

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

**GEORGIA HOUSING AND FINANCE AUTHORITY  
AFFORDABLE HOUSING, INC.**

JUNE 30, 2011 AND 2010

Georgia Housing and Finance Authority Affordable Housing, Inc.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Georgia Housing and Finance Authority Affordable Housing, Inc.

We have audited the accompanying statements of net assets of the Georgia Housing and Finance Authority Affordable Housing Inc. (AHI), as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of AHI's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits 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 audits 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 audits provide 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 AHI, as of June 30, 2011 and 2010, and the respective changes in financial position, and cash flows for the years 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 REPORT DATE, on our consideration of AHI'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 audits.

The Management's Discussion and Analysis on pages 5 through 7 is not a required part of the basic financial statements but is supplemental information require 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 supplemental information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on pages 21 and 22 are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Reznick Group, P.C.*

Atlanta, Georgia  
September 20, 2011

Georgia Housing and Finance Authority Affordable Housing, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011 and 2010

This section of the Georgia Housing and Finance Authority Affordable Housing, Inc.'s (AHI) annual financial report presents the analysis of AHI's financial performance as of and for the years ended June 30, 2011 and 2010. Please read it in conjunction with the financial statements and accompanying notes.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial statement consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The financial statements of AHI report information using accounting methods similar to those used by private-sector companies. These statements provide both long-term and short-term information about AHI's overall financial status.

REQUIRED FINANCIAL STATEMENTS

The *Statements of Net Assets* presents information on all of AHI's assets and liabilities, with the difference between the two reported as net assets. This statement provides information about the nature and amounts of investments in resources (assets) and the obligations to AHI creditors (liabilities). It provides one way to measure the financial health of AHI by providing the basis for evaluating the capital structure and assessing the liquidity and financial flexibility. However, one will need to consider other nonfinancial factors such as changes in economic conditions and new or changed government legislation.

All of the current year's revenue and expenses are accounted for in the *Statements of Revenue, Expenses, and Changes in Net Assets*. This statement measures the success of AHI's operations over the past two years and can be used to determine whether AHI has successfully recovered its costs as well as assessing creditworthiness.

The final required financial statement is the *Statements of Cash Flows*. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, and investing and financing activities. The statement provides answers to such questions as "where did the cash come from, what was the cash used for, and what was the change in cash balance during the reporting period?"

FINANCIAL ANALYSIS OF AHI

Affordable Housing, Inc.

During the fiscal year ended June 30, 2011, there was a slight increase in net assets from the prior year. Three new loans were disbursed totaling \$1,250,000. All investments were

Georgia Housing and Finance Authority Affordable Housing, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2011 and 2010

liquidated during the current year and transferred to the Money Market account. Current assets increased due to HHF program grant received in fiscal 2011. Liabilities increased due to deferred revenue.

Hardest Hit Fund

On August 11, 2010, the U.S. Treasury announced the State of Georgia was awarded \$339 million for The Hardest Hit Fund Program (HHF). This program provides mortgages payment assistance to citizens who are unemployed and underemployed resulting from involuntary separation.

During the fiscal year ended June 30, 2011, HHF drew down \$8,500,000 of total available funds. The program made 0% interest loans totaling \$34,132 and incurred administrative expenses of \$1,476,802.

The following table summarizes the changes in net assets between fiscal years 2011 and 2010.

	(In thousands)		FY 2010-FY 2011	
	<u>6/30/11</u>	<u>6/30/10</u>	<u>Inc/(Dec)</u>	<u>Inc/(Dec)</u>
Current assets	\$ 8,921	\$ 2,921	\$ 5,999	205.4%
Noncurrent assets	2,511	964	1,547	160.5%
Total assets	11,431	3,885	7,546	194.2%
Liabilities	7,265	-	7,265	0.0%
Total net assets	<u>\$ 4,166</u>	<u>\$ 3,885</u>	<u>\$ 281</u>	<u>7.2%</u>

REVENUE, EXPENSES AND CHANGES IN NET ASSETS

The following table summarizes the changes in net operating revenue between fiscal years 2011 and 2010.

