

CENTURY HOUSING CORPORATION AND AFFILIATES
CONSOLIDATED FINANCIAL STATEMENTS
For the years ended June 30, 2009 and 2008
with
Report of Independent Auditors

CENTURY HOUSING CORPORATION AND AFFILIATES

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Report of Independent Auditors

To the Board of Directors
Century Housing Corporation and Affiliates:

We have audited the accompanying consolidated statement of financial position of Century Housing Corporation, a California nonprofit public benefit corporation, and Affiliates (the "Corporation") as of June 30, 2009, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Corporation for the year ended June 30, 2008 were audited by other auditors, whose report dated October 15, 2008, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the financial position of Century Housing Corporation and Affiliates as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements of Century Housing Corporation and Affiliates taken as a whole. The accompanying supplemental information on pages 28 through 31 are 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 our audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

Novogradac & Company LLP

September 21, 2009
San Francisco, California

CENTURY HOUSING CORPORATION AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$ 10,301,878	\$ 12,035,652
Restricted cash	2,161,799	2,053,532
Accounts receivable, net	942,077	672,289
Investments	26,295,187	37,776,865
Interest receivable	987,889	1,316,396
Notes receivable, net	115,878,392	92,227,703
Intangible assets, net	464,113	392,074
Prepaid expenses and other assets	1,698,655	1,780,018
Real estate held for sale	4,414,751	2,993,481
Real estate held for investment, net	74,836,926	55,754,059
Furniture, fixtures and equipment, net	945,326	708,402
	<hr/>	<hr/>
Total assets	<u>\$ 238,926,993</u>	<u>\$ 207,710,471</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued liabilities	\$ 3,940,340	\$ 3,802,089
Accrued interest	106,683	81,574
Security deposits	1,106,904	803,766
Notes payable and lines of credit	95,809,956	60,227,420
Total liabilities	<hr/> 100,963,883	<hr/> 64,914,849
Non-controlling interest	10,680,414	12,827,072
Net assets:		
Unrestricted	127,270,302	129,811,106
Temporarily restricted	12,394	157,444
Total net assets	<hr/> 127,282,696	<hr/> 129,968,550
Total liabilities and net assets	<u>\$ 238,926,993</u>	<u>\$ 207,710,471</u>

see accompanying notes to financial statements

CENTURY HOUSING CORPORATION AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
LENDING AND CORPORATE REVENUE:		
Investment interest and dividends	\$ 1,581,009	\$ 1,539,341
Income from notes receivable	10,006,918	10,206,595
Residual receipts, contingent assets and fee income	3,786,324	1,248,508
Other income	24,600	262,673
Total lending and corporate revenue	<u>15,398,851</u>	<u>13,257,117</u>
PROGRAM REVENUE AND SUPPORT:		
CVC and other real estate operations		
Rental property income	4,740,617	4,076,022
Real estate sold	3,055,625	3,912,000
Other real estate income	340,121	559,879
CCTI income	300,713	150,207
Contributions	258,357	238,224
Total program revenue and support	<u>8,695,433</u>	<u>8,936,332</u>
Total revenue	<u>24,094,284</u>	<u>22,193,449</u>
LENDING EXPENSES:		
Allocation for loan losses	4,080,588	292,316
Borrowing fees	169,779	105,636
Interest expense	1,869,319	2,811,160
Total financing expenses	<u>6,119,686</u>	<u>3,209,112</u>
PROGRAM EXPENSES:		
CVC and other real estate operations:		
Rental property expenses	3,590,003	3,308,793
Cost of real estate sold	2,953,152	1,690,973
Other real estate expenses	456,908	325,985
CCTI support	2,014,285	1,265,446
Charter school support	596,170	-
Century/LIFT support	866,954	369,865
Other program support	106,075	2,196,214
Total program expenses	<u>10,583,547</u>	<u>9,157,276</u>

see accompanying notes to financial statements

CENTURY HOUSING CORPORATION AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
MANAGEMENT AND GENERAL EXPENSES:		
Salaries and employee benefits	\$ 3,043,009	\$ 4,099,633
Professional fees	173,490	550,252
Business development expenses	261,061	228,398
General and administrative expenses	471,970	850,357
Depreciation and amortization expense	401,476	409,944
Total management and general expenses	<u>4,351,006</u>	<u>6,138,584</u>
 Total expenses	 <u>21,054,239</u>	 <u>18,504,972</u>
 Increase in unrestricted net assets before realized and unrealized losses on financial investments	 3,040,045	 3,688,477
 Realized and unrealized losses on financial investments	 <u>(5,580,849)</u>	 <u>(2,243,511)</u>
 (Decrease) increase in unrestricted net assets	 (2,540,804)	 1,444,966
 Temporarily restricted net assets		
Net assets released from restrictions	<u>(145,050)</u>	<u>(4,288)</u>
 Changes in net assets	 (2,685,854)	 1,440,678
 Net assets at beginning of year	 <u>129,968,550</u>	 <u>128,527,872</u>
 Net assets at end of year	 <u>\$ 127,282,696</u>	 <u>\$ 129,968,550</u>

see accompanying notes to financial statements

CENTURY HOUSING CORPORATION AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (2,685,854)	\$ 1,440,678
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	1,706,088	1,321,348
Allocation for loan losses	4,080,588	292,316
Equity in losses from investments	-	63,674
Bad debt expense	32,935	-
Gain from sale of real estate held for investment	-	(537,560)
Gain from disposal of buildings, land, land improvements	-	(1,354,958)
Gain from sale of real estate held for sale	(40,248)	-
Realized and unrealized losses on financial investments	5,580,849	2,243,511
Non-controlling interest	(2,305,278)	(764,148)
(Increase) decrease in assets		
Accounts receivable, net	(302,723)	(121,325)
Interest receivable, net	328,507	178,752
Prepaid expenses and other assets	81,363	64,323
Real estate held for sale	(118,655)	(270,939)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	138,251	(1,178,990)
Accrued interest	25,109	(102,129)
Security deposits	303,138	(935)
Net cash provided by operating activities	<u>6,824,070</u>	<u>1,273,618</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in restricted cash	(108,267)	(133,833)
Proceeds from sale of real estate held for sale	2,993,400	-
(Increase) decrease in real estate held for investment	(20,420,910)	1,104,200
Purchase of furniture, fixtures and equipment	(529,250)	(8,249,837)
Security deposit received from guarantee of line of credit	-	500,000
Advances in notes receivable	(89,637,378)	(49,109,401)
Receipts from notes receivable	57,650,334	48,850,346
Purchase of investment securities	(9,310,818)	(28,504,392)
Sale of investment securities	15,211,647	14,449,591
Distribution received from equity investment	-	120,579
Net cash used in investing activities	<u>(44,151,242)</u>	<u>(20,972,747)</u>

