

**ALABAMA HOUSING FINANCE AUTHORITY**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2016 AND 2015**

**ALABAMA HOUSING FINANCE AUTHORITY  
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SEPTEMBER 30, 2016 AND 2015**

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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, 2016 and 2015, 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, 2016 and 2015, 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 Schedules 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 was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, additional segment data is fairly stated in all material respects in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2016, on our consideration of the Alabama Housing Finance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alabama Housing Finance Authority's internal control over financial reporting and compliance.

*Warren Averett, LLC*

Montgomery, Alabama  
December 22, 2016

## **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 (the Authority) presents management's discussion and analysis of the financial position and results of operations during the fiscal year ended September 30, 2016. 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), the Tax Credit Assistance Program (TCAP), Exchange Grant Program, Hardest Hit Alabama Program, Housing Trust Fund, and Low-Income Housing Tax Credits, (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.

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

**Condensed Financial Information**

**Statements of Net Position**

The following table presents condensed information about the net position of the Authority as of September 30, 2016 and 2015, and changes in the balances of selected items during the fiscal year ended September 30, 2016 (in thousands):

**CONDENSED STATEMENTS OF NET POSITION**

	<u>2016</u>	<u>2015</u>	<u>Change</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash on deposit and restricted cash on deposit	\$ 13,694	\$ 9,549	\$ 4,145
Accrued interest receivable and restricted accrued interest receivable	18,755	17,490	1,265
Mortgage loans, net	164,773	169,690	(4,917)
Restricted Federal program loans receivable, net	29,436	14,303	15,133
Investments and restricted investments	104,481	46,822	57,659
Other assets and restricted other assets	7,839	8,520	(681)
Total current assets	<u>338,978</u>	<u>266,374</u>	<u>72,604</u>
<b>NONCURRENT ASSETS</b>			
Mortgage loans receivable, net and restricted mortgage-backed securities	247,927	275,595	(27,668)
Restricted Federal program loans receivable, net	296,881	307,445	(10,564)
Investments and restricted investments	1,203	75,893	(74,690)
Other assets and restricted other assets	6,717	5,293	1,424
Service release premiums, net	58,770	37,037	21,733
Total noncurrent assets	<u>611,498</u>	<u>701,263</u>	<u>(89,765)</u>
<b>TOTAL ASSETS</b>	<u>950,476</u>	<u>967,637</u>	<u>(17,161)</u>
<b>DEFERRED OUTFLOWS</b>			
Pension-related deferred outflows	2,455	160	2,295
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<u>\$ 952,931</u>	<u>\$ 967,797</u>	<u>\$ (14,866)</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Bonds payable, net	\$ 76,415	\$ 17,277	\$ 59,138
Obligations under reverse repurchase agreements	110,643	-	110,643
Refundable Federal program grants	29,436	14,303	15,133
Accrued interest payable	17,435	19,318	(1,883)
Other liabilities	2,087	2,779	(692)
Total current liabilities	<u>236,016</u>	<u>53,677</u>	<u>182,339</u>
<b>NONCURRENT LIABILITIES</b>			
Bonds payable, net	31,378	233,403	(202,025)
Refundable Federal program grants	299,235	309,960	(10,725)
Other liabilities	6,385	6,843	(458)
Total noncurrent liabilities	<u>336,998</u>	<u>550,206</u>	<u>(213,208)</u>
<b>TOTAL LIABILITIES</b>	<u>573,014</u>	<u>603,883</u>	<u>(30,869)</u>
<b>DEFERRED INFLOWS</b>			
Pension-related deferred inflows	-	1,212	(1,212)
<b>NET POSITION</b>			
Net investment in capital assets	1,448	1,613	(165)
Restricted	90,153	86,940	3,213
Unrestricted	288,316	274,149	14,167
Total net position	<u>379,917</u>	<u>362,702</u>	<u>17,215</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION</b>	<u>\$ 952,931</u>	<u>\$ 967,797</u>	<u>\$ (14,866)</u>

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

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***Statements of Net Position – Continued***

Current assets increased \$72,604,000 from September 30, 2015, to September 30, 2016, primarily due to an increase in investments and restricted investments of \$57,659,000 and an increase in Federal program loans receivable, net of \$15,133,000. The increases in investments and Federal program loans receivable, net, reflect the portion of those assets scheduled for maturity during the next fiscal year. Cash and restricted cash increased \$4,145,000, while mortgage loans, net, specifically mortgage loans held for sale, decreased \$4,917,000.

Noncurrent assets decreased \$89,765,000, primarily due to a decrease in investments and restricted investments of \$74,690,000; a decrease in mortgage loans receivable, net and restricted mortgage-backed securities of \$27,668,000; and a decrease in Federal program loans receivable, net, of \$10,564,000. The decreases in investments and Federal program loans receivable, net reflect reclassifications from noncurrent to current assets, as noted above. The decrease in mortgage loans receivable, net and mortgage-backed securities resulted from normal paydowns and payoffs of those assets during the fiscal year. Restricted and unrestricted other assets increased \$1,424,000 due to increases in net pool buyouts. Service release premiums increased \$21,733,000 due to increased volume of mortgage loans purchased during the fiscal year. Pension-related deferred outflows increased \$2,295,000 after actuarial review.

Current liabilities increased \$182,339,000 from September 30, 2015, to September 30, 2016, primarily due to the Authority entering into a reverse repurchase agreement to redeem a majority of the bonds payable. The current portion of bonds scheduled for maturity in the next twelve months increased \$59,138,000. The increase 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 decrease in other liabilities relates to accounts payable in the General Fund.

Noncurrent liabilities decreased \$213,208,000, primarily due to the redemption in bonds payable of \$202,025,000 (see comments in current liabilities section above). Refundable Federal program grants decreased \$10,725,000, mostly due to reclassifying HOME program loans from noncurrent to current liabilities. Pension-related deferred inflows decreased \$1,212,000 after actuarial review.

