

**ALABAMA HOUSING FINANCE AUTHORITY**  
**COMPARATIVE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010 AND 2009**

**ALABAMA HOUSING FINANCE AUTHORITY**  
SEPTEMBER 30, 2010 AND 2009

---

**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
Management’s Discussion and Analysis .....	1
Independent Auditors’ Report.....	6
<b>BASIC FINANCIAL STATEMENTS</b>	
Statements of Net Assets .....	7
Statements of Revenues, Expenses and Changes in Net Assets .....	8
Statements of Cash Flows.....	9
Notes to Financial Statements.....	11
<b>OTHER FINANCIAL INFORMATION</b>	
Additional Segment Data.....	27

---

# **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, 2010. 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) service Authority and other entity mortgages, (2) fund and securitize single-family mortgage loans of qualified borrowers, (3) implement and manage housing-related Federal programs including HOME, TCAP, Exchange and Low-Income Housing Tax Credits and (4) issue bonds to fund loans for single-family residences and multifamily developments. The Authority is entirely self-funded and does not draw upon the general taxing authority of the State of Alabama.

The financial transactions of the Authority are recorded in the funds, which consist of a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses as appropriate. Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation.

### ***Required Basic Financial Statements***

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

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

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

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

**Condensed Financial Information**

**Condensed Statements of Net Assets**

The following table presents condensed information about the net assets of the Authority as of September 30, 2010 and 2009, and changes in the balances of selected items during the fiscal year ended September 30, 2010 (in thousands):

**CONDENSED STATEMENTS OF NET ASSETS**

	<u>2010</u>	<u>2009</u>	<u>Change</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash on deposit	\$ 3,006	\$ 1,587	\$ 1,419
Accrued interest receivable and restricted accrued interest	13,192	12,570	622
Mortgages and restricted mortgages	14,249	28,628	(14,379)
Investments and restricted investments	163,340	141,952	21,388
Other assets and restricted other assets	4,074	2,907	1,167
Total current assets	<u>197,861</u>	<u>187,644</u>	<u>10,217</u>
<b>NONCURRENT ASSETS</b>			
Mortgages, restricted mortgages and restricted mortgage-backed securities	616,693	675,516	(58,823)
Restricted Federal Program grants	230,329	213,520	16,809
Investments and restricted investments	18,544	22,861	(4,317)
Other assets and restricted other assets	6,064	4,602	1,462
Deferred servicing costs and restricted deferred debt financing	15,417	17,834	(2,417)
Total noncurrent assets	<u>887,047</u>	<u>934,333</u>	<u>(47,286)</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,084,908</u>	<u>\$ 1,121,977</u>	<u>\$ (37,069)</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Bonds and notes payable	\$ 58,661	\$ 54,031	\$ 4,630
Accrued interest payable	18,104	19,038	(934)
Other liabilities	215	207	8
Total current liabilities	<u>76,980</u>	<u>73,276</u>	<u>3,704</u>
<b>NONCURRENT LIABILITIES</b>			
Bonds and notes payable	455,696	537,674	(81,978)
Refundable Federal Program grants	230,329	213,520	16,809
Other liabilities	18,846	31,624	(12,778)
Total noncurrent liabilities	<u>704,871</u>	<u>782,818</u>	<u>(77,947)</u>
<b>TOTAL LIABILITIES</b>	<u>781,851</u>	<u>856,094</u>	<u>(74,243)</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,320	1,141	179
Restricted	232,097	181,523	50,574
Unrestricted	69,640	83,219	(13,579)
Total net assets	<u>303,057</u>	<u>265,883</u>	<u>37,174</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 1,084,908</u>	<u>\$ 1,121,977</u>	<u>\$ (37,069)</u>

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

---

*Condensed Statements of Net Assets (Continued)*

Current assets increased \$10,217,000 from September 30, 2009, to September 30, 2010, primarily due to an increase in restricted investments of \$21,388,000 in the single-family bond issues relating to funds held for bond redemptions and regular debt service payments scheduled for October 1, 2010. See Note 13 "Subsequent Events," for further information. Restricted and unrestricted mortgages decreased \$14,379,000 due to a decrease in the balance of mortgage loans held for sale at year-end. Cash on deposit increased \$1,419,000 due to funds on deposit at year-end in various general and housing assistance accounts.

Noncurrent assets decreased \$47,286,000, primarily due to a decrease in restricted mortgage revenue bond loans and mortgage-backed securities of \$58,823,000, signifying that the Authority received more mortgage repayments and prepayments compared to new loan originations in the single-family non-taxable bond program. Restricted Federal Program mortgages increased \$16,809,000, due to the introduction of one new Federal Program, the tax credit assistance program (TCAP), along with regular lending under the HOME Program. Restricted and unrestricted investments decreased \$4,317,000 relating to the paydown of noncurrent investments within the single-family program. Deferred servicing costs and restricted deferred debt financing costs decreased \$2,417,000 due to an increase of amortization and expense of service release premiums in the general fund, reflecting a decrease in loan originations during this fiscal year. These deferred costs also decreased in the single-family bond programs as more bonds were redeemed than issued.

Current liabilities increased \$3,704,000 from September 30, 2009, to September 30, 2010, due to increases in bonds payable classified as current and scheduled for maturity or redemption in the next twelve months. The decrease of \$934,000 in accrued interest payable is attributable to the overall reduction in interest rates and bonds outstanding in the single-family bond programs.

