

**ALABAMA HOUSING FINANCE AUTHORITY**  
**COMPARATIVE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012 AND 2011**

**ALABAMA HOUSING FINANCE AUTHORITY**  
SEPTEMBER 30, 2012 AND 2011

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# ALABAMA HOUSING FINANCE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### ***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, 2012. This information is being presented to provide additional information regarding the activities of the Authority and to meet the disclosure requirements of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Government*. This analysis should be read in conjunction with the Independent Auditors' Report, financial statements and accompanying notes. Operations of the Authority include: (1) fund and securitize single-family mortgage loans of qualified borrowers, (2) implement and manage housing-related Federal Programs including HOME Investment Partnerships Program (HOME), the Tax Credit Assistance Program (TCAP), Exchange Grant Program, Hardest Hit Alabama Program and Low-Income Housing Tax Credits, (3) issue bonds to fund loans for single-family residences and multifamily developments and (4) service Authority and other entity mortgages. The Authority is entirely self-funded and does not draw upon the general taxing authority of the State of Alabama.

The financial transactions of the Authority are recorded in the funds, which consist of a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses as appropriate. Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation.

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

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

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

The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments and net changes in cash resulting from operating, 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, 2012 and 2011, and changes in the balances of selected items during the fiscal year ended September 30, 2012 (in thousands):

**CONDENSED STATEMENTS OF NET ASSETS**

	<u>2012</u>	<u>2011</u>	<u>Change</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash on deposit	\$ 2,913	\$ 3,132	\$ (219)
Accrued interest receivable and restricted accrued interest	14,248	13,439	809
Mortgages and restricted mortgages	18,468	16,801	1,667
Investments and restricted investments	214,901	169,112	45,789
Other assets and restricted other assets	<u>6,883</u>	<u>4,051</u>	<u>2,832</u>
Total current assets	<u>257,413</u>	<u>206,535</u>	<u>50,878</u>
<b>NONCURRENT ASSETS</b>			
Mortgages, restricted mortgages and restricted mortgage-backed securities	487,947	557,040	(69,093)
Restricted Federal Program grants	293,146	260,480	32,666
Investments and restricted investments	14,184	15,799	(1,615)
Other assets and restricted other assets	7,871	4,614	3,257
Deferred servicing costs and restricted deferred debt financing	<u>12,374</u>	<u>13,266</u>	<u>(892)</u>
Total noncurrent assets	<u>815,522</u>	<u>851,199</u>	<u>(35,677)</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,072,935</u>	<u>\$ 1,057,734</u>	<u>\$ 15,201</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Bonds and notes payable	\$ 38,356	\$ 92,181	\$ (53,825)
Accrued interest payable	17,754	17,364	390
Other liabilities	<u>186</u>	<u>259</u>	<u>(73)</u>
Total current liabilities	<u>56,296</u>	<u>109,804</u>	<u>(53,508)</u>
<b>NONCURRENT LIABILITIES</b>			
Bonds and notes payable	364,318	344,984	19,334
Refundable Federal Program grants	302,254	262,151	40,103
Other liabilities	<u>16,078</u>	<u>16,102</u>	<u>(24)</u>
Total noncurrent liabilities	<u>682,650</u>	<u>623,237</u>	<u>59,413</u>
<b>TOTAL LIABILITIES</b>	<u>738,946</u>	<u>733,041</u>	<u>5,905</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,171	1,110	61
Restricted	259,519	256,945	2,574
Unrestricted	<u>73,299</u>	<u>66,638</u>	<u>6,661</u>
Total net assets	<u>333,989</u>	<u>324,693</u>	<u>9,296</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 1,072,935</u>	<u>\$ 1,057,734</u>	<u>\$ 15,201</u>

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

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*Condensed Statements of Net Assets (Continued)*

Current assets increased \$50,878,000 from September 30, 2011, to September 30, 2012, primarily due to an increase in restricted investments of \$45,789,000 in the single-family bond issues relating to bond proceeds, funds held for bond redemptions and regular debt service payments scheduled for October 1, 2012. See Note 12 "Subsequent Events," for further information. Restricted and unrestricted mortgages increased \$1,667,000 due to an increase in the balance of mortgage loans held for sale at year-end. Restricted and unrestricted other assets increased \$2,832,000 due to increases in default advances and retirement plan reserves in the general fund and accounts receivable in the HOME program.

Noncurrent assets decreased \$35,677,000, primarily due to a decrease in mortgage loans and restricted mortgage-backed securities of \$69,093,000, with most of this reduction occurring in the single-family bond program. Restricted federal program mortgages increased \$32,666,000, reflecting increased lending under the HOME Program and financial assistance under the Hardest Hit Alabama Program. Restricted and unrestricted other assets increased \$3,257,000, due to increases in net pool buyouts and other real estate in the general fund. Deferred servicing costs and restricted deferred debt financing costs decreased \$892,000 due to an increase of amortization and expense of service premiums in the general fund and increased amortization in the single family bond program as more bonds were redeemed than issued.

Current liabilities decreased \$53,508,000 from September 30, 2011, to September 30, 2012, due to decreases in bonds payable classified as current and scheduled for maturity or redemption in the next twelve months. The increase of \$390,000 in accrued interest payable is attributable to the overall increase of HOME federal program grants payable versus the reduction in the bonds outstanding in the single-family bond program.

