

**Georgia Housing and Finance Authority  
Affordable Housing, Inc.**

**Financial Statements and  
Independent Auditor's Report**

**June 30, 2016 and 2015**

---

**COHN  REZNICK**  
ACCOUNTING • TAX • ADVISORY

Georgia Housing and Finance Authority Affordable Housing, Inc.

Index

	<u>Page</u>
Independent Auditor's Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
Statements of Net Position	7
Statements of Revenues, Expenses, and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Financial Statements	10
Supplemental Information	
Schedule of Program Net Position	19
Schedule of Program Revenues, Expenses and Changes in Net Position	20
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21

## Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activities of the Georgia Housing and Finance Authority Affordable Housing, Inc. (AHI), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements which collectively comprise AHI's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of AHI as of June 30, 2016 and 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 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 audits 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.

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the AHI's basic financial statements taken as a whole. The 2016 supplemental information on pages 19 and 20 are presented for purposes of additional analysis and are 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 8, 2016, on our consideration of the 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 in considering AHI's internal control over financial reporting and compliance.



Atlanta, Georgia  
September 8, 2016

## Georgia Housing and Finance Authority Affordable Housing, Inc.

### Management's Discussion and Analysis June 30, 2016 and 2015

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, 2016 and 2015. 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 Position* presents information on all of AHI's assets and liabilities, with the difference between the two reported as net position. 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 Position*. 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

##### 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

**Georgia Housing and Finance Authority Affordable Housing, Inc.**

**Management's Discussion and Analysis  
June 30, 2016 and 2015**

- e. Any and all other factors bearing upon the advisability and necessity of the residential housing project.

During the fiscal year ended June 30, 2016, 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). On February 19, 2016, the U.S. Treasury announced that the State of Georgia was awarded an additional \$31 million. 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 through 2020 to 12,700 homeowners to prevent foreclosures. Any funds returned according to established program guidelines will be recaptured and used to assist additional homeowners through December 31, 2020. After December 31, 2020, all remaining and recaptured funds will be returned to the U.S. Treasury.

During the fiscal years ended June 30, 2016 and 2015, HHF drew down \$- and \$49,575,000 of total available funds, respectively. The total amount drawn as of June 30, 2016 and 2015 totaled \$193,983,000 and \$193,983,000, respectively. As of June 30, 2016 and 2015, the program made 0% interest loans totaling \$32,028,590 and \$38,547,633 and incurred administrative expenses of \$5,329,967 and \$6,293,317, respectively. During the years ended June 30, 2016 and 2015, repayments received were \$782,622 and \$757,787, respectively. During 2016 and 2015, repayments received were utilized to reduce program expenditures.

The following table summarizes the changes in net position between fiscal years 2016 and 2015.

	(In thousands)		FY 2015-FY 2016	
	6/30/16	6/30/15	Inc/(Dec)	Inc/(Dec)
Current assets	\$ 17,386	\$ 52,615	\$ (35,229)	-67.0%
Noncurrent assets	3,135	3,439	(304)	-8.8%
Total assets	20,521	56,054	(35,533)	-63.4%
Liabilities	16,862	51,614	(34,752)	-67.3%
Total net position	\$ 3,659	\$ 4,440	\$ (781)	-17.6%

Current assets decreased due to no additional HHF draws made in fiscal year 2016. Liabilities decreased due to the use of program funds received in advance and refundable HHF program funds.

**Georgia Housing and Finance Authority Affordable Housing, Inc.**

**Management's Discussion and Analysis  
June 30, 2016 and 2015**

The following table summarizes the changes in net operating revenue between fiscal years 2016 and 2015.

