

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

Basic Financial Statements

June 30, 2007

(With Independent Auditor's Report Thereon)

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

June 30, 2007

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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 June 30, 2007 and for the period since inception then ended. 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, 2007, and the changes in its financial position and its cash flows for the period since inception 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 December 17, 2007 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
December 17, 2007

ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Management's Discussion and Analysis (Unaudited)
June 30, 2007

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 period of inception through June 30, 2007. 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 management's discussion and analysis represents the period from inception of April 1, 2007 to June 30, 2007, a three (3) month period. Therefore, due to it being the first year of the entity, there is only one (1) year presented and in future years, a comparison of two years will be included.

Financial Highlights

- The liabilities of the AHOI exceeded its assets at June 30, 2007 by \$3,030,774 (*net assets*).
- The AHOI's total net assets decreased by \$3,030,774 or 100%. This was AHOI's first period of operation.

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 – 11 of this report.

ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Management's Discussion and Analysis (Unaudited)
June 30, 2007

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 \$3,030,774 at June 30, 2007. A summary of the net assets is presented below.

Atlanta Housing Opportunity, Inc.'s Net Assets

	2007
Assets:	
Current assets	\$ 31,757,222
Total assets	31,757,222
Liabilities:	
Due to Urban Residential Finance Authority, current	625,000
Due to Urban Residential Finance Authority	34,162,996
Total liabilities	34,787,996
Net assets:	
Unrestricted	(3,030,774)
Total net assets (deficit)	\$ (3,030,774)

The AHOI's total assets equal \$31,757,222. The assets primarily consist of restricted cash and cash equivalents and nonrestricted cash and cash equivalents (81% and 15% respectively). The AHOI's liabilities consist on a \$34,787,996 loan from Urban Residential Finance Authority.

For the period from inception through June 30, 2007, the AHOI's total net assets decreased by \$3,030,774.

Atlanta Housing Opportunity, Inc.'s Changes in Net Assets

2007		\$ 11,923,016
2008		778,410
2009		176,236
		\$ 12,877,662

ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Management's Discussion and Analysis (Unaudited)
June 30, 2007

Atlanta Housing Opportunity, Inc.'s Changes in Net Assets

	2007
Revenues:	
Redevelopment income	\$ 442,235
Interest income	328,561
Total revenues	770,796
Expenses:	
Redevelopment costs	2,582,191
Program expenses (mortgage assistance loans)	474,188
Interest	442,235
General and administrative	302,956
Total expenses	3,801,570
Decrease in net assets	(3,030,774)
Net assets, at inception	-
Net assets (deficit), end of year	\$ (3,030,774)

The AHOI's revenues and expenses increased by 100% due to the fact that 2007 was the first year of operations. Revenues consist of redevelopment income (57%) and interest income (43%). Expenses consist primarily of redevelopment costs (68%), mortgage assistance loans (12%), interest expense (12%), and general and administrative (8%). 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 20% 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.

ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Statement of Net Assets
June 30, 2007

ASSETS

Current assets:	
Cash and cash equivalents	\$ 4,730,693
Restricted cash and cash equivalents	25,676,494
Loans receivable	474,188
Less loan receivable reserve	(474,188)
Due from the City of Atlanta	442,235
Prepaid expenses	907,800
Contingent Asset (see note 4)	-
Total current assets	31,757,222

LIABILITIES

Current liabilities:	
Due to the Urban Residential Finance Authority - current portion	625,000
Total current liabilities	625,000
Non-current liabilities:	
Due to the Urban Residential Finance Authority	34,162,996
Total liabilities	34,787,996

NET ASSETS (DEFICIT)

Unrestricted	(3,030,774)
Total net assets (deficit)	\$ (3,030,774)

See accompanying notes to 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
Period Since Inception Through June 30, 2007

Operating revenues:	
Redevelopment income	\$ 442,235
Total operating revenues	442,235
Operating expenses:	
Program expenses	474,188
General & administrative	302,956
Interest expense	442,235
Redevelopment	2,582,191
Total operating expenses	3,801,570
Operating loss	(3,359,335)
Non-operating revenues:	
Interest income	328,561
Change in net assets	(3,030,774)
Net assets at inception	-
Net assets (deficit) at end of year	\$ (3,030,774)

See accompanying notes to financial statements.

ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Statement of Cash Flows
Period Since Inception Through June 30, 2007

Cash flows from operating activities:

Cash received from URFA loan	\$ 34,345,761
Cash paid to vendors, program beneficiaries, and other entities	<u>(4,267,135)</u>
Net cash provided by operating activities	<u>30,078,626</u>

Cash flows from investing activities:

Interest income	<u>328,561</u>
Net cash provided by investing activities	<u>328,561</u>

Net increase in cash and equivalents 30,407,187

Cash and cash equivalents at inception -

Cash and cash equivalents at ending of year \$ 30,407,187

Reconciliation of Cash and Cash Equivalents

To Statement of Net Assets:

Cash and cash equivalents	\$ 4,730,693
Restricted cash and equivalents	25,676,494
	<u>\$ 30,407,187</u>

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

Operating loss	\$ (3,359,335)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
(Increase) decrease in:	
Due from the City of Atlanta	(442,235)
Prepaid expenses	(907,800)
Increase (decrease) in:	
Due to the Urban Residential Finance Authority	<u>34,787,996</u>
Net cash provided by operating activities	<u>\$ 30,078,626</u>

See accompanying notes to financial statements.

ATLANTA HOUSING OPPORTUNITY, INC.
(A Component Unit of the City of Atlanta, Georgia)
Notes to Financial Statements
June 30, 2007

(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. 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.

ATLANTA HOUSING OPPORTUNITY, INC.
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Notes to Financial Statements
June 30, 2007

(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.

(d) 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, 2007, 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, 2007, the 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, commencing December 1, 2007 with interest rates ranging from 5.068% to 5.802%. The bonds mature on December 1, 2027. At June 30, 2007, the balance of these bonds was \$35,000,000. 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, 2007 an amount of \$34,787,996 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.

ATLANTA HOUSING OPPORTUNITY, INC.
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Notes to Financial Statements
June 30, 2007

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

Activity on the obligation during 2007 is as follows:

	<u>Inception</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2007</u>	<u>Amount Due Within One Year</u>
Payable to Urban Residential Finance Authority	\$ -	\$ 34,787,996	\$ -	\$ 34,787,996	\$ 625,000
Total	<u>\$ -</u>	<u>\$ 34,787,996</u>	<u>\$ -</u>	<u>\$ 34,787,996</u>	<u>\$ 625,000</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:			
2008	\$ 625	\$ 2,243	\$ 2,868
2009	990	1,879	2,869
2010	1,040	1,828	2,868
2011	1,095	1,774	2,869
2012	1,150	1,717	2,867
2013 - 2017	6,735	7,599	14,334
2018 - 2022	8,835	5,503	14,338
2023 - 2027	11,745	2,589	14,334
2028	2,785	81	2,866
Totals	<u>\$35,000</u>	<u>\$ 25,213</u>	<u>\$ 60,213</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 can not be estimated at this time.