HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND

(A Component Unit of Montgomery County, Maryland)

BASIC FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

(With Independent Auditor's Report Thereon)

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND

(A Component Unit of Montgomery County, Maryland)

Basic Financial Statements and Management's Discussion and Analysis

June 30, 2007

(With Independent Auditor's Report Thereon)

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Table of Contents

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

Board of Commissioners
Housing Opportunities Commission of
Montgomery County, Maryland:

We have audited the accompanying financial statements of the business-type activities and each major fund of the Housing Opportunities Commission of Montgomery County, Maryland (the Commission), a component unit of Montgomery County, Maryland, as of and for the year ended June 30, 2007, which along with the aggregate discretely presented component units of the Commission collectively comprise the Commission's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. The prior year partial comparative fund information has been derived from the Commission's 2006 financial statements, and in our report dated September 29, 2006, we expressed an unqualified opinion on the respective fund financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund, and the aggregate discretely presented component units of the Commission as of June 30, 2007, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 30, 2007, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Clifton Gunderson LLP

Baltimore, Maryland
October 30, 2007

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland**)**

Management's Discussion and Analysis

For the year ended June 30, 2007

As management of the Housing Opportunities Commission of Montgomery County, Maryland (the Commission), we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the audited basic financial statements and related notes. This discussion and analysis is focused on the activities of the Commission as a primary government.

Financial Highlights

- The Commission's net assets increased by $13.1 million from $160.4 million at June 30, 2006 to $173.5 million at June 30, 2007.
- The Commission's current ratio (ratio of current assets to current liabilities) increased from 1.89 at June 30, 2006 to 1.95 at June 30, 2007. The increase is due to a reduction in Single Family bonds payable current from $59.4 million at June 30, 2006 to $37 million at June 30, 2007.
- The Commission issued $128.4 million of new bonds for the Single Family fund. A portion of the proceeds, $61.5 million, was used to finance new mortgages and $65.0 million was used to refund and redeem or pay at maturity prior bonds. The remaining $1.9 million is capital accretion bonds.
- The Commission issued $55.4 million of new bonds for the Multi-Family Fund. The bonds issued were used to finance new mortgage loans.
- The Commission retired and refunded bonds in the amount of $124.6 million from the single family mortgage purchase program. The funds used to retire the bonds came from a combination of borrowers' prepayments of their mortgage loans, and the drawdown program.
- The Commission retired bonds in the amount of $6.2 million from the Multi-Family fund. The funds used to retire the bonds came from mortgage payments.
- Outstanding mortgage and construction loans receivable increased from $244.0 million at June 30, 2006 to approximately $341.1 million at June 30, 2007. The primary reasons for the increase are mortgage loans to MetroPointe and Forest Oak in the Multi-Family Fund and an increase in the Single Family Fund due to increased loan origination activity.
- The amount of U.S. Department of Housing and Urban Development (HUD) Section 8 Housing Assistance Payments (HAP) administered by the Commission increased slightly from $64.5 million in FY06 to $65.5 million in FY07.
- Unrealized losses on investments totaled $.8 million in FY07 compared to unrealized losses of $9.8 million in FY06 due to the fluctuation in interest rates.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The annual financial report is comprised of three components: management's discussion and analysis, the financial statements, and notes to the financial statements.

The financial statements are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private-sector business. These statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units using the economic resources measurement focus and the accrual basis of accounting. Under this basis of accounting, revenues are recognized in the period they are earned, while expenses are recognized in the period they are incurred. Depreciation and amortization of capital and deferred assets are recognized in the statements of revenues, expenses, and changes in net assets.

The statement of net assets presents information on all of the Commission's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The statement of revenues, expenses, and changes in net assets presents information on how the Commission's net assets changed during the fiscal year.

The statement of cash flows explains the sources and uses of cash during the fiscal year.

Fund Structure

The Commission maintains only proprietary funds. Such funds are accounted for in a manner similar to that of businesses operating in the private-sector. Proprietary funds provide both long and short-term financial information. The following is a brief description of the activity accounted for in each of the major funds.

Major Funds

General Fund – is the primary operating fund. The entire administration and overhead of the Commission is maintained within this fund.

Opportunity Housing Fund – accounts for properties that provide affordable housing to low and moderate-income residents. Properties owned by the Commission make up the primary assets in this fund.

Public Fund – accounts for grants from federal, state, and county government. These grants are used to provide Housing Assistance Payments and supportive services for residents. Activities related to Public Housing and the Housing Choice Voucher Programs are maintained in this fund.

Single Family Fund – accounts for taxable and non-taxable bonds. These bonds are used to finance mortgage loans for qualifying first-time homebuyers. The primary assets are mortgage loans receivable and restricted cash and investments.

Multi-Family Fund – accounts for taxable and non-taxable bonds. These bonds are used to finance the acquisition, rehabilitation, and/or construction of affordable multi-family housing. The primary assets are mortgage loans receivable and restricted cash and investments.

Component Units

Real Estate Limited Partnerships – The Commission is the managing general partner in 21 real estate limited partnerships. Nineteen of the partnerships have calendar year ends and two have a June 30 fiscal year end. Accordingly, the amounts included for each discretely presented component unit that comprise the aggregate component unit column in the combined financial statements are as of and for the respective year ends that fall within the year ended June 30, 2007.

Financial Analysis of the Commission as a Whole

The Commission's total net assets in fiscal year 2007 increased by 8.2%.

Capital assets, net of related debt, are 25% of the Commission's net assets. These capital assets are used primarily to provide housing to low-income residents.

18% of the Commission's net assets reflect cash and investments, which are restricted as to their use. The preponderance of these restricted net assets are used to finance and fund low-income housing.

57% of the Commission's net assets are not restricted. These non-restricted net assets are used in the operations of the Commission.

Housing Opportunity Commission's Net Assets
(in millions of dollars)

		2007	2006
Assets:			
Current and other assets	$	388.4	396.6
Capital assets		258.2	258.3
Mortgage and construction loans receivable		341.1	244.0
Total assets		987.7	898.9
Liabilities:			
Current liabilities (including current portion of long term debt and bonds payable)		101.1	97.0
Noncurrent liabilities:			
Bonds payable		604.1	528.0
Other liabilities		109.0	113.5
Total liabilities		814.2	738.5
Net assets:			
Invested in capital assets, net of related debt		43.4	41.0
Restricted for:			
Debt service		27.2	28.4
Customer deposits and other		2.6	2.3
Closing cost assistance program		1.0	0.8
Unrestricted		99.3	87.9
Total net assets	$	173.5	160.4

The primary reason for the increase in mortgage and construction loans receivable is due to an increase in mortgage loan origination in the Single Family Fund and the financing of MetroPointe and Forest Oak Tower in the Multi-Family Fund. The increase in noncurrent liabilities, bonds payable is due to the MetroPointe and Forest Oak Tower bond issues.

Net assets of the Commission increased by $13.1 million or 8.2%. Some key elements of this increase are:

Housing Opportunity Commission's Changes in Net Assets
(in millions of dollars)

		2007	2006
Operating revenues:			
Intergovernmental grants	$	86.8	83.0
Investment income		17.0	15.3
Unrealized gains (losses) on investments		(0.8)	(9.8)
Interest on mortgages and construction loans receivable		13.7	12.2
Dwelling rental		44.7	45.0
Management fees and other income		10.5	9.8
Total operating revenues		171.9	155.5
Operating expenses:			
Housing assistance payments		62.3	63.2
Administration		29.7	28.0
Maintenance		11.5	11.1
Depreciation and amortization		11.1	10.6
Utilities		5.2	5.2
Fringe benefits		6.3	5.6
Interest expense		33.0	33.0
Other expenses		5.8	6.7
Total operating expenses		164.9	163.4
Operating income (loss)		7.0	(7.9)
Nonoperating revenues, net		2.5	2.3
Income (loss) before contributions		9.5	(5.6)
Capital contributions and transfers		3.6	3.0
Net increase (decrease) in net assets	$	13.1	(2.6)

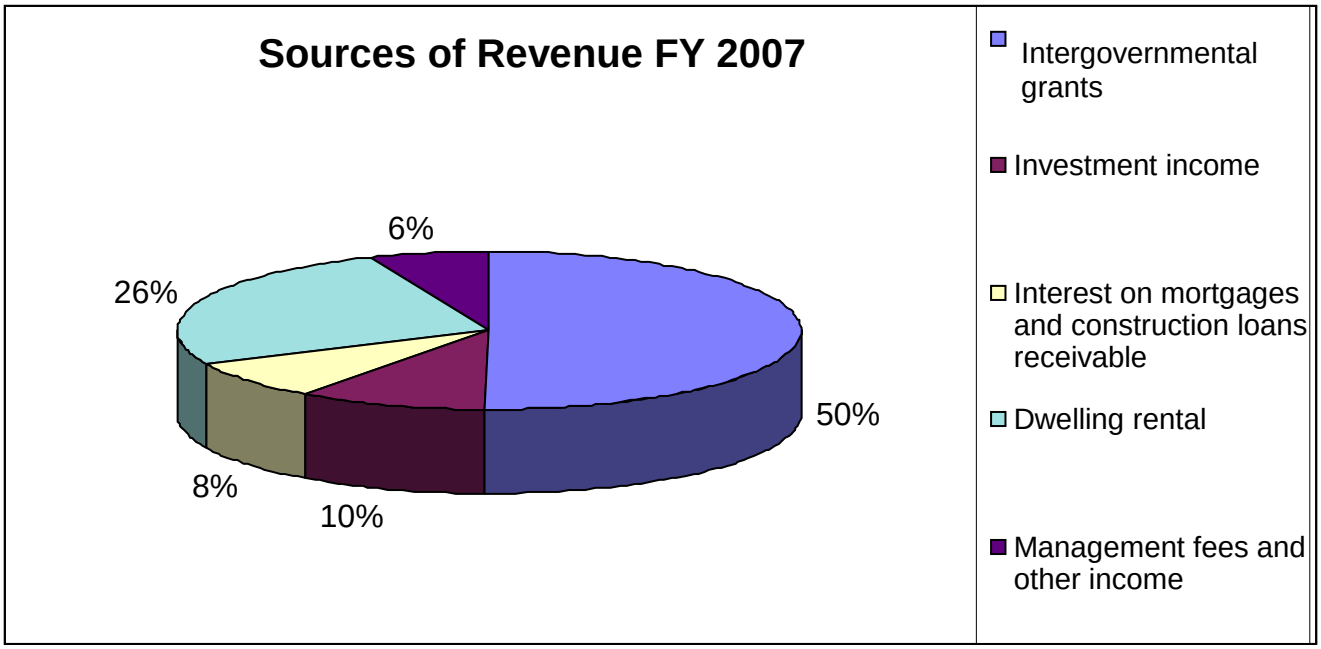
In January 2006, HUD issued PIH Notice 2006-03 which requires that the Annual Budget Authority (ABA) that the Commission receives be reported as income in the same fiscal year regardless of the total housing assistance payments incurred. As of June 30, 2007 the Commission has recorded all ABA received as income.

State and county grants and other grants increased due to an increase in capital grants received from the County and an increase in the Public Housing operating subsidy from HUD.

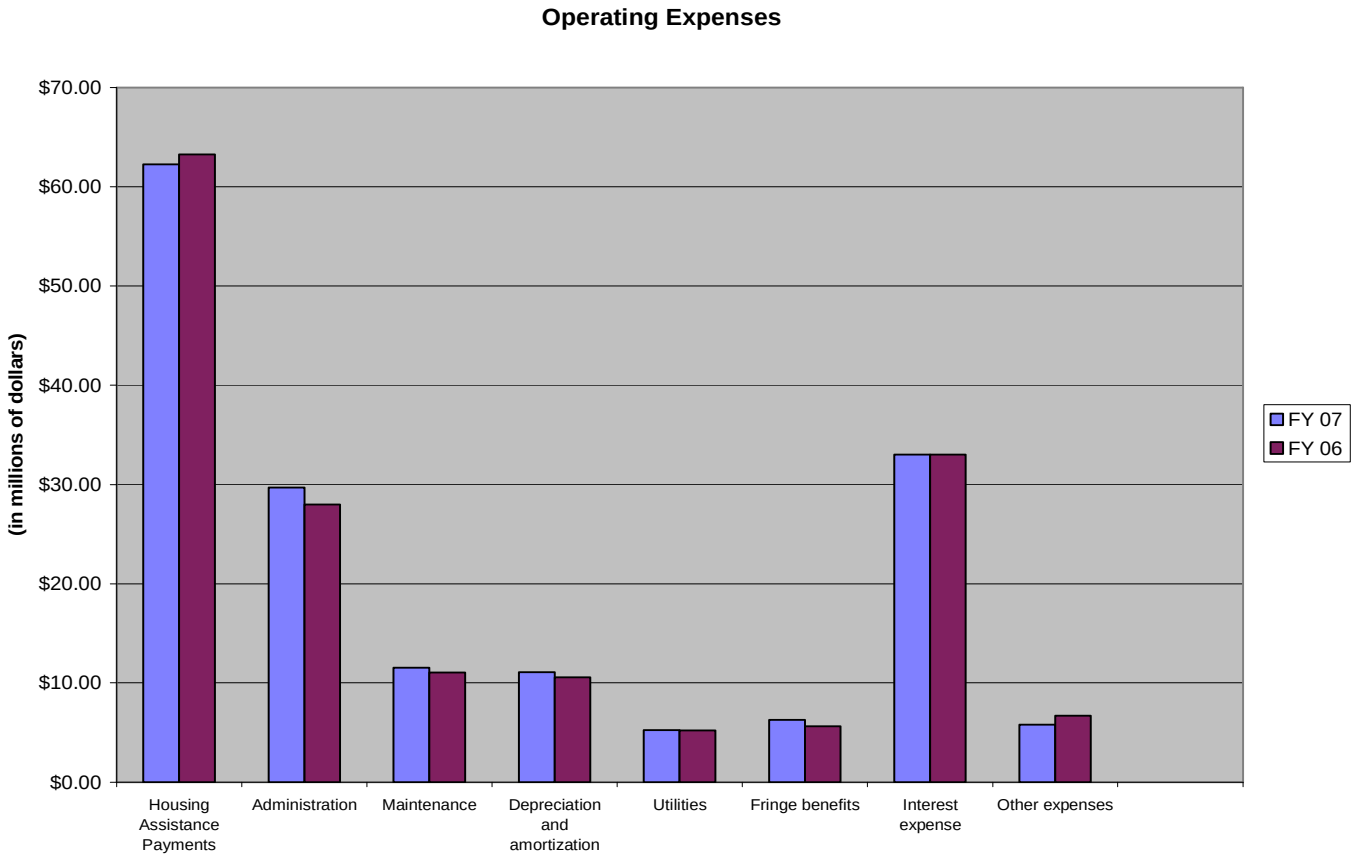
Investment interest income increased by $1.7 million. During FY 07 the Commission sold investments from the Single Family Fund resulting in a gain in sale of $1.2 million. Unrealized losses on investments totaled $.8 million as compared to unrealized losses of $9.8 million in FY 06. The decrease in unrealized losses is a result of changing interest rates during the fiscal year.

