

**EDEN HOUSING, INC., EDEN
HOUSING MANAGEMENT, INC.
AND EDEN HOUSING RESIDENT
SERVICES, INC.**

**COMBINED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

YEARS ENDED JUNE 30, 2004 AND 2003

EDEN HOUSING, INC., EDEN HOUSING MANAGEMENT, INC. AND
EDEN HOUSING RESIDENT SERVICES, INC.
COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

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Board of Directors
Eden Housing, Inc., Eden Housing Management,
Inc., and Eden Housing Resident Services, Inc.
Hayward, California

JAMES M. KRAFT
S. SCOTT SEAMANDS
MARK O. BRITTAIN

ALEXIS H. WONG
CHARLOTTE SIEW-KUN TAY
CATHY L. HWANG

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying combined statements of financial position of Eden Housing, Inc., Eden Housing Management, Inc., and Eden Housing Resident Services, Inc., as of June 30, 2004 and 2003, and the related combined statements of activities and functional expenses for the years then ended. These combined financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Organizations' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying combined financial statements were prepared for the purposes as designated by management and to facilitate further financial analysis, and, as discussed in Note 2, are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

In addition, the financial statements of Eden Housing, Inc., Eden Housing Management, Inc., and Eden Housing Resident Services, Inc. have been prepared without combining the financial statements of all related entities under common control. Combined financial statements of all entities under common control will also be issued, and those statements are the general-purpose financial statements of the primary reporting entity.

In our opinion, the combined financial statements referred to in the first paragraph present fairly, in all material respects, the combined financial position of Eden Housing, Inc., Eden Housing Management, Inc., and Eden Housing Resident Services, Inc. as of June 30, 2004 and 2003, and the changes in their combined net assets for the years then ended, in conformity with the basis of accounting described in Note 2.

This report is intended solely for the information and use of the Board of Directors and Management of Eden Housing, Inc., Eden Housing Management, Inc., and Eden Housing Resident Services, Inc., and should not be used by anyone other than these specified parties.

December 28, 2004

EDEN HOUSING, INC., EDEN HOUSING MANAGEMENT, INC. AND
EDEN HOUSING RESIDENT SERVICES, INC.
COMBINED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2004 AND 2003

	2004	2003
ASSETS		
Cash	\$ 1,671,010	\$ 1,386,102
Cash – restricted	491,961	429,275
Investments (Note 3)	142,748	224,339
Related-party receivables (Note 4)	9,454,354	8,582,770
Prepaid expenses and other receivables	61,716	38,754
Tenant security deposits	55,351	54,506
Notes receivable (Note 5)	1,700,705	1,562,925
Development in progress (Note 6)	961,419	2,805,291
Property and equipment – net (Note 7)	11,669,746	12,223,222
Deferred costs – net	34,416	35,567
	\$ 26,243,426	\$ 27,342,751

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 304,031	\$ 343,015
Related-party payable (Note 4)	30,154	101,189
Deferred revenue	201,012	203,076
Development advances (Note 8)	-	2,185,286
Tenant security deposits	51,889	52,205
Line of credit (Note 9)	-	1,149,400
Interest payable (Note 10)	2,105,214	1,866,525
Notes payable (Note 10)	15,031,221	14,075,702
Payable to City of Hayward (Note 11)	212,687	211,883
Total liabilities	17,936,208	20,188,281
Net assets:		
Unrestricted	8,212,493	6,974,579
Temporarily restricted (Note 13)	94,725	179,891
Total net assets	8,307,218	7,154,470
Total liabilities and net assets	\$ 26,243,426	\$ 27,342,751

The accompanying notes are an integral part of these combined financial statements.

EDEN HOUSING, INC., EDEN HOUSING MANAGEMENT, INC., AND
EDEN HOUSING RESIDENT SERVICES, INC.
COMBINED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2004 AND 2003

