

ALABAMA HOUSING FINANCE AUTHORITY

COMPARATIVE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

ALABAMA HOUSING FINANCE AUTHORITY
SEPTEMBER 30, 2013 AND 2012

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Independent Auditors' Report

Board of Directors
Alabama Housing Finance Authority
Montgomery, Alabama

We have audited the accompanying statements of net position of the Alabama Housing Finance Authority (a component unit of the State of Alabama), as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alabama Housing Finance Authority as of September 30, 2013 and 2012, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying additional segment data is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Warren Averett, LLC

Montgomery, Alabama
December 20, 2013

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, 2013. 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, financial statements and accompanying notes. Operations of the Authority include: (1) fund and securitize single-family mortgage loans of qualified borrowers, (2) implement and manage housing-related Federal Programs including HOME Investment Partnerships Program (HOME), the Tax Credit Assistance Program (TCAP), Exchange Grant Program, Hardest Hit Alabama Program and Low-Income Housing Tax Credits, (3) issue bonds to fund loans for single-family residences and multifamily developments and (4) service Authority and other entity mortgages. 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 position, revenues and expenses as appropriate. Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 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 position 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 position. This statement measures the activities of the Authority's operations over the past year and presents the resulting change in net position – 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, investing, 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 Position

The following table presents condensed information about the net position of the Authority as of September 30, 2013 and 2012, and changes in the balances of selected items during the fiscal year ended September 30, 2013 (in thousands):

CONDENSED STATEMENTS OF NET POSITION

	<u>2013</u>	<u>2012</u>	<u>Change</u>
ASSETS			
CURRENT ASSETS			
Cash on deposit	\$ 4,240	\$ 2,913	\$ 1,327
Accrued interest receivable and restricted accrued interest	15,208	14,248	960
Mortgages and restricted mortgages	45,833	18,468	27,365
Investments and restricted investments	192,252	214,901	(22,649)
Other assets and restricted other assets	<u>7,023</u>	<u>6,883</u>	<u>140</u>
Total current assets	<u>264,556</u>	<u>257,413</u>	<u>7,143</u>
NONCURRENT ASSETS			
Mortgages, restricted mortgages and restricted mortgage-backed securities	406,140	487,947	(81,807)
Restricted Federal Program grants	308,360	293,146	15,214
Investments and restricted investments	10,431	14,184	(3,753)
Other assets and restricted other assets	11,182	7,871	3,311
Deferred servicing costs and restricted deferred debt financing	<u>15,785</u>	<u>12,374</u>	<u>3,411</u>
Total noncurrent assets	<u>751,898</u>	<u>815,522</u>	<u>(63,624)</u>
TOTAL ASSETS	<u>\$ 1,016,454</u>	<u>\$ 1,072,935</u>	<u>\$ (56,481)</u>
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Bonds and notes payable	\$ 37,116	\$ 38,356	\$ (1,240)
Accrued interest payable	18,063	17,754	309
Other liabilities	<u>1,040</u>	<u>186</u>	<u>854</u>
Total current liabilities	<u>56,219</u>	<u>56,296</u>	<u>(77)</u>
NONCURRENT LIABILITIES			
Bonds and notes payable	303,524	364,318	(60,794)
Refundable Federal Program grants	314,042	302,254	11,788
Other liabilities	<u>15,718</u>	<u>16,078</u>	<u>(360)</u>
Total noncurrent liabilities	<u>633,284</u>	<u>682,650</u>	<u>(49,366)</u>
TOTAL LIABILITIES	<u>689,503</u>	<u>738,946</u>	<u>(49,443)</u>
NET POSITION			
Net investment in capital assets	1,381	1,171	210
Restricted	173,593	259,519	(85,926)
Unrestricted	<u>151,977</u>	<u>73,299</u>	<u>78,678</u>
Total net position	<u>326,951</u>	<u>333,989</u>	<u>(7,038)</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,016,454</u>	<u>\$ 1,072,935</u>	<u>\$ (56,481)</u>

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

Condensed Statements of Net Position (Continued)

Current assets increased \$7,143,000 from September 30, 2012, to September 30, 2013, primarily due to an increase in mortgages and restricted mortgages of \$27,365,000, contrasted with a decrease of investments and restricted investments of \$22,649,000. The increase of mortgages was specifically loans held for sale, reflecting an increase of loans in the process of being pooled into mortgage-backed securities at year-end. The decrease in investments was primarily attributable to the increased volume of lending reflected in the loans held for sale.

Noncurrent assets decreased \$63,624,000, primarily due to a decrease in mortgage loans and restricted mortgage-backed securities of \$81,807,000, with most of this reduction occurring in the single-family bond program. Restricted federal program mortgages increased \$15,214,000, reflecting increased lending under the HOME Program and financial assistance under the Hardest Hit Alabama Program. Other assets and restricted other assets increased \$3,311,000, due to increases in net pool buyouts in the general fund. Deferred servicing costs and restricted deferred debt financing costs increased \$3,411,000 due to an increase in net unamortized service release premiums in the general fund relating to loans held and pooled into mortgage-backed securities during the fiscal year.

Current liabilities decreased \$77,000 from September 30, 2012, to September 30, 2013, due to decreases in bonds payable classified as current and scheduled for maturity or redemption in the next twelve months. This was offset with increases in accrued interest payable attributable to the overall increase of HOME Federal Program grants payable and accounts payable in the general fund.

