

THE AMERICAN OPPORTUNITY FOUNDATION, INC.

AUDITED FINANCIAL STATEMENTS AND
ADDITIONAL FINANCIAL INFORMATION

DECEMBER 31, 2001

with

INDEPENDENT AUDITORS' REPORT

Audited Financial Statements and
Additional Financial Information

THE AMERICAN OPPORTUNITY FOUNDATION, INC.

December 31, 2001

Audited Financial Statements--Parent Corporation Only

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
The American Opportunity Foundation, Inc.
Atlanta, Georgia

We have audited the accompanying statements of financial position of The American Opportunity Foundation, Inc.--Parent Corporation Only ("the Corporation") as of December 31, 2001 and 2000, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. 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. 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 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 The American Opportunity Foundation, Inc.--Parent Corporation Only as of December 31, 2001 and 2000, and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note H to the financial statements, the Corporation has a controlling financial interest in numerous not-for-profit organizations. In our opinion, accounting principles generally accepted in the United States of America require the Corporation to combine all not-for-profit organizations in which it has a controlling financial interest. As a result, this presentation of parent corporation only financial statements does not purport to present the financial statements of The American Opportunity Foundation, Inc. as the primary reporting entity in accordance with accounting principles generally accepted in the United States of America.

Atlanta, Georgia
April 18, 2002

STATEMENTS OF FINANCIAL POSITION

THE AMERICAN OPPORTUNITY FOUNDATION, INC.--Parent Corporation Only

	December 31	
	2001	2000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 229,810	\$ 290,337
Fee and overhead reimbursement receivables, less allowance for doubtful accounts of \$263,000 in 2001 and \$281,000 in 2000--Note D	411,294	328,142
Advances to related parties--Note D	32,192	32,192
Prepaid expenses and other current assets	<u>2,500</u>	<u>10,500</u>
TOTAL CURRENT ASSETS	675,796	661,171
PROPERTY AND EQUIPMENT		
Furniture and equipment, net of accumulated depreciation of \$33,047 in 2001 and \$28,102 in 2000	8,583	13,528
OTHER ASSETS		
Note receivable from subordinate--Note B	730,100	730,100
Accrued interest receivable--Note B	424,431	336,819
Investment in partnerships--Note C	<u>-0-</u>	<u>89</u>
	<u>1,154,531</u>	<u>1,067,008</u>
	<u>\$ 1,838,910</u>	<u>\$ 1,741,707</u>
LIABILITIES AND UNRESTRICTED NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 2,282	\$ 2,282
Due to affiliates--Note D	5,000	5,000
Accrued expenses	<u>66,250</u>	<u>53,998</u>
TOTAL CURRENT LIABILITIES	73,532	61,280
LONG-TERM DEBT--Note E	730,100	730,100
ACCRUED INTEREST--Note E	424,431	336,819
UNRESTRICTED NET ASSETS	<u>610,847</u>	<u>613,508</u>
	<u>\$ 1,838,910</u>	<u>\$ 1,741,707</u>

See independent auditors' report and notes to financial statements.

STATEMENTS OF ACTIVITIES

THE AMERICAN OPPORTUNITY FOUNDATION, INC.--Parent Corporation Only

	Year Ended December 31	
	2001	2000
Fees and overhead reimbursements--Note D	\$ 519,307	\$ 593,230
Revenue from sale of properties	-0-	981,800
Cost of properties sold	<u>-0-</u>	<u>960,494</u>
	<u>-0-</u>	<u>21,306</u>
	519,307	614,536
Operating expenses:		
Salaries and related expenses	297,996	281,928
General and administrative	<u>235,527</u>	<u>347,428</u>
	<u>533,523</u>	<u>629,356</u>
OPERATING LOSS	(14,216)	(14,820)
Other income (expense):		
Interest and other income	99,256	101,866
Interest expense	(87,612)	(110,849)
Loss on investment in partnerships--Note C	<u>(89)</u>	<u>(1,921)</u>
	<u>11,555</u>	<u>(10,904)</u>
DECREASE IN UNRESTRICTED NET ASSETS	(2,661)	(25,724)
Unrestricted net assets at beginning of year	<u>613,508</u>	<u>639,232</u>
UNRESTRICTED NET ASSETS AT END OF YEAR	<u>\$ 610,847</u>	<u>\$ 613,508</u>

See independent auditors' report and notes to financial statements.

