

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

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

JUNE 30, 2015 AND 2014

Community Development Administration
Single Family Housing Revenue Bonds

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INDEPENDENT AUDITOR'S REPORT

Office of the Secretary
Department of Housing and Community Development

Report on the Financial Statements

We have audited the accompanying financial statements of the Community Development Administration Single Family Mortgage Revenue Bonds (the Fund) of the Department of Housing and Community Development of the State of Maryland as of and for the years ended June 30, 2015 and 2014, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 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 respective financial position of the Fund as of June 30, 2015 and 2014, and the changes in its respective financial position and cash flows thereof for the years 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 Community Development Administration Single Family Housing Revenue Bonds and do not purport to, and do not, present fairly the financial position of the Department of Housing and Community Development of the State of Maryland as of and for the years ended June 30, 2015 and 2014, and the changes in its net position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2015, 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 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 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.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information on page 23, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



Baltimore, Maryland
September 30, 2015

Community Development Administration
Single Family Housing Revenue Bonds

STATEMENTS OF NET POSITION
(in thousands)

June 30, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|---|--------------------------|--------------------------|
| RESTRICTED ASSETS | | |
| Restricted current assets | | |
| Cash and cash equivalents on deposit | \$ 16,443 | \$ 9,693 |
| Mortgage-backed securities | 48,304 | 15,579 |
| Accrued interest receivables | <u>659</u> | <u>746</u> |
| Total restricted current assets | <u>65,406</u> | <u>26,018</u> |
| Restricted long-term assets | | |
| Mortgage-backed securities, net of current portion | <u>191,622</u> | <u>254,027</u> |
| Total restricted long-term assets | <u>191,622</u> | <u>254,027</u> |
| Total restricted assets | <u><u>\$ 257,028</u></u> | <u><u>\$ 280,045</u></u> |
| LIABILITIES AND NET POSITION | | |
| Current liabilities | | |
| Accrued interest payable | \$ 1,895 | \$ 2,083 |
| Accounts payable | - | 6 |
| Bonds payable | <u>13,275</u> | <u>6,607</u> |
| Total current liabilities | <u>15,170</u> | <u>8,696</u> |
| Long-term liabilities | | |
| Bonds payable, net of current portion | <u>226,314</u> | <u>257,512</u> |
| Total long-term liabilities | <u>226,314</u> | <u>257,512</u> |
| Total liabilities | 241,484 | 266,208 |
| NET POSITION | | |
| Restricted | <u>15,544</u> | <u>13,837</u> |
| Total liabilities and net position | <u><u>\$ 257,028</u></u> | <u><u>\$ 280,045</u></u> |

See notes to financial statements

Community Development Administration
Single Family Housing Revenue Bonds

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

Years ended June 30, 2015 and 2014

| | 2015 | 2014 |
|--|-----------|-----------|
| Operating revenue | | |
| Interest on mortgage-backed securities | \$ 8,934 | \$ 9,688 |
| Interest income on cash equivalents | 1 | 2 |
| Gain on early retirement of debt | 178 | 399 |
| | 9,113 | 10,089 |
| Operating expenses | | |
| Interest expense on bonds | 7,511 | 8,121 |
| Professional fees and other operating expenses | 72 | 72 |
| Bond issuance costs | - | 520 |
| | 7,583 | 8,713 |
| Operating income | 1,530 | 1,376 |
| Nonoperating revenue | | |
| Increase in fair value of mortgage-backed securities | 177 | 1,447 |
| Total nonoperating revenue | 177 | 1,447 |
| Transfers of funds, as permitted by the various bond indentures | - | 520 |
| CHANGE IN NET POSITION | 1,707 | 3,343 |
| Net position - restricted at beginning of year | 13,837 | 10,494 |
| Net position - restricted at end of year | \$ 15,544 | \$ 13,837 |

See notes to financial statements

Community Development Administration
Single Family Housing Revenue Bonds

STATEMENTS OF CASH FLOWS
(in thousands)