Interest on mortgage and construction loans receivable increased by $1.5 million due to an increase in the outstanding mortgage and construction loans receivable balance in the Single Family Fund of approximately $44 million.

The following chart shows the Commission's sources of revenue as a percentage of total revenue. The primary sources of revenue for the Commission are grants from federal, state, and local governments, and dwelling rentals.



The following is a comparison of current and prior year operating expenses:



The decrease in housing assistance payments is due to a decrease in the number of housing choice voucher port-ins during fiscal year 07. The increase in administration expenses is attributable to increases in salary expenses in the General Fund and lender rebate fees in the Single Family Fund.

The increase in maintenance expenses is attributable to increases in salary expenses and housing association fees in the Public Fund and routine maintenance expenditures in the Opportunity Housing Fund.

The increase in fringe benefits is primarily due to increases in FICA, health insurance, retired employee's benefits and defined contribution expenses in the General Fund.

Housing Opportunity Commission's Capital Assets
Net of Accumulated Depreciation
(in millions of dollars)

		2007	2006
Capital assets:			
Property and equipment, net of depreciation	$	242.2	242.5
Capitalized lease (net of amortization)		16	15.8
Total capital assets, net	$	258.2	258.3

In July 2006 the Commission entered into a $750,000 five year capital lease agreement, resulting in an increase in capitalized leases, net of amortization. Real property is depreciated using a straight line method over a 40 year period. During the year, the Commission acquired assets of approximately $9.5 million, while disposing of capital assets with a net book value of approximately $9.8 million.

During the coming year the Commission intends to acquire Moderately Priced Dwelling Units which are scattered throughout Montgomery County, Maryland. These units are intended to serve low to moderate income individuals and families.

The properties within the Commission's portfolio that are scheduled for or currently under major rehabilitation during the coming fiscal year are Dale Drive, Pooks Hill High-Rise, Metropolitan and MetroPointe (a component unit of the Commission).

Outstanding Debt

Housing Opportunity Commission's Outstanding Debt
(in millions of dollars)

		2007	2006
Multi-family bonds	$	403.7	354.4
Single Family Mortgage Purchase Program bonds		243.9	239.3
Mortgage notes and loans payable		40.3	38.5
Capitalized lease obligation		20.9	20.3
Loans payable to Montgomery County		34.1	35.7
Total	$	742.9	688.2

The following are key elements of the Commission outstanding debt as of June 30, 2007:

- $243.9 million of single family mortgage bonds outstanding. Sources of payments for the bonds are; single family mortgages of $144.4 million and cash, cash equivalents and investments of $127.6 million.
- $403.7 million of multi-family mortgage bonds outstanding. Sources of payments for the bonds are; multi-family mortgages of $315.5 million and cash, cash equivalents and investments of $145.3 million.

The outstanding debt is secured by real estate or by first mortgages on real estate. The exception is the closing cost assistance program.

Economic Outlook

With the issuance of Moody's Investors Service's highest management quality rating for a Public Housing Authority, and the Commission's very diverse activities – public housing authority, housing finance agency, developer, and housing management – the management believes it has a very strong economic outlook. There are some economic factors that will require constant monitoring, but with proper budgeting the potential risks should be minimal.

The Commission expects an increase in revenues from property related income, and real estate activity. Cash flows from federal, state and county grants are expected to be reduced due to tight budgetary conditions. Overall, the Commission expects an increase in operating revenues that will be used to increase the funding of operating and replacement reserves.

These factors were considered in preparing the Commission's budget for the 2008 fiscal year.

Request for information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Comptroller, 10400 Detrick Avenue, Kensington, Maryland, 20895.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Statement of Net Assets – Business-Type Activities and
Discretely Presented Component Units

June 30, 2007

	Business-Type Activities	Real Estate Limited Partnership Component Units
Assets		
Current assets:		
Unrestricted:		
Cash and cash equivalents	$ 73,812,544	3,387,125
Advances to component units	17,393,920	—
Accounts receivable and other assets	11,809,722	31,317,424
Accrued interest receivable	5,674,914	—
Mortgage and construction loans receivable	8,832,475	—
Total unrestricted current assets	117,523,575	34,704,549
Restricted cash and cash equivalents:		
Current bonds payable	26,469,873	—
Customer deposits	3,626,894	720,777
Other current liabilities	22,951	—
Total restricted cash and cash equivalents	30,119,718	720,777
Total current assets	147,643,293	35,425,326
Noncurrent assets:		
Restricted cash and cash equivalents	61,353,811	4,641,985
Restricted short-term investments	49,081,417	—
Restricted long-term investments	123,143,631	—
Total noncurrent restricted assets	233,578,859	4,641,985
Mortgage and construction loans receivable	332,250,785	—
Capital assets, net of depreciation	242,199,408	130,628,466
Leased property under capital lease, net of amortization	15,961,648	—
Loans receivable from component units	8,950,234	—
Deferred charges	7,175,219	3,588,936
Total noncurrent assets	840,116,153	138,859,387
Total assets	987,759,446	174,284,713

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Statement of Net Assets – Business-Type Activities and
Discretely Presented Component Units, continued

June 30, 2007

	Business-Type Activities	Real Estate Limited Partnership Component Units
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	$ 31,937,860	4,744,052
Accrued interest payable	291,786	3,816,395
Advances from primary government	—	11,777,455
Loans payable to Montgomery County – current	4,217,218	658,000
Mortgage notes and loans payable – current	5,176,508	3,461,441
Capitalized lease obligations – current	221,010	—
Total current unrestricted liabilities	41,844,382	24,457,343
Current liabilities payable from restricted assets:		
Customer deposits payable	3,089,485	647,044
Mortgage notes and loans payable – current	22,951	—
Accrued interest payable	12,571,578	—
Bonds payable – current	43,539,581	—
Total current liabilities payable from restricted assets	59,223,595	647,044
Total current liabilities	101,067,977	25,104,387
Noncurrent liabilities:		
Bonds payable	604,112,190	—
Mortgage notes and loans payable	35,127,563	122,511,617
Loans payable to Montgomery County	29,869,242	16,721,218
Capitalized lease obligations	20,724,750	—
Deferred revenue	18,643,091	310,755
Escrow and other deposits	4,630,765	—
Total noncurrent liabilities	713,107,601	139,543,590
Total liabilities	814,175,578	164,647,977
Net Assets		
Invested in capital assets, net of related debt	43,431,423	(12,723,810)
Restricted for:		
Debt service	27,244,175	4,641,985
Customer deposits and other	2,580,554	73,733
Closing cost assistance program	985,064	—
Unrestricted (deficit)	99,342,652	17,644,828
Total net assets	$ 173,583,868	9,636,736

See accompanying notes to financial statements.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Statement of Revenues, Expenses, and Changes in Net Assets –
Business-Type Activities and Discretely Presented Component Units

Year ended June 30, 2007

		Business-Type Activities	Real Estate Limited Partnership Component Units
Operating revenues:			
Dwelling rental	$	44,708,879	15,327,682
Investment income		16,949,098	—
Unrealized gains on investments		(834,397)	—
Interest on mortgage and construction loans receivable		13,710,886	—
Management fees and other income		10,485,337	540,309
U.S. Department of Housing and Urban Development grants:			
Housing Assistance Payments (HAP)		65,497,448	—
HAP administrative fees		4,260,881	—
Other grants		7,950,894	—
State and county grants		9,147,060	21,000
Total operating revenues		171,876,086	15,888,991
Operating expenses:			
Housing Assistance Payments		62,250,457	—
Administration		29,693,342	2,576,633
Maintenance		11,540,628	3,532,103
Depreciation and amortization		11,092,722	4,846,765
Utilities		5,244,849	1,430,135
Fringe benefits		6,293,777	518,666
Interest expense		33,017,662	4,046,691
Other expenses		5,519,503	3,006,344
Bad debt expense		269,722	101,978
Total operating expenses		164,922,662	20,059,315
Operating income/(loss)		6,953,424	(4,170,324)
Nonoperating revenues (expenses):			
Investment income		2,510,513	268,384
State and County grants		51,286	—
Interest on mortgage and construction loans receivable		102,502	—
Interest expense		(214,060)	—
Other grants		40,689	—
Total nonoperating income		2,490,930	268,384
Income/(Loss) before contributions		9,444,354	(3,901,940)
Capital contributions		3,692,041	1,434,947
Change in net assets		13,136,395	(2,466,993)
Total net assets, beginning of year		160,447,473	12,103,729
Total net assets, end of year	$	173,583,868	9,636,736

See accompanying notes to financial statements.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)
Statement of Cash Flows – Business-Type Activities
and Discretely Presented Component Units
Year ended June 30, 2007

	Business-Type Activities	Real Estate Limited Partnership Component Units
Cash flows from operating activities:		
Receipts from customers	$ 51,724,614	(15,515,582)
Mortgage principal payments	(75,816,928)	—
Intergovernmental revenue	86,856,283	21,000
Investment income received	16,949,098	—
Mortgage interest received	13,541,639	—
Payments to suppliers	(28,537,358)	(8,474,883)
Payments to employees	(28,760,229)	(1,817,275)
Interest paid	(31,159,963)	(3,791,838)
Housing assistance payments	(62,250,457)	—
Net cash used in operating activities	(57,453,301)	(29,578,578)
Cash flows from investing activities:		
Repayments of advances to component units	(4,312,934)	1,071,456
Repayment of advances by component units	72,780	—
Investments purchased	(21,133,020)	—
Investments sold	64,456,678	—
Investment income received	2,510,513	268,384
Investment in mortgages receivable	(1,321,452)	—
Mortgage interest received	(13,634)	—
Net cash provided by investing activities	40,258,931	1,339,840
Cash flows from noncapital financing activities:		
Proceeds from sale of bonds	183,860,143	—
Bond repayments	(130,780,308)	—
Intergovernmental revenue	91,975	—
Net cash provided by noncapital financing activities	53,171,810	—
Cash flows from capital and related financing activities:		
Payments for property, equipment and committed financing fees	(20,637,687)	(19,460,158)
Proceeds from sale of property and equipment	9,690,550	—
Proceeds from new mortgage notes and loans payable	2,354,874	42,033,002
Payments on mortgage notes and loans payable	(545,951)	(4,085,708)
Proceeds from new loans payable to Montgomery County	464,235	6,008,000
Payments on loans payable to Montgomery County	(2,108,153)	(294,900)
Interest paid on mortgages	(214,060)	—
Proceeds received for FHA risk-sharing loss reserve	606,075	—
Proceeds received from capital lease obligations	605,377	—
Capital contributions and transfers	3,692,041	1,434,947
Net cash (used in) provided by capital and related financing activities	(6,092,699)	25,635,183
Net increase (decrease) in cash and cash equivalents	29,884,741	(2,603,555)
Cash and cash equivalents, beginning of year	135,401,332	11,353,442
Cash and cash equivalents, end of year	$ 165,286,073	8,749,887

(Continued)

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)
Statement of Cash Flows – Business-Type Activities
and Discretely Presented Component Units, continued
Year ended June 30, 2007