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

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

The following table presents condensed statements of revenues, expenses, and changes in net position for the Authority for the years ended September 30, 2016 and 2015, and the change from the prior year (in thousands):

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

	<u>2016</u>	<u>2015</u>	<u>Change</u>
<b>OPERATING REVENUES</b>			
Interest on mortgage loans and mortgage-backed securities	\$ 19,166	\$ 20,394	\$ (1,228)
Investment income	747	309	438
Net gain on investments	3,424	13,354	(9,930)
Loan fees and other income	<u>32,275</u>	<u>22,914</u>	<u>9,361</u>
Total operating revenues	<u>55,612</u>	<u>56,971</u>	<u>(1,359)</u>
<b>OPERATING EXPENSES</b>			
Interest	6,188	9,794	(3,606)
Amortization of service release premiums	5,352	2,477	2,875
Program, general, and administrative	<u>29,057</u>	<u>28,224</u>	<u>833</u>
Total operating expenses	<u>40,597</u>	<u>40,495</u>	<u>102</u>
<b>OPERATING INCOME</b>	<u>15,015</u>	<u>16,476</u>	<u>(1,461)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Federal program grants	18,944	17,605	1,339
Federal program expenditures	<u>(16,744)</u>	<u>(17,272)</u>	<u>528</u>
Net nonoperating revenues (expenses)	<u>2,200</u>	<u>333</u>	<u>1,867</u>
<b>CHANGES IN NET POSITION</b>	<u>17,215</u>	<u>16,809</u>	<u>406</u>
<b>NET POSITION</b>			
Beginning of year	<u>362,702</u>	<u>345,893</u>	<u>16,809</u>
End of year	<u>\$ 379,917</u>	<u>\$ 362,702</u>	<u>\$ 17,215</u>

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

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

Total operating revenues decreased \$1,359,000, reflecting increases in loan fee income offset by a reduction in gains on sale of loans securitized in the mortgage-backed securities market. Interest on mortgage loans and mortgage-backed securities decreased \$1,228,000 due to the overall decrease in mortgage loan and mortgage-backed securities balances during 2016, net of loan originations. Investment income increased \$438,000, primarily within the single-family bond program. The net gain on investments decreased \$9,930,000 due to a reduction in volume of loans securitized into mortgage-backed securities and sold in the secondary market compared to 2015. The decrease in single family mortgage-backed securities, as noted in the noncurrent assets section, resulted in an increase of unrealized losses from fair market valuation at year end. Loan fees and other income increased \$9,361,000, reflecting increases in loan servicing income, single-family loan fees and multifamily program fees.

Total operating expenses increased \$102,000, reflecting an increase in program, general and administrative expenses that was offset by a decrease in pension-related expenses upon annual actuarial review. Interest decreased \$3,606,000 due to the reduction of bonds payable in the single-family bond program. The increase in amortization expense reflects the increased loan volume and the related service premiums being reduced as these loan balances are paid down or paid off.

Net nonoperating revenues (expenses) increased \$1,867,000, 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, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
	(In thousands)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash on deposit	\$ 8,949	\$ 5,206
Accounts receivable	173	1,041
Accrued interest receivable	334	329
Mortgage loans receivable, net	4,430	4,148
Mortgage loans held for sale	160,343	165,542
Investments	9,502	19,774
Derivative instruments	131	333
Other assets	7,252	6,622
Restricted:		
Cash on deposit	4,745	4,343
Accrued interest receivable	18,421	17,161
Federal program loans receivable, net	29,436	14,303
Investments	94,979	27,048
Other assets	283	524
	<u>338,978</u>	<u>266,374</u>
<b>NONCURRENT ASSETS</b>		
Mortgage loans receivable, net	38,393	39,713
Investments	357	528
Other assets	5,296	3,680
Service release premiums, net	58,770	37,037
Restricted:		
Mortgage-backed securities	209,534	235,882
Investments	846	75,365
Other assets	1,421	1,613
Federal program loans receivable, net	296,881	307,445
	<u>611,498</u>	<u>701,263</u>
	<u>950,476</u>	<u>967,637</u>
<b>TOTAL ASSETS</b>		
<b>DEFERRED OUTFLOWS</b>		
Pension-related deferred outflows	<u>2,455</u>	<u>160</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<u><u>\$ 952,931</u></u>	<u><u>\$ 967,797</u></u>

See notes to the financial statements.

**ALABAMA HOUSING FINANCE AUTHORITY  
STATEMENTS OF NET POSITION  
SEPTEMBER 30, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
	<b>(In thousands)</b>	
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Bonds payable, net of unamortized premiums	\$ 76,415	\$ 17,277
Obligations under reverse repurchase agreements	110,643	-
Refundable Federal program grants	29,436	14,303
Accrued interest payable	17,435	19,318
Other liabilities	2,087	2,779
Total current liabilities	236,016	53,677
<b>NONCURRENT LIABILITIES</b>		
Bonds payable, net of unamortized premiums	31,378	233,403
Refundable Federal program grants	299,235	309,960
Unearned compliance and commitment fees	6,385	6,843
Total noncurrent liabilities	336,998	550,206
<b>TOTAL LIABILITIES</b>	<b>573,014</b>	<b>603,883</b>
<b>DEFERRED INFLOWS</b>		
Pension-related deferred inflows	-	1,212
<b>NET POSITION</b>		
Net investment in capital assets	1,448	1,613
Restricted	90,153	86,940
Unrestricted	288,316	274,149
Total net position	379,917	362,702
<b>TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION</b>	<b>\$ 952,931</b>	<b>\$ 967,797</b>

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, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
	(In thousands)	
<b>OPERATING REVENUES</b>		
Interest on mortgage loans	\$ 8,634	\$ 6,429
Interest on mortgage-backed securities	10,532	13,965
Investment income	747	309
Net realized and unrealized gain on investments	3,424	13,354
Loan fees and other income	<u>32,275</u>	<u>22,914</u>
Total operating revenues	<u>55,612</u>	<u>56,971</u>
<b>OPERATING EXPENSES</b>		
Interest	6,188	9,794
Amortization of service release premiums	5,352	2,477
Program, general, and administrative	<u>29,057</u>	<u>28,224</u>
Total operating expenses	<u>40,597</u>	<u>40,495</u>
<b>OPERATING INCOME</b>	<u>15,015</u>	<u>16,476</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Federal program grants	18,944	17,605
Federal program expenditures	<u>(16,744)</u>	<u>(17,272)</u>
Net nonoperating revenues (expenses)	<u>2,200</u>	<u>333</u>
<b>CHANGES IN NET POSITION</b>	<u>17,215</u>	<u>16,809</u>
<b>NET POSITION</b>		
Beginning of year	<u>362,702</u>	<u>345,893</u>
End of year	<u>\$ 379,917</u>	<u>\$ 362,702</u>

See notes to the financial statements.