Noncurrent liabilities decreased \$49,366,000, due to decreases in bonds payable of \$60,794,000. Refundable federal program grants increased \$11,788,000 due to increased lending activity in those programs. The following chart summarizes the Authority's debt activity from September 30, 2012, to September 30, 2013 (in thousands):

	Debt Balance 9/30/2012	Debt Issued	Debt Paid	Debt Balance 9/30/2013
Bonds payable	\$ 402,674	\$ -	\$ 62,034	\$ 340,640
Federal Program loans receivable, net	<u>302,254</u>	<u>17,197</u>	<u>5,409</u>	<u>314,042</u>
	<u>\$ 704,928</u>	<u>\$ 17,197</u>	<u>\$ 67,443</u>	<u>\$ 654,682</u>

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

Operating and Nonoperating Revenues, Expenses and Changes in Net Position

The following table presents condensed statements of revenues, expenses and changes in net position for the Authority as of September 30, 2013 and 2012, and the change from the prior year (in thousands):

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	<u>2013</u>	<u>2012</u>	<u>Change</u>
OPERATING REVENUES			
Interest on mortgage loans and mortgage-backed securities	\$ 23,045	\$ 26,228	\$ (3,183)
Investment income (loss)	(9,891)	2,972	(12,863)
Loan fees and other income	<u>12,259</u>	<u>13,933</u>	<u>(1,674)</u>
Total operating revenues	<u>25,413</u>	<u>43,133</u>	<u>(17,720)</u>
OPERATING EXPENSES			
Interest on bonds	13,952	16,801	(2,849)
Amortization of deferred debt financing and servicing costs	2,140	1,884	256
Program, general and administrative	<u>16,329</u>	<u>15,126</u>	<u>1,203</u>
Total operating expenses	<u>32,421</u>	<u>33,811</u>	<u>(1,390)</u>
OPERATING INCOME (LOSS)	<u>(7,008)</u>	<u>9,322</u>	<u>(16,330)</u>
NONOPERATING REVENUES (EXPENSES)			
Federal Program grants	24,850	53,822	(28,972)
Federal Program expenditures	<u>(24,880)</u>	<u>(53,848)</u>	<u>28,968</u>
Total nonoperating revenues (expenses)	<u>(30)</u>	<u>(26)</u>	<u>(4)</u>
CHANGES IN NET POSITION	(7,038)	9,296	(16,334)
NET POSITION AT BEGINNING OF YEAR	<u>333,989</u>	<u>324,693</u>	<u>9,296</u>
NET POSITION AT END OF YEAR	<u>\$ 326,951</u>	<u>\$ 333,989</u>	<u>\$ (7,038)</u>

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

Operating and Nonoperating Revenues, Expenses and Changes in Net Position (Continued)

Total operating revenues decreased \$17,720,000, reflecting decreases in interest and investment income. Interest on mortgage loans and mortgage-backed securities decreased \$3,183,000 due to the overall decrease in mortgage loan and mortgage-backed securities balances during 2013, net of loan originations. Investment income decreased \$12,863,000 primarily due to a reduction in the fair value increase recognition on mortgage-backed securities and investments at year-end in comparison to 2012.

Total operating expenses decreased \$1,390,000, due to a decrease in interest expense on bonds payable of \$2,849,000 in the single-family bond program. Program, general and administrative expenses increased \$1,203,000, primarily due to the expansion in single-family servicing operations in the general fund.

Total nonoperating expenses relating to Federal Program grants over Federal Program expenditures is primarily due to depreciation expense of capital assets relating to the Hardest Hit Alabama program.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
	(In thousands)	
ASSETS		
CURRENT ASSETS		
Cash on deposit	\$ 4,240	\$ 2,913
Accounts receivable	193	193
Accrued interest receivable	161	87
Mortgage loans receivable, net	4,210	3,916
Mortgage loans held for sale	41,623	14,552
Investments	48,409	3,162
Other assets	5,605	5,510
Restricted:		
Accrued interest receivable	15,047	14,161
Investments	143,843	211,739
Other assets	<u>1,225</u>	<u>1,180</u>
Total current assets	<u>264,556</u>	<u>257,413</u>
NONCURRENT ASSETS		
Mortgage loans receivable, net	37,990	39,800
Investments	1,132	1,439
Other assets	9,801	6,700
Deferred servicing costs	13,785	9,844
Restricted:		
Mortgage-backed securities	368,150	448,147
Investments	9,299	12,745
Other assets	1,381	1,171
Federal Program loans receivable, net	308,360	293,146
Deferred debt financing costs	<u>2,000</u>	<u>2,530</u>
Total noncurrent assets	<u>751,898</u>	<u>815,522</u>
TOTAL ASSETS	<u>\$ 1,016,454</u>	<u>\$ 1,072,935</u>

See independent auditors' report and notes to financial statements.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
	(In thousands)	
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Bonds payable, net of unamortized premiums	\$ 37,116	\$ 38,356
Accrued interest payable	18,063	17,754
Other liabilities	<u>1,040</u>	<u>186</u>
Total current liabilities	<u>56,219</u>	<u>56,296</u>
NONCURRENT LIABILITIES		
Bonds payable, net of unamortized premiums	303,524	364,318
Refundable Federal Program grants	314,042	302,254
Deferred commitment fees	<u>15,718</u>	<u>16,078</u>
Total noncurrent liabilities	<u>633,284</u>	<u>682,650</u>
TOTAL LIABILITIES	<u>689,503</u>	<u>738,946</u>
NET POSITION		
Net investment in capital assets	1,381	1,171
Restricted	173,593	259,519
Unrestricted	<u>151,977</u>	<u>73,299</u>
Total net position	<u>326,951</u>	<u>333,989</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,016,454</u>	<u>\$ 1,072,935</u>

