

ALABAMA HOUSING FINANCE AUTHORITY
COMPARATIVE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 AND 2007

ALABAMA HOUSING FINANCE AUTHORITY
SEPTEMBER 30, 2008 AND 2007

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ALABAMA HOUSING FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

This section of the annual financial report of the Alabama Housing Finance Authority (Authority) presents management's discussion and analysis of the financial position and results of operations during the fiscal year ended September 30, 2008. This information is being presented to provide additional information regarding the activities of the Authority and to meet the disclosure requirements of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government*. This analysis should be read in conjunction with the Independent Auditors' Report, the audited financial statements and accompanying notes. Operations of the Authority include issuance of bonds to fund loans to qualified borrowers for single-family houses and multifamily developments. The Authority is entirely self-funded and does not draw upon the general taxing authority of the State of Alabama.

The financial transactions of the Authority are recorded in the funds, which consist of a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses as appropriate. Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 presentation.

Required Basic Financial Statements

The basic financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer information about the Authority's activities. The Statements of Net Assets include all of the Authority's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). The assets and liabilities are presented in order of liquidity.

All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. This statement measures the activities of the Authority's operations over the past year and presents the resulting change in net assets – calculated as revenues less expenses.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments and net changes in cash resulting from operating, non-capital financing, and other financing activities and provides information regarding the sources and uses of cash and the change in the cash balance during the reporting period.

ALABAMA HOUSING FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Condensed Financial Information

Condensed Statements of Net Assets

The following table presents condensed information about the net assets of the Authority as of September 30, 2008 and 2007, and changes in the balances of selected items during the fiscal year ended September 30, 2008 (in thousands):

CONDENSED STATEMENTS OF NET ASSETS

	<u>2008</u>	<u>2007</u>	<u>Change</u>
ASSETS			
CURRENT ASSETS			
Cash and restricted cash	\$ 1,892	\$ 4,825	\$ (2,933)
Accrued interest receivable and restricted accrued interest	12,800	11,807	993
Mortgages and restricted mortgages	18,575	38,391	(19,816)
Investments and restricted investments	357,440	274,813	82,627
Other assets and restricted other assets	<u>1,679</u>	<u>1,442</u>	<u>237</u>
Total current assets	<u>392,386</u>	<u>331,278</u>	<u>61,108</u>
NONCURRENT ASSETS			
Mortgages, restricted mortgages and restricted mortgage-backed securities	903,581	832,454	71,127
Restricted HOME program mortgages	199,144	187,476	11,668
Investments and restricted investments	38,040	42,046	(4,006)
Other assets and restricted other assets	1,891	1,062	829
Deferred servicing costs and restricted deferred debt financing	<u>17,995</u>	<u>15,746</u>	<u>2,249</u>
Total noncurrent assets	<u>1,160,651</u>	<u>1,078,784</u>	<u>81,867</u>
TOTAL ASSETS	<u>\$ 1,553,037</u>	<u>\$ 1,410,062</u>	<u>\$ 142,975</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Bonds and notes payable	\$ 286,086	\$ 59,183	\$ 226,903
Accrued interest payable	20,505	18,790	1,715
Other liabilities	<u>5,614</u>	<u>805</u>	<u>4,809</u>
Total current liabilities	<u>312,205</u>	<u>78,778</u>	<u>233,427</u>
NONCURRENT LIABILITIES			
Bonds and notes payable	785,505	902,820	(117,315)
Refundable HOME program grants	199,144	187,476	11,668
Other liabilities	<u>16,934</u>	<u>17,082</u>	<u>(148)</u>
Total noncurrent liabilities	<u>1,001,583</u>	<u>1,107,378</u>	<u>(105,795)</u>
TOTAL LIABILITIES	<u>1,313,788</u>	<u>1,186,156</u>	<u>127,632</u>
NET ASSETS			
Invested in capital assets, net of related debt	566	724	(158)
Restricted	189,688	175,341	14,347
Unrestricted	<u>48,995</u>	<u>47,841</u>	<u>1,154</u>
Total net assets	<u>239,249</u>	<u>223,906</u>	<u>15,343</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,553,037</u>	<u>\$ 1,410,062</u>	<u>\$ 142,975</u>

ALABAMA HOUSING FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Condensed Statements of Net Assets (Continued)

Current assets increased \$61,108,000 from September 30, 2007, to September 30, 2008, primarily due to an increase in restricted investments of \$82,627,000 in the single-family bond issues relating to bond proceeds and loan prepayments and repayments received during the last half of 2008. Most of the restricted investment balance is held for bond redemptions and regular debt service payments scheduled for October 1, 2008. See Note 12, "Subsequent Events," for further information. Additional restricted investments are available for mortgage loan origination. Restricted and unrestricted cash decreased \$2,933,000 chiefly because the 2007 cash balance reflected funds received but uninvested. Restricted and unrestricted mortgages decreased \$19,816,000 due to a reduction in the balance of mortgage loans held for sale at year end.

Noncurrent assets climbed \$81,867,000 primarily due to an increase of \$71,127,000 in mortgage loans and mortgage-backed securities, reflecting an increase in loan originations, net of normal mortgage loan repayments and prepayments received during the fiscal year. Restricted HOME program loans increased \$11,668,000 due to an increase in lending under this program. Restricted and unrestricted other assets increased \$829,000 primarily due to an increase in other real estate owned in the general fund. Deferred servicing costs and restricted deferred debt financing cost increased \$2,249,000, reflecting new unamortized bond issuance costs and additional loan service release premiums paid from the general fund.

Current liabilities increased \$233,427,000 from September 30, 2007, to September 30, 2008, due to increases in bond and notes payable classified as current and scheduled for maturity or redemption in the next twelve months. Accrued interest payable also realized an increase, reflecting the overall increase of bonds outstanding, current and noncurrent. Other liabilities increased \$4,809,000 relating to changes in classification of arbitrage rebate payable to current from noncurrent liabilities.

Noncurrent liabilities decreased \$105,795,000, due to decreases in bonds payable classified as noncurrent liabilities (see above comment regarding the increase in current liabilities). Refundable HOME program grants increased \$11,668,000 due to increased lending activity in that program. The following chart summarizes the Authority's debt activity from September 30, 2007, to September 30, 2008 (in thousands):

	Debt Balance 9/30/2007	Debt Issued	Debt Paid	Debt Balance 9/30/2008
Bonds payable	\$ 962,003	\$ 312,326	\$ 206,488	\$ 1,067,841
Notes payable	-	147,000	143,250	3,750
Refundable HOME program grants	<u>187,476</u>	<u>12,102</u>	<u>434</u>	<u>199,144</u>
	<u>\$ 1,149,479</u>	<u>\$ 471,428</u>	<u>\$ 350,172</u>	<u>\$ 1,270,735</u>

ALABAMA HOUSING FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Revenues, Expenses and Changes in Net Assets

The following table presents condensed statements of revenues, expenses and changes in net assets for the Authority for the years ended September 30, 2008 and 2007, and the change from the prior year (in thousands):

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	<u>2008</u>	<u>2007</u>	<u>Change</u>
OPERATING REVENUES			
Interest on mortgage loans and mortgage-backed securities	\$ 48,035	\$ 42,052	\$ 5,983
Investment income	19,618	9,153	10,465
Loan fees and other income	<u>8,256</u>	<u>7,040</u>	<u>1,216</u>
Total operating revenues	<u>75,909</u>	<u>58,245</u>	<u>17,664</u>
OPERATING EXPENSES			
Interest on bonds and notes	46,131	43,176	2,955
Amortization of deferred debt financing and servicing costs	1,950	2,022	(72)
Program, general and administrative	<u>11,274</u>	<u>8,634</u>	<u>2,640</u>
Total operating expenses	<u>59,355</u>	<u>53,832</u>	<u>5,523</u>
OPERATING INCOME	<u>16,554</u>	<u>4,413</u>	<u>12,141</u>
CAPITAL CONTRIBUTIONS AND EXTRAORDINARY LOSS			
Owner contributions (reductions)	(744)	253	(997)
Extraordinary loss on early retirement of bonds	<u>(467)</u>	<u>(552)</u>	<u>85</u>
Total capital contributions and extraordinary loss	<u>(1,211)</u>	<u>(299)</u>	<u>(912)</u>
CHANGES IN NET ASSETS	15,343	4,114	11,229
NET ASSETS AT BEGINNING OF YEAR	<u>223,906</u>	<u>219,792</u>	<u>4,114</u>
NET ASSETS AT END OF YEAR	<u>\$ 239,249</u>	<u>\$ 223,906</u>	<u>\$ 15,343</u>

ALABAMA HOUSING FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Revenues, Expenses and Changes in Net Assets (Continued)

Total operating revenues increased \$17,664,000, reflecting increases in interest and investment income. Interest on mortgage loans and mortgage-backed securities increased \$5,983,000 due to the overall increase in mortgage loan and mortgage-backed securities balances during 2008, net of repayments and prepayments received on older loans and mortgage-backed securities. Investment income increased \$10,465,000, primarily due to a net increase in the fair value of mortgage-backed securities and investments at year end. Loan fees and other income increased due to higher loan servicing fees and commitment fee income recognition.

