

THE ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)

Basic Financial Statements

June 30, 2008

(With Independent Auditor's Report Thereon)

THE ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)

June 30, 2008

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Atlanta Housing Opportunity, Inc.
Atlanta, Georgia

We have audited the accompanying basic financial statements of the **Atlanta Housing Opportunity, Inc.** (the "AHOI"), a component unit of the City of Atlanta, Georgia, as of and for the year ended June 30, 2008. These financial statements are the responsibility of the AHOI'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the 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 the Atlanta Housing Opportunity, Inc. as of June 30, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2009 on our consideration of the AHOI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis (on pages 3 through 5) is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Mauldin & Jenkins, LLC

Atlanta, Georgia
January 15, 2009

THE ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Management's Discussion and Analysis (Unaudited)
June 30, 2008

As management of the Atlanta Housing Opportunity, Inc. (the "AHOI"), we offer readers of the Atlanta Housing Opportunity, Inc.'s financial statements this narrative overview and analysis of the financial activities of the Atlanta Housing Opportunity, Inc. for the year ended June 30, 2008. The AHOI is a component unit of the City of Atlanta, Georgia which was created on April 1, 2007, to provide financing to address a wide range of affordable housing needs across the income spectrum for homeowners, builders, developers and community housing development organizations (CHDOS). The financial analysis represented in the management's discussion and analysis represents the period from inception of April 1, 2007 to June 30, 2007, a three (3) month period as compared to fiscal year ended June 30, 2008, a twelve (12) month period.

Financial Highlights

- The liabilities of the AHOI exceeded its assets at June 30, 2008 by \$12,929,891 (*net assets -deficit*).
- The AHOI's total net assets decreased by \$9,899,117 or 76.6% from the prior period. It is important to note that the City of Atlanta has guaranteed that it will make payments to the AHOI sufficient in time and amount to enable the AHOI to pay the principal of and interest on the amount it owes to the Urban Residential Finance Authority for the bonds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the AHOI's basic financial statements. The AHOI's basic financial statements comprise two components: 1) financial statements and 2) notes to the financial statements.

Financial statements. The *statement of net assets* presents information on all of the AHOI's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the AHOI is improving or deteriorating.

The *statement of revenues, expenses, and changes in fund net assets* presents information showing how the AHOI's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The basic financial statements can be found on pages 6-8 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 9-13 of this report.

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(A Component Unit of the City of Atlanta, Georgia)
Management's Discussion and Analysis (Unaudited)
June 30, 2008

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the AHOI, liabilities exceeded assets by \$12,929,891 at June 30, 2008. A summary of the net assets is presented below.

Atlanta Housing Opportunity, Inc.'s Net Assets		
	2008	2007
Assets:		
Current assets	\$ 20,961,240	\$ 31,757,222
Total assets	20,961,240	31,757,222
Liabilities:		
Due to Urban Residential Finance Authority, current	1,148,687	625,000
Due to Urban Residential Finance Authority	32,742,444	34,162,996
Total liabilities	33,891,131	34,787,996
Net assets:		
Restricted	16,148,100	-
Unrestricted	(29,077,991)	(3,030,774)
Total net assets (deficit)	\$ (12,929,891)	\$ (3,030,774)

The AHOI's total assets equal \$20,961,240. The assets primarily consist of restricted cash and cash equivalents and nonrestricted cash and cash equivalents (77.0% and 17.9% respectively). The AHOI's liabilities consist of a \$33,891,131 loan from Urban Residential Finance Authority.

During the fiscal year ended June 30, 2008, the AHOI's total net assets decreased by \$9,899,117. AHOI has deficit as there is no receivable recorded on AHOI's books as being due from the City of Atlanta who has guaranteed that it will make payments to AHOI sufficient in time and amount to enable AHOI to pay the principal and interest on the amount AHOI owes to the Urban Residential Finance Authority for the bonds. Therefore, AHOI will continue to show a deficit until the bonds are paid off.

