Community Development Administration
Revenue Obligation Funds

Financial Statements

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

Community Development Administration
Revenue Obligation Funds

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 Revenue Obligation Funds (the Funds) 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 Funds' 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 Revenue Obligation Funds, 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 Revenue Obligation Funds of the Department of Housing and Community Development of the State of Maryland, at June 30, 2002, and the changes in 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 in Single Family Program Bonds 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 Revenue Obligation Funds 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 Changes 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
Revenue Obligation Funds

Balance Sheet

June 30, 2002
(in thousands)

	Single Family Program Bonds	Multi-Family Housing Revenue Bonds	Housing Revenue Bonds	Residential Revenue Bonds	General Bond Reserve Fund	Combined
Restricted assets						
Restricted current assets:						
Cash on deposit with trustee	$ 41,828	$ 41,388	$ 49,211	$ 75,997	$ 8,347	$ 216,771
Investments	47,680	–	23,402	186,243	6,279	263,604
Mortgage-backed securities	–	210	665	–	–	875
Mortgage loans:						
Single family	19,552	–	48	11,252	–	30,852
Multi-family construction and permanent financing	–	4,424	3,090	–	–	7,514
Energy and rehabilitation	–	–	–	–	200	200
Accrued interest and other receivables	18,868	3,337	2,290	9,978	814	35,287
Due from other Funds	305	–	10	–	270	585
Total restricted current assets	128,233	49,359	78,716	283,470	15,910	555,688
Restricted long-term assets:						
Investments, net of current portion	218,317	32,354	20,498	67,258	25,580	364,007
Mortgage-backed securities, net of current portion	–	27,011	172,542	–	–	199,553
Mortgage loans, net of current portion:						
Single family	724,070	–	756	704,777	125	1,429,728
Multi-family construction and permanent financing	–	255,547	100,410	–	–	355,957
Energy and rehabilitation	–	–	–	–	1,462	1,462
Deferred bond issuance costs	7,496	2,405	873	8,269	–	19,043
Total restricted long-term assets	949,883	317,317	295,079	780,304	27,167	2,369,750
Total restricted assets	$ 1,078,116	$ 366,676	$ 373,795	$ 1,063,774	$ 43,077	$ 2,925,438

Community Development Administration
Revenue Obligation Funds

Balance Sheet (continued)

(in thousands)

	Single Family Program Bonds	Multi-Family Housing Revenue Bonds	Housing Revenue Bonds	Residential Revenue Bonds	General Bond Reserve Fund	Combined
Liabilities and net assets						
Current liabilities:						
Accrued interest payable	$ 13,230	$ 2,300	$ 8,945	$ 17,151	$ –	$ 41,626
Accounts payable	2	68	132	–	931	1,133
Accrued workers' compensation	–	–	–	–	4	4
Accrued compensated absences	–	–	–	–	261	261
Due to State Treasurer	–	–	–	–	829	829
Rebate liability	308	–	–	–	–	308
Bonds payable and short-term debt	34,450	7,350	4,905	107,150	–	153,855
Other liabilities—principally deposits by borrowers	–	21,470	26,639	–	–	48,109
Due to other Funds	3	–	267	305	10	585
Total current liabilities	47,993	31,188	40,888	124,606	2,035	246,710
Long-term liabilities:						
Accrued workers' compensation, net of current portion	–	–	–	–	22	22
Accrued compensated absences, net of current portion	–	–	–	–	216	216
Rebate liability, net of current portion	16,777	314	–	2,272	–	19,363
Bonds payable, net of current portion	876,121	286,970	317,835	901,783	–	2,382,709
Total long-term liabilities	892,898	287,284	317,835	904,055	238	2,402,310
Total liabilities	940,891	318,472	358,723	1,028,661	2,273	2,649,020
Net assets:						
Restricted	137,225	48,204	15,072	35,113	40,804	276,418
Total net assets	137,225	48,204	15,072	35,113	40,804	276,418
Total liabilities and net assets	$ 1,078,116	$ 366,676	$ 373,795	$ 1,063,774	$ 43,077	$ 2,925,438

See accompanying notes.

