

AOF/SC HOUSING CORP.

**AUDITED FINANCIAL STATEMENTS AND
ADDITIONAL FINANCIAL INFORMATION**

DECEMBER 31, 2000

with

INDEPENDENT AUDITORS' REPORT

Audited Financial Statements and
Supplementary Information

AOF/SC HOUSING CORP.

December 31, 2000

Audited Financial Statements

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
AOF/SC Housing Corp.
Atlanta, Georgia

We have audited the statements of financial position of AOF/SC Housing Corp. (“the Corporation”) as of December 31, 2000 and 1999, 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 generally accepted auditing standards. 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 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 AOF/SC Housing Corp. as of December 31, 2000 and 1999, and the results of its activities and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Atlanta, Georgia
March 6, 2001

STATEMENTS OF FINANCIAL POSITION

AOF/SC HOUSING CORP.

	December 31	
	2000	1999
ASSETS		
Property and equipment--Note C		
Land and improvements	\$ 1,219,651	\$ 1,219,651
Buildings and improvements	6,771,929	6,771,929
Equipment	<u>239,976</u>	<u>239,976</u>
	8,231,556	8,231,556
Less accumulated depreciation	<u>794,567</u>	<u>494,092</u>
	7,436,989	7,737,464
Cash and cash equivalents	21,659	65,797
Cash--restricted for tenant security deposits	57,611	52,305
Restricted funds held in trust--Notes B and C	958,376	871,366
Rents and other receivables	14,659	19,000
Prepaid expenses	7,724	6,244
Loan costs, net of accumulated amortization of \$53,774 in 2000 and \$33,609 in 1999	<u>437,772</u>	<u>457,937</u>
	<u>\$ 8,934,790</u>	<u>\$ 9,210,113</u>
 LIABILITIES AND UNRESTRICTED NET LIABILITIES		
Liabilities:		
Mortgage notes payable--Note C	\$ 9,345,000	\$ 9,445,000
Accounts payable	22,344	17,972
Accrued interest--mortgage	106,069	108,919
Accrued expenses	110,183	82,169
Advances from affiliate--Note E	15,000	15,000
Tenant security deposits payable	57,611	52,305
Other liability--Note F	<u>93,500</u>	<u>93,500</u>
	9,749,707	9,814,865
Unrestricted net liabilities	<u>(814,917)</u>	<u>(604,752)</u>
	<u>\$ 8,934,790</u>	<u>\$ 9,210,113</u>

See notes to financial statements.

STATEMENTS OF ACTIVITIES

AOF/SC HOUSING CORP.

	Year Ended December 31	
	2000	1999
Revenues:		
Gross rent potential	\$1,666,547	\$1,585,153
Less: Vacancies	90,907	189,637
Concessions	<u>6,191</u>	<u>14,344</u>
Net rental income	1,569,449	1,381,172
Other rental income	<u>78,186</u>	<u>80,089</u>
	1,647,635	1,461,261
Operating expenses:		
Selling and renting	23,697	20,502
Salaries and related expenses	229,369	225,076
Administrative and management	154,089	163,421
Utilities	123,647	130,132
Repairs and maintenance	345,356	356,460
Property insurance	<u>37,882</u>	<u>41,228</u>
	<u>914,040</u>	<u>936,819</u>
NET OPERATING INCOME	733,595	524,442
Other income (expense):		
Interest income	51,778	48,846
Interest expense	(638,062)	(649,463)
Fees and other entity expenses	(36,836)	(38,213)
Depreciation	(300,475)	(300,022)
Amortization	<u>(20,165)</u>	<u>(20,165)</u>
	<u>(943,760)</u>	<u>(959,017)</u>
INCREASE IN UNRESTRICTED NET LIABILITIES	(210,165)	(434,575)
Unrestricted net liabilities at beginning of year	<u>(604,752)</u>	<u>(170,177)</u>
UNRESTRICTED NET LIABILITIES AT END OF YEAR	<u><u>\$ (814,917)</u></u>	<u><u>\$ (604,752)</u></u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

AOF/SC HOUSING CORP.

