Reznick Group

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

COMMUNITY DEVELOPMENT ADMINISTRATION
HOUSING REVENUE BONDS

JUNE 30, 2006 AND 2005

Community Development Administration
Housing Revenue Bonds

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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 Housing Revenue Bonds (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 Housing Revenue Bonds and do not purport to, and do not, present fairly the financial position of the Department of Housing and Community Development of the State of Maryland as of June 30, 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 Housing Revenue Bonds 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
Housing Revenue Bonds

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	$ 57,964	$ 55,797
Investments	7,726	19,567
Mortgage-backed securities	2,841	2,049
Mortgage loans		
Single family	35	22
Multi-family construction and permanent financing	3,332	3,293
Accrued interest and other receivables	2,982	2,786
Total restricted current assets	74,880	83,514
Restricted long-term assets		
Investments, net of current portion	7,281	21,402
Mortgage-backed securities, net of current portion	397,928	383,489
Mortgage loans, net of current portion and allowance for loan losses		
Single family	425	557
Multi-family construction and permanent financing	87,813	88,609
Deferred bond issuance costs	437	545
Total restricted long-term assets	493,884	494,602
Total restricted assets	$ 568,764	$ 578,116
LIABILITIES AND NET ASSETS		
Current liabilities		
Accrued interest payable	$ 13,246	$ 12,820
Accounts payable	21	3
Bonds payable	6,405	7,945
Deposits by borrowers	4,846	4,801
Total current liabilities	24,518	25,569
Long-term liabilities		
Bonds payable, net of current portion	504,764	486,529
Deposits by borrowers, net of current portion	11,933	15,427
Deferred income	5,623	5,394
Total long-term liabilities	522,320	507,350
Total liabilities	546,838	532,919
COMMITMENTS AND CONTINGENCIES	-	-
NET ASSETS		
Restricted	21,926	45,197
Total liabilities and net assets	$ 568,764	$ 578,116

See notes to financial statements

Community Development Administration
Housing Revenue Bonds

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	$ 6,231	$ 6,930
Interest on mortgage-backed securities	21,775	18,834
Interest income on investments	2,604	3,569
(Decrease) increase in fair value of mortgage-backed securities	(27,704)	12,879
(Decrease) increase in fair value of investments	(866)	897
Fee and deferred income	208	236
Other operating revenue	74	-
	2,322	43,345
Operating expenses		
Interest expense on bonds	26,190	25,350
Professional fees and other operating expenses	140	208
Provision for loan losses	2	28
Amortization of bond issuance costs	27	30
Loss on early retirement of debt	13	2
	26,372	25,618
Operating (loss) income	(24,050)	17,727
Transfers of funds, net, as permitted by the various bond indentures	779	(1,107)
Changes in net assets	(23,271)	16,620
Net assets - restricted at beginning of year	45,197	28,577
Net assets - restricted at end of year	$ 21,926	$ 45,197

See notes to financial statements

Community Development Administration
Housing Revenue Bonds

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	$ 16,831	$ 11,749
Principal and interest received on mortgage-backed securities	24,601	20,764
Escrow funds received	5,392	4,951
Escrow funds paid	(8,877)	(5,334)
Loan fees and deferred income received	517	550
Purchase of mortgage loans	(9,745)	(4,243)
Purchase of mortgage-backed securities	(45,761)	(61,415)
Professional fees and other operating expenses	(140)	(195)
Other income received	74	-
Other reimbursements	21	-
Net cash used in operating activities	(17,087)	(33,173)
Cash flows from investing activities		
Proceeds from maturities or sales of investments	39,077	63,538
Purchases of investments	(13,985)	(24,879)
Interest received on investments	2,384	3,406
Net cash provided by investing activities	27,476	42,065
Cash flows from noncapital financing activities		
Proceeds from sale of bonds	31,705	29,010
Payments on bond principal	(15,010)	(6,055)
Reimbursement of bond costs	68	-
Interest on bonds	(25,764)	(24,103)
Transfers among Funds	779	(1,107)
Net cash used in noncapital financing activities	(8,222)	(2,255)
NET INCREASE IN CASH AND CASH EQUIVALENTS ON DEPOSIT WITH TRUSTEE	2,167	6,637
Cash and cash equivalents on deposit with trustee at beginning of year	55,797	49,160
Cash and cash equivalents on deposit with trustee at end of year	$ 57,964	$ 55,797