Noncurrent liabilities decreased \$77,947,000, primarily due to decreases in bonds payable and other liabilities. More bonds were redeemed than issued this past fiscal year. Refundable Federal Program grants increased \$16,809,000 due to increased lending activity in those programs, as referenced in above comments concerning restricted Federal Program mortgages. Other liabilities decreased \$12,778,000 reflecting a reduction of actual rebate payable and accrued arbitrage rebate payable related to the fair value of mortgage-backed securities. See Note 3 "Mortgage-Backed Securities", for additional information. The following chart summarizes the Authority's debt activity from September 30, 2009, to September 30, 2010:

	<b>Debt Balance 9/30/2009</b>	<b>Debt Issued</b>	<b>Debt Paid</b>	<b>Debt Balance 9/30/2010</b>
Bonds payable	\$ 591,705	\$ 26,400	\$ 103,748	\$ 514,357
Refundable Federal Program grants	<u>213,520</u>	<u>17,323</u>	<u>514</u>	<u>230,329</u>
	<u>\$ 805,225</u>	<u>\$ 43,723</u>	<u>\$ 104,262</u>	<u>\$ 744,686</u>

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

---

*Revenues, Expenses and Changes in Net Assets*

The following table presents condensed statements of revenues, expenses and changes in net assets for the Authority as of September 30, 2010 and 2009, and the change from the prior year (in thousands):

**CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	<u>2010</u>	<u>2009</u>	<u>Change</u>
<b>OPERATING REVENUES</b>			
Interest on mortgage loans and mortgage-backed securities	\$ 34,989	\$ 38,233	\$ (3,244)
Investment income	30,863	25,635	5,228
Loan fees and other income	<u>14,114</u>	<u>9,937</u>	<u>4,177</u>
Total operating revenues	<u>79,966</u>	<u>73,805</u>	<u>6,161</u>
<b>OPERATING EXPENSES</b>			
Interest on bonds and notes	24,613	28,922	(4,309)
Amortization of deferred debt financing and servicing costs	2,288	2,141	147
Program, general and administrative	<u>15,619</u>	<u>13,919</u>	<u>1,700</u>
Total operating expenses	<u>42,520</u>	<u>44,982</u>	<u>(2,462)</u>
<b>OPERATING INCOME</b>	37,446	28,823	8,623
<b>EXTRAORDINARY LOSS</b>			
Extraordinary loss on early retirement of bonds	<u>(272)</u>	<u>(340)</u>	<u>68</u>
<b>CHANGES IN NET ASSETS</b>	37,174	28,483	8,691
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>265,883</u>	<u>237,400</u>	<u>28,483</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 303,057</u>	<u>\$ 265,883</u>	<u>\$ 37,174</u>

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

---

*Revenues, Expenses and Changes in Net Assets (Continued)*

Total operating revenues increased \$6,161,000, reflecting increases in investment and fee income. Interest on mortgage loans and mortgage-backed securities decreased \$3,244,000 due to the overall decrease in single-family non-taxable bond program mortgage loans and mortgage-backed securities balances during 2010, net of loan originations. Investment income increased \$5,228,000 primarily due to the net increase in the fair value of mortgage-backed securities and investments at year-end. Loan fees and other income increased due to higher loan servicing fees and reimbursements for Federal program indirect costs received during the fiscal year.

Total operating expenses decreased \$2,462,000, due to a decrease in interest expense on bonds payable. Program, general and administrative expenses increased \$1,700,000, reflecting an increase of operating expenses in the general fund and loan loss reserves in the housing assistance and general funds.

## Independent Auditors' Report

Board of Directors  
Alabama Housing Finance Authority  
Montgomery, Alabama

We have audited the accompanying basic financial statements of the Alabama Housing Finance Authority, a component unit of the State of Alabama, as of and for the years ended September 30, 2010 and 2009. These basic financial statements are the responsibility of the Alabama Housing Finance Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Alabama Housing Finance Authority at September 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying additional segment data is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the 2010 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2010 basic financial statements taken as a whole.

*Wilson Price Barranco Blankenship & Billingsley, P.C.*

December 17, 2010



# ALABAMA HOUSING FINANCE AUTHORITY

## STATEMENTS OF NET ASSETS

SEPTEMBER 30, 2010 AND 2009

---

	<u>2010</u>	<u>2009</u>
	(In thousands)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash on deposit	\$ 3,006	\$ 1,587
Accrued interest receivable	133	171
Mortgage loans receivable, net	3,861	3,600
Mortgage loans held for sale	10,388	25,028
Investments	999	1,034
Other assets	4,071	1,996
Restricted:		
Accrued interest receivable	13,059	12,399
Investments	162,341	140,918
Other assets	<u>3</u>	<u>911</u>
Total current assets	<u>197,861</u>	<u>187,644</u>
<b>NONCURRENT ASSETS</b>		
Mortgage loans receivable, net	44,047	44,613
Investments	2,385	2,785
Other assets	4,744	3,461
Deferred servicing costs	11,567	13,210
Restricted:		
Mortgage-backed securities	572,646	630,903
Investments	16,159	20,076
Other assets	1,320	1,141
Federal Program loans receivable, net	230,329	213,520
Deferred debt financing costs	<u>3,850</u>	<u>4,624</u>
Total noncurrent assets	<u>887,047</u>	<u>934,333</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,084,908</u>	<u>\$ 1,121,977</u>

---

---

	<u>2010</u>	<u>2009</u>
	(In thousands)	
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Bonds payable, net of unamortized premiums	\$ 58,661	\$ 54,031
Accrued interest payable	18,104	19,038
Accrued arbitrage rebate	106	76
Other liabilities	<u>109</u>	<u>131</u>
Total current liabilities	<u>76,980</u>	<u>73,276</u>
<b>NONCURRENT LIABILITIES</b>		
Bonds payable, net of unamortized premiums	455,696	537,674
Refundable Federal Program grants	230,329	213,520
Accrued arbitrage rebate	3,195	16,333
Deferred commitment fees	<u>15,651</u>	<u>15,291</u>
Total noncurrent liabilities	<u>704,871</u>	<u>782,818</u>
<b>TOTAL LIABILITIES</b>	<u>781,851</u>	<u>856,094</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	1,320	1,141
Restricted	232,097	181,523
Unrestricted	<u>69,640</u>	<u>83,219</u>
Total net assets	<u>303,057</u>	<u>265,883</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 1,084,908</u>	<u>\$ 1,121,977</u>

See independent auditors' report and notes to financial statements.