Total operating expenses increased \$5,523,000, primarily due to an increase in interest expense on bonds and notes. Interest expense rose \$2,955,000 reflecting the previously noted increase in bonds outstanding (see comments in current liabilities sections). Program, general and administrative expenses increased \$2,640,000, reflecting an increase of operating expenses in the general fund and loan loss reserves in the housing assistance and general funds. The change in owner contributions (reductions) reflects project developer deposits and expenditures in multifamily bond issues in addition to funds from bond proceeds.

Independent Auditors' Report

Board of Directors
Alabama Housing Finance Authority
Montgomery, Alabama

We have audited the accompanying basic financial statements of the Alabama Housing Finance Authority, a component unit of the State of Alabama, as of and for the years ended September 30, 2008 and 2007. These basic financial statements are the responsibility of the Alabama Housing Finance Authority's management. Our responsibility is to express an opinion on these basic 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 audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Alabama Housing Finance Authority at September 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 5 is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying additional segment data 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 our audit of the 2008 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2008 basic financial statements taken as a whole.

Nelson, Price, Bancroft, Blankenship & Billingsley, P.C.

December 15, 2008

ALABAMA HOUSING FINANCE AUTHORITY

STATEMENTS OF NET ASSETS

SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
	(In thousands)	
ASSETS		
CURRENT ASSETS		
Cash on deposit	\$ 872	\$ 1,895
Accrued interest receivable	173	228
Mortgage loans receivable, net	1,225	1,100
Investments	1,022	3,963
Other assets	1,192	931
Restricted:		
Cash on deposit	1,020	2,930
Accrued interest receivable	12,627	11,579
Mortgage loans receivable, net	4,601	3,237
Mortgage loans held for sale	12,749	34,054
Investments	356,418	270,850
Other assets	<u>487</u>	<u>511</u>
Total current assets	<u>392,386</u>	<u>331,278</u>
NONCURRENT ASSETS		
Mortgage loans receivable, net	35,239	28,630
Investments	3,218	12,219
Other assets	1,891	1,062
Deferred servicing costs	12,548	10,621
Restricted:		
Mortgage-backed securities	658,329	597,506
Mortgage loans receivable, net	210,013	206,318
Investments	34,822	29,827
HOME program loans receivable, net	199,144	187,476
Deferred debt financing costs	<u>5,447</u>	<u>5,125</u>
Total noncurrent assets	<u>1,160,651</u>	<u>1,078,784</u>
TOTAL ASSETS	<u>\$ 1,553,037</u>	<u>\$ 1,410,062</u>

	<u>2008</u>	<u>2007</u>
	(In thousands)	
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Bonds payable, net of unamortized premiums	\$ 282,336	\$ 59,183
Notes payable	3,750	-
Accrued interest payable	20,505	18,790
Accrued arbitrage rebate	4,331	85
Other liabilities	<u>1,283</u>	<u>720</u>
Total current liabilities	<u>312,205</u>	<u>78,778</u>
NONCURRENT LIABILITIES		
Bonds payable, net of unamortized premiums	785,505	902,820
Refundable HOME program grants	199,144	187,476
Accrued arbitrage rebate	2,834	4,294
Deferred commitment fees	<u>14,100</u>	<u>12,788</u>
Total noncurrent liabilities	<u>1,001,583</u>	<u>1,107,378</u>
TOTAL LIABILITIES	<u>1,313,788</u>	<u>1,186,156</u>
NET ASSETS		
Invested in capital assets, net of related debt	566	724
Restricted	189,688	175,341
Unrestricted	<u>48,995</u>	<u>47,841</u>
Total net assets	<u>239,249</u>	<u>223,906</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,553,037</u>	<u>\$ 1,410,062</u>

See independent auditors' report and notes to financial statements.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
	(In thousands)	
OPERATING REVENUES		
Interest on mortgage loans	\$ 11,650	\$ 13,377
Interest on mortgage-backed securities	36,385	28,675
Investment income	12,543	16,459
Net increase (decrease) in fair value of investments	7,075	(7,306)
Loan fees and other income	<u>8,256</u>	<u>7,040</u>
Total operating revenues	<u>75,909</u>	<u>58,245</u>
OPERATING EXPENSES		
Interest on bonds and notes	46,131	43,176
Amortization of deferred debt financing and servicing costs	1,950	2,022
Program, general and administrative	<u>11,274</u>	<u>8,634</u>
Total operating expenses	<u>59,355</u>	<u>53,832</u>
OPERATING INCOME	<u>16,554</u>	<u>4,413</u>
NONOPERATING REVENUE (EXPENSE)		
HOME program grants	13,281	27,523
HOME program expenditures	<u>(13,281)</u>	<u>(27,523)</u>
Total nonoperating revenue (expense)	<u>-</u>	<u>-</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND EXTRAORDINARY LOSS	16,554	4,413
CAPITAL CONTRIBUTIONS AND EXTRAORDINARY LOSS		
Owner contributions	(744)	253
Extraordinary loss on early retirement of bonds	<u>(467)</u>	<u>(552)</u>
CHANGES IN NET ASSETS	15,343	4,114
NET ASSETS		
Beginning of the year	<u>223,906</u>	<u>219,792</u>
End of the year	<u>\$ 239,249</u>	<u>\$ 223,906</u>

See independent auditors' report and notes to financial statements.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Purchase of mortgage-backed securities	\$ (119,200)	\$ (225,015)
Proceeds from sales/maturities of mortgage-backed securities	64,560	65,263
Purchase of mortgage loans	(33,152)	(24,957)
Principal payments received on mortgage loans	18,837	67,326
Purchase of mortgage loans held for sale	(240,463)	(297,515)
Proceeds from mortgage loans held for sale	261,590	281,454
Interest received from mortgage loans	11,763	13,338
Interest received from mortgage-backed securities	39,024	31,870
Payments for arbitrage	(39)	(146)
Cash paid to suppliers for goods and services	(5,897)	(4,417)
Cash payments to employees for services	(3,079)	(2,832)
Loan fees, commitment fees and other income received	<u>9,769</u>	<u>9,329</u>
Net cash and restricted cash provided (used) by operating activities	<u>3,713</u>	<u>(86,302)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from bonds issued	312,326	497,320
Borrowings under line of credit	147,000	150,375
Principal payments on bonds	(206,488)	(259,450)
Payments of debt financing costs	(1,297)	(2,636)
Payments on line of credit	(143,250)	(163,187)
Proceeds from HOME and ADDI grants, net	11,668	24,244
Contributions/distributions to owners, net	(746)	252
Interest paid on bonds and note	<u>(45,868)</u>	<u>(39,656)</u>
Net cash and restricted cash provided in noncapital financing activities	<u>73,345</u>	<u>207,262</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of furniture and equipment	(100)	(477)
Purchase of mortgage service release premiums	<u>(2,899)</u>	<u>(4,918)</u>
Net cash and restricted cash used in capital and related financing activities	<u>(2,999)</u>	<u>(5,395)</u>

See independent auditors' report and notes to financial statements.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
	(In thousands)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	\$ (957,606)	\$ (971,278)
Proceeds from sales of investments	879,730	868,290
Interest received from investments	12,552	14,542
HOME program mortgage loans funded	<u>(11,668)</u>	<u>(25,897)</u>
Net cash and restricted cash used by investing activities	<u>(76,992)</u>	<u>(114,343)</u>
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH ON DEPOSIT	(2,933)	1,222
CASH AND RESTRICTED CASH ON DEPOSIT AT BEGINNING OF YEAR	<u>4,825</u>	<u>3,603</u>
CASH AND RESTRICTED CASH ON DEPOSIT AT END OF YEAR	<u>\$ 1,892</u>	<u>\$ 4,825</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$ 16,554	\$ 4,413
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	257	283
Amortization of deferred debt financing and servicing costs	1,950	2,024
Amortization of deferred commitment fees	(1,869)	(1,724)
Gross unrealized (gain) loss on investments	(6,931)	7,877
Loss on disposal of fixed asset	-	88
Provision for loan losses, net	1,713	941
Extraordinary loss on early retirement of bonds	(467)	(552)
Commitment fees received	3,181	4,012
Interest received from investments	(12,552)	(14,542)
Interest paid on bonds and notes	45,868	39,656
Changes in operating assets and liabilities:		
Accrued interest receivable	(993)	(1,781)
Mortgage loans receivable	(14,494)	42,105
Mortgage loans held for sale	21,306	(15,805)
Mortgage-backed securities	(54,639)	(159,752)
Other assets	(237)	169
Accrued interest payable	1,714	4,961
Accrued arbitrage rebate	2,786	1,412
Other liabilities	<u>566</u>	<u>(87)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 3,713</u>	<u>\$ (86,302)</u>

See independent auditors' report and notes to financial statements.