Noncurrent liabilities increased \$59,413,000, due to increases in bonds payable and refundable federal program grants. Refundable federal program grants increased \$40,103,000 due to increased lending activity in those programs, as referenced in the above comments regarding restricted federal program mortgages. The following chart summarizes the Authority's debt activity from September 30, 2011, to September 30, 2012 (in thousands):

	<b>Debt Balance 9/30/2011</b>	<b>Debt Issued</b>	<b>Debt Paid</b>	<b>Debt Balance 9/30/2012</b>
Bonds payable	\$ 437,165	\$ 75,000	\$ 109,491	\$ 402,674
Refundable Federal Program grants	<u>262,151</u>	<u>41,782</u>	<u>1,679</u>	<u>302,254</u>
	<u>\$ 699,316</u>	<u>\$ 116,782</u>	<u>\$ 111,170</u>	<u>\$ 704,928</u>

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

*Operating and Nonoperating 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, 2012 and 2011, and the change from the prior year (in thousands):

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

	<u>2012</u>	<u>2011</u>	<u>Change</u>
<b>OPERATING REVENUES</b>			
Interest on mortgage loans and mortgage-backed securities	\$ 26,228	\$ 29,807	\$ (3,579)
Investment income	2,972	15,430	(12,458)
Loan fees and other income	<u>13,933</u>	<u>14,217</u>	<u>(284)</u>
Total operating revenues	<u>43,133</u>	<u>59,454</u>	<u>(16,321)</u>
<b>OPERATING EXPENSES</b>			
Interest on bonds	16,801	19,889	(3,088)
Amortization of deferred debt financing and servicing costs	1,884	2,375	(491)
Program, general and administrative	<u>15,126</u>	<u>15,641</u>	<u>(515)</u>
Total operating expenses	<u>33,811</u>	<u>37,905</u>	<u>(4,094)</u>
<b>OPERATING INCOME</b>	<u>9,322</u>	<u>21,549</u>	<u>(12,227)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Federal Program grants	53,822	55,677	(1,855)
Federal Program expenditures	<u>(53,848)</u>	<u>(55,590)</u>	<u>1,742</u>
Total nonoperating revenues (expenses)	<u>(26)</u>	<u>87</u>	<u>(113)</u>
<b>CHANGES IN NET ASSETS</b>	9,296	21,636	(12,340)
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>324,693</u>	<u>303,057</u>	<u>21,636</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 333,989</u>	<u>\$ 324,693</u>	<u>\$ 9,296</u>

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

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

Total operating revenues decreased \$16,321,000, reflecting decreases in interest and investment income. Interest on mortgage loans and mortgage-backed securities decreased \$3,579,000 due to the overall decrease in mortgage loan and mortgage-backed securities balances during 2012, net of loan originations. Investment income decreased \$12,458,000 primarily due to a reduction in the fair value increase recognition on mortgage-backed securities and investments at year-end in comparison to 2011.

Total operating expenses decreased \$4,094,000, due to a decrease in interest expense on bonds payable in the single-family bond program. Amortization of deferred debt financing and servicing costs decreased \$491,000, primarily due to a decrease in the bond amortization expense related to the single-family bond program.

The net decrease of federal program grants over federal program expenditures from 2011 is primarily due to depreciation expense of capital assets relating to the Hardest Hit Alabama program.

**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, 2012 and 2011. 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, 2012 and 2011, 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 the audit of the 2012 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2012 basic financial statements taken as a whole.

*Warren Averett, LLC*  
Montgomery, Alabama  
December 20, 2012



# ALABAMA HOUSING FINANCE AUTHORITY

## STATEMENTS OF NET ASSETS

SEPTEMBER 30, 2012 AND 2011

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	<u>2012</u>	<u>2011</u>
	(In thousands)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash on deposit	\$ 2,913	\$ 3,048
Accounts receivable	193	175
Accrued interest receivable	87	108
Mortgage loans receivable, net	3,916	3,906
Mortgage loans held for sale	14,552	12,895
Investments	3,162	1,156
Other assets	5,510	3,405
Restricted:		
Cash on deposit	-	84
Accrued interest receivable	14,161	13,331
Investments	211,739	167,956
Other assets	<u>1,180</u>	<u>471</u>
Total current assets	<u>257,413</u>	<u>206,535</u>
<b>NONCURRENT ASSETS</b>		
Mortgage loans receivable, net	39,800	41,753
Investments	1,439	1,884
Other assets	6,700	3,504
Deferred servicing costs	9,844	10,341
Restricted:		
Mortgage-backed securities	448,147	515,287
Investments	12,745	13,915
Other assets	1,171	1,110
Federal Program loans receivable, net	293,146	260,480
Deferred debt financing costs	<u>2,530</u>	<u>2,925</u>
Total noncurrent assets	<u>815,522</u>	<u>851,199</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,072,935</u>	<u>\$ 1,057,734</u>