	<i>2004</i>			<i>2003</i>		
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>
Support and revenue:						
Development fees, including accrued interest (Note 4)	\$ 2,257,070	\$ -	\$ 2,257,070	\$ 1,907,944	\$ -	\$ 1,907,944
Property management fees (Note 4)	1,565,017	-	1,565,017	1,464,800	-	1,464,800
Rental income – owned properties	696,897	-	696,897	667,764	-	667,764
Partnership management service contracts (Note 4)	393,980	-	393,980	365,786	-	365,786
Deferred ground leases, including accrued interest (Note 4)	321,223	-	321,223	317,006	-	317,006
Service fees (Note 4)	140,168	-	140,168	123,476	-	123,476
Contributions	175,753	47,550	223,303	36,736	134,483	171,219
Interest and investment income	69,218	-	69,218	42,325	-	42,325
Net realized and unrealized loss on investments	-	-	-	(4,463)	-	(4,463)
Other income	50,932	126	51,058	55,826	313	56,139
Net assets released from restrictions	132,842	(132,842)	-	78,273	(78,273)	-
Total support and revenue	5,803,100	(85,166)	5,717,934	5,055,473	56,523	5,111,996
Expenses:						
Program services:						
Housing development	1,393,952	-	1,393,952	1,393,258	-	1,393,258
Rental operations	850,615	-	850,615	844,546	-	844,546
Management services	1,312,192	-	1,312,192	1,226,146	-	1,226,146
Resident services	332,856	-	332,856	316,618	-	316,618
Supporting services:						
Management and general	835,636	-	835,636	740,810	-	740,810
Total expenses	4,725,251	-	4,725,251	4,521,378	-	4,521,378

The accompanying notes are an integral part of these combined financial statements.

EDEN HOUSING, INC., EDEN HOUSING MANAGEMENT, INC., AND
EDEN HOUSING RESIDENT SERVICES, INC.
COMBINED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2004 AND 2003

	<i>2004</i>			<i>2003</i>		
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>
Change in net assets before capital grant and contribution to affiliates	1,077,849	(85,166)	992,683	534,095	56,523	590,618
Capital grant (Note 12)	350,000	-	350,000			
Contributions to affiliates (Note 4):						
Eden Investments, Inc.	(279,935)	-	(279,935)	-	-	-
Eden Sycamore	(10,000)	-	(10,000)	-	-	-
Total capital grant and contributions to affiliates	60,065	-	60,065	-	-	-
Change in net assets	1,137,914	(85,166)	1,052,748	534,095	56,523	590,618
Net assets, beginning of year	6,974,579	179,891	7,154,470	6,490,484	123,368	6,613,852
Reclassification of net assets (Note 14)	100,000	-	100,000	-	-	-
Equity transfer for affiliate demand note (Note 15)	-	-	-	(50,000)	-	(50,000)
Net assets, end of year	<u>\$ 8,212,493</u>	<u>\$ 94,725</u>	<u>\$ 8,307,218</u>	<u>\$ 6,974,579</u>	<u>\$ 179,891</u>	<u>\$ 7,154,470</u>

The accompanying notes are an integral part of these combined financial statements.

EDEN HOUSING, INC., EDEN HOUSING MANAGEMENT, INC., AND
EDEN HOUSING RESIDENT SERVICES, INC.
COMBINED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2004 AND 2003

	<i>2004</i>					<i>Total</i>
	<i>Program Services</i>				<i>Supporting Services</i>	
	<i>Housing Development</i>	<i>Rental Operations</i>	<i>Management Services</i>	<i>Resident Services</i>	<i>Management and General</i>	
Salaries and wages	\$ 838,638	\$ 61,957	\$ 847,372	\$ 166,715	\$ 498,172	\$ 2,412,854
Payroll taxes and benefits	156,324	34,870	184,623	40,057	101,480	517,354
Office and maintenance costs	21,482	229,709	138,190	36,052	157,400	582,833
Occupancy costs	-	32,400	-	-	-	32,400
Professional services	76,262	5,490	114,461	906	52,499	249,618
Mortgage interest and carrying costs	21,227	309,865	8,657	-	1,669	341,418
Travel	10,594	-	6,925	4,773	2,455	24,747
Non-recoverable development costs	8,654	-	7,062	-	-	15,716
Scholarships	-	-	-	-	15,130	15,130
Donations and service contributions	-	3,848	-	-	900	4,748
Summer program	-	-	-	73,319	-	73,319
Other expenses	1,043	3,081	1,739	141	646	6,650
Expenses before other costs	1,134,224	681,220	1,309,029	321,963	830,351	4,276,787
Other costs:						
Interest – deferred notes	205,668	7,740	-	-	-	213,408
Depreciation and amortization	54,060	161,655	3,163	10,893	5,285	235,056
Total expenses	\$ 1,393,952	\$ 850,615	\$ 1,312,192	\$ 332,856	\$ 835,636	\$ 4,725,251

The accompanying notes are an integral part of these combined financial statements.