		Business-Type Activities	Real Estate Limited Partnership Component Units
Reconciliation of cash and cash equivalents, end of year to amounts in the statement of net assets:			
Current unrestricted cash and cash equivalents	$	73,812,544	3,387,125
Restricted cash and cash equivalents:			
Current bonds payable		26,469,873	—
Customer deposits		3,626,894	720,777
Other current liabilities		22,951	—
Noncurrent restricted cash and cash equivalents		61,353,811	4,641,985
Total cash and cash equivalents	$	165,286,073	8,749,887
Reconciliation of operating loss to net cash provided by operating activities:			
Operating income (loss)	$	6,953,424	(4,170,324)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:			
Depreciation and amortization		11,092,722	4,846,765
Unrealized losses on investments		834,397	—
Change in assets and liabilities:			
(Increase) decrease in accounts receivable and other assets		(345,035)	(29,851,188)
(Increase) in mortgage and construction loans receivables		(95,644,367)	—
(Increase) in accrued interest receivable		(121,878)	—
(Increase) in deferred charges		(370,939)	(1,473,787)
Increase (decrease) in accounts payable		19,602,219	873,701
Increase (decrease) in deferred revenue		(2,120,678)	(65,450)
Increase in accrued interest payable		1,835,891	254,853
Increase (decrease) in escrow and other deposits		830,943	6,852
Net cash used in operating activities	$	(57,453,301)	(29,578,578)
Noncash items:			
Interest on capital appreciation bonds	$	1,874,531	—

See accompanying notes to financial statements.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Statement of Net Assets – Enterprise Funds

June 30, 2007

(with comparative totals for June 30, 2006)

Assets	General Fund	Opportunity Housing Fund	Public Fund	Single Family Fund	Multi-Family Fund	Eliminations	Combined Totals 2007	Combined Totals 2006
Current assets:								
Unrestricted:								
Cash and cash equivalents	$ 18,108,118	24,431,043	8,877,764	20,708,139	1,687,480	—	73,812,544	67,789,836
Interfund receivable (payable)	(9,857,539)	21,984,599	(5,266,266)	(5,349,637)	(1,511,157)	—	—	—
Advances to component units	11,477,696	5,916,224	—	—	—	—	17,393,920	13,080,986
Accounts receivable and other assets	3,676,835	1,931,375	6,118,140	60,095	23,277	—	11,809,722	10,428,735
Accrued interest receivable	162,355	883,855	—	3,150,924	2,170,628	(692,848)	5,674,914	5,436,900
Mortgage and construction loans receivable	2,675,763	12,091	—	4,078,806	5,507,940	(3,442,125)	8,832,475	6,510,970
Total unrestricted current assets	26,243,228	55,159,187	9,729,638	22,648,327	7,878,168	(4,134,973)	117,523,575	103,247,427
Restricted cash and cash equivalents:								
Current bonds payable	—	—	—	10,833,966	15,635,907	—	26,469,873	27,518,069
Customer deposits	—	1,657,518	1,969,376	—	—	—	3,626,894	3,532,987
Other current restricted liabilities	22,951	—	—	—	—	—	22,951	47,567
Total restricted cash and cash equivalents	22,951	1,657,518	1,969,376	10,833,966	15,635,907	—	30,119,718	31,098,623
Total current assets	26,266,179	56,816,705	11,699,014	33,482,293	23,514,075	(4,134,973)	147,643,293	134,346,050
Noncurrent assets:								
Restricted cash and cash equivalents	1,989,173	5,493,834	2,086,477	13,650,995	38,133,332	—	61,353,811	36,512,873
Restricted short-term investments	—	—	—	47,475,361	1,606,056	—	49,081,417	64,608,258
Restricted long-term investments	—	—	—	34,955,717	88,187,914	—	123,143,631	151,774,842
Total noncurrent restricted assets	1,989,173	5,493,834	2,086,477	96,082,073	127,927,302	—	233,578,859	252,895,973
Mortgage and construction loans receivable	827,399	13,600,157	—	140,340,637	309,957,508	(132,474,916)	332,250,785	237,606,471
Capital assets, net of depreciation	5,899,143	183,254,003	61,672,926	—	—	(8,626,664)	242,199,408	242,498,912
Leased property under capital lease, net of amortization	970,799	14,990,849	—	—	—	—	15,961,648	15,807,726
Loans receivable from component units	8,950,234	—	—	—	—	—	8,950,234	9,023,014
Deferred charges	—	3,459,516	—	3,240,441	507,103	(31,841)	7,175,219	6,804,280
Total noncurrent assets	18,636,748	220,798,359	63,759,403	239,663,151	438,391,913	(141,133,421)	840,116,153	764,636,376
Total assets	$ 44,902,927	277,615,064	75,458,417	273,145,444	461,905,988	(145,268,394)	987,759,446	898,982,426

(Continued)

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Statement of Net Assets – Enterprise Funds, continued

June 30, 2007

(with comparative totals for June 30, 2006)

	General Fund	Opportunity Housing Fund	Public Fund	Single Family Fund	Multi-Family Fund	Eliminations	Combined Totals 2007	Combined Totals 2006
Liabilities								
Current liabilities:								
Accounts payable and accrued liabilities	$ 2,055,635	3,668,940	1,888,924	1,212,391	23,111,970	—	31,937,860	11,299,685
Accrued interest payable	14,724	969,910	—	—	—	(692,848)	291,786	137,574
Loans payable to Montgomery County – current	1,558,816	2,658,402	—	—	—	—	4,217,218	3,658,208
Mortgage notes and loans payable – current	4,884,656	3,733,977	—	—	—	(3,442,125)	5,176,508	1,145,329
Capitalized lease obligations – current	219,022	1,988	—	—	—	—	221,010	76,160
Total current unrestricted liabilities	8,732,853	11,033,217	1,888,924	1,212,391	23,111,970	(4,134,973)	41,844,382	16,316,956
Current liabilities payable from restricted assets:								
Customer deposits payable	—	1,420,664	1,668,821	—	—	—	3,089,485	3,162,453
Mortgage notes and loans payable – current	22,951	—	—	—	—	—	22,951	47,567
Accrued interest payable	—	—	—	3,454,124	9,117,454	—	12,571,578	11,797,673
Bonds payable – current	—	—	—	37,021,128	6,518,453	—	43,539,581	65,672,365
Total current liabilities payable from restricted assets	22,951	1,420,664	1,668,821	40,475,252	15,635,907	—	59,223,595	80,680,058
Total current liabilities	8,755,804	12,453,881	3,557,745	41,687,643	38,747,877	(4,134,973)	101,067,977	96,997,014
Noncurrent liabilities:								
Bonds payable	—	—	—	206,891,075	397,221,115	—	604,112,190	527,991,796
Mortgage notes and loans payable	4,867,790	162,734,689	—	—	—	(132,474,916)	35,127,563	37,325,202
Loans payable to Montgomery County	4,770,537	25,098,705	—	—	—	—	29,869,242	32,072,170
Capitalized lease obligations	752,350	19,972,400	—	—	—	—	20,724,750	20,264,223
Deferred revenue	13,368,588	2,312,568	1,266,779	—	1,726,997	(31,841)	18,643,091	20,157,694
Escrow and other deposits	—	—	—	—	4,630,765	—	4,630,765	3,726,854
Total noncurrent liabilities	23,759,265	210,118,362	1,266,779	206,891,075	403,578,877	(132,506,757)	713,107,601	641,537,939
Total liabilities	32,515,069	222,572,243	4,824,524	248,578,718	442,326,754	(136,641,730)	814,175,578	738,534,953
Net Assets								
Invested in capital assets, net of related debt	6,340,470	(15,955,309)	61,672,926	—	—	(8,626,664)	43,431,423	41,079,396
Restricted for:								
Debt service	—	5,493,834	—	3,858,587	17,891,754	—	27,244,175	28,380,879
Customer deposits and other	—	236,854	2,343,700	—	—	—	2,580,554	2,345,390
Closing cost assistance program	985,064	—	—	—	—	—	985,064	767,256
Unrestricted (deficit)	5,062,324	65,267,442	6,617,267	20,708,139	1,687,480	—	99,342,652	87,874,552
Total net assets	$ 12,387,858	55,042,821	70,633,893	24,566,726	19,579,234	(8,626,664)	173,583,868	160,447,473

See accompanying notes to financial statements.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Statement of Revenues, Expenses, and Changes in Net Assets – Enterprise Funds

Year ended June 30, 2007

(with comparative totals for year ended June 30, 2006)

	General Fund	Opportunity Housing Fund	Public Fund	Single Family Fund	Multi-Family Fund	Eliminations	Combined Totals 2007	Combined Totals 2006
Operating revenues:								
Dwelling rental	$ 989,538	38,699,882	5,019,459	—	—	—	44,708,879	45,050,127
Investment income	—	—	—	9,026,861	7,922,237	—	16,949,098	15,319,779
Unrealized gains (losses) on investments	—	—	—	(522,324)	(312,073)	—	(834,397)	(9,850,434)
Interest on mortgage and construction loans receivable	—	—	—	6,089,200	15,396,316	(7,774,630)	13,710,886	12,192,024
Management fees and other income	14,756,817	3,111,033	1,790,742	—	197,729	(9,370,984)	10,485,337	9,785,159
U.S. Department of Housing and Urban Development grants:								
Housing Assistance Payments (HAP)	—	—	65,497,448	—	—	—	65,497,448	64,550,179
HAP administrative fees	—	—	4,260,881	—	—	—	4,260,881	4,580,067
Other grants	—	—	7,950,894	—	—	—	7,950,894	6,976,369
State and County grants	—	—	9,147,060	—	—	—	9,147,060	6,881,222
Total operating revenues	15,746,355	41,810,915	93,666,484	14,593,737	23,204,209	(17,145,614)	171,876,086	155,484,492
Operating expenses:								
Housing Assistance Payments	—	—	62,250,457	—	—	—	62,250,457	63,239,005
Administration	9,241,397	7,484,183	15,159,421	2,548,074	1,719,481	(6,459,214)	29,693,342	27,965,154
Maintenance	867,154	6,663,950	3,997,787	—	11,737	—	11,540,628	11,064,356
Depreciation and amortization	683,353	6,799,377	3,609,992	—	—	—	11,092,722	10,567,281
Utilities	216,559	3,360,734	1,667,556	—	—	—	5,244,849	5,231,525
Fringe benefits	2,703,789	543,938	3,046,050	—	—	—	6,293,777	5,620,301
Interest expense	—	10,958,994	—	11,249,896	18,442,512	(7,633,740)	33,017,662	33,003,609
Other expenses	743,212	4,342,526	2,471,122	849,947	24,466	(2,911,770)	5,519,503	6,443,315
Bad debt expense	—	266,245	3,477	—	—	—	269,722	250,235
Total operating expenses	14,455,464	40,419,947	92,205,862	14,647,917	20,198,196	(17,004,724)	164,922,662	163,384,781
Operating income (loss)	$ 1,290,891	1,390,968	1,460,622	(54,180)	3,006,013	(140,890)	6,953,424	(7,900,289)

(Continued)

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Statement of Revenues, Expenses, and Changes in Net Assets – Enterprise Funds, continued

Year ended June 30, 2007

(with comparative totals for year ended June 30, 2006)

	General Fund	Opportunity Housing Fund	Public Fund	Single Family Fund	Multi-Family Fund	Eliminations	Combined Totals 2007	Combined Totals 2006
Nonoperating revenues (expenses):								
Investment income	$ 1,259,756	1,058,108	192,649	—	—	—	2,510,513	2,327,025
Unrealized losses on investments	—	—	—	—	—	—	—	(1,275)
Interest on mortgage and construction loans receivable	21,386	81,116	—	—	—	—	102,502	112,598
Interest expense	(214,060)	—	—	—	—	—	(214,060)	(186,428)
Other grants	—	40,689	—	—	—	—	40,689	41,099
State and County grants	—	51,286	—	—	—	—	51,286	—
Total nonoperating income	1,067,082	1,231,199	192,649	—	—	—	2,490,930	2,293,019
Income (loss) before contributions and transfers	2,357,973	2,622,167	1,653,271	(54,180)	3,006,013	(140,890)	9,444,354	(5,607,270)
Capital contributions	—	—	3,692,041	—	—	—	3,692,041	3,008,994
Operating transfers in (out)	1,371,043	882,962	103,855	(500,000)	(1,857,860)	—	—	—
Changes in net assets	3,729,016	3,505,129	5,449,167	(554,180)	1,148,153	(140,890)	13,136,395	(2,598,276)
Total net assets, beginning of year	8,658,842	51,537,692	65,184,726	25,120,906	18,431,081	(8,485,774)	160,447,473	163,045,749
Total net assets, end of year	$ 12,387,858	55,042,821	70,633,893	24,566,726	19,579,234	(8,626,664)	173,583,868	160,447,473

See accompanying notes to financial statements.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Statement of Cash Flows – Enterprise Funds

Year ended June 30, 2007

(with comparative totals for year ended June 30, 2006)

