

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

**COMMUNITY DEVELOPMENT ADMINISTRATION
LOCAL GOVERNMENT INFRASTRUCTURE BONDS**

JUNE 30, 2012 AND 2011

Community Development Administration
Local Government Infrastructure 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 Local Government Infrastructure 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, 2012 and the period August 25, 2010 (date of establishment) through June 30, 2011, 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 misstatements. 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 statements 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 Local Government Infrastructure 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, 2012 and 2011, and the changes in its net assets and its cash flows for the year and period 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 Local Government Infrastructure Bonds of the Department of Housing and Community Development of the State of Maryland as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the year and period then ended, in conformity with accounting principles generally accepted in the United States of America.



Baltimore, Maryland
September 28, 2012

Community Development Administration
Local Government Infrastructure Bonds

STATEMENTS OF NET ASSETS
(in thousands)

June 30, 2012 and 2011

	2012	2011
RESTRICTED ASSETS		
Restricted current assets		
Cash and cash equivalents on deposit with trustee	\$ 15,686	\$ 14,034
Community facilities loans	2,165	1,230
Accrued interest receivable	129	76
	17,980	15,340
Restricted long-term assets		
Community facilities loans, net of current portion	36,290	24,830
	\$ 54,270	\$ 40,170
	\$ 54,270	\$ 40,170
LIABILITIES AND NET ASSETS		
Current liabilities		
Accrued interest payable	\$ 102	\$ 66
Accounts payable	146	-
Bonds payable	2,200	1,255
Due to local governments	14,493	13,371
	16,941	14,692
Long-term liabilities		
Bonds payable, net of current portion	37,183	25,413
Advance trustee fees	4	4
	37,187	25,417
Total liabilities	54,128	40,109
NET ASSETS		
Restricted	142	61
Total liabilities and net assets	\$ 54,270	\$ 40,170

See notes to financial statements

Community Development Administration
Local Government Infrastructure Bonds

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

Year ended June 30, 2012 and the period August 25, 2010
(date of establishment) through June 30, 2011

	<u>2012</u>	<u>2011</u>
Operating revenue		
Interest on community facilities loans	\$ 907	\$ 737
Operating expenses		
Interest expense on bonds	<u>826</u>	<u>676</u>
Operating income	<u>81</u>	<u>61</u>
Changes in net assets	81	61
Net assets - restricted at beginning of year	<u>61</u>	<u>-</u>
Net assets - restricted at end of year	<u><u>\$ 142</u></u>	<u><u>\$ 61</u></u>

See notes to financial statements

Community Development Administration
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STATEMENTS OF CASH FLOWS
(in thousands)

Year ended June 30, 2012 and the period August 25, 2010
(date of establishment) through June 30, 2011

	2012	2011
Cash flows from operating activities		
Principal and interest received on community facilities loans	\$ 2,084	\$ 1,881
Origination of community facilities loans	(12,357)	(13,909)
Advance trustee fees received	8	8
Trustee fees paid	(8)	(4)
	(10,273)	(12,024)
Net cash used in operating activities		
Cash flows from investing activities		
Interest received on cash equivalents	-	-
	-	-
Net cash provided by investing activities		
Cash flows from noncapital financing activities		
Proceeds from sale of bonds	13,970	27,913
Payments on bond principal	(1,255)	(1,245)
Interest on bonds	(790)	(610)
	11,925	26,058
Net cash provided by noncapital financing activities		
NET INCREASE IN CASH AND CASH EQUIVALENTS ON DEPOSIT WITH TRUSTEE	1,652	14,034
Cash and cash equivalents on deposit with trustee at beginning of year	14,034	-
Cash and cash equivalents on deposit with trustee at end of year	\$ 15,686	\$ 14,034

(continued)

Community Development Administration
Local Government Infrastructure Bonds

STATEMENTS OF CASH FLOWS - CONTINUED
(in thousands)

Year ended June 30, 2012 and the period August 25, 2010
(date of establishment) through June 30, 2011

