

**CONTINUING DISCLOSURE REPORT
OF
ARCOLA INVESTMENT ASSOCIATES**

For the Quarter Ending September 30, 2005

**Montgomery County, Maryland
Special Obligations Bonds**

**(West Germantown Development District)
(Series 2002A and Series 2002B)**

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I. INTRODUCTION:

The West Germantown Development District (the “District”), located in Montgomery County, Maryland, was created by Montgomery County, Maryland (the “County”) in 1998. The District comprises approximately 671 acres of land in the West Germantown area of the County. A portion of the property within the District known as Arcola Woodcliffe Park has been substantially developed by Arcola Investment Associates (as to approximately 414 acres) and the remaining portion within the District known as Artery Woodcliffe Park has been developed by Artery Hoyles Mill, LLC (as to approximately 252 acres), with one five acre parcel currently not under development. Upon completion, the property located within the District is expected to contain 1,393 residential units, including 1,096 single family detached homes, 195 single family attached (townhouse) units and 102 multi-family garden apartment units.

In connection with the District, pursuant to certain Bond offering documents dated April 1, 2002, the County has issued an aggregate of \$15,915,000.00 in Special Obligation Bonds (\$11,600,000 principal amount of 2002 Series A Bonds and \$4,315,000 principal amount of 2002 Series B Bonds) (the “Bonds”). The proceeds of the Bonds are being used primarily to finance the cost of acquisition of certain road, park and sewer improvements. The Bonds are payable solely from special taxes and special assessments levied by the County on taxable property within the District.

Pursuant to that certain Developer’s Continuing Disclosure Agreement, dated as of April 1, 2002, Arcola has agreed to provide continuing disclosure information to the County similar to the requirements of Rule 15(c)2-12 under the Securities Exchange Act of 1934, as amended. This report is provided pursuant to the referenced agreement.

Arcola has development responsibility for the portion of the project referred to as “Arcola Woodcliffe Park,” and has sold finished lots to home builders as such lots have been developed. Arcola is not involved in any home construction or sales activity. Consequently, certain of the information in this report on development activity was provided by individual builders and is believed to be accurate; however, the information has not been independently verified, and Arcola does not certify the accuracy of such information.

II. STATUS OF COMPLETION OF THE IMPROVEMENTS:

(a) Status of Primary Improvements (Schedule A)

Arcola is responsible for the construction of four of the six phases of Richter Farm Road, the Hoyles Mill Wastewater Pumping Station, the force main and one of the two local public parks included in the Primary Improvements (Schedule A). The current status for each of the Primary Improvements for which Arcola is responsible is set forth below:

(1) Richter Farm Road (Route A-297):

Status: One Hundred percent completed. Punch list for release of permit is complete. Montgomery County has accepted Phases 1, 2 and 3.

(2) Schaeffer Road Widening:

Status: N/A – not the responsibility of Arcola.

(3) Hoyles Mill Wastewater Pumping Station and Force Main:

Status: One hundred percent completed Washington Suburban Sanitary Commission has released Arcola.

(4) Local Public Park:

Status: Permit was received. Work is 100% complete. MNCPPC released on 4/1/05.

(b) Status of Secondary Improvements (Schedule B)

Of the Secondary Improvements (Schedule B), Arcola is responsible for the grading of the right of way for the force main, certain outfall sewer lines and a portion of King's Crossing Boulevard. In addition, Arcola is responsible for a portion of the turn lanes and intersection improvements to Clopper Road and Great Seneca Highway. The current status each of the Secondary Improvements is set forth below:

(1) Clearing and Grading of Right-of-Way for Force Main Installation:

Status: One hundred percent (100%) completed.

(2) Outfall Sewer Line:

Status: One hundred percent (100%) completed.

(3) Turn Lanes and Intersection Improvements - Clopper Road and Great Seneca Highway:

Status: Great Seneca Highway is completed. Clopper Road is completed.

(4) Leaman Farm Road Widening:

Status: N/A – not the responsibility of Arcola.

(5) King's Crossing Boulevard:

Status: One Hundred percent (100%) complete. All permits and bonds have been released.

