



CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

**CENTURY HOUSING CORPORATION
AND AFFILIATES**

JUNE 30, 2006 AND 2005

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 CASH FLOWS	6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	7

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Century Housing Corporation and affiliates

We have audited the accompanying consolidated statement of financial position of Century Housing Corporation (the Corporation) and affiliates as of June 30, 2006, and the related consolidated statements of activities and cash flows for the year 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 audit. The consolidated financial statements of Century Housing Corporation and affiliates as of and for the year ended June 30, 2005 were audited by other auditors whose report dated August 16, 2005, expressed an unqualified opinion on those statements before the restatement of the aforementioned consolidated financial statements as discussed below.

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.

As discussed above, the financial statements of Century Housing Corporation and affiliates as of June 30, 2005, and for the year then ended were audited by other auditors. As described in Note 17, these financial statements have been restated. We audited the adjustments described in Note 17 that were applied to restate the 2005 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2005 financial statements of the Corporation other than with respect to such adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2005 financial statements taken as a whole.

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, 2006, and the changes in their net assets and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



Sacramento, California
October 3, 2006

Century Housing Corporation and Affiliates

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2006 and 2005

	<u>2006</u>	<u>Restated 2005</u>
Cash and cash equivalents includes restricted cash of \$919,612 and \$2,774,317, respectively	\$ 11,357,591	\$ 6,106,715
Accounts receivable	598,344	2,821,596
Investments	31,174,118	66,216,153
Interest receivable	1,599,142	773,925
Notes receivable, net of allowance for loan losses of \$1,360,368 and \$1,149,817, respectively	72,272,745	32,671,555
Real estate held for investment, net	3,583,716	3,304,476
Real estate held for sale	256,464	363,528
Buildings, land, leasehold improvements and office equipment, net	20,085,450	20,500,193
Prepaid expenses and other assets	<u>928,578</u>	<u>1,052,025</u>
Total assets	<u>\$ 141,856,148</u>	<u>\$ 133,810,166</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 580,860	\$ 1,983,366
Accrued expenses	400,455	225,425
Accrued interest	116,151	-
Tenant security deposits	50,832	21,987
Notes payable	<u>12,121,335</u>	<u>2,706,166</u>
Total liabilities	<u>13,269,633</u>	<u>4,936,944</u>
Net assets		
Unrestricted	128,411,515	128,698,222
Temporarily restricted	<u>175,000</u>	<u>175,000</u>
Total net assets	<u>128,586,515</u>	<u>128,873,222</u>
Total liabilities and net assets	<u>\$ 141,856,148</u>	<u>\$ 133,810,166</u>

See notes to financial statements

Century Housing Corporation and Affiliates

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>Restated 2005</u>
REVENUE AND SUPPORT		
Real estate operations		
Rental income, net of vacancies	\$ 2,455,008	\$ 2,500,594
Real estate sold	5,918,725	1,314,624
Affordable housing loan repayments	1,730,895	2,457,845
Interest income on notes receivable	3,233,876	3,488,302
Other income	1,230,120	2,841,675
Government grants	1,144,874	173,968
Special event income	-	2,098,440
Investment income		
Realized and unrealized appreciation of investments	1,974,426	1,433,343
Interest and dividend income from investments	2,680,621	2,488,440
(Loss) income from equity investment	(3,389)	4,822
	<u>20,365,156</u>	<u>18,802,053</u>
EXPENSES		
Real estate operations		
Rental property expenses	2,204,963	2,161,373
Cost of real estate sold	4,582,649	522,307
Other real estate expenses	1,221,149	1,046,647
Loan loss reserve	220,551	194,528
Other program support	2,309,888	3,086,465
Affordable housing program	2,230,488	1,802,777
Century/LIFT	559,267	465,640
Supporting services - management and general expenses	7,322,908	8,923,456
	<u>20,651,863</u>	<u>18,203,193</u>
Change in net assets	(286,707)	598,860
Net assets at beginning of year, as restated	<u>128,873,222</u>	<u>128,274,362</u>
Net assets at end of year	<u>\$ 128,586,515</u>	<u>\$ 128,873,222</u>

