

**HOWARD COUNTY HOUSING COMMISSION**  
**Howard County, Maryland**

**BASIC FINANCIAL STATEMENTS**  
**June 30, 2013**

## TABLE OF CONTENTS

	<b>PAGE</b>
<b>INDEPENDENT AUDITOR'S REPORT</b> .....	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b> .....	3
<b>BASIC FINANCIAL STATEMENTS</b> .....	10
Statement of Net Position .....	11
Statement of Revenues, Expenses and Changes in Net Position .....	12
Statement of Cash Flows .....	13
Notes to Financial Statements.....	14



# CliftonLarsonAllen

## Independent Auditor's Report

Board of Commissioners  
Howard County Housing Commission  
Howard County, Maryland

### Report on the Financial Statements

We have audited the accompanying financial statements of the Howard County Housing Commission (the Commission) which comprise the statement of net position as of June 30, 2013, and the related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

### 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 audit. We conducted our audit 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 Commission as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*CliftonLarsonAllen LLP*

Baltimore, Maryland  
November 25, 2013

**HOWARD COUNTY HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013**

The Howard County Housing Commission (HCHC or the Commission) is a public housing authority created in 1990 pursuant to State of Maryland enabling legislation for the purpose of acting as Howard County, Maryland's public housing authority, administrator of related programs and grants, and owner and manager of various housing developments and scattered site units. The Commission is overseen by a 7-member Board of Commissioners, appointed by the Howard County Executive and confirmed by the Howard County Council.

The Commission's management team offers the readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with the Commission's financial statements. The purpose of this Discussion and Analysis is (i) to provide an overview of the financial statements contained in this document; (ii) to offer brief programmatic and financial highlights of the past fiscal year; and (iii) to present limited information about factors that may affect the Commission during the coming fiscal year.

**Using This Audit Report**

This audit report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position (see pages 11 and 12, respectively), and Supplemental Information provides information about the activities of the Commission as a whole. The Statement of Revenues, Expenses and Changes in Net Position, in particular, shows that the Commission's work is supported in part by annual allocations from the U.S. Department of Housing & Urban Development (HUD). These funds are subject to annual appropriation risk and, accordingly, the Commission has been adversely impacted by slightly smaller appropriations on an annual basis. The Cash Flow statement (see page 13) shows the flow of cash in operations, capital expenditure, and investing.

The Statement of Net Position reports information about the Commission as a whole and about its activities in a way that helps address whether the Commission as a whole is better off or worse off as a result of the period's activities. This statement includes all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This statement reports the Commission's net assets - the difference between assets and liabilities – as one way to measure the Commission's financial health, or financial position. Over time, changes in the Commission's net assets are one of several key indicators of the improvement or deterioration of the Commission's financial health.

For the years ended June 30, 2013 and 2012, net assets changed as follows:

	<u>2013</u>	<u>2012</u>
Beginning net position	\$ 36,818,535	\$ 35,098,452
GASB 65 prior year bond issuance cost	(278,244)	-
Increase (decrease) in net position	<u>487,065</u>	<u>1,720,083</u>
<b>Ending net position</b>	<u><u>\$ 37,027,356</u></u>	<u><u>\$ 36,818,535</u></u>

**HOWARD COUNTY HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013**

**THE COMMISSION**

**Financial Highlights**

In FY 2013, the Commission continued its efforts to stabilize and improve its financial standing through the redevelopment and repositioning of its properties. Monarch Mills, a 269-unit, mixed-income, sustainable rental community, which was completed in March 2012, is a redevelopment of a former 100-unit low-income property. Monarch Mills now serves as a model of a high quality, green, and economically integrated community. The development will not only be financially self-sustaining, but will provide a positive stream of revenue for the Commission's future projects and programs. In FY 2013, Monarch Mills generated approximately \$659,648 in new revenues for the Commission.

Following the Monarch Mills model, in December 2011 the Commission closed on the financing and began the redevelopment of another of its properties – the 94-unit Hilltop Apartments complex in Ellicott City, now known as Burgess Mill Station. This new community will provide 198 units of high quality, mixed-income, sustainable housing, while helping to revitalize the downtown Ellicott City area. This project, too, will provide additional future cash flow for the Commission. The first units were completed and leased in November 2012; as of June 30, 2013, 92% of the units were leased or pre-leased. Construction completion is expected in November 2013.

As a component of the Burgess Mill Station project, and in cooperation with the County's Department of Recreation and Parks, the Commission issued over \$13.7 million in lease revenue bonds to finance a new state-of-the-art community recreational facility adjacent to Burgess Mill Station. This facility will be leased to and operated by the County. The new Roger Carter Community Center opened its doors to the public on June 15, 2013.

In September 2012, the Commission acquired two properties for the future development of affordable housing. One is a 6-acre parcel in Elkridge and the other is the Beechcrest Mobile Home Park in North Laurel. In November 2012, the Commission closed on a \$34 million refinancing of the Columbia Landing bonds. The refinancing will save the Commission about \$1 million annually for the next 5 years.

Also in FY 2013, the Commission continued its community outreach efforts with, among other things, the 7<sup>th</sup> annual "Come Home to Howard County" Housing Fair, a new "Housing Matters Mini-Fair," mortgage foreclosure prevention events, and homeownership counseling sessions.

From an operational standpoint, the Commission continued its efforts to further stabilize its financial standing by strengthening its administrative processes, improving its monitoring and compliance systems, and effecting operational efficiencies. At the end of FY 2012, the Commission determined to eliminate three in-house property management and maintenance positions and outsource those functions to a private third-party property management firm. The Commission also outsourced its Housing Choice Voucher inspection function and eliminated four HCV positions and one clerical position. These actions enabled the Commission to realize significant cost savings and efficiencies beginning in FY 2013.

Finally, in FY 2013 the Commission applied for and received a continued agency credit rating from Standard & Poor's of "A+ with a stable outlook." This rating, among the highest for comparable housing authorities, not only gives the Commission greater access to credit markets, but further signifies that the Commission,

**HOWARD COUNTY HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013**

which has worked diligently over the past six years to improve its financial position, is on the "right track" toward financial stability and self-sufficiency.

**CONDENSED FINANCIAL INFORMATION**

The following table provides comparative financial information, where available, as of and for the period then ended.

	<u>2013</u>	<u>2012</u>	<u>Variance (\$)</u>	<u>Variance (%)</u>
<b>Current assets</b>				
Cash and cash equivalents	\$ 7,904,168	\$ 16,638,382	\$ (8,734,214)	-52.49%
Accounts receivable	1,503,230	1,078,877	424,353	39.33%
Investments	429,814	429,170	644	0.15%
Other current assets	149,977	65,391	84,586	129.35%
Total current assets	<u>9,987,189</u>	<u>18,211,820</u>	<u>(8,224,631)</u>	-45.16%
<b>Noncurrent assets</b>				
Shared equity properties/investment in real estate partnership	4,629,475	4,114,516	514,959	12.52%
Mortgages receivable	5,515,763	5,253,680	262,083	4.99%
Capital assets, net	86,194,281	74,094,906	12,099,375	16.33%
Other noncurrent assets	1,229	245,868	(244,639)	-99.50%
Total noncurrent assets	<u>96,340,748</u>	<u>83,708,970</u>	<u>12,631,778</u>	15.09%
<b>Total Assets</b>	<u>\$ 106,327,937</u>	<u>\$ 101,920,790</u>	<u>\$ 4,407,147</u>	<b>4.32%</b>
<b>Deferred outflow of resources</b>	<u>\$ 1,260,048</u>	<u>\$ 3,049,014</u>	<u>\$ (1,788,966)</u>	-58.67%
<b>Current liabilities</b>				
Accounts payable	\$ 1,021,684	\$ 456,469	\$ 565,215	123.82%
Current portion of long-term debt	1,213,856	1,580,723	(366,867)	-23.21%
Other current liabilities	958,274	706,704	251,570	35.60%
Total current liabilities	<u>3,193,814</u>	<u>2,743,896</u>	<u>449,918</u>	16.40%
<b>Noncurrent liabilities</b>				
Loans payable - long-term	17,202,249	47,443,905	(30,241,656)	-63.74%
Bonds payable - long-term	47,690,000	13,655,000	34,035,000	140.12%
Other noncurrent liabilities	1,214,518	4,308,468	(3,093,950)	-71.81%
Total noncurrent liabilities	<u>66,106,767</u>	<u>65,407,373</u>	<u>699,394</u>	1.07%
<b>Total Liabilities</b>	<u>\$ 69,300,581</u>	<u>\$ 68,151,269</u>	<u>\$ 1,149,312</u>	<b>1.69%</b>
<b>Deferred inflow of resources</b>	<u>\$ 1,260,048</u>	<u>\$ 3,049,014</u>	<u>\$ (1,788,966)</u>	-58.67%
<b>Net position, as restated</b>				
Invested in capital assets, net of related debt	\$ 19,933,154	\$ 11,211,020	\$ 8,722,134	77.80%
Restricted	3,751,944	13,285,396	(9,533,452)	-71.76%
Unrestricted	13,342,258	12,322,119	1,020,139	8.28%
<b>Total net position, as restated</b>	<u>\$ 37,027,356</u>	<u>\$ 36,818,535</u>	<u>\$ 208,821</u>	<b>0.57%</b>

