

AOF/GREENBRIAR AFFORDABLE HOUSING CORP.

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2001

with

INDEPENDENT AUDITORS' REPORT

Audited Financial Statements

AOF/GREENBRIAR AFFORDABLE HOUSING CORP.

June 30, 2001

Independent Auditors' Report	1
Statements of Financial Position.....	2
Statements of Activities	3
Statements of Cash Flows.....	4
Notes to Financial Statements	5

INDEPENDENT AUDITORS' REPORT

Board of Trustees
AOF/Greenbriar Affordable Housing Corp.
Atlanta, Georgia

We have audited the statement of financial position of AOF/Greenbriar Affordable Housing Corp. (“the Corporation”) as of June 30, 2001, and the related statements of activities and cash flows for the year 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 audit. The 2000 financial statements of AOF/Greenbriar Affordable Housing Corp. were audited by other auditors whose report, dated November 30, 2000, expressed an unqualified opinion. As discussed in Note G to the financial statements, the Corporation has restated its 2000 financial statements during the current year to properly record prepaid expenses and the reduction in prior years property taxes, in conformity with accounting principles generally accepted in the United States of America. The other auditors reported on the 2000 financial statements before the restatement.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2001 financial statements referred to above present fairly, in all material respects, the financial position of AOF/Greenbriar Affordable Housing Corp. as of June 30, 2001, and the change in its net liabilities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustment described in Note G that was applied to restate the 2000 financial statements. In our opinion, such adjustment was appropriate and has been properly applied.

Atlanta, Georgia
October 9, 2001

STATEMENTS OF FINANCIAL POSITION

AOF/GREENBRIAR AFFORDABLE HOUSING CORP.

	June 30	
	2001	2000
		(as restated)
ASSETS		
Property and equipment--Notes C and D:		
Land	\$ 1,620,000	\$ 1,620,000
Buildings and improvements	12,312,843	12,312,843
Furnishings and equipment	<u>247,682</u>	<u>247,682</u>
	14,180,525	14,180,525
Less accumulated depreciation	<u>1,386,913</u>	<u>897,774</u>
	12,793,612	13,282,751
Cash and cash equivalents	142,690	139,780
Cash--restricted for tenant security deposits	69,016	45,091
Funded reserves--Notes B and C	288,207	240,498
Rents and other receivables	14,115	23,002
Prepaid expenses--Note G	22,760	24,505
Loan costs, less accumulated amortization of \$10,653 in 2001 and \$6,779 in 2000	<u>59,075</u>	<u>62,949</u>
	<u>\$ 13,389,475</u>	<u>\$ 13,818,576</u>
LIABILITIES AND UNRESTRICTED NET LIABILITIES		
Liabilities:		
Multifamily note payable--Note C	\$ 11,457,744	\$ 11,584,034
Subordinated note payable--Note D	2,635,000	2,635,000
Accounts payable	41,325	41,044
Accrued interest payable--Notes C and D	302,752	286,805
Accrued expenses--Note G	71,573	42,838
Tenant security deposits	<u>69,016</u>	<u>45,091</u>
	14,577,410	14,634,812
Unrestricted net liabilities	<u>(1,187,935)</u>	<u>(816,236)</u>
	<u>\$ 13,389,475</u>	<u>\$ 13,818,576</u>

See independent auditors' report and notes to financial statements.

STATEMENTS OF ACTIVITIES

AOF/GREENBRIAR AFFORDABLE HOUSING CORP.

	Year Ended June 30	
	2001	2000
		(as restated)
Revenues:		
Rental income, net	\$ 1,957,928	\$ 1,827,253
Other income	86,651	66,764
Reduction in prior year property taxes--Note G	<u>-0-</u>	<u>93,480</u>
	2,044,579	1,987,497
Operating expenses:		
Selling and renting	26,275	43,537
Salaries and related expenses	216,085	151,107
Administrative and management--Note E	104,457	139,142
Utilities, net of reimbursements	151,779	167,209
Repairs and maintenance	325,375	336,622
Taxes and insurance--Note G	<u>61,956</u>	<u>34,392</u>
	<u>885,927</u>	<u>872,009</u>
NET OPERATING INCOME	1,158,652	1,115,488
Other income (expense):		
Interest income	9,442	8,942
Interest expense	(1,011,143)	(1,019,669)
Fees and other entity expenses--Note F	(35,637)	(28,594)
Depreciation and amortization	<u>(493,013)</u>	<u>(512,159)</u>
	<u>(1,530,351)</u>	<u>(1,551,480)</u>
INCREASE IN UNRESTRICTED NET LIABILITIES	(371,699)	(435,992)
Unrestricted net liabilities at beginning of year	(816,236)	(381,236)
UNRESTRICTED NET LIABILITIES AT END OF YEAR	<u>\$(1,187,935)</u>	<u>\$ (816,236)</u>

See independent auditors' report and notes to financial statements.

