

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

**COMMUNITY DEVELOPMENT ADMINISTRATION  
MULTI-FAMILY MORTGAGE REVENUE BONDS**

JUNE 30, 2010

Community Development Administration  
Multi-Family Mortgage 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 Multi-Family Mortgage Revenue Bonds (the Fund) of the Department of Housing and Community Development of the State of Maryland as of and for 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Community Development Administration Multi-Family Mortgage 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, 2010, and the changes in its net assets and its cash flows for 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 Multi-Family Mortgage Revenue Bonds of the Department of Housing and Community Development of the State of Maryland as of June 30, 2010, and the changes in its net assets and its cash flows for 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 30, 2010

Community Development Administration  
Multi-Family Mortgage Revenue Bonds

STATEMENT OF NET ASSETS  
(in thousands)

June 30, 2010

|                                   |                  |
|-----------------------------------|------------------|
| RESTRICTED ASSETS                 |                  |
| Restricted current assets         |                  |
| Cash and cash equivalents         | \$ 92,086        |
| Total restricted current assets   | <u>92,086</u>    |
| Restricted long-term assets       |                  |
| Deferred bond issuance costs      | <u>90</u>        |
| Total restricted long-term assets | <u>90</u>        |
| Total restricted assets           | <u>\$ 92,176</u> |
| LIABILITIES AND NET ASSETS        |                  |
| Current liabilities               |                  |
| Accrued interest payable          | \$ 46            |
| Total current liabilities         | <u>46</u>        |
| Long-term liabilities             |                  |
| Bonds payable                     | <u>92,040</u>    |
| Total long-term liabilities       | <u>92,040</u>    |
| Total liabilities                 | 92,086           |
| NET ASSETS                        |                  |
| Restricted                        | <u>90</u>        |
| Total liabilities and net assets  | <u>\$ 92,176</u> |

See notes to financial statements

Community Development Administration  
Multi-Family Mortgage Revenue Bonds

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

December 18, 2009 (date of establishment) through June 30, 2010

|   |                     |
|---|---------------------|
| Operating revenue   |                     |
| Interest income on investments  | \$ 46               |
|   | <u>46</u>           |
| Operating expenses  |                     |
| Interest expense on bonds   | 46                  |
| Professional fees and other operating expenses                          | 145                 |
|   | <u>191</u>          |
| Operating loss  | <u>(145)</u>        |
| Transfers of funds, net, as permitted by the various<br>bond indentures | <u>235</u>          |
| Change in net assets  | 90                  |
| Net assets - restricted at beginning of period                          | <u>-</u>            |
| Net assets - restricted at end of period                                | <u><u>\$ 90</u></u> |

See notes to financial statements

Community Development Administration  
Multi-Family Mortgage Revenue Bonds

STATEMENT OF CASH FLOWS  
(in thousands)

December 18, 2009 (date of establishment) through June 30, 2010

|  |    |                      |
|--|----|----------------------|
| Cash flows from operating activities   |    |                      |
| Professional fees and other operating expenses                                   | \$ | (145)                |
|  |    | <u>(145)</u>         |
| Net cash used in operating activities  |    | <u>(145)</u>         |
|  |    |                      |
| Cash flows from investing activities   |    |                      |
| Interest received on investments   |    | 46                   |
|  |    | <u>46</u>            |
| Net cash provided by investing activities  |    | <u>46</u>            |
|  |    |                      |
| Cash flows from noncapital financing activities                                  |    |                      |
| Proceeds from sale of bonds  |    | 92,040               |
| Bond issuance costs  |    | (90)                 |
| Transfers among Funds  |    | 235                  |
|  |    | <u>92,185</u>        |
| Net cash provided by noncapital financing activities                             |    | <u>92,185</u>        |
|  |    |                      |
| NET INCREASE IN CASH AND CASH EQUIVALENTS  |    | 92,086               |
|  |    |                      |
| Cash and cash equivalents at beginning of period                                 |    | <u>-</u>             |
| Cash and cash equivalents at end of period                                       | \$ | <u><u>92,086</u></u> |
|  |    |                      |
| Reconciliation of operating loss to net cash used in operating activities        |    |                      |
| Operating loss   | \$ | (145)                |
| Adjustments to reconcile operating loss to net cash used in operating activities |    |                      |
| Increase in liabilities  |    |                      |
| Accrued interest payable   |    | 46                   |
| Interest received on investments   |    | (46)                 |
|  |    | <u>(46)</u>          |
| Net cash used in operating activities  | \$ | <u><u>(145)</u></u>  |

See notes to financial statements

Community Development Administration  
Multi-Family Mortgage Revenue Bonds

NOTES TO FINANCIAL STATEMENTS  
(in thousands)

June 30, 2010

NOTE 1 - AUTHORIZING LEGISLATION AND PROGRAM DESCRIPTION

The Community Development Administration (CDA) is authorized to issue Multi-Family Mortgage 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 Multifamily NIBP and pursuant to the Multi-Family Mortgage Revenue Bonds Resolution (Resolution), CDA issued Series 2009 A bonds in the amount of \$92,040 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 has the option, 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 Multi-Family Mortgage 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 Single Family Housing Revenue Bonds. The Fund was established to provide construction and permanent financing for multi-family housing projects.

