



FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

**COMMUNITY DEVELOPMENT ADMINISTRATION  
LOCAL GOVERNMENT INFRASTRUCTURE BONDS  
(AMBAC INSURED)**

JUNE 30, 2008 AND 2007

Community Development Administration  
Local Government Infrastructure Bonds (Ambac 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 Local Government Infrastructure Bonds (Ambac 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, 2008 and 2007 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 Local Government Infrastructure Bonds (Ambac 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, 2008 and 2007, 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 Local Government Infrastructure Bonds (Ambac Insured) of the Department of Housing and Community Development of the State of Maryland as of June 30, 2008 and 2007, 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.



Baltimore, Maryland  
September 26, 2008

Community Development Administration  
Local Government Infrastructure Bonds (Ambac Insured)

STATEMENTS OF NET ASSETS  
(in thousands)

June 30, 2008 and 2007

	2008	2007
<b>RESTRICTED ASSETS</b>		
Restricted current assets		
Cash and cash equivalents on deposit with trustee	\$ 30,769	\$ 16,369
Community facilities loans	4,400	3,260
Accrued interest receivable	214	182
	35,383	19,811
Restricted long-term assets		
Community facilities loans, net of current portion	88,207	69,021
	\$ 123,590	\$ 88,832
	\$ 123,590	\$ 88,832
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accrued interest payable	\$ 309	\$ 242
Bonds payable	4,400	3,260
Due to local governments	30,326	16,036
	35,035	19,538
Long-term liabilities		
Bonds payable, net of current portion	88,325	69,150
Advance trustee fees	14	12
	88,339	69,162
	123,374	88,700
<b>NET ASSETS</b>		
Restricted	216	132
	\$ 123,590	\$ 88,832
	\$ 123,590	\$ 88,832

See notes to financial statements

Community Development Administration  
Local Government Infrastructure Bonds (Ambac Insured)

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

Years ended June 30, 2008 and 2007

	2008	2007
Operating revenue		
Interest on community facilities loans	\$ 3,503	\$ 2,573
Interest income on cash equivalents	33	49
Fee income	40	27
	3,576	2,649
Operating expenses		
Interest expense on bonds	3,492	2,558
Operating income	84	91
Changes in net assets	84	91
Net assets - restricted at beginning of year	132	41
Net assets - restricted at end of year	\$ 216	\$ 132

See notes to financial statements

Community Development Administration  
Local Government Infrastructure Bonds (Ambac Insured)

STATEMENTS OF CASH FLOWS  
(in thousands)

Years ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Principal and interest received on community facilities loans	\$ 7,728	\$ 5,252
Origination of community facilities loans	(10,285)	(14,968)
Advance trustee fees received	36	29
Trustee fees paid	(34)	(28)
Loan fees received	29	47
	(2,526)	(9,668)
Net cash used in operating activities		
Cash flows from investing activities		
Interest received on cash equivalents	36	46
	36	46
Net cash provided by investing activities		
Cash flows from noncapital financing activities		
Proceeds from sale of bonds	24,575	11,460
Payments on bond principal	(4,260)	(2,770)
Interest on bonds	(3,425)	(2,582)
	16,890	6,108
Net cash provided by noncapital financing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS ON DEPOSIT WITH TRUSTEE	14,400	(3,514)
Cash and cash equivalents on deposit with trustee at beginning of year	16,369	19,883
Cash and cash equivalents on deposit with trustee at end of year	\$ 30,769	\$ 16,369

(continued)

Community Development Administration  
Local Government Infrastructure Bonds (Ambac Insured)

STATEMENTS OF CASH FLOWS - CONTINUED  
(in thousands)

Years ended June 30, 2008 and 2007

	2008	2007
Reconciliation of operating income to net cash used in operating activities		
Operating income	\$ 84	\$ 91
Adjustments to reconcile operating income to net cash used in operating activities		
Increase in community facilities loans	(20,315)	(8,690)
Increase in accrued interest receivable	(32)	(94)
Increase (decrease) in accrued interest payable	67	(24)
Increase (decrease) in due to local governments and other liabilities	14,292	(3,507)
Amortization of deferred income on loans	(11)	(9)
Loan fees deferred	-	29
Interest received on cash equivalents	(36)	(46)
Interest on bonds	3,425	2,582
	\$ (2,526)	\$ (9,668)
Net cash used in operating activities		