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	<u>2012</u>	<u>2011</u>
	(In thousands)	
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Bonds payable, net of unamortized premiums	\$ 38,356	\$ 92,181
Accrued interest payable	17,754	17,364
Other liabilities	<u>186</u>	<u>259</u>
Total current liabilities	<u>56,296</u>	<u>109,804</u>
<b>NONCURRENT LIABILITIES</b>		
Bonds payable, net of unamortized premiums	364,318	344,984
Refundable Federal Program grants	302,254	262,151
Deferred commitment fees	<u>16,078</u>	<u>16,102</u>
Total noncurrent liabilities	<u>682,650</u>	<u>623,237</u>
<b>TOTAL LIABILITIES</b>	<u>738,946</u>	<u>733,041</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	1,171	1,110
Restricted	259,519	256,945
Unrestricted	<u>73,299</u>	<u>66,638</u>
Total net assets	<u>333,989</u>	<u>324,693</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u>\$ 1,072,935</u>	 <u>\$ 1,057,734</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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
	(In thousands)	
<b>OPERATING REVENUES</b>		
Interest on mortgage loans	\$ 2,385	\$ 2,581
Interest on mortgage-backed securities	23,843	27,226
Investment income	1,473	1,824
Net realized and unrealized gain on investments	1,499	13,606
Loan fees and other income	<u>13,933</u>	<u>14,217</u>
Total operating revenues	<u>43,133</u>	<u>59,454</u>
<b>OPERATING EXPENSES</b>		
Interest on bonds	16,801	19,889
Amortization of deferred debt financing and servicing costs	1,884	2,375
Program, general and administrative	<u>15,126</u>	<u>15,641</u>
Total operating expenses	<u>33,811</u>	<u>37,905</u>
<b>OPERATING INCOME</b>	<u>9,322</u>	<u>21,549</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Federal Program grants	53,822	55,677
Federal Program expenditures	<u>(53,848)</u>	<u>(55,590)</u>
Total nonoperating revenues (expenses)	<u>(26)</u>	<u>87</u>
<b>CHANGES IN NET ASSETS</b>	9,296	21,636
<b>NET ASSETS</b>		
Beginning of the year	<u>324,693</u>	<u>303,057</u>
End of the year	<u>\$ 333,989</u>	<u>\$ 324,693</u>

See independent auditors' report and notes to financial statements.

**ALABAMA HOUSING FINANCE AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

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

	<u>2012</u>	<u>2011</u>
	(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Proceeds from sales/maturities of mortgage-backed securities	\$ 61,694	\$ 64,299
Purchase of mortgage loans	(33,003)	(33,563)
Principal payments received on mortgage loans	30,038	35,233
Purchase of mortgage loans held for sale	(177,543)	(125,078)
Proceeds from sale of mortgage loans held for sale	175,723	122,429
Interest received from mortgage loans	2,403	2,605
Interest received from mortgage-backed securities	24,280	27,861
Payments for arbitrage	-	(106)
Cash paid to suppliers for goods and services	(8,665)	(6,547)
Cash payments to employees for services	(4,671)	(4,446)
Loan fees, commitment fees and other income received	<u>13,910</u>	<u>14,668</u>
Net cash provided by operating activities	<u>84,166</u>	<u>97,355</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from bonds issued	75,000	25,950
Principal payments on bonds	(109,491)	(103,142)
Payments of debt financing costs	(134)	(129)
Proceeds from Federal Program grants, net	40,082	31,899
Interest paid on bonds and note	<u>(17,686)</u>	<u>(21,814)</u>
Net cash used in noncapital financing activities	<u>(12,229)</u>	<u>(67,236)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of furniture and equipment	(452)	(87)
Purchase of mortgage service rights	<u>(2,583)</u>	<u>(1,834)</u>
Net cash used in capital and related financing activities	<u>(3,035)</u>	<u>(1,921)</u>

See independent auditors' report and notes to financial statements.

**ALABAMA HOUSING FINANCE AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
	(In thousands)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	\$ (759,987)	\$ (915,566)
Proceeds from sales of investments	717,113	912,583
Interest received from investments	7,128	5,530
Federal Program mortgage loans funded, net	<u>(33,375)</u>	<u>(30,619)</u>
Net cash used by investing activities	<u>(69,121)</u>	<u>(28,072)</u>
<b>NET INCREASE IN (DECREASE) CASH ON DEPOSIT</b>	(219)	126
<b>CASH ON DEPOSIT AT BEGINNING OF YEAR</b>	<u>3,132</u>	<u>3,006</u>
<b>CASH ON DEPOSIT AT END OF YEAR</b>	<u>\$ 2,913</u>	<u>\$ 3,132</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 9,322	\$ 21,549
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	365	384
Amortization and expense of deferred debt financing and servicing costs	3,609	4,115
Amortization of deferred commitment fees	(2,581)	(2,484)
Gross unrealized (gain) loss on investments	4,142	(6,984)
Provision for loan losses, net	1,949	1,962
Commitment fees received	2,558	2,934
Interest received from investments	(7,127)	(5,530)
Interest paid on bonds	17,687	21,814
Changes in operating assets and liabilities:		
Accrued interest receivable	466	937
Mortgage loans receivable	(1,720)	1,150
Mortgage loans held for sale	(1,657)	(2,507)
Mortgage-backed securities	61,694	64,299
Other assets and accounts receivable	(3,605)	870
Accrued interest payable	(885)	(1,925)
Accrued arbitrage rebate	-	(3,301)
Other liabilities	<u>(51)</u>	<u>72</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 84,166</u>	<u>\$ 97,355</u>

See independent auditors' report and notes to financial statements.

