

COMBINED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

**COMMUNITY DEVELOPMENT ADMINISTRATION
REVENUE OBLIGATION FUNDS**

JUNE 30, 2013

Community Development Administration
Revenue Obligation Funds

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INDEPENDENT AUDITOR'S REPORT

Office of the Secretary
Department of Housing and Community Development

Report on the Combined Financial Statements

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

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Funds 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 combined financial statements, Community Development Administration Revenue Obligation Funds early implemented GASB Statement No. 65 Items Previously Reported as Assets and Liabilities.

Other Matter

The combined financial statements of Community Development Administration Revenue Obligation Funds 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 combined financial statements, we summarized the comparative combined financial statements as of June 30, 2012. We also audited adjustments described in Note 2 that were applied to restate the 2012 combined 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 combined financial statements of the Funds other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2012 combined financial statements as a whole.

As discussed in Note 1, the combined financial statements present only the Community Development Administration Revenue Obligation Funds and do not purport to, and do not, present fairly the financial position of the Department of Housing and Community Development of the State of Maryland as of and for the year ended June 30, 2013, and the changes in its net position and its cash flows for the year then ended, 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 combined financial statements as a whole. The accompanying supplemental information on pages 56 through 58 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information 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
Revenue Obligation Funds

COMBINED STATEMENT OF NET POSITION
(in thousands)

June 30, 2013
(with comparative combined totals as of June 30, 2012)

	Housing Revenue Bonds	Residential Revenue Bonds	General Bond Reserve Fund	Combined	
				2013	2012
RESTRICTED ASSETS					
Restricted current assets					
Cash and cash equivalents on deposit	\$ 46,742	\$ 324,726	\$ 29,378	\$ 400,846	\$ 394,581
Investments	-	19,439	-	19,439	-
Mortgage-backed securities	3,641	3,014	-	6,655	4,435
Mortgage loans					
Single family	27	34,119	-	34,146	36,244
Multi-family construction and permanent financing	2,670	1,658	138	4,466	4,612
Accrued interest and other receivables	1,716	23,635	166	25,517	23,457
Due from State Treasurer	-	-	-	-	60
Claims receivable on foreclosed and other loans, net of allowance	-	91,433	-	91,433	87,028
Real estate owned	-	10,648	-	10,648	6,558
Total restricted current assets	54,796	508,672	29,682	593,150	556,975
Restricted long-term assets					
Investments, net of current portion	7,646	11,509	7,375	26,530	45,888
Mortgage-backed securities, net of current portion	276,813	87,529	-	364,342	349,008
Mortgage loans, net of current portion and allowance					
Single family	92	1,612,635	28	1,612,755	1,851,616
Multi-family construction and permanent financing	83,895	27,463	6,163	117,521	104,072
Accrued interest receivable, net of current portion	-	-	-	-	11
Other loan receivable	-	-	750	750	750
Total restricted long-term assets	368,446	1,739,136	14,316	2,121,898	2,351,345
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflow of fair value on interest rate swap agreements	-	27,065	-	27,065	35,862
Total deferred outflows of resources	-	27,065	-	27,065	35,862
Total restricted assets and deferred outflows of resources	\$ 423,242	\$ 2,274,873	\$ 43,998	\$ 2,742,113	\$ 2,944,182

(continued)

Community Development Administration
Revenue Obligation Funds

COMBINED STATEMENT OF NET POSITION - CONTINUED
(in thousands)

June 30, 2013
(with comparative combined totals as of June 30, 2012)

	Housing Revenue Bonds	Residential Revenue Bonds	General Bond Reserve Fund	Combined	
				2013	2012
LIABILITIES AND NET POSITION					
Current liabilities					
Accrued interest payable	\$ 8,865	\$ 27,496	\$ -	\$ 36,361	\$ 40,639
Accounts payable	75	5,782	1,151	7,008	1,812
Accrued workers' compensation	-	-	13	13	7
Accrued compensated absences	-	-	520	520	386
Due to State Treasurer	-	-	2,935	2,935	-
Rebate liability	-	-	-	-	59
Bonds payable	29,895	127,755	-	157,650	75,720
Deposits by borrowers	2,268	2,239	44	4,551	3,929
Total current liabilities	41,103	163,272	4,663	209,038	122,552
Long-term liabilities					
Accrued workers' compensation, net of current portion	-	-	73	73	40
Accrued compensated absences, net of current portion	-	-	262	262	232
Rebate liability, net of current portion	-	182	-	182	6,836
Bonds payable, net of current portion	327,004	1,773,492	-	2,100,496	2,337,491
Deposits by borrowers, net of current portion	5,687	2,445	40	8,172	8,754
Interest rate swap agreements	-	27,065	-	27,065	35,862
Total long-term liabilities	332,691	1,803,184	375	2,136,250	2,389,215
Total liabilities	373,794	1,966,456	5,038	2,345,288	2,511,767
NET POSITION					
Restricted	49,448	308,417	38,960	396,825	432,415
Total liabilities and net position	\$ 423,242	\$ 2,274,873	\$ 43,998	\$ 2,742,113	\$ 2,944,182

See notes to combined financial statements

Community Development Administration
Revenue Obligation Funds

**COMBINED STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET POSITION**
(in thousands)

Year ended June 30, 2013
(with comparative combined totals as of June 30, 2012)