	2012	2011
Reconciliation of operating income to net cash used in operating activities		
Operating income	\$ 81	\$ 61
Adjustments to reconcile operating income to net cash used in operating activities		
Increase in community facilities loans	(12,395)	(26,060)
Increase in accrued interest receivable	(53)	(76)
Increase in accrued interest payable	36	66
Increase in accounts payable	146	-
Increase in due to local governments and other liabilities	1,122	13,375
Interest on bonds	790	610
	\$ (10,273)	\$ (12,024)

See notes to financial statements

Community Development Administration
Local Government Infrastructure Bonds

NOTES TO FINANCIAL STATEMENTS
(in thousands)

June 30, 2012 and 2011

NOTE 1 - AUTHORIZING LEGISLATION AND PROGRAM DESCRIPTION

The Community Development Administration (CDA) is authorized to issue Local Government Infrastructure Bonds 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 Local Government Infrastructure Bonds (the Fund) (resolution adopted August 1, 2010). 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 Local Government Infrastructure Bonds 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.

Community Development Administration
Local Government Infrastructure Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2012 and 2011

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, 2012 and 2011, all of the Fund's cash equivalents were invested in money market mutual funds which are more fully described in Note 3.

Community Facilities Loans

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

Community Development Administration
Local Government Infrastructure Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2012 and 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses

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, 2012 and 2011.

Accrued Interest Receivable

Accrued interest includes both interest on cash deposits and interest on loans. As of June 30, 2012 and 2011, all loans were current. Therefore, all accrued interest on loans was recorded during the year.

Bonds Payable

Bonds payable are carried at their unpaid principal balances, net of unamortized premium. See Notes 5, 6 and 7 for additional information.

Due to Local Governments

CDA records the total loan amount when the loan closes and collects interest from the local government on this full loan amount from the date of closing. Due to local governments represents the undrawn loan amount which is held by CDA as an escrow until the funds are needed by the local government.

Community Development Administration
Local Government Infrastructure Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2012 and 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Revenue and Expenses

CDA distinguishes operating revenue and expenses from non-operating items in accordance with accounting guidance issued by GASB. 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.

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.

Community Development Administration
Local Government Infrastructure Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2012 and 2011

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 Local Government Infrastructure Bonds 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, 2012, the Fund had \$15,686 invested in a money market mutual fund (Federated Prime Cash Obligations Fund). As of June 30, 2011, the Fund had \$14,034 invested in a money market mutual fund (Federated Treasury Obligations Fund). Both are classified as cash and cash equivalents. The following represents the GASB evaluation of these assets 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.

The Federated Prime Cash Obligations Fund invests primarily in short-term, high-quality, fixed-income securities issued by banks, corporations and the U.S. Government. The Federated Treasury Obligations Fund invests primarily in repurchase agreements collateralized by Treasury securities and U.S. Treasuries. Both operate in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. Both 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, 2012 and 2011, the cost of the money market mutual funds approximated fair value and its maturity is less than one year.

Community Development Administration
Local Government Infrastructure Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2012 and 2011

NOTE 3 - CASH AND CASH EQUIVALENTS ON DEPOSIT WITH TRUSTEE (Continued)

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 issuer or counterparty. 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. Accounting guidance issued by GASB 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, 2012, the Federated Prime Cash Obligations Fund was rated AAAM by Standard and Poor's and Aaa by Moody's Investors Service. As of June 30, 2011, 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, 2012 and 2011, the Fund's investments were not subject to custodial credit risk under accounting guidance issued by GASB. The money market mutual funds are held in trust by the trustee, kept separate from the assets of the bank and from other trust accounts and are held in CDA's name.

Community Development Administration
Local Government Infrastructure Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2012 and 2011

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, 2012 and 2011. As of June 30, 2012 and 2011, interest rates on such loans range from 1.77% to 3.78% and 2.06% to 3.78%, respectively, and remaining loan terms range from less than 3 years to 20 years and less than 4 years to 19 years, respectively.

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.

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. All bonds have fixed interest rates and all are tax-exempt.

