



ACCOUNTING • TAX • BUSINESS ADVISORY

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

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

JUNE 30, 2012 AND 2011

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, 2012 and 2011, 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, 2012 and 2011, and the changes in its financial position and its 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 on pages 24 through 25 dated September 27, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required

supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information on pages 22 and 23 are presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Reznick Group, P.C.

Atlanta, Georgia
September 27, 2012

Georgia Housing and Finance Authority Affordable Housing, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012 and 2011

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, 2012 and 2011. 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 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

Loan Program

The board of directors may authorize the disbursement of available money from AHI for residential housing projects sponsored by a qualified organization. AHI may consult, as

Georgia Housing and Finance Authority Affordable Housing, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2012 and 2011

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.

During the fiscal year ended June 30, 2012, no additional loans were disbursed.

Hardest Hit Fund Program

On August 11, 2010, the U.S. Treasury announced that the State of Georgia was awarded \$339 million for The Hardest Hit Fund Program (HHF). This 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. Any funds returned according to established program guidelines will be recaptured and used to assist additional homeowners through December 31, 2017. After December 31, 2017, all remaining and recaptured funds will be returned to the U.S. Treasury.

During the fiscal years ended June 30, 2012 and 2011, HHF drew down \$29,700,000 and \$8,500,000 of total available funds, respectively. As of June 30, 2012 and 2011, the program made 0% interest loans totaling \$8,482,323 and \$34,133 and incurred administrative expenses of \$3,590,228 and \$1,148,104, respectively.

Georgia Housing and Finance Authority Affordable Housing, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2012 and 2011

The following table summarizes the changes in net assets between fiscal years 2012 and 2011.

	(In thousands)		FY 2011-FY 2012	
	6/30/12	6/30/11	Inc/(Dec)	Inc/(Dec)
Current assets	\$ 27,404	\$ 8,921	\$ 18,484	207.2%
Noncurrent assets	10,685	2,505	8,180	326.6%
Total assets	38,089	11,425	26,664	233.4%
Liabilities	34,085	7,259	26,826	369.5%
Total net assets	\$ 4,004	\$ 4,166	\$ (162)	-3.9%

Current assets increased due to HHF program grant received in fiscal year 2012. Liabilities increased due to deferred revenue and refundable HHF program grants.

The following table summarizes the changes in net operating revenue between fiscal years 2012 and 2011.

	(In thousands)		FY 2011 - FY 2012	
	6/30/12	6/30/11	Inc/(Dec)	Inc/(Dec)
Operating revenue	\$ 11,912	\$ 1,540	\$ 10,372	674%
Expenses	12,074	1,259	10,815	859%
Changes in net assets	(162)	281	21,187	7540.1%
Beginning net assets	4,166	3,885	281	7.2%
Ending net assets	\$ 4,004	\$ 4,166	\$ 21,468	515.3%

Operating revenue increased due to an 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: Finance Division
 60 Executive Park South, NE
 Atlanta, Georgia 30329

Georgia Housing and Finance Authority Affordable Housing, Inc.

STATEMENTS OF NET ASSETS

	June 30,	
	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 27,402,153	\$ 8,920,506
Accrued interest receivable	2,140	15
Investment securities	1,264,966	-
Loans receivable, net	2,061,028	2,147,695
HHF loans receivable	7,197,408	28,184
Prepays	<u>161,240</u>	<u>328,698</u>
Total assets	<u>38,088,935</u>	<u>11,425,098</u>
LIABILITIES		
Accounts payable	4,632	37,968
Deferred revenue	25,563,812	7,187,006
Refundable HHF program grants	<u>8,516,456</u>	<u>34,133</u>
Total liabilities	<u>34,084,900</u>	<u>7,259,107</u>
NET ASSETS		
Unrestricted	<u>\$ 4,004,035</u>	<u>\$ 4,165,991</u>

See accompanying notes to financial statements

Georgia Housing and Finance Authority Affordable Housing, Inc.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Years ended June 30,	
	2012	2011
Operating revenues:		
Grant income		
Loans	\$ 8,482,323	\$ 34,133
Administrative	3,422,770	1,476,802
Interest income	56,747	48,712
Decrease in fair value of investments	(49,552)	(19,693)
Other income	-	69
	<u>11,912,288</u>	<u>1,540,023</u>
Operating expenses:		
Grant expenses		
Loans	8,482,323	34,133
Administrative	3,590,228	1,148,104
Provision for loan losses	-	74,000
Other fees and expenses	1,693	2,789
	<u>12,074,244</u>	<u>1,259,026</u>
Changes in net assets	(161,956)	280,997
Net assets at beginning of year	<u>4,165,991</u>	<u>3,884,994</u>
Net assets at end of year	<u>\$ 4,004,035</u>	<u>\$ 4,165,991</u>

See accompanying notes to financial statements

Georgia Housing and Finance Authority Affordable Housing, Inc.

