Community Development Administration
Residential Revenue Bonds

Financial Statements

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

Community Development Administration
Residential Revenue Bonds

Financial Statements

June 30, 2002

Contents

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 Residential Revenue Bonds (the Fund) of the Department of Housing and Community Development of the State of Maryland 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 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.

As discussed in Note 1, the financial statements present only the Community Development Administration Residential Revenue Bonds 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 Residential Revenue Bonds 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 Residential Revenue Bonds 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*.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Disclosure of Change in Fair Value of Investments is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on it.

Ernst + Young LLP

September 30, 2002

Community Development Administration
Residential Revenue Bonds

Balance Sheet

June 30, 2002
(in thousands)

Restricted assets	
Restricted current assets:	
Cash on deposit with trustee	$ 75,997
Investments	186,243
Single family mortgage loans	11,252
Accrued interest and other receivables	9,978
Total restricted current assets	283,470
Restricted long-term assets:	
Investments, net of current portion	67,258
Single family mortgage loans, net of current portion	704,777
Deferred bond issuance costs	8,269
Total restricted long-term assets	780,304
Total restricted assets	$ 1,063,774
Liabilities and net assets	
Current liabilities:	
Accrued interest payable	$ 17,151
Bonds payable and short-term debt	107,150
Due to other funds	305
Total current liabilities	124,606
Long-term liabilities:	
Rebate liability	2,272
Bonds payable, net of current portion	901,783
Total long-term liabilities	904,055
Total liabilities	1,028,661
Net assets:	
Restricted	35,113
Total net assets	35,113
Total liabilities and net assets	$ 1,063,774

See accompanying notes.

Community Development Administration
Residential Revenue Bonds

Statement of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30
(in thousands)

Operating revenues	
Interest on mortgage loans	$ 42,458
Fee income	466
Other operating revenues	74
	42,998
Operating expenses	
Trustee, legal and mortgage servicing costs	2,362
Loss on foreclosure claims	1
Other operating expense	4
	2,367
Operating income	40,631
Nonoperating revenues (expenses)	
Interest income, net of rebate	14,175
Interest expense on bonds and short-term debt	(51,637)
Amortization of bond issuance costs	(443)
Decrease in fair value of investments, net of rebate	(24)
	(37,929)
Transfers of funds, net, as permitted by the various bond indentures	(222)
Change in net assets before extraordinary item	2,480
Extraordinary loss on early retirement of debt	(266)
Change in net assets	$ 2,214
Changes in net assets	
Net assets at beginning of year	$ 32,899
Change in net assets	2,214
Net assets at end of year	$ 35,113

See accompanying notes.

Community Development Administration
Residential Revenue Bonds

Statement of Cash Flows

For the Year Ended June 30
(in thousands)

Operating activities	
Principal and interest received on mortgage loans	$ 84,939
Mortgage insurance claims received	3,310
Foreclosure expenses paid	(160)
Other income received	74
Loan fees received	1,293
Purchase of mortgage loans	(162,807)
Trustee, legal and mortgage servicing costs	(2,362)
Other expenses paid	(4)
Reimbursements among Funds	(14,215)
Net cash from operating activities	(89,932)
Investing activities	
Proceeds from maturities or sales of investments	313,568
Purchases of investments	(173,024)
Transfers of investments	(42,760)
Interest received on investments	16,964
Net cash from investing activities	114,748
Noncapital financing activities	
Proceeds from sale of bonds	165,280
Payments on bond principal	(91,195)
Bond issuance costs	(906)
Interest on bonds and short-term debt	(49,969)
Transfers among Funds	(222)
Net cash from noncapital financing activities	22,988
Net increase in cash on deposit with trustee	47,804
Cash on deposit with trustee at beginning of year	28,193
Cash on deposit with trustee at end of year	$ 75,997

Community Development Administration
Residential Revenue Bonds

Statement of Cash Flows (continued)

(in thousands)

Reconciliation of operating income to net cash from operating activities	
Operating income	$ 40,631
Adjustments to reconcile operating income to net cash from operating activities:	
Increase in mortgage loans	(114,712)
Increase in accrued interest and other receivables	(1,636)
Decrease in due from other funds	3,366
Decrease in due to other funds	(17,581)
Net cash from operating activities	$ (89,932)

Noncash investing and noncapital financing activities	
Amortization of investment discounts and premiums	$ (716)
Amortization of bond original issue discounts and premiums	(6)
Decrease in fair value of investments, net of rebate	24
Amortization of deferred bond issuance costs	443
Loss on early retirement of bonds	266

See accompanying notes.