**ALABAMA HOUSING FINANCE AUTHORITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

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

	<b>2016</b>	<b>2015</b>
	<b>(In thousands)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Proceeds from sales/maturities of mortgage-backed securities	\$ 22,659	\$ 84,563
Purchase of mortgage loans	(42,983)	(47,035)
Principal payments received on mortgage loans	46,270	55,663
Purchase of mortgage loans held for sale	(2,435,208)	(1,845,317)
Proceeds from sale of mortgage loans held for sale	2,435,972	1,807,729
Interest received from mortgage loans	8,630	6,361
Interest received from mortgage-backed securities	10,729	14,572
Cash paid to suppliers for goods and services	(36,693)	(27,358)
Cash payments to employees for services	7,624	6,117
Loan fees, commitment fees, and other income received	31,919	22,776
Net cash provided by operating activities	48,919	78,071
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from bonds issued	1,000	-
Proceeds from borrowings under repurchase agreement	115,102	-
Principal payments on bonds	(143,888)	(39,652)
Principal payments on repurchase agreement	(4,460)	-
Proceeds from Federal program grants, net	4,409	6,606
Interest paid	(9,524)	(10,527)
Net cash used in noncapital financing activities	(37,361)	(43,573)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of furniture and equipment	(507)	(757)
Purchase of mortgage servicing rights	(29,870)	(23,358)
Net cash used in capital and related financing activities	(30,377)	(24,115)

See notes to the financial statements.

**ALABAMA HOUSING FINANCE AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
	(In thousands)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	\$ (1,167,534)	\$ (1,685,380)
Proceeds from sales of investments	1,184,534	1,652,413
Interest received from investments	8,091	20,583
Federal program mortgage loans funded, net	<u>(2,127)</u>	<u>(5,953)</u>
Net cash provided by (used in) investing activities	<u>22,964</u>	<u>(18,337)</u>
<b>NET INCREASE (DECREASE) IN CASH ON DEPOSIT</b>	4,145	(7,954)
<b>CASH ON DEPOSIT AT BEGINNING OF YEAR</b>	<u>9,549</u>	<u>17,503</u>
<b>CASH ON DEPOSIT AT END OF YEAR</b>	<u>\$ 13,694</u>	<u>\$ 9,549</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 15,015	\$ 16,476
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	699	537
Amortization and expense of service release premiums	8,136	6,824
Amortization of unearned compliance and commitment fees	(428)	(3,624)
Gross unrealized loss on investments	3,781	7,391
Gross unrealized gain on mortgage loans held for sale	(540)	-
Net change in unrealized loss on derivative instruments	202	-
Provision for loan losses, net	569	1,560
Commitment fees received	74	3,486
Interest received from investments	(3,830)	(20,583)
Interest paid on bonds	9,524	10,527
Changes in operating assets and liabilities:		
Accrued interest receivable	(1,262)	(1,117)
Mortgage loans receivable	(1,148)	5,913
Mortgage loans held for sale	5,199	(34,874)
Mortgage-backed securities	18,876	84,563
Other assets and accounts receivable	239	(2,142)
Accrued interest payable	(1,883)	740
Net change in deferred inflows/outflows	(3,507)	-
Other liabilities	<u>(797)</u>	<u>2,394</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 48,919</u>	<u>\$ 78,071</u>

See notes to the financial statements.

**ALABAMA HOUSING FINANCE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

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**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 Single Family Programs, Federal Programs, Housing Assistance, and General Funds 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 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 the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

**ALABAMA HOUSING FINANCE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
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**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 included 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, 2016, 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 \$13,694,000 and \$9,549,000 as of September 30, 2016 and 2015, respectively. All cash on deposit at September 30, 2016, 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.

**ALABAMA HOUSING FINANCE AUTHORITY  
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**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, 2016 or 2015.

**Commitment Fees**

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

**Mortgage Loans Receivable**

Mortgage loans 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 \$27,000,000 in Ginnie Mae and \$5,000,000 in Fannie Mae guaranteed mortgage-backed securities as of the year ended September 30, 2016. 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.

**ALABAMA HOUSING FINANCE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Federal Programs Loans Receivable – Continued**

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

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

**Debt Financing Costs**

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

**Mortgage Loan Servicing**

As of September 30, 2016 and 2015, the Authority serviced \$6,049,322,000 and \$3,893,115,000, respectively, in mortgage loans including \$6,001,456,000 and \$3,831,593,000, 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 at September 30, 2016 (in thousands):

Alabama	\$ 1,466,105	24%
Mississippi	132,969	2%
Missouri	453,341	7%
North Carolina	1,065,124	18%
Washington	2,899,124	48%
Other	<u>32,616</u>	<u>1%</u>
	<u>\$ 6,049,322</u>	<u>100%</u>

**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.

**ALABAMA HOUSING FINANCE AUTHORITY  
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**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 at the time of foreclosure is charged to the allowance for loan losses. The Authority held properties totaling approximately \$156,000 and \$283,000 at September 30, 2016 and 2015, 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 \$5,141,000 and \$3,397,000 at September 30, 2016 and 2015, 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, and are recognized over a closed period and are amortized over the remaining average service life of all participating active and inactive employees.

