FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR’S REPORT

# COMMUNITY DEVELOPMENT ADMINISTRATION
# RESIDENTIAL REVENUE BONDS

JUNE 30, 2013 AND 2012

Community Development Administration
Residential Revenue Bonds

# TABLE OF CONTENTS


| | PAGE |
|---|---|
| INDEPENDENT AUDITOR'S REPORT | 3 |
| FINANCIAL STATEMENTS | |
| STATEMENTS OF NET POSITION | 5 |
| STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION | 6 |
| STATEMENTS OF CASH FLOWS | 7 |
| NOTES TO FINANCIAL STATEMENTS | 9 |
| SUPPLEMENTAL DISCLOSURES OF CHANGE IN FAIR VALUE OF INVESTMENTS AND MORTGAGE-BACKED SECURITIES | 58 |

# INDEPENDENT AUDITOR'S REPORT

Office of the Secretary
Department of Housing and Community Development

Report on the Financial Statements

We have audited the accompanying financial statements of the Community Development Administration Residential Revenue Bonds (the Fund) of the Department of Housing and Community Development of the State of Maryland as of and for the year ended June 30, 2013, as listed in the table of contents.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the fund as of June 30, 2013, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Emphasis of Matter*

As discussed in Note 2 to the financial statements, Community Development Administration Residential Revenue Bonds early implemented GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*.

*Other Matters*

The financial statements of Community Development Administration Residential Revenue Bonds as of June 30, 2012, were audited by other auditors whose report dated September 28, 2012, expressed an unmodified opinion on those statements. As part of our audit of the 2013 financial statements, we also audited adjustments described in Note 2 that were applied to restate the 2012 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2012 financial statements of the Fund other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2012 financial statements as a whole.

As discussed in Note 1, the financial statements present only the Community Development Administration Residential Revenue Bonds and do not purport to, and do not, present fairly the financial position of the Department of Housing and Community Development of the State of Maryland as of and for the year ended June 30, 2013, and the changes in its net position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information on page 58, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

CohnReznick LLP

Baltimore, Maryland
October 18, 2013

Community Development Administration
Residential Revenue Bonds

# STATEMENTS OF NET POSITION
(in thousands)

June 30, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| RESTRICTED ASSETS | | |
| Restricted current assets | | |
| Cash and cash equivalents on deposit | $ 324,726 | $ 329,651 |
| Investments | 19,439 | - |
| Mortgage-backed securities | 3,014 | 426 |
| Single family mortgage loans | 34,119 | 36,213 |
| Multi-family mortgage loans | 1,658 | 1,545 |
| Accrued interest and other receivables | 23,635 | 21,411 |
| Claims receivable on foreclosed and other loans, net of allowance | 91,433 | 87,028 |
| Real estate owned | 10,648 | 6,558 |
| Total restricted current assets | 508,672 | 482,832 |
| Restricted long-term assets | | |
| Investments, net of current portion | 11,509 | 29,593 |
| Mortgage-backed securities, net of current portion | 87,529 | 17,026 |
| Single family mortgage loans, net of current portion and allowance | 1,612,635 | 1,851,453 |
| Multi-family mortgage loans, net of current portion | 27,463 | 29,327 |
| Accrued interest receivable, net of current portion | - | 11 |
| Total restricted long-term assets | 1,739,136 | 1,927,410 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflow of fair value on interest rate swap agreements | 27,065 | 35,862 |
| Total deferred outflows of resources | 27,065 | 35,862 |
| Total restricted assets and deferred outflows of resources | $ 2,274,873 | $ 2,446,104 |
| LIABILITIES AND NET POSITION | | |
| Current liabilities | | |
| Accrued interest payable | $ 27,496 | $ 30,596 |
| Accounts payable | 5,782 | 1,403 |
| Rebate liability | - | 59 |
| Bonds payable | 127,755 | 66,795 |
| Deposits by borrowers | 2,239 | 2,138 |
| Total current liabilities | 163,272 | 100,991 |
| Long-term liabilities | | |
| Rebate liability, net of current portion | 182 | 6,836 |
| Bonds payable, net of current portion | 1,773,492 | 1,962,232 |
| Deposits by borrowers, net of current portion | 2,445 | 2,396 |
| Interest rate swap agreements | 27,065 | 35,862 |
| Total long-term liabilities | 1,803,184 | 2,007,326 |
| Total liabilities | 1,966,456 | 2,108,317 |
| NET POSITION | | |
| Restricted | 308,417 | 337,787 |
| Total liabilities and net position | $ 2,274,873 | $ 2,446,104 |

See notes to financial statements

Community Development Administration
Residential Revenue Bonds

# STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
(in thousands)

Years ended June 30, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| Operating revenue | | |
| Interest on mortgage loans | $ 105,805 | $ 117,437 |
| Interest on mortgage-backed securities | 1,417 | 827 |
| Increase in fair value of mortgage-backed securities | 9,135 | 3,980 |
| Interest income on investments, net of rebate | 602 | 1,377 |
| (Decrease) increase in fair value of investments, net of rebate | (972) | 1,309 |
| Gain on early retirement of debt | 1,780 | 6,657 |
| Other operating revenue | 969 | 1,212 |
| | 118,736 | 132,799 |
| Operating expenses | | |
| Interest expense on bonds | 85,493 | 96,232 |
| Professional fees and other operating expenses | 10,349 | 6,940 |
| Other expenses related to investment agreement (see note 3) | 3,573 | - |
| Provision for loan losses | 29,415 | 16,965 |
| Origination expenses | 2 | 18 |
| Losses and expenses on real estate owned, net | 4,208 | 8,261 |
| Loss on foreclosure claims, net | 1,714 | 350 |
| Bond issuance costs | 622 | 133 |
| | 135,376 | 128,899 |
| Operating (loss) income | (16,640) | 3,900 |
| Nonoperating (expenses) revenue | | |
| (Decrease) increase in fair value of mortgage-backed securities | (4,708) | 512 |
| Total nonoperating (expenses) revenue | (4,708) | 512 |
| Transfers of funds as permitted by the Resolution | (8,022) | (10,243) |
| CHANGES IN NET POSITION | (29,370) | (5,831) |
| Net position - restricted at beginning of year, as previously stated | 337,787 | 377,605 |
| Cumulative effect of change in accounting principle | - | (33,987) |
| Net position - restricted at beginning of year, as restated | 337,787 | 343,618 |
| Net position - restricted at end of year | $ 308,417 | $ 337,787 |

See notes to financial statements

Community Development Administration
Residential Revenue Bonds

# STATEMENTS OF CASH FLOWS
(in thousands)

Years ended June 30, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| Cash flows from operating activities | | |
| Principal and interest received on mortgage loans | $ 226,242 | $ 194,660 |
| Principal and interest received on mortgage-backed securities | 2,764 | 1,450 |
| Escrow funds received on multi-family loans | 1,896 | 1,999 |
| Escrow funds paid on multi-family loans | (1,746) | (1,718) |
| Mortgage insurance claims received | 86,491 | 89,924 |
| Foreclosure expenses paid | (6,686) | (8,626) |
| Loan fees disbursed | (2) | (18) |
| Purchase of mortgage loans | (1,996) | (3,245) |
| Purchase of mortgage-backed securities | (268,806) | (174,179) |
| Transfer of mortgage-backed securities | - | 153,129 |
| Funds received from sale of mortgage-backed securities | 198,632 | 62,030 |
| Professional fees and other operating expenses | (10,207) | (6,787) |
| Other income received | 969 | 1,212 |
| Other reimbursements | (1,846) | (395) |
| Net cash provided by operating activities | 225,705 | 309,436 |
| Cash flows from investing activities | | |
| Proceeds from maturities or sales of investments | 17,525 | 971 |
| Purchases of investments | (19,739) | (2,695) |
| Arbitrage rebates paid | (6,955) | (646) |
| Interest received on investments | 1,776 | 1,586 |
| Net cash used in investing activities | (7,393) | (784) |
| Cash flows from noncapital financing activities | | |
| Proceeds from sale of bonds | 90,143 | - |
| Payments on bond principal | (215,835) | (171,080) |
| Bond issuance costs | (622) | (133) |
| Interest on bonds | (88,901) | (98,950) |
| Transfers among Funds | (8,022) | (10,243) |
| Net cash used in noncapital financing activities | (223,237) | (280,406) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS ON DEPOSIT | (4,925) | 28,246 |
| Cash and cash equivalents on deposit at beginning of year | 329,651 | 301,405 |
| Cash and cash equivalents on deposit at end of year | $ 324,726 | $ 329,651 |

(continued)

Community Development Administration
Residential Revenue Bonds

STATEMENTS OF CASH FLOWS - CONTINUED
(in thousands)

Years ended June 30, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| Reconciliation of operating (loss) income to net cash provided by operating activities | | |
| Operating (loss) income | $ (16,640) | $ 3,900 |
| Adjustments to reconcile operating (loss) income to net cash provided by operating activities | | |
| Decrease (increase) in assets | | |
| Mortgage loans | 237,489 | 158,914 |
| Mortgage-backed securities | (78,684) | 38,850 |
| Accrued interest and other receivables | (2,213) | (1,274) |
| Claims receivable on foreclosed and other loans | (28,646) | (7,315) |
| Real estate owned | (4,090) | 12,668 |
| (Decrease) increase in liabilities | | |
| Accrued interest payable | (3,100) | (2,426) |
| Accounts payable | 4,379 | 708 |
| Rebate liability | (6,713) | (313) |
| Deposits by borrowers | 150 | 281 |
| Amortizations | | |
| Investment discounts and premiums | 4 | 4 |
| Bond original issue discounts and premiums | (308) | (292) |
| Provision for loan losses | 29,415 | 16,965 |
| Increase in fair value of mortgage-backed securities | (9,135) | (3,980) |
| Realized gains on mortgage-backed securities sold | 10,020 | 2,634 |
| Decrease (increase) in fair value of investments | 855 | (1,374) |
| Arbitrage rebates paid | 6,955 | 646 |
| Gain on early retirement of debt | (1,780) | (6,657) |
| Bond issuance costs | 622 | 133 |
| Interest received on investments | (1,776) | (1,586) |
| Interest on bonds | 88,901 | 98,950 |
| Net cash provided by operating activities | $ 225,705 | $ 309,436 |

See notes to financial statements

# NOTES TO FINANCIAL STATEMENTS
(in thousands)

June 30, 2013 and 2012

## NOTE 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 Sections 4-101 through 4-255 of the Housing and Community Development Article) of the Annotated Code of Maryland to meet the shortage of adequate, safe and sanitary housing in the State of Maryland, particularly for persons or families of limited income. CDA is in the Division of Development Finance in the Department of Housing and Community Development (DHCD) of the State of Maryland.

The accompanying financial statements only include CDA's Residential Revenue Bonds (the Fund). CDA's other Funds are not included. The Fund was established to issue bonds primarily to originate or purchase single family mortgage loans.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The Fund is accounted for as an enterprise fund. Accordingly, the accompanying financial statements have been prepared using the accrual method of accounting and on the basis of accounting principles generally accepted in the United States of America (GAAP).

### 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). Consequently, CDA applies all applicable GASB pronouncements.

In accordance with accounting guidance issued by GASB, net position should be reported as restricted when constraints placed on net position use is either: externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions or enabling legislation. Accordingly, the net position of the Fund is restricted as to its use as the net position is pledged to bondholders.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Annual Financial Report may include 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 prepares a Management's Discussion and Analysis for the General Accounting Division of the State of Maryland that is not part of these financial statements.

Recent Accounting Pronouncements

During fiscal year 2013, CDA implemented the provisions of GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Prior to the adoption of this standard, CDA adopted all Financial Accounting Standards Board (FASB) statements issued, unless those pronouncements conflicted with or contradicted GASB standards. With the adoption of GASB Statement No. 62, CDA no longer adopts or applies FASB statements.

During fiscal year 2013, CDA implemented GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. The impact of this statement was to formally replace the reporting title of net assets with the reporting title of net position, and to report the effect of the separate classifications of deferred outflows of resources and deferred inflows of resources on net position. The provisions of GASB Statement No. 63 have been applied retroactively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During fiscal year 2013, CDA early implemented GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to either: properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources; or to recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). The impact of this statement on CDA's accounting policies is described in detail within Note 2 for the affected accounts. The provisions of GASB Statement No. 65 have been applied retroactively.

Cash and Cash Equivalents on Deposit

Cash equivalents may include money market funds, repurchase agreements, investment agreements and any other investments, primarily obligations of the U.S. Treasury and U.S. Government Agencies, which have maturities of 90 or less days at the time of purchase. As of June 30, 2013 and 2012, the Fund's cash equivalents were primarily invested in a money market mutual fund. Cash equivalents are more fully described in Note 3.

Investments

Investments are principally governmental debt securities or investment agreements collateralized by governmental debt securities. Debt 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. Callable investments are classified as current, if exercise of the call within the next fiscal year is probable. Investments are more fully described in Note 3.