EDEN HOUSING, INC., EDEN HOUSING MANAGEMENT, INC., AND
EDEN HOUSING RESIDENT SERVICES, INC.
COMBINED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2004 AND 2003

	<i>2003</i>					<i>Total</i>
	<i>Program Services</i>				<i>Supporting Services</i>	
	<i>Housing Development</i>	<i>Rental Operations</i>	<i>Management Services</i>	<i>Resident Services</i>	<i>Management and General</i>	
Salaries and wages	\$ 776,019	\$ 58,734	\$ 741,311	\$ 156,923	\$ 467,836	\$ 2,200,823
Payroll taxes and benefits	146,145	32,705	163,072	30,074	92,009	464,005
Office and maintenance costs	98,271	235,395	126,201	32,655	68,177	560,699
Occupancy costs	32,400	-	-	-	-	32,400
Professional services	67,465	4,890	164,855	4,605	60,818	302,633
Mortgage interest and carrying costs	20,796	312,521	-	-	19,229	352,546
Travel	10,096	-	2,867	3,760	1,905	18,628
Non-recoverable development costs	21,158	-	-	-	-	21,158
Scholarships	-	-	-	-	14,740	14,740
Donations and service contributions	-	2,221	-	-	3,555	5,776
Summer program	-	-	-	69,551	-	69,551
Bad-debt expense	-	-	-	-	-	-
Other expenses	4,110	29,620	2,956	874	995	38,555
Expenses before other costs	1,176,460	676,086	1,201,262	298,442	729,264	4,081,514
Other costs:						
Interest – deferred notes	196,771	7,740	-	-	-	204,511
Depreciation and amortization	20,027	160,720	1,297	11,794	4,339	198,177
Allocated usage fees	-	-	23,587	6,382	7,207	37,176
Total expenses	\$ 1,393,258	\$ 844,546	\$ 1,226,146	\$ 316,618	\$ 740,810	\$ 4,521,378

The accompanying notes are an integral part of these combined financial statements.

EDEN HOUSING, INC., EDEN HOUSING MANAGEMENT, INC. AND
EDEN HOUSING RESIDENT SERVICES, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Eden Housing, Inc. (EHI) was formed as a California nonprofit public benefit corporation in 1968. Its mission is to build and maintain high-quality, well-managed, service-enhanced affordable housing communities that meet the needs of lower income families, seniors and persons with disabilities.

In addition, EHI owns real properties located in Hayward, California, which provides housing for low- and moderate-income individuals and families. These real properties are included in this financial statement as directly owned properties.

The board of directors of EHI also serves as the board of directors of Eden Housing Management, Inc. (EHMI), which provides property management services in connection with the operations of affordable housing and elderly housing projects, and Eden Housing Resident Services, Inc. (EHRSI), which develops and supports viable social services to the projects' residents. The board of directors of these corporations also serves as the board of directors of a number of other corporations. These corporations own affordable housing or are general partners of partnerships that own affordable housing. All board members serve without compensation.

Except for combination of accounts set forth in Note 2, the combined financial statements do not include the assets, liabilities, revenue or expenses of other related organizations.

Most of the rental properties affiliated with EHI are owned by other related entities. Included in these financial statements are three rental properties owned directly by EHI.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Combination

The accompanying combined financial statements only include the accounts of EHI and two affiliates—EHMI and EHRSI (collectively called Eden Housing), both of which are under common control. All material intercompany balances and transactions have been eliminated from the combined financial statements. Other corporations under common control as mentioned in Note 1 are not included in these combined financial statements.

Accounting Method

Eden Housing use the accrual method of accounting, which recognizes income in the period earned and expenses when incurred.

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

Basis of Presentation

Eden Housing reports information regarding its financial position and activities according to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

EDEN HOUSING, INC., EDEN HOUSING MANAGEMENT, INC. AND
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NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

Revenue Recognition

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recorded at their fair value as unrestricted support, temporarily restricted support, or permanently restricted support, depending on the absence or existence of donor imposed restrictions as applicable. 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 Statement of Activities as net assets released from restrictions. If donors' restrictions are satisfied in the same period that the contribution is received, the contribution is reported as unrestricted support. Contributions restricted for the purchase of long-lived assets are reported as unrestricted support.

Rental income for owned property is shown at its maximum gross potential. Vacancy loss is shown as a reduction in rental income. Rental units occupied by employees are included in rental income and as an expense of operations.

Development Fees

For projects that are in the predevelopment or preconstruction stage, EHI recognizes developer fee revenue based on the cash receipts method. For projects that are in development or under construction, EHI recognizes revenue based on the percentage-of-completion method.

Cash

Cash is defined as cash in demand deposit accounts as well as cash on hand. Not included as cash are funds restricted as to their use, regardless of liquidity, such as security deposits, replacement reserves, and operating reserves.

Eden Housing has exceeded the Federal Deposit Insurance Corporation (FDIC) insurable limits of \$100,000 on its bank accounts and Securities Investor Protection Corporation (SIPC) insurable limits of \$500,000 on its investment accounts. The FDIC and SIPC insurable limits are \$100,000 and \$500,000 per financial institution, respectively, and at June 30, 2004, Eden Housing had approximately \$1,531,000 on deposit in excess of FDIC and SIPC insured limits. Eden Housing has not experienced any losses in such accounts. Eden Housing believes that it is not exposed to any significant cash credit risk.

