

MARYLAND HOUSING FUND

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2013 AND 2012

Maryland Housing Fund  
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## INDEPENDENT AUDITOR'S REPORT

Office of the Secretary  
Department of Housing and Community Development

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

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MHF 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.

*Other Matters*

As discussed in Note 1, the financial statements present only the Maryland Housing Fund and do not purport to, and do not, present fairly the financial position of the Department of Housing and Community Development of the State of Maryland as of June 30, 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.

The financial statements of the Maryland Housing Fund (MHF) of the Department of Housing and Community Development of the State of Maryland as of and for the year ended June 30, 2012, were audited by other auditors whose report dated October 10, 2012, expressed an unmodified opinion on those statements.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Baltimore, Maryland  
October 16, 2013

Maryland Housing Fund  
STATEMENTS OF NET POSITION  
June 30, 2013 and 2012

	2013	2012
<b>ASSETS</b>		
Current assets		
Unrestricted current assets		
Deposit with State Treasurer		
Operating account	\$ 803,461	\$ 2,588,198
Loans and interest receivable, net of allowance for loans and related losses	156,293	149,874
Acquired property	1,310,655	6,119,848
Due from DHCD	373,385	-
Other	1,451,525	961,493
	4,095,319	9,819,413
Restricted current assets		
Deposit with State Treasurer		
Reserve accounts	85,510,927	87,054,385
Reserve account - Reinsurance Pool Program	1,710,636	913,198
	87,221,563	87,967,583
Total current assets	91,316,882	97,786,996
Non-current assets		
Investment held for borrower	1,904,906	2,019,005
Loans and interest receivable, net of allowance for loans and related losses and current portion	221,685	267,004
	2,126,591	2,286,009
Total non-current assets	2,126,591	2,286,009
Total assets	\$ 93,443,473	\$ 100,073,005

(continued)

Maryland Housing Fund

STATEMENTS OF NET POSITION - CONTINUED

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>LIABILITIES AND NET POSITION</b>		
Current liabilities		
Accounts payable	\$ 1,798,520	\$ 661,670
Accrued compensated absences	144,869	94,614
Accrued workers' compensation	465	1,130
Mortgage escrow accounts	275,518	247,301
Unearned premiums	770,297	1,491,425
Allowance for unpaid insurance losses	1,607,843	1,584,200
	<u>4,597,512</u>	<u>4,080,340</u>
Total current liabilities		
Non-current liabilities		
Accrued compensated absences, net of current portion	192,496	190,215
Accrued workers' compensation, net of current portion	2,535	2,870
Investment held for borrower	1,904,906	2,019,005
Allowance for unpaid insurance losses, net of current portion	13,078,715	11,718,522
	<u>15,178,652</u>	<u>13,930,612</u>
Total non-current liabilities		
Total liabilities	<u>19,776,164</u>	<u>18,010,952</u>
Net position		
Restricted net position		
Multi-Family Reserve	44,698,739	44,698,739
Single Family Regular Reserve	19,250,357	19,816,789
Revitalization (Pilot) Reserve	2,198,502	2,216,821
General Reserve	8,593,422	9,253,385
Unallocated Reserve	10,769,907	11,068,651
	<u>85,510,927</u>	<u>87,054,385</u>
Total restricted net position		
Unrestricted accumulated deficit	<u>(11,843,618)</u>	<u>(4,992,332)</u>
Total net position	<u>73,667,309</u>	<u>82,062,053</u>
Total liabilities and net position	<u>\$ 93,443,473</u>	<u>\$ 100,073,005</u>

See notes to financial statements

Maryland Housing Fund

STATEMENTS OF REVENUES AND EXPENSES

Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues		
Net premiums	\$ 3,897,832	\$ 3,952,362
Interest income on reserves	769,907	1,068,651
Interest income on loans	535,909	532,106
Other income	34,574	37,354
	<u>5,238,222</u>	<u>5,590,473</u>
Operating expenses		
General and administrative	4,546,514	4,688,511
Acquired property	3,371,550	3,201,595
Net losses on sales of acquired property	2,970,487	3,860,784
Provision (benefit) for insurance and loan losses	1,675,764	(10,492,428)
	<u>12,564,315</u>	<u>1,258,462</u>
Change in net position	<u>\$ (7,326,093)</u>	<u>\$ 4,332,011</u>