See notes to financial statements

Century Housing Corporation and Affiliates

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>Restated 2005</u>
Cash flows from operating activities		
Change in net assets	\$ (286,707)	\$ 598,860
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	653,938	698,879
Loan loss reserve expense	380,543	798,084
Equity in losses from investments	3,389	195,075
Gain from sale of real estate	(1,336,076)	(403,266)
Realized and unrealized appreciation of investments	(1,974,426)	(1,433,343)
Decrease (increase) in accounts receivable	2,223,252	(1,380,319)
(Increase) decrease in interest receivable	(825,217)	235,438
Decrease in prepaid expenses and other assets	123,447	448,358
(Decrease) increase in accounts payable	(1,402,506)	1,275,596
Increase (decrease) in accrued expenses	175,030	(12,780)
Increase in accrued interest	116,151	-
Increase (decrease) in tenant security deposits	28,845	(54,928)
	<u>(2,120,337)</u>	<u>965,654</u>
Net cash (used in) provided by operating activities		
Cash flows from investing activities		
Decrease in restricted cash	1,854,705	250,528
Investment securities purchased	(42,191,650)	(15,098,574)
Investment securities sold	80,068,329	7,032,812
Acquisition of real estate held for sale	(724,632)	(2,591,976)
Proceeds from sale of real estate	5,918,725	1,314,629
Receipts from notes receivable	45,727,646	7,558,261
Advances in notes receivable	(86,572,986)	-
Additions to real estate held for investment	(299,664)	(128,259)
Purchases of buildings, land, leasehold improvements and office equipment	(3,969,724)	(606,421)
	<u>(189,251)</u>	<u>(2,269,000)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Payment on notes payable	(3,255,775)	(23,507)
Proceeds from notes payable	12,670,944	-
	<u>9,415,169</u>	<u>(23,507)</u>
Net cash provided by (used in) financing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,105,581	(1,326,853)
Cash and cash equivalents, beginning	<u>3,332,398</u>	<u>4,659,251</u>
Cash and cash equivalents, ending	<u>\$ 10,437,979</u>	<u>\$ 3,332,398</u>
Cash paid for interest	<u>\$ 439,332</u>	<u>\$ 238,070</u>

See notes to financial statements

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006 and 2005

NOTE 1 - ORGANIZATION

Century Housing Corporation (Century) is a California nonprofit corporation exempt from state and federal income taxation. Century Housing Corporation 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 Housing Corporation and its predecessor have developed and/or financed more than 12,000 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 using favorable loan terms to provide and maintain affordable housing units.

Resident Services - Century provides assistance to residents of Century-owned housing units, Century-financed housing units and housing units previously sold by Century. Assistance includes homeownership training and other related services.

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.

Affordability Monitoring - 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.

Construction Services - Century provides construction services for construction and rehabilitation of Century-owned or financed projects.

Century/LIFT® - Century provides assistance to Century/LIFT®, a program for youths residing primarily in Century financed housing. 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 (Note 13).

Affordable Housing Sales and Rental Housing - Century sells single-family residences and condominiums to low to moderate-income households. Century also owns and manages

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2006 and 2005

housing units for the benefit of low- to moderate-income households, as established by Century. Residential rental rates are made affordable to these households.

Century Community Training Program (CCTP) - Century supports 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.

“More Than Shelter For Seniors” (MTSFS) - Century supports this program financially. It assists seniors living in affordable housing communities, extending active lifestyles for senior renters using programs and activities based on Century’s “More Than Shelter For Seniors”® concept. MTSFS is a member of the More Than Shelter family of services.

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 and owned by Century and leased to nonprofit operators.

