

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

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

JUNE 30, 2011 AND 2010

Community Development Administration  
Single Family Housing Revenue Bonds

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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 Single Family Housing Revenue Bonds (the Fund) of the Department of Housing and Community Development of the State of Maryland as of and for the year ended June 30, 2011 and the period December 18, 2009 (date of establishment) through June 30, 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 Single Family Housing Revenue Bonds and do not purport to, and do not, present fairly the financial position of the Department of Housing and Community Development of the State of Maryland as of June 30, 2011 and the period December 18, 2009 (date of establishment) through June 30, 2010, and the changes in its net assets and its cash flows for the year then ended and the period December 18, 2009 (date of establishment) through June 30, 2010, 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 Single Family Housing Revenue Bonds of the Department of Housing and Community Development of the State of Maryland as of June 30, 2011 and the period December 18, 2009 (date of establishment) through June 30, 2010, and the changes in its net assets and its cash flows for the year then ended and the period December 18, 2009 (date of establishment) through June 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

Baltimore, Maryland  
September 19, 2011



Community Development Administration  
Single Family Housing Revenue Bonds

STATEMENTS OF NET ASSETS  
(in thousands)

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>RESTRICTED ASSETS</b>		
Restricted current assets		
Cash and cash equivalents on deposit with US Bank	\$ 154,584	\$ 154,368
Total restricted current assets	<u>154,584</u>	<u>154,368</u>
Restricted long-term assets		
Deferred bond issuance costs	<u>90</u>	<u>90</u>
Total restricted long-term assets	<u>90</u>	<u>90</u>
Total restricted assets	<u>\$ 154,674</u>	<u>\$ 154,458</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accrued interest payable	\$ 294	\$ 78
Bonds payable	<u>154,290</u>	<u>-</u>
Total current liabilities	<u>154,584</u>	<u>78</u>
Long-term liabilities		
Bonds payable	<u>-</u>	<u>154,290</u>
Total long-term liabilities	<u>-</u>	<u>154,290</u>
Total liabilities	154,584	154,368
<b>NET ASSETS</b>		
Restricted	<u>90</u>	<u>90</u>
Total liabilities and net assets	<u>\$ 154,674</u>	<u>\$ 154,458</u>

See notes to financial statements

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

Year ended June 30, 2011 and the period December 18, 2009 (date of establishment)  
through June 30, 2010

	2011	2010
Operating revenue		
Interest income on investments	\$ 216	\$ 78
	216	78
Operating expenses		
Interest expense on bonds	216	78
Professional fees and other operating expenses	-	207
	216	285
Operating loss	-	(207)
Transfers of funds, net, as permitted by the various bond indentures	-	297
Change in net assets	-	90
Net assets - restricted at beginning of period	90	-
Net assets - restricted at end of period	\$ 90	\$ 90

See notes to financial statements

Community Development Administration  
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STATEMENTS OF CASH FLOWS  
(in thousands)

Year ended June 30, 2011 and the period December 18, 2009 (date of establishment)  
through June 30, 2010

	2011	2010
Cash flows from operating activities		
Professional fees and other operating expenses	\$ -	\$ (207)
Net cash used in operating activities	-	(207)
Cash flows from investing activities		
Interest received on investments	216	78
Net cash provided by investing activities	216	78
Cash flows from noncapital financing activities		
Proceeds from sale of bonds	-	154,290
Bond issuance costs	-	(90)
Transfers among Funds	-	297
Net cash provided by noncapital financing activities	-	154,497
NET INCREASE IN CASH AND CASH EQUIVALENTS	216	154,368
Cash and cash equivalents at beginning of year	154,368	-
Cash and cash equivalents at end of year	\$ 154,584	\$ 154,368
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ -	\$ (207)
Adjustments to reconcile operating loss to net cash used in operating activities		
Increase in liabilities		
Accrued interest payable	216	78
Interest received on investments	(216)	(78)
Net cash used in operating activities	\$ -	\$ (207)

See notes to financial statements

Community Development Administration  
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS  
(in thousands)

June 30, 2011 and 2010

NOTE 1 - AUTHORIZING LEGISLATION AND PROGRAM DESCRIPTION

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

CDA entered into a Securitization Agreement on December 18, 2009 with the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC), using federal legislative authority under the Housing and Economic Recovery Act of 2008 to provide affordable mortgage financing for individual households and multifamily rental properties. Subject to the Securitization Agreement, the New Issue Bond Program (NIBP) was created under which CDA will issue mortgage revenue Program Bonds, FNMA and FHLMC will securitize and issue securities for these bonds, and the United States Department of the Treasury (Treasury) will purchase these securities. Under the Single Family NIBP and pursuant to the Single Family Housing Revenue Bond Resolution (Resolution), CDA issued 2009 Series A bonds in the amount of \$154,290 as escrow bonds which will bear interest at a short-term rate until conversion to Program Bonds secured by mortgage loans or mortgage-backed securities backed by mortgage loans. The short-term rate will convert to a permanent fixed rate at time of conversion. The escrow bonds can be converted in up to six tranches prior to December 31, 2011, unless extended by the Treasury. CDA is required, at the time of each of the six conversions, to issue market bonds along with the issuance of Program Bonds, but not to exceed 40 percent of the total allocation of which the escrow bonds represent the 60 percent share.

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

Community Development Administration  
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2011 and 2010

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.

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.



Community Development Administration  
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2011 and 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash equivalents for escrow bond proceeds are invested pursuant to the NIBP's Global Escrow Agreement which is more fully described in Note 3.