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

1. AUTHORITY LEGISLATION

The Alabama Housing Finance Authority (Authority) is a public corporation created, organized and existing under Act No. 80-585 (Act) enacted by the Legislature of the State of Alabama at its 1980 regular session. Pursuant to the Act, the Authority is authorized, among other things, to issue bonds to finance residential housing for persons and families of low and moderate income in the State of Alabama. The Authority is a component unit of the State of Alabama.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Authority's accounts are organized as funds, which include accounts of the assets, liabilities, net assets, revenues and expenses of the Authority's single-family and multifamily bond programs (Program Funds), the HOME Program, the Housing Assistance Program and a General Fund. Each Program Fund accounts for the proceeds from the bonds issued, the debt service requirements of the bonds and the related program investments, as required by the various bond resolutions established under the various trust indentures of each program.

The Authority uses the accrual method of accounting. The Authority's Program Funds, HOME Fund, Housing Assistance Fund and General Fund have been presented on a combined basis, as the Authority is considered a single enterprise fund for financial reporting purposes. Current assets include cash and amounts convertible to cash during the next normal operating cycle or one year. Current liabilities include those obligations to be liquidated with current assets. All inter-fund balances and transactions have been eliminated in the accompanying financial statements.

Revenues and expenses from the Program Funds, Housing Assistance Fund and General Fund are reported as operating revenues and expenses. Revenues derived from Program Funds serve as security for the single-family and multifamily bond programs.

As permitted by Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority has elected not to adopt Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB statements or interpretations.

All federal financial assistance received in connection with the Authority's administration of the HOME Program is reported as non-operating revenues in the accompanying financial statements. Expenditures of HOME program funds, whether for repayable or conditionally forgivable loans, are reported as non-operating expenses in accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Financial Assistance*.

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates in the Preparation of Financial Statements

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents represents funds on deposit with various financial institutions and uninvested funds held by the Trustees of the Authority's various bond programs. At September 30, 2008, all cash on deposit held by the Authority's trustees was in the name of the Authority. Cash on deposit consists of restricted and unrestricted cash totaling \$1,892,000 and \$4,825,000 as of September 30, 2008 and 2007, respectively. All cash on deposit at September 30, 2008, was covered by federal depository insurance or collateralized by the various financial institutions.

Investments

The Act authorizes the Authority to invest in bonds or other obligations issued or guaranteed by the U.S. Government, any agency thereof, or the State of Alabama. In addition, the Authority may invest in interest-bearing bank and savings and loan association deposits, any obligations in which a State chartered savings and loan association may invest its funds, any agreement to repurchase any of the foregoing, or any combination thereof. Each of the trust indentures established under the Authority's bond programs contains further restrictions on the investment of non-expended bond proceeds; however, each trust indenture must be consistent with the Authority's authorizing legislation with respect to the definition of eligible investments.

Investments consist of unexpended bond proceeds, temporary and debt service reserve funds established under the provisions of various trust indentures and investments of the Authority's general and housing assistance funds. In connection with the Authority's bond programs, unexpended bond proceeds are maintained in trust, invested in various types of investment contracts until such time as the proceeds can be used to purchase Program Certificates originated under the Authority's program guidelines. The Authority's guidelines generally require the investment contract issuer to collateralize the principal amount invested in the contract, unless the issuer has sufficiently high credit ratings, as established by independent rating agencies, to maintain the desired ratings of the Authority's bond issues. The uncollateralized investment agreements generally require the issuer to collateralize the principal amount on deposit from time to time in the event the issuer's credit rating drops below acceptable standards. The Authority continually monitors the credit ratings of all parties to guaranteed investment contracts.

The provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, permit the recording of guaranteed investment contracts at cost if the contracts are non-participating. Non-participating contracts are those that are non-negotiable and non-transferable and redeemable at contract or stated value, rather than fair value based on current market rates. All of the Authority's investment contracts are non-participating and are therefore reported at cost. Investments other than non-participating investment contracts are reported at fair value.

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

The Authority follows the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 addresses disclosures on deposits and investments, focusing on common investment risks related to interest rate risk, credit risk, custodial credit risk, foreign currency risk and concentration of credit risk. This pronouncement requires additional disclosure to be presented in the notes but has no impact on the net assets of the Authority.

Mortgage-Backed Securities

Mortgage-backed securities consist of Government National Mortgage Association (Ginnie Mae) or Fannie Mae pass-through certificates, all of which are pledged as security for the mortgage revenue bonds. The fair value of program investments was based on quoted market prices obtained from an independent financial news and information service where available. If quoted market prices were not available, fair values were based on quoted market prices of comparable investments.

In accordance with GASB Statement No. 31, investment securities other than non-participating guaranteed investment contracts (see above) are recorded at fair value and unrealized gains or losses are reported in the statements of revenues, expenses and changes in net assets. The Authority records a portion of net unrealized gains on investment securities as a liability to the extent that such gains would be rebateable to the United States government under Section 103A of the Internal Revenue Code, as amended (the Code), for tax-exempt bond issues sold after 1981. Such rebateable earnings, which totaled (\$406,000) in 2008 and \$919,000 in 2007, are classified as an (increase) or reduction of unrealized gains on investment securities in the statements of revenues, expenses and changes in net assets. The Code requires that such excess investment earnings be rebated to certain single-family borrowers upon payoff of their respective mortgages or remitted to the Internal Revenue Service. Gains on sales of securities in these bond issues would create excess rebateable earnings. This liability is recorded on the statements of net assets as accrued arbitrage rebate.

Commitment Fees

Commitment fees are deferred and recognized as income over the life of the applicable loans as an adjustment of their yields. Commitment fees related to loans pooled and sold in secondary markets are recognized at the time of sale.

Mortgage Loans Receivable

Mortgage loans are carried at their unpaid principal balances less an allowance for loan losses. Management determines the allowance for loan losses based on historical losses and current economic conditions as well as its evaluation of the loan portfolio and the underlying security.

Mortgage Loans Held for Sale

Mortgage loans held for sale are recorded at the lower of cost or fair value.

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

HOME Program Loans Receivable

HOME Program loans include loans originated under the HOME Program. This program is designed to assist very low income tenants, and, as such, some mortgages originated under the program are structured in such a way that repayment will only occur in limited circumstances. The Authority originated three loans that are forgivable for both principal and interest. These loans, which were closed in 1994, are not recorded as assets or liabilities of the Authority and totaled \$2,950,000 at September 30, 2008 and 2007.

Deferred Debt Financing Costs

Issuance costs on bonds are deferred and amortized, on a yield method, over the life of the related bond issues.

Mortgage Servicing Rights

The Authority follows the provisions of Statement of Financial Accounting Standards No. 65, entitled *Accounting for Certain Mortgage Banking Activities*. In accordance with those standards, the cost of loan servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenue. The amount originally capitalized is adjusted based on whether related loans are pooled and sold in secondary markets or maintained by the Authority.

Other Real Estate Owned

The Authority states its other real estate owned acquired through foreclosure without further obligation to security holders, which is included in noncurrent other assets, at the lower of cost or fair value at the date of foreclosure. Fair value is determined based on independent appraisals and other relevant factors. Any write-down to fair value at the time of foreclosure is charged to an allowance for loan losses. The Authority held properties totaling approximately \$2,225,000 and \$338,000 at September 30, 2008 and 2007, respectively.

3. MORTGAGE-BACKED SECURITIES

Mortgage-backed securities held by the Authority include securitized mortgage obligations, backed by pools of single-family and multifamily mortgage loans originated under the Authority's program guidelines. These securities are "fully modified pass-through" mortgage-backed securities which require monthly payments by an FHA-approved or a Fannie Mae-approved lender, as the issuers of the guaranteed securities, and are either insured or registered in the Authority's name. Ginnie Mae and Fannie Mae guarantee timely payment of principal and interest on guaranteed securities. At September 30, 2008, mortgage-backed securities consisted of program certificates with interest rates ranging from 4.00% to 8.625%. The cost of program investments at September 30, 2008 and 2007 was \$656,678,000 and \$602,038,000, respectively. As a result of changes in the fair value of mortgage-backed securities, the Authority recorded unrealized gains of \$5,778,000 and losses of \$7,050,000 for the years ended September 30, 2008 and 2007, respectively. It is the intention of the Authority to hold these securities until the underlying loan is paid in full.

