ALABAMA HOUSING FINANCE AUTHORITY

FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

ALABAMA HOUSING FINANCE AUTHORITY
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SEPTEMBER 30, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Alabama Housing Finance Authority

We have audited the accompanying statements of net position of the Alabama Housing Finance Authority (a component unit of the State of Alabama), as of September 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

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

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alabama Housing Finance Authority as of September 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information, schedules of changes in the Authority's net pension liability and related ratios, and schedule of employer contributions to Authority employees' pension plan on pages 3 through 7, 35, and 36, respectively be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying additional segment data is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional segment data is the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, additional segment data is fairly stated in all material respects in relation to the financial statements as a whole.

Warren Averett, LLC

Montgomery, Alabama
December 21, 2017

Introduction

This section of the annual financial report of the Alabama Housing Finance Authority (the Authority) presents management's discussion and analysis of the financial position and results of operations for the fiscal year ended September 30, 2017. This information is being presented to provide additional information regarding the activities of the Authority and to meet the disclosure requirements of Government Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This analysis should be read in conjunction with the Independent Auditors' Report, financial statements, and accompanying notes. Operations of the Authority include: (1) purchasing and securitizing single-family mortgage loans of qualified borrowers, (2) implementing and managing housing-related Federal Programs including HOME Investment Partnerships Program (HOME), Low-Income Housing Tax Credits, Hardest Hit Alabama Program, the Tax Credit Assistance Program (TCAP), Exchange Grant Program, and Housing Trust Fund, (3) issuing bonds to purchase loans for single-family residences and multifamily developments and (4) servicing Authority and other entity mortgages. The Authority is entirely self-funded and does not draw upon the general taxing authority of the State of Alabama.

The financial transactions of the Authority are recorded in the funds, which consist of a separate set of self-balancing accounts that comprise its assets and deferred outflows, liabilities and deferred inflows, net position, revenues, and expenses as appropriate.

Required Basic Financial Statements

The basic financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer information about the Authority's activities. The statements of net position include all of the Authority's assets and liabilities and provide information about the nature and amounts of investments in resources (assets), consumption of net position that is applicable to future reporting periods (deferred outflows), obligations to Authority creditors (liabilities), and the acquisition of net position that is applicable to future reporting periods (deferred inflows). The assets and liabilities are presented in order of liquidity.

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

The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, noncapital financing and other financing activities and provides information regarding the sources and uses of cash and the change in the cash balance during the reporting period.

Condensed Financial Information

Statements of Net Position

The following table presents condensed information about the net position of the Authority as of September 30, 2017 and 2016, and changes in the balances of selected items during the fiscal year ended September 30, 2017 (in thousands):

CONDENSED STATEMENTS OF NET POSITION

	2017	2016	Change
ASSETS			
CURRENT ASSETS			
Cash on deposit and restricted cash on deposit	$ 14,040	$ 13,694	$ 346
Accrued interest receivable and restricted accrued interest receivable	19,508	18,755	753
Mortgage loans, net	114,008	164,773	(50,765)
Restricted Federal program loans receivable, net	28,843	29,436	(593)
Investments and restricted investments	79,335	104,481	(25,146)
Other assets and restricted other assets	6,304	7,839	(1,535)
Total current assets	262,038	338,978	(76,940)
NONCURRENT ASSETS			
Mortgage loans receivable, net and restricted mortgage-backed securities	220,548	247,927	(27,379)
Restricted Federal program loans receivable, net	311,324	296,881	14,443
Investments and restricted investments	1,064	1,203	(139)
Other assets and restricted other assets	5,183	6,717	(1,534)
Service release premiums, net	79,324	58,770	20,554
Total noncurrent assets	617,443	611,498	5,945
TOTAL ASSETS	879,481	950,476	(70,995)
DEFERRED OUTFLOWS			
Pension-related deferred outflows	4,061	2,455	1,606
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 883,542	$ 952,931	$ (69,389)
LIABILITIES			
CURRENT LIABILITIES			
Bonds payable, net	$ 1,140	$ 76,415	$ (75,275)
Obligations under reverse repurchase agreements	94,000	110,643	(16,643)
Refundable Federal program grants	28,843	29,436	(593)
Accrued interest payable	18,544	17,435	1,109
Other liabilities	2,157	2,087	70
Total current liabilities	144,684	236,016	(91,332)
NONCURRENT LIABILITIES			
Bonds payable, net	26,820	31,378	(4,558)
Refundable Federal program grants	309,664	299,235	10,429
Unearned compliance and commitment fees	7,690	6,385	1,305
Total noncurrent liabilities	344,174	336,998	7,176
TOTAL LIABILITIES	488,858	573,014	(84,156)
NET POSITION			
Net investment in capital assets	1,164	1,448	(284)
Restricted	92,867	90,153	2,714
Unrestricted	300,653	288,316	12,337
Total net position	394,684	379,917	14,767
TOTAL LIABILITIES AND NET POSITION	$ 883,542	$ 952,931	$ (69,389)

Statements of Net Position – Continued

Current assets decreased $76,940,000 from September 30, 2016, to September 30, 2017, primarily due to decreases in mortgages of $50,765,000 and investments and restricted investments of $25,146,000. The decrease in mortgages, specifically mortgage loans held for sale, reflects a decrease in loans purchased from Washington. The decrease in investments reflects the maturity of single-family bonds and the corresponding liquidation of single-family funds for that maturity.

Noncurrent assets increased $5,945,000, primarily due to an increase in service release premiums of $20,554,000; an increase in restricted Federal program loans of $14,443,000; less a decrease in mortgage loans receivable and restricted mortgage-backed securities of $27,379,000. The increase in service release premiums is a result of mortgage loans purchased during the fiscal year, and the increase of federal program loans reflects increases in lending activity for 2017. The decrease in mortgages and mortgage-backed securities resulted from normal paydowns and payoffs of those assets during the fiscal year. Restricted and unrestricted other assets decreased $1,534,000 due to a reduction in mortgage loans repurchased out of mortgage-backed securities. Pension-related deferred outflows increased $1,606,000 after actuarial review.

Current liabilities decreased $91,332,000 from September 30, 2016, to September 30, 2017, primarily due to the maturity of single-family bonds payable and the reduction of reverse repurchase agreements outstanding during the fiscal year. The decrease in refundable Federal program grants payable classified as a current liability is the same as the increase in the Federal current assets noted above. The increase in accrued interest payable relates to refundable Federal program grants payable and the increase of lending activity within that reporting segment.

Noncurrent liabilities increased $7,176,000, primarily due to the increase in refundable Federal program grants of $10,429,000, offset by a reduction in single-family bonds payable of $4,558,000.

