Reznick Group

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

COMMUNITY DEVELOPMENT ADMINISTRATION
MULTI-FAMILY HOUSING REVENUE BONDS
(INSURED MORTGAGE LOANS)

JUNE 30, 2006 AND 2005

Community Development Administration
Multi-Family Housing Revenue Bonds
(Insured Mortgage Loans)

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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 Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) (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 Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) 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 Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) 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.

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Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Disclosures of Change in Fair Value of Investments and Mortgage-Backed Securities are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on it.

Reznick Group, P.C.

Baltimore, Maryland
September 14, 2006

Community Development Administration
Multi-Family Housing Revenue Bonds
(Insured Mortgage Loans)

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	$ 56,141	$ 30,416
Investments	-	893
Mortgage-backed securities	-	126
Multi-family mortgage loans	2,493	2,755
Accrued interest and other receivables	1,177	1,813
Total restricted current assets	59,811	36,003
Restricted long-term assets		
Investments, net of current portion	10,656	21,876
Mortgage-backed securities, net of current portion	-	14,987
Multi-family mortgage loans, net of current portion	82,672	123,489
Deferred bond issuance costs	803	1,172
Total restricted long-term assets	94,131	161,524
Total restricted assets	$ 153,942	$ 197,527
LIABILITIES AND NET ASSETS		
Current liabilities		
Accrued interest payable	$ 374	$ 554
Accounts payable	223	25
Rebate liability	656	-
Bonds payable	20,110	17,560
Deposits by borrowers	4,083	6,111
Total current liabilities	25,446	24,250
Long-term liabilities		
Rebate liability, net of current portion	920	1,165
Bonds payable, net of current portion	59,063	103,484
Deposits by borrowers, net of current portion	6,396	6,346
Deferred income	-	155
Total long-term liabilities	66,379	111,150
Total liabilities	91,825	135,400
NET ASSETS		
Restricted	62,117	62,127
Total liabilities and net assets	$ 153,942	$ 197,527

See notes to financial statements

Community Development Administration
Multi-Family Housing Revenue Bonds
(Insured Mortgage Loans)

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

Years ended June 30, 2006 and 2005

	2006	2005
Operating revenue		
Interest on mortgage loans	$ 8,687	$ 11,354
Interest on mortgage-backed securities	162	987
Interest income on investments, net of rebate	2,451	2,444
Decrease in fair value of mortgage-backed securities	(456)	(670)
(Decrease) increase in fair value of investments, net of rebate	(2,452)	1,216
Fee and deferred income	759	892
Other operating revenue	10	17
	9,161	16,240
Operating expenses		
Interest expense on bonds	4,408	6,647
Professional fees and other operating expenses	188	224
Amortization of bond issuance costs	74	99
Loss on early retirement of debt	1,138	1,559
	5,808	8,529
Operating income	3,353	7,711
Transfers of funds, net, as permitted by the various bond indentures	(3,363)	(3,221)
Change in net assets	(10)	4,490
Net assets - restricted at beginning of year	62,127	57,637
Net assets - restricted at end of year	$ 62,117	$ 62,127

See notes to financial statements

Community Development Administration
Multi-Family Housing Revenue Bonds
(Insured Mortgage Loans)

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 mortgage loans	$ 50,660	$ 69,243
Principal and interest received on mortgage-backed securities	14,819	1,948
Escrow funds received	5,494	7,571
Escrow funds paid	(7,374)	(12,139)
Loan fees and deferred income received	-	78
Purchase of mortgage loans	-	(886)
Professional fees and other operating expenses	(188)	(224)
Other income received	10	10
Other reimbursements	208	-
Net cash provided by operating activities	63,629	65,601
Cash flows from investing activities		
Proceeds from maturities or sales of investments	10,034	31,881
Purchases of investments	-	(9,986)
Interest received on investments	2,727	2,368
Net cash provided by investing activities	12,761	24,263
Cash flows from noncapital financing activities		
Payments on bond principal	(43,153)	(78,450)
Bond issuance costs	-	(41)
Reimbursement of bond costs	439	820
Interest on bonds	(4,588)	(7,050)
Transfers among Funds	(3,363)	(3,221)
Net cash used in noncapital financing activities	(50,665)	(87,942)
NET INCREASE IN CASH AND CASH EQUIVALENTS ON DEPOSIT WITHTRUSTEE	25,725	1,922
Cash and cash equivalents on deposit with trustee at beginning of year	30,416	28,494
Cash and cash equivalents on deposit with trustee at end of year	$ 56,141	$ 30,416