# ALABAMA HOUSING FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012 AND 2011

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### 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 four Federal funding 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).

# ALABAMA HOUSING FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012 AND 2011

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

#### *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.

#### *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, 2012, 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 \$2,913,000 and \$3,132,000 as of September 30, 2012 and 2011, respectively. All cash on deposit at September 30, 2012, 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, 2012 AND 2011

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### 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 \$0 in 2012 and \$3,195,000 in 2011, are classified as a 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, 2012 AND 2011

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### 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. This is not recorded as assets or liabilities of the Authority and totaled \$1,237,000.

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

#### *Deferred Debt Financing Costs*

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

#### *Mortgage Loan Servicing*

As of September 30, 2012 and 2011, the Authority serviced \$1,290,396,000 and \$1,219,010,000, respectively, in mortgage loans including \$1,241,817,000 and \$1,167,101,000, respectively, serviced for other entities. Escrow balances associated with these loans are not included in the statements of net assets of the Authority.

#### *Mortgage 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 \$1,427,000 and \$1,044,000 at September 30, 2012 and 2011, respectively.

# ALABAMA HOUSING FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012 AND 2011

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### 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 \$7,442,000 and \$3,960,000 at September 30, 2012 and 2011, respectively, net of an allowance for loss.

#### *Subsequent Events*

The Authority has evaluated subsequent events through December 20, 2012, 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 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, 2012, mortgage-backed securities consisted of program certificates with interest rates ranging from 4% to 8.625%. The cost of program investments at September 30, 2012 and 2011, was \$401,832,000 and \$464,919,000, respectively.

As a result of changes in the fair value of mortgage-backed securities, the Authority recorded a net unrealized loss of \$4,053,000 for the year ended September 30, 2012 and a net unrealized gain of \$10,136,000 for the year ended September 30, 2011. 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>2012</u>	<u>% of Total</u>	<u>2011</u>	<u>% of Total</u>
Money market funds	\$ 214,457	94%	\$ 163,455	88%
Guaranteed investment contracts	194	0%	5,406	3%
Mortgage-backed securities	14,184	6%	15,800	9%
Certificates of deposit	<u>250</u>	<u>0%</u>	<u>250</u>	<u>0%</u>
	<u>\$ 229,085</u>	<u>100%</u>	<u>\$ 184,911</u>	<u>100%</u>

The cost of investments at September 30, 2012 and 2011, was \$227,563,000 and \$183,300,000, respectively. As a result of changes in the fair value of investments, the Authority recorded a net unrealized loss of \$69,000 for the year ended September 30, 2012 and an unrealized gain of \$43,000 for the year ended September 30, 2011.

# ALABAMA HOUSING FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012 AND 2011

### 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	\$ 214,457	\$ 214,457	\$ -	\$ -	\$ -
Guaranteed investment contracts	194	194	-	-	-
Mortgage-backed securities	14,184	-	-	3,318	10,866
Certificates of deposit	<u>250</u>	<u>250</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 229,085</u>	<u>\$ 214,901</u>	<u>\$ -</u>	<u>\$ 3,318</u>	<u>\$ 10,866</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, 2012, the Authority's money market, government and government agency investments in funds were rated Aaa by Moody's Investor Services, with guaranteed investment contracts rated above A1, meeting the criteria of the Authority and rating agencies of those respective bond issues. If any GIC Provider is downgraded below contractual requirements, or ratings have been withdrawn by a rating agency, the GIC Provider has the option to terminate or provide collateral to maintain the required ratings on the bonds.

# ALABAMA HOUSING FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012 AND 2011

### 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, 2012 (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	\$ -	\$ 194	\$ -	\$ -	\$ 194	0%
Dreyfus US Treasury	9,237	-	-	-	9,237	4%
Federated Government Obligations	2,811	-	-	-	2,811	1%
Federated GNMA Money Market	22,596	-	-	-	22,596	10%
Fidelity US Government	20,000	-	-	-	20,000	9%
First American Treasury Obligations	159,712	-	-	-	159,712	70%
GNMA Mortgage-Backed Securities	-	-	14,185	-	14,185	6%
Keystone Bank	-	-	-	250	250	0%
River Bank & Trust	100	-	-	-	100	0%
Total	<u>\$ 214,456</u>	<u>\$ 194</u>	<u>\$ 14,185</u>	<u>\$ 250</u>	<u>\$ 229,085</u>	<u>100%</u>

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

	<u>2012</u>	<u>2011</u>
Current assets – investments	\$ 3,162	\$ 1,156
Current assets – restricted investments	211,739	167,956
Noncurrent assets – investments	1,439	1,884
Noncurrent assets – restricted investments	<u>12,745</u>	<u>13,915</u>
	<u>\$ 229,085</u>	<u>\$ 184,911</u>

# ALABAMA HOUSING FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012 AND 2011

### 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>2012</u>	<u>2011</u>
Mortgage loans receivable (5% to 13.85%):		
Conventional	\$ 3,623	\$ 4,677
FHA insured	150	246
VA insured	221	372
Down payment assistance/Habitat loans (0% to 8.40%)	<u>43,277</u>	<u>43,826</u>
	47,271	49,121
Less allowance for loan losses	<u>(3,555)</u>	<u>(3,462)</u>
Total mortgage loans receivable, net	<u>\$ 43,716</u>	<u>\$ 45,659</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, 2012, 31% of conventionally financed single-family mortgage loans (excluding housing assistance fund loans) owned by the Authority are insured by private mortgage insurance and 66% are insured by supplemental pool insurance.

