

**COMMUNITY DEVELOPMENT ADMINISTRATION
RESIDENTIAL REVENUE BONDS**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

**COMMUNITY DEVELOPMENT ADMINISTRATION
RESIDENTIAL REVENUE BONDS
YEARS ENDED JUNE 30, 2018 AND 2017**

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INDEPENDENT AUDITORS' REPORT

Office of the Secretary
Department of Housing and Community Development
Lanham, Maryland

We have audited the accompanying financial statements of the Community Development Administration Residential Revenue Bonds (the Fund) of the Department of Housing and Community Development of the State of Maryland, which comprise the statements of net position as of June 30, 2018 and 2017 and the related statements of revenue, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2018 and 2017, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Financial Statement Presentation

As discussed in Note 1, the financial statements present only the 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 and for the years ended June 30, 2018 and 2017, and the changes in its net position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information on pages 32-33, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion, or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2018, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
September 28, 2018

COMMUNITY DEVELOPMENT ADMINISTRATION
RESIDENTIAL REVENUE BONDS
STATEMENTS OF NET POSITION
(in thousands)
JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
RESTRICTED ASSETS		
RESTRICTED CURRENT ASSETS		
Cash and Cash Equivalents on Deposit	\$ 201,434	\$ 344,255
Investments	34,938	-
Mortgage-Backed Securities	13,642	10,612
Single-Family Mortgage Loans	28,818	30,008
Multi-Family Mortgage Loans	1,104	1,103
Accrued Interest and Other Receivables	15,505	17,177
Claims Receivable on Foreclosed and Other Loans, Net of Allowance	21,836	40,163
Real Estate Owned	11,557	8,235
Total Restricted Current Assets	<u>328,834</u>	<u>451,553</u>
RESTRICTED LONG-TERM ASSETS		
Investments, Net of Current Portion	46,749	11,579
Mortgage-Backed Securities, Net of Current Portion	236,448	184,834
Single-Family Mortgage Loans, Net of Current Portion and Allowance	856,080	967,305
Multi-Family Mortgage Loans, Net of Current Portion	10,778	12,246
Total Restricted Long-Term Assets	<u>1,150,055</u>	<u>1,175,964</u>
Total Restricted Assets	1,478,889	1,627,517
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflow of Fair Value on Interest Rate Swap Agreements	<u>171</u>	<u>1,917</u>
Total Restricted Assets and Deferred Outflows of Resources	<u>\$ 1,479,060</u>	<u>\$ 1,629,434</u>
LIABILITIES		
CURRENT LIABILITIES		
Accrued Interest Payable	\$ 12,660	\$ 12,290
Accounts Payable	2,874	2,647
Bonds Payable	40,530	56,655
Deposits by Borrowers	1,104	1,543
Total Current Liabilities	<u>57,168</u>	<u>73,135</u>
LONG-TERM LIABILITIES		
Bonds Payable, Net of Current Portion	1,131,639	1,251,539
Deposits by Borrowers, Net of Current Portion	1,930	1,384
Interest Rate Swap Agreements	171	1,917
Total Long-Term Liabilities	<u>1,133,740</u>	<u>1,254,840</u>
Total Liabilities	1,190,908	1,327,975
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflow on Refunding of Bond Debt	825	918
NET POSITION		
Restricted	<u>287,327</u>	<u>300,541</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 1,479,060</u>	<u>\$ 1,629,434</u>

See accompanying Notes to Financial Statements.

**COMMUNITY DEVELOPMENT ADMINISTRATION
RESIDENTIAL REVENUE BONDS
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
(in thousands)
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
OPERATING REVENUE		
Interest on Mortgage Loans	\$ 53,408	\$ 60,736
Interest on Mortgage-Backed Securities	6,745	4,639
Decrease in Fair Value of Mortgage-Backed Securities	-	(20)
Realized Gains on Sale of Mortgage-Backed Securities	15,743	16,501
Interest Income on Investments	4,278	2,003
Decrease in Fair Value of Investments	(866)	(646)
Gain on Early Retirement of Debt	1,317	1,056
Other Operating Revenue	72	14
Total Operating Revenue	80,697	84,283
OPERATING EXPENSES		
Interest Expense on Bonds	39,847	48,741
Professional Fees and Other Operating Expenses	13,540	10,553
Increase (Decrease) in Provision for Loan Losses	46	(121)
Losses and Expenses on Real Estate Owned, Net	3,657	3,938
Loss on Foreclosure Claims, Net	7,728	5,183
Bond Issuance Costs	-	4,612
Total Operating Expenses	64,818	72,906
Operating Income	15,879	11,377
NONOPERATING EXPENSE		
Decrease in Fair Value of Mortgage-Backed Securities	(4,093)	(3,274)
Transfer of Funds as Permitted by the Resolution	(25,000)	(20,000)
CHANGE IN NET POSITION	(13,214)	(11,897)
NET POSITION - RESTRICTED AT BEGINNING OF YEAR	300,541	312,438
NET POSITION - RESTRICTED AT END OF YEAR	\$ 287,327	\$ 300,541

See accompanying Notes to Financial Statements.

**COMMUNITY DEVELOPMENT ADMINISTRATION
RESIDENTIAL REVENUE BONDS
STATEMENTS OF CASH FLOWS
(in thousands)
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Principal and Interest Received on Mortgage Loans	\$ 140,582	\$ 162,452
Principal and Interest Received on Mortgage-Backed Securities	19,805	17,413
Escrow Funds Received on Multi-Family Loans	1,210	1,259
Escrow Funds Paid on Multi-Family Loans	(1,103)	(1,606)
Mortgage Insurance Claims and Other Loan Proceeds Received	52,682	57,780
Foreclosure Expenses Paid	(8,047)	(7,830)
Purchase of Mortgage Loans	(12,109)	(12,638)
Purchase of Mortgage-Backed Securities	(379,910)	(414,213)
Funds Received from Sale of Mortgage-Backed Securities	323,653	355,625
Professional Fees and Other Operating Expenses	(13,653)	(11,003)
Other Income Received	72	14
Other Reimbursements	248	(172)
Net Cash Provided by Operating Activities	123,430	147,081
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Maturities or Sales of Investments	-	14,627
Purchases of Investments	(70,962)	-
Interest Received on Investments	4,082	2,116
Net Cash (Used in) Provided by Investing Activities	(66,880)	16,743
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from Sale of Bonds	-	592,146
Payments on Bond Principal	(134,630)	(725,999)
Bond Issuance Costs	(93)	(4,549)
Interest on Bonds	(39,648)	(55,693)
Transfers Among Funds	(25,000)	(20,000)
Net Cash Used in Noncapital Financing Activities	(199,371)	(214,095)
NET DECREASE IN CASH AND CASH EQUIVALENTS ON DEPOSIT	(142,821)	(50,271)
CASH AND CASH EQUIVALENTS ON DEPOSIT - BEGINNING OF YEAR	344,255	394,526
CASH AND CASH EQUIVALENTS ON DEPOSIT - END OF YEAR	\$ 201,434	\$ 344,255

See accompanying Notes to Financial Statements.