	(In thousands)		FY 2015 - FY 2016	
	<u>6/30/16</u>	<u>6/30/15</u>	<u>Inc/(Dec)</u>	<u>Inc/(Dec)</u>
Operating revenue	\$ 35,809	\$ 44,981	\$ (9,172)	-20%
Expenses	<u>36,590</u>	<u>45,019</u>	<u>(8,429)</u>	<u>-19%</u>
Changes in net position	(781)	(38)	(743)	1944.2%
Beginning net position	4,440	4,478	(38)	-0.8%
Ending net position	<u>\$ 3,659</u>	<u>\$ 4,440</u>	<u>\$ (781)</u>	<u>-17.6%</u>

Operating revenue decreased due to a decrease in program funds for the HHF program. Expenses decreased due to the decrease in program 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 Position

	June 30,	
	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 17,378,170	\$ 52,612,846
Accrued interest receivable	8,071	2,917
Investment securities	2,139,339	2,379,915
Loans receivable, net	904,166	954,166
Prepays	90,913	104,597
	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 20,520,659</u>	<u>\$ 56,054,441</u>
LIABILITIES		
Accounts payable	\$ 482,664	\$ 660,461
Program funds received in advance	16,379,038	50,953,890
	<u>                    </u>	<u>                    </u>
Total liabilities	<u>16,861,702</u>	<u>51,614,351</u>
NET POSITION		
Unrestricted	<u>3,658,957</u>	<u>4,440,090</u>
	<u>                    </u>	<u>                    </u>
Total net position	<u>3,658,957</u>	<u>4,440,090</u>
	<u>                    </u>	<u>                    </u>
Total liabilities and net position	<u>\$ 20,520,659</u>	<u>\$ 56,054,441</u>

See Notes to Financial Statements.

**Georgia Housing and Finance Authority Affordable Housing, Inc.**

**Statements of Revenues, Expenses, and Changes In Net Position**

	Years ended June 30,	
	2016	2015
Operating revenues:		
Grant income		
Loans	\$ 29,244,886	\$ 38,201,960
Administrative	5,329,967	6,293,317
Interest income	38,313	45,157
Increase in fair value of investments	31,797	28,997
Other income	1,164,114	412,134
	<u>35,809,077</u>	<u>44,981,565</u>
Operating expenses:		
Grant expenses		
Loans	31,245,987	38,201,960
Administrative	5,343,652	6,316,700
Provision for loan losses	-	500,000
Other fees and expenses	571	556
	<u>36,590,210</u>	<u>45,019,216</u>
Changes in net position	(781,133)	(37,651)
Net position at beginning of year	<u>4,440,090</u>	<u>4,477,741</u>
Net position at end of year	<u>\$ 3,658,957</u>	<u>\$ 4,440,090</u>

See Notes to Financial Statements.

**Georgia Housing and Finance Authority Affordable Housing, Inc.**

**Statements of Cash Flows**

	Years ended June 30,	
	2016	2015
Cash flows from operating activities:		
Payments received on loans receivable	\$ 50,000	\$ 50,000
Grant proceeds	-	49,575,000
Grant expenditures	(35,594,791)	(44,044,832)
Administrative fees	(571)	(556)
Interest on investments	38,313	45,157
	<u>(35,507,049)</u>	<u>5,624,769</u>
Net cash (used in) provided by operating activities		
Cash flows from investing activities:		
Proceeds from sale of investment securities	1,762,373	91,228
Purchase of investment securities	(1,490,000)	(1,390,000)
	<u>272,373</u>	<u>(1,298,772)</u>
Net cash provided by (used in) investing activities		
Net (decrease) increase in cash and cash equivalents	(35,234,676)	4,325,997
Cash and cash equivalents at beginning of year	<u>52,612,846</u>	<u>48,286,849</u>
Cash and cash equivalents at end of year	<u>\$ 17,378,170</u>	<u>\$ 52,612,846</u>
Reconciliation of change in net position to net cash provided by operating activities:		
Change in net position	\$ (781,133)	\$ (37,651)
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:		
Decrease in loans receivable, net	50,000	50,000
Increase in interest receivable	(5,154)	(143)
Increase (decrease) in accounts payable	(177,797)	38,454
(Decrease) increase in program funds received in advance	(34,574,852)	5,079,722
Increase in loan loss reserves	-	500,000
Decrease in prepaids	13,684	23,384
Change in fair value of investments	(31,797)	(28,997)
	<u>(34,725,916)</u>	<u>5,662,420</u>
Total adjustments		
Net cash (used in) provided by operating activities	<u>\$ (35,507,049)</u>	<u>\$ 5,624,769</u>

See Notes to Financial Statements.