(continued)

Community Development Administration
Housing Revenue Bonds

STATEMENTS OF CASH FLOWS - CONTINUED
(in thousands)

Years ended June 30, 2006 and 2005

	2006	2005
Reconciliation of operating (loss) income to net cash from operating activities		
Operating (loss) income	$ (24,050)	$ 17,727
Adjustments to reconcile operating (loss) income to net cash used in operating activities		
Decrease (increase) in assets		
Mortgage loans	794	554
Mortgage-backed securities	(42,935)	(59,350)
Accrued interest and other receivables	(196)	(55)
Due from other funds	-	13
Increase (decrease) in liabilities		
Accrued interest payable	426	1,247
Accounts payable	18	(133)
Deposits by borrowers	(3,449)	(475)
Deferred income	229	179
Amortizations		
Deferred income on loans	(38)	(25)
Investment premiums	4	4
Deferred bond issuance costs	27	30
Loan fees deferred	118	160
Provision for loan losses	2	28
Decrease (increase) in fair value of mortgage-backed securities	27,704	(12,879)
Decrease (increase) in fair value of investments	866	(897)
Loss on early retirement of debt	13	2
Interest received on investments	(2,384)	(3,406)
Interest on bonds	25,764	24,103
Net cash used in operating activities	$ (17,087)	$ (33,173)

See notes to financial statements

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 Housing Revenue Bonds (the Fund). CDA's other Funds are not included. The Fund was established to issue bonds to provide funds to finance or refinance loans for various types of housing. As of June 30, 2006 and 2005, Housing Revenue Bonds have primarily financed multi-family 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.

<u>Cash and Cash Equivalents on Deposit with Trustee</u>

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.

<u>Investments</u>

Investments are principally governmental debt securities or investment agreements collateralized by 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.

<u>Mortgage-Backed Securities</u>

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Any single family mortgage loan in foreclosure with a pending insurance claim is recorded as other receivables. See Notes 4 and 10 for additional information on mortgage loans and mortgage insurance, respectively.

Allowance for Loan Losses

Substantially all the mortgage loans of the Fund are insured or guaranteed. Less than 1% of the loan portfolio is uninsured and CDA has established an allowance for loan losses on these loans. Management believes the allowance established is adequate based on prior experience and evaluations from DHCD's asset management group. See Notes 4 and 10 for additional information.

Accrued Interest and Other Receivables

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

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.

Bonds Payable

Bonds payable are carried at their unpaid principal balances, net of original issue discounts or premiums. See Notes 6 and 7 for more information.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 8 for further information on changes in long-term obligations.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Administrative Support

In addition to expenses incurred directly by the Fund, CDA receives certain support services from other divisions of DHCD. Support services and the operating expenses of CDA have been allocated to CDA's General Bond Reserve Fund and 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 11 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 financing 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 period. Actual results could differ from these estimates.

(in thousands)

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 Housing Revenue Bond 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.