see accompanying notes to financial statements

CENTURY HOUSING CORPORATION AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable and lines of credit	\$ 42,288,723	\$ 47,598,188
Payment on notes payable and lines of credit	(6,706,187)	(24,322,788)
Distributions to non-controlling interest	(20,480)	(19,883)
Contributions from non-controlling interest	216,600	595,400
Syndication costs	(37,500)	-
Payment of loan fees	(147,758)	(250,000)
Net cash used in financing activities	<u>35,593,398</u>	<u>23,600,917</u>
Net (decrease) increase in cash and cash equivalents	(1,733,774)	3,901,788
Cash and cash equivalents at beginning of year	<u>12,035,652</u>	<u>8,133,864</u>
Cash and cash equivalents at end of year	<u>\$ 10,301,878</u>	<u>\$ 12,035,652</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 1,844,210</u>	<u>\$ 2,912,385</u>
Supplemental disclosure of noncash activities		
Increase in accounts payable and accrued expenses included in real estate held for investment	<u>\$ 91,053</u>	<u>\$ 419,776</u>
Notes receivable transferred to real estate held for sale through deed in lieu of foreclosure	<u>\$ 4,255,767</u>	<u>\$ 720,150</u>
Equity investment converted to notes receivable	<u>\$ -</u>	<u>\$ 863,607</u>

see accompanying notes to financial statements

CENTURY HOUSING CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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 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 metropolitan Los Angeles.

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 provide and maintain affordable homes.

Affordable Housing 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 made 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 on-site child care centers at Century financed housing complexes and five stand alone centers. Two of the stand alone centers were developed and owned by Century and leased to a nonprofit operator (see Note 16).

Resident Services – Century provides assistance to residents of Century-owned homes, Century-financed homes and homes previously sold by Century.

Equal Opportunity Compliance – Century monitors compliance and goal attainment for the hiring of minority and women workers and contracting with disadvantaged businesses in conjunction with the development of Century-financed projects.

More Than Shelter Services, Inc. is a 501(c)(3) supporting organization that provides fundraising for the More Than Shelter family of services, which include Century/Learning Initiatives for Today, Inc. ("Century/LIFT"), Century Community Training Program ("CCTP"), Century Community Charter Schools ("CCCS"), and Century Villages at Cabrillo, Inc. ("CVC").

CENTURY HOUSING CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

1. Organization (continued)

Century/LIFT – Century provides financial and corporate staff support to Century/LIFT, a program for youths residing in primarily Century financed housing and attending Century Charter Schools. The program provides educational and tutorial assistance to improve learning skills and maximize academic achievement.

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.

CCCS – Century supports CCCS financially in the form of loans and provides corporate staff support. CCCS provides middle school education at two locations in Inglewood, California, serving sixth, seventh, and eighth graders. The schools serve nearly 730 children.

2. Summary of significant accounting policies and nature of operations

Principles of consolidation

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

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.,
12010 South Vermont, LLC and affiliate,
8534 Belford, LLC,
More Than Shelter Services, Inc., and
The Century Community Lending Company, LLC

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

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

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

CENTURY HOUSING CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

2. Summary of significant accounting policies and nature of operations (continued)

Principles of affiliate consolidation

Century Villages at Cabrillo, Inc. ("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 0.1% of Savannah, 0.01% of Casa, and 0.1% of Family Commons. In addition, 12010 South Vermont, LLC ("Vermont") is the 0.01% sole general partner in Academy Hall, L.P. ("Academy"). In June 2005, the Financial Accounting Standards Board ("FASB") issued Emerging Issues Task Force No. 04-5 ("EITF 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 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. Vermont adopted EITF 04-5 on April 1, 2009 when Academy was formed and is required to consolidate the financial statements of Academy. The accompanying consolidated financial statements of the Corporation for the years ended June 30, 2009 and 2008 include the consolidated accounts of CVC and Vermont.

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 its interest in these two entities during the year ended June 30, 2008.

Accounting method

The Corporation uses the accrual method of accounting consistent with accounting principles generally accepted in the United States of America, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

Financial statement presentation

The Corporation conforms to 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, temporarily restricted and permanently restricted. 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.

CENTURY HOUSING CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

2. Summary of significant accounting policies and nature of operations (continued)

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Contributions

The Corporation conforms to SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In conformity with the 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. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. The Corporation reports temporarily restricted contributions whose restrictions are met in the same reporting period as unrestricted contributions.

Cash and cash equivalents

Cash is defined as cash in demand deposit accounts as well as cash on hand. The Corporation considers all highly liquid debt instruments with an initial maturity of generally 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

In accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, 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.

Investments in limited partnership

The Corporation holds an interest of 50% or less in a limited partnership which is accounted for using the equity method of accounting. The initial investment is recorded at cost and is subsequently increased by the Corporation's share of earnings and decreased by the Corporation's share of losses and distributions. Under the equity method, losses from operating partnerships in which the Corporation is not required to fund any operating deficit obligations are no longer recognized once the balance in the investment account reaches zero.

Rental income

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

CENTURY HOUSING CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

2. Summary of significant accounting policies and nature of operations (continued)

Loan fees

Loan fees represent the origination fees charged to the borrowers of the Corporation. Loan origination fees are recognized as revenue upon closing of the loans when the cost of originating the loans is equal or greater than the loan origination fees received. In the case where the loan origination fees received are greater than the cost incurred to originate the loans, the excess of loan fees received over loan origination costs will be deferred and recognized as revenue over the terms of the loans.

Accounts receivable and allowance for doubtful accounts

Accounts receivable 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 allowance will change. As of June 30, 2009 and 2008, management has established an allowance for doubtful accounts in the amount of \$323,590 for both years.