Community Development Administration
Revenue Obligation Funds

Statement of Revenues, Expenses and Changes in Net Assets

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

	Single Family Program Bonds	Multi-Family Housing Revenue Bonds	Housing Revenue Bonds	Residential Revenue Bonds	General Bond Reserve Fund	Combined
Operating revenues						
Interest on mortgage loans	$ 58,778	$ 21,483	$ 8,673	$ 42,458	$ 165	$ 131,557
Interest on mortgage-backed securities	–	1,982	8,215	–	–	10,197
Fee income	911	286	69	466	997	2,729
Other operating revenues	13	–	–	74	14	101
	59,702	23,751	16,957	42,998	1,176	144,584
Operating expenses						
Trustee, legal and mortgage servicing costs	4,049	207	59	2,362	219	6,896
Salaries and related costs	–	–	–	–	5,646	5,646
General and administrative costs	–	–	–	–	1,977	1,977
Loss on foreclosure claims	374	–	–	1	–	375
Other operating expenses	–	–	132	4	742	878
	4,423	207	191	2,367	8,584	15,772
Operating income (loss)	55,279	23,544	16,766	40,631	(7,408)	128,812
Nonoperating revenues (expenses)						
Interest income, net of rebate	17,275	3,315	3,814	14,175	1,860	40,439
Interest expense on bonds and short-term debt	(57,584)	(20,696)	(16,943)	(51,637)	–	(146,860)
Amortization of bond issuance costs	(689)	(131)	(42)	(443)	–	(1,305)
Increase (decrease) in fair value of investments, net of rebate	2,503	691	157	(24)	405	3,732
Increase in fair value of mortgage-backed securities	–	812	3,340	–	–	4,152
	(38,495)	(16,009)	(9,674)	(37,929)	2,265	(99,842)
Transfers of funds, net, as permitted by various bond indentures	(1,038)	(2,861)	(2,427)	(222)	5,787	(761)
Change in net assets before extraordinary item	15,746	4,674	4,665	2,480	644	28,209
Extraordinary loss on early retirement of debt	(1,080)	(212)	(1)	(266)	–	(1,559)
Change in net assets	$ 14,666	$ 4,462	$ 4,664	$ 2,214	$ 644	$ 26,650
Changes in net assets						
Net assets at June 30, 2001, as previously reported	135,287	43,742	10,408	32,899	40,160	262,496
Adjustments (Note 2) (unaudited)	(12,728)	–	–	–	–	(12,728)
Net assets at June 30, 2001, as restated	122,559	43,742	10,408	32,899	40,160	249,768
Change in net assets	14,666	4,462	4,664	2,214	644	26,650
Net assets at end of year	$ 137,225	$ 48,204	$ 15,072	$ 35,113	$ 40,804	$ 276,418

See accompanying notes.

Community Development Administration
Revenue Obligation Funds

Statement of Cash Flows

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

	Single Family Program Bonds	Multi-Family Housing Revenue Bonds	Housing Revenue Bonds	Residential Revenue Bonds	General Bond Reserve Fund	Combined
Operating activities						
Principal and interest received on mortgage loans	$ 187,673	$ 28,578	$ 11,767	$ 84,939	$ 403	$ 313,360
Principal and interest received on mortgage-backed securities	–	4,892	8,859	–	–	13,751
Escrow funds received	–	10,904	6,730	–	–	17,634
Escrow funds paid	–	(9,853)	(5,497)	–	–	(15,350)
Mortgage insurance claims received	16,851	–	–	3,310	–	20,161
Foreclosure expenses paid	(1,797)	–	–	(160)	–	(1,957)
Other income received	15	–	–	74	14	103
Loan fees received	8	8	1,306	1,293	995	3,610
Purchase of mortgage loans	(10,342)	–	–	(162,807)	–	(173,149)
Purchase of mortgage-backed securities	–	–	(72,441)	–	–	(72,441)
Trustee, legal and mortgage servicing costs	(4,049)	(207)	(59)	(2,362)	(219)	(6,896)
Salaries and related costs	–	–	–	–	(5,496)	(5,496)
General and administrative costs	–	–	–	–	(1,482)	(1,482)
Other expenses paid	–	–	(142)	(4)	(430)	(576)
Other reimbursements	–	–	–	–	(1,135)	(1,135)
Reimbursements among Funds	14,218	–	257	(14,215)	(260)	–
Net cash from operating activities	202,577	34,322	(49,220)	(89,932)	(7,610)	90,137
Investing activities						
Proceeds from maturities or sales of investments	161,150	8,629	71,283	313,568	9,640	564,270
Purchases of investments	(211,100)	(1,946)	(86,775)	(173,024)	(9,841)	(482,686)
Transfers of investments	42,760	–	–	(42,760)	–	–
Arbitrage rebates paid	(256)	–	–	–	–	(256)
Interest received on investments	18,990	3,469	3,108	16,964	2,025	44,556
Net cash from investing activities	11,544	10,152	(12,384)	114,748	1,824	125,884

Community Development Administration
Revenue Obligation Funds

Statement of Cash Flows (continued)

(in thousands)

