Reznick Group

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

COMMUNITY DEVELOPMENT ADMINISTRATION
LOCAL GOVERNMENT INFRASTRUCTURE BONDS
(AMBAC INSURED)

JUNE 30, 2006 AND 2005

Community Development Administration
Local Government Infrastructure Bonds (Ambac Insured)

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Reznick Group

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INDEPENDENT AUDITORS' REPORT

Office of the Secretary
Department of Housing and Community Development

We have audited the accompanying financial statements of the Community Development Administration Local Government Infrastructure Bonds (Ambac Insured) (the Fund) of the Department of Housing and Community Development of the State of Maryland as of and for the years ended June 30, 2006 and 2005 as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Community Development Administration Local Government Infrastructure Bonds (Ambac Insured) and do not purport to, and do not, present fairly the financial position of the Department of Housing and Community Development of the State of Maryland as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Community Development Administration Local Government Infrastructure Bonds (Ambac Insured) of the Department of Housing and Community Development of the State of Maryland as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Reznick Group, P.C.

Baltimore, Maryland
September 14, 2006

Community Development Administration
Local Government Infrastructure Bonds (Ambac Insured)

STATEMENTS OF NET ASSETS
(in thousands)

June 30, 2006 and 2005

	2006	2005
RESTRICTED ASSETS		
Restricted current assets		
Cash and cash equivalents on deposit with trustee	$ 19,883	$ 25,136
Community facilities loans	2,770	2,260
Accrued interest receivable	88	117
Total restricted current assets	22,741	27,513
Restricted long-term assets		
Community facilities loans, net of current portion	60,841	54,711
Total restricted assets	$ 83,582	$ 82,224
LIABILITIES AND NET ASSETS		
Current liabilities		
Accrued interest payable	$ 266	$ 191
Bonds payable	2,770	2,260
Due to local governments	19,544	24,998
Total current liabilities	22,580	27,449
Long-term liabilities		
Bonds payable, net of current portion	60,950	54,780
Advance trustee fees	11	6
Total long-term liabilities	60,961	54,786
Total liabilities	83,541	82,235
NET ASSETS		
Restricted	41	(11)
Total liabilities and net assets	$ 83,582	$ 82,224

See notes to financial statements

Community Development Administration
Local Government Infrastructure Bonds (Ambac Insured)

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

Years ended June 30, 2006 and 2005

	2006	2005
Operating revenue		
Interest on community facilities loans	$ 2,308	$ 1,855
Interest income on cash equivalents	30	12
Fee income	23	1
	2,361	1,868
Operating expenses		
Interest expense on bonds	2,309	1,855
Operating income	52	13
Transfers of funds, net, as permitted by the Resolution	-	(70)
Changes in net assets	52	(57)
Net assets - restricted at beginning of year	(11)	46
Net assets - restricted at end of year	$ 41	$ (11)

See notes to financial statements

Community Development Administration
Local Government Infrastructure Bonds (Ambac Insured)

STATEMENTS OF CASH FLOWS
(in thousands)

Years ended June 30, 2006 and 2005

	2006	2005
Cash flows from operating activities		
Principal and interest received on community facilities loans	$ 4,598	$ 3,833
Origination of community facilities loans	(14,394)	(10,089)
Advance trustee fees received	25	19
Trustee fees paid	(20)	(18)
Loan fees received	63	70
Net cash used in operating activities	(9,728)	(6,185)
Cash flows from investing activities		
Interest received on cash equivalents	29	12
Net cash provided by investing activities	29	12
Cash flows from noncapital financing activities		
Proceeds from sale of bonds	8,940	14,080
Payments on bond principal	(2,260)	(1,880)
Interest on bonds	(2,234)	(1,872)
Transfers among Funds	-	(70)
Net cash provided by noncapital financing activities	4,446	10,258
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS ON DEPOSIT WITH TRUSTEE	(5,253)	4,085
Cash and cash equivalents on deposit with trustee at beginning of year	25,136	21,051
Cash and cash equivalents on deposit with trustee at end of year	$ 19,883	$ 25,136

(continued)

Community Development Administration
Local Government Infrastructure Bonds (Ambac Insured)

STATEMENTS OF CASH FLOWS - CONTINUED
(in thousands)