(continued)

Community Development Administration
Multi-Family Housing Revenue Bonds
(Insured Mortgage Loans)

STATEMENTS OF CASH FLOWS - CONTINUED
(in thousands)

Years ended June 30, 2006 and 2005

	2006	2005
Reconciliation of operating income to net cash from operating activities		
Operating income	$ 3,353	$ 7,711
Adjustments to reconcile operating income to net cash provided by operating activities		
Decrease in assets		
Mortgage loans	41,683	57,043
Mortgage-backed securities	14,657	961
Accrued interest and other receivables	636	528
(Decrease) increase in liabilities		
Accrued interest payable	(180)	(403)
Accounts payable	198	(417)
Rebate liability	411	591
Deposits by borrowers	(1,978)	(4,728)
Deferred income	(155)	(5)
Amortizations		
Deferred income on loans	(604)	(826)
Investment discounts and premiums	14	(97)
Deferred bond issuance costs	74	99
Loan fees deferred	-	17
Decrease in fair value of mortgage-backed securities	456	670
Decrease (increase) in fair value of investments	3,336	(1,784)
Realized gains on investments sold	(1,271)	-
Loss on early retirement of debt	1,138	1,559
Interest received on investments	(2,727)	(2,368)
Interest on bonds	4,588	7,050
Net cash provided by operating activities	$ 63,629	$ 65,601

See notes to financial statements

Community Development Administration
Multi-Family Housing Revenue Bonds
(Insured Mortgage Loans)

NOTES TO FINANCIAL STATEMENTS
(in thousands)

June 30, 2006 and 2005

NOTE 1 - AUTHORIZING LEGISLATION AND PROGRAM DESCRIPTION

The Community Development Administration (CDA) was created in 1970 by Sections 266 DD-1 to 266 DD-8 of Article 41 (now in Sections 4-101 through 4-255 of the Housing and Community Development Article) of the Annotated Code of Maryland to meet the shortage of adequate, safe and sanitary housing in the State of Maryland, particularly for persons or families of limited income. CDA is in the Division of Development Finance in the Department of Housing and Community Development (DHCD) of the State of Maryland.

The accompanying financial statements only include CDA's Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) (the Fund). CDA's other Funds are not included. The Fund was established to provide construction and permanent financing for multi-family housing projects.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Generally Accepted Accounting Principles

CDA reports its financial activities by applying Standards of Governmental Accounting and Financial Reporting as promulgated by the Governmental Accounting Standards Board (GASB). 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.

Investments

Investments are principally governmental debt securities. Debt securities are stated at fair value, based on quoted market prices. Investments are classified as current or long-term based on the maturity date or call date, if exercise of the call within the next fiscal year is probable. Investments are more fully described in Note 3.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgage-Backed Securities

These guaranteed securities are issued in connection with mortgage loans on multi-family projects. They are stated at fair value, based on quoted market prices. It is the intention of CDA to hold each of these securities to maturity or until the payoff of the related multi-family loan. Mortgage-backed securities are more fully described in Note 3.

Mortgage Loans

Mortgage loans are carried at their unpaid principal balances, net of unamortized loan fees. Loan fees are deferred over the life of the related loans and amortized using the effective interest method. See Notes 4 and 11 for additional information on mortgage loans and mortgage insurance, respectively.

Allowance for Loan Losses

All the mortgage loans of the Fund are insured or guaranteed. As such, no allowance for loan losses was necessary as of June 30, 2006 and 2005. See Notes 4 and 11 for additional information.