**COMMUNITY DEVELOPMENT ADMINISTRATION
RESIDENTIAL REVENUE BONDS
STATEMENTS OF CASH FLOWS (CONTINUED)
(in thousands)
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 15,879	\$ 11,377
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Amortization of Investment Discounts and Premiums	(12)	84
Amortization of Bond Original Issue Discounts and Premiums	(171)	(206)
Increase (Decrease) in Provision for Loan Losses	46	(121)
Decrease in Fair Value of Mortgage-Backed Securities	-	20
Decrease in Fair Value of Investments	866	646
Gain on Early Retirement of Debt	(1,317)	(1,056)
Bond Issuance Costs	93	4,549
Interest Received on Investments	(4,082)	(2,116)
Interest on Bonds	39,648	55,693
Decrease (Increase) in Assets:		
Mortgage Loans	115,876	131,255
Mortgage-Backed Securities	(58,737)	(62,140)
Accrued Interest and Other Receivables	1,672	1,767
Claims Receivable on Foreclosed and Other Loans	16,287	8,769
Real Estate Owned	(3,322)	5,424
Increase (Decrease) in Liabilities:		
Accrued Interest Payable	370	(6,746)
Accounts Payable	227	229
Deposits by Borrowers	107	(347)
Net Cash Provided by Operating Activities	\$ 123,430	\$ 147,081

See accompanying Notes to Financial Statements.

**COMMUNITY DEVELOPMENT ADMINISTRATION
RESIDENTIAL REVENUE BONDS
NOTES TO FINANCIAL STATEMENTS
(in thousands)
JUNE 30, 2018 AND 2017**

NOTE 1 AUTHORIZING LEGISLATION AND PROGRAM DESCRIPTION

The Community Development Administration (CDA) was created in 1970 by Sections 266 DD-1 to 266 DD-8 of Article 41 (now in Sections 4-101 through 4-255 of the Housing and Community Development Article) of the Annotated Code of Maryland to meet the shortage of adequate, safe, and sanitary housing in the State of Maryland, particularly for persons or families of limited income. CDA is in the Division of Development Finance in the Department of Housing and Community Development (DHCD) of the State of Maryland.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Basis of Accounting and Measurement Focus

The basis of accounting for the Fund is determined by measurement focus. The flow of economic resources measurement focus and the accrual basis of accounting are used to account for the Fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. All assets and liabilities associated with the operation of the Fund are included on the Statements of Net Position. The Fund is required to follow all statements of the Governmental Accounting Standards Board (GASB).

Generally Accepted Accounting Principles

CDA reports its financial activities by applying Standards of Governmental Accounting and Financial Reporting as promulgated by GASB. Consequently, CDA applies all applicable GASB pronouncements.

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

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 included in these financial statements. CDA prepares a Management's Discussion and Analysis for the General Accounting Division of the State of Maryland that is not part of these financial statements.

**COMMUNITY DEVELOPMENT ADMINISTRATION
RESIDENTIAL REVENUE BONDS
NOTES TO FINANCIAL STATEMENTS
(in thousands)
JUNE 30, 2018 AND 2017**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents on Deposit

Cash equivalents may include money market funds, repurchase agreements, investment agreements and any other investments, primarily obligations of the U.S. Treasury and U.S. Government Agencies, which have maturities of 90 or less days at the time of purchase. As of June 30, 2018 and 2017, the Fund's cash equivalents were primarily invested in a money market mutual fund. Cash equivalents are more fully described in Note 3.

Investments

Investments are principally governmental debt securities or investment agreements collateralized by governmental debt securities. Debt securities are stated at fair value, based on quoted market prices. Investments are classified as current or long-term based on the maturity date or call date. Callable investments are classified as current, if exercise of the call within the next fiscal year is probable. Investments are more fully described in Note 3.

Mortgage-Backed Securities

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

Mortgage Loans

Mortgage loans are carried at their unpaid principal balances, net of allowance for loan losses. Any single-family mortgage loan in foreclosure with a pending insurance claim is recorded as claims receivable. See Notes 4 and 13 for additional information on mortgage loans and mortgage insurance, respectively.

Accrued Interest and Other Receivables

Accrued interest and other receivables include interest on loans and investments. On insured single-family loans, interest ceases to accrue after foreclosure. On insured multi-family mortgage loans that are in default, CDA continues to accrue interest until receipt of a mortgage insurance claim. See Note 5 for additional information.

Claims Receivable on Foreclosed and Other Loans

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

Real Estate Owned

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

COMMUNITY DEVELOPMENT ADMINISTRATION
RESIDENTIAL REVENUE BONDS
NOTES TO FINANCIAL STATEMENTS
(in thousands)
JUNE 30, 2018 AND 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses

Substantially all single-family mortgage loans of the Fund are insured or guaranteed by agencies of the U.S. Government, the Maryland Housing Fund (MHF), or private mortgage insurers. Most primary coverage levels range from 25% to 100% of the loan. As of June 30, 2018 and 2017, CDA has established an allowance for loan losses on the uninsured portions of single-family mortgage loans with private mortgage insurance. CDA has also established an allowance for loan losses on single-family loans with private mortgage insurance that are in foreclosure. Management believes the allowance established is adequate based on prior experience and evaluations from DHCD's asset management group as well as a current assessment of probability and risk of loss due to default or deteriorating economic conditions. Multi-family mortgage loans of the Fund are insured or guaranteed; as such, no allowance for loans losses was necessary as of June 30, 2018 and 2017. See Note 4 for additional information on allowance for loan losses.

Bond Issuance Costs

Bond issuance costs are recognized and expensed in the period incurred.

Bonds Payable

Bonds payable are carried at their unpaid principal balances, net of unamortized original issue discounts or premiums. However, in an economic refunding, any costs incurred from the refunding of bonds would be reported as deferred outflows or inflows of resources on the Statements of Net Position. See Notes 6, 7, 8, 9, and 11 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 11 for further information on changes in long-term obligations.

Rebate Liability on Investments

Regulations governing the issuance of tax-exempt debt place limitations on permitted investment yield on borrowed funds. Based on these regulations, CDA is required to periodically rebate excess earnings from investments to the United States Treasury. In addition, the liability also includes an estimate of the rebate obligation related to unrealized gains as a result of recording investments at fair value. Rebate liability is more fully described in Note 10.

**COMMUNITY DEVELOPMENT ADMINISTRATION
RESIDENTIAL REVENUE BONDS
NOTES TO FINANCIAL STATEMENTS
(in thousands)
JUNE 30, 2018 AND 2017**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest Rate Exchange Agreements (Swaps)

Interest rate exchange agreements (swaps) are derivative instruments which are entered into as cash flow hedges to reduce exposure to identified financial risks associated with assets, liabilities or expected transactions or to lower the costs of borrowings and are considered to be hedging derivative instruments. Swaps are reported at fair value in the statements of net position and are tested quarterly for hedge effectiveness. Effectiveness is established if the changes in cash flows of the swaps substantially offset the changes in cash flows of the hedgeable items. The changes in fair values of the swaps that are determined to be effective hedges will be recognized as deferred inflows or outflows of resources in the statements of net position. The changes in fair value of the swaps that are determined not to be effective hedges will be reported in the statements of revenue, expenses, and changes in net position. CDA's swaps are more fully described in Note 8.

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, 2018 and 2017, all mortgage loan yields were in compliance with the Code.

Interest on Mortgage Loans and Mortgage-Backed Securities

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

Administrative Support

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

The employees of CDA are covered by the Maryland State Retirement and Pension System. See Note 14 for additional information.

**COMMUNITY DEVELOPMENT ADMINISTRATION
RESIDENTIAL REVENUE BONDS
NOTES TO FINANCIAL STATEMENTS
(in thousands)
JUNE 30, 2018 AND 2017**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Expenses

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains, and losses during the reporting period. Actual results could differ from these estimates.

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

Bond proceeds and revenues from mortgages, mortgage-backed securities, and investments are invested in authorized investments as defined in the Residential Revenue Bond Resolution (the Resolution) and in CDA's Investment Policy until required for purchasing mortgage-backed securities or originating mortgage loans, funding reserves, paying bond debt service or redeeming outstanding bonds and 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 the Fund as of June 30, 2018 and 2017, are evaluated in accordance with GASB accounting guidance for interest rate risk, credit risk, concentration of credit risk and custodial credit risk.

