Report of Ernst & Young LLP, Independent Auditors

The Board of Directors
Alabama Housing Finance Authority

We have audited the accompanying general-purpose financial statements of the Alabama Housing Finance Authority, a component unit of the State of Alabama, as of and for the years ended September 30, 1999 and 1998. These general-purpose financial statements are the responsibility of the Alabama Housing Finance Authority's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audits.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Alabama Housing Finance Authority as of September 30, 1999 and 1998, and the results of its operations and cash flows of its proprietary fund types for the years then ended in conformity with generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying additional segment data are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 1999 general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 1999 general-purpose financial statements taken as a whole.

The Year 2000 supplementary information on page 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB), and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because disclosure criteria specified by GASB Technical Bulletin No. 98-1 as amended are not sufficiently specific to permit us to perform procedures that would provide meaningful results. In addition, we do not provide assurance that the Alabama Housing Finance Authority is or will become Year 2000 compliant, that the Alabama Housing Finance Authority's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Alabama Housing Finance Authority does business are or will become Year 2000 compliant.

Ernst + Young LLP

December 7, 1999
Birmingham, Alabama

Balance Sheets (in thousands)

	September 30 1999	1998
Assets		
Cash on Deposit	**$ 210**	$ 19,237
Accrued Interest Receivable	**9,320**	10,063
Program Investments	**725,452**	773,714
Other Investments	**260,174**	200,776
Mortgage Loans Receivable, Net	**226,339**	262,554
Mortgage Loans Held for Sale	**32,880**	8,774
HOME Program Mortgage Loans Receivable, Net	**64,030**	52,826
Deferred Debt Financing Costs, Net	**9,547**	9,561
Other Assets	**1,212**	1,332
Total Assets	**$ 1,329,164**	$ 1,338,837
Liabilities and Fund Balances		
Liabilities:		
Checks Outstanding	**$ 3,036**	$ —
Bonds Payable, Net of Unamortized Discounts	**1,095,318**	1,096,222
Notes Payable	**21,980**	5,980
Refundable HOME Program Grants	**64,030**	52,826
Accrued Interest Payable	**26,469**	27,968
Deferred Commitment Fees	**11,632**	11,188
Program Funds Held for Others	**3,161**	14,560
Other Liabilities	**416**	2,596
Total Liabilities	**1,226,042**	1,211,340
Fund Balances:		
Reserved and Designated	**98,518**	123,236
Unreserved and Undesignated	**4,604**	4,261
Total Fund Balances	**103,122**	127,497
Total Liabilities and Fund Balances	**$ 1,329,164**	$ 1,338,837

See accompanying notes.

Statements of Revenues, Expenses and Changes in Fund Balances (in thousands)

	Year Ended September 30 1999	1998
Revenues		
Interest on Mortgage Loans	**$ 16,684**	$ 19,860
Investment Income	**60,947**	59,606
Unrealized Gains (Losses)	**(36,336)**	17,527
Loan Fees and Other Income	**2,429**	1,830
HOME Program Grants	**11,913**	16,784
Total Revenues	**55,637**	115,607
Expenses		
Interest on Bonds and Notes	**63,630**	65,612
HOME Program Expenditures	**11,913**	16,784
Program, General and Administrative	**2,840**	2,887
Total Expenses	**78,383**	85,283
Revenues over (under) Expenses Before Extraordinary Loss	**(22,746)**	30,324
Extraordinary Loss on Early Retirement of Bonds	**(1,271)**	(542)
Revenues over (under) Expenses	**(24,017)**	29,782
Fund Balances		
Beginning of the Year	**127,497**	98,030
Distribution to Owners, Net	**(358)**	(315)
End of the Year	**$ 103,122**	$ 127,497

See accompanying notes.

