ALABAMA HOUSING FINANCE AUTHORITY

FINANCIAL STATEMENTS

SEPTEMBER 30, 2015 AND 2014

ALABAMA HOUSING FINANCE AUTHORITY
TABLE OF CONTENTS
SEPTEMBER 30, 2015 AND 2014

Warren Averett
CPAs AND ADVISORS

3815 Interstate Court
Montgomery, AL 36109
334.271.2200
warrenaverett.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Alabama Housing Finance Authority

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, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

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 audits 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, 2015 and 2014, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2015, the Alabama Housing Finance Authority adopted the provision of Governmental Accounting Standards Board Statement No. 68, *Accounting and Reporting for Pensions,* which required the Alabama Housing Finance Authority to record its long-term obligation for pension benefits. This standard has been applied retrospectively, resulting in the restatement of beginning net position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information, Schedules of Changes in the Authority's Net Pension Liability and Related Ratios, and Schedules of Employer Contributions to Authority Employee's Pension Plan on pages 4 through 8, 35, and 36, respectively 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 basic financial statements.

The additional segment data is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such 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 additional segment data is fairly stated in all material respects in relation to the financial statements as a whole.

Warren Averett, LLC

Montgomery, Alabama
December 16, 2015

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, 2015. 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 (GASB) 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) purchase 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 purchase 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 and deferred outflows, liabilities and deferred inflows, net position, revenues, and expenses as appropriate. Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 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), consumption of net position that is applicable to future reporting periods (deferred outflows), obligations to Authority creditors (liabilities), and the acquisition of net position that is applicable to future reporting periods (deferred inflows). 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, noncapital 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.

Condensed Financial Information

Statements of Net Position

The following table presents condensed information about the net position of the Authority as of September 30, 2015 and 2014, and changes in the balances of selected items during the fiscal year ended September 30, 2015 (in thousands):

CONDENSED STATEMENTS OF NET POSITION

	2015	2014*	Change
ASSETS			
CURRENT ASSETS			
Cash on deposit and restricted cash on deposit	$ 9,549	$ 17,503	$ (7,954)
Accrued interest receivable and restricted accrued interest	17,490	16,373	1,117
Mortgages	169,690	134,348	35,342
Restricted Federal Program program mortgages	14,303	9,400	4,903
Investments and restricted investments	46,822	88,706	(41,884)
Other assets and restricted other assets	8,520	7,323	1,197
Total current assets	266,374	273,653	(7,279)
NONCURRENT ASSETS			
Mortgages and restricted mortgage-backed securities	275,595	366,049	(90,454)
Restricted Federal Program program mortgages	307,445	305,559	1,886
Investments and restricted investments	75,893	829	75,064
Other assets and restricted other assets	5,293	14,648	(9,355)
Service release premiums, net	37,037	20,503	16,534
Total noncurrent assets	701,263	707,588	(6,325)
TOTAL ASSETS	967,637	981,241	(13,604)
DEFERRED OUTFLOWS			
Pension-related deferred outflows	160	166	(6)
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 967,797	$ 981,407	$ (13,610)
LIABILITIES			
CURRENT LIABILITIES			
Bonds payable, net	$ 17,277	$ 25,856	$ (8,579)
Refundable Federal Program grants	14,303	9,400	4,903
Accrued interest payable	19,318	18,578	740
Other liabilities	2,779	1,451	1,328
Total current liabilities	53,677	55,285	(1,608)
NONCURRENT LIABILITIES			
Bonds payable, net	233,403	264,476	(31,073)
Refundable Federal Program grants	309,960	308,542	1,418
Other liabilities	6,843	7,028	(185)
Total noncurrent liabilities	550,206	580,046	(29,840)
TOTAL LIABILITIES	603,883	635,331	(31,448)
DEFERRED INFLOWS			
Pension-related deferred inflows	1,212	183	1,029
NET POSITION			
Net investment in capital assets	1,613	1,315	298
Restricted	86,940	96,558	(9,618)
Unrestricted	274,149	248,020	26,129
Total net position	362,702	345,893	16,809
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	$ 967,797	$ 981,407	$ (13,610)

*As restated. See note 2 to the financial statements.

Statements of Net Position – Continued

Current assets decreased $7,279,000 from September 30, 2014, to September 30, 2015, primarily due to a decrease in investments and restricted investments of $41,884,000, offset by an increase in mortgages of $35,342,000. Cash and restricted cash decreased $7,954,000. The increase of mortgages was specifically loans held for sale, which directly correlates with the decrease in cash and investments. The increase in other assets and restricted other assets relates to funds disbursed for escrow advances and funds in accounts receivable that were reimbursed the following day in the next fiscal year. Federal program mortgages increased $4,903,000, reflecting the portion of the loan portfolio scheduled for maturity during the next fiscal year.

Noncurrent assets decreased $6,325,000, primarily due to a decrease in mortgages and restricted mortgage-backed securities of $90,454,000, with most of this reduction occurring in the single-family bond program. Investments, restricted and unrestricted, increased $75,064,000, funded by the decrease in restricted mortgage-backed securities. In the Single-Family program, $44,000,000 in restricted mortgage-backed securities were sold for a gain of $7,400,000, these and other funds were invested in restricted, noncurrent investments, as reflected in that line item's increase noted above. Restricted and unrestricted other assets decreased $9,355,000, due to decreases in net pool buyouts and other real estate. Service release premiums increased $16,534,000 due to increased volume in the Authority's servicing activities during the fiscal year.

Current liabilities decreased $1,608,000 from September 30, 2014, to September 30, 2015, primarily due to a decrease in bonds payable classified as current and scheduled for maturity or redemption in the next twelve months. This was offset by an increase in Federal program grants payable that was classified as a current liability for the next fiscal year. The increase in other liabilities was accounts payable in the general fund.