Mortgage-Backed Securities

These guaranteed securities are issued in connection with mortgage loans on single family homes. They are stated at fair value, based on quoted market prices. Mortgage-backed securities are more fully described in Note 3.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgage Loans

Prior to implementation of GASB Statement No. 65, mortgage loans were carried at their unpaid principal balances, net of allowance and unamortized loan fees and expenses. Loan fees and expenses were deferred and amortized over the life of the related loans using the effective interest method. With the implementation of GASB Statement No. 65, all mortgage loans, not held for sale, are classified as held for investment and as such their related loan fees and origination expenses are recognized as revenue or expense in the period received or incurred. Deferred loan fees and deferred origination expenses have been retroactively restated on the Statements of Revenue, Expenses and Changes in Net Position to reflect the change. The cumulative effect of this change in accounting principle, in the amount of $18,010, decreases net position and reflects the amount of capitalized fees received net of costs incurred prior to fiscal year 2012. The 2012 Statement of Net Position was restated, eliminating $16,202 of capitalized fees received net of costs thus decreasing total net position. In addition, the 2012 Statement of Revenue, Expenses and Changes in Net Position was restated to reflect the receipt of deferred loan fees net of deferred origination expenses, and including previously recorded amortization of deferred loan fees and origination expenses, resulting in a net increase of $1,808 in changes in net position. For fiscal year 2013, $2 of origination expenses was recognized as an expense. There were no fees received to be recognized as revenue. Any single family mortgage loan in foreclosure with a pending insurance claim is recorded as claims receivables. See Notes 4 and 14 for additional information on mortgage loans and mortgage insurance, respectively.

Accrued Interest and Other Receivables

Accrued interest and other receivables include interest on loans and investments. On insured single family loans, interest ceases to accrue after foreclosure. On 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Claims Receivable on Foreclosed and Other Loans

Claims receivable on foreclosed and other loans include insured single family loans that are in foreclosure or other single family loans with pending insurance claims, recorded net of allowance. These loans are primarily insured by U.S. Government Agencies or private mortgage insurers. Foreclosed loans insured by private mortgage insurers are held in this account until the insurer has made a final determination as to claim payment or transfer of the property to CDA.

Real Estate Owned

Real estate owned represents real estate acquired through foreclosure or deeds-in-lieu and is stated at the lower of cost or fair value less estimated costs to sell. Expenses incurred related to real estate owned are reported on the Statements of Revenue, Expenses and Changes in Net Position.

Allowance for Loan Losses

Substantially all of the single family mortgage loans of the Fund are insured or guaranteed by agencies of the U.S. Government, the Maryland Housing Fund (MHF), or private mortgage insurers. As of June 30, 2013 and 2012, CDA has established an allowance for loan losses on the uninsured portions of single family mortgage loans with private mortgage insurance. CDA has also established an allowance for loan losses on single family loans with private mortgage insurance that are in foreclosure. Management believes the allowance established is adequate based on prior experience and evaluations from DHCD's asset management group as well as a current assessment of probability and risk of loss due to default or deteriorating economic conditions. Multi-family mortgage loans of the Fund are insured or guaranteed; as such, no allowance for loans losses was necessary as of June 30, 2013 and 2012. See Note 4 for additional information on allowance for loan losses.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Bond Issuance Costs

Prior to implementation of GASB Statement No. 65, costs incurred in issuing bonds were capitalized and amortized using the effective interest method for each respective bond issue. With the implementation of GASB Statement No. 65, bond issuance costs are recognized and expensed in the period incurred. Deferred bond issuance costs have been retroactively restated on the Statements of Revenue, Expenses and Changes in Net Position to reflect the change. The cumulative effect of this change in accounting principle, in the amount of $15,296, decreases net position and reflects the amount of capitalized costs incurred prior to fiscal year 2012. The 2012 Statement of Net Position was restated, eliminating $14,108 of deferred bond issuance costs thus reducing total restricted assets. In addition, the 2012 Statement of Revenue, Expenses and Changes in Net Position was restated to reflect the expensing of deferred bond issuance costs netted with previously recorded amortization expense, resulting in an increase of $1,188 in changes in net position. For fiscal year 2013, bond issuance costs of $622 are recognized as an expense.

Bonds Payable

Prior to implementation of GASB Statement No. 65, bonds payable were carried at their unpaid principal balances, net of unamortized deferred gain or loss for bonds refunded for economic purposes and original issue discounts or premiums. With the implementation of GASB Statement No. 65, any refunded amounts related to unamortized deferred bond issuance costs are no longer netted against bonds payable. Any other costs incurred from the refunding of bonds are shown as deferred outflows of resources on the Statements of Net Position. Bonds payable have been retroactively restated on the Statements of Net Position to reflect the change. The cumulative effect of this change in accounting principle, in the amount of $681, decreases net position and reflects the amount of capitalized costs incurred prior to fiscal year 2012. The 2012 Statement of Net Position was restated, eliminating $629 of deferred issuance costs thus reducing total restricted assets. In addition, the 2012 Statement of Revenue, Expenses and Changes in Net Position was restated to reflect previously recorded amortization of deferred refunded issuance costs, resulting in an increase of $52 in changes in net position. See Notes 6, 7, 8, 9, 10 and 12 for additional information on bonds.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Deposits by Borrowers

This account consists of escrows and reserves held by CDA on behalf of multi-family housing developments. CDA invests these deposits and, for reserves, allows earnings to accrue to the benefit of the mortgagor. Escrows represent amounts held by CDA for mortgage insurance and hazard insurance premiums and real estate taxes, all of which are generally paid annually and which are classified as a current liability. Based on the current year's reserve disbursements, CDA has estimated the current reserve liability. The balance of the reserves is classified as long-term. See Note 12 for further information on changes in long-term obligations.

### Rebate Liability on Investments

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.

### Interest Rate Exchange Agreements (Swaps)

Interest rate exchange agreements (swaps) are derivative instruments which are entered into as cash flow hedges to reduce exposure to identified financial risks associated with assets, liabilities or expected transactions or to lower the costs of borrowings and are considered to be hedging derivative instruments. Swaps are reported at fair value in the Statements of Net Position and are tested quarterly for hedge effectiveness. Effectiveness is established if the changes in cash flows of the swaps substantially offset the changes in cash flows of the hedgeable items. The changes in fair values of the swaps that are determined to be effective hedges will be recognized as deferred inflows or outflows in the Statements of Net Position. The changes in fair value of the swaps that are determined not to be effective hedges will be reported in the Statements of Revenue, Expenses and Changes in Net Position. CDA's swaps are more fully described in Note 9.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgage 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 and over the term of the bonds, CDA determines and maintains compliance with 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, 2013 and 2012, all mortgage loan yields were in compliance with the Code.

Interest on Mortgage Loans and Mortgage-Backed Securities

Interest on mortgage loans and mortgage-backed securities is calculated using the effective interest method.

Fee Income

Prior to implementation of GASB Statement No. 65, single family commitment fees received at loan origination were recorded as deferred and amortized over the life of the loan. With the implementation of GASB Statement No. 65, all mortgage loans, not held for sale, are classified as held for investment and as such their related loan fees are recognized as revenue in the period received. Deferred loan fees have been retroactively restated on the Statements of Revenue, Expenses and Changes in Net Position to reflect the change. The cumulative effect of this change in accounting principle, in the amount of $5,516, increases net position and reflects the amount of capitalized fees received prior to fiscal year 2012. The 2012 Statement of Net Position was restated, eliminating $5,006 of deferred loan fees thus increasing total restricted assets. In addition, the 2012 Statement of Revenue, Expenses and Changes in Net Position was restated to reflect previously recorded amortization of deferred loan fees, resulting in a decrease of $510 in changes in net position. For fiscal year 2013, there were no fees received to be recognized as revenue.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Origination Expenses

Prior to implementation of GASB Statement No. 65, origination fees and servicer release fees paid to originators of its single family loans were recorded as deferred and amortized over the life of the loan. On some single family loans CDA provided borrowers with grants toward loan down payment and closing costs. With the implementation of GASB Statement No. 65, origination fees, servicer release fees and other costs associated with loan origination are expensed in the period incurred as origination expenses. Deferred origination expenses have been retroactively restated on the Statements of Revenue, Expenses and Changes in Net Position to reflect the change. The cumulative effect of this change in accounting principle, in the amount of $23,526, decreases net position and reflects the amount of costs incurred prior to fiscal year 2012. The 2012 Statement of Net Position was restated, eliminating $21,208 of deferred origination expenses thus decreasing total restricted assets. In addition, the 2012 Statement of Revenue, Expenses and Changes in net Position was restated to reflect the expensing of origination fees, netted with previously recorded amortization of deferred origination expense, resulting in an increase of $2,318 in changes in net position. For fiscal year 2013, there were origination expenses of $2 incurred and recognized as an expense.

Administrative Support

In addition to expenses incurred directly by the Fund, CDA receives certain support services from other divisions of DHCD. Support services and the operating expenses of CDA have been allocated to CDA's General Bond Reserve Fund and reported in the financial statements of CDA's Revenue Obligation Funds. The General Bond Reserve Fund records these expenses as invoiced by DHCD for the fiscal year.

The employees of CDA are covered by the Maryland State Retirement and Pension System and the costs of employees' retirement benefits are included in the salaries and related costs charged to CDA's General Bond Reserve Fund. See Note 15 for additional information.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue and Expenses

CDA distinguishes operating revenue and expenses from nonoperating items in accordance with accounting guidance issued by GASB. Operating revenue and expenses are identified as those activities that are directly related to financing affordable housing in the State of Maryland. All of the Fund's activities are considered to be operating except for increases and decreases in the fair value of mortgage-backed securities that are held within the portfolio. Mortgage-backed securities that are part of the TBA program are classified as operating which is more fully described in Note 3.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue, expenses, gains and losses during the reporting period. Actual results could differ from these estimates.

### Reclassification

Certain reclassifications have been made, none of which affected the results of activities and changes in net position, to present the financial statements on a consistent basis.

## NOTE 3 - CASH, CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES

Bond proceeds and revenues from mortgages, mortgage-backed securities and investments are invested in authorized investments as defined in the Residential Revenue Bond Resolution (the Resolution) and in CDA's Investment Policy until required for purchasing mortgage-backed securities or originating mortgage loans, funding reserves, paying bond debt service or redeeming outstanding bonds and notes, and funding program expenses. Authorized investments include obligations of the U.S. Treasury, U.S. Government Agencies, repurchase agreements, investment agreements, money market funds and certificates of deposit.

(in thousands)

## NOTE 3 - CASH, CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES (Continued)

The following assets, reported at fair value and held by the Fund as of June 30, 2013 and 2012, are evaluated in accordance with GASB accounting guidance for interest rate risk, credit risk, concentration of credit risk and custodial credit risk.

| Assets | 2013 | 2012 |
|---|---|---|
| Cash and Cash Equivalents: | | |
| Federated Prime Cash Obligations Fund | $ 307,163 | $ 329,651 |
| Demand Deposit Account | 17,563 | - |
| Investments: | | |
| Obligations of U.S. Government Agencies | 9,101 | 9,961 |
| Repurchase and Investment Agreements | 21,847 | 19,632 |
| GNMA Mortgage-backed Securities | 85,993 | 17,452 |
| FNMA Mortgage-backed Securities | 4,550 | - |
| Total | $ 446,217 | $ 376,696 |

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses from rising interest rates, CDA's Investment Policy requires that the maturities of the investment portfolio are scheduled to meet the cash requirements for bond debt service, projected loan originations and ongoing operations.

(in thousands)

## NOTE 3 - CASH, CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES (Continued)

As of June 30, 2013, the amortized cost, fair value and maturities for these assets were as follows:

| | | | Maturities (in years) | | | | |
|---|---|---|---|---|---|---|---|
| Asset | Amortized Cost | Fair Value | Less than 1 | 1 - 5 | 6 - 10 | 11 - 15 | More than 15 |
| Federated Prime Cash Obligations Fund | $ 307,163 | $ 307,163 | $ 307,163 | $ - | $ - | $ - | $ - |
| Demand Deposit Account | 17,563 | 17,563 | 17,563 | - | - | - | - |
| Obligations of U.S. Government Agencies | 7,059 | 9,101 | - | - | 2,540 | - | 6,561 |
| Repurchase agreements/ Investment agreements | 21,847 | 21,847 | 19,439 | - | - | - | 2,408 |
| GNMA mortgage-backed securities | 90,068 | 85,993 | - | - | - | - | 85,993 |
| FNMA mortgage-backed securities | 4,795 | 4,550 | - | - | - | - | 4,550 |
| Total | $ 448,495 | $ 446,217 | $ 344,165 | $ - | $ 2,540 | $ - | $ 99,512 |

As of June 30, 2012, the amortized cost, fair value and maturities for these assets were as follows:

| | | | Maturities (in years) | | | | |
|---|---|---|---|---|---|---|---|
| Asset | Amortized Cost | Fair Value | Less than 1 | 1 - 5 | 6 - 10 | 11 - 15 | More than 15 |
| Federated Prime Cash Obligations Fund | $ 329,651 | $ 329,651 | $ 329,651 | $ - | $ - | $ - | $ - |
| Obligations of U.S. Government Agencies | 7,064 | 9,961 | - | - | 2,671 | - | 7,290 |
| Repurchase agreements/ Investment agreements | 19,632 | 19,632 | - | - | - | - | 19,632 |
| GNMA mortgage-backed securities | 16,179 | 17,452 | - | - | - | - | 17,452 |
| Total | $ 372,526 | $ 376,696 | $ 329,651 | $ - | $ 2,671 | $ - | $ 44,374 |

NOTE 3 - CASH, CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES (Continued)

The Federated Prime Cash Obligations Fund invests primarily in short-term, high-quality, fixed-income securities issued by banks, corporations and the U.S. Government. It is operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. It can reasonably be expected to have a fair value that will be unaffected by interest rate changes because the interest rates are variable and the principal can be recovered on demand. As noted above, as of June 30, 2013 and 2012, the cost of the money market mutual fund approximated fair value.

Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Neither CDA's Investment Policy nor the Resolution requires investment agreements or deposits to be collateralized. CDA's Investment Policy places no limit on the amount that CDA may invest in any one issuer or counterparty. According to the Resolution and CDA's Investment Policy, securities must be at a rating no lower than the rating on the bonds or, if an investment maintains only a short-term rating, a rating not less than F1/P-1; and financial institutions who are a counterparty to CDA in investment agreements must be rated at least comparable to the existing rating on CDA bonds unless counterparty ratings lower than the bond ratings are permitted and do not affect the ratings on the bonds. In addition, certain investment and repurchase agreements require counterparty ratings no less than the ratings on the bonds. As of June 30, 2013, all counterparty ratings were at least equal to the ratings on the Fund's bonds, except for one counterparty whose credit rating of Aa3 has not affected the Aa2 rating on the Fund's bonds. As of June 30, 2012, all counterparty ratings were at least equal to the ratings on the Fund's bonds. The ratings on Residential Revenue Bonds as of June 30, 2013 and 2012 were Aa2 by Moody's Investors Service and AA by Fitch Ratings. The following table provides credit quality rating information for the investment portfolio and individual issuers, if they represent 5 percent or more of total investments in accordance with accounting guidance issued by GASB.

(in thousands)

## NOTE 3 - CASH, CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES (Continued)

As of June 30, 2013, credit ratings and allocation by type of investments for the following assets were:

| Asset | Fair Value | Percentage of total investments | Money market fund rating | Securities credit rating | Rating agency |
|---|---|---|---|---|---|
| Federated Prime Cash Obligations Fund | $ 307,163 | 68.84% | Aaa | | Moody's |
| Demand Deposit Account: | | | | | |
| Counterparty rated Aa3 by Moody's | 17,563 | 3.94% | | | |
| Government National Mortgage Association | | | | | |
| Mortgage-backed securities | 85,993 | 19.27% | | Direct U.S. Obligations | |
| Federal National Mortgage Association | | | | | |
| Mortgage-backed securities | 4,550 | 1.02% | | Aaa | Moody's |
| Obligations of U.S. Government Agencies | 9,101 | 2.04% | | Aaa | Moody's |
| Collateralized repurchase agreements and investment agreements: | | | | Underlying securities credit rating | |
| Counterparty rated Aaa by Moody's | 21,847 | 4.89% | | Aaa | Moody's |
| Total | $ 446,217 | 100.00% | | | |

(in thousands)

## NOTE 3 - CASH, CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES (Continued)

As of June 30, 2012, credit ratings and allocation by type of investments for the following assets were:

| Asset | Fair Value | Percentage of total investments | Money market fund rating | Securities credit rating | Rating agency |
|---|---|---|---|---|---|
| Federated Prime Cash Obligations Fund | $ 329,651 | 87.51% | Aaa | | Moody's |
| Government National Mortgage Association Mortgage-backed securities | 17,452 | 4.63% | | Direct U.S. Obligations | |
| Obligations of U.S. Government Agencies | 9,961 | 2.65% | | Aaa | Moody's |
| Collateralized repurchase agreements and investment agreements: | | | | Underlying securities credit rating | |
| WestLB rated Aaa by Moody's* | 19,632 | 5.21% | | Aaa | Moody's |
| Total | $ 376,696 | 100.00% | | | |

* WestLB AG is formerly known as "Westdeutsche Landesbank Gironzentrale." This investment agreement was entered into prior to July 19, 2001 and is therefore governed by guarantor liability in accordance with the agreement reached between the German Federal Government and the European Commission (Letter of Understanding I). The current rating of Aaa by Moody's for this investment agreement is based on such guarantor liability. As of July 19, 2005, all contracts entered into with West LB AG between July 19, 2001 and July 18, 2005 which mature after December 31, 2015, and contracts entered into after July 18, 2005 are not covered by the guarantor liability, and therefore carry WestLB's current Moody's rating of A3. Subsequent to June 30, 2012, WestLB AG has changed its name to Portigon AG effective July 2, 2012. All existing contractual agreements with WestLB AG will continue to exist unchanged.

The market value of the underlying collateralized securities in repurchase agreements and investment agreements is maintained at a minimum of 102 percent of the principal of and accrued interest on the invested funds by marking to market at least weekly and using an immediate under value cure provision.

NOTE 3 - CASH, CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES (Continued)

In order to facilitate a transaction with a liquidity provider, CDA has invested in a demand deposit account that is classified as cash and cash equivalents. This investment is backed by an Irrevocable Standby Letter of Credit dated July 26, 2012, that was established by the Federal Home Loan Bank of Pittsburgh, and is automatically extended each year until July 26, 2017. This date corresponds with the termination date of the standby purchase agreement.

A repurchase agreement dated August 21, 1997 and held by the trustee as an investment under the Residential Revenue Bond resolution was terminated per the terms of the repurchase agreement effective September 1, 2006 due to the redemption of the remaining outstanding Residential Revenue Bonds 1997 Series A and B bonds. CDA was made aware of the termination through an inquiry from the counterparty in June of 2013, and subsequent confirmation by the trustee. CDA had received payments of interest from the counterparty based on this agreement from the time the agreement was originally executed and delivered up to and including February 27, 2013. A refund of the interest was negotiated by both parties and an Agreement of Termination and Release was delivered evidencing the agreed upon amount of interest to be refunded and releasing all parties from any future liability with respect to the repurchase agreement. CDA received from the counterparty the principal amount of the repurchase agreement less the agreed upon interest refund on September 18, 2013. The amount of the negotiated interest refund was $4,230. CDA has recorded the refund due as a liability on the Statements of Net Position for the current fiscal year. The interest attributable to the current and prior fiscal years has been recorded as an adjustment to revenue and the remainder as an expense on the Statements of Revenue, Expenses and Changes in Net Position for the current fiscal year.

## NOTE 3 - CASH, CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES (Continued)

Mortgage-backed Securities and Certificates

All mortgage-backed securities and certificates held by CDA are guaranteed by the Government National Mortgage Association (GNMA) or the Federal National Mortgage Association (Fannie Mae).

GNMA mortgage-backed securities are instrumentalities of the United States Government and are "fully modified pass-through" mortgage-backed securities which require monthly payments by a Federal Housing Administration (FHA) lender, as the issuer of the guaranteed security to CDA. GNMA guarantees timely payment of principal and interest on Guaranteed Securities.

Fannie Mae mortgage-backed certificates are "guaranteed mortgage pass-through certificates" which supplement amounts received by a trust created under a trust agreement as required permitting timely payments of principal and interest on the certificates to CDA. The certificates and payments of principal and interest on the certificates are not guaranteed by the United States and do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae.

As an investor of GNMA I mortgage-backed securities (MBS), CDA receives separate principal and interest payments on the 15th of each month; however, for GNMA II MBS, CDA receives the total principal and interest from a central paying agent on the 20th of each month. For all Fannie Mae certificates, CDA receives the total principal and interest from the trust on the 25th of each month. All mortgages backing a GNMA I MBS have the same mortgage rate equal to 50 basis points greater than the coupon, with 44 basis points of servicing fee and 6 basis points of guaranty fee. Similarly, GNMA II MBS also have 6 basis points of guaranty fee, but the mortgage rate for the loans backing the security can vary between 25 to 75 basis points greater than the coupon which may result in a variety of servicing fees. All Fannie Mae certificates have a guaranty fee of 47.5 basis points and a servicing fee of 25 basis points. CDA also participates from time to time in the Fannie Mae buy-up or buy-down of the guaranty fee created in the pooling process in order to maximize pooling of certificates for efficiency and effectiveness.

NOTE 3 - CASH, CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES (Continued)

In January 2012, CDA expanded the sources of financing for its mortgage-backed securities program through the ongoing sale of forward contracts of GNMA mortgage-backed securities and Fannie Mae certificates. These securities are comprised of single family mortgage loans originated by CDA's network of approved lender partners. As part of this program, CDA periodically enters into forward contracts to sell GNMA mortgage-backed securities and Fannie Mae certificates to investors before the securities are ready for delivery (referred to as "to-be-announced" or "TBA Mortgage-Backed Security Contract"). These forward contracts are settled monthly, using funds held in Residential Revenue Bonds' additional collateral account, prior to being sold into the secondary market. As of June 30, 2013, CDA entered into TBA Mortgage-Backed Security Contracts with a notional amount of $33,683 outstanding. The increase/decrease in the fair value of GNMA mortgage-backed securities and Fannie Mae certificates that are part of the TBA program is classified as operating revenue on the Statements of Revenue, Expenses and Changes in Net Position.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or counterparty failure, CDA will not be able to recover its deposits or the value of its collateral securities that are in the possession of an outside party. As of June 30, 2013 and 2012, the Fund's investments were not subject to custodial credit risk under accounting guidance issued by GASB. CDA's investments and collateralized securities are held in trust by the trustee or the trustee's agent, kept separate from the assets of the bank and from other trust accounts and are held in CDA's name.

## NOTE 4 - MORTGAGE LOANS

Substantially all single family mortgage loans of the Fund are secured by first liens on the related property. Approximately 98% of all the single family mortgage loans 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 mortgage insurers. As of June 30, 2013 and 2012, interest rates on such loans ranged from 1.0% to 11.5% and 1.0% to 13.9%, respectively, and remaining loan terms ranged from approximately 1 to 39 years and 1 to 40 years, respectively.

All of the Fund’s multi-family mortgage loans are credit-enhanced through FHA, Federal Home Loan Mortgage Corporation (FHLMC) or MHF. Interest rates on such loans range from 5.25% to 12.0%. As of June 30, 2013 and 2012, remaining loan terms ranged from approximately 3 months to 20 years and 1 to 21 years, respectively.

(in thousands)

## NOTE 4 - MORTGAGE LOANS (Continued)

For the years ended June 30, 2013 and 2012, the single family mortgage loan and claims receivable balances and changes in the allowance for loan losses on the uninsured portions of single family loans with private mortgage insurance, including loans in foreclosure and other loans with pending insurance claims, were as follows:

| | 2013 | 2012 |
|---|---|---|
| Single family mortgage loans | $ 1,665,495 | $ 1,901,229 |
| Allowance for loan losses | | |
| Beginning balance | 13,563 | 9,627 |
| Provision for loan losses | 5,178 | 3,936 |
| Ending balance | 18,741 | 13,563 |
| Single family mortgage loans, net | $ 1,646,754 | $ 1,887,666 |
| Claims receivable on foreclosed and other loans | $ 121,816 | $ 105,150 |
| Allowance for loan losses | | |
| Beginning balance | 18,122 | 13,163 |
| Provision for loan losses | 24,237 | 13,029 |
| Charge offs | (11,976) | (8,070) |
| Ending balance | 30,383 | 18,122 |
| Claims receivable on foreclosed and other loans, net | $ 91,433 | $ 87,028 |

(in thousands)

## NOTE 5 - ACCRUED INTEREST AND OTHER RECEIVABLES

Accrued interest and other receivables as of June 30, 2013 and 2012 were as follows:

| | 2013 | 2012 |
|---|---|---|
| Accrued mortgage loan interest | $ 20,013 | $ 19,946 |
| Accrued mortgage-backed securities interest | 213 | 50 |
| Accrued investment interest | 207 | 587 |
| Funds due from mortgage insurers for loan modifications | 599 | 82 |
| Reimbursement due for state-funded loans | 2,525 | 498 |
| Miscellaneous billings | 78 | 259 |
| | $ 23,635 | $ 21,422 |

## NOTE 6 - SHORT-TERM DEBT

CDA issues short-term debt to preserve volume cap when prepayments and payments from mortgages exceed the demand for new mortgages. Proceeds of the short-term debt are used to refund and to pay at maturity prior series of bonds. At the time of the refunding, prepayments and repayments of mortgage loans financed by these prior bonds are transferred to accounts in the short-term series. CDA expects to make these funds available to purchase mortgage loans upon the maturity or earlier redemption of the short-term bonds with proceeds of additional long-term bonds. By issuing the short-term debt, CDA more closely matches the rates on the short-term debt with the rates on short-term investments. When there is sufficient mortgage demand, CDA issues long-term refunding bonds to redeem the short-term debt and the prepayments and repayments are used to fund new mortgages. For the years ended June 30, 2013 and 2012, CDA did not issue any short-term debt.

## NOTE 7 - BONDS PAYABLE

The bonds and notes issued by CDA are special obligations of CDA and are payable from the revenue and special funds of the Resolution. These bonds and notes do not constitute debt of and are not guaranteed by the State of Maryland or any other program of the State of Maryland or any political subdivision.