	Year Ended December 31	
	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in unrestricted net liabilities	\$ (210,165)	\$ (434,575)
Adjustments to reconcile increase in unrestricted net liabilities to net cash provided by (used in) operating activities:		
Depreciation	300,475	300,022
Amortization	20,165	20,165
(Increase) decrease in tenant security deposits funded	(5,306)	4,273
Decrease (increase) in rents and other receivables	4,341	(11,450)
(Increase) decrease in prepaid expenses	(1,480)	6,053
Increase (decrease) in accounts payable	4,372	(50,831)
Decrease in accrued interest--mortgage	(2,850)	-0-
Increase (decrease) in accrued expenses	28,014	(48,078)
Increase (decrease) in tenant security deposits liability	<u>5,306</u>	<u>(2,923)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	142,872	(217,344)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for property and equipment	-0-	(22,994)
Cash deposited into and interest received on restricted funds held in trust	(1,686,623)	(506,859)
Cash withdrawn from restricted funds held in trust	<u>1,599,613</u>	<u>887,209</u>
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(87,010)	357,356
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of mortgage	(100,000)	(90,000)
Cash advanced from affiliate--Note E	<u>-0-</u>	<u>10,000</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(100,000)</u>	<u>(80,000)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(44,138)	60,012
Cash and cash equivalents at beginning of year	<u>65,797</u>	<u>5,785</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 21,659</u>	<u>\$ 65,797</u>

STATEMENTS OF CASH FLOWS--Continued

AOF/SC HOUSING CORP.

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION

Interest paid	<u>\$ 640,912</u>	<u>\$ 649,463</u>
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SUPPLEMENTAL INFORMATION ON NON-CASH INVESTING AND FINANCING
ACTIVITIES

At December 31, 2000 and 1999, \$93,500 of the acquisition costs was recorded as an other liability, as more fully described in Note F.

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

AOF/SC HOUSING CORP.

December 31, 2000

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

AOF/SC Housing Corp. ("the Corporation") was incorporated on April 22, 1998 as a nonprofit corporation organized under the laws of the State of South Carolina. The Corporation is a subordinate of The American Opportunity Foundation, Inc. ("AOF"), a Georgia non-profit corporation that is exempt from federal 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 and operate two apartment complexes for low-income, elderly and/or mentally or physically disabled 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 April 1998, the South Carolina State House Finance and Development Authority ("the Issuer"), entered into a Trust Indenture ("the Indenture") with First Union National Bank ("the Trustee") and a Loan Agreement ("the Agreement") with the Corporation. In April 1998, pursuant to the Indenture and the Agreement, the Issuer issued its Multifamily Housing Revenue Bonds ("the Bonds") in the aggregate amount of \$9,535,000 to finance the Corporation's acquisition of two multifamily apartment complexes ("the Project"). Pursuant to the Agreement, the Issuer loaned the proceeds from the Bond issuance to the Corporation through secured nonrecourse Promissory Notes, as more fully described in Note C, to provide permanent financing for the Project.

In April 1998, the Corporation used the proceeds from the Agreement to finance the acquisition and rehabilitation of the 176-unit Edenwood Apartments and the 120-unit Three Rivers Apartments. Additionally, the Indenture required a portion of the loan proceeds be used to pay certain bond issuance costs and establish certain reserve funds, as more fully described in Note B.

In order to maintain the tax-exempt status of certain of the Bonds, the Agreement as to Restrictive Covenants ("the Agreement"), in connection with the Bonds, requires at least forty percent of the units in the apartment complex to be leased or rented or available for lease or rental to Federal Low Income Tenants on a continuous basis. Federal Low Income Tenants are those individuals whose income is sixty percent or less of the area median gross income within the meaning of Section 142(d)(1)(B) of the Code. The maximum monthly rental for any unit occupied by Federal Low Income Tenants shall not exceed one-twelfth of 28.5% of the maximum income that would enable such tenants to qualify as Federal Low Income Tenants, less an allowance for utilities determined by the Issuer. The maximum monthly rental for all other units shall not exceed one twelfth of 28.5% of the maximum income for members of the Beneficiary Classes, less an allowance for utilities determined by the Issuer.

NOTES TO FINANCIAL STATEMENTS--Continued

AOF/SC HOUSING CORP.