See notes to financial statements

Maryland Housing Fund

STATEMENTS OF CHANGES IN NET POSITION

Years ended June 30, 2013 and 2012

	Restricted Net Position					Unrestricted Accumulated Deficit	Total
	Multi- Family Reserve	Single Family Regular Reserve	Revitalization (Pilot) Reserve	General Reserve	Unallocated Reserve		
Balance at June 30, 2011	\$ 44,698,739	\$ 20,650,923	\$ 2,216,821	\$ 9,796,640	\$ 12,050,896	\$ (9,633,081)	\$ 79,780,938
Interest income allocated at the discretion of DHCD Secretary	-	-	-	-	1,068,651	(1,068,651)	-
Transfers out	-	-	-	-	(2,050,896)	-	(2,050,896)
Change in net position	-	(834,134)	-	(543,255)	-	5,709,400	4,332,011
Balance at June 30, 2012	44,698,739	19,816,789	2,216,821	9,253,385	11,068,651	(4,992,332)	82,062,053
Interest income allocated at the discretion of DHCD Secretary	-	-	-	-	769,907	(769,907)	-
Transfers out	-	-	-	-	(1,068,651)	-	(1,068,651)
Change in net position	-	(566,432)	(18,319)	(659,963)	-	(6,081,379)	(7,326,093)
Balance at June 30, 2013	<u>\$ 44,698,739</u>	<u>\$ 19,250,357</u>	<u>\$ 2,198,502</u>	<u>\$ 8,593,422</u>	<u>\$ 10,769,907</u>	<u>\$ (11,843,618)</u>	<u>\$ 73,667,309</u>

See notes to financial statements



Maryland Housing Fund

STATEMENTS OF CASH FLOWS

Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Receipts from premiums, net	\$ 3,177,883	\$ 3,195,539
Receipts from loans	282,881	78,115
Receipts from mortgage escrows	101,219	139,313
Payments for mortgage escrows	(104,902)	(143,944)
Receipts from miscellaneous fees	54,188	36,320
Payments for general and administrative expenses	(5,821,412)	(4,581,353)
Sale proceeds from acquired property	16,053,174	1,785,344
Payments for acquired property	(15,975,044)	(15,276,555)
Receipts from interest earned on reserves	769,907	1,068,651
Transfer to state funded programs	<u>(1,068,651)</u>	<u>(2,050,896)</u>
Net cash used in operating activities	<u>(2,530,757)</u>	<u>(15,749,466)</u>
Net decrease in cash	(2,530,757)	(15,749,466)
Deposit with State Treasurer, balance - beginning of year	<u>90,555,781</u>	<u>106,305,247</u>
Deposit with State Treasurer, balance - end of year	<u>\$ 88,025,024</u>	<u>\$ 90,555,781</u>

(continued)

Maryland Housing Fund

STATEMENTS OF CASH FLOWS - CONTINUED

Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of change in net position to net cash used in operating activities:		
Change in net position	\$ (7,326,093)	\$ 4,332,011
Adjustments to reconcile change in net position to net cash used in operating activities		
Transfer to state funded programs	(1,068,651)	(2,050,896)
Decrease in loans and interest receivable	38,900	34,691
Decrease (increase) in acquired property	4,809,193	(6,047,213)
Increase in investments and other assets	(375,933)	(1,326,702)
Increase in due from DHCD	(373,385)	-
Increase in accounts payable and other accrued liabilities	1,102,504	1,045,822
Increase (decrease) in allowance for unpaid insurance losses	1,383,836	(10,981,112)
Decrease in unearned premiums	<u>(721,128)</u>	<u>(756,067)</u>
Net cash used in operating activities	<u>\$ (2,530,757)</u>	<u>\$ (15,749,466)</u>