Statements of Cash Flows (in thousands)

	Year Ended September 30 1999	1998
Operating Activities		
Purchase of Program Investments	**$ (102,162)**	$ (120,303)
Proceeds from Sale of Program Investments	**102,891**	66,590
Proceeds from HOME Grants	**11,139**	15,972
HOME Program Expenditures	**(11,204)**	(16,001)
Purchase of Mortgage Loans	**—**	(5,000)
Principal Payments Received on Mortgage Loans	**28,170**	11,936
Interest Received from Mortgage Loans	**12,214**	14,653
Interest Received from Program Investments	**49,291**	50,106
Cash Paid to Suppliers for Goods and Services	**(1,377)**	(2,023)
Cash Payments to Employees for Services	**(1,131)**	(1,121)
Loan Fees, Commitment Fees and Other Income Received	**2,321**	1,807
Net Cash Provided by Operating Activities	**90,152**	16,616
Noncapital Financing Activities		
Proceeds from Bonds Issued	**168,830**	116,051
Net Borrowings Under Line of Credit	**82,000**	63,650
Principal Payments on Bonds	**(170,275)**	(74,596)
Payments of Debt Financing Costs	**(1,765)**	(1,396)
Principal Payments on Note	**(66,000)**	(90,620)
Distributions to/Contributions from Owners, Net	**(358)**	(315)
Interest Paid on Bonds and Note	**(64,585)**	(63,205)
Construction Funds in Escrow, Net	**(2,265)**	2,204
Net Cash Used in Noncapital Financing Activities	**(54,418)**	(48,227)
Capital and Related Financing Activities		
Purchase of Furniture and Equipment	**(111)**	(78)
Net Cash Used in Capital and Related Financing Activities	**(111)**	(78)
Investing Activities		
Purchases of Other Investments	**(673,450)**	(542,093)
Purchases of Mortgage Loans	**(121,329)**	(104,599)
Proceeds from Sale of Mortgages	**95,661**	119,772
Principal Payments Received on Mortgage Loans	**9,827**	9,403
Proceeds from Sales of Other Investments	**614,194**	551,617
Interest Received from Mortgage Loans	**4,635**	5,459
Payments for Arbitrage	**(209)**	—
Interest Received from Other Investments	**12,985**	8,050
Net Cash Provided by/(Used in) Investing Activities	**(57,686)**	47,609
Increase (Decrease) in Cash on Deposit	**(22,063)**	15,920
Cash on Deposit at Beginning of the Year	**19,237**	3,317
Cash on Deposit Less Checks Outstanding at End of the Year	**$ (2,826)**	$ 19,237

See accompanying notes.

Notes to Financial Statements

September 30, 1999 and 1998

1. Authority Legislation

The Alabama Housing Finance Authority (Authority) is a public corporation created, organized and existing under Act No. 80-585 (Act) enacted by the Legislature of the State of Alabama at its 1980 regular session. Pursuant to the Act, the Authority is authorized 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

Fund Accounting

The Authority's accounts are organized as funds, which include accounts of the assets, liabilities, fund balances, revenues and expenses of the Authority's single-family and multifamily mortgage revenue bond programs, the Home Program (Program Funds) and an operating fund. Each Program Fund accounts for the proceeds from the bonds issued, the debt service requirements of the bonds and the related mortgage loans, as required by the various bond resolutions established under the various Trust Indentures of each program.

The Authority uses the accrual method of accounting. The Authority's Program Funds, HOME fund and operating fund have been presented on a combined basis, as the Authority is considered a single enterprise fund for financial reporting purposes. All interfund balances and transactions have been eliminated in the accompanying financial statements.

The financial statements are presented in accordance with generally accepted accounting principles which requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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

All federal financial assistance received in connection with the Authority's administration of the HOME Program is reported as revenues in the accompanying financial statements. Expenditures of HOME Program funds, whether for repayable or conditionally forgivable loans, are reported as expenses in accordance with GASB Statement No. 24, "Accounting and Financial Reporting for Certain Grants and Financial Assistance."

Investment Securities

In March 1997, the Governmental Accounting Standards Board (GASB) issued Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." Statement No. 31 requires that investment securities be recorded at fair value and the unrealized gains or losses be reported in the statement of revenues, expenses and changes in fund balances as part of investment income. The Authority records a portion of the net unrealized gain as a liability due to the effect gains on securities would have on excess rebateable investment earnings pursuant to 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. This liability is recorded as program funds held for others on the balance sheet.

Cash on Deposit

Cash represents funds on deposit with various financial institutions and uninvested funds held by the Trustees of the Authority's various mortgage revenue bond programs. At September 30, 1999, all cash on deposit was held by the Authority's trustees in the name of the Authority. Approximately $197,000 of cash on deposit at September 30, 1999 was covered by federal depository insurance, with the remaining balances collateralized with pledged securities held by the financial institutions where the cash was on deposit.