The provisions of the Resolution require or allow for the special redemption of bonds at par through the use of unexpended bond proceeds and excess funds accumulated primarily through prepayment of mortgage loans. All outstanding bonds are subject to optional redemption, in whole or in part at any time, after certain dates, as specified in the respective series resolutions, at a redemption price equal to the principal amount thereof to be redeemed.

The following lists those bonds which are at variable rates and the terms by which the variable rates change. All other bonds have fixed interest rates.

<u>2003 Series C; 2004 Series F and I; 2006 Series G and J; 2007 Series F, J and M; 2008 Series D; and 2012 Series B</u>

The rate is set weekly by a remarketing agent so that the market value of the bonds is as close as possible to 100% of the principal amount of the bonds. In no event will the bonds bear interest at a rate in excess of 12%.

<u>2011 Series B</u>

The rate is set weekly at an index rate equal to a SIFMA index, plus 0.95%. (SIFMA stands for the Securities Industry and Financial Markets Association). In no event will the bonds bear interest at a rate in excess of 12%.

The following bonds are taxable. All other bonds are tax-exempt.

2006 Series S; 2007 Series B, E and I; and 2012 Series A and B

(in thousands)

## NOTE 7 - BONDS PAYABLE (Continued)

The following is a summary of the bond activity for the year ended June 30, 2013, and the debt outstanding and bonds payable as of June 30, 2013:

| | | | | | Bond Activity | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Issue dated | Range of interest rates | Range of maturities | Debt Outstanding at June 30, 2012 | New bonds issued | Scheduled maturity payments | Bonds redeemed | Debt Outstanding at June 30, 2013 | Bond premiums /discounts deferred | Bonds payable at June 30, 2013 |
| Residential Revenue Bonds | | | | | | | | | | |
| 1998 Series D | 12/01/98 | 5.15% - 5.25% | 2018 - 2029 | $ 23,750 | $ - | $ (865) | $ (22,885) | $ - | $ - | $ - |
| 1999 Series C | 05/01/99 | 4.80% - 4.95% | 2012 - 2015 | 2,020 | - | (270) | (1,750) | - | - | - |
| 1999 Series D | 05/01/99 | 5.00% - 5.40% | 2012 - 2031 | 24,075 | - | (1,050) | (23,025) | - | - | - |
| 2001 Series A | 03/01/01 | 4.65% - 5.00% | 2012 - 2017 | 7,365 | - | (1,145) | (6,220) | - | - | - |
| 2001 Series B | 03/01/01 | 4.80% - 5.375% | 2012 - 2022 | 6,135 | - | (415) | (5,720) | - | - | - |
| 2001 Series H | 08/15/01 | 4.55% - 5.35% | 2012 - 2033 | 30,750 | - | (900) | (29,850) | - | - | - |
| 2003 Series A | 11/01/03 | 3.75% - 4.05% | 2012 - 2015 | 3,865 | - | (910) | - | 2,955 | - | 2,955 |
| 2003 Series B | 11/01/03 | 4.75% - 5.00% | 2019 - 2026 | 2,500 | - | - | (1,885) | 615 | - | 615 |
| 2003 Series C | 12/09/03 | Variable rate | 9/1/2035 | 20,000 | - | - | - | 20,000 | - | 20,000 |
| 2004 Series A | 05/13/04 | 3.75% - 4.20% | 2012 - 2016 | 5,510 | - | (1,020) | - | 4,490 | - | 4,490 |
| 2004 Series B | 05/13/04 | 5.00% | 2023 - 2028 | 3,570 | - | - | (430) | 3,140 | 64 | 3,204 |
| 2004 Series D | 08/12/04 | 3.85% - 4.40% | 2012 - 2016 | 6,505 | - | (1,200) | - | 5,305 | - | 5,305 |
| 2004 Series E | 08/12/04 | 5.15% - 5.25% | 2023 - 2030 | 9,395 | - | - | (430) | 8,965 | 87 | 9,052 |
| 2004 Series F | 08/12/04 | Variable rate | 9/1/2035 | 20,000 | - | - | - | 20,000 | - | 20,000 |
| 2004 Series G | 11/10/04 | 3.125% - 3.65% | 2012 - 2016 | 6,630 | - | (1,240) | - | 5,390 | - | 5,390 |
| 2004 Series H | 11/10/04 | 4.55% - 5.00% | 2023 - 2029 | 9,775 | - | - | (400) | 9,375 | 200 | 9,575 |
| 2004 Series I | 11/10/04 | Variable rate | 9/1/2035 | 20,000 | - | - | - | 20,000 | - | 20,000 |
| 2005 Series A | 03/30/05 | 3.40% - 3.90% | 2012 - 2016 | 6,835 | - | (1,270) | - | 5,565 | - | 5,565 |
| 2005 Series B | 03/30/05 | 4.55% - 5.25% | 2023 - 2029 | 15,060 | - | - | (575) | 14,485 | 179 | 14,664 |
| 2005 Series D | 11/10/05 | 3.625% - 4.05% | 2012 - 2017 | 7,990 | - | (1,215) | - | 6,775 | - | 6,775 |
| 2005 Series E | 11/10/05 | 4.75% - 5.50% | 2025 - 2036 | 34,950 | - | - | (1,050) | 33,900 | 256 | 34,156 |
| 2006 Series A | 02/23/06 | 3.70% - 4.10% | 2012 - 2017 | 7,705 | - | (1,170) | - | 6,535 | - | 6,535 |
| 2006 Series B | 02/23/06 | 4.75% - 5.50% | 2025 - 2037 | 36,625 | - | - | (1,280) | 35,345 | 202 | 35,547 |
| 2006 Series E | 05/24/06 | 3.90% - 4.35% | 2012 - 2017 | 15,155 | - | (2,290) | - | 12,865 | - | 12,865 |
| 2006 Series F | 05/24/06 | 4.80% - 6.00% | 2021 - 2039 | 34,980 | - | - | (2,030) | 32,950 | 695 | 33,645 |
| 2006 Series G | 05/24/06 | Variable rate | 9/1/2040 | 40,000 | - | - | - | 40,000 | - | 40,000 |
| 2006 Series H | 07/13/06 | 3.85% - 4.15% | 2012 - 2017 | 11,400 | - | (1,715) | - | 9,685 | - | 9,685 |
| 2006 Series I | 07/13/06 | 4.10% - 6.00% | 2012 - 2041 | 98,435 | - | (1,720) | (3,790) | 92,925 | 1,315 | 94,240 |
| 2006 Series J | 07/13/06 | Variable rate | 9/1/2040 | 60,000 | - | - | - | 60,000 | - | 60,000 |
| 2006 Series K | 09/14/06 | 3.85% - 4.15% | 2012 - 2017 | 9,710 | - | (1,455) | - | 8,255 | - | 8,255 |
| 2006 Series L | 09/14/06 | 4.20% - 5.75% | 2012 - 2041 | 131,400 | - | (1,545) | (3,185) | 126,670 | 906 | 127,576 |
| 2006 Series O | 12/13/06 | 3.60% - 3.85% | 2012 - 2017 | 6,440 | - | (970) | - | 5,470 | - | 5,470 |
| 2006 Series P | 12/13/06 | 4.05% - 5.75% | 2012 - 2037 | 64,910 | - | (1,620) | (1,695) | 61,595 | 597 | 62,192 |
| 2006 Series S | 12/13/06 | 6.07% | 9/1/2037 | 19,825 | - | - | (1,705) | 18,120 | - | 18,120 |

(continued)

Community Development Administration
Residential Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013 and 2012

## NOTE 7 - BONDS PAYABLE (Continued)

| | Issue dated | Range of interest rates | Range of maturities | Debt Outstanding at June 30, 2012 | Bond Activity: New bonds issued | Bond Activity: Scheduled maturity payments | Bond Activity: Bonds redeemed | Debt Outstanding at June 30, 2013 | Bond premiums /discounts deferred | Bonds payable at June 30, 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| Residential Revenue Bonds (continued) | | | | | | | | | | |
| 2007 Series A | 03/28/07 | 4.00% - 5.75% | 2012 - 2047 | $ 212,800 | $ - | $ (2,080) | $ (6,575) | $ 204,145 | $ 4,605 | $ 208,750 |
| 2007 Series B | 03/28/07 | 6.00% | 9/1/2037 | 23,615 | - | - | (990) | 22,625 | - | 22,625 |
| 2007 Series C | 06/20/07 | 3.70% - 3.95% | 2012 - 2017 | 31,840 | - | (4,735) | - | 27,105 | - | 27,105 |
| 2007 Series D | 06/20/07 | 4.65% - 5.50% | 2022 - 2048 | 143,090 | - | - | (4,015) | 139,075 | 1,447 | 140,522 |
| 2007 Series E | 06/20/07 | 5.27% - 6.11% | 2015 - 2042 | 44,165 | - | (1,620) | - | 42,545 | - | 42,545 |
| 2007 Series F | 06/20/07 | Variable rate | 9/1/2031 | 42,020 | - | - | (4,670) | 37,350 | - | 37,350 |
| 2007 Series G | 08/09/07 | 3.95% - 4.30% | 2012 - 2017 | 39,890 | - | (5,975) | - | 33,915 | - | 33,915 |
| 2007 Series H | 08/09/07 | 4.95% - 5.20% | 2022 - 2048 | 59,380 | - | - | (30) | 59,350 | - | 59,350 |
| 2007 Series I | 08/09/07 | 5.56% - 6.56% | 2012 - 2043 | 57,130 | - | (1,840) | - | 55,290 | - | 55,290 |
| 2007 Series J | 08/09/07 | Variable rate | 9/1/2031 | 53,495 | - | - | (7,395) | 46,100 | - | 46,100 |
| 2007 Series K | 12/12/07 | 3.40% - 3.85% | 2012 - 2017 | 19,485 | - | (3,200) | - | 16,285 | - | 16,285 |
| 2007 Series M | 12/12/07 | Variable rate | 9/1/2043 | 29,050 | - | - | - | 29,050 | - | 29,050 |
| 2008 Series A | 06/19/08 | 3.20% - 4.00% | 2012 - 2017 | 48,850 | - | (5,000) | - | 43,850 | - | 43,850 |
| 2008 Series B | 09/04/08 | 3.30% - 4.20% | 2012 - 2017 | 13,825 | - | (2,100) | - | 11,725 | - | 11,725 |
| 2008 Series C | 09/04/08 | 4.45% - 5.65% | 2019 - 2048 | 64,970 | - | - | (22,605) | 42,365 | - | 42,365 |
| 2008 Series D | 09/04/08 | Variable rate | 9/1/2038 | 49,890 | - | - | - | 49,890 | - | 49,890 |
| 2008 Series E | 12/17/08 | 3.60% - 4.55% | 2012 - 2017 | 18,000 | - | (3,000) | - | 15,000 | - | 15,000 |
| 2008 Series F | 12/17/08 | 4.75% - 5.40% | 2018 - 2023 | 7,590 | - | - | (1,590) | 6,000 | - | 6,000 |
| 2009 Series A | 09/24/09 | 1.50% - 5.05% | 2012 - 2039 | 38,460 | - | (785) | - | 37,675 | - | 37,675 |
| 2009 Series B | 10/08/09 | 1.55% - 4.75% | 2012 - 2039 | 43,195 | - | (915) | - | 42,280 | - | 42,280 |
| 2009 Series C | 10/27/09 | 1.35% - 4.55% | 2012 - 2039 | 15,340 | - | (325) | - | 15,015 | - | 15,015 |
| 2010 Series A | 06/09/10 | 3.95% - 4.45% | 2018 - 2021 | 26,640 | - | - | (560) | 26,080 | - | 26,080 |
| 2010 Series B | 12/16/10 | 5.125% - 5.25% | 2030 - 2035 | 39,520 | - | - | (315) | 39,205 | - | 39,205 |
| 2011 Series A | 05/05/11 | 0.60% - 5.375% | 2012 - 2041 | 69,700 | - | (2,125) | - | 67,575 | 1,312 | 68,887 |
| 2011 Series B | 05/05/11 | Indexed Rate | 3/1/2036 | 20,000 | - | - | - | 20,000 | (92) | 19,908 |
| 2012 Series A | 08/23/12 | 0.337% - 4.00% | 2013 - 2025 | - | 44,450 | (1,500) | - | 42,950 | 654 | 43,604 |
| 2012 Series B | 08/23/12 | Variable rate | 9/1/2033 | - | 45,000 | - | - | 45,000 | - | 45,000 |
| Total | | | | $ 2,015,205 | $ 89,450 | $ (59,185) | $ (156,650) | $ 1,888,820 | $ 12,427 | $ 1,901,247 |

(in thousands)