**ALABAMA HOUSING FINANCE AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
	(In thousands)	
<b>OPERATING REVENUES</b>		
Interest on mortgage loans	\$ 3,184	\$ 3,591
Interest on mortgage-backed securities	31,805	34,642
Investment income	2,686	3,685
Net realized and unrealized gain on investments	28,177	21,950
Loan fees and other income	<u>14,114</u>	<u>9,937</u>
Total operating revenues	<u>79,966</u>	<u>73,805</u>
<b>OPERATING EXPENSES</b>		
Interest on bonds and notes	24,613	28,922
Amortization of deferred debt financing and servicing costs	2,288	2,141
Program, general and administrative	<u>15,619</u>	<u>13,919</u>
Total operating expenses	<u>42,520</u>	<u>44,982</u>
<b>OPERATING INCOME</b>	<u>37,446</u>	<u>28,823</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Federal Program grants	31,415	16,397
Federal Program expenditures	<u>(31,415)</u>	<u>(16,397)</u>
Total nonoperating revenue (expense)	<u>-</u>	<u>-</u>
<b>INCOME BEFORE EXTRAORDINARY LOSS</b>	37,446	28,823
<b>EXTRAORDINARY LOSS</b>		
Extraordinary loss on early retirement of bonds	<u>(272)</u>	<u>(340)</u>
<b>CHANGES IN NET ASSETS</b>	37,174	28,483
<b>NET ASSETS</b>		
Beginning of the year	<u>265,883</u>	<u>237,400</u>
End of the year	<u>\$ 303,057</u>	<u>\$ 265,883</u>

See independent auditors' report and notes to financial statements.

**ALABAMA HOUSING FINANCE AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

**INCREASE (DECREASE) IN CASH ON DEPOSIT**

	<u>2010</u>	<u>2009</u>
	(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Purchase of mortgage-backed securities	\$ -	\$ (27,476)
Proceeds from sales/maturities of mortgage-backed securities	68,790	66,390
Purchase of mortgage loans	(37,733)	(26,769)
Principal payments received on mortgage loans	34,966	19,636
Purchase of mortgage loans held for sale	(173,977)	(283,789)
Proceeds from mortgage loans held for sale	188,436	271,280
Interest received from mortgage loans	3,218	3,590
Interest received from mortgage-backed securities	31,245	35,232
Payments for arbitrage	(67)	(4,312)
Cash paid to suppliers for goods and services	(7,345)	(6,377)
Cash payments to employees for services	(4,132)	(3,378)
Loan fees, commitment fees and other income received	<u>14,474</u>	<u>11,036</u>
Net cash provided by operating activities	<u>117,875</u>	<u>55,063</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from bonds issued	26,400	50,000
Borrowings under line of credit	-	156,650
Principal payments on bonds	(103,748)	(298,980)
Payments of debt financing costs	(137)	(135)
Payments on line of credit	-	(160,400)
Proceeds from Federal Program grants, net	16,809	14,376
Interest paid on bonds and note	<u>(26,942)</u>	<u>(30,780)</u>
Net cash used in noncapital financing activities	<u>(87,618)</u>	<u>(269,269)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of furniture and equipment	(515)	(877)
Purchase of mortgage service rights	<u>(2,759)</u>	<u>(5,661)</u>
Net cash used in capital and related financing activities	<u>(3,274)</u>	<u>(6,538)</u>

See independent auditors' report and notes to financial statements.

**ALABAMA HOUSING FINANCE AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
	(In thousands)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	\$ (1,152,998)	\$ (466,599)
Proceeds from sales of investments	1,136,233	694,127
Interest received from investments	8,010	7,452
Federal Program mortgage loans funded	<u>(16,809)</u>	<u>(14,376)</u>
Net cash provided (used) by investing activities	<u>(25,564)</u>	<u>220,604</u>
<b>NET INCREASE (DECREASE) IN CASH ON DEPOSIT</b>	1,419	(140)
<b>CASH ON DEPOSIT AT BEGINNING OF YEAR</b>	<u>1,587</u>	<u>1,727</u>
<b>CASH ON DEPOSIT AT END OF YEAR</b>	<u>\$ 3,006</u>	<u>\$ 1,587</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 37,446	\$ 28,823
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	334	252
Amortization of deferred debt financing and servicing costs	5,313	5,955
Amortization of deferred commitment fees	(2,272)	(2,118)
Gross unrealized gain on investments	(10,839)	(31,960)
Loss on disposal of fixed asset	1	45
Provision for loan losses, net	2,020	1,394
Extraordinary loss on early retirement of bonds	(272)	(340)
Commitment fees received	2,632	3,216
Interest received from investments	(8,010)	(7,452)
Interest paid on bonds and notes	26,942	30,780
Changes in operating assets and liabilities:		
Accrued interest receivable	(622)	(242)
Mortgage loans receivable	(2,997)	(7,362)
Mortgage loans held for sale	14,640	(12,279)
Mortgage-backed securities	68,790	38,914
Other assets	(1,167)	(1,228)
Accrued interest payable	(934)	(465)
Accrued arbitrage rebate	(13,108)	9,244
Other liabilities	<u>(22)</u>	<u>(114)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 117,875</u>	<u>\$ 55,063</u>

See independent auditors' report and notes to financial statements.

# ALABAMA HOUSING FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND 2009

---

### 1. AUTHORITY LEGISLATION

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Basis of Accounting*

The Authority's accounts are organized as funds, which include accounts of the assets, liabilities, net assets, 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.

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

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

# ALABAMA HOUSING FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND 2009

---

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Use of Estimates in the Preparation of Financial Statements*

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

#### *Cash and Cash Equivalents*

Cash and cash equivalents 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, 2010, all cash on deposit held by the Authority's trustees was in the name of the Authority. Cash on deposit consists of unrestricted cash totaling \$3,006,000 and \$1,587,000 as of September 30, 2010 and 2009, respectively. All cash on deposit at September 30, 2010, was covered by federal depository insurance or collateralized by the various financial institutions.

#### *Investments*

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

Investments consist of temporary and debt service reserve funds established under the provisions of various trust indentures and investments of the Authority's general and housing assistance funds. The Authority's guidelines generally require the investment contract issuer to collateralize the principal amount invested in the contract, unless the issuer has sufficiently high credit ratings, as established by independent rating agencies, to maintain the desired ratings of the Authority's bond issues. The uncollateralized investment agreements generally require the issuer to collateralize the principal amount on deposit from time to time in the event the issuer's credit rating drops below acceptable standards. The Authority continually monitors the credit ratings of all parties to guaranteed investment contracts.