Restricted Cash

Restricted cash includes cash from predevelopment bank accounts, cash reserve obligation of the Tyrell Gardens project, reserves for repairs and replacements, operating reserves, and tax and insurance impound accounts.

Investments

Investments are stated at fair value.

Investment in Limited Partnerships

Investment in limited partnerships is accounted for using the equity method of accounting. The investment is initially recorded at cost and then adjusted for EHI's proportionate share of undistributed earnings or losses. When EHI's investment in a partnership is temporary and will ultimately be assigned to an affiliate, EHI's share of partnership income/losses is treated as a contingent liability and accordingly, is not reflected in the financial statements. (See Note 4.)

EDEN HOUSING, INC., EDEN HOUSING MANAGEMENT, INC. AND
EDEN HOUSING RESIDENT SERVICES, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

Developments in Progress

EHI incurs costs during the predevelopment phase of each affordable housing project undertaken. Such costs include governmental fees, legal and consulting fees, and supplies needed to investigate the feasibility and arrange for the financing of each project under construction, as well as construction costs. EHI records these costs as assets (development in progress) and the costs are usually recoverable from the project; either from loan proceeds, limited partner contributions or residual receipts generated by project operations.

Any funds expended on a project that do not pass beyond the development stage are recorded as expenses when further activity on the project ceases.

Property and Equipment

Eden Housing records property and equipment at cost, or at fair value, if donated. Maintenance and repairs are charged to income as incurred; significant renewals and betterments are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years.

Deferred Costs

Loan fees associated with the acquisition and rehabilitation of the Villa Springs property and refinancing of the Grove Way property are stated at cost and amortized over the respective loan terms.

Income Taxes

EHI and EHRSI are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. In addition, contributions to EHI and EHRSI qualify for the charitable contribution deduction. EHMI is exempt from federal taxes under Section 501(c)(4).

Functional Expenses Allocation

The costs of providing program services and supporting services have been summarized on a functional basis in the Statements of Activities and Statements of Functional Expenses. Accordingly, certain costs have been allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources.

Reclassification

Certain amounts previously reported in the 2003 financial statements were reclassified to conform to the 2004 presentation for comparative purposes.

EDEN HOUSING, INC., EDEN HOUSING MANAGEMENT, INC. AND
EDEN HOUSING RESIDENT SERVICES, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 3 – INVESTMENTS

Investments at June 30, 2004 and 2003 are summarized as follows:

	2004		2003	
	<i>Cost</i>	<i>Fair Value</i>	<i>Cost</i>	<i>Fair Value</i>
Common stocks	\$ 97,647	\$ 58,111	\$ 91,433	\$ 49,501
Preferred stocks	-	-	100,000	101,290
Mutual funds	125,947	84,637	124,798	73,548
	<u>\$ 223,594</u>	<u>\$ 142,748</u>	<u>\$ 316,231</u>	<u>\$ 224,339</u>

NOTE 4 – RELATED-PARTY TRANSACTIONS

Related-party receivables are summarized as follows:

	2004	2003
Receivable:		
Developer fees	\$ 1,690,609	\$ 1,995,133
Ground leases	2,881,356	2,648,506
Partnership management fees	1,142,966	1,032,791
Advances for development costs	1,017,303	526,132
Advances to general partners	839,860	813,650
Minimum capital investment advances on HUD properties ⁽¹⁾	40,000	20,000
Reserve funding fees	137,000	137,000
Accrued interest on developer fees	279,099	222,038
Accrued interest on ground leases	439,193	350,820
Accrued interest – other	114,828	78,884
Property management fees and related cost reimbursements	825,175	689,063
Residential services fees and related cost reimbursements	46,965	68,753
	<u>\$ 9,454,354</u>	<u>\$ 8,582,770</u>
Payable:		
Operating advances	<u>\$ 30,154</u>	<u>\$ 101,189</u>

⁽¹⁾ These advances will be converted into notes receivable to be repaid within three years.

Other Fees and Reimbursements

EHI receives various fees and reimbursements from related parties. These include development fees for the development of affordable housing, project cost reimbursements for costs advanced during the predevelopment stage of affordable housing projects, fees pursuant to partnership agreements that affiliated organizations have entered into, and repayment of advances made to affiliates. Developer fees earned, including accrued interest, from affiliated entities were \$2,257,070 and \$1,907,944 for the years ended June 30, 2004 and 2003, respectively.