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Cash and Cash Equivalents:		
BlackRock Liquidity FedFund		
Administration Shares	\$ 182,320	\$ 325,258
Demand Deposit Account	19,114	18,997
Investments:		
Obligations of U.S. Government Agencies	79,279	9,171
Repurchase and Investment Agreements	2,408	2,408
Mortgage-Backed Securities:		
GNMA Mortgage-Backed Securities	161,543	132,473
FNMA Mortgage-Backed Securities	88,547	62,973
Total	<u>\$ 533,211</u>	<u>\$ 551,280</u>

**COMMUNITY DEVELOPMENT ADMINISTRATION
RESIDENTIAL REVENUE BONDS
NOTES TO FINANCIAL STATEMENTS
(in thousands)
JUNE 30, 2018 AND 2017**

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

Interest Rate Risk

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

As of June 30, 2018, 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	11 - 15	More Than 15
BlackRock Liquidity FedFund Administration Shares	\$ 182,320	\$ 182,320	\$ 182,320	\$ -	\$ -	\$ -
Demand Deposit Account	19,114	19,114	19,114	-	-	-
Obligations of U.S. Government Agencies	78,018	79,279	34,938	37,857	6,484	-
Repurchase Agreements/ Investment Agreements	2,408	2,408	-	-	2,408	-
GNMA Mortgage-Backed Securities	164,684	161,543	-	-	-	161,543
FNMA Mortgage-Backed Securities	89,267	88,547	-	-	-	88,547
Total	\$ 535,811	\$ 533,211	\$ 236,372	\$ 37,857	\$ 8,892	\$ 250,090

As of June 30, 2017, 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	11 - 15	More Than 15
BlackRock Liquidity FedFund Administration Shares	\$ 325,258	\$ 325,258	\$ 325,258	\$ -	\$ -	\$ -
Demand Deposit Account	18,997	18,997	18,997	-	-	-
Obligations of U.S. Government Agencies	7,044	9,171	-	2,305	3,975	2,891
Repurchase Agreements/ Investment Agreements	2,408	2,408	-	-	2,408	-
GNMA Mortgage-Backed Securities	132,831	132,473	-	-	-	132,473
FNMA Mortgage-Backed Securities	62,383	62,973	-	-	-	62,973
Total	\$ 548,921	\$ 551,280	\$ 344,255	\$ 2,305	\$ 6,383	\$ 198,337

**COMMUNITY DEVELOPMENT ADMINISTRATION
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NOTE 3 CASH, CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES (CONTINUED)

The BlackRock Liquidity FedFund Administration Shares invests primarily in cash, U.S. Treasury bills, notes, and other obligations issued or guaranteed as to principal and interest by the U.S. Government, its agencies or instrumentalities, and repurchase agreements secured by such obligations or cash and operates 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, 2018 and 2017, the cost of the money market mutual fund approximated fair value.

Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Neither CDA's Investment Policy nor the Resolution requires investment agreements or deposits to be collateralized. CDA's Investment Policy places no limit on the amount that CDA may invest in any one issuer or counterparty. According to the Resolution and CDA's Investment Policy, securities must be at a rating no lower than the rating on the bonds or, if an investment maintains only a short-term rating, a rating not less than F1/P-1; and financial institutions who are a counterparty to CDA in investment agreements must be rated at least comparable to the existing rating on CDA bonds unless counterparty ratings lower than the bond ratings are permitted and do not affect the ratings on the bonds. In addition, certain investment and repurchase agreements require counterparty ratings no less than the ratings on the bonds. As of June 30, 2018 and 2017, all counterparty ratings were at least equal to the ratings on the Fund's bonds. The ratings on Residential Revenue Bonds as of June 30, 2018 and 2017 were Aa2 by Moody's Investors Service and AA by Fitch Ratings. The following table provides credit quality rating information for the investment portfolio and individual issuers if they represent 5% or more of total investments in accordance with accounting guidance issued by GASB.

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

As of June 30, 2018, 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
BlackRock Liquidity FedFund Administration Shares	\$ 182,320	34.19%	Aaa		Moody's
Demand Deposit Account: Counterparty Rated Aa2 by Moody's	19,114	3.58%			
Government National Mortgage Association (GNMA) Mortgage-Backed Securities	161,543	30.30%		Direct U.S. Obligations	
Federal National Mortgage Association (FNMA) Mortgage-Backed Securities	88,547	16.61%		Aaa	Moody's
Obligations of U.S. Government Agencies	79,279	14.87%		Aaa	Moody's
Collateralized Repurchase Agreements and Investment Agreements: Counterparty Rated Aaa by Moody's	2,408	0.45%		Underlying Securities Credit Rating Direct U.S. Obligations	
Total	<u>\$ 533,211</u>	<u>100.00%</u>			

As of June 30, 2017, 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
BlackRock Liquidity FedFund Administration Shares	\$ 325,258	59.00%	Aaa		Moody's
Demand Deposit Account: Counterparty Rated Aa2 by Moody's	18,997	3.45%			
Government National Mortgage Association (GNMA) Mortgage-Backed Securities	132,473	24.03%		Direct U.S. Obligations	
Federal National Mortgage Association (FNMA) Mortgage-Backed Securities	62,973	11.42%		Aaa	Moody's
Obligations of U.S. Government Agencies	9,171	1.66%		Aaa	Moody's
Collateralized Repurchase Agreements and Investment Agreements: Counterparty Rated Aaa by Moody's	2,408	0.44%		Underlying Securities Credit Rating Direct U.S. Obligations	
Total	<u>\$ 551,280</u>	<u>100.00%</u>			

COMMUNITY DEVELOPMENT ADMINISTRATION
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NOTE 3 CASH, CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES (CONTINUED)

The market value of the underlying collateralized securities in repurchase agreements and investment agreements is maintained at a minimum of 102% 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.

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, 2018. This date corresponds with the termination date of the standby purchase agreement.

Mortgage-Backed Securities

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

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

Fannie Mae mortgage-backed securities are “guaranteed mortgage pass-through securities” which supplement amounts received by a trust created under a trust agreement as required permitting timely payments of principal and interest on the securities to CDA. The securities and payments of principal and interest on the securities 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 securities, CDA receives the total principal and interest from the trustee 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 securities have a guaranty fee of 45 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 securities for efficiency and effectiveness.

COMMUNITY DEVELOPMENT ADMINISTRATION
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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 and Fannie Mae mortgage-backed securities. 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 and Fannie Mae mortgage-backed securities 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, 2018, CDA entered into TBA Mortgage-Backed Security Contracts with a notional amount of \$54,715 outstanding. At June 30, 2017, the notional amount outstanding was \$104,111. The increase/decrease in the fair value of GNMA and Fannie Mae mortgage-backed securities that are part of the TBA program is classified as operating revenue on the Statements of Revenue, Expenses and Changes in Net Position.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or counterparty failure, CDA will not be able to recover its deposits or the value of its collateral securities that are in the possession of an outside party. As of June 30, 2018 and 2017, the Fund's investments were not subject to custodial credit risk under accounting guidance issued by GASB. CDA's investments and collateralized securities are held in trust by the trustee or the trustee's agent, kept separate from the assets of the bank and from other trust accounts and are held in CDA's name.

Fair Value Measurements

CDA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The Fund has the following recurring fair value measurements as of June 30, 2018 and 2017:

- U.S. Government Agencies of \$79,279 and \$9,171, respectively, are valued using quoted market prices (Level 1).
- GNMA and FNMA mortgage-backed securities of \$250,090 and \$195,446, respectively, are valued using the matrix pricing technique (Level 2).
- Pay-fixed, receive-variable interest rate swap agreements of \$171 and \$1,917, respectively, are valued using the matrix pricing technique (Level 2).

