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FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

**COMMUNITY DEVELOPMENT ADMINISTRATION**
**HOUSING REVENUE BONDS**

JUNE 30, 2011 AND 2010

Community Development Administration
Housing Revenue Bonds

TABLE OF CONTENTS

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# INDEPENDENT AUDITORS' REPORT

Office of the Secretary
Department of Housing and Community Development

We have audited the accompanying financial statements of the Community Development Administration Housing 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, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Community Development Administration 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 June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Community Development Administration Housing Revenue Bonds of the Department of Housing and Community Development of the State of Maryland as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Disclosures of Change in Fair Value of Investments and Mortgage-Backed Securities are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on it.

Reznick Group, P.C.

Baltimore, Maryland
September 29, 2011

Community Development Administration
Housing Revenue Bonds

# STATEMENTS OF NET ASSETS
(in thousands)

June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| RESTRICTED ASSETS | | |
| Restricted current assets | | |
| Cash and cash equivalents on deposit with trustee | $ 40,588 | $ 50,355 |
| Mortgage-backed securities | 4,209 | 4,658 |
| Mortgage loans | | |
| Single family | 26 | 23 |
| Multi-family construction and permanent financing | 2,764 | 2,883 |
| Accrued interest receivables | 2,105 | 2,474 |
| Total restricted current assets | 49,692 | 60,393 |
| Restricted long-term assets | | |
| Investments | 7,101 | 7,385 |
| Mortgage-backed securities, net of current portion | 367,592 | 432,425 |
| Mortgage loans, net of current portion and allowance | | |
| Single family | 186 | 220 |
| Multi-family construction and permanent financing | 72,714 | 82,773 |
| Deferred bond issuance costs | 107 | 152 |
| Total restricted long-term assets | 447,700 | 522,955 |
| Total restricted assets | $ 497,392 | $ 583,348 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accrued interest payable | $ 11,305 | $ 13,371 |
| Bonds payable | 7,935 | 11,535 |
| Deposits by borrowers | 2,023 | 2,707 |
| Total current liabilities | 21,263 | 27,613 |
| Long-term liabilities | | |
| Bonds payable, net of current portion | 422,194 | 491,699 |
| Deposits by borrowers, net of current portion | 5,561 | 7,114 |
| Deferred income | 4,616 | 5,229 |
| Total long-term liabilities | 432,371 | 504,042 |
| Total liabilities | 453,634 | 531,655 |
| NET ASSETS | | |
| Restricted | 43,758 | 51,693 |
| Total liabilities and net assets | $ 497,392 | $ 583,348 |

See notes to financial statements

Community Development Administration
Housing Revenue Bonds

# STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(in thousands)

Years ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Operating revenue | | |
| Interest on mortgage loans | $ 4,919 | $ 5,502 |
| Interest on mortgage-backed securities | 21,951 | 24,104 |
| Interest income on investments | 664 | 819 |
| (Decrease) increase in fair value of investments | (280) | 472 |
| Fee and deferred income | 699 | 605 |
| Other operating revenue | 19 | 1 |
| | 27,972 | 31,503 |
| Operating expenses | | |
| Interest expense on bonds | 25,312 | 27,821 |
| Professional fees and other operating expenses | 236 | 234 |
| Amortization of bond issuance costs | 10 | 12 |
| Loss on early retirement of debt | 1 | - |
| | 25,559 | 28,067 |
| Operating income | 2,413 | 3,436 |
| Nonoperating (expenses) revenue | | |
| (Decrease) increase in fair value of mortgage-backed securities | (7,348) | 13,103 |
| Total nonoperating (expenses) revenue | (7,348) | 13,103 |
| Transfers of funds, as permitted by the Resolution | (3,000) | (1,125) |
| Changes in net assets | (7,935) | 15,414 |
| Net assets - restricted at beginning of year | 51,693 | 36,279 |
| Net assets - restricted at end of year | $ 43,758 | $ 51,693 |

See notes to financial statements

Community Development Administration
Housing Revenue Bonds

STATEMENTS OF CASH FLOWS
(in thousands)