	Housing Revenue Bonds	Residential Revenue Bonds	General Bond Reserve Fund	Combined	
				2013	2012
Operating revenue					
Interest on mortgage loans	\$ 4,475	\$ 105,805	\$ 411	\$ 110,691	\$ 122,231
Interest on mortgage-backed securities	15,899	1,417	-	17,316	19,487
Increase in fair value of mortgage-backed securities	-	9,135	-	9,135	3,980
Interest income on investments, net of rebate	531	602	437	1,570	2,414
(Decrease) increase in fair value of investments, net of rebate	(730)	(972)	(539)	(2,241)	3,041
Fee income	683	-	4,860	5,543	2,816
Gain on early retirement of debt	-	1,780	-	1,780	6,657
Other operating revenue	18	969	13	1,000	1,400
	<u>20,876</u>	<u>118,736</u>	<u>5,182</u>	<u>144,794</u>	<u>162,026</u>
Operating expenses					
Interest expense on bonds	19,099	85,493	-	104,592	117,684
Professional fees and other operating expenses	234	10,349	319	10,902	7,311
Other expense related to investment agreement (see Note 3)	-	3,573	-	3,573	-
Salaries and related costs	-	-	8,146	8,146	6,726
General and administrative costs	-	-	3,989	3,989	3,634
Provision for loan losses	-	29,415	-	29,415	16,965
Origination expenses	-	2	-	2	18
Losses and expenses on real estate owned, net	-	4,208	-	4,208	8,261
Loss on foreclosure claims, net	-	1,714	-	1,714	350
Bond issuance costs	-	622	-	622	133
	<u>19,333</u>	<u>135,376</u>	<u>12,454</u>	<u>167,163</u>	<u>161,082</u>
Operating income (loss)	<u>1,543</u>	<u>(16,640)</u>	<u>(7,272)</u>	<u>(22,369)</u>	<u>944</u>
Nonoperating (expenses) revenue					
(Decrease) increase in fair value of mortgage-backed securities	(8,491)	(4,708)	-	(13,199)	6,815
Total nonoperating (expenses) revenue	<u>(8,491)</u>	<u>(4,708)</u>	<u>-</u>	<u>(13,199)</u>	<u>6,815</u>
Transfers of funds, net, as permitted by the various bond indentures	<u>(1,125)</u>	<u>(8,022)</u>	<u>9,125</u>	<u>(22)</u>	<u>(3,472)</u>
CHANGES IN NET POSITION	<u>(8,073)</u>	<u>(29,370)</u>	<u>1,853</u>	<u>(35,590)</u>	<u>4,287</u>
Net position - restricted at beginning of year, as previously stated	57,521	337,787	37,107	432,415	456,880
Cumulative effect of change in accounting principle	-	-	-	-	(28,752)
Net position - restricted at beginning of year, as restated	<u>57,521</u>	<u>337,787</u>	<u>37,107</u>	<u>432,415</u>	<u>428,128</u>
Net position - restricted at end of year	<u>\$ 49,448</u>	<u>\$ 308,417</u>	<u>\$ 38,960</u>	<u>\$ 396,825</u>	<u>\$ 432,415</u>

See notes to combined financial statements

Community Development Administration
Revenue Obligation Funds

COMBINED STATEMENT OF CASH FLOWS
(in thousands)

Year ended June 30, 2013
(with comparative combined totals as of June 30, 2012)

	Housing	Residential	General Bond	Combined	
	Revenue Bonds	Revenue Bonds	Reserve Fund	2013	2012
Cash flows from operating activities					
Principal and interest received on mortgage loans	\$ 20,411	\$ 226,242	\$ 528	\$ 247,181	\$ 204,149
Principal and interest received on mortgage-backed securities	63,162	2,764	-	65,926	62,428
Escrow funds received	2,356	1,896	54	4,306	4,677
Escrow funds paid	(2,481)	(1,746)	(39)	(4,266)	(3,899)
Mortgage insurance claims received	-	86,491	-	86,491	89,924
Foreclosure expenses paid	-	(6,686)	-	(6,686)	(8,626)
Loan fees received	674	-	4,857	5,531	2,837
Loan fees disbursed	-	(2)	-	(2)	(18)
Purchase of mortgage loans	(30,818)	(1,996)	(271)	(33,085)	(4,331)
Purchase of mortgage-backed securities	-	(268,806)	-	(268,806)	(174,179)
Transfer of mortgage-backed securities	-	-	-	-	153,129
Funds received from sale of mortgage-backed securities	-	198,632	-	198,632	62,030
Professional fees and other operating expenses	(258)	(10,207)	(310)	(10,775)	(7,134)
Other income received	18	969	13	1,000	1,400
Salaries and related costs	-	-	(6,435)	(6,435)	(8,254)
General and administrative costs	-	-	(2,502)	(2,502)	(3,316)
Other reimbursements	58	(1,846)	774	(1,014)	(174)
Net cash provided by (used in) operating activities	53,122	225,705	(3,331)	275,496	370,643
Cash flows from investing activities					
Proceeds from maturities or sales of investments	-	17,525	-	17,525	971
Purchases of investments	-	(19,739)	-	(19,739)	(2,695)
Arbitrage rebates paid	-	(6,955)	-	(6,955)	(646)
Interest received on investments	522	1,776	439	2,737	2,628
Net cash provided by (used in) investing activities	522	(7,393)	439	(6,432)	258
Cash flows from noncapital financing activities					
Proceeds from sale of bonds	37,670	90,143	-	127,813	-
Payments on bond principal	(64,955)	(215,835)	-	(280,790)	(217,025)
Bond issuance costs	-	(622)	-	(622)	(133)
Interest on bonds	(20,277)	(88,901)	-	(109,178)	(121,664)
Transfers among Funds	(1,125)	(8,022)	9,125	(22)	(3,472)
Net cash (used in) provided by noncapital financing activities	(48,687)	(223,237)	9,125	(262,799)	(342,294)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS ON DEPOSIT	4,957	(4,925)	6,233	6,265	28,607
Cash and cash equivalents on deposit at beginning of year	41,785	329,651	23,145	394,581	365,974
Cash and cash equivalents on deposit at end of year	\$ 46,742	\$ 324,726	\$ 29,378	\$ 400,846	\$ 394,581

(continued)

Community Development Administration
Revenue Obligation Funds

COMBINED STATEMENT OF CASH FLOWS - CONTINUED
(in thousands)

Year ended June 30, 2013
(with comparative combined totals as of June 30, 2012)