**COMMUNITY DEVELOPMENT ADMINISTRATION
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NOTE 4 MORTGAGE LOANS

Substantially all of the Fund's single family mortgage loans are secured by first liens on the related property. Approximately 97% of all single family mortgage loans are credit enhanced through the Federal Housing Administration (FHA) mortgage insurance programs, the Veterans Administration and USDA/RD guarantee programs, Maryland Housing Fund (MHF), or by private mortgage insurance policies. As of June 30, 2018 and 2017, interest rates on such loans ranged from 0.0% to 10.25%, with remaining loan terms ranging approximately from less than 1 year to 40 years.

All of the Fund's multi-family mortgage loans are credit-enhanced through FHA or MHF. As of June 30, 2018 and 2017, interest rates on such loans ranged from 5.25% to 8.50% with remaining loan terms ranging from approximately 3 years to 15 years.

For the years ended June 30, 2018 and 2017, the single family mortgage loan and claims receivable balances, net of the allowances for loan losses on the uninsured portions of single family loans with private mortgage insurance, including loans in foreclosure and other loans with pending insurance claims, were as follows:

	2018	2017
Single Family Mortgage Loans	\$ 892,369	\$ 1,006,873
Allowance for Loan Losses	(7,471)	(9,560)
Single Family Mortgage Loans, Net of Allowance	\$ 884,898	\$ 997,313
Claims Receivable on Foreclosed and Other Loans	\$ 24,562	\$ 42,370
Allowance for Loan Losses	(2,726)	(2,207)
Claims Receivable on Foreclosed and Other Loans, Net of Allowance	\$ 21,836	\$ 40,163

NOTE 5 ACCRUED INTEREST AND OTHER RECEIVABLES

Accrued interest and other receivables as of June 30, 2018 and 2017 were as follows:

	2018	2017
Accrued Mortgage Loan Interest	\$ 8,550	\$ 10,446
Accrued Mortgage-Backed Securities Interest	687	484
Accrued Investment Interest	580	396
Funds Due from Mortgage Insurers for Loan Modifications	269	234
Reimbursement Due for State-Funded Loans	1,665	1,202
Reimbursement Due for Pre-Foreclosure Costs Incurred on Mortgage Loans	3,754	4,309
Miscellaneous Billings	-	106
Total	\$ 15,505	\$ 17,177

COMMUNITY DEVELOPMENT ADMINISTRATION
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NOTE 6 BONDS PAYABLE

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

The provisions of the Resolution require or allow for the special redemption of bonds at par through the use of unexpended bond proceeds and excess funds accumulated primarily through prepayment of mortgage loans. All outstanding bonds are subject to optional redemption, in whole or in part at any time, after certain dates, as specified in the respective series resolutions, at a redemption price equal to the principal amount thereof to be redeemed. When bonds are redeemed, whether as a special or optional redemption, CDA writes off a proportionate share of any unamortized original issue premiums, net of any unamortized original issue discounts, as a gain on early retirement of debt in the accompanying Statements of Revenue, Expenses and Changes in Net Position. If unamortized original issue discounts exceed unamortized original issue premiums, CDA records a loss.

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.

2006 Series G and J; 2007 Series M; 2008 Series D; 2012 Series B; and 2014 Series F.

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%.

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

2012 Series A and B; 2014 Series E and F; 2015 Series B; 2016 Series A; and 2017 Series A.

**COMMUNITY DEVELOPMENT ADMINISTRATION
RESIDENTIAL REVENUE BONDS
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NOTE 6 BONDS PAYABLE (CONTINUED)

The following is a summary of the bond activity for the year ended June 30, 2018, and the debt outstanding and bonds payable as of June 30, 2018:

	Issue Dated	Range of Interest Rates	Range of Maturities	Debt Outstanding at June 30, 2017	Bond Activity			Debt Outstanding at June 30, 2018	Bond Premium/Discount Deferred	Bonds Payable at June 30, 2018
					New Bonds Issued	Scheduled Maturity Payments	Bonds Redeemed			
Residential Revenue Bonds										
2006 Series E	05/24/06	4.35%	9/1/2017	\$ 1,510	\$ -	\$ (1,510)	\$ -	\$ -	\$ -	\$ -
2006 Series G	05/24/06	Variable Rate	9/1/2040	38,765	-	-	(4,700)	34,065	-	34,065
2006 Series I	07/13/06	4.80% - 4.875%	2021 - 2026	31,070	-	(2,195)	(14,170)	14,705	-	14,705
2006 Series J	07/13/06	Variable Rate	9/1/2040	60,000	-	-	-	60,000	-	60,000
2007 Series M	12/12/07	Variable Rate	9/1/2043	29,050	-	-	-	29,050	-	29,050
2008 Series A	06/19/08	4.00%	9/1/2017	1,410	-	(1,410)	-	-	-	-
2008 Series D	09/04/08	Variable Rate	9/1/2038	45,215	-	(1,780)	(960)	42,475	-	42,475
2009 Series A	09/24/09	3.30% - 5.05%	2017 - 2039	34,380	-	(880)	(910)	32,590	-	32,590
2009 Series B	10/08/09	3.15% - 4.75%	2017 - 2039	38,435	-	(1,020)	-	37,415	-	37,415
2009 Series C	10/27/09	3.00% - 4.55%	2017 - 2039	13,650	-	(365)	-	13,285	-	13,285
2010 Series A	06/09/10	3.95% - 4.45%	2018 - 2021	21,145	-	-	(7,225)	13,920	-	13,920
2011 Series A	05/05/11	3.00% - 5.125%	2017 - 2041	42,590	-	(2,340)	(21,195)	19,055	214	19,269
2011 Series B	05/05/11	3.25%	3/1/2036	20,000	-	-	-	20,000	(75)	19,925
2012 Series A	08/23/12	2.014% - 4.00%	2017 - 2025	18,270	-	(1,995)	(1,325)	14,950	148	15,098
2012 Series B	08/23/12	Variable Rate	9/1/2033	45,000	-	-	-	45,000	-	45,000
2014 Series A	02/20/14	0.90% - 4.30%	2017 - 2032	52,885	-	(2,375)	-	50,510	-	50,510
2014 Series B	02/20/14	3.25%	9/1/2044	23,320	-	-	(5,800)	17,520	550	18,070
2014 Series C	09/25/14	2.15% - 4.00%	2021 - 2044	42,525	-	-	(1,310)	41,215	785	42,000
2014 Series D	09/25/14	1.125% - 4.00%	2017 - 2036	18,850	-	(1,695)	(1,680)	15,475	860	16,335
2014 Series E	09/25/14	1.632% - 4.478%	2017 - 2040	40,755	-	(1,585)	(3,525)	35,645	-	35,645
2014 Series F	09/25/14	Variable Rate	9/1/2044	24,555	-	-	-	24,555	-	24,555
2015 Series A	12/03/15	0.90% - 3.95%	2017 - 2045	22,645	-	(560)	(1,170)	20,915	348	21,263
2015 Series B	12/03/15	1.439% - 4.515%	2017 - 2041	60,930	-	(1,780)	(4,630)	54,520	-	54,520
2016 Series A	08/31/16	1.024% - 3.797%	2017 - 2047	311,730	-	(6,275)	(16,625)	288,830	2,224	291,054
2017 Series A	04/27/17	1.00 - 4.416%	2017 - 2048	263,060	-	(4,140)	(17,500)	241,420	-	241,420
Total				<u>\$ 1,301,745</u>	<u>\$ -</u>	<u>\$ (31,905)</u>	<u>\$ (102,725)</u>	<u>\$ 1,167,115</u>	<u>\$ 5,054</u>	<u>\$ 1,172,169</u>

