

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

**CENTURY HOUSING CORPORATION
AND AFFILIATES**

JUNE 30, 2008 AND 2007

Century Housing Corporation and Affiliates

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	3
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	4
CONSOLIDATED STATEMENTS OF ACTIVITIES	5
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS	6
CONSOLIDATED STATEMENTS OF CASH FLOWS	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	9
SUPPLEMENTAL INFORMATION	
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION	36
CONSOLIDATING STATEMENTS OF ACTIVITIES	38

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Century Housing Corporation and Affiliates

We have audited the accompanying consolidated statements of financial position of Century Housing Corporation (the Corporation) and Affiliates as of June 30, 2008 and 2007, and the related consolidated statements of activities, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation'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 Century Housing Corporation and Affiliates as of June 30, 2008 and 2007, and the changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements of Century Housing Corporation and Affiliates taken as a whole. The accompanying supplemental information on pages 36 through 39 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.



Sacramento, California
October 15, 2008

Century Housing Corporation and Affiliates

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 12,037,828	\$ 8,133,864
Restricted cash	2,051,356	1,919,699
Accounts receivable, net	672,289	550,964
Investments	37,776,865	27,013,435
Interest receivable	1,316,396	1,495,148
Notes receivable, net	92,227,703	92,117,507
Real estate held for investment, net	3,190,806	3,757,446
Real estate held for sale	1,461,306	470,217
Buildings, land, leasehold improvements and office equipment, net	54,803,830	46,071,440
Prepaid financing fees, net	220,833	-
Prepaid expenses and other assets	1,951,259	2,015,582
	<u> </u>	<u> </u>
Total assets	<u>\$ 207,710,471</u>	<u>\$ 183,545,302</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 2,779,664	\$ 3,057,628
Accrued expenses	969,373	1,450,623
Accrued interest	134,626	236,755
Security deposits	803,766	304,701
Notes payable and lines of credit	60,227,420	36,952,020
	<u> </u>	<u> </u>
Total liabilities	<u>64,914,849</u>	<u>42,001,727</u>
Non-controlling interest	<u>12,827,072</u>	<u>13,015,703</u>
Net assets		
Unrestricted	129,811,106	128,366,140
Temporarily restricted	157,444	161,732
	<u> </u>	<u> </u>
Total net assets	<u>129,968,550</u>	<u>128,527,872</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 207,710,471</u>	<u>\$ 183,545,302</u>

See notes to consolidated financial statements

Century Housing Corporation and Affiliates
CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended June 30, 2008 and 2007

	2008	2007
REVENUE AND SUPPORT - UNRESTRICTED		
Real estate operations		
Rental income, net of vacancies	\$ 4,076,022	\$ 4,065,253
Real estate sold	3,912,000	458,600
Developer fee income	559,879	-
Affordable housing loan repayments	721,436	1,063,128
Interest income on notes receivable	9,176,986	6,581,241
Other income	1,052,588	1,516,315
Government grants	101,807	400,330
Contributions	241,604	918,249
Investment income		
Realized and unrealized (depreciation) and appreciation of investments	(2,625,589)	2,330,565
Interest and dividend income from investments	1,985,093	2,089,018
(Loss) income from equity investment	(63,674)	388,635
	19,138,152	19,811,334
EXPENSES - UNRESTRICTED		
Real estate operations		
Rental property expenses	3,537,432	3,868,480
Cost of real estate sold	1,690,973	256,464
Other real estate expenses	298,192	885,241
Other program support	2,251,388	3,860,399
Affordable housing program	1,932,195	2,087,759
Century/LIFT	369,865	378,959
Supporting services		
Management and general expenses	3,958,259	5,998,646
Loan loss reserve	292,316	507,050
Interest expense	2,810,256	1,403,789
Reduction in force expenses	523,143	609,922
Amortization expense	29,167	-
	17,693,186	19,856,709
Changes in unrestricted net assets	1,444,966	(45,375)
Temporarily restricted net assets		
Net assets released from restrictions	(4,288)	(13,268)
Net decrease in temporarily restricted net assets	(4,288)	(13,268)
Changes in net assets	\$ 1,440,678	\$ (58,643)

See notes to consolidated financial statements

Century Housing Corporation and Affiliates

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years ended June 30, 2008 and 2007

	Unrestricted net assets	Temporarily restricted net assets	Total
Net assets, June 30, 2006	\$ 128,411,515	\$ 175,000	\$ 128,586,515
Changes in net assets	<u>(45,375)</u>	<u>(13,268)</u>	<u>(58,643)</u>
Net assets, June 30, 2007	128,366,140	161,732	128,527,872
Changes in net assets	<u>1,444,966</u>	<u>(4,288)</u>	<u>1,440,678</u>
Net assets, June 30, 2008	<u><u>\$ 129,811,106</u></u>	<u><u>\$ 157,444</u></u>	<u><u>\$ 129,968,550</u></u>

See notes to consolidated financial statements

Century Housing Corporation and Affiliates

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Changes in net assets	\$ 1,440,678	\$ (58,643)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	1,321,348	1,323,229
Cumulative effect of an accounting change - beginning cash	-	31,652
Loan loss reserve expense	292,316	507,050
Equity in losses (gains) from investments	63,674	(388,635)
Noncash contribution	-	(775,999)
Gain from sale of real estate held for investment	(537,560)	-
Gain from disposal of buildings, land, leasehold improvements	(1,354,958)	-
Realized and unrealized depreciation (appreciation) of investments	2,625,589	(2,330,565)
Non-controlling interest	(764,148)	(574,762)
Changes in assets and liabilities		
Accounts receivable	(121,325)	140,363
Interest receivable	178,752	(383,215)
Real estate held for sale	(270,939)	(213,753)
Prepaid expenses and other assets	64,323	(833,444)
Accounts payable	(697,740)	1,124,739
Accrued expenses	(481,250)	1,050,168
Accrued interest	(102,129)	120,604
Security deposits	(935)	(60,096)
Net cash provided by (used in) operating activities	<u>1,655,696</u>	<u>(1,321,307)</u>
Cash flows from investing activities		
Changes in restricted cash	(131,657)	(113,618)
Investment securities purchased	(28,886,470)	(22,752,169)
Investment securities sold	14,449,591	28,686,387
Proceeds from sale of buildings, land, leasehold improvements and office equipment	1,778,000	-
Proceeds from sale of real estate held for investment	1,125,000	-
Distribution received from equity investment	120,579	-
Security deposits received for guaranty of line of credit	500,000	-
Receipts from notes receivable	48,850,346	40,119,281
Advances in notes receivable	(49,109,401)	(66,314,093)
Purchase of real estate held for investment	(20,800)	(187,761)
Purchases of buildings, land, leasehold improvements and office equipment	<u>(10,027,837)</u>	<u>(5,232,215)</u>
Net cash used in investing activities	<u>(21,352,649)</u>	<u>(25,794,188)</u>

(continued)