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

# ALABAMA HOUSING FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND 2009

---

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Investments (Continued)*

The Authority follows the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 addresses disclosures on deposits and investments, focusing on common investment risks related to interest rate risk, credit risk, custodial credit risk, foreign currency risk and concentration of credit risk.

#### *Mortgage-Backed Securities*

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

In accordance with GASB Statement No. 31, investment securities other than non-participating guaranteed investment contracts (see above) are recorded at fair value and unrealized gains or losses are reported in the statements of revenues, expenses and changes in net assets. The Authority records a portion of net unrealized gains on investment securities as a liability to the extent that such gains would be rebateable to the United States government under Section 103A of the Internal Revenue Code, as amended (the Code), for tax-exempt bond issues sold after 1981. Such rebateable earnings, which totaled \$12,306,000 in 2010 and (\$13,482,000) in 2009, are classified as an (increase) or reduction of unrealized gains on investment securities in the statements of revenues, expenses and changes in net assets. The Code requires that such excess investment earnings be rebated to certain single-family borrowers upon payoff of their respective mortgages or remitted to the Internal Revenue Service. Gains on sales of securities in these bond issues would create excess rebateable earnings. This liability is recorded on the statements of net assets as accrued arbitrage rebate.

#### *Commitment Fees*

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

#### *Mortgage Loans Receivable*

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

#### *Mortgage Loans Held for Sale*

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



# ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010 AND 2009

---

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *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.

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. These are not recorded as assets or liabilities of the Authority and totaled \$1,237,000.

### *Deferred Debt Financing Costs*

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

### *Mortgage Loan Servicing*

As of September 30, 2010 and 2009, the Authority serviced \$1,194,723,000 and \$1,114,431,000, respectively, in mortgage loans including \$1,139,953,000 and \$1,047,294,000, respectively, serviced for other entities. Escrow balances associated with these loans are not included in the statements of net assets of the Authority. The Authority created a new Servicing Solutions program in 2010 designed to service mortgage loans of participating Alabama banks.

### *Mortgage Servicing Rights*

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

### *Other Real Estate Owned*

The Authority states its other real estate owned acquired through foreclosure without further obligation to security holders, which is included in noncurrent other assets, at the lower of cost or fair value at the date of foreclosure. Fair value is determined based on independent appraisals and other relevant factors. Any write-down to fair value at the time of foreclosure is charged to an allowance for loan losses. The Authority held properties totaling approximately \$573,000 and \$676,000 at September 30, 2010 and 2009, respectively.

# ALABAMA HOUSING FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND 2009

---

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *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 \$5,472,000 and \$3,936,000 at September 30, 2010 and 2009, respectively net of an allowance for loss.

### 3. MORTGAGE-BACKED SECURITIES

Mortgage-backed securities held by the Authority include securitized mortgage obligations, backed by pools of single-family and multifamily mortgage loans originated under the Authority's program guidelines. These securities are "fully modified pass-through" mortgage-backed securities which require monthly payments by an FHA-approved or a Fannie Mae-approved lender, as the issuers of the guaranteed securities, and are either insured or registered in the Authority's name. Ginnie Mae and Fannie Mae guarantee timely payment of principal and interest on guaranteed securities. At September 30, 2010, mortgage-backed securities consisted of program certificates with interest rates ranging from 4% to 8.625%. The cost of program investments at September 30, 2010 and 2009, was \$529,217,000 and \$598,009,000, respectively.

As a result of changes in the fair value of mortgage-backed securities, the Authority recorded net unrealized gains of \$22,840,000 and \$17,393,000 for the years ended September 30, 2010 and 2009, 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):

<u>Investment Type</u>	<u>2010</u>	<u>% of Total</u>	<u>2009</u>	<u>% of Total</u>
Money Market Funds	\$ 128,584	71%	\$ 109,292	67%
Guaranteed Investment Contracts	34,656	19%	33,392	20%
Mortgage-Backed Securities	18,544	10%	22,029	13%
Certificates of Deposit	100	0%	100	0%
	<u>\$ 181,884</u>	<u>100%</u>	<u>\$ 164,813</u>	<u>100%</u>

The cost of investments at September 30, 2010 and 2009, was \$180,316,000 and \$163,551,000, respectively. As a result of changes in the fair value of investments, the Authority recorded unrealized gains of \$306,000 and \$1,082,000 for the years ended September 30, 2010 and 2009, respectively.

# ALABAMA HOUSING FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND 2009

### 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.

<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	\$ 128,584	\$ 128,584	\$ -	\$ -	\$ -
Guaranteed Investment Contracts	34,656	34,656	-	-	-
Mortgage-Backed Securities	18,544	-	-	3,742	14,802
Certificates of Deposit	<u>100</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 181,884</u>	<u>\$ 163,340</u>	<u>\$ -</u>	<u>\$ 3,742</u>	<u>\$ 14,802</u>

#### *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, 2010, the Authority's money market, government and government agency investments in funds were rated Aaa by Moody's Investor Services, with guaranteed investment contracts rated above A1, meeting the criteria of the Authority and rating agencies of those respective bond issues. If any GIC Provider is downgraded below contractual requirements, or ratings have been withdrawn by a rating agency, the Authority or the trustee can elect to terminate or continue the guaranteed investment contract.

As of September 30, 2010, the single-family bond issue 2006 B&C is partially secured by a Bayerische LB guaranteed investment contract totaling \$2,911,000 that has been downgraded below contractual requirements. See Note 13, "Subsequent Events" for information concerning a ratings downgrade of Pallas Capital guaranteed investment contracts after the fiscal year-end and the authority's response to limit the related credit risk.

# ALABAMA HOUSING FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND 2009

### 4. INVESTMENTS (Continued)

#### *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 an approved safekeeping agents of the Authority in the Authority's name. All investments in the Authority's bond issues are registered in the name of the issues' designated trustee. All guaranteed investment contracts are tri-party agreements where third parties hold the underlying investment on behalf of the Authority.