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NOTE 6 BONDS PAYABLE (CONTINUED)

The following is a summary of the bond activity for the year ended June 30, 2017, and the debt outstanding and bonds payable as of June 30, 2017:

	Issue Dated	Range of Interest Rates	Range of Maturities	Debt Outstanding at June 30, 2016	Bond Activity			Debt Outstanding at June 30, 2017	Bond Premium/Discount Deferred	Bonds Payable at June 30, 2017
					New Bonds Issued	Scheduled Maturity Payments	Bonds Redeemed			
Residential Revenue Bonds										
2006 Series E	05/24/06	4.25% - 4.35%	2016 - 2017	\$ 3,210	\$ -	\$ (430)	\$ (1,270)	\$ 1,510	\$ -	\$ 1,510
2006 Series G	05/24/06	Variable Rate	9/1/2040	40,000	-	-	(1,235)	38,765	-	38,765
2006 Series H	07/13/06	4.10% - 4.15%	2016 - 2017	4,120	-	(2,015)	(2,105)	-	-	-
2006 Series I	07/13/06	4.50% - 4.875%	2016 - 2026	50,440	-	(1,785)	(17,585)	31,070	-	31,070
2006 Series J	07/13/06	Variable Rate	9/1/2040	60,000	-	-	-	60,000	-	60,000
2006 Series K	09/14/06	4.10% - 4.15%	2016 - 2017	2,405	-	(610)	(1,795)	-	-	-
2006 Series L	09/14/06	4.60% - 4.95%	2017 - 2038	102,245	-	-	(102,245)	-	-	-
2006 Series O	12/13/06	3.80% - 3.85%	2016 - 2017	2,320	-	(1,135)	(1,185)	-	-	-
2006 Series P	12/13/06	4.25% - 4.70%	2016 - 2037	45,860	-	(1,115)	(44,745)	-	-	-
2006 Series S	12/13/06	6.07%	9/1/2037	13,020	-	-	(13,020)	-	-	-
2007 Series A	03/28/07	4.25% - 5.75%	2016 - 2047	149,650	-	(4,460)	(145,190)	-	-	-
2007 Series B	03/28/07	6.00%	9/1/2037	15,080	-	-	(15,080)	-	-	-
2007 Series C	06/20/07	3.90% - 3.95%	2016 - 2017	6,200	-	(450)	(5,750)	-	-	-
2007 Series D	06/20/07	4.65% - 4.95%	2022 - 2048	114,585	-	-	(114,585)	-	-	-
2007 Series E	06/20/07	5.98% - 6.11%	2040 - 2042	33,915	-	-	(33,915)	-	-	-
2007 Series F	06/20/07	Variable Rate	9/1/2031	21,205	-	-	(21,205)	-	-	-
2007 Series G	08/09/07	4.30%	9/1/2017	7,375	-	-	(7,375)	-	-	-
2007 Series H	08/09/07	4.95% - 5.10%	2022 - 2037	43,680	-	-	(43,680)	-	-	-
2007 Series I	08/09/07	6.50% - 6.56%	2043	36,405	-	-	(36,405)	-	-	-
2007 Series J	08/09/07	Variable Rate	9/1/2031	28,100	-	-	(28,100)	-	-	-
2007 Series K	12/12/07	3.75% - 3.85%	2016 - 2017	2,940	-	(2,420)	(520)	-	-	-
2007 Series M	12/12/07	Variable Rate	9/1/2043	29,050	-	-	-	29,050	-	29,050
2008 Series A	06/19/08	3.875% - 4.00%	2016 - 2017	13,020	-	(7,965)	(3,645)	1,410	-	1,410
2008 Series D	09/04/08	Variable Rate	9/1/2038	49,890	-	-	(4,675)	45,215	-	45,215
2008 Series E	12/17/08	4.375% - 4.55%	2016 - 2017	3,420	-	(1,815)	(1,605)	-	-	-
2009 Series A	09/24/09	3.30% - 5.05%	2017 - 2039	34,380	-	-	-	34,380	-	34,380
2009 Series B	10/08/09	2.80% - 4.75%	2016 - 2039	38,745	-	(310)	-	38,435	-	38,435
2009 Series C	10/27/09	2.70% - 4.55%	2016 - 2039	13,715	-	(65)	-	13,650	-	13,650
2010 Series A	06/09/10	3.95% - 4.45%	2018 - 2021	22,450	-	-	(1,305)	21,145	-	21,145
2011 Series A	05/05/11	2.625% - 5.375%	2016 - 2041	48,585	-	(1,890)	(4,105)	42,590	346	42,936
2011 Series B	05/05/11	3.25%	3/1/2036	20,000	-	-	-	20,000	(78)	19,922
2012 Series A	08/23/12	1.570% - 4.00%	2016 - 2025	25,105	-	(3,210)	(3,625)	18,270	206	18,476
2012 Series B	08/23/12	Variable Rate	9/1/2033	45,000	-	-	-	45,000	-	45,000
2014 Series A	02/20/14	0.55% - 4.30%	2016 - 2032	55,745	-	(2,860)	-	52,885	-	52,885
2014 Series B	02/20/14	3.25%	9/1/2044	26,910	-	-	(3,590)	23,320	749	24,069
2014 Series C	09/25/14	0.40% - 4.00%	2016 - 2044	44,875	-	(875)	(1,475)	42,525	926	43,451
2014 Series D	09/25/14	0.60% - 4.00%	2016 - 2036	21,660	-	(915)	(1,895)	18,850	1,031	19,881
2014 Series E	09/25/14	1.125% - 4.478%	2016 - 2040	47,925	-	(1,565)	(5,605)	40,755	-	40,755
2014 Series F	09/25/14	Variable Rate	9/1/2044	24,555	-	-	-	24,555	-	24,555
2015 Series A	12/03/15	0.45% - 3.95%	2016 - 2045	24,100	-	(560)	(895)	22,645	423	23,068
2015 Series B	12/03/15	1.20% - 4.515%	2016 - 2041	66,670	-	(1,765)	(3,975)	60,930	-	60,930
2016 Series A	08/31/16	0.784% - 3.797%	2017 - 2047	-	325,800	(3,025)	(11,045)	311,730	2,846	314,576
2017 Series A	04/27/17	1.00% - 4.416%	2017 - 2048	-	263,060	-	-	263,060	-	263,060
Total				\$ 1,438,555	\$ 588,860	\$ (41,240)	\$ (684,430)	\$ 1,301,745	\$ 6,449	\$ 1,308,194

**COMMUNITY DEVELOPMENT ADMINISTRATION
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NOTE 7 DEBT SERVICE REQUIREMENTS

As of June 30, 2018, the required principal payments for bonds (including mandatory sinking fund payments and special and optional redemptions that occurred subsequent to June 30, 2018 and excluding the effect of unamortized discounts/premiums as shown in Note 6) and interest payments for each of the next five years and in five-year increments thereafter, were as follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>
2019	\$ 36,946	\$ 40,530
2020	35,970	41,890
2021	34,713	35,690
2022	33,711	34,950
2023	32,741	33,325
2024 - 2028	147,518	187,405
2029 - 2033	110,443	267,695
2034 - 2038	62,733	267,555
2039 - 2043	24,806	163,270
2044 - 2048	4,740	93,495
2049 - 2053	21	1,310
Total	<u>\$ 524,342</u>	<u>\$ 1,167,115</u>

The interest calculations on outstanding variable rate bonds in the amount of \$235,145 are based on the variable rates in effect on June 30, 2018, 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 8 for information on interest rate exchange agreements (swaps) associated with the variable rate debt in the Fund.