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

The following table presents condensed statements of revenues, expenses, and changes in net position for the Authority for the years ended September 30, 2017 and 2016, and the change from the prior year (in thousands):

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

	2017	2016	Change
OPERATING REVENUES			
Interest on mortgage loans and mortgage-backed securities	$ 16,288	$ 19,166	$ (2,878)
Investment income	617	747	(130)
Net realized and unrealized gain (loss) on investments	(1,331)	3,424	(4,755)
Loan fees and other income	44,096	32,275	11,821
Total operating revenues	59,670	55,612	4,058
OPERATING EXPENSES			
Interest	3,575	6,385	(2,810)
Amortization of service release premiums	6,620	5,352	1,268
Program, general, and administrative	37,566	28,860	8,706
Total operating expenses	47,761	40,597	7,164
OPERATING INCOME	11,909	15,015	(3,106)
NONOPERATING REVENUES (EXPENSES)			
Federal program grants	32,920	18,944	13,976
Federal program expenditures	(30,062)	(16,744)	(13,318)
Net nonoperating revenues (expenses)	2,858	2,200	658
CHANGES IN NET POSITION	14,767	17,215	(2,448)
NET POSITION			
Beginning of year	379,917	362,702	17,215
End of year	$ 394,684	$ 379,917	$ 14,767

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

Total operating revenues increased $4,058,000, reflecting increases in loan fee income in the general fund offset by an increase in net unrealized losses from fair market valuation at year end in the single-family segment. Interest on mortgage loans and mortgage-backed securities decreased $2,878,000, due to the overall decrease in mortgage loans and mortgage-backed securities balances during 2017. Investment income decreased $130,000, primarily within the single-family bond program. The net gain (loss) on investments decreased $4,755,000, due to a decrease in the market value (primarily from rising interest rates) of mortgage-backed securities; and a reduction in secondary marketing income as a result of a lower amount of loans sold in 2017. Loan fees and other income increased $11,821,000, reflecting increases in loan servicing income and loan fees resulting from a larger loan servicing portfolio.

Total operating expenses increased $7,164,000, reflecting an increase in program, general and administrative expenses that was offset by a decrease in interest expense. Most of this increase is related to loan servicing guaranty fees, general, administrative and loan loss provisions. Interest decreased $2,810,000, due to the reduction of bonds payable in the single-family bond program. Amortization expense increased as a result of a larger service release premium balance associated with a larger loan servicing portfolio.

Net nonoperating revenues (expenses) increased $658,000, reflecting an increase in HOME Federal program grant repayments net against current-year grant expenditures.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2017 AND 2016

	2017	2016
	(In thousands)	
ASSETS		
CURRENT ASSETS		
Cash on deposit	$ 8,844	$ 8,949
Accounts receivable	144	173
Accrued interest receivable	246	334
Mortgage loans receivable, net	4,545	4,430
Mortgage loans held for sale	109,463	160,343
Investments	56,733	9,502
Derivative instruments	22	131
Other assets	5,994	7,252
Restricted:		
Cash on deposit	5,196	4,745
Accrued interest receivable	19,262	18,421
Federal program loans receivable, net	28,843	29,436
Investments	22,602	94,979
Other assets	144	283
Total current assets	262,038	338,978
NONCURRENT ASSETS		
Mortgage loans receivable, net	36,388	38,393
Investments	248	357
Other assets	4,019	5,296
Service release premiums, net	79,324	58,770
Restricted:		
Mortgage-backed securities	184,160	209,534
Investments	816	846
Other assets	1,164	1,421
Federal program loans receivable, net	311,324	296,881
Total noncurrent assets	617,443	611,498
TOTAL ASSETS	879,481	950,476
DEFERRED OUTFLOWS		
Pension-related deferred outflows	4,061	2,455
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 883,542	$ 952,931

See notes to the financial statements.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2017 AND 2016

	2017	2016
	(In thousands)	
LIABILITIES		
CURRENT LIABILITIES		
Bonds payable, net	$ 1,140	$ 76,415
Obligations under reverse repurchase agreements	94,000	110,643
Refundable Federal program grants	28,843	29,436
Accrued interest payable	18,544	17,435
Other liabilities	2,157	2,087
Total current liabilities	144,684	236,016
NONCURRENT LIABILITIES		
Bonds payable, net	26,820	31,378
Refundable Federal program grants	309,664	299,235
Unearned compliance and commitment fees	7,690	6,385
Total noncurrent liabilities	344,174	336,998
TOTAL LIABILITIES	488,858	573,014
NET POSITION		
Net investment in capital assets	1,164	1,448
Restricted	92,867	90,153
Unrestricted	300,653	288,316
Total net position	394,684	379,917
TOTAL LIABILITIES AND NET POSITION	$ 883,542	$ 952,931

See notes to the financial statements.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
	(In thousands)	
OPERATING REVENUES		
Interest on mortgage loans	$ 7,282	$ 8,634
Interest on mortgage-backed securities	9,006	10,532
Investment income	617	747
Net realized and unrealized gain (loss) on investments	(1,331)	3,424
Loan fees and other income	44,096	32,275
Total operating revenues	59,670	55,612
OPERATING EXPENSES		
Interest	3,575	6,385
Amortization of service release premiums	6,620	5,352
Program, general, and administrative	37,566	28,860
Total operating expenses	47,761	40,597
OPERATING INCOME	11,909	15,015
NONOPERATING REVENUES (EXPENSES)		
Federal program grants	32,920	18,944
Federal program expenditures	(30,062)	(16,744)
Net nonoperating revenues (expenses)	2,858	2,200
CHANGES IN NET POSITION	14,767	17,215
NET POSITION		
Beginning of year	379,917	362,702
End of year	$ 394,684	$ 379,917

See notes to the financial statements.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

INCREASE (DECREASE) IN CASH ON DEPOSIT

	2017	2016
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from sales/maturities of mortgage-backed securities, net of purchases	$ 19,007	$ 22,659
Purchase of mortgage loans	(42,511)	(42,983)
Principal payments received on mortgage loans	46,389	46,270
Purchase of mortgage loans held for sale	(2,373,792)	(2,435,208)
Proceeds from sale of mortgage loans held for sale	2,422,423	2,435,972
Interest received from mortgage loans	7,368	8,630
Interest received from mortgage-backed securities	9,157	10,729
Cash paid to suppliers for goods and services	(25,979)	(21,236)
Cash payments to employees for services	(8,028)	(7,624)
Loan fees, commitment fees, and other income received	45,515	31,919
Net cash provided by operating activities	99,549	49,128
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from bonds issued	-	1,000
Proceeds from borrowings under repurchase agreement	-	115,102
Principal payments on bonds	(79,833)	(143,888)
Principal payments on repurchase agreement	(16,643)	(4,460)
Proceeds from Federal program grants, net	9,836	4,409
Interest paid	(3,641)	(9,733)
Net cash used in noncapital financing activities	(90,281)	(37,570)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of furniture and equipment	(338)	(507)
Purchase of mortgage servicing rights	(29,343)	(29,870)
Net cash used in capital and related financing activities	(29,681)	(30,377)