Years ended June 30, 2015 and 2014

| | 2015 | 2014 |
|---|-----------|-----------|
| Cash flows from operating activities | | |
| Principal and interest received on mortgage-backed securities | \$ 38,878 | \$ 45,974 |
| Purchase of mortgage-backed securities | - | (1,368) |
| Transfer of mortgage-backed securities | - | (70,744) |
| Professional fees and other operating expenses | (78) | (66) |
| | 38,800 | (26,204) |
| Net cash provided by (used in) operating activities | | |
| Cash flows from investing activities | | |
| Interest received on cash equivalents | 1 | 2 |
| | 1 | 2 |
| Net cash provided by investing activities | | |
| Cash flows from noncapital financing activities | | |
| Proceeds from sale of bonds | - | 55,987 |
| Payments on bond principal | (24,300) | (42,927) |
| Interest on bonds | (7,751) | (8,385) |
| Bond issuance costs | - | (520) |
| Transfers among Funds | - | 520 |
| | (32,051) | 4,675 |
| Net cash (used in) provided by noncapital financing activities | | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS ON DEPOSIT | 6,750 | (21,527) |
| Cash and cash equivalents on deposit at beginning of year | 9,693 | 31,220 |
| Cash and cash equivalents on deposit at end of year | \$ 16,443 | \$ 9,693 |

(continued)

Community Development Administration
Single Family Housing Revenue Bonds

STATEMENTS OF CASH FLOWS - CONTINUED
(in thousands)

Years ended June 30, 2015 and 2014

| | 2015 | 2014 |
|--|-----------|-------------|
| Reconciliation of operating income to net cash provided by (used in) operating activities | | |
| Operating income | \$ 1,530 | \$ 1,376 |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities | | |
| Decrease (increase) in assets | | |
| Mortgage-backed securities | 29,857 | (35,774) |
| Accrued interest receivables | 87 | (52) |
| (Decrease) increase in liabilities | | |
| Accrued interest payable | (188) | (199) |
| Accounts payable | (6) | 6 |
| Amortizations | | |
| Bond original issue premiums | (52) | (65) |
| Bond issuance costs | - | 520 |
| Gain on early retirement of debt | (178) | (399) |
| Interest received on cash equivalents | (1) | (2) |
| Interest on bonds | 7,751 | 8,385 |
| Net cash provided by (used in) operating activities | \$ 38,800 | \$ (26,204) |

See notes to financial statements

Community Development Administration
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS
(in thousands)

June 30, 2015 and 2014

NOTE 1 - AUTHORIZING LEGISLATION AND PROGRAM DESCRIPTION

The Community Development Administration (CDA) is authorized to issue Single Family Housing Revenue Bonds pursuant to Sections 4-101 through 4-255 of the Housing and Community Development Article of the Annotated Code of Maryland to meet the shortage of adequate, safe and sanitary housing in the State of Maryland, particularly for persons or families of limited income. CDA is in the Division of Development Finance in the Department of Housing and Community Development (DHCD) of the State of Maryland.

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

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

Community Development Administration
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Generally Accepted Accounting Principles

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

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

The Annual Financial Report may include a Management's Discussion and Analysis. Since CDA is an enterprise fund included in the State of Maryland's Comprehensive Annual Financial Report, a separate Management's Discussion and Analysis is not required in these financial statements. CDA prepares a Management's Discussion and Analysis for the General Accounting Division of the State of Maryland that is not part of these financial statements.

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, 2015 and 2014, all of the Fund's cash equivalents were invested in a money market mutual fund which is more fully described in Note 3.

Community Development Administration
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Accrued Interest Receivables

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

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 original issue premiums. See Notes 4, 5, and 6 for additional information.

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, 2015 and 2014, all mortgage loan yields were in compliance with the Code.

Interest on Mortgage-Backed Securities

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

Community Development Administration
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Administrative Support

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

The employees of CDA are covered by the Maryland State Retirement and Pension System. See Note 8 for additional information.

Revenue and Expenses

CDA distinguishes operating revenue and expenses from nonoperating items in accordance with accounting guidance issued by GASB. Operating revenue and expenses are identified as those activities that are directly related to financing affordable housing in the State of Maryland. The Fund's activities are considered to be operating except for increases and decreases in the fair value of mortgage-backed securities.