Mortgage Loans

Mortgage loans are carried at their unpaid principal balances, net of unamortized loan fees and expenses. Loan fees and expenses are deferred and amortized over the life of the related loans using the effective interest method. As of June 30, 2011 and 2010, no loans have been purchased or originated under the Fund.

Deferred Bond Issuance Costs

Costs incurred in issuing bonds are capitalized and amortized using the effective interest method for each respective bond issue.

Bonds Payable

Bonds payable are carried at their unpaid principal balances. See Note 5 for additional information related to the escrow bonds.

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.

Community Development Administration  
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2011 and 2010

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 8 for additional information.

Revenue and Expenses

CDA distinguishes operating revenue and expenses from nonoperating items in accordance with accounting guidance issued by GASB. Operating revenue and expenses are identified as those activities that are directly related to financing affordable housing in the State of Maryland. All of the Fund's activities are considered to be operating.

Use of Estimates

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

NOTE 3 - CASH AND CASH EQUIVALENTS

Escrow bond proceeds were deposited into 2009 Series A Escrow Fund and invested pursuant to the Global Escrow Agreement entered into by CDA with FNMA, FHLMC, and U.S. Bank National Association (US Bank), as escrow agent, within NIBP. The escrow bond proceeds are invested, pursuant to the Global Escrow Agreement, equally between four money market mutual funds and, if drawn, the investments are reduced in equal amounts, accordingly. Revenues from future mortgages and investments within the Fund will be invested in authorized investments as defined in the Resolution and in CDA's Investment Policy until required for purchasing or originating mortgage loans, purchasing mortgage-backed securities, funding reserves, paying bond debt service or redeeming outstanding bonds, and funding program expenses. Authorized investments within the Resolution include obligations of the U.S. Treasury, U.S. Government Agencies, repurchase agreements, investment agreements, money market funds and certificates of deposit.

Community Development Administration  
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2011 and 2010

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

As of June 30, 2011, the escrow bond proceeds, invested in money market mutual funds and held by US Bank, as the escrow agent, were invested equally in the following money market mutual funds:

Asset	Fair Value	Percentage Invested	Money Market Fund Rating		
			Moody's	Fitch	S&P
First American Funds Prime Obligations Class Z	\$ 38,646	25%	Aaa	AAA	AAAm
Fidelity Prime Obligations Class I	38,646	25%	Aaa	-	AAAm
Goldman Prime Obligations Institutional	38,646	25%	Aaa	AAA	AAAm
Blackrock Liquidity Funds TempFunds (Institutional)	<u>38,646</u>	25%	Aaa	-	AAAm
Total	<u>\$ 154,584</u>				

As of June 30, 2011, the cost of the money market mutual funds approximated fair value.

As of June 30, 2010, the escrow bond proceeds, invested in money market mutual funds and held by US Bank, as the escrow agent, were invested equally in the following money market mutual funds:

Asset	Fair Value	Percentage Invested	Money Market Fund Rating		
			Moody's	Fitch	S&P
First American Funds Prime Obligations Class Z	\$ 38,592	25%	Aaa	AAA	AAAm
Fidelity Prime Obligations Class I	38,592	25%	Aaa	-	AAAm
Goldman Prime Obligations Institutional	38,592	25%	-	AAA	-
Blackrock Liquidity Funds TempFunds (Institutional)	<u>38,592</u>	25%	Aaa	AAA	AAAm
Total	<u>\$ 154,368</u>				

As of June 30, 2010, the cost of the money market mutual funds approximated fair value.

Community Development Administration  
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2011 and 2010

NOTE 4 - MORTGAGE LOANS

All of the Fund's mortgage loans are expected to be credit enhanced with mortgage insurance provided through the FHA mortgage insurance programs, the VA and the USDA/RD guarantee programs and private mortgage insurance policies. CDA is currently not financing loans with private mortgage insurance but may do so in the future.

NOTE 5 - 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.

CDA issued 2009 Series A escrow bonds in the amount of \$154,290 dated December 30, 2009. The bonds are taxable and bear interest at variable short-term rates until the escrow bonds are converted to Program Bonds with permanent fixed rates to fund mortgage loans and mortgage-backed securities backed by mortgage loans. As of June 30, 2011 and 2010, all bond proceeds were still in escrow. If any escrow bond proceeds remain in the 2009 Series A Escrow Fund on January 1, 2012, such remaining proceeds must be used to redeem the outstanding escrow bonds; otherwise, issued Program Bonds will have a maturity date of September 1, 2041.

As of June 30, 2011, the required principal payment for bonds is as follows:

June 30, 2012	\$	154,290
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NOTE 6 - INTERFUND ACTIVITY

In accordance with the Resolution, net assets in the Fund are restricted and pledged to bondholders. However, restricted assets may be transferred to other Funds, subject to the provisions of the Resolution. As of June 30, 2011, no transfers were made. As of June 30, 2010, \$297 was transferred into the Fund from CDA's General Bond Reserve Fund to cover costs of issuance and other expenses related to the escrow bonds.

Community Development Administration  
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2011 and 2010

NOTE 7 - 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 at 6/30/2010	\$ 154,290	\$ -
Additions	-	154,290
Reductions	-	-
Ending balance at 6/30/2011	154,290	154,290
Less due within one year	(154,290)	-
Total long-term bonds payable	\$ -	\$ 154,290

NOTE 8 - PENSION AND OTHER POST-RETIREMENT BENEFITS

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

Community Development Administration  
Single Family Housing Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2011 and 2010

NOTE 9 - 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 19, 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, except for the following bond activity that occurred subsequent to June 30, 2011.

Subsequent to the year ended June 30, 2011, CDA issued the following bonds on August 25, 2011:

2009 Series A-1	\$60,460
2011 Series A	\$40,310