See notes to the financial statements.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
	(In thousands)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	$ (149,240)	$ (1,167,534)
Proceeds from sales of investments	174,508	1,184,534
Interest received from investments	6,344	8,091
Federal program mortgage loans funded, net	(10,853)	(2,127)
Net cash provided by investing activities	20,759	22,964
NET INCREASE IN CASH ON DEPOSIT	346	4,145
CASH ON DEPOSIT AT BEGINNING OF YEAR	13,694	9,549
CASH ON DEPOSIT AT END OF YEAR	$ 14,040	$ 13,694
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 11,909	$ 15,015
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	595	699
Amortization and expense of service release premiums	8,789	8,136
Amortization of unearned compliance and commitment fees	(2,826)	(428)
Gross unrealized loss on mortgage-backed securities and investments	6,367	3,781
Gross unrealized (gain) loss on mortgage loans held for sale	380	(540)
Net change in unrealized loss on derivative instruments	126	202
Provision for loan losses, net	1,159	569
Commitment fees received	4,245	74
Interest received from investments	(6,344)	(3,830)
Interest paid on bonds	3,641	9,733
Changes in operating assets and liabilities:		
Accrued interest receivable	(753)	(1,262)
Mortgage loans receivable	2,009	(1,148)
Mortgage loans held for sale	50,500	5,199
Mortgage-backed securities	19,007	18,876
Other assets and accounts receivable	1,286	239
Accrued interest payable	1,109	(1,883)
Net change in deferred inflows/outflows	(1,606)	(3,507)
Other liabilities	(44)	(797)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 99,549	$ 49,128

See notes to the financial statements.

1. AUTHORITY LEGISLATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Authority's accounts are organized as funds, which include accounts of the assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenses of the Authority's single-family bond programs (Single Family Programs), Federal Programs, the Housing Assistance Program, and the General Fund. Each Program Fund accounts for the proceeds from the bonds issued, the debt service requirements of the bonds and the related program investments, as required by the various bond resolutions established under the various trust indentures of each program.

The Authority uses the accrual method of accounting. The Authority's funds – Single Family Programs, Federal Programs, Housing Assistance, and General – 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 into 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 Single Family Programs, Housing Assistance, and General Funds are reported as operating revenues and expenses.

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

Use of Estimates in the Preparation of Financial Statements

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect 1) the reported amounts of assets and liabilities, 2) the disclosure of contingencies at the date of the financial statements, and 3) revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value Application and Measurement
Fair value is applied to assets and liabilities that the Authority holds primarily for the purpose of income or profit and that have a present service capacity based solely on their ability to generate cash or to be sold to generate cash. The Authority categorizes its fair value measurements within the value hierarchy established by generally accepted accounting principles (GAAP). The hierarchy is based upon valuation inputs used to measure the fair value of the respective asset or liability. Level 1 inputs include quoted prices in active markets for identical assets. Level 2 inputs include observable inputs other than quoted prices included in Level 1 inputs. Level 3 inputs include unobservable inputs.

Cash on Deposit
Cash on deposit represents funds on deposit with various financial institutions and uninvested funds held by the Trustees of the Authority's various bond programs. At September 30, 2017, 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 $14,040,000 and $13,694,000 as of September 30, 2017 and 2016, respectively. All cash on deposit at September 30, 2017, was covered by federal depository insurance or collateralized by the various financial institutions.

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

Investments consist of temporary and debt service reserve funds established under the provisions of various trust indentures and investments of the Authority's General and Housing Assistance funds. All investments are reported at fair value.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, investments, including mortgage-backed securities, are recorded at fair value, and unrealized gains or losses are reported in the statements of revenues, expenses, and changes in net position. The Authority records a portion of net unrealized gains on investment securities as a liability to the extent that such gains would be rebateable to the United States government under Section 103A of the Internal Revenue Code, as amended (the Code), for tax-exempt bond issues sold after 1981. The Code requires that such excess investment earnings be rebated to certain single-family borrowers upon payoff of their respective mortgages or remitted to the Internal Revenue Service. Gains on sales of securities in these bond issues would create excess rebateable earnings. There were no such rebateable earnings for the years ended September 30, 2017 or 2016.

Commitment Fees
Returnable commitment fees are deferred and recognized as income at the time they are no longer returnable. Commitment fees related to loans pooled and sold in secondary markets are recognized upon receipt.

Mortgage Loans Receivable
Mortgage loans that the Authority has the ability and intent to hold for the foreseeable future are carried at their unpaid principal balances less an allowance for loan losses. Management determines the allowance for loan losses based on historical losses and current economic conditions as well as its evaluation of the loan portfolio and the underlying security.

Mortgage Loans Held for Sale
Mortgage loans held for sale are recorded at the lower of cost or fair value. The Authority routinely enters into contracts with various investors to sell these loans in secondary markets and had commitments to deliver $17,000,000 in Ginnie Mae and $2,000,000 in Fannie Mae guaranteed mortgage-backed securities at September 30, 2017. The fair value of committed loans is based upon commitment prices.

Federal Programs Loans Receivable
HOME Program loans are designed to assist very low-income tenants, and, as such, some mortgages originated under the program are structured in such a way that repayment will only occur in limited circumstances.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Federal Programs Loans Receivable – Continued

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

The Hardest Hit Alabama Fund, authorized by the U.S. Department of Treasury, is designed to provide forgivable funds to help families in states hardest hit by the foreclosure crisis in conjunction with high unemployment rates. All Hardest Hit Alabama financial assistance will be forgiven at or before the program's closure in December 2020.

Debt Financing Costs

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

Mortgage Loan Servicing

As of September 30, 2017 and 2016, the Authority serviced $7,787,203,000 and $6,049,322,000, respectively, in mortgage loans including $7,643,541,000 and $5,842,398,000, respectively, serviced for other entities. Escrow balances associated with these loans are not included in the statements of net position of the Authority.