**HOWARD COUNTY HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013**

	<u>2013</u>	<u>2012</u>	<u>Variance (\$)</u>	<u>Variance (%)</u>
<b>Operating Revenues</b>				
Rental income	\$ 6,334,812	\$ 6,014,415	\$ 320,397	5.3%
HUD grants	10,402,814	10,460,487	(57,673)	-0.6%
Home sales	-	2,334,200	(2,334,200)	-100.0%
Other grants and revenue	<u>12,242,796</u>	<u>8,212,737</u>	<u>4,030,059</u>	49.1%
Total operating revenues	<u><b>28,980,422</b></u>	<u><b>27,021,839</b></u>	<u><b>1,958,583</b></u>	<b>7.2%</b>
<b>Operating Expenses</b>				
General administrative and general	3,468,313	3,948,570	(480,257)	-12.2%
Housing operations and tenant services	2,883,881	2,717,462	166,419	6.1%
Cost of property sold	-	3,250,088	(3,250,088)	0.0%
Housing assistance payments	<u>16,323,644</u>	<u>15,497,374</u>	<u>826,270</u>	5.3%
Total operating expenses	<u><b>22,675,838</b></u>	<u><b>25,413,494</b></u>	<u><b>(2,737,656)</b></u>	<b>-10.8%</b>
Operating income before depreciation	6,304,584	1,608,345	4,696,239	292.0%
Depreciation	<u>1,733,698</u>	<u>1,695,273</u>	<u>38,425</u>	2.3%
Total operating gain	<u><b>4,570,886</b></u>	<u><b>(86,928)</b></u>	<u><b>4,657,814</b></u>	<b>-5358.2%</b>
Total non-operating revenues (expenses)	<u>(4,083,821)</u>	<u>1,663,173</u>	<u>(5,746,994)</u>	-345.5%
Income/(loss) before contributions and transfers	487,065	1,576,245	(1,089,180)	-69.1%
Capital contributions and transfers	<u>-</u>	<u>143,838</u>	<u>(143,838)</u>	-100.0%
<b>Change in net position</b>	<u><b>\$ 487,065</b></u>	<u><b>\$ 1,720,083</b></u>	<u><b>\$ (1,233,018)</b></u>	<b>-71.7%</b>

**Change in Net Position:**

1. Total assets of the Commission exceeded total liabilities at the close of the 2013 fiscal year by \$37,027,356. This amount includes \$13,342,258 in unrestricted assets.
2. Total assets of the Commission increased by \$4,407,147 in fiscal year 2013 due, in part, to the development of the Roger Carter Center project, and the addition of various smaller projects.
3. As compared to last fiscal year, net cash for the Commission decreased by \$8,734,214 while accounts receivable increased by \$424,353. The decrease in net cash was primarily due to the use of Lease Revenue Bond proceeds which were used to build the Roger Carter Community Center. The increase of accounts receivable was primarily due to the Commission's financial support of the Burgess Mill Station during the development phase and unpaid reimbursement of grant funded expenditures.
4. At year-end, the Commission bought two properties under the Moderate Income Housing Units (MIHU) program which will be used for resale. Adversely, the shared equity properties/investment in real estate partnerships increased by \$514,959 from the prior year.

**HOWARD COUNTY HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013**

5. Net capital assets increased by \$12,099,375 due to the increase in construction-in-progress for the Roger Carter Community Center and the purchase of the Beechcrest Mobile Home Park.
6. Due to the implementation of GASB #65 other noncurrent assets decreased by \$244,639 which was removed from the prior year bond issuance cost.
7. At fiscal year-end, the Commission's current liabilities increased by \$449,918 (16.40%). The increase was mainly the result of unpaid administrative charges due to the County. The noncurrent liabilities increased by \$699,394 or (1.07%) over the prior year. This increase was due to the result of the refinancing of the Columbia Landing loan which was accomplished with the issuance of Revenue Refunding Bonds Series 2012 A & B.
8. The Commission's total change in net assets reported a favorable variance of \$208,821 or 0.57%.

**Changes in Income Statement:**

1. As compared to the prior year, the Commission experienced a slight decrease in HUD grant funds received by \$57,673 or 0.6%. The decrease in revenue is the result of the reductions in the HOME and CDBG funding for development and renovation cost.
2. At year-end, other grants and revenue increased by \$4,030,059 due to a variety of changes in funding resources received by the Commission and the land donation for the Beechcrest and Deep Falls projects.
3. The general administrative expenses decreased by \$480,257. The decrease was the result of a combination of cost savings on insurance premiums, general administrative expenses and because there were no major bad debt write-offs within the year.
4. The housing assistance payments increased by \$826,270 or (5.30%) in FY 2013, which is a combination of increases both in HCV assistance payments and the Portability payments. As anticipated, HUD reduced the public housing authority's allocation of funding in an effort to encourage utilization of reserves with the end result of a zero balance.
5. Total non-operating revenues decreased by \$5,746,994. This is mainly attributable to the swap termination fee paid when the Commission refinanced the Columbia Landing loan with bonds. Also, there was a decrease in the County's forgiveness of debt to the Commission.

**HOWARD COUNTY HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013**

**CAPITAL ASSETS**

At the end of 2013, the Commission had almost \$86.2 million invested in capital housing assets.

	<b>Capital Assets at Year-End (Net of Depreciation)</b>	
	<b>2013</b>	<b>2012</b>
Land	\$ 34,685,498	\$ 30,464,948
Building and improvements	51,206,799	50,269,590
Furniture and equipment	38,799	38,799
Construction-in-progress	14,174,628	5,512,544
Accumulated depreciation	(13,911,443)	(12,190,975)
<b>Total</b>	<b>\$ 86,194,281</b>	<b>\$ 74,094,906</b>

Capital Assets:

1. During FY 2013, the Commission acquired both the Beechcrest Mobile Home Park and the Deep Falls properties.
2. At fiscal year-end, construction of the Roger Carter Community Center was close to completion, however still considered as "construction in process."

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

Although the national economy is gradually improving, HUD's budgets continue to tighten and will likely continue to do so for the foreseeable future. The decline of the homeownership market caused a countervailing upswing in the rental housing market, resulting in higher rental rates and greater demand for affordable housing. Declining HUD funding and increased demand forced the Commission to close its Housing Choice Voucher waiting list on July 1, 2012, which contains over 5,000 applicants.

The federal budget "sequester" imposed by Congress in March 2013 has reduced the amount of Housing Choice Voucher subsidy available for disbursement to existing clients as well as the administrative fee paid to the Commission to administer the program. In response, the Commission is considering several cost saving measures, including reducing the area voucher payment standards. Inevitably, the result of these cuts will be a greater economic hardship on those least able to afford it.

On the positive side, the capital markets have loosened credit availability and the Federal Reserve has indicated that interest rates are likely to remain low for the next two to three years. These circumstances offered the Commission the opportunity to refinance its major debt - the bonds for its Columbia Landing property. The refinancing of Columbia Landing in FY 2013 is projected to save the Commission over \$5 million over the next 5 years, freeing up much-needed capital for reserves as well as future projects.

**HOWARD COUNTY HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013**

The favorable capital markets, resurgent multi-family rental market, and the Commission's strong financial condition have also provided the opportunity for the Commission to make another major acquisition. In October 2013, the Commission expects to issue approximately \$41.5 million in tax-exempt bonds to acquire Verona at Oakland Mills, a 251-unit garden apartment complex in Columbia. This acquisition will provide the Commission with additional cash flow and the opportunity to refinance and rehabilitate or redevelop the property in 10 years.

Additionally, in FY 2014 the Commission will be working with HUD toward the conversion of its 50 public housing units to project-based vouchers. Conversion will enable the Commission to realize significant administrative cost savings. When combined with other cost-saving and revenue-generating efforts, these measures should continue to put the Commission on sound financial footing for some time to come.