See notes to financial statements

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 1 - PROGRAM DESCRIPTION

The Maryland Housing Fund (MHF) was established in 1971 by Section 3-201 through 3-208 of the Housing and Community Development Article of the Annotated Code of Maryland, as amended, to encourage the flow of private investment capital into multiple-unit and Single Family housing by insuring qualified lending institutions against losses on mortgage loans. MHF is authorized to insure mortgage loans, including mortgage loans for Multi-Family developments financed by public agencies such as the Community Development Administration (CDA), and to provide primary insurance for Single Family mortgage loans. MHF insures against certain monetary losses incurred as a result of nonpayment of principal, interest or other sums agreed to be paid and certain other events of default under the terms of any insured mortgage loan, but does not insure against property losses, including without limitation, title risk, risks of defective construction or casualty, or any other reduction in project value due to insurable risk or force majeure, casualty or title loss. Legislation enacted in 1981 enables MHF to originate mortgage loans to assist in the disposal of property acquired through foreclosure or pursuant to any other payment in settlement of a claim or loss. MHF is a unit within the division of Housing Credit Assurance of the Department of Housing and Community Development (DHCD).

MHF maintains five restricted insurance reserves, which are separate from MHF's operating funds. Four of the reserves cover specific categories of insurance; the Multi-Family Reserve, the Single Family Regular Program Reserve, the Revitalization (PILOT) Reserve, and the General Reserve. The investment earnings on each of the four specific reserves are credited to a fifth reserve, the Unallocated Reserve, which may be used to pay claims on all categories of claims or for any other purpose consistent with the contractual obligations with the Administration's bondholders. In 2008, Legislation was passed under Senate Bill 983 requiring MHF to transfer from the Unallocated Account to DHCD's State Funded Revolving Housing Loan Programs all amounts in excess of \$10,000,000 at the end of each fiscal year. These transfers can be found on the Statements of Changes in Net Position as Transfers Out located on page 8 of this document.

The MHF statute provides that any moneys of MHF that DHCD creates as an identifiable insurance reserve may be used only in conformance with the terms and conditions creating that reserve. MHF regulations provide that each reserve is maintained to pay claims arising from its respective category of insurance and may not be subject to claims arising from other categories of insurance except for the Unallocated Reserve.

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 1 - PROGRAM DESCRIPTION (Continued)

MHF's reserve funds are derived from the net proceeds of five issues of State of Maryland (State) general obligation bonds aggregating \$39,300,000 and \$7,500,000 in proceeds derived from State appropriations. In addition, the funds have earned investment income and paid claims. The unrestricted accumulated deficit reflects MHF's operations since inception less interest income. The reserves are held by the Office of the Treasurer of the State, which credits MHF with income on investment of reserves for the benefit of MHF.

A. The Multi-Family Reserve supports several programs. All existing Multi-Family insurance, other than the program from private lenders, is 100% insurance of projects financed by revenue bonds. These programs include:

- Regular Multi-Family Program fully insures permanent mortgages originated prior to 1997 funded by CDA and the Housing Opportunities Commission of Montgomery County.
- Risk-Share Program insures both construction and permanent mortgages financed with CDA bonds with credit enhancement under the Federal Housing Administration (FHA) Risk Sharing Program. Under the program, upon payment of a claim by FHA, CDA would be responsible for reimbursement to FHA of up to 50% of the claim. MHF would reimburse CDA for its share of such losses. This is an active multi-family program.
- Special Housing Opportunity Program (SHOP) insures mortgages financed or refinanced for the acquisition, construction or rehabilitation of shared living and related facilities for the special needs population which are owned by and sponsored by nonprofit organizations. This is an active multi-family program.
- Single Family mortgages funded through private lenders and CDA for permanent mortgages in publicly designated renewal or redevelopment areas. Insurance offered provided 100% coverage and is backed by the Multi-Family Reserve Fund. MHF continues to manage the existing portfolio but ceased issuing new insurance in 1997.