	(In thousands)		FY 2010 - FY 2011	
	<u>6/30/11</u>	<u>6/30/10</u>	<u>Inc/(Dec)</u>	<u>Inc/(Dec)</u>
Operating revenue	\$ 1,506	\$ 38	\$ 1,468	3863%
Expenses	1,225	0	1,225	408198%
Changes in net assets	281	38	2,693	7144.5%
Beginning net assets	3,885	3,847	38	1.0%
Ending net assets	<u>\$ 4,166</u>	<u>\$ 3,885</u>	<u>\$ 2,731</u>	<u>70.3%</u>

Georgia Housing and Finance Authority Affordable Housing, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2011 and 2010

Operating revenue increased due to a increase in grant income for the HHF program. Expenses increased due to the increase grant administrative expenses for the HHF program.

CONTACTING AHI'S FINANCIAL MANAGEMENT

This financial report is designed to provide AHI's clients, investors and creditors with a general overview of AHI's finances and to demonstrate AHI's accountability for the money it receives. If you have questions about this report or need additional information, contact:

Georgia Housing and Finance Authority Affordable Housing, Inc.  
Attn: Administrative Services Division  
60 Executive Park South, NE  
Atlanta, Georgia 30329

Georgia Housing and Finance Authority Affordable Housing, Inc.

STATEMENTS OF NET ASSETS

	June 30,	
	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 8,920,506	\$ 419,510
Accrued interest receivable	15	3,290
Investment securities	-	2,403,833
Loans receivable, net	2,147,695	1,058,361
HHF loans receivable	34,133	-
Prepays	328,698	-
	<u>11,431,047</u>	<u>3,884,994</u>
<b>LIABILITIES</b>		
Accounts payable	37,968	-
Deferred revenue	7,187,006	-
Refundable HHF program grants	40,082	-
	<u>7,265,056</u>	<u>-</u>
<b>NET ASSETS</b>		
Nonspendable	<u>\$ 4,165,991</u>	<u>\$ 3,884,994</u>

See accompanying notes to financial statements

Georgia Housing and Finance Authority Affordable Housing, Inc.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Grant income	\$ 1,476,802	\$ -
Interest income	48,712	66,788
Decrease in fair value of investments	(19,693)	(28,825)
Other income	<u>69</u>	<u>-</u>
Total operating revenues	<u>1,505,890</u>	<u>37,963</u>
Operating expenses:		
Grant expenses	1,148,104	-
Provision for loan losses	74,000	-
Other fees and expenses	<u>2,789</u>	<u>270</u>
Total operating expenses	<u>1,224,893</u>	<u>270</u>
Changes in net assets	280,997	37,693
Net assets at beginning of year	<u>3,884,994</u>	<u>3,847,301</u>
Net assets at end of year	<u><u>\$ 4,165,991</u></u>	<u><u>\$ 3,884,994</u></u>

See accompanying notes to financial statements

Georgia Housing and Finance Authority Affordable Housing, Inc.

STATEMENTS OF CASH FLOWS

	Years ended June 30,	
	2011	2010
Cash flows from operating activities:		
Payments received on loans receivable	\$ 92,615	\$ 90,395
Payments for loans	(1,250,000)	-
Grant proceeds	8,500,000	-
Grant expenditures	(1,270,880)	-
Administrative fees	(6,866)	(270)
Interest on investments	51,987	68,311
Net cash provided by operating activities	6,116,856	158,436
Cash flows from investing activities:		
Proceeds from sale of investment securities	3,431,910	1,499,182
Purchase of investment securities	(1,047,770)	(1,407,280)
Net cash provided by investing activities	2,384,140	91,902
Net increase in cash and cash equivalents	8,500,996	250,338
Cash and cash equivalents at beginning of year	419,510	169,172
Cash and cash equivalents at end of year	\$ 8,920,506	\$ 419,510
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 280,997	\$ 37,693
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
(Increase) decrease in loans receivable, net	(1,163,334)	90,395
Decrease in interest receivable	3,275	1,523
Decrease (increase) in accounts payable	37,968	-
Decrease (increase) in refundable HHF program grants	5,949	-
Decrease (increase) in deferred revenue	7,187,006	-
Increase in loan loss reserves	74,000	-
Decrease (increase) in prepaids	(328,698)	-
Net (decrease) increase in fair value of investments	19,693	28,825
Total adjustments	5,835,859	120,743
Net cash provided by operating activities	\$ 6,116,856	\$ 158,436

See accompanying notes to financial statements

Georgia Housing and Finance Authority Affordable Housing, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 1 - AUTHORIZING LEGISLATION AND ACTIVITIES

The Georgia Housing and Finance Authority Affordable Housing, Inc. (AHI) was organized to act as an instrumentality of the State of Georgia and the Georgia Housing and Finance Authority (GHFA) on February 2, 1993. AHI commenced its planned operations on September 16, 1993. AHI's financial statements are included in the basic financial statements of GHFA. Effective July 1, 1996, the administration of GHFA was included under the State Department of Community Affairs (DCA). GHFA has remained intact, and its existing staff has been transferred to State employment as employees of DCA.