As of June 30, 2017, the required principal payments for bonds (including mandatory sinking fund payments and special and optional redemptions that occurred subsequent to June 30, 2017 and excluding the effect of unamortized discounts/premiums as shown in Note 6) and interest payments for each of the next five years and in five-year increments thereafter were as follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>
2018	\$ 38,108	\$ 56,655
2019	38,412	42,945
2020	37,284	42,805
2021	35,999	36,420
2022	34,967	35,935
2023 - 2027	158,312	191,455
2028 - 2032	121,884	264,605
2033 - 2037	75,486	284,440
2038 - 2042	32,940	212,310
2043 - 2047	8,503	125,730
2048 - 2052	225	8,445
Total	<u>\$ 582,120</u>	<u>\$ 1,301,745</u>

The interest calculations on outstanding variable rate bonds in the amount of \$242,585 are based on the variable rates in effect on June 30, 2017, 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 8 for information on interest rate exchange agreements (swaps) associated with the variable rate debt in the Fund.

**COMMUNITY DEVELOPMENT ADMINISTRATION
RESIDENTIAL REVENUE BONDS
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NOTE 8 INTEREST RATE EXCHANGE AGREEMENTS (SWAPS)

Objective of the Swaps

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

Terms and Fair Value

The terms, including the fair values of the outstanding swaps as of June 30, 2018 and 2017, are provided in the tables on the following pages. The counterparty credit ratings for all outstanding swaps as of June 30, 2018 and 2017 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.

As of June 30, 2018, the terms, including fair value of the outstanding swap were:

Swap Counter-Party	Associated Bond Issue	Original Notional Amount	Outstanding Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received (1)	Fair Value	Swap Final Termination Date
Merrill Lynch Derivative Products AG (MLDP)	2008 Series D	\$50,000	\$47,890	9/4/2008	3.6880%	64% of LIBOR plus .31%	(\$171)	9/1/2038 (2)(3)(4)(5)(6)(7)

Notes to 2018 Table

- (1) "LIBOR" means the one-month London Interbank Offered Rate.
- (2) The outstanding notional amount reflects the amount that has been amortized as of March 1, 2018. On September 1, 2010, 2008 Series D had a scheduled amortization of the notional amount which corresponded to a scheduled mandatory sinking fund redemption of outstanding bonds on such date.
- (3) 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.
- (4) 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.
- (5) On September 1, 2016, January 13, 2017, April 28, 2017 and July 20, 2017, CDA redeemed \$1,615, \$1,740, \$1,320 and \$960, respectively, of 2008 Series D variable rate debt. This has created a mismatch between the notional amount of the swap and the 2008 Series D variable rate debt outstanding. For tax-exempt bond purposes, the swap notional amounts of \$1,615, \$1,740, \$1,320 and \$960 were deemed terminated with respect to the 2008 Series D debt and integrated in the same amounts with an unhedged portion of 2007 Series M.
In addition, as a result of the amortizing \$2,000 of the notional 2008 Series D swap, the hedged portion of the 2008 Series D variable rate debt outstanding was reduced by \$1,770, and the hedged portion of the 2007 Series M variable rate debt outstanding was reduced by \$230.
- (6) The hedged portion of the variable rate debt outstanding is \$10 less than the outstanding notional amount due to bond redemption on March 1, 2018.
- (7) Subsequent to June 30, 2018, CDA exercised its option and terminated this interest rate swap, in whole, effective September 1, 2018.

**COMMUNITY DEVELOPMENT ADMINISTRATION
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NOTE 8 INTEREST RATE EXCHANGE AGREEMENTS (SWAPS) (CONTINUED)

As of June 30, 2017, the terms, including fair values of the outstanding swaps, were:

Swap Counter-Party	Associated Bond Issue	Original Notional Amount	Outstanding Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received (1)	Fair Value	Swap Final Termination Date
The Bank of New York Mellon (BNYM)	2007 Series M	\$26,990 (amended)	\$8,435	10/8/2009 (amended)	4.335% (amended)	64% of LIBOR plus .22% (amended)	(\$144)	9/1/2043 (2)(3)(6)(7)(8)(9)
Merrill Lynch Derivative Products AG (MLDP)	2008 Series D	\$50,000	\$49,890	9/4/2008	3.6880%	64% of LIBOR plus .31%	(\$1,773)	9/1/2038 (3)(4)(5)(7)(9)

Notes to 2017 Table

- (1) "LIBOR" means the one-month London Interbank Offered Rate.
- (2) 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, \$790 effective March 1, 2013, \$610 effective September 1, 2013, \$470 effective March 1, 2014, \$340 effective September 1, 2014, \$235 effective March 1, 2015, \$120 effective September 1, 2015, and \$45 effective March 1, 2016. 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.
- (3) The outstanding notional amount reflects the amount that has been amortized as of March 1, 2017. On September 1, 2010, 2008 Series D had a scheduled amortization of the notional amount which corresponded to a scheduled mandatory sinking fund redemption of outstanding bonds on such date.
- (4) 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.
- (5) 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.
- (6) 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 2 above). The Bank of New York Mellon replaced UBS AG as counterparty to the agreement.
- (7) On September 1, 2016, January 13, 2017, and April 28, 2017, CDA redeemed \$1,615, \$1,740, and \$1,320, respectively, of 2008 Series D variable rate debt. This has created a mismatch between the notional amount of the swap and the 2008 Series D variable rate debt outstanding. The swap notional amounts of \$1,615, \$1,740, and \$1,320 are being deemed terminated with respect to the 2008 Series D debt and integrated in the same amounts with an unhedged portion of 2007 Series M.
- (8) Subsequent to June 30, 2017, CDA exercised its option and terminated this interest rate swap, in whole, effective September 1, 2017.
- (9) Also, subsequent to June 30, 2017, CDA redeemed \$960 of 2008 Series D variable rate debt on July 20, 2017. This has created a mismatch between the notional amount of the swap and the 2008 Series D variable rate debt outstanding. The swap notional amount of \$960 is being deemed terminated with respect to the 2008 Series D debt and integrated in the same amount with an unhedged portion of 2007 Series M.

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.

**COMMUNITY DEVELOPMENT ADMINISTRATION
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NOTE 8 INTEREST RATE EXCHANGE AGREEMENTS (SWAPS) (CONTINUED)

Credit Risk

Credit risk is the risk that a swap counterparty will not fulfill its obligations. The fair value of the swaps represented CDA's credit exposure to each counterparty as of June 30, 2018 and 2017. As of June 30, 2018, CDA was not exposed to credit risk under the swap agreement with MLDP since the fair value of the counterparty's swap portfolio was negative. However, should the valuation of the swap change, and the fair value turns positive, CDA may become exposed to credit risk in the amount of the swap's fair value. To mitigate the potential for credit risk, the fair value of the swap will be fully collateralized by the counterparty if a counterparty's credit quality falls below the designated credit rating thresholds. At June 30, 2018 and 2017, CDA was not exposed to credit risk under the swap agreements with MLDP or BNYM since the swaps had negative fair values.

The credit rating details for the swap counterparty, including credit rating thresholds, and the total fair value amount as of June 30, 2018 are summarized below:

Swap Counterparty	Outstanding Notional Amount	Current Credit Rating	Collateral Posting Credit Rating Threshold	Fair Value
Merrill Lynch Derivative Products AG (MLDP)	\$47,890	Aa3 from Moody's AA from Standard and Poor's	A1 or below from Moody's or A+ or below from Standard and Poor's or Fitch	(\$171)

The credit rating details for each swap counterparty, including credit rating thresholds, and the total fair value amounts as of June 30, 2017 are summarized below:

Swap Counterparty	Outstanding Notional Amount	Current Credit Rating	Collateral Posting Credit Rating Threshold	Fair Value
The Bank of New York Mellon (BNYM)	\$8,435	Aa1 from Moody's AA from Fitch	A1 or below from Moody's or A+ or below from Fitch	(\$144)
Merrill Lynch Derivative Products AG (MLDP)	\$49,890	Aa3 from Moody's AA from Standard and Poor's	A1 or below from Moody's or A+ or below from Standard and Poor's or Fitch	(\$1,773)

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RESIDENTIAL REVENUE BONDS
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NOTE 8 INTEREST RATE EXCHANGE AGREEMENTS (SWAPS) (CONTINUED)

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.