Noncurrent liabilities decreased $29,840,000, primarily due to a decrease in bonds payable of $31,073,000. Refundable Federal Program grants increased $1,418,000 relating to lending activity in the HOME program. Pension-related deferred inflows increased $1,029,000 after actuarial review. The following chart summarizes the Authority's debt activity from September 30, 2014, to September 30, 2015 (in thousands):

	Debt Balance 9/30/2014	Debt Issued	Debt Paid	Debt Balance 9/30/2015
Bonds payable	$ 290,332	$ -	$ 39,652	$ 250,680
Refundable Federal Program grants	317,942	13,005	6,684	324,263
	$ 608,274	$ 13,005	$ 46,336	$ 574,943

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, 2015 and 2014, and the change from the prior year (in thousands):

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	2015	2014*	Change
OPERATING REVENUES			
Interest on mortgage loans and mortgage-backed securities	$ 20,394	$ 20,726	$ (332)
Investment income	309	1,020	(711)
Net gain on investments	13,354	5,334	8,020
Loan fees and other income	22,914	15,537	7,377
Total operating revenues	56,971	42,617	14,354
OPERATING EXPENSES			
Interest on bonds	9,794	11,494	(1,700)
Amortization of servicing costs	2,477	1,421	1,056
Program, general, and administrative	28,224	18,843	9,381
Total operating expenses	40,495	31,758	8,737
OPERATING INCOME	16,476	10,859	5,617
NONOPERATING REVENUES (EXPENSES)			
Federal Program grants	17,605	18,067	(462)
Federal Program expenditures	(17,272)	(16,579)	(693)
Net nonoperating revenues (expenses)	333	1,488	(1,155)
CHANGES IN NET POSITION	16,809	12,347	4,462
NET POSITION			
Beginning of year, as previously stated		333,400	
Prior period adjustment – GASB 68		146	
Beginning of year, as restated	345,893	333,546	12,347
NET POSITION AT END OF YEAR	$ 362,702	$ 345,893	$ 16,809

*As restated. See note 2 to the financial statements.

Operating and Nonoperating Revenues, Expenses, and Changes in Net Position – Continued

Total operating revenues increased $14,354,000, reflecting increases in loan fee income and gains on sale of loans securitized in the mortgage-backed securities TBA market. Interest on mortgage loans and mortgage-backed securities decreased $332,000 due to the overall decrease in mortgage loan and mortgage-backed securities balances during 2015, net of loan originations. Investment income decreased $711,000 which reflects the sale of investments in the single-family bond program. The net gain on investments increased $8,020,000 due to increased volume of loans sold on the TBA market in comparison to 2014. Loan fees and other income increased $7,377,000 reflecting increases in loan servicing income, single-family loan fees, and multifamily program fees.

Total operating expenses increased $8,737,000, due to an increase in program, general, and administrative expenses of $9,381,000, reflecting increases in overall Authority operating expenses due to increased loan volume purchased, securitized, and serviced during the fiscal year, plus net pension adjustments relating to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27.* Interest on bonds decreased $1,700,000 due to the reduction of bonds payable in the single-family bond program.

Total nonoperating revenues decreased $1,155,000, reflecting a reduction in HOME federal program grant repayments net against current-year grant expenditures.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2015 AND 2014

	2015	2014*
	(In thousands)	
ASSETS		
CURRENT ASSETS		
Cash on deposit	$ 5,206	$ 17,498
Accounts receivable	1,041	181
Accrued interest receivable	329	263
Mortgage loans receivable, net	4,148	3,680
Mortgage loans held for sale	165,542	130,668
Investments	19,774	24,112
Derivative instruments	333	44
Other assets	6,622	5,738
Restricted:		
Cash on deposit	4,343	5
Accrued interest receivable	17,161	16,110
Federal Program loans receivable, net	14,303	9,400
Investments	27,048	64,594
Other assets	524	1,360
Total current assets	266,374	273,653
NONCURRENT ASSETS		
Mortgage loans receivable, net	39,713	38,000
Investments	528	829
Other assets	3,680	13,333
Service release premiums, net	37,037	20,503
Restricted:		
Mortgage-backed securities	235,882	328,049
Investments	75,365	-
Other assets	1,613	1,315
Federal Program loans receivable, net	307,445	305,559
Total noncurrent assets	701,263	707,588
TOTAL ASSETS	967,637	981,241
DEFERRED OUTFLOWS		
Pension-related deferred outflows	160	166
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 967,797	$ 981,407

*As restated. See note 2 to the financial statements.

See notes to the financial statements.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2015 AND 2014

	2015	2014*
	(In thousands)	
LIABILITIES		
CURRENT LIABILITIES		
Bonds payable, net of unamortized premiums	$ 17,277	$ 25,856
Refundable Federal Program grants	14,303	9,400
Accrued interest payable	19,318	18,578
Other liabilities	2,779	1,451
Total current liabilities	53,677	55,285
NONCURRENT LIABILITIES		
Bonds payable, net of unamortized premiums	233,403	264,476
Refundable Federal Program grants	309,960	308,542
Unearned compliance and commitment fees	6,843	7,028
Total noncurrent liabilities	550,206	580,046
TOTAL LIABILITIES	603,883	635,331
DEFERRED INFLOWS		
Pension-related deferred inflows	1,212	183
NET POSITION		
Net investment in capital assets	1,613	1,315
Restricted	86,940	96,558
Unrestricted	274,149	248,020
Total net position	362,702	345,893
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	$ 967,797	$ 981,407

*As restated. See note 2 to the financial statements.

See notes to the financial statements.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014*
	(In thousands)	
OPERATING REVENUES		
Interest on mortgage loans	$ 6,429	$ 3,564
Interest on mortgage-backed securities	13,965	17,162
Investment income	309	1,020
Net realized and unrealized gain on investments	13,354	5,334
Loan fees and other income	22,914	15,537
Total operating revenues	56,971	42,617
OPERATING EXPENSES		
Interest on bonds	9,794	11,494
Amortization of servicing costs	2,477	1,421
Program, general, and administrative	28,224	18,843
Total operating expenses	40,495	31,758
OPERATING INCOME	16,476	10,859
NONOPERATING REVENUES (EXPENSES)		
Federal Program grants	17,605	18,067
Federal Program expenditures	(17,272)	(16,579)
Net nonoperating revenues (expenses)	333	1,488
CHANGES IN NET POSITION	16,809	12,347
NET POSITION		
Beginning of year, as previously stated		333,400
Prior period adjustment – GASB 68		146
Beginning of year, as restated	345,893	333,546
End of year	$ 362,702	$ 345,893

*As restated. See note 2 to the financial statements.

