



**CAPITAL  
MORTGAGE  
PLUS L.P.**

**QUARTERLY  
REPORT**

**Ended  
March 31, 2006**

May 2006

Message to Our BACsholders:

We would like to take this opportunity to present the Quarterly Report for Capital Mortgage Plus L.P. (the "Partnership") including financial statements for the quarter ended March 31, 2006.

The Partnership's portfolio contains two mortgages in which it originally invested. It is anticipated that these two mortgages will be satisfied during the third quarter of this year. In that event, the Partnership will terminate operations and 2006 will be the final year for this Partnership. However no assurances can be given that these mortgage satisfactions will occur within this timeframe. Any proceeds from the satisfaction of these mortgages will be distributed thereafter. If the Partnership is terminated this year the Schedule K-1 form you will be receiving in 2007 will be a final Schedule K-1 form. Please see the Management's Discussion section of this report for a more detailed explanation of Partnership operations.

Sincerely,

A handwritten signature in black ink that reads "Alan P. Hirmes". The signature is written in a cursive, flowing style.

Alan P. Hirmes  
President  
CIP Associates, Inc.

## Statements of Financial Condition

	March 31, 2006 <u>(Unaudited)</u>	December 31, 2005 <u>(Audited)</u>
ASSETS		
Investments in mortgage loans (Note 2)	\$ 10,513,596	\$ 10,541,743
Loan origination costs (net of accumulated amortization of \$150,672 and \$148,496)	<u>322,858</u> 10,836,454	<u>325,334</u> 10,867,077
Cash and cash equivalents	522,766	591,905
Accrued interest receivable (net of allowance of \$992,328 and \$963,033)	<u>71,972</u>	<u>72,164</u>
Total assets	<u>\$ 11,431,192</u>	<u>\$ 11,531,146</u>
LIABILITIES AND PARTNERS' CAPITAL (DEFICIT)		
Liabilities		
Accounts payable and other liabilities	\$ 45,889	\$ 36,349
Due to general partner and affiliates (Note 3)	<u>15,917</u>	<u>119,183</u>
Total liabilities	<u>61,806</u>	<u>155,532</u>
Partners' capital (deficit):		
Limited Partners (1,836,660 BACs issued and outstanding)	11,631,196	11,637,299
General Partner	<u>(261,810)</u>	<u>(261,685)</u>
Total partners' capital (deficit)	<u>11,369,386</u>	<u>11,375,614</u>
Total Liabilities and Partners' Capital (Deficit)	<u>\$ 11,431,192</u>	<u>\$ 11,531,146</u>

See accompanying notes to financial statements.

**Statements of Income**  
(Unaudited)

	Three Months Ended March 31,	
	<u>2006</u>	<u>2005*</u>
Revenues		
Interest income:		
Mortgage loans (Note 2)	\$ 244,104	\$ 246,625
Temporary investments	16,975	11,108
Other income	<u>2,868</u>	<u>1,300</u>
Total revenues	<u>263,947</u>	<u>259,033</u>
Expenses		
General and administrative	19,983	20,791
General and administrative-related parties (Note 3)	50,247	45,474
Provision for bad debts	<u>29,295</u>	<u>29,607</u>
Total expenses	<u>99,525</u>	<u>95,872</u>
Net income	<u>\$ 164,422</u>	<u>\$ 163,161</u>
Allocation of Net income:		
Limited Partners	<u>\$ 161,134</u>	<u>\$ 159,898</u>
General Partner	<u>\$ 3,288</u>	<u>\$ 3,263</u>
Net income per BAC	<u>\$ 0.09</u>	<u>\$ 0.09</u>

\* Reclassified for comparative purposes.

See accompanying notes to financial statements.

## Statement of Changes in Partners' Capital (Deficit)

(Unaudited)

	<u>Total</u>	<u>Limited Partners</u>	<u>General Partner</u>
Partners' capital (deficit) –			
January 1, 2006	\$ 11,375,614	\$ 11,637,299	\$ (261,685)
Net income	164,422	161,134	3,288
Distributions	<u>(170,650)</u>	<u>(167,237)</u>	<u>(3,413)</u>
Partners' capital (deficit) –			
March 31, 2006	<u>\$ 11,369,386</u>	<u>\$ 11,631,196</u>	<u>\$ (261,810)</u>

See accompanying notes to financial statements.