#### *Concentration Risk*

Concentration risk is the risk of loss that may be attributed to the magnitude of an investment in a single type of security. The table below lists all investments by investment provider and type as of September 30, 2010 (in thousands).

<u>Provider</u>	<u>Money Market And Other</u>	<u>Guaranteed Investment Contracts</u>	<u>Mortgage- Backed Securities</u>	<u>Certificates of Deposit</u>	<u>Total</u>	<u>Percent</u>
Bayerische LB	\$ -	\$ 7,653	\$ -	\$ -	\$ 7,653	4%
Federated Government Obligations	798	-	-	-	798	0%
Federated GNMA Money Market	20,759	-	-	-	20,759	12%
Fidelity US Government	20,000	-	-	-	20,000	11%
First American Treasury Obligations	86,926	-	-	-	86,926	48%
GNMA Mortgage-Backed Securities	-	-	18,544	-	18,544	10%
Keystone Bank	-	-	-	100	100	0%
Pallas Capital Corp	-	25,913	-	-	25,913	14%
River Bank & Trust	101	-	-	-	101	0%
Westdeutsche LB	-	1,090	-	-	1,090	1%
Total	<u>\$ 128,584</u>	<u>\$ 34,656</u>	<u>\$ 18,544</u>	<u>\$ 100</u>	<u>\$ 181,884</u>	<u>100%</u>

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

	<u>2010</u>	<u>2009</u>
Current assets – investments	\$ 999	\$ 1,034
Current assets – restricted investments	162,341	140,918
Noncurrent assets – investments	2,385	2,785
Noncurrent assets – restricted investments	<u>16,159</u>	<u>20,076</u>
	<u>\$ 181,884</u>	<u>\$ 164,813</u>

# ALABAMA HOUSING FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND 2009

### 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>2010</u>	<u>2009</u>
Mortgage loans receivable (5% to 13.85%):		
Conventional	\$ 5,926	\$ 6,799
FHA insured	401	608
VA insured	603	924
Down payment assistance/Habitat loans (0% to 8.40%)	<u>44,447</u>	<u>42,499</u>
	51,377	50,830
Less allowance for loan losses	<u>(3,469)</u>	<u>(2,617)</u>
Total mortgage loans receivable, net	<u>\$ 47,908</u>	<u>\$ 48,213</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, 2010, 33% of conventionally financed single-family mortgage loans (excluding housing assistance fund loans) owned by the Authority are insured by private mortgage insurance and 74% are insured by supplemental pool insurance.

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

	<u>2010</u>	<u>2009</u>
Current assets – Mortgage loans receivable, net	\$ 3,861	\$ 3,600
Noncurrent assets – Mortgage loans receivable, net	<u>44,047</u>	<u>44,613</u>
	<u>\$ 47,908</u>	<u>\$ 48,213</u>

# ALABAMA HOUSING FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND 2009

### 6. BONDS PAYABLE

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

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

	Aggregate Principal Outstanding		Original Maturity Value
	2010	2009	
Single-family bond programs:			
1999 Series B-C, 2000 Series A-B, 2001 Series A, 2002 Series B (3.25% to 6.25%), due 2010 to 2032	\$ 32,170	\$ 71,405	\$ 459,105
2000/2003 Step Up Program (4.42% to 7.80%), due 2034 to 2036	42,154	47,905	128,927
2005 Series A-B, 2006 Series A, 2007 Series A, 2007 Series F, 2008 Series A, 2008 Series C, 2009 Series A, 2010 Series A-B (1.98% to 5.30%), due 2010 to 2015	105,300	104,185	262,950
2003 First Step Program (4.82% to 5.09%), due 2036	338	432	793
2006 Series B-G, 2007 Series B-E, 2007 Series G, 2008 Series B (2.50% to 5.75%) due 2010 to 2039	<u>334,395</u>	<u>367,778</u>	398,048
	514,357	591,705	
Less current maturities	<u>(58,661)</u>	<u>(54,031)</u>	
Noncurrent maturities	<u>\$ 455,696</u>	<u>\$ 537,674</u>	

# ALABAMA HOUSING FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND 2009

---

### 6. BONDS PAYABLE (Continued)

Principal and interest payments on bonds after 2010 are scheduled as follows (in thousands):

<b>Fiscal year ending September 30</b>	<b>Principal</b>	<b>Interest</b>
2011	\$ 58,661	\$ 21,249
2012	72,115	20,080
2013	16,480	18,537
2014	11,415	18,078
2015	8,695	17,714
2016-2020	38,715	83,522
2021-2025	49,740	72,991
2026-2030	65,115	58,961
2031-2035	118,493	38,654
2036-2040	74,928	5,180
	<u>\$ 514,357</u>	<u>\$ 354,966</u>

### 7. NOTES PAYABLE

The Authority had a \$50,000,000 line of credit primarily to make funds available for the purchase of loans during the origination period of its single-family mortgage revenue bond programs. The Authority closed this line of credit during the year ended September 30, 2009.

### 8. NET ASSETS

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

# ALABAMA HOUSING FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND 2009

---

### 8. NET ASSETS (Continued)

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

The Authority's Board of Directors has designated its unrestricted net assets as of September 30, 2010 and 2009, totaling \$69,640,000 and \$83,219,000, respectively, for funding of future single-family mortgage revenue bond programs, to support its single-family mortgage loan origination and warehousing operations, and to cover its operating expense budget for the following fiscal year.