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.

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.

**COMMUNITY DEVELOPMENT ADMINISTRATION
RESIDENTIAL REVENUE BONDS
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NOTE 8 INTEREST RATE EXCHANGE AGREEMENTS (SWAPS) (CONTINUED)

Swap Payments and Associated Debt

As of June 30, 2018, 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 five-year increments thereafter. The interest calculations are based on the variable rates in effect on June 30, 2018, 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		
2019	\$ 2,930	\$ 682	\$ 967	\$ 4,579
2020	1,230	671	890	2,791
2021	1,400	650	863	2,913
2022	1,590	628	829	3,047
2023	1,785	606	795	3,186
2024 - 2028	8,930	2,613	3,340	14,883
2029 - 2033	10,350	1,915	2,287	14,552
2034 - 2038	12,825	1,059	989	14,873
2039 - 2043	1,435	52	16	1,503
Total	<u>\$ 42,475</u>	<u>\$ 8,876</u>	<u>\$ 10,976</u>	<u>\$ 62,327</u>

As of June 30, 2017, 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 five-year increments thereafter. The interest calculations are based on the variable rates in effect on June 30, 2017, 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		
2018	\$ 2,740	\$ 516	\$ 1,595	\$ 4,851
2019	2,930	506	1,458	4,894
2020	1,230	487	1,373	3,090
2021	1,400	473	1,319	3,192
2022	1,590	460	1,258	3,308
2023 - 2027	8,895	2,050	5,297	16,242
2028 - 2032	9,920	1,625	3,674	15,219
2033 - 2037	12,280	1,109	1,863	15,252
2038 - 2042	4,230	623	216	5,069
2043 - 2047	8,435	176	15	8,626
Total	<u>\$ 53,650</u>	<u>\$ 8,025</u>	<u>\$ 18,068</u>	<u>\$ 79,743</u>

*The outstanding principal amounts of the hedged variable rate bonds as of June 30, 2018 and 2017 differs from the outstanding notional amounts as of June 30, 2018 and 2017. Please refer to the "Notes to 2018 Table" and "Notes to 2017 Table" on pages 22 and 23 for explanations of these differences.

**COMMUNITY DEVELOPMENT ADMINISTRATION
RESIDENTIAL REVENUE BONDS
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NOTE 8 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, 2018 and June 30, 2017, and the changes in fair values for the period ended June 30, 2018.

	<u>Total Fair Value at June 30, 2017</u>	<u>Total Fair Value at June 30, 2018</u>	<u>Change in Fair Value for the Period</u>
Interest Rate Exchange Agreements:			
Cash Flow Hedges	\$ (1,917)	\$ (171)	\$ 1,746

In accordance with accounting guidance issued by GASB, the fair value balance of the derivative instrument (interest rate exchange agreement) outstanding at June 30, 2018, classified by type, and the changes in fair value of such derivative instrument as presented on the financial statements for the period ended June 30, 2018, are as follows:

	<u>Change in Fair Value</u>		<u>Fair Value at June 30, 2018</u>		<u>Outstanding Notional Amount</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
Cash Flow Hedges:					
Pay Fixed Interest Rate Swap	Deferred Outflow	\$ 1,746	Debt	\$ (171)	\$ 47,890

As of June 30, 2018, CDA's swap meets the criteria for effectiveness and the swap fair value is classified as a deferred outflow.

The table below summarizes the total fair values for CDA's interest rate exchange agreements at June 30, 2016 and June 30, 2017, and the changes in fair values for the period ended June 30, 2017.

	<u>Total Fair Value at June 30, 2016</u>	<u>Total Fair Value at June 30, 2017</u>	<u>Change in Fair Value for the Period</u>
Interest Rate Exchange Agreements:			
Cash Flow Hedges	\$ (6,908)	\$ (1,917)	\$ 4,991

In accordance with accounting guidance issued by GASB, the fair value balances of derivative instruments (interest rate exchange agreements) outstanding at June 30, 2017, classified by type, and the changes in fair value of such derivative instruments as presented on the financial statements for the period ended June 30, 2017, are as follows:

	<u>Change in Fair Value</u>		<u>Fair Value at June 30, 2017</u>		<u>Outstanding Notional Amount</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
Cash Flow Hedges:					
Pay Fixed Interest Rate Swaps	Deferred Outflow	\$ 4,991	Debt	\$ (1,917)	\$ 58,325

At June 30, 2017, all of CDA's swaps met the criteria for effectiveness and the swap fair values are classified as deferred outflows.

**COMMUNITY DEVELOPMENT ADMINISTRATION
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NOTE 8 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 9 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 related to the old debt. CDA writes off any unamortized original issue premiums, net of any unamortized original issue discounts, as a gain on early retirement of debt in the accompanying statements of revenue, expenses, and changes in net position. If unamortized original issue discounts exceed unamortized original issue premiums, CDA records a loss.

For current refundings of debt in an optional redemption, CDA replaces previously issued bonds for the purpose of lowering debt costs by reducing interest rates or for other purposes such as revising payment schedules or modifying restrictions related to the old debt. This type of transaction is commonly known as an economic refunding. There were no bond refundings for the year ended June 30, 2018.

For the year ended June 30, 2017, CDA issued 2016 Series A bonds on August 31, 2016 in the amount of \$329,086 (amount includes a bond premium of \$3,286). The 2016 Series A bonds refunded \$321,619 of bonds, in full, on September 1, 2016. This includes a \$329 bond premium paid on the 2007 Series A bonds. This economic refunding resulted in savings of approximately \$23.7 million. The following table summarizes the bonds that were issued and refunded:

New Bonds Issued			Bonds Refunded	
Bonds Issued	Amount Issued	Amount Refunded	Bonds Refunded	Amount Refunded
2016 Series A	\$ 329,086	\$ 321,619	2006 Series K	\$ 1,795
	(includes issue premium)		2006 Series L	\$ 101,470
			2006 Series O	\$ 1,185
			2006 Series P	\$ 44,745
			2006 Series S	\$ 12,530
			2007 Series A	\$ 145,519
			2007 Series B	\$ 14,375

**COMMUNITY DEVELOPMENT ADMINISTRATION
RESIDENTIAL REVENUE BONDS
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NOTE 9 BOND REFUNDINGS (CONTINUED)

Also for the year ended June 30, 2017, CDA issued 2017 Series A bonds on April 27, 2017 in the amount of \$263,060. The 2017 Series A bonds refunded \$255,060 of bonds, in full, on May 8, 2017. This economic refunding reduced CDA's exposure to variable rate debt and resulted in savings of approximately \$25.6 million. The following table summarizes the bonds that were issued and refunded:

New Bonds Issued			Bonds Refunded	
Bonds Issued	Amount Issued	Amount Refunded	Bonds Refunded	Amount Refunded
2017 Series A	\$ 263,060	\$ 255,060	2007 Series D	\$ 113,175
			2007 Series E	\$ 29,710
			2007 Series F	\$ 16,815
			2007 Series H	\$ 41,070
			2007 Series I	\$ 31,895
			2007 Series J	\$ 22,395

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 related to the old debt). These deferrals would be reported as a deferred outflow or a deferred inflow of resources for the refunding of debt on the statements of net position. This deferral would be amortized, using the effective interest method, over the remaining life of the old debt or the life of the new debt, whichever is shorter. During the 2017 fiscal year, CDA issued 2016 Series A and 2017 Series A refunding bonds. CDA had to defer refunding debt costs associated with the bonds being refunded. For 2016 Series A, CDA deferred \$823, net, of unamortized bond premiums less bond premium paid at redemption for 2007 Series A. The \$823 is being amortized over 276 months. For 2017 Series A, CDA deferred \$26 of unamortized bond premium for 2007 Series D, which is being amortized over 244 months.