Century Housing Corporation and Affiliates

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from financing activities		
Payment on note payable and lines of credit	(24,322,788)	(1,392,154)
Proceeds from note payable and lines of credit	47,598,188	26,222,839
Distributions to non-controlling interest	(19,883)	(19,305)
Contributions from non-controlling interest	595,400	-
Payment of loan fees	(250,000)	-
	<u>23,600,917</u>	<u>24,811,380</u>
Net cash provided by financing activities		
	<u>23,600,917</u>	<u>24,811,380</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,903,964	(2,304,115)
Cash and cash equivalents, beginning	<u>8,133,864</u>	<u>10,437,979</u>
Cash and cash equivalents, ending	<u>\$ 12,037,828</u>	<u>\$ 8,133,864</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 2,912,385</u>	<u>\$ 1,283,185</u>
Supplemental disclosure of noncash activities		
Increase in accounts payable and accrued expenses included increase in investment in real estate	\$ 419,776	\$ 1,291,004
Equity investment converted to notes receivable	863,607	-
Decrease in notes receivable includes increase in real estate held for sale	720,150	-
Fixed assets acquired as in-kind contribution	-	5,000
Land acquired as in-kind contribution	-	770,999
The Corporation had the following noncash transactions as a result of the consolidation of the EITF 04-5 entities:		
Increase in restricted cash	-	(886,469)
Increase in accounts receivable	-	(92,983)
Decrease in investments	-	945,665
Decrease in interest receivable	-	487,209
Decrease in notes receivable	-	5,843,000
Increase in buildings, land, leasehold improvements and	-	(19,977,464)
Increase in prepaid expenses and other assets	-	(272,066)
Increase in accounts payable	-	61,025
Increase in non-controlling interest	-	13,609,770

See notes to consolidated financial statements

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008 and 2007

NOTE 1 - ORGANIZATION

Century Housing Corporation (Century) is a California nonprofit public benefit corporation exempt from state and federal income taxation. Century is the successor-in-interest to a housing program formerly administered by the State of California under the supervision of the United States District Court (Court) and a Consent Decree entered into in settlement of Keith v. Volpe (U.S. District Court, 72-355 HP). Century and its predecessor have developed and/or financed more than 14,000 affordable housing units in the metropolitan Los Angeles area.

Century provides certain business activities and service programs to communities within the Los Angeles metropolitan area. The following are the significant activities:

- Affordable Housing Financing - Century operates primarily as a financial intermediary to developers, builders and other nonprofit entities to create and maintain affordable housing units.
- Century Community Charter School (CCCS, Inc.) - Century supports CCCS, Inc. financially in the form of loans. CCCS, Inc. provides middle school education at two locations, serving South Los Angeles sixth, seventh and eighth graders. The schools serve nearly 730 children. CCCS, Inc. is a member of the More Than Shelter family of services.
- Affordable Housing Development, Sales, and Rental Housing - Century sells single-family residences and condominiums to low- to moderate-income households. Century also owns, develops and manages homes for the benefit of low- to moderate-income households, as established by Century. Residential rental rates are affordable to these households.
- Affordability Monitoring - Century provides assistance to residents of Century-owned homes, Century-financed housing units and housing units previously sold by Century. Century monitors affordability covenants to ensure that the properties owned or financed by Century operate as affordable housing and that they are maintained in good condition.
- Child Care and Early Education Facilities - Century has supported the creation of five onsite child care centers at Century-financed housing complexes and five stand alone centers. Two of the stand alone centers were developed by Century and one is owned and leased to a nonprofit operator (see note 15).

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

- More Than Shelter Services, Inc. is a 501(c)(3) supporting organization that provides fund raising for the More Than Shelter family of services, which include Century/Learning Initiatives for Today (after school tutoring), Century Community Training Program (construction job training and placement), Century Community Charter Schools (middle school charter schools), and Century Villages at Cabrillo (services for formerly homeless veterans and other homeless persons).
- Century/LIFT® - Century provides financial and corporate staff support to Century/LIFT®, a program for youths residing primarily in Century-financed housing and attending Century Charter Schools. The program provides educational and tutorial assistance to improve learning skills and maximize academic achievement. Century/LIFT is a member of the More Than Shelter family of services (see note 14).
- Century Community Training Program (CCTP) - Century provides financial and corporate staff support to this construction pre-apprenticeship training and employment placement services program to prepare community residents for high wage employment in the construction industry. CCTP is a member of the More Than Shelter family of services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The consolidated financial statement presentation follows the requirements of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Furthermore, information is required to segregate program service expenses from management and general expenses. Income earnings on temporarily restricted net assets are recognized as unrestricted.

The Corporation also conforms to SFAS No. 116, "Accounting for Contributions Received and Contributions Made." In conformity with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. The Corporation reports temporarily

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

restricted contributions whose restrictions are met in the same reporting period as unrestricted contributions.

Principles of Consolidation

The accompanying consolidated financial statements include the assets, liabilities, net assets and financial activities of Century Housing Corporation and its controlled affiliates (collectively Century):

- Century Community Training, Inc.;
- Century Community Development, Inc.;
- Century El Sereno, Inc.;
- Century Villages at Cabrillo, Inc. and affiliates;
- Century Affordable Development, Inc. and affiliates;
- Century Community Children's Centers, Inc.;
- Century Pointe, Inc.;
- More Than Shelter Services, Inc.; and
- The Century Community Lending Company, LLC.

All significant intercompany transactions and balances have been eliminated in consolidation.

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

The following entities that are affiliated to Century are not included in the consolidated financial statements:

- Century Learning Initiatives for Today, Inc. Century/LIFT
- Century Community Charter Schools, Inc.

Principles of Affiliate Consolidation

Century Villages at Cabrillo (CVC) is the sole general partner in three limited partnerships: Long Beach Savannah Housing, L.P. (Savannah), Casa de Cabrillo, L.P. (Casa), and The Family Commons at Cabrillo, L.P. (Family Commons). CVC owns .1% of Savannah, .01% of Casa, and .1% of Family Commons. In June 2005, the Financial Accounting Standard Board (FASB) issued Emerging Issues Task Force 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" (EITF 04-5). EITF 04-5 establishes the presumption that the general partner(s) in a limited partnership controls that limited partnership (or similar entity) regardless of the extent of the general partners' ownership interest in the limited partnership. The presumption of control by the general partner(s) can be overcome if the limited partners have either (i) "kick-out rights" - the substantive ability to dissolve or liquidate the partnership or otherwise remove the general partner(s) "without cause" or (ii) "substantive participating right" - the ability to effectively participate in significant decisions made in the ordinary course of the limited partnership's business. If the presumption of control cannot be overcome, then the general partner is required to consolidate the limited partnership. The effective date for EITF 04-5 is June 29, 2005 for all new or modified partnerships and January 1, 2006 for all other existing partnerships. Effective July 1, 2006, CVC adopted EITF 04-5 and determined that the presumption of control for the limited partnerships in which CVC is the general partner had not been overcome and as a result CVC is required to consolidate the financial statements of Savannah, Casa and Family Commons in its financial statements under EITF 04-5. The accompanying consolidated financial statements of Century for the years ended June 30, 2008 and 2007 include the consolidated accounts of CVC.

Century Affordable Development, Inc. (CADI) owned 50% of Century Family Housing, LLC and 70% of 2541 West Manchester Boulevard, LLC and accounts for these investments using the equity method of accounting. CADI disposed of all of its interest in these two entities during the year ended June 30, 2008.

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

Method of Accounting

The accompanying consolidated financial statements are prepared on the accrual basis of accounting. Revenue is recognized when it is earned and expenses are recognized as incurred.

Use of Estimates

The preparation of consolidated 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 amounts of allowance for loan losses, and certain other assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Corporation considers all highly-liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Restricted Cash

Restricted cash includes cash deposited into separate bank accounts being held as collateral, and security deposits, operating reserves and replacement reserves that certain entities have been required to establish.

Investments

All debt and equity securities are carried at estimated fair value. Realized gains and losses on investments are determined using the specific-identification method. Unrealized gains and losses arise from changes in the fair value of debt and equity securities and are reported in the consolidated statements of activities as increases or decreases in unrestricted net assets.