III. STATUS OF DEVELOPMENT AND SALES:

(a) Status of Lot Development

Arcola has entered into contracts with homebuilders for all of the lots within the Arcola Woodcliffe Park property, and has delivered all of the finished single family lots. The following table sets forth the current status of development as of September 30, 2005 of properties in the District owned or formerly owned by Arcola:

Property Owner	No. of Units	Type of Unit	Section	Status of Property
Richmond American	1	Single Family	Arcola WP	Homes Under Construction, Built and/or Sold Grading revisions will be necessary due to new design; Water & Sewer completed
Arcola	102	Multi-Family	Arcola WP	
Subtotal - Builder/Developer:	103			
Individual Homeowners	713	Single Family	Arcola WP	Homes Completed and Settled on, minor development work to be completed
Subtotal - Homeowners:	713			
Total Units:	816			

An updated Arcola “FINISHED LOT COMPLETION SCHEDULE” is set forth in the table below.

UPDATED ARCOLA FINISHED LOT COMPLETION SCHEDULE									
No Lots	Builder / Lot Size	Lot Size	Sect.1A Sep-00	Sect. 1B Oct-00	Sect.2A Jun-01	Sect. 3A Aug-01	Sect. 2B Jun-02	Sect. 3B, 2C,3C Oct-02	
94	Richmond American	standard				51		43	
140	Ryland	standard	13	34		53		40	
23	Ryland	standard	2	21					
84	Ryan	standard	13	27		29		15	
6	Ryan	standard	6						
6	Ryan	standard	2	4					
11	Ryan	standard		11					
105	Ryan	neo-trad.				56		49	
44	Hovnanian/Washington	standard	11	23		10			
9	Hovnanian/Washington	standard				9			
65	NV	large			21		22	22	
27	NV	standard				5		22	
50	Craftmark	large			22		28		
50	Mid Atlantic	large				7		43	
102	(none)	Multi-family						102	
816	Total		47	120	43	220	50	336	
Development Schedule * * *			Phase 1:	167	Phase 2: 263		Phase 3: 386		
Phase 1	167		Richmond American				94	Craftmark	50
Phase 2	263		Ryland				163	Mid Atlantic	50
Phase 3	386		Hovnanian/Washington Homes				53	Ryan	212
Total	816		NV Homes				92	Total	816
			Multi-Family				102		

(b) Status of Lot Sales

As of September 30, 2005, Ryland Homes had settled on the purchase of 163 lots, Ryan Homes 240 lots, Richmond American 94 lots, Hovnanian/Washington Homes 53 lots, Craftmark Homes 50 lots, NV Homes 64 lots, and Mid Atlantic 50 lots, for a total of 714 of the 816 lots located within Phases 1 to 4 of Arcola Woodcliffe Park as indicated on the table below:

ARCOLA FINISHED LOT SALES TO BUILDERS / HOME SALES							
# of Lots	Builder	Lot Size	FINISHED LOT SALES TO BUILDERS As of June 30, 2005			HOME SALES TO HOMEOWNERS As of June 30, 2005	
			<i>avg. per lot</i>	<i>total</i>	<i># lots</i>	<i># lots under contract</i>	<i># lots settled</i>
94	Richmond American	standard	\$116,574	\$10,957,915	94	94	93
163	Ryland	standard	\$105,473	\$17,192,046	163	163	163
107	Ryan	standard	\$112,378	\$12,024,404	107	107	107
105	Ryan	neo-trad.	\$ 94,822	\$9,956,281	105	105	105
53	Hovnanian/Washington	standard	\$ 98,986	\$5,246,249	53	53	53
64	NV	large	\$127,936	\$8,187,905	64	64	64
28	NV - Ryan	standard	\$127,241	\$3,435,504	28	28	28
50	Craftmark	large	\$130,755	\$6,242,641	50	50	50
50	Mid Atlantic	large	\$132,325	\$6,616,243	50	50	50
102	(none)	garden					
816	Total		Total	\$79,859,188	714	Total: 714	Total: 713