The following is a summary of the bond activity for the year ended June 30, 2012 and the bonds payable as of June 30, 2012:

	Issue Dated	Range of Interest Rates	Range of Maturities	Debt Outstanding at June 30, 2011	Bond Activity			Debt Outstanding at June 30, 2012	Bond premium deferred	Bonds payable at June 30, 2012
					New bonds issued	Scheduled maturity payments	Bonds redeemed			
Local Government Infrastructure Bonds										
2010 Series A-1	08/25/10	1.00% - 4.00%	2012 - 2030	\$ 18,525	\$ -	\$ (875)	\$ -	\$ 17,650	\$ -	\$ 17,650
2010 Series A-2	08/25/10	1.00% - 4.00%	2012 - 2030	8,140	-	(380)	-	7,760	3	7,763
2012 Series A-1	05/17/12	1.00% - 3.50%	2013 - 2032	-	9,550	-	-	9,550	-	9,550
2012 Series A-2	05/17/12	1.00% - 3.60%	2013 - 2032	-	4,420	-	-	4,420	-	4,420
Total				<u>\$ 26,665</u>	<u>\$ 13,970</u>	<u>\$ (1,255)</u>	<u>\$ -</u>	<u>\$ 39,380</u>	<u>\$ 3</u>	<u>\$ 39,383</u>

Community Development Administration
Local Government Infrastructure Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2012 and 2011

NOTE 5 - BONDS PAYABLE (Continued)

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

	Issue Dated	Range of Interest Rates	Range of Maturities	Debt Outstanding at June 30, 2010	Bond Activity			Debt Outstanding at June 30, 2011	Bond premium deferred	Bonds payable at June 30, 2011
					New bonds issued	Scheduled maturity payments	Bonds redeemed			
Local Government Infrastructure Bonds										
2010 Series A-1	08/25/10	1.00% - 4.00%	2012 - 2030	\$ -	\$ 19,395	\$ (870)	\$ -	\$ 18,525	\$ -	\$ 18,525
2010 Series A-2	08/25/10	1.00% - 4.00%	2012 - 2030	-	8,515	(375)	-	8,140	3	8,143
Total				\$ -	\$ 27,910	\$ (1,245)	\$ -	\$ 26,665	\$ 3	\$ 26,668

NOTE 6 - DEBT SERVICE REQUIREMENTS

As of June 30, 2012, the required principal payments for bonds (including mandatory sinking fund payments and excluding the effect of unamortized bond premiums) 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
2013	\$ 1,092	\$ 2,200
2014	1,059	2,245
2015	1,026	2,290
2016	990	2,320
2017	953	2,375
2018 - 2022	3,908	11,655
2023 - 2027	2,272	9,885
2028 - 2032	549	6,410
Total	\$ 11,849	\$ 39,380

Community Development Administration
Local Government Infrastructure Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2012 and 2011

NOTE 6 - DEBT SERVICE REQUIREMENTS (Continued)

As of June 30, 2011, the required principal payments for bonds (including mandatory sinking fund payments and excluding the effect of unamortized bond premiums) and interest payments for each of the next five years and in 5-year increments thereafter, were as follows:

<u>Years ended June 30,</u>	<u>Interest</u>	<u>Principal</u>
2012	\$ 791	\$ 1,255
2013	778	1,270
2014	766	1,285
2015	743	1,315
2016	717	1,330
2017 - 2021	3,053	7,135
2022 - 2026	1,913	7,350
2027 - 2031	<u>584</u>	<u>5,725</u>
Total	<u>\$ 9,345</u>	<u>\$ 26,665</u>

Community Development Administration
Local Government Infrastructure Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2012 and 2011

NOTE 7 - LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended June 30, 2012 and period ended June 30, 2011 were as follows:

	2012	2011
Bonds payable		
Beginning balance	\$ 26,668	\$ -
Additions	13,970	27,913
Reductions	(1,255)	(1,245)
Ending balance	39,383	26,668
Less due within one year	(2,200)	(1,255)
Total long-term bonds payable	37,183	25,413
Other liabilities - advance trustee fees		
Beginning balance	4	-
Additions	8	8
Reductions	(8)	(4)
Ending balance	4	4
Total long-term other liabilities - advance trustee fees	4	4
Total long-term liabilities	\$ 37,187	\$ 25,417

Community Development Administration
Local Government Infrastructure Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2012 and 2011

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 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 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 28, 2012 (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.