FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

COMMUNITY DEVELOPMENT ADMINISTRATION
INFRASTRUCTURE FINANCING BONDS
(MBIA INSURED)

JUNE 30, 2007 AND 2006

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

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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 Infrastructure Financing Bonds (MBIA Insured) (the Fund) of the Department of Housing and Community Development of the State of Maryland as of and for the years ended June 30, 2007 and 2006, 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 Infrastructure Financing Bonds (MBIA Insured) 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, 2007 and 2006, 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 Infrastructure Financing Bonds (MBIA Insured) of the Department of Housing and Community Development of the State of Maryland as of June 30, 2007 and 2006, 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.

Reznick Group, P.C.

Baltimore, Maryland
September 27, 2007

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

STATEMENTS OF NET ASSETS
(in thousands)

June 30, 2007 and 2006

	2007	2006
RESTRICTED ASSETS		
Restricted current assets		
Cash and cash equivalents on deposit with trustee	$ 2,189	$ 552
Community facilities loans	3,506	3,535
Accrued interest and other receivables	473	520
Total restricted current assets	6,168	4,607
Restricted long-term assets		
Community facilities loans, net of current portion	42,874	47,849
Other receivables, net of current portion	388	458
Total restricted long-term assets	43,262	48,307
Total restricted assets	$ 49,430	$ 52,914
LIABILITIES AND NET ASSETS		
Current liabilities		
Accrued interest payable	$ 206	$ 220
Accounts payable	23	-
Bonds payable	5,055	3,535
Total current liabilities	5,284	3,755
Long-term liabilities		
Bonds payable, net of current portion	43,330	48,385
Advance trustee fees	186	176
Total long-term liabilities	43,516	48,561
Total liabilities	48,800	52,316
NET ASSETS		
Restricted	630	598
Total liabilities and net assets	$ 49,430	$ 52,914

See notes to financial statements

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

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

Years ended June 30, 2007 and 2006

	2007	2006
Operating revenue		
Interest on community facilities loans	$ 2,593	$ 2,987
Interest income on cash equivalents	60	63
	2,653	3,050
Operating expenses		
Interest expense on bonds	2,621	3,022
Operating income	32	28
Changes in net assets	32	28
Net assets - restricted at beginning of year	598	570
Net assets - restricted at end of year	$ 630	$ 598

See notes to financial statements

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

STATEMENTS OF CASH FLOWS
(in thousands)

Years ended June 30, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Principal and interest received on community facilities loans	$ 7,717	$ 11,172
Advance trustee fees received	46	51
Trustee fees paid	(36)	(36)
Other reimbursements	23	-
Net cash provided by operating activities	7,750	11,187
Cash flows from investing activities		
Interest received on cash equivalents	57	62
Net cash provided by investing activities	57	62
Cash flows from noncapital financing activities		
Payments on bond principal	(3,535)	(8,115)
Interest on bonds	(2,635)	(3,057)
Net cash used in noncapital financing activities	(6,170)	(11,172)
NET INCREASE IN CASH AND CASH EQUIVALENTS ON DEPOSIT WITH TRUSTEE	1,637	77
Cash and cash equivalents on deposit with trustee at beginning of year	552	475
Cash and cash equivalents on deposit with trustee at end of year	$ 2,189	$ 552

(continued)

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

STATEMENTS OF CASH FLOWS - CONTINUED
(in thousands)

Years ended June 30, 2007 and 2006

	2007	2006
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 32	$ 28
Adjustments to reconcile operating income to net cash provided by operating activities		
Decrease in community facilities loans	5,004	8,025
Decrease in accrued interest and other receivables	117	159
Decrease in accrued interest payable	(14)	(35)
Increase in accounts payable	23	-
Increase in other liabilities	10	15
Interest received on cash equivalents	(57)	(62)
Interest on bonds	2,635	3,057
Net cash provided by operating activities	$ 7,750	$ 11,187

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS
(in thousands)

June 30, 2007 and 2006

NOTE 1 - AUTHORIZING LEGISLATION AND PROGRAM DESCRIPTION

The Community Development Administration (CDA) is authorized to issue Infrastructure Financing Bonds (MBIA Insured) pursuant to Sections 4-101 through 4-255 of the Housing and Community Development Article of the Annotated Code of Maryland to provide a mechanism for financing the infrastructure needs of local governments. 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 Infrastructure Financing Bonds (MBIA Insured) (the Fund). CDA's other Funds are not included.

The Fund was established to issue bonds to provide funds for construction and permanent financing to local governments for public facilities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Infrastructure Financing Bonds (MBIA Insured) 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). CDA has adopted GASB Statement No. 20 *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. 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)

CDA has adopted GASB Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis*. Under GASB Statement No. 34, 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.

<u>Cash and Cash Equivalents on Deposit with Trustee</u>

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, 2007 and 2006, all of the Fund's cash equivalents are invested in a money market mutual fund which is more fully described in Note 3.