Use of Estimates

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

Community Development Administration
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2015 and 2014

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

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

As of June 30, 2015 and 2014, the Fund had \$16,443 and \$9,693, respectively, invested in a money market mutual fund (Federated Prime Cash Obligations Fund), which is classified as cash and cash equivalents. Also, as of June 30, 2015 and 2014, the Fund had \$4,018 and \$4,293, respectively, invested in Federal National Mortgage Association (FNMA) mortgage-backed securities and \$235,908 and \$265,313, respectively, in Government National Mortgage Association (GNMA) mortgage-backed securities. The following represents the GASB evaluation of these assets for interest rate risk, credit risk, concentration of credit risk and custodial credit risk.

Interest Rate Risk

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

Community Development Administration
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2015 and 2014

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

As of June 30, 2015, the amortized cost, fair value and maturities for these assets were as follows:

| Asset | Amortized cost | Fair value | Maturities (in years) | | | | |
|---------------------------------------|-------------------|-------------------|-----------------------|-------------|-------------|-------------|-------------------|
| | | | Less than 1 | 1 - 5 | 6 - 10 | 11 - 15 | More than 15 |
| Federated Prime Cash Obligations Fund | \$ 16,443 | \$ 16,443 | \$ 16,443 | \$ - | \$ - | \$ - | \$ - |
| FNMA mortgage-backed securities | 4,064 | 4,018 | - | - | - | - | 4,018 |
| GNMA mortgage-backed securities | 228,990 | 235,908 | - | - | - | - | 235,908 |
| Total | \$ 249,497 | \$ 256,369 | \$ 16,443 | \$ - | \$ - | \$ - | \$ 239,926 |

As of June 30, 2014, the amortized cost, fair value and maturities for these assets were as follows:

| Asset | Amortized cost | Fair value | Maturities (in years) | | | | |
|---------------------------------------|-------------------|-------------------|-----------------------|-------------|-------------|-------------|-------------------|
| | | | Less than 1 | 1 - 5 | 6 - 10 | 11 - 15 | More than 15 |
| Federated Prime Cash Obligations Fund | \$ 9,693 | \$ 9,693 | \$ 9,693 | \$ - | \$ - | \$ - | \$ - |
| FNMA mortgage-backed securities | 4,429 | 4,293 | - | - | - | - | 4,293 |
| GNMA mortgage-backed securities | 258,482 | 265,313 | - | - | - | - | 265,313 |
| Total | \$ 272,604 | \$ 279,299 | \$ 9,693 | \$ - | \$ - | \$ - | \$ 269,606 |

Community Development Administration
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2015 and 2014

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

The Federated Prime Cash Obligations Fund invests primarily in short-term, high-quality, fixed-income securities issued by banks, corporations and the U.S. Government. It is operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. It can reasonably be expected to have a fair value that will be unaffected by interest rate changes because the interest rates are variable and the principal can be recovered on demand. As noted above, as of June 30, 2015 and 2014, 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, 2015 and 2014, the ratings on Single Family Housing Revenue Bonds were Aaa by Moody's Investors Service.

Community Development Administration
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2015 and 2014

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

As of June 30, 2015, credit ratings and allocation by type of investments for the following assets were:

| Asset | Fair Value | Percentage of total investments | Money market fund rating | Securities credit rating | Rating agency |
|--|-------------------|---------------------------------|--------------------------|--------------------------|---------------|
| Federated Prime Cash Obligations Fund | \$ 16,443 | 6.41% | Aaa | | Moody's |
| Federal National Mortgage Association (FNMA) Mortgage-backed securities | 4,018 | 1.57% | | Aaa | Moody's |
| Government National Mortgage Association (GNMA) Mortgage-backed securities | <u>235,908</u> | <u>92.02%</u> | | Direct U.S. Obligations | |
| Total | <u>\$ 256,369</u> | <u>100.00%</u> | | | |