	Single Family Program Bonds	Multi-Family Housing Revenue Bonds	Housing Revenue Bonds	Residential Revenue Bonds	General Bond Reserve Fund	Combined
Noncapital financing activities						
Proceeds from sale of bonds	$ 54,235	$ 77,495	$ 86,775	$ 165,280	$ –	$ 383,785
Payments on bond principal	(199,960)	(100,463)	(4,595)	(91,195)	–	(396,213)
Bond issuance costs	(1,582)	(2,220)	–	(906)	–	(4,708)
Interest on bonds and short-term debt	(59,999)	(20,997)	(15,229)	(49,969)	–	(146,194)
Transfers among Funds	(1,038)	(2,861)	(2,427)	(222)	5,787	(761)
Net cash from noncapital financing activities	(208,344)	(49,046)	64,524	22,988	5,787	(164,091)
Net increase (decrease) in cash on deposit with trustee	5,777	(4,572)	2,920	47,804	1	51,930
Cash on deposit with trustee at beginning of year	36,051	45,960	46,291	28,193	8,346	164,841
Cash on deposit with trustee at end of year	$ 41,828	$ 41,388	$ 49,211	$ 75,997	$ 8,347	$ 216,771
Reconciliation of operating income to net cash from operating activities						
Operating income (loss)	$ 55,279	$ 23,544	$ 16,766	$ 40,631	$ (7,408)	$ 128,812
Adjustments to reconcile operating income to net cash from operating activities:						
Decrease (increase) in mortgage-backed securities	–	2,910	(71,797)	–	–	(68,887)
Decrease (increase) in mortgage loans	128,439	6,833	4,308	(114,712)	225	25,093
Decrease (increase) in accrued interest and other receivables	4,685	81	2	(1,636)	11	3,143
Decrease (increase) in due from other funds	14,209	–	(10)	3,366	(270)	17,295
Increase (decrease) in due to other funds	9	–	267	(17,581)	10	(17,295)
Decrease in accrued workers' compensation	–	–	–	–	(9)	(9)
Increase in due to State Treasurer	–	–	–	–	654	654
(Decrease) increase in accounts payable	(44)	3	(10)	–	(823)	(874)
Increase in other liabilities—principally deposits by borrowers	–	951	1,254	–	–	2,205
Net cash from operating activities	$ 202,577	$ 34,322	$(49,220)	$ (89,932)	$ (7,610)	$ 90,137

Community Development Administration
Revenue Obligation Funds

Statement of Cash Flows (continued)

(in thousands)

	Single Family Program Bonds	Multi-Family Housing Revenue Bonds	Housing Revenue Bonds	Residential Revenue Bonds	General Bond Reserve Fund	Combined
Noncash investing and noncapital financing activities						
Amortization of investment discounts and premiums	$ 233	$ 44	$ 4	$ (716)	$ 151	$ (284)
Amortization of bond original issue discounts and premiums	(16)	–	–	(6)	–	(22)
(Increase) decrease in fair value of investments, net of rebate	(2,759)	(691)	(157)	24	(405)	(3,988)
Increase in fair value of mortgage-backed securities	–	(812)	(3,340)	–	–	(4,152)
Amortization of deferred bond issuance costs	689	131	42	443	–	1,305
Loss on early retirement of debt	1,080	212	1	266	–	1,559

See accompanying notes.

1. Authorizing Legislation and Program Description

The Community Development Administration (CDA) was created in 1970 by Sections 266 DD-1 to 266 DD-8 of Article 41 (now in Article 83B, Sections 2-201 through 2-208) of the Annotated Code of Maryland to meet the shortage of adequate, safe and sanitary housing in the State of Maryland, particularly for persons or families of limited income. CDA is in the Division of Development Finance in the Department of Housing and Community Development (DHCD) of the State of Maryland.

The accompanying financial statements only include CDA's Revenue Obligation Funds (the Funds). CDA's other funds are not included. However, CDA has also issued financial statements for the Infrastructure Program Funds. Both the Revenue Obligation Funds and the Infrastructure Program Funds are enterprise funds of the State of Maryland and are included in the State of Maryland's Comprehensive Annual Financial Report.

Within each fund group in Revenue Obligation Funds are separate funds maintained for each obligation in accordance with the respective indentures. The following summarizes each of the fund groups.

Fund	Purpose
Single Family Program Bonds	To originate or purchase single family mortgage loans.
Multi-Family Housing Revenue Bonds	To provide construction and permanent financing for multi-family housing projects.
Housing Revenue 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.
Residential Revenue Bonds	To originate or purchase single family mortgage loans.
General Bond Reserve Fund	To provide funds for payment of principal and interest on bonds and notes to the extent revenues and assets specifically pledged are not sufficient. This fund also provides for the payment of general and administrative expenses of the Funds.

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

Net assets as of June 30, 2001 for the Single Family Program Bonds 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 Single Family Program Bonds 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. No other program funds required an adjustment. 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 accounts are organized on the basis of funds, each of which is a separate accounting entity. The Funds are set up primarily in accordance with CDA's enabling legislation and the various indentures. The Funds use 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.