See notes to financial statements

Community Development Administration  
Local Government Infrastructure Bonds (Ambac Insured)

NOTES TO FINANCIAL STATEMENTS  
(in thousands)

June 30, 2008 and 2007

NOTE 1 - AUTHORIZING LEGISLATION AND PROGRAM DESCRIPTION

The Community Development Administration (CDA) is authorized to issue Local Government Infrastructure Bonds (Ambac 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 Local Government Infrastructure Bonds (Ambac 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 Local Government Infrastructure Bonds (Ambac 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.



Community Development Administration  
Local Government Infrastructure Bonds (Ambac Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2008 and 2007

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.

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, 2008 and 2007, all of the Fund's cash equivalents were invested in a money market mutual fund which is more fully described in Note 3.

Community Facilities Loans

Community facilities loans are carried at their unpaid principal balances, net of unamortized loan fees. See Note 4 for additional information on community facilities loans.

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, 2008 and 2007.

Community Development Administration  
Local Government Infrastructure Bonds (Ambac Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2008 and 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Interest Receivable

Accrued interest includes both interest on cash deposits and interest on loans. As of June 30, 2008 and 2007, 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. There are no premiums or discounts to amortize. 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.

Fee Income

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

Administrative Support

In addition to expenses incurred directly by the Fund, CDA receives certain support services from other divisions of DHCD. Support services and the operating expenses of CDA have been allocated to CDA's General Bond Reserve Fund and 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 9 for additional information.

Community Development Administration  
Local Government Infrastructure Bonds (Ambac Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2008 and 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 ON DEPOSIT WITH TRUSTEE

Proceeds from bonds and revenues from loans are invested in authorized investments as defined in the Local Government Infrastructure Bonds (Ambac 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, 2008 and 2007, the Fund had \$30,769 and \$16,369 invested, respectively, 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.

Community Development Administration  
Local Government Infrastructure Bonds (Ambac Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2008 and 2007

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

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 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, 2008 and 2007, 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 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. 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, 2008 and 2007, the Federated Treasury Obligations Fund was rated AAAM by Standard and Poor's and Aaa by Moody's Investors Service.

Community Development Administration  
Local Government Infrastructure Bonds (Ambac Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2008 and 2007

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

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, 2008 and 2007, 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.

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, 2008 and 2007. Interest rates on such loans range from 2.73% to 4.87%. As of June 30, 2008 and 2007, remaining loan terms range from approximately 3 to 29 years and 4 to 30 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 par, 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.

Community Development Administration  
Local Government Infrastructure Bonds (Ambac Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2008 and 2007

NOTE 5 - BONDS PAYABLE (Continued)

The following is a summary of the bond activity for the year ended June 30, 2008 and the bonds payable as of June 30, 2008:

	Issue Dated	Range of Interest Rates	Range of maturities	Bonds Payable at 6/30/2007	Bond Activity		Bonds Payable at 6/30/2008
					New bonds issued	Scheduled maturity payments	
Local Government Infrastructure Bonds (Ambac Insured)							
2002 Series A	03/01/02	3.50% - 5.00%	2008 - 2032	\$ 10,080	\$ -	\$ (380)	\$ 9,700
2002 Series B	10/01/02	2.625% - 4.375%	2008 - 2022	2,900	-	(155)	2,745
2003 Series A	03/01/03	2.75% - 4.50%	2008 - 2023	12,185	-	(625)	11,560
2004 Series A	04/22/04	2.45% - 4.875%	2008 - 2034	14,070	-	(800)	13,270
2004 Series B	11/18/04	3.00% - 4.50%	2008 - 2034	4,455	-	(120)	4,335
2005 Series A	05/26/05	3.75% - 4.40%	2008 - 2030	8,775	-	(300)	8,475
2006 Series A	04/05/06	3.50% - 4.25%	2008 - 2026	8,485	-	(470)	8,015
2007 Series A	05/31/07	3.75% - 4.25%	2008 - 2037	11,460	-	(410)	11,050
2007 Series B	11/14/07	3.50% - 4.25%	2008 - 2027	-	24,575	(1,000)	23,575
Total				<u>\$ 72,410</u>	<u>\$24,575</u>	<u>\$ (4,260)</u>	<u>\$ 92,725</u>