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

Additionally, the Agreement requires the Corporation to provide a schedule of rents to the Issuer, which lists the rents to be charged for each unit in the Project. This schedule of rents may only be changed as outlined in the Agreement.

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 thirty years for buildings and improvements, fifteen years for land improvements, and five to seven years for equipment. Floor coverings and appliances purchased are expensed as regular recurring repair and maintenance items.

Loan Costs: Loan costs are being amortized over the term of the various bond series using the straight-line method.

Income Taxes: AOF/SC Housing Corp. 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.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

AOF/SC HOUSING CORP.

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

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

	<u>2000</u>	<u>1999</u>
Program Services		
Housing project	\$1,772,356	\$1,800,686
Supporting Services		
General and administrative	80,221	85,618
Entity	<u>57,001</u>	<u>58,378</u>
	<u>137,222</u>	<u>143,996</u>
	<u>\$1,909,578</u>	<u>\$1,944,682</u>

NOTE B--RESTRICTED FUNDS HELD IN TRUST

The Indenture requires the Corporation to deposit certain amounts, as defined, into the Revenue Fund by the 15th of each month for payment of principal and interest on the mortgage, as well as amounts for insurance and replacement of Project assets. Money on deposit in the Revenue Fund is disbursed by the Trustee to the various other funds each month in the priority outlined in the Indenture. Below is a summary description of these funds:

Debt Service Reserve Fund: Funds are used solely to pay the principal and interest on the respective Bond series to the extent the balances in the respective Bond Funds are not sufficient to meet the required semiannual debt service payments.

Bond Fund: Funds are used to pay the semiannual debt service payments on the loan.

Insurance Escrow Fund: Funds are used to pay the property insurance of the Project.

NOTES TO FINANCIAL STATEMENTS--Continued

AOF/SC HOUSING CORP.

NOTE B--RESTRICTED FUNDS HELD IN TRUST--Continued

Expense Fund: Funds are used to pay the Trustee expenses and fees due to the Issuer.

Project Fund: Funds are used to pay for the acquisition and rehabilitation costs of the Project upon the receipt of cost requisitions from the Corporation. Any balance remaining in the fund upon the receipt of a notice of completion from the Corporation shall be transferred to the Bond Fund to pay principal and interest then due on the Senior Bonds.

Surplus Fund: Funds are used to cure any shortfall in the various Funds. Excess funds are disbursed to the Corporation on an annual basis upon satisfaction of the requirements outlined in the Indenture.

The balances in these funds were as follows as of December 31:

	<u>2000</u>	<u>1999</u>
Debt service reserve fund	\$ 624,314	\$ 702,855
Bond fund	182,810	65,654
Insurance escrow fund	28,006	23,438
Expense fund	69,241	-0-
Project fund	-0-	42,593
Other restricted funds	49,661	34,141
Accrued interest income	<u>4,344</u>	<u>2,317</u>
	<u>\$ 958,376</u>	<u>\$ 871,366</u>

Amounts in the Debt Service Reserve Fund, Repair and Replacement Fund, and Bond Fund were invested primarily in a United States Treasury mutual fund. All income earned is deposited back into the various Funds.

As a result of the Corporation's failure to maintain the fixed charge coverage ratio required under the Loan Agreement for the year ended December 31, 1999, beginning in January 2000 the Corporation was required to deposit all Gross Revenues into the Revenue Fund.

NOTES TO FINANCIAL STATEMENTS--Continued

AOF/SC HOUSING CORP.

NOTE C--MORTGAGE NOTES PAYABLE

In April 1998, the Corporation entered into a Loan Agreement (“the Agreement”) with the Issuer as more fully described in Note A, whereby the Issuer issued to the Corporation two nonrecourse promissory notes in the original aggregate amount of \$9,535,000. The Agreement is secured by a mortgage on all property and equipment of the Corporation, an assignment of all rents and leases, and all restricted funds held by the Trustee. Additionally, the Agreement requires the Corporation to make monthly deposits into the Revenue Fund, as more fully described in Note B.