3. 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 7, 8, 9, and 10 for short-term debt, bonds payable, debt service requirements, and bond refundings, respectively. GASB Statement No. 38 also requires additional disclosures on interfund balances and transfers (Note 13) 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 Funds.

3. 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 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 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 4.

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 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 single family mortgage loan in foreclosure with a pending insurance claim is recorded as other receivables. See Note 5 and Note 15 for additional information on mortgage loans and mortgage insurance, respectively.

Allowance for Loan Losses

Substantially all the mortgage loans of the Funds are insured or guaranteed by agencies of the U.S. Government, the Maryland Housing Fund (MHF) 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 includes 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 and energy and rehabilitation 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 10.

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 13.

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, 9 and 10 for additional 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.

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.

3. Summary of Significant Accounting Policies (continued)

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 Funds are restricted as to their use.

Fee Income

Multi-family financing fees and single family commitment fees are deferred over the life of the loan. Tax credit fees and administrative fees are recorded as earned.

Administrative Support

In addition to expenses incurred directly by the Funds, 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 the 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 16 for additional information.

3. Summary of Significant Accounting Policies (continued)

Revenues 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 period. Actual results could differ from these estimates.

Combined Totals

The totals of similar accounts of the various Funds in the accompanying financial statements are presented for information purposes only. The totals only represent an aggregation of the Funds and do not represent consolidated financial information.

4. Cash, Investments and Mortgage-Backed Securities

Proceeds from bonds are invested in authorized investments as defined in the respective indentures 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.

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

Cash

As of June 30, 2002, the Funds had $216,771 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 in Single Family Program Bonds. 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 and total $350,484.

Repurchase agreements, which include guaranteed investment contracts, total $274,127. For $272,127 of these investments, collateral is held by the trustee or its agent. The remaining $2,000 is uncollateralized. The agreements and contracts are at fixed interest rates with maturities ranging from less than one year to 30 years.

4. Cash, Investments and Mortgage-Backed Securities

Investments (continued)

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

	Certificates and Other Time Deposits		Obligations of the U.S. Treasury		Obligations of U.S. Government Agencies		Securities Held Under Repurchase Agreements or Guaranteed Investment Contracts		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Single Family Program Bonds	$ 3,000	$ 3,000	$ 181,110	$ 142,020	$ –	$ –	$ 81,887	$ 81,887	$ 265,997	$ 226,907
Multi-Family Housing Revenue Bonds	–	–	30,354	26,175	–	–	2,000	2,000	32,354	28,175
Housing Revenue Bonds	–	–	6,012	5,541	–	–	37,888	37,888	43,900	43,429
Residential Revenue Bonds	–	–	–	–	101,149	100,728	152,352	152,352	253,501	253,080
General Bond Reserve Fund	–	–	2,980	2,465	28,879	28,288	–	–	31,859	30,753
	$ 3,000	$ 3,000	$ 220,456	$ 176,201	$ 130,028	$ 129,016	$ 274,127	$ 274,127	$ 627,611	$ 582,344

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 Federal Housing Administration (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.

4. Cash, Investments and Mortgage-Backed Securities

Mortgage-Backed Securities (continued)

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

	Fair Value	Cost
Multi-Family Housing Revenue Bonds	$ 27,221	$ 25,503
Housing Revenue Bonds	173,207	176,983
	$ 200,428	$ 202,486

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 CDA are classified as Category 1.

5. Mortgage Loans

Substantially all single family mortgage loans are secured by first liens on the related property and are credit enhanced through the FHA mortgage insurance programs, the Veterans Administration and USDA/RD guarantee programs, the Maryland Housing Fund (MHF) or by private primary mortgage insurance policies. As of June 30, 2002, interest rates on such loans range from 4.0% to 13.9%, with remaining loan terms ranging from 8 to 30 years.

Substantially all multi-family construction and permanent mortgage loans outstanding are insured or credit enhanced by the FHA, the MHF, Federal Home Loan Mortgage Corporation or GNMA. As of June 30, 2002, interest rates on such loans range from 3.7% to 14.5%, with remaining loan terms ranging from 2 to 40 years.

Substantially all energy and rehabilitation loans are insured by the MHF. Loans made or purchased in excess of $5 are secured by a deed of trust on the related property. As of June 30, 2002, interest rates on such loans range from 7.0% on owner-occupied residential properties to 10.0% on rental housing, with remaining loan terms ranging from less than one year to 8 years.