## NOTE 7 - BONDS PAYABLE (Continued)

The following is a summary of the bond activity for the year ended June 30, 2012, and the debt outstanding and bonds payable as of June 30, 2012:

| | | | | | Bond Activity | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Issue dated | Range of interest rates | Range of maturities | Debt Outstanding at June 30, 2011 | New bonds issued | Scheduled maturity payments | Bonds redeemed | Debt Outstanding at June 30, 2012 | Bond premiums /discounts deferred | Bonds payable at June 30, 2012 |
| Residential Revenue Bonds | | | | | | | | | | |
| 1998 Series A | 01/01/98 | 4.80% - 4.90% | 2011 - 2012 | $ 485 | $ - | $ (350) | $ (135) | $ - | $ - | $ - |
| 1998 Series D | 12/01/98 | 5.15% - 5.25% | 2018 - 2029 | 25,765 | - | (1,670) | (345) | 23,750 | - | 23,750 |
| 1999 Series C | 05/01/99 | 4.70% - 4.95% | 2011 - 2015 | 2,665 | - | (645) | - | 2,020 | - | 2,020 |
| 1999 Series D | 05/01/99 | 4.90% - 5.40% | 2011 - 2031 | 24,900 | - | (630) | (195) | 24,075 | (2) | 24,073 |
| 2001 Series A | 03/01/01 | 4.50% - 5.00% | 2011 - 2017 | 8,825 | - | (1,460) | - | 7,365 | - | 7,365 |
| 2001 Series B | 03/01/01 | 4.65% - 5.375% | 2011 - 2022 | 7,095 | - | (30) | (930) | 6,135 | - | 6,135 |
| 2001 Series E | 06/01/01 | 4.55% | 9/1/2011 | 130 | - | (130) | - | - | - | - |
| 2001 Series G | 08/15/01 | 4.20% | 9/1/2011 | 1,435 | - | (1,435) | - | - | - | - |
| 2001 Series H | 08/15/01 | 4.40% - 5.35% | 2011 - 2033 | 31,500 | - | (310) | (440) | 30,750 | - | 30,750 |
| 2003 Series A | 11/01/03 | 3.55% - 4.05% | 2011 - 2015 | 4,745 | - | (880) | - | 3,865 | - | 3,865 |
| 2003 Series B | 11/01/03 | 4.75% - 5.00% | 2019 - 2026 | 3,440 | - | - | (940) | 2,500 | 90 | 2,590 |
| 2003 Series C | 12/09/03 | Variable rate | 9/1/2035 | 20,000 | - | - | - | 20,000 | - | 20,000 |
| 2004 Series A | 05/13/04 | 3.45% - 4.20% | 2011 - 2016 | 6,500 | - | (990) | - | 5,510 | - | 5,510 |
| 2004 Series B | 05/13/04 | 5.00% | 2023 - 2028 | 4,800 | - | - | (1,230) | 3,570 | 84 | 3,654 |
| 2004 Series D | 08/12/04 | 3.65% - 4.40% | 2011 - 2016 | 7,665 | - | (1,160) | - | 6,505 | - | 6,505 |
| 2004 Series E | 08/12/04 | 5.15% - 5.25% | 2023 - 2030 | 10,960 | - | - | (1,565) | 9,395 | 106 | 9,501 |
| 2004 Series F | 08/12/04 | Variable rate | 9/1/2035 | 20,000 | - | - | - | 20,000 | - | 20,000 |
| 2004 Series G | 11/10/04 | 3.00% - 3.65% | 2011 - 2016 | 7,835 | - | (1,205) | - | 6,630 | - | 6,630 |
| 2004 Series H | 11/10/04 | 4.55% - 5.00% | 2023 - 2029 | 10,920 | - | - | (1,145) | 9,775 | 228 | 10,003 |
| 2004 Series I | 11/10/04 | Variable rate | 9/1/2035 | 20,000 | - | - | - | 20,000 | - | 20,000 |
| 2005 Series A | 03/30/05 | 3.25% - 3.90% | 2011 - 2016 | 8,065 | - | (1,230) | - | 6,835 | - | 6,835 |
| 2005 Series B | 03/30/05 | 4.55% - 5.25% | 2023 - 2029 | 17,255 | - | - | (2,195) | 15,060 | 214 | 15,274 |
| 2005 Series D | 11/10/05 | 3.50% - 4.05% | 2011 - 2017 | 9,160 | - | (1,170) | - | 7,990 | - | 7,990 |
| 2005 Series E | 11/10/05 | 4.75% - 5.50% | 2025 - 2036 | 37,615 | - | - | (2,665) | 34,950 | 322 | 35,272 |
| 2006 Series A | 02/23/06 | 3.60% - 4.10% | 2011 - 2017 | 8,835 | - | (1,130) | - | 7,705 | - | 7,705 |
| 2006 Series B | 02/23/06 | 4.75% - 5.50% | 2025 - 2037 | 40,900 | - | - | (4,275) | 36,625 | 275 | 36,900 |
| 2006 Series E | 05/24/06 | 3.80% - 4.35% | 2011 - 2017 | 17,365 | - | (2,210) | - | 15,155 | - | 15,155 |
| 2006 Series F | 05/24/06 | 4.80% - 6.00% | 2021 - 2039 | 43,130 | - | - | (8,150) | 34,980 | 855 | 35,835 |
| 2006 Series G | 05/24/06 | Variable rate | 9/1/2040 | 40,000 | - | - | - | 40,000 | - | 40,000 |
| 2006 Series H | 07/13/06 | 3.80% - 4.15% | 2011 - 2017 | 13,055 | - | (1,655) | - | 11,400 | - | 11,400 |
| 2006 Series I | 07/13/06 | 4.05% - 6.00% | 2011 - 2041 | 113,990 | - | (1,650) | (13,905) | 98,435 | 1,617 | 100,052 |
| 2006 Series J | 07/13/06 | Variable rate | 9/1/2040 | 60,000 | - | - | - | 60,000 | - | 60,000 |
| 2006 Series K | 09/14/06 | 3.80% - 4.15% | 2011 - 2017 | 11,110 | - | (1,400) | - | 9,710 | - | 9,710 |
| 2006 Series L | 09/14/06 | 4.10% - 5.75% | 2011 - 2041 | 144,400 | - | (1,485) | (11,515) | 131,400 | 1,122 | 132,522 |
| 2006 Series O | 12/13/06 | 3.55% - 3.85% | 2011 - 2017 | 7,380 | - | (940) | - | 6,440 | - | 6,440 |
| 2006 Series P | 12/13/06 | 3.95% - 5.75% | 2011 - 2037 | 73,995 | - | (1,560) | (7,525) | 64,910 | 728 | 65,638 |
| 2006 Series S | 12/13/06 | 6.07% | 9/1/2037 | 21,540 | - | - | (1,715) | 19,825 | - | 19,825 |

(continued)

Community Development Administration
Residential Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013 and 2012

# NOTE 7 - BONDS PAYABLE (Continued)

| | Issue dated | Range of interest rates | Range of maturities | Debt Outstanding at June 30, 2011 | Bond Activity | | | Debt Outstanding at June 30, 2012 | Bond premiums /discounts deferred | Bonds payable at June 30, 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | New bonds issued | Scheduled maturity payments | Bonds redeemed | | | |
| Residential Revenue Bonds (continued) | | | | | | | | | | |
| 2007 Series A | 03/28/07 | 3.90% - 5.75% | 2012 - 2047 | $ 242,560 | $ - | $ (1,730) | $ (28,030) | $ 212,800 | $ 5,189 | $ 217,989 |
| 2007 Series B | 03/28/07 | 6.00% | 9/1/2037 | 27,300 | - | - | (3,685) | 23,615 | - | 23,615 |
| 2007 Series C | 06/20/07 | 3.70% - 3.95% | 2011 - 2017 | 36,720 | - | (4,880) | - | 31,840 | - | 31,840 |
| 2007 Series D | 06/20/07 | 4.65% - 5.50% | 2022 - 2048 | 157,345 | - | - | (14,255) | 143,090 | 1,707 | 144,797 |
| 2007 Series E | 06/20/07 | 5.04% - 6.11% | 2011 - 2042 | 45,570 | - | (1,405) | - | 44,165 | - | 44,165 |
| 2007 Series F | 06/20/07 | Variable rate | 9/1/2031 | 44,305 | - | - | (2,285) | 42,020 | - | 42,020 |
| 2007 Series G | 08/09/07 | 3.90% - 4.30% | 2011 - 2017 | 45,635 | - | (5,745) | - | 39,890 | - | 39,890 |
| 2007 Series H | 08/09/07 | 4.95% - 5.20% | 2022 - 2048 | 61,490 | - | - | (2,110) | 59,380 | - | 59,380 |
| 2007 Series I | 08/09/07 | 5.51% - 6.56% | 2011 - 2043 | 58,875 | - | (1,745) | - | 57,130 | - | 57,130 |
| 2007 Series J | 08/09/07 | Variable rate | 9/1/2031 | 55,705 | - | - | (2,210) | 53,495 | - | 53,495 |
| 2007 Series K | 12/12/07 | 3.35% - 3.85% | 2011 - 2017 | 23,155 | - | (3,085) | (585) | 19,485 | - | 19,485 |
| 2007 Series M | 12/12/07 | Variable rate | 9/1/2043 | 29,050 | - | - | - | 29,050 | - | 29,050 |
| 2008 Series A | 06/19/08 | 2.95% - 4.00% | 2011 - 2017 | 52,960 | - | (4,000) | (110) | 48,850 | - | 48,850 |
| 2008 Series B | 09/04/08 | 2.95% - 4.20% | 2011 - 2017 | 15,860 | - | (2,035) | - | 13,825 | - | 13,825 |
| 2008 Series C | 09/04/08 | 4.45% - 5.65% | 2019 - 2048 | 66,335 | - | - | (1,365) | 64,970 | - | 64,970 |
| 2008 Series D | 09/04/08 | Variable rate | 9/1/2038 | 49,890 | - | - | - | 49,890 | - | 49,890 |
| 2008 Series E | 12/17/08 | 3.35% - 4.55% | 2011 - 2017 | 20,500 | - | (2,500) | - | 18,000 | - | 18,000 |
| 2008 Series F | 12/17/08 | 4.75% - 5.40% | 2018 - 2023 | 7,795 | - | - | (205) | 7,590 | - | 7,590 |
| 2009 Series A | 09/24/09 | 1.10% - 5.05% | 2011 - 2039 | 39,230 | - | (770) | - | 38,460 | - | 38,460 |
| 2009 Series B | 10/08/09 | 1.00% - 4.75% | 2011 - 2039 | 44,100 | - | (905) | - | 43,195 | - | 43,195 |
| 2009 Series C | 10/27/09 | 0.90% - 4.55% | 2011 - 2039 | 15,665 | - | (325) | - | 15,340 | - | 15,340 |
| 2010 Series A | 06/09/10 | 3.95% - 4.45% | 2018 - 2021 | 27,965 | - | - | (1,325) | 26,640 | - | 26,640 |
| 2010 Series B | 12/16/10 | 5.125% - 5.25% | 2030 - 2035 | 39,990 | - | - | (470) | 39,520 | - | 39,520 |
| 2011 Series A | 05/05/11 | 0.375% - 5.375% | 2012 - 2041 | 70,825 | - | (1,050) | (75) | 69,700 | 1,383 | 71,083 |
| 2011 Series B | 05/05/11 | Indexed Rate | 3/1/2036 | 20,000 | - | - | - | 20,000 | (96) | 19,904 |
| Total | | | | $ 2,186,285 | $ - | $ (55,500) | $ (115,580) | $ 2,015,205 | $ 13,822 | $ 2,029,027 |

(in thousands)

## NOTE 8 - DEBT SERVICE REQUIREMENTS

As of June 30, 2013, the required principal payments for bonds (including mandatory sinking fund payments and special and optional redemptions that occurred subsequent to June 30, 2013 and excluding the effect of unamortized discounts/premiums as shown in Note 7) and interest payments for each of the next five years and in 5-year increments thereafter, were as follows:

| Years ended June 30, | Interest | Principal |
|---|---|---|
| 2014 | $ 69,774 | $ 127,755 |
| 2015 | 65,755 | 64,695 |
| 2016 | 63,212 | 67,550 |
| 2017 | 60,576 | 69,560 |
| 2018 | 57,894 | 83,820 |
| 2019 - 2023 | 252,716 | 262,770 |
| 2024 - 2028 | 196,939 | 241,385 |
| 2029 - 2033 | 147,831 | 335,260 |
| 2034 - 2038 | 93,421 | 391,990 |
| 2039 - 2043 | 36,561 | 177,905 |
| 2044 - 2048 | 2,922 | 66,130 |
| Totals | $ 1,047,601 | $ 1,888,820 |

The interest calculations on outstanding variable rate bonds in the amount of $387,390 are based on the variable rates in effect on June 30, 2013, and are not indicative of the actual interest expense that will be incurred in future years. As rates vary, variable rate bond interest payments will vary. See Note 9 for additional information on interest rate exchange agreements (swaps) associated with the variable rate debt in the Fund.