Notes receivable and allowance for loan losses

Notes receivable 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 34% on the outstanding balance of loans with no prior history of non-performance. Loans that exhibit non-performance are re-evaluated by management and the allowance for loan losses is adjusted accordingly. As of June 30, 2009 and 2008, management had established an allowance for loan losses in the amount of \$5,392,186 and \$1,905,113, respectively.

Real estate held for investment

Real estate held for investment is stated at cost. The cost of maintenance and repairs is expensed as incurred, while major renewals and betterments are capitalized. 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 rented homes. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over the estimated service life using the straight-line method.

Buildings, leasehold improvements and office equipment

Buildings, leasehold improvements and office equipment are stated at cost of acquisition or construction. Expenditures for maintenance and repairs are expensed as incurred, while major renewals and betterments are capitalized. Costs of the 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 the Corporation'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 using the straight-line method over estimated useful lives of the assets.

CENTURY HOUSING CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

2. Summary of significant accounting policies and nature of operations (continued)

Buildings, leasehold improvements and office equipment (continued)

The useful lives of the assets are estimated as follows:

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

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. 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. No depreciation is recorded for real estate held for sale.

Impairment of long-lived assets

The Corporation reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net discounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation technique. There were no impairment losses recognized during 2009 or 2008.

Intangible assets and amortization

Intangible assets are recorded at cost and amortized on a straight-line basis. Financing fees are amortized over the life of the related debts using the straight-line method. Tax credit fees are amortized over the tax credit compliance period. 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 the straight-line method is not materially different from the results that would have been obtained under the effective yield method. As of June 30, 2009 and 2008, accumulated amortization was \$211,235 and \$135,516, respectively.

Grant revenue

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

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*.

CENTURY HOUSING CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

2. Summary of significant accounting policies and nature of operations (continued)

Sale of assets

The Corporation records its gain or loss on the sale of assets by recording the cost of 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.

Non-controlling interests in limited partnerships

The non-controlling interests in limited partnerships represent the aggregate positive balance of the limited partners' equity interest in Savannah, Casa, Family Commons, and Academy that are included in the consolidated financial statements. The aggregate negative balance, if any, of limited partners' interest remain in the organization's net assets.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statements of activities. Expenses that are directly identifiable are allocated to programs. Expenses related to more than one function are allocated to programs according to systematic methods.

Income taxes

The Corporation is a nonprofit public benefit corporation and is exempt from federal and state tax under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code (the "Codes"). Management believes that all material activities of the Corporation are within the tax-exempt guidelines of the Codes. Accordingly, no provision for income taxes is included in the accompanying consolidated financial statements.

In July, 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. Pursuant to FASB Staff Position FIN 48-3, nonprofit public organizations may defer the effective date of FIN 48 until their fiscal years beginning after December 15, 2008. The Corporation's current accounting policy is to evaluate uncertain tax positions using the framework set forth in SFAS No. 5, *Accounting for Contingencies*. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The Corporation has elected to defer the application of FIN 48. Management believes that the implementation of FIN 48 will not have a material effect on the financial statements.

CENTURY HOUSING CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

2. Summary of significant accounting policies and nature of operations (continued)

Concentration of credit risk

The Corporation maintains its cash balances in six banks. The balances are insured by the Federal Deposit Insurance Company ("FDIC") up to \$250,000 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, 2009 and 2008, cash balances in excess of the FDIC limits totaled \$9,952,107 and \$11,230,244, respectively.

Reclassification

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

3. Restricted cash

The Corporation's restricted cash consist of the following at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Collateral	\$ 711,633	\$ 831,514
Security deposits	392,816	302,659
Replacement reserves	813,448	677,710
Operating reserves	<u>243,902</u>	<u>241,649</u>
Total restricted cash	<u>\$ 2,161,799</u>	<u>\$ 2,053,532</u>

4. Investments

Publicly traded securities are valued at quoted market prices. Investments are comprised of the following at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Mutual Funds/Separate Accounts:		
Total Market Equity Fund	\$ 6,475,753	\$ 12,427,634
Total Return Bond Fund	6,289,735	3,896,443
BBH Inflation-Indexed Securities Fund	-	8,167,176
Private Markets Fund	1,561,242	2,151,156
Goldman High Yield Fund	5,938,054	7,822,733
International Core Equity Fund	3,561,123	3,311,723
Vanguard Inflation-Protected Fund	<u>2,469,280</u>	<u>-</u>
Total investments	<u>\$ 26,295,187</u>	<u>\$ 37,776,865</u>

During the year ended June 30, 2009, the Corporation increased the allocation of its investments to fixed income asset classes and decreased the allocation to equity asset classes.

CENTURY HOUSING CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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4. Investments (continued)

The following schedule summarizes the investment return and its classification in the consolidated statements of activities for the years ended June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Interest on cash and cash equivalents	\$ 173,430	\$ 289,086
Interest income and dividends	1,407,579	1,250,255
Unrealized/realized losses	<u>(5,580,849)</u>	<u>(2,243,511)</u>
Total investment returns	<u>\$ (3,999,840)</u>	<u>\$ (704,170)</u>

5. Notes receivable, net

Notes receivable consist of notes primarily 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 the Corporation. Advances under the notes receivable bear interest at rates ranging from 1.6% to 13.5%. Notes receivable, secured by affordable housing development projects and unsecured, totaled \$114,767,158 and \$91,001,587 as of June 30, 2009 and 2008, respectively. Notes receivable from non-officer employees of the Corporation totaled \$1,111,234 and \$1,226,116 as of June 30, 2009 and 2008, respectively.