**Deferred Inflows of Resources**

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

**Net Pension Liability**

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

**Pension Plan Expense**

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

**ALABAMA HOUSING FINANCE AUTHORITY  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**New Accounting Pronouncements**

During fiscal year 2016, the Authority implemented GASB Statement No. 72, *Fair Value Measurement and Application*, that provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. Implementation of this standard did not have a significant impact on the Authority's financial statements.

During fiscal year 2016, the Authority implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* that provides additional guidance for the reporting of certain pension related transactions. Implementation of this standard did not have a significant impact on the Authority's financial statements.

During fiscal year 2016, the Authority implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which supersedes GASB Statement No. 55. The hierarchy of GAAP prioritizes the guidance state and local governments follow when preparing financial statements in accordance with GAAP. 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 22, 2016, 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, 2016, mortgage-backed securities consisted of program certificates with interest rates ranging from 4% to 8.625%. The cost of program investments at September 30, 2016 and 2015, was \$187,615,000 and \$210,219,000, 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 \$3,746,000 and \$7,326,000 for the years ended September 30, 2016 and 2015, 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.

**ALABAMA HOUSING FINANCE AUTHORITY  
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**4. INVESTMENTS**

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

<u>Investment Type</u>	<u>2016</u>	<u>% of Total</u>	<u>2015</u>	<u>% of Total</u>
Money market funds	\$ 29,339	28%	\$ 46,822	38%
US Government Agency securities	75,988	72%	75,365	61%
Mortgage-backed securities	<u>357</u>	<u>0%</u>	<u>528</u>	<u>1%</u>
	<u>\$ 105,684</u>	<u>100%</u>	<u>\$ 122,715</u>	<u>100%</u>

**Fair Value**

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

<u>Investment</u>	<u>2016</u>	<u>2015</u>
Dreyfus US Treasury	\$ 4,723	\$ 4,457
Federated Government Obligations	9,502	19,774
Federated GNMA Money Market	277	275
First American Treasury Obligations	14,837	22,316
GNMA Mortgage-backed Securities	357	528
US Treasury Note	<u>75,988</u>	<u>75,365</u>
Total investments	<u>\$ 105,684</u>	<u>\$ 122,715</u>

The cost of investments at September 30, 2016 and 2015, was \$105,710,000 and \$122,703,000, respectively. As a result of changes in the fair value of investments, the Authority recorded net unrealized losses of \$33,000 and \$67,000 for the years ended September 30, 2016 and 2015, 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, 2016, the Authority's money market, government and government agency investments in funds were rated Aaa by Moody's Investor Services meeting the criteria of the Authority and the respective bond issue rating agencies.

**ALABAMA HOUSING FINANCE AUTHORITY  
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**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	\$ 29,339	\$ 29,339	\$ -	\$ -	\$ -
US Government Agency securities	75,988	75,142	-	-	846
Mortgage-backed securities	<u>357</u>	<u>-</u>	<u>192</u>	<u>165</u>	<u>-</u>
	<u>\$ 105,684</u>	<u>\$ 104,481</u>	<u>\$ 192</u>	<u>\$ 165</u>	<u>\$ 846</u>

**Custodial Credit Risk**

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

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of an investment in a single type of security. The table below lists all investments by investment provider and type as of September 30, 2016 (in thousands).

<u>Provider</u>	<u>Money Market And Other</u>	<u>Mortgage-Backed Securities</u>	<u>U.S. Government Agency Securities</u>	<u>Total</u>	<u>Percent</u>
Dreyfus US Treasury	\$ 4,723	\$ -	\$ -	\$ 4,723	5%
Federated Government Obligations	9,502	-	-	9,502	9%
Federated GNMA Money Market	277	-	-	277	0%
First American Treasury Obligations	14,837	-	-	14,837	14%
GNMA Mortgage-backed Securities	-	357	-	357	0%
US Treasury Note	<u>-</u>	<u>-</u>	<u>75,988</u>	<u>75,988</u>	<u>72%</u>
Total	<u>\$ 29,339</u>	<u>\$ 357</u>	<u>\$ 75,988</u>	<u>\$ 105,684</u>	<u>100%</u>

**ALABAMA HOUSING FINANCE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
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**4. INVESTMENTS – CONTINUED**

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

	<b>2016</b>	<b>2015</b>
Current assets – investments	\$ 9,502	\$ 19,774
Current assets – restricted investments	94,979	27,048
Noncurrent assets – investments	357	528
Noncurrent assets – restricted investments	846	75,365
	\$ 105,684	\$ 122,715

**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):

	<b>2016</b>	<b>2015</b>
Mortgage loans receivable (5% to 11.13%):		
Conventional	\$ 1,524	\$ 1,479
FHA insured	-	1
VA insured	2	2
Down payment assistance/Habitat loans (0% to 8.40%)	44,482	45,633
	46,008	47,115
Less allowance for loan losses	(3,185)	(3,254)
Total mortgage loans receivable, net	\$ 42,823	\$ 43,861

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.

**ALABAMA HOUSING FINANCE AUTHORITY  
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**5. MORTGAGE LOANS – CONTNIUED**

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

	<b>2016</b>	<b>2015</b>
Current assets – Mortgage loans receivable, net	\$ 4,430	\$ 4,148
Noncurrent assets – Mortgage loans receivable, net	38,393	39,713
	\$ 42,823	\$ 43,861

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 \$160,343,000 and \$165,542,000 as of the years ended September 30, 2016 and 2015, 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. As of September 30, 2016, the Authority had obligations totaling \$110,643,000 collateralized by securities with fair value totaling \$115,145,000.

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, 2016.