Investment in Limited Partnerships and Limited Liability Companies

Century holds interests of 50% or less in various limited partnerships and limited liability companies which are accounted for using the equity method. Under the equity method of accounting, the initial investment is recorded at cost, and is subsequently increased by Century's share of earnings, and decreased by Century's share of losses and distributions.

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

Under the equity method, losses from operating partnerships and companies in which Century has not been required to fund any operating deficit obligations are no longer recognized once the balance in the investment account reaches zero. During the year ended June 30, 2008, the Corporation disposed of its equity investment in the various limited partnership and limited liability companies.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivables are reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of tenant accounts receivable. It is reasonably possible that management's estimate of the allowance will change. As of June 30, 2008 and 2007, management has established an allowance for doubtful accounts in the amount of \$323,590 and \$240,000, respectively.

Loan Fees

Loan fees represent the origination fees charged to the borrowers of the Corporation. The loan origination fees are recognized as revenue upon closing of a loan when the cost of originating the loan is equal or greater than the loan origination income. In the case where the loan origination income is greater than the cost incurred to originate such loan, the excess of loan fee income over loan origination cost will be deferred and recognized as income over the term of the loan.

Notes Receivable and Allowance for Loan Losses

Notes receivables are reported net of an allowance for loan losses. Management's estimate of the allowance is based on historical collection experience and a review of the current status and collections of notes receivable. Management's policy is to establish an allowance for loan losses ranging from approximately 2% to 10% of the outstanding balance of third party loans. It is reasonably possible that management's estimate of the allowance will change. As of June 30, 2008 and 2007, management had established an allowance for loan losses in the amount of \$1,905,113 and \$1,862,803, respectively.

Real Estate Held for Investment

Real estate held for investment is stated at cost. The Corporation rents certain of these assets to qualifying tenants under operating leases. Rental payments received in advance are deferred until earned. In addition, the Corporation records depreciation expense on the

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

rented homes. Depreciation is provided for in amounts sufficient to relate the cost of the depreciable asset to operations over the estimated service life using the straight-line method. The costs of maintenance and repairs are charged to expense as incurred, and significant renewals and betterments are capitalized.

Real Estate Held for Sale

Real estate held for sale generally consists of single-family residences and condominiums that have been repurchased under the Right to Purchase Agreements (see note 7). Real estate held for sale is recorded at the lesser of cost or fair market value less selling costs. These assets are generally held less than 12 months. There is no depreciation recorded on the real estate held for sale.

Buildings, Leasehold Improvements and Office Equipment

Buildings, leasehold improvements and office equipment are recorded at cost. Expenditures for maintenance and repairs are expensed as incurred, while major renewals and betterments are capitalized. Costs of properties constructed, rehabilitated or still under development include all direct costs of construction as well as carrying costs (such as interest) during the construction period and indirect costs of construction, supervision and management. It is Century's policy to consider any items purchased with an estimated useful life of more than one year and a cost in excess of \$1,000 for capitalization. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the consolidated statements of activities. Depreciation is computed on a straight-line basis over estimated useful lives as follows:

Computer equipment	5 years
Office furniture and fixtures	5 - 7 years
Leasehold improvements	Over life of lease
Buildings	30 - 39 years

Financing Fees

Financing fees incurred during the year ended June 30, 2008 in the amount of \$250,000 are being amortized over the term of the related debt using the straight-line method. Accounting principles generally accepted in the United States of America require that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

method is not materially different from the results that would have been obtained under the effective yield method. As of June 30, 2008, accumulated amortization was \$29,167.

Amortization expense will be \$50,000 per year for each of the next four years ending June 30, 2009 through June 30, 2012, and \$20,833 for the year ending June 30, 2013.

Non-Controlling Interest in Limited Partnerships

The non-controlling interest in limited partnerships represents the aggregate positive balance of the limited partners' equity interest in the three limited partnerships that are included in the consolidated financial statements. The aggregate negative balances, if any, of limited partners' interest remain in the organization's net assets.

Impairment of Long-Lived Assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," Century reviews its long lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized during the years ended June 30, 2008 and 2007.

Rental Income

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between Century and its tenants are operating leases.

Contributions

Contributions are recognized as revenue when an unconditional promise to give is received by the Corporation. All contributions and other types of revenue with restrictions, if any, imposed by the donors are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Grant Revenue

Affiliates of Century received grants from governments, agencies and others, which are conditioned upon incurring certain qualifying costs or meeting other conditions. The grants

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

are recognized as revenue when the qualifying costs are incurred and the possibilities of not meeting the conditions are remote. Funds received for costs not yet incurred are recorded as deferred revenue. Funds for qualifying costs incurred and recognized as revenue but not yet received are recorded as accounts receivable.

Sale of Assets

Century records its gain or loss on the sale of assets by recording the cost of the sale of the asset as a reduction against the sale proceeds received. The cost of the sale of the asset is determined based upon the historical cost of the asset, net of any accumulated depreciation recorded through the date of the sale, and increased for any closing costs or commission incurred on the sale.

Development Fee Income

Century is entitled to a development fee in connection with the development of the Family Commons project. Development fee income is recognized as the project is completed under a percentage of completion method in accordance with SFAS No. 66, "Accounting for Sale of Real Estate" (FASB 66).

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Directly identifiable expenses are charged to program and support services. Expenses related to more than one function are charged to program and supporting services based on systematic methods.

Income Taxes

Century Housing Corporation and its affiliates are public benefit corporations and exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701 (d) of the California Revenue and Taxation Code, except for income taxes on "unrelated business income," as defined in the Codes. Management believes all material activities of Century Housing Corporation and its affiliates are within the tax exempt guidelines of the Internal Revenue Code and the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been included in the accompanying consolidated financial statements.

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE 3 - CONCENTRATION OF CREDIT RISK

Century maintains its cash balances in six banks. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 at each bank. At times, these balances may exceed the federal insurance limit; however, the Corporation has not experienced any losses with respect to bank balances in excess of government provided insurance. As of June 30, 2008, cash balances in excess of the FDIC limits totaled \$11,230,244.

NOTE 4 - INVESTMENTS

Investments are comprised of the following as of June 30,:

	<u>2008</u>	<u>2007</u>
Mutual Funds/Separate Accounts		
Total Market Equity Fund	\$ 12,427,634	\$ 7,250,983
Total Return Bond Fund	3,896,443	3,334,530
Earnest Partners Small Cap Fund	-	1,262,406
Private Market Fund	2,151,156	2,332,516
BBH Inflation-Indexed Securities Fund	8,167,176	4,449,077
Goldman High Yield Fund	7,822,733	4,784,280
International Core Equity Fund	<u>3,311,723</u>	<u>2,551,783</u>
	<u>37,776,865</u>	<u>25,965,575</u>
Equity investments		
2541 West Manchester Boulevard, LLC (through CADI)	-	863,607
Century Family Housing, LLC (through CADI)	<u>-</u>	<u>184,253</u>
	<u>-</u>	<u>1,047,860</u>
Total	<u>\$ 37,776,865</u>	<u>\$ 27,013,435</u>

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

The following schedule summarizes the investment return on the mutual funds and separate accounts and its classification in the statements of activities for the years ended June 30,:

	<u>2008</u>	<u>2007</u>
Interest on cash and cash equivalents	\$ 62,440	\$ 77,169
Interest income and dividends	1,922,653	2,011,849
Unrealized/realized gains/(losses)	<u>(2,625,589)</u>	<u>2,330,565</u>
Total investment return	<u>\$ (640,496)</u>	<u>\$ 4,419,583</u>