THE ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Management's Discussion and Analysis (Unaudited)
June 30, 2008

Atlanta Housing Opportunity, Inc.'s Changes in Net Assets
Fiscal Year Ended June 30, 2008 and Three (3) Month Period Ended June 30, 2007

	2008	2007
Revenues:		
Redevelopment income	\$ 2,584,193	\$ 442,235
Interest income	826,001	328,561
Other income	52	-
Total revenues	3,410,246	770,796
Expenses:		
Redevelopment costs	5,000,000	2,582,191
Program expenses (mortgage assistance loans)	5,157,185	474,188
Interest	1,959,193	442,235
General and administrative	1,192,985	302,956
Total expenses	13,309,363	3,801,570
Decrease in net assets	(9,899,117)	(3,030,774)
Net assets (deficit), beginning of year or period	(3,030,774)	-
Net assets (deficit), end of year	\$ (12,929,891)	\$ (3,030,774)

Revenues consist of redevelopment income (75.8%) and interest income (24.2%). Expenses consist primarily of redevelopment costs (37.8%), mortgage assistance loans (38.8%), interest expense (14.7%), and general and administrative (9%). See brief description of each expense below:

- Redevelopment costs-(Atlanta Housing Authority HOPE VI)-Investment in Collegetown at West End.
- Mortgage assistance-(Single Family Loans)-Second mortgage loans up to 10% of sales price for home purchase and purchase and rehabilitation loans.
- Interest expense-Interest costs on loan from Urban Residential Finance Authority (URFA).
- General and administrative-Fee paid to URFA to manage the Housing Opportunity Fund.

Requests for Information

This financial report is designed to provide a general overview of the AHOI's finances for all those with an interest in them. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, 86 Pryor Street, SW, Suite 300, Atlanta, GA 30303.

THE ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Statement of Net Assets
June 30, 2008

ASSETS

Current assets:	
Cash and cash equivalents	\$ 3,746,010
Restricted cash and cash equivalents	16,148,100
Loans receivable	5,619,691
Less loan receivable reserve	(5,619,691)
Due from the City of Atlanta	158,687
Due from the Urban Residential Finance Authority	65,667
Prepaid expenses	842,776
Contingent asset (see note 4)	-
Total current assets	<u>20,961,240</u>
Non-current assets:	
Loan receivable from Enterprise Community	5,000,000
Less loan receivable reserve	<u>(5,000,000)</u>
Total non-current assets	-
Total assets	<u>20,961,240</u>

LIABILITIES

Current liabilities:	
Accrued interest payable due to the Urban Residential Finance Authority	158,687
Due to the Urban Residential Finance Authority - current portion	<u>971,494</u>
Total current liabilities	<u>1,130,181</u>
Non-current liabilities:	
Due to the Urban Residential Finance Authority	<u>32,760,950</u>
Total liabilities	<u>33,891,131</u>

NET ASSETS (DEFICIT)

Restricted	16,148,100
Unrestricted	(29,077,991)
Total net assets (deficit)	<u>\$ (12,929,891)</u>

See accompanying notes to financial statements.

THE ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Statement of Revenues, Expenses, and
Changes in Fund Net Assets
Year ended June 30, 2008

Operating revenues:	
Program income	\$ 2,584,193
Other income	52
Total operating revenues	2,584,245
Operating expenses:	
Program expenses	5,157,185
General & administrative	1,192,985
Interest expense	1,959,193
Redevelopment	5,000,000
Total operating expenses	13,309,363
Operating loss	(10,725,118)
Non-operating revenues:	
Interest income	760,334
Interest income - from other governments	65,667
Total non-operating revenues	826,001
Change in net assets	(9,899,117)
Net assets (deficit) at beginning of year	(3,030,774)
Net assets (deficit) at end of year	\$ (12,929,891)

See accompanying notes to financial statements.

THE ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Statement of Cash Flows
Year ended June 30, 2008

Cash flows from operating activities:

Cash received from program and other activities	\$ 2,366,364
Cash paid to vendors, program beneficiaries, and other entities	<u>(13,705,442)</u>
Net cash used by operating activities	<u>(11,339,078)</u>

Cash flows from investing activities:

Interest income	<u>826,001</u>
Net cash provided by investing activities	<u>826,001</u>

Net decrease in cash and equivalents	(10,513,077)
Cash and cash equivalents at beginning of year	<u>30,407,187</u>
Cash and cash equivalents at ending of year	<u><u>\$ 19,894,110</u></u>