	General Fund	Opportunity Housing Fund	Public Fund	Single Family Fund	Multi-Family Fund	Eliminations	Combined Totals 2007	Combined Totals 2006
Cash flows from operating activities:								
Receipts from customers	$ 17,897,421	42,192,271	1,326,153	—	197,729	(9,888,960)	51,724,614	54,900,468
Mortgage principle payments/receipts	—	—	—	(43,986,377)	(29,575,290)	(2,255,261)	(75,816,928)	(7,236,903)
Intergovernmental principal payments received	—	—	86,856,283	—	—	—	86,856,283	82,987,837
Investment income received	—	—	—	9,026,861	7,922,237	—	16,949,098	15,319,779
Mortgage interest received	—	—	—	6,224,387	15,102,786	(7,785,534)	13,541,639	10,599,000
Receipts from interfund services provided	—	903,367	1,687,797	30,299	—	—	2,621,463	4,426,484
Payments to suppliers	(4,111,157)	(16,625,096)	(14,085,984)	(2,493,700)	(1,110,381)	9,888,960	(28,537,358)	(29,821,383)
Payments to employees	(10,186,686)	(4,972,989)	(12,050,930)	(904,321)	(645,303)	—	(28,760,229)	(23,902,416)
Interest paid	12,579	(10,806,457)	—	(10,799,420)	(17,211,309)	7,644,644	(31,159,963)	(31,960,194)
Housing assistance payments	—	—	(62,250,457)	—	—	—	(62,250,457)	(63,239,005)
Payments to interfund services used	(717,880)	—	—	—	(1,903,583)	—	(2,621,463)	(4,426,484)
Net cash provided by (used in) operating activities	2,894,277	10,691,096	1,482,862	(42,902,271)	(27,223,114)	(2,396,151)	(57,453,301)	7,647,183
Cash flows from investing activities:								
Repayments of advances from (to) component units	(3,880,608)	(432,326)	—	—	—	—	(4,312,934)	317,045
Repayments of advances by component units	72,780	—	—	—	—	—	72,780	(3,935,820)
Investments purchased	—	—	—	(20,351,531)	(781,489)	—	(21,133,020)	(92,697,006)
Investments sold	—	87,524	—	60,551,209	3,817,945	—	64,456,678	85,109,230
Investment income received	1,259,756	1,058,108	192,649	—	—	—	2,510,513	2,325,750
Investment in mortgages receivable	(1,821,203)	499,751	—	—	—	—	(1,321,452)	2,146,935
Mortgage interest received	(18,050)	4,416	—	—	—	—	(13,634)	13,160
Net cash provided by (used in) investing activities	(4,387,325)	1,217,473	192,649	40,199,678	3,036,456	—	40,258,931	(6,720,706)
Cash flows from noncapital financing activities:								
Proceeds from sale of bonds	—	—	—	128,447,001	55,413,142	—	183,860,143	139,511,383
Bond repayments	—	—	—	(124,610,308)	(6,170,000)	—	(130,780,308)	(157,420,132)
Intergovenmental revenue	—	91,975	—	—	—	—	91,975	41,099
Net cash provided by (used in) noncapital financing activities	$ —	91,975	—	3,836,693	49,243,142	—	53,171,810	(17,867,650)

(Continued)

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Statement of Cash Flows – Enterprise Funds (continued)

Year ended June 30, 2007

(with comparative totals for year ended June 30, 2006)

	General Fund	Opportunity Housing Fund	Public Fund	Single Family Fund	Multi-Family Fund	Eliminations	Combined Totals 2007	Combined Totals 2006
Cash flows from capital and related financing activities:								
Payments for property, equipment and capital financing fees	$ (887,080)	(10,253,080)	(9,638,417)	—	—	140,890	(20,637,687)	(38,685,750)
Proceeds from sale of property and equipment	1,097,531	4,823,490	3,769,529	—	—	—	9,690,550	35,321,294
Proceeds from new mortgage notes and loans payable	2,246,986	107,888	—	—	—	—	2,354,874	6,035,644
Payments on mortgage notes and loans payable	(262,377)	(2,538,835)	—	—	—	2,255,261	(545,951)	(6,771,598)
Proceeds from new loans payable to Montgomery County	—	464,235	—	—	—	—	464,235	7,253,356
Payments on loans payable to Montgomery County	(1,269,772)	(838,381)	—	—	—	—	(2,108,153)	(4,355,874)
Interest paid on mortgages	(214,060)	—	—	—	—	—	(214,060)	(186,428)
Proceeds received for FHA risk-sharing losses reserve	606,075	—	—	—	—	—	606,075	579,319
Proceeds received from capital lease obligations	607,223	(1,846)	—	—	—	—	605,377	362,437
Capital contributions and transfers	—	—	3,692,041	—	—	—	3,692,041	3,008,994
Net cash provided by (used in) capital and related financing activities	1,924,526	(8,236,529)	(2,176,847)	—	—	2,396,151	(6,092,699)	2,561,394
Net increase (decrease) in cash and cash equivalents	431,478	3,764,015	(501,336)	1,134,100	25,056,484	—	29,884,741	(14,379,779)
Cash and cash equivalents, beginning of year	19,688,764	27,818,380	13,434,953	44,059,000	30,400,235	—	135,401,332	149,781,111
Cash and cash equivalents, end of year	$ 20,120,242	31,582,395	12,933,617	45,193,100	55,456,719	—	165,286,073	135,401,332
Reconciliation of cash and cash equivalents, end of year to amounts in the statement of net assets:								
Current unrestricted cash and cash equivalents	$ 18,108,118	24,431,043	8,877,764	20,708,139	1,687,480	—	73,812,544	67,789,836
Restricted cash and cash equivalents:								
Current bonds payable	—	—	—	10,833,966	15,635,907	—	26,469,873	27,518,069
Customer deposits	—	1,657,518	1,969,376	—	—	—	3,626,894	3,532,987
Other current liabilities	22,951	—	—	—	—	—	22,951	47,567
Noncurrent restricted cash and cash equivalents	1,989,173	5,493,834	2,086,477	13,650,995	38,133,332	—	61,353,811	36,512,873
Total cash and cash equivalents	$ 20,120,242	31,582,395	12,933,617	45,193,100	55,456,719	—	165,286,073	135,401,332

(Continued)

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Statement of Cash Flows – Enterprise Funds, continued

Year ended June 30, 2007

(with comparative totals for year ended June 30, 2006)

	General Fund	Opportunity Housing Fund	Public Fund	Single Family Fund	Multi-Family Fund	Eliminations	Combined Totals 2007	Combined Totals 2006
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:								
Operating income (loss)	$ 1,290,891	1,390,968	1,460,622	(54,180)	3,006,013	(140,890)	6,953,424	(7,900,289)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation and amortization	683,353	6,799,377	3,609,992	—	—	—	11,092,722	10,567,281
Unrealized losses (gains) on investments	—	—	—	522,324	312,073	—	834,397	9,850,434
Change in assets and liabilities:								
Decrease (increase) in accounts receivable and other assets	2,229,576	363,189	(3,430,215)	(2,284)	(23,277)	517,976	(345,035)	(1,191,152)
Decrease (increase) in mortgage and construction loans receivable	—	—	—	(43,647,297)	(49,741,809)	(2,255,261)	(95,644,367)	4,924,841
Decrease (increase) in accrued interest receivable	—	—	—	137,471	(270,253)	10,904	(121,878)	(1,712,468)
Decrease (increase) in deferred charges	—	92,860	—	(479,367)	20,865	(5,297)	(370,939)	(64,038)
Decrease (increase) in interfund receivable	(717,880)	903,367	1,687,797	30,299	(1,903,583)	—	—	—
(Decrease) increase in accounts payable	(525,732)	1,063,491	208,499	140,287	19,233,650	(517,976)	19,602,219	(7,772,760)
(Decrease) increase in deferred revenue	(78,510)	(50,799)	(2,004,759)	—	8,093	5,297	(2,120,678)	1,243,959
(Decrease) increase in accrued interest payable	12,579	152,537	—	450,476	1,231,203	(10,904)	1,835,891	946,487
(Decrease) increase in escrow and other deposits	—	(23,894)	(49,074)	—	903,911	—	830,943	(1,245,112)
Net cash provided by (used in) operating activities	$ 2,894,277	10,691,096	1,482,862	(42,902,271)	(27,223,114)	(2,396,151)	(57,453,301)	7,647,183

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Description of the Commission

The Housing Opportunities Commission of Montgomery County, Maryland (a component unit of Montgomery County, Maryland) (the Commission) is a public body corporate and politic established by the State of Maryland and Montgomery County law to act as a builder, developer, financier, owner and manager of housing for eligible participants. The Commission was established as a result of the following:

- Article 44A of the Annotated Code of Maryland.
- Chapter 41 of the laws of Montgomery County, Maryland, known as the Housing Opportunities Act, which permits Montgomery County (the County) to authorize the Commission to perform various housing functions either through a contract with the County or by local law.

Specific powers of the Commission include:

- Acquiring land,
- Utilizing federal/state housing subsidies,
- Making mortgage loans and rent subsidy payments,
- Making construction loans,
- Providing permanent mortgage financing,
- Purchasing mortgages, and
- Issuing bonds.

Housing activities sponsored by the Commission include:

- The Public Housing Rental Program, which provides housing for low- and moderate-income families and elderly and disabled individuals who pay 30% of their adjusted gross income for rent;
- Home-Ownership Program, whereby families pay a minimum of 30% of their adjusted gross income each month to the Commission. A portion of this monthly payment is placed in an earned home-payment account, and another sum is placed in a non-routine maintenance reserve. Once a family's income is high enough to secure a mortgage, these reserve accounts can be used for the down payment and/or closing costs. Title to the home is then transferred to the family, and they assume ownership of the home along with all rights and responsibilities of home ownership;

- Section 8 Housing Assistance Payments Program, sponsored by the U.S. Department of Housing and Urban Development (HUD), through which eligible persons may seek housing in the private marketplace. The Section 8 Housing Choice Voucher program allows eligible families to obtain adequate rental housing while paying a minimum of 30% of their monthly income for rent;
- Opportunity Housing Program, which is a local program administered by the Commission for families of eligible income, and includes both sales and rental housing; and
- Tax Credit Partnerships, which provide rental housing for low and moderate income households. The Commission manages these properties and is a 1% general partner.

The above activities are supported by a network of tenant services. Funding for these services is provided by federal, state and county government agencies.

Bonds issued by the Commission include Single Family Mortgage Revenue Bonds and Multi-Family Housing Revenue Bonds. Single Family Mortgage Revenue Bonds provide below-market interest rate mortgage loans for the purchase of single-family homes for low- to moderate-income families on an equal opportunity basis. The Multi-Family Housing Revenue Bonds provide below-market rental units within Multi-Family developments for low- to moderate-income families.

Except as noted below, neither the Single Family Mortgage Revenue Bonds nor the Multi-Family Housing Revenue Bonds constitute a liability or obligation, either direct or indirect, of Montgomery County, the State of Maryland (the State) or any political subdivision thereof and are not backed by the full faith and credit of the Commission, the State or any political subdivision thereof, but are limited obligations of the Commission payable solely from the revenue and other assets of the Commission pursuant to individual Bond Resolutions. The Multi-Family Housing Revenue Bonds, 1998 Issue A and 2006 Issue A, are guaranteed as general obligation bonds of Montgomery County.

Management of the Commission and Montgomery County have determined that the Commission is a component unit of the County. Accordingly, the County is required to report the Commission, together with all other component units, in its basic financial statements.

(b) Financial Reporting Entity

As required by accounting principles generally accepted in the United States of America (GAAP) these financial statements present the Commission and the following component units, which are entities for which the primary government is considered financially accountable:

Development Corporations. The Development Corporations (the Corporations) operate exclusively for non-profit purposes and were created to assist in carrying out housing projects for persons of eligible income. Housing projects undertaken, financed, or assisted by the Corporations and their related expenditures must be approved by the Commission. The Corporations are legally separate from the Commission, and are included in the Opportunity Housing Fund as blended component units, since the Commission can significantly influence the programs, projects, or activities of, or the level of service performed by the Corporations, and their boards of directors are substantially the same as the Commission.

Real Estate Limited Partnerships. The Commission is the managing general partner in 21 real estate limited partnerships. The limited partnership interests are held by third parties unrelated to the Commission. As managing general partner, the Commission has certain rights and responsibilities, which enable it to impose its will on the limited partnerships. Additionally, the Commission is financially accountable for the limited partnerships as the Commission is legally obligated to fund operating deficits in accordance with the terms of the partnership agreements. Nineteen of the partnerships have calendar year ends and two have a June 30 fiscal year end. Accordingly, the amounts included for each discretely presented component unit that comprise the aggregate component units column in the combined financial statements are as of and for the respective year ends that fall within the year ended June 30, 2007. Separate financial statements for the individual limited partnerships can be obtained from the Commission.

(c) Basis of Accounting

The financial activities of the Commission are recorded in five proprietary enterprise funds. A brief description of each of the Commission's enterprise funds follows:

- *General Fund* – Includes all operations with the exception of public-funded programs, opportunity housing programs and bond-funded activities. This fund also includes any private grants received and the development costs of tax credit partnerships.
- *Opportunity Housing Fund* – Includes all operating, capital improvements and capital development related to the Commission's opportunity housing portfolio.
- *Public Fund* – Includes all funds the Commission receives from federal, state and local government agencies, and related activities.
- *Multi-Family Fund* – Used to account for the proceeds of Multi-Family Housing Revenue Bonds, the debt service requirements on the bonds, investments held pursuant to the indenture authorizing the issuance of the bonds and the related mortgage-loan financing for newly constructed or rehabilitated Multi-Family rental housing in the County.
- *Single Family Fund* – Used to account for the proceeds of Single Family Mortgage Revenue Bonds, the debt service requirements on the bonds, investments held pursuant to the indenture authorizing the issuance of the bonds and debt service collected from mortgage loans purchased for the financing of owner-occupied, single-family residences in the County.