See independent auditors' report and notes to financial statements.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
	(In thousands)	
OPERATING REVENUES		
Interest on mortgage loans	\$ 2,856	\$ 2,385
Interest on mortgage-backed securities	20,189	23,843
Investment income	1,065	1,473
Net realized and unrealized gain (loss) on investments	(10,956)	1,499
Loan fees and other income	<u>12,259</u>	<u>13,933</u>
Total operating revenues	<u>25,413</u>	<u>43,133</u>
OPERATING EXPENSES		
Interest on bonds	13,952	16,801
Amortization of deferred debt financing and servicing costs	2,140	1,884
Program, general and administrative	<u>16,329</u>	<u>15,126</u>
Total operating expenses	<u>32,421</u>	<u>33,811</u>
OPERATING INCOME (LOSS)	<u>(7,008)</u>	<u>9,322</u>
NONOPERATING REVENUES (EXPENSES)		
Federal Program grants	24,850	53,822
Federal Program expenditures	<u>(24,880)</u>	<u>(53,848)</u>
Total nonoperating revenues (expenses)	<u>(30)</u>	<u>(26)</u>
CHANGES IN NET POSITION	(7,038)	9,296
NET POSITION		
Beginning of the year	<u>333,989</u>	<u>324,693</u>
End of the year	<u>\$ 326,951</u>	<u>\$ 333,989</u>

See independent auditors' report and notes to financial statements.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

INCREASE (DECREASE) IN CASH ON DEPOSIT

	<u>2013</u>	<u>2012</u>
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from sales/maturities of mortgage-backed securities	\$ 65,909	\$ 61,694
Purchase of mortgage loans	(42,677)	(33,003)
Principal payments received on mortgage loans	39,962	30,038
Purchase of mortgage loans held for sale	(541,084)	(177,543)
Proceeds from sale of mortgage loans held for sale	513,511	175,723
Interest received from mortgage loans	2,780	2,403
Interest received from mortgage-backed securities	20,641	24,280
Cash paid to suppliers for goods and services	(7,096)	(8,665)
Cash payments to employees for services	(5,058)	(4,671)
Loan fees, commitment fees and other income received	<u>11,899</u>	<u>13,910</u>
Net cash provided by operating activities	<u>58,787</u>	<u>84,166</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from bonds issued	-	75,000
Principal payments on bonds	(62,035)	(109,491)
Payments of debt financing costs	(2)	(134)
Proceeds from Federal Program grants, net	11,788	40,082
Interest paid on bonds and note	<u>(15,019)</u>	<u>(17,686)</u>
Net cash used in noncapital financing activities	<u>(65,268)</u>	<u>(12,229)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of furniture and equipment	(608)	(452)
Purchase of mortgage service rights	<u>(7,056)</u>	<u>(2,583)</u>
Net cash used in capital and related financing activities	<u>(7,664)</u>	<u>(3,035)</u>

See independent auditors' report and notes to financial statements.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
	(In thousands)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	\$ (648,835)	\$ (759,987)
Proceeds from sales of investments	674,736	717,113
Interest received from investments	4,740	7,128
Federal Program mortgage loans funded, net	<u>(15,169)</u>	<u>(33,375)</u>
Net cash provided (used) by investing activities	<u>15,472</u>	<u>(69,121)</u>
NET INCREASE (DECREASE) IN CASH ON DEPOSIT	1,327	(219)
CASH ON DEPOSIT AT BEGINNING OF YEAR	<u>2,913</u>	<u>3,132</u>
CASH ON DEPOSIT AT END OF YEAR	<u>\$ 4,240</u>	<u>\$ 2,913</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (7,008)	\$ 9,322
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	370	365
Amortization and expense of deferred debt financing and servicing costs	3,647	3,609
Amortization of deferred commitment fees	(3,095)	(2,581)
Gross unrealized loss on investments	14,590	4,142
Provision for loan losses, net	1,484	1,949
Commitment fees received	2,735	2,558
Interest received from investments	(4,739)	(7,127)
Interest paid on bonds	15,019	17,687
Changes in operating assets and liabilities:		
Accrued interest receivable	(960)	466
Mortgage loans receivable	(3,217)	(1,720)
Mortgage loans held for sale	(27,071)	(1,657)
Mortgage-backed securities	65,909	61,694
Other assets and accounts receivable	54	(3,605)
Accrued interest payable	309	(885)
Other liabilities	<u>760</u>	<u>(51)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 58,787</u>	<u>\$ 84,166</u>

See independent auditors' report and notes to financial statements.

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

1. AUTHORITY LEGISLATION

The Alabama Housing Finance Authority (Authority) is a public corporation created, organized and existing under Act No. 80-585 (Act) originally enacted by the Legislature of the State of Alabama at its 1980 regular session. Pursuant to the Act, as amended, 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 position, revenues and expenses of the Authority's single-family bond programs (Program Funds), Federal Programs, 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, Federal Programs, 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 bond programs.

All Federal funds received in connection with the Authority's administration of Federal Programs are reported as nonoperating revenues in the accompanying financial statements. Disbursements of Federal Program funds, whether for repayable or conditionally forgivable loans, are reported as nonoperating expenses, in accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Financial Assistance*. The Authority participates in four federally funded programs: the HOME Investment Partnerships Program (HOME), the Tax Credit Assistance Program (TCAP), the ARRA Section 1602 Exchange Grant Program and the U.S. Department of Treasury Hardest Hit Program (Hardest Hit Alabama).