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

4. INVESTMENTS

Investments consisted of the following at September 30 (in thousands):

<u>Investment Type</u>	<u>2008</u>	<u>% of Total</u>	<u>2007</u>	<u>% of Total</u>
Money Market Funds	\$ 100,506	25%	\$ 49,465	16%
Money Market Mutual Funds	-	0%	12,145	4%
Guaranteed Investment Contracts	270,576	69%	220,100	69%
U.S. Government Agency Securities	-	0%	6,223	2%
Mortgage-Backed Securities	24,298	6%	27,220	8%
Certificates of Deposit	<u>100</u>	<u>0%</u>	<u>1,706</u>	<u>1%</u>
	<u>\$ 395,480</u>	<u>100%</u>	<u>\$ 316,859</u>	<u>100%</u>

The cost of investments at September 30, 2008 and 2007 was \$395,301,000 and \$317,426,000, respectively. As a result of changes in the fair value of investments, the Authority recorded unrealized gains of \$746,000 and \$93,000 for the years ended September 30, 2008 and 2007, respectively.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the fair value of the investment portfolio. Investment maturities will coincide with anticipated debt service payment dates and expected cash flow obligations associated with the respective bond maturities and obligations for the authority's bond programs and other funds. Trust indentures, market conditions, rates of return, interest rate spreads and other factors influence maturity selection for all funds in excess of those required to meet projected cash flow obligations. Investments are generally designed to match the life of their related liabilities at fixed interest-rate spreads and longer-term maturity investments provide sufficient monthly cash flow to meet any short-term obligations.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities in Years (in thousands)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Money Market Funds	\$ 100,506	\$ 100,506	\$ -	\$ -	\$ -
Guaranteed Investment Contracts	270,576	267,742	2,834	-	-
Mortgage-Backed Securities	24,298	-	1	5	24,292
Certificates of Deposit	<u>100</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 395,480</u>	<u>\$ 368,348</u>	<u>\$ 2,835</u>	<u>\$ 5</u>	<u>\$ 24,292</u>

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

4. INVESTMENTS (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the Authority. Investments for each bond issue are those permitted by the various bond indentures and rating agencies. See “Summary of Significant Accounting Policies – Investments” for additional information concerning permitted investments of the Authority. As of September 30, 2008, the Authority’s money market, government and government agency investments in funds were rated Aaa by Moody’s Investor Services, with guaranteed investment contracts rated from Aa to Aaa, meeting the criteria of the Authority and rating agencies of those respective bond issues.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of a custodial agent, the Authority may not be able to recover the value of investments or collateral securities that are in the possession of that outside party. All investments in the general and housing assistance funds are held in safekeeping or custodial accounts at approved safekeeping agents of the Authority in the Authority’s name. All investments in the Authority’s bond issues are registered in the name of the issues’ designated trustee. All guaranteed investment contracts are tri-party agreements where third parties hold the underlying investment on behalf of the Authority.

Concentration Risk

Concentration risk is the risk of loss that may be attributed to the magnitude of an investment in a single type of security. See Note 12 for additional information concerning the liquidation of certain of these investments subsequent to year end. The table below lists all investments by investment provider and type as of September 30, 2008 (in thousands).

<u>Provider</u>	<u>Money Market And Other</u>	<u>Guaranteed Investment Contracts</u>	<u>Mortgage Backed Securities</u>	<u>Certificates of Deposit</u>	<u>Total</u>	<u>Percent</u>
Bayerische LB	\$ -	\$ 217,663	\$ -	\$ -	\$ 217,663	55%
Federated Government Obligations	822	-	-	-	822	0%
Federated U.S. Treasury Obligations	242	-	-	-	242	0%
Federated GNMA Money Market	12,928	-	-	-	12,928	4%
Fidelity Institutional Treasury Only	488	-	-	-	488	0%
First American Treasury Obligations	83,726	-	-	-	83,726	22%
First Commercial Trust UST	147	-	-	-	147	0%
FGIC	-	295	-	-	295	0%
GNMA Mortgage-Backed Securities	-	-	24,298	-	24,298	6%
Goldman U.S. Treasury Only	176	-	-	-	176	0%
HYPO Public Finance	-	428	-	-	428	0%
JP Morgan US Treasury	931	-	-	-	931	0%
Keystone Bank	-	-	-	100	100	0%
Pallas Capital Corp	-	48,274	-	-	48,274	12%
Regions MK US Treasury Select	946	-	-	-	946	0%
River Bank & Trust	100	-	-	-	100	0%
Westdeutsche LB	-	3,916	-	-	3,916	1%
Total	<u>\$ 100,506</u>	<u>\$ 270,576</u>	<u>\$ 24,298</u>	<u>\$ 100</u>	<u>\$ 395,480</u>	<u>100%</u>

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

4. INVESTMENTS (Continued)

Concentration Risk (Continued)

Investments are classified in the accompanying statements of net assets as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Current assets – Investments	\$ 1,022	\$ 3,963
Current assets – Restricted Investments	356,418	270,850
Noncurrent assets – Investments	3,218	12,219
Noncurrent assets – Restricted Investments	<u>34,822</u>	<u>29,827</u>
	<u>\$ 395,480</u>	<u>\$ 316,859</u>

5. MORTGAGE LOANS RECEIVABLE

The Authority's single-family programs are designed to provide mortgage loans to qualified homebuyers within the State of Alabama. The Authority's guidelines generally require the mortgage loans to be either FHA insured, guaranteed by the Department of Veterans Affairs, USDA Rural Development insured or conventionally financed with traditional primary mortgage insurance and, in the case of pre-1987 single-family programs, insured with mortgage pool policies. Mortgage loans receivable, net consisted of the following at September 30 (in thousands):

	<u>2008</u>	<u>2007</u>
Single-family mortgage loans (5.00% to 13.85%):		
Conventional	\$ 8,169	\$ 9,585
FHA insured	866	1,144
VA insured	1,242	1,563
Down payment assistance/Habitat loans (0% to 8.40%)	<u>36,142</u>	<u>28,799</u>
	46,419	41,091
Less allowance for loan losses	<u>(2,039)</u>	<u>(1,534)</u>
Total single-family mortgage loans	44,380	39,557
Multifamily mortgage loans (2.25% to 7.88%)	<u>206,698</u>	<u>199,728</u>
	<u>\$ 251,078</u>	<u>\$ 239,285</u>

Under the Authority's program guidelines, conventionally financed single-family mortgage loans with an initial loan-to-value ratio of greater than 80% are insured by private mortgage insurance carriers. As these loans amortize and the loan-to-value ratio falls below 80%, the private mortgage insurance coverage may be terminated.

Conventionally financed single-family loans owned by the Authority may also be insured by supplemental pool insurance. Supplemental pool insurance is maintained over the life of the loan. As of September 30, 2008, 32% of conventionally financed single-family mortgage loans (excluding housing assistance fund loans) owned by the Authority are insured by private mortgage insurance and 83% are insured by supplemental pool insurance.

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

5. MORTGAGE LOANS RECEIVABLE (Continued)

The Authority's multifamily bond programs are designed to finance multifamily housing units in the State of Alabama. The Authority does not actively monitor the operating performance or financial condition of the multifamily properties financed by the bonds, as the Authority principally functions as a conduit to provide tax-exempt financing. Multifamily mortgage loans are collateralized by varying methods, including first-liens on multifamily residential rental properties located within the State of Alabama, letters of credit, surety bonds and guarantees provided by third parties.

As of September 30, 2008 and 2007, the Authority serviced \$902,980,000 and \$723,581,000, respectively, in loans including \$856,727,000 and \$661,375,000, respectively, serviced for other entities. Escrow balances associated with these loans are not included in the statements of net assets of the Authority.

Mortgage loans receivable are classified in the accompanying statements of net assets as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Current assets – Mortgage loans receivable, net	\$ 1,225	\$ 1,100
Current assets – Restricted Mortgage loans receivable, net	4,601	3,237
Noncurrent assets – Mortgage loans receivable, net	35,239	28,630
Noncurrent assets – Restricted Mortgage loans receivable, net	<u>210,013</u>	<u>206,318</u>
	<u>\$ 251,078</u>	<u>\$ 239,285</u>

6. BONDS PAYABLE

Bonds payable are limited obligations of the Authority, and are not a debt or liability of the State of Alabama or any subdivisions thereof. Each bond issue is secured, as described in the applicable trust indenture, by all revenues, moneys, investments, mortgage loans, and other assets in the funds and accounts of the program. Substantially all of the Authority's assets are pledged as security for the bonds. The provisions of the applicable trust indentures require or allow for redemption of bonds through the use of unexpended bond proceeds and excess funds accumulated primarily through prepayment of mortgage loans and program certificates. All outstanding bonds are subject to redemption at the option of the Authority, in whole or in part at any time after certain dates, as specified in the respective series indentures.

All variable rate bonds bear interest at a weekly rate until maturity or earlier redemption. The remarketing agent for each bond issue establishes the weekly rate according to each indenture's remarketing agreement. The weekly rates are communicated to the various bond trustees for preparation of debt service payments. The weekly rate, as set by the remarketing agent, allows the bonds to trade in the secondary market at a price equal to 100% of the principal amount of the bonds outstanding, with each rate not exceeding maximum rates permitted by law.

The Authority's multifamily bonds are considered conduit debt obligations and the publicly offered bonds are secured by several forms of credit enhancement, including FHA insured mortgage loans, GNMA guaranteed certificates and letters of credit from financial institutions. Bonds which are privately placed are sold only to a single accredited investor and are generally secured only by the project being financed. The Authority has no obligation for the bonds beyond the resources provided above.