	Housing	Residential	General Bond	Combined	
	Revenue Bonds	Revenue Bonds	Reserve Fund	2013	2012
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	\$ 1,543	\$ (16,640)	\$ (7,272)	\$ (22,369)	\$ 944
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities					
(Increase) decrease in assets					
Mortgage loans	(14,860)	237,489	(147)	222,482	162,526
Mortgage-backed securities	47,046	(78,684)	-	(31,638)	80,963
Accrued interest and other receivables	173	(2,213)	(9)	(2,049)	(1,051)
Due from State Treasurer	-	-	60	60	(60)
Claims receivable on foreclosed and other loans	-	(28,646)	-	(28,646)	(7,315)
Real estate owned	-	(4,090)	-	(4,090)	12,668
(Decrease) increase in liabilities					
Accrued interest payable	(1,178)	(3,100)	-	(4,278)	(3,688)
Accounts payable	34	4,379	783	5,196	953
Accrued workers' compensation and compensated absences	-	-	203	203	(129)
Due to State Treasurer	-	-	2,935	2,935	(1,021)
Rebate liability	-	(6,713)	-	(6,713)	(313)
Deposits by borrowers	(125)	150	15	40	778
Amortizations					
Investment discounts and premiums	4	4	1	9	9
Bond original issue discounts and premiums	-	(308)	-	(308)	(292)
Provision for loan losses	-	29,415	-	29,415	16,965
Increase in fair value of mortgage-backed securities	-	(9,135)	-	(9,135)	(3,980)
Realized gains on mortgage-backed securities sold	-	10,020	-	10,020	2,634
Decrease (increase) in fair value of investments	730	855	539	2,124	(3,106)
Arbitrage rebates paid	-	6,955	-	6,955	646
Gain on early retirement of debt	-	(1,780)	-	(1,780)	(6,657)
Bond issuance costs	-	622	-	622	133
Interest received on investments	(522)	(1,776)	(439)	(2,737)	(2,628)
Interest on bonds	20,277	88,901	-	109,178	121,664
Net cash provided by (used in) operating activities	\$ 53,122	\$ 225,705	\$ (3,331)	\$ 275,496	\$ 370,643

See notes to combined financial statements

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS
(in thousands)

June 30, 2013

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 combined financial statements only include CDA's Revenue Obligation Funds (the Funds). CDA's other programs are not included. However, CDA has also separately issued combined financial statements for the Infrastructure Program Funds and financial statements for the Single Family Housing Revenue Bonds and Multi-Family Mortgage Revenue Bonds indentures. The Revenue Obligation Funds, Infrastructure Program Funds, Single Family Housing Revenue Bonds 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.

Within each Fund in the Revenue Obligation Funds are separate accounts maintained for each obligation in accordance with the respective indentures. The following summarizes each of the Funds.

Fund	Purpose
Housing Revenue Bonds	To provide funds to finance or refinance loans for various types of housing. As of June 30, 2013, Housing Revenue Bonds have primarily financed multi-family projects.
Residential Revenue Bonds	To originate or purchase single family mortgage loans.
General Bond Reserve Fund	To provide funds for payment of principal and interest on bonds and notes in the Revenue Obligation Funds to the extent revenues and assets specifically pledged are not sufficient. This Fund also provides for the payment of operating expenses of CDA.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Revenue Obligation Funds are accounted for as enterprise funds. Accordingly, the accompanying combined 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 Funds 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 combined 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 combined financial statements.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents on Deposit with Trustee

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, the Funds' cash equivalents are primarily invested in a money market mutual fund which is 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 multi-family projects and 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
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

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 Combined Statement of Revenue, Expenses and Changes in Net Position to reflect the change. The combined net cumulative effect of this change in accounting principle, in the amount of \$12,668, decreases net position and reflects the amount of capitalized fees received net of costs incurred prior to fiscal year 2012. The 2012 Combined Statement of Net Position was restated, eliminating \$11,503 of capitalized fees received net of costs thus decreasing total net position. In addition, the 2012 Combined 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 \$1,165 in changes in net position. For fiscal year 2013, loan fees of \$683 were recognized as revenue and origination expenses of \$2 were recognized as an expense. Any single family mortgage loan in foreclosure with a pending insurance claim is recorded as claims receivable. See Notes 4 and 15 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 multi-family mortgage loans that are in default, CDA continues to accrue interest until receipt of a mortgage insurance claim. On insured single family loans, interest ceases to accrue after foreclosure. See Note 5 for additional information.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Claims Receivable on Foreclosed and Other Loans

Claims receivable on foreclosed and other loans include insured loans that are in foreclosure or other 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 Combined Statement of Revenue, Expenses and Changes in Net Position.

Allowance for Loan Losses

Substantially all the mortgage loans of the Funds are insured or guaranteed by agencies of the U.S. Government, the Maryland Housing Fund (MHF), or private mortgage insurers. Most primary coverage levels range from 25% to 100% of the loan. CDA has established an allowance for loan losses on the uninsured portions of multi-family loans and on single family 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. See Note 4 for additional information on allowance for loan losses.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

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 Combined Statement 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 \$15,403, decreases net position and reflects the amount of capitalized costs incurred prior to fiscal year 2012. The 2012 Combined Statement of Net Position was restated, eliminating \$14,206 of deferred bond issuance costs thus reducing total restricted assets. In addition, the 2012 Combined 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 \$1,197 in changes in net position. For fiscal year 2013, bond issuance costs of \$622 are recognized as an expense.

Due from (to) Other Funds

Due from (to) other Funds records the pending transfers of cash between Funds which is primarily a result of receipts due to one Fund, but received by another. As of June 30, 2013, there were no pending cash transfers due between Funds.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Combined Statement of Net Position. Bonds payable have been retroactively restated on the Combined Statement 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 Combined Statement of Net Position was restated, eliminating \$629 of deferred issuance costs thus reducing total restricted assets. In addition, the 2012 Combined 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.

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.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Combined Statement 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 Combined Statement of Net Position. The changes in fair value of the swaps that are determined not to be effective hedges will be reported in the Combined Statement of Revenue, Expenses and Changes in Net Position. CDA's swaps are more fully described in Note 9.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

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, all mortgage loan yields are 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.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fee Income

Prior to implementation of GASB Statement No. 65, multi-family financing fees and 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 Combined Statement 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 \$10,858, increases net position and reflects the amount of capitalized fees received prior to fiscal year 2012. The 2012 Combined Statement of Net Position was restated, eliminating \$9,705 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 \$1,153 in changes in net position. For fiscal year 2013, loan fees of \$683 were received and recognized as revenue. Tax credit fees and administrative fees are recorded as earned.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

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 Combined Statement 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 Combined Statement of Net Position was restated, eliminating \$21,208 of deferred origination expenses thus decreasing total restricted assets. In addition, the 2012 Combined 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 Funds, 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. The General Bond Reserve Fund records these expenses as invoiced by DHCD for the fiscal year.