Use of Estimates in the Preparation of Financial Statements

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, 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.

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents represent funds on deposit with various financial institutions and uninvested funds held by the Trustees of the Authority's various bond programs. At September 30, 2013, all cash on deposit held by the Authority's trustees was in the name of the Authority. Cash on deposit consists of unrestricted and restricted cash totaling \$4,240,000 and \$2,913,000 as of September 30, 2013 and 2012, respectively. All cash on deposit at September 30, 2013, 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 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. 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.

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.

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 position. 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. 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. There were no such rebateable earnings for the years ended September 30, 2013 or 2012.

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. The Authority routinely enters into contracts with various investors to sell these loans in secondary markets and has commitments to deliver \$12,000,000 Ginnie Mae and \$272,000 Fannie Mae guaranteed mortgage-backed securities as of the year ended September 30, 2013.

Federal Programs Loans Receivable

HOME Program loans are 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 closed three loans in 1994 that are forgivable for both principal and interest. These are not recorded as assets or liabilities of the Authority and totaled \$2,950,000.

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Programs Loans Receivable (Continued)

The TCAP Program, authorized by the American Recovery and Reinvestment Act of 2009, is designed to assist housing developments financed with Low-Income Housing Tax Credits. The Authority closed one loan in 2010 that is forgivable for both principal and interest. This is not recorded as assets or liabilities of the Authority and totaled \$1,237,000.

The Hardest Hit Alabama fund, authorized by the U.S. Department of Treasury, is designed to provide forgivable funds to help families in states hardest hit by the foreclosure crisis in conjunction with high unemployment rates. All Hardest Hit Alabama financial assistance will be forgiven at or before the Program's closure in December 2017.

Deferred Debt Financing Costs

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

Mortgage Loan Servicing

As of September 30, 2013 and 2012, the Authority serviced \$1,685,674,000 and \$1,290,396,000, respectively, in mortgage loans including \$1,636,551,000 and \$1,241,817,000, respectively, serviced for other entities. Escrow balances associated with these loans are not included in the statements of net position of the Authority.

Mortgage Servicing Rights

The Authority follows the provisions of GASB No. 62, entitled *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. 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 \$465,000 and \$1,159,000 at September 30, 2013 and 2012, respectively, net of an allowance for loss.

Pool Buyouts

The Authority holds certain mortgages purchased out of respective Ginnie Mae or Fannie Mae pooled loans being serviced by the Authority. These are insured loans that are in the process of foreclosure for which the Authority anticipates receiving claim proceeds from the respective investor or guarantor. These loans totaled \$9,335,000 and \$5,542,000 at September 30, 2013 and 2012, respectively, net of an allowance for loss.

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements

In June 2012, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This statement provides reporting guidance for deferred outflows of resources and deferred inflows of resources and requires that net assets be renamed as net position. The provisions of this statement have been applied for the year ended September 30, 2013.

In March 2012, GASB issued Statement No. 65 that establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for annual reporting periods beginning on or after December 15, 2012 and should be applied retrospectively. The Authority is currently evaluating the impact of this standard on the financial statements.

In June 2012, GASB issued Statement No. 68 that establishes accounting and financial reporting standards that require cost-sharing defined benefit pensions to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. This statement also requires more extensive note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. This statement is effective for annual reporting periods beginning on or after June 15, 2014 and should be applied prospectively. The Authority is currently evaluating the impact of this standard on the financial statements.

Subsequent Events

The Authority has evaluated subsequent events through December 20, 2013, which is the date the financial statements were available to be issued.

3. MORTGAGE-BACKED SECURITIES

Mortgage-backed securities held by the Authority include securitized mortgage obligations, backed by pools of single-family 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, 2013, mortgage-backed securities consisted of program certificates with interest rates ranging from 4% to 8.625%. The cost of program investments at September 30, 2013 and 2012, was \$335,923,000 and \$401,832,000, respectively.

As a result of changes in the fair value of mortgage-backed securities, the Authority recorded net unrealized losses of \$14,089,000 and \$4,053,000 for the years ended September 30, 2013 and 2012, respectively. It is the intention of the Authority to hold these securities until the underlying loans are paid in full.

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

4. INVESTMENTS

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

<u>Investment Type</u>	<u>2013</u>	<u>% of Total</u>	<u>2012</u>	<u>% of Total</u>
Money market funds	\$ 192,151	95%	\$ 214,457	94%
Guaranteed investment contracts	-	0%	194	0%
Mortgage-backed securities	10,432	5%	14,184	6%
Certificates of deposit	100	0%	250	0%
	<u>\$ 202,683</u>	<u>100%</u>	<u>\$ 229,085</u>	<u>100%</u>

The cost of investments at September 30, 2013 and 2012, was \$201,663,000 and \$227,563,000, respectively. As a result of changes in the fair value of investments, the Authority recorded net unrealized losses of \$1,548,000 and \$69,000 for the years ended September 30, 2013 and 2012, 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	\$ 192,151	\$ 192,151	\$ -	\$ -	\$ -
Mortgage-backed securities	10,432	-	1,333	2,225	6,874
Certificates of deposit	100	100	-	-	-
	<u>\$ 202,683</u>	<u>\$ 192,251</u>	<u>\$ 1,333</u>	<u>\$ 2,225</u>	<u>\$ 6,874</u>

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

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, 2013, 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 above A1, meeting the criteria of the Authority and rating agencies of those respective bond issues. If any GIC Provider is downgraded below contractual requirements, or ratings have been withdrawn by a rating agency, the GIC Provider has the option to terminate or provide collateral to maintain the required ratings on the bonds.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of use of a custodial agent, the Authority may not be able to recover the value of its investments or collateral securities that are in 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 of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of an investment in a single type of security. The table below lists all investments by investment provider and type as of September 30, 2013 (in thousands).