See notes to the financial statements.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

INCREASE (DECREASE) IN CASH ON DEPOSIT

	2015	2014*
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from sales/maturities of mortgage-backed securities	$ 84,563	$ 47,516
Purchase of mortgage loans	(47,035)	(45,874)
Principal payments received on mortgage loans	55,663	41,823
Purchase of mortgage loans held for sale	(1,845,317)	(806,529)
Proceeds from sale of mortgage loans held for sale	1,807,729	716,508
Interest received from mortgage loans	6,361	3,462
Interest received from mortgage-backed securities	14,572	17,447
Cash paid to suppliers for goods and services	(27,358)	(8,856)
Cash payments to employees for services	6,117	(5,089)
Loan fees, commitment fees, and other income received	22,776	15,296
Net cash provided by (used in) operating activities	78,071	(24,296)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Principal payments on bonds	(39,652)	(50,307)
Proceeds from Federal Program grants, net	6,606	5,369
Interest paid on bonds and note	(10,527)	(12,397)
Net cash used in noncapital financing activities	(43,573)	(57,335)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of furniture and equipment	(757)	(400)
Purchase of service release premiums	(23,358)	(10,084)
Net cash used in capital and related financing activities	(24,115)	(10,484)

*As restated. See note 2 to the financial statements.

See notes to the financial statements.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014*
	(In thousands)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	$ (1,685,380)	$ (837,732)
Proceeds from sales of investments	1,652,413	943,283
Interest received from investments	20,583	6,563
Federal Program mortgage loans funded, net	(5,953)	(6,736)
Net cash provided by (used in) investing activities	(18,337)	105,378
NET INCREASE (DECREASE) IN CASH ON DEPOSIT	(7,954)	13,263
CASH ON DEPOSIT AT BEGINNING OF YEAR	17,503	4,240
CASH ON DEPOSIT AT END OF YEAR	$ 9,549	$ 17,503
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income	$ 16,476	$ 10,859
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	537	454
Amortization and expense of servicing costs	6,824	3,367
Amortization of unearned compliance and commitment fees	(3,624)	(1,834)
Gross unrealized loss on investments	7,391	183
Provision for loan losses, net	1,560	2,012
Commitment fees received	3,486	1,593
Interest received from investments	(20,583)	(6,565)
Interest paid on bonds	10,527	12,397
Changes in operating assets and liabilities:		
Accrued interest receivable	(1,117)	(1,165)
Mortgage loans receivable	5,913	(5,026)
Mortgage loans held for sale	(34,874)	(89,045)
Mortgage-backed securities	84,563	47,516
Other assets and accounts receivable	(2,142)	(141)
Accrued interest payable	740	515
Other liabilities	2,394	584
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 78,071	$ (24,296)

*As restated. See note 2 to the financial statements.

See notes to the financial statements.

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, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenses of the Authority’s single-family bond programs (Program Funds), Federal Programs, the Housing Assistance Program, and the 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 Governmental Accounting Standards Board (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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash on Deposit

Cash on deposit 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, 2015, 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 $9,549,000 and $17,503,000 as of September 30, 2015 and 2014, respectively. All cash on deposit at September 30, 2015, 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 nonexpended 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. All investments 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.

Mortgage-Backed Securities

Mortgage-backed securities consist of Government National Mortgage Association (Ginnie Mae) or Federal National Mortgage Association (Fannie Mae) pass-through certificates, all of which are pledged as security for the mortgage revenue bonds. The fair value of program investments is 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 are based on quoted market prices of comparable investments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Mortgage-Backed Securities – Continued
In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments 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, 2015 or 2014.

Commitment Fees
Returnable commitment fees are deferred and recognized as income at the time they are no longer returnable. 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 had commitments to deliver $28,000,000 Ginnie Mae and $9,000,000 Fannie Mae guaranteed mortgage-backed securities as of the year ended September 30, 2015.

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.

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 an asset or liability 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.

Debt Financing Costs

The Authority follows the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Issuance costs on bonds are expensed as incurred.

Mortgage Loan Servicing

As of September 30, 2015 and 2014, the Authority serviced $3,893,115,000 and $2,318,861,000, respectively, in mortgage loans including $3,831,593,000 and $2,231,632,000, 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 and Service Release Premiums

The Authority follows the provisions of GASB Statement 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 the allowance for loan losses. The Authority held properties totaling approximately $283,000 and $456,000 at September 30, 2015 and 2014, respectively, net of the allowance for loan losses.

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 $3,397,000 and $12,877,000 at September 30, 2015 and 2014, respectively, net of the allowance for loan losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deferred Outflows of Resources

Deferred outflows of resources include pension-related deferred outflows, which result from the Authority's Employees' Pension Plan (Pension Plan). Pension-related deferred outflows represent differences between expected and actual experience, changes in assumptions and amounts resulting from timing differences of contributions made subsequent to the Pension Plan measurement dates but as of the date of the basic financial statements, and are recognized over a closed period and are amortized over the remaining average service life of all participating active and inactive employees.

Deferred Inflows of Resources

Deferred inflows of resources include pension-related deferred inflows, which represent the difference between projected and actual earnings on investments within the Pension Plan, are recognized over a closed period, and are amortized over a 5-year period.

Net Pension Liability

Net pension liability represents the portion of the present value of projected benefit payments attributed to past periods of service to be provided through the Pension Plan to current active and inactive employees less the fiduciary net position of the Pension Plan. It represents the Authority's total pension liability minus the fiduciary net position available to pay that liability. Investments that comprise the fiduciary net position are reported at fair value.

Pension Plan Expense

The Authority is required to measure and disclose amounts relating to net pension liability, deferred outflows of resources and deferred inflows of resources, pension expense, and the fiduciary net position of the Pension Plan. Actuarially determined periodic contributions are made by the Authority in order to maintain sufficient assets to pay benefits when due.

New Accounting Pronouncements

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27,* that enhances previous standards and establishes accounting and financial reporting standards that require 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 net pension liability, deferred outflows of resources, deferred inflows of resources, and expenditures. Implementation of GASB No. 68 requires the measurement of the net pension liability to be measured as the portion of the present value of the total projected benefit payments to be provided through a pension plan to current active and inactive employees – the total pension liability – less the amount of the pension plan's fiduciary net position. The provisions of this statement have been applied for the year ended September 30, 2015, and have been applied retrospectively to the year ended September 30, 2014.