STATEMENTS OF CASH FLOWS

THE AMERICAN OPPORTUNITY FOUNDATION, INC.--Parent Corporation Only

	Year Ended December 31	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in unrestricted net assets	\$ (2,661)	\$ (25,724)
Adjustments to reconcile decrease in unrestricted net assets to net cash (used in) provided by operating activities:		
Depreciation	4,945	4,919
Loss on investment in partnerships	89	1,921
Increase in fee and overhead reimbursement receivables	(83,152)	(113,075)
Decrease in property inventories	-0-	760,469
Decrease in mortgage escrows	-0-	82,417
Decrease (increase) in prepaid expenses and other current assets	8,000	(4,675)
Increase in accrued interest receivable	(87,612)	(87,612)
Decrease in accounts payable	-0-	(1,671)
Increase in accrued expenses	12,252	18,349
Increase in accrued interest payable	<u>87,612</u>	<u>87,612</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(60,527)	722,930
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash advanced to related parties	-0-	(2,087)
Cash paid for property and equipment	<u>-0-</u>	<u>(14,954)</u>
NET CASH USED IN INVESTING ACTIVITIES	-0-	(17,041)
CASH FLOWS FROM FINANCING ACTIVITIES		
Mortgage principal payments	-0-	(812,038)
Net repayment of advances from related parties	<u>-0-</u>	<u>(3,056)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>-0-</u>	<u>(815,094)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(60,527)	(109,205)
Cash and cash equivalents at beginning of year	<u>290,337</u>	<u>399,542</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 229,810</u>	<u>\$ 290,337</u>

STATEMENTS OF CASH FLOWS--Continued

THE AMERICAN OPPORTUNITY FOUNDATION, INC.--Parent Corporation Only

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION

Cash paid during the year for interest	<u>\$ -0-</u>	<u>\$ 18,419</u>
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See independent auditors' report and notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

THE AMERICAN OPPORTUNITY FOUNDATION, INC.--Parent Corporation Only

December 31, 2001

NOTE A--NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The American Opportunity Foundation, Inc. ("the Corporation") is a Georgia nonprofit corporation organized to foster, own, support and sponsor housing for moderate-to-low income families and the elderly. The Corporation is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code ("the Code") and has received a group exemption as a central organization whose subordinates are recognized as exempt from federal income tax under Section 501(c)(3) of the Code. The Corporation's primary activity is consulting with and assisting subordinate entities in acquiring multifamily low and moderate income housing and obtaining bond financing, along with the general supervision of the subordinate entities. The Corporation also acquired, rehabilitated, and resold single family residences in Southern California. The Corporation used FHA insured 203(k) acquisition and rehabilitation loans to acquire and rehabilitate the properties. The properties were then sold to persons making 115% or less of the area median income adjusted for family size. On property acquisitions acquired at a discount from the U.S. Department of Housing and Urban Development ("HUD"), the program restricted earnings on each single-family home sale to 10% of the cost of the property. Beginning in 2001, the Corporation ceased its participation in the 203(k) program.

The following accounting policies are presented to assist the reader in understanding the Corporation's financial statements:

Parent Corporation Only Statement: The financial statements presented do not include the activity of the Corporation's subordinate entities. As more fully described in Note H, generally accepted accounting principles require the Corporation to combine all not-for-profit entities in which it has a controlling financial interest.

Revenue and Expense Recognition: The Corporation earns revenue from certain subordinate and other entities as overhead reimbursement and asset management fees, as more fully described in Note D. This revenue is recognized in the year the fees are earned.

Revenue from the acquisition and rehabilitation of properties was recognized at the closing of the sale of the properties.

A provision for doubtful accounts is provided based on the Corporation's estimate of fees that are doubtful of collection. This estimate could change in the near term based on the operating results of the subordinates, and the change could have a material effect on the Corporation's financial statements.

NOTES TO FINANCIAL STATEMENTS--Continued

THE AMERICAN OPPORTUNITY FOUNDATION, INC.--Parent Corporation Only

NOTE A--NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Cost Recognition: Direct and indirect acquisition and construction costs (including interest) related to the acquisition and rehabilitation of the properties was capitalized as costs of the properties. These costs were expensed upon the closing of the sale of the respective property.