(c) Status of Home Sales

According to information received from the home builders by Arcola, the current average sales prices for homes located in Arcola Woodcliffe Park (by homebuilder) are: (i) for single family detached homes: \$381,128 for Hovnanian/Washington Homes; \$519,838 for Ryan Homes; \$420,497 for Ryan Neo-Traditional Homes; \$626,513 for NV Homes; \$419,635 for Ryland Homes; \$459,700 for Richmond American; \$574,144 for Mid Atlantic; and \$587,447 for Craftmark Homes; and (ii) We entered into a contract with Premiere Homes for the multi-family MPDU dwelling units.

IV. STATUS OF FINANCING:

(a) Ohio Savings Bank Loan

As of September 30, 2005, the Ohio Savings Bank development loan was paid off. There have been no defaults on the loan and no additional encumbrances other than as disclosed in the Bond offering documents.

(b) District Bond Disbursements

As of September 30, 2005, the disbursements from the Acquisition Account held by the Bond Trustee total \$12,521,158. These disbursements have been applied against the following line items:

Arcola and Artery Public Improvements – Schedule A			
(Arcola)	A-297 phase 1-3, Clopper Rd to Autumn Crest	3,471,254	3,471,254
(Artery)	A-297 phase 4-5, Ashleigh Greene to Avatar	1,753,612	1,753,612
(Arcola)	A-297 phase 6, Schaeffer to Rt 118	2,156,042	2,156,042
(Arcola)	Force Main phase 1-2, pump station to A-297 & ROW	1,170,000	1,170,000
(Artery)	Force Main phase 3, A-297 to Pleasants	305,020	305,020
(Arcola)	Pleasants sewer outfall	406,248	406,248
(Artery)	Pleasants sewer outfall	276,752	276,752
(Arcola)	Pump Station phase 5-9	1,680,000	1,680,000
(Artery)	Schaeffer Road	992,244	992,244
(Arcola)	Local Parks	310,000	310,000
(Artery)	Local Parks	310,000	310,000
		12,831,172	12,831,172
Arcola Public Improvements - Schedule B (Secondary Improvements)			
(Arcola)	18" Outfall Sewer		122,398
Total Disbursements through September 30, 2005			12,521,158

(c) Updated Costs and Expected Sources of Funds

The following table sets forth the current total costs for the Arcola Woodcliffe Park Development (other than those related to the construction of the housing units) as well as the sources of funding that include the 2002 Bond proceeds, the Ohio Savings Bank loan proceeds, the subordinated loans, the Developer's equity, and the projected cash flow from the Arcola Woodcliffe Park Development (to extent that there is any variance of greater than 5% from that provided in the Offering Documents, with explanation of the reasons for such variance):

Arcola-Woodcliffe Park
Estimated Development Costs & Expected Source of Funds

	2002 Bonds	Ohio Savings Bank Financing	Developer's Equity	Cash Flow	Total	Expenditures as of September 30, 2005
Land	\$	\$7,700,000	\$5,757,112	\$3,142,888	\$16,600,000	\$16,600,000
Public Improvements – Schedule A						
(Constructed by the Developer)						
A-297 Phases 1, 2 & 3 -Clopper to Ashleigh Green		\$3,471,254			\$3,471,254	\$3,175,000
A-297 Phase 6 -Schaeffer to Route 118		\$1,721,470		\$434,577	\$2,156,047	\$1,721,000
Hoyles Mill Pumping Station & Force Main Phases 1-2		\$3,256,248			\$3,256,248	\$2,827,000
Arcola Local Public Park		\$310,000			\$310,000	-0-
Total		\$8,758,972		\$434,577	\$9,193,549	\$7,723,000