During the years ended June 30, 2009 and 2008, Century entered into various loan participation agreements with HSBC Bank USA ("HSBC") and RSF Social Investment Fund, Inc. ("RSF"). Under these agreements, the participants bear the risk of loss associated with their share of the notes receivable financed. The participants' share of notes receivable has been recorded as a contra account to the notes receivable on the accompanying consolidated statements of financial position. The terms of the agreements are as follows:

<u>Participants</u>	<u>Participation amount</u>	<u>Interest rate</u>	<u>Maturing date</u>
HSBC	\$ 4,931,208	90 day LIBOR + 1.5%	Based upon the maturity date of each note receivable financed
RSF	1,992,857	8.75%	Based upon the maturity date of each note receivable financed
	<u>\$ 6,924,065</u>		

CENTURY HOUSING CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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5. Notes receivable, net (continued)

Outstanding principal is scheduled to be received over each of the next five years and thereafter as follows:

Year ending June 30:	
2010	\$ 107,532,227
2011	19,003,711
2012	105,588
2013	268,661
2014	-
Thereafter	<u>1,284,456</u>
Total notes receivable	128,194,643
Less allowance for doubtful accounts	(5,392,186)
Less participant purchases	<u>(6,924,065)</u>
Total notes receivable, net	<u>\$ 115,878,392</u>

6. Real estate held for investment

The Corporation's real estate held for investment consists of the following at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Land	\$ 7,097,008	\$ 6,028,530
Buildings and improvements	61,050,649	26,309,545
Leasehold improvements	11,975,286	11,750,242
Construction in progress	<u>1,996,724</u>	<u>17,610,440</u>
Total real estate held for investment	82,119,667	63,230,932
Less accumulated depreciation	<u>(7,282,741)</u>	<u>(5,944,698)</u>
Total real estate held for investment, net	<u>\$ 74,836,926</u>	<u>\$ 55,754,059</u>

Real estate held for investment, net owned by the affiliated entities at June 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Century Housing Corporation	\$ 1,661,248	\$ 1,658,631
Century Villages at Cabrillo, Inc.	9,106,680	9,531,627
CVC – Consolidated EITF 04-5 partnerships	48,140,897	35,060,229
Century Pointe, Inc.	7,685,069	7,830,371
Century Community Children's Centers, Inc.	1,651,201	1,638,410
Century Community Training, Inc.	33,315	34,791
The Century Community Lending Company, LLC	72,518	-
Vermont – Consolidated EITF 04-5 partnership	<u>6,485,998</u>	<u>-</u>
Total real estate held for investment, net	<u>\$ 74,836,926</u>	<u>\$ 55,754,059</u>

Depreciation expense on real estate held for investment for the years ended June 30, 2009 and 2008 was \$1,338,043 and \$1,005,383, respectively.

CENTURY HOUSING CORPORATION AND AFFILIATES
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7. Real estate held for sale

Properties acquired under Right to Purchase 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 to repurchase the homes at a stipulated price 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, 2009 and 2008, homes which had been repurchased under a RTPA or otherwise acquired, and are currently held for sale, amounted to \$1,893,101 and \$2,273,331, respectively.

Property acquired through foreclosures on notes receivable

The Corporation acquired land and building as a result of foreclosure proceedings against 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 notes receivable. The assets are classified as real estate held for sale and amount to \$2,521,650 and \$720,150 as of June 30, 2009 and 2008, respectively.

8. Furniture, fixtures and equipment, net

The Corporation's furniture, fixtures, and equipment consist of the following at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Furniture and fixtures	\$ 1,647,387	\$ 1,167,450
Equipment	<u>1,320,269</u>	<u>1,306,034</u>
Total furniture, fixtures and equipment	2,967,656	2,473,484
Less accumulated depreciation	<u>(2,022,330)</u>	<u>(1,765,082)</u>
Total furniture, fixtures and equipment, net	<u>\$ 945,326</u>	<u>\$ 708,402</u>

Depreciation expense on furniture, fixtures and equipment for the years ended June 30, 2009 and 2008 was \$292,326 and \$268,292, respectively.

9. Intangible assets, net

The Corporation's intangible assets consist of the following at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Financing fees	\$ 306,972	\$ 281,972
Tax credit fees	345,876	245,618
Ground lease fees	<u>22,500</u>	<u>-</u>
Total intangible assets	675,348	527,590
Accumulated amortization	<u>(211,235)</u>	<u>(135,516)</u>
Total intangible assets, net	<u>\$ 464,113</u>	<u>\$ 392,074</u>

Amortization expense for the years ended June 30, 2009 and 2008 was \$75,719 and \$47,673, respectively.

CENTURY HOUSING CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

10. 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 \$23,765,550. As of June 30, 2009 and 2008, \$23,765,550 and \$11,305,696, respectively, of the contract has been incurred and capitalized as cost of real estate. At June 30, 2009 and 2008, the general contractor is owed \$1,759,208 and \$1,668,155, respectively, all of which is included in accounts payable and accrued expenses on the accompanying consolidated statements of financial position.

11. Employee benefit plans

The Corporation 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. For all participants, the Corporation will contribute 3% of an employee's 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, 2009 and 2008, the total amount contributed by the Corporation to the plan was \$287,726 and \$353,948, respectively, which is included in "Salaries and employee benefits" in the accompanying consolidated statements of activities.

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

Certain key executive officers have life insurance policies owned by the Corporation. In the event of death while employed by the Corporation, the officers' estates or designated beneficiaries are entitled to receive a cash payment reflecting the policies death benefits pursuant to the insurance contracts, less the repayment of premiums paid by the Corporation, plus accrued interest. The cash surrender values of the policies are \$417,655 and \$411,028 as of June 30, 2009 and 2008, respectively, and are recorded in "Prepaid expenses and other assets" in the accompanying consolidated statements of financial position.

12. Contingent and restricted assets – affordable housing financing

During the formation of Century, 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 to fund additional notes receivable for affordable housing. These loans were made to facilitate the acquisition of land, provide construction financing and make available permanent financing of affordable housing at rates substantially below current 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 affordable housing 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.

CENTURY HOUSING CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

12. Contingent and restricted assets – affordable housing financing (continued)

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, such as selling the property at market, 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 on the books of the Corporation. Therefore, should repayment occur, it will be accounted for as contingent assets income in the year in which the payments are received.

Contingent assets represented by affordable housing loans outstanding as of June 30, 2009 and 2008, total \$82,088,911 and \$84,489,249, respectively, and have an effective interest rate of 3% per annum. Unrecognized accrued interest receivable as of June 30, 2009 and 2008 was \$34,669,335 and \$33,405,188, respectively. During the years ended June 30, 2009 and 2008 the Corporation received \$3,375,124 and \$720,261 of principal and interest payments from these loans, respectively.

13. Notes payable and lines of credit

Note payable – GEMSA Loan Services, L.P.