Property and Equipment: Property and equipment is stated at cost. Depreciation is computed on the straight-line method over the estimated useful life of the assets, which range from three to seven years.

Income Taxes: The American Opportunity Foundation, Inc. is a non-profit corporation exempt from income taxes under §501(c)(3) of the Internal Revenue Code.

Cash and Cash Equivalents: For purposes of reporting cash flows, the Corporation considers unrestricted demand deposits and all unrestricted highly liquid investments, with original maturities of three months or less which can be readily converted to cash on demand, without penalty, to be cash equivalents. Cash equivalents at December 31, 2001 included approximately \$184,000 in excess of federally insured limits.

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

Functional Expenses: The costs of providing various programs and other activities are summarized on a functional basis as follows for the years ended December 31:

	<u>2001</u>	<u>2000</u>
Program Services		
Housing activities	\$ 486,872	\$ 1,543,955
Supporting Services		
General and administrative	<u>134,352</u>	<u>158,665</u>
	<u>\$ 621,224</u>	<u>\$ 1,702,620</u>

NOTES TO FINANCIAL STATEMENTS--Continued

THE AMERICAN OPPORTUNITY FOUNDATION, INC.--Parent Corporation Only

NOTE B--NOTE RECEIVABLE FROM SUBORDINATE ENTITY

The Corporation has a note receivable agreement with FSR/Tennessee Affordable Housing Foundation ("FSR"), a controlled subordinate entity, in the original amount of \$730,100. The note requires interest only payments at 12% per annum payable in March 1998, and thereafter in eighteen annual installments of \$100,708, including principal and interest through March 2017. The note is payable from residual receipts, as defined in FSR's HUD Regulatory Agreement, in the priority outlined in the note agreement. The note is unsecured and subordinated to the terms of FSR's HUD Regulatory Agreement, HUD mortgage, residual receipts note, and other notes payable of FSR. The Corporation has two underlying notes payable totaling \$730,100, as more fully described in Note E, whose payment terms, when combined, mirror this note.

NOTE C--INVESTMENTS IN PARTNERSHIPS

The Corporation owns, as a general partner, a 1% interest in each of two limited partnerships providing low-income housing, Hickory Park Apartments, Ltd. and Willow Creek Apartments, Ltd. The Corporation accounts for its investments under the equity method of accounting. The combined assets, liabilities and results of operations for these two partnerships were \$3,615,722, \$9,158,084, and \$(425,022), respectively, for the year ended December 31, 2001 and \$3,605,281, \$8,722,621, and \$(545,635), respectively, as of and for the year ended December 31, 2000.

NOTE D--RELATED PARTY TRANSACTIONS

At December 31, 2001 and 2000, the Corporation had advanced a total of \$32,192 to various controlled subordinate entities. The advances are unsecured, non-interest bearing and are due on demand.

At December 31, 2001 and 2000, the Corporation owed \$5,000 to a controlled subordinate entity. This advance is unsecured, non-interest bearing and due on demand.

During the years ended December 31, 2001 and 2000, respectively, the Corporation recognized revenues of approximately \$460,000 and \$563,000 from controlled subordinate entities for overhead reimbursement and asset management fees.

At December 31, 2001 and 2000, the Corporation had recorded a gross receivable for fees and overhead reimbursements from controlled subordinate entities of \$621,412 and \$585,407, respectively. In addition, at December 31, 2001 and 2000, the Corporation recorded allowances for doubtful accounts of \$243,000 and \$281,000, respectively, related to these receivables.

NOTES TO FINANCIAL STATEMENTS--Continued

THE AMERICAN OPPORTUNITY FOUNDATION, INC.--Parent Corporation Only

NOTE E--LONG-TERM DEBT

Long-term debt consisted of the following at December 31:

	<u>2001</u>	<u>2000</u>
Note payable to Unified Capital Corporation in the original amount of \$304,500, with interest only payments at 12% per annum payable in March 2000 and 2001, and thereafter in eighteen annual installments of \$42,002, including principal and interest through March 2017. The note is unsecured and is payable only from specified sources, as defined in the note agreement and more fully described in Note B.	\$ 304,500	\$ 304,500
Note payable to Raleigh Woods Apartments, LLC, in the original amount of \$425,600, with interest only payments at 12% per annum payable in March 2000 and 2001, and thereafter in eighteen annual installments of \$58,706, including principal and interest through March 2017. The note is unsecured and is payable only from specified sources, as defined in the note agreement and more fully described in Note B.	<u>425,600</u>	<u>425,600</u>
	<u>\$ 730,100</u>	<u>\$ 730,100</u>

Aggregate future maturities of long-term debt at December 31, 2001 were as follows:

2002	\$ 44,190
2003	18,399
2004	20,606
2005	23,080
2006	25,849
Thereafter	<u>597,976</u>
	<u>\$ 730,100</u>

The principal payments of \$44,190 and accrued interest due as of December 31, 2001 have been classified as long-term liabilities since the notes are payable only from specific sources, as defined in the note agreements and more fully described in Note B, which are not expected to provide the funds to make the scheduled annual installments due during the year ending December 31, 2002.

NOTE F--EMPLOYEE BENEFIT PLAN

The Corporation has established a multi-employer defined contribution plan (“the Plan”) covering substantially all of its employees who are at least twenty and one half years of age and have completed six months of service. The Corporation can make discretionary contributions to the Plan as determined by its Board of Trustees. The Corporation recorded a contribution expense of approximately \$25,000 related to the Plan during each of the years ended December 31, 2001 and 2000.

NOTE G--LEASE COMMITMENT

The Company leases office space under an operating lease which expires in October 2003. The lease contains no significant restrictions or contingent rentals.

Future minimum lease payments, by year and in the aggregate, under this non-cancelable operating lease consisted of the following at December 31, 2001:

2002	\$ 20,628
2003	<u>17,860</u>
	<u>\$38,488</u>

Rental expense under this operating lease amounted to approximately \$20,000 during each of the years ended December 31, 2001 and 2000.

NOTE H--CONTROLLED SUBORDINATE ENTITIES

The Corporation has a controlling financial interest in numerous not-for-profit organizations as evidenced by a majority voting interest on the entities’ boards and the right to receive any excess cash available. These entities were organized primarily to acquire and operate apartment complexes for low-income families utilizing tax-exempt financing. Accounting principles generally accepted in the United States of America, as documented under Statement of Position No. 94-3, require that the Corporation combine all not-for-profit organizations in which it has a controlling financial interest. The Corporation has not combined these entities with the Corporation in its primary financial statements.

NOTE H--CONTROLLED SUBORDINATE ENTITIES

The Corporation controlled the following not-for-profit subordinate entities at December 31, 2001:

- AOF/DFW Affordable Housing Corp., a Texas Corporation
- Regency Affordable Housing Corp., a Georgia Corporation
- Willowbrook Affordable Housing Corp., an Indiana Corporation
- FSR/Tennessee Affordable Housing Foundation, a Tennessee Corporation
- AOF/Pacific Affordable Housing Corp., a California Corporation
- Beech Grove Affordable Housing Corp., an Indiana Corporation
- CLT-I, II, and III Affordable Housing Corps., Oklahoma Corporations
- AOF/Diplomat Affordable Housing Corp., an Indiana Corporation
- AOF/SC Housing Corp., a South Carolina Corporation
- AOF/Brookstone Affordable Housing Corp., a Kansas Corporation
- AOF/Bexar Affordable Housing Corp., a Texas Corporation
- AOF/Shadybrook Affordable Housing Corporation, an Oklahoma Corporation
- AOF/Greenbriar Affordable Housing Corp., an Indiana Corporation
- AOF/Spring Grove Affordable Housing Corp., an Illinois Corporation
- AOF/Northbrook Affordable Housing Corp., a Mississippi Corporation
- AOF/Augusta Affordable Housing Corp., a Georgia Corporation
- AOF/River Falls Affordable Housing Corp., a Colorado Corporation
- AOF/Houston Affordable Housing Corp., a Texas Corporation
- AOF/South Shores Affordable Housing Corp., an Illinois Corporation
- AOF/Louisiana Affordable Housing Corp., a Louisiana Corporation

The following represents the combined financial data of the controlled subordinates as of December 31, 2001 and 2000 and the periods then ended:

	<u>2001</u>	<u>2000</u>
Total assets	\$ 220,221,888	\$ 222,179,135
Total liabilities	247,822,315	238,607,531
Net unrestricted liabilities	27,600,427	16,428,396
Total revenues	42,643,262	42,000,660
Total expenses	52,544,484	48,829,910
Total net increase in unrestricted net liabilities	9,901,222	6,829,250

Employment Agreement: The Corporation has an employment agreement with its president through 2002 which requires a minimum annual compensation.