Reconciliation of Cash and Cash Equivalents

To Statement of Net Assets:	
Cash and cash equivalents	\$ 3,746,010
Restricted cash and equivalents	<u>16,148,100</u>
	<u><u>\$ 19,894,110</u></u>

Reconciliation of operating loss to net cash provided by operating activities:

Operating loss	\$ (10,725,118)
Adjustments to reconcile operating loss to net cash used by operating activities:	
(Increase) decrease in:	
Due from the City of Atlanta	283,548
Due from other governments	(65,667)
Prepaid expenses	65,024
Increase (decrease) in:	
Due to the Urban Residential Finance Authority	<u>(896,865)</u>
Net cash used by operating activities	<u><u>\$ (11,339,078)</u></u>

See accompanying notes to financial statements.

THE ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Notes to Financial Statements
June 30, 2008

(1) Summary of Significant Accounting Policies

(a) *The Financial Reporting Entity*

The Atlanta Housing Opportunity, Inc (the "AHOI") is an affiliate organization of the Atlanta Housing Authority (the "AHA") in that AHA created the entity and its Board is comprised of members of AHA's Board of Commissioners. AHOI is a component unit of the City of Atlanta. AHOI's Board is indirectly appointed by the Mayor in that only members of AHA's Board of Commissioners can fill this role. In addition, AHO is financially dependent on the City of Atlanta to pay its debt and to cover its operating costs.

The AHOI was created for the sole purpose of facilitating the Housing Opportunity Program for the City of Atlanta and will not have any other programs or purpose. The City of Atlanta's program oversight role includes establishing the program, directing the activities and establishing or revising the budget for the Housing Opportunity Program.

As a public corporation, the AHOI meets the definition of a governmental entity and follows accounting principles generally accepted in the United States of America ("GAAP") for government entities. The Governmental Accounting Standards Board ("GASB") is the standard setting body for governmental GAAP.

(b) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting and financial reporting issued prior to November 30, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance subject to this same limitation. The AHOI has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. The principal operating revenue of the AHOI is redevelopment activity income and other related activity. Operating expenses for the fund include development, housing program, and direct general and administrative expenses of the AHOI. Also, as the primary purpose of the entity was to administer the proceeds of the Housing Opportunity Program Bonds, debt service is also considered an operating expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the AHOI's policy to use restricted resources first, then unrestricted resources as they are needed.

THE ATLANTA HOUSING OPPORTUNITY, INC.
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Notes to Financial Statements
June 30, 2008

(1) Summary of Significant Accounting Policies (Continued)

(c) Cash and Cash Equivalents

For the purposes of the statement of cash flows, the AHOI considers all short-term investment securities with original maturities of three months or less, local government investment pools, repurchase agreements, money market accounts, and investment agreements under which funds can be withdrawn at any time without penalty to be cash equivalents. Certain resources set aside for housing opportunity programs are classified as restricted assets on the balance sheet because their use is limited by the purpose of the Housing Opportunity Program Bonds.

(d) Prepaid Expense

Prepaid expenses are accounted for using the consumption method. A prepaid expense is recognized when a cash expense is made for goods or services that were purchased for consumption, but not consumed as of June 30.

(e) Use of Estimates

Management of the AHOI has made a number of estimates and assumptions relating to the reporting of assets and liabilities, and the reported amounts of revenues and expenses to prepare the financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from these estimates.

(2) Deposits and Investments

(a) Credit Risk.

The AHOI is authorized to invest in obligations or investments as determined by the Board of AHOI, subject to any agreement with bondholders and with applicable law. As of June 30, 2008, the AHOI did not have any investments other than deposits with financial institutions.

(b) Custodial Credit Risk-Deposits.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. As of June 30, 2008, the AHOI had no bank balances that were exposed to custodial credit risk.

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Notes to Financial Statements
June 30, 2008

(3) Due to Urban Residential Finance Authority

On April 11, 2007, the Urban Residential Finance Authority (which is a component unit of the Atlanta Development Authority, which is a component unit of the City of Atlanta, Georgia) issued \$35,000,000 of Georgia Taxable Revenue Bonds (Housing Opportunity Program), Series 2007A for the purpose of loaning the proceeds from the sale of the bonds to the Atlanta Housing Opportunity, Inc. in which loans will be made to finance, single family housing and multifamily housing in the City. The City of Atlanta has guaranteed that it will make payments sufficient in time and amount to enable the Atlanta Housing Opportunity, Inc to pay the principal of and interest on the bonds. Interest on the bonds is payable semiannually on June 1, and December 1, commencing December 1, 2007 with interest rates ranging from 5.068% to 5.802%. The bonds mature on December 1, 2027.