The following summarizes the combined balance sheets and statements of revenues and expenses information for the equity investments in limited liability companies and limited partnerships:

COMBINED BALANCE SHEETS

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Investment in residential rental property, net of accumulated depreciation of \$0 and \$1,526,038 as of June 30, 2008 and 2007, respectively	\$ -	\$ 863,607
Other	-	<u>368,510</u>
Total assets	<u>\$ -</u>	<u>\$ 1,232,117</u>
Liabilities, primarily notes payable	\$ -	\$ -
Members' and partners' equity:		
Century	-	1,047,860
Other members and partners	-	<u>184,257</u>
Total liabilities and members' and partners' equity	<u>\$ -</u>	<u>\$ 1,232,117</u>

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

COMBINED STATEMENTS OF REVENUES AND EXPENSES

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Total revenue	\$ 3,678	\$ 1,047,000
Total expenses	<u>131,030</u>	<u>519,638</u>
Total net (loss) income	<u>\$ (127,352)</u>	<u>\$ 527,362</u>
Net income (loss) from equity investment is allocated to the members and partners as follows:		
Century	\$ (63,674)	\$ 388,635
Other members and partners	<u>(63,678)</u>	<u>138,727</u>
	<u>\$ (127,352)</u>	<u>\$ 527,362</u>

NOTE 5 - NOTES RECEIVABLE

Notes receivable consist of notes generally secured by real property affordable housing development projects located throughout the metropolitan Los Angeles area, as well as notes made to non-officer employees of Century. Advances under the notes receivable bear interest at rates ranging from 3% to 11%. Notes receivable primarily secured by affordable housing development projects totaled \$91,001,587 and \$91,134,805 as of June 30, 2008 and 2007, respectively. Notes receivable include notes from non-officer employees of Century totaling \$1,226,116 and \$982,702 as of June 30, 2008 and 2007, respectively.

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

During 2008, Century entered into various loan participation agreements with HSBC Bank USA (HSBC), the Community Development Trust, LP (CDT) and RSF Social Investment Fund, Inc (RSF). Under the agreements, the participants bear the risk of loss associated with their share of the notes receivable financed. The participants' share of the notes receivable has been recorded as a contra account to the Notes Receivables on the statement of financial position. The terms of the agreements are as follows:

Participants	Participation Amount	Interest rate	Maturing Date
HSBC	\$ 7,803,000	90 day LIBOR + 1.5%	Based upon the maturity date of each note receivable financed
CDT	3,849,600	30 day LIBOR + 1.7%	Up to 30 months from September 21, 2007, the execution date of the Participation Agreement.
RSF	2,000,000	8.7500%	Based upon the maturity date of each note receivable financed
	\$ 13,652,600		

Outstanding principal is scheduled to be received as follows:

Year ending June 30, 2009	\$ 92,787,956
2010	11,434,263
2011	1,878,796
2012	96,752
2013	272,573
Thereafter	1,315,076
	107,785,416
Less participant purchases	(13,652,600)
Less allowance for loan losses	(1,905,113)
Total	\$ 92,227,703

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE 6 - REAL ESTATE HELD FOR INVESTMENT

Real estate held for investments is owned by Century Housing Corporation and consists of the following at June 30,:

	2008	2007
Land	\$ 2,750,946	\$ 2,825,687
Building and improvements	290,000	390,000
Construction in progress	279,257	650,883
	3,320,203	3,866,570
Less accumulated depreciation	(129,397)	(109,124)
Net	\$ 3,190,806	\$ 3,757,446

NOTE 7 - REAL ESTATE HELD FOR SALE

Property Acquired Under RTPA Agreement

Single-family residences and condominiums are sold to low- and moderate-income households. The sales contracts under which these properties are sold include a long-term Right to Purchase Agreement (RTPA) which gives Century the right of first refusal to repurchase the homes if the purchaser fails to comply with the terms of the RTPA or wishes to sell the residence. Subsequent to repurchase, these residences are resold to qualifying low- and moderate-income households. As of June 30, 2008 and 2007, homes which had been repurchased under a RTPA or otherwise acquired, and are currently held for sale, amounted to \$741,156 and \$470,217, respectively.

Property Acquired Through Foreclosures on Notes Receivable

During the year ended June 30, 2008, Century acquired land and a building as a result of foreclosure proceedings against two borrowers that defaulted under the terms of their loan agreements. The assets acquired were recorded at fair market value and applied as a reduction to the notes receivable. The assets are classified as held for sale and amount to \$720,150 as of June 30, 2008.

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE 8 - BUILDINGS, LAND, LEASEHOLD IMPROVEMENTS AND OFFICE EQUIPMENT

Buildings, land, leasehold improvements and office equipment consist of the following at June 30,:

	<u>2008</u>	<u>2007</u>
Land	\$ 5,031,367	\$ 5,175,029
Buildings	32,913,505	33,678,642
Construction in progress	17,186,687	6,422,933
Leasehold improvements, furniture and fixtures	6,083,949	6,190,834
Computers and office equipment	<u>1,168,704</u>	<u>964,379</u>
	62,384,212	52,431,817
Less accumulated depreciation	<u>(7,580,382)</u>	<u>(6,360,377)</u>
Net	<u>\$ 54,803,830</u>	<u>\$ 46,071,440</u>

Buildings, land, leasehold improvements and office equipment, net are owned by the following entities at June 30,:

	<u>2008</u>	<u>2007</u>
Century Villages At Cabrillo, Inc. (CVC)	\$ 9,578,996	\$ 9,767,346
CVC - Consolidated EITF 04-5 partnerships	35,100,103	25,493,578
Century Pointe, Inc.	7,830,371	7,976,825
Century Community Children's Centers, Inc.	1,638,410	1,651,206
Century Housing Corporation	602,387	718,418
Century El Sereno, Inc.	-	213,473
Century Affordable Development, Inc.	-	192,078
More Than Shelter Services, Inc.	10,661	14,424
Century Community Training, Inc.	<u>42,902</u>	<u>44,092</u>
Total	<u>\$ 54,803,830</u>	<u>\$ 46,071,440</u>

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE 9 - CONSTRUCTION CONTRACT

CVC has a general partnership interest in Family Commons which entered into a construction contract with ACCI Corporation. The original contract amount is \$23,613,451. As of June 30, 2008 and 2007, \$11,305,696 and \$3,696,856, respectively, of the cost of the contract has been incurred and capitalized as cost of real estate. At June 30, 2008 and 2007, the general contractor is owed \$1,668,155 and \$1,257,806, respectively, all of which is included in accounts payable in the accompanying statements of financial position.

NOTE 10 - EMPLOYEE BENEFIT PLANS

Century currently has a Section 403(b) defined contribution plan for its employees. Eligible employees may contribute a percentage of their annual compensation, subject to certain limitations, to the 403(b) defined contribution plan. Century will contribute 3% of an employees' gross salary and will match employee contributions up to 3% of gross salary to the 403(b) defined contribution plan. For the years ended June 30, 2008 and 2007, the total amount contributed by Century to the plan was \$353,948 and \$400,631, respectively, which is included in "Supporting services - management and general expenses" in the accompanying statements of activities.

Century also has a Section 457(b) deferred compensation plan for a selected group of management and highly compensated employees. Employees may defer an amount of their annual compensation to the 457(b) plan, subject to certain limitations.