EDEN HOUSING, INC., EDEN HOUSING MANAGEMENT, INC. AND
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NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

Property Management Fees

EHMI earns property management and related accounting and occupancy fees from affiliated entities. EHMI earned \$1,520,509 and \$1,409,388 for the years ended June 30, 2004 and 2003, respectively.

Partnership Management Service Contracts

EHI entered into partnership management service contracts with several affiliates. These affiliates pay EHI for management and administrative fees and during the years ended June 30, 2004 and 2003, EHI earned \$393,980 and \$365,786, respectively, from these entities.

Leases

EHI leases land to affiliates upon which affordable housing projects are operated. Lease payments are generally deferred until some future date, but revenue earned and recognized, including accrued interest, was \$321,223 and \$317,006 for the years ended June 30, 2004 and 2003, respectively.

EHI leases additional office space from Glen Eden Associates, an affiliate. Annual rental payments were \$32,400 for each of the years ended June 30, 2004 and 2003.

Services Fees

EHRSI earns services fees provided to residents. EHRSI earned \$132,668 and \$111,475 for the years ended June 30, 2004 and 2003, respectively.

Contributions to Affiliates

Prior to June 30, 2004, EHI was a general partner in Union Court Limited Partnership. EHI used a portion of their developer fee from this property to contribute as equity to the partnership, and incurred pass-through losses of \$279,935. Their net partnership interest of \$137,780 was transferred to Eden Investments, Inc., an affiliate, in 2004, and recognized as a note receivable at June 30, 2004 (see Note 5). The pass-through losses are deemed to be contributions to affiliate.

NOTE 5 – NOTES RECEIVABLE

Notes receivable are summarized as follows:

	2004	2003
<u>Related Parties</u>		
SPM Housing Associates, secured by a deed of trust, with interest at 4% per annum, and is due on June 1, 2043.	350,000	350,000
Sycamore Square Housing Corporation, unsecured with interest at 3% per annum. Annual payments are required commencing November 2, 2002 to the extent of surplus cash, as defined, with principal and any unpaid interest due in full on November 30, 2031.	227,650	227,650

EDEN HOUSING, INC., EDEN HOUSING MANAGEMENT, INC. AND
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NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
Notes receivable (for general partner capital contributions or other advances) from the following affiliates are non-interest bearing and unsecured. On December 31st annually, any unrestricted funds of the affiliates, less a reasonable amount for corporate expenses held by the affiliates, shall be paid against the note:		
Catalonia, Inc.	507,083	507,083
Eden Palms, Inc.	120,000	120,000
RVC Investment, Inc.	54,727	54,727
Stoney, Inc.	62,959	62,959
A Street, Inc.	54,956	54,956
Eden Investments, Inc. (see Note 4)	137,780	-
	1,515,155	1,377,375
<i>Other Notes Receivable</i>		
Notes receivable from buyers of units in the La Solanita and La Solana projects, due only upon sale of the property to persons not qualifying as low-income families, with interest ranging from 8% to 10% per annum.	25,350	25,350
Notes receivable from buyers of units in the Tyrrell Gardens project, due only upon sale of the property to persons not qualifying as low-income families, with interest at 8% per annum (see Note 11).	60,200	60,200
Note receivable from Cal-Livermore, Inc., with interest at 5% per annum. Principal and interest repayable at some future date (see Note 10).	100,000	100,000
	185,550	185,550
Total	\$ 1,700,705	\$ 1,562,925

NOTE 6 – DEVELOPMENT IN PROGRESS

Development in progress consist of the following:

	2004	2003
Chesley Avenue Mutual Housing	\$ -	\$ 7,230
Dublin Senior Housing	-	75,626
East Palo Alto Panhandle Site	4,292	4,136
Eden Palms II	157,617	106,374
Gardella Gardens Apartments	-	322,781
Hercules Senior Apartments	407,957	127,166
Lafayette Senior Housing	1,931	-
Livermore Family Housing	248,323	27,002
Menlo Park	-	2,697
Palo Alto	3,344	-
Petaluma River Apartments	-	1,462,995
Richmond Nursery	110,602	-
Union City Assisted Living	26,720	88,527
Union City Independent Living	-	580,448
Others	633	309
Total	\$ 961,419	\$ 2,805,291

EDEN HOUSING, INC., EDEN HOUSING MANAGEMENT, INC. AND
EDEN HOUSING RESIDENT SERVICES, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	2004	2003
Land:		
Leased to affiliates	\$ 2,741,947	\$ 2,741,947
Held for development	3,143,329	3,516,381
Owned housing projects	923,875	923,875
Corporate office	272,687	272,687
Building and improvements:		
Owned housing projects	5,690,251	5,660,132
Corporate office	812,214	812,214
Office furniture and equipment	466,310	442,948
	14,050,613	14,370,184
Less accumulated depreciation:		
Buildings and improvements	1,987,320	1,810,422
Office furniture and equipment	393,547	336,540
	2,380,867	2,146,962
Net	\$ 11,669,746	\$ 12,223,222

NOTE 8 – DEVELOPMENT ADVANCES

Development advances represented funds received from a local government agency for development of Petaluma River Apartments and totaled \$2,185,286 at June 30, 2003. These advances were converted to long-term debt, then transferred to its affiliate partnership, Downtown River Associates, in November 2003.