<u>Provider</u>	<u>Money Market And Other</u>	<u>Mortgage- Backed Securities</u>	<u>Certificates of Deposit</u>	<u>Total</u>	<u>Percent</u>
Dreyfus US Treasury	\$ 5,928	\$ -	\$ -	\$ 5,928	3%
Federated Government Obligations	48,217	-	-	48,217	24%
Federated GNMA Money Market	22,021	-	-	22,021	11%
Fidelity US Government	20,000	-	-	20,000	10%
First American Treasury Obligations	95,893	-	-	95,893	47%
GNMA Mortgage-backed Securities	-	10,432	-	10,432	5%
Keystone Bank	-	-	100	100	0%
River Bank & Trust	92	-	-	92	0%
Total	<u>\$ 192,151</u>	<u>\$ 10,432</u>	<u>\$ 100</u>	<u>\$ 202,683</u>	<u>100%</u>

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

4. INVESTMENTS (Continued)

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

	<u>2013</u>	<u>2012</u>
Current assets – investments	\$ 48,409	\$ 3,162
Current assets – restricted investments	143,843	211,739
Noncurrent assets – investments	1,132	1,439
Noncurrent assets – restricted investments	<u>9,299</u>	<u>12,745</u>
	<u>\$ 202,683</u>	<u>\$ 229,085</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>2013</u>	<u>2012</u>
Mortgage loans receivable (5% to 11.27%):		
Conventional	\$ 2,592	\$ 3,623
FHA insured	65	150
VA insured	110	221
Down payment assistance/Habitat loans (0% to 8.40%)	<u>42,659</u>	<u>43,277</u>
	45,426	47,271
Less allowance for loan losses	<u>(3,226)</u>	<u>(3,555)</u>
Total mortgage loans receivable, net	<u>\$ 42,200</u>	<u>\$ 43,716</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.

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

5. MORTGAGE LOANS RECEIVABLE (Continued)

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, 2013, 26% of conventionally financed single-family mortgage loans (excluding housing assistance fund loans) owned by the Authority are insured by private mortgage insurance and 70% are insured by supplemental pool insurance.

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

	<u>2013</u>	<u>2012</u>
Current assets – Mortgage loans receivable, net	\$ 4,210	\$ 3,916
Noncurrent assets – Mortgage loans receivable, net	<u>37,990</u>	<u>39,800</u>
	<u>\$ 42,200</u>	<u>\$ 43,716</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 under which such bonds were issued. 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.

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

	<u>Aggregate Principal Outstanding</u>		<u>Original Maturity Value</u>
	<u>2013</u>	<u>2012</u>	
Single-family bond programs:			
2002 Series B (4.40% to 5.50%), due 2013 to 2032	\$ -	\$ 1,145	\$ 25,000
2000/2003 Step Up Program (4.42% to 7.80%), due 2034 to 2036	30,301	34,455	128,927
2007 Series A, 2007 Series F, 2008 Series A, 2008 Series C, 2009 Series A, 2010 Series A-C, 2011 Series A, 2012 Series A (1.28% to 4.85%), due 2013 to 2017	94,655	109,865	363,900
2003 First Step Program (4.82% to 5.09%), due 2036	273	322	793
2006 Series B-G, 2007 Series B-E, 2007 Series G, 2008 Series B (2.50% to 5.75%) due 2013 to 2039	<u>215,411</u>	<u>256,887</u>	398,048
	340,640	402,674	
Less current maturities	<u>(37,116)</u>	<u>(38,356)</u>	
Noncurrent maturities	<u>\$ 303,524</u>	<u>\$ 364,318</u>	

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

6. BONDS PAYABLE (Continued)

Principal and interest payments on bonds after 2013 are scheduled as follows (in thousands):

Fiscal Year Ending September 30	Principal	Interest
2014	\$ 37,116	\$ 12,256
2015	11,470	11,935
2016	6,180	11,674
2017	79,630	11,228
2018	4,410	10,299
2019-2023	25,765	49,255
2024-2028	33,950	41,047
2029-2033	47,115	31,504
2034-2038	92,913	10,934
2039-2043	2,091	10
	<u>\$ 340,640</u>	<u>\$ 190,142</u>

7. NET POSITION

The Authority's net position is comprised of the various net earnings from operating and nonoperating revenues, expenses and contributions of capital. The net position is classified in the following three components: invested in capital assets, net of related debt; restricted net position; and unrestricted net position. 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 position consists of net position 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 position consists of all other net position not included in the above categories.

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 position.

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

8. CONDUIT DEBT

From time to time, the Authority has issued bonds to provide multifamily housing for the citizens of Alabama. The Authority functions as a conduit to provide tax-exempt financing. These bonds do not constitute a debt or pledge of the faith and credit of the Authority or the State of Alabama, and accordingly, have not been reported in the accompanying financial statements.

The Authority does not actively monitor the operating performance or financial condition of the multifamily properties financed by the bonds. 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. The Authority has no obligation for the bonds beyond the previously mentioned resources.

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.