As a result of implementing GASB Statement No. 68, the net pension asset was increased $2,550,000, pension-related deferred outflows were increased $166,000, pension-related deferred inflows were increased $183,000, and the net position was increased $2,533,000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Subsequent Events
The Authority has evaluated subsequent events through December 16, 2015, 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, 2015, mortgage-backed securities consisted of program certificates with interest rates ranging from 4% to 8.625%. The cost of program investments at September 30, 2015 and 2014, was $210,219,000 and $295,060,000, respectively.

As a result of changes in the fair value of mortgage-backed securities, the Authority recorded net unrealized losses of $7,326,000 and $19,000 for the years ended September 30, 2015 and 2014, respectively. It is the intention of the Authority to hold these securities until the underlying loans are paid in full.

4. INVESTMENTS

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

Investment Type	2015	% of Total	2014	% of Total
Money market funds	$ 46,822	38%	$ 88,606	99%
US Government Agency securities	75,365	61%	-	0%
Mortgage-backed securities	528	1%	829	1%
Certificates of deposit	-	0%	100	0%
	$ 122,715	100%	$ 89,535	100%

The cost of investments at September 30, 2015 and 2014, was $122,703,000 and $89,459,000, respectively. As a result of changes in the fair value of investments, the Authority recorded net unrealized losses of $67,000 and $70,000 for the years ended September 30, 2015 and 2014, respectively.

4. INVESTMENTS – CONTINUED

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.

		Investment Maturities in Years (in thousands)			
Investment Type	Fair Value	Less than 1	1-5	6-10	More than 10
Money market funds	$ 46,822	$ 46,822	$ -	$ -	$ -
US Government Agency securities	75,365	-	75,365	-	-
Mortgage-backed securities	528	-	102	426	-
	$ 122,715	$ 46,822	$ 75,467	$ 426	$ -

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, 2015, the Authority's money market, government and government agency investments in funds were rated Aaa by Moody's Investor Services meeting the criteria of the Authority and the respective bond issue rating agencies.

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.

4. INVESTMENTS – CONTINUED

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, 2015 (in thousands).

Provider	Money Market And Other	Mortgage-Backed Securities	U.S. Government Agency Securities	Total	Percent
Dreyfus US Treasury	$ 4,457	$ -	$ -	$ 4,457	4%
Federated Government Obligations	19,774	-	-	19,774	16%
Federated GNMA Money Market	275	-	-	275	0%
First American Treasury Obligations	22,316	-	-	22,316	18%
GNMA Mortgage-backed Securities	-	528	-	528	0%
US Treasury Note	-	-	75,365	75,365	62%
Total	$ 46,822	$ 528	$ 75,365	$ 122,715	100%

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

	2015	2014
Current assets – investments	$ 19,774	$ 24,112
Current assets – restricted investments	27,048	64,594
Noncurrent assets – investments	528	829
Noncurrent assets – restricted investments	75,365	-
	$ 122,715	$ 89,535

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 of the allowance for loan losses consisted of the following at September 30 (in thousands):

	2015	2014
Mortgage loans receivable (5% to 11.13%):		
Conventional	$ 1,479	$ 1,902
FHA insured	1	13
VA insured	2	25
Down payment assistance/Habitat loans (0% to 8.40%)	45,633	42,856
	47,115	44,796
Less allowance for loan losses	(3,254)	(3,116)
Total mortgage loans receivable, net	$ 43,861	$ 41,680

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.

5. MORTGAGE LOANS RECEIVABLE – CONTINUED

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

	2015	2014
Current assets – Mortgage loans receivable, net	$ 4,148	$ 3,680
Noncurrent assets – Mortgage loans receivable, net	39,713	38,000
	$ 43,861	$ 41,680

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):

	Aggregate Principal Outstanding		Original Maturity
	2015	2014	Value
Single-family bond programs:			
2000/2003 Step Up Program (4.42% to 7.80%), due 2034 to 2036	$ 23,044	$ 26,230	$ 128,927
2010 Series A-C, 2011 Series A, 2012 Series A (1.28% to 2.15%), due 2016 to 2017	76,830	84,215	127,350
2003 First Step Program (4.82% to 5.09%), due 2036	136	140	793
2006 Series B-G, 2007 Series B-E, 2007 Series G, 2008 Series B (2.50% to 5.75%) due 2016 to 2039	150,670	179,747	398,048
	250,680	290,332	
Less current maturities	(17,277)	(25,856)	
Noncurrent maturities	$ 233,403	$ 264,476	

6. BONDS PAYABLE – CONTINUED

Principal and interest payments on bonds after 2015 are scheduled as follows (in thousands):

Fiscal Year Ending September 30	Principal	Interest
2016	$ 17,277	$ 8,932
2017	78,720	8,543
2018	3,545	7,655
2019	3,715	7,487
2020	3,905	7,309
2021–2025	22,980	33,495
2026–2030	30,380	27,159
2031–2035	57,315	17,774
2036–2040	32,843	2,141
	$ 250,680	$ 120,495

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: investment in capital assets, net of related debt; restricted net position; and unrestricted net position. Investment 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.

8. DERIVATIVE INSTRUMENT

At September 30, 2015, the Authority had $37,000,000 in forward sales commitments to issue Ginnie Mae and Fannie Mae securities securitized by single-family loans. These instruments are utilized to hedge changes in fair value of mortgage loans held for sale and interest rate risk on commitments to purchase mortgage loans from originating mortgage lenders. The Authority is subject to market value fluctuations in the event that mortgage loans are not originated as expected and the committed securities cannot be delivered.