Years ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Cash flows from operating activities | | |
| Principal and interest received on mortgage loans | $ 18,306 | $ 21,287 |
| Principal and interest received on mortgage-backed securities | 80,171 | 54,111 |
| Escrow funds received | 3,243 | 4,170 |
| Escrow funds paid | (5,480) | (4,099) |
| Loan fees and deferred income received | - | 131 |
| Purchase of mortgage loans | (3,009) | (8,651) |
| Purchase of mortgage-backed securities | - | (6,222) |
| Professional fees and other operating expenses | (236) | (234) |
| Other income received | 19 | 1 |
| Net cash provided by operating activities | 93,014 | 60,494 |
| Cash flows from investing activities | | |
| Interest received on investments | 668 | 898 |
| Net cash provided by investing activities | 668 | 898 |
| Cash flows from noncapital financing activities | | |
| Proceeds from sale of bonds | - | 8,755 |
| Payments on bond principal | (73,105) | (46,250) |
| Reimbursement of bond costs | 34 | - |
| Interest on bonds | (27,378) | (28,736) |
| Transfers among Funds | (3,000) | (1,125) |
| Net cash used in noncapital financing activities | (103,449) | (67,356) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS ON DEPOSIT WITH TRUSTEE | (9,767) | (5,964) |
| Cash and cash equivalents on deposit with trustee at beginning of year | 50,355 | 56,319 |
| Cash and cash equivalents on deposit with trustee at end of year | $ 40,588 | $ 50,355 |

(continued)

Community Development Administration
Housing Revenue Bonds

STATEMENTS OF CASH FLOWS - CONTINUED
(in thousands)

Years ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Reconciliation of operating income to net cash provided by operating activities | | |
| Operating income | $ 2,413 | $ 3,436 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Decrease in assets | | |
| Mortgage loans | 10,295 | 6,956 |
| Mortgage-backed securities | 57,934 | 23,675 |
| Accrued interest receivables | 369 | 363 |
| (Decrease) increase in liabilities | | |
| Accrued interest payable | (2,066) | (915) |
| Deposits by borrowers | (2,237) | 71 |
| Deferred income | (613) | (487) |
| Amortizations | | |
| Deferred income on loans | (86) | (118) |
| Investment premiums | 4 | 4 |
| Deferred bond issuance costs | 10 | 12 |
| Loan fees deferred | - | 131 |
| Decrease (increase) in fair value of investments | 280 | (472) |
| Loss on early retirement of debt | 1 | - |
| Interest received on investments | (668) | (898) |
| Interest on bonds | 27,378 | 28,736 |
| Net cash provided by operating activities | $ 93,014 | $ 60,494 |

See notes to financial statements

## NOTE 1 - AUTHORIZING LEGISLATION AND PROGRAM DESCRIPTION

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

The accompanying financial statements only include CDA's Housing Revenue Bonds (the Fund). CDA's other Funds are not included. The Fund was established to issue bonds to provide funds to finance or refinance loans for various types of housing. As of June 30, 2011 and 2010, Housing Revenue Bonds have primarily financed multi-family projects.

## 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 as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions, and ARBS of the Committee on Accounting Procedure issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Cash equivalents may include money market funds, repurchase agreements, investment agreements and any other investments, primarily obligations of the U.S. Treasury and U.S. Government Agencies, which have maturities of 90 or less days at the time of purchase. As of June 30, 2011 and 2010, all of the Fund's cash equivalents were invested in a money market mutual fund which is more fully described in Note 3.

### Investments

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgage-Backed Securities

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

Mortgage Loans

Mortgage loans are carried at their unpaid principal balances, net of unamortized loan fees. Loan fees are deferred and amortized over the life of the related loans using the effective interest method. Any single family mortgage loan in foreclosure with a pending insurance claim is recorded as other receivables. See Notes 4 and 10 for additional information on mortgage loans and mortgage insurance, respectively.

Allowance for Loan Losses

Substantially all the mortgage loans of the Fund are insured or guaranteed. Approximately 2% of the loan portfolio is uninsured and CDA has established an allowance for loan losses on these loans. Management believes the allowance established is adequate based on prior experience and evaluations from DHCD's asset management group. See Notes 4 and 10 for additional information.

Accrued Interest Receivables

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Bond Issuance Costs

Costs incurred in issuing bonds are capitalized and amortized using the effective interest method for each respective bond issue. When bonds are redeemed early with mortgage prepayments, a proportionate share of the remaining unamortized costs is recognized as a loss on the Statements of Revenue, Expenses and Changes in Net Assets.

Due from (to) Other Funds

Due from (to) other Funds records the pending transfers of cash between Funds which is primarily a result of receipts due to one fund, but received by another, as more fully described in Note 9.

Bonds Payable

Bonds payable are carried at their unpaid principal balances, net of original issue discounts or premiums. See Notes 6, 7 and 8 for more information.

Deposits by Borrowers

This account consists of escrows and reserves held by CDA on behalf of multi-family housing developments. CDA invests these deposits and, for reserves, allows earnings to accrue to the benefit of the mortgagor. Escrows represent amounts held by CDA for mortgage insurance and hazard insurance premiums and real estate taxes, all of which are generally paid annually and which are classified as a current liability. Based on the current year's reserve disbursements, CDA has estimated the current reserve liability. The balance of the reserves is classified as long-term. See Note 8 for further information on changes in long-term obligations.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Mortgage Yield Limitations

All mortgage loans are subject to yield limitations under the Internal Revenue Service Code (the Code) in order for the associated bonds to maintain their tax-exempt status. At the time of bond issuance and over the term of the bonds, CDA determines and maintains compliance with the permitted mortgage yield on the loans. In certain bond refunding transactions, CDA transfers loans from prior series of bonds to the refunding series. CDA monitors the yield on these transferred loans to ensure that the composite yield over the term of the bonds is within the yield limitations of the Code. If at any time the composite yields on the transferred loans are out of compliance with the Code, CDA has certain remedies available to bring the yield into compliance. As of June 30, 2011 and 2010, all mortgage loan yields were in compliance with the Code.