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 1 - PROGRAM DESCRIPTION (Continued)

B. The Single Family Regular Reserve insures mortgages funded by private Maryland lending institutions and CDA. These programs include:

- Single Family Regular Program consists of mortgages originated prior to 1997. These mortgages may have had primary insurance (MHF is liable for the top 25% of the original mortgage) and/or pool insurance (MHF is liable for the bottom 75% of the original mortgage). Pool insurance coverage was limited to 10% of lendable proceeds for the aggregate of revenue bond issues (stop-loss). Effective August 1, 2010, MHF was released from any obligation to provide the pool insurance on these loans. MHF continues to provide primary insurance on these loans.
- Mortgage Protection Program consists of 30 and 40 year mortgages originated after 2005, funded through CDA bonds with primary coverage of only the top 35% of the original mortgage and up to six months of mortgage payments (limited to no more than \$2,000 per month). These mortgages maintain a fixed rate of interest for the full loan term and allow borrowers to finance a one-time mortgage insurance premium in the mortgage, which will require no additional outlay of cash for closing, while lowering the monthly mortgage payment. MHF no longer issues new insurance under this program.
- Reinsurance Program commenced in 2011 and consists of mortgages that CDA originated between 2005 and 2010 which had only 35% mortgage insurance. Under the program, CDA pays a monthly premium for MHF to insure 50% of any losses incurred by CDA on the uninsured 65% up to \$12.5 million. The program terminates on the earliest date of either when MHF has reached \$12.5 million in net losses or December 31, 2020. All claims are paid from the Single Family Regular Reserve.

C. Revitalization (Pilot) Reserve insures mortgages funded through CDA and private Maryland lenders for 100% of the mortgage balance.

- Pilot Programs stimulates the flow of private mortgage capital into areas which have suffered decreasing home ownership and associated economic and social instability. These mortgages originated prior to 2005.

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 1 - PROGRAM DESCRIPTION (Continued)

- Healthy Neighborhood Program provides credit enhancement to a loan program sponsored by a nonprofit corporation, which is intended to stabilize and strengthen property values in targeted areas in the City of Baltimore. MHF guarantees less than 3% of the outstanding loan balance under this program.

D. General Reserve

- Small single family programs provide 35% insurance coverage on CDA single family mortgages as an incentive to refinance or restructure loans for Maryland borrowers with an existing loan. MHF continues to maintain active mortgages but no longer issues new commitments under these programs.

E. Unallocated Reserve may be allocated and transferred by the Secretary into each of the reserves, restricted by the Secretary as a reserve for the payment of a claim as part of a work-out, applied by MHF as payment of a claim or retained in the Unallocated Reserve pending allocation, transfer or restriction. Investment earnings on each of the five Reserves are credited to the Unallocated Reserve. Legislation enacted in fiscal year 2008 requires MHF to transfer from the Unallocated Reserve, any funds in excess of \$10 million annually to the State Funded Housing Loan Programs.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Relationship with the State

MHF is one of many programs administered by DHCD and the State. Other State agencies, such as the Department of Budget and Management, support DHCD by providing services for DHCD and thus allocate a portion of their expenses to DHCD. MHF has no direct employees and is entirely supported by staff at DHCD to perform all necessary functions of MHF. Thus, MHF's accompanying financial statements are not indicative of MHF as if it were a stand-alone entity. MHF is included in the enterprise funds of the State.

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Generally Accepted Accounting Principles

During fiscal year 2013, MHF 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, MHF adopted all Financial Accounting Standards Board (FASB) statements issued, unless those pronouncements conflicted with or contradicted GASB standards. With the adoption of Statement No. 62, MHF no longer adopts or applies FASB statements.

C. 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 revenues, expenses, gains and losses during the reporting periods. Actual results could differ from these estimates.

D. Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

E. Investments

The investment is a U.S. government treasury zero-coupon bond carried at fair value based on quoted market prices. The investment is classified as long-term based on the maturity date.

F. Loans and Interest Receivable, Net of Allowance for Loans and Related Losses

Loans and interest receivable, net of allowance for loans and related losses, consist of loans made directly by MHF and loans originally made by others and subsequently assigned to MHF under the provisions of the insurance agreements plus interest receivable, net of possible losses.

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Acquired Property

Property acquired as a result of claims settled is carried at the principal claim cost, less management's estimate of expenses and losses related to the maintenance and sale of the property, which management believes approximates fair value less costs to sell. As of June 30, 2013 and 2012, acquired property consisted of Single Family property of \$1,310,656 and \$6,119,848, respectively.