At June 30, 2008, the balance of these bonds was \$34,375,000. The intergovernmental agreement between the Urban Residential Finance Authority and the AHOI calls for repayments of the loan to mirror those of the bonds. At June 30, 2008, an amount of \$33,732,444 is recorded as being due to the Urban Residential Finance Authority, with the difference between the bonds and the loan payable being differences in unamortized issuance costs.

Activity on the obligation during 2008 is as follows:

	<u>June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2008</u>	<u>Amount Due Within One Year</u>
Payable to Urban Residential Finance Authority	\$ 34,345,761	\$ -	\$ (613,317)	\$ 33,732,444	\$ 990,000
Total	<u>\$ 34,345,761</u>	<u>\$ -</u>	<u>\$ (613,317)</u>	<u>\$ 33,732,444</u>	<u>\$ 990,000</u>

The annual principal and interest requirements for the Revenue Bonds (Housing Opportunity Program), Series 2007A are set forth below (dollar amounts in thousands):

THE ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Notes to Financial Statements
June 30, 2008

(3) Due to Urban Residential Finance Authority (Continued)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2009	\$ 971	\$ 1,879	\$ 2,850
2010	1,021	1,828	2,849
2011	1,075	1,774	2,849
2012	1,129	1,717	2,846
2013	1,187	1,656	2,843
2014 - 2018	6,968	7,236	14,204
2019 - 2023	9,170	4,991	14,161
2024 - 2028	12,211	1,889	14,100
Totals	<u>\$33,732</u>	<u>\$ 22,970</u>	<u>\$ 56,702</u>

(4) Contingent Asset

As described in Note 3, the City of Atlanta has guaranteed that it will make payments to the AHOI sufficient in time and amount to enable the AHOI to pay the principal of and interest on the amount it owes to the Urban Residential Finance Authority for the bonds. No receivable has been recorded for this amount as the City of Atlanta will only make payments to the extent the AHOI does not have available funds to make the payments. Management expects the City of Atlanta to fund a significant portion of the payment requirements, but the amount cannot be estimated at this time.

(5) Loan Receivable

During fiscal year June 30, 2008, the AHOI provided \$5,145,503 in new mortgage assistance loans to individuals who qualified for the Housing Opportunity Program. The Housing Opportunity Program is dedicated to giving down-payment assistance to low-income families residing in the City of Atlanta. These down payments do not have to be repaid by the individuals provided that the borrower maintains the residence under certain established conditions and for a certain period of time. As of year-end, the loan receivable balance and related loan receivable reserve, based on the expectation that all individuals will stay the required period, were \$5,619,691.

(6) Due from the City of Atlanta

As of year-end, the AHOI has recorded a due from the City of Atlanta of \$158,687 which consists of accrued interest payable due to the Urban Residential Finance Authority.

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(7) Loan Receivable – Enterprise Community Land Assemblage

On November 19, 2007, AHOI entered into a loan agreement with Enterprise Community Loan fund for approximately \$5,000,000, for the purpose of providing capital to Enterprise Community Loan fund so that Enterprise Community can lend to developers within the City of Atlanta for low and moderate-income housing development. Enterprise Community will use the capital on a revolving loan basis and as developers repay loans; these funds will be disbursed to other developers under the same conditions. This loan agreement has a zero percent interest rate and matures on December 31, 2012. The loan agreement requires that interest earned on any idle portion of the \$5,000,000 provided by the lender (AHOI), are paid to AHOI within 30 business days after the end of each calendar quarter. For the year ended June 30, 2008, AHOI received two payments totaling \$65,667, from Enterprise Community for interest earned on idle funds. Because of the purpose of the loan, it is not expected that the loan will be repaid on the December 31, 2012 maturity date. Therefore, an allowance of \$5,000,000 is recorded for the full amount of the loan.