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

	Issue Dated	Range of Interest Rates	Range of maturities	Bonds Payable at 6/30/2006	Bond Activity		Bonds Payable at 6/30/2007
					New bonds issued	Scheduled maturity payments	
Local Government Infrastructure Bonds (Ambac Insured)							
2002 Series A	03/01/02	3.30% - 5.00%	2007 - 2032	\$ 10,445	\$ -	\$ (365)	\$ 10,080
2002 Series B	10/01/02	2.375% - 4.375%	2007 - 2022	3,050	-	(150)	2,900
2003 Series A	03/01/03	2.25% - 4.50%	2007 - 2023	12,795	-	(610)	12,185
2004 Series A	04/22/04	2.00% - 4.875%	2007 - 2034	14,855	-	(785)	14,070
2004 Series B	11/18/04	3.00% - 4.50%	2007 - 2034	4,570	-	(115)	4,455
2005 Series A	05/26/05	3.75% - 4.40%	2007 - 2030	9,065	-	(290)	8,775
2006 Series A	04/05/06	3.50% - 4.25%	2007 - 2026	8,940	-	(455)	8,485
2007 Series A	05/31/07	3.75% - 4.25%	2008 - 2037	-	11,460	-	11,460
Total				<u>\$ 63,720</u>	<u>\$11,460</u>	<u>\$ (2,770)</u>	<u>\$ 72,410</u>

Community Development Administration  
Local Government Infrastructure Bonds (Ambac Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2008 and 2007

NOTE 6 - DEBT SERVICE REQUIREMENTS

As of June 30, 2008, 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:

<u>Years ended June 30,</u>	<u>Interest</u>	<u>Principal</u>
2009	\$ 3,710	\$ 4,400
2010	3,557	4,545
2011	3,404	4,710
2012	3,240	4,770
2013	3,070	4,845
2014 - 2018	12,511	25,545
2019 - 2023	7,210	25,840
2024 - 2028	2,593	13,215
2029 - 2033	694	4,035
2034 - 2038	63	820
Total	<u>\$ 40,052</u>	<u>\$ 92,725</u>

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:

<u>Years ended June 30,</u>	<u>Interest</u>	<u>Principal</u>
2008	\$ 2,903	\$ 3,260
2009	2,800	3,365
2010	2,688	3,470
2011	2,573	3,595
2012	2,447	3,610
2013 - 2017	10,158	18,775
2018 - 2022	6,300	19,075
2023 - 2027	2,646	11,470
2028 - 2032	904	4,485
2033 - 2037	122	1,305
Total	<u>\$ 33,541</u>	<u>\$ 72,410</u>

Community Development Administration  
Local Government Infrastructure Bonds (Ambac Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2008 and 2007

NOTE 7 - LONG-TERM OBLIGATIONS

Changes in long-term obligations for the years ended June 30, 2008 and 2007 were as follows:

	2008	2007
Bonds payable		
Beginning balance	\$ 72,410	\$ 63,720
Additions	24,575	11,460
Reductions	(4,260)	(2,770)
Ending balance	92,725	72,410
Less due within one year	(4,400)	(3,260)
Total long-term bonds payable	88,325	69,150
Other liabilities - advance trustee fees		
Beginning balance	12	11
Additions	36	29
Reductions	(34)	(28)
Ending balance	14	12
Total long-term other liabilities - advance trustee fees	14	12
Total long-term liabilities	\$ 88,339	\$ 69,162

NOTE 8 - BOND INSURANCE

All outstanding bonds of the Fund are insured by Ambac Assurance 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. See Note 5 for list of outstanding bonds.



Community Development Administration  
Local Government Infrastructure Bonds (Ambac Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2008 and 2007

NOTE 9 - 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](http://www.sra.state.md.us).