

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

**THE COMMUNITY DEVELOPMENT TRUST, INC.
AND SUBSIDIARIES**

DECEMBER 31, 2008 AND 2007

THE COMMUNITY DEVELOPMENT TRUST, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
The Community Development Trust, Inc.

We have audited the accompanying consolidated balance sheets of The Community Development Trust, Inc. and Subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Community Development Trust, Inc. and Subsidiaries as of December 31, 2008 and 2007, and the changes in stockholders' equity and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Baltimore, Maryland
May 11, 2009

THE COMMUNITY DEVELOPMENT TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AT DECEMBER 31, 2008 AND 2007

	2008	2007
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 33,510,082	\$ 21,896,123
RESTRICTED CASH	1,227,711	3,982,734
INVESTMENTS	-	18,435,639
REAL ESTATE, NET OF ACCUMULATED DEPRECIATION	7,867,600	20,712,539
INVESTMENTS IN REAL ESTATE JOINT VENTURES, NET	30,793,368	29,352,133
SUBORDINATE MORTGAGE LOANS, NET	27,438,430	23,959,216
SENIOR MORTGAGE LOAN PARTICIPATIONS	6,685,757	6,416,957
MORTGAGE LOANS, NET	6,750,313	2,282,187
LOAN PARTICIPATIONS	4,000,000	-
PREPAID EXPENSES AND OTHER ASSETS	855,037	1,615,904
	\$ 119,128,298	\$ 128,653,432
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Mortgages payable	\$ 7,803,121	\$ 28,064,870
Secured revolving credit facilities	10,000,000	-
Accounts payable and other liabilities	2,587,195	2,412,787
Refundable loan fees	1,093,953	649,602
Deferred income	320,120	388,013
Investment in real estate joint venture in excess of cost	3,657,871	-
Total liabilities	25,462,260	31,515,272
MINORITY INTEREST	2,307	73,554
STOCKHOLDERS' EQUITY		
Preferred stock, par value \$0.01 per share; 10,000,000 shares authorized; Cumulative Convertible Preferred Stock, Series A, 1,280,000 issued and outstanding at December 31, 2008 and 2007, aggregate liquidation preference - \$64,000,000 at December 31, 2008 and 2007	12,800	12,800
Common stock, par value \$0.01 per share		
Class A: 300,000 shares authorized; no shares outstanding	-	-
Class B: 50,000,000 shares authorized; 5,315,274 and 5,438,825 shares issued and outstanding at December 31, 2008 and 2007, respectively	53,153	54,388
Additional paid-in capital	115,135,382	116,399,461
Deferred compensation	(678,164)	(788,069)
Accumulated deficit	(20,859,440)	(18,613,974)
Total stockholders' equity	93,663,731	97,064,606
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 119,128,298	\$ 128,653,432

See accompanying notes to consolidated financial statements.

THE COMMUNITY DEVELOPMENT TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
REVENUES:		
Rental income	\$ 7,123,201	\$ 8,242,014
Equity in losses of real estate joint ventures	(50,363)	(1,098,401)
Interest income - cash and cash equivalents	964,217	2,362,335
Interest income - mortgage loans	4,959,831	3,457,444
Fees	486,995	1,318,943
Gain on sale of investments, net	7,269,270	50,407
Other income	-	2,075,160
Total revenues	20,753,151	16,407,902
INVESTMENT EXPENSES:		
Property operating expenses	2,539,512	3,023,052
Mortgage interest	1,663,267	2,209,009
Taxes and insurance	834,625	879,027
Depreciation	1,235,016	1,300,383
Impairment loss	1,987,737	-
Loss on restructuring	624,864	-
Other financing and investment expenses	89,210	146,413
Total investment expenses	8,974,231	7,557,884
GENERAL AND ADMINISTRATIVE:		
Salary and salary related	4,764,911	4,849,269
Other general and administrative expenses	1,433,684	1,242,003
Total general and administrative expenses	6,198,595	6,091,272
INCOME BEFORE MINORITY INTEREST	5,580,325	2,758,746
MINORITY INTEREST	116,302	108,733
NET INCOME	5,464,023	2,650,013
PREFERRED STOCK DIVIDEND	(2,720,000)	(2,761,556)
NET INCOME (LOSS) APPLICABLE TO COMMON STOCK	\$ 2,744,023	\$ (111,543)
NET INCOME (LOSS) PER SHARE (BASIC AND DILUTED)	\$ 0.50	\$ (0.01)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic	5,454,719	5,400,183
Diluted	5,468,236	5,400,183

See accompanying notes to consolidated financial statements.

THE COMMUNITY DEVELOPMENT TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Preferred Stock	Common Stock	Additional Paid-in Capital	Deferred Compensation	Accumulated Deficit	Total
BALANCE - DECEMBER 31, 2006	\$ 11,800	\$ 53,409	\$ 110,203,553	\$ (454,499)	\$ (14,411,709)	\$ 95,402,554
Issuance of preferred stock, net	1,000	-	4,985,506	-	-	4,986,506
Grants of restricted stock	-	943	1,034,694	(1,035,637)	-	-
Exercise of stock options	-	621	661,493	-	-	662,114
Amortization of deferred compensation	-	-	-	679,723	-	679,723
Repurchase and retirement of stock	-	(585)	(492,774)	22,344	(306,281)	(777,296)
Dividends declared (\$0.72 per common share)	-	-	-	-	(3,784,441)	(3,784,441)
Preferred dividends	-	-	-	-	(2,761,556)	(2,761,556)
Amortization of stock option expense	-	-	6,989	-	-	6,989
Net income	-	-	-	-	2,650,013	2,650,013
BALANCE - DECEMBER 31, 2007	12,800	54,388	116,399,461	(788,069)	(18,613,974)	97,064,606
Grants of restricted stock	-	741	757,704	(758,445)	-	-
Exercise of stock options	-	43	48,165	-	-	48,208
Amortization of deferred compensation	-	-	-	722,201	-	722,201
Repurchase and retirement of stock	-	(2,019)	(1,953,989)	146,149	(530,939)	(2,340,798)
Redemption of minority interest	-	-	(113,363)	-	-	(113,363)
Distributions in excess of basis allocable to minority interest	-	-	-	-	(143,058)	(143,058)
Dividends declared (\$0.82 per common share)	-	-	-	-	(4,315,492)	(4,315,492)
Preferred dividends	-	-	-	-	(2,720,000)	(2,720,000)
Amortization of stock option expense	-	-	(2,596)	-	-	(2,596)
Net income	-	-	-	-	5,464,023	5,464,023
BALANCE - DECEMBER 31, 2008	\$ 12,800	\$ 53,153	\$ 115,135,382	\$ (678,164)	\$ (20,859,440)	\$ 93,663,731

See accompanying notes to consolidated financial statements.