The Authority is subject to credit risk with respect to counterparties to the forward sales commitment contracts summarized as follows (in thousands):

Delivery Date	Coupon Rate	Outstanding Notional Amount	Fair Values	Counterparty Credit Rating
Fannie Mae				
October 2015	3.5%	$ 2,000	$ 29	BBB-
October 2015	3.5%	2,000	16	Baa1
October 2015	3.5%	1,000	3	Baa1
November 2015	3.5%	1,000	9	BBB-
November 2015	3.5%	3,000	33	BBB-
		9,000	90	
Ginnie Mae				
October 2015	3.5%	4,000	44	BBB-
October 2015	3.5%	3,000	15	BBB-
October 2015	3.5%	3,000	18	BBB-
October 2015	3.5%	3,000	28	Baa1
October 2015	3.5%	3,000	22	Baa1
October 2015	3.5%	2,000	17	Baa1
November 2015	3.5%	4,000	42	BBB-
November 2015	3.5%	2,000	17	Baa1
November 2015	3.5%	4,000	40	Baa1
		28,000	243	
		$ 37,000	$ 333	

9. CONDUIT DEBT

From time to time, the Authority issues 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, short-term investments, 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**
	2015	**2014**	**Value**
2000 Series A-C (variable), due 2030	$ 8,450	$ 9,215	$ 45,325
2001 Series B-D (5.96%, variable), due 2016 to 2034	10,445	10,541	16,027
2002 Series C (variable), due 2035	8,400	8,400	34,125
2003 Series A-N (4.70% to 9.25%, variable), due 2016 to 2039	18,753	32,738	55,856
2004 Series A-H (5.20% to 6.65%, variable), due 2016 to 2045	15,986	16,328	29,672
2005 Series A-F (5.06%, variable), due 2016 to 2038	23,909	23,975	63,798
2007 Series A-E (4.63% to 5.30%, variable), due 2016 to 2049	20,778	21,015	24,745
2008 Series A-B (variable), due 2016 to 2030	5,495	5,646	6,410
2012 Series A (5.25%) due 2032	2,683	2,725	13,000
2013 Series A (.50%) due 2014	-	4,600	4,600
2014 Series A-C (.35% to .55%) due 2016 to 2017	13,500	17,900	31,400
2015 Series A (4.15%) due 2032	7,280	-	7,280
	$ 135,679	$ 153,083	

9. CONDUIT DEBT – CONTINUED

Principal and interest payments on conduit debt after 2015 are scheduled as follows (in thousands):

Fiscal Year Ending September 30	Principal	Interest
2016	$ 4,882	$ 2,195
2017	15,071	2,464
2018	1,651	2,318
2019	1,747	2,244
2020	1,842	2,165
2021–2025	11,115	9,463
2026–2030	20,737	6,904
2031–2035	31,561	3,543
2036–2040	43,863	1,158
2041–2045	1,785	626
2046–2050	1,425	143
	$ 135,679	$ 33,223

10. 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 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 contributions to the Retirement Plan were $387,000 and $353,000, in fiscal 2015 and 2014, respectively. The employees' contributions to the Retirement Plan were $277,000 and $252,000, in fiscal 2015 and 2014, respectively. The employees vest in the Authority's contribution based upon a six-year vesting schedule.

10. RETIREMENT PLANS – CONTINUED

Defined Benefit Plan

Plan Description
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 Pension Plan investments are reported at fair value. The Pension Plan provides retirement, death, disability, and termination benefits to 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.

Benefits Provided
An employee is eligible to participate in the plan on the next October 1 or April 1 following the completion of six months service and attainment of age 21. A participant's normal retirement date is age 65, or five years' participation, if later. A participant is eligible for early retirement upon attainment of age 55 and 10 years of service. In addition, a participant is entitled to a vested benefit based on years of service as follows: 3 years 20%, 4 years 40%, 5 years 60%, 6 years 80%, and 7 or more years 100%. In addition, in the event of death or qualifying disability, benefits are 100% vested and are available to be paid immediately.

A participant's normal retirement benefit payable at normal retirement as a life annuity is equal to 2% of an employee's average compensation multiplied by years of credited service. Average compensation is based on the 36 highest consecutive months that results in the highest average. Credited service is based on 1,000 hours per plan year and is determined from date of hire (with maximum of 25 years). Certain special service rules applied before May 1, 2015. Normal retirement benefits are paid monthly and can be paid in other forms of annuities as elected by the participant including single payment lump sums.

Benefits paid at early retirement are the actuarial equivalent normal retirement benefit. Benefits payable at death, disability, or vested benefits are the actuarial equivalent single sum value of the normal retirement benefit. Lump sums are based on the actuarial equivalent factors, or the IRS minimum lump sum basis, if higher.

	2015	2014
Inactive employees receiving benefits	-	-
Inactive employees entitled to but not receiving benefits	1	1
Active employees	91	82
	92	83

10. RETIREMENT PLANS – CONTINUED

Defined Benefit Plan – Continued

Contributions

Contribution requirements and benefit provisions of the Pension Plan are established by the Board. The funding policy provides for actuarially determined periodic contributions of amounts that will enable sufficient assets to pay benefits when due. The funding basis has been the range of contributions from the minimum (Minimum Required Contribution) to maximum deductible under federal pension laws related to applicable pension plans. Contributions have been determined under the funding laws under the Pension Protection Act of 2006 and later related funding law changes.

Contributions were $1,352,000 and $1,468,000, equaling approximately 26% and 33% of payroll of covered participants for the years ended September 30, 2015 and 2014, respectively.

Investments

Policies pertaining to the allocation of investments within the Pension Plan are established by the Authority. It is the policy of the Authority to invest pension assets in securities that provide growth and income while maintaining a balanced level of risk tolerance. The following illustrates the approved asset allocation policy for the years ended September 30, 2015 and 2014:

	% Range of Allocation		
	Minimum	**Target**	**Maximum**
Investment Type:			
Large Cap Domestic Equity Securities	15%	30%	50%
Small-Mid Cap Domestic Equities	0%	10%	20%
International Equity	0%	10%	20%
Fixed Income and Cash Equivalent Securities	30%	50%	60%
Alternatives	0%	0%	15%

Permitted Securities in which assets of the Pension Plan may be invested include any of the following:

Equity Securities
- US common and preferred stocks
- US equity mutual funds
- Equity exchange traded funds
- International equity mutual funds

10. RETIREMENT PLANS – CONTINUED

Defined Benefit Plan – Continued

Investments – Continued

Fixed Income Securities/Cash Equivalents
- US governments
- US mortgage and asset-backed
- US corporate bonds
- Taxable municipal bonds
- Fixed income mutual funds
- Fixed income exchange traded funds
- Money market mutual funds
- Money market exchange traded funds
- Cash

Alternatives
- Real estate mutual funds
- Real estate exchange traded funds
- Multi-alternatives strategy mutual funds
- Multi-alternative strategy exchange traded funds

The fair value of investments is determined by market prices.