**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.

**ALABAMA HOUSING FINANCE AUTHORITY  
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**7. BONDS PAYABLE – CONTINUED**

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

	<u>Aggregate Principal Outstanding</u>		<u>Original Maturity Value</u>
	<u>2016</u>	<u>2015</u>	
Single-family bond programs:			
2000/2003 Step Up Program (4.42% to 7.80%), due 2034 to 2036	\$ 19,977	\$ 23,044	\$ 128,927
2010 Series A-C, 2011 Series A, 2012 Series A (1.28% to 2.15%), due 2016 to 2017	76,000	76,830	127,350
2003 First Step Program (4.82% to 5.09%), due 2036	131	136	793
2006 Series B-G, 2007 Series B-E, 2007 Series G, 2008 Series B (2.50% to 5.75%) due 2016 to 2039	<u>11,685</u>	<u>150,670</u>	398,048
	107,793	250,680	
Less current maturities	<u>(76,415)</u>	<u>(17,277)</u>	
Noncurrent maturities	<u>\$ 31,378</u>	<u>\$ 233,403</u>	

Principal and interest payments on bonds after 2016 are scheduled as follows (in thousands):

<u>Fiscal Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 76,415	\$ 2,409
2018	250	1,701
2019	255	1,690
2020	260	1,679
2021	285	1,666
2022–2026	2,725	8,093
2027–2031	2,330	7,454
2032–2036	15,863	5,359
2037–2041	<u>9,410</u>	<u>208</u>
	<u>\$ 107,793</u>	<u>\$ 30,259</u>

**ALABAMA HOUSING FINANCE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
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**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, 2016, the Authority had \$32,000,000 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.

**ALABAMA HOUSING FINANCE AUTHORITY  
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**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):

<u>Delivery Date</u>	<u>Coupon Rate</u>	<u>Outstanding Notional Amount</u>	<u>Fair Values</u>	<u>Counterparty Credit Rating</u>
<i>Fannie Mae</i>				
October 2016	3%	\$ 1,000	\$ 4	Baa1
October 2016	3%	1,000	4	Baa1
October 2016	3%	1,000	5	A3
November 2016	3%	1,000	8	A3
November 2016	3%	1,000	4	A3
		<u>5,000</u>	<u>25</u>	
<i>Ginnie Mae</i>				
October 2016	3%	2,000	6	BBB-
October 2016	3%	1,000	4	BBB-
October 2016	3%	2,000	6	BBB-
October 2016	3%	4,000	19	Baa1
October 2016	3%	2,000	4	Baa1
October 2016	3%	4,000	14	A3
November 2016	3%	1,000	5	BBB-
November 2016	3%	3,000	7	A3
November 2016	3%	3,000	24	A3
November 2016	3%	4,000	17	A3
December 2016	3%	1,000	-	BBB-
		<u>27,000</u>	<u>106</u>	
		<u>\$ 32,000</u>	<u>\$ 131</u>	

**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.

**ALABAMA HOUSING FINANCE AUTHORITY  
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**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):

	<b>Aggregate Principal Outstanding</b>		<b>Original Maturity Value</b>
	<b>2016</b>	<b>2015</b>	
2000 Series A & C (variable), due 2030	\$ 8,450	\$ 8,450	\$ 9,215
2001 Series B & D (5.96%, variable), due 2031 & 2034	9,995	10,445	10,880
2002 Series C (variable), due 2035	8,005	8,400	8,500
2003 Series A, D, F & I (4.90% to 5.63%, variable), due 2023 to 2036	13,180	18,753	14,710
2004 Series A, C, E, G & H (5.20% to 6.65%, variable), due 2034 to 2045	10,038	15,986	12,830
2005 Series A, E & F (5.06%, variable), due 2035 to 2038	21,550	23,909	21,550
2007 Series A-E (4.63% to 5.15%, variable), due 2022 to 2049	20,531	20,778	24,745
2008 Series A & B (variable), due 2030	5,337	5,495	6,410
2012 Series A (4.96%) due 2032	2,641	2,683	13,000
2014 Series C (.55%) due 2017	13,500	13,500	13,500
2015 Series A (4.15%) due 2032	6,989	7,280	7,280
2016 Series A (1.24%) due 2018	5,400	-	5,400
	<u>\$ 125,616</u>	<u>\$ 135,679</u>	

Principal and interest payments on conduit debt after 2016 are scheduled as follows (in thousands):

<b>Fiscal Year Ending September 30</b>	<b>Principal</b>	<b>Interest</b>
2017	\$ 14,727	\$ 2,165
2018	6,689	2,307
2019	1,364	2,184
2020	1,437	2,125
2021	1,523	2,063
2022–2026	8,844	9,236
2027–2031	20,592	7,293
2032–2036	46,995	4,199
2037–2041	20,555	1,057
2042–2046	1,880	531
2047–2051	1,010	73
	<u>\$ 125,616</u>	<u>\$ 33,233</u>

**ALABAMA HOUSING FINANCE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

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**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 \$487,000 and \$387,000, in fiscal 2016 and 2015, respectively. The employees' contributions to the Retirement Plan were \$348,000 and \$277,000, in fiscal 2016 and 2015, 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.

**ALABAMA HOUSING FINANCE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

**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.

	<b>2016</b>	<b>2015</b>
Inactive employees receiving benefits	-	-
Inactive employees entitled to but not receiving benefits	1	1
Active employees	130	91
	131	92

**Contributions**

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

Contributions were \$1,497,000 and \$1,352,000, equaling approximately 25% and 26% of payroll of covered participants for the years ended September 30, 2016 and 2015, 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, 2016 and 2015:

	<b>% Range of Allocation</b>		
	<b>Minimum</b>	<b>Target</b>	<b>Maximum</b>
<b>Investment Type:</b>			
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%

**ALABAMA HOUSING FINANCE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

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**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, 2016 and 2015, 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, 2016 and 2015, the estimated annual weighted rate of return based on the Bankers Index Method (BAI) was 10.02% and (.75%), 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%.

**ALABAMA HOUSING FINANCE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

**11. RETIREMENT PLANS – CONTINUED**

**Defined Benefit Plan – Continued**

**Investments – Continued**

The fiduciary net position of the Pension Plan at September 30, 2016 and 2015 was invested as follows (in thousands):

	<b>2016</b>	<b>2015</b>
Cash equivalents	\$ 334	\$ -
Equity securities	6,652	7,053
Fixed income securities	6,859	7,079
 Total	 \$ 13,845	 \$ 14,132

**Actuarial Assumptions**

The Pension Plan was measured as of September 30, 2016 and 2015, 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, 2016 and 2015 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<b>Rate</b>
Inflation	3.00%
Salary increases	4.50%
Investment rate of return	7.00%

Mortality rates used in the September 30, 2016 actuarial valuation were based on the 2016 Applicable Mortality Table for small plans under the minimum funding requirements of IRC Section 430. Mortality rates used in the September 30, 2015 actuarial valuation were based on the 2015 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.