THE COMMUNITY DEVELOPMENT TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 5,464,023	\$ 2,650,013
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	1,235,016	1,300,383
Impairment loss	1,987,737	-
Loss on restructuring	624,864	-
Gain on sale of investments, net	(7,269,270)	(50,407)
Amortization of mortgage costs	4,193	29,817
Minority interest	116,302	108,733
Net loss from investments in real estate joint ventures	50,363	1,098,401
Deferred compensation amortization	722,201	679,723
Stock option amortization	(2,596)	6,989
Premium amortization, net	40,620	23,001
Changes in operating assets and liabilities:		
Decrease (increase) in prepaid expenses and other assets	780,867	(83,466)
Decrease in deferred income	(67,893)	(585,939)
Increase (decrease) in refundable loan fees	444,351	(532,484)
Increase in accounts payable and other liabilities	90,898	556,221
Net cash provided by operating activities	<u>4,221,676</u>	<u>5,200,985</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Withdrawals from restricted cash	(171,180)	(439,749)
Purchase of investments	(1,000,000)	(4,182,139)
Sale of investments	19,435,639	25,100,235
Purchase of real estate	(418,844)	(555,270)
Investment in real estate joint ventures	(7,427,190)	(2,709,090)
Proceeds from sale of real estate investments	9,313,810	-
Distributions from real estate joint ventures in excess of earnings	2,407,004	2,827,469
Investment in senior mortgage loan participations	(1,677,116)	(6,416,957)
Repayment of senior mortgage loan participations	1,408,316	-
Increase in mortgage loans	(9,055,422)	(7,001,616)
Principal payments received on mortgage loans	480,500	421,837
Effect of deconsolidation of subsidiary	(2,513,411)	-
Investment in loan participations	(4,000,000)	-
Net cash provided by investing activities	<u>6,782,106</u>	<u>7,044,720</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on mortgages payable	(271,565)	(745,846)
Distributions to minority partners	(110,294)	(11,130)
Borrowing on secured revolving credit facility	10,000,000	-
Proceeds from issuance of preferred stock	-	5,000,000
Repurchase of common stock	(2,340,798)	(777,296)
Redemption of operating partnership units	(193,800)	-
Proceeds from exercise of stock options	48,208	662,114
Preferred stock dividend	(2,720,000)	(2,761,556)
Common dividends paid	(3,801,574)	(3,784,441)
Net cash provided by (used in) financing activities	<u>610,177</u>	<u>(2,418,155)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	11,613,959	9,827,550
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	21,896,123	12,068,573
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 33,510,082</u>	<u>\$ 21,896,123</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES:		
Amortization of deferred offering costs	<u>\$ -</u>	<u>\$ 13,494</u>
Retirement of nonvested stock:		
Common stock	\$ 143	\$ 23
Additional paid-in capital	146,006	17,832
Deferred compensation	(146,149)	(17,855)
Total retirement of nonvested stock	<u>\$ -</u>	<u>\$ -</u>
SUPPLEMENTAL FINANCIAL INFORMATION:		
Interest paid	<u>\$ 1,663,267</u>	<u>\$ 2,192,484</u>
EFFECT OF DECONSOLIDATION OF SUBSIDIARY:		
Restricted cash	\$ 2,926,203	\$ -
Real estate, net of accumulated depreciation	12,028,767	-
Investments in real estate joint ventures	3,154,182	-
Prepaid expenses and other assets	(167,251)	-
Mortgages payable	(19,990,184)	-
Accounts payable and other liabilities	(465,128)	-
Net effect of deconsolidation	<u>\$ (2,513,411)</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

THE COMMUNITY DEVELOPMENT TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

1. FORMATION AND DESCRIPTION OF THE COMPANY

The Community Development Trust, Inc. (the “Company”), a Maryland corporation, was incorporated on August 17, 1998 and operates as a self-managed real estate company that has elected to be taxed as a real estate investment trust (a “REIT”) for U.S. Federal income tax purposes. The Company’s principal business activities are to invest in affordable multifamily residential mortgage loans, which are subsequently syndicated to institutional investors, and to acquire equity interests in affordable multifamily residential real estate assets.

The Company maintains an operating partnership, The Community Development Trust, LP (the “Operating Partnership”), to serve as the vehicle for the consolidation of ownership and control of the Company’s assets and operations. The Company is the sole general partner of the Operating Partnership and, at December 31, 2008, owned over 99% of its partnership units together with The Community Development Trust I, Inc. (“CDT I, Inc.”), a wholly-owned subsidiary.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - Included in the Company’s financial statements are the accounts of the Operating Partnership and CDT I, Inc. which include their subsidiaries, Cooper Village, LP (“Cooper Village”), CDT Mortgage, LLC, CDTNMTCLLC, CDT GP, LP, CDT Equity GP, LLC, AH Equity, LLC, and CDT II, LLC. Prior to October 1, 2009, Neptune Lynn Apartments (“Neptune”) was consolidated in the Company’s financial statements (see Note 4 for details). All intercompany balances and transactions are eliminated in consolidation. The Company consolidates those entities in which it has control over significant operating, financial, and investing decisions of the entity. Minority interest represents the ownership in certain consolidated subsidiaries held by entities other than the Company.

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 that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those results.

Revenue Recognition - The accompanying financial statements are prepared on the accrual basis of accounting. Rental income is recognized as rents become due. Rental payments received in advance are deferred until earned. Interest income on investments is reported as earned. Premiums or discounts on acquired mortgage loans are amortized into interest income using the effective interest method.

Cash and Cash Equivalents - The Company considers all highly liquid debt instruments with maturities of three months or less at the time of purchase to be cash equivalents.

Restricted Cash - Pursuant to the terms of various loan and regulatory agreements, the Company is required to escrow funds for the payment of property taxes and insurance as well as required replacement reserves.

Investments - The Company classifies securities with a stated maturity which it intends to hold to maturity as “held-to-maturity,” and records such securities at amortized cost. Securities which do not have stated maturities or which the Company does not intend to hold to maturity are classified as “available-for-sale” and recorded at fair value. Unrealized gains and losses on these investments are included as a separate component of accumulated other comprehensive income. The Company has not invested in trading securities. The Company’s

THE COMMUNITY DEVELOPMENT TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

investments have been held in custody of a major financial institution. Securities are accounted for on a specific identification basis.

Mortgage Costs – Mortgage costs incurred in connection with the permanent financing of real estate investments totaling \$175,073 and \$710,417 as of December 31, 2008 and 2007 and are being amortized over the terms of the related mortgages using the effective interest method. As of December 31, 2008 and 2007, accumulated amortization totaled \$131,702 and \$217,064, respectively. Amortization for the next five years subsequent and thereafter is as follows:

	<u>Amount</u>
2009	\$ 4,933
2010	4,972
2011	4,962
2012	4,898
2013	4,770
Thereafter	18,836
	<u>\$ 43,371</u>

Mortgage Loans - Loans held for long-term investment are recorded at cost at the date of purchase. Premiums and discounts related to these loans are amortized into interest income over their estimated lives using the effective interest method. Direct costs associated with purchasing commercial mortgage loans are deferred and amortized into interest income over the life of the loan. Fees received by the Company in connection with its management of loan syndications are recognized when the syndication is complete. Prior to syndication, these fees are recorded as deferred income on the consolidated balance sheets. An amount equal to the pro rata portion of the loan retained by the Company is deferred and amortized into interest income over the life of the loan. The Company periodically sells servicing rights acquired in conjunction with purchases of mortgage loans. Fee income is recognized for the amount of the servicing rights sold less the cost of servicing rights. In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 114, “Accounting by Creditors for Impairment of a Loan,” the Company recognizes impairment on loans when it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Company measures impairment based on the present value of expected future cash flows discounted at the loan’s effective interest rate or the fair value of the collateral if the loan is collateral dependent.

Real Estate - Real estate is recorded at cost and includes capital expenditures and direct acquisition costs. The Company accounts for the acquisition of real estate in accordance with SFAS No. 141, “Business Combinations.” The purchase price is allocated to acquired tangible assets (principally land and buildings) and if material, identified intangible assets (e.g., tenant relationships and in-place, above market leases) and liabilities (e.g., below market leases) based upon the estimated relative fair values at acquisition. Ordinary repairs and maintenance that do not extend the life of the asset are expensed as incurred. Management evaluates its real estate assets for possible impairment in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” whenever there is an event or change in circumstances that indicates an impairment in value. If the property’s estimated cash flows on an undiscounted basis are less than its carrying value, it would be determined to be impaired and written down to its estimated fair value. Fair value is defined as the amount for which the asset could be bought or sold in a current transaction, that is, other than a forced or liquidation sale.