As of September 30, 2015 and 2014, there were no concentrations of investments in any organization that represented 5% or more of the Pension Plan's fiduciary net position.

For years ended September 30, 2015 and 2014, the estimated annual weighted rate of return based on the Bankers Index Method (BAI) was (.75%) and 5.47%, respectively. The BAI rate of return expresses investment performance, net of investment expense, adjusted for the amounts actually invested with contributions and disbursements deemed to be made uniformly throughout the year.

The assumed discount rate related to plan investments was 7.00%.

The fiduciary net position of the AHFA Pension Plan at September 30, 2015 and 2014 was invested as follows (in thousands):

	2015	2014
Cash equivalents	$ -	$ 8
Equity securities	7,053	6,683
Fixed income securities	7,079	6,560
Total	$ 14,132	$ 13,251

10. RETIREMENT PLANS – CONTINUED

Defined Benefit Plan – Continued

Actuarial Assumptions

The Pension Plan was measured as of September 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of those dates.

The total pension liability in the September 30, 2015 and 2014 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	Rate
Inflation	3.00%
Salary increases	4.50%
Investment rate of return	7.00%

Mortality rates used in September 30, 2015 actuarial valuation was based on the 2015 Applicable Mortality Table for small plans for 2015 under the minimum funding requirements of IRC Section 430. Mortality rates used in the September 30, 2014 actuarial valuation was based on the 2014 Applicable Mortality Table.

The long-term expected rate of return on the Pension Plan, based on using best-estimate ranges of expected future real rates of return (expected returns, net of inflation), was developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding future inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the years ended September 30, 2015 and 2014 are summarized below:

Asset Class	Target Allocation	Expected Long-Term Rate of Return
Equity	50%	5.00% – 8.00%
Fixed Income	50%	2.00% – 5.00%

The discount rate used to measure the total pension liability at September 30, 2015 and 2014 was 7.00%. The Pension Plan's fiduciary net positions are projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on the pension investments was applied to all periods of projected benefit payments to determine the total pension liability.

10. RETIREMENT PLANS – CONTINUED

Defined Benefit Plan – Continued

Changes in the Net Pension (Asset) Liability (in thousands)

	Total Pension Liability (A)	Pension Fiduciary Net Position (B)	Net Pension (Asset) Liability (A) - (B)
Balances at October 1, 2014	$ 9,464	$ 13,251	$ (3,787)
Service cost	595	-	595
Interest cost	704	-	704
Changes for experience	(25)	-	(25)
Changes for assumptions	20	-	20
Contributions – employer	-	1,352	(1,352)
Net investment income	-	(103)	103
Benefit payments, including refunds of member contributions	(367)	(367)	-
Net changes	927	882	45
Balances at September 30, 2015	$ 10,391	$ 14,133	$ (3,742)

	Total Pension Liability (A)	Pension Fiduciary Net Position (B)	Net Pension (Asset) Liability (A) - (B)
Balances at October 1, 2013	$ 8,318	$ 11,307	$ (2,989)
Service cost	537	-	537
Interest cost	620	-	620
Changes for experience	148	-	148
Changes for assumptions	18	-	18
Contributions – employer	-	1,468	(1,468)
Net investment income	-	653	(653)
Benefit payments, including refunds of member contributions	(177)	(177)	-
Net changes	1,146	1,944	(798)
Balances at September 30, 2014	$ 9,464	$ 13,251	$ (3,787)

The change in assumptions reflected in the changes in net pension (asset) liability for the years ended September 30, 2015 and 2014 was the result of basing the valuation on the 2015 and 2014 Applicable Mortality Tables in lieu of the 2014 and 2013 Applicable Mortality Tables.

10. RETIREMENT PLANS – CONTINUED

Defined Benefit Plan – Continued

Sensitivity of the Net Pension (Asset) Liability to Changes in the Discount Rate

The following information presents the net pension (asset) liability calculated using the discount rate of 7.00% as well as net pension (asset) liability using a discount rate that is 1.00% lower or 1.00% higher than the current rate for the years ended September 30:

	1% Decrease (6%)	Current Discount Rate (7%)	Maximum 1% Increase (8%)
2015	$ (3,180)	$ (3,742)	$ (4,277)
2014	(3,248)	(3,787)	(4,302)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended September 30, 2015 and 2014, the Pension Plan recognized pension expense of $1,081,412 and ($781,183), respectively. At September 30, 2015 and 2014, the Authority reported deferred outflows of resources and deferred inflows of resources related to the Pension Plan from the following sources:

	2015	2014
Deferred Outflows		
Differences between expected and actual experience	$ 123	$ 148
Changes in assumptions	37	18
	160	166
Deferred Inflows		
Net differences between projected and and actual earnings on investments	(1,212)	(183)
Total	$ (1,052)	$ (17)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2016	$ (240)
2017	(240)
2018	(240)
2019	(240)
2020	(204)
Thereafter	(112)

11. OPERATING LEASES

The Authority leases office space under operating leases expiring through 2019. Rent expense for the years ended September 30, 2015 and 2014, totaled $1,042,000 and $986,000, 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):

2016	$	1,224
2017		1,253
2018		1,282
2019		1,091

12. EARLY RETIREMENT OF BONDS

The Authority's mortgage revenue bonds are subject to certain extraordinary redemption provisions. During the years ended September 30, 2015 and 2014, the Authority called approximately $31,032,000 and $38,462,000 (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.

13. SUBSEQUENT EVENTS

The Authority has called approximately $10,850,000 of single-family bonds and owners have redeemed $3,390,000 of conduit debt prior to their scheduled maturities.

The Authority has awarded Federal funds totaling $3,117,000 under the HOME Program.

Approximately $24,165,000 of conduit debt was converted from weekly to index-based interest mode. This resulted in no change of conduit debt outstanding related to this transaction.