**Statements of Cash Flows**  
(Unaudited)

	Three Months Ended March 31,	
	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Net income	\$ 164,422	\$ 163,161
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for bad debts	29,295	29,607
Amortization expense	2,476	2,476
Increase in accrued interest receivable	(29,103)	(29,430)
Decrease in other assets	-	31,089
Increase in accounts payable and other liabilities	9,540	9,476
(Decrease) increase in due to general partner and affiliates	<u>(103,266)</u>	<u>28,250</u>
Net cash provided by operating activities	<u>73,364</u>	<u>234,629</u>
Cash flows from investing activities:		
Receipt of principal on mortgage loans	<u>28,147</u>	<u>5,060,601</u>
Net cash provided by investing activities	<u>28,147</u>	<u>5,060,601</u>
Cash flows from financing activities:		
Distributions to partners	<u>(170,650)</u>	<u>(6,904,264)</u>
Net cash used in financing activities:	<u>(170,650)</u>	<u>(6,904,264)</u>
Net decrease in cash and cash equivalents	(69,139)	(1,609,034)
Cash and cash equivalents at beginning of period	<u>591,905</u>	<u>2,150,170</u>
Cash and cash equivalents at end of period	<u>\$ 522,766</u>	<u>\$ 541,136</u>

See accompanying notes to financial statements.

## **Notes to Financial Statements**

### **March 31, 2006**

#### Note 1 - General

The unaudited financial statements have been prepared on the same basis as the audited financial statements included in Capital Mortgage Plus L.P.'s (the "Partnership") Annual Report on Form 10-K for the year ended December 31, 2005. In the opinion of CIP Associates, Inc., a Delaware corporation (the "General Partner"), the accompanying unaudited financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position of the Partnership as of March 31, 2006 and the results of operations and its cash flows for the three months ended March 31, 2006 and 2005, respectively. However, the operating results for the three months ended March 31, 2006 may not be indicative of the results for the year.

Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2005.

The Partnership was formed to invest in insured or guaranteed mortgage investments. The Partnership has invested in first mortgage construction and permanent loans ("Mortgages") to finance multifamily residential rental properties ("Developments") developed by unaffiliated entities. The Partnership has also invested in uninsured equity loans ("Equity Loans") made directly to developers of developments on which the Partnership holds a Mortgage.

CAPITAL MORTGAGE PLUS L.P.  
(a limited partnership)  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2006  
(Unaudited)

Note 2 - Investments in Mortgage Loans

Information relating to investments in the Mortgage and Equity Loans as of March 31, 2006 is as follows:

Property/ Location	No. of Apartment Units	Date of Investment	Final Maturity Date	Mortgage Loans	Equity Loans	Total Amounts Advanced	Amounts Advanced			Interest earned by the Partnership during 2006					
							Investments			Non-contingent			Contingent		
							in Loans at 3/31/2006(E)	in Loans at 12/31/2005(E)	Base Interest Amount/ Rate (A)	Default Interest Amount/ Rate (B)	Annual Yield Amount/ Rate (C)	Cash Flow Participa- tion Amount/ Rate (D)	Total Interest Earned		
Windemere Apts/ Wichita, KS	204	9/1990	9/2030	\$ 8,110,300	\$ 736,550	\$ 8,846,850	\$ 7,411,675	\$ 7,432,335	\$ 147,443 7.95%	\$ 29,295 1.60%	\$ 0 1.08%	\$ 0 30.00%	\$ 176,738		
Fieldcrest III Apts/ Dothan, AL	112	8/1991	8/2031	3,343,700	383,300	3,727,000	3,101,921	3,109,408	67,366 8.68%	0 0%	0 1.36%	0 30.00%	67,366		
<b>Total</b>				<b>\$ 11,454,000</b>	<b>\$ 1,119,850</b>	<b>\$ 12,573,850</b>	<b>\$ 10,513,596</b>	<b>\$ 10,541,743</b>	<b>\$ 214,809</b>	<b>\$ 29,295</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 244,104</b>		

**Notes to Financial Statements (continued)**  
**March 31, 2006**

- (A) Base Interest on the Mortgages is that amount that is insured/co-insured by the Department of Housing and Urban Development (“HUD”) and is being shown net of service fee.
- (B) Default Interest is the minimum amount due over the base rate, and is not contingent upon cash flow. This interest is secured by partnership interests in the borrower.
- (C) Annual Yield is the amount over the default rate and is contingent upon cash flow of the Developments.
- (D) Cash Flow Participation is the percent of cash flow due to the Partnership after payment of the Annual Yield and is contingent upon cash flow of the Developments.
- (E) The Investments in loans amount reflects the unpaid balance of the Mortgages in the amount of \$10,513,596 at March 31, 2006 and \$10,541,743 at December 31, 2005. The Equity Loans are fully reserved.