Accrued Interest and Other Receivables

Accrued interest and other receivables include interest on loans and investments. On insured multi-family mortgage loans that are in default, CDA continues to accrue interest until receipt of a mortgage insurance claim. See Note 5 for additional information.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Bond Issuance Costs

Costs incurred in issuing bonds are capitalized and amortized using the effective interest method for each respective bond issue. When bonds are redeemed early with mortgage prepayments, a proportionate share of the remaining unamortized costs is recognized as a loss on the Statements of Revenue, Expenses and Changes in Net Assets. However, in an economic refunding, CDA defers unamortized costs and redemption premiums as an offset to the new bonds.

Bonds Payable

Bonds payable are carried at their unpaid principal balances, net of unamortized deferred gain or loss for bonds refunded for economic purposes and original issue discounts or premiums. See Notes 6 and 7 for additional information.

Deposits by Borrowers

This account consists of escrows and reserves held by CDA on behalf of multi-family housing developments. CDA invests these deposits and, for reserves, allows earnings to accrue to the benefit of the mortgagor. Escrows represent amounts held by CDA for mortgage insurance and hazard insurance premiums and real estate taxes, all of which are generally paid annually and which are classified as a current liability. Based on the current year's reserve disbursements, CDA has estimated the current reserve liability. The balance of the reserves is classified as long-term. See Note 9 for further information on changes in long-term obligations.

Rebate Liability on Investments

Regulations governing the issuance of tax-exempt debt place limitations on permitted investment yield on borrowed funds. Based on these regulations, CDA is required to periodically rebate excess earnings from investments to the United States Treasury. In addition, the liability also includes an estimate of the rebate obligation related to unrealized gains as a result of recording investments at fair value. Rebate liability is more fully described in Note 8.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgage Yield Limitations

All mortgage loans are subject to yield limitations under the Internal Revenue Service Code (the Code) in order for the associated bonds to maintain their tax-exempt status. At the time of bond issuance and over the term of the bonds, CDA determines and maintains compliance with the permitted mortgage yield on the loans. In certain bond refunding transactions, CDA transfers loans from prior series of bonds to the refunding series. CDA monitors the yield on these transferred loans to ensure that the composite yield over the term of the bonds is within the yield limitations of the Code. If at any time the composite yields on the transferred loans are out of compliance with the Code, CDA has certain remedies available to bring the yield into compliance. As of June 30, 2006 and 2005, all mortgage loan yields are in compliance with the Code.

Interest on Mortgage Loans and Mortgage-Backed Securities

Interest on mortgage loans and mortgage-backed securities is calculated using the effective interest method.

Fee Income

CDA receives multi-family 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 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 12 for additional information.

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 providing affordable housing in the State of Maryland. All of CDA's activities are considered to be operating.

Use of Estimates

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

NOTE 3 - CASH, CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES

Bond proceeds and revenues from mortgages, mortgage-backed securities and investments are invested in authorized investments as defined in the Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) Resolution (the Resolution) and in CDA's Investment Policy until required for purchasing mortgage-backed securities or originating mortgage loans, funding reserves, paying bond debt service or redeeming outstanding bonds and notes, and funding program expenses. Authorized investments include obligations of the U.S. Treasury, U.S. Government Agencies, repurchase agreements, investment agreements, money market funds and certificates of deposit.

(in thousands)

NOTE 3 - CASH, CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES (Continued)

The following assets, reported at fair value and held by the Fund at June 30, 2006 and 2005, are evaluated in accordance with GASB 40 for interest rate risk, credit risk, concentration of credit risk and custodial credit risk.

Assets	2006	2005
Cash and Cash Equivalents:		
Federated Treasury Obligations Fund	$ 56,141	$ 30,416
Investments:		
Obligations of the U.S. Treasury	7,625	18,760
Obligations of U.S. Government Agencies	1,031	2,009
Repurchase and Investment Agreements	2,000	2,000
GNMA mortgage-backed securities	-	15,113
Total	$ 66,797	$ 68,298

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.