For the year ended June 30, 2013, the total costs charged to the General Bond Reserve Fund were:

Salaries and related costs	\$	8,146
General and administrative costs		<u>3,989</u>
	\$	<u><u>12,135</u></u>

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 discussed above. See Note 16 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. CDA'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 periods. Actual results could differ from these estimates.

Combined Totals

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

Reclassification

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

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

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 respective indentures 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.

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

	Cash and Cash Equivalents		Total Cash and Cash Equivalents	Investments			Total Investments	Mortgage-backed Securities		Total Mortgage- backed Securities	Total Cash, Investments and Mortgage- backed Securities
	Federated Prime Cash Obligations Fund	Demand Deposit Account		Obligations of the U.S. Treasury	Obligations of U.S. Government Agencies	Repurchase Agreements/ Investment Agreements		GNMA Mortgage -backed Securities	FNMA Mortgage -backed Securities		
Housing Revenue Bonds	\$ 46,742	\$ -	\$ 46,742	\$ 7,646	\$ -	\$ -	\$ 7,646	\$ 280,454	\$ -	\$ 280,454	\$ 334,842
Residential Revenue Bonds	307,163	17,563	324,726	-	9,101	21,847	30,948	85,993	4,550	90,543	446,217
General Bond Reserve Fund	29,378	-	29,378	7,375	-	-	7,375	-	-	-	36,753
Total	<u>\$ 383,283</u>	<u>\$ 17,563</u>	<u>\$ 400,846</u>	<u>\$ 15,021</u>	<u>\$ 9,101</u>	<u>\$ 21,847</u>	<u>\$ 45,969</u>	<u>\$ 366,447</u>	<u>\$ 4,550</u>	<u>\$ 370,997</u>	<u>\$ 817,812</u>

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.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

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:

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	\$ 383,283	\$ 383,283	\$ 383,283	\$ -	\$ -	\$ -	\$ -
Demand Deposit Account	17,563	17,563	17,563	-	-	-	-
Obligations of the U.S. Treasury	11,054	15,021	-	3,837	3,538	7,646	-
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
Mortgage-backed Securities	<u>365,010</u>	<u>370,997</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>370,997</u>
Total	<u>\$ 805,816</u>	<u>\$ 817,812</u>	<u>\$ 420,285</u>	<u>\$ 3,837</u>	<u>\$ 6,078</u>	<u>\$ 7,646</u>	<u>\$ 379,966</u>

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, the cost of the money market mutual fund approximated fair value.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

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

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 trust indentures require 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 CDA's indentures and 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 in a specific indenture 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 bonds, except for one counterparty whose credit rating of Aa3 has not affected the Aa2 rating on CDA bonds. The ratings on Housing Revenue Bonds and Residential Revenue Bonds as of June 30, 2013 were Aa2 by Moody's Investors Service. The ratings on Housing Revenue Bonds and Residential Revenue Bonds were AA+ and AA, respectively, by Fitch Ratings as of June 30, 2013. 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.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

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	\$ 383,283	46.87%	Aaa		Moody's
Demand Deposit Account Counterparty rated Aa3 by Moody's	17,563	2.15%			
Government National Mortgage Association Mortgage-backed Securities	366,447	44.81%		Direct U.S. Obligations	
Federal National Mortgage Association Mortgage-backed Securities	4,550	0.55%		Aaa	Moody's
Obligations of the U.S. Treasury	15,021	1.84%		Direct U.S. Obligations	
Obligations of U.S. Government Agencies	9,101	1.11%		Aaa	Moody's
Collateralized repurchase agreements and investment agreements: Counterparty rated Aaa by Moody's	21,847	2.67%		Underlying securities credit rating Aaa	Moody's
Total	<u>\$ 817,812</u>	<u>100.00%</u>			

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.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

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 Combined Statement 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 Combined Statement of Revenue, Expenses and Changes in Net Position.

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).

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

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

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.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

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 Combined Statement 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, CDA'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 are secured by first liens on the related property. Approximately 98% of all single family mortgage loans are credit enhanced through the FHA mortgage insurance programs, the Veterans Administration and USDA/RD guarantee programs, MHF or by private mortgage insurance policies. As of June 30, 2013, interest rates on first lien single family loans range from 1.0% to 11.5%, with remaining loan terms ranging from less than 1 year to 39 years.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

NOTE 4 - MORTGAGE LOANS (Continued)

Approximately 98% of all multi-family construction and permanent mortgage loans outstanding are insured or credit enhanced by Federal Housing Administration (FHA), MHF, Federal Home Loan Mortgage Corporation (FHLMC), FNMA or GNMA. As of June 30, 2013, interest rates on the loans range from 0.85% to 12.0%, with remaining loan terms ranging from 3 months to 40 years.

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

	Housing Revenue Bonds	Residential Revenue Bonds	General Bond Reserve Fund	Combined
Mortgage loans	\$ 86,727	\$ 1,694,616	\$ 6,329	\$ 1,787,672
Allowance for loan losses				
Beginning balance	43	13,563	-	13,606
Provision for loan losses	-	5,178	-	5,178
Ending balance	43	18,741	-	18,784
Mortgage loans, net	<u>\$ 86,684</u>	<u>\$ 1,675,875</u>	<u>\$ 6,329</u>	<u>\$ 1,768,888</u>
Claims receivable on foreclosed and other loans	\$ -	\$ 121,816	\$ -	\$ 121,816
Allowance for loan losses				
Beginning balance	-	18,122	-	18,122
Provision for loan losses	-	24,237	-	24,237
Charge offs	-	(11,976)	-	(11,976)
Ending balance	-	30,383	-	30,383
Claims receivable on foreclosed and other loans, net	<u>\$ -</u>	<u>\$ 91,433</u>	<u>\$ -</u>	<u>\$ 91,433</u>

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

NOTE 5 - ACCRUED INTEREST AND OTHER RECEIVABLES

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

	Housing Revenue Bonds	Residential Revenue Bonds	General Bond Reserve Fund	Combined
Accrued mortgage loan interest	\$ 409	\$ 20,013	\$ 40	\$ 20,462
Accrued mortgage-backed securities interest	1,237	213	-	1,450
Accrued investment interest	46	207	105	358
Negative arbitrage due from mortgagors	15	-	-	15
Funds due from mortgage insurers for loan modifications	-	599	-	599
Reimbursement due for state-funded loans	-	2,525	-	2,525
Miscellaneous loan and other billings	9	78	21	108
	<u>\$ 1,716</u>	<u>\$ 23,635</u>	<u>\$ 166</u>	<u>\$ 25,517</u>

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 year ended June 30, 2013, CDA did not issue any short-term debt.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

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 applicable indentures. These bonds and notes do not constitute debt of and are not guaranteed by the State of Maryland or any other program of the State of Maryland or any political subdivision.