H. Allowance for Unpaid Insurance Losses

MHF provides for estimated insurance losses under each insurance plan. The allowance for unpaid insurance losses is increased by provisions charged to current operating expenses and reduced by claim payments. The provision for possible insurance losses is based on management's review of insured properties, considering past loss experience and current economic conditions which may affect the frequency of claims and the recovery of claim costs. Actual results could differ from those estimates.

I. Restricted Net Position

In accordance with accounting guidance issued by the GASB, net position should be reported as restricted when constraints placed on net position use are either: externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or are imposed by law through constitutional provisions or enabling legislation. Accordingly, all funds and accounts whose purpose is to pay possible future claims are restricted as to their use, as is interest earned on these restricted assets.

J. Revenues and Expenses

Operating revenues and expenses generally result from mortgage insurance activities in connection with MHF's ongoing operations. The principal operating revenue is mortgage insurance premiums. Operating expenses include expenses relating to claims from defaulted loans and general and administrative expenses. The interest earned on reserve accounts is restricted revenue.



Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Premium Income Recognition

Premium income on all loans are recognized on a straight-line basis over the benefit period covered by the premiums.

L. General and Administrative

MHF is subject to an allocation of intradepartmental support costs of the DHCD, which are included in general and administrative in the Statements of Revenues and Expenses. Such costs could affect MHF's financial position or operating results in a manner that differs from those that might have been obtained if MHF was autonomous. MHF records these costs as invoiced by DHCD for the fiscal year. However, the allocation is subject to review and adjustment subsequent to year-end.

M. Recent Accounting Pronouncements

During fiscal year 2013, MHF implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. The implementation of this standard did not have a material impact on MHF's financial statements other than changing the reporting title of net assets and replacing it with the title of net position. GASB has issued Statement no. 65 Items Previously Reported as Assets and Liabilities. While MHF is still in the process of determining the effect of implementing, it is not expected to have a material effect on the financial position of MHF.

NOTE 3 - CASH AND INVESTMENTS

A. Deposit with State Treasurer

MHF defines cash and cash equivalents as cash and short-term investments that are held on deposit with the State Treasurer. Cash receipts and disbursements of MHF are made through a cash pool maintained by the State Treasurer. None is uninsured and uncollateralized. MHF has on deposit with the State Treasurer both unrestricted and restricted cash and cash equivalents. MHF reports its operating account as unrestricted. MHF reserve accounts are reported as restricted

Additional information can be obtained from the State of Maryland Comprehensive Annual Financial Report.

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 3 - CASH AND INVESTMENTS (Continued)

B. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. MHF adheres to Maryland State Treasurer's policy for managing its exposure to fair value loss arising from increasing interest rates. The Maryland State Treasurer's investment policy states that to the extent possible, it will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Treasurer's Office will not directly invest in securities maturing more than five years from the date of purchase.

C. 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. MHF's policy for reducing its exposure to credit risk is to comply with Maryland State Treasurer's policy, which requires that the Treasurer's investments in repurchase agreements be collateralized by U.S. Treasury and agency obligations. In addition, investments may be made directly in U.S. Treasuries or agency obligations.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. MHF's policy for reducing this risk of loss is to comply with the Maryland State Treasurer's policy, which limits the amount of repurchase agreements to be invested with a particular institution to 30% of the portfolio. Otherwise, there is no limit on the amount that may be invested in any one issuer.

D. Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or counterparty failure, MHF will not be able to recover its deposits or the value of its collateral securities that are in the possession of an outside party. Investments and collateralized securities are held in trust by the trustee or the trustee agent, kept separate from the assets of the bank and from other trust accounts and are held in MHF's name.

E. Investment Held for Borrower

The investment consists of a U.S. government treasury zero-coupon bond carried at fair value based on quoted market prices. The investment is classified as long-term based on the maturity date.

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 3 - CASH AND INVESTMENTS (Continued)

The following asset reported at fair market value and held by MHF at June 30, 2013 and 2012 is evaluated in accordance with accounting guidance issued by the GASB for interest rate risk, credit risk, concentration of credit risk and custodial credit risk. This investment is held as collateral on a Multi-Family loan and matures on April 15, 2024.