(in thousands)

NOTE 3 - CASH, CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES (Continued)

As of June 30, 2006, the amortized cost, fair value and maturities for these assets were as follows:

			Maturities (in years)				
Asset	Amortized Cost	Fair Value	Less than 1	1 - 5	6 - 10	11 - 15	More than 15
Federated Treasury Obligations Fund	$ 56,141	$ 56,141	$ 56,141	$ -	$ -	$ -	$ -
Obligations of the U.S. Treasury	6,326	7,625	-	-	500	3,869	3,256
Obligations of U.S. Government Agencies	952	1,031	-	-	-	-	1,031
Repurchase agreements/ Investment agreements	2,000	2,000	-	-	2,000	-	-
Total	$ 65,419	$ 66,797	$ 56,141	$ -	$ 2,500	$ 3,869	$ 4,287

As of June 30, 2005, the amortized cost, fair value and maturities for these assets were as follows:

			Maturities (in years)				
Asset	Amortized Cost	Fair Value	Less than 1	1 - 5	6 - 10	11 - 15	More than 15
Federated Treasury Obligations Fund	$ 30,416	$ 30,416	$ 30,416	$ -	$ -	$ -	$ -
Obligations of the U.S. Treasury	14,451	18,760	531	361	3,005	5,563	9,300
Obligations of U.S. Government Agencies	1,604	2,009	-	-	-	-	2,009
Repurchase agreements/ Investment agreements	2,000	2,000	-	-	2,000	-	-
GNMA mortgage-backed securities	14,657	15,113	-	-	-	-	15,113
Total	$ 63,128	$ 68,298	$ 30,947	$ 361	$ 5,005	$ 5,563	$ 26,422

NOTE 3 - CASH, CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES (Continued)

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 noted above, as of June 30, 2006 and 2005, the cost of this money market mutual fund approximated fair value.

For mortgage-backed securities, it is the intention of CDA to hold the securities until the underlying loan is paid in full.

Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Neither CDA's Investment Policy nor the Resolution requires investment agreements or deposits to be collateralized. CDA's Investment Policy places no limit on the amount that CDA may invest in any one issuer or counterparty. According to the Resolution and CDA's Investment Policy, securities must be at a rating no lower than the rating on the bonds or, if an investment maintains only a short-term rating, a rating not less than F1/P-1; and financial institutions who are a counterparty to CDA in investment agreements must be rated at least comparable to the existing rating on CDA bonds unless counterparty ratings lower than the bond ratings are permitted and do not affect the ratings on the bonds. As of June 30, 2006 and 2005, one counterparty, whose credit rating is Aa3, has not affected the ratings on the Multi-Family Housing Revenue Bonds (Insured Mortgage Loans). The ratings on Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) as of June 30, 2006 and 2005 were Aa2 by Moody's Investors Service and AA by Fitch Ratings.

(in thousands)

NOTE 3 - CASH, CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES (Continued)

As of June 30, 2006, credit ratings and allocation by type of investments for the following assets were:

Asset	Fair Value	Percentage of total investments	Money market fund rating	Securities credit rating	Rating agency
Federated Treasury Obligations Fund	$ 56,141	84.05%	Aaa		Moody's
Obligations of the U.S. Treasury	7,625	11.42%		Direct U.S. Obligations	
Obligations of U.S. Government Agencies	1,031	1.54%		Aaa	Moody's
Uncollateralized investment agreement:				Underlying securities credit rating	
Counterparty rated Aa3 by Moody's	2,000	2.99%		N/A	
Total	$ 66,797	100.00%			

As of June 30, 2005, credit ratings and allocation by type of investments for the following assets were:

Asset	Fair Value	Percentage of total investments	Money market fund rating	Securities credit rating	Rating agency
Federated Treasury Obligations Fund	$ 30,416	44.53%	Aaa		Moody's
Mortgage-backed securities	15,113	22.13%		Direct U.S. Obligations	
Obligations of the U.S. Treasury	18,760	27.47%		Direct U.S. Obligations	
Obligations of U.S. Government Agencies	2,009	2.94%		Aaa	Moody's
Uncollateralized investment agreement:				Underlying securities credit rating	
Counterparty rated Aa3 by Moody's	2,000	2.93%		N/A	
Total	$ 68,298	100.00%			

(in thousands)

NOTE 3 - CASH, CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES (Continued)

All mortgage-backed securities held by CDA are guaranteed by the Government National Mortgage Association (GNMA), an instrumentality of the United States Government. GNMA securities are “fully modified pass-through” mortgage-backed securities which require monthly payments by a Federal Housing Administration (FHA) lender, as the issuer of the Guaranteed Security to CDA. GNMA guarantees timely payment of principal and interest on Guaranteed Securities.

