

AOF/SC HOUSING CORP.

AUDITED FINANCIAL STATEMENTS AND
ADDITIONAL FINANCIAL INFORMATION

DECEMBER 31, 2001

with

INDEPENDENT AUDITORS' REPORT

Audited Financial Statements and
Additional Financial Information

AOF/SC HOUSING CORP.

December 31, 2001

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, 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 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, 2001 and 2000, and the changes in its net liabilities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Atlanta, Georgia
February 15, 2002

STATEMENTS OF FINANCIAL POSITION

AOF/SC HOUSING CORP.

	December 31	
	2001	2000
ASSETS		
Property and equipment--Note C		
Land and improvements	\$ 1,219,651	\$ 1,219,651
Buildings and improvements	6,809,321	6,771,929
Equipment	<u>239,976</u>	<u>239,976</u>
	8,268,948	8,231,556
Less accumulated depreciation	<u>1,095,945</u>	<u>794,567</u>
	7,173,003	7,436,989
Cash and cash equivalents	30,616	21,659
Cash--restricted for tenant security deposits	47,104	57,611
Restricted funds held in trust--Notes B and C	1,191,132	958,376
Rents and other receivables	40,538	14,659
Prepaid expenses	16,061	7,724
Loan costs, net of accumulated amortization of \$73,939 in 2001 and \$53,774 in 2000	<u>417,607</u>	<u>437,772</u>
	<u>\$ 8,916,061</u>	<u>\$ 8,934,790</u>
LIABILITIES AND UNRESTRICTED NET LIABILITIES		
Liabilities:		
Mortgage notes payable--Note C	\$ 9,240,000	\$ 9,345,000
Accounts payable	42,625	22,344
Accrued interest--mortgage	104,494	106,069
Accrued expenses--Note G	365,303	110,183
Advance from affiliate--Note E	15,000	15,000
Tenant security deposits payable	40,935	57,611
Other liability--Note F	<u>93,500</u>	<u>93,500</u>
	9,901,857	9,749,707
Unrestricted net liabilities	<u>(985,796)</u>	<u>(814,917)</u>
	<u>\$ 8,916,061</u>	<u>\$ 8,934,790</u>

See notes to financial statements.

STATEMENTS OF ACTIVITIES

AOF/SC HOUSING CORP.

	Year Ended December 31	
	2001	2000
Revenues:		
Gross rent potential	\$1,738,377	\$1,666,547
Less: Vacancies	159,233	90,907
Concessions	<u>3,204</u>	<u>6,191</u>
Net rental income	1,575,940	1,569,449
Other income	<u>117,304</u>	<u>78,186</u>
	1,693,244	1,647,635
Operating expenses:		
Selling and renting	25,636	23,697
Salaries and related expenses	245,544	229,369
Administrative and management	202,070	154,089
Utilities	129,289	123,647
Repairs and maintenance	250,387	345,356
Property insurance	<u>66,579</u>	<u>37,882</u>
	<u>919,505</u>	<u>914,040</u>
NET OPERATING INCOME	773,739	733,595
Other income (expense):		
Interest income	43,963	51,778
Interest expense	(630,112)	(638,062)
Fees and other entity expenses	(36,926)	(36,836)
Depreciation	(301,378)	(300,475)
Amortization	<u>(20,165)</u>	<u>(20,165)</u>
	<u>(944,618)</u>	<u>(943,760)</u>
INCREASE IN UNRESTRICTED NET LIABILITIES	(170,879)	(210,165)
Unrestricted net liabilities at beginning of year	<u>(814,917)</u>	<u>(604,752)</u>
UNRESTRICTED NET LIABILITIES AT END OF YEAR	<u>\$ (985,796)</u>	<u>\$ (814,917)</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

AOF/SC HOUSING CORP.