THE COMMUNITY DEVELOPMENT TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Buildings are stated at cost, less accumulated depreciation. Depreciation is recorded on a straight-line basis over their estimated useful lives, which range from twenty to forty years. Furniture and equipment are stated at cost, less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives, which range from three to five years except for leasehold improvements, which are amortized over the shorter of the useful life of the assets or the lease period.

Investments in Real Estate Partnerships - Investments in real estate partnerships, over which the Company exercises significant influence but not control, are accounted for under the equity method. The Company records its initial investment at cost, recognizes its share of each partnership's income or loss, increases its investment for capital contributions, and reduces its investment balance by any distributions received.

Under the provisions of Financial Accounting Standards Board Interpretation No. 46R, "Consolidation of Variable Interest Entities", the Company has concluded that none of its unconsolidated real estate partnerships is a variable interest entity, and therefore, do not require consolidation.

Under the provisions of the Emerging Issues Task Force Issue No. 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights," the Company has reviewed the properties for which it is the general partner. The Company has concluded that the limited partners for these properties have "substantive participating rights" and therefore, it is appropriate to record these investments under the equity method of accounting.

Refundable Loan Fees - In connection with the Company's forward fixed-rate commitment program, refundable loan fees are collected in advance. These fees primarily represent rate lock deposits. If the Company closes the mortgage loan with the borrower before the rate lock expiration period, the fees are fully refundable. If the transaction is not consummated, the Company recognizes its share of the fees as income upon expiration of the rate lock period. Unearned fees are included in refundable loan fees on the consolidated balance sheets.

Prepaid Expenses and Other Assets - Preacquisition costs related to specific investments, which are considered probable for acquisition, are deferred and included in prepaid expenses and other assets. If the investment is acquired, the costs are reclassified to the appropriate real estate asset category and amortized over the estimated useful life of the underlying investment. Costs relating to investments that are not acquired are expensed.

THE COMMUNITY DEVELOPMENT TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Earnings Per Share – Earnings per share (“EPS”) is computed in accordance with SFAS No. 128, “Earnings Per Share.” Basic EPS is calculated by dividing net income applicable to Common Stock by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated by dividing net income applicable to Common Stock adjusted for items, such as preferred stock dividends by the weighted average number of common shares outstanding during the period plus the potential dilutive securities outstanding during the period. The components of basic and diluted net income/loss per share for the years ended December 31, 2008 and 2007 are as follows:

	<u>2008⁽¹⁾</u>	<u>2007⁽²⁾</u>
Numerator:		
Net income	\$ 5,464,023	\$ 2,650,013
Less: Preferred stock dividends	<u>2,720,000</u>	<u>2,715,868</u>
Net income (loss) applicable to Common Stock - Basic and Diluted	<u>\$ 2,744,023</u>	<u>\$ (65,855)</u>
Denominator:		
Basic weighted average number of shares outstanding	5,454,719	5,400,183
Effect of dilutive stock options	<u>13,517</u>	<u>-</u>
Diluted weighted average number of shares outstanding	<u>5,468,236</u>	<u>5,400,183</u>
Net Income (Loss) Per Share (Basic and Diluted)	<u>\$0.50</u>	<u>(\$0.01)</u>

⁽¹⁾For the year ended December 31, 2008, the effect of the Convertible Preferred Stock and Operating Partnership units are antidilutive and are not included in the computation of diluted EPS.

⁽²⁾For the year ended December 31, 2007, the incremental shares from assumed conversions are not included in computing the diluted per share amount because their effect would be antidilutive. This was due to the net loss for the year. Thus, the basic and diluted figures are the same amount.

THE COMMUNITY DEVELOPMENT TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Securities outstanding at December 31, 2008 and 2007 that could potentially dilute basic EPS that are not included in the computation of diluted EPS because to do so would have been antidilutive for the periods presented are as follows:

	<u>December 31,</u> <u>2008⁽¹⁾</u>	<u>December 31,</u> <u>2007⁽¹⁾</u>
Stock Options	-	109,150
Operating Partnership Units	458 ⁽²⁾	15,458
Convertible Preferred Stock ⁽³⁾	3,840,000	3,840,000

⁽¹⁾The figures shown are the potential common shares from assumed conversions.

⁽²⁾During the fourth quarter of 2008, 15,000 Operating Partnership Units were redeemed.

⁽³⁾There are 1,280,000 shares of Convertible Preferred Stock outstanding. The conversion rate is 3.0 shares of Common Stock per one share of Preferred Stock. Thus, the potential common shares equal 3,840,000.

Stock-Based Compensation - The Company accounts for equity-based compensation issued to employees and the Board of Directors pursuant to the Amended and Restated Stock Incentive Plan in accordance with SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"). SFAS No. 123R requires the use of the fair value method, on a straight-line basis, which measures compensation cost at the date of grant based on the value of the award and recognizes the cost over the service period, which is usually the vesting period.

The fair value of equity-based compensation awards is based on the estimated fair value of the Company's common stock, as determined by management using a valuation model and approved by the Board of Directors. Fair values of award grants also recognize any ongoing restrictions on the sale of securities. Dividends paid to employees on unvested shares are treated as compensation and expensed.

Income Taxes - The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, commencing with the taxable year ended December 31, 1998. As a result, the Company generally is not subject to Federal or State income taxation at the corporate level to the extent it distributes annually at least 90% of its REIT taxable income to its shareholders and satisfies certain other requirements. For the years ended December 31, 2008 and 2007, the Company distributed in excess of 90% of its taxable income and 100% of its capital gain income (another REIT requirement). Accordingly, no provision has been made for federal income taxes in the accompanying financial statements.

THE COMMUNITY DEVELOPMENT TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Reclassification – Amounts in the December 31, 2007 financial statements have been reclassified to be consistent with the December 31, 2008 presentation to enhance comparability. The effect of this capitalization on the December 31, 2007 financial statements is summarized as follows:

	2007, as Originally Reported	Reclassification	2007, Reclassified
Real estate, net of accumulated depreciation	\$ 20,447,109	\$ 265,430	\$ 20,712,539
Prepaid expenses and other assets	\$ 2,296,370	\$ (680,466)	\$ 1,615,904
Total assets	\$ 129,068,468	\$ (415,036)	\$ 128,653,432
Minority interest	\$ 488,590	\$ (415,036)	\$ 73,554

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 addresses the recognition and measurement of assets and liabilities associated with tax positions taken or expected to be taken in a tax return. The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is recognition whereby a company determines whether it is more likely than not that a tax position will be sustained upon examination. The second step is measurement whereby a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. In February 2008, the FASB issued FASB Staff Position (“FSP”) FIN 48-2, which deferred the effective date of FIN 48 for certain nonpublic enterprises to fiscal years beginning after December 15, 2007. In December 2008, the FASB issued FSP FIN 48-3, which defers the effective date of FIN 48 for certain nonpublic enterprises for another year to fiscal years beginning after December 15, 2008. The Company has elected to defer the application of FIN 48. The Company evaluates its uncertain tax positions using the provisions of SFAS No. 5, “Accounting for Contingencies” (“SFAS No. 5”). Under SFAS No. 5, a loss contingency is recognized when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. The Company is currently assessing the impact of the adoption of FIN 48 on the Company and the Operating Partnership. However, the Company believes that the eventual adoption of FIN 48 will not have a material impact on its financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS No. 141R”). This statement replaces SFAS No. 141, but retains the fundamental requirements that the purchase method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. The statement establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. It also establishes principles for recognizing and measuring the goodwill acquired in the business combination or a gain from a bargain purchase as well as providing guidelines on the

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disclosure requirements on the nature and financial impact of the business combination. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning after December 15, 2008. The Company is currently assessing the impact of the adoption of this statement and believes its eventual adoption will not have a material impact on its financial statements.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51” (“SFAS No. 160”). This statement establishes the accounting and reporting for minority interests and for the deconsolidation of a subsidiary. Noncontrolling (minority) interests in subsidiaries will be reported as a component of equity, but separate from the parent’s equity. Additionally, the amount of consolidated net income attributable to the parent and to the noncontrolling interest will be clearly identified and presented on the face of the income statement. Purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. When there is loss in control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. When this statement is adopted, it will change the classification and presentation of noncontrolling interest in the Company’s financial statements.

