 5.35%.	73,969
1998 Series D dated December 1, 1998. $12,850 due serially from 2001 to 2010, with interest rates of 3.8% to 4.65%; $14,460 term bonds due March 1, 2018, with interest at 5.15%; $11,600 term bonds due September 1, 2022, with interest at 4.5%; $2,945 term bonds due March 1, 2029, with interest at 5.25%; $20,535 term bonds due September 1, 2029, with interest at 5.25%.	62,390
1999 Series C dated May 1, 1999. $915 due serially from 2011 to 2012, with interest rates of 4.7% to 4.8%; $1,750 term bonds due September 1, 2015, with interest at 4.95%.	2,665
1999 Series D dated May 1, 1999. $10,855 due serially from 2001 to 2012, with interest rates of 3.7% to 5.0%; $9,955 term bonds due September 1, 2019, with interest at 5.25%; $12,175 term bonds due September 1, 2024, with interest at 5.375%; $10,000 term bonds due March 1, 2028, with interest at 4.8%; $7,975 term bonds due March 1, 2031, with interest at 5.4%; $6,291 term bonds, net of unamortized discount of $44, due September 1, 2031, with interest at 5.4%.	57,251

1999 Series E dated August 1, 1999. $14,745 due serially from 2005 to 2013, with interest rates of 4.6% to 5.45%; $8,035 term bonds due September 1, 2017, with interest at 5.7%	$ 22,780
1999 Series F dated August 1, 1999. $3,660 due serially from 2002 to 2004, with interest rates of 4.5% to 4.7%; $6,470 term bonds due September 1, 2019, with interest at 5.9%; $12,520 term bonds due September 1, 2023, with interest at 5.375%; $24,425 term bonds due September 1, 2029, with interest at 5.95%; $10,135 term bonds due September 1, 2031, with interest at 5.95%	57,210
1999 Series G dated August 31, 1999. $76,585 bonds due August 30, 2000, with interest rate of 3.65%.	76,585
1999 Series H dated December 1, 1999. $11,780 due serially from 2002 to 2012, with interest rates of 4.6% to 5.65%; $8,275 term bonds due September 1, 2017, with interest at 6.0%; $6,285 term bonds due September 1, 2020, with interest at 6.125%; $13,255 term bonds due September 1, 2025, with interest at 6.15%; $4,981 term bonds, net of unamortized discount of $19 due March 1, 2027, with interest at 6.2%; $10,405 term bonds due March 1, 2031, with interest at 6.25%; $5,000 term bonds due March 1, 2031, with interest at 6.25%.	59,981
1999 Series I dated December 15, 1999. $30,000 bonds due December 14, 2000, with interest rate of 4.05%.	30,000
2000 Series A dated March 1, 2000. $7,965 due serially from 2007 to 2012, with interest rates of 5.15% to 5.5%.	7,965
2000 Series B dated March 1, 2000. $6,335 due serially from 2002 to 2007, with interest rates of 4.8% to 5.35%; $17,675 term bonds due September 1, 2020, with interest at 6.05%; $13,500 term bonds due September 1, 2025, with interest at 5.55%; $5,000 term bonds due September 1, 2031, with interest at 6.15%; $29,525 term bonds due September 1, 2032, with interest at 6.15%.	72,035
2000 Series C dated June 1, 2000. $6,090 due serially from 2010 to 2013, with interest rates of 5.45% to 5.7%.	6,090
2000 Series D dated June 1, 2000. $9,810 due serially from 2002 to 2010, with interest rates of 5.1% to 5.7%; $15,705 term bonds due September 1, 2020, with interest at 6.2%; $48,395 term bonds due September 1, 2032, with interest at 6.25%.	73,910
2000 Series E dated June 14, 2000. $58,185 bonds due June 14, 2001, with interest rate of 4.7%.	58,185
Total	$ 762,036

