

COMMUNITY DEVELOPMENT ADMINISTRATION
HOUSING REVENUE BONDS

Financial Statements

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

Community Development Administration
Housing Revenue 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 Housing 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 Housing 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 Housing 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 Housing 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 and Mortgage-Backed Securities 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
Housing Revenue Bonds

Balance Sheet

June 30, 2002
(in thousands)

Restricted assets

Restricted current assets:

Cash on deposit with trustee	\$ 49,211
Investments	23,402
Mortgage-backed securities	665
Mortgage loans:	
Single family	48
Multi-family construction and permanent financing	3,090
Accrued interest and other receivables	2,290
Due from other Funds	10

Total restricted current assets

78,716

Restricted long-term assets:

Investments, net of current portion	20,498
Mortgage-backed securities, net of current portion	172,542
Mortgage loans, net of current portion:	
Single family	756
Multi-family construction and permanent financing	100,410
Deferred bond issuance costs	873

Total restricted long-term assets

295,079

Total restricted assets

\$ 373,795

Liabilities and net assets

Current liabilities:

Accrued interest payable	\$ 8,945
Accounts payable	132
Bonds payable	4,905
Other liabilities—principally deposits by borrowers	26,639
Due to other Funds	267

Total current liabilities

40,888

Long-term liabilities:

Bonds payable, net of current portion	317,835
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Total long-term liabilities

317,835

Total liabilities

358,723

Net assets:

Restricted	15,072
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Total net assets

15,072

Total liabilities and net assets

\$ 373,795

See accompanying notes.

Community Development Administration
Housing Revenue 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	\$ 8,673
Interest on mortgage-backed securities	8,215
Fee income	69
	16,957
Operating expenses	
Trustee, legal and mortgage servicing costs	59
Other operating expense	132
	191
Operating income	16,766
Nonoperating revenues (expenses)	
Interest income	3,814
Interest expense on bonds	(16,943)
Amortization of bond issuance costs	(42)
Increase in fair value of investments	157
Increase in fair value of mortgage-backed securities	3,340
	(9,674)
Transfers of funds, as permitted by the Resolution providing for the issuance of Housing Revenue Bonds	(2,427)
Change in net assets before extraordinary item	4,665
Extraordinary loss on early retirement of debt	(1)
Change in net assets	\$ 4,664
Changes in net assets	
Net assets at beginning of year	\$ 10,408
Change in net assets	4,664
Net assets at end of year	\$ 15,072

See accompanying notes.

Community Development Administration
Housing Revenue Bonds

Statement of Cash Flows

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

Operating activities

Principal and interest received on mortgage loans	\$ 11,767
Principal and interest received on mortgage-backed securities	8,859
Escrow funds received	6,730
Escrow funds paid	(5,497)
Loan fees received	1,306
Purchase of mortgage-backed securities	(72,441)
Trustee, legal and mortgage servicing costs	(59)
Other expenses paid	(142)
Reimbursements due to General Bond Reserve Fund	257
Net cash from operating activities	<u>(49,220)</u>

Investing activities

Proceeds from maturities or sales of investments	71,283
Purchases of investments	(86,775)
Interest received on investments	3,108
Net cash from investing activities	<u>(12,384)</u>

Noncapital financing activities

Proceeds from sale of bonds	86,775
Payments on bond principal	(4,595)
Interest on bonds	(15,229)
Transfers to General Bond Reserve Fund	(2,427)
Net cash from noncapital financing activities	<u>64,524</u>

Net increase in cash on deposit with trustee 2,920

Cash on deposit with trustee at beginning of year 46,291

Cash on deposit with trustee at end of year \$ 49,211

Community Development Administration
Housing Revenue Bonds

Statement of Cash Flows (continued)

(in thousands)

Reconciliation of operating income to net cash from operating activities

Operating income	\$ 16,766
Adjustments to reconcile operating income to net cash from operating activities:	
Increase in mortgage-backed securities	(71,797)
Decrease in mortgage loans	4,308
Decrease in accrued interest and other receivables	2
Increase in due from other funds	(10)
Increase in due to other funds	267
Decrease in accounts payable	(10)
Increase in other liabilities—principally deposits by borrowers	1,254
Net cash from operating activities	<u>\$ (49,220)</u>

Noncash investing and noncapital financing activities

Amortization of investment discounts and premiums	\$ 4
Increase in fair value of investments	(157)
Increase in fair value of mortgage-backed securities	(3,340)
Amortization of deferred bond issuance costs	42
Loss on early retirement of debt	1

See accompanying notes.

