

ALABAMA HOUSING FINANCE AUTHORITY

FINANCIAL STATEMENTS

SEPTEMBER 30, 2014 AND 2013

**ALABAMA HOUSING FINANCE AUTHORITY
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SEPTEMBER 30, 2014 AND 2013**

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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, 2014 and 2013, 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, 2014 and 2013, 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 29, 2014

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, 2014. 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) 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 2013 financial statements to conform to the 2014 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.

**ALABAMA HOUSING FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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, 2014 and 2013, and changes in the balances of selected items during the fiscal year ended September 30, 2014 (in thousands):

CONDENSED STATEMENTS OF NET POSITION

| | <u>2014</u> | <u>2013*</u> | <u>Change</u> |
|--|-------------------|---------------------|--------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash on deposit | \$ 17,503 | \$ 4,240 | \$ 13,263 |
| Accrued interest receivable and restricted accrued interest | 16,373 | 15,208 | 1,165 |
| Mortgages and restricted mortgages | 134,348 | 45,833 | 88,515 |
| Restricted Federal Program program mortgages | 9,400 | - | 9,400 |
| Investments and restricted investments | 88,705 | 192,252 | (103,547) |
| Other assets and restricted other assets | 4,774 | 7,023 | (2,249) |
| Total current assets | <u>271,103</u> | <u>264,556</u> | <u>6,547</u> |
| NONCURRENT ASSETS | | | |
| Mortgages, restricted mortgages, and restricted mortgage-backed securities | 366,049 | 406,140 | (40,091) |
| Restricted Federal Program program mortgages | 305,559 | 308,360 | (2,801) |
| Investments and restricted investments | 829 | 10,431 | (9,602) |
| Other assets and restricted other assets | 14,648 | 11,182 | 3,466 |
| Service release premiums, net | 20,503 | 13,785 | 6,718 |
| Total noncurrent assets | <u>707,588</u> | <u>749,898</u> | <u>(42,310)</u> |
| TOTAL ASSETS | <u>\$ 978,691</u> | <u>\$ 1,014,454</u> | <u>\$ (35,763)</u> |
| LIABILITIES AND NET POSITION | | | |
| CURRENT LIABILITIES | | | |
| Bonds payable, net | \$ 25,856 | \$ 37,116 | \$ (11,260) |
| Refundable Federal Program grants | 9,400 | - | 9,400 |
| Accrued interest payable | 18,578 | 18,063 | 515 |
| Other liabilities | 1,451 | 1,040 | 411 |
| Total current liabilities | <u>55,285</u> | <u>56,219</u> | <u>(934)</u> |
| NONCURRENT LIABILITIES | | | |
| Bonds payable, net | 264,476 | 303,524 | (39,048) |
| Refundable Federal Program grants | 308,542 | 314,042 | (5,500) |
| Other liabilities | 7,028 | 7,269 | (241) |
| Total noncurrent liabilities | <u>580,046</u> | <u>624,835</u> | <u>(44,789)</u> |
| TOTAL LIABILITIES | <u>635,331</u> | <u>681,054</u> | <u>(45,723)</u> |
| DEFERRED INFLOWS | | | |
| Accumulated increase in fair value of hedging derivative | 44 | - | 44 |
| NET POSITION | | | |
| Net investment in capital assets | 1,315 | 1,381 | (66) |
| Restricted | 96,558 | 171,593 | (75,035) |
| Unrestricted | 245,443 | 160,426 | 85,017 |
| Total net position | <u>343,316</u> | <u>333,400</u> | <u>9,916</u> |
| TOTAL LIABILITIES AND NET POSITION | <u>\$ 978,691</u> | <u>\$ 1,014,454</u> | <u>\$ (35,763)</u> |

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

**ALABAMA HOUSING FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Condensed Statements of Net Position – Continued

Current assets increased \$6,547,000 from September 30, 2013, to September 30, 2014, primarily due to an increase in mortgages and restricted mortgages of \$88,515,000, contrasted with a decrease of investments and restricted investments of \$103,547,000. 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. Federal Program mortgages increased \$9,400,000 reflecting the portion of those loans scheduled for maturity during the next fiscal year. The increase in cash on deposit is funds made available to purchase loans held for sale the following day in the next fiscal year.

Noncurrent assets decreased \$42,310,000, primarily due to a decrease in mortgage loans and restricted mortgage-backed securities of \$40,091,000, with most of this reduction occurring in the single-family bond program. Restricted Federal Program mortgages decreased \$2,801,000, reflecting the reclassification of a portion of these loans to current assets, as noted in the Condensed Statements of Net Position. Investments, restricted and unrestricted, decreased \$9,602,000, due to a reclassification of these assets to restricted mortgage-backed securities within noncurrent assets. Restricted and unrestricted other assets increased \$3,466,000, primarily due to increases in net pool buyouts in the general fund. Service release premiums increased \$6,718,000 in the general fund relating to unamortized premiums associated with loans held for sale and pooled into mortgage-backed securities during the fiscal year.

Current liabilities decreased \$934,000 from September 30, 2013 to September 30, 2014, reflecting a decrease in bonds payable classified as current and scheduled for maturity or redemption in the next twelve months. This was offset with an increase of Federal Program grants payable that was classified as a current liability for the next fiscal year. The increase in accrued interest payable was attributable to the HOME Federal Program grants payable and the increase in other liabilities was accounts payable in the General Fund.