	Year Ended December 31	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in unrestricted net liabilities	\$ (170,879)	\$(210,165)
Adjustments to reconcile increase in unrestricted net liabilities to net cash provided by operating activities:		
Depreciation	301,378	300,475
Amortization	20,165	20,165
Decrease (increase) in tenant security deposits funded	10,507	(5,306)
(Increase) decrease in rents and other receivables	(25,879)	4,341
(Increase) in prepaid expenses	(8,337)	(1,480)
Increase in accounts payable	20,281	4,372
Decrease in accrued interest--mortgage	(1,575)	(2,850)
Increase in accrued expenses	255,120	28,014
(Decrease) increase in tenant security deposits liability	<u>(16,676)</u>	<u>5,306</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	384,105	142,872
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for property and equipment	(37,392)	-0-
Cash deposited into and interest received on restricted funds held in trust	(2,303,127)	(1,686,623)
Cash withdrawn from restricted funds held in trust	<u>2,070,371</u>	<u>1,599,613</u>
NET CASH USED IN INVESTING ACTIVITIES	(270,148)	(87,010)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of mortgage	<u>(105,000)</u>	<u>(100,000)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,957	(44,138)
Cash and cash equivalents at beginning of year	<u>21,659</u>	<u>65,797</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 30,616</u>	<u>\$ 21,659</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for interest	<u>\$ 631,687</u>	<u>\$ 649,912</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

AOF/SC HOUSING CORP.

December 31, 2001

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 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 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 (“Restrictive Covenants”), in connection with the Bonds, requires at least forty percent of the units in each 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 Corporation is required 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 Restrictive Covenants.

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 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.

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 years ended December 31:

	<u>2001</u>	<u>2000</u>
Program Services		
Housing project	\$1,777,406	\$1,772,356
Supporting Services		
General and administrative	73,589	80,221
Entity	<u>57,091</u>	<u>57,001</u>
	<u>130,680</u>	<u>137,222</u>
	<u>\$1,908,086</u>	<u>\$1,909,578</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.

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

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.

Insurance Fund: Funds are used to pay repair costs covered by the Corporation's insurance carrier.

NOTES TO FINANCIAL STATEMENTS--Continued

AOF/SC HOUSING CORP.

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

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

	<u>2001</u>	<u>2000</u>
Debt service reserve fund	\$ 636,193	\$ 624,314
Bond fund	183,981	182,810
Insurance escrow fund	39,049	28,006
Expense fund	89,086	69,241
Insurance fund	214,803	-0-
Other restricted funds	23,676	49,661
Accrued interest income	<u>4,344</u>	<u>4,344</u>
	<u>\$1,191,132</u>	<u>\$ 958,376</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 into the various Funds.

As more fully described in Note C, beginning in January 2000 the Corporation was required to deposit all Gross Revenues into the Revenue Fund.

NOTE C--MORTGAGE NOTES PAYABLE

The Corporation has 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 Project are to be occupied by individuals or families that qualify as Low Income Tenants, as more fully described in Note A.

NOTES TO FINANCIAL STATEMENTS--Continued

AOF/SC HOUSING CORP.

NOTE C--MORTGAGE NOTES PAYABLE--Continued

During the year ended December 31, 2000, 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. The Corporation began depositing all Gross Revenues with the Trustee in January 2000.

Additionally, during the year ended December 31, 2000, 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.

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, 2001:

	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>
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
2006	155,000	-0-	155,000
Thereafter	<u>8,565,000</u>	<u>-0-</u>	<u>8,565,000</u>
	<u>\$ 9,095,000</u>	<u>\$ 145,000</u>	<u>\$ 9,240,000</u>

NOTES TO FINANCIAL STATEMENTS--Continued

AOF/SC HOUSING CORP.

NOTE D--MANAGEMENT FEES

InterMark Management Corporation manages the apartment complexes and was compensated \$60,000 annually for its services, plus an additional incentive fee through May 2001. Effective June 2001, the management fee was changed to \$6,644 per month. Management fees of \$78,755 and \$76,400 were incurred during the years ended December 31, 2001 and 2000, respectively.