**ALABAMA HOUSING FINANCE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

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**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, 2016 and 2015 are summarized below:

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

The discount rate used to measure the total pension liability at September 30, 2016 and 2015 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.

**ALABAMA HOUSING FINANCE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

**11. RETIREMENT PLANS – CONTINUED**

**Defined Benefit Plan – Continued**

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

	<b>Total Pension Liability (A)</b>	<b>Pension Fiduciary Net Position (B)</b>	<b>Net Pension (Asset) Liability (A) - (B)</b>
	<u>(A)</u>	<u>(B)</u>	<u>(A) - (B)</u>
Balances at October 1, 2015	\$ 10,391	\$ 14,133	\$ (3,742)
Service cost	577	-	577
Interest cost	768	-	768
Changes for experience	1,736	-	1,736
Changes for assumptions	16	-	16
Contributions – employer	-	1,497	(1,497)
Net investment income	-	1,333	(1,333)
Benefit payments, including refunds of member contributions	<u>(3,169)</u>	<u>(3,169)</u>	<u>-</u>
Net changes	<u>(72)</u>	<u>(339)</u>	<u>267</u>
Balances at September 30, 2016	<u>\$ 10,319</u>	<u>\$ 13,794</u>	<u>\$ (3,475)</u>
	<b>Total Pension Liability (A)</b>	<b>Pension Fiduciary Net Position (B)</b>	<b>Net Pension (Asset) Liability (A) - (B)</b>
	<u>(A)</u>	<u>(B)</u>	<u>(A) - (B)</u>
Balances at October 1, 2014	\$ 9,464	\$ 13,251	\$ (3,787)
Service cost	595	-	595
Interest cost	704	-	704
Changes for experience	(25)	-	(25)
Changes for assumptions	20	-	20
Contributions – employer	-	1,352	(1,352)
Net investment income	-	(103)	103
Benefit payments, including refunds of member contributions	<u>(367)</u>	<u>(367)</u>	<u>-</u>
Net changes	<u>927</u>	<u>882</u>	<u>45</u>
Balances at September 30, 2015	<u>\$ 10,391</u>	<u>\$ 14,133</u>	<u>\$ (3,742)</u>

The change in assumptions reflected in the changes in net pension (asset) liability for the years ended September 30, 2016 and 2015 was the result of basing the valuation on the 2015 and 2014 Applicable Mortality Tables in lieu of the 2016 and 2015 Applicable Mortality Tables.

**ALABAMA HOUSING FINANCE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

**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%)
2016	\$ (2,932)	\$ (3,475)	\$ (3,999)
2015	(3,180)	(3,742)	(4,277)

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

For the years ended September 30, 2016 and 2015, the Pension Plan recognized pension expense of \$(3,239,000) and \$1,081,000, respectively. At September 30, 2016 and 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to the Pension Plan from the following sources:

	2016	2015
<b>Deferred Outflows</b>		
Differences between expected and actual experience	\$ 1,844	\$ 123
Net differences between projected and actual earnings on investments	560	-
Changes in assumptions	51	37
	2,455	160
<b>Deferred Inflows</b>		
Net differences between projected and actual earnings on investments	-	(1,212)
Total	\$ 2,455	\$ (1,052)

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

2017	\$ 261
2018	261
2019	261
2020	225
2021	12
Thereafter	1,435

**ALABAMA HOUSING FINANCE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

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**12. OPERATING LEASES**

The Authority leases office space under operating leases expiring through 2019. Rent expense for the years ended September 30, 2016 and 2015, totaled \$1,215,000 and \$1,042,000, 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):

2017	\$	1,253
2018		1,282
2019		1,091

**13. EARLY RETIREMENT OF BONDS**

The Authority's mortgage revenue bonds are subject to certain extraordinary redemption provisions. During the years ended September 30, 2016 and 2015, the Authority called approximately \$140,918,000 and \$31,032,000 (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.

**14. SUBSEQUENT EVENTS**

The Authority has called approximately \$880,000 of single-family bonds.

The Authority has awarded Federal funds totaling \$4,296,000 under the HOME Program.

The Authority has issued approximately \$14,000,000 of multi-family bonds as conduit debt.

**15. RECLASSIFICATIONS**

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation.

**REQUIRED SUPPLEMENTARY INFORMATION**

**ALABAMA HOUSING FINANCE AUTHORITY  
SCHEDULES OF CHANGES IN THE AUTHORITY'S NET PENSION  
LIABILITY AND RELATED RATIOS  
SEPTEMBER 30, 2016, 2015, AND 2014**

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

**ALABAMA HOUSING FINANCE AUTHORITY  
SCHEDULES OF EMPLOYER CONTRIBUTIONS TO AUTHORITY  
EMPLOYEES' PENSION PLAN  
SEPTEMBER 30, 2016 AND 2015**

<u>Year</u>	<u>Actuarially Determined Contribution</u>	<u>Contributions From Authority</u>	<u>Contribution (Deficiency)/ Excess</u>	<u>Covered Employee Payroll</u>	<u>Contribution as a % of Payroll</u>
2008	\$ 640	\$ 640	\$ -	\$ 2,872	22.28%
2009	740	740	-	3,179	23.28%
2010	816	816	-	3,520	23.18%
2011	917	1,517	600	3,992	38.01%
2012	895	1,370	475	3,991	34.33%
2013	802	1,002	200	4,226	23.70%
2014	742	1,468	726	4,413	33.26%
2015	852	1,352	500	5,125	26.38%
2016	996	1,497	501	5,938	25.20%

**Notes to Schedules:**

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

Methods and Assumptions: The actuarial valuation is performed under the requirements of IRC Section 430; pursuant to the Pension Protection Act of 2006 and subsequent pension laws MAP-21 and HAFTA. The valuation is calculated using PPA actuarial funding methods and prescribed discounts segmented rates. The applicable discount rates for the 2016 actuarial valuation were 4.72% (0-5 years), 6.11% (6-20 years), and 6.81% (for 20+ years). The salary increase assumption was 4.5% per year.