The mortgage loan servicing portfolio by state consisted of the following at September 30, 2017 (in thousands):

Alabama	$ 1,481,611	19%
Mississippi	202,082	3%
Missouri	677,732	9%
North Carolina	1,989,644	26%
Washington	3,398,328	43%
Other	37,806	0%
	$ 7,787,203	100%

Mortgage Servicing Rights and Service Release Premiums

The Authority follows the provisions of GASB Statement No. 62, entitled *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* In accordance with those standards, the cost of loan servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenue. The amount originally capitalized is adjusted based on whether related loans are pooled and sold in secondary markets or maintained by the Authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 is charged to the allowance for loan losses. The Authority held properties totaling approximately $315,000 and $156,000 at September 30, 2017 and 2016, respectively, net of the allowance for loan losses.

Pool Buyouts
The Authority holds certain mortgages purchased out of respective Ginnie Mae or Fannie Mae pooled loans being serviced by the Authority. These are insured loans that are in the process of foreclosure for which the Authority anticipates receiving claim proceeds from the respective investor or guarantor. These loans totaled $3,704,000 and $5,141,000 at September 30, 2017 and 2016, respectively, net of the allowance for loan losses.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

New Accounting Pronouncements
During fiscal year 2017, the Authority implemented GASB Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*, that addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pension*s, and No. 73 *Accounting and Financial Reporting for Pensions and Related Assets that are Not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*. Implementation of this standard did not have a significant impact on the Authority's financial statements.

Subsequent Events
The Authority has evaluated subsequent events through December 21, 2017, which is the date the financial statements were available to be issued.

3. MORTGAGE-BACKED SECURITIES

Mortgage-backed securities held by the Authority include securitized mortgage obligations, backed by pools of single-family mortgage loans originated under the Authority's program guidelines. These securities are "fully modified pass-through" mortgage-backed securities which require monthly payments by an FHA-approved or a Fannie Mae-approved lender, as the issuers of the guaranteed securities, and are registered in the Authority's name. Ginnie Mae and Fannie Mae guarantee timely payment of principal and interest on guaranteed securities. At September 30, 2017, mortgage-backed securities consisted of program certificates with interest rates ranging from 1% to 8.625%. The cost of program investments at September 30, 2017 and 2016, was $168,583,000 and $187,615,000, respectively.

Fair value of the Authority's mortgage-backed securities are measured by Level 1 inputs based upon quoted prices in active markets. As a result of changes in the fair value of mortgage-backed securities, the Authority recorded net unrealized losses of $6,341,000 and $3,746,000 for the years ended September 30, 2017 and 2016, respectively. Interest rates may adversely affect the fair value of the mortgage-backed securities; however, it is the intention of the Authority to hold these securities until the underlying loans are paid in full.

4. INVESTMENTS

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

Investment Type	2017	% of Total	2016	% of Total
Money market funds	$ 79,321	99%	$ 29,339	28%
US Government Agency securities	816	1%	75,988	72%
Mortgage-backed securities	262	0%	357	0%
	$ 80,399	100%	$ 105,684	100%

Fair Value
The fair value of the Authority’s investments is measured by Level 1 inputs based upon quoted prices in active markets and consisted of the following at September 30 (in thousands):

Investments	2017	2016
Dreyfus US Treasury	$ 2,677	$ 4,723
Federated Government Obligations	56,719	9,502
Federated Money Market	267	277
First American Treasury Obligations	19,658	14,837
Mortgage-backed Securities	262	357
US Treasury Note	816	75,988
Total investments	$ 80,399	$ 105,684

The cost of investments at September 30, 2017 and 2016, was $80,417,000 and $105,710,000, respectively. As a result of changes in the fair value of investments, the Authority recorded net unrealized gains (losses) of $4,000 and ($33,000) for the years ended September 30, 2017 and 2016, respectively.

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, 2017, the Authority's money market, government and government agency investments were rated Aaa by Moody's Investor Services meeting the criteria of the Authority and the respective bond issue rating agencies.

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. Longer-term maturity investments provide sufficient monthly cash flows to meet any short-term obligations.

		Investment Maturities in Years (in thousands)			
Investment Type	Fair Value	Less than 1	1–5	6–10	More than 10
Money market funds	$ 79,321	$ 79,321	$ -	$ -	$ -
US Government Agency securities	816	-	-	816	-
Mortgage-backed securities	262	14	248	-	-
	$ 80,399	$ 79,335	$ 248	$ 816	$ -

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the use of a custodial agent, the Authority may not be able to recover the value of its investments or collateral securities that are in possession of that outside party. All investments in the General and Housing Assistance funds are held in safekeeping or custodial accounts at approved safekeeping agents of the Authority in the Authority's name. All investments in the Authority's bond issues are registered in the name of the issues' designated trustee.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of an investment in a single type of security. The table below lists all investments by investment provider and type as of September 30, 2017 (in thousands).

Provider	Money Market And Other	Mortgage-Backed Securities	U.S. Government Agency Securities	Total	Percent
Dreyfus US Treasury	$ 2,677	$ -	$ -	$ 2,677	3%
Federated Government Obligations	56,719	-	-	56,719	71%
Federated Money Market	267	-	-	267	0%
First American Treasury Obligations	19,658	-	-	19,658	25%
Mortgage-backed Securities	-	262	-	262	0%
US Treasury Note	-	-	816	816	1%
Total	$ 79,321	$ 262	$ 816	$ 80,399	100%

4. INVESTMENTS – CONTINUED

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

	2017	2016
Current assets – investments	$ 56,733	$ 9,502
Current assets – restricted investments	22,602	94,979
Noncurrent assets – investments	248	357
Noncurrent assets – restricted investments	816	846
	$ 80,399	$ 105,684

5. MORTGAGE LOANS

The Authority's single-family programs are designed to provide mortgage loans to qualified homebuyers within the State of Alabama. The Authority's guidelines generally require the mortgage loans to be either FHA insured, guaranteed by the Department of Veterans Affairs, USDA Rural Development insured or conventionally financed with traditional primary mortgage insurance and, in the case of pre-1987 single-family programs, insured with mortgage pool policies. Mortgage loans receivable, net of the allowance for loan losses consisted of the following at September 30 (in thousands):

	2017	2016
Mortgage loans receivable (5% to 11.13%):		
Conventional	$ 1,409	$ 1,524
VA insured	-	2
Down payment assistance/Habitat loans (0% to 8.40%)	42,505	44,482
	43,914	46,008
Less allowance for loan losses	(2,981)	(3,185)
Total mortgage loans receivable, net	$ 40,933	$ 42,823

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

Conventionally financed single-family loans owned by the Authority may also be insured by supplemental pool insurance. Supplemental pool insurance is maintained over the life of the loan.

