# Community Development Administration
# Single Family Program Bonds

Financial Statements

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

Community Development Administration
Single Family Program Bonds

Financial Statements

June 30, 2002

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# 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 Single Family Program 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 Single Family Program 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 Single Family Program 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 June 30, 2001 balance of net assets has been restated to reflect the correction of an error in the prior year financial statements.

As discussed in Note 3 to the financial statements, the Community Development Administration Single Family Program 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
# Single Family Program Bonds

## Balance Sheet

June 30, 2002
(in thousands)

| | |
|---|---|
| **Restricted assets** | |
| **Restricted current assets:** | |
| Cash on deposit with trustee | $ 41,828 |
| Investments | 47,680 |
| Single family mortgage loans | 19,552 |
| Accrued interest and other receivables | 18,868 |
| Due from other funds | 305 |
| **Total restricted current assets** | 128,233 |
| **Restricted long-term assets:** | |
| Investments, net of current portion | 218,317 |
| Single family mortgage loans, net of current portion | 724,070 |
| Deferred bond issuance costs | 7,496 |
| **Total restricted long-term assets** | 949,883 |
| **Total restricted assets** | $ 1,078,116 |
| | |
| **Liabilities and net assets** | |
| **Current liabilities:** | |
| Accrued interest payable | $ 13,230 |
| Accounts payable | 2 |
| Rebate liability | 308 |
| Bonds payable | 34,450 |
| Due to other funds | 3 |
| **Total current liabilities** | 47,993 |
| **Long-term liabilities:** | |
| Rebate liability, net of current portion | 16,777 |
| Bonds payable, net of current portion | 876,121 |
| **Total long-term liabilities** | 892,898 |
| **Total liabilities** | 940,891 |
| **Net assets:** | |
| Restricted | 137,225 |
| **Total net assets** | 137,225 |
| **Total liabilities and net assets** | $ 1,078,116 |

*See accompanying notes.*

# Community Development Administration
# Single Family Program Bonds

## Statement of Revenues, Expenses and Changes in Net Assets

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

| | |
|---|---|
| **Operating revenues** | |
| Interest on mortgage loans | $ 58,778 |
| Fee income | 911 |
| Other operating revenues | 13 |
| | 59,702 |
| **Operating expenses** | |
| Trustee, legal and mortgage servicing costs | 4,049 |
| Loss on foreclosure claims | 374 |
| | 4,423 |
| Operating income | 55,279 |
| **Nonoperating revenues (expenses)** | |
| Interest income, net of rebate | 17,275 |
| Interest expense on bonds | (57,584) |
| Amortization of bond issuance costs | (689) |
| Increase in fair value of investments, net of rebate | 2,503 |
| | (38,495) |
| **Transfers of funds, net, as permitted by the various bond indentures** | (1,038) |
| Change in net assets before extraordinary item | 15,746 |
| Extraordinary loss on early retirement of debt | (1,080) |
| Change in net assets | $ 14,666 |
| **Changes in net assets** | |
| Net assets at June 30, 2001, as previously reported | $ 135,287 |
| Adjustments (Note 2) | (12,728) |
| Net assets at June 30, 2001, as restated | 122,559 |
| Change in net assets | 14,666 |
| Net assets at end of year | $ 137,225 |

*See accompanying notes.*

# Community Development Administration
# Single Family Program Bonds

## Statement of Cash Flows

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

| | |
|---|---|
| **Operating activities** | |
| Principal and interest received on mortgage loans | $ 187,673 |
| Mortgage insurance claims received | 16,851 |
| Foreclosure expenses paid | (1,797) |
| Other income received | 15 |
| Loan fees received | 8 |
| Purchase of mortgage loans | (10,342) |
| Trustee, legal and mortgage servicing costs | (4,049) |
| Reimbursements among Funds | 14,218 |
| Net cash from operating activities | 202,577 |
| **Investing activities** | |
| Proceeds from maturities or sales of investments | 161,150 |
| Purchases of investments | (211,100) |
| Transfers of investments | 42,760 |
| Arbitrage rebates paid | (256) |
| Interest received on investments | 18,990 |
| Net cash from investing activities | 11,544 |
| **Noncapital financing activities** | |
| Proceeds from sale of bonds | 54,235 |
| Payments on bond principal | (199,960) |
| Bond issuance costs | (1,582) |
| Interest on bonds | (59,999) |
| Transfers among Funds | (1,038) |
| Net cash from noncapital financing activities | (208,344) |
| Net increase in cash on deposit with trustee | 5,777 |
| Cash on deposit with trustee at beginning of year | 36,051 |
| Cash on deposit with trustee at end of year | $ 41,828 |