Century Community Charter School (CCCS) – Century supports CCCS financially in the form of a loan. CCCS provides middle school education, serving South Los Angeles sixth graders. CCCS added a seventh grade in Fall 2005, and an eight grade class will be added in Fall 2006, when the school will serve nearly 375 children. Following the same incremental growth plan as the first school, a second school will open in Fall 2006 with an estimated 200 sixth and seventh grade students. CCCS 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.

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2006 and 2005

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.

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 Senior Care, 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 Fund, Inc., and

The Century Community Lending Company, LLC.

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

Principles of Affiliate Consolidation

Century Villages at Cabrillo (CVC) owns .1% of Long Beach Savannah Housing, L.P. (Savannah) and .01% of Casa de Cabrillo, Inc. (Casa) and records its investment using the equity method. CVC accounts for its investments in both Savannah and Casa using the equity

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2006 and 2005

method of accounting because CVC owns less than 50% of each entity but has control of the major operating and financial policies of both entities.

Century Affordable Development, Inc. (CADI) owned 99% of River Road, LLC and accounted for it using the consolidation method whereby it recorded the balance that was owned by other entities as minority interest. River Road, LLC was dissolved during the year ended June 30, 2006. CADI also owns 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.

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. Those estimates and assumptions 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.

Investments

In accordance with Statement of Financial Accounting Standards (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.

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2006 and 2005

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. 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.

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 income is recognized as rentals become due. Rental payments received in advance are deferred until earned. In addition, the Corporation records depreciation expense on the rented units. 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 Right to Purchase Agreements (note 6). Real estate held for sale is recorded at the lesser of cost or fair market value less selling costs. 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 or rehabilitated 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. 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

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2006 and 2005

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

Impairment

In accordance with Statement of Financial Accounting Standard 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. There have been no asset impairment losses recognized as of June 30, 2006.

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, in substance, 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 Housing 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 but not yet spent are recorded as deferred revenue. Funds for qualifying costs incurred and recognized as revenue but not yet received are recorded as accounts receivable.

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2006 and 2005

Gain on Sale of Assets

Century records its gain 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 reduced for any closing costs or commission incurred on the sale. For the years ended June 30, 2006 and 2005, gain on the sale of real estate amounted to \$1,336,076 and \$403,266, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement 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.

Recent Accounting Pronouncement

The Emerging Issues Task Force (EITF) reached a consensus in June 2005 regarding EITF Issue 04-5, Investors Accounting for an Investment in a Limited Partnership when the Investor is the Sole General Partner and the Limited Partners Have Certain Rights. The EITF agreed on a framework for evaluating when a general partner controls a limited partnership and whether the Partnership should be consolidated. The Financial Accounting Standards Board (FASB) ratified the consensus which is effective for all fiscal years beginning after December 15, 2005. Century is currently evaluating the impact adoption of EITF Issue 04-5 will have on its financial position and its results of operations.

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2006 and 2005

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% - 2.5% of the outstanding balance of third party loans. It is reasonably possible that management's estimate of the allowance will change.

Reclassifications

Certain items from the prior year financial statements have been reclassified to conform to the current year presentation.

NOTE 3 - INVESTMENTS

Publicly traded securities are valued at quoted market prices. Investments are comprised of the following as of June 30:

	<u>2006</u>	<u>2005</u>
Mutual Funds/Separate Accounts		
S&P 500 Index Fund	\$ 7,797,047	\$ 28,810,235
Total Return Bond Fund	2,994,206	28,353,867
Mellon Small Cap Fund	2,649,577	5,116,697
Private Market Fund	2,286,041	2,217,782
1999 Series A-T Mortgage Bonds	-	640,000
BBH Inflation-Indexed Securities Fund	5,888,557	-
Goldman High Yield Fund	4,965,913	-
International Core Equity Fund	2,654,987	-
	<u>\$ 29,236,328</u>	<u>\$ 65,138,581</u>