Noncurrent liabilities decreased \$44,789,000, due to decreases in bonds payable of \$39,048,000. Refundable Federal Program grants decreased \$5,500,000 due to the reclassification of a portion of these loans to current liabilities. The following chart summarizes the Authority's debt activity from September 30, 2013, to September 30, 2014 (in thousands):

| | Debt Balance 9/30/2013 | Debt Issued | Debt Paid | Debt Balance 9/30/2014 |
|-----------------------------------|---------------------------------------|------------------------|----------------------|---------------------------------------|
| Bonds payable | \$ 340,640 | \$ - | \$ 50,308 | \$ 290,332 |
| Refundable Federal Program grants | <u>314,042</u> | <u>11,520</u> | <u>7,620</u> | <u>317,942</u> |
| | <u>\$ 654,682</u> | <u>\$ 11,520</u> | <u>\$ 57,928</u> | <u>\$ 608,274</u> |

**ALABAMA HOUSING FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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, 2014 and 2013, and the change from the prior year (in thousands):

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

| | <u>2014</u> | <u>2013*</u> | <u>Change</u> |
|---|-------------------|-------------------|-----------------|
| OPERATING REVENUES | | | |
| Interest on mortgage loans and mortgage-backed securities | \$ 20,726 | \$ 23,045 | \$ (2,319) |
| Investment income (loss) | 6,310 | (9,891) | 16,201 |
| Loan fees and other income | <u>15,537</u> | <u>11,163</u> | <u>4,374</u> |
| Total operating revenues | <u>42,573</u> | <u>24,317</u> | <u>18,256</u> |
| OPERATING EXPENSES | | | |
| Interest on bonds | 11,494 | 13,952 | (2,458) |
| Amortization of servicing costs | 1,421 | 1,607 | (186) |
| Program, general, and administrative | <u>21,230</u> | <u>16,329</u> | <u>4,901</u> |
| Total operating expenses | <u>34,145</u> | <u>31,888</u> | <u>2,257</u> |
| OPERATING INCOME (LOSS) | <u>8,428</u> | <u>(7,571)</u> | <u>15,999</u> |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Federal Program grants | 18,067 | 24,850 | (6,783) |
| Federal Program expenditures | <u>(16,579)</u> | <u>(24,880)</u> | <u>8,301</u> |
| Total nonoperating revenues (expenses) | <u>1,488</u> | <u>(30)</u> | <u>1,518</u> |
| CHANGES IN NET POSITION | 9,916 | (7,601) | 17,517 |
| NET POSITION | | | |
| Beginning of year, as previously stated | | 333,989 | |
| Prior period adjustment – GASB 65 | | <u>7,012</u> | |
| Beginning of year, as restated | <u>333,400</u> | <u>341,001</u> | <u>(7,601)</u> |
| NET POSITION AT END OF YEAR | <u>\$ 343,316</u> | <u>\$ 333,400</u> | <u>\$ 9,916</u> |

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

**ALABAMA HOUSING FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

Total operating revenues increased \$18,256,000, reflecting increases in investment and loan fee income. Interest on mortgage loans and mortgage-backed securities decreased \$2,319,000 due to the overall decrease in mortgage loan and mortgage-backed securities balances during 2014, net of loan originations. Investment income increased \$16,201,000 primarily due to a decrease in the reduction in the fair value recognition on mortgage-backed securities and investments at year-end in comparison to 2013. Loan fees and other income increased \$4,374,000 reflecting increases in loan servicing income, single-family commitment fees, and multifamily reservation and application fees.

Total operating expenses increased \$2,257,000, due to an increase in program, general, and administrative expenses of \$4,901,000, reflecting increases in pension balance adjustments, loan loss provisions and overall Authority operating expenses due to an increase in loan volume purchased, securitized, and serviced during the fiscal year. Interest on bonds decreased \$2,458,000 due to the reduction of bonds payable in the single-family bond program.

The increase of total nonoperating revenues relating to Federal Program grants over Federal Program expenditures is due to recognition of HOME Federal Program grant repayments net against current-year grant expenditures.

**ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2014 AND 2013**

| ASSETS | 2014 | 2013 |
|---------------------------------------|-----------------------|---------------------|
| | (In thousands) | |
| CURRENT ASSETS | | |
| Cash on deposit | \$ 17,498 | \$ 4,240 |
| Accounts receivable | 181 | 193 |
| Accrued interest receivable | 263 | 161 |
| Mortgage loans receivable, net | 3,680 | 4,210 |
| Mortgage loans held for sale | 130,668 | 41,623 |
| Investments | 24,112 | 48,409 |
| Derivative instrument | 44 | - |
| Other assets | 3,188 | 5,605 |
| Restricted: | | |
| Cash on deposit | 5 | - |
| Accrued interest receivable | 16,110 | 15,047 |
| Federal Program loans receivable, net | 9,400 | - |
| Investments | 64,594 | 143,843 |
| Other assets | 1,360 | 1,225 |
| | 271,103 | 264,556 |
| NONCURRENT ASSETS | | |
| Mortgage loans receivable, net | 38,000 | 37,990 |
| Investments | 829 | 1,132 |
| Other assets | 13,333 | 9,801 |
| Service release premiums, net | 20,503 | 13,785 |
| Restricted: | | |
| Mortgage-backed securities | 328,049 | 368,150 |
| Investments | - | 9,299 |
| Other assets | 1,315 | 1,381 |
| Federal Program loans receivable, net | 305,559 | 308,360 |
| | 707,588 | 749,898 |
| TOTAL ASSETS | \$ 978,691 | \$ 1,014,454 |

See notes to the financial statements.

**ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2014 AND 2013**

LIABILITIES AND NET POSITION

| | 2014 | 2013 |
|---|-----------------------|---------------------|
| | (In thousands) | |
| CURRENT LIABILITIES | | |
| Bonds payable, net of unamortized premiums | \$ 25,856 | \$ 37,116 |
| Refundable Federal Program grants | 9,400 | - |
| Accrued interest payable | 18,578 | 18,063 |
| Other liabilities | 1,451 | 1,040 |
| Total current liabilities | 55,285 | 56,219 |
| NONCURRENT LIABILITIES | | |
| Bonds payable, net of unamortized premiums | 264,476 | 303,524 |
| Refundable Federal Program grants | 308,542 | 314,042 |
| Unearned compliance and commitment fees | 7,028 | 7,269 |
| Total noncurrent liabilities | 580,046 | 624,835 |
| TOTAL LIABILITIES | 635,331 | 681,054 |
| DEFERRED INFLOWS | | |
| Accumulated increase in fair value of hedging derivative | 44 | - |
| NET POSITION | | |
| Net investment in capital assets | 1,315 | 1,381 |
| Restricted | 96,558 | 171,593 |
| Unrestricted | 245,443 | 160,426 |
| Total net position | 343,316 | 333,400 |
| TOTAL LIABILITIES, DEFERRED OUTFLOWS, AND NET POSITION | \$ 978,691 | \$ 1,014,454 |

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, 2014 AND 2013**

| | <u>2014</u> | <u>2013</u> |
|--|-------------------|-------------------|
| | (In thousands) | |
| OPERATING REVENUES | | |
| Interest on mortgage loans | \$ 3,564 | \$ 2,856 |
| Interest on mortgage-backed securities | 17,162 | 20,189 |
| Investment income | 1,020 | 1,065 |
| Net realized and unrealized gain (loss) on investments | 5,290 | (10,956) |
| Loan fees and other income | 15,537 | 11,163 |
| | <u>42,573</u> | <u>24,317</u> |
| OPERATING EXPENSES | | |
| Interest on bonds | 11,494 | 13,952 |
| Amortization of servicing costs | 1,421 | 1,607 |
| Program, general, and administrative | 21,230 | 16,329 |
| | <u>34,145</u> | <u>31,888</u> |
| | <u>8,428</u> | <u>(7,571)</u> |
| OPERATING INCOME (LOSS) | | |
| NONOPERATING REVENUES (EXPENSES) | | |
| Federal Program grants | 18,067 | 24,850 |
| Federal Program expenditures | (16,579) | (24,880) |
| | <u>1,488</u> | <u>(30)</u> |
| | <u>9,916</u> | <u>(7,601)</u> |
| CHANGES IN NET POSITION | | |
| NET POSITION | | |
| Beginning of year, as previously stated | | 333,989 |
| Prior period adjustment – GASB 65 | - | 7,012 |
| | <u>333,400</u> | <u>341,001</u> |
| Beginning of year, as restated | | 341,001 |
| | <u>333,400</u> | <u>341,001</u> |
| End of year | <u>\$ 343,316</u> | <u>\$ 333,400</u> |

See notes to the financial statements.

**ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

INCREASE (DECREASE) IN CASH ON DEPOSIT

| | 2014 | 2013 |
|---|-----------------------|-----------------|
| | (In thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Proceeds from sales/maturities of mortgage-backed securities | \$ 47,516 | \$ 65,909 |
| Purchase of mortgage loans | (45,874) | (42,677) |
| Principal payments received on mortgage loans | 41,823 | 39,962 |
| Purchase of mortgage loans held for sale | (806,529) | (541,084) |
| Proceeds from sale of mortgage loans held for sale | 716,508 | 513,511 |
| Interest received from mortgage loans | 3,462 | 2,780 |
| Interest received from mortgage-backed securities | 17,447 | 20,641 |
| Cash paid to suppliers for goods and services | (8,856) | (7,096) |
| Cash payments to employees for services | (5,089) | (5,058) |
| Loan fees, commitment fees, and other income received | 15,296 | 11,899 |
| | <u>(24,296)</u> | <u>58,787</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Principal payments on bonds | (50,307) | (62,035) |
| Payments of debt financing costs | - | (2) |
| Proceeds from Federal Program grants, net | 5,369 | 11,788 |
| Interest paid on bonds and note | (12,397) | (15,019) |
| | <u>(57,335)</u> | <u>(65,268)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Purchase of furniture and equipment | (400) | (608) |
| Purchase of service release premiums | (10,084) | (7,056) |
| | <u>(10,484)</u> | <u>(7,664)</u> |

See notes to the financial statements.

**ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

| | <u>2014</u> | <u>2013</u> |
|---|--------------------|------------------|
| | (In thousands) | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of investments | \$ (837,732) | \$ (648,835) |
| Proceeds from sales of investments | 943,278 | 674,736 |
| Interest received from investments | 6,563 | 4,740 |
| Federal Program mortgage loans funded, net | <u>(6,736)</u> | <u>(15,169)</u> |
| Net cash provided by investing activities | <u>105,373</u> | <u>15,472</u> |
| NET INCREASE IN CASH ON DEPOSIT | 13,258 | 1,327 |
| CASH ON DEPOSIT AT BEGINNING OF YEAR | <u>4,240</u> | <u>2,913</u> |
| CASH ON DEPOSIT AT END OF YEAR | <u>\$ 17,498</u> | <u>\$ 4,240</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | | |
| Operating income (loss) | \$ 8,428 | \$ (7,571) |
| Adjustments to reconcile operating income (loss) to net net cash provided by (used in) operating activities: | | |
| Depreciation | 454 | 370 |
| Amortization and expense of servicing costs | 3,367 | 3,115 |
| Amortization of unearned compliance and commitment fees | (1,834) | (2,000) |
| Gross unrealized loss on investments | 183 | 14,590 |
| Provision for loan losses, net | 2,012 | 1,484 |
| Commitment fees received | 1,593 | 2,735 |
| Interest received from investments | (6,565) | (4,739) |
| Interest paid on bonds | 12,397 | 15,019 |
| Changes in operating assets and liabilities: | | |
| Accrued interest receivable | (1,165) | (960) |
| Mortgage loans receivable | (5,026) | (3,217) |
| Mortgage loans held for sale | (89,045) | (27,071) |
| Mortgage-backed securities | 47,516 | 65,909 |
| Other assets and accounts receivable | 2,429 | 54 |
| Accrued interest payable | 515 | 309 |
| Other liabilities | <u>445</u> | <u>760</u> |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | <u>\$ (24,296)</u> | <u>\$ 58,787</u> |

See notes to the financial statements.