The Agreement includes certain restrictive covenants which prohibit the Corporation from transferring interest in the property except as permitted in the Agreement, making changes that would adversely affect the tax-exempt status of certain of the Bonds, and further encumbering the mortgaged property or incurring any liability other than for current operating expenses. Additionally, the Corporation is required to maintain a certain fixed charge coverage ratio, as defined, and forty percent of the units within the Property are to be occupied by individuals or families that qualify as “low-income tenants”, as more fully described in Note A.

During the years ended December 31, 2000 and 1999, the Corporation failed to maintain the fixed charge coverage ratio (“the Ratio”) required under the Agreement. The Agreement requires the Corporation to submit a Plan of Action to the Trustee setting forth the actions it proposes to take in order to attain the required Ratio for the next fiscal year. Additionally, all Gross Revenues are required to be deposited with the Trustee for deposit into the Revenue Fund until such time as the Corporation delivers to the Trustee and the Issuer certification that the Ratio exceeds 1.10, as calculated using the preceding year’s audited financial statements. As more fully described in Note B, the Corporation began depositing all Gross Revenues with the Trustee in January 2000.

Additionally, during the years ended December 31, 2000 and 1999, the Corporation failed to make all the monthly principal and interest deposits into the Bond Fund as required under the Agreement, thereby placing the Corporation in technical default under the Agreement. These loan violations were waived by the Issuer and bondholders.

NOTES TO FINANCIAL STATEMENTS--Continued

AOF/SC HOUSING CORP.

NOTE C--MORTGAGE NOTES PAYABLE--Continued

The aggregate future maturities of the notes and related interest rates mirror the mandatory sinking fund redemption requirements of the Bonds, which were as follows at December 31, 2000:

	Series A 6.75% Tax-Exempt <u>Due 5-1-2028</u>	Series B 9.0% Taxable <u>Due 5-1-2003</u>	<u>Total</u>
2001	\$ -0-	\$ 105,000	\$ 105,000
2002	-0-	115,000	115,000
2003	95,000	30,000	125,000
2004	135,000	-0-	135,000
2005	145,000	-0-	145,000
Thereafter	<u>8,720,000</u>	<u>-0-</u>	<u>8,720,000</u>
	<u>\$ 9,095,000</u>	<u>\$ 250,000</u>	<u>\$ 9,345,000</u>

NOTE D--MANAGEMENT FEES

PMG Real Estate Management and Consulting, Inc. ("PMG") managed the apartment complexes through May 31, 1999. PMG was compensated \$60,384 annually for its services, adjusted each May based on the increase in the Consumer Price Index. Effective June 1, 1999, management of the apartment complexes was transferred to InterMark Management Corporation ("InterMark"). InterMark is compensated \$60,000 annually for its services, plus an additional \$15,000 and \$12,000 fee at the end of the first and second year, respectively. Management fees of \$76,400 and \$69,011 were incurred during the years ended December 31, 2000 and 1999, respectively.

NOTE E--RELATED PARTY TRANSACTION

At December 31, 2000 and 1999, the Corporation had received an advance of \$15,000 from AOF, a related non-profit entity. This advance is unsecured, non-interest bearing and due on demand.

NOTES TO FINANCIAL STATEMENTS--Continued

AOF/SC HOUSING CORP.

NOTE F--OTHER LIABILITY

The Corporation has a liability of \$93,500 for the project coordinator's fees related to the acquisition of the Project. One half of this amount is payable after the first fiscal year that the Project achieves a 1.15 debt service coverage ratio, as defined in the loan agreement, and the remaining balance is payable when the Project achieves such coverage for a second year. No amounts had been paid as of December 31, 2000 and 1999.

NOTE G--MANAGEMENT'S PLANS FOR CONTINUED OPERATIONS (UNAUDITED)

The Corporation failed to maintain the fixed charge coverage ratio ("the Ratio") required under the Loan Agreement with the Issuer during the years ended December 31, 2000 and 1999. Additionally, during the years ended December 31, 2000 and 1999, the Corporation failed to make certain of the monthly principal and interest deposits into the Bond Fund, due to a shortfall in revenues, thereby causing a portion of the semi-annual debt service payments to be made from the Debt Service Reserve Fund. Management believes that the Corporation can successfully continue operations due to the following actions taken:

- The loan violations were waived by the Issuer and bondholders.
- The Issuer and bondholders directed the Trustee to allow the Corporation to utilize the Debt Service Reserve Fund to fund any future shortfall in revenues available to fund the monthly debt service requirements.
- During the year ended December 31, 2000, net operating income was sufficient to fund the annual debt service requirements, and the fixed charge coverage ratio improved from .77 to 1.06.