### 9. 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.



# ALABAMA HOUSING FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND 2009

### 9. CONDUIT DEBT (Continued)

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

	Aggregate Principal Outstanding		Original Maturity Value
	2010	2009	
1989 Series A (variable), due 2010 to 2014	\$ 1,260	\$ 1,505	\$ 17,640
1992 Series B (7.25%), due 2010 to 2023	1,235	1,330	36,890
1995 Series A-D (5.65% to 8.65%), due 2010 to 2030	2,650	2,710	32,090
2000 Series A-K (5.60% to 5.95%, variable), due 2010 to 2033	20,425	20,610	45,325
2001 Series A-D (5.96% to 7.09%, variable), due 2010 to 2034	10,869	15,536	16,027
2002 Series A-I (4.65% to 5.55%, variable), due 2010 to 2035	18,105	18,355	34,125
2003 Series A-N (4.25% to 9.25%, variable), due 2010 to 2039	34,802	35,170	55,856
2004 Series A-H (5.20% to 8.00%, variable), due 2010 to 2045	17,554	27,570	29,672
2005 Series A-F (4.50% to 5.06%, variable), due 2010 to 2038	63,556	63,605	63,798
2007 Series A-E (4.63% to 5.30%, variable), due 2010 to 2049	24,404	24,585	24,745
2008 Series A-B (variable), due 2030	6,200	6,327	6,410
	<u>\$ 201,060</u>	<u>\$ 217,303</u>	

Principal and interest payments on conduit debt after 2010 are scheduled as follows (in thousands):

Fiscal year ending September 30	Principal	Interest
2011	\$ 1,825	\$ 5,231
2012	2,152	5,605
2013	1,982	5,510
2014	2,130	5,421
2015	1,698	5,330
2016-2020	9,817	25,246
2021-2025	17,751	22,103
2026-2030	25,124	18,195
2031-2035	85,158	12,460
2036-2040	49,213	1,955
2041-2045	2,785	771
2046-2050	1,425	140
	<u>\$ 201,060</u>	<u>\$ 107,967</u>

# ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010 AND 2009

---

## 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 \$264,000 and \$189,000, respectively, in fiscal 2010 and \$237,000 and \$169,000, respectively, in fiscal 2009. 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.

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

The required contributions to fund the annual pension cost of the plan for the years ended September 30, 2010, 2009 and 2008, were \$816,000, \$740,000 and \$640,000, respectively, or about 20%, 21% and 22% of covered participant compensation, respectively. Actual employer contributions to the plan totaled \$816,000, \$740,000 and \$640,000 for the years ended September 30, 2010, 2009 and 2008, respectively. The net pension assets at September 30, 2010, 2009 and 2008, were \$777,000, \$510,000 and \$483,000, respectively.

**ALABAMA HOUSING FINANCE AUTHORITY**

NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2010 AND 2009

**10. RETIREMENT PLANS (Continued)**

*Defined Benefit Plan (Continued)*

The annual required contribution for the current year was determined as part of the September 30, 2010, 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, 2010, the plan had the following participants:

Active participants	67
Vested terminated participants	1
Retired participants and beneficiaries	<u>0</u>
Total	<u><u>68</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>
2008	\$ 4,606	\$ 4,123	111.71%	\$ (483)	\$ 3,179	15.19%
2009	5,540	5,030	110.14%	(510)	3,520	14.49%
2010	6,735	5,958	113.04%	(777)	3,992	19.46%

# ALABAMA HOUSING FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND 2009

---

### 11. OPERATING LEASES

The Authority leases office space under operating leases expiring through 2019. Rent expense for the years ended September 30, 2010 and 2009, totaled \$726,000 and \$325,000, 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):

2011	\$	628
2012		643
2013		660
2014		675
2015		693
2016 - 2019		2,623

### 12. EARLY RETIREMENT OF BONDS

The Authority's mortgage revenue bonds are subject to certain extraordinary redemption provisions. During the years ended September 30, 2010 and 2009, the Authority called approximately \$103,748,000 and \$298,980,000 (net of unamortized discounts), respectively, of single-family bonds in advance of their scheduled maturities. The loss on early retirement of these bonds recognized in the financial statements is comprised of the premium paid to retire the bonds.

### 13. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through December 17, 2010, which is the date the financial statements were available to be issued.

The Authority has called approximately \$30,960,000 of single-family bonds prior to their scheduled maturities.

The Authority has awarded Federal funds totaling \$4,330,000 under the HOME program and \$2,800,000 under the TCAP program.

Prior to year-end, \$12,370,000 of multifamily variable rate bonds (conduit debt) had been tendered and were in the process of being remarketed. Subsequently, \$8,623,000 of multifamily bonds were tendered and were in the process of being remarketed as of the date these financial statements were available to be issued.

# ALABAMA HOUSING FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010 AND 2009

---

## 13. SUBSEQUENT EVENTS (Continued)

The Housing Finance Agency Hardest Hit Fund (HHF) is funded through the U.S. Department of Treasury to provide funds to help families in states hit hardest by the foreclosure crisis in conjunction with high unemployment rates. Alabama, through the Authority, was added in the third round of potential funding in August 2010. In September 2010, the Authority submitted a proposal for \$60.6 million of HHF funds. Subsequently, additional funds totaling \$101.9 million were made available to the State of Alabama to be administered by the Authority. After initiating a pilot program in December 2010 the program is scheduled to begin in February 2011. The Authority is currently designing and planning its implementation. The Authority has drawn \$8 million in HHF funds to be used to fund the program as of the date the financial statements were available to be issued.

Subsequent to year-end, Moody's Investor Services downgraded Pallas Capital Corporation's guaranteed investment contracts (GICs) below the Authority's contractual requirements. All amounts shown in Note 4 "Investments" relating to Pallas' GICs have been sold and reinvested in money market funds, within each respective single-family bond issue.

## 14. RECLASSIFICATIONS

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation. In accordance with guidance in GASB Interpretation 2, management has elected to present conduit debt obligations and their related collateral assets as a disclosure rather than the balance sheet presentation used in previously issued financial statements. The effect of this for the 2009 presentation was to reduce total assets by \$221,902,000, total liabilities by \$219,114,000 and restricted net assets by \$2,788,000. Management feels that this presentation is more consistent with industry trends and appropriately reflects the nature of the program.