Years ended June 30, 2006 and 2005

	2006	2005
Reconciliation of operating income to net cash used in operating activities		
Operating income	$ 52	$ 13
Adjustments to reconcile operating income to net cash used in operating activities		
Increase in community facilities loans	(6,680)	(12,200)
Decrease in accrued interest receivable	29	98
Increase (decrease) in accrued interest payable	75	(17)
Decrease in accounts payable	-	(118)
(Decrease) increase in due to local governments and other liabilities	(5,449)	4,110
Amortization of deferred income on loans	(5)	(1)
Loan fees deferred	45	70
Interest received on cash equivalents	(29)	(12)
Interest on bonds	2,234	1,872
Net cash used in operating activities	$ (9,728)	$ (6,185)

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS
(in thousands)

June 30, 2006 and 2005

NOTE 1 - AUTHORIZING LEGISLATION AND PROGRAM DESCRIPTION

The Community Development Administration (CDA) is authorized to issue Local Government Infrastructure Bonds (Ambac Insured) pursuant to Sections 4-101 through 4-255 of the Housing and Community Development Article of the Annotated Code of Maryland to provide a mechanism for financing the infrastructure needs of local governments. CDA is in the Division of Development Finance in the Department of Housing and Community Development (DHCD) of the State of Maryland.

The accompanying financial statements only include CDA's Local Government Infrastructure Bonds (Ambac Insured) (the Fund). CDA's other Funds are not included.

The Fund was established to issue bonds to provide funds for construction and permanent financing to local governments for public facilities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Local Government Infrastructure Bonds (Ambac Insured) is accounted for as an enterprise fund. Accordingly, the accompanying financial statements have been prepared using the accrual method of accounting and on the basis of accounting principles generally accepted in the United States of America (GAAP).

Generally Accepted Accounting Principles

CDA reports its financial activities by applying Standards of Governmental Accounting and Financial Reporting as promulgated by the Governmental Accounting Standards Board (GASB). CDA has adopted GASB Statement No. 20 *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. Consequently, CDA applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions, and ARBS of the Committee on Accounting Procedure issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CDA has adopted GASB Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis*. Under GASB Statement No. 34, net assets should be reported as restricted when constraints placed on net asset use are either: externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or are imposed by law through constitutional provisions or enabling legislation. Accordingly, all net assets of the Fund are restricted as to their use as all net assets are pledged to bondholders.

The Annual Financial Report may include a Management's Discussion and Analysis. Since CDA is an enterprise fund included in the State of Maryland's Comprehensive Annual Financial Report, a separate Management's Discussion and Analysis is not required in these financial statements. CDA prepares a Management's Discussion and Analysis for the General Accounting Division of the State of Maryland that is not part of these financial statements.

Cash and Cash Equivalents on Deposit with Trustee

Cash equivalents may include money market funds, repurchase agreements, investment agreements and any other investments, primarily obligations of the U.S. Treasury and U.S. Government Agencies, which have maturities of 90 or less days at the time of purchase. As of June 30, 2006 and 2005, all cash equivalents are invested in a money market mutual fund which is more fully described in Note 3.

Community Facilities Loans

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

Allowance for Loan Losses

Community facilities loans are secured by the full faith and credit of the applicable local government. Therefore, CDA has determined that no allowance for loan losses was necessary as of June 30, 2006 and 2005.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Interest Receivable

Accrued interest includes both interest on cash deposits and interest on loans. As of June 30, 2006 and 2005, all loans were current. Therefore, all accrued interest on loans was recorded during the period.

Bonds Payable

Bonds payable are carried at their unpaid principal balances. There are no premiums or discounts to amortize. See Notes 5, 6 and 7 for additional information.

Fee Income

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

Administrative Support

In addition to expenses incurred directly by the Fund, CDA receives certain support services from other divisions of DHCD. Support services and the operating expenses of CDA have been allocated to CDA's General Bond Reserve Fund and are reported in the financial statements of CDA's Revenue Obligation Funds. The General Bond Reserve Fund records these expenses as invoiced by DHCD for the fiscal year.

The employees of CDA are covered by the Maryland State Retirement and Pension System (the System) and the costs of employees' retirement benefits are included in the salaries and related costs charged to CDA's General Bond Reserve Fund. See Note 10 for additional information.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Expenses

CDA distinguishes operating revenue and expenses from nonoperating items in conformity with GASB Statement No. 34. Operating revenue and expenses are identified as those activities that are directly related to financing public facilities for local governments. All of the Fund's activities are considered to be operating.