Management Arrangement: The Corporation had a management arrangement with AOF/Pacific Affordable Housing Corp. ("AOF/Pacific"), a controlled subordinate entity, through December 31, 2000 whereby the Corporation would usually pay AOF/Pacific \$5,000 per property to supervise the acquisition, rehabilitation and resale of the single-family residential properties in southern California on behalf of the Corporation under the HUD 203(k) program. The fee was payable upon the resale of the property. Fees totaling \$20,000 were paid during the year ended December 31, 2000 and were included in general and administrative expenses.

Contingencies: The Corporation has certain guaranty agreements as a co-guarantor of payments of issuer's fees and expenses over the 30-year lives of certain bonds issued on behalf of certain subordinate entities. The amount of fees and expenses over this period cannot be reasonably estimated. No provision has been made in the accompanying financial statements for these fees and expenses.

Certain of the Properties bought and sold by the Corporation prior to 1994 are subject to claims by a former owner of the Properties. These claims stipulate that, upon collection of the notes receivable relating to these Properties, the Corporation is to reimburse the individual for his claims. At December 31, 1997, these claims totaled \$708,269. These claims were transferred along with the notes receivable to a controlled subordinate entity effective December 31, 1997. The Corporation was obligated on the payment of these claims if not paid upon the collection of the related notes receivable. In December 2000, these notes receivable, and the Corporation's obligation related to these notes receivable, were sold to an unrelated company for \$200,000.

ACCOUNTANTS' REPORT ON ADDITIONAL FINANCIAL INFORMATION

Board of Trustees
The American Opportunity Foundation, Inc.
Atlanta, Georgia

We have compiled the accompanying combining statement of financial position of The American Opportunity Foundation, Inc. ("the Corporation") as of December 31, 2001, and related combining statements of activities and cash flows for the year then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying combining financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the combining financial statements they might influence the user's conclusions about the Corporation's combined financial position, results of operations, and cash flows. Accordingly, these combining financial statements are not designed for those who are not informed about such matters.

Our report on our audit of the basic financial statements of The American Opportunity Foundation, Inc.--Parent Corporation Only as of December 31, 2001 appears on page one of those financial statements. That audit was conducted for the purpose of forming an opinion on the parent corporation financial statements.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of AOF/DFW Affordable Housing Corp., Regency Affordable Housing Corp., Willowbrook Affordable Housing Corp., FSR/Tennessee Affordable Housing Foundation, AOF/Pacific Affordable Housing Corp., Beech Grove Affordable Housing Corp., CLT I, II, and III Affordable Housing Corps., AOF/Diplomat Affordable Housing Corp., AOF/SC Housing Corp., AOF/Brookstone Affordable Housing Corp., AOF/Bexar Affordable Housing Corp., AOF/Greenbriar Affordable Housing Corp., AOF/Northbrook Affordable Housing Corp., AOF/Shadybrook Affordable Housing Corporation,

AOF/Spring Grove Affordable Housing Corp., AOF/Augusta Affordable Housing Corp., AOF/Houston Affordable Housing Corp., AOF/River Falls Affordable Housing Corp., and AOF/South Shores Affordable Housing Corp. as of and for the period ended June 30, 2001 or December 31, 2001 (none of which is presented herein), and we expressed unqualified opinions on those financial statements.

We did not audit the financial statements of AOF/Louisiana Affordable Housing Corp. as of and for the year ended December 31, 2001. Those statements were audited by other auditors whose report has been furnished to us.

Atlanta, Georgia
April 18, 2002

Check here for assets: <http://www.aof-ahc.com/assets.pdf>

Check here for liabilities: <http://www.aof-ahc.com/liabilities.pdf>

Check here for Income Statement: <http://www.aof-ahc.com/income.pdf>

Check here for Cash Flow: <http://www.aof-ahc.com/cash.pdf>