The provisions of the various bond indentures require or allow for the 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 indentures, 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.

Residential Revenue Bonds

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

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%.

2011 Series B

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.

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

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

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:

	Issue dated	Range of interest rates	Range of maturities	Debt Outstanding at June 30, 2012	Bond Activity			Debt Outstanding at June 30, 2013	Bond discounts deferred	Bonds payable at June 30, 2013
					New bonds issued	Scheduled maturity payments	Bonds redeemed			
Housing Revenue Bonds										
Series 1996 A	11/01/96	5.80% - 5.95%	2016 - 2023	\$ 11,490	\$ -	\$ (1,685)	\$ (1,670)	\$ 8,135	\$ -	\$ 8,135
Series 1996 B	11/01/96	5.875% - 5.95%	2016 - 2028	1,365	-	(60)	-	1,305	-	1,305
Series 1999 A	02/01/99	4.70% - 5.35%	2012 - 2041	14,630	-	(210)	-	14,420	-	14,420
Series 1999 D	12/01/99	5.90% - 6.35%	2013 - 2042	5,700	-	(275)	-	5,425	-	5,425
Series 2000 A	10/01/00	5.30% - 6.10%	2012 - 2042	25,245	-	(310)	(7,230)	17,705	-	17,705
Series 2001 A	07/01/01	4.95% - 5.625%	2012 - 2043	14,825	-	(210)	(14,615)	-	-	-
Series 2001 B	10/01/01	5.10% - 5.45%	2016 - 2043	25,185	-	(470)	-	24,715	-	24,715
Series 2002 A	03/01/02	4.90% - 5.70%	2012 - 2043	8,810	-	(105)	-	8,705	-	8,705
Series 2002 B	10/01/02	3.85% - 5.05%	2012 - 2045	31,135	-	(390)	(4,755)	25,990	-	25,990
Series 2002 C	10/01/02	3.85% - 5.00%	2012 - 2035	6,035	-	(125)	(5,910)	-	-	-
Series 2002 D	10/01/02	3.85% - 5.00%	2012 - 2035	7,495	-	(145)	(7,350)	-	-	-
Series 2003 A	04/01/03	4.00% - 5.22%	2012 - 2045	23,270	-	(275)	-	22,995	-	22,995
Series 2003 B	07/01/03	3.65% - 5.00%	2012 - 2045	16,380	-	(210)	(16,170)	-	-	-
Series 2003 C	09/01/03	4.15% - 5.90%	2012 - 2045	10,150	-	(110)	-	10,040	(6)	10,034
Series 2003 D	12/01/03	3.90% - 5.125%	2012 - 2045	11,350	-	(135)	-	11,215	-	11,215
Series 2004 B	03/31/04	3.30% - 4.70%	2012 - 2046	19,000	-	(240)	-	18,760	-	18,760
Series 2004 C	06/10/04	4.35% - 5.40%	2012 - 2047	33,950	-	(355)	-	33,595	-	33,595
Series 2004 D	11/23/04	4.35% - 5.00%	2015 - 2037	1,450	-	(85)	-	1,365	-	1,365
Series 2005 A	02/17/05	4.25% - 4.85%	2015 - 2047	6,065	-	(70)	-	5,995	-	5,995
Series 2005 B	04/21/05	4.05% - 5.10%	2012 - 2047	18,425	-	(210)	-	18,215	-	18,215
Series 2005 C	12/14/05	4.05% - 5.15%	2012 - 2047	12,230	-	(385)	-	11,845	-	11,845
Series 2006 A	04/27/06	4.10% - 5.05%	2012 - 2047	9,575	-	(120)	-	9,455	-	9,455
Series 2006 B	04/27/06	4.10% - 5.00%	2012 - 2039	2,810	-	(140)	-	2,670	-	2,670
Series 2006 C	04/27/06	3.80% - 4.75%	2012 - 2036	1,925	-	(45)	-	1,880	-	1,880
Series 2006 D	09/27/06	4.91%	7/1/2048	4,310	-	(40)	-	4,270	-	4,270
Series 2007 A	06/14/07	4.00% - 4.95%	2012 - 2049	20,865	-	(315)	-	20,550	-	20,550
Series 2007 B	08/30/07	5.51%	1/1/2038	4,750	-	(60)	-	4,690	-	4,690
Series 2007 C	12/20/07	5.38%	1/1/2043	1,495	-	(15)	-	1,480	-	1,480
Series 2008 A	05/29/08	5.24%	7/1/2038	5,535	-	(100)	-	5,435	-	5,435
Series 2008 B	05/29/08	5.63%	7/1/2049	10,120	-	(80)	-	10,040	-	10,040
Series 2008 C	09/19/08	5.60%	7/1/2048	7,380	-	-	-	7,380	-	7,380
Series 2008 D	12/18/08	4.125% - 6.75%	2013 - 2039	3,780	-	(60)	-	3,720	-	3,720
Series 2009 A	11/24/09	5.25%	7/1/2041	7,460	-	(220)	-	7,240	-	7,240
Series 2012 A	07/26/12	0.40% - 4.375%	2014 - 2054	-	9,340	-	-	9,340	-	9,340
Series 2012 B	08/30/12	0.45% - 4.125%	2014 - 2054	-	5,505	-	-	5,505	-	5,505
Series 2012 C	09/13/12	0.85%	9/1/2014	-	7,200	-	-	7,200	-	7,200
Series 2012 D	11/07/12	0.40% - 3.875%	2014 - 2054	-	4,700	-	-	4,700	-	4,700
Series 2013 A	02/28/13	0.55% - 4.00%	2015 - 2054	-	10,925	-	-	10,925	-	10,925
Total				\$ 384,190	\$ 37,670	\$ (7,255)	\$ (57,700)	\$ 356,905	\$ (6)	\$ 356,899

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

NOTE 7 - BONDS PAYABLE (Continued)