STATEMENTS OF CASH FLOWS

	Years ended June 30,	
	2012	2011
Cash flows from operating activities:		
Payments received on loans receivable	\$ 82,431	\$ 92,615
Payments received on HHF loans receivable	1,313,099	-
Payments for loans	-	(1,250,000)
Grant proceeds	29,700,000	8,500,000
Grant expenditures	(11,356,530)	(1,270,880)
Administrative fees	(1,693)	(6,866)
Interest on investments	58,858	51,987
Net cash provided by operating activities	<u>19,796,165</u>	<u>6,116,856</u>
Cash flows from investing activities:		
Proceeds from sale of investment securities	806,290	3,431,910
Purchase of investment securities	<u>(2,120,808)</u>	<u>(1,047,770)</u>
Net cash (used in) provided by investing activities	<u>(1,314,518)</u>	<u>2,384,140</u>
Net increase in cash and cash equivalents	18,481,647	8,500,996
Cash and cash equivalents at beginning of year	<u>8,920,506</u>	<u>419,510</u>
Cash and cash equivalents at end of year	<u>\$ 27,402,153</u>	<u>\$ 8,920,506</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ (161,956)	\$ 280,997
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
(Increase) decrease in loans receivable, net	86,667	(1,163,334)
(Increase) decrease in interest receivable	(2,125)	3,275
Decrease (increase) in accounts payable	33,336	37,968
Decrease (increase) in refundable HHF program grants	1,313,099	5,949
Decrease (increase) in deferred revenue	18,376,806	7,187,006
Increase in loan loss reserves	32,432	74,000
Decrease (increase) in prepaids	167,458	(328,698)
Net (decrease) increase in fair value of investments	<u>(49,552)</u>	<u>19,693</u>
Total adjustments	<u>19,958,121</u>	<u>5,835,859</u>
Net cash provided by operating activities	<u>\$ 19,796,165</u>	<u>\$ 6,116,856</u>

See accompanying notes to financial statements

Georgia Housing and Finance Authority Affordable Housing, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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 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.

Loan Program

The board of directors may authorize the disbursement of available money from 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, 2012 and 2011

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. Any funds returned according to established program guidelines will be recaptured and used to assist additional homeowners through December 31, 2017. After December 31, 2017, all remaining and recaptured funds will be returned to the U.S. Treasury.

NOTE 2 - 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 non-operating 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. Subsequent to this date, AHI accounts for its proprietary funds as required by GASB.

Georgia Housing and Finance Authority Affordable Housing, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

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. Investment securities are carried at fair value based on quoted market prices.

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.

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.

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 over a five-year period, 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. Because the obligation amount is dependent on the actual HHF loan repayments, no valuation reserve is recorded.

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, 2012 and 2011 totaled

Georgia Housing and Finance Authority Affordable Housing, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

\$74,000 and \$74,000, respectively. The provision for possible losses recognized during the years ended June 30, 2012 and 2011 totaled \$- and \$74,000, respectively.

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

Net assets are classified and displayed in three categories in the financial statements.

Invested in capital assets, net of related debt consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributions, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets consists of all other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

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

Income Taxes

AHI 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 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.

Georgia Housing and Finance Authority Affordable Housing, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

Reclassifications

Reclassifications have been made to the prior year balances to conform to the current year presentation.

NOTE 3 – DEPOSITS AND INVESTMENTS

AHI is authorized to invest in short-term obligations of the U.S. Treasury, its agencies, and instrumentalities; obligations of the State of Georgia; certificates of deposit of financial institutions within the State of Georgia insured by Federal or state depository insurance, interest-bearing time deposits, repurchase agreements, reverse repurchase agreements, or other similar banking arrangements; and any and all other obligations of investment grade quality, as defined.

Deposits

As of June 30, 2012 and 2011, GHFA's (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 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.

