

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

Basic Financial Statements

June 30, 2010

(With Independent Auditor's Report Thereon)

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

June 30, 2010

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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, 2010. 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, 2010, 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 30, 2010 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 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 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 30, 2010

ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Management's Discussion and Analysis (Unaudited)
June 30, 2010

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, 2010. 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 2010 Financial Highlights

- Cash and cash equivalents decreased approximately \$4.5 million or 26% for the year ended June 30, 2010 as compared to the prior year. The decrease is 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, 2010 by \$18,146,059 (net *deficit*).
- AHOI's total net assets decreased by \$2,343,301 or 15% 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 Series 2007A 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 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.

ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Management's Discussion and Analysis (Unaudited)
June 30, 2010

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 \$18,146,059 at June 30, 2010. A summary of net assets (deficit) is presented below.

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

	2010	2009
Assets:		
Current assets	\$ 12,844,444	\$ 17,399,044
Non-current assets	900,000	-
Total assets	13,744,444	17,399,044
Liabilities:		
Accrued expenses	-	405
Due to Urban Residential Finance Authority, current	1,245,114	1,480,448
Due to Urban Residential Finance Authority, long term	30,645,389	31,720,949
Total liabilities	31,890,503	33,201,802
Net assets (deficit):		
Restricted	10,191,456	13,488,317
Unrestricted	(28,337,515)	(29,291,075)
Total net assets (deficit)	\$ (18,146,059)	\$ (15,802,758)

AHOI's total assets equal \$13,744,444 as of June 30, 2010, which represents a decrease of approximately 21% from the previous year. The assets primarily consist of restricted and unrestricted cash and cash equivalents. AHOI's liabilities consist mainly of \$31,890,503 due to the Urban Residential Finance Authority, which represents a decrease of approximately 4% from the prior year.

During the fiscal year ended June 30, 2010, AHOI's total net assets decreased by \$2,343,301, or 15%, 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, 2010

Changes in Net Assets (Deficit)
Fiscal Years Ended June 30, 2010 and June 30, 2009

	2010	2009
Revenues:		
Program income	\$ 6,067,830	\$ 2,864,982
Interest income	9,797	164,471
Total revenues	6,077,627	3,029,453
Expenses:		
Redevelopment costs	2,563,948	1,125,861
Program expenses (mortgage assistance loans)	3,063,154	1,752,547
Interest	1,823,330	1,874,982
General and administrative and other expenses	970,496	1,148,930
Total expenses	8,420,928	5,902,320
Decrease in net assets	(2,343,301)	(2,872,867)
Net assets (deficit), beginning of year	(15,802,758)	(12,929,891)
Net assets (deficit), end of year	\$ (18,146,059)	\$ (15,802,758)

Program income increased approximately 112% for the year ended June 30, 2010. This increase is due primarily to the \$3.2 million returned to AHOI as a result of the dissolution of the Atlanta land acquisition pool by the Enterprise Community Loan Fund. For additional information regarding this transaction, see Note 7 to the Financial Statements.

Interest income decreased approximately 94% for the year ended June 30, 2010. This is primarily due to lower cash account balances of AHOI and declining interest rates.

Redevelopment costs increased by approximately 128% for the year ended June 30, 2010. Redevelopment costs consist primarily of Atlanta Housing Authority HOPE VI investment in the Collegetown at Harris Homes development and Adamsville Green 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 increased approximately 75% for the current fiscal year primarily due to the significant decrease in interest rates available to borrowers and the ability to layer other mortgage assistance programs available in the City.

Interest expense results from interest on the loan from Urban Residential Finance Authority (URFA). These expenses decreased approximately 3% 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 16% from the prior year.

ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Management's Discussion and Analysis (Unaudited)
June 30, 2010

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, 2010

ASSETS

Current assets:	
Cash and cash equivalents	\$ 2,498,373
Restricted cash and cash equivalents	10,191,456
Loans receivable	10,397,446
Less loan receivable reserve	(10,397,446)
Due from the City of Atlanta	150,114
Loan interest receivable	4,501
Contingent asset (see note 4)	-
Total current assets	12,844,444
Non-current assets:	
Loan receivable	900,000
Total non-current assets	900,000
Total assets	13,744,444

LIABILITIES

Current liabilities:	
Accrued interest payable due to the Urban Residential Finance Authority	150,114
Due to the Urban Residential Finance Authority - current portion of long term debt	1,095,000
Total current liabilities	1,245,114
Non-current liabilities:	
Due to the Urban Residential Finance Authority	30,645,389
Total liabilities	31,890,503

NET ASSETS (DEFICIT)

Restricted	10,191,456
Unrestricted	(28,337,515)
Total net assets (deficit)	\$ (18,146,059)