Other assumptions included the 2015 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, 2016**

	2000/2003 Step Up	2003 First Step	2002 D 2011 A 2012 A 2016 A	2006 B-G 2007 B-E 2007 G 2008 B	Combined Single-Family
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
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	-	-	3,050	-	3,050
Accrued interest receivable	122	1	1,229	68	1,420
Federal program loans receivable, net	-	-	-	-	-
Investments	587	34	87,802	1,833	90,256
Other assets	-	-	-	-	-
Total current assets	<u>709</u>	<u>35</u>	<u>92,081</u>	<u>1,901</u>	<u>94,726</u>
<b>NONCURRENT ASSETS</b>					
Mortgage loans receivable, net	-	-	-	-	-
Investments	-	-	-	-	-
Other assets	-	-	-	-	-
Service release premiums, net	-	-	-	-	-
Restricted:					
Mortgage-backed securities	21,707	146	176,317	11,364	209,534
Investments	-	-	846	-	846
Other assets	-	-	-	-	-
Federal program loans receivable, net	-	-	-	-	-
Total noncurrent assets	<u>21,707</u>	<u>146</u>	<u>177,163</u>	<u>11,364</u>	<u>210,380</u>
<b>TOTAL ASSETS</b>	<u>22,416</u>	<u>181</u>	<u>269,244</u>	<u>13,265</u>	<u>305,106</u>
<b>DEFERRED OUTFLOWS</b>					
Pension-related deferred outflows	-	-	-	-	-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<u>\$ 22,416</u>	<u>\$ 181</u>	<u>\$ 269,244</u>	<u>\$ 13,265</u>	<u>\$ 305,106</u>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Bonds payable, net	\$ 300	\$ -	\$ 75,000	\$ 1,115	\$ 76,415
Obligations under reverse repurchase agreements	-	-	110,643	-	110,643
Refundable Federal program grants	-	-	-	-	-
Accrued interest payable	93	1	36	304	434
Due to (from) other funds	-	-	-	5	5
Other liabilities	-	-	-	1	1
Total current liabilities	<u>393</u>	<u>1</u>	<u>185,679</u>	<u>1,425</u>	<u>187,498</u>
<b>NONCURRENT LIABILITIES</b>					
Bonds payable, net	19,677	131	1,000	10,570	31,378
Refundable Federal program grants	-	-	-	-	-
Unearned compliance and commitment fees	-	-	-	-	-
Total noncurrent liabilities	<u>19,677</u>	<u>131</u>	<u>1,000</u>	<u>10,570</u>	<u>31,378</u>
<b>TOTAL LIABILITIES</b>	<u>20,070</u>	<u>132</u>	<u>186,679</u>	<u>11,995</u>	<u>218,876</u>
<b>NET POSITION</b>					
Net investment in capital assets	-	-	-	-	-
Restricted	2,346	49	82,565	1,270	86,230
Unrestricted	-	-	-	-	-
Total net position	<u>2,346</u>	<u>49</u>	<u>82,565</u>	<u>1,270</u>	<u>86,230</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION</b>	<u>\$ 22,416</u>	<u>\$ 181</u>	<u>\$ 269,244</u>	<u>\$ 13,265</u>	<u>\$ 305,106</u>

See independent auditors' report.

**ALABAMA HOUSING FINANCE AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**SINGLE-FAMILY BOND SERIES**  
**ADDITIONAL SEGMENT DATA (IN THOUSANDS)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	2000/2003 Step Up	2003 First Step	2002 D 2011 A 2012 A 2016 A	2006 B-G 2007 B-E 2007 G 2008 B	Combined Single-Family
<b>OPERATING REVENUES</b>					
Interest on mortgage loans	\$ -	\$ -	\$ -	\$ -	\$ -
Interest on mortgage-backed securities	1,178	8	4,739	4,607	10,532
Investment income	-	-	677	12	689
Net realized and unrealized gain (loss) on investments	(325)	1	12,800	(16,214)	(3,738)
Loan fees and other income	20	-	-	-	20
Total operating revenues	<u>873</u>	<u>9</u>	<u>18,216</u>	<u>(11,595)</u>	<u>7,503</u>
<b>OPERATING EXPENSES</b>					
Interest	1,198	7	1,145	3,796	6,146
Amortization of service release premiums	-	-	-	-	-
Program, general, and administrative	20	-	258	89	367
Total operating expenses	<u>1,218</u>	<u>7</u>	<u>1,403</u>	<u>3,885</u>	<u>6,513</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(345)</u>	<u>2</u>	<u>16,813</u>	<u>(15,480)</u>	<u>990</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Federal program grants	-	-	-	-	-
Federal program expenditures	-	-	-	-	-
Net nonoperating revenues (expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<u>(345)</u>	<u>2</u>	<u>16,813</u>	<u>(15,480)</u>	<u>990</u>
Transfers in (out)	-	-	9,359	(9,359)	-
<b>CHANGES IN NET POSITION</b>	<u>(345)</u>	<u>2</u>	<u>26,172</u>	<u>(24,839)</u>	<u>990</u>
<b>NET POSITION</b>					
Beginning of year	<u>2,691</u>	<u>47</u>	<u>56,393</u>	<u>26,109</u>	<u>85,240</u>
End of year	<u>\$ 2,346</u>	<u>\$ 49</u>	<u>\$ 82,565</u>	<u>\$ 1,270</u>	<u>\$ 86,230</u>

See independent auditors' report.

