

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT

**COMMUNITY DEVELOPMENT ADMINISTRATION  
SINGLE FAMILY HOUSING REVENUE BONDS**

JUNE 30, 2013 AND 2012

Community Development Administration  
Single Family Housing Revenue Bonds

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## 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 Single Family Housing Revenue Bonds (the Fund) of the Department of Housing and Community Development of the State of Maryland as of and for the year ended June 30, 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 Single Family Housing Revenue Bonds early implemented GASB Statement No. 65 Items Previously Reported as Assets and Liabilities.

### *Other Matters*

The financial statements of Community Development Administration Single Family Housing 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 Single Family Housing Revenue Bonds and do not purport to, and do not, present fairly the financial position of the Department of Housing and Community Development of the State of Maryland as of 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 23, 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.



Baltimore, Maryland  
October 18, 2013

Community Development Administration  
Single Family Housing Revenue Bonds

STATEMENTS OF NET POSITION  
(in thousands)

June 30, 2013 and 2012

	2013	2012
<b>RESTRICTED ASSETS</b>		
Restricted current assets		
Cash and cash equivalents on deposit with trustee	\$ 31,220	\$ 24,341
Mortgage-backed securities	19,952	5,489
Accrued interest receivables	694	734
	51,866	30,564
Total restricted current assets		
Restricted long-term assets		
Mortgage-backed securities, net of current portion	212,433	249,648
	212,433	249,648
Total restricted long-term assets		
Total restricted assets	\$ 264,299	\$ 280,212
<b>LIABILITIES AND NET POSITION</b>		
Current liabilities		
Accrued interest payable	\$ 2,282	\$ 2,292
Bonds payable	5,910	5,875
	8,192	8,167
Total current liabilities		
Long-term liabilities		
Bonds payable, net of current portion	245,613	251,599
	245,613	251,599
Total long-term liabilities		
Total liabilities	253,805	259,766
<b>NET POSITION</b>		
Restricted	10,494	20,446
Total liabilities and net position	\$ 264,299	\$ 280,212

See notes to financial statements

Community Development Administration  
Single Family Housing 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-backed securities	\$ 8,581	\$ 5,885
Interest income on cash equivalents	7	34
Other operating revenue	-	175
	8,588	6,094
Operating expenses		
Interest expense on bonds	6,784	4,417
Professional fees and other operating expenses	81	36
Bond issuance costs	-	1,464
	6,865	5,917
Operating income	1,723	177
Nonoperating (expenses) revenue		
(Decrease) increase in fair value of mortgage-backed securities	(11,675)	16,923
Total nonoperating (expenses) revenue	(11,675)	16,923
Transfers of funds, as permitted by the various bond indentures	-	3,346
CHANGE IN NET POSITION	(9,952)	20,446
Net position - restricted at beginning of year, as previously stated	20,446	90
Cumulative effect of change in accounting principle	-	(90)
Net position - restricted at beginning of year, as restated	20,446	-
Net position - restricted at end of year	\$ 10,494	\$ 20,446

See notes to financial statements

Community Development Administration  
Single Family Housing 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-backed securities	\$ 20,973	\$ 8,142
Purchase of mortgage-backed securities	(1,276)	(88,074)
Transfer of mortgage-backed securities	-	(153,129)
Professional fees and other operating expenses	(81)	(36)
Other income received	-	175
	19,616	(232,922)
Net cash provided by (used in) operating activities		
Cash flows from investing activities		
Interest received on cash equivalents	8	32
	8	32
Net cash provided by investing activities		
Cash flows from noncapital financing activities		
Proceeds from sale of bonds	-	104,387
Payments on bond principal	(5,875)	(1,145)
Interest on bonds	(6,870)	(2,477)
Bond issuance costs	-	(1,464)
Transfers among Funds	-	3,346
	(12,745)	102,647
Net cash (used in) provided by noncapital financing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS ON DEPOSIT	6,879	(130,243)
Cash and cash equivalents on deposit at beginning of year	24,341	154,584
Cash and cash equivalents on deposit at end of year	\$ 31,220	\$ 24,341

(continued)

Community Development Administration  
Single Family Housing Revenue Bonds

STATEMENTS OF CASH FLOWS - CONTINUED  
(in thousands)