	Issue dated	Range of interest rates	Range of maturities	Debt Outstanding at June 30, 2012	Bond Activity			Debt Outstanding at June 30, 2013	Bond discounts/premiums deferred	Bonds payable at June 30, 2013
					New bonds issued	Scheduled maturity payments	Bonds redeemed			
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
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

NOTE 7 - BONDS PAYABLE (Continued)

	Issue dated	Range of interest rates	Range of maturities	Debt Outstanding at June 30, 2012	Bond Activity			Debt Outstanding at June 30, 2013	Bond discounts/premiums deferred	Bonds payable at June 30, 2013
					New bonds issued	Scheduled maturity payments	Bonds redeemed			
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				<u>\$2,015,205</u>	<u>\$ 89,450</u>	<u>\$ (59,185)</u>	<u>\$ (156,650)</u>	<u>\$1,888,820</u>	<u>\$ 12,427</u>	<u>\$1,901,247</u>

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

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, are as follows:

For the Year Ended June 30,	Housing Revenue Bonds		Residential Revenue Bonds	
	Interest	Principal	Interest	Principal
2014	\$ 17,218	\$ 29,895	\$ 69,774	\$ 127,755
2015	16,079	14,505	65,755	64,695
2016	15,732	7,625	63,212	67,550
2017	15,385	6,010	60,576	69,560
2018	15,116	5,460	57,894	83,820
2019 - 2023	71,526	29,315	252,716	262,770
2024 - 2028	63,715	34,220	196,939	241,385
2029 - 2033	53,721	46,935	147,831	335,260
2034 - 2038	40,044	61,395	93,421	391,990
2039 - 2043	22,826	68,540	36,561	177,905
2044 - 2048	7,081	42,955	2,922	66,130
2049 - 2053	1,158	8,400	-	-
2054 - 2058	61	1,650	-	-
Totals	<u>\$ 339,662</u>	<u>\$ 356,905</u>	<u>\$ 1,047,601</u>	<u>\$ 1,888,820</u>

The interest calculations on outstanding variable rate bonds in the amounts of \$387,390 in Residential Revenue Bonds 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 Residential Revenue Bonds.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

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.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

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

Terms and Fair Value

The terms, including the fair values of the outstanding swaps as of June 28, 2013, are provided in the table below. The counterparty credit ratings for all outstanding swaps as of June 28, 2013 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.

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 Table on next page

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

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

Notes to 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.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

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 28, 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.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

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 28, 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.

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.

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Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

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.

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.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

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

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

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		Interest Rate Swaps, Net	Total
	Principal	Interest		
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

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

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 year ended June 30, 2013.

	Total Fair Value at June 30, 2012	Total Fair Value at June 30, 2013	Change in Fair Value for the Year
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 combined 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.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

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 Combined Statement of Revenue, Expenses and Changes in Net Position.

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. On August 23, 2012, CDA issued \$89,450 of Residential Revenue Bonds 2012 Series A and B which refunded Residential Revenue Bonds 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.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

NOTE 10 - BOND REFUNDINGS (Continued)

In economic refundings, CDA defers the difference between the reacquisition price (i.e., the principal of the old debt, plus the call premium) and the net carrying amount of the old debt (i.e., the amount due at maturity, adjusted for any unamortized premium or discount and issuance costs related to the old debt). With the implementation of GASB Statement No. 65, these deferrals, excluding unamortized issuance costs, are shown as a deferred outflow or a deferred inflow of resources for the refunding of debt on the Combined Statement 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.

NOTE 11 - REBATE LIABILITY

In accordance with the Internal Revenue Service Code (the Code), CDA 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 CDA being greater than yields permitted to be retained by CDA under the Code. The Code requires 90% of such excess investment earnings to be remitted to the United States Treasury every five years and in full at the final redemption of the bonds. Interest income on the Combined Statement 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 Combined Statement 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.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

NOTE 11 - REBATE LIABILITY (Continued)

Rebate liability activity for the year ended June 30, 2013, was as follows:

	Housing Revenue Bonds	Residential Revenue Bonds	General Bond Reserve Fund	Combined
Rebate liability as of June 30, 2012	\$ -	\$ 6,895	\$ -	\$ 6,895
Change in estimated liability due to excess investment earnings	-	125	-	125
Change in estimated liability due to change in fair value of investments	-	117	-	117
Less - payments made	-	(6,955)	-	(6,955)
Rebate liability as of June 30, 2013	\$ -	\$ 182	\$ -	\$ 182

As of June 30, 2013, the rebate liability in the amount of \$182 for Residential Revenue Bonds is allocated to estimated excess investment fair values.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

NOTE 12 - LONG-TERM OBLIGATIONS

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

	Housing Revenue Bonds	Residential Revenue Bonds	General Bond Reserve Fund	Combined
Workers' compensation				
Beginning balance at 6/30/2012	\$ -	\$ -	\$ 47	\$ 47
Additions	-	-	59	59
Reductions	-	-	(20)	(20)
Ending balance at 6/30/2013	-	-	86	86
Less due within one year	-	-	(13)	(13)
Total long-term workers' compensation	-	-	73	73
Compensated absences				
Beginning balance at 6/30/2012	-	-	618	618
Additions	-	-	456	456
Reductions	-	-	(292)	(292)
Ending balance at 6/30/2013	-	-	782	782
Less due within one year	-	-	(520)	(520)
Total long-term compensated absences	-	-	262	262
Rebate liability				
Beginning balance at 6/30/2012	-	6,895	-	6,895
Additions	-	242	-	242
Reductions	-	(6,955)	-	(6,955)
Ending balance at 6/30/2013	-	182	-	182
Less due within one year	-	-	-	-
Total long-term rebate liability	-	182	-	182

(continued)

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

NOTE 12 - LONG-TERM OBLIGATIONS (Continued)