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 mortgage revenue bond programs contains further restrictions on the investment of non-expended bond proceeds; however, each trust indenture must be consistent with the Authority's authorizing legislation with respect to the definition of eligible investments.

Program investments are recorded at fair value and consist of Government National Mortgage Association (GNMA) or Federal National Mortgage Association (FNMA) pass-through certificates. Recent single-family and multi-family bond programs have been structured using these certificates as security for the mortgage revenue bonds. The fair value of program investments was based on quoted market prices obtained from an independent financial news and information service where available. If quoted market prices were not available, fair values were based on quoted market prices of comparable investments.

Other investments consist of unexpended bond proceeds, temporary and reserve funds established under the provisions of various trust indentures and investments of the Authority's operating fund. In connection with the Authority's mortgage revenue bond programs, unexpended bond proceeds are maintained in trust, invested in various types of investment contracts until such time as the proceeds can be used to purchase Program Certificates originated under the Authority's program guidelines. The Authority's guidelines generally require the investment contract issuer to collateralize the principal amount invested in the contract, unless the issuer has sufficiently high credit ratings, as established by independent rating agencies, to maintain the desired ratings of the Authority's bond issues. The more recent investment agreements generally require the issuer to collateralize the principal amount on deposit from time to time in the event the issuer's credit rating drops below acceptable standards. The Authority continually monitors the credit ratings of all parties to investment agreements. The investment contracts are participating contracts or contracts whose fair value is affected by interest rate changes. The provisions of Statement No. 31 permit the recording of guaranteed investment contracts at cost if the contracts are non-participating. Non-participating contracts are those that are non-negotiable and non-transferable, and whose redemption is not based on current market rates. These contracts are all considered to be non-participating and are reported at cost.

Other investments are recorded at cost, which approximates amortized cost, except for all GNMA, FNMA and United States Treasury obligations located in the Authority's operating fund which are recorded at fair value. The fair value of these investments was calculated using quoted market prices of comparable investments, quoted market prices obtained from an independent financial news and information service where available, or discounted cash flow techniques and current market yields.

Commitment Fees

Commitment fees are deferred and recognized as income over the life of the applicable loans as an adjustment of their yields.

Mortgage Loans Receivable

Mortgage loans are carried at their unpaid principal balances less an allowance for loan losses. Allowances for loan losses are provided through charges against operations based upon management's 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.

HOME Program Mortgage Loans Receivable

HOME Program mortgage loans include loans originated under the HOME Program. This program is designed to assist very low income borrowers, and as such, some mortgages originated under the program are structured in such a way that repayment will only occur in limited circumstances. The Authority has established an allowance for debt forgiveness for these loans equal to the original principal amount of the loans at the time of origination.

At September 30, 1999, the allowance for debt forgiveness associated with these mortgage loans was $2,950,000.

Deferred Debt Financing Costs and Bond Discounts
Issuance costs on bonds are deferred and amortized, on a yield method, over the terms of the related bond issues. Discounts on bonds payable are deferred and accreted over the lives of the respective bond issues using the interest method.

Certain prior year balances have been reclassified to conform with current year presentation.

3. Investments

Program Investments
The Authority's program investments include securitized mortgage obligations, backed by pools of single-family and multifamily mortgage loans originated under the Authority's program guidelines. These investments are either insured or registered in the Authority's name. At September 30, 1999 and 1998, program investments consisted of program certificates with interest rates ranging from 5.38% to 8.06%.

Other Investments
Other investments include unexpended bond proceeds, temporary and reserve funds established under the provisions of various trust indentures and investments of the Authority's operating fund.

The investment agreements generally carry fixed rates of return for varying periods of time specified in the Trust Indentures. As indicated in the following table, approximately 10% and 11% of the carrying amount of these investments at September 30, 1999 and 1998, respectively, are collateralized by the depository institutions with U.S. Government and agency securities, as required by the respective agreements, in amounts ranging from 103% to 120% of the par value of the investments, depending upon the maturities and types of collateral held. Approximately 99% of the carrying amount of uncollateralized investment agreements contain provisions which require the issuers to collateralize the deposit in the event their credit ratings fall below certain minimum levels, or in certain other circumstances.