**ALABAMA HOUSING FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

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 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 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.

**ALABAMA HOUSING FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

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, 2014, 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 \$17,503,000 and \$4,240,000 as of September 30, 2014 and 2013, respectively. All cash on deposit at September 30, 2014, 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 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.

**ALABAMA HOUSING FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

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, 2014 or 2013.

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. Previously, commitment fees were deferred and recognized in income over the life of the applicable loans as an adjustment of their yields. Due to the adoption of GASB No. 65, *Items Previously Reported as Assets and Liabilities*, all previously deferred income where this treatment was applicable has been recognized against net position and all income received in the current year has been recorded in the current period.

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 \$10,000,000 Ginnie Mae and \$37,000,000 Fannie Mae guaranteed mortgage-backed securities as of the year ended September 30, 2014.

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 THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

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

Issuance costs on bonds were previously deferred and amortized, on a yield method, over the life of the related bond issue. Due to the adoption of GASB No. 65, all previous costs deferred have been recognized against net position and all costs incurred in the current year have been expensed in the current period.

Mortgage Loan Servicing

As of September 30, 2014 and 2013, the Authority serviced \$2,318,861,000 and \$1,685,674,000, respectively, in mortgage loans including \$2,231,632,000 and \$1,636,551,000, 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 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 \$456,000 and \$465,000 at September 30, 2014 and 2013, 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 \$12,877,000 and \$9,335,000 at September 30, 2014 and 2013, respectively, net of an allowance for loss.

**ALABAMA HOUSING FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

New Accounting Pronouncements

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. The provisions of this statement have been applied for the year ended September 30, 2014, and have been applied retrospectively to the year ended September 30, 2013. As a result of implementing this standard, certain deferred assets, such as deferred debt financing costs, and deferred liabilities, such as deferred commitment fees have been eliminated. This change resulted in the cumulative net decreases in assets of \$2,000,000 and liabilities of \$8,449,000 and an increase in net position of \$6,449,000.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, 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 29, 2014, 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, 2014, mortgage-backed securities consisted of program certificates with interest rates ranging from 4% to 8.625%. The cost of program investments at September 30, 2014 and 2013, was \$295,060,000 and \$335,923,000, respectively.

As a result of changes in the fair value of mortgage-backed securities, the Authority recorded net unrealized losses of \$19,000 and \$14,089,000 for the years ended September 30, 2014 and 2013, 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 THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

4. INVESTMENTS

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

| <u>Investment Type</u> | <u>2014</u> | <u>% of Total</u> | <u>2013</u> | <u>% of Total</u> |
|----------------------------|------------------|-----------------------|-------------------|-----------------------|
| Money market funds | \$ 88,606 | 99% | \$ 192,151 | 95% |
| Mortgage-backed securities | 829 | 1% | 10,432 | 5% |
| Certificates of deposit | <u>100</u> | <u>0%</u> | <u>100</u> | <u>0%</u> |
| | <u>\$ 89,535</u> | <u>100%</u> | <u>\$ 202,683</u> | <u>100%</u> |

The cost of investments at September 30, 2014 and 2013, was \$89,459,000 and \$201,663,000, respectively. As a result of changes in the fair value of investments, the Authority recorded net unrealized losses of \$70,000 and \$1,548,000 for the years ended September 30, 2014 and 2013, 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 | \$ 88,606 | \$ 88,606 | \$ - | \$ - | \$ - |
| Mortgage-backed securities | 829 | - | 178 | 651 | - |
| Certificates of deposit | <u>100</u> | <u>100</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 89,535</u> | <u>\$ 88,706</u> | <u>\$ 178</u> | <u>\$ 651</u> | <u>\$ -</u> |

**ALABAMA HOUSING FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

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, 2014, 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.

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, 2014 (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 | \$ 4,688 | \$ - | \$ - | \$ 4,688 | 5% |
| Federated Government Obligations | 23,920 | - | - | 23,920 | 27% |
| Federated GNMA Money Market | 8,375 | - | - | 8,375 | 10% |
| Fidelity US Government | 120 | - | - | 120 | 0% |
| First American Treasury Obligations | 51,411 | - | - | 51,411 | 57% |
| GNMA Mortgage-backed Securities | - | 829 | - | 829 | 1% |
| Keystone Bank | - | - | 100 | 100 | 0% |
| River Bank & Trust | 92 | - | - | 92 | 0% |
| Total | <u>\$ 88,606</u> | <u>\$ 829</u> | <u>\$ 100</u> | <u>\$ 89,535</u> | <u>100%</u> |