As of June 30, 2014, credit ratings and allocation by type of investments for the following assets were:

| Asset | Fair Value | Percentage of total investments | Money market fund rating | Securities credit rating | Rating agency |
|--|-------------------|---------------------------------|--------------------------|--------------------------|---------------|
| Federated Prime Cash Obligations Fund | \$ 9,693 | 3.47% | Aaa | | Moody's |
| Federal National Mortgage Association (FNMA) Mortgage-backed securities | 4,293 | 1.54% | | Aaa | Moody's |
| Government National Mortgage Association (GNMA) Mortgage-backed securities | <u>265,313</u> | <u>94.99%</u> | | Direct U.S. Obligations | |
| Total | <u>\$ 279,299</u> | <u>100.00%</u> | | | |

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

Community Development Administration
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2015 and 2014

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

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

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

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, 2015 and 2014, the Fund’s investments were not subject to custodial credit risk under accounting guidance issued by GASB. CDA’s investments and collateralized securities are held in trust by the trustee or the trustee’s agent, kept separate from the assets of the bank and from other trust accounts and are held in CDA’s name.

NOTE 4 - BONDS PAYABLE

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

Community Development Administration
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2015 and 2014

NOTE 4 - BONDS PAYABLE (Continued)

The provisions of the Resolution require or allow for the special redemption of bonds at par through the use of unexpended bond proceeds and excess funds accumulated primarily through prepayments, except for 2013 Series A (Pass-Through Program) bonds which are not subject to redemption from any funds other than mandatory payment from the scheduled principal payments and prepayments of mortgage-backed securities held in that series. All outstanding bonds, except the 2009 Series bonds, are subject to optional redemption, in whole or in part at any time, after certain dates, as specified in the respective series resolutions, at a redemption price equal to the principal amount thereof to be redeemed, except the 2011 Series C bonds maturing March 1, 2027, which will be redeemed at a premium that maintains the same yield as the original purchase price thereof to be redeemed. The 2009 Series A-1 through A-3 bonds are subject to optional redemption, in whole or in part, in denominations of \$10 or any integral multiple thereof on the first day of each month, at a price equal to 100% of the principal amount thereof to be redeemed. When bonds are redeemed, whether as a special or optional redemption, CDA writes off a proportionate share of any unamortized original issue premiums as a gain on early retirement of debt in the accompanying Statements of Revenue, Expenses and Changes in Net Position. All bonds are tax-exempt and have fixed interest rates.

The following is a summary of the bond activity for the year ended June 30, 2015 and the debt outstanding and bonds payable as of June 30, 2015:

| | Issue dated | Range of interest rates | Range of maturities | Debt outstanding at June 30, 2014 | Bond Activity | | | Debt outstanding at June 30, 2015 | Bond premium deferred | Bonds payable at June 30, 2015 |
|-------------------------------------|-------------|-------------------------|---------------------|-----------------------------------|------------------|-----------------------------|--------------------|-----------------------------------|-----------------------|--------------------------------|
| | | | | | New bonds issued | Scheduled maturity payments | Bonds Redeemed | | | |
| Single Family Housing Revenue Bonds | | | | | | | | | | |
| 2009 Series A-1 | 12/30/09 | 2.77% | 9/1/2041 | \$ 51,250 | \$ - | \$ - | \$ (4,550) | \$ 46,700 | \$ - | \$ 46,700 |
| 2011 Series A | 08/24/11 | 1.125% - 4.25% | 2014 - 2027 | 29,140 | - | (2,335) | (2,445) | 24,360 | 264 | 24,624 |
| 2009 Series A-2 | 12/30/09 | 2.32% | 9/1/2041 | 51,190 | - | - | (3,030) | 48,160 | - | 48,160 |
| 2011 Series B | 10/27/11 | 1.25% - 4.00% | 2014 - 2027 | 30,085 | - | (2,315) | (1,690) | 26,080 | 236 | 26,316 |
| 2009 Series A-3 | 12/30/09 | 2.49% | 9/1/2041 | 29,980 | - | - | (1,640) | 28,340 | - | 28,340 |
| 2011 Series C | 12/15/11 | 1.05% - 4.50% | 2014 - 2027 | 17,605 | - | (1,330) | (915) | 15,360 | 194 | 15,554 |
| 2013 Series A | 08/28/13 | 4.00% | 7/1/2043 | 53,945 | - | (4,050) | - | 49,895 | - | 49,895 |
| Total | | | | <u>\$ 263,195</u> | <u>\$ -</u> | <u>\$ (10,030)</u> | <u>\$ (14,270)</u> | <u>\$ 238,895</u> | <u>\$ 694</u> | <u>\$ 239,589</u> |