2012	Category			Bank balance	Carrying amount
	1	2	3		
Cash	\$ 304,571	\$ -	\$ -	\$ 304,571	\$ 304,571
Sweep account	26,638,000			26,638,000	26,638,000
Money market accounts	459,582	-	-	459,582	459,582
	<u>\$ 27,402,153</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,402,153</u>	<u>\$ 27,402,153</u>

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>

Georgia Housing and Finance Authority Affordable Housing, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

Investments

The Authority's investments are carried at fair value based on quoted market prices. As of June 30, 2012 and 2011, 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.

2012	Category			Fair value
	1	2	3	
U.S. Government and agency securities	\$ 1,264,966	\$ -	\$ -	\$ 1,264,966
	\$ 1,264,966	\$ -	\$ -	\$ 1,264,966

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates 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, 2012 and 2011 are as follows:

<u>Maturities:</u>	2012	2011
12 months or less	\$ -	\$ -
1 - 5 years	1,264,966	-
5 - 10 years	-	-
10 years or more	-	-
Total investments	\$ 1,264,966	\$ -

Georgia Housing and Finance Authority Affordable Housing, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

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 may be in corporate debt securities, which would be 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	Government securities	Standard & Poor's Credit Rating as of June 30, 2012					
			AAA	AA	A	BBB	BB	CCC
Cash and cash equivalents:								
Cash	\$ 304,571	\$ -	\$ 304,571	\$ -	\$ -	\$ -	\$ -	\$ -
Sweep accounts	26,638,000	-	26,638,000	-	-	-	-	-
Money market accounts	459,582	-	459,582	-	-	-	-	-
Total cash and cash equivalents	<u>\$ 27,402,153</u>	<u>\$ -</u>	<u>\$ 27,402,153</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Short-term investment securities:								
U.S. agency securities	\$ 1,264,966	\$ -	\$ -	\$ 1,264,966	\$ -	\$ -	\$ -	\$ -
Total short-term investment securities	<u>\$ 1,264,966</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,264,966</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Cash Concentration Risk

As of June 30, 2012 and 2011, the carrying amount and the bank balance of AHI's deposits with financial institutions was \$27,402,153 and \$8,920,506, 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, 2012 and 2011, the remaining deposits consisted of money market funds rated "AAA" and U.S. agency securities rated "AA," requiring no collateral.

NOTE 4 - 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, 2012 and 2011 is \$446,536 and \$483,203, respectively.

In February 2003, AHI entered into loan agreements with two chapters of Habitat for Humanity. A non-interest bearing loan to Valdosta-Lowndes County Habitat for Humanity,

Georgia Housing and Finance Authority Affordable Housing, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

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 non-interest 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, 2012 and 2011 is \$354,166 and \$404,166, respectively.

In January 2002, 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, 2012, AHI was pursuing the option to obtain an assignment of rents. The loan balance outstanding at June 30, 2012 and 2011 was \$84,326 and \$84,326, respectively, and accrued interest receivable is \$- and \$-, respectively. As of June 30, 2012 and 2011, the provision for loan loss established for this account was \$74,000 and \$74,000, respectively.

In November 2010, 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, 2012 and 2011 is \$500,000 and \$500,000, respectively.

In December 2010, 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, 2012 and 2011 is \$400,000 and \$400,000, 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 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

Georgia Housing and Finance Authority Affordable Housing, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

is collateralized by the rental housing project. The balance outstanding at June 30, 2012 and 2011 is \$350,000 and \$350,000, respectively.

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

Year ended June, 2013	\$	90,000
2014		90,000
2015		90,000
2016		90,000
2017		90,000
Thereafter		<u>1,611,028</u>
	\$	<u><u>2,061,028</u></u>

NOTE 5 – 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. 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. During the years ended June 30, 2012 and 2011, HHF loans funded were \$8,482,323 and \$34,133, and repayments received were \$1,313,099 and \$5,949, respectively. As of June 30, 2012 and 2011, HHF loans receivable was \$7,197,408 and \$28,184, respectively.