6. Accrued Interest and Other Receivables

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

	Single Family Program Bonds	Multi-Family Housing Revenue Bonds	Housing Revenue Bonds	Residential Revenue Bonds	General Bond Reserve Fund	Combined
Accrued mortgage loan interest	$ 7,197	$ 1,790	$ 683	$ 4,736	$ 27	$ 14,433
Escrows due from multi-family mortgagors	–	821	471	–	–	1,292
Accrued investment interest	4,438	726	954	3,058	479	9,655
Claims due from mortgage insurers	7,233	–	–	2,184	–	9,417
Negative arbitrage due from mortgagors	–	–	182	–	–	182
Miscellaneous loan billings	–	–	–	–	308	308
	$ 18,868	$ 3,337	$ 2,290	$ 9,978	$ 814	$ 35,287

7. Short-Term Debt

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

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

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

The outstanding short-term debt of $97,275 plus the principal payments due within one year of $9,875 equal the current portion of bonds payable and short-term debt of $107,150 for the Residential Revenue Bonds on the Balance Sheet. For the year ended June 30, 2002, none of the other Funds had short-term debt activity.

8. Bonds Payable

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

8. Bonds Payable (continued)

The following is a summary of the bond activity for the year ended June 30, 2002 and 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
Single Family Program Bonds				$ 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. Bonds Payable (continued)

	Issue Dated	Range of Interest Rates	Range of Maturities	Debt Outstanding at June 30, 2001	Bond Activity: New Bonds Issued	Bond Activity: Scheduled Maturity Payments	Bond Activity: Redemptions	Debt Outstanding at June 30, 2002	Discounts/ Premiums and Other Deferred Costs	Bonds Payable at June 30, 2002
Multi-Family Housing Revenue Bonds										
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
Multi-Family Housing Revenue Bonds				$ 319,289	$ 77,495	$ (6,850)	$ (93,479)	$ 296,455	$ (2,135)	$ 294,320

8. Bonds Payable (continued)

	Issue Dated	Range of Interest Rates	Range of Maturities	Debt Outstanding at June 30, 2001	Bond Activity: New Bonds Issued	Bond Activity: Scheduled Maturity Payments	Bond Activity: Redemptions	Debt Outstanding at June 30, 2002	Discounts/ Premiums and Other Deferred Costs	Bonds Payable at June 30, 2002
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
Housing Revenue Bonds				$ 240,560	$ 86,775	$ (4,445)	$ (150)	$ 322,740	$ –	$ 322,740
Residential Revenue Bonds										
1997 Series A	08/01/97	5.60%	2017	$ 17,325	$ –	$	$ (385)	$ 16,940	$ –	$ 16,940
1997 Series B	08/01/97	4.70%-5.875%	2002-2029	73,545	–	(1,620)	(5,025)	66,900	–	66,900
1998 Series A	01/01/98	4.70%-5.05%	2010-2017	4,640	–	–	–	4,640	–	4,640
1998 Series B	01/01/98	4.15%-5.35%	2002-2030	71,225	–	(1,175)	(3,435)	66,615	55	66,670
1998 Series D	12/01/98	3.95%-5.25%	2002-2029	60,765	–	(1,085)	(1,550)	58,130	–	58,130
1999 Series C	05/01/99	4.70%-4.95%	2011-2015	2,665	–	–	–	2,665	–	2,665
1999 Series D	05/01/99	3.85%-5.40%	2002-2031	56,930	–	(100)	(1,565)	55,265	(40)	55,225
1999 Series E	08/01/99	4.60%-5.70%	2005-2017	22,780	–	–	(175)	22,605	–	22,605
1999 Series F	08/01/99	4.50%-5.95%	2002-2031	56,380	–	–	(4,170)	52,210	–	52,210
1999 Series H	12/01/99	4.60%-6.25%	2002-2031	59,865	–	–	(3,095)	56,770	(17)	56,753
2000 Series A	03/01/00	5.15%-5.50%	2007-2012	7,965	–	–	–	7,965	–	7,965
2000 Series B	03/01/00	4.80%-6.15%	2002-2032	71,940	–	–	(2,540)	69,400	–	69,400
2000 Series C	06/01/00	5.45%-5.70%	2010-2013	6,090	–	–	(220)	5,870	–	5,870
2000 Series D	06/01/00	5.10%-6.25%	2002-2032	73,880	–	–	(3,215)	70,665	–	70,665
2000 Series F	08/01/00	4.35%-5.20%	2004-2014	15,190	–	–	–	15,190	–	15,190
2000 Series G	08/01/00	4.50%-5.95%	2002-2032	64,800	–	–	(930)	63,870	–	63,870
2000 Series H	12/01/00	4.60%-5.80%	2003-2032	60,000	–	–	(1,625)	58,375	–	58,375
2001 Series A	03/01/01	3.65%-5.00%	2003-2017	18,885	–	–	–	18,885	–	18,885
2001 Series B	03/01/01	4.65%-5.45%	2011-2032	50,800	–	–	(75)	50,725	–	50,725
2001 Series C	03/28/01	3.20%	3/28/02	11,220	–	(5,270)	(5,950)	–	–	–
2001 Series D	03/28/01	3.25%	3/28/02	47,960	–	(29,890)	(18,070)	–	–	–
2001 Series E	06/01/01	3.30%-4.65%	2003-2012	13,775	–	–	–	13,775	–	13,775
2001 Series F	06/01/01	3.50%-5.60%	2003-2032	66,225	–	–	(30)	66,195	–	66,195
2001 Series G	08/15/01	3.05%-4.20%	2004-2011	–	10,100	–	–	10,100	–	10,100
2001 Series H	08/15/01	4.40%-5.35%	2011-2033	–	49,900	–	–	49,900	–	49,900
2002 Series A	02/01/02	2.80%-5.45%	2004-2033	–	8,005	–	–	8,005	–	8,005
2002 Series B	02/28/02	1.60%	12/19/02	–	36,745	–	–	36,745	–	36,745
2002 Series C	02/28/02	1.65%	12/19/02	–	60,530	–	–	60,530	–	60,530
Residential Revenue Bonds				$ 934,850	$ 165,280	$ (39,140)	$ (52,055)	$ 1,008,935	$ (2)	$ 1,008,933