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2006 and 2005

The following schedule summarizes the investment return on the publicly traded securities and its classification in the consolidated statements of activities for the years ended June 30:

	<u>2006</u>	<u>2005</u>
Interest on cash and cash equivalents	\$ 112,670	\$ 60,364
Interest income and dividends	2,567,951	2,428,076
Unrealized/realized gains/(losses)	<u>1,974,426</u>	<u>1,433,343</u>
Total investment return	<u>\$ 4,655,047</u>	<u>\$ 3,921,783</u>

Investments also include equity investments in the following limited partnerships and limited liability companies:

	<u>2006</u>	<u>2005</u>
2541 West Manchester (through CADI)	\$ 863,607	\$ -
Casa (through CVC)	(33,790)	(33,556)
Savannah (through CVC)	979,455	979,426
Century Family Housing, LLC (through CADI)	<u>128,518</u>	<u>131,702</u>
Total	<u>\$ 1,937,790</u>	<u>\$ 1,077,572</u>

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2006 and 2005

The following summarizes the combined balance sheet and statement of revenue and expenses information for the equity investments in limited partnerships and limited liability companies:

Summarized Balance Sheet
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Investment in residential rental property, net of accumulated depreciation of \$1,869,077 and \$1,526,038 as of June 30, 2006 and 2005, respectively	\$ 20,611,105	\$ 21,386,174
Other	<u>1,861,498</u>	<u>1,248,674</u>
Total assets	<u>\$ 22,472,603</u>	<u>\$ 22,634,848</u>
Liabilities, primarily notes payable	\$ 6,876,381	\$ 16,560,536
Partners' equity:		
Century	1,937,893	1,077,572
Other partners	<u>13,658,329</u>	<u>4,996,740</u>
Total liabilities and partners' equity	<u>\$ 22,472,603</u>	<u>\$ 22,634,848</u>

Statement of Revenues and Expenses
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Total revenue	\$ 1,179,500	1,989,636
Total expenses	<u>1,367,162</u>	<u>3,135,350</u>
Total net loss	<u>\$ (187,662)</u>	<u>\$ (1,145,714)</u>
Net (loss) income from equity investment is allocated to the partners as follows:		
Century	\$ (3,389)	\$ 4,822
Other Partners	<u>(184,273)</u>	<u>(1,150,536)</u>
	<u>\$ (187,662)</u>	<u>\$ (1,145,714)</u>

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2006 and 2005

NOTE 4 - NOTES RECEIVABLE

Notes receivable consist of notes secured by 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 10%. Primarily notes receivable secured by affordable housing development projects totaled \$72,237,297 and \$32,022,833 as of June 30, 2006 and 2005, respectively. Notes receivable from non-officer employees of Century totaled \$1,395,816 and \$1,798,539 as of June 30, 2006 and 2005, respectively. Outstanding principal is scheduled to be received as follows:

Year ending June 30, 2007	\$ 34,564,704
2008	24,676,445
2009	3,446,569
2010	2,265,924
2011	676,045
Thereafter	<u>8,003,426</u>
	73,633,113
Less allowance for loan loss	<u>(1,360,368)</u>
	<u>\$ 72,272,745</u>

NOTE 5 - REAL ESTATE HELD FOR INVESTMENT

Real estate held for investments consists of the following at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Land	\$ 2,825,687	\$ 1,218,771
Building and improvements	390,000	1,942,599
Construction in progress	<u>463,122</u>	<u>224,017</u>
	3,678,809	3,385,387
Less accumulated depreciation	<u>(95,093)</u>	<u>(80,911)</u>
Total real estate held for investment	<u>\$ 3,583,716</u>	<u>\$ 3,304,476</u>

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2006 and 2005

NOTE 6 - REAL ESTATE HELD FOR SALE

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 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, 2006 and 2005, homes which had been repurchased under a RTPA or otherwise acquired, and are currently held for sale, amounted to \$256,464 and \$363,528, respectively.