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

	Aggregate Principal Outstanding		Original Maturity Value
	2013	2012	
1989 Series A (variable), due 2013 to 2014	\$ -	\$ 690	\$ 3,495
1992 Series B (7.25%), due 2013 to 2023	920	1,015	2,150
1995 Series A (6.65%), due 2013 to 2030	1,090	1,125	1,415
2000 Series A-K (5.60% to 5.95%, variable), due 2013 to 2033	14,888	19,321	45,325
2001 Series A-D (5.96% to 7.09%, variable), due 2013 to 2034	10,657	10,718	16,027
2002 Series A-I (4.65% to 5.55%, variable), due 2013 to 2035	12,895	17,575	34,125
2003 Series A-N (4.25% to 9.25%, variable), due 2013 to 2039	33,411	33,821	55,856
2004 Series A-H (5.20% to 8.00%, variable), due 2013 to 2045	16,660	16,973	29,672
2005 Series A-F (4.50% to 5.06%, variable), due 2013 to 2038	29,217	29,417	63,798
2007 Series A-E (4.63% to 5.30%, variable), due 2013 to 2049	21,227	21,426	24,745
2008 Series A-B (variable), due 2013 to 2030	5,793	5,934	6,410
2012 Series A (variable) due 2032	8,497	918	13,000
2013 Series A (.50%) due 2014	4,600	-	4,600
	<u>\$ 159,855</u>	<u>\$ 158,933</u>	

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

8. CONDUIT DEBT (Continued)

Principal and interest payments on conduit debt after 2013 are scheduled as follows (in thousands):

<u>Fiscal Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 7,226	\$ 3,121
2015	11,796	3,316
2016	1,563	3,231
2017	1,644	3,154
2018	1,739	3,073
2019-2023	10,966	13,969
2024-2028	12,115	11,208
2029-2033	34,660	7,414
2034-2038	69,276	2,841
2039-2043	6,245	1,056
2044-2048	2,515	361
2049-2053	110	3
	<u>\$ 159,855</u>	<u>\$ 52,747</u>

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 \$312,000 and \$223,000, respectively, in fiscal 2013 and \$299,000 and \$213,000, respectively, in fiscal 2012. 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, 7460 Halcyon Pointe Drive, Suite 200, Montgomery, AL 36117. A separate stand-alone financial report for the Pension Plan is not available.

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012

9. RETIREMENT PLANS (Continued)

Defined Benefit Plan (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, 2013, 2012 and 2011, were \$802,000, \$895,000 and \$917,000, respectively, or about 18%, 21% and 23% of covered participant compensation, respectively. Actual employer contributions to the plan totaled \$1,001,500, \$1,370,000 and \$1,517,200 for the years ended September 30, 2013, 2012 and 2011, respectively. The net pension assets at September 30, 2013, 2012 and 2011, were \$2,842,000, \$2,271,000 and \$1,161,000, respectively.

The annual required contribution for the current year was determined as part of the September 30, 2013, 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, 2013, the plan had the following participants:

Active participants	77
Vested terminated participants	0
Retired participants and beneficiaries	<u>1</u>
Total	<u><u>78</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 <u>(1) ÷ (2)</u>	(4) Unfunded (Overfunded) Actuarial Accrued Liability <u>(2) - (1)</u>	(5) Annual Covered Payroll	(6) Overfunded Actuarial Accrued Liability as a Percentage of Covered Payroll <u>(4) ÷ (5)</u>
2011	\$ 7,554	\$ 6,393	118.16%	\$ (1,161)	\$ 3,991	29.09%
2012	9,519	7,248	131.33%	(2,271)	4,226	53.74%
2013	11,307	8,465	133.57%	(2,842)	4,413	64.40%

ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

10. OPERATING LEASES

The Authority leases office space under operating leases expiring through 2019. Rent expense for the years ended September 30, 2013 and 2012, totaled \$660,000 and \$643,000, 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):

2014	\$	982
2015		1,007
2016		1,033
2017		1,058
2018		1,085
2019		925

11. EARLY RETIREMENT OF BONDS

The Authority's mortgage revenue bonds are subject to certain extraordinary redemption provisions. During the years ended September 30, 2013 and 2012, the Authority called approximately \$44,194,000 and \$85,056,000 (net of unamortized discounts), respectively, of single-family bonds in advance of their scheduled maturities. Any 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

The Authority has called approximately \$20,665,000 of single-family bonds and \$6,420,000 of multifamily bonds prior to their scheduled maturities.

The Authority has awarded Federal funds totaling \$2,386,350 under the HOME Program.

At year-end, \$11,515,000 multifamily bonds (conduit debt) were in technical default. Subsequently, \$4,410,000 was redeemed, leaving \$7,105,000. Currently, \$5,673,000 of conduit debt is under bankruptcy protection.

13. RECLASSIFICATIONS

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 presentation.

OTHER FINANCIAL INFORMATION

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF NET POSITION
SINGLE-FAMILY BOND SERIES
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
SEPTEMBER 30, 2013