9. Debt Service Requirements

As of June 30, 2002, the required principal payments for short-term debt and bonds (including mandatory sinking fund payments) and interest payments for each of the next five years and in 5-year increments thereafter, are as follows:

For the Year Ended June 30,	Single Family Program Bonds		Multi-Family Housing Revenue Bonds		Housing Revenue Bonds		Residential Revenue Bonds	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2003	$ 51,628	$ 34,450	$ 18,219	$ 7,350	$ 17,916	$ 4,905	$ 50,869	$ 107,150
2004	49,464	37,630	17,869	7,675	17,766	5,350	49,044	13,475
2005	47,568	39,580	17,486	7,815	17,499	5,970	48,413	15,315
2006	45,490	37,160	17,085	8,240	17,194	7,030	47,721	16,005
2007	43,585	42,085	16,646	8,685	16,847	7,660	46,982	16,735
2008-2012	183,362	223,445	75,182	51,650	78,161	41,785	221,997	94,925
2013-2017	120,968	225,015	58,371	58,915	65,465	49,430	194,333	126,935
2018-2022	63,551	162,620	38,236	67,320	52,937	33,740	156,499	158,975
2023-2027	19,463	108,345	16,563	52,005	43,741	31,410	105,539	211,015
2028-2032	363	5,035	5,875	19,630	34,386	36,230	40,195	227,380
2033-2037	–	–	1,114	7,170	22,957	45,390	775	21,025
2038-2042	–	–	–	–	8,871	46,000	–	–
2043-2045	–	–	–	–	403	7,840	–	–
Totals	$ 625,442	$ 915,365	$ 282,646	$ 296,455	$ 394,143	$ 322,740	$ 962,367	$ 1,008,935

10. Bond Refundings

Certain refundings of debt are due to the prepayments of mortgage loans. In these cases, CDA transfers the proceeds of the refunding bonds to a redemption account to redeem previously issued bonds and, simultaneously, transfers the prepayments of single family mortgage loans financed by these prior bonds to the refunding bonds' accounts for the purpose of originating new loans. This recycling of prepayments enables CDA to originate new loans that are not subject to the limitations of the IRS volume cap. CDA does not pay call premiums on these special redemptions, and the refundings are not undertaken to reduce interest rates, revise payment schedules or modify restrictions. CDA writes off any unamortized deferred issuance costs or original issue discounts, net of unamortized original issue premiums, as an extraordinary loss in the accompanying Statement of Revenues, Expenses and Changes in Net Assets.

10. 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 tables summarize the economic refundings.

Single Family Program Bonds

	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

Multi-Family Housing Revenue Bonds

	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

10. 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 premium) 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.

Single Family Program Bonds

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	

Multi-Family Housing Revenue Bonds

	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	

10. Bond Refundings (continued)

In Single Family Program Bonds, 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.

In Multi-Family Housing Revenue Bonds, 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.

In Multi-Family Housing Revenue Bonds, 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.

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

11. Rebate Liability (continued)

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

	Single Family Program Bonds	Multi-Family Housing Revenue Bonds	Housing Revenue Bonds	Residential Revenue Bonds	General Bond Reserve Fund	Combined Total
Rebate liability as of June 30, 2001, as previously reported	$ 1,144	$ –	$ –	$ 505	$ –	$ 1,649
Adjustments (unaudited) (Refer to Note 2)	12,728	–	–	–	–	12,728
Rebate liability as of June 30, 2001, as restated	13,872	–	–	505	–	14,377
Increase due to excess investment earnings	1,237	–	–	1,458	–	2,695
Increase due to unrealized gains on investments (see supplemental schedule on page 38)	2,232	314	–	309	–	2,855
Less—payments made	(256)	–	–	–	–	(256)
Rebate liability as of June 30, 2002	$ 17,085	$ 314	$ –	$ 2,272	$ –	$ 19,671