Years ended June 30, 2013 and 2012

	2013	2012
Reconciliation of operating income to net cash provided by (used in) operating activities		
Operating income	\$ 1,723	\$ 177
Adjustments to reconcile operating income to net cash provided by (used in) operating activities		
Decrease (increase) in assets		
Mortgage-backed securities	11,077	(238,214)
Accrued interest receivables	40	(734)
(Decrease) increase in liabilities		
Accrued interest payable	(10)	1,998
Amortizations		
Bond original issue premiums	(76)	(58)
Bond issuance costs	-	1,464
Interest received on cash equivalents	(8)	(32)
Interest on bonds	6,870	2,477
	\$ 19,616	\$ (232,922)

See notes to financial statements



Community Development Administration  
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS  
(in thousands)

June 30, 2013 and 2012

NOTE 1 - AUTHORIZING LEGISLATION AND PROGRAM DESCRIPTION

The Community Development Administration (CDA) is authorized to issue Single Family Housing Revenue Bonds pursuant to 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.

CDA entered into a Securitization Agreement on December 18, 2009 with the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC), using federal legislative authority under the Housing and Economic Recovery Act of 2008 to provide affordable mortgage financing for individual households and multifamily rental properties. Subject to the Securitization Agreement, the New Issue Bond Program (NIBP) was created under which CDA will issue mortgage revenue Program Bonds, FNMA and FHLMC will securitize and issue securities for these bonds, and the United States Department of the Treasury (Treasury) will purchase these securities. Under the Single Family NIBP and pursuant to the Single Family Housing Revenue Bond Resolution (Resolution), CDA had issued 2009 Series A bonds in the amount of \$154,290 as escrow bonds bearing interest at a short-term rate until conversion to Program Bonds secured by mortgage loans or mortgage-backed securities backed by mortgage loans. The short-term rate converted to a permanent fixed rate at the time of conversion. CDA was required, at the time of conversion, to issue market bonds along with the issuance of Program Bonds, but not to exceed 40 percent of the total allocation of which the escrow bonds represent the 60 percent share. At June 30, 2012, all 2009 Series A escrow bonds had been converted to Program Bonds.

The accompanying financial statements only include CDA's Single Family Housing Revenue Bonds (the Fund). CDA's other Funds are not included. However, CDA has also separately issued combined financial statements for the Revenue Obligation Funds and Infrastructure Program Funds, and financial statements for the Multi-Family Mortgage Revenue Bonds. The Single Family Housing Revenue Bonds, Revenue Obligation Funds, Infrastructure Program Funds and Multi-Family Mortgage Revenue Bonds are enterprise funds of the State of Maryland and are included in the State of Maryland's Comprehensive Annual Financial Report. The Fund was established to originate or purchase single family mortgage loans.

Community Development Administration  
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2013 and 2012

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.

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.

Community Development Administration  
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2013 and 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, all of the Fund's cash equivalents were invested in a money market mutual fund which is 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.

Community Development Administration  
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2013 and 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Interest Receivables

Accrued interest receivables include interest on mortgage-backed securities and investments.

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 Revenues, Expenses and Changes in Net Position to reflect the change. The cumulative effect of this change in accounting principle, in the amount of \$90, 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 \$1,526 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 a decrease of \$1,436 in changes in net position. For fiscal year 2013, there were no bond issuance costs incurred to be recognized.

Bonds Payable

Bonds payable are carried at their unpaid principal balances, net of original issue premiums. See Notes 4, 5, and 6 for additional information.

Community Development Administration  
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2013 and 2012

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-Backed Securities

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

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 are 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 8 for additional information.

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. The Fund's activities are considered to be operating except for increases and decreases in the fair value of mortgage-backed securities.

Community Development Administration  
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2013 and 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 periods. 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 AND MORTGAGE-BACKED SECURITIES

Bond proceeds and revenues from mortgage-backed securities and investments are invested in authorized investments as defined in the Single Family Housing Revenue Bond Resolution (the Resolution) and in CDA's Investment Policy until required for purchasing mortgage-backed securities, funding reserves, paying bond debt service, 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.

As of June 30, 2013 and 2012, the Fund had \$31,220 and \$24,341, respectively, invested in a money market mutual fund (Federated Prime Cash Obligations Fund), which is classified as cash and cash equivalents, and \$232,385 and \$255,137, respectively, in Government National Mortgage Association (GNMA) mortgage-backed securities. The following represents the GASB evaluation of these assets for interest rate risk, credit risk, concentration of credit risk and custodial credit risk.