<u>Community Facilities Loans</u>

Community facilities loans are carried at their unpaid principal balances. See Note 4 for additional information on community facilities loans.

<u>Allowance for Loan Losses</u>

Community facilities loans are secured by the full faith and credit of the applicable local government. Therefore, CDA has determined that no allowance for loan losses was necessary as of June 30, 2007 and 2006.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Interest and Other Receivables

Accrued interest includes both interest on cash deposits and interest on loans. As of June 30, 2007 and 2006, all loans were current. Therefore, all accrued interest on loans was recorded during the year. Other receivables include additional principal due from local governments on refunded bonds. See Note 5 for additional information.

Bonds Payable

Bonds payable are carried at their unpaid principal balances. There are no premiums or discounts to amortize. See Notes 6, 7 and 8 for additional information.

Administrative Support

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

The employees of CDA are covered by the Maryland State Retirement and Pension System 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 10 for additional information.

Revenue and Expenses

CDA distinguishes operating revenue and expenses from nonoperating items in conformity with GASB Statement No. 34. Operating revenue and expenses are identified as those activities that are directly related to financing public facilities for local governments. All of the Fund's activities are considered to be operating.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 AND CASH EQUIVALENTS ON DEPOSIT WITH TRUSTEE

Proceeds from bonds and revenues from loans are invested in authorized investments as defined in the Infrastructure Financing Bonds (MBIA Insured) Resolution (the Resolution) and in CDA's Investment Policy until required for financing projects, redeeming outstanding bonds, and funding program expenses. Authorized investments include obligations of the U.S. Treasury, U.S. Government Agencies, investment agreements, money market funds and any other investment as defined by the Resolution.

As of June 30, 2007 and 2006, the Fund had $2,189 and $552, respectively, invested in a money market mutual fund (Federated Treasury Obligations Fund) which is classified as cash and cash equivalents. The following represents the GASB Statement No. 40 evaluation of this asset for interest rate risk, credit risk, concentration of credit risk and custodial credit risk.

Interest Rate Risk

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

NOTE 3 - CASH AND CASH EQUIVALENTS ON DEPOSIT WITH TRUSTEE (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 of June 30, 2007 and 2006, the cost of this money market mutual fund approximated fair value and its maturity is less than one year.

Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Neither CDA's Investment Policy nor the Resolution requires investment agreements or deposits to be collateralized. CDA's Investment Policy places no limit on the amount that CDA may invest in any one fund. According to the Resolution, securities must be rated at the highest investment grade by any national rating agency. U.S. dollar denominated accounts and bankers' acceptances which have a rating on their short-term certificates of deposit must be in the two highest ratings by any nationally recognized rating agency. GASB Statement No. 40 requires disclosure by amount and investment issuer if investments in any one issuer represent 5 percent or more of total investments. Investments in mutual funds are excluded from this requirement.

As of June 30, 2007 and 2006, the Federated Treasury Obligations Fund was rated AAAm by Standard and Poor's and Aaa by Moody's Investors Service.

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, 2007 and 2006, the Fund's investments were not subject to custodial credit risk under GASB Statement No. 40. This money market fund is held in trust by the trustee, kept separate from the assets of the bank and from other trust accounts and is held in CDA's name.

(in thousands)

NOTE 4 - COMMUNITY FACILITIES LOANS

Community facilities loans are secured by the full faith and credit of the applicable local government. As such, no allowance for loan losses was necessary as of June 30, 2007 and 2006. Interest rates on such loans range from 4.18% to 6.81%. As of June 30, 2007 and 2006, remaining loan terms range from less than 1 year to 24 years and less than 1 year to 25 years, respectively.

NOTE 5 - ACCRUED INTEREST AND OTHER RECEIVABLES

Accrued interest and other receivables as of June 30, 2007 and 2006 were as follows:

	2007	2006
Accrued interest on community facilities loans	$ 398	$ 440
Accrued interest on cash deposits	6	2
Additional loan principal as a result of bond refundings	457	536
	$ 861	$ 978

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 community facilities loans. All outstanding bonds are subject to redemption at the option of CDA, in whole or in part at any time, after certain dates, as specified in the respective series resolutions. The prescribed optional redemption premiums range from 0% to 1% of the principal amount. All bonds have fixed interest rates and all bonds are tax-exempt except for 2001 Series B.