# Community Development Administration
# Single Family Program Bonds

## Statement of Cash Flows (continued)

(in thousands)

| | |
|---|---|
| **Reconciliation of operating income to net cash from operating activities** | |
| Operating income | $ 55,279 |
| Adjustments to reconcile operating income to net cash from operating activities: | |
| Decrease in mortgage loans | 128,439 |
| Decrease in accrued interest and other receivables | 4,685 |
| Decrease in due from other funds | 14,209 |
| Increase in due to other funds | 9 |
| Decrease in accounts payable | (44) |
| Net cash from operating activities | $ 202,577 |
| | |
| **Noncash investing and noncapital financing activities** | |
| Amortization of investment discounts and premiums | $ 233 |
| Amortization of bond original issue discounts and premiums | (16) |
| Increase in fair value of investments, net of rebate | (2,759) |
| Amortization of deferred bond issuance costs | 689 |
| Loss on early retirement of debt | 1,080 |

*See accompanying notes.*

Notes to Financial Statements

June 30, 2002
(in thousands)

## 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 Single Family Program Bonds (the Fund). CDA's other funds are not included. The Fund was established to originate or purchase single family mortgage loans.

## 2. Restatement of June 30, 2001 Net Assets (Unaudited)

Net assets as of June 30, 2001 for the Fund have been restated to reflect the correction of an error. The error related primarily to the obligation to rebate investment earnings above prescribed limitations to the United States Treasury. This obligation had been recognized by CDA only to the extent that those excess earnings had been realized. However, a portion of the unrealized gains on investments above the limitations may also result in a rebate payment when bonds are fully redeemed. The cumulative effects of this factor, together with a computational error, resulted in an overstatement of the June 30, 2001 net assets of the Fund in the amount of $12,728, which has been shown as a correction of an error in accordance with Accounting Principles Board (APB) Opinion No. 20. This amount is shown as an adjustment to June 30, 2001 net assets on the accompanying Statement of Revenues, Expenses and Changes in Net Assets.

## 3. Summary of Significant Accounting Policies

### Basis of Presentation

The Fund is set up primarily in accordance with CDA's enabling legislation and the Single Family Program General Bond Certificate (Certificate). The Fund is an enterprise fund of the State of Maryland and uses the accrual basis of accounting. The Fund is included in the State of Maryland's Comprehensive Annual Financial Report.

**3. Summary of Significant Accounting Policies (continued)**

**Generally Accepted Accounting Principles**

CDA reports its financial activities by applying Standards of Governmental Accounting and Financial Reporting as promulgated by the Governmental Accounting Standards Board (GASB). CDA has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. Consequently, CDA applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions, and ARBS of the Committee on Accounting Procedure issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**Recent Accounting Pronouncements**

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

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

- The 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.

## 3. Summary of Significant Accounting Policies (continued)

### Recent Accounting Pronouncements (continued)

CDA has also adopted GASB Statement No. 38, *Certain Financial Note Disclosures* which require additional disclosure on debt. See Notes 7, 8 and 9 for 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 6).

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

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 4.

### 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 4.

## 3. Summary of Significant Accounting Policies (continued)

### 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. Any mortgage loan in foreclosure with a pending insurance claim is recorded as other receivables. See Note 5 and Note 13 for additional information on mortgage loans and mortgage insurance, respectively.

### 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, 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 6 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. However, in an economic refunding, CDA defers unamortized costs and redemption premiums as an offset to the new bonds as more fully described in Note 9.

### 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. Interfund activity is more fully described in Note 12.

## 3. 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 additional 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 11.

### 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 yields 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.

### Fee Income

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

## 3. Summary of Significant Accounting Policies (continued)

### 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.

### 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.

### 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.

## 4. Cash and Investments

Proceeds from bonds are invested in authorized investments as defined in the Certificate 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 $41,828 invested in a money market mutual fund (ARK U.S. Government Cash Management Corporate II Class Fund) which is classified as cash. This fund invests exclusively in obligations of the U.S. Government and its agencies and instrumentalities and in repurchase agreements. It is rated AAA by Standard & Poor's and Aaa by Moody's Investors Services.

As of June 30, 2002, the cost of this money market mutual fund approximates fair value.

The money market mutual fund is not categorized by credit risk because it is not evidenced by securities that exist in physical or book entry form.

