

AOF/GOLDEN STATE COMMUNITY DEVELOPMENT CORP.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2005

with

INDEPENDENT AUDITORS' REPORT

Audited Financial Statements

AOF/GOLDEN STATE COMMUNITY DEVELOPMENT CORP.

December 31, 2005

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CARTER & COMPANY

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
AOF/Golden State Community Development Corp.
Huntington Beach, California

We have audited the statement of financial position of AOF/Golden State Community Development Corp. ("the Corporation") as of December 31, 2005, and the related 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.

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 financial statements referred to above present fairly, in all material respects, the financial position of AOF/Golden State Community Development Corp. as of December 31, 2005, and the results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Carter & Company

Destin, Florida
January 19, 2006

STATEMENT OF FINANCIAL POSITION

AOF/GOLDEN STATE COMMUNITY DEVELOPMENT CORP.

December 31, 2005

ASSETS

Cash and cash equivalents	\$ 62,241
Mortgage escrow	59,372
Property inventory	<u>262,558</u>
	<u>\$ 384,171</u>

LIABILITIES AND UNRESTRICTED NET ASSETS

Accounts payable	\$ 33,951
Due to City of Ontario	91,600
Note payable	<u>196,379</u>
	321,930
Unrestricted net assets	<u>62,241</u>
	<u>\$ 384,171</u>

See independent auditors' report and notes to financial statements.

STATEMENT OF ACTIVITIES

AOF/GOLDEN STATE COMMUNITY DEVELOPMENT CORP.

December 31, 2005

Administrative fee income		\$ 69,720
General and administrative expenses		<u>61,442</u>
	INCREASE IN NET ASSETS	8,278
Net assets at beginning of year		<u>53,963</u>
	NET ASSETS AT END OF YEAR	<u>\$ 62,241</u>

See independent auditors' report and notes to financial statements.

STATEMENT OF CASH FLOWS

AOF/GOLDEN STATE COMMUNITY DEVELOPMENT CORP.

Year Ended December 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from city	\$ 69,720
Cash paid to suppliers and management company	<u>(342,821)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(273,101)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from issuance of note payable	<u>196,379</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(76,722)</u>
 Cash and cash equivalents at beginning of year	<u>138,963</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 62,241</u>
 RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES	
Increase in net assets	\$ 8,278
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Increase in property inventories	(255,958)
Increase in mortgage escrow	(59,372)
Increase in accrued expenses	<u>33,951</u>
	<u>\$ (273,101)</u>

SUPPLEMENTAL INFORMATION ON NON-CASH INVESTING AND FINANCING ACTIVITIES

None

See independent auditors' report and notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

AOF/GOLDEN STATE COMMUNITY DEVELOPMENT CORP.

December 31, 2005

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

AOF/Golden State Community Development Corp. (“the Corporation”) was incorporated in 1999 as a nonprofit corporation organized under the laws of the State of California. The Corporation is a subordinate of The American Opportunity Foundation, Inc. (“AOF”), a Georgia nonprofit corporation which is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (“the Code”). AOF has received a group exemption as a central organization whose subordinates are recognized as exempt from federal income taxation under Section 501(c)(3) of the Code. The Corporation has no stockholders and is governed by a Board of Trustees. The Corporation is organized as a Community Housing Development Organization (“CHDO”) under the guidelines promulgated by the United States Department of Housing and Urban Development and in accordance with 42 U.S.C. Section 12704. In accordance with those guidelines, one-third of the members of the Board of Trustees are representatives of low income communities, as defined. As a CHDO, the Corporation is limited to business activities in the counties of Los Angeles, San Bernardino, Riverside, Ventura, Orange and San Diego. The Corporation has been adopted by the cities of Fontana, Ontario, and Alhambra as well as San Bernardino County. The Corporation was organized to foster, support, provide develop, construct, acquire, rehabilitate, operate, and sell qualified affordable housing to low-income, elderly and/or mentally or physically challenged persons or families.

The following accounting policies are presented to assist the reader in understanding the Corporation’s financial statements:

Revenue Recognition: Revenue from the sale of properties acquired and rehabilitated is recognized at the closing of the sale of the properties. Administration fee income is recognized when earned.

Cost Recognition: Direct and indirect acquisition and construction costs related to the acquisition and rehabilitation of the properties are capitalized as costs of the properties. These costs are expensed upon the closing of the sale of the respective property.

Property Inventories: Inventories are stated at the lower of cost (specific identification method) or net realizable value. Cost includes direct and indirect costs incurred in acquiring and rehabilitating one to four-unit dwellings.

Income Taxes: AOF/Golden State Community Development Corp. is a non-profit corporation exempt from income taxes under §501(c)(3) of the Internal Revenue Code.

Cash and Cash Equivalents: For purposes of reporting cash flows, the Corporation considers unrestricted demand deposits and all unrestricted, highly liquid investments, with original maturities of three months or less, which can be readily converted to cash on demand, without penalty, to be cash equivalents.