The Commission uses the accrual method of accounting, whereby expenses are recognized when a liability is incurred, and revenue is recognized when earned.

Commission financial statements distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a fund's principal ongoing operations. The principal operating revenues of the General and Opportunity Housing Funds are dwelling rentals, management fees and other income. The principal operating revenues of the Public fund are intergovernmental grants. The principal operating revenues of the Single Family and Multi-Family funds are investment interest and interest on mortgage and

construction loans receivable. Operating expenses for the General, Opportunity Housing and Public funds include administrative, maintenance, depreciation and amortization, utilities, and other expenses. Interest expense is included as an operating expense of the Opportunity Housing fund. Housing assistance payments are considered operating expenses of the Public fund. The principal operating expenses of the Single Family and Multi-Family funds are interest and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The effect of interfund activity has been eliminated from the combined financial statements.

Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting* allows governments to choose not to implement, in proprietary fund types, pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, provided that this is applied on a consistent basis, or to continue to follow FASB standards. The Commission has elected not to implement FASB pronouncements issued after that date.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(d) Investments

Investments of the General Fund, the Public Fund, and the Opportunity Housing Fund consist of those permitted by the investment policy including obligations of the U.S. government and federal agencies, bankers' acceptances, repurchase agreements, certificates of deposit, money market mutual funds, investments in the Maryland Local Government Investment Pool, commercial paper, and investments in the Montgomery County investment pool. Investments of the Multi-Family Program Fund and the Single Family Mortgage Purchase Program Fund consist of those permitted by the respective bond trust indentures adopted by the Commission providing for the issuance of bonds. Investments are recorded at fair value. Fair value is based upon quoted market prices. The Commission classifies its investments as current or non-current based on the maturity dates. Short-term investments have maturities within one year.

(e) Mortgage and Construction Loans Receivable

Mortgage and construction loans are carried at amounts advanced, net of collections and reserves for loan losses, if any. As of June 30, 2007, there were no reserves for loan losses. Loans that become past due as to principal and interest are evaluated for collectability. Generally, loans are not placed on non-accrual status because they are insured or otherwise guaranteed. Historically, the Commission's loan losses have been insignificant.

(f) Mortgage Risk-Sharing Agreement

The Commission participates in a mortgage risk-sharing agreement with HUD to provide for full mortgage insurance through the Federal Housing Administration (FHA) of loans for affordable housing. The Commission was approved by HUD as both a Level I and Level II participant. Level I participants assume 50-90% of the risk of loss from mortgage default and Level II participants assume either 25% or 10% of the risk of loss from mortgage default.

Upon default of a mortgage and request of the Commission, HUD will pay the claim in full, so the Commission can redeem the bonds. Upon receipt of the cash payment from FHA, the Commission will execute a debenture, promissory note or some other instrument, with HUD for the full amount of the claim. In the instrument, the Commission will agree to reimburse HUD over a five-year period for its portion of the loss upon the sale of the project based on the proportion of risk borne by the Commission. The Commission must pay annual interest on the debenture at HUD's cost of borrowing from the U.S. Treasury. The Commission's maximum potential risk of loss as of June 30, 2007 is $106,033,367 which is collateralized primarily by the underlying properties. Management has established what it deems to be an adequate reserve of $5,286,057 against this potential loss in excess of the value of the real estate securing the notes.

(g) Grants/Contributions from Governmental Agencies

The Commission receives reimbursement from federal, state and county governmental agencies for the cost of sponsored projects, including administrative costs. Revenue is recognized to the extent of reimbursable costs incurred subject to limitations in the agreements with the sponsoring governmental agencies.

(h) Capital Assets

Capital assets include property held for and under development, operating properties, and fixed assets used in operations that costs $5,000 or more and have an estimated useful life of at least two years.

The Commission capitalizes costs associated with properties held for and under development, including interest costs during the construction period. The carrying amount of such properties does not exceed the estimated net realizable value.

Operating properties are carried at cost and are depreciated on a straight-line basis. Estimated useful lives are 40 years for buildings and 3 to 10 years for building equipment.

The Commission is exempt from county property taxes under specific payment-in-lieu of taxes (PILOT) agreements for all public housing and Opportunity Housing properties. Two Section 8 new construction properties pay real estate tax, but the other Opportunity Housing properties do not pay county real estate taxes.

Fixed assets used in operations consist of furniture and equipment. Estimated useful lives range from 3 to 10 years.

(i) Loan Origination, Commitment, and Monitoring Fees

The Commission charges commitment and financing fees to developers within the Multi-Family Fund. Loan origination and commitment fees are deferred and recognized over the life of the related loan as an adjustment of yield. Net deferred fees are amortized to income in a manner approximating the effective interest method. The Commission also incurs cost of issuance expenses for the Single Family bond issues which are deferred and amortized over the life of the bonds. Net deferred fees amounted to $3,747,544 at June 30, 2007 and are included in deferred charges on the statement of net assets. The Commission also annually receives loan monitoring fees for the ongoing costs of monitoring mortgages and bonds for compliance under the Multi-Family Fund. These fees are recognized as earned and are included in management fees and other income in the accompanying statement of revenues, expenses and changes in net assets.

(j) Bond Discounts

Bond discounts are amortized using a method which approximates the effective interest method.

(k) Bond Accretion

Interest expense on capital appreciation bonds is not paid in cash during the term of the bonds, but is added to the principal balance. Accretion is computed using the effective interest method and is included in bond interest expense in the accompanying statement of revenues, expenses and changes in net assets.

(l) Cash Equivalents

For purposes of the statements of cash flows, the Commission considers all highly liquid investments with maturities of twelve months or less when purchased to be cash equivalents.

(m) Compensated absences and severance

The Commissions policy provides for the accrual of annual leave only. The accrual is based on the employees current leave balance and the current hourly rate of pay. The maximum number of hours per employee is 240. The outstanding annual leave accrual as of June 30, 2007 amounted to $1,737,572 and is included in accounts payable and accrued liabilities in the accompanying Statement of Net Assets.

In July 2006, the Commission adopted a personnel policy for senior executive staff which provides for a severance package which includes payments up to thirty-six week of wages, in addition to other benefits. The outstanding annual leave accrual includes the severance package accruals for senior executive staff up to thirty-six weeks as appropriate.

(n) Prior-Period Comparative Financial Information

The basic financial statements include certain prior-year partial comparative information that is not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such

information should be read in conjunction with the Commission's financial statements for the year ended June 30, 2006, from which the partial information was derived.

(o) Accounting Changes

The Commission is working in conjunction with Montgomery County to assess the impact on its financial position or results of operations of implementing GASB Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The County has contracted an actuary to compute its unfunded actuarial liability as of July 1, 2007. This statement will be effective for the Commission in fiscal year 2008. It will require prospective recognition of the cost of these benefits as they are earned rather than as they are paid in the government-wide and proprietary financial statements.

(2) Cash, Cash Equivalents, and Investments

Business-Type Activities

A. Cash

The Commission's cash balances as of June 30, 2007 were entirely insured or collateralized with securities held by the Commission's agent in the Commission's name.

		Carrying Amount	Bank Balances
Cash:			
General Fund	$	621,032	617,232
Opportunity Housing Fund		1,063,408	1,055,426
Public Fund		800	—
Total cash	$	1,685,240	1,672,658

B. Cash Equivalents & Investments

The General Fund cash and cash equivalents balance at June 30, 2007 includes $2,012,124 of cash and cash equivalents restricted for reserves for tax credit programs, closing cost programs, replacement and other reserves. The Opportunity Housing Fund cash and cash equivalents balance at June 30, 2007 includes $7,151,352 of cash and cash equivalents restricted in accordance with various loan agreements with agencies of the State of Maryland and Montgomery County, and in bond indentures. The Public Fund cash balance includes $4,055,853 as of June 30, 2007, of security deposits and home ownership reserves restricted in accordance with the HUD regulations.

The Commission and it's discretely presented component units investments are subject to interest rate, credit and custodial risk as described below:

Interest Rate Risk. The Commission's investment policy which applies to the General Fund, Public Fund and the Opportunity Housing Fund requires that the majority of the investments of the Commission must be on a short-term basis (less than one year); however a portion of the portfolio may be invested in investments with longer maturities (up to two years). The investment requirements for the Multi-family Fund and Single Family Fund are specified within each of the bond trust indentures. The bond trustee is required to invest money in obligations with the objective that sufficient money will be available to pay the interest due on the Bonds and will mature or be subject to redemption with the objective that sufficient money will be available for the purposes intended in accordance with the Indenture.

Credit Risk. The Commission's investment policy for the General Fund, Public Fund and the Opportunity Housing Fund permits the following investment types: U.S. government and federal agencies; repurchase agreements; banker's acceptances; money market mutual funds; Maryland local government investment pool; Montgomery County investment pool; certificate of deposits and time deposits; and commercial paper. Bankers Acceptances of domestic banks and commercial paper must maintain the highest rating from one of the Nationally Recognized Statistical Rating Organizations (NRSRO) as designated by the SEC or State Treasurer. Repurchase agreements require collateralization at 102% of the principal amount by an obligation of the United States, its agencies or instrumentalities provided the collateral is held by a custodian, other than the seller. Certificates of deposit or time deposits must be collateralized at 102% of the market value and held by a custodian other than the seller.

The Commission invests in the Montgomery County Local Government Investment Pool and the Maryland State Local Government Investment Pool. The pools are not subject to regulatory oversight by the SEC. However the County pool is subject to oversight by the County's investment committee.

The State Legislature created MLGIP with the passage of Article 95 22G, of the Annotated Code of Maryland. The MLGIP, under the administrative control of the State Treasurer, has been managed by a single Baltimore-based financial institution, Mercantile-Safe Deposit and Trust Company. The pool has a AAA rating from Standard and Poors and maintains a $1.00 per share value. An MLGIP Advisory Committee of current participants was formed to review, on a quarterly basis, the activities of the Fund and to provide suggestions to enhance the pool. The fair market value of the pool is the same as the value of the pool shares. The MLGIP issues a publicly available financial report that includes financial statements and required supplementary information for the MLGIP. This report can be obtained by writing: Mercantile-Safe Deposit & Trust Company, Maryland Local Government Investment Pool, Mr. David Rommel, 2 Hopkins Plaza, 4th Floor, Baltimore, Maryland 21201; or by calling 410-237-5629.

The Single Family and Multi-Family Funds require that the Trustee invest moneys on deposit under the Indenture in Investment Obligations as defined by the respective Bond Indenture Agreements. Investment Obligations are defined as the following: (i) Government obligations; (ii) bond debentures or other obligation issued by government agencies or corporations; (iii) time deposits or certificate of deposits insured by the Federal Deposit Insurance Corporation; (iv) repurchase agreements backed by obligations described in (i) and (ii) above; (v) investment agreements; (vi) tax exempt obligations; and (vii) money market funds.

Custodial Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Amounts held in trust accounts and other demand accounts within the General Fund, the Opportunity Housing Fund and the Public Fund are covered by federal depository insurance, or collateralized at a level of at least 102% of market value of principal and accrued interest. The collateral is held by the bank's agent in the Commission's name with the exception of the repurchase agreement collateral for the Maryland Local Government Investment Pool which is segregated and held in the name of Mercantile-Safe Deposit and Trust's account at the Federal Reserve Bank.

Amounts held in money market funds and investment agreements within the Multi-Family and Single Family Funds are typically collateralized at 102% by either U.S. Treasuries or other government guaranteed securities. The Bond Indenture agreements permit investments in funds that contain agency debt which are not collateralized by U.S. Treasuries or other guaranteed government securities. As of June 30, 2007, the Commission held investments in agency securities which were not collateralized but were rated AAA.

