



**Community Development Administration
Infrastructure Program Fund**

Financial statements

As of June 30, 2001

Together with report of independent public accountants





Report of independent public accountants

To the Office of the Secretary of the
Department of Housing and Community Development:

We have audited the accompanying balance sheet of the Community Development Administration Infrastructure Program Fund (the Fund) as of June 30, 2001, and the related statements of revenues, expenses and changes in fund equity and cash flows for the year 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 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.

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 Fund as of June 30, 2001, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

Baltimore, Maryland
September 21, 2001

**Community Development Administration
Infrastructure Program Fund**

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Community Development Administration Infrastructure Program Fund

Balance sheet As of June 30, 2001 (in thousands)

Assets:

Cash on deposit with trustee	\$ 10,034
Community facilities loans	86,592
Accrued interest and other receivables	<u>1,718</u>
Total assets	<u>\$ 98,344</u>

Liabilities and fund equity:

Accrued interest payable	\$ 375
Other liabilities	9,285
Bonds payable	<u>87,690</u>
Total liabilities	97,350

Commitments and contingencies

Fund equity:

Fund equity	<u>994</u>
Total liabilities and fund equity	<u>\$ 98,344</u>

The accompanying notes are an integral part of this balance sheet.

**Community Development Administration
Infrastructure Program Fund**

**Statement of revenues, expenses and changes in fund equity
For the year ended June 30, 2001
(in thousands)**

Revenues:	
Interest on community facilities loans	\$ 4,450
Interest on cash on deposit	<u>92</u>
Total revenues	<u>4,542</u>
Expenses:	
Interest on bonds payable	4,396
Trustee, legal and mortgage servicing fees	13
Other expense	<u>2</u>
Total expenses	<u>4,411</u>
Income before extraordinary item	131
Extraordinary item— loss on early extinguishment of bonds payable	<u>(35)</u>
Net income	96
Transfers of funds, net, at CDA's discretion, in accordance with the General Certificate of Revenue Bond Authorization and the Certificate of General Authorization	(296)
Fund equity, beginning of year	<u>1,194</u>
Fund equity, end of year	<u><u>\$ 994</u></u>

The accompanying notes are an integral part of this statement.

Community Development Administration Infrastructure Program Fund

Statement of cash flows For the year ended June 30, 2001 (in thousands)

Cash flows from operating activities:	
Net income	\$ 96
Adjustments to reconcile net income to net cash provided by operating activities—	
Purchase and origination of community facilities loans	(10,390)
Interest on cash on deposit	(92)
Repayment of community facilities loans	8,069
Decrease in accrued interest and other receivables	121
Increase in other liabilities	304
Interest expense	<u>4,396</u>
Net cash provided by operating activities	<u>2,504</u>
Cash flows from investing activities:	
Interest on cash on deposit	<u>92</u>
Net cash provided by investing activities	<u>92</u>
Cash flows from noncapital financing activities:	
Proceeds from the sale of bonds	10,390
Principal payments	(8,213)
Decrease in deferred bond issuance costs due to redemption of related bonds	35
Interest payments	(4,395)
Transfer of funds	<u>(296)</u>
Net cash used in noncapital financing activities	<u>(2,479)</u>
Net increase in cash on deposit with trustee	117
Cash on deposit with trustee, beginning of year	<u>9,917</u>
Cash on deposit with trustee, end of year	<u><u>\$ 10,034</u></u>

The accompanying notes are an integral part of this statement.

Community Development Administration Infrastructure Program Fund

Notes to financial statements June 30, 2001 (in thousands)

1. 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 Fund (the Fund). CDA's other programs are not included. However, CDA has also issued audited financial statements for the Revenue Obligation Funds.

The Fund was established to issue bonds to provide funds for construction and permanent financing to local governments for public facilities. Bonds issued under this Fund are insured by AMBAC Indemnity Corporation or MBIA Insurance Corporation.

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.

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. The General Bond Reserve Fund records these expenses as invoiced by DHCD for the fiscal year.

For the year ended June 30, 2001, the allocation to CDA's General Bond Reserve Fund was:

Salaries and related costs	\$ 6,051
General and administrative expenses	<u>1,808</u>
	<u>\$ 7,859</u>

The employees of CDA are covered by the Maryland State Retirement and Pension System (the System). Additional information about the System is presented in the State of Maryland's Comprehensive Annual Financial Report and in the Consolidated Annual Report of the Maryland State Retirement and Pension Systems.

The retirement benefit cost of employees is included in the salaries and related costs allocation discussed above. This allocation includes the Fund's total liability, relating to the System, as of June 30, 2001.

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.

3. Cash 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 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.

As of June 30, 2001, the Fund had \$10,034 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 Investor Services.

As of June 30, 2001 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, 2001. Interest rates on such loans range from 4.0 to 6.9 percent, with remaining loan terms ranging from less than 1 year to 30 years.