In FY 2014, the Commission will continue to pursue its mission of providing quality, sustainable affordable housing for families who live or work in Howard County through a variety of programs and projects. Phases 2 and 3 of Burgess Mill Station are in the planning stages; the Commission will partner with a private developer to create a 108-unit mixed income community in ElkrIDGE; and the Commission will be acquiring a property in Jessup in order to develop a permanent supportive housing facility and day resource center for homeless persons. The Commission is working with the Howard Hughes Corporation and the County to find ways to include affordable housing in the revitalization of downtown Columbia. A second phase of the Cottages at Greenwood project is also a potential starter in FY 2014. As always, these projects will be designed and produced in accordance with the Commission's six principles: housing integration, sustainability, long-term viability, superior design, universal design, and economic self-sufficiency.

**CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the users of these financial statements with a general overview of the Commission's finances. If you have questions about this report or need additional financial information, contact the Commission at 6751 Columbia Gateway Drive, 3<sup>rd</sup> Floor, Columbia, Maryland 21046 or call at 410.313.6320.

## **BASIC FINANCIAL STATEMENTS**

**HOWARD COUNTY HOUSING COMMISSION**  
**STATEMENT OF NET POSITION**  
**June 30, 2013**

**ASSETS**

<b>CURRENT ASSETS</b>	
Cash and cash equivalents - unrestricted	\$ 3,654,047
Cash and cash equivalents - restricted	3,908,608
Cash - restricted tenant security deposits	341,513
Investments	429,814
Accounts receivable, net of allowance of \$42,626	1,503,230
Prepaid expenses and other assets	<u>149,977</u>
Total current assets	<u>9,987,189</u>

<b>NONCURRENT ASSETS</b>	
Shared equity properties	4,629,475
Investment in real estate partnerships	129,577
Notes and mortgages receivable	5,386,186
Other noncurrent assets	1,229
Capital assets	<u>86,194,281</u>
Total noncurrent assets	<u>96,340,748</u>

<b>TOTAL ASSETS</b>	<u>106,327,937</u>
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<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Interest rate swap	<u>1,260,048</u>

**LIABILITIES AND NET POSITION**

<b>CURRENT LIABILITIES</b>	
Accounts payable and accrued expenses	1,021,684
Tenant security deposits	307,478
Accrued compensated absences, current portion	79,522
Unearned revenue, current portion	470,804
Current portion of notes and mortgages payable	1,213,856
Other current liabilities	<u>100,470</u>
Total current liabilities	<u>3,193,814</u>

<b>NONCURRENT LIABILITIES</b>	
Accrued compensated absences, less current portion	53,014
Unearned revenue, less current portion	916,253
Tenant escrow deposits	90,229
Notes and mortgages payable, less current portion	17,202,249
Bonds payable	47,690,000
Original issue premium	<u>155,022</u>
Total noncurrent liabilities	<u>66,106,767</u>
Total liabilities	<u>69,300,581</u>

<b>DEFERRED INFLOWS OF RESOURCES</b>	
Interest rate swap	<u>1,260,048</u>

<b>NET POSITION</b>	
Invested in capital assets, net of related debt	19,933,154
Restricted	3,751,944
Unrestricted	<u>13,342,258</u>
Total net position	<u>37,027,356</u>

<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 106,327,937</u>
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The accompanying notes are an integral part of the financial statements.

**HOWARD COUNTY HOUSING COMMISSION**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**Year Ended June 30, 2013**

**OPERATING REVENUES**

Rental income	\$ 6,334,812
HUD subsidies	10,402,814
Other government grants	211,308
Other revenues	<u>12,031,488</u>

Total operating revenues 28,980,422

**OPERATING EXPENSES**

Administration	2,522,468
Tenant services	549,098
Utilities	420,748
Maintenance	1,848,157
Protective services	65,878
General expenses	945,845
Housing assistance payments	<u>16,323,644</u>

Total operating expenses 22,675,838

Operating income before depreciation 6,304,584

Depreciation 1,733,698

Total operating income 4,570,886

**NON-OPERATING REVENUES (EXPENSES)**

Loss on disposal of shared equity properties	(80,280)
Interest income	140,088
Interest and amortization expense	(2,348,223)
Swap termination fee	(3,010,748)
Forgiveness of debt from Primary Government	<u>1,215,342</u>

Total non-operating revenues (expenses) (4,083,821)

Income before contributions and transfers 487,065

**CHANGE IN NET POSITION**

487,065

**TOTAL NET POSITION, BEGINNING OF YEAR, as restated**

36,540,291

**TOTAL NET POSITION, END OF YEAR**

\$ 37,027,356

The accompanying notes are an integral part of the financial statements.

**HOWARD COUNTY HOUSING COMMISSION**  
**STATEMENT OF CASH FLOWS**  
**Year Ended June 30, 2013**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from HUD	\$ 10,614,122
Cash received from tenants and others	18,077,604
Cash paid for administrative and general	(2,731,087)
Cash paid for housing, operating and tenant services	(2,804,011)
Cash paid for housing assistance payments	<u>(16,323,644)</u>
Net cash provided by operating activities	<u>6,832,984</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Acquisition of fixed assets	(13,833,073)
Issuance of bonds payable	3,610,773
Premium on bonds payable	(6,924)
Interest on bonds payable	(1,198,083)
Swap termination	(3,010,748)
Interest on notes payable	(299,129)
Payment on notes payable	(720,161)
Proceeds from notes payable	<u>535,865</u>
Net cash used in capital and related financing activities	<u>(14,921,480)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Change in investments	322,796
Change in shared equity properties	(967,332)
Interest on investments	6,115
Issuance of notes receivable	(1,500)
Payments on notes receivable	<u>2,967</u>
Net cash used in investing activities	<u>(636,954)</u>

**DECREASE IN CASH AND CASH EQUIVALENTS**

(8,725,450)

**CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR**

16,288,105

**CASH AND CASH EQUIVALENTS, END OF YEAR**

\$ 7,562,655

**CASH FLOWS FROM OPERATING ACTIVITIES**

Operating income	\$ 4,570,886
Adjustments to reconcile cash and cash equivalents provided by operating activities:	
Depreciation	1,733,698
Provisions for bad debt	13,992
Gain (loss) from sale of asset	(80,280)
Amortization of bond discount	(893,323)
Forgiveness of debt	1,215,342
Effects of changes in operating assets and liabilities:	
Prepaid expenses	(84,586)
Accounts receivable	(438,345)
Other non-current assets	(34,249)
Accounts payable	565,215
Tenant security deposits	242,046
Deferred revenue	(12,117)
Accrued liabilities	<u>34,705</u>

**NET CASH PROVIDED BY OPERATING ACTIVITIES**

\$ 6,832,984

The accompanying notes are an integral part of the financial statements.

**HOWARD COUNTY HOUSING COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Howard County Housing Commission (the Commission), a component unit of Howard County, Maryland (the County), is a public corporation established by Maryland and Howard County law to act as builder, developer, owner and manager of housing for eligible participants. The Commission was established as a result of the following:

- Title IV of the Housing and Community Act of the Annotated Code of Maryland.
- Title 13 "Housing, Urban Renewal and Economic Development" of Howard County Code which permits the County to authorize the Commission to perform various housing functions either through contract with the County or by local law.

The Commission is governed by seven commissioners appointed for five-year staggered terms by the Howard County Executive and confirmed by the Howard County Council. The Commission is included as a component unit of the County because of the significance of its operational and financial relationships with the County in that the County provides a significant amount of funding. The Commission has no taxing power.

Specific powers of the Commission include the following:

- Purchase, lease, or transfer real or personal property
- Operate housing developments
- Construct, improve, and renovate housing developments
- Invest funds held in reserve in securities
- Utilize federal/state housing subsidies
- Make loans
- Provide rent subsidies to persons of eligible income

**Nature of Activities**

Housing activities sponsored by the Commission include the following:

- Rental housing for low, moderate, and market rate income families, or elderly individuals. Projects presently owned and operated include various apartments, townhouses and single-family houses in Howard County, Maryland.
- Housing Choice Voucher Housing Program sponsored by the U.S. Department of Housing and Urban Development (HUD) through which eligible persons may seek rental housing in the private marketplace. This program allows eligible families to obtain adequate rental housing while paying no more than a stipulated percent of their adjusted gross monthly income for rent. See Supplemental Information for more details.
- Create home ownership opportunities for low, moderate, and market rate income families. Currently, the Commission acquires properties below market value through donations, prepayment of under construction units and reduced production cost. Units are sold to low, moderate, and market rate income families through programs offering shared equity or other below rate mortgages.