As of June 30, 2007, the Commission had the following cash, cash equivalents, investments and maturities:

Cash Equivalents		**Fair Value**	**Less than 1 year**
Cash equivalents:			
General Fund			
Repurchase Agreements	$	5,584,869	5,584,869
Money Market Accounts		6,108,098	6,108,098
US Treasury Bills		7,806,243	7,806,243
Opportunity Housing Fund			
Investment in Montgomery County Local Government Investment Pool		7,093,577	7,093,577
Investment in Maryland State and Local Government Investment Pool		509,108	509,108
Money Market Accounts		22,916,302	22,916,302
Public Fund			
Money Market Accounts		7,689,912	7,689,912
Investment in Maryland State and Local Government Investment Pool		5,242,905	5,242,905
Multi-Family Fund			
Money Market Accounts		55,456,719	55,456,719
Single Family Fund			
Money Market Accounts		45,193,100	45,193,100
Total cash equivalents		163,600,833	163,600,833
Short-term Investments:			
Multi-Family Fund			
GNMA Pool	$	889,271	889,271
Freddie Mac		470,645	470,645
US Treasuries		246,140	246,140
Single Family Fund			
Society General Repurchase Agreement		18,291,033	18,291,033
Federal Home Loan Banks		29,184,328	29,184,328
Total short-term investments		49,081,417	49,081,417

:

Long Term Investments		Fair Value	1-5 years	Long Term	Rating
Long-term Investments:					
Multi-Family Fund					
U.S Treasuries	$	4,452,801	-	4,452,801	AAA
Fannie Mae		3,646,856	-	3,646,856	AAA
Freddie Mac		3,568,047	2,147,342	1,420,705	AAA
GNMA Pool		73,326,438	-	73,326,438	AAA
JP Morgan Chase Repurchase Agreement		2,602,247	-	2,602,247	AAA
Bank One Investment Agreement		591,525	-	591,525	AA/Aa2
Single-Family Fund					
Federal Farm Credit Banks		5,510,343	-	5,510,343	AAA
Federal Home Loan Banks		2,109,584	768,377	1,341,207	AAA
U.S Treasuries		7,904,403	-	7,904,403	AAA
Fannie Mae		849,394	-	849,394	AAA
Solomon Repurchase Agreement		2,345,800	-	2,345,800	AA1
Trinity Plus Investment Agreement		12,979,585	12,979,585	-	AAA
Tennessee Valley Authority		3,256,608	-	3,256,608	AAA
Total long-term investments		123,143,631	15,895,304	107,248,327	
Cash balances		1,685,240			
Total cash, cash equivalents and investments	$	337,511,121			

Reconciliation of cash, cash equivalents and investments to amounts in the statement of net assets:		
Current unrestricted cash and cash equivalents	$	73,812,544
Total restricted cash and cash equivalents for current liabilities		30,119,718
Total noncurrent restricted assets		233,578,859
	$	337,511,121

C. Real Estate Limited Partnership Component Units

The Real Estate Limited Partnership Component Units cash and cash equivalents balance as of December 31, 2006 was $8,749,887 consisting of $1,890,313 in cash, $1,188,227 in the Maryland State and Local Government Investment Pool and $5,671,347 in money market accounts. All cash equivalents have maturities of one year or less. The Real Estate Limited Partnership Component Units follow the Commission's investment policy.

(3) Mortgage and Construction Loans Receivable

Mortgage and construction loans receivable are secured by deeds of trust evidencing first mortgage liens on applicable real property and are either insured by private mortgage insurance, the U.S. Federal Housing Administration or the Maryland Housing Fund or are guaranteed by the U.S. Department of Veterans Affairs. Mortgage and construction loans receivable as of June 30, 2007 consisted of the following:

Description	Interest Rate	Balance
General Fund		
Closing Cost Assistance Loans	4.44%	$ 374,188
Leafy House	4.51%	523,951
MHLP III	6.50%	680,775
MHLP IV	7.75%	1,044,816
		$ 2,623,730
Opportunity Housing Fund		
Home-Ownership Assistance Loan Fund (HALF)	4.500 to 6.500%	28,040
Metropolitan - Tax Credit	—	1,142,000
Forest Oak Towers - Tax Credit	—	1,000,000
Strathmore - Tax Credit	—	1,000,000
Barclay - Tax Credit	—	4,681,705
Spring Garden - Tax Credit	—	3,023,400
		10,875,145
Multifamily Fund		
Metropolitan	6.38%	6,910,701
Landings Edge	4.95%	6,615,327
Strathmore Court at White Flint - B	7.62%	4,711,173
Dring's Reach	4.75%	6,933,144
Ambassador	7.16%	2,684,049
TC IX Pond Ridge	5.62%	1,948,945
TC IX MPDU's	5.62%	3,325,865
Croydon Manor	6.35%	2,983,838
Silver Spring House	6.35%	2,262,374
Paint Branch II	6.46%	3,941,313

Shady Grove	5.20%	$ 7,262,767
Willows	5.20%	5,625,327
Manchester	5.20%	2,162,233
Tax Credit X	6.20%	3,615,769
Ring House	6.10%	16,608,981
Stewartown	6.20%	4,423,534
Georgian Court	6.20%	5,483,912
Charter House	—	13,700,000
Rockville Housing	5.21%	3,828,150
Barclay	—	17,124,518
Spring Gardens	—	6,781,096
Forest Oak	4.93%	18,055,823
MetroPointe	—	36,350,000
		183,338,839
Less deferred commitment fees		(173,897)
		183,164,942
Single Family Fund		
Mortgage loans receivable, net	4.900 to 13.445%	144,419,443
Total		$ 341,083,260

As of June 30, 2007, the amounts available or committed for additional advances or new loans are $22,971,415 and $33,995,412 for the Multi-Family Fund and the Single Family Fund, respectively.

Included in the mortgage and construction loans receivable balance of the Multi-Family Fund are interfund mortgage loans receivable from the Opportunity Housing Fund amounting to $132,300,506 as of June 30, 2007, which have been eliminated. The related interest revenue, amounting to $7,724,568 for the year ended June 30, 2007 has also been eliminated.

Included in the mortgage and construction loans receivable balance of the General Fund at June 30, 2007 are interfund mortgage loans receivable from the Opportunity Housing Fund amounting to $879,432 which has been eliminated in the accompanying financial statements. The related interest revenue, amounting to $50,062 for the year ended June 30, 2007 has also been eliminated.

Included in the mortgage and construction loans receivable balance of the Opportunity Housing Fund at June 30, 2007 are interfund mortgage loans receivable from the OHRF Fund amounting to $2,737,102, which has been eliminated in the accompanying financial statements.

Construction loans in the Opportunity Housing and Multi-Family Funds generally have maturities of less than one year. Mortgage loans receivable in the Single Family Fund and the Multi-Family Fund have maturities extending up to 40 years.

(4) Capital Assets

The Commission's capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning balance	Additions	Deletions	Ending balance
Land:				
General Fund	$ 5,426,373	—	1,097,481	4,328,892
Opportunity Housing Fund	27,922,970	—	102,393	27,820,577
Public Fund	16,243,515	—	—	16,243,515
Total land	49,592,858	—	1,199,874	48,392,984
Site improvements:				
Public Fund	2,945,910	—	—	2,945,910
Accumulated depreciation	(2,590,947)	(237,526)	—	(2,828,473)
Total site improvements, net	354,963	(237,526)	—	117,437
Building and improvements:				
General Fund	2,785,592	—	—	2,785,592
Accumulated depreciation	(1,784,398)	(99,043)	—	(1,883,441)
Opportunity Housing Fund	187,440,438	1,702,546	216,610	188,926,374
Accumulated depreciation	(50,589,089)	(5,619,976)	—	(56,209,065)
Public Fund	72,942,735	5,360,342	—	78,303,077
Accumulated depreciation	(42,242,091)	(3,306,969)	—	(45,549,060)
Total building and improvements, net	168,553,187	(1,963,100)	216,610	166,373,477
Furniture and equipment:				
General Fund	5,034,538	130,318	50	5,164,806
Accumulated depreciation	(4,015,543)	(481,163)	—	(4,496,706)
Opportunity Housing Fund	3,513,108	269,271	351	3,782,028
Accumulated depreciation	(2,210,106)	(359,414)	—	(2,569,520)
Public Fund	3,247,093	197,828	—	3,444,921
Accumulated depreciation	(3,153,580)	(65,498)	—	(3,219,078)
Total furniture and equipment, net	2,415,510	(308,658)	401	2,106,451
Construction in progress:				
Opportunity Housing Fund	9,561,000	7,934,689	4,618,744	12,876,945
Public Fund	12,021,394	4,079,249	3,768,529	12,332,114
Total construction in progress	21,582,394	12,013,938	8,387,273	25,209,059
Total capital assets, net	$ 242,498,912	9,504,654	9,804,158	242,199,408

Real estate limited partnerships component units		Beginning balance	Additions	Deletions	Ending balance
Land	$	11,906,560	—	—	11,906,560
Site Improvements		179,400	41,141	—	220,541
Building and improvements		132,682,641	17,948,763	—	150,631,404
Furniture and equipment		3,742,439	1,380,605	—	5,123,044
Total accumulated depreciation		(32,495,967)	(4,757,116)	—	(37,253,083)
Net component unit capital assets	$	116,015,073	14,613,393	—	130,628,466

Included in operating properties for the Opportunity Housing Fund is an interfund elimination for interest paid to the Multi-Family Fund amounting to $8,626,664 as of June 30, 2007, which was capitalized during construction of the property.

Commission capital assets not being depreciated include land and construction in progress.

(5) Advances to Real Estate Partnership Component Units

Advances to component units represent additional funds provided by the Commission to facilitate the purchase of the rental Moderately Priced Dwelling Units (MPDUs) and to fund operating deficits incurred by the Partnerships. The purchases of the rental MPDUs are collateralized by certain notes receivable of the Partnerships due from the limited partners in connection with the purchase of their limited partnership interests. The Partnerships' agreements:

- Include ground rent to be paid by the Partnerships to the Commission's General Fund. Ground rent for the year ended June 30, 2007, amounted to $989,538.
- Extend from 45 to 65 years, and call for annual ground rent payments with fixed and variable upward adjustments on January 1 of each calendar year.
- Include management fees of 6.0% of monthly rental collections. Management fees paid to the Commission for the year ended June 30, 2007, amounted to $343,920.
- Require the Commission to maintain $100,000 in a segregated account for certain partnerships to be available for the exclusive use and benefit of the respective partnership. The purpose of this account is to provide assurance to the limited partnership that funds will be available in the event the project experiences an operating deficit.

Due to differences in fiscal year ends, Advances to Component Units differ from Advances from the Primary Government at June 30, 2007.

(6) Accounts Receivable and Other Assets

Accounts receivable consists of grants and loans due from HUD and Montgomery County, tenant rents receivable, and amounts due from property managers. All amounts are deemed to be collectible within one year. Accounts receivable and other assets consisted of the following as of June 30, 2007:

	General Fund	Opportunity Housing Fund	Public Fund	Single Family Fund	Multi Family Fund	Total
Accounts receivable:						
U.S. Department of Housing and Urban Development	$ —	4,226	2,806,743	—	—	2,810,969
Montgomery County, Maryland	82,726	146,561	2,107,743	—	—	2,337,030
Other	3,176,470	610,748	1,203,654	—	—	4,990,872
Other assets	417,639	1,169,840	—	60,095	23,277	1,670,851
	$ 3,676,835	1,931,375	6,118,140	60,095	23,277	11,809,722

(7) Interfund Receivables, Payables, and Transfers

Interfund receivables and payables result from cash collections and disbursements for all funds being processed through the General Fund. All amounts are expected to be repaid within one year. The composition of interfund balances as of June 30, 2007, is as follows:

Due to / from other funds:

Receivable fund	Payable fund		Amount
Opportunity Housing Fund	General Fund	$	21,984,599
General Fund	Public Fund		(5,266,266)
General Fund	Multi-Family Fund		(1,511,157)
General Fund	Single Family Fund		(5,349,637)
		$	9,857,539

Due to / from primary government and component units:

Receivable entity	Payable entity		Amount
Primary government – General Fund	Component units-tax credit limited partnerships	$	20,427,930
Opportunity Housing Fund	Component units-tax credit limited partnerships		5,916,224
		$	26,344,154

Interfund transfers were made during the fiscal year to reduce interfund receivables and payables. The transfers occur routinely and are approved by the Board of Commissioners.

Interfund transfers:

		Transfer in General Fund
Transfer (in) out:		
Opportunity Housing Fund	$	(882,962)
Public Fund		(103,855)
Single Family Fund		500,000
Multi-Family Fund		1,857,860
Net transfers in: General Fund	$	1,371,043

(8) Bonds, Mortgage Notes, and Loans Payable – Primary Government

Bonds and mortgage notes have been issued to provide financing for the Commission's housing programs and are collateralized as follows:

- Mortgage loans receivable made on the related developments or single-family residential mortgage loans purchased.
- Substantially all revenue, mortgage payments and recovery payments received by the Commission from mortgage loans made on the related developments.
- Certain accounts, generally debt service reserve funds, established pursuant to the indenture authorizing issuance of the bonds.

Amounts reflected as drawdown bonds payable in the Single Family Mortgage Purchase Program (Single Family Fund) represent outstanding bonds. Such amounts are secured by an escrow fund, bear interest at the BMA Index plus 75 basis points for non-AMT and 80 basis points for AMT bonds but not lower than 95% of LIBOR and not more than the sum of 100% of LIBOR plus 5.25 basis points. In no event shall the interest rate per annum on the 2005 Series A Bonds or 2005 Series B Bonds exceed the interest rate per annum on the Investment Agreement.

Interest rates on bonds payable ranged from 1.65% to 8.50% as of June 30, 2007.