	2002 B	2000/2003 Step Up	2003 First Step	2002D 2007 A&F 2008 A&C 2009 A 2010 A-C 2011 A 2012 A	2006 B-G 2007 B-E 2007 G 2008 B	Combined Single-Family
CURRENT ASSETS						
Cash on deposit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued interest receivable	-	-	-	-	-	-
Mortgage loans receivable, net	-	-	-	-	-	-
Mortgage loans held for sale	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Restricted:						
Cash on deposit	-	-	-	-	-	-
Accrued interest receivable	-	184	2	922	1,281	2,389
Investments	-	936	34	107,108	29,837	137,915
Other assets	-	-	-	-	-	-
Total current assets	<u>-</u>	<u>1,120</u>	<u>36</u>	<u>108,030</u>	<u>31,118</u>	<u>140,304</u>
NONCURRENT ASSETS						
Mortgage loans receivable, net	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Deferred servicing costs	-	-	-	-	-	-
Restricted:						
Mortgage-backed securities	-	32,576	295	120,338	214,941	368,150
Investments	-	-	-	9,299	-	9,299
Other assets	-	-	-	-	-	-
Federal Program loans receivable, net	-	-	-	-	-	-
Deferred debt financing costs	-	42	30	123	1,805	2,000
Total noncurrent assets	<u>-</u>	<u>32,618</u>	<u>325</u>	<u>129,760</u>	<u>216,746</u>	<u>379,449</u>
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 33,738</u>	<u>\$ 361</u>	<u>\$ 237,790</u>	<u>\$ 247,864</u>	<u>\$ 519,753</u>
LIABILITIES AND NET POSITION						
CURRENT LIABILITIES						
Bonds payable, net	\$ -	\$ 750	\$ 1	\$ 10,440	\$ 25,925	\$ 37,116
Accrued interest payable	-	141	1	18	5,245	5,405
Due to other funds	-	-	-	-	99	99
Other liabilities	-	-	-	-	16	16
Total current liabilities	<u>-</u>	<u>891</u>	<u>2</u>	<u>10,458</u>	<u>31,285</u>	<u>42,636</u>
NONCURRENT LIABILITIES						
Bonds payable, net	-	29,551	272	84,215	189,486	303,524
Refundable Federal Program grants	-	-	-	-	-	-
Deferred commitment fees	-	-	-	-	-	-
Total noncurrent liabilities	<u>-</u>	<u>29,551</u>	<u>272</u>	<u>84,215</u>	<u>189,486</u>	<u>303,524</u>
TOTAL LIABILITIES	<u>-</u>	<u>30,442</u>	<u>274</u>	<u>94,673</u>	<u>220,771</u>	<u>346,160</u>
NET POSITION						
Net investment in capital assets	-	-	-	-	-	-
Restricted	-	3,296	87	143,117	27,093	173,593
Unrestricted	-	-	-	-	-	-
Total net position	<u>-</u>	<u>3,296</u>	<u>87</u>	<u>143,117</u>	<u>27,093</u>	<u>173,593</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ -</u>	<u>\$ 33,738</u>	<u>\$ 361</u>	<u>\$ 237,790</u>	<u>\$ 247,864</u>	<u>\$ 519,753</u>

See independent auditors' report.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
SINGLE-FAMILY BOND SERIES
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>2002 B</u>	<u>2000/2003 Step Up</u>	<u>2003 First Step</u>	<u>2002D 2007 A&F 2008 A&C 2009 A 2010 A-C 2011 A 2012 A</u>	<u>2006 B-G 2007 B-E 2007 G 2008 B</u>	<u>Combined Single-Family</u>
OPERATING REVENUES						
Interest on mortgage loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest on mortgage-backed securities	-	1,762	14	7,252	11,161	20,189
Investment income	-	-	-	959	3	962
Net realized and unrealized gain (loss) on investments	-	(1,290)	(11)	(7,402)	(6,955)	(15,658)
Loan fees and other income	-	29	-	-	-	29
Total operating revenues	<u>-</u>	<u>501</u>	<u>3</u>	<u>809</u>	<u>4,209</u>	<u>5,522</u>
OPERATING EXPENSES						
Interest on bonds	-	1,789	14	1,482	10,667	13,952
Amortization of deferred debt financing and servicing costs	8	9	8	76	432	533
Program, general and administrative	-	30	-	(9)	241	262
Total operating expenses	<u>8</u>	<u>1,828</u>	<u>22</u>	<u>1,549</u>	<u>11,340</u>	<u>14,747</u>
OPERATING INCOME (LOSS)	<u>(8)</u>	<u>(1,327)</u>	<u>(19)</u>	<u>(740)</u>	<u>(7,131)</u>	<u>(9,225)</u>
NONOPERATING REVENUES (EXPENSES)						
Federal Program grants	-	-	-	-	-	-
Federal Program expenditures	-	-	-	-	-	-
Total nonoperating revenues (expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(8)</u>	<u>(1,327)</u>	<u>(19)</u>	<u>(740)</u>	<u>(7,131)</u>	<u>(9,225)</u>
Transfers in (out)	<u>(198)</u>	<u>-</u>	<u>-</u>	<u>(76,502)</u>	<u>-</u>	<u>(76,700)</u>
CHANGES IN NET POSITION	<u>(206)</u>	<u>(1,327)</u>	<u>(19)</u>	<u>(77,242)</u>	<u>(7,131)</u>	<u>(85,925)</u>
NET POSITION						
Beginning of year	<u>206</u>	<u>4,623</u>	<u>106</u>	<u>220,359</u>	<u>34,224</u>	<u>259,518</u>
End of year	<u>\$ -</u>	<u>\$ 3,296</u>	<u>\$ 87</u>	<u>\$ 143,117</u>	<u>\$ 27,093</u>	<u>\$ 173,593</u>

See independent auditors' report.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF NET POSITION
COMBINING ALL FUNDS
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
SEPTEMBER 30, 2013