(in thousands)

NOTE 8 - DEBT SERVICE REQUIREMENTS (Continued)

As of June 30, 2012, the required principal payments for bonds (including mandatory sinking fund payments and special and option redemptions that occurred subsequent to June 30, 2012 and excluding the effect of unamortized discounts/premiums as shown in Note 7) and interest payments for each of the next five years and in 5-year increments thereafter were as follows:

| Years ended June 30, | Interest | Principal |
|---|---|---|
| 2013 | $ 80,697 | $ 66,795 |
| 2014 | 78,273 | 64,550 |
| 2015 | 75,677 | 68,165 |
| 2016 | 72,828 | 72,035 |
| 2017 | 69,865 | 73,105 |
| 2018 - 2022 | 306,347 | 314,790 |
| 2023 - 2027 | 243,757 | 252,685 |
| 2028 - 2032 | 185,752 | 351,815 |
| 2033 - 2037 | 121,826 | 389,630 |
| 2038 - 2042 | 48,885 | 240,755 |
| 2043 - 2047 | 8,449 | 118,145 |
| 2048 - 2052 | 98 | 2,735 |
| Totals | $ 1,292,454 | $ 2,015,205 |

The interest calculations on outstanding variable rate bonds in the amount of $354,455 are based on the variable rates in effect on June 30, 2012, and are not indicative of the actual interest expense that will be incurred in future years. As rates vary, variable rate bond interest payments will vary. See Note 9 for additional information on interest rate exchange agreements (swaps) associated with the variable rate debt in the Fund.

## NOTE 9 - INTEREST RATE EXCHANGE AGREEMENTS (SWAPS)

### Objective of the Swaps

As a means to lower its borrowing costs, CDA issues variable rate bonds. In order to protect against the potential increases in interest rates, CDA has entered into pay-fixed, receive-variable interest rate swap agreements in connection with certain variable rate bond series. CDA anticipates that the net swap payments and interest payments on underlying bonds will be lower than what CDA would have paid if it had issued fixed rate debt at the time of the underlying bond issuances. All of CDA's swaps are intended to be cash flow hedges.

### Terms and Fair Value

The terms, including the fair values of the outstanding swaps as of June 30, 2013 and 2012, are provided in the tables on the following pages. The counterparty credit ratings for all outstanding swaps as of June 30, 2013 and 2012 are listed under the Credit Risk section. For each of the outstanding swap agreements the variable rates are reset monthly, and it is the intent of CDA to match the maturity of the swaps with the maturity of the underlying bonds. The fair values are based on the market values and are affirmed by an independent advisor who used valuation methods and assumptions in accordance with accounting guidance issued by GASB.

(in thousands)

## NOTE 9 - INTEREST RATE EXCHANGE AGREEMENTS (SWAPS) (Continued)

As of June 30, 2013, the terms, including fair values of the outstanding swaps, were:

| Swap Counter-party | Associated Bond Issue | Original Notional Amount | Outstanding Notional Amount | Effective Date | Fixed Rate Paid | Variable Rate Received (1) | Fair Value | Swap Final Termination Date |
|---|---|---|---|---|---|---|---|---|
| JPMorgan Chase Bank, N.A. (JPM) | 2004 Series I | $20,000 | $20,000 | 9/1/2005 | 3.8525% | 64% of LIBOR plus .29% | ($915) | 9/1/2035 (2)(7) |
| UBS AG | 2006 Series G | $40,000 | $40,000 | 5/24/2006 | 4.4030% | 64% of LIBOR plus .29% | ($4,146) | 9/1/2040 (3) |
| JPMorgan Chase Bank, N.A. (JPM) | 2006 Series J | $40,000 | $40,000 | 7/13/2006 | 4.4030% | 64% of LIBOR plus .29% | ($4,137) | 9/1/2040 (3)(7) |
| JPMorgan Chase Bank, N.A. (JPM) | 2006 Series J | $20,000 | $20,000 | 7/13/2006 | 4.4550% | 64% of LIBOR plus .29% | ($2,112) | 9/1/2040 (3)(7) |
| Merrill Lynch Derivative Products AG (MLDP) | 2007 Series F | $46,485 (amended) | $31,805 | 10/27/2009 (amended) | 4.4300% (amended) | 64% of LIBOR plus .22% (amended) | ($3,689) | 3/1/2026 (4)(6)(9)(12) |
| Merrill Lynch Derivative Products AG (MLDP) | 2007 Series J | $58,680 (amended) | $40,855 | 9/1/2009 (amended) | 4.8350% (amended) | 64% of LIBOR plus .22% (amended) | ($5,335) | 9/1/2025 (4)(6)(9)(10) |
| The Bank of New York Mellon (BNYM) | 2007 Series M | $26,990 (amended) | $13,335 | 10/8/2009 (amended) | 4.3350% (amended) | 64% of LIBOR plus .22% (amended) | ($1,507) | 9/1/2043 (5)(6)(11) (13) |
| Merrill Lynch Derivative Products AG (MLDP) | 2008 Series D | $50,000 | $49,890 | 9/4/2008 | 3.6880% | 64% of LIBOR plus .31% | ($5,224) | 9/1/2038 (8)(9) |

Notes to 2013 Table on next page

## NOTE 9 - INTEREST RATE EXCHANGE AGREEMENTS (SWAPS) (Continued)

Notes to 2013 Table

(1) "LIBOR" means the 1-month London Interbank Offered Rate.

(2) CDA has the option to terminate this interest rate swap transaction in whole or in part without any termination payment on September 1, 2014 and on each March 1 and September 1 thereafter (Optional Termination Dates). If the option is exercised in part, the applicable notional amounts shall be reduced pro rata.

(3) CDA has the option to terminate this interest rate swap transaction in whole or in part without any termination payment on March 1, 2016 and on each September 1 and March 1 thereafter (Optional Termination Dates). If the option is exercised in part, the applicable notional amounts shall be reduced pro rata.

(4) CDA has the option to terminate this interest rate swap transaction in whole or in part without any termination payment on March 1, 2017 and on each September 1 and March 1 thereafter (Optional Termination Dates). If the option is exercised in part, the applicable notional amounts shall be reduced pro rata.

(5) CDA has the option to terminate a portion of this interest rate swap transaction without any termination payment up to the Maximum Optional Early Termination Amounts on each March 1 and September 1 until September 1, 2017. CDA has exercised its option to partially terminate the notional amount of this interest rate swap in the amount of $2,060 effective September 1, 2009, $1,515 effective March 1, 2010, $1,735 effective September 1, 2010, $1,700 effective March 1, 2011, $1,425 effective September 1, 2011, $1,185 effective March 1, 2012, $975 effective September 1, 2012 and $790 effective March 1, 2013. CDA has the option to terminate this interest rate swap transaction in whole or in part without any termination payment on September 1, 2017 and on each March 1 and September 1 thereafter (Optional Termination Dates). If the option is exercised in part, the applicable notional amounts shall be reduced pro rata.

(6) The outstanding notional amount reflects the amount that has been amortized as of March 1, 2013.

(7) On May 14, 2009, all swap agreements with Bear Stearns Financial Products Inc. were assigned to JPMorgan Chase Bank, N.A. All terms and conditions of the contracts remain in force.

(8) CDA has the option to terminate this interest rate swap transaction in whole or in part without any termination payment on September 1, 2018 and on each March 1 and September 1 thereafter (Optional Par Termination Dates). If the option is exercised in part, the applicable notional amounts shall be reduced pro rata.

(9) On January 1, 2009, Bank of America Corporation acquired Merrill Lynch & Co., Inc. Notwithstanding this acquisition, Merrill Lynch Derivative Products AG remains in existence and continues as a swap provider on this swap agreement.

(10) On September 24, 2009, 2007 Series J bonds, with an outstanding balance of $58,680, were remarketed and the related swap agreement was amended effective September 1, 2009.

(11) On October 8, 2009, 2007 Series M bonds, with an outstanding balance of $29,050, were remarketed and the related swap agreement with an outstanding balance of $26,990 was amended effective October 8, 2009 (refer to note 5 above). The Bank of New York Mellon replaced UBS AG as counterparty to the agreement.

(12) On October 27, 2009, 2007 Series F bonds, with an outstanding balance of $46,485, were remarketed and the related swap agreement was amended effective October 27, 2009.

(13) Subsequent to June 30, 2013, CDA exercised its option and partially terminated the interest rate swap in the amount of $610 effective September 1, 2013.

(in thousands)

## NOTE 9 - INTEREST RATE EXCHANGE AGREEMENTS (SWAPS) (Continued)

As of June 30, 2012, the terms, including fair values of the outstanding swaps, were:

| Swap Counter-party | Associated Bond Issue | Original Notional Amount | Outstanding Notional Amount | Effective Date | Fixed Rate Paid | Variable Rate Received (1) | Fair Value | Swap Final Termination Date |
|---|---|---|---|---|---|---|---|---|
| JPMorgan Chase Bank, N.A. (JPM) | 2004 Series I | $20,000 | $20,000 | 9/1/2005 | 3.8525% | 64% of LIBOR plus .29% | ($1,345) | 9/1/2035 (2)(7) |
| UBS AG | 2006 Series G | $40,000 | $40,000 | 5/24/2006 | 4.4030% | 64% of LIBOR plus .29% | ($5,201) | 9/1/2040 (3) |
| JPMorgan Chase Bank, N.A. (JPM) | 2006 Series J | $40,000 | $40,000 | 7/13/2006 | 4.4030% | 64% of LIBOR plus .29% | ($5,184) | 9/1/2040 (3)(7) |
| JPMorgan Chase Bank, N.A. (JPM) | 2006 Series J | $20,000 | $20,000 | 7/13/2006 | 4.4550% | 64% of LIBOR plus .29% | ($2,925) | 9/1/2040 (3)(7) |
| Merrill Lynch Derivative Products AG (MLDP) | 2007 Series F | $46,485 (amended) | $35,590 | 10/27/2009 (amended) | 4.4300% (amended) | 64% of LIBOR plus .22% (amended) | ($4,986) | 3/1/2026 (4)(6)(9)(12) |
| Merrill Lynch Derivative Products AG (MLDP) | 2007 Series J | $58,680 (amended) | $45,635 | 9/1/2009 (amended) | 4.8350% (amended) | 64% of LIBOR plus .22% (amended) | ($7,174) | 9/1/2025 (4)(6)(9)(10) |
| The Bank of New York Mellon (BNYM) | 2007 Series M | $26,990 (amended) | $16,115 | 10/8/2009 (amended) | 4.3350% (amended) | 64% of LIBOR plus .22% (amended) | ($1,808) | 9/1/2043 (5)(6)(11) (13) |
| Merrill Lynch Derivative Products AG (MLDP) | 2008 Series D | $50,000 | $49,890 | 9/4/2008 | 3.6880% | 64% of LIBOR plus .31% | ($7,239) | 9/1/2038 (8)(9) |

Notes to 2012 Table on next page

## NOTE 9 - INTEREST RATE EXCHANGE AGREEMENTS (SWAPS) (Continued)

Notes to 2012 Table

(1) "LIBOR" means the 1-month London Interbank Offered Rate.

(2) CDA has the option to terminate this interest rate swap transaction in whole or in part without any termination payment on September 1, 2014 and on each March 1 and September 1 thereafter (Optional Termination Dates). If the option is exercised in part, the applicable notional amounts shall be reduced pro rata.

(3) CDA has the option to terminate this interest rate swap transaction in whole or in part without any termination payment on March 1, 2016 and on each September 1 and March 1 thereafter (Optional Termination Dates). If the option is exercised in part, the applicable notional amounts shall be reduced pro rata.

(4) CDA has the option to terminate this interest rate swap transaction in whole or in part without any termination payment on March 1, 2017 and on each September 1 and March 1 thereafter (Optional Termination Dates). If the option is exercised in part, the applicable notional amounts shall be reduced pro rata.

(5) CDA has the option to terminate a portion of this interest rate swap transaction without any termination payment up to the Maximum Optional Early Termination Amounts on each March 1 and September 1 until September 1, 2017. CDA has exercised its option to partially terminate the notional amount of this interest rate swap in the amount of $2,060 effective September 1, 2009, $1,515 effective March 1, 2010, $1,735 effective September 1, 2010, $1,700 effective March 1, 2011, $1,425 effective September 1, 2011 and $1,185 effective March 1, 2012. CDA has the option to terminate this interest rate swap transaction in whole or in part without any termination payment on September 1, 2017 and on each March 1 and September 1 thereafter (Optional Termination Dates). If the option is exercised in part, the applicable notional amounts shall be reduced pro rata.

(6) The outstanding notional amount reflects the amount that has been amortized as of March 1, 2012.

(7) On May 14, 2009, all swap agreements with Bear Stearns Financial Products Inc. were assigned to JPMorgan Chase Bank, N.A. All terms and conditions of the contracts remain in force.

(8) CDA has the option to terminate this interest rate swap transaction in whole or in part without any termination payment on September 1, 2018 and on each March 1 and September 1 thereafter (Optional Par Termination Dates). If the option is exercised in part, the applicable notional amounts shall be reduced pro rata.

(9) On January 1, 2009, Bank of America Corporation acquired Merrill Lynch & Co., Inc. Notwithstanding this acquisition, Merrill Lynch Derivative Products AG remains in existence and continues as a swap provider on this swap agreement.

(10) On September 24, 2009, 2007 Series J bonds, with an outstanding balance of $58,680, were remarketed and the related swap agreement was amended effective September 1, 2009.

(11) On October 8, 2009, 2007 Series M bonds, with an outstanding balance of $29,050, were remarketed and the related swap agreement with an outstanding balance of $26,990 was amended effective October 8, 2009 (refer to note 5 above). The Bank of New York Mellon replaced UBS AG as counterparty to the agreement.

(12) On October 27, 2009, 2007 Series F bonds, with an outstanding balance of $46,485, were remarketed and the related swap agreement was amended effective October 27, 2009.

