

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the
Atlanta Development Authority)

Basic Financial Statements

June 30, 2006

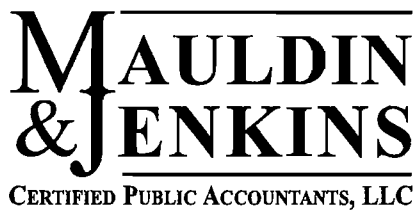
(With Independent Auditor's Report Thereon)

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the Atlanta Development Authority)

June 30, 2006

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Downtown Development Authority
Atlanta, Georgia

We have audited the accompanying basic financial statements of the **Downtown Development Authority** (the "Authority"), a component unit of the Atlanta Development Authority, as of and for the six months ended June 30, 2006. These financial statements are the responsibility of the Authority'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 Downtown Development Authority as of June 30, 2006, and the changes in its financial position and its cash flows for the six months 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 September 13, 2006 on our consideration of the Authority'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 6) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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
September 13, 2006

Management's Discussion and Analysis
(Unaudited)
June 30,

As management of the Downtown Development Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the six months ended June 30, 2006. The Authority is a component unit of the Atlanta Development Authority which promotes the revitalization and redevelopment of the City of Atlanta central business district by financing projects. The Atlanta Development Authority and all of its component units beginning January 1, 2006 have adopted a new fiscal year end, June 30. This change was made in unison with the City of Atlanta. The change in fiscal year end results in 2006 representing six (6) months of activity compared to 2005 which included twelve (12) months of activity. The financial analysis represented in management's discussion and analysis represents a short fiscal year from January 1, 2006 to June 30, 2006, a six-month period.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the six months ended June 30, 2006 by \$2,983,812 (*net assets*). Of this amount, \$2,579,961 (*unrestricted net assets*) may be used to meet the Authority's ongoing obligations to citizens and creditors.
- The Authority's total net assets increased by \$7,765 during the six months ended June 30, 2006. Each year, the Atlanta Development Authority transfers funds to the Downtown Development Authority to meet its operating expenses.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority'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 Authority'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 Authority is improving or deteriorating.

The *statement of revenues, expenses, and changes in fund net assets* presents information showing how the Authority'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 7-9 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 10-14 of this report.

Management's Discussion and Analysis
(Unaudited)
June 30,

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 Authority, assets exceeded liabilities by \$2,983,812 at the close of the six months ended June 30, 2006. A summary of the net assets is presented below.

Summary of the Authority's Net Assets
June 30, 2006 and December 31, 2005

	<u>2006</u>	<u>2005</u>
Assets:		
Current assets	\$ 90,294	\$ 87,411
Capital assets	1,820,170	1,862,392
Other non-current assets	<u>2,507,640</u>	<u>2,551,023</u>
Total assets	<u>4,418,104</u>	<u>4,500,826</u>
Liabilities:		
Long-term liabilities	1,275,218	1,368,219
Other liabilities	<u>159,074</u>	<u>156,560</u>
Total liabilities	<u>1,434,292</u>	<u>1,524,779</u>
Net assets:		
Invested in capital assets	403,851	357,871
Unrestricted	<u>2,579,961</u>	<u>2,618,176</u>
Total net assets	<u>\$ 2,983,812</u>	<u>\$ 2,976,047</u>

The Authority's total assets equal \$4,418,104. The assets include \$2,489,667 of prepaid rent which relates to an original \$3.2 million prepayment of the rent on their lease of office space located in the Block Building. The prepayment is being expensed evenly over the life of the lease which expires in 2036. The remaining significant assets of the Authority are its capital assets of which cost, net of accumulated depreciation, is \$1,820,170. These assets consist primarily of leasehold improvements to the Block Building. The decrease in total assets results from the recognition of the amortization and depreciation of the rent prepayment and capital assets, respectively.

The Authority's net assets increased by \$7,765 during the six months ended June 30, 2006. A summary of that change is presented below.

Management's Discussion and Analysis
(Unaudited)
June 30,

Summary of Changes in the Authority's Net Assets
Six months ended June 30, 2006 and Fiscal year ended December 31, 2005

	<u>2006</u>	<u>2005</u>
Revenues:		
Rental income	\$ 5,472	\$ 7,609
Total revenues	<u>5,472</u>	<u>7,609</u>
Expenses:		
Interest	33,968	73,627
Depreciation and amortization	43,407	86,813
General and administrative	46,432	85,498
Total expenses	<u>123,807</u>	<u>245,938</u>
Payments from Atlanta Development Authority	<u>126,100</u>	<u>185,249</u>
Increase (decrease) in net assets	7,765	(53,080)
Net assets, beginning of period	<u>2,976,047</u>	<u>3,029,127</u>
Net assets, end of period	<u>\$ 2,983,812</u>	<u>\$ 2,976,047</u>

Since the 2006 column represents six (6) months of activity compared to 2005 which represents (12) months the 2006 expenses are roughly half of the 2005 expenses. The Authority's primary expenses are interest expense of \$33,968 on the bonds issued to finance the leasehold improvements, \$43,407 of depreciation and amortization related to the leasehold improvements and deferred issuance costs, and \$46,432 of general expenses, which includes the annual rent expense. These expenses are primarily financed with payments from the Atlanta Development Authority. The payments from the Atlanta Development Authority are primarily used to pay the debt on the leasehold improvements and equipment.