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, CDA’s investments were not subject to custodial credit risk under GASB Statement No. 40. CDA’s investments and collateralized securities are held in trust by the trustee or the trustee’s agent, kept separate from the assets of the bank and from other trust accounts and are held in CDA’s name. The uncollateralized investment agreement in the amount of $2,000 is registered in CDA’s name.

NOTE 4 - MORTGAGE LOANS

All multi-family mortgage loans outstanding are credit enhanced through FHA, FHLMC or MHF. Interest rates on such loans range from 5.25% to 12.0%. As of June 30, 2006 and 2005, remaining loan terms ranged from 7 to 28 years and 8 to 31 years, respectively.

NOTE 5 - ACCRUED INTEREST AND OTHER RECEIVABLES

Accrued interest and other receivables as of June 30, 2006 and 2005 were as follows:

	2006	2005
Accrued mortgage loan interest	$ 577	$ 876
Escrows due from multi-family mortgagors	326	424
Accrued investment interest	274	513
	$ 1,177	$ 1,813

NOTE 6 - 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 mortgage loans. All outstanding bonds are subject to optional redemption, in whole or in part at any time, after certain dates, as specified in the respective series resolutions. The prescribed optional redemption premiums range from 0% to 1% of the principal amount.

The following lists those bonds which are at variable rates and the terms by which the variable rates change. All other bonds have fixed interest rates.

2003 Series C
The variable rate is set quarterly and is equal to the Federal Home Loan Bank (FHLB) Discount Notes Funding Costs plus ½ of 1%.

2004 Series A
The bonds were offered as Auction Rate Certificates. Auctions to set the interest rate are generally held every 28 days. The maximum rate is 12% or such higher rate as the Administration may establish with a Rating Confirmation.

The following bonds are taxable. All other bonds are tax-exempt.

Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) 2003 Series C
Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) 2004 Series A

Community Development Administration
Multi-Family Housing Revenue Bonds
(Insured Mortgage Loans)

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2006 and 2005

NOTE 6 - BONDS PAYABLE (Continued)

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

	Issue dated	Range of interest rates	Range of maturities	Debt Outstanding at June 30, 2005	Bond Activity: New bonds issued	Bond Activity: Scheduled maturity payments	Bond Activity: Bonds redeemed	Debt Outstanding at June 30, 2006	Discounts/ premiums and other deferred costs	Bonds payable at June 30, 2006
Multi-Family Housing Revenue Bonds										
1995 Series B	12/01/95	5.00% - 5.65%	2006 - 2015	$ 3,180	$ -	$ -	$ (3,180)	$ -	$ -	$ -
1998 Series A	11/01/98	4.20% - 5.15%	2006 - 2029	6,180	-	(180)	-	6,000	-	6,000
2001 Series A	10/01/01	3.30% - 5.10%	2006 - 2028	1,935	-	(80)	(60)	1,795	(41)	1,754
2001 Series B	10/01/01	3.60% - 5.35%	2006 - 2032	15,330	-	(345)	(12,940)	2,045	(81)	1,964
2002 Series A	03/01/02	3.55% - 5.40%	2006 - 2033	8,840	-	(410)	-	8,430	(202)	8,228
2002 Series B	03/01/02	3.90% - 5.60%	2006 - 2033	12,075	-	-	(12,075)	-	-	-
2003 Series A	06/19/03	1.50% - 4.45%	2006 - 2034	31,375	-	(1,080)	(11,255)	19,040	(595)	18,445
2003 Series B	06/19/03	1.75% - 4.40%	2006 - 2023	1,855	-	(80)	-	1,775	(63)	1,712
2003 Series C	06/19/03	Variable Rate	2033	18,690	-	(680)	-	18,010	-	18,010
2004 Series A	03/31/04	Variable Rate	2036	24,455	-	(725)	-	23,730	(670)	23,060
Total				$ 123,915	$ -	$ (3,580)	$ (39,510)	$ 80,825	$ (1,652)	$ 79,173