**ALABAMA HOUSING FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

4. INVESTMENTS – CONTINUED

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

| | <u>2014</u> | <u>2013</u> |
|--|------------------|-------------------|
| Current assets – investments | \$ 24,112 | \$ 48,409 |
| Current assets – restricted investments | 64,594 | 143,843 |
| Noncurrent assets – investments | 829 | 1,132 |
| Noncurrent assets – restricted investments | <u>-</u> | <u>9,299</u> |
| | <u>\$ 89,535</u> | <u>\$ 202,683</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>2014</u> | <u>2013</u> |
|---|------------------|------------------|
| Mortgage loans receivable (5% to 11.27%): | | |
| Conventional | \$ 1,902 | \$ 2,592 |
| FHA insured | 13 | 65 |
| VA insured | 25 | 110 |
| Down payment assistance/Habitat loans (0% to 8.40%) | <u>42,856</u> | <u>42,659</u> |
| | 44,796 | 45,426 |
| Less allowance for loan losses | <u>(3,116)</u> | <u>(3,226)</u> |
| Total mortgage loans receivable, net | <u>\$ 41,680</u> | <u>\$ 42,200</u> |

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

Conventionally financed single-family loans owned by the Authority may also be insured by supplemental pool insurance. Supplemental pool insurance is maintained over the life of the loan. As of September 30, 2014, 48% of conventionally financed single-family mortgage loans (excluding housing assistance fund loans) owned by the Authority are insured by private mortgage insurance and 52% are insured by supplemental pool insurance.

**ALABAMA HOUSING FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

5. MORTGAGE LOANS RECEIVABLE – CONTINUED

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

| | 2014 | 2013 |
|--|------------------|------------------|
| Current assets – Mortgage loans receivable, net | \$ 3,680 | \$ 4,210 |
| Noncurrent assets – Mortgage loans receivable, net | 38,000 | 37,990 |
| | \$ 41,680 | \$ 42,200 |

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 Value |
|---|--|-------------------|--------------------------------|
| | 2014 | 2013 | |
| Single-family bond programs: | | | |
| 2000/2003 Step Up Program (4.42% to 7.80%), due 2034 to 2036 | \$ 26,230 | \$ 30,301 | \$ 128,927 |
| 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 2014 to 2017 | 84,215 | 94,655 | 127,350 |
| 2003 First Step Program (4.82% to 5.09%), due 2036 | 140 | 273 | 793 |
| 2006 Series B-G, 2007 Series B-E, 2007 Series G, 2008 Series B (2.50% to 5.75%) due 2014 to 2039 | 179,747 | 215,411 | 398,048 |
| | 290,332 | 340,640 | |
| Less current maturities | (25,856) | (37,116) | |
| Noncurrent maturities | \$ 264,476 | \$ 303,524 | |

**ALABAMA HOUSING FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

6. BONDS PAYABLE – CONTINUED

Principal and interest payments on bonds after 2014 are scheduled as follows (in thousands):

| Fiscal Year Ending September 30 | Principal | Interest |
|--|-------------------|-------------------|
| 2015 | \$ 25,856 | \$ 10,457 |
| 2016 | 5,735 | 10,239 |
| 2017 | 79,200 | 9,812 |
| 2018 | 4,025 | 8,901 |
| 2019 | 4,240 | 8,711 |
| 2020–2024 | 24,815 | 40,266 |
| 2025–2029 | 32,665 | 33,459 |
| 2030–2034 | 46,185 | 24,254 |
| 2035–2039 | <u>67,611</u> | <u>5,004</u> |
| | <u>\$ 290,332</u> | <u>\$ 151,103</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 THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

8. DERIVATIVE INSTRUMENT

At September 30, 2014, the Authority had \$47,000,000 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):

| <u>Delivery Date</u> | <u>Coupon Rate</u> | <u>Outstanding Notional Amount</u> | <u>Fair Values</u> | <u>Counterparty Credit Rating</u> |
|----------------------|--------------------|------------------------------------|--------------------|-----------------------------------|
| <i>Fannie Mae</i> | | | | |
| October 2014 | 3.5% | \$ 4,000 | \$ 37 | BBB- |
| October 2014 | 3.5% | 4,000 | 16 | AA |
| October 2014 | 3.5% | 4,000 | (13) | AA |
| October 2014 | 3.5% | 3,000 | 1 | A1 |
| October 2014 | 3.5% | 4,000 | - | A1 |
| November 2014 | 3.5% | 4,000 | 19 | BBB- |
| November 2014 | 3.5% | 5,000 | 10 | AA |
| November 2014 | 3.5% | 6,000 | (17) | A1 |
| December 2014 | 3.5% | <u>3,000</u> | <u>(3)</u> | AA |
| | | <u>37,000</u> | <u>50</u> | |
| <i>Ginnie Mae</i> | | | | |
| October 2014 | 3.5% | 1,000 | - | BBB- |
| October 2014 | 3.5% | 2,000 | 7 | BBB- |
| October 2014 | 3.5% | 2,000 | (2) | AA |
| November 2014 | 3.5% | 1,000 | 3 | BBB- |
| November 2014 | 3.5% | <u>4,000</u> | <u>(14)</u> | AA |
| | | <u>10,000</u> | <u>(6)</u> | |
| | | <u>\$ 47,000</u> | <u>\$ 44</u> | |