Certain former executive officers have life insurance policies owned by Century. In the event of death, the officers' estates or designated beneficiaries are entitled to receive a cash payment reflecting a portion of the policies death benefits pursuant to the insurance contracts, less the repayment of premiums paid by Century, plus accrued interest. Century is entitled to receive the cash surrender value of the policies. The cash surrender values of the policies are \$411,028 and \$402,106 as of June 30, 2008 and 2007, respectively, and are recorded in prepaid expenses and other assets in the accompanying statements of financial position.

NOTE 11 - CONTINGENT AND RESTRICTED ASSETS - AFFORDABLE HOUSING FINANCING

During the formation of Century Housing Corporation, Century's predecessor (Century Freeway Housing Program (CFHP), a housing program administered by the State of California) contributed certain notes receivable and temporarily restricted net assets with a

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

net book value of \$0 to Century. The proceeds received from these notes receivable and temporarily restricted net assets are to be used to fund additional programs for affordable housing that Century sponsors. These loans were made by CFHP to facilitate the acquisition of land, provide construction financing and make available permanent financing of affordable housing at rates substantially below market interest rates. These loans provided for affordable housing based on rent and income restrictions established by CFHP. Century monitors compliance with these restrictive covenants, which continue for a period of 15 years or more. These loans were generally interest-free until the completion of construction, and then accrued simple interest generally at 3% per annum deferred for their term. Principal and interest are due only after the payment of normal operating expenses, taxes and debt service on senior loans. The loans extended to single family borrowers generally accrue interest at 3% per annum deferred for the term of the loan. They are generally due at maturity, 30 years from the note date, or in the event the borrower sells, transfers or conveys the property prior to the maturity of the note. There are no payments required during the term of the loans unless stipulated in the notes.

The repayment of these loans is dependent on operating income, residual value of the affordable housing units, and/or a violation of the terms of the loan agreement, all of which cannot be predicted. As a result management has determined that repayments of these loans is uncertain and has not recorded the notes receivable or accrued interest in the books of Century. Therefore, should repayment occur, it will be accounted for as affordable housing loan repayment income in the year in which the payments are received.

Contingent assets represented by affordable housing loans outstanding as of June 30, 2008 and 2007 total \$84,489,219 and \$85,049,652, respectively, and have an effective interest rate of 3% per annum. Unrecorded accrued interest receivable on these assets as of June 30, 2008 and 2007 was \$33,405,188 and \$30,852,318, respectively. During the years ended June 30, 2008 and 2007, Century received \$721,436 and \$1,063,128 of principal and interest payments from these loans, respectively.

NOTE 12 - NOTES PAYABLE AND LINES OF CREDIT

Note Payable - GEMSA Loan Services, L.P.

On June 28, 2001, Century Pointe, Inc. obtained a loan from GEMSA Loan Services, L.P. in the amount of \$2,788,535. The loan, which bears interest at a rate of 8.635% per annum and is secured by a first deed of trust on the corporate office building, matures October 1, 2010. The loan requires monthly payments of principal and interest totaling \$21,798, based on a

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

30-year amortization schedule. As of June 30, 2008 and 2007, the outstanding principal balance is \$2,622,639 and \$2,652,531, respectively.

The aggregate maturities of the debt over each of the next three years following June 30, 2008 are as follows:

Year ending June 30, 2009	\$	40,416
2010		44,048
2011		<u>2,538,175</u>
Total	\$	<u>2,622,639</u>

Interest expense on the note for the years ended June 30, 2008 and 2007 was \$231,685 and \$233,590, respectively.

Note Payable - John Hancock

On January 25, 2008, Century entered into a loan agreement with John Hancock Life Insurance Company in the original principal amount of \$17,702,100. Under the terms of the Agreement, Century may request advances in conformity with its lending policy to be used to refinance advances made under Century's construction loan to Family Commons. The note is non-interest bearing and matures on November 15, 2008. Notwithstanding the foregoing, so long as Lender is a limited partner of Borrower, such payment may be made as a bookkeeping entry on the books of the applicable parties, without the necessity of any actual funds being transmitted. The loan is secured by a collateral assignment of all of Century's interest in its Deed of Trust, Assignment of Rents, Security Agreement, and Fixture Filing made by Family Commons and CVC for the benefit of Century. As of June 30, 2008, the outstanding principal is \$13,499,890.

Note Payable - First Federal Bank of California

On January 7, 2008, CVC obtained a loan from the First Federal Bank of California in the original amount of \$972,000. The loan was funded through proceeds received from the Federal Home Loan Bank of San Francisco under its Affordable Housing Program (AHP). The note is non-interest bearing and matures in fifteen years (Retention Period) from the date of the Family Commons Project's completion date or an event of default which has not been cured as provided for in the loan agreement. If the Project is in compliance with the regulatory agreement during the Retention Period, the loan principal will be forgiven by the

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

lender. The loan is secured by a deed of trust recorded on the real property of Family Commons. As of June 30, 2008, the outstanding principal is \$972,000.

Line of Credit - CCDI

On July 1, 2005, Century Community Development, Inc. (CCDI) entered into a Revolving Credit and Security Agreement (the Agreement) with Contributing Lenders to provide financing for CCDI. The Agent Bank representing the Contributing Lenders is Mellon 1st Business Bank, N.A (the Agent). Under the terms of the Agreement, CCDI may request advances to fund loans made by CCDI in conformity with its lending policy. Each advance is evidenced by a promissory note that specifies the principal amount of the advance, the interest rate and the initial maturity date, which shall not exceed two years from the date of the note. All principal and accrued interest due was paid in full prior to maturity. The total amount committed as of June 30, 2008 and 2007 was \$14,000,000 and \$13,000,000, respectively. The line of credit matured on July 1, 2008 and was not renewed. The advances are secured by an assignment of deed of trust and security agreement. The advances drawn bore interest at rates ranging from 4.5% to 8.25% per annum payable quarterly on the 15th day of the month following the end of each quarter. During the years ended June 30, 2008 and 2007, interest expense incurred was \$581,909 and \$725,881, respectively. As of June 30, 2007, the outstanding principal and accrued interest was \$8,076,650 and \$134,581, respectively.

Line of Credit - CCLC

On December 8, 2005, The Century Community Lending, Co. (CCLC) entered into a Revolving Construction Loan Facility Agreement (the Agreement) with Contributing Lenders to provide financing for CCLC. The Administrative Agent representing the Contributing Lenders is Bank of America, N.A. (the Agent). Under the terms of the Agreement, CCLC may request advances to fund loans made by CCLC in conformity with its lending policy. Each advance is evidenced by a promissory note that specifies the principal amount of the advance, the interest rate and the initial maturity date, which shall not exceed two years from the date of the Notes Receivable. The entire principal balance of the Notes Receivable, together with all accrued and unpaid interest and all other amounts payable are due on December 1, 2008. The total amount committed as of June 30, 2008 and 2007 is \$50,000,000. The advances are secured by an assignment of deed of trust and security agreement. The advances drawn bear interest at LIBOR plus 2.25% per annum payable on the first day of each month. During the years ended June 30, 2008 and 2007, interest expense incurred was \$1,133,324 and \$275,968, respectively. As of June 30, 2008

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

and 2007, the outstanding principal and accrued interest is \$22,357,891 and \$84,372 and \$11,388,839 and \$63,781, respectively. The Company also incurred an administrative agent fee of \$25,000 per year and quarterly fees on the unused portion of the line of credit at the rate of 0.0625%. During the years ended June 30, 2008 and 2007, line of credit fees of \$105,567 and \$179,833, respectively, have been incurred. During the year ended June 30, 2008, the Company discovered that the Agent had overbilled the Company for the line of credit fees. During 2008, the Company received reimbursement from the Agent in the amount of \$178,912 of which \$91,166 represents overpayment of prior year line of credit fees.