STATEMENTS OF CASH FLOWS

AOF/GREENBRIAR AFFORDABLE HOUSING CORP.

	Year Ended June 30	
	2001	2000
	(as restated)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in unrestricted net liabilities	\$ (371,699)	\$ (435,992)
Adjustments to reconcile increase in unrestricted net liabilities to net cash provided by operating activities:		
Depreciation	489,139	508,285
Amortization of loan costs	3,874	3,874
(Increase) decrease in tenant security deposits	(23,925)	5,450
Decrease in rents and other receivables	8,887	9,833
Decrease (increase) in prepaid expenses	1,745	(4,215)
Increase in accounts payable	281	31,178
Increase in accrued interest payable	15,947	163,517
Increase (decrease) in accrued expenses	28,735	(199,055)
Increase (decrease) in tenant security deposits	<u>23,925</u>	<u>(5,450)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	176,909	77,425
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash deposited into and interest received on restricted funds	(140,085)	(266,974)
Cash withdrawn from restricted funds	92,376	267,626
Cash paid for property and equipment	<u>-0-</u>	<u>(2,485)</u>
NET CASH USED IN INVESTING ACTIVITIES	(47,709)	(1,833)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on multifamily note payable	<u>(126,290)</u>	<u>(117,366)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,910	(41,774)
Cash and cash equivalents at beginning of year	<u>139,780</u>	<u>181,554</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 142,690</u>	<u>\$ 139,780</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION

Cash paid during the year for interest	<u>\$ 994,046</u>	<u>\$ 856,151</u>
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See independent auditors' report and notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

AOF/GREENBRIAR AFFORDABLE HOUSING CORP.

June 30, 2001

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

AOF/Greenbriar Affordable Housing Corp. (“the Corporation”) was incorporated on July 6, 1998 as a non-profit corporation organized under the laws of the State of Indiana. The Corporation is a subordinate of The American Opportunity Foundation, Inc. (“AOF”), a Georgia non-profit corporation that is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (“the Code”). AOF has received a group exemption as a central organization whose subordinates are recognized as exempt from federal income taxation under Section 501(c)(3) of the Code. The Corporation has no stockholders and is governed by a Board of Trustees. The Corporation was organized to acquire, rehabilitate, and operate an apartment complex for low-income, elderly and/or mentally or physically challenged persons or families. The Corporation engages in short-term operating leases with tenants. The leases are generally six to twelve months in duration with some month-to-month commitments.

In September 1998, the Corporation used the proceeds from its multifamily note to finance the acquisition of the 324-unit Greenbriar Apartments (“the Property”). The multifamily note requires at least forty percent of the units in the Property to be leased or rented or available for lease or rental to Qualifying Tenants on a continuous basis. Qualifying Tenants are those individuals or families whose adjusted income is sixty percent or less of the area median gross income as determined in accordance with the Internal Revenue Code of 1986, as amended. In addition, at least thirty-five percent of the units must be leased or rented or available for lease or rental to tenants whose adjusted income is eighty percent or less of the area median gross income as determined in accordance with the Internal Revenue Code of 1986, as amended.

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

Property and Equipment: Property and equipment is stated at cost. Depreciation is computed on the straight-line method over an estimated useful life of twenty-eight years for buildings and improvements and five to seven years for furnishings and equipment. Appliance and floor covering purchases are expensed as regular recurring repair and maintenance items.

Loan Costs: Loan costs are being amortized over the term of the multifamily note using the straight-line method.

Income Taxes: AOF/Greenbriar Affordable Housing Corp. is a non-profit corporation exempt from income taxes under §501(c)(3) of the Internal Revenue Code.

NOTES TO FINANCIAL STATEMENTS--Continued

AOF/GREENBRIAR AFFORDABLE HOUSING CORP.

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

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 and cash equivalents at June 30, 2001 included approximately \$113,000 on deposit in excess of federally insured limits.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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 June 30:

	<u>2001</u>	<u>2000</u>
Program Services		
Housing project	\$2,322,591	\$2,325,799
Supporting Services		
General and administrative	67,492	78,038
Entity	<u>35,637</u>	<u>28,594</u>
	<u>103,129</u>	<u>106,632</u>
	<u>\$2,425,720</u>	<u>\$2,432,431</u>

Reclassifications: Certain 2000 balances have been reclassified to conform to the 2001 presentation.

NOTES TO FINANCIAL STATEMENTS--Continued

AOF/GREENBRIAR AFFORDABLE HOUSING CORP.