**ALABAMA HOUSING FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

9. 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 |
|--|--|-------------------|--|
| | 2014 | 2013 | |
| 1992 Series B (7.25%), due 2013 to 2023 | \$ - | \$ 920 | \$ 2,150 |
| 1995 Series A (6.65%), due 2013 to 2030 | - | 1,090 | 1,415 |
| 2000 Series A-K (5.60% to 5.95%, variable), due 2013 to 2033 | 9,215 | 14,888 | 45,325 |
| 2001 Series A-D (5.96% to 7.09%, variable), due 2013 to 2034 | 10,541 | 10,657 | 16,027 |
| 2002 Series A-I (4.65% to 5.55%, variable), due 2013 to 2035 | 8,400 | 12,895 | 34,125 |
| 2003 Series A-N (4.25% to 9.25%, variable), due 2013 to 2039 | 32,738 | 33,411 | 55,856 |
| 2004 Series A-H (5.20% to 8.00%, variable), due 2013 to 2045 | 16,328 | 16,660 | 29,672 |
| 2005 Series A-F (4.50% to 5.06%, variable), due 2013 to 2038 | 23,975 | 29,217 | 63,798 |
| 2007 Series A-E (4.63% to 5.30%, variable), due 2013 to 2049 | 21,015 | 21,227 | 24,745 |
| 2008 Series A-B (variable), due 2013 to 2030 | 5,646 | 5,793 | 6,410 |
| 2012 Series A (variable) due 2032 | 2,725 | 8,497 | 13,000 |
| 2013 Series A (.50%) due 2014 | 4,600 | 4,600 | 4,600 |
| 2014 Series A-B (.35%) due 2016 to 2017 | 17,900 | - | 17,900 |
| | <u>\$ 153,083</u> | <u>\$ 159,855</u> | |

**ALABAMA HOUSING FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

9. CONDUIT DEBT – CONTINUED

Principal and interest payments on conduit debt after 2014 are scheduled as follows (in thousands):

| <u>Fiscal Year Ending September 30</u> | <u>Principal</u> | <u>Interest</u> |
|--|-------------------|------------------|
| 2015 | \$ 12,669 | \$ 2,352 |
| 2016 | 15,070 | 2,374 |
| 2017 | 5,290 | 2,270 |
| 2018 | 1,325 | 2,198 |
| 2019 | 1,409 | 2,136 |
| 2020–2024 | 8,924 | 9,616 |
| 2025–2029 | 9,331 | 7,569 |
| 2030–2034 | 24,542 | 4,772 |
| 2035–2039 | 66,373 | 1,868 |
| 2040–2044 | 6,105 | 910 |
| 2045–2049 | 2,045 | 237 |
| | <u>\$ 153,083</u> | <u>\$ 36,302</u> |

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 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 \$353,000 and \$252,000, respectively, in fiscal 2014 and \$312,000 and \$223,000, respectively, in fiscal 2013. 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 THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

10. RETIREMENT PLANS – CONTINUED

Defined Benefit Plan – Continued

The Pension 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, 2014, 2013, and 2012, were \$742,000, \$802,000, and \$895,000, respectively, or about 14%, 18%, and 21% of covered participant compensation, respectively. Actual employer contributions to the plan totaled \$1,282,000, \$1,001,500, and \$1,370,000 for the years ended September 30, 2014, 2013, and 2012, respectively. The net pension assets at September 30, 2014, 2013, and 2012, were \$1,237,000, \$2,842,000, and \$2,271,000, respectively.

The annual required contribution for the current year was determined as part of the September 30, 2014, 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, 2014, the plan had the following participants:

| | |
|--|----------------------|
| Active participants | 82 |
| Vested terminated participants | 0 |
| Retired participants and beneficiaries | <u>1</u> |
| Total | <u><u>83</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> |
|---|--|---|--|--|-------------------------------------|---|
| 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% |
| 2014 | 13,251 | 12,014 | 110.29% | (1,237) | 5,125 | 24.14% |

**ALABAMA HOUSING FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

11. OPERATING LEASES

The Authority leases office space under operating leases expiring through 2019. Rent expense for the years ended September 30, 2014 and 2013, totaled \$986,000 and \$806,000, 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):

| | | |
|------|----|-------|
| 2015 | \$ | 1,011 |
| 2016 | | 1,037 |
| 2017 | | 1,062 |
| 2018 | | 1,089 |
| 2019 | | 928 |

12. EARLY RETIREMENT OF BONDS

The Authority's mortgage revenue bonds are subject to certain extraordinary redemption provisions. During the years ended September 30, 2014 and 2013, the Authority called approximately \$38,462,000 and \$44,194,000 (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 \$13,435,000 of single-family bonds prior to their scheduled maturities.

The Authority has issued \$13,500,000 of multifamily bonds (conduit debt).

The Authority has awarded Federal funds totaling \$1,325,000 under the HOME Program.

At year-end, \$6,856,000 of multifamily bonds (conduit debt) were in technical default. The debt is in foreclosure proceedings and is expected to be redeemed in the upcoming fiscal year.

14. RECLASSIFICATIONS

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation.

OTHER FINANCIAL INFORMATION

**ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF NET POSITION
SINGLE-FAMILY BOND SERIES
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
SEPTEMBER 30, 2014**