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

	<u>2012</u>	<u>2011</u>
Current assets – Mortgage loans receivable, net	\$ 3,916	\$ 3,906
Noncurrent assets – Mortgage loans receivable, net	<u>39,800</u>	<u>41,753</u>
	<u>\$ 43,716</u>	<u>\$ 45,659</u>

# ALABAMA HOUSING FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012 AND 2011

### 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):

	<b>Aggregate Principal Outstanding</b>		<b>Original Maturity Value</b>
	<b>2012</b>	<b>2011</b>	
Single-family bond programs:			
2001 Series A, 2002 Series B (4.20% to 6.20%), due 2012 to 2032	\$ 1,145	\$ 1,545	\$ 459,105
2000/2003 Step Up Program (4.42% to 7.80%), due 2034 to 2036	34,455	37,709	128,927
2006 Series A, 2007 Series A, 2007 Series F, 2008 Series A, 2008 Series C, 2009 Series A, 2010 Series A-C, 2011 Series A, 2012 Series A (1.35% to 5.30%), due 2012 to 2017	109,865	106,330	363,900
2003 First Step Program (4.82% to 5.09%), due 2036	322	330	793
2006 Series B-G, 2007 Series B-E, 2007 Series G, 2008 Series B (2.50% to 5.75%) due 2012 to 2039	<u>256,887</u>	<u>291,251</u>	398,048
	402,674	437,165	
Less current maturities	<u>(38,356)</u>	<u>(92,181)</u>	
Noncurrent maturities	<u>\$ 364,318</u>	<u>\$ 344,984</u>	

Principal and interest payments on bonds after 2012 are scheduled as follows (in thousands):

<b>Fiscal Year Ending September 30</b>	<b>Principal</b>	<b>Interest</b>
2013	\$ 38,356	\$ 15,022
2014	15,110	14,587
2015	12,325	14,209
2016	7,065	13,910
2017	80,585	13,424
2018-2022	31,025	59,382
2023-2027	40,615	50,853
2028-2032	53,860	39,443
2033-2037	117,216	18,596
2038-2042	<u>6,517</u>	<u>171</u>
	<u>\$ 402,674</u>	<u>\$ 239,597</u>

# ALABAMA HOUSING FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012 AND 2011

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### 7. 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.

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, 2012 and 2011, totaling \$73,299,000 and \$66,638,000, 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.

### 8. CONDUIT DEBT

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

The Authority does not actively monitor the operating performance or financial condition of the multifamily properties financed by the bonds. Multifamily mortgage loans are collateralized by varying methods, including first-liens on multifamily residential rental properties located within the State of Alabama, letters of credit, surety bonds and guarantees provided by third parties. The Authority has no obligation for the bonds beyond the previously mentioned resources.

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

**ALABAMA HOUSING FINANCE AUTHORITY**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012 AND 2011

**8. CONDUIT DEBT (Continued)**

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

	<b>Aggregate Principal Outstanding</b>		<b>Original Maturity Value</b>
	<b>2012</b>	<b>2011</b>	
1989 Series A (variable), due 2012 to 2014	\$ 690	\$ 990	\$ 17,640
1992 Series B (7.25%), due 2012 to 2023	1,015	1,145	36,890
1995 Series A-D (5.65% to 8.65%), due 2012 to 2030	1,125	2,580	32,090
2000 Series A-K (5.60% to 5.95%, variable), due 2012 to 2033	19,321	20,235	45,325
2001 Series A-D (5.96% to 7.09%, variable), due 2012 to 2034	10,718	10,796	16,027
2002 Series A-I (4.65% to 5.55%, variable), due 2012 to 2035	17,575	17,855	34,125
2003 Series A-N (4.25% to 9.25%, variable), due 2012 to 2039	33,821	34,403	55,856
2004 Series A-H (5.20% to 8.00%, variable), due 2012 to 2045	16,973	17,273	29,672
2005 Series A-F (4.50% to 5.06%, variable), due 2012 to 2038	29,417	29,590	63,798
2007 Series A-E (4.63% to 5.30%, variable), due 2012 to 2049	21,426	21,619	24,745
2008 Series A-B (variable), due 2012 to 2030	5,934	6,068	6,410
2012 Series A (variable) due 2032	918	-	13,000
	<u>\$ 158,933</u>	<u>\$ 162,554</u>	

Principal and interest payments on conduit debt after 2012 are scheduled as follows (in thousands):