Community Development Administration  
Multi-Family Mortgage Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 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.

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.



Community Development Administration  
Multi-Family Mortgage Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgage Loans

Mortgage loans are to be 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. As of June 30, 2010, no loans have been 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.

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.

Community Development Administration  
Multi-Family Mortgage Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 providing 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.

Recent Accounting Pronouncements

In March 2009, GASB issued the Accounting Standards Codification (Codification). Effective upon issuance, the Codification is the single source of authoritative accounting principles recognized by GASB to be applied by governmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP). The Codification is intended to reorganize, rather than change, existing GAAP. Accordingly, all references to currently existing GAAP have been removed and have been replaced with plain English explanations of CDA's accounting policies. The adoption of the Codification did not have a material impact on CDA's financial position or results of operations.

Community Development Administration  
Multi-Family Mortgage Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In May 2009, FASB issued guidance regarding subsequent events, which was subsequently updated in February 2010. This guidance established general standards of accounting for and disclosure of events that occur after the date of the statement of net assets but before financial statements are issued or are available to be issued. In particular, this guidance sets forth the period after the date of the statement of net assets during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the date of the statement of net assets in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the date of the statement of net assets. This guidance was effective for financial statements issued for fiscal years and interim periods ending after June 15, 2009, and was therefore adopted by CDA for the period ending June 30, 2010. The adoption did not have a significant impact on the subsequent events that CDA reports, either through recognition or disclosure, in the financial statements. In February 2010, FASB amended its guidance on subsequent events for entities that are not SEC filers to disclose the date that the financial statements were available to be issued. This amendment was effective immediately. See Note 9 regarding the date through which subsequent events have been evaluated.

NOTE 3 - CASH AND CASH EQUIVALENTS

Escrow bond proceeds were deposited into Series 2009 A Escrow Account 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 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  
Multi-Family Mortgage Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2010

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

At June 30, 2010, the escrow bond proceeds, invested in money market mutual funds and held by US Bank, as the escrow agent, are 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      | \$ 23,022          | 25%                 | Aaa                      | AAA   | AAAm |
| Fidelity Prime Obligations Class I                  | 23,022             | 25%                 | Aaa                      | -     | AAAm |
| Goldman Prime Obligations Institutional             | 23,022             | 25%                 | -                        | AAA   | -    |
| Blackrock Liquidity Funds TempFunds (Institutional) | <u>23,022</u>      | 25%                 | Aaa                      | AAA   | AAAm |
| Total   | <u>\$ 92,088</u> * |                     |                          |       |      |

\* the difference from actual total of \$92,086 is due to rounding. All investments are equally funded.

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

NOTE 4 - MORTGAGE LOANS

All of the Fund's mortgage loans are expected to be credit enhanced with one or more forms of credit enhancement pursuant to the Resolution. As of June 30, 2010, no loans have been originated under the Fund.

Community Development Administration  
Multi-Family Mortgage Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2010

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 Series 2009 A escrow bonds in the amount of \$92,040 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, 2010, all bond proceeds were still in escrow. If any escrow bond proceeds remain in the Series 2009 A Escrow Account 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 July 1, 2051.

As of June 30, 2010, the required principal payments for bonds for each of the next two years are as follows:

|               |    |        |
|---------------|----|--------|
| June 30, 2011 | \$ | -      |
| 2012          | \$ | 92,040 |

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, 2010, \$235 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  
Multi-Family Mortgage Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2010

NOTE 7 - LONG-TERM OBLIGATIONS

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

|                               |                         |
|-------------------------------|-------------------------|
| Bonds payable                 |                         |
| Additions                     | \$ 92,040               |
| Reductions                    | <u>-</u>                |
| Ending balance at 6/30/2010   | 92,040                  |
| Less due within one year      | <u>-</u>                |
| Total long-term bonds payable | <u><u>\$ 92,040</u></u> |

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).

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 30, 2010 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements, except for the following activity that occurred subsequent to June 30, 2010.

Community Development Administration  
Multi-Family Mortgage Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2010

NOTE 9 - SUBSEQUENT EVENTS (Continued)

Subsequent to the period ended June 30, 2010, the following bond activity took place:

On July 22, 2010, CDA issued the following bonds:

|                 |          |
|-----------------|----------|
| Series 2009 A-1 | \$24,380 |
| Series 2010 A   | \$8,410  |

On September 29, 2010, CDA issued the following bonds:

|                 |          |
|-----------------|----------|
| Series 2009 A-2 | \$6,610  |
| Series 2009 A-3 | \$5,410  |
| Series 2010 B   | \$16,730 |
| Series 2010 C   | \$4,105  |