	<u>2013</u>	<u>2012</u>
Investment held for borrower (Obligations of U.S. Government Agencies)	<u>\$ 1,904,906</u>	<u>\$ 2,019,005</u>

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 4 - LOANS AND INTEREST RECEIVABLE, NET OF ALLOWANCE FOR LOANS AND RELATED LOSSES

Loans and interest receivable, net of allowance for loans and related losses, consist of loans made directly by MHF and loans originally made by others and subsequently assigned to MHF under the provisions of the insurance agreements plus interest receivable, net of possible losses. Mortgage loans, notes receivable and interest receivable were as follows for the years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Multi-Family	\$ 7,675,939	\$ 7,698,975
Single Family	123,697	139,561
Interest receivable on loans	<u>8,973,388</u>	<u>8,681,460</u>
	<u>16,773,024</u>	<u>16,519,996</u>
Allowance for possible losses on Multi-Family loans	(7,299,721)	(7,299,721)
Allowance for possible losses on Single Family loans	(121,937)	(121,937)
Allowance for possible losses on interest receivable	<u>(8,973,388)</u>	<u>(8,681,460)</u>
Total allowance for possible losses	<u>(16,395,046)</u>	<u>(16,103,118)</u>
Loans and interest receivable, net of allowance for loans and related losses	<u>\$ 377,978</u>	<u>\$ 416,878</u>
Current portion, net of allowance	\$ 156,293	\$ 149,874
Non-current portion, net of allowance	<u>221,685</u>	<u>267,004</u>
Loans and interest receivable, net of allowance for loans and related losses	<u>\$ 377,978</u>	<u>\$ 416,878</u>

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 4 - LOANS AND INTEREST RECEIVABLE, NET OF ALLOWANCE FOR LOANS  
AND RELATED LOSSES (Continued)

Changes in the allowance for possible losses on loans and interest receivable were as follows  
for the years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 16,103,118	\$ 15,614,434
Increase in provision	<u>291,928</u>	<u>488,684</u>
Balance, end of year	<u>\$ 16,395,046</u>	<u>\$ 16,103,118</u>

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 5 - UNEARNED PREMIUMS

The unearned premiums for the unexpired terms of all policies in force or written as of June 30, 2013 and 2012, and the changes for the years then ended were as follows:

	2013			Unearned premiums at end of year
	Unearned premiums at beginning of year	Premiums written	Premiums earned	
Multi-Family Programs				
Construction and Permanent				
Mortgages	\$ 763,516	\$ 899,540	\$ 1,075,450	\$ 587,607
SHOP Loans	49,814	54,874	75,203	29,485
Total Multi-Family Programs	813,330	954,414	1,150,653	617,091
Single Family Programs				
Single Family Regular				
Primary	614,711	222,780	685,895	151,596
Reinsurance Pool	-	1,998,240	1,998,240	-
Revitalization (Pilot)	1,051	581	1,547	85
Community Development				
Administration under				
Multi-Family Reserve	278	689	720	247
General	62,055	-	60,777	1,278
Total Single Family Programs	678,095	2,222,290	2,747,179	153,206
Total for the year ended June 30, 2013	\$ 1,491,425	\$ 3,176,704	\$ 3,897,832	\$ 770,297

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 5 - UNEARNED PREMIUMS (Continued)

	2012			Unearned premiums at end of year
	Unearned premiums at beginning of year	Premiums written	Premiums earned	
Multi-Family Programs				
Construction and Permanent Mortgages	\$ 978,757	\$ 863,962	\$ 1,079,203	\$ 763,516
SHOP Loans	42,069	85,505	77,760	49,814
Total Multi-Family Programs	<u>1,020,826</u>	<u>949,467</u>	<u>1,156,963</u>	<u>813,330</u>
Single Family Programs				
Single Family Regular				
Primary	1,094,408	245,543	725,240	614,711
Reinsurance Pool	-	1,998,240	1,998,240	-
Revitalization (Pilot)	1,876	2,268	3,093	1,051
Community Development Administration under Multi-Family Reserve	326	777	825	278
General	130,056	-	68,001	62,055
Total Single Family Programs	<u>1,226,666</u>	<u>2,246,828</u>	<u>2,795,399</u>	<u>678,095</u>
Total for the year ended June 30, 2012	<u>\$ 2,247,492</u>	<u>\$ 3,196,295</u>	<u>\$ 3,952,362</u>	<u>\$ 1,491,425</u>