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

6. BONDS PAYABLE (Continued)

Bonds payable consisted of the following at September 30 (in thousands):

	<u>Aggregate Principal Outstanding</u>		<u>Original Maturity Value</u>
	<u>2008</u>	<u>2007</u>	
Single-family bond programs:			
1997 Series A-D, 1998 Series A-B (4.3% to 6.15%) due 2008 to 2029	\$ 18,690	\$ 49,030	\$ 789,250
1999 Series B-C, 2000 Series A-B, 2001 Series A, 2002 Series B (3.25% to 6.25%), due 2008 to 2032	84,410	103,255	459,105
2000/2003 Step-Up Program (4.42% to 7.80%), due 2034 to 2036	55,286	66,294	128,927
2004 Series A-B, 2005 Series A-B, 2006 Series A, 2007 Series A, 2007 Series F, 2008 Series A, 2008 Series C (2.57% to 5.3016%), due 2008 to 2013	79,675	70,720	186,550
2003 First Step Program (4.82% to 5.09%), due 2036	522	691	793
2006 Series B-G, 2007 Series B-E, 2007 Series G, 2008 Series B (2.50% to 5.75%) due 2008 to 2039	391,773	332,441	397,537
2006 Series H (variable) due 2009	5,830	108,950	200,000
2007 Series H (variable) due 2010	204,500	-	204,500
Multifamily bond programs:			
1989 Series A (variable), due 2008 to 2014	1,725	1,925	17,640
1991 Series B (variable), due 2008	1,910	2,140	8,525
1992 Series B (7.25%), due 2008 to 2023	1,400	1,470	36,890
1995 Series A-I (5.65% to 8.65%, variable), due 2008 to 2030	2,780	11,380	32,090
1996 Series D-E (6.20% to 8.10%, variable), due 2008 to 2038	-	2,530	53,755
1999 Series A (4.80% to 5.20%, variable), due 2008 to 2029	6,130	6,270	7,200
2000 Series A-K (5.125% to 5.95%, variable), due 2008 to 2033	27,200	27,475	45,325
2001 Series A-D (4.875% to 7.09%, variable), due 2008 to 2034	15,599	15,657	16,027
2002 Series A-J (4.65% to 5.55%, variable), due 2008 to 2035	18,595	21,105	34,125
2003 Series A-N (4.255% to 9.25%, variable), due 2008 to 2039	35,554	35,935	55,856
2004 Series A-H (5.20% to 8.00%, variable) due 2008 to 2045	27,922	28,259	29,672
2005 Series A-F (4.50% to 5.06%, variable) due 2008 to 2038	63,652	63,696	63,798
2007 Series A-E (4.63% to 5.30%, variable), due 2009 to 2048	<u>24,688</u>	<u>12,780</u>	24,745
	1,067,841	962,003	
Less current maturities	<u>(282,336)</u>	<u>(59,183)</u>	
Noncurrent maturities	<u>\$ 785,505</u>	<u>\$ 902,820</u>	

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

6. BONDS PAYABLE (Continued)

Principal and interest payments on bonds after 2008 are scheduled as follows (in thousands):

Fiscal year ending September 30	Single-family Bonds		Multifamily Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 278,845	\$ 28,855	\$ 3,491	\$ 8,783	\$ 282,336	\$ 37,638
2010	30,005	27,491	1,984	9,210	31,989	36,701
2011	24,295	26,252	1,941	9,109	26,236	35,361
2012	19,375	25,301	2,070	9,011	21,445	34,312
2013	13,645	24,624	2,117	8,908	15,762	33,532
2014-2018	50,495	116,221	10,209	42,951	60,704	159,172
2019-2023	68,270	101,567	17,699	39,846	85,969	141,413
2024-2028	90,740	81,547	15,384	35,394	106,124	116,941
2029-2033	108,735	55,197	43,239	28,175	151,974	83,372
2034-2038	153,810	17,655	117,562	10,833	271,372	28,488
2039-2043	2,470	94	8,835	1,291	11,305	1,385
2044-2048	-	-	2,515	360	2,515	360
2049-2053	-	-	110	3	110	3
	<u>\$ 840,685</u>	<u>\$ 504,804</u>	<u>\$ 227,156</u>	<u>\$ 203,874</u>	<u>\$ 1,067,841</u>	<u>\$ 708,678</u>

7. NOTES PAYABLE

The Authority has established a \$50,000,000 line of credit primarily to make funds available for the purchase of loans during the origination period of its single-family mortgage revenue bond programs. Outstanding borrowings under the line of credit were \$3,750,000 and \$0 as of September 30, 2008 and 2007, respectively. Borrowings under the credit facility are secured by pledges of approximately \$20,666,000 and \$43,881,000 in mortgage loans receivable and mortgage loans held for sale at September 30, 2008 and 2007, respectively.

8. NET ASSETS

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net assets consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net assets consist of all other net assets not included in the above categories.

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

8. NET ASSETS (Continued)

The various trust indentures generally permit transfers to the Authority's general fund for administrative fees and reimbursements of costs associated with the administration of the bond programs. Otherwise, the cash and investments of the various program funds are retained in the trust indentures to satisfy debt service obligations with respect to the applicable bonds, and are restricted to this purpose. Such amounts are reflected as restricted components of net assets.

Under the terms of the Authority's multifamily bond programs, certain funds on hand in excess of stipulated minimum balances are periodically remitted to the owners of the multifamily developments financed by the bond issue, and are classified as owners' reserve in the accompanying financial statements. Funds remaining on hand at the conclusion of these programs are to be remitted to such owners. Therefore, such amounts are reflected as restricted components of net assets.

The Authority's Board of Directors has designated its unrestricted net assets as of September 30, 2008 and 2007, totaling \$48,995,000 and \$47,841,000, respectively, for funding of future single-family mortgage revenue bond programs, to support its single-family mortgage loan origination and warehousing operations, and to cover its operating expense budget for the following fiscal year.

9. RETIREMENT PLANS

Defined Contribution Plan

Substantially all full-time employees of the Authority participate in a defined contribution retirement plan, the Alabama Housing Finance Authority Retirement Plan (the Retirement Plan), which provides retirement benefits to Plan participants. The Retirement Plan is administered by Corporate Financial Services, LLC, an independent third-party administrator. To be eligible, an employee must meet certain age and service requirements. Once an employee is eligible, participation is mandatory. Each employee must contribute 5% of their compensation to the Retirement Plan annually. The Authority contributes an amount equal to 7% of each participant's compensation annually. The Authority's and employees' contributions to the Retirement Plan were \$222,000 and \$158,000, respectively, in fiscal 2008 and \$203,000 and \$145,000, respectively, in fiscal 2007. The employees vest in the Authority's contribution based upon a six-year vesting schedule.

Defined Benefit Plan

The Authority established the Alabama Housing Finance Authority Employees' Pension Plan (the Pension Plan), a single-employer defined benefit pension plan, on September 26, 2002. All plan investments are reported at fair value. The Pension Plan provides retirement, death, disability and termination benefits to plan participants and beneficiaries.

Benefit provisions are established by the Board of Directors (the Board) under a formal, written plan document and assets are held under a separate tax-qualified plan trust. Those provisions can only be amended by the Board. The plan and trust information can be obtained from the Alabama Housing Finance Authority, 2000 Interstate Park, Suite 408, Montgomery, AL 36123-0909. A separate stand-alone financial report for the Pension Plan is not available.

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

9. RETIREMENT PLANS (Continued)

The plan is funded in full by the Alabama Housing Finance Authority. Plan participants do not contribute to the plan. The contribution rates to fund the plan are determined annually by an independent actuarial valuation of plan liabilities and assets. This report contains applicable actuarial assumptions and methods and plan liability and asset calculations including the annual required contribution (ARC).

The required contributions to fund the annual pension cost of the plan for the years ended September 30, 2008, 2007 and 2006, were \$640,000, \$650,000 and \$558,000, respectively, or about 22.0%, 22.0% and 23.1% of covered participant compensation, respectively. Actual employer contributions to the plan totaled \$640,000, \$650,000 and \$670,000 for the years ended September 30, 2008, 2007 and 2006, respectively. The net pension assets at September 30, 2008, 2007 and 2006, was \$483,000, \$730,000 and \$498,000, respectively.

The annual required contribution for the current year was determined as part of the September 30, 2008, actuarial valuation using the individual spread gain actuarial cost method. This method does not separately identify or separately amortize unfunded liabilities. The significant actuarial assumptions utilized were as follows: 4.5% annual projected salary increases, 7% pre-retirement investment returns and 6% post-retirement investment returns.

At the plan's most recent actuarial date, September 30, 2008, the plan had the following participants:

Active participants	56
Vested terminated participants	1
Retired participants and beneficiaries	<u>0</u>
Total	<u><u>57</u></u>

Funding progress under the plan is scheduled below (in thousands):

Actuarial Valuation Date <u>September 30</u>	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability -Individual Spread Cost Method	(3) Funded Ratio (1) ÷ (2)	(4) Unfunded (Overfunded) Actuarial Accrued Liability (2) - (1)	(5) Annual Covered Payroll	(6) Overfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4) ÷ (5)
2006	\$ 3,419	\$ 2,921	117.05%	\$ (498)	\$ 2,657	18.74%
2007	4,405	3,675	119.86%	(730)	2,872	25.42%
2008	4,606	4,123	111.71%	(483)	3,179	15.19%

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

10. OPERATING LEASES

The Authority leases office space under operating leases expiring through 2010. Rent expense for the years ended September 30, 2008 and 2007, totaled \$220,000 and \$263,000, respectively. These amounts are included in program, general and administrative expenses in the accompanying financial statements. Future minimum rental payments required under these leases for the year ending September 30 are as follows (in thousands):

2009	\$	228
2010		93

11. EARLY RETIREMENT OF BONDS

The Authority's mortgage revenue bonds are subject to certain extraordinary redemption provisions. During the years ended September 30, 2008 and 2007, the Authority called approximately \$206,488,000 and \$259,450,000 (net of unamortized discounts), respectively, of bonds in advance of their scheduled maturities. The loss on early retirement of these bonds recognized in the financial statements is comprised of the premium paid to retire the bonds.