14. RECLASSIFICATIONS

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 presentation.

REQUIRED SUPPLEMENTARY INFORMATION

ALABAMA HOUSING FINANCE AUTHORITY
SCHEDULES OF CHANGES IN THE AUTHORITY'S NET PENSION LIABILITY AND RELATED RATIOS
SEPTEMBER 30, 2015 AND 2014

	2015	2014
TOTAL PENSION LIABILITY		
Service cost	$ 595	$ 537
Interest	704	620
Differences between expected and actual experience	(25)	147
Change in assumptions	20	18
Benefit payments	(367)	(177)
Net change in total pension liability	927	1,145
Total pension liability – beginning	9,464	8,319
Total pension liability – ending (A)	10,391	9,464
PENSION FIDUCIARY NET POSITION		
Contributions – employer	1,352	1,468
Net investment income	(103)	653
Benefit payments	(367)	(177)
Net change in pensions fiduciary net position	882	1,944
Pensions fiduciary net position – beginning	13,251	11,307
Pensions fiduciary net position – ending (B)	14,133	13,251
NET PENSION (ASSET) LIABILITY (A) - (B)	$ (3,742)	$ (3,787)
COVERED EMPLOYEE PAYROLL	$ 5,938	$ 5,125
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	63.01%	73.90%
NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	136.02%	140.01%

ALABAMA HOUSING FINANCE AUTHORITY
SCHEDULES OF EMPLOYER CONTRIBUTIONS TO AUTHORITY EMPLOYEES' PENSION PLAN
SEPTEMBER 30, 2015 AND 2014

Year	Actuarially Determined Contribution	Contributions From Authority	Contribution (Deficiency)/ Excess	Covered Employee Payroll	Contribution as a % of Payroll
2008	$ 640	$ 640	$ -	$ 2,872	22.28%
2009	740	740	-	3,179	23.28%
2010	816	816	-	3,520	23.18%
2011	917	1,517	600	3,992	38.01%
2012	895	1,370	475	3,991	34.33%
2013	802	1,002	200	4,226	23.70%
2014	742	1,468	726	4,413	33.26%
2015	852	1,352	500	5,125	26.38%

Notes to Schedule:

Valuation Date: Actuarially determined contribution rates are determined as of October 1 the beginning of the plan year.

Methods and Assumptions: The actuarial valuation is performed under the requirements of IRC Section 430; pursuant to the Pension Protection Act of 2006 and subsequent pension laws MAP-21 and HAFTA. The valuation is calculated using PPA actuarial funding methods and prescribed discounts segmented rates. The applicable discount rates for the 2014 actuarial valuation were 5.23% (0-5 years). 6.51% (6-20 years) and 7.16% (for 20+ years). The salary increase assumption was 4.5% per year.

Other assumptions included the 2014 Applicable Mortality Table, low turnover table Table T1 and 100% lump sum elections. The prior years' actuarial reports outline the applicable funding rates for the applicable years.

OTHER FINANCIAL INFORMATION

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF NET POSITION
SINGLE-FAMILY BOND SERIES
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
SEPTEMBER 30, 2015

	2000/2003 Step Up	2003 First Step	2002 D 2010 A-C 2011 A 2012 A	2006 B-G 2007 B-E 2007 G 2008 B	Combined Single-Family
ASSETS					
CURRENT ASSETS					
Cash on deposit	$ -	$ -	$ -	$ -	$ -
Accounts receivable	-	-	-	-	-
Accrued interest receivable	-	-	-	-	-
Mortgage loans receivable, net	-	-	-	-	-
Mortgage loans held for sale	-	-	-	-	-
Investments	-	-	-	-	-
Derivative instruments	-	-	-	-	-
Other assets	-	-	-	-	-
Restricted:					
Cash on deposit	-	-	4,323	-	4,323
Accrued interest receivable	142	-	539	932	1,613
Federal Program loans receivable, net	-	-	-	-	-
Investments	520	34	3,646	18,391	22,591
Other assets	-	-	-	-	-
Total current assets	662	34	8,508	19,323	28,527
NONCURRENT ASSETS					
Mortgage loans receivable, net	-	-	-	-	-
Investments	-	-	-	-	-
Other assets	-	-	-	-	-
Service release premiums, net	-	-	-	-	-
Restricted:					
Mortgage-backed securities	25,182	149	49,363	161,188	235,882
Investments	-	-	75,365	-	75,365
Other assets	-	-	-	-	-
Federal Program loans receivable, net	-	-	-	-	-
Total noncurrent assets	25,182	149	124,728	161,188	311,247
TOTAL ASSETS	25,844	183	133,236	180,511	339,774
DEFERRED OUTFLOWS					
Pension-related deferred outflows	-	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 25,844	$ 183	$ 133,236	$ 180,511	$ 339,774
LIABILITIES					
CURRENT LIABILITIES					
Bonds payable, net	$ 277	$ -	$ 1,830	$ 15,170	$ 17,277
Refundable Federal Program grants	-	-	-	-	-
Accrued interest payable	108	1	13	3,648	3,770
Due to (from) other funds	-	-	-	72	72
Other liabilities	-	-	-	12	12
Total current liabilities	385	1	1,843	18,902	21,131
NONCURRENT LIABILITIES					
Bonds payable, net	22,768	135	75,000	135,500	233,403
Refundable Federal Program grants	-	-	-	-	-
Unearned compliance and commitment fees	-	-	-	-	-
Total noncurrent liabilities	22,768	135	75,000	135,500	233,403
TOTAL LIABILITIES	23,153	136	76,843	154,402	254,534
DEFERRED INFLOWS					
Pension-related deferred inflows	-	-	-	-	-
NET POSITION					
Net investment in capital assets	-	-	-	-	-
Restricted	2,691	47	56,393	26,109	85,240
Unrestricted	-	-	-	-	-
Total net position	2,691	47	56,393	26,109	85,240
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	$ 25,844	$ 183	$ 133,236	$ 180,511	$ 339,774