5. MORTGAGE LOANS – CONTINUED

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

	2017	2016
Current assets – Mortgage loans receivable, net	$ 4,545	$ 4,430
Noncurrent assets – Mortgage loans receivable, net	36,388	38,393
	$ 40,933	$ 42,823

Mortgage loans held for sale to be securitized as mortgage-backed securities and sold for the Authority are reported at fair value measured by Level 2 inputs based on observable quoted prices of similar assets. Mortgage loans held for sale to be securitized as mortgage-backed securities for other entities are reported at cost. Mortgage loans held for sale were $109,463,000 and $160,343,000 as of the years ended September 30, 2017 and 2016, respectively.

6. OBLIGATIONS UNDER REVERSE REPURCHASE AGREEMENTS

Obligations under reverse repurchase agreements represent obligations whereby the Authority enters into a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The Authority had obligations under reverse repurchase agreements of $94,000,000 and $110,643,000 as of September 30, 2017 and 2016, respectively, which were collateralized by securities with fair values totaling $100,900,000 and $115,145,000, as of the years ended September 30, 2017 and 2016, respectively.

The market value of the securities underlying the reverse repurchase agreements normally exceeds the cash received, providing the dealer a margin against a decline in the market value of the securities. If the dealer defaults on their obligation to resell these securities to the Authority or provide securities or cash of equal value, the Authority would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There was no credit exposure as of September 30, 2017.

7. BONDS PAYABLE

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

7. BONDS PAYABLE – CONTINUED

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

	Aggregate Principal Outstanding 2017	Aggregate Principal Outstanding 2016	Original Maturity Value
Single-family bond programs:			
2000/2003 Step Up Program (4.42% to 7.80%), due 2034 and 2036	$ 17,454	$ 19,977	$ 128,927
2012 Series A and 2016 Series A (1.28% to 2.43%), due 2017 and 2026	1,000	76,000	76,000
2003 First Step Program (4.82% to 5.09%), due 2036	126	131	793
2008 Series B (4.25% to 5.375%), due 2017 to 2039	9,380	11,685	30,000
	27,960	107,793	
Less current maturities	(1,140)	(76,415)	
Noncurrent maturities	$ 26,820	$ 31,378	

Principal and interest payments on bonds after 2017 are scheduled as follows (in thousands):

Fiscal Year Ending September 30	Principal	Interest
2018	$ 1,140	$ 1,456
2019	210	1,454
2020	215	1,444
2021	235	1,433
2022	255	1,422
Thereafter	25,905	16,762
	$ 27,960	$ 23,971

8. NET POSITION

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

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

9. DERIVATIVE INSTRUMENT

At September 30, 2017, the Authority had $19,000,000 in forward sales commitments to issue Ginnie Mae and Fannie Mae securities securitized by single-family loans. These instruments are utilized to hedge changes in fair value of mortgage loans held for sale and interest rate risk on commitments to purchase mortgage loans from originating mortgage lenders. The Authority is subject to market value fluctuations in the event that mortgage loans are not originated as expected and the committed securities cannot be delivered.

9. DERIVATIVE INSTRUMENT – CONTINUED

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

Delivery Date	Coupon Rate	Outstanding Notional Amount	Fair Values	Counterparty Credit Rating
Fannie Mae				
October 2017	3.5%	$ 1,000	$ -	BBB+
November 2017	3.5%	1,000	(3)	BBB+
		2,000	(3)	
Ginnie Mae				
October 2017	3.5%	2,000	6	BBB-
October 2017	3.5%	2,000	8	BBB-
October 2017	3.5%	1,000	7	BBB+
October 2017	3.5%	2,000	6	BBB+
October 2017	3.5%	3,000	7	BBB+
November 2017	3.5%	3,000	(1)	BBB-
November 2017	3.5%	1,000	(1)	BBB+
November 2017	3.5%	3,000	(7)	BBB+
		17,000	25	
		$ 19,000	$ 22	

10. CONDUIT DEBT

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

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

10. CONDUIT DEBT – CONTINUED

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

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

	Aggregate Principal Outstanding		Original Maturity
	2017	2016	Value
2000 Series A & C (variable), due 2030	$ 8,450	$ 8,450	$ 9,215
2001 Series B & D (5.96%, variable), due 2031 and 2034	9,885	9,995	10,880
2002 Series C (variable), due 2035	8,005	8,005	8,500
2003 Series A & F (4.90% to 5.00%, variable), due 2023 and 2036	8,440	13,180	14,710
2004 Series A & C (6.65%, variable), due 2035 and 2036	9,779	10,038	12,830
2005 Series E & F (variable), due 2035 and 2038	21,550	21,550	21,550
2007 Series A-E (4.63% to 5.30%, variable), due 2017 to 2049	16,304	20,531	24,745
2008 Series A & B (variable), due 2030	5,175	5,337	6,410
2012 Series A (4.96%), due 2032	2,595	2,641	13,000
2014 Series C (variable), due 2017	-	13,500	13,500
2015 Series A (4.15%), due 2032	6,674	6,989	7,280
2016 Series A & B (1.24% to 1.50%), due 2018 to 2019	15,400	5,400	15,400
2017 Series A, B, & D (1.35% to 5.00%), due 2020 to 2034	38,958	-	39,005
	$ 151,215	$ 125,616	

Principal and interest payments on conduit debt after 2017 are scheduled as follows (in thousands):

Fiscal Year Ending September 30	Principal	Interest
2018	$ 15,114	$ 2,948
2019	1,695	3,005
2020	37,696	2,701
2021	1,212	2,399
2022	1,273	2,348
Thereafter	94,225	24,836
	$ 151,215	$ 38,237

11. RETIREMENT PLANS

Defined Contribution Plan

Substantially all full-time employees of the Authority participate in a defined contribution retirement plan, the Alabama Housing Finance Authority Retirement Plan (the Retirement Plan), which provides retirement benefits to participants. The Retirement Plan is administered by Corporate Financial Services, LLC, an independent, third-party administrator. To be eligible, an employee must meet certain age and service requirements. Once an employee is eligible, participation is mandatory. Each employee must contribute 5% of their compensation to the Retirement Plan annually. The Authority contributes an amount equal to 7% of each participant's compensation annually. The Authority's contributions to the Retirement Plan were $573,000 and $487,000, in fiscal 2017 and 2016, respectively. The employees' contributions to the Retirement Plan were $409,000 and $348,000, in fiscal 2017 and 2016, respectively. The employees vest in the Authority's contribution based upon a six-year vesting schedule.