(a) Bonds Payable

The Commission has the following bonds payable outstanding as of June 30, 2007:

	Outstanding beginning of year	Issued this year	Retired this year	Outstanding end of year	Amount due within one year
Multi-Family Fund Bonds:					
1993 Series A	3,550,000	—	55,000	3,495,000	55,000
1992 Series C	2,960,000	—	85,000	2,875,000	90,000
1993 Issue II	2,555,000	—	455,000	2,100,000	480,000
1984 Series A – Accretions	64,977	8,142	—	73,119	8,453
1995 Series A	3,360,000	—	115,000	3,245,000	115,000
1996 Series A	3,075,000	—	75,000	3,000,000	80,000
1996 Series B	12,010,000	—	260,000	11,750,000	275,000
1996 Series B	24,145,000	—	280,000	23,865,000	295,000
1998 Issue A	11,390,000	—	290,000	11,100,000	300,000
1998 Series A	10,750,000	—	225,000	10,525,000	235,000
1998 Series B	16,475,000	—	465,000	16,010,000	490,000
2000 Series A	18,030,000	—	345,000	17,685,000	355,000
2000 Series B	26,690,000	—	510,000	26,180,000	545,000
2001 Series A	8,035,000	—	75,000	7,960,000	75,000
2002 Series A	22,325,000	—	—	22,325,000	—
2002 Series B	675,000	—	385,000	290,000	290,000
2002 Series C	12,965,000	—	—	12,965,000	—
2002 Series A	8,020,000	—	160,000	7,860,000	165,000
2002 Series B	31,465,000	—	690,000	30,775,000	490,000
2003 Series A	19,470,000	—	400,000	19,070,000	405,000
2003 Series B	17,840,000	—	—	17,840,000	—
2004 Series A	13,700,000	—	—	13,700,000	—
2004 Series B	4,070,000	—	35,000	4,035,000	40,000
2004 Series C	19,460,000	—	180,000	19,280,000	375,000
2004 Series D	14,110,000	—	130,000	13,980,000	265,000
2005 Series A	12,035,000	—	255,000	11,780,000	365,000
2005 Series B	6,135,000	—	130,000	6,005,000	130,000
2005 Series C	31,705,000	—	570,000	31,135,000	595,000
2006 Issue A	—	36,350,000	—	36,350,000	—
2007 Series A	—	19,055,000	—	19,055,000	—
	357,064,977	55,413,142	6,170,000	406,308,119	6,518,453
Less: unamortized discount	(2,687,852)			(2,568,551)	
	$ 354,377,125			403,739,568	

	Outstanding beginning of year	Issued this year	Retired this year	Outstanding end of year	Amount due within one year
Single Family Fund:					
1986 Series A	$ 5,000	—	—	5,000	—
1988 Series A	5,000	—	—	5,000	—
1988 Series B	5,000	—	—	5,000	—
1998 Series A – Accretions	26,620,236	1,525,406	—	28,145,642	—
1998 Series B	9,325,000	—	7,725,000	1,600,000	1,600,000
1998 Series D	2,185,000	—	2,185,000	—	—
1999 Series A – Accretions	619,201	17,440	636,641	—	—
2000 Series A	2,770,000	—	2,530,000	240,000	240,000
2000 Series A – Accretions	1,014,884	54,193	1,069,077	—	—
2000 Series A – Accretions	1,504,411	82,208	1,586,619	—	—
2000 Series A – Accretions	998,928	54,692	1,047,560	6,060	6,128
2001 Series A	4,250,000	—	1,245,000	3,005,000	350,000
2001 Series C	10,000,000	—	—	10,000,000	—
2002 Series A	9,310,000	—	2,710,000	6,600,000	660,000
2002 Series B – Accretions	2,211,572	132,450	—	2,344,022	—
2002 Series C	16,890,000	—	—	16,890,000	—
2004 Series A	16,380,000	—	1,645,000	14,735,000	890,000
2004 Series B	4,665,000	—	840,000	3,825,000	150,000
2005 Series A	18,445,000	—	710,000	17,735,000	1,110,000
2005 Series B	6,355,000	—	895,000	5,460,000	495,000
2005 Series C	11,600,000	—	345,000	11,255,000	700,000
2005 Series D	13,400,000	—	280,000	13,120,000	175,000
2005 Series E	30,000,000	—	30,000,000	—	—
2005 Series F	20,000,000	—	20,000,000	—	—
2006 Series A	—	18,705,000	—	18,705,000	605,000
2006 Series B	—	11,295,000	20,000	11,275,000	40,000
2006 Series C	—	18,705,000	—	18,705,000	18,705,000
2006 Series D	—	11,295,000	—	11,295,000	11,295,000
2007 Series A	—	15,875,000	—	15,875,000	—
2007 Series B	—	19,125,000	—	19,125,000	—
Draw Down 2005	30,435,649	31,580,612	49,140,411	12,875,850	—
	238,994,881	128,447,001	124,610,308	242,831,574	37,021,128
Less: unamortized discount	292,155			1,080,629	
	$ 239,287,036			$ 243,912,203	

(b) Mortgage Notes and Loans Payable

The Commission has the following Opportunity Housing Fund and General Fund mortgage notes and loans payable as of June 30, 2007:

	Outstanding beginning of year	Issued this year	Retired this year	Outstanding end of year	Amount due within one year
Opportunity Housing Fund:					
Paint Branch Townhouses	$ 256,479	—	25,192	231,287	27,282
State Partnership Rental Programs	8,795,567	—	—	8,795,567	—
State Partnership VII	4,712,864	—	—	4,712,864	—
Alexander House	675,000	—	150,000	525,000	150,000
Diamond Square	2,000,000	—	—	2,000,000	—
The Glen	1,211,707	—	—	1,211,707	—
Green Hills	4,000,000	—	—	4,000,000	—
Tanglewood	115,000	—	7,500	107,500	7,500
Holiday Park	1,350,000	—	—	1,350,000	—
Paddington Square	7,299,703	—	98,023	7,201,680	103,696
Montgomery Arms	144,848	—	2,858	141,990	3,374
HOC/HOP	166,142	107,888	—	274,030	
	30,727,310	107,888	283,573	30,551,625	291,852
General Fund:					
FNMA Closing Cost Assistance	151,128	—	85,243	65,885	22,951
Line of Credit with M&T Bank	2,535,450	2,246,986	28,111	4,754,325	4,754,324
Suntrust Loan	28,500	—	28,500	—	—
Tax Credit IX	50,500	—	—	50,500	—
Stewartown CDA Loan	2,025,210	—	120,523	1,904,687	130,332
Wachovia Bank Loan	3,000,000	—	—	3,000,000	—
	7,790,788	2,246,986	262,377	9,775,397	4,907,607
Total mortgage notes and loans payable	$ 38,518,098	2,354,874	545,950	40,327,022	5,199,459

Interest rates on mortgage notes and loans payable ranged from 3% to 8% as of June 30, 2007.

Included in the mortgage notes and loans payable balance of the Opportunity Housing Fund at June 30, 2007 are interfund mortgage loans payable to the Multi-Family Fund amounting to $132,300,506, which has been eliminated in the accompanying financial statements. The related interest expense, amounting to $7,583,678 for the year ended June 30, 2007 has also been eliminated.

Included in the mortgage notes and loans payable balance of the Opportunity Housing Fund at June 30, 2007 are interfund mortgage loans payable to the General Fund amounting to $879,433, which has been eliminated in the accompanying financial statements. The related interest expense, amounting to $50,062 for the year ended June 30, 2007 has also been eliminated.

Included in the mortgage notes and loans payable balance of the Opportunity Housing Fund at June 30, 2007 are interfund mortgage loans payable to the OHRF Fund amounting to $2,737,102, which has been eliminated in the accompanying financial statements.

On June 28, 1996, the Commission entered into a variable balance promissory note with a local bank for an amount not to exceed $10,000,000. On June 1, 2005 the Commission requested to increase the revolving credit facility to $20,000,000, and to permit a portion of the loan in the principal amount of up to $5,000,000 to be used for working capital purposes. The Commission may take advances under the note at any time deemed necessary, with the initial proceeds to be not less than $100,000. The proceeds of each advance of the loan shall be used only as a source of interim, non-permanent financing for the acquisition of existing residential rental properties and land for future development, for preliminary development costs and short-term working capital, or for any other purpose with the prior consent of the lender. The note is unsecured. However, the bank reserves the right to take a first priority lien on the property acquired. The goal is to increase the number of rental units available to the Commission in order to preserve low and moderate-income housing in Montgomery County, Maryland. Interest is payable monthly for tax exempt borrowings at 60% of the prime rate and for taxable borrowings at prime rate less 90 basis points or LIBOR plus .475 basis points. At June 30, 2007, the Commission had approximately $5,028,355 due under this arrangement. The promissory note is due on demand.

Multi-Family Housing Development bonds, 2006 Issue A, in the amount of $36,350,000 were issued to provide construction financing for the MetroPointe development, a 173-unit multifamily rental housing development located in Wheaton, Maryland. Multi-Family Housing Development bonds, 2007 Series A, in the amount of $19,055,000, were issued to provide funds to finance a mortgage loan for the acquisition and rehabilitation of Forest Oak Towers Apartments a 175-unit development located in Gaithersburg, Maryland.

Single Family Mortgage Revenue bonds, 2006 Series A, $18,705,000, 2006 Series B, $11,295,000, 2006 Series C, $18,705,000, 2006 Series D, $11,295,000, 2007 Series A, $15,875,000 and 2007 Series B, $19,125,000 were issued to refund and redeem aggregate principal amount of other bonds, provide funds to make or purchase mortgage loans and provide closing cost assistance.

(c) Maturities

Bonds, mortgage notes, and loans payable mature in the years and in the principal and interest amounts as follows:

	Principal				
	General Fund Notes Payable	Opportunity Housing Fund Notes Payable	Multi-Family Fund Bonds Payable	Single Family Fund Notes Payable	Combined
Years ending June 30,					
2008	4,907,607	4,291,853	6,518,453	37,021,128	52,739,041
2009	3,163,890	303,077	44,164,436	5,820,000	53,451,403
2010	172,392	1,663,742	8,010,530	6,020,000	15,866,664
2011	164,814	250,198	8,321,741	19,070,850	27,807,603
2012	228,728	6,784,255	8,728,104	6,410,000	22,151,087
2013 - 2017	1,137,966	128,611	38,907,067	34,975,000	75,148,644
2018 - 2022	—	56,700	53,604,143	14,640,000	68,300,843
2023 - 2027	—	28,112	47,401,764	21,360,000	68,789,877
2028 - 2032	—	32,655	85,841,881	40,455,576	126,330,112
2033 - 2037	—	18,256	68,675,000	42,589,020	111,282,276
2038 - 2042	—	—	10,630,000	14,470,000	25,100,000
2043 - 2047	—	—	25,505,000	—	25,505,000
Upon sale of property	—	16,994,166	—	—	16,994,166
	$ 9,775,397	30,551,625	406,308,119	242,831,574	689,466,715
Less unamortized bond discount	—	—	(2,568,551)	1,080,629	(1,487,922)
	$ 9,775,397	30,551,625	403,739,568	243,912,203	687,978,793

	Interest				
	General Fund Notes Payable	Opportunity Housing Fund Notes Payable	Multi-Family Fund Bonds Payable	Single Family Fund Notes Payable	Combined
Years ending June 30,					
2008	$ 206,566	936,963	16,434,640	7,906,629	25,484,798
2009	2,612	717,292	15,917,020	7,476,656	24,113,580
2010	1,204	507,052	14,206,305	7,388,375	22,102,936
2011	—	488,846	13,905,234	7,307,121	21,701,201
2012	—	285,144	13,579,823	7,202,953	21,067,920
2013 - 2017	—	22,180	63,338,311	32,941,834	96,302,325
2018 - 2022	—	13,744	54,922,496	33,274,555	88,210,795
2023 - 2027	—	9,833	43,605,416	37,235,724	80,850,973
2028 - 2032	—	5,289	30,847,837	18,710,962	49,564,088
2033 - 2037	—	738	14,051,246	6,808,351	20,860,335
2038 - 2042	—	—	8,100,587	555,139	8,655,726
2043 - 2047	—	—	2,123,480	—	2,123,480
2048 - 2050	—	—	—	—	—
Upon sale of property	—	—	—	—	—
	$ 210,382	2,987,081	291,032,395	166,808,299	461,038,157

(d) Multiple Pay-Fixed, Receive Variable Interest Rate Swaps

Objective of the interest rate swaps. In order to protect against the potential of rising interest rates, the Commission entered into five separate pay-fixed, receive variable interest rate swaps at a cost anticipated to be less than what the authority would have paid to issue fixed-rate debt. In April 2006, the Commission entered into two pay-fixed, receive variable forward rate swap agreements in conjunction with the 2006 Issue A Housing Development Bonds to fund the Wheaton Metro project. The effective date of these swap agreements are October 1, 2008 to coincide with the payoff of the 2006 Issue A Housing Development Bonds and the issuance of long term variable rate bonds.

Terms, fair values, and credit risk. The terms, fair values, and credit ratings of the outstanding swaps as of June 30, 2007, are contained in the table below. The notional amounts of the swaps match the principal amounts of the associated debt. The two swap agreements entered into in November 2004, 2004 Series C and Series D contain schedule reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated "bonds payable" category.

Fair value. Because interest rates have increased, the termination value of all swaps had a positive fair value as of June 30, 2007. Because the coupons on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit risk. As of June 30, 2007, the Commission was not exposed to credit risk because the swaps had positive fair values. However, should interest rates change and the fair values of the swaps become negative, the Commission would be exposed to credit risk in the amount of the derivatives' fair value. The swap agreements do not contain any collateral agreements with the counterparties.

Termination Risk. The Commission or the counterparties may terminate the swap at market value if the other party fails to perform under the terms of the contract. The Commission may terminate the swap at market value at any time. Under the 2004 Series C, 2004 Series D and 2006 Issue A swap agreements, Merrill Lynch Derivative Products, a AAA structured entity guarantees termination payment.