	Housing Revenue Bonds	Residential Revenue Bonds	General Bond Reserve Fund	Combined
Bonds payable				
Beginning balance at 6/30/2012	\$ 384,184	\$ 2,029,027	\$ -	\$ 2,413,211
Additions	37,670	90,143	-	127,813
Reductions	(64,955)	(215,835)	-	(280,790)
Change in deferred amounts for issuance discounts/premiums	-	(2,088)	-	(2,088)
Ending balance at 6/30/2013	<u>356,899</u>	<u>1,901,247</u>	<u>-</u>	<u>2,258,146</u>
Less due within one year	<u>(29,895)</u>	<u>(127,755)</u>	<u>-</u>	<u>(157,650)</u>
Total long-term bonds payable	<u>327,004</u>	<u>1,773,492</u>	<u>-</u>	<u>2,100,496</u>
Deposits by borrowers				
Beginning balance at 6/30/2012	8,080	4,534	69	12,683
Additions	2,356	1,896	54	4,306
Reductions	<u>(2,481)</u>	<u>(1,746)</u>	<u>(39)</u>	<u>(4,266)</u>
Ending balance at 6/30/2013	<u>7,955</u>	<u>4,684</u>	<u>84</u>	<u>12,723</u>
Less due within one year	<u>(2,268)</u>	<u>(2,239)</u>	<u>(44)</u>	<u>(4,551)</u>
Total long-term deposits by borrowers	<u>5,687</u>	<u>2,445</u>	<u>40</u>	<u>8,172</u>
Interest rate swap agreements				
Beginning balance at 6/30/2012	-	35,862	-	35,862
Additions	-	-	-	-
Reductions	<u>-</u>	<u>(8,797)</u>	<u>-</u>	<u>(8,797)</u>
Ending balance at 6/30/2013	<u>-</u>	<u>27,065</u>	<u>-</u>	<u>27,065</u>
Total long-term interest rate swap agreements	<u>-</u>	<u>27,065</u>	<u>-</u>	<u>27,065</u>
Total long-term liabilities	<u>\$ 332,691</u>	<u>\$ 1,803,184</u>	<u>\$ 375</u>	<u>\$ 2,136,250</u>

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

NOTE 13 - INTERFUND ACTIVITY

In accordance with the various bond indentures, net position in each of the Funds are restricted and pledged to bondholders. However, restricted assets may be transferred to other Funds, subject to the provisions of the respective indentures. Generally, an officer of CDA must authorize such withdrawals and a cash flow analysis must demonstrate that sufficient monies remain in the indenture to meet the obligations of the Funds in current and future years. A cash flow analysis is not required for the General Bond Reserve Fund (GBRF) because there are no bonds outstanding in GBRF as of June 30, 2013.

During the year ended June 30, 2013, CDA transferred the following amounts, as permitted, among Funds:

	Transfers among Funds			
	Housing Revenue Bonds	Residential Revenue Bonds	General Bond Reserve Fund	Combined
Excess revenue	\$ (1,125)	\$ (8,000)	\$ 9,125	\$ -
Transfer to separate account in accordance with HUD agreement	-	(22)	-	(22)
	\$ (1,125)	\$ (8,022)	\$ 9,125	\$ (22)

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

NOTE 14 - OTHER OUTSTANDING BONDS ISSUED BY CDA (CONDUIT BONDS)
(UNAUDITED)

CDA has issued the following bonds that are not included in the combined financial statements of the Funds. The Multifamily Development Revenue Bonds and the Multifamily Development Revenue Refunding Bonds are secured solely by the properties and related revenues of the projects and the applicable credit enhancements. The Capital Fund Securitization Bonds are insured and are repayable by the Department of Housing and Urban Development (HUD) directly to the trustee from funds that the participating public housing authorities would have received under its Annual Contributions Contract. The Local Government Infrastructure Bonds (Mayor and City Council of Cumberland Issue) are secured solely from the revenues and property pledged under this resolution. Neither the faith and credit of CDA nor the assets of the Funds have been pledged as security for these bonds. Accordingly, these obligations are excluded from CDA's combined financial statements.

	Amount Issued	Outstanding at June 30, 2013
Multifamily Development Revenue Bonds		
1990 Issue B (Middle Branch Manor)	\$ 12,350	\$ 6,300
1990 Issue C (Harbor City Townhomes)	\$ 4,150	\$ 2,150
Series 1999 A (GNMA - Selborne House)	\$ 2,150	\$ 1,920
Series 2001 C (Parklane Apartments)	\$ 9,800	\$ 9,800
Series 2001 D (Princess Anne Townhouses)	\$ 4,350	\$ 3,195
Series 2001 E (Princess Anne Townhouses)	\$ 2,875	\$ 2,465
Series 2001 G (Waters Tower Senior Apartments)	\$ 4,045	\$ 3,460
Series 2002 B (Broadway Homes)	\$ 5,045	\$ 2,085
Series 2002 C (Orchard Mews Apartments)	\$ 5,845	\$ 4,510
Series 2003 A (Barrington Apartments)	\$ 40,000	\$ 39,905
Series 2005 A (Fort Washington Manor Sr. Housing)	\$ 14,000	\$ 13,030
Series 2005 B (Washington Gardens)	\$ 5,000	\$ 2,290
Series 2006 A (Barclay Greenmount Apartments)	\$ 4,535	\$ 3,550
Series 2006 B (Charles Landing South Apartments)	\$ 3,375	\$ 3,375
Series 2007 A (Brunswick House Apartments)	\$ 3,000	\$ 1,965
Series 2007 B (Park View at Catonsville)	\$ 5,200	\$ 4,750
Series 2008 A (Walker Mews Apartments)	\$ 11,700	\$ 11,700
Series 2008 B (Shakespeare Park Apartments)	\$ 7,200	\$ 7,200
Series 2008 C (The Residences at Ellicott Gardens)	\$ 9,105	\$ 6,175
Series 2008 D (Crusader Arms Apartments)	\$ 3,885	\$ 2,660
Series 2008 E (MonteVerde Apartments)	\$ 15,200	\$ 15,200
Series 2008 F (Hopkins Village Apartments)	\$ 9,100	\$ 9,100

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

NOTE 14 - OTHER OUTSTANDING BONDS ISSUED BY CDA (CONDUIT BONDS)
(UNAUDITED) (Continued)