1. Authorizing Legislation and Program Description

The Community Development Administration (CDA) was created in 1970 by Sections 266 DD-1 to 266 DD-8 of Article 41 (now in Article 83B, Sections 2-201 through 2-208) 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 Bonds (the Fund). CDA's other Funds 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 Residential Revenue Bond Resolution (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.

2. Summary of Significant Accounting Policies (continued)

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 required to be adopted for the period ended June 30, 2002.

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

- 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.

CDA has also adopted GASB Statement No. 38, *Certain Financial Note Disclosures,* which requires additional disclosure on debt. See Notes 6, 7, 8 and 9 for short-term debt, bonds payable, debt service requirements, and bond refundings, respectively. GASB Statement No. 38 also requires additional disclosures on interfund balances and transfers (Note 12) and receivables (Note 5).

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

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

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 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.

Investments

Investments are principally governmental debt securities or investments collateralized by governmental debt securities. These securities are stated at fair value, based on quoted market prices. Investments are classified as current or long-term based on maturity date or call date, if exercise of the call within the next fiscal year is probable. Investments are more fully described in Note 3.

Mortgage Loans

Mortgage loans are carried at their unpaid principal balances, net of unamortized loan fees. Loan fees are deferred over the life of the related loans and amortized using the effective interest method. All mortgage loans in foreclosure with a pending insurance claim are recorded as other receivables. See Notes 4 and 13 for additional information on mortgage loans and mortgage insurance, respectively.

2. Summary of Significant Accounting Policies (continued)

Allowance for Loan Losses

Substantially all the mortgage loans of the Funds are insured or guaranteed by agencies of the U.S. Government or the Maryland Housing Fund. As such, no allowance for loan losses was necessary as of June 30, 2002.

Accrued Interest and Other Receivables

Accrued interest and other receivables include outstanding claims on insured mortgage loans and interest on investments. On insured single family loans, interest ceases to accrue after foreclosure. See Note 5 for additional information.

Deferred Bond Issuance Costs

Costs incurred in issuing bonds are capitalized and amortized using the effective interest method for each respective bond issue. When bonds are redeemed early with mortgage prepayments, a proportionate share of the remaining unamortized costs are recognized as an extraordinary loss on the Statement of Revenues, Expenses and Changes in Net Assets.

Due from (to) Other Funds

Due from (to) other funds records the pending transfers of cash between funds which is primarily a result of receipts due to one fund, but received by another, as more fully described in Note 12.

2. Summary of Significant Accounting Policies (continued)

Bonds Payable

Bonds payable are carried at their unpaid principal balances, net of unamortized deferred gain or loss for bonds refunded for economic purposes and original issue discounts/premiums. See Notes 7, 8 and 9 for more information.

Rebate Liability

Regulations governing the issuance of tax-exempt debt place limitations on permitted investment yield on borrowed funds. Based on these regulations, CDA is required to periodically rebate excess earnings from investments to the United States Treasury. In addition, the liability also includes an estimate of the rebate obligation related to unrealized gains as a result of recording investments at fair value. Rebate liability is more fully described in Note 10.

Yield Limitations

All mortgage loans are subject to yield limitations under the Internal Revenue Service Code (the Code) in order for the associated bonds to maintain their tax-exempt status. At the time of bond issuance, CDA determines the permitted mortgage yield on the loans. In certain bond refunding transactions, CDA transfers loans from prior series of bonds to the refunding series. CDA monitors the yield on these transferred loans to ensure that the composite yield over the term of the bonds is within the yield limitations of the Code. If at any time the composite yields on the transferred loans are out of compliance with the Code, CDA has certain remedies available to bring the yield into compliance. As of June 30, 2002, all mortgage loan yield calculations are in compliance with the Code.