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 6 - NON-CURRENT OBLIGATIONS

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

	2013				Amount Due Within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
Compensated absences	\$ 284,829	\$ 197,405	\$ (144,869)	\$ 337,365	\$ 144,869
Workers' compensation	4,000	-	(1,000)	3,000	465
Investment held for borrower	2,019,005	-	(114,099)	1,904,906	-
Allowance for unpaid insurance losses	13,302,722	1,383,836	-	14,686,558	1,607,843
Total for the year ended June 30, 2013	<u>\$ 15,610,556</u>	<u>\$ 1,581,241</u>	<u>\$ (259,967)</u>	<u>\$ 16,931,830</u>	<u>\$ 1,753,177</u>
	2012				Amount Due Within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
Compensated absences	\$ 243,322	\$ 41,507	\$ -	\$ 284,829	\$ 94,614
Workers' compensation	7,291	-	(3,291)	4,000	1,130
Investment held for borrower	1,555,114	463,891	-	2,019,005	-
Allowance for unpaid insurance losses	24,283,834	-	(10,981,112)	13,302,722	1,584,200
Total for the year ended June 30, 2012	<u>\$ 26,089,561</u>	<u>\$ 505,398</u>	<u>\$ (10,984,403)</u>	<u>\$ 15,610,556</u>	<u>\$ 1,679,944</u>



Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 7 - RELATED PARTY TRANSACTIONS

During 2013, MHF was over allocated general and administrative expenses by DHCD. MHF has recorded a receivable from DHCD which is unsecured, noninterest bearing and due on demand. As of June 30, 2013, the outstanding receivable was \$373,385.

NOTE 8 - ALLOWANCE FOR UNPAID INSURANCE LOSSES

The allowance for unpaid insurance losses is the estimated claims settlement on notices of default that has been received by MHF, as well as loan defaults that have been incurred but have not been reported by the lenders. FASB guidance specifically excludes mortgage guaranty insurance from its guidance relating to the reserves for losses.

For insured Multi-Family program properties, MHF establishes loss reserves on a case-by-case basis when insured loans are identified as currently in default based on MHF's expected claim payment, net of estimated recovery. At June 30, 2013, MHF had no Multi-Family loans in default. As a result, MHF provides only limited loss reserves on the Multi-Family portfolio.

For insured Single Family loans, MHF establishes its loss reserves based on past loss experiences and the current real estate market. MHF also reserves for defaults that have been incurred but have not been reported prior to the close of an accounting period, using estimated claim rates and claim sizes for the estimated number of defaults not reported. For Single Family program properties, insured loans which have gone through foreclosure and MHF has not paid a claim, MHF also reserves for losses based on past loss experiences and the current real estate market.

MHF's reserve process is based upon the assumptions of past experience, including the current real estate market and housing values in the locations where MHF has experienced high claim rates. Therefore, the reserves are necessarily based on estimates and the ultimate liability may vary from such estimates. Management regularly reviews the evaluation of the loss reserves utilizing current information and updates the assumptions in the estimation process accordingly. Any resulting adjustments are reflected in the current period's earnings as either a provision for losses or reduction in losses. Management believes that the allowance for unpaid insurance losses at June 30, 2013 was appropriately established on an aggregate basis and was adequate to cover the ultimate net cost of settling reported and unreported claims.