Line of Credit - Wachovia Bank

On December 20, 2006, the Century Housing Corporation (CHC) entered into a Loan and Security Agreement (the Agreement) with Wachovia Bank, National Association. Under the terms of the Agreement, CHC may request advances to fund loans made by CHC in conformity with its lending policy. Each advance is evidenced by a promissory note that specifies the principal amount of the advance, the interest rate and the initial maturity date, which shall not exceed two years from the date of the note. The entire principal balance of the Notes, together with all accrued and unpaid interest and all other amounts payable are due on December 20, 2008. The total amount committed as of June 30, 2008 and 2007 is \$15,000,000. The advances are secured by an assignment of deed of trust and a security agreement. The advances drawn bear interest at LIBOR plus .70% per annum payable on the fifteenth day of each month commencing on January 1, 2007. During the years ended June 30, 2008 and 2007, interest expense incurred was \$723,622 and \$168,350, respectively. As of June 30, 2008 and 2007, the outstanding principal and accrued interest are \$8,275,000 and \$14,071 and \$14,834,000 and \$38,393, respectively.

Line of Credit - City National Bank

During the year ended June 30, 2007, Century entered into an agreement with City National Bank under which City National Bank provided a line of credit to Century in an amount up to 65% of the market value of the financial assets of Century under the custody of City National Bank, up to a maximum of \$20 million. Century has granted City National Bank a lien on the assets under its custody. As of June 30, 2008 and 2007, Century has investments under the custody of City National Bank in the amount of \$13,254,844 and \$12,506,655, respectively. The agreement is for two years and expires on December 1, 2008. The line of credit has two interest rate options: LIBOR plus one percentage point, or Prime Rate minus one and three-quarters percent. During the year ended June 30, 2008, Century drew

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

\$4,800,000 of the line of credit and repaid the balance back to the lender. During the years ended June 30, 2008, interest expense incurred was \$88,383. As of June 30, 2008, all outstanding principal and accrued interest have been paid off.

Line of Credit - Fannie Mae

On December 21, 2007, Century entered into an agreement with Fannie Mae. Fannie Mae will provide a line of credit to Century in an amount up to a maximum of \$25,000,000. The agreement is for five years and expires on December 21, 2012. The line of credit bears interest at an adjustable rate at three (3)-month LIBOR plus seventy-five (75) basis points, which is adjusted quarterly on January 1, April 1, July 1 and October 1 of each calendar year. The line of credit is secured by a security agreement. Accrued interest is paid in arrears in monthly installments on the first day of each calendar month. The entire principal balance of the Notes, together with all accrued and unpaid interest and all other amounts payable are due on December 21, 2012. During the year ended June 30, 2008, interest expense incurred was \$51,333. As of June 30, 2008, the outstanding principal and accrued interest are \$12,500,000 and \$36,183, respectively.

NOTE 13 - CENTURY VILLAGES AT CABRILLO, INC.

Century Villages at Cabrillo, Inc. (CVC) acquired a 26-acre former residential segment of the United States naval base located in the City of Long Beach, California, for rehabilitation and development of a planned transitional residential community that will provide a comprehensive array of social services for formerly homeless veterans, families and others. The entire 26 acres deeded by the United States Navy is restricted to use primarily for the benefit of moderate-, low- and/or very low-income homeless veterans and homeless households as provided under the McKinney Act and was recorded at its estimated fair value at the date of acquisition of \$600,000. Century has outstanding notes receivable as of June 30, 2008 and 2007 of \$8,489,615 and \$7,991,433, respectively, related to this facility. The note receivable eliminates in consolidation against the note payable recorded on CVC's books. Century entered into a master operating agreement with a third party to collect assessments and manage the common areas of the property. The third party has a conditional purchase option for a portion of this property once it is fully developed and operational, which expires in 2019.

CVC has entered into long-term ground leases for three portions of the property with Savannah, Casa and Family Commons. These three partnerships have been allocated low-income housing tax credits under the program described in Section 42 of the Internal

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

Revenue Code. Affiliates of John Hancock Realty Advisors, Inc. have invested \$7,136,000 of equity into Savannah, \$11,900,000 of equity into Casa, and committed \$19,228,700 of equity for Family Commons as limited partners in exchange for the benefits of the tax credits allocated to the projects. The low-income housing tax credit program sets certain guidelines related to the eligibility of tenants and maximum rents allowable. Failure to comply with such guidelines for a period of 15 consecutive years may result in the recapture of previously utilized tax credits plus interest.

NOTE 14 - CENTURY/LEARNING INITIATIVES FOR TODAY, INC. (CENTURY/LIFT)

Century/LIFT initially began operations as a program within Century. During 1997, this program was organized as a separate nonprofit affiliate with a majority of the members of the Board of Directors not affiliated with Century. The Century/LIFT program provides educational and tutorial assistance to improve learning skills and to maximize academic achievement. For the years ended June 30, 2008 and 2007, Century has contributed funds totaling \$149,000 and \$214,371, respectively. Century also donated services of approximately \$220,865 and \$164,588, respectively, to Century/LIFT and supported it with corporate staff services.

NOTE 15 - CHILD CARE CENTERS

Century owns the Century Community Children's Center, which is leased and operated by a nonprofit service provider. Pursuant to a court order, this facility was developed on a parcel of land that is restricted for use as a child care and community center.

During the years ended June 30, 2008 and 2007, Century funded \$4,288 and \$13,268, respectively, of child care commitments from temporarily restricted assets. As of June 30, 2008 and 2007, Century's remaining temporarily restricted net assets committed for the development and operation of the child care center are \$157,444 and \$161,732, respectively.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Development Agreement

On January 1, 2007, CVC entered into a Development Agreement with Family Commons to provide services related to the development of the Project and for overseeing construction completion. Under the agreement, CVC shall receive the sum of \$1,400,000. CVC has assigned its developer fee to Century, where Century will receive \$1,100,000 and Cantwell-Anderson, Inc. will receive \$300,000 to perform a portion of its duties and responsibilities

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

under the Development Agreement. As of June 30, 2008, \$660,000 of the fee was incurred by Family Commons and was capitalized as construction in progress. During the year ended June 30, 2008, Century recognized developer fee income from Family Commons in the amount of \$559,879.

Guaranty of Tax Credit

CVC is the general partner in three Low-Income Housing Tax Credit partnerships providing affordable housing in Long Beach, CA (Long Beach Savannah Housing, L.P., Casa de Cabrillo, L.P., and The Family Commons at Cabrillo, L.P.). In connection with each partnership, Century Housing has provided certain guarantees to the tax credit investors guarantying the completion of construction of the apartment complex, operating deficits of the partnership, and the annual allocation of tax credits to the investor.