Investments in loans January 1, 2005	\$ 10,648,744
Deductions:	
Collection of principal – Mortgages — Windemere	(78,633)
— Fieldcrest	<u>(28,368)</u>
	<u>(107,001)</u>
Investments in loans December 31, 2005:	<u>10,541,743</u>
Deductions:	
Collection of principal – Mortgages — Windemere	(20,660)
— Fieldcrest	<u>(7,487)</u>
	<u>(28,147)</u>
Investments in loans March 31, 2006	<u>\$ 10,513,596</u>

**Notes to Financial Statements** (continued)  
**March 31, 2006**

The Windemere Apartments (“Windemere”) Mortgage is co-insured by HUD and Related Mortgage Corporation (“RMC”), a company which is affiliated with the non-executive Chairman of CharterMac, the parent of the General Partner. The Fieldcrest III Apartments, Ltd. (“Fieldcrest”) Mortgage is insured by HUD.

In addition to the interest rate payable during the post-construction periods, the Partnership will be entitled to payment of 30% of cash flow, if any, remaining after payment of the permanent loan interest and accrued interest, if any, and 30% to 35% of sales or refinancing proceeds, if any.

The Equity Loans are non-interest bearing and are secured by the assignment of the owner/developers’ interests in the Developments. The Equity Loans are not insured by HUD or any other party. The Partnership believes recovery of such loans is contingent and is likely only in the event of a sale or refinancing. Although the Partnership can call its Equity Loan, it cannot control the amount of proceeds available for repayment. Accordingly, the Partnership believes such collections should be reflected as gains when they occur. As of March 31, 2006 and 2005, the Equity Loans are fully reserved.

Loan origination costs, net of related loan fees, are deferred and recognized as a component of interest income over contractual payment terms of the related mortgage loans. Amortization expense was \$2,476 for both the periods ended March 31, 2006 and 2005.

At March 31, 2006, all of the loans due to the Partnership are current with respect to their Federal Housing Authority (“FHA”) Mortgage obligations. Windemere has not paid its default interest of an aggregate of approximately \$29,000 for the three months ended March 31, 2006 and \$833,000 and \$130,000 for the years ended December 31, 1999 through 2005 and December 31, 1996, respectively. As a result, an allowance for uncollectability relating to the default interest amounted to approximately \$992,000 and \$963,000 at March 31, 2006 and December 31, 2005, respectively. The allowance has been reflected in provisions for bad debts on the statements of income.

As permitted by the certain Subordinated Promissory Note dated August 23, 1991 (the “Subordinated Note”), on November 30, 2005, RMC called for the prepayment of the Subordinated Note on May 31, 2006 from Fieldcrest which has an estimated fair market value of the property of \$5,000,000. As of March 31, 2006, Fieldcrest had a Mortgage balance of approximately \$3,102,000 and an Equity Loan balance of approximately

**Notes to Financial Statements** (continued)  
**March 31, 2006**

\$383,000 exclusive of any amounts that entitle the Partnership to a participation of any proceeds from sale or refinancing. Any repayment on the Equity Loan would result in a gain as it has been fully reserved, and any payments from a participation would result in interest income to the Partnership.

Windemere is currently in negotiations to refinance its Mortgage and Equity Loan through an affiliate of the General Partner. No agreements have been entered into, and there is no guarantee that the refinancing will occur. The Partnership currently estimates that the refinancing is expected to take place in the second quarter of 2006. As of March 31, 2006, Windemere had a Mortgage balance of approximately \$7,412,000 and an Equity Loan balance of approximately \$737,000. Effective December 31, 2004, the Equity Loan has a net book value of \$0. The Partnership believes recovery of such Equity Loan or any amounts that entitle the Partnership to a participation of any proceeds from sale or refinancing is contingent and is likely only in the event of a sale or refinancing. Although the Partnership can call its Equity Loan, it cannot control the amount of proceeds available for repayment. Accordingly, the Partnership believes such Equity Loan collections should be reflected as gains when they occur, and any payments from a participation would result in interest income to the Partnership.