	2002 Bonds	Ohio Savings Bank Financing	Developer's Equity	Cash Flow	Total	Expenditures as of September 30, 2005
Secondary Improvements – Schedule B						
Force Main & Outfall Sewers		\$1,266,028		256,001	\$1,522,029	\$876,000
Clopper Road & Kings Crossing Blvd.		\$0		\$936,284	\$936,284	\$1,140,000
Great Seneca Highway		\$0		\$287,072	\$287,072	-0-
Total		<u>\$1,266,028</u>		<u>\$1,479,357</u>	<u>\$2,745,385</u>	<u>\$2,016,000</u>
Equalization Payment to Artery				\$278,095	\$278,095	-0-
Total Public Improvements	\$0	\$10,025,000		\$2,192,029	\$12,217,029	\$9,739,000
Private Improvements						
Engineering (includes consultants and legal)		\$2,556,200		\$61,800	\$2,618,000	\$2,790,000
Permit fees		\$1,149,660		\$196,340	\$1,346,000	\$1,533,000
Grading		\$3,810,618		\$314,382	\$4,125,000	\$4,284,000
Landscaping		\$732,564			\$732,564	\$747,000
Storm Drain		\$1,856,400			\$1,856,400	\$1,914,000
Utilities		\$4,154,766		\$1,428,234	\$5,583,000	\$6,039,000
Concrete		\$249,900			\$249,900	\$242,000
Paving		\$1,570,800			\$1,570,800	\$1,805,000
Storm Water Pond (not included in Grading)		\$1,428,000			\$1,428,000	\$2,216,000
Site Maintenance		\$461,244			\$461,244	\$197,000
Amenities (also includes street lighting/signs)		\$931,770			\$931,770	\$440,000
Misc. – Bond release – Contingency, Escalation		\$714,000			\$714,000	\$56,000
Sewer Outfall and Other Non-District Improvements (not included in categories above)		\$99,450		\$1,170,550	\$1,270,000	\$578,000
Subtotal		<u>\$19,715,372</u>		<u>\$3,171,306</u>	<u>\$22,886,678</u>	<u>\$22,841,000</u>
Pool Facilities (not included in Amenities)				\$714,000	\$714,000	\$ 758,000
General Development Costs						
Marketing		\$0		\$714,000	\$714,000	\$417,000
Development & Administrative Fees		\$0		\$1,089,000	\$1,089,000	\$1,097,000
Soft Costs & Real Estate Taxes		\$0		\$1,670,599	\$1,670,599	\$430,000
Debt Service		\$3,959,628			\$3,959,628	\$3,115,000
Legal		\$400,000			\$400,000	\$72,000
Subtotal		<u>\$4,359,628</u>		<u>\$3,473,599</u>	<u>\$7,853,227</u>	<u>\$5,131,000</u>
Total Private Improvements	\$0	\$24,075,000		\$7,358,905	\$31,483,905	\$28,730,000
Total All Costs	\$0	\$41,800,000	\$5,757,112	\$12,693,822	\$60,250,934	\$55,069,000
Less Reimbursements from Tax District	\$7,525,395	\$(7,525,395)			\$0	
Net Costs	\$7,525,395	\$34,274,605	\$5,757,112	\$12,693,822	\$60,250,934	\$55,069,000

The following is an explanation of any variances greater than five percent (5%) from that set forth in the Offering Documents:

Most line items in the Private Improvements were over the amounts budgeted as the bond release work was charged to those line items and not the Misc. Bond release – Contingency and escalation category. The actual costs were higher than anticipated. Paving costs increased due to an increase in the cost of asphalt, a petroleum by-product. Development and Administrative fees were higher than budgeted. Some of the costs were not included in the original budget.

(d) *Sufficiency of Available Funds to Complete District Development*

Arcola has substantially completed the development of its portion of the Arcola Woodcliffe Park project.

V. STATUS OF APPROVALS:

The Arcola Woodcliffe Park property is zoned PD-2, which allows the development of the property as anticipated. All discretionary public development and plan approvals required for development to continue are completed. As of September 30, 2005, record plats for 714 lots (167 lots in Section 1, 263 lots in Section 2, and 284 lots in Section 3) have been recorded with the County.

As of September 30, 2005, Arcola does not anticipate any significant delays or changes in the development of the project as proposed.