NOTE E--RELATED PARTY TRANSACTION

At December 31, 2001 and 2000, the Corporation had an advance of \$15,000 from AOF. This advance is unsecured, non-interest bearing and due on demand.

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, 2001.

NOTE G--COMMITMENT

The Corporation had a fire at Edenwood in March 2001. The damage was covered under the Corporation's property insurance policy. At December 31, 2001, accrued expenses included approximately \$220,000 related to a contract to repair the damage sustained in the fire. As more fully described in Note B, at December 31, 2001, the Corporation had \$214,803 in the Insurance Fund to pay these costs.

NOTE H--REVENUE CONCENTRATION

The Corporation derives approximately 18% of its net rental income from tenants who have housing assistance payments contracts with a local housing authority. The rental receipts relating to such tenants amounted to approximately \$321,000 for the year ended December 31, 2001.

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 2001 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
February 15, 2002

STATEMENT OF ACTIVITIES BY PROPERTY

AOF/SC HOUSING CORP.

Year Ended December 31, 2001

	<u>Three Rivers Apartments</u>	<u>Edenwood Apartments</u>	<u>Apartments Combined</u>	<u>Corporate Entity</u>	<u>Total</u>
Revenues:					
Gross rent potential	\$ 771,472	\$ 966,905	\$ 1,738,377	\$ -0-	\$ 1,738,377
Less: Vacancies	61,597	97,636	159,233	-0-	159,233
Concessions	<u>1,465</u>	<u>1,739</u>	<u>3,204</u>	-0-	<u>3,204</u>
Rental income, net	708,410	867,530	1,575,940	-0-	1,575,940
Other income	<u>42,403</u>	<u>74,901</u>	<u>117,304</u>	-0-	<u>117,304</u>
	750,813	942,431	1,693,244	-0-	1,693,244
Expenses:					
Selling and renting	11,466	14,170	25,636	-0-	25,636
Salaries and related expenses	101,930	143,614	245,544	-0-	245,544
Administrative and management	99,936	102,134	202,070	-0-	202,070
Utilities	59,893	69,396	129,289	-0-	129,289
Repairs and maintenance	120,383	130,004	250,387	-0-	250,387
Property insurance	<u>30,468</u>	<u>36,111</u>	<u>66,579</u>	-0-	<u>66,579</u>
	<u>424,076</u>	<u>495,429</u>	<u>919,505</u>	-0-	<u>919,505</u>
NET OPERATING INCOME	326,737	437,002	773,739	-0-	773,739
Other income (expense):					
Interest income	-0-	-0-	-0-	43,963	43,963
Interest expense	-0-	-0-	-0-	(630,112)	(630,112)
Fees and other entity expenses	-0-	-0-	-0-	(36,926)	(36,926)
Depreciation	-0-	-0-	-0-	(301,378)	(301,378)
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>(944,618)</u>	<u>(944,618)</u>
INCREASE IN UNRESTRICTED NET ASSETS (LIABILITIES)	<u>\$ 326,737</u>	<u>\$ 437,002</u>	<u>\$ 773,739</u>	<u>\$ (944,618)</u>	<u>\$ (170,879)</u>

See independent auditors' report on additional financial information.

FIXED CHARGE COVERAGE RATIO

AOF/SC HOUSING CORP.

Year Ended December 31, 2001

Net rental revenues	\$1,575,940
Other income	117,304
Earnings on Bond funds held in trust	<u>43,963</u>
	EFFECTIVE GROSS INCOME
	1,737,207
Less operating expenses	<u>919,505</u>
	NET INCOME AVAILABLE FOR DEBT SERVICE
	<u>\$ 817,702</u>
Total Bonds debt service requirement (fixed charge)	\$ 741,779
Fixed charge coverage ratio	

1.10

See independent auditors' report on additional financial information.