On June 28, 2001, Century Pointe, Inc. assumed a loan from GEMSA Loan Services, L.P. in the amount of \$2,788,535 bearing interest at a rate of 8.635% per annum. The loan is secured by a first deed of trust on the corporate office building and requires monthly payments of principal and interest totaling \$21,798, based on a 30-year amortization schedule, and matures on October 31, 2010. As of June 30, 2009 and 2008, the outstanding principal balance was \$2,589,377 and \$2,622,639, respectively. Interest expense for the years ended June 30, 2009 and 2008 was \$228,314 and \$231,685, respectively. No interest was accrued and unpaid as of June 30, 2009 and 2008.

Note payable – John Hancock Life Insurance Company

On January 25, 2008, the Corporation entered into a loan agreement with John Hancock Life Insurance Company (“John Hancock”) in the original principal amount of \$17,702,100. Under the terms of the agreement, the Corporation 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 matured on November 15, 2008. Notwithstanding the foregoing, so long as John Hancock is a limited partner of Family Commons, such payment may be made as a bookkeeping entry on the books of the applicable parties as a capital contribution from John Hancock to Family Commons, without the necessity of any actual funds being transmitted, which occurred on July 2, 2009. The loan is secured by a collateral assignment of all of the Corporation’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 the Corporation. As of June 30, 2009 and 2008, the outstanding principal was \$17,702,100 and \$13,499,890, respectively.

CENTURY HOUSING CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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13. Notes payable and lines of credit (continued)

Note payable – First Federal Bank of California

On November 15, 2007, CVC obtained a development loan from the Federal Home Loan Bank of San Francisco's Affordable Housing Program ("AHP") in the amount of \$972,000 (the "AHP Loan") and funded by First Federal Bank of California. Loan proceeds were loaned to CVC under conditions stipulated in certain loan and regulatory agreements. Repayment of the AHP Loan is secured by a first deed of trust on the real property of Family Commons. The AHP Loan bears no interest and matures in November 2023, which is fifteen years from the date of Family Commons' project completion date. If CVC complies with the terms of the loan and regulatory agreements, the principal balance will be forgiven upon maturity. CVC, in turn, made a loan in the amount of \$972,000 to Family Commons for the development of its low-income housing tax credit project, subject to the same terms as the AHP Loan. As of June 30, 2009 and 2008, the outstanding principal is \$972,000 for both years.

Note payable – Long Beach Housing Development Company

On December 15, 2008, Family Commons obtained financing for the construction of its project from loan proceeds funded by the Long Beach Housing Development Company in an amount not to exceed \$11,775,000 ("LBHDC Loan"). Repayment of the LBHDC Loan is secured by a deed of trust, subordinate to the AHP Loan, and matures in November 2063. The LBHDC Loan is non-interest bearing and requires annual principal payments from residual receipts, as defined in the partnership agreement. As of June 30, 2009, the outstanding principal is \$10,597,500.

Note payable – The Bank of New York Mellon Trust Company, N.A.

On April 1, 2009, Academy obtained a note payable from The Bank of New York Mellon Trust Company, N.A., collateralized by Multifamily Housing Revenue Bonds Series 2009B issued by the City of Los Angeles, in the amount of \$5,000,000. Repayment of the loan is secured by the real property of Academy and bears a fixed interest rate of 6.25% per annum until April 7, 2026 and becomes a variable rate thereafter. The note requires monthly payments of principal and interest and all unpaid principal and accrued interest is due in full at maturity on March 31, 2039. As of June 30, 2009, the outstanding principal is \$3,264,013 and accrued interest was \$20,543.

Line of credit – The Century Community Lending Company, LLC

On December 8, 2005, The Century Community Lending Company, LLC ("CCLC") entered into a Revolving Construction Loan Facility Agreement with contributing lenders to provide financing for CCLC. The administrative agent representing the contributing lenders is Bank of America, N.A. 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 maturity date, which shall not exceed two years from the date of the note. On December 1, 2008, the Company signed an amendment to the agreement, extending the maturity date to December 8, 2011 and lowering the original commitment amount of \$50,000,000 to \$30,000,000. The total amount drawn as of June 30, 2009 and 2008 is \$15,684,966 and \$22,357,891, respectively. 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. The interest rate at June 30, 2009 and 2008 was 2.57% and 4.73%, respectively. During the years ended June 30, 2009 and 2008, interest expense incurred was \$752,805 and \$1,133,324, respectively.

CENTURY HOUSING CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

13. Notes payable and lines of credit (continued)

Line of credit – The Century Community Lending Company, LLC (continued)

CCLC also incurred an administrative agent fee of \$25,000 per year and quarterly fees on the unused portion of the line of credit at a rate of 0.25%. During the years ended June 30, 2009 and 2008, line of credit fees of \$147,477 and \$105,567, respectively, have been incurred. During the year ended June 30, 2008, Century discovered that Bank of America, N.A. had overbilled CCLC for the line of credit fees. During the year ended June 30, 2008, Century received reimbursement from Bank of America, N.A. in the amount of \$178,912 of which \$91,166 represents overpayment of credit fees.

Line of credit – Century Community Development, Inc.

On July 1, 2005, Century Community Development, Inc. (“CCDI”) entered into a revolving credit and security agreement with contributing lenders to provided financing for CCDI. The bank representing the contributing lenders is Mellon 1st Business Bank, N.A. 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 the 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, 2009 and 2008 was \$0 and \$14,000,000, respectively. The line of credit matured on July 1, 2008 and was not renewed. The advances were secured by an assignment 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, 2009 and 2008, interest expense incurred was \$77 and \$581,909, respectively.

Line of credit – Wachovia Bank, National Association

On December 20, 2006, Century entered into a loan and security agreement with Wachovia Bank, National Association. Under the terms of the agreement, Century may request advances to fund loans made by Century 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 maturity date, which shall not exceed two years from the date of the note. On September 19, 2008, Century signed a modification to the loan and security agreement, extending the maturity date to November 30, 2009 and increasing the original commitment amount of \$15,000,000 to \$25,000,000. The advances are secured by an assignment deed of trust and a security agreement. The advances drawn bear interest at LIBOR plus 1.10% per annum payable on the fifteenth day of the month commencing on January 1, 2007. During the years ended June 30, 2009 and 2008, interest expense incurred was \$320,745 and \$723,622, respectively. As of June 30, 2009 and 2008, the outstanding principal was \$20,000,000 and \$8,275,000, respectively, and accrued interest was \$14,040 and \$14,071, respectively.