Partnership:	Long Beach Savannah Housing, L.P.
Investor limited partner:	John Hancock Corporate Tax Credit Fund V, LLC
Guaranty balance:	\$400,000
Partnership:	Casa de Cabrillo, L.P.
Investor limited partner:	John Hancock Corporate Tax Credit Fund VIII, LP
Guaranty balance:	\$6,000,000
Partnership:	The Family Commons at Cabrillo, L.P.
Investor limited partner:	John Hancock Family Commons, LP
Guaranty balance:	\$19,228,700

Guaranty of Third-Party Indebtedness

Century has entered into a guaranty with Wells Fargo Bank, N.A. to guarantee the debt of principal and interest on bonds of certain third party limited partnerships. The assets owned by the limited partnerships are the collateral for the underlying loans being guaranteed. If at any time the limited partnerships or their partners are unable to fund their agreed upon principal and interest payment, Century is obligated to make funds available to the respective trustee immediately. Century's maximum exposure under the guarantee would be equal to the difference between the fair market value of collateral held and the outstanding loan amount. The loans guaranteed by Century have maturity dates ranging from 2015 to 2036. While it is reasonably possible that a loss could occur, such losses are not anticipated. As of June 30, 2008 and 2007, Century has recognized a liability under these guarantees in the

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

amount of \$545,000 and \$548,000, respectively, which is included in accrued expenses on the accompanying statements of financial position.

The following is a summary of the guarantees as of June 30, 2008:

<u>Bond Series Number</u>	<u>Outstanding balance</u>	<u>Borrower</u>
California Statewide Communities Development Authority Multifamily Housing Revenue Bonds (Pioneer Gardens Apartment Project) Subordinate 2000 Series BB-S	\$ 775,000	KDF Pioneer, L.P.
California Statewide Communities Development Authority Multifamily Housing Revenue Bonds (Claremont Village Apartment Project) Subordinate 2000 Series AA-S	775,000	KDF Claremont, L.P.
California Statewide Communities Development Authority Multifamily Housing Revenue Bonds (River Run Senior Apartment Project) Series 2003	1,000,000	Steadfast River Run, L.P.
California Communities Development Authority Multifamily Housing Revenue Bonds (Warwick Terrace Apartments) 2007 Series H-S	1,335,000	Concerned Citizens-Warwick L.L.C.
California Communities Development Authority Multifamily Housing Revenue Bonds (Warwick Terrace Apartments) 2007 Series H-T	1,465,000	Concerned Citizens-Warwick L.L.C.

On June 6, 2008, Century issued a letter of credit to Advanced Development and Investment, Inc. (ADI) in the amount of \$2,991,930. The Letter of Credit was issued to guarantee the timely completion by ADI and Springbrook Grove, a California Limited Partnership, of the project known as Springbrook Grove Family Apartments. The beneficiary of the guaranty is the Department of Housing and Community Development of the County of San Diego, California. The assets owned by the limited partnership are the collateral for the underlying

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

guarantee. If at any time ADI or Springbrook Grove, a California Limited Partnership, is unable to complete the project in a timely manner, Century's letter of credit will be drawn to pay back the Beneficiary. The letter of credit matures on June 13, 2009 with an automatic extension for a one-year period. As of June 30, 2008, Century has received \$500,000 from ADI as a security for the letter of credit and it is included in Security Deposits on the Statement of Financial Positions. In the event that the letter of credit expires by its term without a draw by the Beneficiary, then Century shall return the amount of the security deposit to the borrower within three days of the expiration of the letter of credit.

Performance Guarantee of Ground Lease Obligation

As a condition of the assignment of the ground lease to the buyer of a commercial building previously owned by Century, Century entered into an agreement with the land owner (lessor) to guaranty all payments due under the terms of the original ground lease in the event of a default of the buyer of the terms of the ground lease. The original terms of the ground lease remain unchanged. The base rent is \$5,857 per month and is scheduled to increase every five years by the increase in the Consumer Price index through the lease expiration date, December 31, 2019. There was no cost incurred under this guaranty during the years ended June 30, 2008 and 2007. The outstanding potential obligation as a result of the guarantee of this lease is as follows:

Year ending June 30, 2009	\$	70,284
2010		70,284
2011		70,284
2012		70,284
2013		70,284
Thereafter		<u>351,420</u>
Total	\$	<u>702,840</u>

Settlement Agreement

During the year ended June 30, 1998, Century and the other parties to the Keith v. Volpe litigation reached a settlement agreement that provided for Century to pay \$6.5 million. These settlement funds were paid by Century in June 1998 to the plaintiffs' counsel. In connection with the settlement, an order of dismissal of the action was entered by the Court. The order of dismissal has not yet been filed.

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

Legal Proceedings

Century is involved in various legal proceedings associated with its normal operations. While the ultimate disposition of each proceeding is not determinable, management believes that such proceedings will not have a materially adverse effect on its financial condition or results of operations.

NOTE 17 - COMMITMENTS

As of June 30, 2008, Century has outstanding commitments to provide \$21,889,000 in loans under the affordable housing program.

Century has committed to provide a loan guaranty in the amount of \$2,500,000 to the permanent lender of Northwest Gateway Apartments, an affordable housing project located in Los Angeles, California. The guaranty will go into effect upon the closing of the permanent loan. As of June 30, 2008, the permanent loan has not closed.

NOTE 18 - REORGANIZATION AND REDUCTION IN FORCE

During the year ended June 30, 2007, Century restructured its work force and as a result many positions were eliminated and/or combined with existing positions. Century entered into agreements with the individuals whose positions were eliminated and/or combined wherein Century would provide these employees a severance package which includes pay and benefits for a specified number of months. During the years ended June 30, 2008 and 2007, Century incurred severance cost in the amount of \$523,143 and \$609,922, respectively, of which \$964,761 and \$168,304 was paid and \$0 and \$441,618 remained payable and is included in accrued expenses in the accompanying statements of financial position at June 30, 2008 and 2007, respectively.

SUPPLEMENTAL INFORMATION

Century Housing Corporation and Affiliates

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

June 30, 2008

	Century and wholly controlled affiliates before EITF 04-5 Entities	EITF 04-5 Entities	Eliminations	Consolidated Total
ASSETS				
Cash and cash equivalents	\$ 11,940,444	\$ 97,384	\$ -	\$ 12,037,828
Restricted cash	884,491	1,166,865	-	2,051,356
Accounts receivable, net	1,619,288	59,578	(1,006,577)	672,289
Investments	38,721,946	-	(945,081)	37,776,865
Interest receivable	2,477,101	-	(1,160,705)	1,316,396
Notes receivable, net	110,875,655	-	(18,647,952)	92,227,703
Real estate held for investment, net	3,190,806	-	-	3,190,806
Real estate held for sale	1,461,306	-	-	1,461,306
Buildings, land, leasehold improvements and office equipment, net	19,703,727	36,058,865	(958,762)	54,803,830
Prepaid financing fees, net	220,833	-	-	220,833
Prepaid expenses and other assets	1,567,409	383,850	-	1,951,259
Total assets	\$ 192,663,006	\$ 37,766,542	\$ (22,719,077)	\$ 207,710,471
LIABILITIES AND NET ASSETS				
Accounts payable	\$ 705,319	\$ 2,096,422	\$ (22,077)	\$ 2,779,664
Accrued expenses	1,069,494	12,500	(112,621)	969,373
Accrued interest	134,626	1,160,705	(1,160,705)	134,626
Security deposits	550,715	253,051	-	803,766
Notes payable and lines of credit	60,227,420	19,619,952	(19,619,952)	60,227,420
Total liabilities	62,687,574	23,142,630	(20,915,355)	64,914,849
Non-controlling interest	-	-	12,827,072	12,827,072
NET ASSETS				
Unrestricted	129,817,988	14,623,912	(14,630,794)	129,811,106
Temporarily restricted	157,444	-	-	157,444
Total net assets	129,975,432	14,623,912	(14,630,794)	129,968,550
Total liabilities and net assets	\$ 192,663,006	\$ 37,766,542	\$ (22,719,077)	\$ 207,710,471