(13) Subsequent to June 30, 2012, CDA exercised its option and partially terminated the interest rate swap in the amount of $975 effective September 1, 2012.

NOTE 9 - INTEREST RATE EXCHANGE AGREEMENTS (SWAPS) (Continued)

Basis Risk

The swaps would expose CDA to basis risk should the relationship between the London Interbank Offered Rate and the Securities Industry and Financial Markets Association Rate converge. If a change occurs that results in the rates moving towards convergence, the expected cost savings may not be realized. In order to mitigate this risk, prior to the execution of the swap agreements, CDA and its independent financial advisor reviewed historical trading differentials between the Securities Industry and Financial Markets Association Rate and the London Interbank Offered Rate.

Credit Risk

Credit risk is the risk that a swap counterparty will not fulfill its obligations. The fair value of the swaps represented CDA's credit exposure to each counterparty as of June 30, 2013 and 2012. As of June 30, 2013, CDA was not exposed to credit risk under the swap agreements with JPM, UBS AG, MLDP or BNYM since the fair value of each counterparty's swap portfolio was negative. However, should the valuation of any of the individual swaps change, and the fair values turn positive, CDA may become exposed to credit risk in the amount of the swaps' fair values. To mitigate the potential for credit risk, the fair value of the swaps will be fully collateralized by the counterparties if a counterparty's credit quality falls below the designated credit rating thresholds. At June 30, 2012, CDA was not exposed to credit risk under the swap agreements with JPM, UBS AG, MLDP or BNYM since the swaps had negative fair values.

(in thousands)

NOTE 9 - INTEREST RATE EXCHANGE AGREEMENTS (SWAPS) (Continued)

The credit rating details for each swap counterparty, including credit rating thresholds, and the total fair value amounts as of June 30, 2013 are summarized below:

| **Swap Counterparty** | **Outstanding Notional Amount** | **Current Credit Rating** | **Collateral Posting Credit Rating Threshold** | **Fair Value** |
|---|---|---|---|---|
| JPMorgan Chase Bank, N.A. (JPM) | $80,000 | Aa3 from Moody's A+ from Standard and Poor's | A1 or below from Moody's or A+ or below from Standard and Poor's | ($7,165) |
| UBS AG | $40,000 | A2 from Moody's A from Standard and Poor's A from Fitch | A1 or below from Moody's or A+ or below from Standard and Poor's or Fitch | ($4,146) |
| Merrill Lynch Derivative Products AG (MLDP) | $122,550 | Aa3 from Moody's AAA from Standard and Poor's* | A1 or below from Moody's or A+ or below from Standard and Poor's or Fitch | ($14,248) |
| The Bank of New York Mellon (BNYM) | $13,335 | Aa1 from Moody's AA- from Fitch | A1 or below from Moody's or A+ or below from Fitch | ($1,506) |

*Subsequent to June 30, 2013, the rating on MLDP from Standard and Poor's was changed to A+ with a negative outlook, effective August 5, 2013.

(in thousands)

NOTE 9 - INTEREST RATE EXCHANGE AGREEMENTS (SWAPS) (Continued)

The credit rating details for each swap counterparty, including credit rating thresholds, and the total fair value amounts as of June 30, 2012 are summarized below:

| Swap Counterparty | Outstanding Notional Amount | Current Credit Rating | Collateral Posting Credit Rating Threshold | Fair Value |
|---|---|---|---|---|
| JPMorgan Chase Bank, N.A. (JPM) | $80,000 | Aa3 from Moody's A+ from Standard and Poor's | A1 or below from Moody's or A+ or below from Standard and Poor's | ($9,454) |
| UBS AG | $40,000 | A2 from Moody's A from Standard and Poor's A from Fitch | A1 or below from Moody's or A+ or below from Standard and Poor's or Fitch | ($5,201) |
| Merrill Lynch Derivative Products AG (MLDP) | $131,115 | Aa3 from Moody's AAA from Standard and Poor's | A1 or below from Moody's or A+ or below from Standard and Poor's or Fitch | ($19,399) |
| The Bank of New York Mellon (BNYM) | $16,115 | Aa1 from Moody's AA- from Fitch | A1 or below from Moody's or A+ or below from Fitch | ($1,808) |

Termination Risk

Termination risk is the risk that, due to some event or exercise of a right, the swaps may terminate prior to the scheduled expiration which could result in a payment due from CDA. Furthermore, if a swap is terminated, the underlying variable rate bonds may be exposed to the rising variable interest rates.

NOTE 9 - INTEREST RATE EXCHANGE AGREEMENTS (SWAPS) (Continued)

According to the termination provisions of the swap agreements, CDA or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The counterparty can terminate the contract if the ratings on the related bonds fall below the credit rating thresholds. In addition, CDA has an option to terminate the swaps in part or in whole without any payment except for accrued interest on the respective Optional Termination Dates. Regardless of the above, CDA has a unilateral right to terminate swaps at any time upon adequate notification to the counterparty. If at the time of such termination a swap has a negative fair value, CDA would be liable to the counterparty for a payment equal to the swap's fair value along with any accrued interest.

Rollover Risk

CDA is exposed to rollover risk on the swap agreements if the agreement terminates prior to the maturity of the associated debt. CDA evaluates the range of reasonably expected repayment patterns for the financed assets to best match the swap schedule. Terminating an existing swap may enable CDA to enter a new swap or other financing mechanism that may be better tailored to the actual financed assets and repayment experience. It is the intent of CDA to match the maturity of the swaps with the maturity of the underlying bonds.

Amortization Risk

Amortization risk is the risk that the actual redemption pattern of the bonds may differ from the swap schedule, producing a mismatch between the principal amount of the bonds outstanding and the outstanding notional amount of the swap. To address this risk, CDA has structured all swap transactions to provide for optional termination on the respective Optional Termination Dates and automatic incremental amortization of the swap notional amounts. Mortgage loan prepayments can also be directed to the variable rate series to match the outstanding notional swap amount to the outstanding amount of the underlying bonds.

(in thousands)

## NOTE 9 - INTEREST RATE EXCHANGE AGREEMENTS (SWAPS) (Continued)

### Tax Risk

Tax risk is the risk that the value of tax exemption may decline through tax law changes and that variable interest rates would then rise toward taxable levels and the expected cost savings of the swaps may not be realized.

### Counterparty Risk

Counterparty risk is the risk that a counterparty will fail to make required payments. In order to limit this type of risk, CDA diversifies its exposure across several counterparties.

### Swap Payments and Associated Debt

As of June 30, 2013, the following table provides a summary of debt service requirements for hedged variable rate bonds and net swap payments for the next five years and in 5-year increments thereafter. The interest calculations are based on the variable rates in effect on June 30, 2013, and may not be indicative of the actual interest expense that will be incurred. As rates vary, variable rate bond interest payments and net swap payments will vary.

| Year ending June 30, | Hedged Variable Rate Bonds Principal | Hedged Variable Rate Bonds Interest | Interest Rate Swaps, Net | Total |
|---|---|---|---|---|
| 2014 | $ 4,985 | $ 233 | $ 9,861 | $ 15,079 |
| 2015 | - | 168 | 9,501 | 9,669 |
| 2016 | - | 169 | 9,171 | 9,340 |
| 2017 | - | 168 | 8,724 | 8,892 |
| 2018 | 2,000 | 168 | 8,273 | 10,441 |
| 2019 - 2023 | 10,075 | 814 | 35,608 | 46,497 |
| 2024 - 2028 | 12,895 | 774 | 29,961 | 43,630 |
| 2029 - 2033 | 108,895 | 624 | 24,369 | 133,888 |
| 2034 - 2038 | 75,185 | 266 | 12,572 | 88,023 |
| 2039 - 2043 | 29,585 | 75 | 1,942 | 31,602 |
| 2044 - 2048 | 12,265 | 3 | 7 | 12,275 |
| Totals | $ 255,885 | $ 3,462 | $ 149,989 | $ 409,336 |

(in thousands)

## NOTE 9 - INTEREST RATE EXCHANGE AGREEMENTS (SWAPS) (Continued)

As of June 30, 2012, the following table provides a summary of debt service requirements for hedged variable rate bonds and net swap payments for the next five years and in 5-year increments thereafter. The interest calculations are based on the variable rates in effect on June 30, 2012, and may not be indicative of the actual interest expense that will be incurred. As rates vary, variable rate bond interest payments and net swap payments will vary.

| Year ending June 30, | Hedged Variable Rate Bonds Principal | Hedged Variable Rate Bonds Interest | Interest Rate Swaps, Net | Total |
|---|---|---|---|---|
| 2013 | $ 7,000 | $ 687 | $ 10,251 | $ 17,938 |
| 2014 | - | 667 | 9,852 | 10,519 |
| 2015 | - | 667 | 9,495 | 10,162 |
| 2016 | - | 668 | 9,162 | 9,830 |
| 2017 | - | 666 | 8,713 | 9,379 |
| 2018 - 2022 | 10,065 | 3,291 | 37,244 | 50,600 |
| 2023 - 2027 | 10,950 | 3,203 | 30,745 | 44,898 |
| 2028 - 2032 | 108,790 | 2,893 | 25,862 | 137,545 |
| 2033 - 2037 | 72,605 | 1,190 | 14,945 | 88,740 |
| 2038 - 2042 | 41,705 | 589 | 3,465 | 45,759 |
| 2043 - 2047 | 16,115 | 133 | 25 | 16,273 |
| Totals | $ 267,230 | $ 14,654 | $ 159,759 | $ 441,643 |

(in thousands)

NOTE 9 - INTEREST RATE EXCHANGE AGREEMENTS (SWAPS) (Continued)

Fair Values

The table below summarizes the total fair values for CDA's interest rate exchange agreements at June 30, 2012 and June 30, 2013, and the changes in fair values for the period ended June 30, 2013.

| | Total Fair Value at June 30, 2012 | Total Fair Value at June 30, 2013 | Change in Fair Value for the Period |
|---|---|---|---|
| Interest Rate Exchange Agreements: | | | |
| Cash Flow Hedges | $ (35,862) | $ (27,065) | $ 8,797 |
| Investment Derivatives | - | - | - |
| Total | $ (35,862) | $ (27,065) | $ 8,797 |

In accordance with accounting guidance issued by GASB, the fair value balances of derivative instruments (interest rate exchange agreements) outstanding at June 30, 2013, classified by type, and the changes in fair value of such derivative instruments as presented on the financial statements for the period ended June 30, 2013, are as follows:

| | Change in Fair Value | | Fair Value at June 30, 2013 | | Outstanding Notional Amounts |
|---|---|---|---|---|---|
| | Classification | Amount | Classification | Amount | |
| Cash Flow Hedges: | | | | | |
| Pay fixed interest rate swaps | Deferred Outflow | $ 8,797 | Debt | $ (27,065) | $ 255,885 |
| Investment Derivatives: | | | | | |
| Pay fixed interest rate swaps | Investment Revenue | $ - | Investment | $ - | $ - |

As of June 30, 2013, all of CDA's swaps meet the criteria for effectiveness and the swap fair values are classified as deferred outflow.

(in thousands)

NOTE 9 - INTEREST RATE EXCHANGE AGREEMENTS (SWAPS) (Continued)

The table below summarizes the total fair values for CDA's interest rate exchange agreements at June 30, 2011 and June 30, 2012, and the changes in fair values for the period ended June 30, 2012.

| | Total Fair Value at June 30, 2011 | Total Fair Value at June 30, 2012 | Change in Fair Value for the Period |
|---|---|---|---|
| Interest Rate Exchange Agreements: | | | |
| Cash Flow Hedges | $ (26,475) | $ (35,862) | $ (9,387) |
| Investment Derivatives | - | - | - |
| Total | $ (26,475) | $ (35,862) | $ (9,387) |

In accordance with accounting guidance issued by GASB, the fair value balances of derivative instruments (interest rate exchange agreements) outstanding at June 30, 2012, classified by type, and the changes in fair value of such derivative instruments as presented on the financial statements for the period ended June 30, 2012, are as follows:

| | Change in Fair Value | | Fair Value at June 30, 2012 | | Outstanding Notional Amounts |
|---|---|---|---|---|---|
| | Classification | Amount | Classification | Amount | |
| Cash Flow Hedges: | | | | | |
| Pay fixed interest rate swaps | Deferred Outflow | $ (9,387) | Debt | $ (35,862) | $ 267,230 |
| Investment Derivatives: | | | | | |
| Pay fixed interest rate swaps | Investment Revenue | $ - | Investment | $ - | $ - |

As of June 30, 2012, all of CDA's swaps meet the criteria for effectiveness and the swap fair values are classified as deferred outflow.

NOTE 9 - INTEREST RATE EXCHANGE AGREEMENTS (SWAPS) (Continued)

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on each future net settlement on the swaps.

NOTE 10 - BOND REFUNDINGS

Certain refundings of debt are due to the prepayments of single family 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. Prior to implementation of GASB Statement No. 65, any unamortized deferred issuance costs or original issue discounts, net of unamortized original issue premiums, were recorded as a loss. If unamortized original issue premiums exceeded unamortized deferred issuance costs and original issue discounts, CDA recorded a gain. With the implementation of GASB Statement No. 65, deferred bond issuance costs are expensed in the period incurred. Any unamortized original issue discounts are recorded net of original issue premiums as a gain or loss in the accompanying Statements of Revenue, Expenses and Changes in Net Position.