## **OTHER FINANCIAL INFORMATION**

**ALABAMA HOUSING FINANCE AUTHORITY**  
**STATEMENTS OF NET ASSETS**  
**SINGLE-FAMILY BOND SERIES**  
**ADDITIONAL SEGMENT DATA (IN THOUSANDS)**  
**SEPTEMBER 30, 2010**

	1999 B&C 2000 A&B 2001 A 2002 B	2000/2003 Step Up	2003 First Step	2002D 2005 A&B 2006 A 2007 A&F 2008 A&C 2009 A 2010 A&B	2006 B-G 2007 B-G 2008 B	Combined Single-Family
<b>CURRENT ASSETS</b>						
Cash on deposit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued interest receivable	-	-	-	-	-	-
Mortgage loans receivable, net	-	-	-	-	-	-
Mortgage loans held for sale	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Restricted:						
Accrued interest receivable	278	259	2	1,236	2,460	4,235
Investments	6,886	810	34	121,337	33,274	162,341
Other assets	-	-	-	-	-	-
Total current assets	<u>7,164</u>	<u>1,069</u>	<u>36</u>	<u>122,573</u>	<u>35,734</u>	<u>166,576</u>
<b>NONCURRENT ASSETS</b>						
Mortgage loans receivable, net	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Deferred servicing costs	-	-	-	-	-	-
Restricted:						
Mortgage-backed securities	37,372	45,297	362	155,038	334,577	572,646
Investments	-	-	-	16,159	-	16,159
Other assets	-	-	-	-	-	-
Federal Program loans receivable, net	-	-	-	-	-	-
Deferred debt financing costs	449	66	42	180	3,113	3,850
Total noncurrent assets	<u>37,821</u>	<u>45,363</u>	<u>404</u>	<u>171,377</u>	<u>337,690</u>	<u>592,655</u>
<b>TOTAL ASSETS</b>	<u>\$ 44,985</u>	<u>\$ 46,432</u>	<u>\$ 440</u>	<u>\$ 293,950</u>	<u>\$ 373,424</u>	<u>\$ 759,231</u>
<b>LIABILITIES AND NET ASSETS</b>						
<b>CURRENT LIABILITIES</b>						
Bonds payable, net	\$ 11,225	\$ 515	\$ 1	\$ 21,440	\$ 25,480	\$ 58,661
Accrued interest payable	894	196	1	55	8,134	9,280
Accrued arbitrage rebate	106	-	-	-	-	106
Due to (from) other funds	12	-	-	-	157	169
Other liabilities	3	-	-	-	24	27
Total current liabilities	<u>12,240</u>	<u>711</u>	<u>2</u>	<u>21,495</u>	<u>33,795</u>	<u>68,243</u>
<b>NONCURRENT LIABILITIES</b>						
Bonds payable, net	20,945	41,639	337	83,860	308,915	455,696
Refundable Federal Program grants	-	-	-	-	-	-
Accrued arbitrage rebate	3,195	-	-	-	-	3,195
Deferred commitment fees	-	-	-	-	-	-
Total noncurrent liabilities	<u>24,140</u>	<u>41,639</u>	<u>337</u>	<u>83,860</u>	<u>308,915</u>	<u>458,891</u>
<b>TOTAL LIABILITIES</b>	<u>36,380</u>	<u>42,350</u>	<u>339</u>	<u>105,355</u>	<u>342,710</u>	<u>527,134</u>
<b>NET ASSETS</b>						
Restricted	8,605	4,082	101	188,595	30,714	232,097
Unrestricted	-	-	-	-	-	-
Total net assets	<u>8,605</u>	<u>4,082</u>	<u>101</u>	<u>188,595</u>	<u>30,714</u>	<u>232,097</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 44,985</u>	<u>\$ 46,432</u>	<u>\$ 440</u>	<u>\$ 293,950</u>	<u>\$ 373,424</u>	<u>\$ 759,231</u>

See independent auditors' report.

**ALABAMA HOUSING FINANCE AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**SINGLE-FAMILY BOND SERIES**  
**ADDITIONAL SEGMENT DATA (IN THOUSANDS)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	1999 B&C 2000 A&B 2001 A 2002 B	2000/2003 Step Up	2003 First Step	2002 D 2005 A&B 2006 A 2007 A&F 2008 A&C 2009 A 2010 A&B	2006 B-G 2007 B-G 2008 B	Combined Single-Family
<b>OPERATING REVENUES</b>						
Interest on mortgage loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest on mortgage-backed securities	2,949	2,466	17	8,577	17,796	31,805
Investment income	82	-	-	1,593	796	2,471
Net realized and unrealized gain on investments	26	893	11	6,203	16,213	23,346
Loan fees and other income	-	41	-	-	-	41
Total operating revenues	<u>3,057</u>	<u>3,400</u>	<u>28</u>	<u>16,373</u>	<u>34,805</u>	<u>57,663</u>
<b>OPERATING EXPENSES</b>						
Interest on bonds and notes	2,631	2,501	17	3,205	16,259	24,613
Amortization of deferred debt financing and servicing costs	368	12	14	100	417	911
Program, general and administrative	9	9	-	(29)	49	38
Total operating expenses	<u>3,008</u>	<u>2,522</u>	<u>31</u>	<u>3,276</u>	<u>16,725</u>	<u>25,562</u>
<b>OPERATING INCOME (LOSS)</b>	<u>49</u>	<u>878</u>	<u>(3)</u>	<u>13,097</u>	<u>18,080</u>	<u>32,101</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Federal Program grants	-	-	-	-	-	-
Federal Program expenditures	-	-	-	-	-	-
Total nonoperating revenues (expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>INCOME (LOSS) BEFORE TRANSFERS AND EXTRAORDINARY LOSS</b>	49	878	(3)	13,097	18,080	32,101
<b>TRANSFERS AND EXTRAORDINARY LOSS</b>						
Transfers in (out)	(7,435)	(31)	-	27,037	(826)	18,745
Extraordinary loss on early retirement of bonds	(272)	-	-	-	-	(272)
<b>CHANGES IN NET ASSETS</b>	<u>(7,658)</u>	<u>847</u>	<u>(3)</u>	<u>40,134</u>	<u>17,254</u>	<u>50,574</u>
<b>NET ASSETS</b>						
Beginning of year	<u>16,263</u>	<u>3,235</u>	<u>104</u>	<u>148,461</u>	<u>13,460</u>	<u>181,523</u>
End of year	<u>\$ 8,605</u>	<u>\$ 4,082</u>	<u>\$ 101</u>	<u>\$ 188,595</u>	<u>\$ 30,714</u>	<u>\$ 232,097</u>

See independent auditors' report.