5. Bonds payable:

The bonds issued by CDA are special obligations of CDA and are payable solely from the revenues and property of CDA, pledged under the bond resolution providing for the issuance of the bonds. These bonds and notes 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 bonds are not secured by CDA's General Bond Reserve Fund, and bond holders have no right to any of the moneys or investments held in such fund.

The following table summarizes the outstanding debt of the Fund, as of June 30, 2001:

1992 Series A dated February 1, 1992. \$320 due 2002, with interest rate of 6.0%; \$4,585 term bonds due June 1, 2012, with interest at 6.625%.	\$ 4,905
1994 Series A dated February 1, 1994. \$1,920 due serially from 2002 to 2009, with interest rates of 4.75% to 5.35%; \$1,860 term bonds due June 1, 2016, with interest at 5.60%; \$2,425 term bonds due June 1, 2024, with interest at 5.7%.	6,205
1995 Series A dated April 1, 1995. \$1,410 due serially from 2002 to 2010, with interest rates of 5.35% to 5.9%; \$655 term bonds due June 1, 2015, with interest at 6.1%; \$625 term bonds due June 1, 2025, with interest at 6.2%.	2,690
1996 Series A dated May 1, 1996. \$4,335 due serially from 2002 to 2014, with interest rates of 4.8% to 5.85%; \$1,200 term bonds due June 1, 2019, with interest at 5.9%; \$1,680 term bonds due June 1, 2026, with interest at 5.9%.	7,215
1997 Series A dated April 15, 1997. \$5,505 due serially from 2002 to 2015, with interest rates of 5.0% to 5.625%; \$1,435 term bonds due June 1, 2021, with interest at 5.75%; \$1,490 term bonds due June 1, 2027, with interest at 5.625%.	8,430
1998 Series A dated February 15, 1998. \$5,255 due serially from 2002 to 2018, with interest rates of 4.0% to 5.0%.	5,255
1998 Series B dated June 1, 1998. \$15,420 due serially from 2002 to 2013, with interest rates of 4.05% to 4.9%; \$4,125 term bonds due June 1, 2017, with interest at 5.125%; \$3,615 term bonds due June 1, 2022, with interest at 5.15%; \$2,940 term bonds due June 1, 2028, with interest at 5.2%.	26,100
1998 Series C dated June 1, 1998. \$1,420 due serially from 2001 to 2010, with interest rates of 4.0% to 4.7%; \$525 term bonds due December 1, 2020, with interest at 5.15%.	1,945
1999 Series A dated March 1, 1999. \$4,395 due serially from 2002 to 2019, with interest rates of 4.15% to 5.00%; \$1,020 term bonds due June 1, 2024, with interest at 5.00%; \$1,325 term bonds due June 1, 2029, with interest at 5.00%.	6,740
2000 Series A dated March 1, 2000. \$5,070 due serially from 2002 to 2020, with interest rates of 5.125% to 5.75%; \$1,635 term bonds due June 1, 2025, with interest at 5.75%; \$1,110 term bonds due June 1, 2030, with interest at 5.875%.	7,815
2001 Series A dated March 1, 2001. \$7,945 due serially from 2002 to 2021, with interest rates of 4.0% to 5.0%; \$225 term bonds due June 1, 2026, with interest at 5.0%; \$290 term bonds due June 1, 2031, with interest at 5.0%.	8,460
2001 Series B dated March 1, 2001. \$195 term bonds due June 1, 2006, with interest at 6.25%; \$405 term bonds due June 1, 2011, with interest at 6.25%; \$560 term bonds due June 1, 2016, with interest at 6.5%; \$770 term bonds due June 1, 2021, with interest at 6.8%.	1,930
Total	<u>\$ 87,690</u>

As of June 30, 2001, 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,				
	2002	2003	2004	2005	2006
Required payments	\$ 3,855	\$ 4,070	\$ 4,420	\$ 4,510	\$ 4,605

All outstanding bonds are subject to redemption at the option of CDA, as a whole or in part at any time after certain dates, as specified in the respective series certificates. The prescribed redemption prices range from 100 percent to 102 percent of the principal amount.

6. Redemption of bonds and extraordinary item:

The provisions of the various note and 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 ended June 30, 2001, CDA redeemed Infrastructure Program Bonds in the following series.

- 1990 Series I

The redemption of bonds resulted in the write-off of any unamortized deferred issuance costs or original issue discounts net of unamortized original issue premiums. The corresponding loss has been recorded as an extraordinary item in the accompanying statement of revenues, expenses and changes in fund equity.

7. Pension and other postretirement benefits:

Eligible employees of CDA and employees of the State of Maryland are covered under the retirement plans of the State Retirement and Pension System of Maryland (System) and are also entitled to certain healthcare benefits upon retirement. CDA's only liability for retirement and postemployment benefits is its required annual contribution, which it has fully funded during the year ended June 30, 2001. 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.