Under its enabling resolution, the purpose of AHI is to provide low-income affordable housing and a system of affordable housing finance for persons in Georgia of low and moderate income or of special housing needs including, but not limited to, the elderly and the mentally and physically disabled. AHI provides financial assistance in the form of low-interest loans and limited assistance to qualified sponsors in the form of grants.

The powers of AHI are vested in a board of directors which consists of the executive director and board members of GHFA.

The board of directors may authorize the disbursement of available money from the AHI for residential housing projects sponsored by a qualified organization. AHI may consult, as appropriate, with person with interests in housing in order to acquaint them with AHI and to solicit information relating to housing needs, residential housing projects, and criteria for the selection of residential housing projects. The criteria for making disbursement decisions include, but are not limited to, the following:

- a. The number of persons assisted;
- b. The leveraging of money or in-kind services by a qualified sponsor;
- c. The geographic distribution of residential housing projects;
- d. The availability of other forms of assistance; and
- e. Any and all other factors bearing upon the advisability and necessity of the residential housing project.

Funds may also be disbursed from AHI to pay expenses of the board of directors, to pay any and all operating expenses, and to pay for professional, technical, and clerical services provided to the board of directors.

Georgia Housing and Finance Authority Affordable Housing, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 2 – HARDEST HIT FUND PROGRAM

AHI's Hardest Hit Fund (HHF) program provides loans to unemployed and substantially under-employed homeowners to help them remain in their homes and prevent avoidable foreclosures despite loss of income due to involuntary job loss. The HHF program funds loans to be used to pay mortgage payments, including escrowed items, while the homeowner seeks employment or completes training for a new career. The goal is to provide assistance over the next 5 years to 18,300 homeowners to prevent foreclosures.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of AHI conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies:

Basis of Accounting

AHI is considered a special purpose government entity engaged in business-type activities and as such follows the accounting for proprietary funds. Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. This measurement focus emphasizes the determination of changes in net assets. Under this method, revenue is recorded when earned and expenses are recorded when a liability is incurred. Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. In accordance with Governmental Accounting Standards Board (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, AHI has applied all Financial Account Standards Board (FASB) pronouncements issued prior to December 1, 1989, that are not inconsistent with GASB pronouncements. AHI also has the option of following subsequent private-sector guidance subject to this same limitation. AHI has elected not to follow subsequent private-sector guidance.

Cash and Cash Equivalents and Investment Securities

Cash and cash equivalents, as reported in the statements of net assets, consist of interest-bearing deposits in banks, money market funds, and highly liquid investments with original maturities of three months or less from the date of purchase. Investment securities are carried at fair value based on quoted market prices.

Georgia Housing and Finance Authority Affordable Housing, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

The credit risk associated with AHI's investments is primarily due to its reliance upon securities of the U.S. Government and its agencies by AHI. As with any fixed-income portfolio, there exists market price risk in a changing interest rate environment, and some of AHI's investments are subject to a decline in market value if interest rates increase. This exposure is focused largely within certain classes of mortgage-backed securities, such as collateralized mortgage obligations. AHI invests in these securities, in part, to maximize yields and, in part, to hedge against a rise in interest rates. Certain of these securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. The mortgage-backed securities are reported in aggregate in the disclosure of investments.

Loans Receivable

Loans receivable consists of loans made to nonprofits and redevelopment partnerships, for the purpose of constructing and rehabilitating affordable housing units. The loans bear interest at rates ranging from 0% to 0.5%. The loans are due in full at dates ranging from 2018 to 2025. See Note 7 for payment terms on loans receivable.

HHF loans receivable are recorded at amounts drawn from the HHF program and subsequently loaned to the borrower. A corresponding liability is recorded to reflect AHI's obligation, that upon collection of any HHF loan repayment, such proceeds are either circulated back through the program and re-loaned to a new borrower or returned to the US Department of Treasury. HHF loan principal, which is forgiven, is recorded as a reduction in the HHF loan receivable balance, and a corresponding reduction in the related obligation. Loan repayments are recycled through the liability.