Use of Estimates

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

Due to Local Governments

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

NOTE 3 - CASH AND CASH EQUIVALENTS ON DEPOSIT WITH TRUSTEE

Proceeds from bonds and revenues from loans are invested in authorized investments as defined in the Local Government Infrastructure Bonds (Ambac Insured) Resolution (the Resolution) and in CDA's Investment Policy until required for financing projects, redeeming outstanding bonds and notes, and funding program expenses. Authorized investments include obligations of the U.S. Treasury, U.S. Government Agencies, investment agreements, money market funds and any other investment as defined by the Resolution.

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

As of June 30, 2006 and 2005, the Fund had $19,883 and $25,136 invested, respectively, in a money market mutual fund (Federated Treasury Obligations Fund) which is classified as cash and cash equivalents. The following represents the GASB 40 evaluation of this asset for interest rate risk, credit risk, concentration of credit risk and custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses from rising interest rates, CDA's Investment Policy requires that the maturities of the investment portfolio are scheduled to meet the cash requirements for bond debt service, projected loan originations and ongoing operations.

The Federated Treasury Obligations Fund invests exclusively in U.S. Treasuries and in repurchase agreements collateralized by Treasury securities. It is operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. It can reasonably be expected to have a fair value that will be unaffected by interest rate changes because the interest rates are variable and the principal can be recovered on demand. As of June 30, 2006 and 2005, the cost of this money market mutual fund approximated fair value and its maturity is less than one year.

Credit Risk and Concentration of Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Neither CDA's Investment Policy nor the Resolution requires investment agreements or deposits to be collateralized. CDA's Investment Policy places no limit on the amount that CDA may invest in any one fund. According to the Resolution, securities must be rated at the highest investment grade by any national rating agency. U.S. dollar denominated accounts and bankers' acceptances which have a rating on their short-term certificates of deposit must be in the two highest ratings by any nationally recognized rating agency.

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

As of June 30, 2006 and 2005, the Federated Treasury Obligations Fund was rated AAAm by Standard and Poor's and Aaa by Moody's Investors Service.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or counterparty failure, CDA will not be able to recover its deposits or the value of its collateral securities that are in the possession of an outside party. As of June 30, 2006 and 2005, CDA's investments were not subject to custodial credit risk under GASB Statement No. 40. This money market fund is held in trust by the trustee, kept separate from the assets of the bank and from other trust accounts and is held in CDA's name.

NOTE 4 - COMMUNITY FACILITIES LOANS

Community facilities loans are secured by the full faith and credit of the applicable local government. As such, no allowance for loan losses was necessary as of June 30, 2006 and 2005. Interest rates on such loans range from 2.73% to 4.87%. As of June 30, 2006 and 2005, remaining loan terms range from approximately 5 to 28 years, and 6 to 29 years, respectively.

NOTE 5 - BONDS PAYABLE

The bonds issued by CDA are special obligations of CDA and are payable from the revenue and special funds of the Resolution. These bonds do not constitute debt of and are not guaranteed by the State of Maryland or any other program of the State of Maryland or any political subdivision.

The provisions of the Resolution require or allow for the special redemption of bonds at par through the use of unexpended bond proceeds and excess funds accumulated primarily through prepayment of community facilities loans. All outstanding bonds are subject to redemption at par, at the option of CDA, in whole or in part at any time, after certain dates, as specified in the respective series resolutions. All bonds have fixed interest rates and all are tax-exempt.

(in thousands)

NOTE 5 - BONDS PAYABLE (Continued)

The following is a summary of the bond activity for the year ended June 30, 2006 and the bonds payable as of June 30, 2006:

					Bond Activity		
	Issue Dated	Range of Interest Rates	Range of maturities	Bonds Payable at 6/30/2005	New bonds issued	Scheduled maturity payments	Bonds Payable at 6/30/2006
Local Government Infrastructure Bonds (Ambac Insured)							
2002 Series A	03/01/02	3.25% - 5.00%	2006 - 2032	$10,800	$ -	$ (355)	$ 10,445
2002 Series B	10/01/02	2.25% - 4.375%	2006 - 2022	3,200	-	(150)	3,050
2003 Series A	03/01/03	2.00% - 4.50%	2006 - 2023	13,395	-	(600)	12,795
2004 Series A	04/22/04	2.00% - 4.875%	2006 - 2034	15,620	-	(765)	14,855
2004 Series B	11/18/04	3.00% - 4.50%	2006 - 2034	4,680	-	(110)	4,570
2005 Series A	05/26/05	3.75% - 4.40%	2006 - 2030	9,345	-	(280)	9,065
2006 Series A	04/05/06	3.50% - 4.25%	2007 - 2026	-	8,940	-	8,940
Total				$57,040	$ 8,940	$ (2,260)	$ 63,720