NOTE 9 – LINE OF CREDIT

In 2004, EHI acquired a \$2,500,000 secured revolving line of credit with Wells Fargo Bank. Bank advances on the credit line are payable in full by May 1, 2006 (maturity date) and bears interest determined in relation to LIBOR that may be continued by EHI at the end of the Fixed Rate Term applicable thereto so that all or a portion thereof bears interest determined in relation to the Prime Rate or to LIBOR for a new Fixed Rate term designated. As of June 30, 2004, there was no outstanding balance on this line of credit. As a subfeature of the line of credit, the bank agrees to issue standby letters of credit, where requested, not to exceed the aggregate of \$1,500,000. Any amount of undrawn letters of credit shall proportionately reduce the amount available to borrow on the line of credit.

EHI has a \$1,500,000 secured revolving line of credit with Bank of the West, of which \$1,149,400 was outstanding at June 30, 2003. Bank advances on the credit line carry an interest rate of 4.00%. As of June 30, 2004, there was no outstanding balance on this line of credit.

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NOTE 10 – NOTES PAYABLE

Notes payable, except demand notes payable, are secured by the property unless otherwise noted and are summarized as follows:

	<i>2004</i>		<i>2003</i>	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
<u><i>742 Harris Court</i></u> Citicorp Mortgage, Inc., maximum amount of \$248,500, due July 1, 2029, bears interest at 7.18% per annum, and requires annual payments of \$1,683.	\$ 1,404	\$ 234,641	\$ 1,423	\$ 237,868
City of Hayward (HOME) for predevelopment costs, due January 10, 2054, bears interest at 4.69% per annum from January 1, 2001. Annual payments are required commencing July 1, 2001, to the extent of surplus cash, as defined.	27,091	165,000	19,350	165,000
<u><i>Grove Way/Tenth and D Streets</i></u> Citicorp Mortgage, Inc., due June 1, 2029, bears interest at 7.00% per annum and is payable in monthly installments of \$2,754.	2,276	389,777	2,308	395,305
<u><i>Villa Springs</i></u> California Housing Finance Agency (CalHFA), due November 2023, bears interest at 8.40% per annum and is payable in monthly installments of \$17,103.	17,305	1,978,842	15,767	2,016,139
CalHFA, bears interest at 3.00% per annum and is due November 2009. Annual payments are required commencing November 1, 1994, to the extent of excess cash, as defined.	68,185	289,298	59,506	289,298
County of Alameda, due June 30, 2038, bears interest at 3.00% per annum.	331,403	927,000	303,593	927,000
State of California, Department of Housing and Community Development (HCD), due July 30, 2042, bears interest at 3.00% per annum.	702,112	1,981,676	642,662	1,981,676
<u><i>Richards Manor/Heritage Park</i></u> County of Alameda, with repayment to be made as funds are received from the note receivable from Cal-Livermore, Inc. (see Notes 5 and 14).	-	-	-	100,000

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	2004		2003	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
<u><i>Baywood Apartments</i></u> City of Fremont. The loan is to be repaid, without interest, to the extent EHI receives annual lease payments from the project.	-	800,000	-	800,000
<u><i>Stoney Creek Apartments</i></u> City of Livermore. The principal is payable in 55 equal annual installments at 3.00% per annum. The loan is to be repaid, to the extent EHI receives annual lease payments from the project.	172,414	813,114	148,021	813,114
<u><i>Washington Creek Apartments</i></u> City of Petaluma. The principal is due July 24, 2020, with any unpaid interest which accrues at 3.00% per annum.	134,400	320,000	124,800	320,000
<u><i>Sara Conner Place</i></u> Lenders for Community Development, in an original amount of \$795,000. Bears simple interest of 4.00% per annum, is unsecured and due on November 12, 2004.	-	779,125	-	-
Lenders for Community Development, in an original amount of \$855,000. Bears no interest, is unsecured and due on November 12, 2004.	-	855,000	-	-
<u><i>Gardella Gardens Apartments</i></u> City of Livermore, due December 1, 2030, for land acquisition and predevelopment costs, maximum amount of \$1,500,000. The loan was transferred to Gardella Plaza, Inc. in March 2004.	-	-	-	1,500,000
<u><i>Hercules Senior</i></u> City of Hercules, Redevelopment Agency, bears simple interest at 3.00% per annum beginning from the earlier of certificate of occupancy date or December 31, 2005, and is due July 1, 2057.	-	700,000	-	700,000
<u><i>Dublin Senior</i></u> City of Dublin for land acquisition and predevelopment costs, maximum amount of \$280,000. The loan was transferred to Dublin Senior LP in February 2004.	-	-	-	77,974