Community Development Administration
Multi-Family Housing Revenue Bonds
(Insured Mortgage Loans)

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2006 and 2005

NOTE 6 - BONDS PAYABLE (Continued)

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

					Bond Activity					
	Issue dated	Range of interest rates	Range of maturities	Debt Outstanding at June 30, 2004	New bonds issued	Scheduled maturity payments	Bonds redeemed	Debt Outstanding at June 30, 2005	Discounts/ premiums and other deferred costs	Bonds payable at June 30, 2005
Multi-Family Housing Revenue Bonds										
1995 Series A	04/01/95	5.45% - 6.70%	2005 - 2036	$ 15,415	$ -	$ (160)	$ (15,255)	$ -	$ -	$ -
1995 Series B	12/01/95	4.85% - 5.80%	2005 - 2026	9,945	-	(265)	(6,500)	3,180	-	3,180
1995 Series C	12/01/95	4.85% - 5.80%	2005 - 2026	1,615	-	(35)	(1,580)	-	-	-
1995 Series D	12/01/95	5.05% - 5.90%	2005 - 2027	2,260	-	(50)	(2,210)	-	-	-
1998 Series A	11/01/98	4.15% - 5.15%	2005 - 2029	7,195	-	(180)	(835)	6,180	-	6,180
2001 Series A	10/01/01	3.00% - 5.10%	2005 - 2028	2,010	-	(75)	-	1,935	(44)	1,891
2001 Series B	10/01/01	3.35% - 5.35%	2005 - 2032	25,670	-	(335)	(10,005)	15,330	(502)	14,828
2002 Series A	03/01/02	3.25% - 5.40%	2005 - 2033	9,300	-	(395)	(65)	8,840	(209)	8,631
2002 Series B	03/01/02	3.60% - 5.60%	2005 - 2033	12,375	-	(300)	-	12,075	(410)	11,665
2003 Series A	06/19/03	1.20% - 4.45%	2005 - 2034	69,615	-	(1,590)	(36,650)	31,375	(955)	30,420
2003 Series B	06/19/03	1.40% - 4.40%	2005 - 2023	1,930	-	(75)	-	1,855	(66)	1,789
2003 Series C	06/19/03	Variable Rate	2033	19,350	-	(660)	-	18,690	-	18,690
2004 Series A	03/31/04	Variable Rate	2036	25,175	-	(720)	-	24,455	(685)	23,770
Total				$ 201,855	$ -	$ (4,840)	$ (73,100)	$ 123,915	$ (2,871)	$ 121,044

(in thousands)

NOTE 7 - DEBT SERVICE REQUIREMENTS

As of June 30, 2006, the required principal payments for bonds (including mandatory sinking fund payments and special and optional redemptions that occurred subsequent to year end and excluding the effect of unamortized discounts/premiums and other deferred costs as shown in Note 6) and interest payments for each of the next five years and in 5-year increments thereafter, are as follows:

Years ended June 30,	Interest	Principal
2007	$ 3,247	$ 20,110
2008	2,921	2,670
2009	2,811	2,740
2010	2,697	2,820
2011	2,577	2,885
2012-2016	10,974	13,920
2017-2021	7,324	16,465
2022-2026	3,634	10,720
2027-2031	1,680	4,795
2032-2036	465	3,700
Totals	$ 38,330	$ 80,825

The interest calculations on outstanding variable rate bonds in the amount of $41,740 are based on the variable rates in effect on June 30, 2006, and are not indicative of the actual interest expense that will be incurred in future years. As rates vary, variable rate bond interest payments will vary.