The Authority's investments in U.S. Government and agency securities are held by the Authority's trustees in book-entry form through the trustees' custodial agents, in the name of the trustees or custodial agents.

Other investments consist of the following at September 30, 1999 and 1998 *(in thousands):*

	September 30, 1999		September 30, 1998	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Collateralized Investment Agreements:				
Chemical/Manufacturers Hanover, 11.95%				
(Single-family Series 1984 A)	$ 7,500	$ 8,317	$ 7,500	$ 8,475
Compass Bank, 7.5% to 8.07%				
(Single-family Series 1984 A, 1985 A&B)	3,651	3,729	621	655
Morgan Guaranty Trust Company, 6.0% to 8.1%				
(Single-family Series 1992 A, 1997 D)	8,571	8,135	8,198	8,300
	19,722	20,181	16,319	17,430
Uncollateralized Investment Agreements:				
AIG Matched Funding Corp., 5.38% to 9.02%				
(Single-family Series 1989 B&C, 1990 A-C, 1991 B, 1991 D, 1994 A, 1996 B, 1996 D, 1997 A, 1997 C, 1998 A, 1999 B&C)	95,012	90,737	56,793	57,266
ARMC, 5.273% to 5.322% (Single-family Series 1998 B, 1999 B)	44,666	40,345	65,348	65,348
Bayerische Landesbank, 5.25% to 6.15%				
(Single-family Series 1995 B, 1998 B, 1999 A, Multifamily Series 1989 C, 1992 B)	32,179	29,356	4,325	4,363
Berkshire Hathaway, 7.42%				
(Single-family Series 1991 A)	214	214	1,012	1,043
Equitable Life Insurance Company, 10.05% to 10.85%				
(Single-family Series 1985 A&B)	34	38	427	474
Financial Guaranty Insurance Corp., 6.22% to 6.5%				
(Single-family Series 1994 B, 1995 A)	8,940	8,592	5,635	5,692
Trinity 5.96% to 6.53%				
(Single-family Series 1996 C, 1996 D)	2,918	2,809	2,015	2,035
Westdeutsche Landesbank, 6.52%				
(Single-family Series 1997 B)	5,225	5,029	3,715	3,752
	189,188	177,120	139,270	139,973
Total Investment Agreements	208,910	197,301	155,589	157,403
U.S. Government Securities	27,095	27,095	16,503	16,503
Money Market Funds/Repurchase Agreements	24,169	24,169	28,684	28,684
	$ 260,174	$ 248,565	$ 200,776	$ 202,590

As a result of changes in the fair value in investment securities, the Authority recorded an unrealized loss of $36,336,000 for the year ended September 30, 1999, and an unrealized gain of $17,527,000 for the year ended September 30, 1998. The Authority currently intends to hold such investment securities through maturity.

4. Mortgage Loans Receivable

The Authority's single-family bond programs are designed to provide mortgage loans to qualified home-buyers 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 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 consist of the following at September 30, 1999 and 1998 *(in thousands):*

	1999	1998
Single-family Mortgage Loans (7.92% to 13.85%)		
Conventional	**$ 42,553**	$ 55,279
FHA-Insured	**7,738**	10,638
VA-Insured	**7,030**	9,038
Down Payment Assistance/Habitat Loans	**8,124**	7,162
	65,445	82,117
Less Allowance for Loan Losses	**(5,570)**	(5,758)
Total Single-family Mortgage Loans	**59,875**	76,359
Multifamily Mortgage Loans (3.00% to 7.875%)	**166,464**	186,195
	$ 226,339	$ 262,554

Under the Authority's program guidelines, all conventionally financed single-family mortgage loans with an initial loan-to-value ratio of greater than 80% are insured by private mortgage insurance carriers. In addition, each single-family mortgage loan is insured under supplemental mortgage pool insurance contracts with two insurers. The two mortgage pool insurers, together with the approximate percentage of single-family mortgage loans outstanding at September 30, 1999, are as follows: General Electric Mortgage Insurance Company (61%) and Mortgage Guaranty Insurance Company (39%).