Defined Benefit Plan

Plan Description

The Authority established the Alabama Housing Finance Authority Employees' Pension Plan (the Pension Plan), a single-employer defined benefit pension plan, on September 26, 2002. All Pension Plan investments are reported at fair value. The Pension Plan provides retirement, death, disability, and termination benefits to participants and beneficiaries.

Benefit provisions are established by the Board of Directors (the Board) under a formal, written plan document and assets are held under a separate tax-qualified plan trust. Those provisions can only be amended by the Board. The plan and trust information can be obtained from the Alabama Housing Finance Authority, 7460 Halcyon Pointe Drive, Suite 200, Montgomery, AL 36117. A separate stand-alone financial report for the Pension Plan is not available.

Benefits Provided

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

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

11. RETIREMENT PLANS – CONTINUED

Defined Benefit Plan – Continued

Benefits Provided – Continued

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

	2017	2016
Inactive employees receiving benefits	-	-
Inactive employees entitled to but not receiving benefits	1	1
Active employees	141	130
	142	131

Contributions

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

Contributions were $2,293,000 and $1,497,000, equaling approximately 28.66% and 20.19% of payroll of covered participants for the years ended September 30, 2017 and 2016, respectively.

Investments

Policies pertaining to the allocation of investments within the Pension Plan are established by the Authority. It is the policy of the Authority to invest pension assets in securities that provide growth and income while maintaining a balanced level of risk tolerance. The following illustrates the approved asset allocation policy for the years ended September 30, 2017 and 2016:

	% Range of Allocation		
	Minimum	Target	Maximum
Investment Type:			
Large cap domestic equity securities	15%	30%	50%
Small-Mid cap domestic equities	0%	10%	20%
International equity	0%	10%	20%
Fixed income and cash equivalent securities	30%	50%	60%
Alternatives	0%	0%	15%

11. RETIREMENT PLANS – CONTINUED

Defined Benefit Plan – Continued

Investments – Continued
Permitted securities in which assets of the Pension Plan may be invested include any of the following:

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

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

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

The fair value of investments is determined by market prices.

As of September 30, 2017 and 2016, there were no concentrations of investments in any organization that represented 5% or more of the Pension Plan's fiduciary net position.

For years ended September 30, 2017 and 2016, the estimated annual weighted rate of return based on the Bankers Index Method (BAI) was 8.67% and 10.02%, respectively. The BAI rate of return expresses investment performance, net of investment expense, adjusted for the amounts actually invested with contributions and disbursements deemed to be made uniformly throughout the year.

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

11. RETIREMENT PLANS – CONTINUED

Defined Benefit Plan – Continued

Investments – Continued

The fiduciary net position of the Pension Plan at September 30, 2017 and 2016 was invested as follows (in thousands):

	2017	2016
Cash equivalents	$ 843	$ 334
Equity securities	7,318	6,652
Fixed income securities	7,351	6,859
Total	$ 15,512	$ 13,845

Actuarial Assumptions

The Pension Plan was measured as of September 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of those dates.

The total pension liability in the September 30, 2017 and 2016 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates used in the September 30, 2017 actuarial valuation were based on the 2017 Applicable Mortality Table for small plans under the minimum funding requirements of IRC Section 430. Mortality rates used in the September 30, 2016 actuarial valuation were based on the 2016 Applicable Mortality Table.

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

11. RETIREMENT PLANS – CONTINUED

Defined Benefit Plan – Continued

Actuarial Assumptions – Continued

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the years ended September 30, 2017 and 2016 are summarized below:

Asset Class	Target Allocation	Expected Long-Term Rate of Return
Equity	50%	5% – 8%
Fixed Income	50%	2% – 5%

The discount rate used to measure the total pension liability at September 30, 2017 and 2016 was 7.00%. The Pension Plan’s fiduciary net positions are projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on the pension investments was applied to all periods of projected benefit payments to determine the total pension liability.

11. RETIREMENT PLANS – CONTINUED

Defined Benefit Plan – Continued

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

	Total Pension Liability (A)	Pension Fiduciary Net Position (B)	Net Pension (Asset) Liability (A) - (B)
Balances at October 1, 2016	$ 10,319	$ 13,794	$ (3,475)
Service cost	1,041	-	1,041
Interest cost	795	-	795
Differences between expected and actual experience	2,072	-	2,072
Changes in assumptions	21	-	21
Contributions – employer	-	2,293	(2,293)
Net investment income	-	1,166	(1,166)
Benefit payments, including refunds of member contributions	(2,991)	(2,991)	-
Net changes	938	468	470
Balances at September 30, 2017	$ 11,257	$ 14,262	$ (3,005)

	Total Pension Liability (A)	Pension Fiduciary Net Position (B)	Net Pension (Asset) Liability (A) - (B)
Balances at October 1, 2015	$ 10,391	$ 14,133	$ (3,742)
Service cost	577	-	577
Interest cost	768	-	768
Differences between expected and actual experience	1,736	-	1,736
Changes in assumptions	16	-	16
Contributions – employer	-	1,497	(1,497)
Net investment income	-	1,333	(1,333)
Benefit payments, including refunds of member contributions	(3,169)	(3,169)	-
Net changes	(72)	(339)	267
Balances at September 30, 2016	$ 10,319	$ 13,794	$ (3,475)

The change in assumptions reflected in the changes in net pension (asset) liability for the years ended September 30, 2017 and 2016 was the result of basing the valuation on the 2016 and 2015 Applicable Mortality Tables in lieu of the 2017 and 2016 Applicable Mortality Tables.

11. RETIREMENT PLANS – CONTINUED

Defined Benefit Plan – Continued

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

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

	1% Decrease (6%)	Current Discount Rate (7%)	Maximum 1% Increase (8%)
2017	$ (2,240)	$ (3,005)	$ (3,728)
2016	(2,932)	(3,475)	(3,999)

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

For the years ended September 30, 2017 and 2016, the Pension Plan recognized pension expense of $(1,136,000) and $(3,239,000), respectively. At September 30, 2017 and 2016, the Authority reported deferred outflows of resources related to the Pension Plan from the following sources:

	2017	2016
Deferred Outflows		
Differences between expected and actual experience	$ 3,826	$ 1,844
Net differences between projected and actual earnings on investments	166	560
Changes in assumptions	69	51
Total	$ 4,061	$ 2,455

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

2018	$ 317
2019	317
2020	281
2021	67
2022	148
Thereafter	2,931

12. OPERATING LEASES

The Authority leases office space under operating leases expiring through 2019. Rent expense for the years ended September 30, 2017 and 2016, totaled $1,239,000 and $1,215,000, 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 years ending September 30 are as follows (in thousands):

2018	$	1,304
2019		1,110

13. EARLY RETIREMENT OF BONDS

The Authority's mortgage revenue bonds are subject to certain extraordinary redemption provisions. During the years ended September 30, 2017 and 2016, the Authority called approximately $4,712,000 and $140,918,000 (net of unamortized discounts), respectively, of single-family bonds in advance of their scheduled maturities.