The following assets, reported at fair value and held by the Fund as of 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	$ 57,964	$ 55,797
Investments:		
Obligations of the U.S. Treasury	6,236	7,106
Repurchase and investment agreements	8,771	33,863
GNMA mortgage-backed securities	400,769	385,538
Total	$ 473,740	$ 482,304

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	$ 57,964	$ 57,964	$ 57,964	$ -	$ -	$ -	$ -
Obligations of the U.S. Treasury	5,523	6,236	-	-	-	-	6,236
Repurchase agreements/ Investment agreements	8,771	8,771	3,508	5,263	-	-	-
GNMA mortgage-backed securities	409,061	400,769	-	-	-	-	400,769
Total	$ 481,319	$ 473,740	$ 61,472	$ 5,263	$ -	$ -	$ 407,005

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	$ 55,797	$ 55,797	$ 55,797	$ -	$ -	$ -	$ -
Obligations of the U.S. Treasury	5,527	7,106	-	-	-	-	7,106
Repurchase agreements/ Investment agreements	33,863	33,863	5,187	28,676	-	-	-
GNMA mortgage-backed securities	366,126	385,538	-	-	-	-	385,538
Total	$ 461,313	$ 482,304	$ 60,984	$ 28,676	$ -	$ -	$ 392,644

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 require 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. In addition, certain investment and repurchase agreements require counterparty ratings no less than the ratings on the bonds. As of June 30, 2006 and 2005, all counterparty ratings were at least equal to the ratings on the bonds except for one counterparty whose credit rating of Aa3 has not affected the ratings on the Housing Revenue Bonds. The ratings on Housing Revenue Bonds 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	$ 57,964	12.23%	Aaa		Moody's
Mortgage-backed securities	400,769	84.60%		Direct U.S. Obligations	
Obligations of the U.S. Treasury	6,236	1.32%		Direct U.S. Obligations	
Collateralized repurchase agreements and investment agreements:				Underlying securities credit rating	
Counterparty rated Aa1 by Moody's	3,508	0.74%		Aaa	Moody's
Counterparty rated Aa3 by Moody's	5,263	1.11%		Aaa	Moody's
Total	$ 473,740	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	$ 55,797	11.57%	Aaa		Moody's
Mortgage-backed Securities	385,538	79.94%		Direct U.S. Obligations	
Obligations of the U.S. Treasury	7,106	1.47%		Direct U.S. Obligations	
Collateralized repurchase agreements and investment agreements:				Underlying securities credit rating	
Counterparty rated Aaa by Moody's	754	0.15%		Aaa	Moody's
Counterparty rated Aa1 by Moody's	14,169	2.94%		Aaa	Moody's
Counterparties rated Aa2 by Moody's	4,433	0.92%		Aaa	Moody's
Counterparty rated Aa3 by Moody's	14,507	3.01%		Aaa	Moody's
Total	$ 482,304	100.00%			

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

The market value of the underlying collateralized securities in repurchase agreements and investment agreements is maintained at a minimum of 102 percent of the principal of and accrued interest on the invested funds by marking to market at least weekly and using an immediate under value cure provision.

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.

NOTE 4 - MORTGAGE LOANS

All the mortgage loans are secured by first liens on the related property and 99% are insured or credit enhanced by FHA, MHF, FHLMC, FNMA or GNMA. Interest rates on such loans range from 3.0% to 14.5%. As of June 30, 2006 and 2005, remaining loan terms range from approximately 3 to 40 years, and 5 to 40 years, respectively.

(in thousands)

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	$ 543	$ 604
Escrows due from multi-family mortgagors	299	264
Accrued investment interest	2,126	1,854
Negative arbitrage due from mortgagors	14	64
	$ 2,982	$ 2,786

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 2% of the principal amount. All bonds are tax-exempt and have fixed interest rates.