CENTURY HOUSING CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

13. Notes payable and lines of credit (continued)

Line of credit – Fannie Mae

On December 21, 2007, Century entered into a Revolving Credit Facility Agreement with Fannie Mae under which Fannie Mae shall provide a line of credit to Century in an amount up to a maximum of \$25,000,000. The agreement has a term of five years and expires on December 21, 2012. The line of credit bears interest at an adjustable rate at 3-month LIBOR plus 75 basis points, which is adjusted on the first day of each calendar quarter. The line of credit is secured by the real property of Century. Accrued interest is paid in arrears in monthly installments of the first day of each calendar month. The entire principal balance of the note, together with all accrued and unpaid interest and all other amounts payable are due on December 21, 2012. During the years ended June 30, 2009 and 2008, interest expense was \$564,954 and \$51,333, respectively. As of June 30, 2009 and 2008, the outstanding principal was \$25,000,000 and \$12,500,000, respectively, and accrued interest was \$40,781 and \$36,183, respectively.

Expected future annual principal payments on the outstanding debts are as follows:

Year ending June 30:	
2010	\$ 41,002,407
2011	2,553,083
2012	15,684,966
2013	25,000,000
2014	-
Thereafter	11,569,500
Total	<u>\$ 95,809,956</u>

14. 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. As of June 30, 2009 and 2008, Century has outstanding notes receivable of \$8,754,628 and \$8,489,615, respectively, related to this facility. The notes receivable eliminate in consolidation against the notes 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.

CENTURY HOUSING CORPORATION AND AFFILIATES
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14. Century Villages at Cabrillo, Inc. (continued)

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 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, \$612,000 of equity into Family Commons, and have committed to invest an additional \$18,616,700 of equity into Family Commons as investor limited partners in exchange for the benefits of the tax credits allocated to the projects. Section 42 regulates the use of the projects as to occupant eligibility and unit gross rent, among other requirements. Each of the projects must meet the provisions of these regulations during each of fifteen consecutive years in order to remain qualified to receive the tax credits. Failure to comply with such guidelines may result in the recapture of previously utilized tax credits plus interest.

15. Century/Learning Initiatives for Today, Inc.

Century/LIFT 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 its board of directors not affiliated with Century. The Century/LIFT program is for youths residing primarily in Century financed housing, and provides educational/tutorial assistance to improve learning skills and to maximize academic achievement. During the years ended June 30, 2009 and 2008, Century has contributed funds totaling \$0 and \$149,000, respectively. Century also donated services of approximately \$866,954 and \$220,865, respectively, to Century/LIFT.

16. 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, 2009 and 2008, Century funded \$145,050 and \$4,288, respectively, of child care commitments from temporarily restricted net assets. As of June 30, 2009 and 2008, Century's remaining temporarily restricted net assets committed for the development and operation of the child care center are \$12,394 and \$157,444, respectively.

17. Commitments and contingencies

Development agreement

On January 1, 2007, CVC entered into a development agreement with Family Commons to provide service 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 \$900,000 and Cantwell-Anderson, Inc. will receive \$500,000 to perform a portion of its duties and responsibilities under the development agreement. As of June 30, 2009 and 2008, \$1,400,000 and \$660,000, respectively, of the fee was incurred by Family Commons and was capitalized as construction in progress. During the years ended June 30, 2009 and 2008, Century recognized developer fee income from Family Commons in the amount of \$340,121 and \$559,879, respectively, which is shown in "Other real estate income" on the Consolidated Statements of activities.

CENTURY HOUSING CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

17. Commitments and contingencies (continued)

Development agreement (continued)

On April 1, 2009, CADI entered into a development agreement with Academy to provide service related to the development of the project and for overseeing construction completion. Under the agreement, CADI shall receive the sum of \$515,011, which is earned in accordance with certain benchmarks provided in the development agreement. During the year ended June 30, 2009, CADI recognized \$0 of developer fee income from Academy.

Guaranty of tax credit

CVC is the general partner of three low-income housing tax credit partnerships (Savannah, Casa, and Family Commons), which provides affordable housing in Long Beach, California. Vermont is the general partner of one low-income housing tax credit partnership (Academy), which provides affordable housing in Los Angeles, California. In connection with each partnership, Century has provided certain guarantees to the tax credit investors guarantying the completion and construction of the apartment complexes, operating deficits of the partnerships, 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
Guarantee balance:	\$200,000

Partnership:	Casa de Cabrillo, L.P.
Investor limited partner:	John Hancock Corporate Tax Credit Fund VIII, LP
Guarantee balance:	\$4,800,000

Partnership:	The Family Commons at Cabrillo, L.P.
Investor limited partner:	John Hancock Family Commons, LP
Guarantee balance:	\$20,000,000

Partnership:	Academy Hall, L.P.
Investor limited partner:	U.S.A. Institutional Tax Credit Fund LXVII, LP
Guarantee balance:	\$2,344,868

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, 2009 and 2008, Century has recognized a liability under these guarantees in the amount of \$545,000, which is included in accrued expenses on the accompanying consolidated statements of financial position. The following is a summary of guarantees that Century has entered into as of June 30, 2009 and 2008:

CENTURY HOUSING CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

17. Commitments and contingencies (continued)

Guaranty of third-party indebtedness (continued)

<u>Bond Series Number</u>	<u>Amount</u>	<u>Borrower</u>
California Statewide Communities Development Authority Multifamily Housing Revenue Bonds (Pioneer Gardens Apartment Project) Subordinate 2000 Series BB-S	\$ 705,000	KDF Pioneer, L.P.
California Statewide Communities Development Authority Multifamily Housing Revenue Bonds (Claremont Village Apartment Project) Subordinate 2000 Series AA-S	\$ 705,000	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 (Warrick Terrace Apartments) 2007 Series H-S	\$ 1,335,000	Concerned Citizens- Warwick LLC
California Communities Development Authority Multifamily Housing Revenue Bonds (Warrick Terrace Apartments) 2007 Series H-T	\$ 1,465,000	Concerned Citizens- Warwick LLC

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 ("Springbrook"), 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 "Beneficiary"). The assets owned by Springbrook are collateral for the underlying guarantee. If at any time ADI or Springbrook 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 will mature on June 13, 2010. As of June 30, 2009 and 2008, Century has received \$500,000 from ADI as security for the letter of credit and is included in "Security deposits" on the accompanying consolidated statements of financial position. In the event that the letter of credit expires by its term without a draw from the Beneficiary, then Century shall return the amount of the security deposit to the ADI within three days of the expiration of the letter of credit.