NOTE 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, 2013, CDA issued $89,450 of 2012 Series A and Series B bonds on August 23, 2012, and refunded 1998 Series D, 1999 Series C and D, 2001 Series A and B, and 2001 Series H on October 10, 2012. This refunding reduced total debt service payments for the remaining life of the bonds. The exact savings cannot be calculated at this time since 2012 Series B is variable rate.

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). With the implementation of GASB Statement No. 65, these deferrals, excluding unamortized issuance costs, are shown as a deferred outflow or deferred inflow of resources for the refunding of debt on the Statements of Net Position. This deferral is amortized, using the effective interest method, over the remaining life of the old debt or the life of the new debt, whichever is shorter. As a result of the refunding described above, CDA did not have to defer any refunding debt costs associated with the refunded bonds. For the year ended June 30, 2012, CDA did not issue any refunding bonds for the purpose of lowering its cost of debt.

NOTE 11 - REBATE LIABILITY

In accordance with the Internal Revenue Service Code (the Code), the Fund has recorded a rebate liability for excess investment earnings in tax-exempt bond and note issues. The excess investment earnings arise due to actual investment yields earned by the Fund being greater than yields permitted to be retained by the Fund under the Code. The Code requires 90% of such excess investment earnings to be remitted to the United States Treasury every five years and in full at the final redemption of the bonds. Interest income on the Statements of Revenue, Expenses and Changes in Net Position is reduced by the rebate liability due to excess investment earnings. The increase/decrease in fair value of investments on the Statements of Revenue, Expenses and Changes in Net Position is adjusted by the change in the estimated rebate liability due to change in fair value of investments. CDA has no rebate liability from interest income or from unrealized gains on mortgage-backed securities.

(in thousands)

NOTE 11 - REBATE LIABILITY (Continued)

Rebate liability activity for the years ended June 30, 2013 and 2012 was as follows:

| | 2013 | 2012 |
|---|---|---|
| Beginning rebate liability | $ 6,895 | $ 7,208 |
| Change in estimated liability due to excess investment earnings | 125 | 268 |
| Change in estimated liability due to change in fair value of investments | 117 | 65 |
| Less - payments made | (6,955) | (646) |
| Ending rebate liability | $ 182 | $ 6,895 |

Total rebate liability is allocated as follows:

| | 2013 | 2012 |
|---|---|---|
| Estimated liability due to excess investment earnings | $ - | $ 6,830 |
| Estimated liability due to change in fair value of investments | 182 | 65 |
| Ending rebate liability | $ 182 | $ 6,895 |

(in thousands)

## NOTE 12 - LONG-TERM OBLIGATIONS

Changes in long-term obligations for the years ended June 30, 2013 and 2012 were as follows:

| | 2013 | 2012 |
|---|---|---|
| Rebate liability | | |
| Beginning balance | $ 6,895 | $ 7,208 |
| Additions | 242 | 333 |
| Reductions | (6,955) | (646) |
| Ending balance | 182 | 6,895 |
| Less due within one year | - | (59) |
| Total long-term rebate liability | 182 | 6,836 |
| Bonds payable | | |
| Beginning balance | 2,029,027 | 2,207,056 |
| Additions | 90,143 | - |
| Reductions | (215,835) | (171,080) |
| Change in deferred amounts for issuance discounts/premiums | (2,088) | (6,949) |
| Ending balance | 1,901,247 | 2,029,027 |
| Less due within one year | (127,755) | (66,795) |
| Total long-term bonds payable | 1,773,492 | 1,962,232 |
| Deposits by borrowers | | |
| Beginning balance | 4,534 | 4,253 |
| Additions | 1,896 | 1,999 |
| Reductions | (1,746) | (1,718) |
| Ending balance | 4,684 | 4,534 |
| Less due within one year | (2,239) | (2,138) |
| Total long-term deposits by borrowers | 2,445 | 2,396 |
| Interest rate swap agreements | | |
| Beginning balance | 35,862 | 26,475 |
| Additions | - | 9,387 |
| Reductions | (8,797) | - |
| Ending balance | 27,065 | 35,862 |
| Total long-term interest rate swap agreements | 27,065 | 35,862 |
| Total long-term liabilities | $ 1,803,184 | $ 2,007,326 |

(in thousands)

## NOTE 13 - INTERFUND ACTIVITY

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

During the years ended June 30, 2013 and 2012, the Fund transferred the following amounts, as permitted, among Funds:

| | 2013 | 2012 |
|---|---|---|
| Excess revenue transferred to the General Bond Reserve Fund | $ (8,000) | $ (6,875) |
| Cost of issuance on bonds and other expenses transferred to Single Family Housing Revenue Bonds | - | (3,346) |
| Transfer to separate account in accordance with HUD agreement | (22) | (22) |
| | $ (8,022) | $ (10,243) |

## NOTE 14 - MORTGAGE INSURANCE

Substantially all mortgage loans in the Fund 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.

For a single family loan insured by an agency of the U.S. Government the primary mortgage insurance covers an amount substantially equal to the unpaid principal amount of the loan. Almost all other loans have primary mortgage insurance in an amount that is at least 25% of the loan amount. Approximately 2% of all first lien loans either did not have primary mortgage insurance due to their original loan-to-value ratios of less than 80% or have cancelled primary mortgage insurance due to their outstanding balance falling below 80% of the original loan amount. About 42% of all loans are insured by agencies of the U.S. Government in an amount substantially equal to the unpaid principal amount of the loan. Approximately 56% of total loans are insured by private mortgage insurers or MHF. Approximately 81% of the total loans insured by private mortgage insurers or MHF are covered at 35% of the loan amount. The remaining 19% of this group of loans is insured by three different private mortgage insurers who, due to financial constraints or receivership, are currently paying to CDA half of the 35% or approximately 18% of the loan amount. An allowance for loan losses has been established for loans insured by private mortgage insurers. Premiums are paid by single family mortgagors.

## NOTE 14 - MORTGAGE INSURANCE (Continued)

CDA has entered into an agreement (the Reinsurance Agreement) with MHF effective January 1, 2011, in order to provide supplemental insurance coverage in the Fund for all private mortgage insured loans and post-2005 MHF primary insured loans residing in the active portfolio as of December 31, 2010. Insured loans in the private mortgage insurance portfolio have 35% coverage from the private mortgage insurer. Upon receipt of the primary mortgage insurance claim, MHF will pay 100% of the remaining claim amount for all private mortgage insured loans and post-2005 MHF primary insured loans that have foreclosure dates occurring after December 31, 2010. Once the claim is paid by MHF, the property is transferred to MHF for disposal and is no longer an asset of CDA. Upon sale of the property and if the sale results in a loss, CDA and MHF will share equally in any such loss incurred. The Reinsurance Agreement shall terminate when the total amount of MHF net losses (the amount calculated after all claims are paid and expenses are realized) reaches $12,500 or on December 31, 2020, whichever occurs first.

## NOTE 15 - PENSION AND OTHER POST-RETIREMENT 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 (the System) and are also entitled to certain healthcare benefits upon retirement. CDA's only obligation for retirement and post-employment 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 or by visiting the website at www.sra.state.md.us.

(in thousands)

## NOTE 16 - SUBSEQUENT EVENTS

Events that occur after the date of the statement of net position but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the date of the statement of net position are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the date of the statement of net position require disclosure in the accompanying notes. Management evaluated the activity of CDA through October 18, 2013 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements, except for the following activity that occurred subsequent to June 30, 2013.

Subsequent to the year ended June 30, 2013, the following bond activity took place:

On September 3, 2013, CDA redeemed the following bonds:

| | | | |
|---|---|---|---|
| 2004 Series B | $1,050 | 2007 Series A | $6,155 |
| 2004 Series E | $1,530 | 2007 Series B | $995 |
| 2004 Series H | $1,870 | 2007 Series D | $3,905 |
| 2005 Series B | $1,250 | 2007 Series F | $2,485 |
| 2005 Series E | $2,040 | 2007 Series J | $3,670 |
| 2006 Series B | $990 | 2008 Series C | $18,940 |
| 2006 Series F | $1,970 | 2008 Series F | $6,000 |
| 2006 Series I | $3,675 | 2010 Series A | $715 |
| 2006 Series L | $3,090 | 2010 Series B | $725 |
| 2006 Series P | $1,645 | 2011 Series A | $760 |
| 2006 Series S | $995 | 2012 Series A | $2,550 |

Community Development Administration
Residential Revenue Bonds

SUPPLEMENTAL DISCLOSURES OF CHANGE
IN FAIR VALUE OF INVESTMENTS AND
MORTGAGE-BACKED SECURITIES
(in thousands)
(unaudited)

June 30, 2013 and 2012

In accordance with accounting guidance issued by GASB, CDA reflects investments and mortgage-backed securities at fair value, and the increase or decrease in fair value is included in the Statements of Revenue, Expenses and Changes in Net Position.

For investments (obligations of U.S. Government Agencies) held by the Fund as of June 30, 2013, the following schedule summarizes annual increases/decreases in fair value and the cumulative difference between fair value and amortized cost:

| Fiscal year ended June 30, | Annual increases /decreases | Cumulative total |
|---|---|---|
| 2000 | $ (227) | $ (227) |
| 2001 | $ 551 | $ 324 |
| 2002 | $ 97 | $ 421 |
| 2003 | $ 544 | $ 965 |
| 2004 | $ (674) | $ 291 |
| 2005 | $ 403 | $ 694 |
| 2006 | $ (1,567) | $ (873) |
| 2007 | $ 1,062 | $ 189 |
| 2008 | $ 785 | $ 974 |
| 2009 | $ 46 | $ 1,020 |
| 2010 | $ 2,747 | $ 3,767 |
| 2011 | $ (2,244) | $ 1,523 |
| 2012 | $ 1,374 | $ 2,897 |
| 2013 | $ (855) | $ 2,042 |

Community Development Administration
Residential Revenue Bonds

SUPPLEMENTAL DISCLOSURES OF CHANGE
IN FAIR VALUE OF INVESTMENTS AND
MORTGAGE-BACKED SECURITIES - CONTINUED
(in thousands)
(unaudited)

June 30, 2013 and 2012

Reconciliation to the Statements of Revenue, Expenses and Changes in Net Position for the year ended June 30, 2013:

| | | |
|---|---|---|
| Decrease in fair value of investments held at June 30, 2013 | $ | (855) |
| Adjustment due to rebate liability (see Note 11) | | (117) |
| Decrease in fair value of investments, net of rebate, as reported on the Statements of Revenue, Expenses and Changes in Net Position for the year ended June 30, 2013 | $ | (972) |

Reconciliation to the Statements of Revenue, Expenses and Changes in Net Position for the year ended June 30, 2012:

| | | |
|---|---|---|
| Increase in fair value of investments held at June 30, 2012 | $ | 1,374 |
| Adjustment due to rebate liability (see Note 11) | | (65) |
| Increase in fair value of investments, net of rebate, as reported on the Statements of Revenue, Expenses and Changes in Net Position for the year ended June 30, 2012 | $ | 1,309 |

Community Development Administration
Residential Revenue Bonds

SUPPLEMENTAL DISCLOSURES OF CHANGE
IN FAIR VALUE OF INVESTMENTS AND
MORTGAGE-BACKED SECURITIES - CONTINUED
(in thousands)
(unaudited)

June 30, 2013 and 2012

For mortgage-backed securities held by the Fund as of June 30, 2013, the following schedule summarizes annual increases/decreases in fair value and the cumulative difference between fair value and cost:

| Fiscal year ended June 30, | Annual increases /decreases | Cumulative total |
|---|---|---|
| 2011 | $ (585) | $ (585) |
| 2012 | $ 1,858 | $ 1,273 |
| 2013 | $ (5,593) | $ (4,320) |

Reconciliation to the annual increases/decreases in fair value for mortgage-backed securities for the fiscal year ended June 30, 2013:

| | |
|---|---|
| Increases/decreases in fair value of mortgage-backed securities as shown on the Statements of Revenue, Expenses and Changes in Net Position for the year ended June 30, 2013: | |
| Operating revenue | $ 9,135 |
| Nonoperating expenses | (4,708) |
| Realized gains on sale of mortgage-backed securities | (10,020) |
| Annual increases/decreases for the year ended June 30, 2013 | $ (5,593) |

Community Development Administration
Residential Revenue Bonds

SUPPLEMENTAL DISCLOSURES OF CHANGE
IN FAIR VALUE OF INVESTMENTS AND
MORTGAGE-BACKED SECURITIES - CONTINUED
(in thousands)
(unaudited)

June 30, 2013 and 2012

Reconciliation to the annual increases/decreases in fair value for mortgage-backed securities for the fiscal year ended June 30, 2012:

| | | |
|---|---|---|
| Increases/decreases in fair value of mortgage-backed securities as shown on the Statements of Revenue, Expenses and Changes in Net Position for the year ended June 30, 2012: | | |
| Operating revenue | $ | 3,980 |
| Nonoperating revenue | | 512 |
| Realized gains on sale of mortgage-backed securities | | (2,634) |
| Annual increases/decreases for the year ended June 30, 2012 | $ | 1,858 |