**HOWARD COUNTY HOUSING COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Nature of Activities** (continued)

The accounting and financial reporting policies of the Commission conform to generally accepted accounting principles (GAAP) as applicable to governments. The following is a summary of the more significant policies.

**Basis of Accounting and Measurement Focus**

The basis of accounting for the funds used by the Commission is determined by measurement focus. The flow of economic resources measurement focus, and the accrual basis of accounting are used to account for the Commission's funds. 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 these funds are included on the Statement of Net Assets.

The Commission's accounts are maintained in accordance with the principles of enterprise fund accounting to ensure the observance of limitations and restrictions on the resources available. The Commission is required to follow all statements of Governmental Accounting Standards Board (GASB). GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, was issued to incorporate FASB and AICPA guidance into GASB authoritative literature.

**Use of Estimates in Preparing Financial Statements**

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues, expenditures, and expenses. Actual results could vary from the estimates used.

**Component Units**

The Commission is the general partner in several real estate limited partnerships. The limited partnership interests are held by third parties unrelated to the Commission. As the general partner, the Commission has certain rights and responsibilities with respect to the limited partnerships. Additionally, the Commission is financially accountable for the limited partnerships under certain conditions as the Commission is legally obligated to fund operating deficits up to a maximum limit per partnership, in accordance with the terms of the partnership agreements.

Two of the real estate partnerships (Orchard Crossing Townhomes & Dorsey-Selbourne Phase II) are considered to be blended component units of the Commission because the Commission controls both the general and the limited partnership interests.

**HOWARD COUNTY HOUSING COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash and Cash Equivalents**

For Statement of Cash Flows reporting purposes, cash and cash equivalents includes unrestricted cash on hand, demand deposits, equity in highly liquid cash and investments, certificates of deposit, and repurchase agreements with initial maturities of three months or less.

**Investments**

Statutes authorize the Commission to invest in obligations of the U.S. Treasury, repurchase agreements, certificates of deposit and certain other investments allowed by HUD. These investments are carried at market value.

**Accounts Receivable**

Accounts receivable consists of payments due from HUD and related affiliates, rent payments due from tenants, and other miscellaneous receivables arising from the normal course of operations. A reserve for uncollectible accounts is established based on management's estimates.

**Capital Assets**

Capital assets include property held for and under development, operating properties, and fixed assets used in operations that cost \$5,000 or more and have an estimated useful life of at least one year. Donated capital assets are recorded at the estimated fair market value on the date received.

The Commission capitalizes costs associated with properties held for and under development, including interest costs during the construction period. The carrying amount of such properties does not exceed the estimated net realizable value.

Capital assets are stated at cost, less accumulated depreciation. Depreciation is computed under the straight-line method over the following estimated useful lives:

Buildings and improvements	20 - 30 years
Furniture and equipment	3 - 10 years

Proceeds from the disposal of capital assets are recognized in the period received. Proceeds from the sale of property acquired or significantly improved with HUD or State funds are refunded to HUD or the State as required by contract.

**Compensated Absences**

The total accumulated universal leave (incorporating vacation and personal) is accrued in the period earned as this cost is to be funded with current resources. Vacation benefits, including the FICA portion, are earned by employees based on time in service, and the rights to such benefits are vested. Howard County has no requirement that universal leave be taken in the year earned. Upon termination, employees are paid for any accumulated universal leave. As of June 30, 2013, \$132, 536 was accrued for compensated absences.

**HOWARD COUNTY HOUSING COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net Position**

Net Position is displayed in three components:

Net Position, Invested in Capital Assets, Net of Related Debt: This component of net position consists of all capital assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position: This component of net position consists of restricted assets when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.

Unrestricted Net Position: This component consists of net position that do not meet the definition of "Net Position Invested in Capital Assets, Net of Related Debt," or "Restricted Net Position."

The Commission first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**Grant Restrictions**

The Commission has received loans and grants from the U.S. Department of HUD to build and improve housing projects. The grants require that only individuals and families that meet various income, age and family status be housed or aided.

**Revenue Recognition**

Dwelling rent income, HUD grants received for operations, other operating fund grants and operating miscellaneous income are shown as operating income. HUD grants received for capital assets and all other revenue are shown as non-operating revenue.

**Interest Expense**

Interest is expensed as incurred except when interest is incurred during the construction period and is capitalized as part of the cost of the asset.

**New GASB Pronouncements**

In fiscal year 2013, the Commission implemented GASB Statements No. 61 through 65 as follows:

- GASB Statement No. 61, *The Financial Reporting Omnibus—an amendment of GASB Statement No. 14 and No. 34*, modifies certain requirements for inclusion of component units in the financial reporting entity. This includes the concept of financial burden or benefit on the relationship between the primary government and the component unit. The implementation of this new standard had no impact on the Commission's 2013 financial statements.

**HOWARD COUNTY HOUSING COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**New GASB Pronouncements** (continued)

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporates into GASB authoritative literature certain accounting and financial reporting guidance previously included in FASB, APB, and AICPA guidance issued before November 30, 1989. The implementation of this new standard modified certain language in disclosures related to the applicable basis of accounting in the Commission's 2013 financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* revised the financial reporting for elements of the financial statements as a consumption or acquisition of net assets that are applicable to a future reporting period. These items are distinct from assets and liabilities. This statement also identifies net position. The implementation of this new standard revised the presentation in the financial statements for those items identified as deferred outflows and inflows and revised the names and certain captioning of the statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*, established that when a government enters into a swap and swap counterparty or counterparty credit support provider commits or experiences an act of default or a termination event, the government does not terminate hedge accounting if the counterparty is replaced by another counterparty and the rest of the terms of the swap remain the same (assignment or in-substance assignment). Thereby, the government continues to report changes in fair values of the swap as either deferred inflows or outflows and does not recognize an investment income or expense. The implementation of this new standard had no impact on the Commission's 2013 financial statements.
- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets or liabilities as deferred outflow of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). The implementation of this new standard resulted in the write-off of bond issuance costs and the reduction of beginning net position by \$278,244.

**NOTE 2 – CASH AND INVESTMENTS**

**Cash**

At year-end, the aggregate carrying amount of the Commission's cash was \$7,904,168 and the bank balance was \$8,132,568. The Commission has uncollateralized cash in the amount of \$4,156,992 at June 30, 2013.

**HOWARD COUNTY HOUSING COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

**Investments**

As of June 30, 2013, the Commission had the following investments:

<u>Type of Investments</u>	<u>Fair Value/ Carrying Amount</u>
Certificates of deposit issued by:	
BB&T	\$ 429,814

The Commission has pledged this certificate of deposit as collateral with PNC Bank to secure payment of all loans, advances, debts, liabilities, obligations, covenants, and duties owing from the Commission and/or from the Residences of Ellicott Gardens LLC.

*Investment Rate Risk*

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. To limit the Commission’s exposure to fair value losses arising from increasing interest rates, the Commission’s investment policy limits the term of investment maturities to remain sufficiently liquid to enable the Commission to meet all operating requirements which might be reasonably anticipated. The Commission’s management believes the liquidity in the investment portfolio is adequate to meet cash flow requirements and to preclude the Commission from having to sell investments below original cost for that purpose. The investments at June 30, 2013 met the Commission’s investment policy as of that date.

*Credit Risk*

The investment policy of the Commission permits investments in the following types of investments: U.S. Treasury and Federal Government agencies, bankers acceptances, repurchase agreements and certificates of deposit, the State Treasurer’s Investment Pool, commercial paper, and mutual funds dealing in governmental securities.

*Custodial Credit Risk*

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the Commission will not be able to recover all or a portion of the value of its investments or collateral securities that are in the possession of an outside party as of June 30, 2013.

**NOTE 3 – CASH AND CASH EQUIVALENTS - RESTRICTED**

Restricted cash consisted of the following at June 30, 2013:

HCVP HAP and administrative	\$ 440,431
HCVP FSS escrows	190,699
Replacement reserves	2,320,063
Bond proceeds	861,694
Loan escrow	<u>95,721</u>
<b>Total</b>	<u>\$ 3,908,608</u>

**HOWARD COUNTY HOUSING COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 4 – ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following at June 30, 2013:

Tenants, net of allowance of \$13,615	\$	147,997
Accounts receivable - Other governments		202,801
Accounts receivable - Portability		555,544
Accounts receivable - Other		489,790
Accounts receivable - Fraud recovery, net of allowance of \$29,011		<u>107,098</u>
<b>Total</b>	<b>\$</b>	<b><u>1,503,230</u></b>

**NOTE 5 – INVESTMENTS IN SHARED EQUITY PROPERTIES**

The Commission’s Shared Equity Program assists qualified Howard County home buyers to purchase homes. The Commission purchases a percentage of the property to help maintain perpetual affordability. Upon sale of the property, the co-owner has to pay the Commission its share of the total sale price.