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 Fund are restricted as to their use.

2. Summary of Significant Accounting Policies (continued)

Fee Income

Single family commitment fees are deferred over the life of the loan.

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 has been 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, 2002, the allocation to CDA's General Bond Reserve Fund was:

Salaries and related costs	$ 5,646
General and administrative expenses	1,977
	$ 7,623

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 14 for additional information.

2. 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 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.

Revenues and Expenses

CDA distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from the mortgage loans purchased or originated by CDA in connection with CDA's principal ongoing operations. Operating revenues arise from the collection of interest and fees on mortgage 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.

3. Cash and Investments

Proceeds from bonds are invested in authorized investments as defined in the Resolution until required for purchasing or originating mortgage loans, funding reserves, 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.

Cash

As of June 30, 2002, the Fund had $75,997 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.

3. Cash and Investments (continued)

Cash (continued)

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.

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 or its agent. The agreements and contracts are at fixed interest rates, with maturities ranging from less than one year up to 30 years.

As of June 30, 2002, the amortized cost and fair value of the Fund's investments, by type of investment, were as follows:

	Fair Value	Amortized Cost
Obligations of U.S. Government agencies	$ 101,149	$ 100,728
Securities held under repurchase agreements or guaranteed investment contracts	152,352	152,352
	$ 253,501	$ 253,080

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.

3. Cash and Investments (continued)

Category 3—Uninsured and unregistered, 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 mortgage loans are secured by first liens on the related property and are credit enhanced through the FHA mortgage insurance programs, the Veterans Administration or USDA/RD guarantee programs. As of June 30, 2002, interest rates on such loans range from 4.0% to 7.5%, with remaining loan terms ranging from 22 to 30 years.

5. Accrued Interest and Other Receivables

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

Accrued mortgage loan interest	$ 4,736
Accrued investment interest	3,058
Claims due from mortgage insurers	2,184
	$ 9,978

6. Short-Term Debt

CDA issues short-term debt to preserve volume cap when prepayments and payments from mortgages exceed the demand for new mortgages. Proceeds of the short-term debt are used to refund and to pay at maturity prior series of bonds. At the time of the refunding, prepayments and repayments of mortgage loans financed by these prior bonds are transferred to accounts in the short-term series. CDA expects to make these funds available to purchase mortgage loans upon the maturity or earlier redemption of the short-term bonds with proceeds of additional long-term bonds. By issuing the short-term debt, CDA more closely matches the rates on the short-term debt with the rates on short-term investments. When there is sufficient mortgage demand, CDA issues long-term refunding bonds to redeem the short-term debt and the prepayments and repayments are used to fund new mortgages.

6. Short-Term Debt (continued)

Short-term debt activity for the year ended June 30, 2002 was as follows:

	Balance at June 30, 2001	Issued	Matured/ Redeemed	Balance at June 30, 2002
Residential Revenue Bonds				
2001 Series C	$ 11,220	$ –	$ 11,220	$ –
2001 Series D	47,960	–	47,960	–
2002 Series B	–	36,745	–	36,745
2002 Series C	–	60,530	–	60,530
Totals	$ 59,180	$ 97,275	$ 59,180	$ 97,275

The short-term debt of $97,275 plus the principal payments due within one year of $9,875 equal the current portion of bonds payable and short-term debt of $107,150 on the Balance Sheet.

7. Bonds Payable

The bonds and notes issued by CDA are special obligations of CDA and are payable from the revenues and special funds of the applicable programs. 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 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 mortgage 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.