12. SUBSEQUENT EVENTS

From October 1, 2008, through December 15, 2008, the Authority called approximately \$245,765,000 of single-family bonds prior to their scheduled maturities. The Authority held \$17,480,000 of single-family, variable rate bonds at year end that had been tendered by bondholders in accordance with terms of the variable rate debt agreements. These bonds were not remarketed but were redeemed subsequent to year end using proceeds generated from the sale of the related collateral investments. Additionally, bondholders tendered \$210,330,000 of single-family variable rate bonds after the fiscal year that have also been subsequently redeemed through the sale of collateral investments. Investments liquidated subsequent to year end included \$210,330,000 in Bayerische LB guaranteed investment contracts held at year end.

Prior to year end, \$26,740,000 of multifamily, variable rate bonds had been tendered and were in the process of being remarketed. Of those bonds, \$8,440,000 have not been successfully remarketed. The Authority had additional tenders totaling \$33,225,000 of multifamily, variable rate bonds after the fiscal year end of which \$22,225,000 have been remarketed.

13. RECLASSIFICATIONS

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 presentation.

OTHER FINANCIAL INFORMATION

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF NET ASSETS
SINGLE-FAMILY BOND SERIES
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
SEPTEMBER 30, 2008

	1997 D 1998 A&B	1999 B 2000 A&B 2001 A 2002 B	2000/2003 Step Up	2003 First Step	2002 D 2004 A&B 2005 A&B 2006 A 2007 A&F 2008 A&C	2006 B-G 2007 B-G 2008 B	2006 H	2007 H	Combined Single-Family
CURRENT ASSETS									
Cash on deposit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued interest receivable	-	-	-	-	-	-	-	-	-
Mortgage loans receivable, net	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Restricted:									
Cash on deposit	-	-	-	-	-	-	-	853	853
Accrued interest receivable	54	750	341	3	1,370	2,832	100	55	5,505
Mortgage loans receivable, net	-	-	-	-	-	-	-	-	-
Mortgage loans held for sale	-	-	-	-	-	-	-	-	-
Investments	19,402	13,645	993	34	50,071	53,110	8,290	206,645	352,190
Other assets	-	-	-	-	-	-	-	-	-
Total current assets	<u>19,456</u>	<u>14,395</u>	<u>1,334</u>	<u>37</u>	<u>51,441</u>	<u>55,942</u>	<u>8,390</u>	<u>207,553</u>	<u>358,548</u>
NONCURRENT ASSETS									
Mortgage loans receivable, net	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Deferred servicing costs	-	-	-	-	-	-	-	-	-
Restricted:									
Mortgage-backed securities	-	89,111	54,712	512	150,265	344,341	-	-	638,941
Mortgage loans receivable, net	-	-	-	-	-	-	-	-	-
Investments	-	107	-	-	34,007	708	-	-	34,822
HOME program									
loans receivable, net	-	-	-	-	-	-	-	-	-
Deferred debt financing costs	148	1,011	95	70	161	3,854	5	103	5,447
Total noncurrent assets	<u>148</u>	<u>90,229</u>	<u>54,807</u>	<u>582</u>	<u>184,433</u>	<u>348,903</u>	<u>5</u>	<u>103</u>	<u>679,210</u>
TOTAL ASSETS	<u>\$ 19,604</u>	<u>\$ 104,624</u>	<u>\$ 56,141</u>	<u>\$ 619</u>	<u>\$ 235,874</u>	<u>\$ 404,845</u>	<u>\$ 8,395</u>	<u>\$ 207,656</u>	<u>\$ 1,037,758</u>
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES									
Bonds payable, net	\$ 18,690	\$ 9,385	\$ 604	\$ 1	\$ 25,655	\$ 14,180	\$ 5,830	\$ 204,500	\$ 278,845
Notes payable	-	-	-	-	-	-	-	-	-
Accrued interest payable	473	2,397	258	2	98	8,889	20	686	12,823
Accrued arbitrage rebate	29	127	-	-	-	-	2,323	1,852	4,331
Due to (from) other funds	-	44	-	-	-	174	-	-	218
Other liabilities	1	7	-	-	-	26	1	2	37
Total current liabilities	<u>19,193</u>	<u>11,960</u>	<u>862</u>	<u>3</u>	<u>25,753</u>	<u>23,269</u>	<u>8,174</u>	<u>207,040</u>	<u>296,254</u>
NONCURRENT LIABILITIES									
Bonds payable, net	-	75,025	54,682	521	54,020	377,593	-	-	561,841
Refundable HOME program grants	-	-	-	-	-	-	-	-	-
Accrued arbitrage rebate	-	2,126	-	-	-	708	-	-	2,834
Deferred commitment fees	-	-	-	-	-	-	-	-	-
Total noncurrent liabilities	<u>-</u>	<u>77,151</u>	<u>54,682</u>	<u>521</u>	<u>54,020</u>	<u>378,301</u>	<u>-</u>	<u>-</u>	<u>564,675</u>
TOTAL LIABILITIES	<u>19,193</u>	<u>89,111</u>	<u>55,544</u>	<u>524</u>	<u>79,773</u>	<u>401,570</u>	<u>8,174</u>	<u>207,040</u>	<u>860,929</u>
NET ASSETS									
Restricted	411	15,513	597	95	156,101	3,275	221	616	176,829
Unrestricted	-	-	-	-	-	-	-	-	-
Total net assets	<u>411</u>	<u>15,513</u>	<u>597</u>	<u>95</u>	<u>156,101</u>	<u>3,275</u>	<u>221</u>	<u>616</u>	<u>176,829</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,604</u>	<u>\$ 104,624</u>	<u>\$ 56,141</u>	<u>\$ 619</u>	<u>\$ 235,874</u>	<u>\$ 404,845</u>	<u>\$ 8,395</u>	<u>\$ 207,656</u>	<u>\$ 1,037,758</u>

See independent auditors' report.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
SINGLE-FAMILY BOND SERIES
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	1997 D 1998 A&B	1999 B 2000 A&B 2001 A 2002 B	2000/2003 Step Up	2003 First Step	2002 D 2004 A&B 2005 A&B 2006 A 2007 A&F 2008 A&C	2006 B-G 2007 B-G 2008 B	2006 H	2007 H	Combined Single-Family
OPERATING REVENUES									
Interest on mortgage loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest on mortgage-backed securities	1,334	5,719	3,296	30	8,366	16,613	-	-	35,358
Investment income	129	464	17	1	2,575	2,270	982	4,927	11,365
Net increase (decrease) in fair value of investments	268	47	910	12	1,891	3,360	-	-	6,488
Loan fees and other income	-	-	55	-	-	-	-	-	55
Total operating revenues	<u>1,731</u>	<u>6,230</u>	<u>4,278</u>	<u>43</u>	<u>12,832</u>	<u>22,243</u>	<u>982</u>	<u>4,927</u>	<u>53,266</u>
OPERATING EXPENSES									
Interest on bonds and notes	1,371	5,030	3,361	30	3,185	17,327	987	4,911	36,202
Amortization of deferred debt financing and servicing costs	236	278	23	26	90	188	89	48	978
Program, general and administrative	3	15	13	-	4	50	21	35	141
Total operating expenses	<u>1,610</u>	<u>5,323</u>	<u>3,397</u>	<u>56</u>	<u>3,279</u>	<u>17,565</u>	<u>1,097</u>	<u>4,994</u>	<u>37,321</u>
OPERATING INCOME (LOSS)	<u>121</u>	<u>907</u>	<u>881</u>	<u>(13)</u>	<u>9,553</u>	<u>4,678</u>	<u>(115)</u>	<u>(67)</u>	<u>15,945</u>
NONOPERATING REVENUES (EXPENSES)									
HOME program grants	-	-	-	-	-	-	-	-	-
HOME program expenditures	-	-	-	-	-	-	-	-	-
Total nonoperating revenues (expenses)	-	-	-	-	-	-	-	-	-
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS, TRANSFERS AND EXTRAORDINARY LOSS	<u>121</u>	<u>907</u>	<u>881</u>	<u>(13)</u>	<u>9,553</u>	<u>4,678</u>	<u>(115)</u>	<u>(67)</u>	<u>15,945</u>
CAPITAL CONTRIBUTIONS, TRANSFERS AND EXTRAORDINARY LOSS									
Owner contributions (reductions)	-	-	-	-	-	-	-	-	-
Transfers in (out)	(3,822)	(91)	(43)	-	4,335	1,626	(230)	683	2,458
Extraordinary loss on early retirement of bonds	(467)	-	-	-	-	-	-	-	(467)
CHANGES IN NET ASSETS	<u>(4,168)</u>	<u>816</u>	<u>838</u>	<u>(13)</u>	<u>13,888</u>	<u>6,304</u>	<u>(345)</u>	<u>616</u>	<u>17,936</u>
NET ASSETS									
Beginning of year	<u>4,579</u>	<u>14,697</u>	<u>(241)</u>	<u>108</u>	<u>142,213</u>	<u>(3,029)</u>	<u>566</u>	<u>-</u>	<u>158,893</u>
End of year	<u>\$ 411</u>	<u>\$ 15,513</u>	<u>\$ 597</u>	<u>\$ 95</u>	<u>\$ 156,101</u>	<u>\$ 3,275</u>	<u>\$ 221</u>	<u>\$ 616</u>	<u>\$ 176,829</u>

See independent auditors' report.