<b>Fiscal Year Ending September 30</b>	<b>Principal</b>	<b>Interest</b>
2013	\$ 1,958	\$ 3,703
2014	2,398	4,046
2015	7,157	3,761
2016	1,691	3,670
2017	1,789	3,584
2018-2022	10,649	16,413
2023-2027	18,279	13,320
2028-2032	28,587	9,350
2033-2037	65,620	4,324
2038-2042	17,625	1,245
2043-2047	2,605	492
2048-2052	575	27
	<u>\$ 158,933</u>	<u>\$ 63,935</u>



# ALABAMA HOUSING FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012 AND 2011

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### 9. RETIREMENT PLANS

#### *Defined Contribution Plan*

Substantially all full-time employees of the Authority participate in a defined contribution retirement plan, the Alabama Housing Finance Authority Retirement Plan (the Retirement Plan), which provides retirement benefits to Plan participants. The Retirement Plan is administered by Corporate Financial Services, LLC, an independent, third-party administrator. To be eligible, an employee must meet certain age and service requirements. Once an employee is eligible, participation is mandatory. Each employee must contribute 5% of their compensation to the Retirement Plan annually. The Authority contributes an amount equal to 7% of each participant's compensation annually. The Authority's and employees' contributions to the Retirement Plan were \$299,000 and \$213,000, respectively, in fiscal 2012 and \$292,000 and \$208,000, respectively, in fiscal 2011. 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, 2012, 2011 and 2010, were \$895,000, \$917,000 and \$816,000, respectively, or about 21%, 23% and 20% of covered participant compensation, respectively. Actual employer contributions to the plan totaled \$1,370,000, \$1,517,200 and \$816,000 for the years ended September 30, 2012, 2011 and 2010, respectively. The net pension assets at September 30, 2012, 2011 and 2010, were \$2,271,000, \$1,161,000 and \$777,000, respectively.

The annual required contribution for the current year was determined as part of the September 30, 2012, 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.

# ALABAMA HOUSING FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012 AND 2011

### 9. RETIREMENT PLANS (Continued)

#### *Defined Benefit Plan (Continued)*

At the plan's most recent actuarial date, September 30, 2012, the plan had the following participants:

Active participants	69
Vested terminated participants	0
Retired participants and beneficiaries	<u>1</u>
Total	<u><u>70</u></u>

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

Actuarial Valuation Date <u>September 30</u>	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability - Individual Spread Cost Method	(3) Funded Ratio (1) ÷ (2)	(4) Unfunded (Overfunded) Actuarial Accrued Liability (2) - (1)	(5) Annual Covered Payroll	(6) Overfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4) ÷ (5)
2010	\$ 6,735	\$ 5,958	113.04%	\$ (777)	\$ 3,992	19.46%
2011	7,554	6,393	118.16%	(1,161)	3,991	29.09%
2012	9,519	7,248	131.33%	(2,271)	4,226	53.74%

### 10. OPERATING LEASES

The Authority leases office space under operating leases expiring through 2019. Rent expense for the years ended September 30, 2012 and 2011, totaled \$643,000 and \$628,000, 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):

2013	\$ 805
2014	824
2015	846
2016	868
2017	889
2018 - 2019	1,689

# **ALABAMA HOUSING FINANCE AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

SEPTEMBER 30, 2012 AND 2011

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### **11. EARLY RETIREMENT OF BONDS**

The Authority's mortgage revenue bonds are subject to certain extraordinary redemption provisions. During the years ended September 30, 2012 and 2011, the Authority called approximately \$85,056,000 and \$74,872,000 (net of unamortized discounts), respectively, of single-family bonds in advance of their scheduled maturities. Any loss on early retirement of these bonds recognized in the financial statements is comprised of the premium paid to retire the bonds.

### **12. SUBSEQUENT EVENTS**

The Authority has called approximately \$18,230,000 of single-family bonds prior to their scheduled maturities.

The Authority has awarded Federal funds totaling \$3,472,230 under the HOME Program.

At year-end, \$4,500,000 of multifamily variable rate bonds (conduit debt) had been tendered and were in the process of being remarketed. Currently \$7,105,000 of conduit debt are in technical default.

### **13. RECLASSIFICATIONS**

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation.

## **OTHER FINANCIAL INFORMATION**

**ALABAMA HOUSING FINANCE AUTHORITY**  
**STATEMENTS OF NET ASSETS**  
**SINGLE-FAMILY BOND SERIES**  
**ADDITIONAL SEGMENT DATA (IN THOUSANDS)**  
**SEPTEMBER 30, 2012**