Community Development Administration
Housing Revenue Bonds

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 Housing Revenue Bonds (the Fund). CDA's other Funds are not included. The Fund was established to issue bonds to provide funds to finance or refinance loans for various types of housing. As of June 30, 2002, Housing Revenue Bonds have primarily financed multi-family projects.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Fund is set up in accordance with CDA's enabling legislation and the Resolution providing for the issuance of Housing Revenue Bonds (Resolution). 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.

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.

Community Development Administration
Housing Revenue Bonds

Notes to Financial Statements (continued)

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 presentation:

- 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 disclosures on debt. See Notes 6 and 7 for bonds payable and debt service requirements, respectively. GASB Statement No. 38 also requires additional disclosures on interfund balances and transfers (Note 8) 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.

Community Development Administration
Housing Revenue Bonds

Notes to Financial Statements (continued)

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 the 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-Backed Securities

These guaranteed securities are issued in connection with mortgage loans on multi-family projects. They are stated at fair value, based on quoted market prices. It is the intention of CDA to hold these securities to maturity or until the payoff of the related multi-family loan. Mortgage-backed securities are more fully described in Note 3.

Community Development Administration
Housing Revenue Bonds

Notes to Financial Statements (continued)

2. 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 single family mortgage loan in foreclosure with a pending insurance claim is recorded as other receivables. See Note 4 and Note 9 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 and 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 includes any outstanding claims on insured mortgage loans and interest on investments. On any insured multi-family mortgage loans that are in default, CDA continues to accrue interest until receipt of a mortgage insurance claim. 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 8.

Community Development Administration
Housing Revenue Bonds

Notes to Financial Statements (continued)

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 Note 6 for more information.

Other Liabilities—Principally Deposits by Borrowers

This account consists primarily of escrows held by CDA on behalf of multi-family housing developments where CDA holds the mortgage and services the loan.

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.

Fee Income

Multi-family financing fees are deferred and amortized over the life of the loan.

Community Development Administration
Housing Revenue Bonds

Notes to Financial Statements (continued)

2. 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	<u>1,977</u>
	<u>\$ 7,623</u>

The employees of CDA are covered by the Maryland State Retirement and Pension System (the System) and the costs of employees' retirement benefits is included in the salaries and related costs discussed above. See Note 10 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 period. Actual results could differ from these estimates.

Revenue and Expenses

CDA distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from the mortgage loans or mortgage-backed securities 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 and mortgage-backed securities. 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.

Community Development Administration
Housing Revenue Bonds

Notes to Financial Statements (continued)

3. Cash, Investments and Mortgage-Backed Securities

Proceeds from bonds are invested in authorized investments as defined in the Resolution until required for purchasing mortgage-backed securities 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 \$49,211 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

Obligations of the U. S. Treasury 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 two years up to three years.

Community Development Administration
Housing Revenue Bonds

Notes to Financial Statements (continued)

3. Cash, Investments and Mortgage-Backed Securities (continued)

Investments (continued)

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

	Fair Value	Amortized Cost
Obligations of the U.S. Treasury	\$ 6,012	\$ 5,541
Securities held under repurchase agreements or guaranteed investment contracts	37,888	37,888
	\$43,900	\$ 43,429

Mortgage-Backed Securities

All mortgage-backed securities held by CDA are guaranteed by the Government National Mortgage Association (GNMA), an instrumentality of the United States. GNMA securities are "fully modified pass through" mortgage-backed securities which require monthly payments by an FHA-approved lender, as the issuer of the Guaranteed Security, to CDA. GNMA guarantees timely payment of principal of and interest on Guaranteed Securities. It is the intention of CDA to hold these securities until the underlying loan is paid in full.

As of June 30, 2002, the cost and fair value of mortgage-backed securities was as follows:

	Fair Value	Cost
	\$ 173,207	\$ 176,983

Community Development Administration
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Notes to Financial Statements (continued)

3. Cash, Investments and Mortgage-Backed Securities (continued)

Category of Risk

Investments and mortgage-backed securities 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 and mortgage-backed securities 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 credit enhanced through the FHA mortgage insurance program, the Federal Home Loan Mortgage Corporation, the Maryland Housing Fund or GNMA. As of June 30, 2002, interest rates on such loans range from 3.7% to 14.5%, with remaining loan terms from 8 to 40 years.

5. Accrued Interest and Other Receivables

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

Accrued mortgage loan interest	\$ 683
Escrows due from multi-family mortgagors	471
Accrued investment interest	954
Negative arbitrage due from mortgagors	182
	<hr/>
	\$ 2,290
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Community Development Administration
Housing Revenue Bonds

Notes to Financial Statements (continued)

6. 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 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.