12. Long-Term Obligations

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

	Single Family Program Bonds	Multi-Family Housing Revenue Bonds	Housing Revenue Bonds	Residential Revenue Bonds	General Bond Reserve Fund	Combined
Long-term bonds payable:						
Beginning balance, bonds payable	$ 1,057,663	$ 319,287	$ 240,560	$ 934,852	$ –	$ 2,552,362
Additions	54,235	77,495	86,775	165,280	–	383,785
Reductions	(199,960)	(100,329)	(4,595)	(91,195)	–	(396,079)
Less deferred amounts for issuance discounts/premiums	(16)	2	–	(4)	–	(18)
Less deferred amounts on refunding	(1,351)	(2,135)	–	–	–	(3,486)
Less due within one year	(34,450)	(7,350)	(4,905)	(107,150)	–	(153,855)
Total long-term bonds payable	876,121	286,970	317,835	901,783	–	2,382,709
Rebate liability:						
Beginning balance, rebate liability as restated	13,872	–	–	505	–	14,377
Additions	3,469	314	–	1,767	–	5,550
Reductions	(256)	–	–	–	–	(256)
Less due within one year	(308)	–	–	–	–	(308)
Total long-term rebate liability	16,777	314	–	2,272	–	19,363
Compensated absences:						
Beginning balance, compensated absences	–	–	–	–	479	479
Additions	–	–	–	–	311	311
Reductions	–	–	–	–	(313)	(313)
Less due within one year	–	–	–	–	(261)	(261)
Total long-term compensated absences	–	–	–	–	216	216
Workers' compensation:						
Beginning balance, workers' compensation	–	–	–	–	33	33
Claims and changes in estimates	–	–	–	–	(6)	(6)
Claim payments	–	–	–	–	(1)	(1)
Less due within one year	–	–	–	–	(4)	(4)
Total long-term workers' compensation liability	–	–	–	–	22	22
Total long-term liabilities	$ 892,898	$ 287,284	$ 317,835	$ 904,055	$ 238	$ 2,402,310

13. Interfund Activity

In accordance with the various bond indentures, restricted assets in each of the funds are restricted and pledged to bondholders. However, restricted assets may be transferred to other funds, subject to the provisions of the respective indentures. 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 Funds in current and future years. A cash flow analysis is not required for the General Bond Reserve Fund because there were no bonds outstanding as of June 30, 2002.

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

Transfers among Funds

	Single Family Program Bonds	Multi-Family Housing Revenue Bonds	Housing Revenue Bonds	Residential Revenue Bonds	General Bond Reserve Fund
Single family commitment fees	$ (8)	$ –	$ –	$ (1,252)	$ 1,260
Multi-family financing fees	–	–	(1,302)	–	1,302
Excess revenues	–	(2,100)	(1,125)	–	3,225
Cost of issuance on bonds	(1,071)	–	–	1,071	–
Interest income due to Single Family Program Bonds	41	–	–	(41)	–
Transfer to separate account in accordance with HUD agreement	–	(761)	–	–	–
	$ (1,038)	$ (2,861)	$ (2,427)	$ (222)	$ 5,787

13. Interfund Activity (continued)

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

Due From (To) Other Funds

	Single Family Program Bonds	Multi-Family Housing Revenue Bonds	Housing Revenue Bonds	Residential Revenue Bonds	General Bond Reserve Fund
Servicer receipts for participation loans	$ 305	$ –	$ –	$ (305)	$ –
Pending transfer of cash receipts due to one fund but received by another	(3)	–	–	–	3
Pending transfer of cash receipts due to one fund but received by another	–	–	(267)	–	267
Pending transfer of cash receipts due to one fund but received by another	–	–	10	–	(10)
	$ 302	$ –	$ (257)	$ (305)	$ 260

14. Other Outstanding Mortgage Revenue Bonds Issued by CDA

CDA has issued the following bonds that are not included in the financial statements of the Funds. All of these bonds are secured solely by the properties and related revenues of the projects and the applicable credit enhancements. No assets of the Funds have been pledged as security for these bonds.