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 8 - ALLOWANCE FOR UNPAID INSURANCE LOSSES (Continued)

Changes in allowance for unpaid insurance losses were as follows:

	<u>Multi-Family</u>	<u>Single Family</u>	<u>Total</u>
Balance at June 30, 2011	\$ 4,919,132	\$ 19,364,702	\$ 24,283,834
Increase (decrease) in provision	<u>695,868</u>	<u>(11,676,980)</u>	<u>(10,981,112)</u>
Balance at June 30, 2012	5,615,000	7,687,722	13,302,722
Increase in provision	<u>846,446</u>	<u>537,390</u>	<u>1,383,836</u>
Balance at June 30, 2013	<u><u>\$ 6,461,446</u></u>	<u><u>\$ 8,225,112</u></u>	<u><u>\$ 14,686,558</u></u>

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Multi-Family Mortgages

MHF insured mortgage loans as of June 30, 2013, net of partial claim payments, were as follows:

	<u>Number</u>	<u>Current Balances</u>
CDA Construction and Permanent Mortgages Loans financed by the Housing Opportunities Commission of Montgomery County	53	\$ 120,481,625
CDA SHOP Loans	3	5,473,145
CDA Single Family Loans under Multi-Family Reserves	154	17,847,727
	<u>11</u>	<u>112,222</u>
	<u><u>221</u></u>	<u><u>\$ 143,914,719</u></u>

As of June 30, 2013, MHF had commitments of \$9,386,669 which had not yet been drawn.

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 9 - COMMITMENTS AND CONTINGENCIES (Continued)

Single Family Mortgages

All loans insured by MHF are with approved lenders and are collateralized by a first or second lien against the improved property, which must be located in the State of Maryland. The details of insured loans and commitments to insure loans as of June 30, 2013, were as follows:

	Insured Mortgages			
	Original Commitments		Current Balances	
	Number	Amount	Amount	Contingent Liability
Primary insurance coverage				
Single Family Regular				
25% insured	1,741	\$ 91,199,355	\$ 47,041,505	\$ 11,760,376
35% insured	340	73,621,747	69,300,418	24,255,146
Revitalization (Pilot) Program				
100% insured	8	214,550	98,122	98,122
2.5% insured	184	33,765,126	31,264,457	781,611
General				
35% insured	41	8,782,439	9,785,264	3,424,842
Total	2,314	\$ 207,583,217	\$ 157,489,766	\$ 40,320,097
Single Family Regular Reinsurance Program	5,235	\$ 1,088,660,558	\$ 1,040,521,601	\$ 2,336,884

As of June 30, 2013, MHF had committed primary insurance coverage on 20 mortgages under the Revitalization Reserve, Healthy Neighborhood Program in the amount of \$2,106,701 and is liable for 2.5%.

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 9 - COMMITMENTS AND CONTINGENCIES (Continued)

Effective August 1, 2010, MHF was released from any obligation to provide pool insurance for loans originated prior to 2005.

Effective January 1, 2011, MHF and CDA entered into a Reinsurance Pool Program for loans that CDA had originated between 2005 and 2010 which had only 35% mortgage insurance. Under the program CDA pays a monthly premium for MHF to insure 50% of any losses incurred by CDA on the uninsured 65% up to \$12.5 million. The program terminates on the earliest date of either when MHF has reached \$12.5 million in net losses or December 31, 2020. As of June 30, 2013, MHF had paid \$34,804,095 in claims to CDA for this program and recovered \$22,897,120 and anticipates additional recovery in the amount of \$1,743,859 from inventories held, leaving \$2,336,884 available to pay additional claims in the pipeline.

NOTE 10 - PENSION AND OTHER POST-RETIREMENT BENEFITS

Eligible employees of the State are covered under the retirement plans of the State Retirement and Pension System of Maryland (System) and are also entitled to certain healthcare benefits upon retirement. MHF's only liability for retirement and post-employment benefits is its required annual contribution, which was paid in full by MHF to the State of Maryland prior to year-end. The System is considered part of the State's financial reporting entity, and is not considered a part of MHF's reporting entity. The System prepares a separate Comprehensive Annual Financial Report which can be obtained from the State Retirement and Pension System of Maryland at 120 East Baltimore Street, Baltimore, Maryland 21202.

NOTE 11 - SUBSEQUENT EVENTS

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

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 12 - SUBSEQUENT EVENTS (Continued)

In September 2013, MHF transferred \$769,907 to the State Housing Loan Programs pursuant to 2008 Senate Bill 983 requiring MHF to transfer all amounts in excess of \$10,000,000 at the end of each fiscal year.