# Community Development Administration
# Multi-Family Housing Revenue Bonds
# (Insured Mortgage Loans)

Financial Statements

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

0208-0330765-BAL

Community Development Administration
Multi-Family Housing Revenue Bonds (Insured Mortgage Loans)

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 Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) (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 Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) 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 Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) 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 Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) 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 subject 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
# Multi-Family Housing Revenue Bonds (Insured Mortgage Loans)

## Balance Sheet

June 30, 2002
(in thousands)

| | | |
|---|---|---|
| **Restricted assets** | | |
| **Restricted current assets:** | | |
| Cash on deposit with trustee | $ | 41,388 |
| Mortgage-backed securities | | 210 |
| Multi-family mortgage loans | | 4,424 |
| Accrued interest and other receivables | | 3,337 |
| **Total restricted current assets** | | 49,359 |
| | | |
| **Restricted long-term assets:** | | |
| Investments | | 32,354 |
| Mortgage-backed securities, net of current portion | | 27,011 |
| Multi-family mortgage loans, net of current portion | | 255,547 |
| Deferred bond issuance costs | | 2,405 |
| **Total restricted long-term assets** | | 317,317 |
| **Total restricted assets** | $ | 366,676 |
| | | |
| **Liabilities and net assets** | | |
| **Current liabilities** | | |
| Accrued interest payable | $ | 2,300 |
| Accounts payable | | 68 |
| Bonds payable | | 7,350 |
| Other liabilities—principally deposits by borrowers | | 21,470 |
| **Total current liabilities** | | 31,188 |
| | | |
| **Long-term liabilities:** | | |
| Rebate liability | | 314 |
| Bonds payable, net of current portion | | 286,970 |
| **Total long-term liabilities** | | 287,284 |
| **Total liabilities** | | 318,472 |
| | | |
| **Net assets:** | | |
| Restricted | | 48,204 |
| **Total net assets** | | 48,204 |
| **Total liabilities and net assets** | $ | 366,676 |

*See accompanying notes.*

# Community Development Administration
# Multi-Family Housing Revenue Bonds (Insured Mortgage Loans)

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

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

| | |
|---|---|
| **Operating revenues** | |
| Interest on mortgage loans | $ 21,483 |
| Interest on mortgage-backed securities | 1,982 |
| Fee income | 286 |
| | 23,751 |
| **Operating expenses** | |
| Trustee, legal and mortgage servicing costs | 207 |
| | 207 |
| Operating income | 23,544 |
| **Nonoperating revenues (expenses)** | |
| Interest income | 3,315 |
| Interest expense on bonds | (20,696) |
| Amortization of bond issuance costs | (131) |
| Increase in fair value of investments, net of rebate | 691 |
| Increase in fair value of mortgage-backed securities | 812 |
| | (16,009) |
| **Transfers of funds as permitted by the Resolution providing for the issuance of Multi-Family Housing Revenue Bonds (Insured Mortgage Loans)** | (2,861) |
| Change in net assets before extraordinary item | 4,674 |
| Extraordinary loss on early retirement of debt | (212) |
| Change in net assets | $ 4,462 |
| **Changes in net assets** | |
| Net assets at beginning of year | $ 43,742 |
| Change in net assets | 4,462 |
| Net assets at end of year | $ 48,204 |

*See accompanying notes.*

# Community Development Administration
# Multi-Family Housing Revenue Bonds (Insured Mortgage Loans)

## Statement of Cash Flows

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

| | |
|---|---|
| **Operating activities** | |
| Principal and interest received on mortgage loans | $ 28,578 |
| Principal and interest received on mortgage-backed securities | 4,892 |
| Escrow funds received | 10,904 |
| Escrow funds paid | (9,853) |
| Loan fees received | 8 |
| Trustee, legal and mortgage servicing costs | (207) |
| Net cash from operating activities | 34,322 |
| **Investing activities** | |
| Proceeds from maturities or sales of investments | 8,629 |
| Purchases of investments | (1,946) |
| Interest received on investments | 3,469 |
| Net cash from investing activities | 10,152 |
| **Noncapital financing activities** | |
| Proceeds from sale of bonds | 77,495 |
| Payments on bond principal | (100,463) |
| Bond issuance costs | (2,220) |
| Interest on bonds | (20,997) |
| Transfers among funds | (2,861) |
| Net cash from noncapital financing activities | (49,046) |
| Net decrease in cash on deposit with trustee | (4,572) |
| Cash on deposit with trustee at beginning of year | 45,960 |
| Cash on deposit with trustee at end of year | $ 41,388 |