Capital Assets

The Authority's investment in capital assets as June 30, 2006, amounts to \$1,820,170 (net of accumulated depreciation). The investment in capital assets includes leasehold improvements, furniture and equipment. There was no activity in 2006 for the Authority's capital assets other than normal depreciation.

Capital asset balances of the Authority at June 30, 2006 are as follows:

Leasehold improvements	\$ 2,448,854
Furniture and equipment	508,177
Gross capital assets	<u>2,957,031</u>
Less: accumulated depreciation	(1,136,861)
Net capital assets	<u>\$ 1,820,170</u>

Management's Discussion and Analysis
(Unaudited)
June 30,

Debt Administration

The Authority issues a significant amount of conduit debt which is not included in the Authority's Statement of Net Assets but is disclosed in Note 5 to the financial statements. These liabilities are not included in the financial statements as they are limited obligations of the Authority issued on behalf of a third party who is primarily responsible for their repayment.

Activity for long term obligations of the Authority for the six months ended June 30, 2006, which are reported in the Statement of Net Assets, is summarized as follows:

	<u>2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>2006</u>
Primary government:				
Bonds payable, DDA	\$ 1,523,679	\$ -	\$ (89,387)	\$ 1,434,292
Total primary government	<u>\$ 1,523,679</u>	<u>\$ -</u>	<u>\$ (89,387)</u>	<u>\$ 1,434,292</u>

Requests for Information

This financial report is designed to provide a general overview of the Authority'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.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the Atlanta Development Authority)
STATEMENT OF NET ASSETS
JUNE 30, 2006

Assets	
Current assets:	
Cash and cash equivalents	\$ 5,898
Current portion of prepaid rent	84,396
Total current assets	90,294
Noncurrent assets:	
Capital assets, net of depreciation	1,820,170
Prepaid rent	2,489,667
Bond issuance costs, net of amortization	17,973
Total noncurrent assets	4,327,810
Total assets	4,418,104
Liabilities	
Current liabilities:	
Bonds payable, current portion	159,074
Total current liabilities	159,074
Noncurrent liabilities:	
Bonds payable	1,275,218
Total noncurrent liabilities	1,275,218
Total liabilities	1,434,292
Net Assets	
Invested in capital assets, net of related debt	403,851
Unrestricted	2,579,961
Total net assets	\$ 2,983,812

See accompanying notes to financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the Atlanta Development Authority)
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
SIX MONTHS ENDED JUNE 30, 2006

Operating revenues:		
Rental income	\$	5,472
Total operating revenues		5,472
Operating expenses:		
Interest on bonds		33,968
Depreciation and amortization		43,407
General and administrative		46,432
Total operating expenses		123,807
Operating loss		(118,335)
Payment from the Atlanta Development Authority		126,100
Change in net assets		7,765
Net assets at beginning of period		2,976,047
Net assets at end of period	\$	2,983,812

See accompanying notes to financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the Atlanta Development Authority)
STATEMENT OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2006

Cash flows from operating activities:	
Payments to suppliers	\$ (4,234)
Other	6,572
	<hr/>
Net cash provided by operating activities	2,338
	<hr/>
Cash flows from noncapital financing activities:	
Payment from the Atlanta Development Authority	126,100
Other	(2,200)
	<hr/>
Net cash provided by noncapital financing activities	123,900
	<hr/>
Cash flows from capital financing activities:	
Payments for interest	(33,968)
Repayment of bond principal	(89,387)
	<hr/>
Net cash used in capital financing activities	(123,355)
	<hr/>
Net increase in cash and cash equivalents	2,883
Cash and cash equivalents at beginning of period	3,015
	<hr/>
Cash and cash equivalents at end of period	\$ 5,898
	<hr/> <hr/>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (118,335)
Adjustment to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	43,407
Interest payments reported in operating expenses	33,968
(Increase) decrease in:	
Prepaid rent	42,198
Due to primary government	1,100
	<hr/>
Net cash provided by operating activities	\$ 2,338
	<hr/> <hr/>

See accompanying notes to financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the Atlanta Development Authority)
Notes to Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies

(a) *The Financial Reporting Entity*

The Downtown Development Authority (DDA) was organized pursuant to Georgia's Downtown Development Authorities Act. DDA is considered to be a governmental not-for-profit organization. DDA was created to promote the revitalization and redevelopment of the City of Atlanta central business district by financing projects that will develop and promote for the public good and general welfare trade, commerce, industry, and employment opportunities and will promote the general welfare of the City of Atlanta, Georgia (the City).

In 1997, the City created a new umbrella economic development agency, the Atlanta Development Authority (ADA), which combined several existing economic development entities, including DDA. DDA is considered to be a blended component unit of the ADA, and its financial statements are included in the ADA financial statements.