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
Housing Revenue Bonds										
Series 1996 A	11/01/96	5.00% - 5.95%	2005 - 2023	$ 56,950	$ -	$ (3,035)	$ (8,695)	$ 45,220	$ -	$ 45,220
Series 1996 B	11/01/96	5.00% - 5.95%	2005 - 2028	1,825	-	(50)	-	1,775	-	1,775
Series 1997 A	06/01/97	4.80% - 6.00%	2005 - 2039	35,545	-	(330)	-	35,215	-	35,215
Series 1997 B	09/01/97	4.70% - 5.75%	2005 - 2039	7,375	-	(65)	-	7,310	-	7,310
Series 1997 C	12/01/97	4.50% - 5.65%	2005 - 2039	13,450	-	(130)	-	13,320	-	13,320
Series 1998 A	04/01/98	4.50% - 5.625%	2005 - 2040	10,560	-	(110)	-	10,450	-	10,450
Series 1999 A	02/01/99	4.00% - 5.35%	2005 - 2041	15,850	-	(150)	-	15,700	-	15,700
Series 1999 B	10/15/99	4.90% - 6.40%	2005 - 2042	15,295	-	(180)	-	15,115	-	15,115
Series 1999 C	10/15/99	5.85% - 6.40%	2014 - 2040	510	-	(5)	-	505	-	505
Series 1999 D	12/01/99	5.00% - 6.35%	2005 - 2042	13,435	-	(330)	-	13,105	-	13,105
Series 2000 A	10/01/00	4.75% - 6.10%	2005 - 2042	27,045	-	(220)	-	26,825	-	26,825
Series 2001 A	07/01/01	3.95% - 5.625%	2005 - 2043	29,645	-	(215)	-	29,430	-	29,430
Series 2001 B	10/01/01	3.35% - 5.45%	2005 - 2043	46,810	-	(820)	-	45,990	-	45,990
Series 2002 A	03/01/02	3.60% - 5.70%	2005 - 2043	9,415	-	(75)	-	9,340	-	9,340
Series 2002 B	10/01/02	2.20% - 5.05%	2005 - 2045	33,570	-	(180)	-	33,390	-	33,390
Series 2002 C	10/01/02	2.20% - 5.00%	2005 - 2035	6,740	-	(80)	-	6,660	-	6,660
Series 2002 D	10/01/02	2.20% - 5.00%	2005 - 2035	8,280	-	(40)	-	8,240	-	8,240
Series 2003 A	04/01/03	3.00% - 5.22%	2008 - 2045	24,730	-	-	-	24,730	-	24,730
Series 2003 B	07/01/03	2.35% - 5.00%	2007 - 2045	17,660	-	-	-	17,660	-	17,660
Series 2003 C	09/01/03	2.70% - 5.90%	2007 - 2045	10,735	-	-	-	10,735	(6)	10,729
Series 2003 D	12/01/03	2.50% - 5.125%	2007 - 2045	12,080	-	-	-	12,080	-	12,080
Series 2004 A	01/01/04	2.30% - 5.10%	2007 - 2045	11,130	-	-	(265)	10,865	-	10,865
Series 2004 B	03/31/04	2.50% - 4.70%	2009 - 2046	20,320	-	-	-	20,320	-	20,320
Series 2004 C	06/10/04	4.00% - 5.40%	2010 - 2047	36,515	-	-	-	36,515	-	36,515
Series 2004 D	11/23/04	2.80% - 5.00%	2007 - 2037	3,270	-	(35)	-	3,235	-	3,235
Series 2005 A	02/17/05	4.25% - 4.85%	2015 - 2047	6,385	-	-	-	6,385	-	6,385
Series 2005 B	04/21/05	3.15% - 5.10%	2008 - 2047	19,355	-	-	-	19,355	-	19,355
Series 2005 C	12/14/05	3.625% - 5.15%	2008 - 2047	-	13,985	-	-	13,985	-	13,985
Series 2006 A	04/27/06	3.65% - 5.05%	2007 - 2047	-	10,800	-	-	10,800	-	10,800
Series 2006 B	04/27/06	3.65% - 5.00%	2007 - 2039	-	4,800	-	-	4,800	-	4,800
Series 2006 C	04/27/06	3.45% - 4.75%	2007 - 2036	-	2,120	-	-	2,120	-	2,120
Total				$ 494,480	$ 31,705	$ (6,050)	$ (8,960)	$ 511,175	$ (6)	$ 511,169

(in thousands)