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	2004		2003	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
<u><i>Eden Palms II</i></u>				
Lenders for Community Development for land acquisition and predevelopment costs, maximum amount of \$440,000, bears interest of 5.25% and is due September 2, 2003. The loan was paid off in August 2003.	-	-	-	434,100
Lenders for Community Development, maximum amount of \$105,000, bears interest of 2.00% and is due September 2, 2003. The loan was paid off in August 2003.	-	-	-	104,450
Lenders for Community Development, maximum amount of \$105,000, bears no interest and is due December 2, 2003. The loan was paid off in August 2003.	-	-	-	105,000
City of San Jose (CDBG) for land acquisition and predevelopment costs, maximum amount of \$100,000, bears interest of 3.00% and is due April 30, 2006. The loan rolled over into the HOME Investment Partnerships Program.	-	-	-	70,797
City of San Jose (HOME Investment Partnership Program) for acquisition and predevelopment costs, maximum amount of \$1,275,000, and bears no interest.	-	811,222	-	-
<u><i>General</i></u>				
Wells Fargo Community Development Corporation, in an original amount of \$1,000,000. Bears simple interest at 2%, interest paid quarterly with principal and any unpaid interest due in full January 2013.	5,000	1,000,000	-	-
<u><i>Corporate Office/Office Building</i></u>				
Bank of the West for acquisition of property for corporate office at 409 Jackson Street, Hayward, due in September 2007. Monthly installments are \$3,159, with interest at 5.00%.	1,888	453,212	1,950	468,058

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	2004		2003	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
Bank of the West for construction of corporate office at 409 Jackson Street, Hayward, due in January 2008, with interest at the prime rate, adjusted every fifth year (4.01% at June 30, 2004 and 2003). Monthly installments are \$3,621.	484	144,814	1,083	181,423
<i><u>Demand Notes Payable</u></i>				
Payable to A Street, Inc., on demand or by December 31, 2051, with compound interest at 5.84% per annum.	-	167,000	-	167,000
Payable to Catalonia, Inc., on demand or by December 31, 2053, with compound interest at 6.36% per annum.	201,286	290,000	170,257	290,000
Payable to Chynoweth Housing, Inc., on demand or by December 31, 2055, and is non-interest bearing.	-	250,000	-	250,000
Payable to Corona-Ely Ranch, Inc., on demand or by December 31, 2052, with compound interest at 7.69% per annum.	-	286,000	-	286,000
Payable to Eden Investments, Inc., on demand or by December 31, 2055, and is non-interest bearing (see Note 15).	-	50,000	-	50,000
Payable to Eden Palms, Inc., on demand or by December 31, 2050, with compound interest at 6.36% per annum.	439,966	633,000	375,805	633,000
Payable to Ellis Lake Townhomes, on demand or by December 31, 2051, and is non-interest bearing.	-	79,000	-	79,000
Payable to Glen Berry, Inc., on demand or by December 31, 2052, with compound interest at 7.67% per annum.	-	215,000	-	215,000
Payable to Stoney, Inc., on demand or by December 31, 2051, with compound interest at 6.75% per annum.	-	305,000	-	305,000
Payable to Washington Creek, Inc., on demand or by December 31, 2051, with compound interest at 6.75% per annum.	-	113,500	-	113,500
	<u>\$ 2,105,214</u>	<u>\$ 15,031,221</u>	<u>\$ 1,866,525</u>	<u>\$ 14,075,702</u>

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Principal payments on notes payable for the next five years are subject to changes in net cash flow and are estimated as follows:

2005	\$ 1,738,051
2006	110,520
2007	117,577
2008	106,919
2009	88,227

NOTE 11 – PAYABLE TO CITY OF HAYWARD

Funds due to the City of Hayward upon collection from homeowners are summarized as follows:

	2004	2003
Tyrrell Gardens (see Note 5)	\$ 60,200	\$ 60,200
Tyrrell Gardens	152,487	151,683
	\$ 212,687	\$ 211,883

NOTE 12 – CAPITAL GRANT

During fiscal year 2004, EHI was awarded a grant of \$350,000 by the City of Hayward's Community Development Block Grant (CDBG) program, to be used for the purposes of paying, in whole or in part, the costs for acquisition and eligible predevelopment expenses for Sara Conner Place. As of June 30, 2004, this amount has been fully expended.