On November 13, 2008, the FASB ratified EITF consensus on EITF Issue No. 08-6, “Equity Method Investment Considerations” (“EITF 08-6”). EITF 08-6 addresses questions about the potential effect of SFAS No. 141R and SFAS No. 160 on equity method accounting under Accounting Principles Board (“APB”) Opinion 18, “The Equity Method of Accounting for Investments in Common Stock” (“APB 18”). EITF 08-6 generally continues existing practices under APB 18 including the use of a cost-accumulation approach to initial measurement of the investment. EITF 08-6 does not require the investor to perform a separate impairment test on the underlying assets of an equity method investment. However, an equity-method investor is required to recognize its proportionate share of impairment charges recognized by the investee, adjusted for basis differences, if any, between the investee’s carrying amount for the impaired assets and the cost allocated to such assets by the investor. EITF 08-6 is effective for fiscal years beginning on or after December 15, 2008 and interim periods within those fiscal years and shall be applied prospectively. The Company is currently assessing the impact of the adoption of this statement and believes its eventual adoption will not have a material impact on its financial statements.

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3. INVESTMENTS

The components of investments at December 31, 2007 are as follows:

<u>Security Type</u>	<u>Estimated</u>	<u>Gross Unrealized Holding</u>		<u>Amortized</u>
	<u>Fair Value</u>	<u>Gains</u>	<u>Losses</u>	<u>Cost</u>
December 31, 2007				
Held-to-maturity:				
US Government Agencies	\$9,990,096	\$ 27,571	\$ -	\$9,962,525
Corporate Bonds	2,471,050	-	(2,064)	2,473,114
Total Held-to-maturity	<u>\$12,461,146</u>	<u>\$27,571</u>	<u>(\$2,064)</u>	<u>\$12,435,639</u>
Available-for-sale:				
Auction Rate Securities	<u>\$6,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$6,000,000</u>
Total Investments	<u><u>\$18,461,146</u></u>	<u><u>\$27,571</u></u>	<u><u>(\$2,064)</u></u>	<u><u>\$18,435,639</u></u>

Unrealized losses from fixed-income securities were primarily attributable to changes in interest rates. The Company had the ability and intent to hold these securities until their full cost was recovered.

During 2008, the investments matured at cost, and there were no investments outstanding at December 31, 2008.

4. REAL ESTATE AND MORTGAGE LOANS PAYABLE

On September 30, 2008, the Company sold a 5% interest in Neptune to one of its existing partners on several of the Company's other properties and recorded a capital gain of \$360,633. As a result of this sale, it was determined that the Company no longer exercises control over significant operating, financial, and investing decisions of Neptune. Thus, in accordance with Accounting Research Bulletin No. 51, "Consolidated Financial Statements" ("ARB No. 51"), Neptune should no longer be consolidated in the Company's financial statements and is now treated as an Investment in Real Estate Partnership and accounted for under the equity method.

Under ARB No. 51, an entity must apply the equity method of accounting prospectively from the date control over the subsidiary is relinquished. Additionally, application of the equity method of accounting as if the loss of control occurred at the beginning of the year is prohibited. The entity should also not revise its presentation of prior year balances. Thus, effective October 1, 2008, the Company is required to prospectively apply the equity method of accounting for its investment in Neptune. Also, the Company's results of operations and cash flows for the nine month period ended September 30, 2008, will continue to present Neptune as a consolidated subsidiary.

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Real Estate

Real estate investments at December 31, 2008 and 2007, pertaining to the Company's consolidated real estate partnerships are summarized as follows:

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Land	\$ 552,000	\$ 1,452,000
Buildings and equipment	11,604,917	25,934,412
Total	12,156,917	27,386,412
Accumulated depreciation	(4,289,317)	(6,673,873)
Net real estate investment	<u>\$ 7,867,600</u>	<u>\$ 20,712,539</u>

The following table summarizes the investment activity related to the Company's consolidated real estate partnerships at December 31, 2008:

Name of Investment/ (# of Units)	Year Acquired	Encumbrances	Initial Costs		Costs Capitalized Subsequent to Acquisition	Gross Amounts Carried at End of Period			Accumulated Depreciation
			Land	Building & Equipment	Building & Equipment	Land	Building & Equipment	Total	
Cooper Village (276)	2002	\$ 7,803,121	\$ 552,000	\$ 9,116,150	\$ 1,907,886	\$ 552,000	\$ 11,024,036	\$ 11,576,036	\$ (3,808,607)
Operating Partnership	Various	-	-	580,881	-	-	580,881	580,881	(480,710)
Total		<u>\$7,803,121</u>	<u>\$552,000</u>	<u>\$9,697,031</u>	<u>\$1,907,886</u>	<u>\$552,000</u>	<u>\$11,604,917</u>	<u>\$12,156,917</u>	<u>(\$4,289,317)</u>

Mortgages Payable

Real estate mortgages payable at December 31, 2008 and 2007, pertaining to the Company's consolidated real estate partnership is summarized as follows:

Cooper Village – The first mortgage loan has an outstanding balance of \$7,451,691 and \$7,713,508 at December 31, 2008 and 2007, respectively, and bears interest at 7.50%. The second mortgage loan has an outstanding balance of \$351,430 and \$361,178 at December 31, 2008 and 2007, respectively, and bears interest at 10.00% plus participation in surplus cash as defined in the partnership agreement. Principal and interest on the first and second mortgage loans are payable in monthly installments of \$69,288 and \$3,786, respectively, through November 1, 2023.

The mortgages are secured by the underlying value of the real estate collateral plus amounts on deposit with the respective lenders.

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The aggregate annual maturities for the above investment for each of the next five years and thereafter are as follows:

	First Mortgage	Second Mortgage	Total
2009	\$ 282,142	\$ 10,769	\$ 292,911
2010	304,046	11,896	315,942
2011	327,650	13,142	340,792
2012	353,086	14,519	367,605
2013	380,497	16,039	396,536
Thereafter	5,804,270	285,065	6,089,335
	\$ 7,451,691	\$ 351,430	\$ 7,803,121

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

5. INVESTMENTS IN REAL ESTATE PARTNERSHIPS

The following table summarizes the Company's investments in real estate partnerships at December 31, 2008 and 2007:

Name of Investment/(# of Units)	Year Acquired	% Interest/ Type	Equity in Net Assets at December 31, 2008	Equity in Net Income/(Loss) Year Ended December 31, 2008	Equity in Net Assets at December 31, 2007	Equity in Net Income/(Loss) Year Ended December 31, 2007
Summerfield Townhouses (396)	2000	80.0%/LP	\$ -	\$ -	\$ -	⁽¹⁾ \$ - ⁽¹⁾
NY Emerging Neighborhood	2000	2.8%/LP	26,939	-	26,939	-
Kingston Garden Apartments (132)	2001	80.0%/LP	908,510	12,937	1,185,552	24,407
Opa Locka Apartments (506)	2004	0.009% ⁽²⁾	2,874,784	202,855	2,671,930	(1,668)
Amy Lowell House (151)	2004	95.0% ⁽³⁾	4,212,349	284,825	4,077,360	271,400
L'Atriums Apartments (485)	2004	90.0%/LP	- ⁽⁴⁾	(227,868)	2,215,606	(646,094)
Birch Pointe Apartments (246)	2004	90.0%/LP	- ⁽⁵⁾	(89,281)	2,304,453	(205,841)
The Willows Apartments (346)	2004	90.0%/LP	1,519,614	37,723	1,576,391	142,296
Cambridge Landing Apartments (400)	2005	85.0%/LP	2,404,647	27,155	2,416,992	(91,101)
Crestwood Apartments (276)	2005	90.0%/LP	1,921,217	(371,667)	2,337,884	(61,005)
Bella Vista Apartments (420)	2005	90.0%/LP	1,230,253	(100,629)	1,564,882	(380,731)
Copper Mill Apartments (234)	2006	85.0%/LP	1,086,256	(200,944)	1,350,950	(43,098)
Coronado Apartments (264)	2006	85.0%/LP	1,163,484	(99,727)	1,263,211	(335,492)
Hathaway Farms (207)	2006	90.0%/LP	3,354,515	331,386	3,452,097	276,135
CDT SP Alabama (156)	2006	90.0%/LP	651,765	(100,741)	752,505	(138,609)
Travis Park Apartments (199)	2007	0.0% ⁽⁶⁾	2,113,335	168,000	2,155,381	91,000
North Hill Apartments (80)	2008	90.0%/LP	973,688	30,784	-	-
Garden Gate Portfolio (480)	2008	90.0%/LP	5,442,527	(23,900)	-	-
Cornerstone Apartments (121)	2008	80.0%/LP	909,485	(8,260)	-	-
Investment in real estate joint ventures, net			30,793,368	(127,352)	29,352,133	(1,098,401)
Investment in real estate joint venture in excess of cost						
Neptune Lynn Apartments (334) ⁽⁷⁾	2002	95.0%/LP	(3,657,871)	76,989	-	-
Total			<u>\$ 27,135,497</u>	<u>\$ (50,363)</u>	<u>\$ 29,352,133</u>	<u>\$ (1,098,401)</u>

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⁽¹⁾*Summerfield Townhouses* - In March 2007, the first and second mortgage loans for Summerfield Townhouses were refinanced. The Company received a distribution of approximately \$2.9 million from this transaction. The excess distribution was treated as ordinary income of approximately \$1.8 million and recorded as Other Income during the first quarter of 2007.

⁽²⁾*Opa Locka Apartments* - In February 2004, the Company invested \$1,125,000 for a 0.009% general partner interest in Miami Property Group, Ltd. ("MPG") through a newly formed entity, CDT Opa Locka GP LLC ("CDT Opa"). In April 2004, MPG acquired three apartment complexes located in Opa Locka, Florida. In conjunction with this acquisition, the Company acquired two seller notes with a face value of \$2,000,000 which were purchased at a discount for \$1,550,000. These notes are payable based on available cash flow from the property. The Company also entered into a management agreement which provides for the receipt of an annual management fee, payable from available cash flow from the property. For the years ended December 31, 2008 and 2007, the available cash flow recorded for the management fee and the notes totaled \$204,523 and \$0, respectively.

In connection with this transaction, CDT Opa, as general partner of MPG, has taken on certain guarantee obligations related to operating deficits, construction completion, and tax credit compliance, which in turn are personally guaranteed by principals of Spruce Realty Group, the developer of the project and an affiliate of the managing agent.

⁽³⁾*Amy Lowell House* - The Company formed a joint venture, AL House Limited Partnership ("AL House LP"), with affiliates of HallKeen. The Company is a 95% Class A limited partner in AL House LP. On March 12, 2004, AL House LP purchased a 79% interest in AL House LLC which became the 0.01% substitute general partner of Amy Lowell House, LP.

⁽⁴⁾*L'Atriums Apartments* - During the second quarter of 2008, the Company determined that its investment in this real estate partnership was permanently impaired. An impairment loss of \$1,987,737 was recorded in the second quarter. Subsequent to this impairment charge, the Company no longer recorded its share of this partnership's operating results. The disposition of the Company's LP interest in this property occurred in December 2008.

⁽⁵⁾*Birch Pointe Apartments* - The disposition of the Company's LP interest in this property occurred in April 2008.

⁽⁶⁾*Travis Park Apartments* - In June 2007, AH Equity LP, an affiliate of the Company, made a mezzanine loan to Travis Park Holdings LP in the amount of \$2,100,000. AH Equity LP has also entered into an Agreement to Admit Partner ("Admission Agreement") with Travis Park Holdings LP that allows AH Equity LP to convert its mezzanine loan into an equity investment and to be admitted as a limited partner with an approximate 77.5% ownership interest in Travis Park Holdings LP upon the partnership meeting certain conditions.

⁽⁷⁾*Neptune Lynn Apartments* - On September 30, 2008, the Company sold a 5% interest in Neptune to one of its existing partners on several of the Company's other properties and recorded a capital gain of \$360,633. As a result of this sale, it was determined that the Company no longer exercises control over significant operating, financial, and investing decisions of Neptune. Thus, Neptune should no longer be consolidated in the Company's financial statements and is now treated as an Investment in Real Estate Partnership and accounted for under the equity method.

The Company's share of net earnings from its investments in real estate joint ventures was increased at the Company level by \$372,523 and \$91,000 from fees and interest income for the year ended December 31, 2008 and 2007, respectively. Earnings were reduced by \$11,996 and \$11,767 for the amortization of acquisition costs for the years ended December 31, 2008 and 2007, respectively. The accounting policies of the limited partnerships are the same as those followed by the Company.

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The Company made the following investments in real estate partnerships during 2007 and 2008:

Travis Park Apartments - In June 2007, AH Equity LP, an affiliate of the Company, made a mezzanine loan to Travis Park Holdings LP in the amount of \$2,100,000. The loan carries an 8.00% interest rate, compounded annually. Additional interest is also charged on the loan in an amount equal to 50% of remaining cash after AH Equity LP has received its 8.00% interest and Travis Park Holdings LP has received an 8.00% non-cumulative, non-compounding return on its outstanding capital invested. The maturity date of the AH Equity LP loan is April 2017. AH Equity LP has also entered into an Agreement to Admit a Partner with Travis Park Holdings LP that provides for AH Equity LP to convert its mezzanine loan into an equity investment and to be admitted as a limited partner with an approximate 77.5% ownership interest in Travis Park Holdings LP upon the satisfaction of certain conditions provided in the Admission Agreement which have not yet occurred.

North Hill Place - In May 2008, the Company invested in a joint venture, NHP Housing Associates, LLC, in which it became a 90% limited partner. The joint venture acquired the property, North Hill Place, an 80-unit, 100% Section 8, senior apartment community. The Company's investment in this partnership was approximately \$915,000.

Garden Gate Portfolio - In July 2008, the Company invested in a joint venture, in which it became a 90% member. The joint venture was formed for the purpose of acquiring Garden Gate Portfolio, two existing 240-unit, LIHTC (low income housing tax credit) properties. The Company's total investment in this joint venture was approximately \$5.6 million.

Cornerstone Apartments - In September 2008, the Company invested in a joint venture, in which it became an 80% limited partner. The joint venture acquired the property, Cornerstone Apartments, a 121-unit, LIHTC property with extended-use restrictions in place through 2024. The Company's total investment in this joint venture was approximately \$892,000.

In April 2008, the Company and its partner closed on the sale of the Birch Pointe Apartments, a 246-unit property in Beaverton, Oregon, at a sales price of \$24.3 million. The capital gain to the Company recorded in the second quarter of 2008 is approximately \$6.9 million.