### Investments

As of June 30, 2002, $3,000 was held in certificates of deposit and is classified as investments. These certificates are insured by federal depository insurance, subject to maximum coverage, and are collateralized by securities held by the trustee in CDA's name.

Obligations of the U.S. Treasury and 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 or its agent. The agreements and contracts are at fixed interest rates, with maturities ranging from less than one year to 17 years.

## 4. Cash and Investments (continued)

### Investments (continued)

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 |
|---|---|---|
| Certificates and other time deposits | $ 3,000 | $ 3,000 |
| Obligations of the U.S. Treasury | 181,110 | 142,020 |
| Securities held under repurchase agreements or guaranteed investment contracts | 81,887 | 81,887 |
| | $ 265,997 | $ 226,907 |

### 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 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.

## 5. Mortgage Loans

Substantially all single family mortgage loans are secured by first liens on the related property and credit enhanced through the FHA mortgage insurance programs, the Veterans Administration and USDA/RD guarantee programs, the Maryland Housing Fund or by private mortgage insurance policies. As of June 30, 2002, interest rates on such loans range from 4% to 13.9%, with remaining loan terms ranging from 8 to 30 years.

## 6. Accrued Interest and Other Receivables

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

| | |
|---|---|
| Accrued mortgage loan interest | $ 7,197 |
| Accrued investment interest | 4,438 |
| Claims due from mortgage insurers | 7,233 |
| | $ 18,868 |

## 7. Bonds Payable

The bonds issued by CDA are special obligations of CDA and are payable from the revenues and special funds of the applicable programs. These bonds do not constitute debt of and are not guaranteed by the State of Maryland or any other program of the State of Maryland or any political subdivision. The provisions of the Certificate 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 certificates. The prescribed redemption prices range from 100% to 102% of the principal amount. All bonds have fixed interest rates.