	2002 B	2000/2003 Step Up	2003 First Step	2002D 2007 A&F 2008 A&C 2009 A 2010 A-C 2011 A 2012 A	2006 B-G 2007 B-E 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:						
Cash on deposit	-	-	-	-	-	-
Accrued interest receivable	4	212	2	1,101	1,559	2,878
Investments	1,370	716	35	171,421	28,960	202,502
Other assets	-	-	-	-	-	-
Total current assets	<u>1,374</u>	<u>928</u>	<u>37</u>	<u>172,522</u>	<u>30,519</u>	<u>205,380</u>
<b>NONCURRENT ASSETS</b>						
Mortgage loans receivable, net	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Deferred servicing costs	-	-	-	-	-	-
Restricted:						
Mortgage-backed securities	-	38,260	355	144,783	264,749	448,147
Investments	-	-	-	12,745	-	12,745
Other assets	-	-	-	-	-	-
Federal Program loans receivable, net	-	-	-	-	-	-
Deferred debt financing costs	8	51	37	197	2,237	2,530
Total noncurrent assets	<u>8</u>	<u>38,311</u>	<u>392</u>	<u>157,725</u>	<u>266,986</u>	<u>463,422</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,382</u>	<u>\$ 39,239</u>	<u>\$ 429</u>	<u>\$ 330,247</u>	<u>\$ 297,505</u>	<u>\$ 668,802</u>
<b>LIABILITIES AND NET ASSETS</b>						
<b>CURRENT LIABILITIES</b>						
Bonds payable, net	\$ 1,145	\$ 420	\$ 1	\$ 15,210	\$ 21,580	\$ 38,356
Accrued interest payable	30	161	1	23	6,256	6,471
Due to other funds	-	-	-	-	120	120
Other liabilities	1	-	-	-	18	19
Total current liabilities	<u>1,176</u>	<u>581</u>	<u>2</u>	<u>15,233</u>	<u>27,974</u>	<u>44,966</u>
<b>NONCURRENT LIABILITIES</b>						
Bonds payable, net	-	34,035	321	94,655	235,307	364,318
Refundable Federal Program grants	-	-	-	-	-	-
Deferred commitment fees	-	-	-	-	-	-
Total noncurrent liabilities	<u>-</u>	<u>34,035</u>	<u>321</u>	<u>94,655</u>	<u>235,307</u>	<u>364,318</u>
<b>TOTAL LIABILITIES</b>	<u>1,176</u>	<u>34,616</u>	<u>323</u>	<u>109,888</u>	<u>263,281</u>	<u>409,284</u>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	-	-	-	-	-	-
Restricted	206	4,623	106	220,359	34,224	259,518
Unrestricted	-	-	-	-	-	-
Total net assets	<u>206</u>	<u>4,623</u>	<u>106</u>	<u>220,359</u>	<u>34,224</u>	<u>259,518</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 1,382</u>	<u>\$ 39,239</u>	<u>\$ 429</u>	<u>\$ 330,247</u>	<u>\$ 297,505</u>	<u>\$ 668,802</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, 2012**

	<u>2002 B</u>	<u>2000/2003 Step Up</u>	<u>2003 First Step</u>	<u>2002D 2007 A&amp;F 2008 A&amp;C 2009 A 2010 A-C 2011 A 2012 A</u>	<u>2006 B-G 2007 B-E 2007 G 2008 B</u>	<u>Combined Single-Family</u>
<b>OPERATING REVENUES</b>						
Interest on mortgage loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest on mortgage-backed securities	57	1,987	17	8,495	13,287	23,843
Investment income	9	-	-	1,298	39	1,346
Net realized and unrealized gain (loss) on investments	(215)	21	(1)	(2,014)	(1,883)	(4,092)
Loan fees and other income	-	33	-	-	-	33
Total operating revenues	<u>(149)</u>	<u>2,041</u>	<u>16</u>	<u>7,779</u>	<u>11,443</u>	<u>21,130</u>
<b>OPERATING EXPENSES</b>						
Interest on bonds	70	2,007	16	2,113	12,595	16,801
Amortization of deferred debt financing and servicing costs	3	7	3	113	403	529
Program, general and administrative	<u>2</u>	<u>33</u>	<u>-</u>	<u>(14)</u>	<u>288</u>	<u>309</u>
Total operating expenses	<u>75</u>	<u>2,047</u>	<u>19</u>	<u>2,212</u>	<u>13,286</u>	<u>17,639</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(224)</u>	<u>(6)</u>	<u>(3)</u>	<u>5,567</u>	<u>(1,843)</u>	<u>3,491</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Federal Program grants	-	-	-	-	-	-
Federal Program expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<u>(224)</u>	<u>(6)</u>	<u>(3)</u>	<u>5,567</u>	<u>(1,843)</u>	<u>3,491</u>
Transfers in (out)	<u>(1,968)</u>	<u>-</u>	<u>-</u>	<u>1,050</u>	<u>-</u>	<u>(918)</u>
<b>CHANGES IN NET ASSETS</b>	<u>(2,192)</u>	<u>(6)</u>	<u>(3)</u>	<u>6,617</u>	<u>(1,843)</u>	<u>2,573</u>
<b>NET ASSETS</b>						
Beginning of year	<u>2,398</u>	<u>4,629</u>	<u>109</u>	<u>213,742</u>	<u>36,067</u>	<u>256,945</u>
End of year	<u>\$ 206</u>	<u>\$ 4,623</u>	<u>\$ 106</u>	<u>\$ 220,359</u>	<u>\$ 34,224</u>	<u>\$ 259,518</u>

See independent auditors' report.