### Interest on Mortgage Loans and Mortgage-Backed Securities

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

### Fee Income

CDA receives multi-family financing fees at loan origination. These fees are deferred and amortized over the life of the loan.

### Administrative Support

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

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The employees of CDA are covered by the Maryland State Retirement and Pension System and the costs of employees' retirement benefits are included in the salaries and related costs charged to CDA's General Bond Reserve Fund. See Note 11 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 period. Actual results could differ from these estimates.

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

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

(in thousands)

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

The following assets, reported at fair value and held by the Fund as of June 30, 2011 and 2010, are evaluated in accordance with accounting guidance issued by GASB for interest rate risk, credit risk, concentration of credit risk and custodial credit risk.

| Assets | 2011 | 2010 |
|---|---|---|
| Cash and cash equivalents: | | |
| Federated Treasury Obligations Fund | $ 40,588 | $ 50,355 |
| Investments: | | |
| Obligations of the U.S. Treasury | 7,101 | 7,385 |
| GNMA mortgage-backed securities | 371,801 | 437,083 |
| Total | $ 419,490 | $ 494,823 |

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.

(in thousands)

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

As of June 30, 2011, the amortized cost, fair value and maturities for these assets were as follows:

| | | | Maturities (in years) | | | | |
|---|---|---|---|---|---|---|---|
| Asset | Amortized cost | Fair value | Less than 1 | 1 - 5 | 6 - 10 | 11 - 15 | More than 15 |
| Federated Treasury Obligations Fund | $ 40,588 | $ 40,588 | $ 40,588 | $ - | $ - | $ - | $ - |
| Obligations of the U.S. Treasury | 5,502 | 7,101 | - | - | - | 7,101 | - |
| GNMA mortgage-backed securities | 359,306 | 371,801 | - | - | - | - | 371,801 |
| Total | $ 405,396 | $ 419,490 | $ 40,588 | $ - | $ - | $ 7,101 | $ 371,801 |

As of June 30, 2010, the amortized cost, fair value and maturities for these assets were as follows:

| | | | Maturities (in years) | | | | |
|---|---|---|---|---|---|---|---|
| Asset | Amortized cost | Fair value | Less than 1 | 1 - 5 | 6 - 10 | 11 - 15 | More than 15 |
| Federated Treasury Obligations Fund | $ 50,355 | $ 50,355 | $ 50,355 | $ - | $ - | $ - | $ - |
| Obligations of the U.S. Treasury | 5,506 | 7,385 | - | - | - | - | 7,385 |
| GNMA mortgage-backed securities | 417,240 | 437,083 | - | - | - | - | 437,083 |
| Total | $ 473,101 | $ 494,823 | $ 50,355 | $ - | $ - | $ - | $ 444,468 |

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

The Federated Treasury Obligations Fund invests primarily in repurchase agreements collateralized by Treasury securities and U.S. Treasuries. 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, 2011 and 2010, the cost of this 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 require investment agreements or deposits to be collateralized. CDA's Investment Policy places no limit on the amount that CDA may invest in any one issuer or counterparty. According to 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, 2011 and 2010, all counterparty ratings were at least equal to the ratings on the Fund's bonds. As of June 30, 2011 and 2010, the ratings on Housing Revenue Bonds were Aa2 by Moody's Investors Service and AA+ by Fitch Ratings. The following table provides credit quality rating information for the investment portfolio and individual issuers, if they represent 5 percent or more of total investments in accordance with accounting guidance issued by GASB.

Community Development Administration
Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2011 and 2010

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

As of June 30, 2011, 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 Treasury Obligations Fund | $ 40,588 | 9.68% | Aaa | | Moody's |
| Government National Mortgage Association Mortgage-backed securities | 371,801 | 88.63% | | Direct U.S. Obligations | |
| Obligations of the U.S. Treasury | 7,101 | 1.69% | | Direct U.S. Obligations | |
| Total | $ 419,490 | 100.00% | | | |

As of June 30, 2010, 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 Treasury Obligations Fund | $ 50,355 | 10.18% | Aaa | | Moody's |
| Government National Mortgage Association Mortgage-backed securities | 437,083 | 88.33% | | Direct U.S. Obligations | |
| Obligations of the U.S. Treasury | 7,385 | 1.49% | | Direct U.S. Obligations | |
| Total | $ 494,823 | 100.00% | | | |

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

All mortgage-backed securities held by the Fund are guaranteed by the Government National Mortgage Association (GNMA), an instrumentality of the United States Government. GNMA securities 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.