In December 2008, the Company sold its interest in L'Atriums Apartments, a 485-unit property in Arlington, Texas, to its partner for \$1. The Company had previously determined that the investment was permanently impaired and wrote down the investment.

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Summarized combined financial information related to the Company's unconsolidated equity investments in the above joint ventures at December 31, 2008 and 2007 and for the years then ended is as follows:

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Assets	\$ 188,344,370	\$ 170,873,399
Liabilities	162,088,712	141,035,894
Net assets	<u>\$ 26,255,658</u>	<u>\$ 29,837,505</u>

	<u>Year Ended December 31, 2008</u>	<u>Year Ended December 31, 2007</u>
Revenues	\$ 22,341,585	\$ 22,178,062
Expenses	22,836,626	23,547,989
Net loss	<u>\$ (495,041)</u>	<u>\$ (1,369,927)</u>

6. SUBORDINATE MORTGAGE LOANS, SENIOR MORTGAGE LOAN PARTICIPATIONS, AND MORTGAGE LOAN ASSETS

The Company's mortgage portfolio consists of three categories of mortgages: 1) subordinated interests in mortgage loans, primarily first mortgage loans, that the Company retains after the syndication of senior interests to long-term investors ("Subordinate Mortgage Loans"); 2) senior participation interests in loans secured by first mortgage liens ("Senior Mortgage Loan Participations"); and 3) mortgage loans that the Company purchases, the majority of which are temporarily held pending syndication to institutional investors pursuant to purchase commitments ("Mortgage Loans").

The Subordinate Mortgage Loans held by the Company provide credit support to the more senior portion of the underlying mortgages syndicated to investors. Cash flow from the underlying mortgages generally is allocated first to the senior portion held by the long-term investor, with any remaining cash flow allocated to the Company. To the extent there are defaults and unrecoverable losses on the underlying mortgages, resulting in reduced cash flows, the Company's first loss exposure falls under one of two categories. For mortgages that are syndicated on a cross-collateralized basis in pools, the Company bears a first loss position up to its total interest in each pool. For mortgages syndicated on an individual basis, the Company's first loss position is limited to its subordinate interest in that individual mortgage. At December 31, 2008 and 2007, the percentage of mortgages syndicated in pools was 88.8% and 86.7%, respectively. The syndication agreements with the Company's senior investors are terminable by either party upon notice. However, any commitments made prior to any termination remain in effect, unless due to a default by the Company.

In February 2007, the Company established a short-term participation program (term from 18 to 30 months) for pre-approved nonprofit construction lenders. The Company currently has two facilities, under which it purchases 80% senior participation interests secured by first mortgage liens. One of the facilities is fixed rate while the other facility is variable rate. Under one of the facilities, the senior interests have been syndicated to a senior investor, and the Company retains a subordinated position in such interests.

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Principal and interest are payable monthly for all loans. All of the mortgage loans in the portfolio are fixed rate. The fair value of the loans in the portfolio approximates its carrying cost. There were no delinquent loans in the portfolio at December 31, 2008, and there were two delinquent loans in the portfolio with an aggregate unpaid principal balance of \$1,306,135 at December 31, 2007. The default on one of the loans was cured in February 2008, and the default on the other loan was cured in May 2008.

In May 2008, the Company repurchased a loan for \$5,286,961 that was part of its 2004 mortgage securitization with Fannie Mae (see Note 13). The Company determined that the loan was impaired and recorded a loss on restructuring of \$624,864. In November 2008, the Company successfully negotiated a restructuring of the loan that was in default with HUD and the new owner of the property, a Texas non-profit. The restructuring resulted in a new first mortgage of \$4,000,000 and a cash flow second mortgage of \$1,500,000 which is impaired and valued at \$700,000.

The breakdown of these categories is shown below:

	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
<i>Subordinate Mortgage Loans:</i>		
Subordinate Mortgage Loans	\$ 27,438,430	\$ 23,959,216
Number of Subordinate Mortgage Loans	142	123
Subordinate Mortgage Loans - Weighted Average Yield	14.71 %	15.07 %
Subordinate Mortgage Loans - Weighted Average Life (in years)	12.17	12.16
Senior Portion of Subordinate Mortgage Loans	\$ 218,153,650	\$ 188,382,025
<i>Senior Mortgage Loan Participations:</i>		
Senior Mortgage Loan Participations	\$ 6,685,757	\$ 6,416,957
Senior Mortgage Loan Participations - Weighted Average Yield	3.34 %	6.65 %
Senior Mortgage Loan Participation - Weighted Average Life (in years)	0.18	0.42
<i>Mortgage Loans:</i>		
Mortgage Loans	\$ 6,750,313	\$ 2,282,187
Number of Mortgage Loans	4	3
Mortgage Loans - Weighted Average Contractual Interest Rate	8.25 %	7.70 %
Mortgage Loans - Weighted Average Yield	8.23 %	7.85 %
Mortgage Loans - Weighted Average Life (in years)	14.84	13.10

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7. LOAN PARTICIPATIONS

In May 2008, the Company purchased a \$4,000,000 participation interest in a \$13,000,000 loan with a seven year term and an interest rate of 13.5%. Under the terms of the loan participation, the borrower will make monthly interest payments of 9% while the remaining balance accrues and is paid at maturity. For the year ended December 31, 2008, interest income was \$372,462.

8. SECURED REVOLVING CREDIT FACILITIES

On September 29, 2006, the Company signed a \$10,000,000 Secured Revolving Credit Facility (the "Facility") with one of its institutional investors. The Facility was secured by the Company's interest in CDT Mortgage, LLC, a wholly-owned subsidiary, which holds the Company's subordinate interests in mortgage loans that have been syndicated with an institutional investor. The Facility was terminated on September 28, 2007. Under the terms of the Facility, the Company was required to maintain tangible net worth (as defined in the Facility) greater than or equal to \$15,000,000 at all times. The Company was in compliance with this financial covenant throughout the term of the Facility. There were no outstanding balances under the Facility during its term. There was no interest expense for the year ended December 31, 2007. The Company incurred an annual fee of 0.10%, payable quarterly on the available balance. For the year ended December 31, 2007, this fee amounted to \$7,556.

On October 17, 2008, the Company signed a new \$15,000,000 Secured Revolving Credit Facility (the "New Facility") with two of its institutional investors. The New Facility is secured by the Company's interest in CDT Mortgage, LLC, a wholly-owned subsidiary, which holds the Company's subordinate interests in mortgage loans that have been syndicated with an institutional investor. The New Facility has a maturity date of October 16, 2009, and borrowings bear interest at the overnight LIBOR rate plus one percent (1.135% at December 31, 2008). Under the terms of the New Facility, the Company is required to maintain tangible net worth (as defined in the New Facility) greater than or equal to \$15,000,000 at all times. The Company was in compliance with this financial covenant since the inception of the New Facility. With the approval of its lenders, the Company has an option to extend the New Facility to October 15, 2010. At December 31, 2008, the outstanding balance under the New Facility was \$10,000,000. For the year ended December 31, 2008, interest expense was \$8,970.