Community Development Administration
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2015 and 2014

NOTE 4 - BONDS PAYABLE (Continued)

The following is a summary of the bond activity for the year ended June 30, 2014 and the debt outstanding and bonds payable as of June 30, 2014:

| | Issue dated | Range of interest rates | Range of maturities | Debt outstanding at June 30, 2013 | Bond Activity | | | Debt outstanding at June 30, 2014 | Bond premium deferred | Bonds payable at June 30, 2014 |
|-------------------------------------|-------------|-------------------------|---------------------|-----------------------------------|------------------|-----------------------------|--------------------|-----------------------------------|-----------------------|--------------------------------|
| | | | | | New bonds issued | Scheduled maturity payments | Bonds Redeemed | | | |
| Single Family Housing Revenue Bonds | | | | | | | | | | |
| 2009 Series A-1 | 12/30/09 | 2.77% | 9/1/2041 | \$ 60,460 | \$ - | \$ - | \$ (9,210) | \$ 51,250 | \$ - | \$ 51,250 |
| 2011 Series A | 08/24/11 | 0.75% - 4.25% | 2013 - 2027 | 36,870 | - | (2,310) | (5,420) | 29,140 | 356 | 29,496 |
| 2009 Series A-2 | 12/30/09 | 2.32% | 9/1/2041 | 60,000 | - | - | (8,810) | 51,190 | - | 51,190 |
| 2011 Series B | 10/27/11 | 0.85% - 4.00% | 2013 - 2027 | 37,725 | - | (2,285) | (5,355) | 30,085 | 308 | 30,393 |
| 2009 Series A-3 | 12/30/09 | 2.49% | 9/1/2041 | 33,830 | - | - | (3,850) | 29,980 | - | 29,980 |
| 2011 Series C | 12/15/11 | 0.65% - 4.50% | 2013 - 2027 | 21,250 | - | (1,315) | (2,330) | 17,605 | 260 | 17,865 |
| 2013 Series A | 08/28/13 | 4.00% | 7/1/2043 | - | 55,987 | (2,042) | - | 53,945 | - | 53,945 |
| Total | | | | <u>\$ 250,135</u> | <u>\$ 55,987</u> | <u>\$ (7,952)</u> | <u>\$ (34,975)</u> | <u>\$ 263,195</u> | <u>\$ 924</u> | <u>\$ 264,119</u> |

NOTE 5 - DEBT SERVICE REQUIREMENTS

As of June 30, 2015, the required principal payments for bonds (including mandatory sinking fund payments and special and optional redemptions that occurred subsequent to June 30, 2015 and excluding the effect of unamortized discounts/premiums as shown in Note 4) and interest payments for each of the next five years and in 5-year increments thereafter, were as follows:

| Years ended June 30, | Interest | Principal |
|----------------------|-------------------|-------------------|
| 2016 | \$ 7,019 | \$ 13,275 |
| 2017 | 6,824 | 6,180 |
| 2018 | 6,686 | 6,320 |
| 2019 | 6,520 | 6,480 |
| 2020 | 6,328 | 6,680 |
| 2021 - 2025 | 28,643 | 23,385 |
| 2026 - 2030 | 24,545 | 30,585 |
| 2031 - 2035 | 19,927 | 38,630 |
| 2036 - 2040 | 14,733 | 44,080 |
| 2041 - 2045 | 6,398 | 63,280 |
| Total | <u>\$ 127,623</u> | <u>\$ 238,895</u> |