## 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 |
| Single Family Program Bonds | | | | | | | | | | |
| 1991 Third Series | 07/01/91 | 6.65%–7.25% | 2002–2027 | $ 31,395 | $ – | $ (770) | $ (30,625) | $ – | $ – | $ – |
| 1992 First Series | 03/01/92 | 6.30%–6.75% | 2003–2011 | 4,360 | – | (575) | (340) | 3,445 | – | 3,445 |
| 1992 Second Series | 03/01/92 | 6.55%–6.95% | 2003–2011 | 15,760 | – | (2,975) | (2,735) | 10,050 | – | 10,050 |
| 1992 Third Series* | 03/26/92 | 6.55% | 2017 | 8,335 | – | (310) | (45) | 7,980 | – | 7,980 |
| 1992 Fourth Series* | 03/26/92 | 6.80% | 2022 | 6,545 | – | (80) | (6,465) | – | – | – |
| 1992 Fifth Series | 06/01/92 | 6.60% | 2012 | 4,495 | – | – | (4,495) | – | – | – |
| 1992 Sixth Series | 06/01/92 | 6.25%–6.80% | 2002–2024 | 49,990 | – | (1,100) | (48,890) | – | – | – |
| 1992 Seventh Series | 06/25/92 | 6.45% | 2012 | 4,630 | – | – | – | 4,630 | – | 4,630 |
| 1992 Eighth Series | 06/25/92 | 6.00%–6.80% | 2003–2024 | 25,710 | – | (625) | (13,465) | 11,620 | – | 11,620 |
| 1993 Third Series | 10/01/93 | 4.65%–5.30% | 2003–2016 | 45,200 | – | (2,875) | (4,695) | 37,630 | – | 37,630 |
| 1994 First Series | 03/01/94 | 5.20%–5.90% | 2003–2017 | 53,685 | – | (3,255) | (9,200) | 41,230 | (70) | 41,160 |
| 1994 Fourth Series | 05/01/94 | 5.65%–6.45% | 2003–2014 | 38,295 | – | (1,550) | – | 36,745 | – | 36,745 |
| 1994 Fifth Series | 05/01/94 | 5.70%–6.75% | 2002–2026 | 51,065 | – | (495) | (6,915) | 43,655 | – | 43,655 |
| 1994 Sixth Series | 12/01/94 | 6.10%–7.05% | 2003–2017 | 29,405 | – | (1,335) | – | 28,070 | – | 28,070 |
| 1994 Seventh Series | 12/01/94 | 6.90%–7.30% | 2019–2025 | 23,170 | – | – | (8,405) | 14,765 | – | 14,765 |
| 1994 Ninth Series** | 12/22/94 | 5.00%–6.15% | 2003–2019 | 20,035 | – | (665) | – | 19,370 | – | 19,370 |
| 1995 First Series | 03/01/95 | 5.40%–6.25% | 2003–2017 | 37,970 | – | (1,700) | – | 36,270 | – | 36,270 |
| 1995 Second Series | 03/01/95 | 6.45%–6.55% | 2017–2026 | 37,400 | – | – | (5,125) | 32,275 | – | 32,275 |
| 1995 Third Series | 06/01/95 | 5.25%–6.25% | 2003–2027 | 63,050 | – | (1,125) | (700) | 61,225 | – | 61,225 |
| 1995 Fourth Series | 10/01/95 | 6.00% | 2017 | 5,790 | – | – | – | 5,790 | – | 5,790 |
| 1995 Fifth Series | 10/01/95 | 5.00%–6.20% | 2003–2027 | 26,125 | – | (585) | (1,550) | 23,990 | – | 23,990 |
| 1996 Third Series | 07/01/96 | 5.15%–6.25% | 2003–2017 | 11,935 | – | (555) | – | 11,380 | – | 11,380 |
| 1996 Fourth Series | 07/01/96 | 5.30%–6.45% | 2003–2028 | 27,935 | – | (130) | (2,280) | 25,525 | – | 25,525 |
| 1996 Fifth Series | 08/01/96 | 4.90%–5.95% | 2003–2016 | 30,400 | – | (740) | – | 29,660 | – | 29,660 |
| 1996 Sixth Series | 08/01/96 | 4.90%–6.25% | 2002–2028 | 21,615 | – | (605) | (3,735) | 17,275 | – | 17,275 |
| 1997 First Series | 08/01/97 | 4.70%–5.60% | 2003–2018 | 108,565 | – | (5,135) | (4,415) | 99,015 | 57 | 99,072 |
| 1999 First Series | 12/01/98 | 4.10%–5.25% | 2003–2029 | 23,925 | – | (455) | – | 23,470 | – | 23,470 |
| 1999 Second Series | 12/01/98 | 4.40%–5.00% | 2009–2017 | 53,205 | – | – | – | 53,205 | – | 53,205 |
| 1999 Third Series | 12/01/98 | 4.10%–5.125% | 2003–2021 | 83,155 | – | (2,050) | (7,760) | 73,345 | – | 73,345 |
| 2000 First Series | 03/01/00 | 4.80%–5.80% | 2003–2017 | 30,190 | – | (1,310) | (1,560) | 27,320 | (857) | 26,463 |
| 2001 First Series | 03/01/01 | 3.65%–5.00% | 2003–2017 | 66,495 | – | – | (1,310) | 65,185 | (1,794) | 63,391 |
| 2001 Second Series | 03/01/01 | 3.75%–4.80% | 2003–2023 | 21,260 | – | – | (4,250) | 17,010 | (572) | 16,438 |
| 2002 First Series | 02/01/02 | 4.45%–4.60% | 2012–2013 | – | 4,495 | – | – | 4,495 | (127) | 4,368 |
| 2002 Second Series | 02/01/02 | 2.80%–5.375% | 2004–2024 | – | 49,740 | – | – | 49,740 | (1,431) | 48,309 |
| Totals | | | | $ 1,061,090 | 54,235 | $ (31,000) | $ (168,960) | $ 915,365 | $ (4,794) | $ 910,571 |

* Remarketed on January 14, 1993
**Remarketed on November 9, 1995

## 8. Debt Service Requirements

As of June 30, 2002, 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:

| For the Year Ended June 30, | Interest | Principal |
|---|---|---|
| 2003 | $ 51,628 | $ 34,450 |
| 2004 | 49,464 | 37,630 |
| 2005 | 47,568 | 39,580 |
| 2006 | 45,490 | 37,160 |
| 2007 | 43,585 | 42,085 |
| 2008–2012 | 183,362 | 223,445 |
| 2013–2017 | 120,968 | 225,015 |
| 2018–2022 | 63,551 | 162,620 |
| 2023–2027 | 19,463 | 108,345 |
| 2028–2032 | 363 | 5,035 |
| Total | $ 625,442 | $ 915,365 |

## 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.

**9. Bond Refundings (continued)**

For current refundings of debt in an optional redemption, CDA replaces previously issued bonds with lower cost debt. This type of transaction is commonly known as an economic refunding. For the year ended June 30, 2002, the following table summarizes the economic refundings of the Fund:

| | Refunding Bonds | |
|---|---|---|
| **Refunded Bonds** | **2002 First Series** | **2002 Second Series** |
| 1992 Fifth Series | $ 4,495 | $ – |
| 1992 Sixth Series | – | 49,740 |
| Totals | $ 4,495 | $ 49,740 |