(in thousands)

NOTE 6 - BONDS PAYABLE (Continued)

The following is a summary of the bond activity for the year ended June 30, 2007 and bonds payable as of June 30, 2007:

Bond	Issue dated	Range of interest rates	Range of maturities	Bonds payable at June 30, 2006	Bond Activity: Scheduled maturity payments	Bond Activity: Bonds Redeemed	Bonds payable at June 30, 2007
Infrastructure Financing Bonds (MBIA Insured)							
1996 Series A	05/01/96	5.30% - 5.90%	2007 - 2026	$ 1,300	$ (155)	$ -	$ 1,145
1997 Series A	04/15/97	5.20% - 5.75%	2007 - 2027	6,255	(500)	-	5,755
1998 Series A	02/15/98	4.25% - 5.00%	2007 - 2018	3,360	(400)	-	2,960
1998 Series B	06/01/98	4.45% - 5.20%	2007 - 2028	18,865	(1,440)	-	17,425
1998 Series C	06/01/98	4.35% - 5.15%	2006 - 2020	1,040	(90)	-	950
1999 Series A	03/01/99	4.20% - 5.00%	2007 - 2029	5,790	(215)	-	5,575
2000 Series A	03/01/00	5.25% - 5.875%	2007 - 2030	6,355	(340)	-	6,015
2001 Series A	03/01/01	4.00% - 5.00%	2007 - 2031	7,220	(325)	-	6,895
2001 Series B	03/01/01	6.25% - 6.80%	2011 - 2021	1,735	(70)	-	1,665
Totals				$ 51,920	$ (3,535)	$ -	$ 48,385

The following is a summary of the bond activity for the year ended June 30, 2006 and bonds payable as of June 30, 2006:

Bond	Issue dated	Range of interest rates	Range of maturities	Bonds payable at June 30, 2005	Bond Activity: Scheduled maturity payments	Bond Activity: Bonds Redeemed	Bonds payable at June 30, 2006
Infrastructure Financing Bonds (MBIA Insured)							
1996 Series A	05/01/96	5.20% - 5.90%	2006 - 2026	$ 5,940	$ (360)	$ (4,280)	$ 1,300
1997 Series A	04/15/97	5.20% - 5.75%	2006 - 2027	6,730	(475)	-	6,255
1998 Series A	02/15/98	4.20% - 5.00%	2006 - 2018	3,745	(385)	-	3,360
1998 Series B	06/01/98	4.35% - 5.20%	2006 - 2028	20,345	(1,480)	-	18,865
1998 Series C	06/01/98	4.30% - 5.15%	2005 - 2020	1,240	(200)	-	1,040
1999 Series A	03/01/99	4.20% - 5.00%	2006 - 2029	5,995	(205)	-	5,790
2000 Series A	03/01/00	5.25% - 5.875%	2006 - 2030	6,675	(320)	-	6,355
2001 Series A	03/01/01	4.00% - 5.00%	2006 - 2031	7,560	(340)	-	7,220
2001 Series B	03/01/01	6.25% - 6.80%	2006 - 2021	1,805	(70)	-	1,735
Totals				$ 60,035	$ (3,835)	$ (4,280)	$ 51,920

Community Development Administration
Infrastructure Financing Bonds (MBIA Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2007 and 2006

NOTE 7 - DEBT SERVICE REQUIREMENTS

As of June 30, 2007, the required principal payments for bonds (including mandatory sinking fund payments) and interest payments for each of the next five years and in 5-year increments thereafter, are as follows:

Years ended June 30,	Interest	Principal
2008	$ 2,392	$ 5,055
2009	2,222	3,365
2010	2,062	3,255
2011	1,905	2,915
2012	1,765	2,580
2013 - 2017	6,956	12,445
2018 - 2022	3,749	10,335
2023 - 2027	1,578	6,370
2028 - 2032	187	2,065
Total	$ 22,816	$ 48,385

As of June 30, 2006, the required principal payments for bonds (including mandatory sinking fund payments) and interest payments for each of the next five years and in 5-year increments thereafter, are as follows:

Years ended June 30,	Interest	Principal
2007	$ 2,635	$ 3,535
2008	2,471	3,595
2009	2,304	3,460
2010	2,139	3,350
2011	1,977	3,015
2012 - 2016	7,846	12,960
2017 - 2021	4,489	12,055
2022 - 2026	1,973	6,555
2027 - 2031	369	3,395
Total	$ 26,203	$ 51,920

(in thousands)

NOTE 8 - LONG-TERM OBLIGATIONS

Changes in long-term obligations for the years ended June 30, 2007 and 2006 were as follows:

	2007	2006
Bonds payable		
Beginning balance	$ 51,920	$ 60,035
Reductions	(3,535)	(8,115)
Ending balance	48,385	51,920
Less due within one year	(5,055)	(3,535)
Total long-term bonds payable	43,330	48,385
Advance trustee fees		
Beginning balance	176	161
Additions	46	51
Reductions	(36)	(36)
Ending balance	186	176
Total long-term advance trustee fees	186	176
Total long-term liabilities	$ 43,516	$ 48,561

NOTE 9 - BOND INSURANCE

All outstanding bonds of the Fund are insured by MBIA Insurance Corporation. The provisions of the policy require the insurer to pay that portion of the principal and interest on the bonds which become due for payment but are not paid by CDA. The insurance generally extends for the term of the bonds and cannot be canceled by the insurer.

NOTE 10 - 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 liability 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 11 - SUBSEQUENT EVENTS

On July 1, 2007, CDA redeemed $1,545 of Infrastructure Financing Bonds (MBIA Insured) 1997 Series A bonds.