9. STOCKHOLDERS' EQUITY

Preferred Stock - In the fourth quarter of 2006, the Company privately placed 1,180,000 shares of its 4.25% Cumulative Perpetual Convertible Preferred Stock, Series A, par value \$0.01 per share ("Preferred Stock") at an offering price (and initial liquidation preference) of \$50.00 per share. In January 2007, the Company privately placed an additional 100,000 shares of its Preferred Stock at an offering price of \$50.00 per share. These offerings generated net proceeds of \$63,829,727. Part of the net proceeds were used to redeem 1,163,954 shares of Class B Common Stock ("Common Stock") for \$15,876,333 from institutional investors, and the Company intended to use the remaining proceeds to acquire new debt and equity assets. The Preferred Stock will be convertible into Common Stock at the option of the holder on and after November 16, 2011 (the "Conversion Date"), initially at a conversion rate of 3.0 shares of Common Stock per one share of Preferred Stock. Cash dividends on the Preferred Stock are cumulative at the annual rate of 4.25% of the liquidation preference (or \$2.125 per share per year), payable quarterly upon declaration by the Company's Board of Directors. On or after the Conversion Date, the Company may redeem the Preferred Stock for cash in the amount of \$50.00 per share plus any accumulated and unpaid dividends to the redemption date.

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Common Stock - In 2003, the Company closed its second equity funding through a private placement offering to institutional investors. Total capital commitments of \$34,175,000 to purchase 2,960,870 shares of Common Stock were received. On May 11, 2006, the Company drew down the remaining outstanding capital commitments of \$29,048,750 representing 2,516,736 shares.

Dividends – Stockholders are taxed on dividends and must report such dividends as either ordinary income, capital gains, or as return of capital. The Company has not yet filed its federal income tax return for the year ended December 31, 2008. As a result, the taxable composition for 2008 is based on the best available information.

The Company designated the taxable composition of the following cash distributions made to common stockholders in 2007 and 2008:

<u>Common</u>		<u>Distribution Type</u>			
		<u>Distributions Per Share</u>	<u>Ordinary Taxable Dividend</u>	<u>Return of Capital</u>	<u>Long-Term Capital</u>
<u>Record Date</u>	<u>Payment Date</u>				
2/13/2007	2/15/2007	\$0.18	0.00%	100.00%	0.00%
5/15/2007	5/17/2007	0.18	0.00%	100.00%	0.00%
8/14/2007	8/16/2007	0.18	0.00%	100.00%	0.00%
11/13/2007	11/15/2007	0.18	0.00%	100.00%	0.00%
	Total - 2007	<u>\$0.72</u>	<u>0.00%</u>	<u>100.00%</u>	<u>0.00%</u>
2/26/2008	2/28/2008	\$0.18	23.60%	76.23%	0.17%
5/13/2008	5/15/2008	0.18	23.60%	76.23%	0.17%
8/19/2008	8/21/2008	0.18	23.60%	76.23%	0.17%
11/17/2008	11/19/2008	0.18	23.60%	76.23%	0.17%
12/31/2008	1/30/2009	0.10	23.60%	76.23%	0.17%
	Total - 2008	<u>\$0.82</u>	<u>23.60%</u>	<u>76.23%</u>	<u>0.17%</u>

On December 23, 2008, the Company's Board of Directors declared a 2008 year-end special dividend of \$0.10 per share on its Common Stock totaling \$531,573, payable on January 30, 2009, to stockholders of record on December 31, 2008. The special dividend was required to meet the REIT compliance test on distributions as a result of the taxable capital gain recognized from a property disposition in 2008.

Dividends on the Preferred Stock are cumulative from the date of original issuance and are payable quarterly in arrears. The initial dividend on the Preferred Stock was paid on February 28, 2007 and was prorated from the date of issuance for each holder through February 28, 2007. As of December 31, 2008 and 2007, accumulated but undeclared dividends on the Preferred Stock were \$234,222 (or \$0.18 per share).

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The taxable composition of cash distributions for the Preferred Stock for 2007 and 2008 was as follows:

<u>Preferred</u>		<u>Distribution Type</u>			
<u>Record Date</u>	<u>Payment Date</u>	<u>Distributions Per Share</u>	<u>Ordinary Taxable Dividend</u>	<u>Return of Capital</u>	<u>Long-Term Capital Gain</u>
2/13/2007	2/28/2007	\$0.56372 ⁽¹⁾	36.00%	61.64%	2.36%
5/15/2007	5/31/2007	0.53125	36.00%	61.64%	2.36%
8/14/2007	8/31/2007	0.53125	36.00%	61.64%	2.36%
11/13/2007	11/30/2007	0.53125	36.00%	61.64%	2.36%
	Total - 2007	<u>\$2.15747</u>	<u>36.00%</u> ⁽²⁾	<u>61.64%</u> ⁽²⁾	<u>2.36%</u> ⁽²⁾
2/26/2008	2/29/2008	\$0.53125	26.79%	0.00%	73.21%
5/13/2008	5/30/2008	0.53125	26.79%	0.00%	73.21%
8/19/2008	9/2/2008	0.53125	26.79%	0.00%	73.21%
11/17/2008	12/1/2008	0.53125	26.79%	0.00%	73.21%
	Total - 2008	<u>\$2.12500</u>	<u>26.79%</u>	<u>0.00%</u>	<u>73.21%</u>

⁽¹⁾This is an average since the initial dividend was prorated from the date of issuance for each holder.

⁽²⁾The taxable composition for 2007 was revised to reflect the Company's 2007 federal income tax return.

10. RETIREMENT BENEFIT PLANS

In January 2006, the Company changed its Pension/401(k) provider. As part of this transition, the Company's two existing plans were merged into one 401(k)/Profit Sharing Plan. The Employee Retirement Income Security Act of 1974 ("ERISA") requires that when there is a difference between two merging plans, the new plan must adopt the more favorable terms as they affect the employees in the plan. In the Company's case, the only material change required related to vesting of the employer contributions. Under the "old" 401(k) Plan, employees vested 20% after two years of service, while under the "old" Pension Plan, employees were vested 100% after three years. In order to comply with the ERISA requirement, the vesting in the merged plan is now 20% after two years and 100% after three years.

New employees are eligible to participate in the plan after one year of full-time employment. The Company makes all contributions to the Profit Sharing Plan. Eligible employees are permitted to make voluntary salary contributions to the 401(k) Plan, and these contributions vest immediately. The Company matches contributions of eligible employees up to 3% of base salary. For the years ended December 31, 2008 and 2007, the Company's contributions to these plans totaled \$275,239 and \$277,041, respectively.

11. STOCK INCENTIVE PLAN

In accordance with the Company's Amended and Restated Stock Incentive Plan (the "Plan"), the Company's Executive and Finance Committee may grant unrestricted stock, restricted stock, and stock options to officers, directors, and other key employees. The Plan provides for the issuance of up to 1,117,500 shares of Common Stock of the Company. In May 2007, the Company's Board of Directors approved an amendment to the Plan to

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provide that all grantees that have been awarded Restricted Stock or a Stock Award (as defined in the Plan) have a right, on a quarterly basis, to sell to the Company up to 100% of their vested shares so acquired at fair market value. Optionees (as defined in the Plan) have a right, on a quarterly basis, to sell to the Company up to 100% of their vested shares (that have been issued under the Plan pursuant to the exercise of an option and have been held for at least six months) at fair market value. Transferees (as defined in the Plan) have a right, on a quarterly basis, to sell to the Company up to 100% of their vested shares at fair market value. As of December 31, 2008, the total number of shares of stock available for future grants was 523,042.

Unrestricted and Restricted Stock - Directors receive annual grants of restricted stock as compensation for their services. The Directors' restricted stock vests on the date of grant. The employees' restricted stock generally vests over a four- or five-year period, as follows: 33.3% two or three years from the date of the grant; 33.3% three or four years from the date of grant; and 33.3% four or five years from the date of grant. The Company is amortizing the fair value of these grants over their respective vesting periods. A summary of the unrestricted and restricted stock activity under the Plan as of December 31, 2008, and changes during the year ended December 31, 2008 are presented below:

	2008	
	Number of Shares	Weighted Average Grant Price
Outstanding at 1/1/2008	261,603	\$9.78
Granted	74,101	\$10.24
Repurchased by Company	(81,837)	\$8.97
Forfeited/Transferred	<u>(15,332)</u>	\$10.01
Outstanding at 12/31/2008	<u>238,535</u>	\$10.18

Restricted shares were granted during 2008 and 2007 at a weighted average price of \$10.24 and 10.98, respectively. The total fair value of restricted stock vested during the years ended December 31, 2008 and 2007 was \$433,660 and \$394,627, respectively. Total compensation cost recorded for the years ended December 31, 2008 and 2007 for the restricted shares grants was \$722,201 and \$679,723, respectively.