NOTE 10 REBATE LIABILITY

In accordance with the Internal Revenue Service Code (the Code), the Fund may record a rebate liability for excess investment earnings in tax-exempt bond and note issues. The excess investment earnings arise due to actual investment yields earned by the Fund being greater than yields permitted to be retained by the Fund under the Code. The Code requires 90% of such excess investment earnings to be remitted to the United States Treasury every five years and in full at the final redemption of the bonds. Interest income on the Statements of Revenue, Expenses and Changes in Net Position is reduced by the rebate liability due to excess investment earnings. The increase/decrease in fair value of investments on the Statements of Revenue, Expenses and Changes in Net Position is adjusted by the change in the estimated rebate liability due to change in fair value of investments. CDA has no rebate liability from interest income or from unrealized gains on mortgage-backed securities. For the years ended June 30, 2018 and 2017, CDA had no rebate liability to record for excess investment earnings in tax-exempt bond issues.

**COMMUNITY DEVELOPMENT ADMINISTRATION
RESIDENTIAL REVENUE BONDS
NOTES TO FINANCIAL STATEMENTS
(in thousands)
JUNE 30, 2018 AND 2017**

NOTE 11 LONG-TERM OBLIGATIONS

Changes in long-term obligations for the years ended June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Bonds Payable:		
Beginning Balance at June 30,	\$ 1,308,194	\$ 1,444,114
Additions	-	592,146
Reductions	(134,630)	(725,999)
Change in Deferred Amounts for Issuance		
Discounts/Premiums	<u>(1,395)</u>	<u>(2,067)</u>
Ending Balance at June 30,	1,172,169	1,308,194
Less Due Within One Year	<u>(40,530)</u>	<u>(56,655)</u>
Total Long-Term Bonds Payable	<u>1,131,639</u>	<u>1,251,539</u>
Deposits by Borrowers:		
Beginning Balance at June 30,	2,927	3,274
Additions	1,210	1,259
Reductions	<u>(1,103)</u>	<u>(1,606)</u>
Ending Balance at June 30,	3,034	2,927
Less Due Within One Year	<u>(1,104)</u>	<u>(1,543)</u>
Total Long-Term Deposits by Borrowers	<u>1,930</u>	<u>1,384</u>
Interest Rate Swap Agreements:		
Beginning Balance at June 30,	1,917	6,908
Additions	-	-
Reductions	<u>(1,746)</u>	<u>(4,991)</u>
Ending Balance at June 30,	171	1,917
Total Long-Term Interest Rate Swap Agreements	<u>171</u>	<u>1,917</u>
Total Long-Term Liabilities	<u>\$ 1,133,740</u>	<u>\$ 1,254,840</u>

NOTE 12 INTERFUND ACTIVITY

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

During the years ended June 30, 2018 and 2017, the Fund transferred the following amounts, as permitted, among Funds:

	<u>2018</u>	<u>2017</u>
Funds for the Business		
Lending Program	\$ (10,000)	\$ -
Excess Revenue Transferred to the		
General Bond Reserve Fund	<u>(15,000)</u>	<u>(20,000)</u>
Transfer of Funds, Net, as Permitted		
by the Bond Indenture	<u>\$ (25,000)</u>	<u>\$ (20,000)</u>

COMMUNITY DEVELOPMENT ADMINISTRATION
RESIDENTIAL REVENUE BONDS
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(in thousands)
JUNE 30, 2018 AND 2017

NOTE 13 MORTGAGE INSURANCE

Substantially all mortgage loans in the Fund have mortgage insurance as described in Note 4.

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

For the single family loan portfolio, approximately 42% of the mortgage loans are insured by agencies of the U.S. Government in 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 3% 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.

Approximately 55% of mortgage loans are insured by private mortgage insurers or MHF. Approximately 96% of the mortgage loans insured by private mortgage insurers or MHF are covered at 35% of the loan amount, while 4% of the loans are covered at 25%. There are two private mortgage insurers who, due to financial constraints or receivership, are currently paying to CDA approximately three quarters of the amount determined to be due. These two private mortgage insurers represent 4% of the mortgage loans insured by private mortgage insurers or MHF. An allowance for loan losses has been established for loans insured by private mortgage insurers. Premiums are paid by single family mortgagors.

NOTE 14 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 liability for the employees is recorded by the general fund of the state of Maryland and is not allocated to CDA. 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 15 SUBSEQUENT EVENTS

CDA has identified the following activity that occurred subsequent to June 30, 2018.

Subsequent to the year ended June 30, 2018, CDA exercised its option and terminated the interest rate swap, in whole, effective September 1, 2018. See Note 8 for additional information.

**COMMUNITY DEVELOPMENT ADMINISTRATION
RESIDENTIAL REVENUE BONDS
SUPPLEMENTAL DISCLOSURE OF CHANGES IN FAIR VALUE OF
INVESTMENTS AND MORTGAGE-BACKED SECURITIES
(in thousands)
JUNE 30, 2018 AND 2017**

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

For investments (obligations of U.S. Government Agencies) held by the Fund as of June 30, 2018, the following schedule summarizes annual increases/decreases in fair value and the cumulative difference between fair value and amortized cost:

<u>Fiscal Year Ended June 30,</u>	<u>Annual Increases/ Decreases</u>	<u>Cumulative Total</u>
2000	\$ (227)	\$ (227)
2001	\$ 551	\$ 324
2002	\$ 97	\$ 421
2003	\$ 544	\$ 965
2004	\$ (674)	\$ 291
2005	\$ 403	\$ 694
2006	\$ (1,567)	\$ (873)
2007	\$ 1,062	\$ 189
2008	\$ 785	\$ 974
2009	\$ 46	\$ 1,020
2010	\$ 2,747	\$ 3,767
2011	\$ (2,244)	\$ 1,523
2012	\$ 1,374	\$ 2,897
2013	\$ (855)	\$ 2,042
2014	\$ 243	\$ 2,285
2015	\$ 43	\$ 2,328
2016	\$ 445	\$ 2,773
2017	\$ (646)	\$ 2,127
2018	\$ (866)	\$ 1,261

**COMMUNITY DEVELOPMENT ADMINISTRATION
RESIDENTIAL REVENUE BONDS
SUPPLEMENTAL DISCLOSURE OF CHANGES IN FAIR VALUE OF
INVESTMENTS AND MORTGAGE-BACKED SECURITIES (CONTINUED)
(in thousands)
JUNE 30, 2018 AND 2017**

For mortgage-backed securities held by the Fund as of June 30, 2018, the following schedule summarizes annual increases/decreases in fair value and the cumulative difference between fair value and cost:

<u>Fiscal Year Ended June 30,</u>	<u>Annual Increases/ Decreases</u>	<u>Cumulative Total</u>
2011	\$ (585)	\$ (585)
2012	\$ 1,858	\$ 1,273
2013	\$ (5,593)	\$ (4,320)
2014	\$ 3,127	\$ (1,193)
2015	\$ 503	\$ (690)
2016	\$ 4,216	\$ 3,526
2017	\$ (3,294)	\$ 232
2018	\$ (4,093)	\$ (3,861)