	Amount Issued	Outstanding at June 30, 2002
Multifamily Development Revenue Bonds		
1990 Issue A (College Estates)	$ 6,750	$ 6,150
1990 Issue B (Middle Branch Manor)	12,350	10,500
1990 Issue C (Harbor City Townhomes)	4,150	3,550
Series 1998 A (Auburn Manor)	11,000	10,535
Series 1999 A (GNMA—Selborne House)	2,150	2,135
Series 2000 A (Waters Landing II Apartments)	11,000	11,000
Series 2000 B-1 (Edgewater Village Apartments)	7,640	7,590
Series 2002 B-2 (Edgewater Village Apartments)	3,125	3,125
Series 2000 C (Park Montgomery Apartments)	6,170	6,075
Series 2001 A (Heritage Crossing)	3,050	3,050
Series 2001 B (Heritage Crossing)	3,050	3,050
Series 2001 C (Parklane Apartments)	9,800	9,800
Series 2001 D (Princess Anne Townhouses)	4,350	4,335
Series 2001 E (Princess Anne Townhouses)	2,875	2,875
Series 2001 F (Waters Tower Senior Apartments)	7,570	7,535
Series 2001 G (Waters Tower Senior Apartments)	4,045	4,045
Series 2002 A (Broadway Homes)	8,100	8,100
Series 2002 B (Broadway Homes)	5,045	5,045
Multifamily Development Revenue Refunding Bonds		
Series 1997 (Avalon Lea Apartments)	$ 16,835	$ 16,835
Series 1997 (Avalon Ridge Apartments)	26,815	26,815
Series 1999 C (Westfield/Greens)	9,200	8,950
Mortgage Revenue Obligations		
First Series (Storchwoods II)	$ 1,544	$ 1,166

14. Other Outstanding Mortgage Revenue Bonds Issued by CDA (continued)

On September 5, 2002, CDA issued $5,845 of Multifamily Development Revenue Bonds Series 2002 C for the Orchard Mews Apartment Project.

On September 26, 2002, CDA issued its Draw Down Mortgage Revenue Bonds, $34,635 Series 2002-1 (AMT) and $9,855 Series 2002-2 (non-AMT). These bonds are secured solely by a pledge of investments held by the trustee in this indenture and earnings on investments in the Draw Down Mortgage Revenue Bonds. No assets of the Funds have been pledged as security for these bonds.

The Multifamily Development Revenue Bonds, the Multifamily Development Revenue Refunding Bonds, Mortgage Revenue Obligations and Draw Down Mortgage Revenue Bonds are not guaranteed by the State of Maryland or any other program of the State of Maryland or any political subdivision.

15. Mortgage Insurance

Substantially all of CDA's mortgage loans have mortgage insurance as described in Note 5. Multi-family mortgagors pay premiums for mortgage insurance and insurance coverage is 100% of the unpaid principal balance of the loan.

For an FHA insured loan in Single Family Program Bonds, 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.

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

16. 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 obligation 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.

17. Subsequent Events

Subsequent to year end, CDA redeemed certain bonds within the following funds:

Multi-Family Housing Revenue Bonds

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

2001 Series B	$ 4,375

Housing Revenue Bonds

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

Series 1996 A	$ 1,225

Community Development Administration
Revenue Obligation Funds

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:

Fiscal Year Period	Single Family Program Bonds	Multi-Family Housing Revenue Bonds	Housing Revenue Bonds	Residential Revenue Bonds	General Bond Reserve Fund	Combined
Cumulative FY 1996 and prior periods	$ 28,537	$ 1,972	$ –	$ –	$ 620	$ 31,129
FY 1997	3,461	415	(352)	–	175	3,699
FY 1998	18,225	3,431	832	–	90	22,578
FY 1999	(14,325)	(2,009)	(407)	–	(191)	(16,932)
FY 2000	(1,536)	(154)	48	(227)	(237)	(2,106)
FY 2001	1,356	1,192	193	551	244	3,536
FY 2002	3,372	(668)	157	97	405	3,363
Cumulative total	$ 39,090	$ 4,179	$ 471	$ 421	$ 1,106	$ 45,267

Community Development Administration
Revenue Obligation Funds

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

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

	Single Family Program Bonds	Multi-Family Housing Revenue Bonds	Housing Revenue Bonds	Residential Revenue Bonds	General Bonds Reserve Fund	Combined
Increase (decrease) in fair value of investments held at June 30, 2002	$ 3,372	$ (668)	$ 157	$ 97	$ 405	$ 3,363
Realized gains on investments sold	1,363	1,673	–	188	–	3,224
Less—reduction due to rebate liability (See Note 11)	(2,232)	(314)	–	(309)	–	(2,855)
Increase (decrease) in fair value of investments as reported on the Statement of Revenues, Expenses and Changes in Net Assets	$ 2,503	$ 691	$ 157	$ (24)	$ 405	$ 3,732

Community Development Administration
Revenue Obligation Funds

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

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:

Fiscal Year Period	Multi-Family Housing Revenue Bonds	Housing Revenue Bonds	Combined
FY 2000	$ (452)	$ (3,825)	$ (4,277)
FY 2001	1,358	(3,291)	(1,933)
FY 2002	812	3,340	4,152
Cumulative total	$ 1,718	$ (3,776)	$ (2,058)