**Georgia Housing and Finance Authority Affordable Housing, Inc.**

**Notes to Financial Statements  
June 30, 2016 and 2015**

**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 consolidated 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 all 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 eighteen members who also comprise the board of DCA and GHFA. Board members are appointed by the Governor and are composed of one member from each United States Congressional District in the State (currently fourteen) plus four additional members from the State at large, and include elected officials of counties or municipalities, individuals with an interest or expertise in community or economic development, environmental issues, housing development or finance or citizens who in the judgment and discretion of the Governor would enhance the board.

**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.

**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 through 2020 to 12,700

**Georgia Housing and Finance Authority Affordable Housing, Inc.**

**Notes to Financial Statements  
June 30, 2016 and 2015**

homeowners to prevent foreclosures. Loans are forgiven over a 5 year period. Any funds returned according to established program guidelines will be recaptured and used to assist additional homeowners through December 31, 2020. After December 31, 2020, 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 position. 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.

**Cash and cash equivalents and investment securities**

Cash and cash equivalents, as reported in the statements of net position, 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. 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 and provision for possible loan losses**

Loans receivable consists of loans made to nonprofits and redevelopment partnerships, for the purpose of constructing and rehabilitating affordable housing units. The loans do not bear interest. The loans are due in full at dates ranging from 2018 to 2025. The provision for possible losses recognized during the years ended June 30, 2016 and 2015 totaled \$- and \$500,000, respectively.

**Grant revenue and expenses**

HHF loan grant 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 not recognized until the related program expenditures are incurred.

**Georgia Housing and Finance Authority Affordable Housing, Inc.**

**Notes to Financial Statements  
June 30, 2016 and 2015**

**Net position**

Net position is the amount of total assets plus deferred outflows of resources that exceed total liabilities and deferred inflows of resources. Net position is classified and displayed in one category 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 position* consists of net position 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 position* consists of other net positions that do not meet the definition of restricted or invested in capital assets, net of related debt.

AHI's net position is 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.

**Reclassifications**

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

**Note 3 - Cash and cash equivalents and investments securities**

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.

The investments are reported at fair value based on quoted market prices at June 30, 2016 and June 30, 2015. The investments are also evaluated in accordance with GASB Statement No. 40 for interest rate risk, custodial credit risk, credit quality risk, and concentration of credit risk.

**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, 2016 and 2015 are as follows:

## Georgia Housing and Finance Authority Affordable Housing, Inc.

### Notes to Financial Statements June 30, 2016 and 2015

<u>Maturities:</u>	2016	2015
12 months or less	\$ -	\$ -
1 - 5 years	1,493,592	1,392,389
5 - 10 years	-	-
10 years or more	645,747	987,526
Total investments	\$ 2,139,339	\$ 2,379,915

#### Custodial credit risk

Custodial credit risk is the risk that in the event of a bank failure, AHI will not be able to recover its deposits or the value of its collateral securities that are in the possession of an outside party. As of June 30, 2016 and 2015, AHI'S cash and cash equivalents and investments were not subject to custodial credit risk under GASB statement No. 40.

#### 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, AHI does not hold any corporate debt investments.

	Total Fair Value	Government securities	Standard & Poor's Credit Rating as of June 30, 2016					
			AAA	AA	A	BBB	BB	CCC
Cash and cash equivalents:								
Cash	\$ 288,185	\$ -	\$ 288,185	\$ -	\$ -	\$ -	\$ -	\$ -
Sweep accounts	16,624,000	-	16,624,000	-	-	-	-	-
Money market accounts	465,985	-	465,985	-	-	-	-	-
Total cash and cash equivalents	\$ 17,378,170	\$ -	\$ 17,378,170	\$ -	\$ -	\$ -	\$ -	\$ -
Short-term investment securities:								
U.S. agency securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total short-term investment securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term investment securities:								
U.S. agency securities	\$ 2,139,339	\$ -	\$ -	\$ 2,139,339	\$ -	\$ -	\$ -	\$ -
Total long-term investment securities	\$ 2,139,339	\$ -	\$ -	\$ 2,139,339	\$ -	\$ -	\$ -	\$ -