NOTE B--FUNDED RESERVES

Under the terms of the multifamily note payable, more fully described in Note C, the Corporation is required to escrow certain amounts for payment of real estate tax, property insurance, and replacement and repair of project assets. Additionally, an initial operating reserve was required by the lender. The balances in these funds were as follows as of June 30:

	<u>2001</u>	<u>2000</u>
Operating reserve	\$ 117,986	\$ 115,749
Real estate tax	23,274	764
Property insurance	11,353	12,388
Reserve for replacements	99,600	76,204
Repair escrow	<u>35,994</u>	<u>35,393</u>
	<u>\$ 288,207</u>	<u>\$ 240,498</u>

NOTE C--MULTIFAMILY NOTE PAYABLE

The multifamily note payable in the original amount of \$11,775,000 is payable in monthly installments of \$81,126, including principal and interest at 7.3%, through October 1, 2016. In addition, as more fully described in Note B, monthly payments are required to fund real estate tax, property insurance, and repair and replacement of Property assets. The note is secured by a mortgage on all property and equipment of the Corporation, an assignment of rents and leases, and the funded reserves more fully described in Note B. At June 30, 2001 and 2000, accrued interest related to the multifamily note payable was \$70,198 and \$71,428, respectively.

Future maturities of the multifamily note payable at June 30, 2001 were as follows:

Year Ending June 30:	
2002	\$ 135,891
2003	146,222
2004	157,339
2005	169,301
2006	182,172
Thereafter	<u>10,666,819</u>
	<u>\$ 11,457,744</u>

NOTES TO FINANCIAL STATEMENTS--Continued

AOF/GREENBRIAR AFFORDABLE HOUSING CORP.

NOTE D--SUBORDINATED NOTE PAYABLE

In conjunction with the acquisition of the Property, the Corporation issued a promissory note in the principal amount of \$2,635,000. The note bears interest at 6.25% per annum, with the unpaid principal plus all accrued and unpaid interest due the earlier of September 9, 2028 or the date on which all amounts due under the multifamily note, more fully described in Note C, are paid in full. Payments of principal and interest are to be made quarterly, commencing January 1999, equal to 75% of the Surplus Cash Flow, as defined in the promissory note. The promissory note is secured by a second mortgage on the Property and the assignment of rents and leases and is subordinate to the multifamily note payable.

During the years ended June 30, 2001 and 2000, the Corporation made interest payments of \$146,817 and \$-0-, respectively, to the note holder. At June 30, 2001 and 2000, accrued interest related to the subordinated note payable was \$232,554 and \$215,377, respectively.

NOTE E--MANAGEMENT FEES

Pinnacle Realty Management Company ("Pinnacle") manages the apartment complex. Pinnacle is compensated \$61,560 annually for its services, adjusted each August based on the Consumer Price Index. The monthly fee paid cannot exceed four percent of the monthly Gross Revenues of the Property, as defined. Management fees totaled \$61,560 for each of the years ended June 30, 2001 and 2000.

NOTE F--RELATED PARTY TRANSACTIONS

The Corporation pays an asset management fee equal to 1% of the monthly Gross Revenues to AOF for management of the Corporation's assets. Asset management fees of \$22,179 and \$19,445 were incurred during the years ended June 30, 2001 and 2000, respectively. In addition, the Corporation incurred overhead reimbursement fees of \$7,722 during the year ended June 30, 2001. The Corporation paid asset management and overhead reimbursement fees totaling \$65,000 and \$-0- during the years ended June 30, 2001 and 2000, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

AOF/GREENBRIAR AFFORDABLE HOUSING CORP.

NOTE G--REAL ESTATE TAX EXEMPTION AND PRIOR PERIOD ADJUSTMENT

During October 2000, the Corporation received an exemption from real estate tax from Marion County for calendar years 1999 and 2000. During the year ended June 30, 2000, the mortgage servicer disbursed \$111,473 to the Corporation from the real estate tax escrow account. The Corporation's June 30, 2000 audited financial statements recorded this disbursement as a prepaid expense in error, which had the effect of overstating prepaid expenses and understating the net unrestricted liabilities by \$111,473, and understating the increase in unrestricted net liabilities for the year ended June 30, 2000 by \$111,473. This error has been corrected in the accompanying June 30, 2000 financial statements. As a result of the real estate tax exemption obtained, income of \$93,480 was recognized during the year ended June 30, 2000 related to the reduction in the 1999 real estate tax.

In addition, the Corporation filed an application for exemption of real estate tax for the calendar year 2001, but has been notified by the Marion County Property Tax Assessment Board of Appeals that it has denied the exemption with respect to 25% of the buildings' assessed value. The Corporation has accrued the estimated real estate tax due of \$26,400; however, management intends to vigorously pursue the claimed exemption.