(in thousands)

NOTE 7 - DEBT SERVICE REQUIREMENTS (Continued)

As of June 30, 2005, the required principal payments for bonds (including mandatory sinking fund payments and special and optional redemptions that occurred subsequent to year end and excluding the effect of unamortized discounts/premiums and other deferred costs as shown in Note 6) 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	$ 4,545	$ 17,560
2007	4,277	4,005
2008	4,156	4,135
2009	4,020	4,250
2010	3,877	4,390
2011-2015	16,880	22,490
2016-2020	11,945	27,320
2021-2025	6,785	20,325
2026-2030	3,245	11,425
2031-2035	751	7,560
2036-2040	14	455
Totals	$ 60,495	$ 123,915

The interest calculations on outstanding variable rate bonds in the amount of $43,145 are based on the variable rates in effect on June 30, 2005, and are not indicative of the actual interest expense that will be incurred in future years. As rates vary, variable rate bond interest payments will vary.

(in thousands)

NOTE 8 - REBATE LIABILITY

In accordance with the Internal Revenue Service Code (the Code), CDA has recorded a rebate liability for excess investment earnings in tax-exempt bonds and notes issued after 1981. The excess investment earnings arise due to actual investment yields earned by CDA being greater than yields permitted to be retained by CDA under the Code. The Code requires 90% of such excess investment earnings to be remitted to the United States Treasury every five years and in full at the final redemption of the bonds. Interest income on the Statements of Revenue, Expenses and Changes in Net Assets is reduced by the rebate liability due to excess investment earnings. The increase/decrease in fair value of investments on the Statements of Revenue, Expenses and Changes in Net Assets is adjusted by the change in the estimated rebate liability due to change in fair value of investments. CDA has no rebate liability from interest income or from unrealized gains on mortgage-backed securities.

Rebate liability activity for the year ended June 30, 2006 and 2005 was as follows:

	2006	2005
Beginning rebate liability	$ 1,165	$ 574
Change in estimated liability due to excess investment earnings	24	23
Change in estimated liability due to change in fair value of investments	387	568
Ending rebate liability	$ 1,576	$ 1,165

Total rebate liability is allocated as follows:

	2006	2005
Estimated liability due to excess investment earnings	$ 53	$ 29
Estimated liability due to change in fair value of investments	1,523	1,136
Ending rebate liability	$ 1,576	$ 1,165

(in thousands)

NOTE 9 - LONG-TERM OBLIGATIONS

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

	2006	2005
Rebate liability		
Beginning balance	$ 1,165	$ 574
Additions	411	591
Reductions	-	-
Ending balance	1,576	1,165
Less due within one year	(656)	-
Total long-term rebate liability	920	1,165
Bonds payable		
Beginning balance	121,044	179,892
Additions	-	-
Reductions	(43,090)	(60,320)
Change in deferred amounts on refundings	1,219	1,472
Ending balance	79,173	121,044
Less due within one year	(20,110)	(17,560)
Total long-term bonds payable	59,063	103,484
Deposits by borrowers		
Beginning balance	12,457	9,403
Additions	5,396	7,411
Reductions	(7,374)	(4,357)
Ending balance	10,479	12,457
Less due within one year	(4,083)	(6,111)
Total long-term deposits by borrowers	6,396	6,346
Deferred income		
Beginning balance	155	160
Additions	-	-
Reductions	(155)	(5)
Ending balance	-	155
Total long-term deferred income	-	155
Total long-term liabilities	$ 66,379	$ 111,150

(in thousands)

NOTE 10 - INTERFUND ACTIVITY

In accordance with the Resolution, net assets in Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) are restricted and pledged to bondholders. However, restricted assets may be transferred to other Funds, subject to the provisions of the Resolution. Generally, an officer of CDA must authorize such withdrawals and a cash flow analysis must demonstrate that sufficient monies remain in the Resolution to meet the obligations of the Fund in current and future years.

During the years ended June 30, 2006 and 2005, the Fund transferred the following amounts, as permitted, among Funds:

	2006	2005
Excess revenue transferred to the General Bond Reserve Fund	$ (1,000)	$ (2,100)
Multi-family financing fees transferred to the General Bond Reserve Fund	-	(17)
Transfer surplus funds to the Housing Revenue Bonds for loan originations	(2,150)	(475)
Transfer to separate account in accordance with HUD agreement	(213)	(629)
	$ (3,363)	$ (3,221)

(in thousands)

NOTE 11 - MORTGAGE INSURANCE

All of CDA's mortgage loans have mortgage insurance as described in Note 4.