NOTE 13 – TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets are for the following purposes or periods:

	2004			
	<i>June 30, 2003</i>	<i>Contributions</i>	<i>Releases from Restrictions</i>	<i>June 30, 2004</i>
Union City Independent Living	\$ 25,000	\$ -	\$ 25,000	\$ -
Gardella Gardens Apartments	10,000	-	10,000	-
Affordable Housing Development Collaboration in Richmond and East Palo Alto	36,900	-	36,900	-
Tyrrell Gardens	31,800	126	-	31,926
Corporation and Foundation – Summer Youth Program	76,191	47,550	60,942	62,799
Total	\$ 179,891	\$ 47,676	\$ 132,842	\$ 94,725

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	2003			
	<i>June 30, 2002</i>	<i>Contributions</i>	<i>Releases from Restrictions</i>	<i>June 30, 2003</i>
Union City Independent Living	\$ 25,000	\$ -	\$ -	\$ 25,000
Gardella Gardens Apartments	10,000	-	-	10,000
Affordable Housing Development Collaboration in Richmond and East Palo Alto	-	40,000	3,100	36,900
Tyrrell Gardens	31,487	313	-	31,800
Corporation and Foundation – Summer Youth Program	56,881	94,483	75,173	76,191
Total	<u>\$ 123,368</u>	<u>\$ 134,796</u>	<u>\$ 78,273</u>	<u>\$ 179,891</u>

NOTE 14 – RECLASSIFICATION OF NET ASSETS

During a prior fiscal year, EHI received a \$100,000 conditional grant from the County of Alameda for the Richards Manor project. This grant had been previously recorded as a loan payable. Based on facts and circumstances discovered in the current year, this award should have been recognized as grant income in a prior year. Accordingly, unrestricted net assets have been reclassified as of June 30, 2003 to properly reflect this transaction.

NOTE 15 – UNRESTRICTED NET ASSETS

Equity Transfer for Affiliate Demand Note

EHI entered into a promissory “demand note” agreement in 2003 with Eden Investments, Inc., an affiliated nonprofit corporation. The demand note, as detailed in Note 10, is unsecured and non-interest bearing. EHI’s unrestricted net assets were reduced in 2003 by the face amount of the note, which totaled \$50,000.

NOTE 16 – EMPLOYEE BENEFIT PLAN

EHI established a 401(a) defined contribution pension plan effective July 1, 1992. Employees become eligible to participate in the plan after one year of service, are fully vested in three years and are not required to contribute to the plan. The contribution to the plan is determined on an annual basis by the board of directors and the board determined to freeze the pension contribution for one year commencing August 2001. The board determined to reinstate pension contributions at a rate of 5% instead of the previous 6% in fiscal year 2002 to 2003. A maximum of 5% of covered wages could be contributed and \$111,715 and \$67,267 were contributed for the years ended June 30, 2004 and 2003, respectively.

EHI established a 401(k) profit sharing plan that was effective January 1, 1999. Employees become eligible to participate in the plan immediately on the first day of employment. Participants may contribute annually from 1% to 100% of their compensation, provided that maximum amount contributed is permitted by law. This plan is for employees’ salary deferral only and Eden Housing is not required to make contributions.

EHI also established a 403(b) defined contribution plan. This plan is for highly compensated employees’ salary deferral and Eden Housing is not required to make contributions.

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NOTE 17 – COMMITMENTS AND CONTINGENCIES

EHI has committed to provide demand loans payable to three affiliates for the purpose of satisfying their net worth requirements. The non-interest bearing demand loans expire at the end of the respective partnerships and at June 30, 2004 are as follows:

	<u>Principal</u>
Baywood Apartments, Inc.	\$ 424,000
Eden Investments, Inc.	103,500
Huntwood Investment, Inc.	104,000

EHI is obligated under agreements to guarantee to various limited partnerships operating deficits and other matters as they arise, up to a maximum obligation of approximately \$5,087,000.

EHI has entered into indemnification (guarantee) agreements with investor limited partners in various limited partnerships pertaining to low income housing tax credits and other tax benefits. The amount of the guarantee exceeds \$50,000,000.

EHI has entered into a guaranty agreement with California Housing Finance Agency (CalHFA) related to a loan in the amount of \$1,100,000 obtained by SPM Housing Associates (SPM) to be used to effect certain repairs to properties resulting from defects in construction.

EHI has entered into guarantee agreements on certain recourse-type loans pertaining to property development. EHI anticipates assigning these loans to separate affiliated ownership entities within a two-year period.