Century Housing Corporation and Affiliates

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION - CONTINUED

June 30, 2007

ASSETS	Century and wholly controlled affiliates before EITF 04-5 Entities	EITF 04-5 Entities	Eliminations	Consolidated Total
Cash and cash equivalents	\$ 8,055,800	\$ 78,064	\$ -	\$ 8,133,864
Restricted cash	890,795	1,028,904	-	1,919,699
Accounts receivable, net	513,531	72,305	(34,872)	550,964
Investments	27,958,899	-	(945,464)	27,013,435
Interest receivable	2,078,478	-	(583,330)	1,495,148
Notes receivable, net	102,726,226	-	(10,608,719)	92,117,507
Real estate held for investment, net	3,757,446	-	-	3,757,446
Real estate held for sale	470,217	-	-	470,217
Buildings, land, leasehold improvements and office equipment, net	20,577,862	26,352,219	(858,641)	46,071,440
Prepaid expenses and other assets	1,612,139	403,443	-	2,015,582
Total assets	\$ 168,641,393	\$ 27,934,935	\$ (13,031,026)	\$ 183,545,302
LIABILITIES AND NET ASSETS				
Accounts payable	\$ 1,417,350	\$ 1,662,650	\$ (22,372)	\$ 3,057,628
Accrued expenses	1,450,623	12,500	(12,500)	1,450,623
Accrued interest	236,755	583,330	(583,330)	236,755
Security deposits	49,891	254,810	-	304,701
Notes payable and lines of credit	36,952,020	10,608,719	(10,608,719)	36,952,020
Total liabilities	40,106,639	13,122,009	(11,226,921)	42,001,727
Non-controlling interest	-	-	13,015,703	13,015,703
NET ASSETS				
Unrestricted	128,373,022	14,812,926	(14,819,808)	128,366,140
Temporarily restricted	161,732	-	-	161,732
Total net assets	128,534,754	14,812,926	(14,819,808)	128,527,872
Total liabilities and net assets	\$ 168,641,393	\$ 27,934,935	\$ (13,031,026)	\$ 183,545,302

Century Housing Corporation and Affiliates

CONSOLIDATING STATEMENTS OF ACTIVITIES

June 30, 2008

	Century and wholly controlled affiliates before	EITF 04-5 Entities	Eliminations	Consolidated Total
	<u>EITF 04-5 Entities</u>	<u>EITF 04-5 Entities</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
REVENUE AND SUPPORT - UNRESTRICTED				
Real estate operations				
Rental income, net of vacancies	\$ 2,077,114	\$ 2,436,967	\$ (438,059)	\$ 4,076,022
Real estate sold	3,912,000	-	-	3,912,000
Developer fee income	559,879	-	-	559,879
Affordable housing loan repayments	721,436	-	-	721,436
Interest income on notes receivable	9,635,660	-	(458,674)	9,176,986
Other income	1,052,588	-	-	1,052,588
Government grants	101,807	-	-	101,807
Contributions	241,604	-	-	241,604
Investment income				
Realized and unrealized depreciation of investments	(2,625,589)	-	-	(2,625,589)
Interest and dividend income from investments	1,970,272	14,821	-	1,985,093
Loss from equity investment	(63,291)	-	(383)	(63,674)
Total revenue and support	<u>17,583,480</u>	<u>2,451,788</u>	<u>(897,116)</u>	<u>19,138,152</u>
EXPENSES - UNRESTRICTED				
Real estate operations				
Rental property expenses	1,981,699	2,757,940	(1,202,207)	3,537,432
Cost of real estate sold	1,690,973	-	-	1,690,973
Other real estate expenses	298,192	-	-	298,192
Other program support	2,251,388	-	-	2,251,388
Affordable housing program	1,932,195	-	-	1,932,195
Century/LIFT	369,865	-	-	369,865
Supporting services				
Management and general expenses	3,958,259	-	-	3,958,259
Loan loss reserve	292,316	-	-	292,316
Interest expense	2,810,256	458,674	(458,674)	2,810,256
Reduction in force expenses	523,143	-	-	523,143
Amortization expense	29,167	-	-	29,167
Total expenses	<u>16,137,453</u>	<u>3,216,614</u>	<u>(1,660,881)</u>	<u>17,693,186</u>
Change in unrestricted net assets	<u>1,446,027</u>	<u>(764,826)</u>	<u>763,765</u>	<u>1,444,966</u>
Temporarily restricted net assets				
Net assets released from restrictions	<u>(4,288)</u>	<u>-</u>	<u>-</u>	<u>(4,288)</u>
Net decrease in temporarily restricted net assets	<u>(4,288)</u>	<u>-</u>	<u>-</u>	<u>(4,288)</u>
Change in net assets	<u>\$ 1,441,739</u>	<u>\$ (764,826)</u>	<u>\$ 763,765</u>	<u>\$ 1,440,678</u>

Century Housing Corporation and Affiliates

CONSOLIDATING STATEMENTS OF ACTIVITIES - CONTINUED

June 30, 2007

	Century and wholly controlled affiliates before			
	<u>EITF 04-5 Entities</u>	<u>EITF 04-5 Entities</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
REVENUE AND SUPPORT - UNRESTRICTED				
Real estate operations				
Rental income, net of vacancies	\$ 2,108,815	\$ 2,459,082	\$ (502,644)	\$ 4,065,253
Real estate sold	458,600	-	-	458,600
Affordable housing loan repayments	1,063,128	-	-	1,063,128
Interest income on notes receivable	7,039,011	-	(457,770)	6,581,241
Other income	1,516,315	-	-	1,516,315
Government grants	400,330	-	-	400,330
Contributions	918,249	-	-	918,249
Investment income				
Realized and unrealized appreciation of investments	2,330,565	-	-	2,330,565
Interest and dividend income from investments	2,073,367	15,651	-	2,089,018
Income from equity investment	388,434	-	201	388,635
	<u>18,296,814</u>	<u>2,474,733</u>	<u>(960,213)</u>	<u>19,811,334</u>
EXPENSES - UNRESTRICTED				
Real estate operations				
Rental property expenses	2,347,078	2,598,808	(1,077,406)	3,868,480
Cost of real estate sold	256,464	-	-	256,464
Other real estate expenses	885,241	-	-	885,241
Other program support	3,860,399	-	-	3,860,399
Affordable housing program	2,087,759	-	-	2,087,759
Century/LIFT	378,959	-	-	378,959
Supporting services				
Management and general expenses	5,998,646	-	-	5,998,646
Loan loss reserve	507,050	-	-	507,050
Interest expense	1,403,789	457,770	(457,770)	1,403,789
Reduction in force expenses	609,922	-	-	609,922
	<u>18,335,307</u>	<u>3,056,578</u>	<u>(1,535,176)</u>	<u>19,856,709</u>
Change in unrestricted net assets	<u>(38,493)</u>	<u>(581,845)</u>	<u>574,963</u>	<u>(45,375)</u>
Temporarily restricted net assets				
Net assets released from restrictions	<u>(13,268)</u>	<u>-</u>	<u>-</u>	<u>(13,268)</u>
Net decrease in temporarily restricted net assets	<u>(13,268)</u>	<u>-</u>	<u>-</u>	<u>(13,268)</u>
Change in net assets	<u>\$ (51,761)</u>	<u>\$ (581,845)</u>	<u>\$ 574,963</u>	<u>\$ (58,643)</u>