VI. STATUS OF LEGISLATIVE, ADMINISTRATIVE AND JUDICIAL CHALLENGES:

None

**CONTINUING DISCLOSURE REPORT
OF
ARTERY HOYLES MILL, LLC**

December 13, 2005

**Montgomery County, Maryland
Special Obligations Bonds**

**(West Germantown Development District)
(Series 2002A and Series 2002B)**

INTRODUCTION:

The West Germantown Development District (the “District”), located in Montgomery County, Maryland, was created by Montgomery County, Maryland (the “County”) in 1998. The District comprises approximately 671 acres of land in the West Germantown area of the County. A portion of the property within the District known as Artery Woodcliffe Park has been substantially developed by Artery Hoyles Mill, LLC (as to approximately 252 acres) and the remaining portion within the District known as Arcola Woodcliffe Park has been developed by Arcola Investment Associates (as to approximately 414 acres), with one five acre parcel currently not under development. Upon completion, the property located within the District is expected to contain 1,393 residential units, including 1,096 single family detached homes, 195 single family attached (townhouse) units and 102 multi-family garden apartment units.

In connection with the District, pursuant to certain Bond offering documents dated April 1, 2002, the County has issued an aggregate of \$15,915,000.00 in Special Obligation Bonds (\$11,600,000 principal amount of 2002 Series A Bonds and \$4,315,000 principal amount of 2002 Series B Bonds) (the “Bonds”). The proceeds of the Bonds are being used primarily to finance the cost of acquisition of certain road, park and sewer improvements. The Bonds are payable solely from special taxes and special assessments levied by the County on taxable property within the District.

Pursuant to that certain Developer’s Continuing Disclosure Agreement, dated as of April 1, 2002, Artery has agreed to provide continuing disclosure information to the County similar to the requirements of Rule 15(c)2-12 under the Securities Exchange Act of 1934, as amended. This report is provided pursuant to the referenced agreement.

Artery has development responsibility for the portion of the project referred to as “Artery Woodcliffe Park,” and has either sold finished lots to home builders as such lots have been developed, or in the case of lots sold to Toll MD II, Limited Partnership, a single purpose entity controlled by Toll Brothers (“Toll LP”) has sold property in a bulk sales transaction and has entered into a lot finishing contract with Toll LP. Except for homes constructed on 17 lots by an affiliate, Artery is not involved in any home construction or sales activity. Consequently, certain of the information in this report on development activity was provided by individual builders and is believed to be accurate; however, the information has not been independently verified, and Artery does not certify the accuracy of such information.

STATUS OF COMPLETION OF THE IMPROVEMENTS:

N/A

STATUS OF DEVELOPMENT AND SALES:

Status of Lot Development

Artery has entered into contracts with homebuilders for 578 of the 578 lots within the Artery Woodcliffe Park property, and has delivered all of the finished lots.

The following table sets forth the current status of development as of December 13, 2005 of properties in the District owned or formerly owned by Artery:

Property Owner	No. of Units	Type of Unit	Section	Status of Property
Toll LP	27	Single Family	Artery WP	220 Lots Sold/196 Lots Settled
<u>Subtotal - Builder/Developer:</u>	27			
Individual Homeowners				
Subtotal - Homeowners:	551		Artery WP	Development Complete
<u>Total Units:</u>	<u>578</u>			

Artery has developed all of the lots to be delivered as finished lots to builders in Artery Woodcliffe Park. As of June 30, 2005, Artery has completed the development of 223 of the 223 lots for Toll LP.

Status of Lot Sales

As of June 30, 2005, all of the 578 lots have been settled on by homebuilders.

(c) *Status of Home Sales*

As of December 13, 2005 homebuilders had entered into sales contracts to sell approximately 24 homes, and had settled on approximately 551 homes located in Artery Woodcliffe Park. According to information received from the home builders by Artery, the current average sales prices for homes located in Artery Woodcliffe Park (by homebuilder) is: (i) for single family detached homes: \$550,000 for Toll LP Homes.

STATUS OF FINANCING:

N/A

STATUS OF APPROVALS:

N/A

STATUS OF LEGISLATIVE, ADMINISTRATIVE AND JUDICIAL CHALLENGES:

N/A