### 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, 2011 and 2010, 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 - MORTGAGE LOANS

All the mortgage loans are secured by first liens on the related property and approximately 98% are insured or credit enhanced by FHA, MHF, FHLMC, FNMA or GNMA. As of June 30, 2011 and 2010, interest rates on such loans range from 3.7% to 7.85% and 2.75% to 7.85%, respectively, with remaining loan terms ranging from less than 4 years to 39 years and 2 years to 40 years, respectively. For the years ended June 30, 2011 and 2010, an allowance for loan losses in the amount of $43 has been established for uninsured loans.

(in thousands)

## NOTE 5 - ACCRUED INTEREST RECEIVABLES

Accrued interest receivables as of June 30, 2011 and 2010 were as follows:

| | 2011 | 2010 |
|---|---|---|
| Accrued mortgage loan interest | $ 400 | $ 483 |
| Accrued investment interest | 46 | 46 |
| Accrued mortgage-backed securities interest | 1,659 | 1,945 |
| | $ 2,105 | $ 2,474 |

## NOTE 6 - 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.

The provisions of the Resolution require or allow for the special redemption of bonds at par through the use of unexpended bond proceeds and excess funds accumulated primarily through prepayment of mortgage loans. All outstanding bonds are subject to optional redemption, in whole or in part at any time, after certain dates, as specified in the respective series resolutions, at a redemption price equal to the principal amount thereof to be redeemed. All bonds are tax-exempt and have fixed interest rates.

(in thousands)

## NOTE 6 - BONDS PAYABLE (Continued)

The following is a summary of the bond activity for the year ended June 30, 2011 and the debt outstanding and bonds payable as of June 30, 2011:

| | Issue dated | Range of interest rates | Range of maturities | Debt Outstanding at June 30, 2010 | Bond Activity: New bonds issued | Bond Activity: Scheduled maturity payments | Bond Activity: Bonds redeemed | Debt Outstanding at June 30, 2011 | Discounts/ premiums and other deferred costs | Bonds payable at June 30, 2011 |
|---|---|---|---|---|---|---|---|---|---|---|
| Housing Revenue Bonds | | | | | | | | | | |
| Series 1996 A | 11/01/96 | 5.80% - 5.95% | 2016 - 2023 | $ 19,925 | $ - | $ (1,945) | $ (4,860) | $ 13,120 | $ - | $ 13,120 |
| Series 1996 B | 11/01/96 | 5.875% - 5.95% | 2016 - 2028 | 1,485 | - | (60) | - | 1,425 | - | 1,425 |
| Series 1997 A | 06/01/97 | 5.70% - 6.00% | 2017 - 2039 | 33,700 | - | (430) | (33,270) | - | - | - |
| Series 1997 B | 09/01/97 | 5.55% - 5.75% | 2017 - 2039 | 6,965 | - | (90) | (6,875) | - | - | - |
| Series 1997 C | 12/01/97 | 5.00% - 5.65% | 2010 - 2039 | 12,720 | - | (170) | (12,550) | - | - | - |
| Series 1999 A | 02/01/99 | 4.50% - 5.35% | 2010 - 2041 | 15,020 | - | (190) | - | 14,830 | - | 14,830 |
| Series 1999 B | 10/15/99 | 5.50% - 6.40% | 2010 - 2042 | 14,310 | - | (225) | (4,645) | 9,440 | - | 9,440 |
| Series 1999 C | 10/15/99 | 5.85% - 6.40% | 2014 - 2040 | 480 | - | (5) | (475) | - | - | - |
| Series 1999 D | 12/01/99 | 5.90% - 6.35% | 2013 - 2042 | 6,205 | - | (245) | - | 5,960 | - | 5,960 |
| Series 2000 A | 10/01/00 | 5.10% - 6.10% | 2010 - 2042 | 25,825 | - | (280) | - | 25,545 | - | 25,545 |
| Series 2001 A | 07/01/01 | 4.70% - 5.625% | 2010 - 2043 | 27,850 | - | (350) | - | 27,500 | - | 27,500 |
| Series 2001 B | 10/01/01 | 4.40% - 5.45% | 2010 - 2043 | 43,320 | - | (675) | - | 42,645 | - | 42,645 |
| Series 2002 A | 03/01/02 | 4.70% - 5.70% | 2010 - 2043 | 9,000 | - | (90) | - | 8,910 | - | 8,910 |
| Series 2002 B | 10/01/02 | 3.65% - 5.05% | 2010 - 2045 | 31,880 | - | (365) | - | 31,515 | - | 31,515 |
| Series 2002 C | 10/01/02 | 3.65% - 5.00% | 2010 - 2035 | 6,270 | - | (115) | - | 6,155 | - | 6,155 |
| Series 2002 D | 10/01/02 | 3.65% - 5.00% | 2010 - 2035 | 7,770 | - | (135) | - | 7,635 | - | 7,635 |
| Series 2003 A | 04/01/03 | 3.60% - 5.22% | 2010 - 2045 | 23,785 | - | (255) | - | 23,530 | - | 23,530 |
| Series 2003 B | 07/01/03 | 3.30% - 5.00% | 2010 - 2045 | 16,775 | - | (195) | - | 16,580 | - | 16,580 |
| Series 2003 C | 09/01/03 | 3.80% - 5.90% | 2010 - 2045 | 10,360 | - | (105) | - | 10,255 | (6) | 10,249 |
| Series 2003 D | 12/01/03 | 3.40% - 5.125% | 2010 - 2045 | 11,610 | - | (130) | - | 11,480 | - | 11,480 |
| Series 2004 B | 03/31/04 | 2.75% - 4.70% | 2010 - 2046 | 19,460 | - | (225) | - | 19,235 | - | 19,235 |
| Series 2004 C | 06/10/04 | 4.00% - 5.40% | 2010 - 2047 | 35,540 | - | (1,250) | - | 34,290 | - | 34,290 |
| Series 2004 D | 11/23/04 | 4.35% - 5.00% | 2015 - 2037 | 1,600 | - | (70) | - | 1,530 | - | 1,530 |
| Series 2005 A | 02/17/05 | 4.25% - 4.85% | 2015 - 2047 | 6,205 | - | (70) | - | 6,135 | - | 6,135 |
| Series 2005 B | 04/21/05 | 3.70% - 5.10% | 2010 - 2047 | 18,830 | - | (200) | - | 18,630 | - | 18,630 |
| Series 2005 C | 12/14/05 | 3.80% - 5.15% | 2010 - 2047 | 12,955 | - | (355) | - | 12,600 | - | 12,600 |
| Series 2006 A | 04/27/06 | 4.00% - 5.05% | 2010 - 2047 | 9,795 | - | (110) | - | 9,685 | - | 9,685 |
| Series 2006 B | 04/27/06 | 4.00% - 5.00% | 2010 - 2039 | 3,075 | - | (130) | - | 2,945 | - | 2,945 |
| Series 2006 C | 04/27/06 | 3.65% - 4.75% | 2010 - 2036 | 2,005 | - | (40) | - | 1,965 | - | 1,965 |
| Series 2006 D | 09/27/06 | 4.91% | 2048 | 4,425 | - | - | - | 4,425 | - | 4,425 |
| Series 2007 A | 06/14/07 | 3.85% - 4.95% | 2010 - 2049 | 21,685 | - | (510) | - | 21,175 | - | 21,175 |
| Series 2007 B | 08/30/07 | 5.51% | 2038 | 4,875 | - | (65) | - | 4,810 | - | 4,810 |
| Series 2007 C | 12/20/07 | 5.38% | 2043 | 1,520 | - | (10) | - | 1,510 | - | 1,510 |
| Series 2008 A | 05/29/08 | 5.24% | 2038 | 5,720 | - | (90) | - | 5,630 | - | 5,630 |
| Series 2008 B | 05/29/08 | 5.63% | 2049 | 10,280 | - | (50) | - | 10,230 | - | 10,230 |
| Series 2008 C | 09/19/08 | 5.60% | 2048 | 7,380 | - | - | - | 7,380 | - | 7,380 |
| Series 2008 D | 12/18/08 | 4.125% - 6.75% | 2013 - 2039 | 3,880 | - | (50) | - | 3,830 | - | 3,830 |
| Series 2009 A | 11/24/09 | 2.75% - 5.25% | 2011 - 2041 | 8,755 | - | - | (1,150) | 7,605 | - | 7,605 |
| Total | | | | $ 503,240 | $ - | $ (9,280) | $ (63,825) | $ 430,135 | $ (6) | $ 430,129 |

(in thousands)