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, 2010

Operating revenues:	
Program income	<u>\$ 6,067,830</u>
Operating expenses:	
Program expenses	3,063,154
General & administrative costs	970,496
Interest expense	1,823,330
Redevelopment costs	<u>2,563,948</u>
Total operating expenses	<u>8,420,928</u>
Operating loss	(2,353,098)
Non-operating revenues:	
Interest income	<u>9,797</u>
Change in net assets	(2,343,301)
Net assets (deficit) at beginning of year	<u>(15,802,758)</u>
Net assets (deficit) at end of year	<u><u>\$ (18,146,059)</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, 2010

Cash flows from operating activities

Cash received from program and other activities	\$ 5,158,937
Cash paid to vendors, program beneficiaries, and other entities	<u>(9,723,444)</u>

Net cash used by operating activities:	<u>(4,564,507)</u>
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Cash flows from investing activities

Interest income	<u>9,798</u>
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Net cash provided by investing activities:	<u>9,798</u>
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Net decrease in cash and equivalents	(4,554,709)
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Cash and cash equivalents at beginning of year	<u>17,244,538</u>
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Cash and cash equivalents at ending of year	<u><u>\$ 12,689,829</u></u>
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**Reconciliation of Cash and Cash Equivalents
To Statement of Net Assets:**

Cash and cash equivalents	\$ 2,498,373
Restricted cash and equivalents	10,191,456
	<u><u>\$ 12,689,829</u></u>

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

Operating loss	\$ (2,353,098)
Adjustments to reconcile operating loss to net cash used by operating activities:	
(Increase) in:	
Due from the City of Atlanta	(4,392)
Loan receivable	(900,000)
Loan interest receivable	(4,501)
Increase (decrease) in:	
Accrued expenses	(405)
Accrued interest payable	4,391
Due to the Urban Residential Finance Authority	<u>(1,306,502)</u>
Net cash used by operating activities	<u><u>\$ (4,564,507)</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, 2010

(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 Directors. 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 Directors 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 proprietary 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.
(A Component Unit of the City of Atlanta, Georgia)
Notes to the Financial Statements
June 30, 2010

(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, 2010, 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, 2010, AHOI had no bank balances that were exposed to custodial credit risk.

(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, with interest rates ranging from 5.068% to 5.802%. The bonds mature on December 1, 2027.

ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Notes to the Financial Statements
June 30, 2010

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

At June 30, 2010, the balance of these bonds was \$32,345,000. 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, 2010, an amount of \$31,740,389 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 2010 is as follows:

	<u>June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2010</u>	<u>Amount Due Within One Year</u>
Due to Urban Residential Finance Authority	\$ 32,760,949	\$ -	\$ (1,020,560)	\$ 31,740,389	\$ 1,095,000
Total	<u>\$ 32,760,949</u>	<u>\$ -</u>	<u>\$ (1,020,560)</u>	<u>\$ 31,740,389</u>	<u>\$ 1,095,000</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2011	\$ 1,095	\$ 1,774	\$ 2,869
2012	1,109	1,717	2,826
2013	1,187	1,656	2,843
2014	1,251	1,592	2,843
2015	1,320	1,524	2,844
2016 - 2020	7,757	6,430	14,187
2021 - 2025	10,274	3,865	14,139
2026 - 2028	7,747	705	8,452
Totals	<u>\$ 31,740</u>	<u>\$ 19,263</u>	<u>\$ 51,003</u>

ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Notes to the Financial Statements
June 30, 2010

(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, 2010, AHOI provided \$3,069,263 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 \$10,397,446.

(6) Due from the City of Atlanta

As of year-end, AHOI has recorded a due from the City of Atlanta of \$150,114 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 could lend to developers within the City of Atlanta for low and moderate-income housing development. Enterprise Community intended to use the capital on a revolving loan basis and as developers repaid loans; these funds would be disbursed to other developers under the same conditions. During the year ended June 30, 2010, \$3,200,000 was returned to AHOI as a result of the dissolution of the Atlanta land acquisition pool by the Enterprise Community Loan Fund. The remaining \$1,800,000 in loans has been written off by AHOI as these amounts will not be collected in the future; therefore, as of June 30, 2010, there is no loan receivable balance reported for the Enterprise Community Land Assemblage. The cash returned to AHOI is currently restricted by management for the purpose of funding future multifamily loans.

ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Notes to the Financial Statements
June 30, 2010

(8) Loan Receivable – Adamsville Green Limited Partnership

On November 30, 2009, AHOI entered into a loan agreement with Adamsville Green Limited Partnership (“AGLP”) for \$900,000, for the purpose of providing capital to AGLP so that AGLP may acquire, construct, and renovate residential property within the City of Atlanta. Semi-annual interest payments are due on November 1 and May 1, commencing on November 1, 2010 and continuing until November 1, 2011, at a fixed daily rate of 1.00%. Thereafter, principal and interest payments totaling \$2,894.76 are due monthly, commencing December 1, 2011. The entire unpaid remaining principal and any accrued interest balance of this loan shall be due and payable on November 1, 2028, unless due and payable earlier by reason of the acceleration of the maturity of this loan. At June 30, 2010, the loan balance is \$900,000.