Multi-family mortgagors pay premiums for mortgage insurance and insurance coverage is 100% of the unpaid principal balance of the loan.

NOTE 12 - PENSION AND OTHER POST-RETIREMENT BENEFITS

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

NOTE 13 - SUBSEQUENT EVENTS

Subsequent to the year ended June 30, 2006, the following bond activity took place:

On July 21, 2006, CDA redeemed the following bonds:

1998 Series A	$2,425
2001 Series B	$2,045
2003 Series A	$1,150

On September 8, 2006, CDA redeemed the following bonds:

1998 Series A	$3,475
2001 Series A	$75
2002 Series A	$8,330

Community Development Administration
Multi-Family Housing Revenue Bonds
(Insured Mortgage Loans)

SUPPLEMENTAL DISCLOSURES OF CHANGE IN FAIR VALUE OF INVESTMENTS AND MORTGAGE-BACKED SECURITIES
(in thousands)
(unaudited)

June 30, 2006 and 2005

During fiscal year 1997, CDA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31. This statement requires the financial statements of CDA to reflect investments and mortgage-backed securities at fair value, and the increase or decrease in fair value is included in the Statements of Revenue, Expenses and Changes in Net Assets.

For investments (obligations of the U.S. Treasury and U.S. Government Agencies) held by the Fund as of June 30, 2006, the following schedule summarizes annual increases/decreases in fair value and the cumulative difference between fair value and amortized cost:

Fiscal year ended June 30,	Annual increases /decreases	Cumulative total
Cumulative FY 1996 and prior periods	$ 1,972	$ 1,972
1997	$ 415	$ 2,387
1998	$ 3,431	$ 5,818
1999	$ (2,009)	$ 3,809
2000	$ (154)	$ 3,655
2001	$ 1,192	$ 4,847
2002	$ (668)	$ 4,179
2003	$ 755	$ 4,934
2004	$ (2,004)	$ 2,930
2005	$ 1,784	$ 4,714
2006	$ (3,336)	$ 1,378

Community Development Administration
Multi-Family Housing Revenue Bonds
(Insured Mortgage Loans)

SUPPLEMENTAL DISCLOSURES OF CHANGE IN FAIR VALUE OF INVESTMENTS AND MORTGAGE-BACKED SECURITIES - CONTINUED
(in thousands)
(unaudited)

June 30, 2006 and 2005

Reconciliation to the Statements of Revenue, Expenses and Change in Net Assets for the year ended June 30, 2006:

Decrease in fair value of investments held at June 30, 2006	$	(3,336)
Realized gains on investments sold		1,271
Adjustment due to change in rebate liability (See Note 8)		(387)
Decrease in fair value of investments, net of rebate, as reported on the Statements of Revenue, Expenses and Changes in Net Assets for the year ended June 30, 2006	$	(2,452)

Reconciliation to the Statements of Revenue, Expenses and Change in Net Assets for the year ended June 30, 2005:

Increase in fair value of investments held at June 30, 2005	$	1,784
Adjustment due to change in rebate liability (See Note 8)		(568)
Increase in fair value of investments, net of rebate, as reported on the Statements of Revenue, Expenses and Changes in Net Assets for the year ended June 30, 2005	$	1,216

Community Development Administration
Multi-Family Housing Revenue Bonds
(Insured Mortgage Loans)

SUPPLEMENTAL DISCLOSURES OF CHANGE IN FAIR VALUE OF
INVESTMENTS AND MORTGAGE-BACKED SECURITIES - CONTINUED
(in thousands)
(unaudited)

June 30, 2006 and 2005

For mortgage-backed securities held by CDA as of June 30, 2006, the following schedule summarizes annual increases/decreases in fair value and the cumulative difference between fair value and cost:

Fiscal year ended June 30,	Annual increases /decreases	Cumulative total
2000	$ (452)	$ (452)
2001	$ 1,358	$ 906
2002	$ 812	$ 1,718
2003	$ 884	$ 2,602
2004	$ (1,476)	$ 1,126
2005	$ (670)	$ 456
2006	$ (456)	$ -