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, 2015

	2000/2003 Step Up	2003 First Step	2002 D 2010 A-C 2011 A 2012 A	2006 B-G 2007 B-E 2007 G 2008 B	Combined Single-Family
OPERATING REVENUES					
Interest on mortgage loans	$ -	$ -	$ -	$ -	$ -
Interest on mortgage-backed securities	1,357	7	4,619	7,982	13,965
Investment income	-	-	260	-	260
Net realized and unrealized gain (loss) on investments	(368)	1	497	(84)	46
Loan fees and other income	22	-	-	-	22
Total operating revenues	1,011	8	5,376	7,898	14,293
OPERATING EXPENSES					
Interest on bonds	1,377	7	1,044	7,366	9,794
Amortization of servicing costs	-	-	-	-	-
Program, general, and administrative	22	-	63	174	259
Total operating expenses	1,399	7	1,107	7,540	10,053
OPERATING INCOME (LOSS)	(388)	1	4,269	358	4,240
NONOPERATING REVENUES (EXPENSES)					
Federal Program grants	-	-	-	-	-
Federal Program expenditures	-	-	-	-	-
Net nonoperating revenues	-	-	-	-	-
INCOME (LOSS) BEFORE TRANSFERS	(388)	1	4,269	358	4,240
Transfers in (out)	-	-	(14,058)	-	(14,058)
CHANGES IN NET POSITION	(388)	1	(9,789)	358	(9,818)
NET POSITION					
Beginning of year	3,079	46	66,182	25,751	95,058
End of year	$ 2,691	$ 47	$ 56,393	$ 26,109	$ 85,240

See independent auditors' report.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF NET POSITION
COMBINING ALL FUNDS
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
SEPTEMBER 30, 2015

	Combined Single-Family	Federal	Housing Assistance	General	Combined
ASSETS					
CURRENT ASSETS					
Cash on deposit	$ -	$ -	$ 63	$ 5,143	$ 5,206
Accounts receivable	-	-	-	1,041	1,041
Accrued interest receivable	-	-	103	226	329
Mortgage loans receivable, net	-	-	4,100	48	4,148
Mortgage loans held for sale	-	-	-	165,542	165,542
Investments	-	-	5,682	14,092	19,774
Derivative instruments	-	-	-	333	333
Other assets	-	-	-	6,622	6,622
Restricted:					
Cash on deposit	4,323	20	-	-	4,343
Accrued interest receivable	1,613	15,548	-	-	17,161
Federal Program loans receivable, net	-	14,303	-	-	14,303
Investments	22,591	4,457	-	-	27,048
Other assets	-	524	-	-	524
Total current assets	28,527	34,852	9,948	193,047	266,374
NONCURRENT ASSETS					
Mortgage loans receivable, net	-	-	39,464	249	39,713
Investments	-	-	-	528	528
Other assets	-	-	-	3,680	3,680
Service release premiums, net	-	-	-	37,037	37,037
Restricted:					
Mortgage-backed securities	235,882	-	-	-	235,882
Investments	75,365	-	-	-	75,365
Other assets	-	134	-	1,479	1,613
Federal Program loans receivable, net	-	307,445	-	-	307,445
Total noncurrent assets	311,247	307,579	39,464	42,973	701,263
TOTAL ASSETS	339,774	342,431	49,412	236,020	967,637
DEFERRED OUTFLOWS					
Pension-related deferred outflows	-	-	-	160	160
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 339,774	$ 342,431	$ 49,412	$ 236,180	$ 967,797
LIABILITIES					
CURRENT LIABILITIES					
Bonds payable, net	$ 17,277	$ -	$ -	$ -	$ 17,277
Refundable Federal program grants	-	14,303	-	-	14,303
Accrued interest payable	3,770	15,548	-	-	19,318
Due to (from) other funds	72	604	1,456	(2,132)	-
Other liabilities	12	182	-	2,585	2,779
Total current liabilities	21,131	30,637	1,456	453	53,677
NONCURRENT LIABILITIES					
Bonds payable, net	233,403	-	-	-	233,403
Refundable Federal Program grants	-	309,960	-	-	309,960
Unearned compliance and commitment fees	-	-	-	6,843	6,843
Total noncurrent liabilities	233,403	309,960	-	6,843	550,206
TOTAL LIABILITIES	254,534	340,597	1,456	7,296	603,883
DEFERRED INFLOWS					
Pension-related deferred inflows	-	-	-	1,212	1,212
NET POSITION					
Net investment in capital assets	-	134	-	1,479	1,613
Restricted	85,240	1,700	-	-	86,940
Unrestricted	-	-	47,956	226,193	274,149
Total net position	85,240	1,834	47,956	227,672	362,702
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	$ 339,774	$ 342,431	$ 49,412	$ 236,180	$ 967,797

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, 2015

	Combined Single-Family	Federal Programs	Housing Assistance Fund	General Fund	Combined Totals
OPERATING REVENUES					
Interest on mortgage loans	$ -	$ -	$ 1,326	$ 5,103	$ 6,429
Interest on mortgage-backed securities	13,965	-	-	-	13,965
Investment income	260	-	-	49	309
Net realized and unrealized gain on investments	46	-	-	13,308	13,354
Loan fees and other income	22	-	786	22,106	22,914
Total operating revenues	14,293	-	2,112	40,566	56,971
OPERATING EXPENSES					
Interest on bonds	9,794	-	-	-	9,794
Amortization of servicing costs	-	-	-	2,477	2,477
Program, general, and administrative	259	20	1,024	26,921	28,224
Total operating expenses	10,053	20	1,024	29,398	40,495
OPERATING INCOME (LOSS)	4,240	(20)	1,088	11,168	16,476
NONOPERATING REVENUES (EXPENSES)					
Federal Program grants	-	17,605	-	-	17,605
Federal Program expenditures	-	(17,272)	-	-	(17,272)
Net nonoperating revenues (expenses)	-	333	-	-	333
INCOME (LOSS) BEFORE TRANSFERS	4,240	313	1,088	11,168	16,809
Transfers in (out)	(14,058)	-	-	14,058	-
CHANGES IN NET POSITION	(9,818)	313	1,088	25,226	16,809
NET POSITION					
Beginning of year	95,058	1,521	46,868	202,446	345,893
End of year	$ 85,240	$ 1,834	$ 47,956	$ 227,672	$ 362,702

See independent auditors’ report.