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

	Issue Dated	Range of Interest Rates	Range of Maturities	Bond Activity				Debt Outstanding at June 30, 2002	Discounts/Premiums and Other Deferred Costs	Bonds Payable at June 30, 2002
				Debt Outstanding at June 30, 2001	New Bonds Issued	Scheduled Maturity Payments	Redemptions			
Housing Revenue Bonds										
Series 1996 A	11/01/96	4.65%-5.95%	2002-2023	\$ 94,735	\$ -	\$ (3,590)	\$ (150)	\$ 90,995	\$ -	\$ 90,995
Series 1996 B	11/01/96	4.65%-5.95%	2002-2028	1,990	-	(35)	-	1,955	-	1,955
Series 1997 A	06/01/97	4.50%-6.00%	2002-2039	36,720	-	(275)	-	36,445	-	36,445
Series 1997 B	09/01/97	4.35%-5.75%	2002-2039	7,610	-	(55)	-	7,555	-	7,555
Series 1997 C	12/01/97	4.20%-5.65%	2002-2039	13,920	-	(110)	-	13,810	-	13,810
Series 1998 A	04/01/98	4.20%-5.625%	2002-2040	10,950	-	(95)	-	10,855	-	10,855
Series 1999 A	02/01/99	3.70%-5.35%	2002-2041	16,345	-	-	-	16,345	-	16,345
Series 1999 B	10/15/99	4.55%-6.40%	2002-2042	15,815	-	(80)	-	15,735	-	15,735
Series 1999 C	10/15/99	5.85%-6.40%	2014-2040	520	-	-	-	520	-	520
Series 1999 D	12/01/99	4.65%-6.35%	2002-2042	14,510	-	(205)	-	14,305	-	14,305
Series 2000 A	10/01/00	4.60%-6.10%	2003-2042	27,445	-	-	-	27,445	-	27,445
Series 2001 A	07/01/01	3.95%-5.625%	2005-2043	-	29,645	-	-	29,645	-	29,645
Series 2001 B	10/01/01	3.15%-5.45%	2004-2043	-	47,630	-	-	47,630	-	47,630
Series 2002 A	03/01/02	3.00%-5.70%	2004-2043	-	9,500	-	-	9,500	-	9,500
Totals				\$ 240,560	\$ 86,775	\$ (4,445)	\$ (150)	\$ 322,740	\$ -	\$ 322,740

Community Development Administration
Housing Revenue Bonds

Notes to Financial Statements (continued)

7. 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	\$ 17,916	\$ 4,905
2004	17,766	5,350
2005	17,499	5,970
2006	17,194	7,030
2007	16,847	7,660
2008–2012	78,161	41,785
2013–2017	65,465	49,430
2018–2022	52,937	33,740
2023–2027	43,741	31,410
2028–2032	34,386	36,230
2033–2037	22,957	45,390
2038–2042	8,871	46,000
2043–2045	403	7,840
Total	\$394,143	\$322,740

8. Interfund Activity

In accordance with the Resolution, net assets in Housing 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.

Community Development Administration
Housing Revenue Bonds

Notes to Financial Statements (continued)

8. Interfund Activity (continued)

During the year ended June 30, 2002, the Fund transferred the following amounts, as permitted to another Fund:

Multi-family financing fees transferred to the General Bond Reserve Fund	\$ (1,302)
Excess revenues transferred to the General Bond Reserve Fund	(1,125)
	<u>\$ (2,427)</u>

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

Pending transfer of cash receipts due to the General Bond Reserve Fund	\$ (267)
Pending transfer of cash receipts due from the General Bond Reserve Fund	10
	<u>\$ (257)</u>

9. Mortgage Insurance

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

Multi-family mortgagors pay premiums for mortgage insurance and insurance coverage is 100% of the unpaid principal balance of the loan.

Single family mortgagors pay the premiums for primary mortgage insurance. Generally, loans are insured in an amount that is at least 25% of the loan amount.

Community Development Administration
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Notes to Financial Statements (continued)

10. 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.

11. Subsequent Event

On September 12, 2002, CDA redeemed the following Housing Revenue bonds:

Series 1996 A	\$1,225
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Community Development Administration
Housing Revenue Bonds

Supplemental Disclosure of Change in Fair Value of Investments
and Mortgage-Backed Securities

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 and mortgage-backed securities at fair value, and the increase or decrease in fair value is included in 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 1997	\$ (352)
FY 1998	832
FY 1999	(407)
FY 2000	48
FY 2001	193
FY 2002	157
Cumulative total	<u><u>\$ 471</u></u>

For mortgage-backed securities 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 cost:

FY 2000	\$ (3,825)
FY 2001	(3,291)
FY 2002	3,340
Cumulative total	<u><u>\$ (3,776)</u></u>