# Community Development Administration
# Multi-Family Housing Revenue Bonds (Insured Mortgage Loans)

## Statement of Cash Flows (continued)

(in thousands)

| | |
|---|---|
| **Reconciliation of operating income to net cash from operating activities** | |
| Operating income | $ 23,544 |
| Adjustments to reconcile operating income to net cash from operating activities: | |
| Decrease in mortgage-backed securities | 2,910 |
| Decrease in mortgage loans | 6,833 |
| Decrease in accrued interest and other receivables | 81 |
| Increase in accounts payable | 3 |
| Increase in other liabilities—principally deposits by borrowers | 951 |
| Net cash from operating activities | $ 34,322 |
| | |
| **Noncash investing and noncapital financing activities** | |
| Amortization of investment discounts and premiums | $ 44 |
| Increase in fair value of investments, net of rebate | (691) |
| Increase in fair value of mortgage-backed securities | (812) |
| Amortization of deferred bond issuance costs | 131 |
| Loss on early retirement of debt | 212 |

*See accompanying notes.*

# Notes to Financial Statements

June 30, 2002
(in thousands)

## 1. Authorized Legislation and Program Description

The Community Development Administration (CDA) was created in 1970 by Sections 266 DD-1 to 266DD-8 of Article 41 (now in Article 83B Section 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 Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) (the Fund). CDA's other funds are not included. The Fund was established to provide construction and permanent financing for multi-family housing projects.

## Summary of Significant Accounting Policies

### Basis of Presentation

The Fund is set up primarily in accordance with CDA's enabling legislation and the Resolution providing for the issuance of Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) (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 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.

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 activity (Note 11) 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. 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. For additional information on investments see 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.

### 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. See Notes 4 and 12 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 interest on investments and loans. On any insured multi-family mortgage loans that are in default, CDA continues to accrue interest until receipt of a mortgage insurance claim. 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.

### 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 6, 7 and 8 for additional information.

### Other Liabilities—Principally Deposits with Borrowers

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

### Rebate Liability

Regulations governing 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 9.

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

### 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

Multifamily financing 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 |

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

### Administrative Support (continued)

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 13 for additional information.

### 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.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains and losses during the reporting periods. Actual results could differ from these estimates.

## 3. Cash, 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 in the United States 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.

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

### Cash (continued)

As of June 30, 2002, the Fund had $41,388 invested in a money market mutual fund (ARK U.S. Government Cash Management Corporate II Class Fund) which is classified as cash. This fund invests exclusively in obligations of the U.S. Government and its agencies and instrumentalities and in repurchase agreements. It is rated AAA by Standard & Poor's and Aaa by Moody's Investor Services.

As of June 30, 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.

A guaranteed investment contract of $2,000 is uncollateralized. The interest rate is fixed, with a maturity of 15 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 the U.S. Treasury | $ 30,354 | $ 26,175 |
| Uncollateralized guaranteed investment contracts | 2,000 | 2,000 |
| | $ 32,354 | $ 28,175 |

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

### 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 a 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 were as follows:

| Fair Value | Cost |
|---|---|
| $ 27,221 | $ 25,503 |

### 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 collateralized investments and mortgage-backed securities of the Fund are classified as Category 1.

## 4. Mortgage Loans

Substantially all multi-family mortgage loans outstanding are credit enhanced through the Federal Housing Administration 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 5.95% to 12%, with remaining loan terms ranging from 2 to 35 years.

## 5. Accrued Interest and Other Receivables

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

| | |
|---|---|
| Accrued mortgage loan interest | $ 1,790 |
| Escrows due from multifamily mortgagors | 821 |
| Accrued investment interest | 726 |
| | $ 3,337 |

## 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 requires or allows 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.