Note 3 - Related Parties

The costs incurred to related parties for the three months ended March 31, 2006 and 2005 were as follows:

	Three Months Ended March 31,	
	<u>2006</u>	<u>2005</u>
Partnership management fees (a)	\$ 16,474	\$ 16,474
Expense reimbursement (b)	<u>33,773</u>	<u>29,000</u>
Total general and administrative-related parties	<u>\$ 50,247</u>	<u>\$ 45,474</u>

(a) A Partnership management fee for managing the affairs of the Partnership equal to .5% per annum of invested assets is payable out of cash flow to the General Partner. At March 31, 2006 and December 31, 2005,

**Notes to Financial Statements** (continued)  
**March 31, 2006**

the General Partner and its affiliates were due approximately \$0 and \$16,000, respectively, for these fees.

(b) The General Partner and its affiliates perform services for the Partnership which include, but are not limited to: accounting and financial management, registrar, transfer and assignment functions, asset management, investor communications, printing services and other administrative services. The amount of reimbursement from the Partnership is limited by the provisions of the Partnership Agreement. An affiliate of the General Partner performs asset monitoring services for the Partnership. These asset monitoring services include site visits and evaluations of the performance of the properties securing the loans. Fees owed to the General Partner amounting to approximately \$16,000 and \$103,000 were accrued and unpaid as of March 31, 2006 and December 31, 2005, respectively.

RMC is a co-insurer on the Windemere Mortgage in which the Partnership has invested. RMC is entitled to a mortgage insurance premium which is paid by the mortgagor. RMC is also the servicer for both Windemere and Fieldcrest and receives a fee for its services.

Note 4 - Subsequent Event

It is anticipated that during May 2006, distributions of approximately \$164,000 and \$3,000 will be paid to Beneficial Assignment Certificate ("BAC") holders and the General Partner, respectively, representing the 2006 first quarter distribution.

**Management's Discussion and Analysis of Financial Condition and Results of Operations**

Capital Resources and Liquidity

Sources of Partnership funds included interest earned on (1) investments in Mortgage and Equity Loans and (2) the working capital reserve.

During the three months ended March 31, 2006, cash and cash equivalents of the Partnership decreased by approximately \$69,000 due to distributions paid to the General Partner and BAC holders of approximately \$171,000 which exceeded cash provided by operating activities of approximately \$73,000 and collections of principal on Mortgages of ap-

## **Management's Discussion and Analysis of Financial Condition and Results of Operations** (continued)

proximately \$28,000. Amortization of approximately \$2,000 is included in the adjustments to reconcile the net income to net cash provided by operating activities.

Distributions of approximately \$167,000 and approximately \$3,000 were made to the BAC holders and the General Partner, respectively, during the three months ended March 31, 2006.

As permitted by the certain Subordinated Promissory Note dated August 23, 1991 (the "Subordinated Note"), on November 30, 2005, Related Mortgage Corporation ("RMC") called for the prepayment of the Subordinated Note on May 31, 2006 from Fieldcrest III Apartments, Ltd. ("Fieldcrest") which has an estimated fair market value of the property of \$5,000,000. As of March 31, 2006, Fieldcrest had a Mortgage balance of approximately \$3,102,000 and an Equity Loan balance of approximately \$383,000. Any repayment on the Equity Loan would result in a gain as it has been fully reserved.

Windemere Apartments ("Windemere") is currently in negotiations to refinance its Mortgage and Equity Loan through an affiliate of the General Partner. No agreements have been entered into, and there is no guarantee that the refinancing will occur. The Partnership currently estimates that the refinancing is expected to take place in the second quarter 2006. As of March 31, 2006, Windemere had a Mortgage balance of approximately \$7,412,000 and an Equity Loan balance of approximately \$737,000. Any repayment of Equity Loan would result in a gain as it has been fully reserved.

Upon repayment of the two remaining investments in Mortgages and Equity Loans, the Partnership would distribute any remaining net proceeds and liquidate.

Subject to the future performance of the Partnership's investments and results of operations, the General Partner anticipates that there will be sufficient cash from operations generated to cover anticipated expenses in 2006. Distributions to partners depend on earnings and are reduced upon repayment of Mortgages and Equity Loans.