ALABAMA HOUSING FINANCE AUTHORITY

STATEMENTS OF NET ASSETS

MULTIFAMILY BOND SERIES

ADDITIONAL SEGMENT DATA (IN THOUSANDS)

SEPTEMBER 30, 2008

	<u>1989 A</u>	<u>1991 B</u>	<u>1992 B</u>	<u>1995 A-I</u>	<u>1996 D&E</u>	<u>1999 A</u>
CURRENT ASSETS						
Cash on deposit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued interest receivable	-	-	-	-	-	-
Mortgage loans receivable, net	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Restricted:						
Cash on deposit	-	-	29	-	-	-
Accrued interest receivable	3	4	1	16	-	27
Mortgage loans receivable, net	220	1,763	25	-	-	-
Mortgage loans held for sale	-	-	-	-	-	-
Investments	-	185	165	71	-	95
Other assets	-	-	-	-	-	-
Total current assets	<u>223</u>	<u>1,952</u>	<u>220</u>	<u>87</u>	<u>-</u>	<u>122</u>
NONCURRENT ASSETS						
Mortgage loans receivable, net	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Deferred servicing costs	-	-	-	-	-	-
Restricted:						
Mortgage-backed securities	-	-	-	2,819	-	5,792
Mortgage loans receivable, net	1,505	-	1,863	-	-	-
Investments	-	-	-	-	-	-
HOME program loans receivable, net	-	-	-	-	-	-
Deferred debt financing costs	-	-	-	-	-	-
Total noncurrent assets	<u>1,505</u>	<u>-</u>	<u>1,863</u>	<u>2,819</u>	<u>-</u>	<u>5,792</u>
TOTAL ASSETS	<u>\$ 1,728</u>	<u>\$ 1,952</u>	<u>\$ 2,083</u>	<u>\$ 2,906</u>	<u>\$ -</u>	<u>\$ 5,914</u>
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Bonds payable, net	\$ 220	\$ 1,910	\$ 55	\$ 70	\$ -	\$ 155
Notes payable	-	-	-	-	-	-
Accrued interest payable	3	4	8	5	-	26
Accrued arbitrage rebate	-	-	-	-	-	-
Due to (from) other funds	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Total current liabilities	<u>223</u>	<u>1,914</u>	<u>63</u>	<u>75</u>	<u>-</u>	<u>181</u>
NONCURRENT LIABILITIES						
Bonds payable, net	1,505	-	1,345	2,710	-	5,975
Refundable HOME program grants	-	-	-	-	-	-
Accrued arbitrage rebate	-	-	-	-	-	-
Deferred commitment fees	-	-	-	-	-	-
Total noncurrent liabilities	<u>1,505</u>	<u>-</u>	<u>1,345</u>	<u>2,710</u>	<u>-</u>	<u>5,975</u>
TOTAL LIABILITIES	<u>1,728</u>	<u>1,914</u>	<u>1,408</u>	<u>2,785</u>	<u>-</u>	<u>6,156</u>
NET ASSETS						
Restricted	-	38	675	121	-	(242)
Unrestricted	-	-	-	-	-	-
Total net assets	<u>-</u>	<u>38</u>	<u>675</u>	<u>121</u>	<u>-</u>	<u>(242)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,728</u>	<u>\$ 1,952</u>	<u>\$ 2,083</u>	<u>\$ 2,906</u>	<u>\$ -</u>	<u>\$ 5,914</u>

2000 A-K	2001 A-D	2002 A-J	2003 A-N	2004 A-H	2005 A-F	2007 A-E	Combined Multi Family
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	163	(25)	167
65	26	24	59	91	58	98	472
204	59	230	400	155	45	-	3,101
-	-	-	-	-	-	-	-
222	217	448	657	456	762	950	4,228
-	-	-	-	-	-	-	-
<u>491</u>	<u>302</u>	<u>702</u>	<u>1,116</u>	<u>702</u>	<u>1,028</u>	<u>1,023</u>	<u>7,968</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	3,534	-	7,243	19,388
27,031	15,546	18,276	34,950	24,075	63,607	16,743	203,596
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>27,031</u>	<u>15,546</u>	<u>18,276</u>	<u>34,950</u>	<u>27,609</u>	<u>63,607</u>	<u>23,986</u>	<u>222,984</u>
<u>\$ 27,522</u>	<u>\$ 15,848</u>	<u>\$ 18,978</u>	<u>\$ 36,066</u>	<u>\$ 28,311</u>	<u>\$ 64,635</u>	<u>\$ 25,009</u>	<u>\$ 230,952</u>
\$ 80	\$ 61	\$ 230	\$ 425	\$ 135	\$ 47	\$ 103	\$ 3,491
-	-	-	-	-	-	-	-
111	116	129	196	94	182	128	1,002
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>69</u>	<u>-</u>	<u>-</u>	<u>75</u>	<u>10</u>	<u>792</u>	<u>-</u>	<u>946</u>
<u>260</u>	<u>177</u>	<u>359</u>	<u>696</u>	<u>239</u>	<u>1,021</u>	<u>231</u>	<u>5,439</u>
27,120	15,538	18,365	35,129	27,787	63,605	24,585	223,664
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>27,120</u>	<u>15,538</u>	<u>18,365</u>	<u>35,129</u>	<u>27,787</u>	<u>63,605</u>	<u>24,585</u>	<u>223,664</u>
<u>27,380</u>	<u>15,715</u>	<u>18,724</u>	<u>35,825</u>	<u>28,026</u>	<u>64,626</u>	<u>24,816</u>	<u>229,103</u>
142	133	254	241	285	9	193	1,849
-	-	-	-	-	-	-	-
<u>142</u>	<u>133</u>	<u>254</u>	<u>241</u>	<u>285</u>	<u>9</u>	<u>193</u>	<u>1,849</u>
<u>\$ 27,522</u>	<u>\$ 15,848</u>	<u>\$ 18,978</u>	<u>\$ 36,066</u>	<u>\$ 28,311</u>	<u>\$ 64,635</u>	<u>\$ 25,009</u>	<u>\$ 230,952</u>

See independent auditors' report.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
MULTIFAMILY BOND SERIES
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>1989 A</u>	<u>1991 B</u>	<u>1992 B</u>	<u>1995 A-I</u>	<u>1996 D&E</u>	<u>1999 A</u>
OPERATING REVENUES						
Interest on mortgage loans	\$ 46	\$ 53	\$ 149	\$ 48	\$ -	\$ -
Interest on mortgage-backed securities	-	-	-	198	27	334
Investment income	-	3	12	183	8	2
Net increase (decrease) in fair value of investments	-	-	-	71	(11)	(226)
Loan fees and other income	-	-	-	-	-	-
Total operating revenues	<u>46</u>	<u>56</u>	<u>161</u>	<u>500</u>	<u>24</u>	<u>110</u>
OPERATING EXPENSES						
Interest on bonds and notes	46	53	105	473	50	320
Amortization of deferred debt financing and servicing costs	-	-	-	-	-	-
Program, general and administrative	-	-	10	9	7	9
Total operating expenses	<u>46</u>	<u>53</u>	<u>115</u>	<u>482</u>	<u>57</u>	<u>329</u>
OPERATING INCOME (LOSS)	<u>-</u>	<u>3</u>	<u>46</u>	<u>18</u>	<u>(33)</u>	<u>(219)</u>
NONOPERATING REVENUES (EXPENSES)						
HOME program grants	-	-	-	-	-	-
HOME program expenditures	-	-	-	-	-	-
Total nonoperating revenues (expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS, TRANSFERS AND EXTRAORDINARY LOSS	<u>-</u>	<u>3</u>	<u>46</u>	<u>18</u>	<u>(33)</u>	<u>(219)</u>
CAPITAL CONTRIBUTIONS, TRANSFERS AND EXTRAORDINARY LOSS						
Owner contributions (reductions)	-	-	-	(40)	4	(5)
Transfers in (out)	-	-	-	-	-	-
Extraordinary loss on early retirement of bonds	-	-	-	-	-	-
CHANGES IN NET ASSETS	<u>-</u>	<u>3</u>	<u>46</u>	<u>(22)</u>	<u>(29)</u>	<u>(224)</u>
NET ASSETS						
Beginning of year	<u>-</u>	<u>35</u>	<u>629</u>	<u>143</u>	<u>29</u>	<u>(18)</u>
End of year	<u>\$ -</u>	<u>\$ 38</u>	<u>\$ 675</u>	<u>\$ 121</u>	<u>\$ -</u>	<u>\$ (242)</u>