14. SUBSEQUENT EVENTS

The Authority has called approximately $525,000 of single-family bonds.

The Authority has awarded Federal funds totaling $2,562,000 under the HOME Program.

The Authority has called approximately $8,680,000 of multi-family bond conduit debt.

The Authority has issued approximately $8,000,000 of multi-family bond conduit debt.

15. RECLASSIFICATIONS

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation.

REQUIRED SUPPLEMENTARY INFORMATION

ALABAMA HOUSING FINANCE AUTHORITY
SCHEDULES OF CHANGES IN THE AUTHORITY'S NET PENSION LIABILITY AND RELATED RATIOS
SEPTEMBER 30, 2017 – 2014

	2017	2016	2015	2014
TOTAL PENSION LIABILITY				
Service cost	$ 1,041	$ 577	$ 595	$ 537
Interest	795	768	704	620
Differences between expected and actual experience	2,072	1,736	(25)	147
Changes in assumptions	21	16	20	18
Benefit payments	(2,991)	(3,169)	(367)	(177)
Net change in total pension liability	938	(72)	927	1,145
Total pension liability – beginning	10,319	10,391	9,464	8,319
Total pension liability – ending (A)	11,257	10,319	10,391	9,464
PENSION FIDUCIARY NET POSITION				
Contributions – employer	2,293	1,497	1,352	1,468
Net investment income (loss)	1,166	1,333	(103)	653
Benefit payments	(2,991)	(3,169)	(367)	(177)
Net change in pensions fiduciary net position	468	(339)	882	1,944
Pensions fiduciary net position – beginning	13,794	14,133	13,251	11,307
Pensions fiduciary net position – ending (B)	14,262	13,794	14,133	13,251
NET PENSION ASSET (A) - (B)	$ (3,005)	$ (3,475)	$ (3,742)	$ (3,787)
COVERED EMPLOYEE PAYROLL	$ 8,000	$ 7,415	$ 5,938	$ 5,125
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	37.56%	46.85%	63.01%	73.90%
NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	126.69%	133.68%	136.02%	140.01%

See independent auditors' report.

ALABAMA HOUSING FINANCE AUTHORITY
SCHEDULE OF EMPLOYER CONTRIBUTIONS TO AUTHORITY EMPLOYEES' PENSION PLAN

Year	Actuarially Determined Contribution	Contributions From Authority	Contribution (Deficiency)/ Excess	Covered Employee Payroll	Contribution as a % of Payroll
2008	$ 640	$ 640	$ -	$ 3,179	20.13%
2009	740	740	-	3,520	21.02%
2010	816	816	-	3,992	20.44%
2011	917	1,570	653	3,991	39.34%
2012	895	1,370	475	4,226	32.42%
2013	802	1,187	385	4,413	26.90%
2014	742	1,282	540	5,125	25.01%
2015	852	1,352	500	5,938	22.77%
2016	997	1,497	500	7,415	20.19%
2017	1,293	2,293	1,000	8,000	28.66%

Notes to Schedule:

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

Methods and Assumptions: The actuarial valuation is performed under the requirements of IRC Section 430; pursuant to the Pension Protection Act of 2006 (PPA) and subsequent pension laws MAP-21 and HAFTA. The valuation is calculated using PPA actuarial funding methods and prescribed discounts segmented rates. The applicable discount rates for the 2017 actuarial valuation were 4.16% (0-5 years), 5.72% (6-20 years), and 6.48% (for 20+ years). The salary increase assumption was 4.5% per year.

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

OTHER FINANCIAL INFORMATION

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF NET POSITION
SINGLE-FAMILY BOND SERIES
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
SEPTEMBER 30, 2017

	2000/2003 Step Up	2003 First Step	2012 A 2016 A	2008 B	Combined Single-Family
ASSETS					
CURRENT ASSETS					
Cash on deposit	$ -	$ -	$ -	$ -	$ -
Accounts receivable	-	-	-	-	-
Accrued interest receivable	-	-	-	-	-
Mortgage loans receivable, net	-	-	-	-	-
Mortgage loans held for sale	-	-	-	-	-
Investments	-	-	-	-	-
Derivative instruments	-	-	-	-	-
Other assets	-	-	-	-	-
Restricted:					
Cash on deposit	-	-	2,335	-	2,335
Accrued interest receivable	107	1	924	52	1,084
Federal program loans receivable, net	-	-	-	-	-
Investments	449	34	18,508	933	19,924
Other assets	-	-	-	-	-
Total current assets	556	35	21,767	985	23,343
NONCURRENT ASSETS					
Mortgage loans receivable, net	-	-	-	-	-
Investments	-	-	-	-	-
Other assets	-	-	-	-	-
Service release premiums, net	-	-	-	-	-
Restricted:					
Mortgage-backed securities	18,732	137	155,723	9,568	184,160
Investments	-	-	816	-	816
Other assets	-	-	-	-	-
Federal program loans receivable, net	-	-	-	-	-
Total noncurrent assets	18,732	137	156,539	9,568	184,976
TOTAL ASSETS	19,288	172	178,306	10,553	208,319
DEFERRED OUTFLOWS					
Pension-related deferred outflows	-	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 19,288	$ 172	$ 178,306	$ 10,553	$ 208,319
LIABILITIES					
CURRENT LIABILITIES					
Bonds payable, net	$ 300	$ -	$ -	$ 840	$ 1,140
Obligations under reverse repurchase agreements	-	-	94,000	-	94,000
Refundable Federal program grants	-	-	-	-	-
Accrued interest payable	81	-	40	245	366
Due to (from) other funds	-	-	-	4	4
Other liabilities	-	-	-	1	1
Total current liabilities	381	-	94,040	1,090	95,511
NONCURRENT LIABILITIES					
Bonds payable, net	17,154	126	1,000	8,540	26,820
Refundable Federal program grants	-	-	-	-	-
Unearned compliance and commitment fees	-	-	-	-	-
Total noncurrent liabilities	17,154	126	1,000	8,540	26,820
TOTAL LIABILITIES	17,535	126	95,040	9,630	122,331
NET POSITION					
Net investment in capital assets	-	-	-	-	-
Restricted	1,753	46	83,266	923	85,988
Unrestricted	-	-	-	-	-
Total net position	1,753	46	83,266	923	85,988
TOTAL LIABILITIES AND NET POSITION	$ 19,288	$ 172	$ 178,306	$ 10,553	$ 208,319