	Total Fair Value	Government securities	Standard & Poor's Credit Rating as of June 30, 2015					
			AAA	AA	A	BBB	BB	CCC
Cash and cash equivalents:								
Cash	\$ 284,676	\$ -	\$ 284,676	\$ -	\$ -	\$ -	\$ -	\$ -
Sweep accounts	52,209,000	-	52,209,000	-	-	-	-	-
Money market accounts	119,170	-	119,170	-	-	-	-	-
Total cash and cash equivalents	\$ 52,612,846	\$ -	\$ 52,612,846	\$ -	\$ -	\$ -	\$ -	\$ -
Short-term investment securities:								
U.S. agency securities	\$ 1,392,389	\$ -	\$ -	\$ 1,392,389	\$ -	\$ -	\$ -	\$ -
Total short-term investment securities	\$ 1,392,389	\$ -	\$ -	\$ 1,392,389	\$ -	\$ -	\$ -	\$ -
Long-term investment securities:								
U.S. agency securities	\$ 987,526	\$ -	\$ -	\$ 987,526	\$ -	\$ -	\$ -	\$ -
Total long-term investment securities	\$ 987,526	\$ -	\$ -	\$ 987,526	\$ -	\$ -	\$ -	\$ -

#### Concentration of credit risk

As of June 30, 2016 and 2015, the carrying amount and the bank balance of AHI's deposits with financial institutions were \$17,378,170 and \$52,612,846, respectively. Certain bank balances were covered by federal depository insurance. AHI requires collateralization of assets on money market

**Georgia Housing and Finance Authority Affordable Housing, Inc.**

**Notes to Financial Statements  
June 30, 2016 and 2015**

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, 2016 and 2015, the remaining deposits consisted of money market funds rated "AAA" and U.S. agency securities rated "AA+," requiring no collateral.

**Investment fair value measurements**

The Authority has adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This statement establishes a hierarchy of inputs to valuation techniques used to measure fair value:

- Level 1 – quoted market prices in active markets
- Level 2 – inputs other than quoted market prices that are observable either directly or indirectly
- Level 3 – unobservable inputs

The Authority has investments in securities that are measured at fair value on a recurring basis in the financial statements. The Authority uses a three level hierarchy for determining fair value and a financial asset or liability classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The following table presents the financial assets that the Authority measured at fair value as of June 30:

	Level			Total
	1	2	3	
2016				
U.S. Government and agency securities	\$ 2,139,339	\$ -	\$ -	\$ 2,139,339
2015				
U.S. Government and agency securities	\$ 2,379,915	\$ -	\$ -	\$ 2,379,915

**Note 4 - Loans receivable**

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, Inc. was granted for \$500,000 with an original term of 15 years maturing in June 2018. The loan required 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, 2016 and 2015 is \$154,166 and \$204,166, 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, 2016 and 2015 is \$500,000 and \$500,000, respectively. As of June 30, 2016 and 2015, the provision for loan loss established for this account was \$- and \$500,000, respectively.

**Georgia Housing and Finance Authority Affordable Housing, Inc.**

**Notes to Financial Statements  
June 30, 2016 and 2015**

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, 2016 and 2015 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 is collateralized by the rental housing project. The balance outstanding at June 30, 2016 and 2015 is \$350,000 and \$350,000, respectively.

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

Year ended June 30, 2017	\$	50,000
2018		52,777
2019		16,667
2020		16,667
2021		16,667
Thereafter		<u>751,388</u>
	\$	<u>904,166</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 \$47,410,693 can be used for administrative expenses. During 2016, AHI received an additional award from the US Department of Treasury in the amount of \$30,880,575 for the HHF program of which \$441,423 can be used for administrative expenses. Loans made under the HHF program 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 the last monthly payment. 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. Any amounts recaptured from the program activities are to be remitted back to the US Department of Treasury upon termination of the program. Accordingly, AHI does not bear the risk of loss in connection with the HHF program lending activities and as such, records loans receivable, which are fully offset by a corresponding liability of the same amount payable to the US Department of Treasury. During the years ended June 30, 2016 and 2015, HHF loans funded were \$32,028,590 and \$38,547,633, and repayments received were \$782,622 and \$757,787, respectively. During 2016 and 2015, repayments received were utilized to reduce program expenditures. As of June 30, 2016 and 2015, HHF loans receivable and its corresponding liability of the same amount payable to the US Department of Treasury were \$123,601,271 and \$110,095,333, respectively.