## NOTE 6 - BONDS PAYABLE (Continued)

The following is a summary of the bond activity for the year ended June 30, 2010 and the debt outstanding and bonds payable as of June 30, 2010:

| | Issue dated | Range of interest rates | Range of maturities | Debt Outstanding at June 30, 2009 | Bond Activity: New bonds issued | Bond Activity: Scheduled maturity payments | Bond Activity: Bonds redeemed | Debt Outstanding at June 30, 2010 | Discounts/ premiums and other deferred costs | Bonds payable at June 30, 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Housing Revenue Bonds | | | | | | | | | | |
| Series 1996 A | 11/01/96 | 5.50% - 5.95% | 2010 - 2023 | $ 21,940 | $ - | $ (2,015) | $ - | $ 19,925 | $ - | $ 19,925 |
| Series 1996 B | 11/01/96 | 5.875% - 5.95% | 2016 - 2028 | 1,545 | - | (60) | - | 1,485 | - | 1,485 |
| Series 1997 A | 06/01/97 | 5.20% - 6.00% | 2009 - 2039 | 34,110 | - | (410) | - | 33,700 | - | 33,700 |
| Series 1997 B | 09/01/97 | 5.00% - 5.75% | 2009 - 2039 | 7,090 | - | (125) | - | 6,965 | - | 6,965 |
| Series 1997 C | 12/01/97 | 4.90% - 5.65% | 2009 - 2039 | 12,880 | - | (160) | - | 12,720 | - | 12,720 |
| Series 1998 A | 04/01/98 | 4.90% - 5.625% | 2009 - 2040 | 10,090 | - | (130) | (9,960) | - | - | - |
| Series 1999 A | 02/01/99 | 4.40% - 5.35% | 2009 - 2041 | 15,200 | - | (180) | - | 15,020 | - | 15,020 |
| Series 1999 B | 10/15/99 | 5.40% - 6.40% | 2009 - 2042 | 14,530 | - | (220) | - | 14,310 | - | 14,310 |
| Series 1999 C | 10/15/99 | 5.85% - 6.40% | 2014 - 2040 | 485 | - | (5) | - | 480 | - | 480 |
| Series 1999 D | 12/01/99 | 5.40% - 6.35% | 2009 - 2042 | 12,000 | - | (620) | (5,175) | 6,205 | - | 6,205 |
| Series 2000 A | 10/01/00 | 5.05% - 6.10% | 2009 - 2042 | 26,090 | - | (265) | - | 25,825 | - | 25,825 |
| Series 2001 A | 07/01/01 | 4.60% - 5.625% | 2009 - 2043 | 28,180 | - | (330) | - | 27,850 | - | 27,850 |
| Series 2001 B | 10/01/01 | 4.25% - 5.45% | 2009 - 2043 | 43,975 | - | (655) | - | 43,320 | - | 43,320 |
| Series 2002 A | 03/01/02 | 4.60% - 5.70% | 2009 - 2043 | 9,090 | - | (90) | - | 9,000 | - | 9,000 |
| Series 2002 B | 10/01/02 | 3.40% - 5.05% | 2009 - 2045 | 32,230 | - | (350) | - | 31,880 | - | 31,880 |
| Series 2002 C | 10/01/02 | 3.40% - 5.00% | 2009 - 2035 | 6,375 | - | (105) | - | 6,270 | - | 6,270 |
| Series 2002 D | 10/01/02 | 3.40% - 5.00% | 2009 - 2035 | 7,900 | - | (130) | - | 7,770 | - | 7,770 |
| Series 2003 A | 04/01/03 | 3.35% - 5.22% | 2009 - 2045 | 24,030 | - | (245) | - | 23,785 | - | 23,785 |
| Series 2003 B | 07/01/03 | 3.00% - 5.00% | 2009 - 2045 | 16,965 | - | (190) | - | 16,775 | - | 16,775 |
| Series 2003 C | 09/01/03 | 3.375% - 5.90% | 2009 - 2045 | 10,460 | - | (100) | - | 10,360 | (6) | 10,354 |
| Series 2003 D | 12/01/03 | 3.15% - 5.125% | 2009 - 2045 | 11,730 | - | (120) | - | 11,610 | - | 11,610 |
| Series 2004 A | 01/01/04 | 2.95% - 5.10% | 2009 - 2045 | 10,230 | - | (215) | (10,015) | - | - | - |
| Series 2004 B | 03/31/04 | 2.50% - 4.70% | 2009 - 2046 | 20,320 | - | (860) | - | 19,460 | - | 19,460 |
| Series 2004 C | 06/10/04 | 4.00% - 5.40% | 2010 - 2047 | 35,540 | - | - | - | 35,540 | - | 35,540 |
| Series 2004 D | 11/23/04 | 4.35% - 5.00% | 2015 - 2037 | 1,675 | - | (75) | - | 1,600 | - | 1,600 |
| Series 2005 A | 02/17/05 | 4.25% - 4.85% | 2015 - 2047 | 6,265 | - | (60) | - | 6,205 | - | 6,205 |
| Series 2005 B | 04/21/05 | 3.50% - 5.10% | 2009 - 2047 | 19,165 | - | (335) | - | 18,830 | - | 18,830 |
| Series 2005 C | 12/14/05 | 3.70% - 5.15% | 2009 - 2047 | 13,295 | - | (340) | - | 12,955 | - | 12,955 |
| Series 2006 A | 04/27/06 | 3.875% - 5.05% | 2009 - 2047 | 9,945 | - | (150) | - | 9,795 | - | 9,795 |
| Series 2006 B | 04/27/06 | 3.875% - 5.00% | 2009 - 2039 | 3,185 | - | (110) | - | 3,075 | - | 3,075 |
| Series 2006 C | 04/27/06 | 3.60% - 4.75% | 2009 - 2036 | 2,045 | - | (40) | - | 2,005 | - | 2,005 |
| Series 2006 D | 09/27/06 | 4.91% | 2048 | 4,425 | - | - | - | 4,425 | - | 4,425 |
| Series 2007 A | 06/14/07 | 3.85% - 4.95% | 2010 - 2049 | 21,685 | - | - | - | 21,685 | - | 21,685 |
| Series 2007 B | 08/30/07 | 5.51% | 2038 | 4,875 | - | - | - | 4,875 | - | 4,875 |
| Series 2007 C | 12/20/07 | 5.38% | 2043 | 1,535 | - | (15) | - | 1,520 | - | 1,520 |
| Series 2008 A | 05/29/08 | 5.24% | 2038 | 5,805 | - | (85) | - | 5,720 | - | 5,720 |
| Series 2008 B | 05/29/08 | 3.70% - 5.63% | 2010 - 2049 | 17,360 | - | (20) | (7,060) | 10,280 | - | 10,280 |
| Series 2008 C | 09/19/08 | 4.63% - 5.60% | 2010 - 2048 | 11,380 | - | - | (4,000) | 7,380 | - | 7,380 |
| Series 2008 D | 12/18/08 | 4.00% - 6.75% | 2011 - 2039 | 5,110 | - | - | (1,230) | 3,880 | - | 3,880 |
| Series 2009 A | 11/24/09 | 2.75% - 5.25% | 2011 - 2041 | - | 8,755 | - | - | 8,755 | - | 8,755 |
| Total | | | | $ 540,735 | $ 8,755 | $ (8,810) | $ (37,440) | $ 503,240 | $ (6) | $ 503,234 |