Provision for Possible Loan Losses

A provision for possible losses on delinquent loans is made when, in the opinion of management, the loan balance exceeds the net realizable value of the underlying collateral. The allowance for possible losses on loans receivable as of June 30, 2011 and 2010 totaled \$74,000 and \$-, respectively. The provision for possible losses recognized during the years ended June 30, 2011 and 2010 totaled \$74,000 and \$-, respectively.

Deferred Revenue

AHI has a liability for unexpended grant funds received as of June 30, 2011 and 2010 of \$7,187,006 and \$-, respectively. These funds are included in the balance of cash and cash equivalents shown on the Statements of Net Assets. The liability will be settled as the funds are expended in accordance with the grant requirements. Any unexpended grant proceeds will be returned to the US Department of Treasury under terms of the grant.

Georgia Housing and Finance Authority Affordable Housing, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

Program Revenue and Expenses

HHF loan program revenue and a corresponding expense are recognized at the time of loan closing by the borrower.

Funding received for the HHF program from Treasury is deferred until the related program expenditures are incurred.

Net Assets

In accordance with GASB 54, net assets are classified in the following categories:

Nonspendable Fund Balance – consists of the portion of net resources that cannot be spent because of their form or because they must be maintained intact.

Restricted Fund Balance – includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed Fund Balance – includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

Assigned Fund Balance – includes amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned Fund Balance – includes amounts not contained in other classifications.

AHI's net assets are classified into only one category which is nonspendable.

Income Taxes

AHI was established as a nonprofit company under GHFA and is exempt from income taxes under Internal Revenue Code Section 115.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and

Georgia Housing and Finance Authority Affordable Housing, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 4 – HHF LOANS RECEIVABLE AND LIABILITIES

During 2011, AHI received an award from the US Department of Treasury in the amount of \$339,255,819 for the HHF program of which \$27,283,006 can be used for administrative expenses. During the fiscal year 2011, AHI drew down on the available funds in the amount of \$8,500,000. Of this amount, \$1,476,802 was expended for administrative expenses and \$34,133 was expended for loans. The loans bear no interest and are secured by a deed on the property. The loans are forgivable 20 percent a year, until maturity, five years from date of issuance. The unforgiven portion of the loan is required to be repaid if the borrower sells or refinances the property before the five year period. At maturity, the loan will be considered satisfied and the lien will be released. If the property is sold before maturity, and does not generate net proceeds sufficient to repay the remaining loan balance, the unpaid portion will be forgiven.

NOTE 5 - CASH CONCENTRATION

As of June 30, 2011 and 2010, the carrying amount and the bank balance of AHIs deposits with financial institutions was \$8,920,506 and \$419,510, respectively. Certain bank balances were covered by Federal depository insurance. AHI requires collateralization of assets on money market funds with exposure to any institution with a long-term unsecured debt rating below “AA” (or the equivalent of a rating agency). As of June 30, 2011 and 2010, the remaining deposits consisted of money market funds rated “AAA,” requiring no collateral.

NOTE 6 – DEPOSITS AND INVESTMENTS

Deposits

As of June 30, 2011 and 2010, the Authority’s cash and cash equivalent deposits are categorized below to give an indication of the level of collateralization provided to the Authority in connection with its cash and cash equivalents. Category 1 includes deposits insured by Federal depository insurance or collateralized with securities held by the

Georgia Housing and Finance Authority Affordable Housing, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

Authority or by its agent in the Authority's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name. Category 3 represents uncollateralized deposits including bank balances collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Authority's name.

2011	Category			Bank balance	Carrying amount
	1	2	3		
Cash	\$ 331,664	\$ -	\$ -	\$ 331,664	\$ 331,664
Sweep account	6,941,000	-	-	6,941,000	6,941,000
Money market accounts	1,647,842	-	-	1,647,842	1,647,842
	<u>\$8,920,506</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$8,920,506</u>	<u>\$ 8,920,506</u>

  

2010	Category			Bank balance	Carrying amount
	1	2	3		
Cash	\$ 54,795	\$ -	\$ -	\$ 54,795	\$ 54,795
Money market accounts	364,715	-	-	364,715	364,715
	<u>\$ 419,510</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 419,510</u>	<u>\$ 419,510</u>

Investments

The Authority's investments are carried at fair value based on quoted market prices. As of June 30, 2011 and 2010, the Authority's investments are categorized below to give an indication of the level of collateralization provided to the Authority. Category 1 includes investments that are insured, registered, or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker, dealer, or their agent but not in the Authority's name.

