

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

Basic Financial Statements

June 30, 2009

(With Independent Auditor's Report Thereon)

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

June 30, 2009

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the **Atlanta Housing Opportunity, Inc.** ("AHOI"), a component unit of the City of Atlanta, Georgia, as of and for the year ended June 30, 2009. 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, 2009, 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 November 17, 2009 on our consideration of 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
November 17, 2009

ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Management's Discussion and Analysis (Unaudited)
June 30, 2009

This section of the Atlanta Housing Opportunity, Inc. ("AHOI") annual financial report presents our discussion and analysis of AHOI's financial performance during the fiscal year ended June 30, 2009. Please read it in conjunction with the financial statements and accompanying notes.

AHOI was created on April 1, 2007 to provide financing to address a wide range of affordable housing needs for homeowners, builders, developers and community housing development organizations (CHDO's). It is a component unit of the City of Atlanta, Georgia.

Fiscal Year 2009 Financial Highlights

- Cash and cash equivalents decreased approximately \$2.6 million or 13.3% for the year ended June 30, 2009 as compared to the prior year related primarily due to new loans provided to individuals who qualified for the Housing Opportunity Program.
- The liabilities of AHOI exceeded its assets at June 30, 2009 by \$15,802,758 (net *deficit*).
- AHOI's total net assets decreased by \$2,872,867 or 22% from the prior year. It is important to note that the City of Atlanta has guaranteed that it will make payments to AHOI sufficient in time and amount to enable 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 AHOI's financial statements, which are comprised of three components: management's discussion and analysis (this section), financial statements, and notes to the financial statements.

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

The *statement of revenues, expenses, and changes in fund net assets* presents information showing how 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 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.

ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Management's Discussion and Analysis (Unaudited)
June 30, 2009

Financial Analysis

As noted earlier, net assets (deficit) may serve over time as a useful indicator of an entity's financial position. In the case of AHOI, liabilities exceeded assets by \$15,802,758 at June 30, 2009. A summary of net assets (deficit) is presented below.

Atlanta Housing Opportunity, Inc.'s Net Assets (Deficit)

	2009	2008
Assets:		
Current assets	\$ 17,399,044	\$ 20,961,240
Total assets	17,399,044	20,961,240
Liabilities:		
Accrued Expenses	405	-
Due to Urban Residential Finance Authority, current	1,480,448	1,148,687
Due to Urban Residential Finance Authority, long term	31,720,949	32,742,444
Total liabilities	33,201,802	33,891,131
Net assets (deficit):		
Restricted	13,488,317	16,148,100
Unrestricted	(29,291,075)	(29,077,991)
Total net assets (deficit)	\$ (15,802,758)	\$ (12,929,891)

AHOI's total assets equal \$17,399,044 as of June 30, 2009, which represents a decrease of approximately 17% from the previous year. The assets primarily consist of restricted and unrestricted cash and cash equivalents. AHOI's liabilities consist mainly of \$33,201,397 due to the Urban Residential Finance Authority, which represents a decrease of approximately 2% from the prior year.

During the fiscal year ended June 30, 2009, AHOI's total net assets decreased by \$2,872,867, or 22%, from the prior year. AHOI has a deficit because there is no receivable recorded on AHOI's books as being due from the City of Atlanta. The City of Atlanta 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 more information on the amount due to Urban Residential Finance Authority, see Note 3 to the Financial Statements.

ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Management's Discussion and Analysis (Unaudited)
June 30, 2009

Changes in Net Assets (Deficit)
Fiscal Years Ended June 30, 2009 and June 30, 2008

	2009	2008
Revenues:		
Redevelopment income	\$ 2,864,982	\$ 2,584,193
Interest income	164,471	826,001
Other income	-	52
Total revenues	3,029,453	3,410,246
Expenses:		
Redevelopment costs	1,125,861	5,000,000
Program expenses (mortgage assistance loans)	1,752,547	5,157,185
Interest	1,874,982	1,959,193
General and administrative and other expenses	1,148,930	1,192,985
Total expenses	5,902,320	13,309,363
Decrease in net assets	(2,872,867)	(9,899,117)
Net assets (deficit), beginning of year	(12,929,891)	(3,030,774)
Net assets (deficit), end of year	\$ (15,802,758)	\$ (12,929,891)

Redevelopment income increased by approximately 11% for the year ended June 30, 2009 as compared to the prior year. At the same time, interest income decreased approximately 80%, primarily to declining balances in cash accounts and decreasing interest.