(in thousands)

## NOTE 7 - DEBT SERVICE REQUIREMENTS

As of June 30, 2011, the required principal payments for bonds (including mandatory sinking fund payments and special and optional redemptions that occurred subsequent to June 30, 2011 and excluding the effect of unamortized discounts/premiums and other deferred costs as shown in Note 6) 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 |
|---|---|---|
| 2012 | $ 22,474 | $ 7,935 |
| 2013 | 22,096 | 7,985 |
| 2014 | 21,701 | 8,810 |
| 2015 | 21,261 | 8,925 |
| 2016 | 20,816 | 10,390 |
| 2017 - 2021 | 97,564 | 39,855 |
| 2022 - 2026 | 86,658 | 46,075 |
| 2027 - 2031 | 73,263 | 58,210 |
| 2032 - 2036 | 56,036 | 73,715 |
| 2037 - 2041 | 34,534 | 87,580 |
| 2042 - 2046 | 11,493 | 69,775 |
| 2047 - 2051 | 786 | 10,880 |
| Total | $ 468,682 | $ 430,135 |

(in thousands)

## NOTE 7 - DEBT SERVICE REQUIREMENTS (Continued)

As of June 30, 2010, the required principal payments for bonds (including mandatory sinking fund payments and special and optional redemptions that occurred subsequent to June 30, 2010 and excluding the effect of unamortized discounts/premiums and other deferred costs as shown in Note 6) 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 |
|---|---|---|
| 2011 | $ 26,518 | $ 11,535 |
| 2012 | 26,014 | 10,405 |
| 2013 | 25,531 | 9,380 |
| 2014 | 25,054 | 10,275 |
| 2015 | 24,529 | 10,535 |
| 2016 - 2020 | 114,613 | 49,965 |
| 2021 - 2025 | 101,652 | 52,555 |
| 2026 - 2030 | 86,219 | 66,070 |
| 2031 - 2035 | 66,341 | 84,055 |
| 2036 - 2040 | 41,191 | 99,185 |
| 2041 - 2045 | 15,619 | 79,755 |
| 2046 - 2050 | 1,669 | 19,525 |
| Total | $ 554,950 | $ 503,240 |

(in thousands)