(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. Expenses are recorded when a liability is incurred.

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 Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance subject to this same limitation. DDA 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 DDA is interest income and other miscellaneous activity. Operating expenses for the enterprise fund include direct general and administrative expenses of DDA. 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 DDA's policy to use restricted resources first, then unrestricted resources as they are needed.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the Atlanta Development Authority)
Notes to Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies (Continued)

(c) Cash and Cash Equivalents

For the purposes of the statement of cash flows, the DDA 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.

(d) Capital Assets

Capital assets are stated at cost. Depreciation on capital assets is calculated on the straight-line method over the estimated useful lives as follows:

Leasehold improvements	29 years
Furniture and equipment	5 years

(e) Use of Estimates

Management of DDA has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent 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. DDA is authorized to invest in obligations or investments as determined by DDA, subject to any agreement with bondholders and with applicable law. As of June 30, 2006, DDA 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, 2006, DDA had no bank balances that were exposed to custodial credit risk.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the Atlanta Development Authority)
Notes to Financial Statements
June 30, 2006

(3) Capital Assets

Capital assets activity for the six month period ended June 30, 2006 consists of the following:

	<u>December 31, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>
Capital assets being depreciated:				
Furniture and equipment	\$ 508,177	\$ -	\$ -	\$ 508,177
Leasehold improvements	2,448,854	-	-	2,448,854
	2,957,031	-	-	2,957,031
Less accumulated depreciation				
Furniture and equipment	(508,177)	-	-	(508,177)
Leasehold improvements	(586,462)	(42,222)	-	(628,684)
Net property and equipment	<u>\$ 1,862,392</u>	<u>\$ (42,222)</u>	<u>\$ -</u>	<u>\$ 1,820,170</u>

(4) Revenue Bonds Payable

On February 11, 1999, DDA issued \$2,400,000 of revenue bonds for renovations and leasehold improvements of the office space located in the Block building. Principal and interest payments totaling \$18,525 are payable monthly and the bonds mature in 2014 with an interest rate of 4.6%.

Bond issuance costs of \$35,500 are amortized using the straight line method.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the Atlanta Development Authority)
Notes to Financial Statements
June 30, 2006

(4) Revenue Bonds Payable (Continued)

Activity for the bonds payable for the six month period ended June 30, 2006 consists of the following:

	<u>December 31, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2006</u>	<u>Amount Due Within One Year</u>
Primary government:					
Bonds payable, 1999 Downtown					
Development Authority Revenue					
Bonds	\$ 1,523,679	\$ -	\$ (89,387)	\$ 1,434,292	\$ 159,074
Total primary government	<u>\$ 1,523,679</u>	<u>\$ -</u>	<u>\$ (89,387)</u>	<u>\$ 1,434,292</u>	<u>\$ 159,074</u>

Debt Service Requirements

Annual principal and interest requirements for the bonds payable are set forth below (dollar amounts in thousands):

	<u>Bonds of DDA</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
Year ending June 30:			
2007	\$ 159	\$ 63	\$ 222
2008	167	56	223
2009	174	48	222
2010	183	40	223
2011	191	31	222
2012 - 2014	560	38	598
Totals	<u>\$ 1,434</u>	<u>\$ 276</u>	<u>\$ 1,710</u>

(5) Conduit Debt

DDA issues private activity tax exempt and taxable revenue bonds to private sector entities for projects located within the city limits of Atlanta. The bonds are secured by the property financed and are payable solely from payments received on the underlying promissory notes. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. DDA is not obligated in any manner for repayment of the bonds and does not report these as liabilities in the accompanying financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the Atlanta Development Authority)
Notes to Financial Statements
June 30, 2006

(5) Conduit Debt (Continued)

The aggregate principal amount outstanding for issuances prior to 1995 with the exception of the Atlanta Federal Center could not be determined; however, the original issuance amounts for projects financed by DDA are as follows:

81 Walton Street Project	\$ 1,500,000
H.J. Russell & Co.	850,000
132-136 Mitchell Street	1,350,000
Atlanta North Georgia Conf. of the AME Church	2,500,000
Fairlie 70 Investors	5,500,000
Chamber of Commerce	3,500,000
Peachtree-Broad Building	3,200,000
Glentown Investment Partners	4,038,400
Walton Place Partners	7,240,000
CARE Project	5,000,000
Atlanta Federal Center (principal balance outstanding at 6/30/2006)	203,200,000
GSU School of Music Project	4,725,000
Central Atlanta Hospitality Childcare, Inc.	5,115,000
Total	<u>\$ 247,718,400</u>

The aggregate principal amount outstanding for issuances after 1995 are as follows:

Underground Atlanta Refunding Series 2002	<u>\$ 61,280,000</u>
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**The Board of Directors
Downtown Development Authority
Atlanta, Georgia**

We have audited the financial statements of the Downtown Development Authority (the "Authority"), a component unit of the Atlanta Development Authority, as of and for the six months ended June 30, 2006, and have issued our report thereon dated September 13, 2006. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Atlanta, Georgia
September 13, 2006