The Commission has invested in a total of 42 properties, with an average equity percentage of 65.85%. Total equity investment at June 30, 2013 totaled \$4,629,475.

During the year ended June 30, 2013, the Commission funded 24 purchases.

**NOTE 6 – INVESTMENT IN REAL ESTATE PARTNERSHIPS**

The Commission is a partner, owner, or interest holder either solely or severally with multiple organizations as part of various housing projects, development and construction projects, and for financing purposes. These separate legal entities are established to advance the mission of the Commission related to development and management of various forms of affordable housing. Activity of these entities is reflected in the financial statements of the Commission as applicable, to the extent of their ownership interest and level of activity.

The following table reflects these entities, their purpose, and the Commission’s interest.

Project	HCHC Affiliate	Date Formed	HCHC Interest	Percentage Ownership	Equity Interest
Dorsey-Selbourne Limited Partnership	Dorsey-Selbourne Limited Partnership	10/1/1999	General Partner	0.0051%	\$ 52,400
Parkview at Emerson	Emerson Development LLLP (1)	12/28/2007	General Partner	51%	(35)
The Residence at Ellicott Gardens	The Residence at Ellicott Gardens LLC	6/7/2006	General Member	0.01%	70,059
Monarch Mills	Monarch Mills, LP	4/1/2010	General Partner	0.01%	(324)
Parkview at Columbia	Columbia Development LLLP	5/25/2010	General Partner	9.00%	<u>7,477</u>
<b>Total</b>					<b><u>\$ 129,577</u></b>

(1) The profits and losses of the Partnership, and any distributions of Partnership property, shall be allocated among and distributed to the Partners as follows: Shelter 90.01% Commission 9.99%.

**HOWARD COUNTY HOUSING COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 6 – INVESTMENT IN REAL ESTATE PARTNERSHIPS (CONTINUED)**

The Commission owns 70 shares of common stock in Elkridge Housing Corporation which, through an affiliate entity, holds a nominal interest in the Orchard Club Limited Partnership. The Orchard Club Limited Partnership owns a housing development known as the Orchard Club Project in Elkridge, Maryland. Shares owned by the Commission were acquired by gift. As of this reporting date, there was no available established market value for these securities nor any other means to determine a value. Accordingly, this disclosure is reported for information purposes only and no value is reflected in the financial statements.

**NOTE 7 – NOTES AND MORTGAGES RECEIVABLE**

Notes and mortgages receivable at June 30, 2013, consisted of the following:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1. Mortgage notes receivable	\$ 654,873	\$ 78,570	\$ 733,443
2. ODC loan for Patuxent Square	2,000,000	625,000	2,625,000
3. Monarch Mills LP	259,315	8,428	267,743
4. BRAC Loan Fund	160,000	-	160,000
5. Milltowne Associates	1,600,000	-	1,600,000
<b>Total notes and mortgages receivable - noncurrent</b>	<u>\$ 4,674,188</u>	<u>\$ 711,998</u>	<u>\$ 5,386,186</u>

1. Mortgage notes receivable - the Commission loans funds to moderate income households to purchase affordable homes. The interest on the loans is between 0% - 7% per annum. The payment of principal and interest is deferred until the time of sale, transfer, or refinance of the property. The loan is used to pay the closing costs or down payment on the purchase of the home.
2. ODC loan for Patuxent Square - the Commission loaned \$2,000,000 to Residential Limited Partnership (ODC) for the development costs and capital assistance of the eighty (80) unit residential rental housing project known as Patuxent Square located in Laurel, Maryland. The interest on the permanent loan is 6% per annum. The payments of principal and interest are deferred for a term of 20 years.
3. Monarch Mills LP - the Commission made a \$259,315 40-year loan to Monarch Mills, LP for the purpose of providing financing to aid in the construction of a 269-unit multifamily and senior apartment community which will provide affordable housing for low income households. The interest on the loan is 1% per annum. The payments of principal and interest begin July 1, 2012 but are subject to deferral depending on cash flow.
4. BRAC Loan Fund – on September 29, 2011 the Commission made a \$160,000, unsecured, non-recourse loan, with an interest rate of zero percent to The Maryland Department of Housing and Community Development for affordable rental housing preservation developments through the MD-BRAC Preservation Loan Fund. The loan is expected to be repaid by September 29, 2021.

**HOWARD COUNTY HOUSING COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 7 – NOTES AND MORTGAGES RECEIVABLE (CONTINUED)**

5. Milltowne Associates - the Commission made a \$1,600,000 bridge-funded HOME capital assistance loan to Milltowne Associates, LP for a portion of the development costs to construct and operate a 198-unit, mixed income residential housing project known as Hilltop Phase I located in Ellicott City, Maryland. The construction loan period commenced on the date of closing of the HOME loan (November 28, 2011) and shall not exceed twenty-three months. The permanent loan period shall commence on the first day of the first month after the construction loan period ends and is for a term of 40 years. No interest shall accrue on the outstanding principal balance throughout the construction loan period. During the permanent loan period interest shall accrue on the outstanding balance of the principal at the rate of 1.0% per year.

**NOTE 8 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for governmental funds for the year ended June 30, 2013 was as follows:

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>June 30, 2013</u>
Land	\$ 30,464,948	\$ 4,174,980	\$ 45,570	\$ -	\$ 34,685,498
Construction in progress	<u>5,512,544</u>	<u>9,573,987</u>	<u>(911,903)</u>	<u>-</u>	<u>14,174,628</u>
Total assets not being depreciated	<u>35,977,492</u>	<u>13,748,967</u>	<u>(866,333)</u>	<u>-</u>	<u>48,860,126</u>
Buildings and improvements	50,269,590	84,106	853,103	-	51,206,799
Furniture and equipment	<u>38,799</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,799</u>
Total assets being depreciated	<u>50,308,389</u>	<u>84,106</u>	<u>853,103</u>	<u>-</u>	<u>51,245,598</u>
Less accumulated depreciation	<u>(12,190,975)</u>	<u>(1,733,698)</u>	<u>13,230</u>	<u>-</u>	<u>(13,911,443)</u>
<b>Net book value</b>	<u>\$ 74,094,906</u>	<u>\$ 12,099,375</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86,194,281</u>

Construction-in-progress is the cost incurred on open development projects or on major capital improvement projects under the Capital Fund Program (CFP). These projects were at various stages of completion as of June 30, 2013. Projects are not transferred to other capital asset categories until the project is approved as completed by HUD, however depreciation expense begins when the project is ready for its intended use.

**HOWARD COUNTY HOUSING COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 9 – LONG TERM LIABILITIES**

A summary of long-term liabilities is as follows:

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2013</u>	<u>Due Within One Year</u>
Long-term debt	\$ 49,024,628	\$ 535,864	\$ (31,374,387)	\$ 18,186,105	\$ 983,856
Bonds payable	13,655,000	34,265,000	-	47,920,000	230,000
Accrued compensated absences	135,445	83,695	(86,604)	132,536	79,522
Deferred revenue	1,187,089	228,686	(28,718)	1,387,057	470,804
Other long-term liabilities	<u>276,906</u>	<u>18,515</u>	<u>(50,170)</u>	<u>245,251</u>	<u>-</u>
<b>Total</b>	<u>\$ 64,279,068</u>	<u>\$ 35,131,760</u>	<u>\$ (31,539,879)</u>	<u>\$ 67,870,949</u>	<u>\$ 1,764,182</u>

Long-term debt consists of the following as of June 30, 2013.