Community Development Administration
Residential Revenue Bonds

Notes to Financial Statements (continued)

7. Bonds Payable (continued)

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

					Bond Activity					
	Issue Dated	Range of Interest Rates	Range of Maturities	Debt Outstanding at June 30, 2001	New Bonds Issued	Scheduled Maturity Payments	Redemptions	Debt Outstanding at June 30, 2002	Discounts/ Premiums and Other Deferred Costs	Bonds Payable at June 30, 2002
Residential Revenue Bonds										
1997 Series A	08/01/97	5.60%	2017	$ 17,325	$ –	$ –	$ (385)	$ 16,940	$ –	$ 16,940
1997 Series B	08/01/97	4.70%-5.875%	2002-2029	73,545	–	(1,620)	(5,025)	66,900	–	66,900
1998 Series A	01/01/98	4.70%-5.05%	2010-2017	4,640	–	–	–	4,640	–	4,640
1998 Series B	01/01/98	4.15%-5.35%	2002-2030	71,225	–	(1,175)	(3,435)	66,615	55	66,670
1998 Series D	12/01/98	3.95%-5.25%	2002-2029	60,765	–	(1,085)	(1,550)	58,130	–	58,130
1999 Series C	05/01/99	4.70%-4.95%	2011-2015	2,665	–	–	–	2,665	–	2,665
1999 Series D	05/01/99	3.85%-5.40%	2002-2031	56,930	–	(100)	(1,565)	55,265	(40)	55,225
1999 Series E	08/01/99	4.60%-5.70%	2005-2017	22,780	–	–	(175)	22,605	–	22,605
1999 Series F	08/01/99	4.50%-5.95%	2002-2031	56,380	–	–	(4,170)	52,210	–	52,210
1999 Series H	12/01/99	4.60%-6.25%	2002-2031	59,865	–	–	(3,095)	56,770	(17)	56,753
2000 Series A	03/01/00	5.15%-5.50%	2007-2012	7,965	–	–	–	7,965	–	7,965
2000 Series B	03/01/00	4.80%-6.15%	2002-2032	71,940	–	–	(2,540)	69,400	–	69,400
2000 Series C	06/01/00	5.45%-5.70%	2010-2013	6,090	–	–	(220)	5,870	–	5,870
2000 Series D	06/01/00	5.10%-6.25%	2002-2032	73,880	–	–	(3,215)	70,665	–	70,665
2000 Series F	08/01/00	4.35%-5.20%	2004-2014	15,190	–	–	–	15,190	–	15,190
2000 Series G	08/01/00	4.50%-5.95%	2002-2032	64,800	–	–	(930)	63,870	–	63,870
2000 Series H	12/01/00	4.60%-5.80%	2003-2032	60,000	–	–	(1,625)	58,375	–	58,375
2001 Series A	03/01/01	3.65%-5.00%	2003-2017	18,885	–	–	–	18,885	–	18,885
2001 Series B	03/01/01	4.65%-5.45%	2011-2032	50,800	–	–	(75)	50,725	–	50,725
2001 Series C	03/28/01	3.20%	03/28/02	11,220	–	(5,270)	(5,950)	–	–	–
2001 Series D	03/28/01	3.25%	03/28/02	47,960	–	(29,890)	(18,070)	–	–	–
2001 Series E	06/01/01	3.30%-4.65%	2003-2012	13,775	–	–	–	13,775	–	13,775
2001 Series F	06/01/01	3.50%-5.60%	2003-2032	66,225	–	–	(30)	66,195	–	66,195
2001 Series G	08/15/01	3.05%-4.20%	2004-2011	–	10,100	–	–	10,100	–	10,100
2001 Series H	08/15/01	4.40%-5.35%	2011-2033	–	49,900	–	–	49,900	–	49,900
2002 Series A	02/01/02	2.80%-5.45%	2004-2033	–	8,005	–	–	8,005	–	8,005
2002 Series B	02/28/02	1.60%	12/19/02	–	36,745	–	–	36,745	–	36,745
2002 Series C	02/28/02	1.65%	12/19/02	–	60,530	–	–	60,530	–	60,530
Totals				$ 934,850	$ 165,280	$ (39,140)	$ (52,055)	$ 1,008,935	$ (2)	$ 1,008,933

8. Debt Service Requirements

As of June 30, 2002, the required principal payments for short-term debt and 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,	Interest	Principal
2003	$ 50,869	$ 107,150
2004	49,044	13,475
2005	48,413	15,315
2006	47,721	16,005
2007	46,982	16,735
2008–2012	221,997	94,925
2013–2017	194,333	126,935
2018–2022	156,499	158,975
2023–2027	105,539	211,015
2028–2032	40,195	227,380
2033–2037	775	21,025
Total	$ 962,367	$ 1,008,935

9. Bond Refundings

Certain refundings of debt are due to the prepayments of mortgage loans. In these cases, CDA transfers the proceeds of the refunding bonds to 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 Statement of Revenues, Expenses and Changes in Net Assets.