## 6. 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 |
| Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) | | | | | | | | | | |
| 1985 Series B | 06/01/85 | 10.375% | 2017 | $ 624 | $ – | $ – | $ (624) | $ – | $ – | $ – |
| 1989 Series B | 04/01/89 | 7.30%-7.625% | 2002-2021 | 510 | – | – | (510) | – | – | – |
| 1990 Series A | 06/01/90 | 7.70%-7.80% | 2010-2032 | 7,265 | – | – | (7,265) | – | – | – |
| 1990 Series B | 06/01/90 | 10.05% | 2022 | 1,880 | – | – | (1,880) | – | – | – |
| 1990 Series D | 11/01/90 | 7.05%-7.70% | 2002-2020 | 25,030 | – | – | (25,030) | – | – | – |
| 1991 Series A | 05/01/91 | 7.10%-7.20% | 2011-2022 | 2,020 | – | – | (2,020) | – | – | – |
| 1991 Series B | 05/01/91 | 7.35%-7.375% | 2011-2021 | 505 | – | – | (505) | – | – | – |
| 1991 Series D | 05/01/91 | 9.75% | 2022 | 3,180 | – | – | (3,180) | – | – | – |
| 1991 Series E | 08/01/91 | 6.45%-7.10% | 2002-2028 | 10,020 | – | – | (10,020) | – | – | – |
| 1991 Series G | 08/01/91 | 6.85%-7.10% | 2006-2023 | 1,265 | – | – | (1,265) | – | – | – |
| 1991 Series H | 08/01/91 | 9.60% | 2033 | 4,765 | – | – | (4,765) | – | – | – |
| 1992 Series A | 01/01/92 | 6.10%-6.85% | 2002-2033 | 13,130 | – | (185) | (12,945) | – | – | – |
| 1992 Series B | 01/01/92 | 5.90%-6.625% | 2002-2022 | 1,720 | – | (45) | (1,675) | – | – | – |
| 1992 Series C | 01/01/92 | 9.05% | 2033 | 6,145 | – | (60) | – | 6,085 | – | 6,085 |
| 1992 Series D | 05/01/92 | 6.10%-6.70% | 2002-2027 | 10,790 | – | (165) | (10,625) | – | – | – |
| 1992 Series E | 05/01/92 | 6.10%-6.75% | 2002-2033 | 1,115 | – | (10) | (1,105) | – | – | – |
| 1992 Series F | 05/01/92 | 8.375%-9.35% | 2008-2024 | 7,085 | – | (80) | – | 7,005 | – | 7,005 |
| 1992 Series G | 07/01/92 | 6.55% | 2019 | 7,175 | – | (220) | (6,955) | – | – | – |
| 1993 Series A | 12/01/92 | 5.75%-6.625% | 2003-2023 | 3,730 | – | (110) | – | 3,620 | – | 3,620 |
| 1993 Series B | 12/01/92 | 5.75%-6.65% | 2003-2034 | 21,185 | – | (530) | (175) | 20,480 | – | 20,480 |
| 1993 Series C | 12/01/92 | 8.95% | 2024 | 7,510 | – | (105) | – | 7,405 | – | 7,405 |
| 1993 Series D | 03/01/93 | 5.20%-6.05% | 2003-2024 | 46,660 | – | (1,635) | – | 45,025 | – | 45,025 |
| 1993 Series E | 03/01/93 | 5.20%-6.05% | 2003-2028 | 1,530 | – | (25) | – | 1,505 | – | 1,505 |