2011	Category			Fair value
	1	2	3	
U.S. Government and agency securities	\$ -	\$ -	\$ -	\$ -
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

  

2010	Category			Fair value
	1	2	3	
U.S. Government and agency securities	\$2,403,833	\$ -	\$ -	\$2,403,833
	<u>\$2,403,833</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,403,833</u>

Georgia Housing and Finance Authority Affordable Housing, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of related to an interest-bearing investment will adversely affect the fair value of that investment. AHI manages interest rate risk by attempting to match investment maturities and interest payment terms with expected cash requirements. The maturities of investments as of June 30, 2011 and 2010 are as follows:

<u>Maturities:</u>	2011	2010
12 months or less	\$ -	\$ -
1 - 5 years	-	2,403,833
5 - 10 years	-	-
10 years or more	-	-
Total investments	<u>\$ -</u>	<u>\$ 2,403,833</u>

Credit Quality Risk

Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Some investments, such as U.S. Treasuries and GNMA securities, are guaranteed by the United States government and are considered to have minimal credit risk. Other investments are in corporate debt securities, which have been categorized based on the sponsoring entity's credit rating by Standard & Poor's. Generally, the debt securities are not collateralized. However, the Authority does not hold any corporate debt investments.

	Total Fair Value	Cash deposits	Standard & Poor's Credit Rating as of June 30, 2011						
			AAA	AA	A	BBB	BB	CCC	
Cash and cash equivalents:									
Cash	\$ 331,664	\$ 331,664	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sweep accounts	6,941,000	6,941,000	-	-	-	-	-	-	-
Money market accounts	1,647,842	1,647,842	-	-	-	-	-	-	-
Total cash and cash equivalents	<u>\$ 8,920,506</u>	<u>\$ 8,920,506</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 7 - LOANS RECEIVABLE

In, 1998, AHI entered into a loan agreement with a borrower for purposes of refinancing certain debt secured by Greystone Apartments, a 71-unit rental housing project located in Rome, Georgia. The loan is noninterest-bearing with a term of 25 years, is due on April 7, 2023, and is collateralized by the rental housing project. The loan requires equal monthly payments of \$3,333. The loan balance outstanding at June 30, 2011 and 2010, is \$483,203 and \$519,869, respectively.

Georgia Housing and Finance Authority Affordable Housing, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

In February 2003, the AHI entered into loan agreements with two chapters of Habitat for Humanity. A noninterest-bearing loan to Valdosta-Lowndes County Habitat for Humanity, Inc. was granted for \$500,000 with an original term of 15 years maturing in June 2018. The loan requires equal monthly payments of \$2,778, with the first payment due on August 1, 2003. A loan to Habitat for Humanity, Troup County, Inc. was granted for \$300,000 and is also noninterest-bearing, with an original term of 18 years maturing on June 30, 2021. This loan requires equal monthly payments of \$1,389, with the first payment due on August 1, 2003. Both loans are secured by Habitat for Humanity mortgages. The loan balances outstanding on these two loans at June 30, 2011 and 2010 is \$404,166 and \$454,166, respectively.

In January 2002, the AHI entered into a loan agreement with Progressive LaFayette I, Inc. to provide for funds for Woodland Village, LP. The loan was funded in November, 2005, for a total amount of \$95,000 with an original term of 20 years and is collateralized by the rental housing project. The loan bears interest at 0.5 percent per annum. Monthly principal and interest payments of \$416 are due beginning on January 1, 2006. The loan will mature on January 10, 2024. The loan is currently in default. As of June 30, 2011 AHI was pursuing the option to obtain an assignment of rents. The loan balance outstanding at June 30, 2011 and 2010 was \$84,326 and \$84,326, respectively, and accrued interest receivable is \$- and \$-, respectively.

In November 2010, the AHI entered into a loan agreement with Campbell House Developers, LLC to provide funds for Lillie R. Campbell House, LP to provide funds in the amount of \$500,000. Payments are to be made based on 100 percent of the monthly cash flow. The loan is non-interest bearing and will mature 15 years after the expiration of the compliance period as specified under the Land Use Restrictive covenants (LURA) in November 2025. The loan is collateralized by the rental housing project. The balance outstanding at June 30, 2011 and 2010 is \$500,000 and \$-, respectively.