NOTE 7 - BUILDINGS, LAND, LEASEHOLD IMPROVEMENTS AND OFFICE EQUIPMENT

	<u>2006</u>	<u>2005</u>
Land	\$ 4,291,890	\$ 5,091,890
Buildings	13,237,355	11,990,425
Leasehold improvements, furniture and fixtures	4,805,135	5,724,908
Computers and office equipment	<u>1,136,952</u>	<u>1,129,952</u>
	23,471,332	23,937,175
Less accumulated depreciation	<u>(3,385,882)</u>	<u>(3,436,982)</u>
Total leasehold improvements and office equipment	<u>\$ 20,085,450</u>	<u>\$ 20,500,193</u>

NOTE 8 - LEASES

Century entered into a ground lease with Southwestern Bag Company, L.P., for the land to be used for the Century Alameda Child Development Center in Los Angeles, California. The ground lease commenced on January 1, 2000 and expires December 31, 2019. The base rent was \$5,857 per month and was scheduled to increase every five years by the increase in the Consumer Price Index. On December 19, 2005, Century sold the building that was located on the leased land. As a result of the sale of this asset, the ground lease was assigned to the buyer. Additionally, Century will continue to be liable to the landlord under the terms of the lease in case of default of the buyer (see Note 15).

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2006 and 2005

NOTE 9 - 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. For all participants, Century 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. In prior years the employer match was contributed to a section 401(a) plan, which was closed on January 2006. For the years ended June 30, 2006 and 2005, the total amount contributed by Century to the plan was \$291,898 and \$271,774, respectively, which is included in "Supporting services - management and general expenses" 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 to the 457(b) plan, subject to certain limitations.

Certain key executive officers have life insurance policies owned by Century. In the event of death while employed by Century, 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 Century, plus accrued interest. The cash surrender values of the policies are \$401,196 and \$395,367 as of June 30, 2006 and 2005, respectively, and are recorded in prepaid and other assets in the accompanying consolidated statements of financial position.

NOTE 10 - 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 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 current market interest rates. These loans provided for affordable housing based on rent and income restrictions established by Century. 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

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2006 and 2005

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. Affordable housing 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 loan unless stipulated in the note.

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 repayment of these loans is uncertain and have not recorded the notes receivable or accrued interest on the books. Therefore, should repayment occur, it will be accounted for as affordable housing loan repayment income or interest income in the year in which the payments are received.

Contingent assets represented by affordable housing loans outstanding as of June 30, 2006 and 2005, total \$86,049,688 and \$87,655,760, respectively, and have an effective interest rate of 3% per annum. Unrecorded accrued interest receivable on these assets as of June 30, 2006 and 2005 was \$26,697,945 and \$25,557,182, respectively.

For the years ended June 30, 2006 and 2005, Century did not fund any affordable housing loan commitments or child care commitments from temporarily restricted assets. As of June 30, 2006 and 2005, temporarily restricted net assets available for these affordable housing loan commitments or child care commitments of \$175,000 remained undisbursed.

NOTE 11 - NOTE PAYABLE AND LINE 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. 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 and matures October 1, 2010. The loan requires monthly payments of principal and interest totaling \$21,798, based on a 30-year amortization schedule. As of June 30, 2006 and 2005, the outstanding principal balance was \$2,680,517 and \$2,706,166, respectively.

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2006 and 2005

The aggregate maturities of the debt over each of the next five years following June 30, 2006, are as follows:

Year ending June 30, 2007	\$	34,027
2008		37,084
2009		40,416
2010		44,048
Thereafter		<u>2,524,942</u>
Total	\$	<u>2,680,517</u>

Interest expense on the note for the years ended June 30, 2006 and 2005 was \$235,928 and \$238,070, respectively.