| 1993 Series F | 03/01/93 | 5.20%-6.05% | 2003-2020 | 3,740 | – | (110) | – | 3,630 | – | 3,630 |
| 1993 Series G | 03/01/93 | 8.375% | 2024 | 1,855 | – | (30) | – | 1,825 | – | 1,825 |
| 1993 Series H | 08/01/93 | 4.80%-5.60% | 2003-2026 | 20,685 | – | (495) | – | 20,190 | – | 20,190 |
| 1993 Series I | 08/01/93 | 4.70%-5.60% | 2002-2023 | 1,215 | – | (35) | (50) | 1,130 | – | 1,130 |
| 1993 Series J | 08/01/93 | 4.80%-5.75% | 2002-2024 | 2,105 | – | (50) | – | 2,055 | – | 2,055 |
| 1993 Series K | 08/01/93 | 6.55% | 2004 | 670 | – | (215) | – | 455 | – | 455 |
| 1994 Series A | 02/01/94 | 4.65%-5.45% | 2004-2024 | 1,550 | – | (35) | – | 1,515 | – | 1,515 |
| 1994 Series B | 02/01/94 | 6.80%-7.90% | 2009-2025 | 11,710 | – | (195) | – | 11,515 | – | 11,515 |
| 1994 Series C | 09/01/94 | 5.60%-6.75% | 2003-2036 | 11,155 | – | (135) | – | 11,020 | – | 11,020 |
| 1994 Series D | 09/01/94 | 5.60%-6.65% | 2003-2025 | 2,115 | – | (50) | (75) | 1,990 | – | 1,990 |
| 1994 Series E | 09/01/94 | 5.75%-6.85% | 2003-2025 | 11,835 | – | (220) | – | 11,615 | – | 11,615 |
| 1994 Series F | 09/01/94 | 8.45%-9.55% | 2004-2026 | 14,300 | – | (195) | – | 14,105 | – | 14,105 |
| 1995 Series A | 04/01/95 | 5.25%-6.70% | 2003-2036 | 15,855 | – | (140) | – | 15,715 | – | 15,715 |
| 1995 Series B | 12/01/95 | 4.65%-5.80% | 2003-2026 | 10,670 | – | (235) | – | 10,435 | – | 10,435 |
| 1995 Series C | 12/01/95 | 4.65%-5.80% | 2003-2026 | 1,720 | – | (35) | – | 1,685 | – | 1,685 |
| 1995 Series D | 12/01/95 | 4.85%-5.90% | 2003-2027 | 2,400 | – | (45) | – | 2,355 | – | 2,355 |
| 1998 Series A | 11/01/98 | 3.95%-5.15% | 2003-2029 | 12,730 | – | (285) | (2,705) | 9,740 | – | 9,740 |
| 1998 Series B | 11/01/98 | 4.05%-5.25% | 2003-2028 | 8,140 | – | (250) | – | 7,890 | – | 7,890 |
| 2001 Series A | 10/01/01 | 2.50%-5.10% | 2003-2028 | – | 11,285 | (320) | (105) | 10,860 | (236) | 10,624 |
| 2001 Series B | 10/01/01 | 2.80%-5.35% | 2003-2032 | – | 32,905 | (605) | – | 32,300 | (1,017) | 31,283 |
| 2002 Series A | 03/01/02 | 2.00%-5.40% | 2003-2033 | – | 20,360 | – | – | 20,360 | (458) | 19,902 |
| 2002 Series B | 03/01/02 | 2.30%-5.60% | 2003-2033 | – | 12,945 | – | – | 12,945 | (424) | 12,521 |
| Totals | | | | $ 319,289 | $ 77,495 | $ (6,850) | $ (93,479) | $ 296,455 | $ (2,135) | $ 294,320 |