Management is not aware of any trends or events, commitments or uncertainties that will negatively impact liquidity in a material way. Management believes the only impact would be from laws that have not yet been adopted. All base interest and the principal of the Partnership's investments in Mortgages are insured or co-insured by HUD and additionally

## **Management's Discussion and Analysis of Financial Condition and Results of Operations** (continued)

one Mortgage is co-insured by RMC, a private mortgage lender (which is affiliated with the non-executive Chairman of CharterMac, the parent of the General Partner). The Partnership's investments in uninsured non-interest bearing Equity Loans (which represented approximately 10% of the Partnership's portfolio when originated) are secured by Partnership interests in two properties. Due to the prepayment of three of the Partnership's original investments in Mortgages and Equity Loans, the portfolio is not diversified by location around the United States. Thus, the Partnership may not be protected against a general downturn in the national economy.

### Critical Accounting Policies

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which require the Partnership to make certain estimates and assumptions. A summary of significant accounting policies is disclosed in Note 2 to the financial statements which are included in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2005. The following section is a summary of certain aspects of those accounting policies that may require subjective or complex judgments and are most important to the portrayal of the Partnership's financial condition and results of operations. The Partnership believes that there is a low probability that the use of different estimates or assumptions in making these judgments would result in materially different amounts being reported in the financial statements.

- Interest income on the Mortgages consists of contingent and non-contingent interest as defined in the Mortgage notes and other additional interest agreements. Non-contingent interest consists of base and default interest, which is recognized as earned. Contingent interest is based on the underlying property's cash flows and is recognized when received.
- If the interest receivable exceeds the estimated value derived by management, the Partnership adjusts the allowance account to reflect its estimated fair value.
- The Equity Loans entitle the Partnership to a participation of approximately 30% to 35% of any proceeds from sale or refinancing. Because the participation percentage is less than 50%, the Partnership accounts for these Equity Loans as loans and not as equity investments in the borrower. Effective December 31,

## **Management's Discussion and Analysis of Financial Condition and Results of Operations** (continued)

2004, the Equity Loans are fully reserved. The Partnership believes the resulting zero net book value properly states the net Equity Loan value. The Partnership believes recovery of such Equity Loans is contingent and is likely only in the event of a sale or refinancing. Although the Partnership can call its Equity Loan, it cannot control the amount of proceeds available for repayment. Accordingly, the Partnership believes such Equity Loan collections should be reflected as gains when they occur, and any payments from a participation would result in interest income to the Partnership. The Partnership does not believe that the variable interest component represented by the Equity Loan rights that entitle the Partnership to a participation of proceeds from sale or refinancing will cause the Partnership to be the primary beneficiary of the borrowers. Accordingly, none of the borrowers are required to be consolidated under FASB Interpretation No. 46 (R), "Consolidation of Variable Interest Entities" ("FIN 46(R)"). Further, the combination of the Mortgage and the Equity Loan are not considered to increase the variability of expected losses or residual returns since the Mortgages are insured by HUD.

### Results of Operations

#### Three months ended March 31, 2006 compared with the three months ended March 31, 2005

Results of operations for the three months ended March 31, 2006 and 2005 consisted primarily of interest income earned from investment in Mortgages of approximately \$244,000 and \$247,000, respectively.

General and administrative-related parties expense increased approximately \$5,000 for the three months ended March 31, 2006 as compared to the same period in 2005, primarily due to an increase in expense reimbursements due to the General Partner for asset monitoring and overhead costs.

A provision for bad debts of approximately \$30,000 was charged to operations for the three months ended March 31, 2006, representing interest due from Windemere, which is not expected to be paid.

In the last three fiscal years, there has been no material impact from inflation or changing prices on revenues or on income from continuing operations.

## **Management's Discussion and Analysis of Financial Condition and Results of Operations** (continued)

The Partnership does not have any off-balance sheet arrangements.

The Partnership does not have long-term debt obligations, capital lease obligations, operating lease obligations, purchase obligations or other long-term liabilities reflected on the Partnership's balance sheet under GAAP.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Partnership does not have any market risk sensitive instruments.

### Item 4. Controls and Procedures

#### (a) Evaluation of Disclosure Controls and Procedures

The Principal Executive Officer and Principal Financial Officer of CIP Associates, Inc., the general partner of the Partnership, has evaluated the effectiveness of the Partnership's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, such officer has concluded that, as of the end of such period, the Partnership's disclosure controls and procedures are effective.

#### (b) Internal Control over Financial Reporting

There have not been any changes in the Partnership's internal control over financial reporting during the period to which this report relates that have materially affected, or are reasonably likely to materially affect, the Partnership's internal control over financial reporting.



**CAPITAL MORTGAGE PLUS L.P.**

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