In December 2010, the AHI entered into a loan agreement with Pine by the Creek, LP to provide funds in the amount of \$400,000. Payments are to be made based on 100 percent of the monthly cash flow. The loan is non-interest bearing and will mature 15 years after the expiration of the compliance period as specified under the Land Use Restrictive covenants (LURA) in December 2025. The loan is collateralized by the rental housing project. The balance outstanding at June 30, 2011 and 2010 is \$400,000 and \$-, respectively.

In November 2010, the AHI entered into a loan agreement with Campbell Creek Service Corporation to provide funds for Campbell Creek, LP to provide funds in the amount of \$350,000. Payments are to be made based on 100 percent of the monthly cash flow. The loan

Georgia Housing and Finance Authority Affordable Housing, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

is non-interest bearing and will mature 15 years after the expiration of the compliance period as specified under the Land Use Restrictive covenants (LURA) in November 2025. The loan is collateralized by the rental housing project. The balance outstanding at June 30, 2011 and 2010 is \$350,000 and \$-, respectively. As of June 30, 2011 and 2010, AHI recorded a provision in loan losses in the amount of \$74,000 and \$-, respectively.

Future expected principal receipts on the loans receivable are required as follows:

Year ended June, 2011	\$	94,656
2012		94,679
2013		94,700
2014		94,724
2015		94,748
Thereafter		1,748,188
		<u>2,221,695</u>
Less provision of loan losses		(74,000)
	\$	<u><u>2,147,695</u></u>

NOTE 8 – SUBSEQUENT EVENTS

Events that occur after the balance sheet date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events provide evidence about conditions that existed after the balance sheet and require disclosure in the accompanying notes. Management evaluated the activity of AHI through September 20, 2011 and concluded that the no subsequent events have occurred that would require recognition in the financial statements or disclosure in the Notes to the Financial Statements.

SUPPLEMENTAL INFORMATION

Georgia Housing and Finance Authority Affordable Housing, Inc.

SCHEDULE OF PROGRAM NET ASSETS

	June 30, 2011		
	Affordable Housing Finance	Hardest Hit Fund	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,689,312	\$ 7,231,194	\$ 8,920,506
Accrued interest receivable	15	-	15
Loans receivable, net	2,147,695	-	2,147,695
HHF loans receivable		34,133	34,133
Prepays	-	328,698	328,698
			-
Total assets	<u>3,837,022</u>	<u>7,594,025</u>	<u>11,431,047</u>
<b>LIABILITIES</b>			
Accounts payable	-	37,968	37,968
Deferred revenue	-	7,187,006	7,187,006
Refundable HHF program grants	-	40,082	40,082
			-
Total liabilities	<u>-</u>	<u>7,265,056</u>	<u>7,265,056</u>
			-
<b>NET ASSETS</b>			
Nonspendable	<u>\$ 3,837,022</u>	<u>\$ 328,969</u>	<u>\$ 4,165,991</u>

Georgia Housing and Finance Authority Affordable Housing, Inc.

SCHEDULE OF PROGRAM REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Year ended June 30, 2011		
	Affordable Housing Finance	Hardest Hit Fund	Total
Operating revenues:			
Grant income	\$ -	\$ 1,476,802	\$ 1,476,802
Interest income	48,441	271	48,712
Decrease in fair value of investments	(19,693)	-	(19,693)
Other income	69	-	69
Total operating revenues	28,817	1,477,073	1,505,890
Operating expenses:			
Grant expenses	-	1,148,104	1,148,104
Provision for loan losses	74,000		74,000
Other fees and expenses	2,789	-	2,789
Total operating expenses	76,789	1,148,104	1,224,893
Changes in net assets	(47,972)	328,969	280,997
Net assets at beginning of year	3,884,994	-	3,884,994
Net assets at end of year	\$ 3,837,022	\$ 328,969	\$ 4,165,991

INDEPENDENT AUDITORS' 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

To the Board of Directors  
Georgia Housing and Finance Authority Affordable Housing, Inc.

We have audited the financial statements of Georgia Housing and Finance Authority Affordable Housing, Inc. (AHI) as of and for the year ended June 30, 2011, and have issued our report thereon dated REPORT DATE. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered AHI's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AHI'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, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Reznick Group, P.C.*

Atlanta, Georgia  
September 20, 2011