In economic refundings, CDA defers the difference between the reacquisition price (i.e., the principal of the old debt, plus the call premiums) and the net carrying amount of the old debt (i.e., the amount due at maturity, adjusted for any unamortized premium or discount and issuance costs related to the old debt) as an offset to the new bonds on the accompanying balance sheet, in accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities*. This deferral is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The amount of the deferral and the period of amortization are included in the chart below.

**9. Bond Refundings (continued)**

| Refunding Bonds Issued | Amount of Refunding Bond | Deferred Amount on Refunding | Range of Amortization Period (Months) |
|---|---|---|---|
| 2002 First Series | $ 4,495 | $ 130 | 122 |
| 2002 Second Series | 49,740 | 1,448 | 266 |
| Totals | $ 54,235 | $ 1,578 | |

The refunding of 1992 Fifth and 1992 Sixth Series with the proceeds of 2002 First and 2002 Second Series reduced total debt service payments over the next 22 years by $14,671 and resulted in an economic gain of $10,622.

**10. Long-Term Obligations**

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

| | Beginning Balance, as Restated for Rebate Liability | Additions | Reductions | Deferred Amounts for Issuance Discounts | Deferred Amounts on Refunding | Due Within One Year | Ending Balance |
|---|---|---|---|---|---|---|---|
| Long-term bonds payable | $1,057,663 | $54,235 | $ (199,960) | $ (16) | $(1,351) | $(34,450) | $876,121 |
| Rebate liability | 13,872 | 3,469 | (256) | – | – | (308) | 16,777 |
| Total long-term liabilities | $1,071,535 | $57,704 | $ (200,216) | $ (16) | $(1,351) | $(34,758) | $892,898 |

## 11. Rebate Liability

In accordance with the Internal Revenue Service Code (the Code), CDA 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 CDA being greater than yields permitted to be retained by CDA 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, as previously reported | $ 1,144 |
| Adjustments (unaudited) (Refer to Note 2) | 12,728 |
| Rebate liability as of June 30, 2001, as restated | 13,872 |
| Increase due to excess investment earnings | 1,237 |
| Increase due to unrealized gains on investments (see supplemental schedule on page 23) | 2,232 |
| Less—payments made | (256) |
| Rebate liability as of June 30, 2002 | $ 17,085 |

## 12. Interfund Activity

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

**12. Interfund Activity (continued)**

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 | $ (8) |
| Cost of issuance on bonds transferred to Residential Revenue Bonds | (1,071) |
| Interest income due from Residential Revenue Bonds | 41 |
| | $ (1,038) |

As of June 30, 2002, interfund balances consisted of the following:

| | |
|---|---|
| Servicer receipts for participation loans due from Residential Revenue Bonds | $ 305 |
| Pending transfer of cash receipts due to the General Bond Reserve Fund | (3) |
| | $ (302) |

**13. Mortgage Insurance**

Substantially all CDA's mortgage loans have mortgage insurance as described in Note 5.

For an FHA insured loan, the primary mortgage insurance covers an amount equal to the unpaid principal amount of the loan. All other loans have primary mortgage insurance in an amount that is at least 25% of the loan amount. Single family mortgagors pay the premiums for primary mortgage insurance. For any losses not covered by primary mortgage insurance, CDA has purchased pool insurance or established specific reserves. For each series of bonds, pool insurance coverage cannot exceed 10% of the amount of proceeds of the series of bonds. MHF has issued most of the pool insurance policies.

## 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
Single Family Program 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 the Fund 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:

| | |
|---|---|
| Cumulative FY 1996 and prior periods | $ 28,537 |
| FY 1997 | 3,461 |
| FY 1998 | 18,225 |
| FY 1999 | (14,325) |
| FY 2000 | (1,536) |
| FY 2001 | 1,356 |
| FY 2002 | 3,372 |
| Cumulative total | $ 39,090 |

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

| | |
|---|---|
| Increase in fair value of investments held at June 30, 2002 | $ 3,372 |
| Realized gains on investments sold | 1,363 |
| Less—reduction due to rebate liability (See Note 11) | (2,232) |
| Increase in fair value of investments reported on the Statement of Revenues, Expenses and Changes in Net Assets | $ 2,503 |