Line of Credit

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. The maturity dates currently range from 2007 to 2008. The total amount committed as of June 30, 2006 is \$12,000,000 of which \$9,440,818 has been drawn and remains payable. The advances are secured by an assignment of deed of trust and security agreement. The advances drawn bear interest at rates ranging from 4.5% to 7.75% per annum payable quarterly on the 15th day of the month following the end of each quarter. During the year ended June 30, 2006, CCDI's interest expense incurred was \$319,555. As of June 30, 2006, the outstanding principal and accrued interest is \$9,440,818 and \$116,151, respectively.

NOTE 12 - 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

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2006 and 2005

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, 2006 of \$8,344,362 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 two portions of the property with Savannah and Casa. These two 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 and \$11,900,000 of equity into Casa 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 13 - CENTURY/LEARNING INITIATIVES FOR TODAY, INC. (CENTURY/LIFT)

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 the Board of Directors not affiliated with Century. The Century/LIFT program is for youths residing primarily in Century financed housing, and provides educational and tutorial assistance to improve learning skills and to maximize academic achievement. For the years ended June 30, 2006 and 2005, Century has contributed funds totaling \$375,000 and \$375,000, respectively. Century also donated services of approximately \$184,267 and \$90,640, respectively, to Century/LIFT.

NOTE 14 - 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. As of June 30, 2006 and 2005, Century's remaining temporarily restricted net assets committed for the development and operation of the child care center is \$175,000.

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2006 and 2005

NOTE 15 - COMMITMENTS AND CONTINGENCIES

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 parties. The assets owned by the limited partnerships are the collateral for the underlying loans being guaranteed. If at any time the third parties 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, 2006, Century has not recognized a liability under these guarantees. The following is a summary of the guarantees as of June 30, 2006:

Bond Series Number	Outstanding Balance	Borrower
California Statewide Communities Development Authority Multifamily Housing Revenue Bonds (Pioneer Gardens Apartment Project) Subordinate 2000 Series BB-S	\$ 895,000	KDF Pioneer, L.P.
California Statewide Communities Development Authority Multifamily Housing Revenue Bonds (Claremont Village Apartment Project) Subordinate 2000 Series AA-S	895,000	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.

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2006 and 2005

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 (see note 8), 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 year ended June 30, 2006.

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.

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 16 - CONCENTRATION OF CREDIT RISK

Century maintains its cash and investment balances in seven 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 Company has not experienced any losses with respect to bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash and investment balances at June 30, 2006.

NOTE 17 - RESTATEMENT AND PRIOR PERIOD ADJUSTMENT

The 2005 consolidated financial statements have been restated to adjust accrued interest receivable as of June 30, 2005 that was related to interest income recorded on a note

Century Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2006 and 2005

receivable in error in previous years. Total net assets as of June 30, 2005 changed from \$129,265,447 as previously reported to \$128,873,222 as restated. Total net assets at the beginning of the year ended June 30, 2005 changed from \$128,601,337 as previously reported to \$128,274,362 as adjusted. Interest receivable was overstated by \$392,225 and the \$1,166,150 as previously reported was changed to \$773,925 as restated. Interest income on notes receivable was overstated by \$65,250 and the \$3,553,552 as previously reported was changed to \$3,488,302 as restated. The net effect of the restatement and the prior period adjustment is a decrease in net assets as of June 30, 2005 of \$392,225.

Additionally, Century has certain cash and cash equivalents that are restricted as to their use. The restricted cash as of June 30, 2005 of \$2,774,317 had not been identified as such in the previous year's financial statements. The consolidated statement of cash flows for 2005 has been restated to recognize the restricted cash. As a result, the cash and cash equivalent balance ending June 30, 2005 changed from \$6,106,715 as previously reported to \$3,332,398 as restated.

NOTE 18 - COMMITMENTS

As of June 30, 2006, Century has outstanding commitments to provide \$8,715,250 for notes under the affordable housing program.

As of June 30, 2006, 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 Lost Angeles, CA. The guaranty will go into effect upon the closing of the permanent loan. As of June 30, 2006, the permanent loan has not closed.