It is management's opinion that the Corporation can continue operations due to the items described above. However, if the Corporation has a future default under the loan, the Issuer and bondholders will have the right to declare all the outstanding principal due and payable and may request the appointment of a receiver to administer the Project. The financial statements reflect no adjustments that might result if the Corporation was unable to continue in operation.

INDEPENDENT AUDITORS' REPORT
ON ADDITIONAL FINANCIAL INFORMATION

Board of Trustees
AOF/SC Housing Corp.
Atlanta, Georgia

Our report on our audit of the basic financial statements of AOF/SC Housing Corp. for 2000 appears on page 1 of those financial statements. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information appearing on the following pages is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Atlanta, Georgia
March 6, 2001

STATEMENT OF ACTIVITIES BY PROPERTY

AOF/SC HOUSING CORP.

Year Ended December 31, 2000

	<u>Three Rivers Apartments</u>	<u>Edenwood Apartments</u>	<u>Apartments Combined</u>	<u>Corporate Entity</u>	<u>Total</u>
Revenues:					
Gross rent potential	\$ 727,223	\$ 939,324	\$ 1,666,547	\$ -0-	\$ 1,666,547
Less: Vacancies	38,508	52,399	90,907	-0-	90,907
Concessions	<u>4,398</u>	<u>1,793</u>	<u>6,191</u>	-0-	<u>6,191</u>
Rental income, net	684,317	885,132	1,569,449	-0-	1,569,449
Other rental income	<u>39,381</u>	<u>38,805</u>	<u>78,186</u>	-0-	<u>78,186</u>
	723,698	923,937	1,647,635	-0-	1,647,635
Expenses:					
Selling and renting	12,145	11,552	23,697	-0-	23,697
Salaries and related expenses	93,804	135,565	229,369	-0-	229,369
Administrative and management	79,461	74,628	154,089	-0-	154,089
Utilities	57,512	66,135	123,647	-0-	123,647
Repairs and maintenance	152,745	192,611	345,356	-0-	345,356
Property insurance	<u>16,137</u>	<u>21,745</u>	<u>37,882</u>	-0-	<u>37,882</u>
	<u>411,804</u>	<u>502,236</u>	<u>914,040</u>	-0-	<u>914,040</u>
NET OPERATING INCOME	311,894	421,701	733,595	-0-	733,595
Other income (expense):					
Interest income	-0-	-0-	-0-	51,778	51,778
Interest expense	-0-	-0-	-0-	(638,062)	(638,062)
Fees and other entity expenses	-0-	-0-	-0-	(36,836)	(36,836)
Depreciation	-0-	-0-	-0-	(300,475)	(300,475)
Amortization	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(20,165)</u>	<u>(20,165)</u>
	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(943,760)</u>	<u>(943,760)</u>
INCREASE IN UNRESTRICTED NET ASSETS (LIABILITIES)	<u>\$ 311,894</u>	<u>\$ 421,701</u>	<u>\$ 733,595</u>	<u>\$ (943,760)</u>	<u>\$ (210,165)</u>

See independent auditors' report on additional financial information.

FIXED CHARGE COVERAGE RATIO

AOF/SC HOUSING CORP.

Year Ended December 31, 2000

Net rental revenues	\$1,569,449	
Other rental income	78,186	
Earnings on Bond funds held in trust	<u>51,778</u>	
	EFFECTIVE GROSS INCOME	1,699,413
Less operating expenses	<u>914,040</u>	
	NET INCOME AVAILABLE FOR DEBT SERVICE	<u>\$ 785,373</u>
Total Bonds debt service requirement (fixed charge)	\$ 741,395	
Fixed charge coverage ratio		1.06

See independent auditors' report on additional financial information.