Redevelopment costs decreased by approximately 77% for the year ended June 30, 2009. Redevelopment costs consist primarily of a Atlanta Housing Authority HOPE VI investment in the "Collegetown at West End" development.

Mortgage assistance (single family loans) costs represent second mortgage loans of up to 10% of the purchase price towards home purchases and/or purchase and rehabilitation loans. These expenses decreased by approximately 66% for the current fiscal year related to the inactivity in the housing market.

Interest expense results from interest on the loan from Urban Residential Finance Authority (URFA). These expenses decreased approximately 4% from the prior year.

General and administrative costs and other expenses primarily relate to the management fee paid to URFA to manage the Housing Opportunity Fund. These expenses decreased by approximately 4% from the prior year.

Requests for Information

This financial report is designed to provide a general overview of 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, Atlanta Development Authority, 86 Pryor Street SW, Suite 300, Atlanta, GA 30303.

ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Statement of Net Assets
June 30, 2009

ASSETS

Current assets:	
Cash and cash equivalents	\$ 3,756,221
Restricted cash and cash equivalents	13,488,317
Loans receivable	7,353,732
Less loan receivable reserve	(7,353,732)
Due from the City of Atlanta	154,506
Contingent asset (see note 4)	-
Total current assets	17,399,044
Non-current assets:	
Loan receivable from Enterprise Community	5,000,000
Less loan receivable reserve	(5,000,000)
Total non-current assets	-
Total assets	17,399,044

LIABILITIES

Current liabilities:	
Accrued expenses	405
Accrued interest payable due to the Urban Residential Finance Authority	154,506
Due to the Urban Residential Finance Authority - accrued management fees	285,942
Due to the Urban Residential Finance Authority - current portion of long term debt	1,040,000
Total current liabilities	1,480,853
Non-current liabilities:	
Due to the Urban Residential Finance Authority	31,720,949
Total liabilities	33,201,802

NET ASSETS (DEFICIT)

Restricted	13,488,317
Unrestricted	(29,291,075)
Total net assets (deficit)	\$ (15,802,758)

See the accompanying notes to the financial statements.

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, 2009

Operating revenues:	
Program income	<u>\$ 2,864,982</u>
Operating expenses:	
Program expenses	1,752,547
General & administrative costs	1,148,866
Interest expense	1,874,982
Redevelopment costs	1,125,861
Other expenses	64
Total operating expenses	<u>5,902,320</u>
Operating loss	(3,037,338)
Non-operating revenues:	
Interest income	<u>164,471</u>
Change in net assets	(2,872,867)
Net assets (deficit) at beginning of year	<u>(12,929,891)</u>
Net assets (deficit) at end of year	<u><u>\$ (15,802,758)</u></u>

See the accompanying notes to the financial statements.

ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Statement of Cash Flows
Year ended June 30, 2009

Cash flows from operating activities

Cash received from program and other activities	\$ 2,795,134
Cash paid to vendors, program beneficiaries, and other entities	<u>(5,609,177)</u>
Net cash used by operating activities	<u>(2,814,043)</u>

Cash flows from investing activities:

Interest income	<u>164,471</u>
Net cash provided by investing activities	<u>164,471</u>

Net decrease in cash and equivalents	(2,649,572)
Cash and cash equivalents at beginning of year	<u>19,894,110</u>
Cash and cash equivalents at ending of year	<u><u>\$ 17,244,538</u></u>

Reconciliation of Cash and Cash Equivalents

To Statement of Net Assets:

Cash and cash equivalents	\$ 3,756,221
Restricted cash and equivalents	<u>13,488,317</u>
	<u><u>\$ 17,244,538</u></u>

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

Operating loss	\$ (3,037,338)
Adjustments to reconcile operating loss to net cash used by operating activities:	
(Increase) decrease in:	
Due from other governments	65,667
Due from the City of Atlanta	4,181
Prepaid expenses	824,775
Increase (decrease) in:	
Accrued expenses	407
Due to the Urban Residential Finance Authority	<u>(671,735)</u>
Net cash used by operating activities	<u><u>\$ (2,814,043)</u></u>

See the accompanying notes to the financial statement

ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Notes to the Financial Statements
June 30, 2009

(1) Summary of Significant Accounting Policies

(a) *The Financial Reporting Entity*

Atlanta Housing Opportunity, Inc (“AHOI”) is an affiliate organization of the Atlanta Housing Authority (“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 of Atlanta in that only members of AHA’s Board of Commissioners can fill this role. In addition, AHOI is financially dependent on the City of Atlanta to pay its debt and to cover its operating costs.

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, 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. AHOI has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund’s principal ongoing operations. AHOI’s principal operating revenue is redevelopment activity income and other related activity. Operating expenses for the fund include development, housing program, and direct general and administrative expenses of AHOI. Also, as the primary purpose of the entity is 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 non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is AHOI’s policy to use restricted resources first, then unrestricted resources as they are needed.

ATLANTA HOUSING OPPORTUNITY, INC.
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Notes to the Financial Statements
June 30, 2009

(1) Summary of Significant Accounting Policies (Continued)

(c) Cash and Cash Equivalents

For the purposes of the statement of cash flows, 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) Use of Estimates

AHOI Management 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.

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, 2009, 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, 2009, AHOI had no bank balances that were exposed to custodial credit risk.

ATLANTA HOUSING OPPORTUNITY, INC.
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June 30, 2009

(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, 2009, the balance of these bonds was \$33,385,000. The intergovernmental agreement between the Urban Residential Finance Authority and AHOI calls for repayments of the loan to mirror those of the bonds. At June 30, 2009, an amount of \$32,760,949 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 2009 is as follows:

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2009</u>	<u>Amount Due Within One Year</u>
Payable to Urban Residential Finance Authority	<u>\$ 33,732,444</u>	<u>\$ -</u>	<u>\$ (971,495)</u>	<u>\$ 32,760,949</u>	<u>\$ 1,040,000</u>
Total	<u>\$ 33,732,444</u>	<u>\$ -</u>	<u>\$ (971,495)</u>	<u>\$ 32,760,949</u>	<u>\$ 1,040,000</u>

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

ATLANTA HOUSING OPPORTUNITY, INC.
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Notes to the Financial Statements
June 30, 2009

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2010	\$ 1,040	\$ 1,828	\$ 2,868
2011	1,056	1,774	2,830
2012	1,129	1,717	2,846
2013	1,187	1,656	2,843
2014	1,251	1,592	2,843
2015 - 2019	7,351	7,490	14,841
2020 - 2024	9,704	9,890	19,594
2025 - 2028	10,043	10,235	20,278
Totals	<u>\$32,761</u>	<u>\$ 36,182</u>	<u>\$ 68,943</u>

(4) Contingent Asset

As described in Note 3, the City of Atlanta has guaranteed that it will make payments to AHOI sufficient in time and amount to enable 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) Loans Receivable

During fiscal year June 30, 2009, AHOI provided \$1,746,041 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, totaled \$7,353,732.

ATLANTA HOUSING OPPORTUNITY, INC.
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Notes to the Financial Statements
June 30, 2009

(6) Due from the City of Atlanta

As of year-end, AHOI has recorded a due from the City of Atlanta of \$154,506 which consists of accrued interest payable due to the Urban Residential Finance Authority.

(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, 2009, AHOI received two payments totaling \$62,439, 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.