**ALABAMA HOUSING FINANCE AUTHORITY**  
**STATEMENTS OF NET ASSETS**  
**COMBINING ALL FUNDS**  
**ADDITIONAL SEGMENT DATA (IN THOUSANDS)**  
**SEPTEMBER 30, 2010**

	<u>Combined Single- Family</u>	<u>Federal Programs</u>	<u>Housing Assistance Fund</u>	<u>General Fund</u>	<u>Combined Totals</u>
<b>CURRENT ASSETS</b>					
Cash on deposit	\$ -	\$ -	\$ 476	\$ 2,530	\$ 3,006
Accrued interest receivable	-	-	66	67	133
Mortgage loans receivable, net	-	-	2,586	1,275	3,861
Mortgage loans held for sale	-	-	-	10,388	10,388
Investments	-	-	731	268	999
Other assets	-	-	-	4,071	4,071
Restricted:					
Accrued interest receivable	4,235	8,824	-	-	13,059
Investments	162,341	-	-	-	162,341
Other assets	-	3	-	-	3
Total current assets	<u>166,576</u>	<u>8,827</u>	<u>3,859</u>	<u>18,599</u>	<u>197,861</u>
<b>NONCURRENT ASSETS</b>					
Mortgage loans receivable, net	-	-	40,401	3,646	44,047
Investments	-	-	-	2,385	2,385
Other assets	-	-	-	4,744	4,744
Deferred servicing costs	-	-	-	11,567	11,567
Restricted:					
Mortgage-backed securities	572,646	-	-	-	572,646
Investments	16,159	-	-	-	16,159
Other assets	-	-	-	1,320	1,320
Federal Program, loans receivable, net	-	230,329	-	-	230,329
Deferred debt financing costs	3,850	-	-	-	3,850
Total noncurrent assets	<u>592,655</u>	<u>230,329</u>	<u>40,401</u>	<u>23,662</u>	<u>887,047</u>
<b>TOTAL ASSETS</b>	<u>\$ 759,231</u>	<u>\$ 239,156</u>	<u>\$ 44,260</u>	<u>\$ 42,261</u>	<u>\$ 1,084,908</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Bonds payable, net	\$ 58,661	\$ -	\$ -	\$ -	\$ 58,661
Accrued interest payable	9,280	8,824	-	-	18,104
Accrued arbitrage rebate	106	-	-	-	106
Due to (from) other funds	169	3	(277)	105	-
Other liabilities	27	-	-	82	109
Total current liabilities	<u>68,243</u>	<u>8,827</u>	<u>(277)</u>	<u>187</u>	<u>76,980</u>
<b>NONCURRENT LIABILITIES</b>					
Bonds payable, net	455,696	-	-	-	455,696
Refundable Federal Program grants	-	230,329	-	-	230,329
Accrued arbitrage rebate	3,195	-	-	-	3,195
Deferred commitment fees	-	-	1,126	14,525	15,651
Total noncurrent liabilities	<u>458,891</u>	<u>230,329</u>	<u>1,126</u>	<u>14,525</u>	<u>704,871</u>
<b>TOTAL LIABILITIES</b>	<u>527,134</u>	<u>239,156</u>	<u>849</u>	<u>14,712</u>	<u>781,851</u>
<b>NET ASSETS</b>					
Restricted	232,097	-	-	1,320	233,417
Unrestricted	-	-	43,411	26,229	69,640
Total net assets	<u>232,097</u>	<u>-</u>	<u>43,411</u>	<u>27,549</u>	<u>303,057</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 759,231</u>	<u>\$ 239,156</u>	<u>\$ 44,260</u>	<u>\$ 42,261</u>	<u>\$ 1,084,908</u>

See independent auditors' report.

**ALABAMA HOUSING FINANCE AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**COMBINING ALL FUNDS**  
**ADDITIONAL SEGMENT DATA (IN THOUSANDS)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	<u>Combined Single- Family</u>	<u>Federal Programs</u>	<u>Housing Assistance Fund</u>	<u>General Fund</u>	<u>Combined Totals</u>
<b>OPERATING REVENUES</b>					
Interest on mortgage loans	\$ -	\$ -	\$ 1,572	\$ 1,612	\$ 3,184
Interest on mortgage-backed securities	31,805	-	-	-	31,805
Investment income	2,471	-	1	214	2,686
Net realized and unrealized gain on investments	23,346	-	-	4,831	28,177
Loan fees and other income	41	-	107	13,966	14,114
Total operating revenues	<u>57,663</u>	<u>-</u>	<u>1,680</u>	<u>20,623</u>	<u>79,966</u>
<b>OPERATING EXPENSES</b>					
Interest on bonds and notes	24,613	-	-	-	24,613
Amortization of deferred debt financing and servicing costs	911	-	-	1,377	2,288
Program, general and administrative	38	-	1,832	13,749	15,619
Total operating expenses	<u>25,562</u>	<u>-</u>	<u>1,832</u>	<u>15,126</u>	<u>42,520</u>
<b>OPERATING INCOME (LOSS)</b>	<u>32,101</u>	<u>-</u>	<u>(152)</u>	<u>5,497</u>	<u>37,446</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Federal Program grants	-	31,415	-	-	31,415
Federal Program expenditures	-	<u>(31,415)</u>	-	-	<u>(31,415)</u>
Total nonoperating revenues (expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>INCOME (LOSS) BEFORE TRANSFERS AND EXTRAORDINARY LOSS</b>	32,101	-	(152)	5,497	37,446
<b>TRANSFERS AND EXTRAORDINARY LOSS</b>					
Transfers in (out)	18,745	-	-	(18,745)	-
Extraordinary loss on early retirement of bonds	<u>(272)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(272)</u>
<b>CHANGES IN NET ASSETS</b>	50,574	-	(152)	(13,248)	37,174
<b>NET ASSETS</b>					
Beginning of year	<u>181,523</u>	<u>-</u>	<u>43,563</u>	<u>40,797</u>	<u>265,883</u>
End of year	<u>\$ 232,097</u>	<u>\$ -</u>	<u>\$ 43,411</u>	<u>\$ 27,549</u>	<u>\$ 303,057</u>

See independent auditors' report.