CENTURY HOUSING CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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17. Commitments and contingencies (continued)

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 in June 1998 to the plaintiffs' counsel. In connection with the settlement, an order of dismissal of the action was entered by the Court, which has not yet been filed.

Legal proceedings

The Corporation 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.

Loan commitments

As of June 30, 2009 and 2008, Century has outstanding commitments to provide \$3,552,000 and \$21,889,000, respectively, in loans under the affordable housing program.

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 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 were no costs incurred under this guaranty during the years ended June 30, 2009 and June 30, 2008.

The outstanding potential obligation as a result of the guarantee of this lease is as follows:

Year ending June 30:	
2010	\$ 70,284
2011	70,284
2012	70,284
2013	70,284
2014	70,284
Thereafter	281,136
Total	<u>\$ 632,559</u>

18. Reorganization and reduction in force

During the year ended June 30, 2007, the Corporation restructured its work force and as a result, many positions were eliminated and/or combined with existing positions. The Corporation entered into agreements with the individuals whose positions were eliminated and/or combined wherein the Corporation would provide these employees with a severance package which includes pay and benefits for a specified number of months. During the year ended June 30, 2008, Century incurred severance cost in the amount \$523,143 and paid \$964,761. No amounts remained due as of June 30, 2009.

SUPPLEMENTAL INFORMATION

CENTURY HOUSING CORPORATION AND AFFILIATES
SUPPLEMENTAL INFORMATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009

	Century and wholly controlled affiliates before EITF 04-5 Entities	EITF 04-5 Entities	Eliminations	Consolidated Total
ASSETS				
Cash and cash equivalents	\$ 10,132,269	\$ 169,609	\$ -	\$ 10,301,878
Restricted cash	782,633	1,379,166	-	2,161,799
Accounts receivable, net	2,719,955	219,411	(1,997,289)	942,077
Investments	30,255,947	-	(3,960,760)	26,295,187
Interest receivable	2,407,621	-	(1,419,732)	987,889
Notes receivable, net	138,942,142	-	(23,063,750)	115,878,392
Intangible assets, net	177,916	286,197	-	464,113
Prepaid expenses and other assets	1,440,050	258,605	-	1,698,655
Real estate held for sale	4,414,751	-	-	4,414,751
Real estate held for investment, net	20,210,031	55,485,536	(858,641)	74,836,926
Furniture, fixtures and equipment, net	497,902	447,424	-	945,326
Total assets	<u>\$ 211,981,217</u>	<u>\$ 58,245,948</u>	<u>\$ (31,300,172)</u>	<u>\$ 238,926,993</u>
LIABILITIES AND NET ASSETS				
Accounts payable and accrued liabilities	\$ 1,998,149	\$ 2,967,480	\$ (1,025,289)	\$ 3,940,340
Accrued interest	86,140	1,440,275	(1,419,732)	106,683
Security deposits	665,601	441,303	-	1,106,904
Notes payable and lines of credit	81,948,443	37,897,263	(24,035,750)	95,809,956
Total liabilities	<u>84,698,333</u>	<u>42,746,321</u>	<u>(26,480,771)</u>	<u>100,963,883</u>
Non-controlling interest	-	-	10,680,414	10,680,414
Net assets:				
Unrestricted	127,270,490	15,499,627	(15,499,815)	127,270,302
Temporarily restricted	12,394	-	-	12,394
Total net assets	<u>127,282,884</u>	<u>15,499,627</u>	<u>(15,499,815)</u>	<u>127,282,696</u>
Total liabilities and net assets	<u>\$ 211,981,217</u>	<u>\$ 58,245,948</u>	<u>\$ (31,300,172)</u>	<u>\$ 238,926,993</u>

CENTURY HOUSING CORPORATION AND AFFILIATES
SUPPLEMENTAL INFORMATION
CONSOLIDATED 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	\$ 11,938,268	\$ 97,384	\$ -	\$ 12,035,652
Restricted cash	886,667	1,166,865	-	2,053,532
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
Intangible assets, net	220,833	171,241	-	392,074
Prepaid expenses and other assets	1,567,409	212,609	-	1,780,018
Real estate held for sale	2,993,481	-	-	2,993,481
Real estate held for investment, net	20,693,830	36,018,991	(958,762)	55,754,059
Furniture, fixtures and equipment, net	668,528	39,874	-	708,402
	<u>\$ 192,663,006</u>	<u>\$ 37,766,542</u>	<u>\$ (22,719,077)</u>	<u>\$ 207,710,471</u>
Total assets				
LIABILITIES AND NET ASSETS				
Accounts payable and accrued liabilities	\$ 1,827,865	\$ 2,108,922	\$ (134,698)	\$ 3,802,089
Accrued interest	81,574	1,160,705	(1,160,705)	81,574
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	<u>\$ 192,663,006</u>	<u>\$ 37,766,542</u>	<u>\$ (22,719,077)</u>	<u>\$ 207,710,471</u>

CENTURY HOUSING CORPORATION AND AFFILIATES
SUPPLEMENTAL INFORMATION
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