| | 2000/2003 Step Up | 2003 First Step | 2002D 2008 A&C 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 | - | - | - | - | - |
| Accrued interest receivable | 161 | 1 | 778 | 1,095 | 2,035 |
| Federal Program loans receivable, net | - | - | - | - | - |
| Investments | 477 | 34 | 36,872 | 22,523 | 59,906 |
| Other assets | - | - | - | - | - |
| Total current assets | <u>638</u> | <u>35</u> | <u>37,650</u> | <u>23,618</u> | <u>61,941</u> |
| NONCURRENT ASSETS | | | | | |
| Mortgage loans receivable, net | - | - | - | - | - |
| Investments | - | - | - | - | - |
| Other assets | - | - | - | - | - |
| Service release premiums, net | - | - | - | - | - |
| Restricted: | | | | | |
| Mortgage-backed securities | 28,793 | 152 | 112,763 | 186,341 | 328,049 |
| Other assets | - | - | - | - | - |
| Federal Program loans receivable, net | - | - | - | - | - |
| Total noncurrent assets | <u>28,793</u> | <u>152</u> | <u>112,763</u> | <u>186,341</u> | <u>328,049</u> |
| TOTAL ASSETS | <u>\$ 29,431</u> | <u>\$ 187</u> | <u>\$ 150,413</u> | <u>\$ 209,959</u> | <u>\$ 389,990</u> |
| LIABILITIES AND NET POSITION | | | | | |
| CURRENT LIABILITIES | | | | | |
| Bonds payable, net | \$ 325 | \$ 1 | \$ 7,385 | \$ 18,145 | \$ 25,856 |
| Federal Program loans receivable, net | - | - | - | - | - |
| Accrued interest payable | 122 | 1 | 16 | 4,364 | 4,503 |
| Due to other funds | - | - | - | 84 | 84 |
| Other liabilities | - | - | - | 13 | 13 |
| Total current liabilities | <u>447</u> | <u>2</u> | <u>7,401</u> | <u>22,606</u> | <u>30,456</u> |
| NONCURRENT LIABILITIES | | | | | |
| Bonds payable, net | 25,905 | 139 | 76,830 | 161,602 | 264,476 |
| Refundable Federal Program grants | - | - | - | - | - |
| Unearned compliance and commitment fees | - | - | - | - | - |
| Total noncurrent liabilities | <u>25,905</u> | <u>139</u> | <u>76,830</u> | <u>161,602</u> | <u>264,476</u> |
| TOTAL LIABILITIES | <u>26,352</u> | <u>141</u> | <u>84,231</u> | <u>184,208</u> | <u>294,932</u> |
| DEFERRED INFLOWS | | | | | |
| Accumulated increase in fair value of hedging derivative | - | - | - | - | - |
| NET POSITION | | | | | |
| Net investment in capital assets | - | - | - | - | - |
| Restricted | 3,079 | 46 | 66,182 | 25,751 | 95,058 |
| Unrestricted | - | - | - | - | - |
| Total net position | <u>3,079</u> | <u>46</u> | <u>66,182</u> | <u>25,751</u> | <u>95,058</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION | <u>\$ 29,431</u> | <u>\$ 187</u> | <u>\$ 150,413</u> | <u>\$ 209,959</u> | <u>\$ 389,990</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, 2014

| | 2000/2003 Step Up | 2003 First Step | 2002D 2008 A&C 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 | 1,530 | 9 | 6,228 | 9,395 | 17,162 |
| Investment income | - | - | 946 | - | 946 |
| Net realized and unrealized gain (loss) on investments | (153) | (10) | 126 | (13) | (50) |
| Loan fees and other income | 26 | - | - | - | 26 |
| Total operating revenues | <u>1,403</u> | <u>(1)</u> | <u>7,300</u> | <u>9,382</u> | <u>18,084</u> |
| OPERATING EXPENSES | | | | | |
| Interest on bonds | 1,553 | 10 | 1,216 | 8,715 | 11,494 |
| Amortization of servicing costs | - | - | - | - | - |
| Program, general, and administrative | 25 | - | (1) | 204 | 228 |
| Total operating expenses | <u>1,578</u> | <u>10</u> | <u>1,215</u> | <u>8,919</u> | <u>11,722</u> |
| OPERATING INCOME (LOSS) | <u>(175)</u> | <u>(11)</u> | <u>6,085</u> | <u>463</u> | <u>6,362</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| Federal Program grants | - | - | - | - | - |
| Federal Program expenditures | - | - | - | - | - |
| Total nonoperating revenues (expenses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| INCOME (LOSS) BEFORE TRANSFERS | <u>(175)</u> | <u>(11)</u> | <u>6,085</u> | <u>463</u> | <u>6,362</u> |
| Transfers in (out) | <u>-</u> | <u>-</u> | <u>(82,897)</u> | <u>-</u> | <u>(82,897)</u> |
| CHANGES IN NET POSITION | <u>(175)</u> | <u>(11)</u> | <u>(76,812)</u> | <u>463</u> | <u>(76,535)</u> |
| NET POSITION | | | | | |
| Beginning of year | <u>3,254</u> | <u>57</u> | <u>142,994</u> | <u>25,288</u> | <u>171,593</u> |
| End of year | <u>\$ 3,079</u> | <u>\$ 46</u> | <u>\$ 66,182</u> | <u>\$ 25,751</u> | <u>\$ 95,058</u> |

See independent auditors' report.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF NET POSITION
COMBINING ALL FUNDS
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
SEPTEMBER 30, 2014