**Georgia Housing and Finance Authority Affordable Housing, Inc.**

**Notes to Financial Statements  
June 30, 2016 and 2015**

HHF program schedules of activity for the years ended June 30, 2016 and 2015 are as follows:

	Year ended June 30, 2016					
	Mortgage Payment Assistance (MPA)	Mortgage Reinstatement Assistance	Recast/ Modification	Lien Satisfaction	Administrative	Total
Total Award	\$ 216,845,126	\$ 35,000,000	\$ 70,439,152	\$ -	\$ 47,852,116	\$ 370,136,394
Less: drawn to date	(148,640,000)	(10,700,000)	(5,500,000)	-	(29,143,000)	(193,983,000)
Available to be drawn	<u>\$ 68,205,126</u>	<u>\$ 24,300,000</u>	<u>\$ 64,939,152</u>	<u>\$ -</u>	<u>\$ 18,709,116</u>	<u>\$ 176,153,394</u>
Funds drawn for the year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Funds expended for the year	(27,833,504)	(2,566,833)	(845,650)	2,001,101	(5,329,966)	(34,574,852)
Excess (shortage) for the year	(27,833,504)	(2,566,833)	(845,650)	2,001,101	(5,329,966)	(34,574,852)
Grant advances - beginning of year	30,678,944	9,503,104	4,974,609	-	5,797,233	50,953,890
Grant advances - end of year	<u>\$ 2,845,440</u>	<u>\$ 6,936,271</u>	<u>\$ 4,128,959</u>	<u>\$ 2,001,101</u>	<u>\$ 467,267</u>	<u>\$ 16,379,038</u>

  

	Year ended June 30, 2015					
	Mortgage Payment Assistance (MPA)	Mortgage Reinstatement Assistance	Recast/ Modification	Lien Satisfaction	Administrative	Total
Total Award	\$ 216,845,126	\$ 35,000,000	\$ 40,000,000	\$ -	\$ 47,410,693	\$ 339,255,819
Less: drawn to date	(148,640,000)	(10,700,000)	(5,500,000)	-	(29,143,000)	(193,983,000)
Available to be drawn	<u>\$ 68,205,126</u>	<u>\$ 24,300,000</u>	<u>\$ 34,500,000</u>	<u>\$ -</u>	<u>\$ 18,267,693</u>	<u>\$ 145,272,819</u>
Funds drawn for the year	\$ 38,000,000	\$ 1,700,000	\$ 700,000	\$ -	\$ 9,175,000	\$ 49,575,000
Funds expended for the year	(36,501,344)	(1,175,225)	(525,391)	-	(6,293,318)	(44,495,278)
Excess (shortage) for the year	1,498,656	524,775	174,609	-	2,881,682	5,079,722
Grant advances - beginning of year	29,180,288	8,978,329	4,800,000	-	2,915,551	45,874,168
Grant advances - end of year	<u>\$ 30,678,944</u>	<u>\$ 9,503,104</u>	<u>\$ 4,974,609</u>	<u>\$ -</u>	<u>\$ 5,797,233</u>	<u>\$ 50,953,890</u>

**Note 6 - Program funds received in advance**

AHI has a liability for unexpended HHF program funds received as of June 30, 2016 and 2015 of \$16,379,038 and \$50,953,890, respectively. These funds are included in the balance of cash and cash equivalents shown on the Statements of Net Position. 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 - Related party transactions**

**Due to affiliate**

During the year ended June 30, 2016, administrative expenses related to HHF were paid by DCA on behalf of HHF, and are to be reimbursed using funds from the HHF allocation. As of June 30, 2016 and 2015, \$286,154 and \$233,897 remains payable to DCA, respectively, and is included in accounts payable.