Howard County, Maryland, 40-year loan dated July 1, 1992 payable at \$7,311 per year including interest at 2% per annum due July 1, 2032. Loan proceeds were used to acquire and rehabilitate units in the Treover Condominiums Development, Columbia, Maryland and are secured by deed of trust note on the property.	\$ 119,152
Howard County, Maryland, 40-year loan dated July 1, 1993 payable at \$3,656 per year including interest at 2% per annum due July 1, 2033. Loan proceeds were used to purchase and construct a modular housing project located in Elkridge, Maryland and are secured by deed of trust note on the property.	61,988
Howard County, Maryland, 40-year loan dated September 1999 payable at 3% per annum with a maturity date of April 19, 2043. Debt service beginning after construction is approximately \$19,000 per annum. Loan proceeds were used for a portion of the development costs of constructing a 48-unit residential rental housing project known as Selbourne House of Dorsey Hall II. The loan is secured by a deed of trust.	380,138
Department of Housing and Community Development of the State of Maryland, 30-year loan dated February 13, 1996 payable at \$23,016 per annum including interest at 4% per annum due March 31, 2026. Loan proceeds were used as permanent financing for the Orchard Crossing Townhomes II project secured by deed of trust, security agreement, and assignment of rents.	229,745
Howard County, Maryland, 25-year loan dated October 3, 2006. Interest shall be paid at 2% per annum. The loan is due October 3, 2031. Loan proceeds were used to acquire the 28 units of Kingswood property, Columbia, Maryland and are secured by deed of trust note on the property.	1,671,429
Branch Banking and Trust Company note in the amount of \$165,068. Interest shall be paid at prime with a minimum rate of 4.25%. Currently interest for amounts borrowed is 4.25% per annum; interest will be paid monthly until the loan matures on November 20, 2016. Loan proceeds were used to acquire interest in Shared Equity Co-Ownership Properties.	87,384

**HOWARD COUNTY HOUSING COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 9 – LONG TERM LIABILITIES (CONTINUED)**

<p>Howard County, Maryland, 20-year loan dated October 25, 2006 payable at 6% per annum. Interest-only payments will be paid monthly starting December 1, 2011, until the loan matures on December 1, 2026. Loan proceeds were used to issue loans to Orchard Crossing Development Residential Limited Partnership for the construction of Patuxent Square.</p>	<p>\$ 2,790,000</p>
<p>Howard County, Maryland, 8-year RHDP loan dated January 1, 2009 payable at \$100,000 per annum due December 31, 2016. Interest shall be paid at 0% per annum. Loan proceeds were used for the rehabilitation of the 24-unit Colt's Crossing Apartments public housing complex.</p>	<p>400,000</p>
<p>Department of Housing and Community Development of the State of Maryland, 30-year RHPP loan originally dated February 5, 1988, assumption of debt entered into on April 30, 2009. Interest shall be paid at 2% per annum. Interest on the loan has been deferred under the loan agreement during the first 15 years. The deferred balance is to be repaid in equal monthly installments over the remaining life of the loan. Currently the monthly interest payment is \$1,474 plus \$367 payment of the deferral. The entire loan balance is due the earlier of 1) sale or transfer of the property or 2) January 2019. Assumption of debt was incurred during the purchase of the rental housing project known as Ellicott Terrace.</p>	<p>906,805</p>
<p>Department of Housing and Community Development of the State of Maryland, 30-year loan originally dated February 5, 1988, assumption of debt entered into on April 30, 2009. Payable at \$3,419 monthly including interest at 7.8% per annum due January 5, 2018. Assumption of debt was incurred during the purchase of the rental housing project known as Ellicott Terrace.</p>	<p>162,440</p>
<p>PNC Loan in the amount of \$1,600,000 dated November 15, 2011. Interest due on unpaid principal balance at the rate of 4.50% per annum. The loan repayment follows the expected funding from Howard County, Maryland pursuant to the HOME Agreement between the County and the Commission with a final maturity date of December 15, 2016. Loan proceeds were used to provide term financing for Hilltop Phase 1 and are secured by all deposit accounts of the Commission at PNC Bank and a first lien collateral assignment of the HOME Agreement.</p>	<p>1,067,587</p>
<p>Branch Banking and Trust Company Bank Lease Revenue variable rate bonds Series 2011 in the amount of \$13,655,000 with a bond premium of \$207,747. Interest rates range from 4.00% to 5.00%. Interest payments on the bonds begins June 1, 2012 with principal payments beginning June 1, 2014 until final maturity of June 1, 2043.</p>	<p>13,655,000</p>
<p>United Bank Loan in the amount of \$208,000. Interest shall be paid at 0.5% per annum below the prime rate with a minimum rate of 2.75%. Currently the interest for the amount borrowed is 2.75% per annum; interest will be paid monthly until the loan matures on December 26, 2013. Loan proceeds were used to acquire an interest in a MIHU property.</p>	<p>208,000</p>

**HOWARD COUNTY HOUSING COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 9 – LONG TERM LIABILITIES (CONTINUED)**

United Bank Loan in the amount of \$205,015. Interest shall be paid at 0.5% per annum below the prime rate with a minimum rate of 2.75%. Currently the interest for the amount borrowed is 2.75% per annum; interest will be paid monthly until the loan matures on December 26, 2013. Loan proceeds were used to acquire an interest in a MIHU property.	\$ 205,015
Jefferies & Company, Inc. Revenue Refunding Multimodal Bonds Series 2012A in the amount of \$31,125,000. Interest rate is 1.251%. Interest payment on the bonds began on December 1, 2012 with principal payments beginning on June 30, 2020 until final maturity of June 30, 2035. The proceeds were used to refund the prior bonds on Columbia Landing.	31,125,000
Jefferies & Company, Inc. Revenue Refunding Bonds Series 2012B in the amount of \$3,140,000. Interest rate is 3.250%. Interest payment on the bonds began January 1, 2013 with principal payments beginning on June 30, 2019 until final maturity of June 30, 2020. The proceeds were used to refund the prior bonds on Columbia Landing.	<u>3,140,000</u>
Subtotal — amortizing loans.	56,209,683
Department of Housing and Community Development of the State of Maryland has provided non-amortized loans. Loans were used to construct specific residential rental units. Principal and interest are deferred in perpetuity as long as the Commission continues to house low income families, as set forth in the loan agreements. Loans are collateralized with deeds of trust, security agreements, and assignments of rents.	<u>9,896,422</u>
<b>Total</b>	<u>\$ 66,106,105</u>

**HOWARD COUNTY HOUSING COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 9 – LONG TERM LIABILITIES (CONTINUED)**

The changes in long-term debt for the period ended June 30, 2013 are as follows:

	June 30, 2012	Additions	Retirements	June 30, 2013
BB&T Loan #10 - 7417 Mullberry Grove Dr. Elkridge	\$ 110,446	\$ -	\$ (23,062)	\$ 87,384
BB&T Loan #13 - Columbia Landing Refinance	28,373,867	-	(28,373,867)	-
BB&T Loan #23 - Columbia Landing	2,280,360	-	(2,280,360)	-
BB&T Series 2011 Bonds	13,655,000	-	-	13,655,000
Enterprise Loan - Cottages at Greenwood	199,960	2,482	(202,442)	-
PNC Loan - Hilltop Phase 1 Project (HOME)	1,401,845	-	(334,258)	1,067,587
Howard County - 2008 Colt's Crossing Renovation	500,000	-	(100,000)	400,000
Howard County - 1992-Treover	123,975	-	(4,823)	119,152
Howard County - 1993-Modular/Elkridge	64,353	-	(2,365)	61,988
Howard County - 2001-Selbourne	387,834	-	(7,696)	380,138
Howard County - 2007 Kingswood	1,671,429	-	-	1,671,429
Howard County - 2007 ODC - Patuxent Sq	2,670,000	120,000	-	2,790,000
Howard County - 2008 7270 Darby Downs Unit G, Elkridge	32,000	-	-	32,000
DHCD, State of Maryland - Courts at Guilford	2,400,000	-	-	2,400,000
DHCD, State of Maryland - Courts at Guilford	596,130	-	-	596,130
DHCD - Ellicot Terrace (CDA Financing Adj. Factor)	520,000	-	-	520,000
DHCD - Ellicot Terrace (CDA RHPP 2% Loan - Deferred Interest)	27,061	-	(4,785)	22,276
DHCD - Ellicot Terrace (CDA RHPP 2% Loan)	884,162	367	-	884,529
DHCD - Ellicot Terrace (CDA Tax Exempt Loan)	189,637	-	(27,197)	162,440
DHCD, State of Maryland - Orchard Crossing	243,277	-	(13,532)	229,745
DHCD, State of Maryland - Stoney Run	1,080,000	-	-	1,080,000
DHCD, State of Maryland - Selbourne Limited Partnership	2,076,000	-	-	2,076,000
DHCD, State of Maryland - Selbourne House at Dorsey Hall, II	3,192,292	-	-	3,192,292
United bank Loan - 9307 White Chute Way	-	208,000	-	208,000
United bank Loan - 9311 White Chute Way	-	205,015	-	205,015
Columbia Bank Series 2012 A Bond	-	31,125,000	-	31,125,000
Columbia Bank Series 2012 B Bond	-	3,140,000	-	3,140,000
<b>Total</b>	<b>\$ 62,679,628</b>	<b>\$ 34,800,864</b>	<b>\$ (31,374,387)</b>	<b>\$ 66,106,105</b>