Community Development Administration  
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2013 and 2012

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

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.

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

Asset	Amortized cost	Fair value	Maturities (in years)				
			Less than 1	1 - 5	6 - 10	11 - 15	More than 15
Federated Prime Cash Obligations Fund	\$ 31,220	\$ 31,220	\$ 31,220	\$ -	\$ -	\$ -	\$ -
GNMA mortgage-backed securities	227,137	232,385	-	-	-	-	232,385
Total	<u>\$ 258,357</u>	<u>\$ 263,605</u>	<u>\$ 31,220</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 232,385</u>

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

Asset	Amortized cost	Fair value	Maturities (in years)				
			Less than 1	1 - 5	6 - 10	11 - 15	More than 15
Federated Prime Cash Obligations Fund	\$ 24,341	\$ 24,341	\$ 24,341	\$ -	\$ -	\$ -	\$ -
GNMA mortgage-backed securities	238,214	255,137	-	-	-	-	255,137
Total	<u>\$ 262,555</u>	<u>\$ 279,478</u>	<u>\$ 24,341</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 255,137</u>

Community Development Administration  
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2013 and 2012

NOTE 3 - CASH, CASH EQUIVALENTS 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 and 2012, the ratings on Single Family Housing Revenue Bonds were Aaa by Moody's Investors Service.

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	\$ 31,220	11.84%	Aaa		Moody's
Government National Mortgage Association Mortgage-backed securities	<u>232,385</u>	<u>88.16%</u>		Direct U.S. Obligations	
Total	<u>\$ 263,605</u>	<u>100.00%</u>			



Community Development Administration  
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2013 and 2012

NOTE 3 - CASH, CASH EQUIVALENTS 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	\$ 24,341	8.71%	Aaa		Moody's
Government National Mortgage Association Mortgage-backed securities	<u>255,137</u>	<u>91.29%</u>		Direct U.S. Obligations	
Total	<u>\$ 279,478</u>	<u>100.00%</u>			

All mortgage-backed securities held by the Fund are guaranteed by the Government National Mortgage Association (GNMA), an instrumentality of the United States Government. GNMA securities 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.

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 - BONDS PAYABLE

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

Community Development Administration  
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2013 and 2012

NOTE 4 - BONDS PAYABLE (Continued)

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 prepayments. All outstanding bonds, except the 2009 Series 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, except the 2011 Series C bonds maturing March 1, 2027, which will be redeemed at a premium that maintains the same yield as the original purchase price thereof to be redeemed. The 2009 Series A-1 through A-3 bonds are subject to optional redemption, in whole or in part, in denominations of \$10 or any integral multiple thereof on the first day of each month, at a price equal to 100% of the principal amount thereof to be redeemed. All bonds are tax-exempt and have fixed interest rates.

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:

	Issue dated	Range of interest rates	Range of maturities	Debt outstanding at June 30, 2012	Bond Activity			Debt outstanding at June 30, 2013	Bond premium deferred	Bonds payable at June 30, 2013
					New bonds issued	Scheduled maturity payments	Bonds Redeemed			
Single Family Housing Revenue Bonds										
2009 Series A-1	12/30/09	2.77%	9/1/2041	\$ 60,460	\$ -	\$ -	\$ -	\$ 60,460	\$ -	\$ 60,460
2011 Series A	08/24/11	0.375% - 4.25%	2012 - 2027	39,165	-	(2,295)	-	36,870	573	37,443
2009 Series A-2	12/30/09	2.32%	9/1/2041	60,000	-	-	-	60,000	-	60,000
2011 Series B	10/27/11	0.40% - 4.00%	2012 - 2027	40,000	-	(2,275)	-	37,725	450	38,175
2009 Series A-3	12/30/09	2.49%	9/1/2041	33,830	-	-	-	33,830	-	33,830
2011 Series C	12/15/11	0.20% - 4.50%	2012 - 2027	22,555	-	(1,305)	-	21,250	365	21,615
Total				<u>\$ 256,010</u>	<u>\$ -</u>	<u>\$ (5,875)</u>	<u>\$ -</u>	<u>\$ 250,135</u>	<u>\$ 1,388</u>	<u>\$ 251,523</u>

Community Development Administration  
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2013 and 2012