HHF program schedules of activity for the years ended June 30, 2012 and 2011 are as follows:

	Year ended June 30, 2012		
	<u>Administrative</u>	<u>Loans</u>	<u>Total</u>
Total Award	\$ 27,283,006	\$311,972,813	\$ 339,255,819
Less: drawn to date	(7,200,000)	(31,000,000)	(38,200,000)
Available to be drawn	<u>\$ 20,083,006</u>	<u>\$280,972,813</u>	<u>\$ 301,055,819</u>
Funds drawn for the year	\$ 4,700,000	\$ 25,000,000	\$ 29,700,000
Funds expended for the year	<u>(2,840,870)</u>	<u>(8,482,323)</u>	<u>(11,323,193)</u>
Funds deferred for the year	1,859,130	16,517,677	18,376,807
Deferred funds - beginning of year	<u>1,221,138</u>	<u>5,965,868</u>	<u>7,187,006</u>
Deferred funds - end of year	<u>\$ 3,080,268</u>	<u>\$ 22,483,545</u>	<u>\$ 25,563,813</u>

Georgia Housing and Finance Authority Affordable Housing, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

	Year ended June 30, 2011		
	<u>Administrative</u>	<u>Loans</u>	<u>Total</u>
Total Award	\$ 27,283,006	\$311,972,813	\$ 339,255,819
Less: drawn to date	<u>(2,500,000)</u>	<u>(6,000,000)</u>	<u>(8,500,000)</u>
Available to be drawn	<u>\$ 24,783,006</u>	<u>\$305,972,813</u>	<u>\$ 330,755,819</u>
Funds drawn for the year	\$ 2,500,000	\$ 6,000,000	\$ 8,500,000
Funds expended for the year	<u>(1,278,862)</u>	<u>(34,132)</u>	<u>(1,312,994)</u>
Funds deferred for the year	1,221,138	5,965,868	7,187,006
Deferred funds - beginning of year	-	-	-
Deferred funds - end of year	<u>\$ 1,221,138</u>	<u>\$ 5,965,868</u>	<u>\$ 7,187,006</u>

NOTE 6 – DEFERRED REVENUE

AHI has a liability for unexpended HHF grant funds received as of June 30, 2012 and 2011 of \$25,563,812 and \$7,187,006, 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 for loans and administrative costs in accordance with the grant requirements. Any unexpended grant proceeds will be returned to the US Department of Treasury under terms of the HHF program.

NOTE 7 – 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 27, 2012 and concluded that the no subsequent events have occurred that would require recognition in the financial statements or disclosure in the Notes to Financial Statements.

SUPPLEMENTAL INFORMATION

Georgia Housing and Finance Authority Affordable Housing, Inc.

SCHEDULE OF PROGRAM NET ASSETS

	June 30, 2012		
	Loan Program	Hardest Hit Fund Program	Total
ASSETS			
Cash and cash equivalents	\$ 511,945	\$ 26,890,208	\$ 27,402,153
Accrued interest receivable	2,140	-	2,140
Investment securities	1,264,966	-	1,264,966
Loans receivable, net	2,061,028	-	2,061,028
HHF loans receivable	-	7,197,408	7,197,408
Prepays	-	161,240	161,240
Total assets	3,840,079	34,248,856	38,088,935
LIABILITIES			
Accounts payable	-	4,632	4,632
Deferred revenue	-	25,563,812	25,563,812
Refundable HHF program grants	-	8,516,456	8,516,456
Total liabilities	-	34,084,900	34,084,900
NET ASSETS			
Unrestricted	<u>\$ 3,840,079</u>	<u>\$ 163,956</u>	<u>\$ 4,004,035</u>

Georgia Housing and Finance Authority Affordable Housing, Inc.

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

	Year ended June 30, 2012		
	Loan Program	Hardest Hit Fund Program	Total
Operating revenues:			
Grant income			
Loans	\$ -	\$ 8,482,323	\$ 8,482,323
Administrative	-	3,422,770	3,422,770
Interest income	54,301	2,446	56,747
Decrease in fair value of investments	(49,552)	-	(49,552)
Total operating revenues	4,749	11,907,539	11,912,288
Operating expenses:			
Grant expenses			
Loans	-	8,482,323	8,482,323
Administrative	-	3,590,228	3,590,228
Other fees and expenses	1,693	-	1,693
Total operating expenses	1,693	12,072,551	12,074,244
Changes in net assets	3,056	(165,012)	(161,956)
Net assets at beginning of year	3,837,023	328,968	4,165,991
Net assets at end of year	\$ 3,840,079	\$ 163,956	\$ 4,004,035

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, 2012, and have issued our report thereon dated September 27, 2012. 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 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 27, 2012