Community Development Administration
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2015 and 2014

NOTE 5 - DEBT SERVICE REQUIREMENTS (Continued)

As of June 30, 2014, the required principal payments for bonds (including mandatory sinking fund payments and special and optional redemptions that occurred subsequent to June 30, 2014 and excluding the effect of unamortized discounts/premiums as shown in Note 4) and interest payments for each of the next five years and in 5-year increments thereafter, were as follows:

| Years ended June 30, | Interest | Principal |
|----------------------|------------|------------|
| 2015 | \$ 7,830 | \$ 6,607 |
| 2016 | 7,739 | 6,065 |
| 2017 | 7,627 | 6,180 |
| 2018 | 7,489 | 6,320 |
| 2019 | 7,323 | 6,480 |
| 2020 - 2024 | 33,443 | 29,480 |
| 2025 - 2029 | 28,244 | 32,875 |
| 2030 - 2034 | 23,013 | 41,810 |
| 2035 - 2039 | 17,390 | 47,740 |
| 2040 - 2044 | 9,718 | 79,638 |
| Total | \$ 149,816 | \$ 263,195 |

Community Development Administration
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2015 and 2014

NOTE 6 - LONG-TERM OBLIGATIONS

Changes in long-term obligations for the years ended June 30, 2015 and 2014 were as follows:

| | 2015 | 2014 |
|---|------------|------------|
| Bonds payable | | |
| Beginning balance at June 30, | \$ 264,119 | \$ 251,523 |
| Additions | - | 55,987 |
| Reductions | (24,300) | (42,927) |
| Change in deferred amounts for issuance premiums | (230) | (464) |
| Ending balance at June 30, | 239,589 | 264,119 |
| Less due within one year | (13,275) | (6,607) |
| Total long-term bonds payable | \$ 226,314 | \$ 257,512 |

NOTE 7 - INTERFUND ACTIVITY

In accordance with the Resolution, net position in the Fund is restricted and pledged to bondholders. However, restricted assets may be transferred to other Funds, subject to the provisions of the Resolution. As of June 30, 2015, no transfers were made. As of June 30, 2014, \$520 was transferred into the Fund from CDA's Residential Revenue Bonds to fund costs of issuance and other expenses.

Community Development Administration
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2015 and 2014

NOTE 8 - PENSION AND OTHER POST-RETIREMENT BENEFITS

Eligible employees of CDA and employees of the State of Maryland are covered under the retirement plans of the State Retirement and Pension System of Maryland (the System) and are also entitled to certain healthcare benefits upon retirement. CDA's only obligation for retirement and post-employment benefits is its required annual contribution, which was paid in full by CDA to the State of Maryland prior to year end. The 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 9 - SUBSEQUENT EVENTS

Events that occur after the date of the statement of net position but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the date of the statement of net position are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the date of the statement of net position require disclosure in the accompanying notes. Management evaluated the activity of CDA through September 30, 2015 (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, 2015.

Subsequent to the year ended June 30, 2015, the following bond activity took place:

On July 31, 2015, CDA redeemed the following bonds:

| | |
|-----------------|---------|
| 2009 Series A-1 | \$1,070 |
| 2009 Series A-2 | \$1,790 |
| 2009 Series A-3 | \$1,200 |
| 2011 Series A | \$ 560 |
| 2011 Series B | \$ 965 |
| 2011 Series C | \$ 650 |

Community Development Administration
Single Family Housing Revenue Bonds

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

June 30, 2015 and 2014
(Unaudited)

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

For mortgage-backed securities held by the Fund as of June 30, 2015, the following schedule summarizes annual increases/decreases in fair value and the cumulative difference between fair value and cost:

| <u>Fiscal year ended June 30,</u> | <u>Annual increases/ decreases</u> | <u>Cumulative total</u> |
|---------------------------------------|--|-----------------------------|
| 2012 | \$ 16,923 | \$ 16,923 |
| 2013 | \$ (11,675) | \$ 5,248 |
| 2014 | \$ 1,447 | \$ 6,695 |
| 2015 | \$ 177 | \$ 6,872 |