## 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 | $ 18,219 | $ 7,350 |
| 2004 | 17,869 | 7,675 |
| 2005 | 17,486 | 7,815 |
| 2006 | 17,085 | 8,240 |
| 2007 | 16,646 | 8,685 |
| 2008–2012 | 75,182 | 51,650 |
| 2013–2017 | 58,371 | 58,915 |
| 2018–2022 | 38,236 | 67,320 |
| 2023–2027 | 16,563 | 52,005 |
| 2028–2032 | 5,875 | 19,630 |
| 2033–2037 | 1,114 | 7,170 |
| Total | $ 282,646 | $ 296,455 |

## 8. Bond Refundings

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** | **2001 Series A** | **2001 Series B** | **2002 Series A** | **2002 Series B** |
| 1989 Series B | $ – | $ 510 | $ – | $ – |
| 1990 Series A | – | 7,265 | – | – |
| 1990 Series D | – | 25,130 | – | – |
| 1991 Series E | 10,020 | – | – | – |
| 1991 Series G | 1,265 | – | – | – |
| 1992 Series A | – | – | – | 12,945 |
| 1992 Series B | – | – | 1,675 | – |
| 1992 Series D | – | – | 10,625 | – |
| 1992 Series E | – | – | 1,105 | – |
| 1992 Series G | – | – | 6,955 | – |
| Totals | $ 11,285 | $ 32,905 | $ 20,360 | $ 12,945 |

## 8. Bond Refundings (continued)

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.

| **Refunding Bonds Issued** | **Amount of Refunding Bond** | **Deferred Amount on Refunding** | **Range of Amortization Period (Months)** |
|---|---|---|---|
| 2001 Series A | $ 11,285 | $ 241 | 258-317 |
| 2001 Series B | 32,905 | 1,037 | 229-366 |
| 2002 Series A | 20,360 | 461 | 205-373 |
| 2002 Series B | 12,945 | 427 | 374 |
| Totals | $ 77,495 | $ 2,166 | |

The refunding of 1989 Series B, 1990 Series A, 1990 Series D, 1991 Series E and 1991 Series G with the proceeds of 2001 Series A and 2001 Series B reduced total debt service payments over the next 30 years by $21,262 and resulted in an economic gain of $11,368.

The refunding of 1992 Series A, 1992 Series B, 1992 Series D, 1992 Series E and 1992 Series G with the proceeds of 2002 Series A and 2002 Series B reduced total debt service payments over the next 31 years by $9,087 and resulted in an economic gain of $4,773.

## 9. 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. 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 gains. CDA has no rebate liability from interest income or unrealized gains on mortgage-backed securities.

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

| | |
|---|---|
| Rebate liability as of June 30, 2001 | $ – |
| Increase due to unrealized gains on investments (see supplemental schedule on page 23) | 314 |
| Rebate liability as of June 30, 2002 | $ 314 |

## 10. Long-Term Obligations

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

| | Beginning Balance | Additions | Reductions | Less Deferred Amounts for Issuance Discounts/ Premiums | Less Deferred Amounts on Refunding | Less Due Within One Year | Ending Balance |
|---|---|---|---|---|---|---|---|
| Long-term bonds payable | $319,289 | $ 77,495 | $ (100,329) | $ (2) | $ (2,135) | $ (7,350) | $286,970 |
| Rebate liability | – | 314 | – | – | – | – | 314 |
| Total long-term liabilities | $319,289 | $ 77,809 | $ (100,329) | $ (2) | $ (2,135) | $ (7,350) | $287,284 |

## 11. Interfund Activity

In accordance with the Resolution, net assets in Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) 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 CDA in current and future years.

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

| | |
|---|---|
| Excess revenues transferred to the General Bond Reserve Fund | $ (2,100) |
| Transfer to separate account in accordance with HUD agreement | (761) |
| | $ (2,861) |

## 12. 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.

## 13. 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.

**14. Subsequent Event**

On August 19, 2002, CDA redeemed the following bonds:

| | |
|---|---|
| 2001 Series B | $ 4,375 |

## Community Development Administration
## Multi-Family Housing Revenue Bonds (Insured Mortgage Loans)

## 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 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:

| | |
|---|---|
| Cumulative FY 1996 and prior periods | $ 1,972 |
| FY 1997 | 415 |
| FY 1998 | 3,431 |
| FY 1999 | (2,009) |
| FY 2000 | (154) |
| FY 2001 | 1,192 |
| FY 2002 | (668) |
| Cumulative total | $ 4,179 |

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

| | |
|---|---|
| Decrease in fair value of investments held at June 30, 2002 | $ (668) |
| Realized gains on investments sold | 1,673 |
| Less—reduction due to rebate liability (See Note 9) | (314) |
| Increase in fair value reported on the Statement of Revenues, Expenses and Changes in Net Assets | $ 691 |

Community Development Administration
Multi-Family Housing Revenue Bonds (Insured Mortgage Loans)

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

(in thousands)
(unaudited)

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 | $ (452) |
| FY 2001 | 1,358 |
| FY 2002 | 812 |
| Cumulative total | $ 1,718 |