	<u>Combined Single- Family</u>	<u>Federal Programs</u>	<u>Housing Assistance Fund</u>	<u>General Fund</u>	<u>Combined Totals</u>
CURRENT ASSETS					
Cash on deposit	\$ -	\$ -	\$ 2,175	\$ 2,065	\$ 4,240
Accounts receivable	-	-	-	193	193
Accrued interest receivable	-	-	96	65	161
Mortgage loans receivable, net	-	-	3,360	850	4,210
Mortgage loans held for sale	-	-	-	41,623	41,623
Investments	-	-	2,732	45,677	48,409
Other assets	-	-	-	5,605	5,605
Restricted:					
Accrued interest receivable	2,389	12,658	-	-	15,047
Investments	137,915	5,928	-	-	143,843
Other assets	-	1,225	-	-	1,225
Total current assets	<u>140,304</u>	<u>19,811</u>	<u>8,363</u>	<u>96,078</u>	<u>264,556</u>
NONCURRENT ASSETS					
Mortgage loans receivable, net	-	-	37,612	378	37,990
Investments	-	-	-	1,132	1,132
Other assets	-	-	-	9,801	9,801
Deferred servicing costs	-	-	-	13,785	13,785
Restricted:					
Mortgage-backed securities	368,150	-	-	-	368,150
Investments	9,299	-	-	-	9,299
Other assets	-	33	-	1,348	1,381
Federal Program loans receivable, net	-	308,360	-	-	308,360
Deferred debt financing costs	2,000	-	-	-	2,000
Total noncurrent assets	<u>379,449</u>	<u>308,393</u>	<u>37,612</u>	<u>26,444</u>	<u>751,898</u>
TOTAL ASSETS	<u>\$ 519,753</u>	<u>\$ 328,204</u>	<u>\$ 45,975</u>	<u>\$ 122,522</u>	<u>\$ 1,016,454</u>
LIABILITIES AND NET POSITION					
CURRENT LIABILITIES					
Bonds payable, net	\$ 37,116	\$ -	\$ -	\$ -	\$ 37,116
Accrued interest payable	5,405	12,658	-	-	18,063
Due to (from) other funds	99	1,322	(120)	(1,301)	-
Other liabilities	16	149	64	811	1,040
Total current liabilities	<u>42,636</u>	<u>14,129</u>	<u>(56)</u>	<u>(490)</u>	<u>56,219</u>
NONCURRENT LIABILITIES					
Bonds payable, net	303,524	-	-	-	303,524
Refundable Federal Program grants	-	314,042	-	-	314,042
Deferred commitment fees	-	-	1,523	14,195	15,718
Total noncurrent liabilities	<u>303,524</u>	<u>314,042</u>	<u>1,523</u>	<u>14,195</u>	<u>633,284</u>
TOTAL LIABILITIES	<u>346,160</u>	<u>328,171</u>	<u>1,467</u>	<u>13,705</u>	<u>689,503</u>
NET POSITION					
Invested in capital assets, net of related debt	-	33	-	1,348	1,381
Restricted	173,593	-	-	-	173,593
Unrestricted	-	-	44,508	107,469	151,977
Total net position	<u>173,593</u>	<u>33</u>	<u>44,508</u>	<u>108,817</u>	<u>326,951</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 519,753</u>	<u>\$ 328,204</u>	<u>\$ 45,975</u>	<u>\$ 122,522</u>	<u>\$ 1,016,454</u>

See independent auditors' report.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
COMBINING ALL FUNDS
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>Combined Single- Family</u>	<u>Federal Programs</u>	<u>Housing Assistance Fund</u>	<u>General Fund</u>	<u>Combined Totals</u>
OPERATING REVENUES					
Interest on mortgage loans	\$ -	\$ -	\$ 1,376	\$ 1,480	\$ 2,856
Interest on mortgage-backed securities	20,189	-	-	-	20,189
Investment income	962	1	-	102	1,065
Net realized and unrealized gain (loss) on investments	(15,658)	-	-	4,702	(10,956)
Loan fees and other income	29	-	203	12,027	12,259
Total operating revenues	<u>5,522</u>	<u>1</u>	<u>1,579</u>	<u>18,311</u>	<u>25,413</u>
OPERATING EXPENSES					
Interest on bonds	13,952	-	-	-	13,952
Amortization of deferred debt financing and servicing costs	533	-	-	1,607	2,140
Program, general and administrative	262	-	818	15,249	16,329
Total operating expenses	<u>14,747</u>	<u>-</u>	<u>818</u>	<u>16,856</u>	<u>32,421</u>
OPERATING INCOME (LOSS)	<u>(9,225)</u>	<u>1</u>	<u>761</u>	<u>1,455</u>	<u>(7,008)</u>
NONOPERATING REVENUES (EXPENSES)					
Federal Program grants	-	24,850	-	-	24,850
Federal Program expenditures	-	(24,880)	-	-	(24,880)
Total nonoperating revenues (expenses)	<u>-</u>	<u>(30)</u>	<u>-</u>	<u>-</u>	<u>(30)</u>
INCOME BEFORE TRANSFERS	<u>(9,225)</u>	<u>(29)</u>	<u>761</u>	<u>1,455</u>	<u>(7,038)</u>
Transfers in (out)	<u>(76,700)</u>	<u>-</u>	<u>-</u>	<u>76,700</u>	<u>-</u>
CHANGES IN NET POSITION	<u>(85,925)</u>	<u>(29)</u>	<u>761</u>	<u>78,155</u>	<u>(7,038)</u>
NET POSITION					
Beginning of year	<u>259,518</u>	<u>62</u>	<u>43,747</u>	<u>30,662</u>	<u>333,989</u>
End of year	<u>\$ 173,593</u>	<u>\$ 33</u>	<u>\$ 44,508</u>	<u>\$ 108,817</u>	<u>\$ 326,951</u>

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