1999

1997 Series A dated August 1, 1997. $17,325 term bonds due March 1, 2017, with interest at 5.60%.	$ 17,325
1997 Series B dated August 1, 1997. $17,700 due serially from 2000 to 2009, with interest rates of 4.40% to 5.25%; $8,920 term bonds due September 1, 2019, with interest at 5.05%; $26,975 term bonds due September 1, 2025, with interest at 5.875%; $28,750 term bonds due September 1, 2029, with interest at 5.875%.	82,345
1998 Series A dated January 1, 1998. $2,445 due serially from 2010 to 2014, with interest rates of 4.70% to 5.00%; $2,195 term bonds due September 1, 2017, with interest at 5.05%.	4,640
1998 Series B dated January 1, 1998. $19,045 due serially, net of $75 unamortized premium, from 1999 to 2012, with interest rates of 3.85% to 5.00%, $10,325 term bonds due September 1, 2018, with interest at 4.50%; $16,470 term bonds due September 1, 2023, with interest at 5.30%; $12,000 term bonds due March 1, 2030, with interest at 5.35%; $17,800 term bonds due September 1, 2030, with interest at 5.35%.	75,640
1998 Series D dated December 1, 1998. $12,850 due serially from 2001 to 2010, with interest rates of 3.8% to 4.65%; $14,460 term bonds due March 1, 2018, with interest at 5.15%; $11,600 term bonds due September 1, 2022, with interest at 4.5%; $3,000 term bonds due March 1, 2029, with interest at 5.25%; $20,900 term bonds due September 1, 2029, with interest at 5.25%.	62,810
1999 Series A dated January 7, 1999. $22,780 bonds due January 14, 2000, with interest rate of 3.05%.	22,780
1999 Series B dated January 7, 1999. $79,590 bonds due January 14, 2000, with interest rate of 3.15%.	79,590
1999 Series C dated May 1, 1999. $915 due serially from 2011 to 2012, with interest rates of 4.7% to 4.8%; $1,750 term bonds due September 1, 2015, with interest at 4.95%.	2,665
1999 Series D dated May 1, 1999. $10,855 due serially from 2001 to 2012, with interest rates of 3.7% to 5.0%; $9,955 term bonds due September 1, 2019, with interest at 5.25%; $12,175 term bonds due September 1, 2024, with interest at 5.375%; $10,000 term bonds due March 1, 2028, with interest at 4.8%; $8,000 term bonds due March 1, 2031, with interest at 5.4%; $6,305 term bonds, net of unamortized discount of $45, with interest at 5.4%.	57,290
Total	$405,085

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**
$167,970	$3,980	$8,865	$9,285	$9,720

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 101.5% 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.

During the year, CDA redeemed Residential Revenue Bonds in the following series:

2000	1999
• 1997 Series B	• 1997 Series B
• 1998 Series B	• 1998 Series C
• 1998 Series D	
• 1999 Series A	
• 1999 Series B	
• 1999 Series D	
• 1999 Series F	

Certain refundings of debt are due to the prepayments of mortgage loans. In these cases, CDA transfers the proceeds of the refunding bonds into a redemption account to redeem previously issued bonds and, simultaneously, transfers the prepayments of single-family mortgage loans financed by these prior bonds to the refunding bonds' accounts for the purpose of originating new loans. This recycling of prepayments enables CDA to originate new loans that are not subject to the limitations of the IRS volume cap. CDA does not pay call premiums on these special redemptions, and the refundings are not undertaken to reduce interest rates, revise payment schedules or modify restrictions. CDA writes off any unamortized deferred issuance costs or original issue discounts, net of unamortized original issue premiums, as an extraordinary loss in the accompanying statements of revenues, expenses and changes in fund equity.

7. Commitments and contingencies:

As of June 30, 2000 and 1999, the Fund had excess arbitrage for certain Residential Revenue Bonds which are subject to rebate. As of June 30, 2000 and 1999, an estimated liability of $463 and $472, respectively, for potential excess arbitrage subject to rebate has been recorded in accounts payable in the accompanying balance sheets.

8. 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.

9. Subsequent events:

On August 1, 2000, CDA redeemed the following bonds:

1997 Series B	$2,120
1998 Series B	225
1998 Series D	135
1999 Series D	40
1999 Series F	195

On September 7, 2000, CDA issued the following bonds:

2000 Series F	$15,190
2000 Series G	64,810

Community Development Administration
Residential 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 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		—
FY 1998		—
FY 1999		—
FY 2000		(227)
Cumulative total	$	(227)