Future maturities of long-term debt are as follows:

	Principal	Interest
2014	\$ 1,213,856	\$ 1,844,447
2015	816,996	1,807,376
2016	833,536	1,776,264
2017	574,678	1,742,211
2018	1,284,385	1,720,848
2019-2023	11,107,611	7,642,607
2024-2028	15,311,416	5,598,982
2029-2033	14,598,969	3,304,427
2034-2038	7,233,738	1,314,229
Thereafter	13,130,920	515,886
<b>Total</b>	<b>\$ 66,106,105</b>	<b>\$ 27,267,277</b>

**HOWARD COUNTY HOUSING COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 9 – LONG TERM LIABILITIES (CONTINUED)**

**Capital Grants**

Contributed capital grants are recorded as non-operating revenue for some grants. Certain new construction and rehabilitation is being funded through contributions from the Community Development Administration (CDA) and the Commission. If development costs exceed the CDA approved capital assistance, the excess will be contributed by the Commission. Repayment of the CDA capital assistance and payment of interest is not required unless an event of default occurs, as defined in the agreements.

**NOTE 10 – DERIVATIVE INSTRUMENTS**

At June 30, 2013, the Commission had one derivative instrument outstanding as noted in the table below. The Commission used the regression analysis method to evaluate the hedge effectiveness of the interest rate swaps. This method considers the statistical relationship between the cash flows of the swap and the underlying floating rate notes. If the critical terms are the same, the changes in cash flows or fair values of the potential hedging derivative instrument will substantially offset the changes in cash flows or fair values of the hedgeable item. An interest rate swap is considered an effective cash flow hedge under this method if all of the following criteria are met. At June 30, 2013, the hedging derivative instrument shown in the table below met the criteria for effectiveness under the regression analysis terms method.

**HOWARD COUNTY HOUSING COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 10 – DERIVATIVE INSTRUMENTS (CONTINUED)**

**Consistent Critical Terms Method**

		Deutsche Bank: Series 2012 A
a.	The notional amount of the swap is the same as the principal amount of the hedgeable item through the life of the hedging relationship.	Yes, swap notional equals bond principal
b.	Upon association with the hedgeable item, the interest rate swap has zero fair value.	Yes
c.	The formula for computing net settlements under the interest rate swap is the same for each net settlement.	Yes
d.	The reference rate of the interest rate swap's variable payment is consistent with one of the following:	
	(1) The reference rate or payment of the hedgeable item (i.e., cost of funds hedge).	N/A
	(2) A benchmark interest rate as specified in paragraph 35 if interest risk is the hedged risk. The reference rate cannot be multiplied by a coefficient, but it may be adjusted by addition or subtraction of a constant, provided that the constant is specifically attributed to the effects of state-specific tax rates.	Pays 1.826%, receive SIFMA to 7/1/18 and 68% one-month LIBOR thereafter
e.	No payments under the swap occur after the term of the hedgeable item.	Yes
f.	The swap does not have a floor or cap unless the hedgeable item has a comparable floor or cap.	Yes, neither has a cap or floor
g.	The time interval (i.e., designated maturity) of the reference rate employed in the variable payment of the swap is the same as the time interval of the rate reset periods of the hedgeable item.	Yes, both time intervals are monthly
h.	The frequency of the rate resets of the variable payment of the swap and the hedgeable item are the same.	Yes, both resets are monthly
i.	The rate reset dates of the swap are within six days of the rate reset dates of the hedgeable item.	Yes, the rate reset dates are the same (5th day of each month)
j.	The periodic swap payments are within 15 days of the periodic payments of the hedgeable item.	Yes, payments under the swap and bonds occur on the 5th day of each month

*Objective of the interest rate swaps* – In order to protect against the potential of rising interest rates, the Commission entered into two separate pay-fixed, receive variable interest rate swaps. The net interest paid on the swaps and variable rate debt is anticipated to be less than the interest paid had the Commission issued fixed-rate debt.

*Terms* – The terms of the swaps are described in the table below. Except as discussed under rollover risk, the swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated “bonds payable” category during the period that the bonds are hedged. The Commission may terminate the swap at market value at any time.

**HOWARD COUNTY HOUSING COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 10 – DERIVATIVE INSTRUMENTS (CONTINUED)**

*Fair value* – The termination value of both swaps had a negative fair value as of June 30, 2013 as a result of low interest rates. The fair values were determined using the market valuation.

Associated Bond Issue	Notional Amounts	Trade Date	Terms	Fair Values	Swap Term Date	Counterparty/ Credit Rating
Series 2012A	31,125,000	11/14/2012	Pay 1.826%, receive 68% one month LIBOR	1,260,048	7/1/2034	Deutsche Bank, AG (A2/A/A+)

*Credit risk* – The Commission’s counterparties may become unable to meet their obligations under the swap agreement. The counterparty for the Commission’s swaps is Deutsche Bank. As of June 30, 2013, the Commission was not exposed to credit risk with respect to termination payments as all of its swap agreements had negative fair value on this date. However, should interest rates change such that the fair value of the swap becomes positive, the Commission would be exposed to credit risk in the amount of the swap’s fair value. The swap agreements do not contain any collateral agreements with the counterparties.

*Termination risk* – The Commission or the counterparties may terminate the swap at market value if the other party fails to perform under the terms of the contract. If any of the swaps are terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the Commission would be liable to the counterparty for a payment equal to the swap’s fair value.

*Interest rate risk* – The Commission is exposed to interest rate on its pay-fixed, receive variable interest rate swaps as the Commission’s net payment increases as the LIBOR swap index decreases.

*Basis risk* – The Commission is exposed to basis risk on its pay-fixed interest rate swaps because the variable rate payments received on these derivative instruments are based on a rate or index other than the interest rates the Commission pays on its hedged variable-rate debt, which is remarketed monthly. Should the relationship between the floating rate received on the swap and the floating rate paid on the bonds diverge from historical relationships, the Commission pays more interest than originally anticipated. The Commission considered basis risk when it structured its interest rate swaps and has experienced little basis risk over time.

*Rollover risk* – The Commission is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature prior to the maturity of the associated debt. The derivative instrument exposes the Commission to rollover risk in that the debt maturity date is July 1, 2018 while the swap termination date is July 1, 2034.

*Market-access risk* – The Commission is exposed to market-access risk as an issuance of refunding bonds related to the underlying debt is planned in the future. If at that time the Commission is unable to enter credit markets, expected costs savings may not be realized.

*Foreign currency risk* – The Commission is not exposed to foreign currency risk on its hedging derivative instruments.

**HOWARD COUNTY HOUSING COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 11 – RETIREMENT PLAN**

All County employees, except certain policemen and firemen, participate in the Howard County Employees Retirement Plan (Retirement Plan) which was established July 1, 1995. The Retirement Plan is a single-employer defined benefit public employee retirement plan administered by the County. The Plan was established, is operated, and may be amended under the provisions of the Howard County Code, Sections 1.400 and 1.401 to 1.478.

The Retirement Plan provides retirement benefits, as well as death and disability benefits and cost-of-living adjustments. Participants attaining the age of 62 who have completed two years of eligibility service and the sum of attained age in whole years and years of eligibility service equal at least 67, or participants who have completed 30 years eligibility service, are entitled to a normal retirement benefit. Employees are required to contribute 2% of annual compensation plus 2% of annual compensation exceeding the Social Security Taxable Wage Base. The County funds the remainder of the cost of its employees' participation in the Retirement Plan at rates determined actuarially that are sufficient to accumulate sufficient assets to pay benefits when due. All full-time and permanent part-time employees must be members of one of the plans. All employees hired after July 1, 1995 must enroll in the Retirement Plan. The Retirement Plan issues separate audited financial reports which may be obtained by writing to: Howard County, Maryland, Director of Finance, 3430 Court House Drive, Ellicott City, Maryland 21043.

The Commission's 2013 reimbursement to the County for retirement benefits was \$600,000.

**NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS**

The Commission participates in the Howard County, Maryland Post-Retirement Medical Plan (the Plan), a cost-sharing multiple-employer defined benefit post employment healthcare plan administered by the Howard County Government (the County). The Plan provides medical and life insurance benefits to retired employees of participating governmental entities. The County issues a publicly available financial report that includes financial statements and required supplementary information for the Plan.

Costs and related liability, if any, are recorded by the County. The County's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. Data concerning the ARC specifically applicable to employees of the Commission are not available. There are no separate financial statements for the Plan, but additional information regarding the plan is available in the County's Comprehensive Annual Financial Report, which may be obtained by writing to the Howard County Government, 3430 Courthouse Drive, Ellicott City, MD 21043, or by calling 410-313-2195.

**NOTE 13 – DEFERRED COMPENSATION PLAN**

The County has made available deferred compensation plans to all its employees. The plans were established in accordance with Internal Revenue Code Section 457. A deferred compensation plan offers employees an opportunity to defer a portion of their salary, along with the related income taxes, until future years. The deferred compensation funds are not available to employees until termination, retirement, death, or unforeseeable emergency.

**HOWARD COUNTY HOUSING COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 13 – DEFERRED COMPENSATION PLAN (CONTINUED)**

Additional information regarding these plans is available in the County's Comprehensive Annual Financial Report, which may be obtained by writing to: Howard County, Maryland, Director of Finance, 3430 Court House Drive, Ellicott City, Maryland 21043.

**NOTE 14 – ECONOMIC DEPENDENCY**

The Commission received approximately 34% of their total revenue in fiscal year 2013 from the U.S. Department of HUD.

**NOTE 15 – RISK MANAGEMENT**

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to workers; and natural disasters. The Commission is covered under the County's self-insured risk management program, and various insurance policies paid by the Commission. The County's risk financing techniques include a combination of risk retention through self-insurance and risk transfer through the use of a risk pool and commercial insurance. The County has established two internal service funds to account for and finance its uninsured risks of loss. The County's Employee Benefits Fund provides full coverage for employee benefits and long-term disability claims. The County's Risk Management Fund provides coverage up to a maximum of \$1,000,000 for each liability claim, \$100,000 for each property damage claim, and \$500,000 for each worker's compensation claim.

The County belongs to the Local Government Insurance Trust (LGIT), a municipal pool which provides insurance for claims in excess of coverage provided by the County's Risk Management Fund. The County participates in the Trust in the areas of excess property, general and automobile liability coverage. Commercial insurance is purchased for excess workers' compensation, boiler and machinery and commercial crime coverages.

The LGIT is a total risk and cost-sharing pool for all participants. In the event that the Trust's General Fund falls into a deficit that cannot be satisfied by transfers from the Trust's capital and surplus accounts, the Trustees shall determine a method to fund the deficit. The Trust agreement empowers the Trustees to assess an additional premium to each deficit-year participant. Debt issues could also be used to fund a deficit.

Premiums are charged to the General Fund, with no provision made for claim liability in addition to premiums, unless an assessment is made by the Trust. There have been no assessments during the period ended June 30, 2013 and the amount of settlements has not exceeded coverage for each of the past three years. The Commission makes payments to the County's Internal Service Fund based on a combination of actuarial estimates and historical cost information in amounts needed to pay prior and current year claims and to establish a reserve for future claims and/or catastrophic losses. The Commission has paid \$40,420 for the risk management program for the period ended June 30, 2013.

**HOWARD COUNTY HOUSING COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 15 – RISK MANAGEMENT (CONTINUED)**

Additional information regarding the County's risk management programs is available in the County's Comprehensive Annual Financial Report, which may be obtained by writing to: Howard County, Maryland, Director of Finance, 3430 Court House Drive, Ellicott City, Maryland 21043.

**NOTE 16 – COMMITMENTS AND CONTINGENCIES**

The Commission entered into ground lease agreements as lessor with several limited partnerships that have constructed or are in the process of constructing rental home projects. The terms of the leases vary from 55 years to 99 years with an annual rent of \$1. The units must be used for affordable housing and are subject to affordable housing requirements. If at any time during the lease the affordable housing requirements are not met, the tenant is deemed to be in default and the lease is voided.

Project	Date	Lessee	Terms
Orchard Crossing Apartments	7/29/1994	ODC Crossing Limited Partnership	Rent to be paid annually from cash flow up to \$96,000, no option
Colonial Landing (formerly ElkrIDGE Elderly Apartments)	8/9/1995	ElkrIDGE Apartments Limited Partnership	Rent to be paid annually from cash flow up to \$40,000, option to purchase
Park View at Ellicott City	8/5/1998	Ellicott City Limited Partnership	No rent, option to purchase
Selbourne House at Dorsey Hall	10/20/1999	Dorsey-Selbourne Limited Partnership	No rent, option to purchase
Hickory Ridge Place	10/24/2002	Hickory Ridge Village LLLP	\$530,000 rent paid at execution, option to purchase
Park View at Snowden River	10/8/2003	Snowden River LLLP	\$550,000 paid at execution, option to purchase
Port Capital	2/7/2006	Port Capital Village Limited Partnership	\$1.00 annually, no option to purchase
Patuxent Square (residential)	10/31/2006	ODC Residential Limited Partnership	\$45,000 annually, deferred for 20 years
Patuxent Square (retail)	10/31/2006	ODC - Retail, LLC	\$20,000 annually, deferred for 20 years
Park View at Emerson	12/28/2007	Emerson LLLP	No rent, option to purchase
Residences at Ellicott Gardens	6/1/2008	Residences at Ellicott Gardens LLC	No rent, option to purchase

**Grants**

The Commission receives grant funds, principally from HUD, the State and County for various housing programs. Expenditures from certain of these funds are subject to audit by the grantor, and the Commission is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the Commission's management, no material refunds will be required as a result of expenditures disallowed by the grantors.

**HOWARD COUNTY HOUSING COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 16 – COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Department of Housing and Community Development of the State of Maryland Loans**

Since the Commission's inception, the Department of Housing and Community Development of the State of Maryland has provided \$9,896,422 in non-amortizing loans which are intended to be outstanding in perpetuity, provided that the Commission continues to meet certain conditions; however, the entire principal balance of the loans, together with all deferred interest, shall become due and payable on the occurrence of any of the following: (a) the project properties are no longer being used as rental housing for eligible households, (b) the refinancing, sale, transfer, or conveyance of the project properties, (c) any encumbrances of the project properties without the prior written consent of the Department of Housing and Community Development of the State of Maryland, and (d) various other default provisions. Management believes that the Commission is in compliance with the loan provisions and no monies are due under the loan agreements.

**NOTE 17 – RELATED PARTIES**

The Commission is a discretely presented component unit of the County. Since the Commission's inception the County has provided full staff support to the Commission, for which the Commission reimburses the County for staff salary and benefits. During fiscal year 2013, the County has forgiven a portion of the costs related to salary and benefits for fiscal years 2013. The total forgiveness of debt amounted to \$1,215,342.

**NOTE 18 – SUBSEQUENT EVENTS**

The Commission expects to complete the issue Series 2013 Revenue Bonds related to the Verona at Oakland Mills project. The 2013 Series bonds, with an estimated par value of \$41,500,000, are expected to be issued as taxable fixed rate bonds. The Commission expects to complete the issue in October 2013.

On August 9, 2013 the Commission made an additional \$160,000, unsecured, non-recourse loan, with an interest rate of zero percent to The Maryland Department of Housing and Community Development for affordable rental housing preservation developments through the MD-BRAC Preservation Loan Fund. The loan is expected to be repaid by August 9, 2023.

The Authority is entering into an acquisition lease agreement with Howard County, Maryland (the County) for the use of a recreation center, parking facility, indoor swimming pool, structure and site improvements, located at the Roger Carter Recreation Center (the Project). The initial term of the lease agreement is 32 years commencing on the date of lease execution and terminating on June 1, 2043. The lease has the option to renew for an additional 10 years in two five year renewal terms. The County shall pay the Authority rent in the amount of \$835,000 per year. At the expiration of the lease, the facilities revert to the Commission.

**HOWARD COUNTY HOUSING COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 18 – SUBSEQUENT EVENTS (CONTINUED)**

The Authority will use the lease income to repay the bond debt which funded the construction of the project. The project is currently undergoing rehabilitation and is estimated to be complete by November 2013. The first semi-annual lease payment is due to the Authority on November 15, 2013 in the amount of \$302,678.13.

**NOTE 19 – RESTATEMENT**

In fiscal year 2013, the Commission implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The implementation of this new standard resulted in the write-off of bond issuance cost and the reduction of beginning net position by \$ 278,244.