10. Rebate Liability

In accordance with the Internal Revenue Service Code (the Code), the Fund has recorded a rebate liability for excess investment earnings for tax-exempt bond and note issues sold after 1981. The excess investment earnings arise due to actual investment yields earned by the Fund being greater than yields permitted to be retained by the Fund under the Code. The Code requires 90% of such excess investment earnings to be remitted to the United States Treasury every five years and in full at the final redemption of the bonds. Interest income on the Statement of Revenues, Expenses and Changes in Net Assets is reduced by the rebate liability due to excess investment earnings. The increase/decrease in fair value of investments on the Statement of Revenues, Expenses and Changes in Net Assets is reduced by the estimated rebate liability due to unrealized investment gains.

Rebate liability activity for the year ended June 30, 2002 was as follows:

Rebate liability as of June 30, 2001	$ 505
Increase due to excess investment earnings	1,458
Increase due to unrealized gains on investments (see supplemental schedule on page 22)	309
Rebate liability as of June 30, 2002	$ 2,272

11. Long-Term Obligations

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

	Beginning Balance	Additions	Reductions	Deferred Amounts for Issuance Discounts	Due Within One Year	Ending Balance
Long-term bonds payable	$934,852	$ 165,280	$(91,195)	$ (4)	$ (107,150)	$901,783
Rebate liability	505	1,767	–	–	–	2,272
Total long-term liabilities	$935,357	$ 167,047	$(91,195)	$ (4)	$ (107,150)	$904,055

12. Interfund Activity

In accordance with the Resolution, net assets in Residential Revenue Bonds are restricted and pledged to bondholders. However, restricted assets may be transferred to other funds, subject to the provisions of the Resolution. Generally, an officer of CDA must authorize such withdrawals and a cash flow analysis must demonstrate that sufficient monies remain in the Resolution to meet the obligations of the Fund in current and future years.

During the year ended June 30, 2002, the Fund transferred the following amounts, as permitted among Funds:

Single family commitment fees transferred to the General Bond Reserve Fund	$ (1,252)
Cost of issuance on bonds transferred from Single Family Program Bonds	1,071
Interest income due to Single Family Program Bonds	(41)
	$ (222)

As of June 30, 2002, due to other Funds consisted of the following:

Servicer receipts for participation loans due to Single Family Program Bonds	$ (305)

13. Mortgage Insurance

Substantially all CDA's mortgage loans have mortgage insurance as described in Note 4.

FHA insured loans in Residential Revenue Bonds are insured in an amount equal to the unpaid principal amount of the loan. All other loans are insured by the VA or USDA/RD at various coverages. Premiums are paid by single family mortgagors and these coverage levels are sufficient so that no pool insurance or reserves are required.

14. 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.

Community Development Administration
Residential Revenue Bonds

Supplemental Disclosure of Change in Fair Value of Investments

June 30, 2002
(in thousands)
(unaudited)

During fiscal year 1997, CDA adopted the provisions of Governmental 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 Net Assets.

For investments held by CDA as of June 30, 2002, the following schedule summarizes the increase/decrease in fair value for each of these years and the cumulative difference between fair value and amortized cost:

FY 2000	$ (227)
FY 2001	551
FY 2002	97
	$ 421

Reconciliation to Statement of Revenues, Expenses and Changes in Net Assets:

Increase in fair value of investments held at June 30, 2002	$ 97
Realized gains on investments sold	188
Less—reduction due to rebate liability (See Note 10)	(309)
Decrease in fair value of investments reported on the Statement of Revenues, Expenses and Changes in Net Assets	$ (24)