<u>2000 A-K</u>	<u>2001 A-D</u>	<u>2002 A-J</u>	<u>2003 A-N</u>	<u>2004 A-H</u>	<u>2005 A-F</u>	<u>2007 A-E</u>	<u>Combined Multi Family</u>
\$ 1,075	\$ 656	\$ 693	\$ 1,649	\$ 1,024	\$ 2,392	\$ 372	\$ 8,157
-	-	-	-	202	-	266	1,027
9	6	8	13	8	15	150	417
-	-	-	-	(67)	-	45	(188)
-	-	-	-	-	-	-	-
<u>1,084</u>	<u>662</u>	<u>701</u>	<u>1,662</u>	<u>1,167</u>	<u>2,407</u>	<u>833</u>	<u>9,413</u>
1,064	638	663	1,597	1,209	2,384	846	9,448
-	-	-	-	-	-	-	-
8	20	10	19	15	-	27	134
<u>1,072</u>	<u>658</u>	<u>673</u>	<u>1,616</u>	<u>1,224</u>	<u>2,384</u>	<u>873</u>	<u>9,582</u>
<u>12</u>	<u>4</u>	<u>28</u>	<u>46</u>	<u>(57)</u>	<u>23</u>	<u>(40)</u>	<u>(169)</u>
-	-	-	-	-	-	-	-
<u>-</u>							
-	-	-	-	-	-	-	-
<u>-</u>							
12	4	28	46	(57)	23	(40)	(169)
-	-	-	-	(6)	(536)	(161)	(744)
-	-	-	-	-	-	-	-
<u>-</u>							
12	4	28	46	(63)	(513)	(201)	(913)
<u>130</u>	<u>129</u>	<u>226</u>	<u>195</u>	<u>348</u>	<u>522</u>	<u>394</u>	<u>2,762</u>
<u>\$ 142</u>	<u>\$ 133</u>	<u>\$ 254</u>	<u>\$ 241</u>	<u>\$ 285</u>	<u>\$ 9</u>	<u>\$ 193</u>	<u>\$ 1,849</u>

See independent auditors' report.

ALABAMA HOUSING FINANCE AUTHORITY

STATEMENTS OF NET ASSETS

COMBINING ALL FUNDS

ADDITIONAL SEGMENT DATA (IN THOUSANDS)

SEPTEMBER 30, 2008

	<u>Combined Single- Family</u>	<u>Combined Multi Family</u>	<u>HOME Fund</u>	<u>Housing Assistance Fund</u>	<u>General Fund</u>	<u>Combined Totals</u>
CURRENT ASSETS						
Cash on deposit	\$ -	\$ -	\$ -	\$ 73	\$ 799	\$ 872
Accrued interest receivable	-	-	-	52	121	173
Mortgage loans receivable, net	-	-	-	1,225	-	1,225
Investments	-	-	-	726	296	1,022
Other assets	-	-	-	-	1,192	1,192
Restricted:						
Cash on deposit	853	167	-	-	-	1,020
Accrued interest receivable	5,505	472	6,650	-	-	12,627
Mortgage loans receivable, net	-	3,101	-	-	1,500	4,601
Mortgage loans held for sale	-	-	-	-	12,749	12,749
Investments	352,190	4,228	-	-	-	356,418
Other assets	-	-	487	-	-	487
Total current assets	<u>358,548</u>	<u>7,968</u>	<u>7,137</u>	<u>2,076</u>	<u>16,657</u>	<u>392,386</u>
NONCURRENT ASSETS						
Mortgage loans receivable, net	-	-	-	35,239	-	35,239
Investments	-	-	-	-	3,218	3,218
Other assets	-	-	-	-	1,891	1,891
Deferred servicing costs	-	-	-	-	12,548	12,548
Restricted:						
Mortgage-backed securities	638,941	19,388	-	-	-	658,329
Mortgage loans receivable, net	-	203,596	-	-	6,417	210,013
Investments	34,822	-	-	-	-	34,822
HOME program loans receivable, net	-	-	199,144	-	-	199,144
Deferred debt financing costs	5,447	-	-	-	-	5,447
Total noncurrent assets	<u>679,210</u>	<u>222,984</u>	<u>199,144</u>	<u>35,239</u>	<u>24,074</u>	<u>1,160,651</u>
TOTAL ASSETS	<u>\$ 1,037,758</u>	<u>\$ 230,952</u>	<u>\$ 206,281</u>	<u>\$ 37,315</u>	<u>\$ 40,731</u>	<u>\$ 1,553,037</u>
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Bonds payable, net	\$ 278,845	\$ 3,491	\$ -	\$ -	\$ -	\$ 282,336
Note payable	-	-	-	-	3,750	3,750
Accrued interest payable	12,823	1,002	6,650	-	30	20,505
Accrued arbitrage rebate	4,331	-	-	-	-	4,331
Due to (from) other funds	218	-	487	(6,045)	5,340	-
Other liabilities	37	946	-	92	208	1,283
Total current liabilities	<u>296,254</u>	<u>5,439</u>	<u>7,137</u>	<u>(5,953)</u>	<u>9,328</u>	<u>312,205</u>
NONCURRENT LIABILITIES						
Bonds payable, net	561,841	223,664	-	-	-	785,505
Refundable HOME program grants	-	-	199,144	-	-	199,144
Accrued arbitrage rebate	2,834	-	-	-	-	2,834
Deferred commitment fees	-	-	-	-	14,100	14,100
Total noncurrent liabilities	<u>564,675</u>	<u>223,664</u>	<u>199,144</u>	<u>-</u>	<u>14,100</u>	<u>1,001,583</u>
TOTAL LIABILITIES	<u>860,929</u>	<u>229,103</u>	<u>206,281</u>	<u>(5,953)</u>	<u>23,428</u>	<u>1,313,788</u>
NET ASSETS						
Restricted	176,829	1,849	-	-	11,576	190,254
Unrestricted	-	-	-	43,268	5,727	48,995
Total net assets	<u>176,829</u>	<u>1,849</u>	<u>-</u>	<u>43,268</u>	<u>17,303</u>	<u>239,249</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,037,758</u>	<u>\$ 230,952</u>	<u>\$ 206,281</u>	<u>\$ 37,315</u>	<u>\$ 40,731</u>	<u>\$ 1,553,037</u>

See independent auditors' report.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
COMBINING ALL FUNDS
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Combined Single- Family</u>	<u>Combined Multi Family</u>	<u>HOME Fund</u>	<u>Housing Assistance Fund</u>	<u>General Fund</u>	<u>Combined Totals</u>
OPERATING REVENUES						
Interest on mortgage loans	\$ -	\$ 8,157	\$ -	\$ 1,046	\$ 2,447	\$ 11,650
Interest on mortgage-backed securities	35,358	1,027	-	-	-	36,385
Investment income	11,365	417	-	379	382	12,543
Net increase (decrease) in fair value of investments	6,488	(188)	-	252	523	7,075
Loan fees and other income	<u>55</u>	<u>-</u>	<u>-</u>	<u>(201)</u>	<u>8,402</u>	<u>8,256</u>
Total operating revenues	<u>53,266</u>	<u>9,413</u>	<u>-</u>	<u>1,476</u>	<u>11,754</u>	<u>75,909</u>
OPERATING EXPENSES						
Interest on bonds and notes	36,202	9,448	-	-	481	46,131
Amortization of deferred debt financing and servicing costs	978	-	-	-	972	1,950
Program, general and administrative	<u>141</u>	<u>134</u>	<u>-</u>	<u>803</u>	<u>10,196</u>	<u>11,274</u>
Total operating expenses	<u>37,321</u>	<u>9,582</u>	<u>-</u>	<u>803</u>	<u>11,649</u>	<u>59,355</u>
OPERATING INCOME (LOSS)	<u>15,945</u>	<u>(169)</u>	<u>-</u>	<u>673</u>	<u>105</u>	<u>16,554</u>
NONOPERATING REVENUES (EXPENSES)						
HOME program grants	-	-	13,281	-	-	13,281
HOME program expenditures	<u>-</u>	<u>-</u>	<u>(13,281)</u>	<u>-</u>	<u>-</u>	<u>(13,281)</u>
Total nonoperating revenues (expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS, TRANSFERS AND EXTRAORDINARY LOSS	15,945	(169)	-	673	105	16,554
CAPITAL CONTRIBUTIONS, TRANSFERS AND EXTRAORDINARY LOSS						
Owner contributions (reductions)	-	(744)	-	-	-	(744)
Transfers in (out)	2,458	-	-	100	(2,558)	-
Extraordinary loss on early retirement of bonds	<u>(467)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(467)</u>
CHANGES IN NET ASSETS	17,936	(913)	-	773	(2,453)	15,343
NET ASSETS						
Beginning of year	<u>158,893</u>	<u>2,762</u>	<u>-</u>	<u>42,495</u>	<u>19,756</u>	<u>223,906</u>
End of year	<u>\$ 176,829</u>	<u>\$ 1,849</u>	<u>\$ -</u>	<u>\$ 43,268</u>	<u>\$ 17,303</u>	<u>\$ 239,249</u>

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