	Amount Issued	Outstanding at June 30, 2013
Multifamily Development Revenue Bonds (continued)		
Series 2008 G (Kirkwood House Apartments)	\$ 16,000	\$ 16,000
Series 2009 A (Sharp Leadenhall Apartments)	\$ 16,950	\$ 16,950
Series 2012 A (Park View at Bladensburg)	\$ 3,500	\$ 3,500
Series 2012 B (Park View at Bladensburg)	\$ 800	\$ 800
Series 2013 A (Gateway Village)	\$ 9,700	\$ 9,700
Series 2013 B (Ross Overlook Apartments)	\$ 13,000	\$ 13,000
Series 2013 C (The Greens at English Consul)	\$ 7,225	\$ 7,225
Series 2013 D (The Greens at Logan Field)	\$ 7,550	\$ 7,550
Series 2013 E (The Residences at Thayer Avenue)	\$ 8,135	\$ 8,135
Series 2013 F (Adams Crossing Apartments)	\$ 16,225	\$ 16,225
Multifamily Development Revenue Refunding Bonds		
Series 1997 (Avalon Lea Apartments)	\$ 16,835	\$ 16,835
Capital Fund Securitization Revenue Bonds		
Series 2003	\$ 94,295	\$ 65,030
Local Government Infrastructure Bonds		
2011 Series A (Mayor and City Council of Cumberland Issue)	\$ 12,275	\$ 12,225

The Multifamily Development Revenue Bonds, the Multifamily Development Revenue Refunding Bonds, the Capital Fund Securitization Revenue Bonds and the Local Government Infrastructure Bonds (Mayor and City Council of Cumberland Issue) are special obligations payable solely from the trust estate pledged under each indenture. These bonds do not constitute a debt of and are not guaranteed by the State of Maryland, any political subdivision thereof, CDA or the Department of Housing and Community Development.

Subsequent to the year ended June 30, 2013, CDA issued Multifamily Development Revenue Bonds Series 2013 G, in the amount of \$13,640, on July 11, 2013. Also, subsequent to year end, CDA redeemed \$1,215 of Capital Fund Securitization Revenue Bonds on July 1, 2013.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

NOTE 15 - MORTGAGE INSURANCE

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

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

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.

Under the Residential Revenue Bond indenture, CDA has entered into an agreement (the Reinsurance Agreement) with MHF effective January 1, 2011, in order to provide supplemental insurance coverage 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.

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

NOTE 16 - 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.

NOTE 17 - SUBSEQUENT EVENTS

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

Housing Revenue Bonds

On July 25, 2013, CDA issued the following bonds:

Series 2013 B	\$11,915
Series 2013 C	\$23,270

On August 26, 2013, CDA redeemed the following bonds:

Series 1999 D	\$5,285
Series 2001 B	\$8,060
Series 2003 C	\$9,925

Community Development Administration
Revenue Obligation Funds

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2013

NOTE 17 - SUBSEQUENT EVENTS (Continued)

Housing Revenue Bonds (Continued)

On September 19, 2013, CDA issued the following bonds:

Series 2013 D	\$10,790
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Residential Revenue Bonds

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

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

Community Development Administration
Revenue Obligation Funds

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

June 30, 2013
(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 Combined Statement of Revenue, Expenses and Changes in Net Position.

For investments (obligations of the U.S. Treasury and U.S. Government Agencies) held by CDA 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 Period	Housing Revenue Bonds	Residential Revenue Bonds	General Bond Reserve Fund	Combined
Cumulative FY 1996 and prior periods	\$ -	\$ -	\$ 620	\$ 620
FY 1997	(352)	-	175	(177)
FY 1998	832	-	90	922
FY 1999	(407)	-	(191)	(598)
FY 2000	48	(227)	(237)	(416)
FY 2001	193	551	244	988
FY 2002	157	97	405	659
FY 2003	889	544	519	1,952
FY 2004	(678)	(674)	(1,368)	(2,720)
FY 2005	897	403	(403)	897
FY 2006	(866)	(1,567)	(526)	(2,959)
FY 2007	48	1,062	437	1,547
FY 2008	444	785	445	1,674
FY 2009	202	46	(150)	98
FY 2010	472	2,747	(53)	3,166
FY 2011	(280)	(2,244)	1,898	(626)
FY 2012	1,283	1,374	449	3,106
FY 2013	(730)	(855)	(539)	(2,124)
Cumulative Total	<u>\$ 2,152</u>	<u>\$ 2,042</u>	<u>\$ 1,815</u>	<u>\$ 6,009</u>

Community Development Administration
Revenue Obligation Funds

SUPPLEMENTAL DISCLOSURE OF COMBINED
CHANGES IN FAIR VALUE OF INVESTMENTS AND
MORTGAGE-BACKED SECURITIES - CONTINUED
(in thousands)

June 30, 2013
(Unaudited)

Reconciliation to the Combined Statement of Revenue, Expenses and Changes in Net Position:

	Housing Revenue Bonds	Residential Revenue Bonds	General Bond Reserve Fund	Combined
Decrease in fair value of investments held at June 30, 2013	\$ (730)	\$ (855)	\$ (539)	\$ (2,124)
Adjustment due to change in rebate liability (see Note 11)	-	(117)	-	(117)
Decrease in fair value of investments, net of rebate, as reported on the Combined Statement of Revenue, Expenses and Changes in Net Position	\$ (730)	\$ (972)	\$ (539)	\$ (2,241)

Community Development Administration
Revenue Obligation Funds

SUPPLEMENTAL DISCLOSURE OF COMBINED
CHANGES IN FAIR VALUE OF INVESTMENTS AND
MORTGAGE-BACKED SECURITIES - CONTINUED
(in thousands)

June 30, 2013
(Unaudited)

For mortgage-backed securities held by CDA as of June 30, 2013, the following schedule summarizes annual increases/decreases in fair value:

Fiscal Year Period	Housing Revenue Bonds	Residential Revenue Bonds	Combined
FY 2000	\$ (3,825)	\$ -	\$ (3,825)
FY 2001	(3,291)	-	(3,291)
FY 2002	3,340	-	3,340
FY 2003	21,435	-	21,435
FY 2004	(11,126)	-	(11,126)
FY 2005	12,879	-	12,879
FY 2006	(27,704)	-	(27,704)
FY 2007	3,661	-	3,661
FY 2008	(5,987)	-	(5,987)
FY 2009	17,358	-	17,358
FY 2010	13,103	-	13,103
FY 2011	(7,348)	(585)	(7,933)
FY 2012	6,303	1,858	8,161
FY 2013	(8,491)	(5,593)	(14,084)
Cumulative Total	<u>\$ 10,307</u>	<u>\$ (4,320)</u>	<u>\$ 5,987</u>