## NOTE 8 - LONG-TERM OBLIGATIONS

Changes in long-term obligations for the years ended June 30, 2011 and 2010 were as follows:

| | 2011 | 2010 |
|---|---|---|
| Bonds payable | | |
| Beginning balance | $ 503,234 | $ 540,729 |
| Additions | - | 8,755 |
| Reductions | (73,105) | (46,250) |
| Ending balance | 430,129 | 503,234 |
| Less due within one year | (7,935) | (11,535) |
| Total long-term bonds payable | 422,194 | 491,699 |
| Deposits by borrowers | | |
| Beginning balance | 9,821 | 9,750 |
| Additions | 3,243 | 4,170 |
| Reductions | (5,480) | (4,099) |
| Ending balance | 7,584 | 9,821 |
| Less due within one year | (2,023) | (2,707) |
| Total long-term deposits by borrowers | 5,561 | 7,114 |
| Deferred income | | |
| Beginning balance | 5,229 | 5,716 |
| Additions | - | - |
| Reductions | (613) | (487) |
| Ending balance | 4,616 | 5,229 |
| Total long-term deferred income | 4,616 | 5,229 |
| Total long-term liabilities | $ 432,371 | $ 504,042 |

(in thousands)

## NOTE 9 - INTERFUND ACTIVITY

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

During the years ended June 30, 2011 and 2010, the Fund transferred the following amounts, as permitted, among Funds:

| | 2011 | 2010 |
|---|---|---|
| Excess revenue transferred to the General Bond Reserve Fund | $ (3,000) | $ (1,125) |

## NOTE 10 - MORTGAGE INSURANCE

Approximately 98% of the Fund's mortgage loans are insured or credit enhanced as described in Note 4.

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

Single family mortgagors pay the premiums for primary mortgage insurance. Generally, loans are insured in an amount that is at least 25% of the loan amount.

## NOTE 11 - PENSION AND OTHER POST-RETIREMENT BENEFITS

Eligible employees of CDA and employees of the State of Maryland are covered under the retirement plans of the State Retirement and Pension System of Maryland (the System) and are also entitled to certain healthcare benefits upon retirement. CDA's only obligation for retirement and post-employment benefits is its required annual contribution, which was paid in full by CDA to the State of Maryland prior to year end. The System prepares a separate audited Comprehensive Annual Financial Report which can be obtained from the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202 or by visiting the website at www.sra.state.md.us.

## NOTE 12 - SUBSEQUENT EVENTS

Events that occur after the date of the statement of net assets 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 assets are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the date of the statement of net assets require disclosure in the accompanying notes. Management evaluated the activity of CDA through September 29, 2011 (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. As of the report date, there were no subsequent events reported by CDA.

Community Development Administration
Housing Revenue Bonds

SUPPLEMENTAL DISCLOSURES OF CHANGE
IN FAIR VALUE OF INVESTMENTS AND
MORTGAGE-BACKED SECURITIES
(in thousands)

June 30, 2011 and 2010
(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 Assets.

For investments (obligations of the U.S. Treasury) held by the Fund as of June 30, 2011, the following schedule summarizes annual increases/decreases in fair value and the cumulative difference between fair value and amortized cost:

| Fiscal year ended June 30, | Annual increases/ decreases | Cumulative total |
|---|---|---|
| 1997 | $ (352) | $ (352) |
| 1998 | $ 832 | $ 480 |
| 1999 | $ (407) | $ 73 |
| 2000 | $ 48 | $ 121 |
| 2001 | $ 193 | $ 314 |
| 2002 | $ 157 | $ 471 |
| 2003 | $ 889 | $ 1,360 |
| 2004 | $ (678) | $ 682 |
| 2005 | $ 897 | $ 1,579 |
| 2006 | $ (866) | $ 713 |
| 2007 | $ 48 | $ 761 |
| 2008 | $ 444 | $ 1,205 |
| 2009 | $ 202 | $ 1,407 |
| 2010 | $ 472 | $ 1,879 |
| 2011 | $ (280) | $ 1,599 |

Community Development Administration
Housing Revenue Bonds

SUPPLEMENTAL DISCLOSURES OF CHANGE
IN FAIR VALUE OF INVESTMENTS AND
MORTGAGE-BACKED SECURITIES - CONTINUED
(in thousands)

June 30, 2011 and 2010
(Unaudited)

For mortgage-backed securities held by the Fund as of June 30, 2011, the following schedule summarizes annual increases/decreases in fair value and the cumulative difference between fair value and cost:

| Fiscal year ended June 30, | Annual increases/ decreases | Cumulative total |
|---|---|---|
| 2000 | $ (3,825) | $ (3,825) |
| 2001 | $ (3,291) | $ (7,116) |
| 2002 | $ 3,340 | $ (3,776) |
| 2003 | $ 21,435 | $ 17,659 |
| 2004 | $ (11,126) | $ 6,533 |
| 2005 | $ 12,879 | $ 19,412 |
| 2006 | $ (27,704) | $ (8,292) |
| 2007 | $ 3,661 | $ (4,631) |
| 2008 | $ (5,987) | $ (10,618) |
| 2009 | $ 17,358 | $ 6,740 |
| 2010 | $ 13,103 | $ 19,843 |
| 2011 | $ (7,348) | $ 12,495 |