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
Housing Revenue Bonds										
Series 1996 A	11/01/96	4.90% - 5.95%	2004 - 2023	$ 60,300	$ -	$ (3,200)	$ (150)	$ 56,950	$ -	$ 56,950
Series 1996 B	11/01/96	4.90% - 5.95%	2004 - 2028	1,870	-	(45)	-	1,825	-	1,825
Series 1997 A	06/01/97	4.70% - 6.00%	2004 - 2039	35,860	-	(315)	-	35,545	-	35,545
Series 1997 B	09/01/97	4.60% - 5.75%	2004 - 2039	7,440	-	(65)	-	7,375	-	7,375
Series 1997 C	12/01/97	4.40% - 5.65%	2004 - 2039	13,575	-	(125)	-	13,450	-	13,450
Series 1998 A	04/01/98	4.40% - 5.625%	2004 - 2040	10,660	-	(100)	-	10,560	-	10,560
Series 1999 A	02/01/99	3.90% - 5.35%	2004 - 2041	15,995	-	(145)	-	15,850	-	15,850
Series 1999 B	10/15/99	4.80% - 6.40%	2004 - 2042	15,460	-	(165)	-	15,295	-	15,295
Series 1999 C	10/15/99	5.85% - 6.40%	2014 - 2040	510	-	-	-	510	-	510
Series 1999 D	12/01/99	4.85% - 6.35%	2004 - 2042	13,780	-	(345)	-	13,435	-	13,435
Series 2000 A	10/01/00	4.70% - 6.10%	2004 - 2042	27,245	-	(200)	-	27,045	-	27,045
Series 2001 A	07/01/01	3.95% - 5.625%	2005 - 2043	29,645	-	-	-	29,645	-	29,645
Series 2001 B	10/01/01	3.15% - 5.45%	2004 - 2043	47,060	-	(250)	-	46,810	-	46,810
Series 2002 A	03/01/02	3.00% - 5.70%	2004 - 2043	9,500	-	(85)	-	9,415	-	9,415
Series 2002 B	10/01/02	2.20% - 5.05%	2005 - 2045	34,435	-	-	(865)	33,570	-	33,570
Series 2002 C	10/01/02	2.20% - 5.00%	2005 - 2035	6,740	-	-	-	6,740	-	6,740
Series 2002 D	10/01/02	2.20% - 5.00%	2005 - 2035	8,280	-	-	-	8,280	-	8,280
Series 2003 A	04/01/03	3.00% - 5.22%	2008 - 2045	24,730	-	-	-	24,730	-	24,730
Series 2003 B	07/01/03	2.35% - 5.00%	2007 - 2045	17,660	-	-	-	17,660	-	17,660
Series 2003 C	09/01/03	2.70% - 5.90%	2007 - 2045	10,735	-	-	-	10,735	(6)	10,729
Series 2003 D	12/01/03	2.50% - 5.125%	2007 - 2045	12,080	-	-	-	12,080	-	12,080
Series 2004 A	01/01/04	2.30% - 5.10%	2007 - 2045	11,130	-	-	-	11,130	-	11,130
Series 2004 B	03/31/04	2.50% - 4.70%	2009 - 2046	20,320	-	-	-	20,320	-	20,320
Series 2004 C	06/10/04	4.00% - 5.40%	2010 - 2047	36,515	-	-	-	36,515	-	36,515
Series 2004 D	11/23/04	2.80% - 5.00%	2007 2037	-	3,270	-	-	3,270	-	3,270
Series 2005 A	02/17/05	4.25% - 4.85%	2015 2047	-	6,385	-	-	6,385	-	6,385
Series 2005 B	04/21/05	3.15% - 5.10%	2008 - 2047	-	19,355	-	-	19,355	-	19,355
Total				$ 471,525	$ 29,010	$ (5,040)	$ (1,015)	$ 494,480	$ (6)	$ 494,474

(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 five-year increments thereafter, are as follows:

Years ended June 30,	Interest	Principal
2007	$ 26,630	$ 6,405
2008	26,548	10,560
2009	26,078	10,655
2010	25,610	10,140
2011	25,125	10,715
2012-2016	117,534	57,625
2017-2021	102,819	50,025
2022-2026	89,726	51,555
2027-2031	74,352	65,195
2032-2036	54,891	80,960
2037-2041	30,960	91,125
2042-2046	8,556	62,080
2047-2051	160	4,135
Total	$ 608,989	$ 511,175

(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 5-year increments thereafter, are as follows:

Years ended June 30,	Interest	Principal
2006	$ 25,823	$ 7,945
2007	25,782	6,760
2008	25,439	10,005
2009	25,020	8,745
2010	24,600	9,920
2011-2015	115,376	52,790
2016-2020	101,014	51,630
2021-2025	87,923	49,725
2026-2030	73,616	59,090
2031-2035	55,890	73,655
2036-2040	33,790	87,080
2041-2045	11,193	68,425
2046-2050	448	8,710
Total	$ 605,914	$ 494,480

(in thousands)

NOTE 8 - LONG-TERM OBLIGATIONS

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

	2006	2005
Bonds payable		
Beginning balance	$ 494,474	$ 466,329
Additions	31,705	29,010
Reductions	(15,010)	(865)
Ending balance	511,169	494,474
Less due within one year	(6,405)	(7,945)
Total long-term bonds payable	504,764	486,529
Deposits by borrowers		
Beginning balance	20,228	15,461
Additions	5,428	4,859
Reductions	(8,877)	(92)
Ending balance	16,779	20,228
Less due within one year	(4,846)	(4,801)
Total long-term deposits by borrowers	11,933	15,427
Deferred income		
Beginning balance	5,394	5,215
Additions	362	297
Reductions	(133)	(118)
Ending balance	5,623	5,394
Total long-term deferred income	5,623	5,394
Total long-term liabilities	$ 522,320	$ 507,350

(in thousands)

NOTE 9 - INTERFUND ACTIVITY

In accordance with the Resolution, net assets in Housing Revenue Bonds 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
Multi-family financing fees transferred to the General Bond Reserve Fund	$ (246)	$ (457)
Transfer surplus funds from the Multi-Family Housing Revenue Bonds for loan originations	2,150	475
Excess revenue transferred to the General Bond Reserve Fund	(1,125)	(1,125)
	$ 779	$ (1,107)

NOTE 10 - MORTGAGE INSURANCE

Approximately 99% of all CDA's mortgage loans are insured or credit enhanced 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.

Single family mortgagors pay the premiums for primary mortgage insurance. Generally, loans are insured in an amount that is at least 25% of the loan amount.

NOTE 11 - 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 12 - COMMITMENTS

As of June 30, 2006, CDA had commitments to purchase approximately $13,919 in GNMA mortgage-backed securities. These securities will be purchased with the proceeds of bonds already issued to finance mortgage loans on multi-family projects. The interest rates on these securities range from 5.11% to 5.90%.

Community Development Administration
Housing Revenue Bonds

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

June 30, 2006 and 2005
(Unaudited)

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) 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
1997	$ (352)	$ (352)
1998	$ 832	$ 480
1999	$ (407)	$ 73
2000	$ 48	$ 121
2001	$ 193	$ 314
2002	$ 157	$ 471
2003	$ 889	$ 1,360
2004	$ (678)	$ 682
2005	$ 897	$ 1,579
2006	$ (866)	$ 713

Community Development Administration
Housing Revenue Bonds

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

June 30, 2006 and 2005
(Unaudited)

For mortgage-backed securities 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 cost:

Fiscal year ended June 30,	Annual increases/ decreases	Cumulative total
2000	$ (3,825)	$ (3,825)
2001	$ (3,291)	$ (7,116)
2002	$ 3,340	$ (3,776)
2003	$ 21,435	$ 17,659
2004	$ (11,126)	$ 6,533
2005	$ 12,879	$ 19,412
2006	$ (27,704)	$ (8,292)