**ALABAMA HOUSING FINANCE AUTHORITY**  
**STATEMENTS OF NET POSITION**  
**COMBINING ALL FUNDS**  
**ADDITIONAL SEGMENT DATA (IN THOUSANDS)**  
**SEPTEMBER 30, 2016**

	Combined Single- Family	Federal	Housing Assistance	General	Combined
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash on deposit	\$ -	\$ -	\$ 472	\$ 8,477	\$ 8,949
Accounts receivable	-	-	-	173	173
Accrued interest receivable	-	-	98	236	334
Mortgage loans receivable, net	-	-	4,420	10	4,430
Mortgage loans held for sale	-	-	-	160,343	160,343
Investments	-	-	2,386	7,116	9,502
Derivative instruments	-	-	-	131	131
Other assets	-	-	-	7,252	7,252
Restricted:					
Cash on deposit	3,050	1,695	-	-	4,745
Accrued interest receivable	1,420	17,001	-	-	18,421
Federal program loans receivable, net	-	29,436	-	-	29,436
Investments	90,256	4,723	-	-	94,979
Other assets	-	283	-	-	283
Total current assets	<u>94,726</u>	<u>53,138</u>	<u>7,376</u>	<u>183,738</u>	<u>338,978</u>
<b>NONCURRENT ASSETS</b>					
Mortgage loans receivable, net	-	-	37,952	441	38,393
Investments	-	-	-	357	357
Other assets	-	-	-	5,296	5,296
Service release premiums, net	-	-	-	58,770	58,770
Restricted:					
Mortgage-backed securities	209,534	-	-	-	209,534
Investments	846	-	-	-	846
Other assets	-	85	-	1,336	1,421
Federal program loans receivable, net	-	296,881	-	-	296,881
Total noncurrent assets	<u>210,380</u>	<u>296,966</u>	<u>37,952</u>	<u>66,200</u>	<u>611,498</u>
<b>TOTAL ASSETS</b>	<u>305,106</u>	<u>350,104</u>	<u>45,328</u>	<u>249,938</u>	<u>950,476</u>
<b>DEFERRED OUTFLOWS</b>					
Pension-related deferred outflows	-	-	-	2,455	2,455
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<u>\$ 305,106</u>	<u>\$ 350,104</u>	<u>\$ 45,328</u>	<u>\$ 252,393</u>	<u>\$ 952,931</u>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Bonds payable, net	\$ 76,415	\$ -	\$ -	\$ -	\$ 76,415
Obligations under reverse repurchase agreements	110,643	-	-	-	110,643
Refundable Federal program grants	-	29,436	-	-	29,436
Accrued interest payable	434	17,001	-	-	17,435
Due to (from) other funds	5	322	(3,889)	3,562	-
Other liabilities	1	75	-	2,011	2,087
Total current liabilities	<u>187,498</u>	<u>46,834</u>	<u>(3,889)</u>	<u>5,573</u>	<u>236,016</u>
<b>NONCURRENT LIABILITIES</b>					
Bonds payable, net	31,378	-	-	-	31,378
Refundable Federal program grants	-	299,235	-	-	299,235
Unearned compliance and commitment fees	-	-	-	6,385	6,385
Total noncurrent liabilities	<u>31,378</u>	<u>299,235</u>	<u>-</u>	<u>6,385</u>	<u>336,998</u>
<b>TOTAL LIABILITIES</b>	<u>218,876</u>	<u>346,069</u>	<u>(3,889)</u>	<u>11,958</u>	<u>573,014</u>
<b>NET POSITION</b>					
Net investment in capital assets	-	112	-	1,336	1,448
Restricted	86,230	3,923	-	-	90,153
Unrestricted	-	-	49,217	239,099	288,316
Total net position	<u>86,230</u>	<u>4,035</u>	<u>49,217</u>	<u>240,435</u>	<u>379,917</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION</b>	<u>\$ 305,106</u>	<u>\$ 350,104</u>	<u>\$ 45,328</u>	<u>\$ 252,393</u>	<u>\$ 952,931</u>

See independent auditors' report.

**ALABAMA HOUSING FINANCE AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**COMBINING ALL FUNDS**  
**ADDITIONAL SEGMENT DATA (IN THOUSANDS)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<b>Combined Single- Family</b>	<b>Federal Programs</b>	<b>Housing Assistance Fund</b>	<b>General Fund</b>	<b>Combined Totals</b>
<b>OPERATING REVENUES</b>					
Interest on mortgage loans	\$ -	\$ -	\$ 1,326	\$ 7,308	\$ 8,634
Interest on mortgage-backed securities	10,532	-	-	-	10,532
Investment income	689	1	4	53	747
Net realized and unrealized gain (loss) on investments	(3,738)	-	-	7,162	3,424
Loan fees and other income	20	-	500	31,755	32,275
Total operating revenues	<u>7,503</u>	<u>1</u>	<u>1,830</u>	<u>46,278</u>	<u>55,612</u>
<b>OPERATING EXPENSES</b>					
Interest	6,146	-	-	42	6,188
Amortization of service release premiums	-	-	-	5,352	5,352
Program, general, and administrative	367	-	569	28,121	29,057
Total operating expenses	<u>6,513</u>	<u>-</u>	<u>569</u>	<u>33,515</u>	<u>40,597</u>
<b>OPERATING INCOME (LOSS)</b>	<u>990</u>	<u>1</u>	<u>1,261</u>	<u>12,763</u>	<u>15,015</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Federal program grants	-	18,944	-	-	18,944
Federal program expenditures	-	(16,744)	-	-	(16,744)
Net nonoperating revenues (expenses)	<u>-</u>	<u>2,200</u>	<u>-</u>	<u>-</u>	<u>2,200</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<u>990</u>	<u>2,201</u>	<u>1,261</u>	<u>12,763</u>	<u>17,215</u>
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>CHANGES IN NET POSITION</b>	<u>990</u>	<u>2,201</u>	<u>1,261</u>	<u>12,763</u>	<u>17,215</u>
<b>NET POSITION</b>					
Beginning of year	<u>85,240</u>	<u>1,834</u>	<u>47,956</u>	<u>227,672</u>	<u>362,702</u>
End of year	<u>\$ 86,230</u>	<u>\$ 4,035</u>	<u>\$ 49,217</u>	<u>\$ 240,435</u>	<u>\$ 379,917</u>

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