Costs incurred by DCA for the administration of all AHI's programs are reimbursed monthly by AHI. AHI has no employees and contracts DCA for all staffing needs. AHI reimburses DCA for the services provided that includes the cost of salaries, related benefits including pension, and other

**Georgia Housing and Finance Authority Affordable Housing, Inc.**

**Notes to Financial Statements  
June 30, 2016 and 2015**

program expenses. For the years ended June 30, 2016 and 2015, reimbursement to DCA for the above described costs incurred on behalf of AHI totaled \$5,343,652 and \$6,316,700, respectively.

**Note 8 - Subsequent events**

Events that occur after the statement of net position 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 statement of net position date are recognized in the accompanying financial statements. Subsequent events provide evidence about conditions that existed after the statement of net position and require disclosure in the accompanying notes. Management evaluated the activity of AHI through September 8, 2016 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 Position**

	June 30, 2016		
	Loan Program	Hardest Hit Fund Program	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 501,024	\$ 16,877,146	\$ 17,378,170
Accrued interest receivable	8,071	-	8,071
Investment securities	2,139,339	-	2,139,339
Loans receivable, net	904,166	-	904,166
Prepays	-	90,913	90,913
	<u>-</u>	<u>90,913</u>	<u>90,913</u>
Total assets	<u>\$ 3,552,600</u>	<u>\$ 16,968,059</u>	<u>\$ 20,520,659</u>
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ 482,664	\$ 482,664
Program funds received in advance	-	16,379,038	16,379,038
	<u>-</u>	<u>16,379,038</u>	<u>16,379,038</u>
Total liabilities	<u>-</u>	<u>16,861,702</u>	<u>16,861,702</u>
<b>NET POSITION</b>			
Unrestricted	<u>3,552,600</u>	<u>106,357</u>	<u>3,658,957</u>
Total net position	<u>3,552,600</u>	<u>106,357</u>	<u>3,658,957</u>
Total liabilities and net position	<u>\$ 3,552,600</u>	<u>\$ 16,968,059</u>	<u>\$ 20,520,659</u>

See Independent Auditor's Report.

**Georgia Housing and Finance Authority Affordable Housing, Inc.**

**Schedule of Program Revenues, Expenses, and Changes In Net Position**

	Year ended June 30, 2016		
	Loan Program	Hardest Hit Fund Program	Total
Operating revenues:			
Grant income			
Loans	\$ -	\$ 29,244,886	\$ 29,244,886
Administrative	-	5,329,967	5,329,967
Interest income	34,603	3,710	38,313
Increase in fair value of investments	31,797	-	31,797
Other income	-	1,164,114	1,164,114
 Total operating revenues	 <u>66,400</u>	 <u>35,742,677</u>	 <u>35,809,077</u>
Operating expenses:			
Grant expenses			
Loans	-	31,245,987	31,245,987
Administrative	-	5,343,652	5,343,652
Other fees and expenses	571	-	571
 Total operating expenses	 <u>571</u>	 <u>36,589,639</u>	 <u>36,590,210</u>
 Changes in net position	 65,829	 (846,962)	 (781,133)
Net position at beginning of year	<u>3,486,771</u>	<u>953,319</u>	<u>4,440,090</u>
Net position at end of year	<u>\$ 3,552,600</u>	<u>\$ 106,357</u>	<u>\$ 3,658,957</u>

See Independent Auditor's Report.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors

Georgia Housing and Finance Authority Affordable Housing, Inc.

We have audited, in accordance with the 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, the financial statements of the business-type activities of Georgia Housing and Finance Authority Affordable Housing, Inc. (AHI), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise of AHI's basic financial statements, and have issued our report thereon dated September 8, 2016.

#### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered AHI's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether AHI's financial statements are free from 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*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Atlanta, Georgia  
September 8, 2016

COHN  REZNICK  
ACCOUNTING • TAX • ADVISORY

Independent Member of Nexia International

[cohnreznick.com](http://cohnreznick.com)