	Century and wholly controlled affiliates before EITF 04-5 Entities	EITF 04-5 Entities	Eliminations	Consolidated Total
LENDING AND CORPORATE REVENUE:				
Investment interest and dividends	\$ 1,568,000	\$ 13,009	\$ -	\$ 1,581,009
Income from notes receivable	11,364,314	-	(1,357,396)	10,006,918
Residual receipts, contingent assets and fee income	3,786,324	-	-	3,786,324
Other income	24,600	-	-	24,600
Total lending and corporate revenue	<u>16,743,238</u>	<u>13,009</u>	<u>(1,357,396)</u>	<u>15,398,851</u>
PROGRAM REVENUE AND SUPPORT:				
CVC and other real estate operations				
Rental property income	3,018,951	2,942,703	(1,221,037)	4,740,617
Real estate sold	3,055,625	-	-	3,055,625
Other real estate income	340,121	-	-	340,121
CCTI income	300,713	-	-	300,713
Contributions	258,357	-	-	258,357
Total program revenue and support	<u>6,973,767</u>	<u>2,942,703</u>	<u>(1,221,037)</u>	<u>8,695,433</u>
Total revenue	23,717,005	2,955,712	(2,578,433)	24,094,284
LENDING EXPENSES:				
Allocation for loan losses	4,080,588	-	-	4,080,588
Borrowing fees	169,779	-	-	169,779
Interest expense	1,869,319	1,357,396	(1,357,396)	1,869,319
Total financing expenses	<u>6,119,686</u>	<u>1,357,396</u>	<u>(1,357,396)</u>	<u>6,119,686</u>
PROGRAM EXPENSES:				
CVC and other real estate operations:				
Rental property expenses	914,140	3,897,088	(1,221,225)	3,590,003
Cost of real estate sold	2,953,152	-	-	2,953,152
Other real estate expenses	456,908	-	-	456,908
CCTI support	2,014,285	-	-	2,014,285
Charter school support	596,170	-	-	596,170
Century/LIFT support	866,954	-	-	866,954
Other program support	106,075	-	-	106,075
Total program expenses	<u>7,907,684</u>	<u>3,897,088</u>	<u>(1,221,225)</u>	<u>10,583,547</u>
MANAGEMENT AND GENERAL EXPENSES:				
Salaries and employee benefits	3,043,009	-	-	3,043,009
Professional fees	173,490	-	-	173,490
Business development expenses	261,061	-	-	261,061
General and administrative expenses	471,970	-	-	471,970
Depreciation and amortization expense	401,476	-	-	401,476
Total management and general expenses	<u>4,351,006</u>	<u>-</u>	<u>-</u>	<u>4,351,006</u>
Total expenses	18,378,376	5,254,484	(2,578,621)	21,054,239
Increase in unrestricted net assets before realized and unrealized losses on financial investments	5,338,629	(2,298,772)	188	3,040,045
Realized and unrealized losses on financial investments	<u>(5,580,849)</u>	<u>-</u>	<u>-</u>	<u>(5,580,849)</u>
(Decrease) increase in unrestricted net assets	(242,220)	(2,298,772)	188	(2,540,804)
Temporarily restricted net assets				
Net assets released from restrictions	<u>(145,050)</u>	<u>-</u>	<u>-</u>	<u>(145,050)</u>
Changes in net assets	(387,270)	(2,298,772)	188	(2,685,854)
Net assets at beginning of year	<u>129,968,550</u>	<u>-</u>	<u>-</u>	<u>129,968,550</u>
Net assets at end of year	<u>\$ 129,581,280</u>	<u>\$ (2,298,772)</u>	<u>\$ 188</u>	<u>\$ 127,282,696</u>

CENTURY HOUSING CORPORATION AND AFFILIATES
SUPPLEMENTAL INFORMATION
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

	Century and wholly controlled affiliates before EITF 04-5 Entities	EITF 04-5 Entities	Eliminations	Consolidated Total
LENDING AND CORPORATE REVENUE:				
Investment interest and dividends	\$ 1,524,520	\$ 14,821	\$ -	\$ 1,539,341
Income from notes receivable	10,665,269	-	(458,674)	10,206,595
Residual receipts, contingent assets and fee income	1,248,508	-	-	1,248,508
Other income	262,673	-	-	262,673
Total lending and corporate revenue	<u>13,700,970</u>	<u>14,821</u>	<u>(458,674)</u>	<u>13,257,117</u>
PROGRAM REVENUE AND SUPPORT:				
CVC and other real estate operations				
Rental property income	2,077,497	2,436,967	(438,442)	4,076,022
Real estate sold	3,912,000	-	-	3,912,000
Other real estate income	559,879	-	-	559,879
CCTI income	150,207	-	-	150,207
Contributions	238,224	-	-	238,224
Total program revenue and support	<u>6,937,807</u>	<u>2,436,967</u>	<u>(438,442)</u>	<u>8,936,332</u>
Total revenue	20,638,777	2,451,788	(897,116)	22,193,449
LENDING EXPENSES:				
Allocation for loan losses	292,316	-	-	292,316
Borrowing fees	105,636	-	-	105,636
Interest expense	2,811,160	458,674	(458,674)	2,811,160
Total financing expenses	<u>3,209,112</u>	<u>458,674</u>	<u>(458,674)</u>	<u>3,209,112</u>
PROGRAM EXPENSES:				
CVC and other real estate operations:				
Rental property expenses	1,753,060	2,757,940	(1,202,207)	3,308,793
Cost of real estate sold	1,690,973	-	-	1,690,973
Other real estate expenses	325,985	-	-	325,985
CCTI support	1,265,446	-	-	1,265,446
Charter school support	-	-	-	-
Century/LIFT support	369,865	-	-	369,865
Other program support	2,196,214	-	-	2,196,214
Total program expenses	<u>7,601,543</u>	<u>2,757,940</u>	<u>(1,202,207)</u>	<u>9,157,276</u>
MANAGEMENT AND GENERAL EXPENSES:				
Salaries and employee benefits	4,099,633	-	-	4,099,633
Professional fees	550,252	-	-	550,252
Business development expenses	228,398	-	-	228,398
General and administrative expenses	850,357	-	-	850,357
Depreciation and amortization expense	409,944	-	-	409,944
Total management and general expenses	<u>6,138,584</u>	<u>-</u>	<u>-</u>	<u>6,138,584</u>
Total expenses	16,949,239	3,216,614	(1,660,881)	18,504,972
Increase in unrestricted net assets before realized and unrealized losses on financial investments	3,689,538	(764,826)	763,765	3,688,477
Realized and unrealized losses on financial investments	<u>(2,243,511)</u>	<u>-</u>	<u>-</u>	<u>(2,243,511)</u>
Increase (decrease) in unrestricted net assets	1,446,027	(764,826)	763,765	1,444,966
Temporarily restricted net assets				
Net assets released from restrictions	<u>(4,288)</u>	<u>-</u>	<u>-</u>	<u>(4,288)</u>
Changes in net assets	1,441,739	(764,826)	763,765	1,440,678
Net assets at beginning of year	<u>128,527,872</u>	<u>-</u>	<u>-</u>	<u>128,527,872</u>
Net assets at end of year	<u>\$ 129,969,611</u>	<u>\$ (764,826)</u>	<u>\$ 763,765</u>	<u>\$ 129,968,550</u>