| | Combined Single- Family | Federal | Housing Assistance | General | Combined |
|--|-------------------------------|-------------------|-----------------------|-------------------|-------------------|
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash on deposit | \$ - | \$ - | \$ 865 | \$ 16,633 | \$ 17,498 |
| Accounts receivable | - | - | - | 181 | 181 |
| Accrued interest receivable | - | - | 96 | 167 | 263 |
| Mortgage loans receivable, net | - | - | 3,380 | 300 | 3,680 |
| Mortgage loans held for sale | - | - | - | 130,668 | 130,668 |
| Investments | - | - | 5,732 | 18,380 | 24,112 |
| Derivative instrument | - | - | - | 44 | 44 |
| Other assets | - | - | - | 3,188 | 3,188 |
| Restricted: | | | | | |
| Cash on deposit | - | 5 | - | - | 5 |
| Accrued interest receivable | 2,035 | 14,075 | - | - | 16,110 |
| Federal Program loans receivable, net | - | 9,400 | - | - | 9,400 |
| Investments | 59,906 | 4,688 | - | - | 64,594 |
| Other assets | - | 1,360 | - | - | 1,360 |
| Total current assets | <u>61,941</u> | <u>29,528</u> | <u>10,073</u> | <u>169,561</u> | <u>271,103</u> |
| NONCURRENT ASSETS | | | | | |
| Mortgage loans receivable, net | - | - | 37,710 | 290 | 38,000 |
| Investments | - | - | - | 829 | 829 |
| Other assets | - | - | - | 13,333 | 13,333 |
| Service release premiums, net | - | - | - | 20,503 | 20,503 |
| Restricted: | | | | | |
| Mortgage-backed securities | 328,049 | - | - | - | 328,049 |
| Other assets | - | 21 | - | 1,294 | 1,315 |
| Federal Program loans receivable, net | - | 305,559 | - | - | 305,559 |
| Total noncurrent assets | <u>328,049</u> | <u>305,580</u> | <u>37,710</u> | <u>36,249</u> | <u>707,588</u> |
| TOTAL ASSETS | <u>\$ 389,990</u> | <u>\$ 335,108</u> | <u>\$ 47,783</u> | <u>\$ 205,810</u> | <u>\$ 978,691</u> |
| LIABILITIES AND NET POSITION | | | | | |
| CURRENT LIABILITIES | | | | | |
| Bonds payable, net | \$ 25,856 | \$ - | \$ - | \$ - | \$ 25,856 |
| Refundable Federal program grants | - | 9,400 | - | - | 9,400 |
| Accrued interest payable | 4,503 | 14,075 | - | - | 18,578 |
| Due to (from) other funds | 84 | 1,454 | 915 | (2,453) | - |
| Other liabilities | 13 | 116 | - | 1,322 | 1,451 |
| Total current liabilities | <u>30,456</u> | <u>25,045</u> | <u>915</u> | <u>(1,131)</u> | <u>55,285</u> |
| NONCURRENT LIABILITIES | | | | | |
| Bonds payable, net | 264,476 | - | - | - | 264,476 |
| Refundable Federal Program grants | - | 308,542 | - | - | 308,542 |
| Unearned compliance and commitment fees | - | - | - | 7,028 | 7,028 |
| Total noncurrent liabilities | <u>264,476</u> | <u>308,542</u> | <u>-</u> | <u>7,028</u> | <u>580,046</u> |
| TOTAL LIABILITIES | <u>294,932</u> | <u>333,587</u> | <u>915</u> | <u>5,897</u> | <u>635,331</u> |
| DEFERRED INFLOWS | | | | | |
| Accumulated increase in fair value of hedging derivative | - | - | - | 44 | 44 |
| NET POSITION | | | | | |
| Net investment in capital assets | - | 21 | - | 1,294 | 1,315 |
| Restricted | 95,058 | 1,500 | - | - | 96,558 |
| Unrestricted | - | - | 46,868 | 198,575 | 245,443 |
| Total net position | <u>95,058</u> | <u>1,521</u> | <u>46,868</u> | <u>199,869</u> | <u>343,316</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION | <u>\$ 389,990</u> | <u>\$ 335,108</u> | <u>\$ 47,783</u> | <u>\$ 205,810</u> | <u>\$ 978,691</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, 2014

| | Combined Single- Family | Federal Programs | Housing Assistance Fund | General Fund | Combined Totals |
|---|--|-----------------------------|--|-------------------------|----------------------------|
| OPERATING REVENUES | | | | | |
| Interest on mortgage loans | \$ - | \$ - | \$ 1,225 | \$ 2,339 | \$ 3,564 |
| Interest on mortgage-backed securities | 17,162 | - | - | - | 17,162 |
| Investment income | 946 | - | 1 | 73 | 1,020 |
| Net realized and unrealized gain (loss) on investments | (50) | - | - | 5,340 | 5,290 |
| Loan fees and other income | 26 | - | 548 | 14,963 | 15,537 |
| Total operating revenues | <u>18,084</u> | <u>-</u> | <u>1,774</u> | <u>22,715</u> | <u>42,573</u> |
| OPERATING EXPENSES | | | | | |
| Interest on bonds | 11,494 | - | - | - | 11,494 |
| Amortization of servicing costs | - | - | - | 1,421 | 1,421 |
| Program, general, and administrative | 228 | - | 937 | 20,065 | 21,230 |
| Total operating expenses | <u>11,722</u> | <u>-</u> | <u>937</u> | <u>21,486</u> | <u>34,145</u> |
| OPERATING INCOME (LOSS) | <u>6,362</u> | <u>-</u> | <u>837</u> | <u>1,229</u> | <u>8,428</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| Federal Program grants | - | 18,067 | - | - | 18,067 |
| Federal Program expenditures | - | (16,579) | - | - | (16,579) |
| Total nonoperating revenues (expenses) | <u>-</u> | <u>1,488</u> | <u>-</u> | <u>-</u> | <u>1,488</u> |
| INCOME BEFORE TRANSFERS | <u>6,362</u> | <u>1,488</u> | <u>837</u> | <u>1,229</u> | <u>9,916</u> |
| Transfers in (out) | <u>(82,897)</u> | <u>-</u> | <u>-</u> | <u>82,897</u> | <u>-</u> |
| CHANGES IN NET POSITION | <u>(76,535)</u> | <u>1,488</u> | <u>837</u> | <u>84,126</u> | <u>9,916</u> |
| NET POSITION | | | | | |
| Beginning of year | <u>171,593</u> | <u>33</u> | <u>46,031</u> | <u>115,743</u> | <u>333,400</u> |
| End of year | <u>\$ 95,058</u> | <u>\$ 1,521</u> | <u>\$ 46,868</u> | <u>\$ 199,869</u> | <u>\$ 343,316</u> |

See independent auditors' report.