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A summary of nonvested stock under the Plan as of December 31, 2008, and changes for the year ended December 31, 2008 are presented below:

<u>Nonvested Shares</u>	<u>2008</u>	
	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Nonvested at 1/1/2008	170,215	\$10.24
Granted	60,650	\$10.13
Vested	(39,984)	\$9.70
Forfeited	(14,332)	\$10.20
Nonvested at 12/31/2008	<u>176,549</u>	\$10.33

As of December 31, 2008, there was \$678,164 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan; that cost is expected to be recognized over a period of 3.0 years.

Stock Options – In accordance with the Plan, the Company’s Executive and Finance Committee may grant incentive stock options to eligible individuals. The stock options vest annually in three equal installments with a maximum term of 10 years from date of grant. The exercise price of each stock option is 100% of the fair market value of a share of Class B common stock on the date of grant.

A summary of option activity under the Plan as of December 31, 2008, and changes for the year ended December 31, 2007 are presented below:

	<u>2008</u>	
	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding at 1/1/2008	109,150	\$10.80
Granted	-	-
Exercised	(4,300)	\$11.21
Forfeited	<u>(34,500)</u>	\$10.88
Outstanding at 12/31/2008	<u>70,350</u>	\$10.74
Options exercisable at 12/31/2008	<u>62,500</u>	\$10.65
Options nonvested at 12/31/2008	<u>7,850</u>	\$11.50

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The amount of cash received from the exercise of stock options was \$48,208 and \$662,114 during the years ended December 31, 2008 and 2007, respectively. The total intrinsic value of options exercised was \$9,369 and \$139,623 during the years ended December 31, 2008 and 2007, respectively.

A summary of nonvested stock options under the Plan as of December 31, 2008, and changes for the year ended December 31, 2008 are presented below:

<u>Nonvested Options</u>	2008	
	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Nonvested at 1/1/2008	23,700	\$11.50
Granted	-	-
Vested	(9,350)	\$11.50
Forfeited	(6,500)	\$11.50
Nonvested at 12/31/2008	<u>7,850</u>	\$11.50

As of December 31, 2008, there was \$216 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan; that cost is expected to be recognized over a period of 0.1 years. The total fair value of options vested during the years ended December 31, 2008 and 2007 was \$8,883 and \$22,183, respectively.

The following table summarizes information about stock options outstanding at December 31, 2008:

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number Outstanding at December 31, 2008</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Weighted Average Exercise Price</u>	<u>Number Exercisable at December 31, 2008</u>	<u>Weighted Average Exercise Price</u>
\$9.00 to \$10.00	15,800	3.1	\$9.08	15,800	\$9.08
\$10.01 to \$11.00	28,000	4.1	\$10.96	28,000	\$10.96
\$11.01 to \$12.00	26,550	5.0	\$11.50	18,700	\$11.50
\$9.00 to \$12.00	<u>70,350</u>	4.2	\$10.74	<u>62,500</u>	\$10.65

Stock-based compensation expense under the fair value method was (\$2,596) and \$6,989 for the years ended December 31, 2008 and 2007, respectively.

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12. RELATED PARTY TRANSACTIONS

In August 2007, the Company entered into a consulting agreement (the “Consulting Agreement”) with its former President and Chief Executive Officer (“President & CEO”), who retired from the Company, to provide consulting services to the Company as directed by the current President & CEO. The Consulting Agreement has a five-year term and provides for an annual retainer of \$100,000, paid monthly in advance during the term of the Consulting Agreement. The former President & CEO will also receive a reimbursement for the cost of health benefits as well as certain “out of pocket” expenses. The former President & CEO remained a Director of the Company and received the same compensation as other outside directors, until his resignation from the Board of Directors on May 4, 2009.

13. COMMITMENTS AND CONTINGENCIES

Lease Commitments - The Company initially leased its principal offices under an operating lease, with an expiration date of October 31, 2008. In January 2004, the Company signed a new operating lease for its principal offices. Under the new lease terms, which began in February 2004, the Company’s previous lease was terminated, additional office space was assumed, and the lease expiration date was changed to January 31, 2011.

Future minimum rental commitments at December 31, 2008 are as follows:

	<u>Amount</u>
2009	\$ 197,204
2010	197,204
2011	16,434
	<u>\$ 410,842</u>

Rent expense for the years ended December 31, 2008 and 2007 was \$245,709 and \$236,842, respectively.

Mortgage Loan Commitments - The Company had commitments outstanding to purchase mortgage loans amounting to \$69,069,964 at December 31, 2008. The Company has agreements to syndicate senior positions, representing approximately 90% of each mortgage loan to institutional investors at the Company’s purchase price.

Loan Securitization Guarantee - In connection with the July 2004 mortgage securitization transaction, whereby the Company swapped approximately \$45.0 million of mortgage loans on LIHTC properties for an equivalent amount of Fannie Mae Guaranteed Mortgage Pass-Through Certificates, the Company is providing a guarantee on this transaction of 7.3% of the securitized loans that amounts to approximately \$3.3 million. As collateral for this guarantee, the Company provided a Letter of Credit issued by Deutsche Bank to US Bank for approximately \$3.3 million. The Company pays an annual fee of 70 basis points or approximately \$23,000. This is a ten-year letter of credit that is renewable on an annual basis at the option of Deutsche Bank with a remaining term of six years.

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Over the life of the mortgage loans, the Company will receive guarantee and administrative fees based on the outstanding principal of the securitized loans. Upon the securitization of the loans, the Company assigned primary servicing responsibilities for these loans to Midland Loan Services, Inc. However, the Company is also Master Servicer for the securitized loans.

Employment Agreement - In August 2007, the Company entered into an employment agreement (the "Employment Agreement") with its current President & CEO. The Employment Agreement has an initial three-year term that, after two years, is automatically renewed on an annual basis so that a three-year term is always in effect, unless either the executive or the Company provides notice of non-renewal at least 60 days prior to any automatic renewal date. The Employment Agreement also provides for annual compensation which is comprised of a base salary, annual incentive compensation, and annual grants of restricted stock, as determined by the Board of Directors, subject to certain minimums.

14. CONCENTRATION OF RISKS

Credit Risk - The Company maintains its cash accounts with major financial institutions. The cash balances consist of checking accounts. The checking accounts are insured up to \$250,000 by the Federal Deposit Insurance Corporation. As of December 31, 2008, the Company's checking account balances exceed the federally insured limits. The Company has not experienced any losses with respect to bank balances in excess of government provided insurance or uninsured overnight investment accounts. Management believes no significant concentration of credit risk exists with respect to these cash balances as of December 31, 2008.

The Company invests its excess cash in a variety of marketable securities and money market accounts. These funds are held with a number of major financial institutions. The Company monitors the financial strength of these financial institutions on a regular basis.

Geographic Concentration - At December 31, 2008, 31.5% and 8.9% of the Company's investments and commitments (dollars) were in Texas and Florida, respectively. At December 31, 2007, the associated figures were 29.5% and 8.8%.

Business Concentration - During the fourth quarter of 2008, the Company's primary senior investor temporarily suspended issuing new commitments. This will require the Company to utilize its secondary senior investor for all new debt business.