	Associated Bond Issue	Notional Amounts	Effective Date	Fixed Rate Paid	Fair Values	Swap Termination Date	Counterparty Credit Rating
(1)	Single Family 2002 Series C	$16,890,000	12/12/2002	3.630%	$133,118	1/01/2013	Aa3/AA-/AA-
(2)	Multifamily 2004 Series C	$19,280,000	11/05/2004	3.653%	$628,610	7/01/2036	Aa3/AA-/AA-
(3)	Multifamily 2004 Series D	$13,980,000	11/05/2004	3.760%	$451,567	7/01/2036	Aa3/AA-/AA-
(4)	Multifamily 2006 Issue A	$33,380,000	4/3/2006	4.020%	$204,777	1/1/2049	Aa3/AA-/AA-
(5)	Multifamily 2006 Issue A	$2,970,000	4/3/2006	6.067%	$32,925	1/1/2049	Aa3/AA-/AA-
	Total	$86,500,000			$1,450,997		

(9) Long-Term Debt – Component Units

The long-term debt of the component units are primarily non-recourse debt of each of the limited partnerships, which is collateralized by the land, structures, and equipment of each limited partnership and have varying repayment terms and interest rates ranging from 4.00% to 8.95%.

The annual maturities of the component units' long-term debt are as follows:

	Principal	Interest
Year ending June 30:		
2008	3,461,441	4,567,081
2009	4,016,348	4,250,151
2010	39,681,953	3,999,209
2011	2,120,658	3,850,558
2012	2,256,218	3,748,704
2013 - 2017	13,646,320	16,348,682
2018 - 2022	14,573,867	12,064,484
2023 - 2027	16,578,568	7,431,127
2028 - 2032	11,373,491	3,373,261
2033 - 2037	6,371,447	1,018,984
Upon sale of property	11,892,747	—
	$ 125,973,058	60,652,241

(10) Loans Payable to Montgomery County

The County advances funds to the Commission and the real estate limited partnership component units (component units) through two Capital Improvement Program Funds. The Commission and the component units use County funds to purchase or construct various housing developments in expectation that permanent financing will be provided through a combination of state, county or federal grants or that loans or bonds will be issued by the Commission or the component units. If the development is funded from another source, the Commission or the component units repay the County. If no alternative funding is found for a development, the County may agree to forgive the Commission's or the component unit's debt. The Commission and the component units paid no interest on funds received from the County for the year ended June 30, 2007. There is no set maturity date or repayment term on borrowings from the County for the projects. The Commission has the following Opportunity Housing Fund, General Fund and component unit loans payable to Montgomery County as of June 30, 2007:

	Outstanding beginning of year	Issued this year	Retired this year	Outstanding end of year	Amount due within one year
Opportunity Housing Fund	$ 28,131,253	464,235	838,381	27,757,107	2,658,402
General fund	7,599,125	—	1,269,772	6,329,353	1,558,816
	$ 35,730,378	464,235	2,108,153	34,086,460	4,217,218
Real estate limited partnership component units	$ 11,666,118	6,008,000	294,900	17,379,218	658,000

(11) Lease Commitments

(a) Operating Leases

The Commission has leases for its offices in Montgomery County. Lease expense for the year ended June 30, 2007 for all office space was $472,302. Future minimum lease obligations under these leases are as follows:

Year ending June 30,	
2008	$ 428,388
2009	242,200
	$ 670,588

(b) Capital Lease

In November 2005, the Commission entered into a lease purchase agreement with M&T Bank for equipment with an interest rate of 4.82%. The lease qualifies as a capital lease for accounting purposes, and therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The lease is for a 5 year term, with an option to purchase the equipment upon expiration of the lease for $1.00. The Commission has the following General Fund capital lease obligation as of June 30, 2007.

	Outstanding beginning of year	Issued this year	Retired this year	Outstanding end of year	Amount due within one year
$	364,149	-	74,315	289,834	77,941

Future minimum lease payments under the General Fund lease are as follows:

Year ending June 30,	Future minimum payments
2008	90,982
2009	90,982
2010	90,982
2011	45,494
Total payments	318,440
Less Interest	(28,605)
	289,835
Less: current portion	(77,941)
Long-term portion	211,894

In July 2006, the Commission entered into a lease purchase agreement with Bank of America for equipment with an interest rate of 4.0209%. The lease qualifies as a capital lease for accounting purposes, and therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The lease is for a 5 year term, with an option to purchase the equipment upon expiration of the lease for $1.00. The Commission has the following General Fund capital lease obligation as of June 30, 2007.

	Outstanding beginning of year	Issued this year	Retired this year	Outstanding end of year	Amount due within one year
$	-	750,000	68,462	681,538	141,081

Future minimum lease payments under the General Fund lease are as follows:

Year ending June 30,	Future minimum payments
2008	167,081
2009	167,081
2010	167,081
2011	167,081
2012	83,540
Total payments	751,864
Less Interest	(70,327)
	681,537
Less: current portion	(141,081)
Long-term portion	540,456

In August 1997, the Commission entered into a lease agreement for building and land with an interest rate of 7.50%. The lease agreement qualifies as a capital lease for accounting purposes, and therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The lease is for a 99-year-term, with an option to purchase the land and building after 20 years for approximately $20,000,000. The Commission has the following Opportunity Housing Fund capital lease obligation as of June 30, 2007.

	Outstanding beginning of year	Issued this year	Retired this year	Outstanding end of year	Amount due within one year
$	19,976,234	—	1,846	19,974,388	1,988

Future minimum rentals under the lease are as follows:

		Future minimum rentals
Year ending June 30,		
2008		1,511,428
2009		1,511,428
2010		1,511,428
2011		1,511,428
2012		1,511,428
2013 - 2017		7,557,139
2018 - 2022		7,557,139
2023 - 2027		7,557,139
2028 - 2032		7,557,139
2033 - 2037		7,557,139
2038 - 2042		7,557,139
2043 - 2047		7,557,139
2048 - 2052		7,557,139
2053 - 2057		7,557,139
2058 - 2062		7,557,139
2063 - 2067		7,557,139
2068 - 2072		7,557,139
2073 - 2077		7,557,139
2078 - 2082		7,557,139
2083 - 2087		7,557,139
2088 - 2092		7,557,139
2093 - 2097		6,171,665
Total payments		134,643,029
Less interest		(114,668,641)
		19,974,388
Less: current portion		(1,988)
Long-term portion	$	19,972,400

The following is an analysis of the leased property under capital lease:

Westwood Towers	$	19,987,798
Less accumulated amortization		(4,996,949)
	$	14,990,849

(12) Restricted Net Assets

Restricted net assets represent the portion of total net assets restricted by the requirements of the various bond indentures, for the loan closing cost program and for capital projects. All restricted amounts are net of related liabilities.

(13) Pension Plan and Postretirement Health Care Benefits

(a) Pension Plan

All the Commission's full-time employees hired before October 1, 1994, participate in the Employees' Retirement System of Montgomery County (the System), a cost-sharing multiple-employer defined benefit pension plan. The System was established under Chapter 33 of the Montgomery County Code, 1965, as amended. The payroll from Commission employees covered by the System for the year ended June 30, 2007 was $5,778,983; the Commission's total payroll was $19,631,073.

Participation in the System is mandatory for employees hired before October 1, 1994, and provides normal retirement benefits equivalent to 2% of the average final earnings multiplied by years of credited service, up to a maximum of 36 years, plus sick leave credits. The benefit may be adjusted for cost of living annually. The average final earnings would be equal to the average earnings for the 36 months immediately preceding retirement or any consecutive 36-month period during employment, whichever is greater. Benefits fully vest on reaching five years of service. Vested employees may retire at or after age 45 and receive reduced retirement benefits.

During the fiscal year 2007, covered employees contributed between 4% to 6% of their salary to the System. The Commission is required by the same statute to contribute the remaining amounts necessary to pay benefits when due. The contribution requirements for the three years ended June 30, 2007 is as follows:

		2007	2006	2005
Commission contribution	$	1,250,640	1,175,216	1,034,307
Employee contribution		234,301	250,963	250,642
Total contribution requirement	$	1,484,941	1,426,179	1,284,949
Contribution requirements as a percentage of covered payroll:				
Commission		21.64%	18.96%	16.81%
Employees		4.05%	4.05%	4.08%

Historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's financial statements, as of and for the year ended

June 30, 2007. A publicly available annual report that includes financial statements and required supplementary information for the System and the Defined Contribution Plan can be obtained by writing the Board of Investment Trustees, Montgomery County Government, 101 Monroe Street, Rockville, Maryland, 20850.

(b) Defined Contribution Plan

All full-time employees of the Commission hired after October 1, 1994 participate in the Montgomery County Government Employees' Retirement Savings Plan, a single-employer defined contribution plan. The Plan was established by Montgomery County under Chapter 33 of the Montgomery County Code. Part-time employees of the Commission hired after October 1, 1994 may also participate in the plan.

The plan requires all participants to contribute 3% of their salaries. Participants earning salaries exceeding the Social Security wage base, which approximated $94,000 at June 30, 2007, must contribute 6% of the excess over the wage base. The Commission must contribute 6% of each participant's annual salary. Employee and employer contributions must remain in the participant's account until retirement or termination of employment. No loans are allowed.

Payroll from the Commission covered by the plan for the year ended June 30, 2007 totaled $12,556,893. Commission and employee contributions to the plan totaled $749,345 and $382,182, respectively, for the year ended June 30, 2007.

(c) Post-retirement Benefits

In addition to the pension benefits described above, the Commission provides postretirement health care benefits, in accordance with County statutes, to all employees who retire after achieving age and years of service requirements. Currently, 66 retirees meet those eligibility requirements. The Commission pays 50% to 80% of the group medical and life insurance premiums of those retirees, depending on years of service in the plan. Expenditures for postretirement health care benefits are recognized as the County bills the Commission on a quarterly basis. These expenditures amounted to $295,688 during fiscal year 2007.

(14) Contingencies

(a) Litigation

As a result of the normal course of operations, the Commission currently is involved in certain litigation. This litigation involves former employee complaints, tenant matters and subcontractor claims. Management and legal counsel believe the outcome of any current litigation will not have a materially adverse impact on the financial position of the Commission.

(b) HUD Program Grants

The Commission participates in a number of Federal, State and County assisted grant programs, principal of which are the Department of Housing and Urban Development Housing Assistance

Payments (Section 8), Low Rent Public Housing, Comprehensive Grants, Lower Income Housing Assistance Program (Section 8 Moderate Rehabilitation), Public Housing Capital Fund and Supportive Housing. These programs are subject to financial and compliance audits by grantors or their representatives. The audits of most of these programs for, or including, the year ended June 30, 2006, have not yet been completed. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although management does not believe disallowed amounts, if any, would be material.

(c) Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damages to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission participates in Montgomery County's self-insurance fund or purchases insurance to address such exposures. The County fund is maintained for general liability and property coverages under which participants share the costs of workers' compensation, comprehensive general, automobile and professional liability, fire and theft, the liability for errors, omissions, and other selected areas which require coverage. Commercial insurance is purchased for claims in excess of coverage by the self-insurance fund and for other risks not covered by the fund. The Commission's liability for claims is limited to insurance premiums paid to the self-insurance fund. During the year, there were no significant reductions in commercial insurance coverage. For the past five years, no insurance settlements exceeded commercial insurance coverage.

(15) Conduit Debt Obligations

Conduit debt obligations refer to certain limited–obligation revenue bonds or similar debt instruments issued by the Commission for the purpose of providing capital financing for a third party that is not part of the Commission's reporting entity. The Commission has issued a number of individual bonds for financing for Multi-Family developments for which the Commission has no legal liability for repayment or administration. The Commission participates in such issuances in order to increase the availability of affordable housing in the County. The bonds are secured by the facilities financed and are payable from revenues or monies made available to the Commission for such purpose. The bonds do not constitute a debt or charge against the general credit of the Commission, the County, the State or a political subdivision thereof. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The bonds outstanding at June 30, 2007 are summarized below:

Bonds outstanding, beginning of year	$ 331,669,000
Issuances during the year	7,600,000
Redemptions during the year	(831,848)
Bonds outstanding, end of year	$ 338,437,152

(16) Arbitrage

The Internal Revenue Code of 1986 placed significant restrictions regarding arbitrage on housing finance agencies throughout the United States. Arbitrage occurs when investments of bond proceeds not used to

purchase mortgage loans earn more than the interest rate on the bonds or when the housing finance agency has net earnings of more than 1.125% on mortgages purchased with bond proceeds. Under the Internal Revenue Service (IRS) regulations, if an individual bond series has positive arbitrage five years after the original issuance, this amount must be refunded to the IRS.

At June 30, 2007, there is a liability of $764,034 and $136,167 for the Single Family and Multi-Family Fund Programs, respectively, which may be due in future years. The liability is included in the accounts payable and accrued liabilities balance of each fund.

(17) Subsequent Events

In August 2007 the Commission issued Multifamily Housing Development Bonds, 2007 Series B, for $26,800,000 and 2007 Series C for $8,220,000. The Commission intends to apply the proceeds from the sale of the bonds to refund or redeem $35,020,000 principal amount of the Prior Bonds.

In October 2007 the Commission issued Single Family Mortgage Revenue Bonds, 2007 Series C, $1,000,000, Series D, $20,000,000, Series E, $13,000,000, and Series F, $10,000,000. The Commission intends to redeem or refund bonds previously issued and to provide funds to make or purchase mortgage loans and closing cost assistance.