See independent auditors' report.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
SINGLE-FAMILY BOND SERIES
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	2000/2003 Step Up	2003 First Step	2012 A 2016 A	2008 B	Combined Single-Family
OPERATING REVENUES					
Interest on mortgage loans	$ -	$ -	$ -	$ -	$ -
Interest on mortgage-backed securities	1,027	7	7,490	482	9,006
Investment income	1	-	551	5	557
Net realized and unrealized loss on investments	(579)	(4)	(5,467)	(296)	(6,346)
Loan fees and other income	17	-	-	-	17
Total operating revenues	466	3	2,574	191	3,234
OPERATING EXPENSES					
Interest	1,042	6	1,834	528	3,410
Amortization of service release premiums	-	-	-	-	-
Program, general, and administrative	17	-	39	10	66
Total operating expenses	1,059	6	1,873	538	3,476
OPERATING INCOME (LOSS)	(593)	(3)	701	(347)	(242)
NONOPERATING REVENUES (EXPENSES)					
Federal program grants	-	-	-	-	-
Federal program expenditures	-	-	-	-	-
Net nonoperating revenues (expenses)	-	-	-	-	-
INCOME (LOSS) BEFORE TRANSFERS	(593)	(3)	701	(347)	(242)
Transfers in (out)	-	-	-	-	-
CHANGES IN NET POSITION	(593)	(3)	701	(347)	(242)
NET POSITION					
Beginning of year	2,346	49	82,565	1,270	86,230
End of year	$ 1,753	$ 46	$ 83,266	$ 923	$ 85,988

See independent auditors’ report.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF NET POSITION
COMBINING ALL FUNDS
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
SEPTEMBER 30, 2017

	Combined Single-Family	Federal Programs	Housing Assistance Fund	General Fund	Combined
ASSETS					
CURRENT ASSETS					
Cash on deposit	$ -	$ -	$ 458	$ 8,386	$ 8,844
Accounts receivable	-	-	-	144	144
Accrued interest receivable	-	-	91	155	246
Mortgage loans receivable, net	-	-	4,535	10	4,545
Mortgage loans held for sale	-	-	-	109,463	109,463
Investments	-	-	11,594	45,139	56,733
Derivative instruments	-	-	-	22	22
Other assets	-	-	-	5,994	5,994
Restricted:					
Cash on deposit	2,335	2,861	-	-	5,196
Accrued interest receivable	1,084	18,178	-	-	19,262
Federal program loans receivable, net	-	28,843	-	-	28,843
Investments	19,924	2,678	-	-	22,602
Other assets	-	144	-	-	144
Total current assets	23,343	52,704	16,678	169,313	262,038
NONCURRENT ASSETS					
Mortgage loans receivable, net	-	-	35,967	421	36,388
Investments	-	-	-	248	248
Other assets	-	-	-	4,019	4,019
Service release premiums, net	-	-	-	79,324	79,324
Restricted:					
Mortgage-backed securities	184,160	-	-	-	184,160
Investments	816	-	-	-	816
Other assets	-	35	-	1,129	1,164
Federal program loans receivable, net	-	311,324	-	-	311,324
Total noncurrent assets	184,976	311,359	35,967	85,141	617,443
TOTAL ASSETS	208,319	364,063	52,645	254,454	879,481
DEFERRED OUTFLOWS					
Pension-related deferred outflows	-	-	-	4,061	4,061
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 208,319	$ 364,063	$ 52,645	$ 258,515	$ 883,542
LIABILITIES					
CURRENT LIABILITIES					
Bonds payable, net	$ 1,140	$ -	$ -	$ -	$ 1,140
Obligations under reverse repurchase agreements	94,000	-	-	-	94,000
Refundable Federal program grants	-	28,843	-	-	28,843
Accrued interest payable	366	18,178	-	-	18,544
Due to (from) other funds	4	229	2,123	(2,356)	-
Other liabilities	1	235	-	1,921	2,157
Total current liabilities	95,511	47,485	2,123	(435)	144,684
NONCURRENT LIABILITIES					
Bonds payable, net	26,820	-	-	-	26,820
Refundable Federal program grants	-	309,664	-	-	309,664
Unearned compliance and commitment fees	-	-	-	7,690	7,690
Total noncurrent liabilities	26,820	309,664	-	7,690	344,174
TOTAL LIABILITIES	122,331	357,149	2,123	7,255	488,858
NET POSITION					
Net investment in capital assets	-	35	-	1,129	1,164
Restricted	85,988	6,879	-	-	92,867
Unrestricted	-	-	50,522	250,131	300,653
Total net position	85,988	6,914	50,522	251,260	394,684
TOTAL LIABILITIES AND NET POSITION	$ 208,319	$ 364,063	$ 52,645	$ 258,515	$ 883,542

See independent auditors' report.

ALABAMA HOUSING FINANCE AUTHORITY
SCHEDULE OF OTHER ASSETS
SEPTEMBER 30, 2017

	Combined Single-Family	Federal Programs	Housing Assistance Fund	General Fund	Combined Totals
OPERATING REVENUES					
Interest on mortgage loans	$ -	$ -	$ 1,243	$ 6,039	$ 7,282
Interest on mortgage-backed securities	9,006	-	-	-	9,006
Investment income	557	21	9	30	617
Net realized and unrealized gain (loss) on investments	(6,346)	-	-	5,015	(1,331)
Loan fees and other income	17	-	372	43,707	44,096
Total operating revenues	3,234	21	1,624	54,791	59,670
OPERATING EXPENSES					
Interest	3,410	-	-	165	3,575
Amortization of service release premiums	-	-	-	6,620	6,620
Program, general, and administrative	66	-	319	37,181	37,566
Total operating expenses	3,476	-	319	43,966	47,761
OPERATING INCOME (LOSS)	(242)	21	1,305	10,825	11,909
NONOPERATING REVENUES (EXPENSES)					
Federal program grants	-	32,920	-	-	32,920
Federal program expenditures	-	(30,062)	-	-	(30,062)
Net nonoperating revenues (expenses)	-	2,858	-	-	2,858
INCOME (LOSS) BEFORE TRANSFERS	(242)	2,879	1,305	10,825	14,767
Transfers in (out)	-	-	-	-	-
CHANGES IN NET POSITION	(242)	2,879	1,305	10,825	14,767
NET POSITION					
Beginning of year	86,230	4,035	49,217	240,435	379,917
End of year	$ 85,988	$ 6,914	$ 50,522	$ 251,260	$ 394,684

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