NOTE 4 - 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:

	Issue dated	Range of interest rates	Range of maturities	Debt outstanding at June 30, 2011	Bond Activity			Debt outstanding at June 30, 2012	Bond premium deferred	Bonds payable at June 30, 2012
					New bonds issued	Scheduled maturity payments	Escrow Bonds Reissued			
Single Family Housing Revenue Bonds										
2009 Series A	12/30/09	Variable Rate	9/1/2041	\$ 154,290	\$ -	\$ -	\$ (154,290)	\$ -	\$ -	\$ -
2009 Series A-1	12/30/09	2.77%	9/1/2041	-	-	-	60,460	60,460	-	60,460
2011 Series A	08/24/11	0.375% - 4.25%	2012 - 2027	-	40,310	(1,145)	-	39,165	605	39,770
2009 Series A-2	12/30/09	2.32%	9/1/2041	-	-	-	60,000	60,000	-	60,000
2011 Series B	10/27/11	0.40% - 4.00%	2012 - 2027	-	40,000	-	-	40,000	474	40,474
2009 Series A-3	12/30/09	2.49%	9/1/2041	-	-	-	33,830	33,830	-	33,830
2011 Series C	12/15/11	0.20% - 4.50%	2012 - 2027	-	22,555	-	-	22,555	385	22,940
Total				\$ 154,290	\$ 102,865	\$ (1,145)	\$ -	\$ 256,010	\$ 1,464	\$ 257,474

NOTE 5 - 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 4) 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	\$ 6,836	\$ 5,910
2015	6,776	5,980
2016	6,690	6,065
2017	6,578	6,180
2018	6,440	6,320
2019 - 2023	29,244	34,550
2024 - 2028	22,301	41,030
2029 - 2033	15,611	47,500
2034 - 2038	9,226	54,190
2039 - 2043	2,180	42,410
Total	\$ 111,882	\$ 250,135

Community Development Administration  
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2013 and 2012

NOTE 5 - DEBT SERVICE REQUIREMENTS (Continued)

As of June 30, 2012, the required principal payments for bonds (including mandatory sinking fund payments and special and optional redemptions that occurred subsequent to June 30, 2012 and excluding the effect of unamortized discounts/premiums as shown in Note 4) 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	\$ 6,870	\$ 5,875
2014	6,836	5,910
2015	6,776	5,980
2016	6,690	6,065
2017	6,578	6,180
2018 - 2022	30,299	33,490
2023 - 2027	23,870	39,660
2028 - 2032	16,789	46,260
2033 - 2037	10,572	52,770
2038 - 2042	3,472	53,820
Total	\$ 118,752	\$ 256,010

Community Development Administration  
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2013 and 2012

NOTE 6 - LONG-TERM OBLIGATIONS

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

	2013	2012
Bonds payable		
Beginning balance at 6/30/2012	\$ 257,474	\$ 154,290
Additions	-	102,865
Reductions	(5,875)	(1,145)
Change in deferred amounts for issuance premiums	(76)	1,464
Ending balance at 6/30/2013	251,523	257,474
Less due within one year	(5,910)	(5,875)
Total long-term bonds payable	\$ 245,613	\$ 251,599

NOTE 7 - INTERFUND ACTIVITY

In accordance with the Resolution, net position in the Fund is restricted and pledged to bondholders. However, restricted assets may be transferred to other Funds, subject to the provisions of the Resolution. As of June 30, 2013, no transfers were made. As of June 30, 2012, \$3,346 was transferred into the Fund from CDA's Residential Revenue Bonds to fund costs of issuance and other expenses.

Community Development Administration  
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2013 and 2012

NOTE 8 - 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](http://www.sra.state.md.us).

NOTE 9 - 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, CDA issued \$55,988 of 2013 Series A (Pass-Through Program) bonds on August 28, 2013.

Community Development Administration  
Single Family Housing Revenue Bonds

SUPPLEMENTAL DISCLOSURE OF CHANGES  
IN FAIR VALUE OF MORTGAGE-BACKED SECURITIES  
(in thousands)

June 30, 2013 and 2012  
(Unaudited)

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 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:

<u>Fiscal year ended June 30,</u>	<u>Annual increases/ decreases</u>	<u>Cumulative total</u>
2012	\$ 16,923	\$ 16,923
2013	\$ (11,675)	\$ 5,248