The following is a summary of the bond activity for the year ended June 30, 2005 and the bonds payable as of June 30, 2005:

					Bond Activity		
	Issue Dated	Range of Interest Rates	Range of maturities	Bonds Payable at 6/30/2004	New bonds issued	Scheduled maturity payments	Bonds Payable at 6/30/2005
Local Government Infrastructure Bonds (Ambac Insured)							
2002 Series A	03/01/02	3.00% - 5.00%	2005 - 2032	$ 11,140	$ -	$ (340)	$ 10,800
2002 Series B	10/01/02	2.25% - 4.375%	2005 - 2022	3,345	-	(145)	3,200
2003 Series A	03/01/03	2.00% - 4.50%	2005 - 2023	13,980	-	(585)	13,395
2004 Series A	04/22/04	2.00% - 4.875%	2005 - 2034	16,375	-	(755)	15,620
2004 Series B	11/18/04	3.00% - 4.50%	2006 - 2034	-	4,735	(55)	4,680
2005 Series A	05/26/05	3.75% - 4.40%	2006 - 2030	-	9,345	-	9,345
Total				$44,840	$14,080	$ (1,880)	$ 57,040

(in thousands)

NOTE 6 - DEBT SERVICE REQUIREMENTS

As of June 30, 2006, the required principal payments for bonds (including mandatory sinking fund payments) and interest payments for each of the next five years and in five-year increments thereafter, are as follows:

Years ended June 30,	Interest	Principal
2007	$ 2,582	$ 2,770
2008	2,449	2,850
2009	2,362	2,940
2010	2,266	3,025
2011	2,167	3,135
2012 - 2016	9,113	16,015
2017 - 2021	5,846	16,395
2022 - 2026	2,541	10,870
2027 - 2031	943	4,205
2032 - 2036	129	1,515
Total	$ 30,398	$ 63,720

As of June 30, 2005, the required principal payments for bonds (including mandatory sinking fund payments) and interest payments for each of the next five years and in five-year increments thereafter, are as follows:

Years ended June 30,	Interest	Principal
2006	$ 2,235	$ 2,260
2007	2,173	2,315
2008	2,114	2,380
2009	2,045	2,450
2010	1,969	2,515
2011 - 2015	8,485	13,440
2016 - 2020	5,775	14,225
2021 - 2025	2,772	10,945
2026 - 2030	1,144	4,320
2031 - 2035	234	2,190
Total	$ 28,946	$ 57,040

(in thousands)

NOTE 7 - LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended June 30, 2006 and 2005 were as follows:

	2006	2005
Bonds payable		
Beginning balance	$ 57,040	$ 43,015
Additions	8,940	14,080
Reductions	(2,260)	(55)
Ending balance	63,720	57,040
Less due within one year	(2,770)	(2,260)
Total long-term bonds payable	60,950	54,780
Other liabilities - advance trustee fees		
Beginning balance	6	5
Additions	25	19
Reductions	(20)	(18)
Ending balance	11	6
Total long-term other liabilities - advance trustee fees	11	6
Total long-term liabilities	$ 60,961	$ 54,786

NOTE 8 - BOND INSURANCE

All bonds of the Fund are insured by Ambac Assurance Corporation. The provisions of the policy require the insurer to pay that portion of the principal and interest on the bonds which become due for payment but are not paid by CDA. The insurance generally extends for the term of the bonds and cannot be canceled by the insurer.

NOTE 9 - NET ASSETS

At June 30, 2005, the balance in net assets for the Fund was a negative $11. During 2005, this fund received loan financing fees in the amount of $70 which were transferred to the General Bond Reserve Fund, a separate fund in CDA's Revenue Obligation Funds. The $70 is recognized as deferred income in the Fund and amortized over the life of the loan as described in Note 2. As the deferred fees are amortized, the income will offset the amount transferred.

NOTE 10 - PENSION AND OTHER POST-RETIREMENT BENEFITS

Eligible employees of CDA and employees of the State of Maryland are covered under the retirement plans of the State Retirement and Pension System of Maryland (the System) and are also entitled to certain healthcare benefits upon retirement. CDA's only liability for retirement and post-employment benefits is its required annual contribution, which was paid in full by CDA to the State of Maryland prior to year end. The System prepares a separate audited Comprehensive Annual Financial Report which can be obtained from the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202 or by visiting the website at www.sra.state.md.us.