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 reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS -- Continued

AOF/GOLDEN STATE COMMUNITY DEVELOPMENT CORP.

December 31, 2005

NOTE A -- NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

Functional Expenses: The costs of providing various programs and other activities are summarized on a functional basis as follows for the year ended December 31, 2005:

Program Services	
Housing project	\$ 57,870
Supporting Services	
General and administrative	<u>3,572</u>
	<u>\$ 61,442</u>

NOTE B -- LEASE AGREEMENTS WITH FONTANA HOUSING AUTHORITY

The Corporation has fourteen lease agreements ("the Agreements") with Fontana Housing Authority ("the Authority") whereby it leases four-unit apartment buildings ("the Properties") from the Authority for a cost of \$1 per year per apartment building. The leases have an initial five-year term, with a month-to-month option upon expiration of the initial term. Either party can terminate the lease with a ninety day written notice. The Corporation, in turn, subleases the apartment units to Low-Income and Very Low-Income Tenants as specified in the Agreements. Low-Income Tenants and Very Low-Income Tenants means persons or families with Adjusted Income (as defined) that does not exceed eighty percent or fifty percent, respectively, of the Median Income for the area, adjusted for household size.

All monthly rent proceeds are to be used for the sole purpose of operating, maintaining, and managing the Properties. The Corporation receives a monthly Administration Fee of \$415 per building. Administration Fees received under these Agreements totaled \$69,720 for the year ended December 31, 2005. The Corporation has a management agreement with QMG Real Estate Brokerage ("QMG") to manage the Properties. The Corporation paid QMG management fees totaling \$41,280 during the year ended December 31, 2005. All monthly rental income not used in the regular operating and maintenance of the Properties is deposited into Capital Reserve Accounts ("CRA") to be used for the capital repairs and replacements of the Properties. Funds in the CRA in excess of an amount defined in the Agreements are remitted to the Authority. Any funds in the CRA at the expiration or termination of the lease agreements are to be remitted to the Authority.

The individual apartment leases are between the tenant and QMG. The monthly rental income and related monthly disbursements are accounted for by QMG and are not included in the books and records of the Corporation.

NOTES TO FINANCIAL STATEMENTS – Continued

AOF/GOLDEN STATE COMMUNITY DEVELOPMENT CORP.

December 31, 2005

NOTE C – HOME INVESTMENT PARTNERSHIP AGREEMENT

In 2000, the Corporation entered into the Home Investment Partnership Agreement (“the Agreement”) with the City of Ontario, California (“the City”) and the Ontario Redevelopment Agency (“the Agency”) to purchase and rehabilitate/reconstruct single family residences, or purchase vacant land and construct single-family residences with financing provided by the City. The residences are to be sold to low-income persons or families. Low-income households are those whose annual income does not exceed eighty percent of San Bernardino County median income, adjusted for family size.

Under the Agreement, the City provides financing for the acquisition and rehabilitation/reconstruction of five to six single family residences. The City issues a separate loan for each single family residence. The loans are non-interest bearing and do not require any periodic payments; however, the loans are due and payable six months from the date of issuance. The City has the discretion to extend the term of the loan for up to three months. Each loan shall accelerate and become due upon the sale of the single family residence it financed provided, however, that the City may accept payment for up to 35% of the outstanding balance in the form of a note executed by the buyer of the single family residence. If the Corporation is not in default under the Agreement at the time of sale, the City agrees to assign to the Corporation, as a conditional grant to become Project Income, the remaining outstanding loan balance. The Corporation uses the Project Income from the sale of the residence to fund a portion of the rehabilitation/construction of the next single family residence. As of December 31, 2005, the Corporation had completed the purchase, rehabilitation, and sale of two single family residences and was working on the third residence. The revenue and cost recognition policies related to the acquisition, rehabilitation, and sale of the properties are described in Note A.

NOTE D – NOTE PAYABLE TO CITY OF ONTARIO

In June 2005, the Corporation entered into a Loan Agreement with the City of Ontario (“City”) relating to the acquisition and rehabilitation of single family residence under the Home Investment Partnership Agreement more fully described in Note C. As of December 31, 2005, the Corporation owed City \$196,379 under this Loan Agreement. As noted in Note C, the loan is non-interest bearing and due upon the sale of the single family residence.

NOTE E – DUE TO CITY OF ONTARIO

As of December 31, 2005, the Corporation had received \$91,600 as a conditional grant under the Home Investment Partnership Agreement (“the Agreement”) more fully described in Note C. This amount is shown as a liability to the City of Ontario at December 31, 2005. Based upon the terms of the Agreement, this amount is owed to the City upon an event of default under the Agreement. Upon the Corporation’s completion of its total obligation under the Agreement, this amount will be taken into income.

NOTE F – RELATED PARTY TRANSACTIONS

The Corporation has a consulting agreement with a related non-profit entity whereby the Corporation is to pay \$16,000 annually for consulting services. During the year ended December 31, 2005, the Corporation recorded consulting fee expense of \$16,000 relating to this agreement.