**ALABAMA HOUSING FINANCE AUTHORITY**  
**STATEMENTS OF NET ASSETS**  
**COMBINING ALL FUNDS**  
**ADDITIONAL SEGMENT DATA (IN THOUSANDS)**  
**SEPTEMBER 30, 2012**

	<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	\$ -	\$ -	\$ 885	\$ 2,028	\$ 2,913
Accounts receivable	-	-	-	193	193
Accrued interest receivable	-	-	56	31	87
Mortgage loans receivable, net	-	-	2,916	1,000	3,916
Mortgage loans held for sale	-	-	-	14,552	14,552
Investments	-	-	2,731	431	3,162
Other assets	-	-	-	5,510	5,510
Restricted:					
Accrued interest receivable	2,878	11,283	-	-	14,161
Investments	202,502	9,237	-	-	211,739
Other assets	-	1,180	-	-	1,180
Total current assets	<u>205,380</u>	<u>21,700</u>	<u>6,588</u>	<u>23,745</u>	<u>257,413</u>
<b>NONCURRENT ASSETS</b>					
Mortgage loans receivable, net	-	-	38,563	1,237	39,800
Investments	-	-	-	1,439	1,439
Other assets	-	-	-	6,700	6,700
Deferred servicing costs	-	-	-	9,844	9,844
Restricted:					
Mortgage-backed securities	448,147	-	-	-	448,147
Investments	12,745	-	-	-	12,745
Other assets	-	61	-	1,110	1,171
Federal Program, loans receivable, net	-	293,146	-	-	293,146
Deferred debt financing costs	2,530	-	-	-	2,530
Total noncurrent assets	<u>463,422</u>	<u>293,207</u>	<u>38,563</u>	<u>20,330</u>	<u>815,522</u>
<b>TOTAL ASSETS</b>	<u>\$ 668,802</u>	<u>\$ 314,907</u>	<u>\$ 45,151</u>	<u>\$ 44,075</u>	<u>\$ 1,072,935</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Bonds payable, net	\$ 38,356	\$ -	\$ -	\$ -	\$ 38,356
Accrued interest payable	6,471	11,283	-	-	17,754
Due to (from) other funds	120	1,252	(60)	(1,312)	-
Other liabilities	19	56	-	111	186
Total current liabilities	<u>44,966</u>	<u>12,591</u>	<u>(60)</u>	<u>(1,201)</u>	<u>56,296</u>
<b>NONCURRENT LIABILITIES</b>					
Bonds payable, net	364,318	-	-	-	364,318
Refundable Federal Program grants	-	302,254	-	-	302,254
Deferred commitment fees	-	-	1,464	14,614	16,078
Total noncurrent liabilities	<u>364,318</u>	<u>302,254</u>	<u>1,464</u>	<u>14,614</u>	<u>682,650</u>
<b>TOTAL LIABILITIES</b>	<u>409,284</u>	<u>314,845</u>	<u>1,404</u>	<u>13,413</u>	<u>738,946</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	-	61	-	1,110	1,171
Restricted	259,518	1	-	-	259,519
Unrestricted	-	-	43,747	29,552	73,299
Total net assets	<u>259,518</u>	<u>62</u>	<u>43,747</u>	<u>30,662</u>	<u>333,989</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 668,802</u>	<u>\$ 314,907</u>	<u>\$ 45,151</u>	<u>\$ 44,075</u>	<u>\$ 1,072,935</u>

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**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, 2012**

	<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	\$ -	\$ -	\$ 1,473	\$ 912	\$ 2,385
Interest on mortgage-backed securities	23,843	-	-	-	23,843
Investment income	1,346	1	-	126	1,473
Net realized and unrealized gain (loss) on investments	(4,092)	-	-	5,591	1,499
Loan fees and other income	33	-	142	13,758	13,933
Total operating revenues	<u>21,130</u>	<u>1</u>	<u>1,615</u>	<u>20,387</u>	<u>43,133</u>
<b>OPERATING EXPENSES</b>					
Interest on bonds	16,801	-	-	-	16,801
Amortization of deferred debt financing and servicing costs	529	-	-	1,355	1,884
Program, general and administrative Total operating expenses	<u>309</u> <u>17,639</u>	<u>-</u> <u>-</u>	<u>1,208</u> <u>1,208</u>	<u>13,609</u> <u>14,964</u>	<u>15,126</u> <u>33,811</u>
<b>OPERATING INCOME</b>	<u>3,491</u>	<u>1</u>	<u>407</u>	<u>5,423</u>	<u>9,322</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Federal Program grants	-	53,822	-	-	53,822
Federal Program expenditures	-	(53,848)	-	-	(53,848)
Total nonoperating revenues (expenses)	<u>-</u>	<u>(26)</u>	<u>-</u>	<u>-</u>	<u>(26)</u>
<b>INCOME BEFORE TRANSFERS</b>	3,491	(25)	407	5,423	9,296
Transfers in (out)	<u>(918)</u>	<u>-</u>	<u>-</u>	<u>918</u>	<u>-</u>
<b>CHANGES IN NET ASSETS</b>	2,573	(25)	407	6,341	9,296
<b>NET ASSETS</b>					
Beginning of year	<u>256,945</u>	<u>87</u>	<u>43,340</u>	<u>24,321</u>	<u>324,693</u>
End of year	<u>\$ 259,518</u>	<u>\$ 62</u>	<u>\$ 43,747</u>	<u>\$ 30,662</u>	<u>\$ 333,989</u>

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