The Authority's multifamily bond programs are designed to finance the construction of multifamily housing units in the State of Alabama. The Authority does not actively monitor the operating performance or financial condition of the multi-family properties financed by the bonds, as the Authority principally functions as a conduit to provide tax-exempt financing. Multi-family mortgage loans are collateralized by varying methods, including first-liens on multi-family residential rental properties located within the State of Alabama, letters of credit, surety bonds and guarantees provided by third parties.

5. Bonds Payable

Bonds payable are limited obligations of the Authority, and are not a debt or liability of the State of Alabama or any subdivisions thereof. Each bond issue is secured, as described in the applicable trust indenture, by all revenues, moneys, investments, mortgage loans, and other assets in the funds and accounts of the program. Substantially all of the Authority's assets are pledged as security for the bonds. Interest on the various bond issues is payable periodically, except for capital appreciation bonds on which interest is compounded and payable at maturity or upon redemption. Bonds payable are presented net of unamortized discount and capital appreciation to maturity.

Generally, the Authority's publicly offered multifamily bonds are secured by several forms of credit enhancement, including FHA insured mortgage loans, GNMA guaranteed certificates, federally insured certificate of deposit structures, and letters of credit from financial institutions including collateralized, insured, and uncollateralized and uninsured arrangements.

Bonds payable, net of unamortized discounts consists of the following at September 30, 1999 and 1998 *(in thousands)*:

	Aggregate Principal Outstanding 1999	1998	Original Maturity Value
Single-family Bond Programs:			
1982 Series B (9.8% to 10.75%), Due 1989 to 2013	**$ 2,645**	**$ 4,331**	$ 100,000
1984 Series A (9.0% to 11.75%), Due 1989 to 2016	**3,676**	**7,472**	485,087
1985 Series A&B (5.75% to 9.625%), Due 1987 to 2016	**685**	**8,545**	245,080
1988 Series A (6.2% to 8.0%), Due 1990 to 2021	**—**	**14,639**	45,000
1989 Series A-C, 1990 Series A-B, 1991 Series A (5.2% to 8.0%), Due 1990 to 2022	**78,345**	**114,736**	285,000
1990 Series C, 1991 Series B (5.25% to 7.75%), Due 1992 to 2023	**46,100**	**59,570**	155,000
1991 Series D Converted, 1992 Series A Converted, 1994 Series A-B, 1995 Series A-B, 1996 Series A-D, 1997 Series A-D, 1998 Series A-B (3.70% to 6.9%), Due 1994 to 2029	**638,950**	**680,400**	824,250
1999 Series A-C (4.40% to 6.03%), Due 2001 to 2030	**131,490**	**—**	161,630
Multifamily Bond Programs:			
1987 Series A&B (Variable), Due 1989 to 2017	**4,950**	**5,135**	13,500
1988 Series A-C (Variable), Due 1989 to 2014	**—**	**7,100**	54,560
1989 Series A-F (6.0% to 7.5%; Variable), Due 1989 to 2015	**9,380**	**11,020**	15,490
1991 Series A-D (5.0% to 7.0%; Variable), Due 1992 to 2009	**5,965**	**6,250**	8,525
1992 Series A-I (5.90% to 7.63%; Variable), Due 1993 to 2023	**22,847**	**33,104**	36,890
1994 Series A-F (7.0% to 7.65%), Due 1994 to 2034	**47,852**	**48,302**	51,320
1995 Series A-M (5.65% to 8.65%; Variable), Due 1996 to 2030	**31,488**	**31,668**	32,090
1996 Series A-F (6.2% to 8.10%; Variable), Due 2000 to 2038	**53,715**	**53,725**	53,755
1998 Series A-B (4.0% to 5.55%; Variable), Due 1999 to 2016	**10,055**	**10,225**	10,350
1999 Series A-B (4.8% to 5.7%; Variable), Due 2003 to 2029	**7,175**	**—**	7,200
	$ 1,095,318	**$ 1,096,222**	

Principal payments on bonds after 1999 are scheduled as follows *(in thousands)*:

Fiscal Year Ending September 30	Single-Family Bonds	Multifamily Bonds	Totals
2000	$ 11,125	$ 2,613	$ 13,738
2001	38,295	2,808	41,103
2002	13,525	8,010	21,535
2003	13,260	3,381	16,641
2004	12,100	3,736	15,836
Thereafter	831,915	172,879	1,004,794
Less Unamortized Discount	(18,329)	—	(18,329)
	$ 901,891	$ 193,427	$ 1,095,318

6. Notes Payable

The Authority has established a $50,000,000 line of credit to make funds available for the purchase of loans during the origination period of its single family mortgage revenue bond programs. On September 25, 1996, the Authority converted $16,000,000 of the line of credit into a long-term loan which bears interest at a variable rate (6.06% at September 30, 1999) and is repayable over a term of five years with required principal reductions of 20% annually. Outstanding borrowings for the long-term portion of the line of credit were $5,480,000 as of September 30, 1999. Outstanding borrowings under the remaining line of credit were $16,500,000 at September 30, 1999. Interest on outstanding borrowings under the revolving portion of the line of credit is computed at variable rates in effect from time to time (6.08% at September 30, 1999). Borrowings under the credit facility are secured by a pledge of mortgage loans receivable and mortgage loans held for sale with carrying values of $30,727,000 and $32,880,000, respectively, at September 30, 1999.

7. Fund Balances

Below is a summary of fund balances at September 30, 1999 and 1998 *(in thousands)*:

	1999	1998
Reserved:		
Reserved for Debt Service	$ 42,581	$ 65,379
Owners' Reserve	592	2,917
Designated for Rating Agency	335	335
Designated for Program Purposes	55,010	54,605
Unreserved and Undesignated	4,604	4,261
	$ 103,122	$ 127,497

The various trust indentures generally permit transfers to the Authority's operating fund for administrative fees and reimbursements of costs associated with the administration of the mortgage 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 reserved components of the fund balance.

Under the terms of the Authority's multifamily mortgage revenue bond programs, certain funds on hand in excess of stipulated minimum balances are periodically remitted to the owners of the multi-family developments financed by the bond issue, and are classified as owners' reserve in the financial statements. Funds remaining on hand at the conclusion of these programs are to be remitted to such owners.

The Authority has agreed to set aside in its unencumbered operating fund $335,000 at September 30, 1999 and 1998, respectively, to be used if needed to pay debt service on several single-family mortgage revenue bond issues.

As of September 30, 1999 and 1998, the Authority designated $55,010,000 and $54,605,000, respectively, of its fund balance for financing future single-family mortgage revenue bond programs, to support its single-family mortgage loan origination and warehousing operations, and to cover its operating expense budget for the following fiscal year.

8. Supplemental Cash Flow Information

A reconciliation of net revenues over expenses to cash flows from operating activities, and interest paid for the years ended September 30, 1999 and 1998, follows *(in thousands)*:

	1999	1998
Revenues over (under) Expenses	**$ (24,017)**	$ 29,782
Adjustments to Reconcile Revenues over (under) Expenses to Net Cash Provided by Operating Activities:		
Depreciation	**72**	45
Accretion of Premiums and Discounts on Investments, Net	**(247)**	(137)
Accretion of Discount on Bonds Payable	**496**	944
Amortization of Deferred Financing Costs	**552**	454
Amortization of Deferred Commitment Fees	**(1,716)**	(1,246)
Net Decrease (Increase) in Fair Value of Investments	**48,197**	(24,818)
Increase (Decrease) in Provision for Loan Losses and Debt Forgiveness	**(188)**	(17)
Extraordinary Loss on Early Retirement of Bonds	**1,271**	544
Commitment Fees Received	**1,609**	1,223
Changes in Operating Assets and Liabilities:		
Accrued Interest Receivable	**743**	(1,673)
Other Assets	**120**	(93)
Refundable HOME Program Grants	**11,204**	16,197
Accrued Interest Payable	**(1,499)**	991
Program Funds Held for Others	**(11,399)**	7,658
Other Liabilities	**294**	40
Interest on Other Investments	**(12,985)**	(8,050)
Interest Paid on Bonds and Notes	**64,585**	63,205
Interest Received from Mortgage Loans	**(4,635)**	(5,459)
Purchase of Program Investments	**(102,162)**	(120,303)
Proceeds from Sale of Program Investments	**102,891**	66,590
HOME Program Mortgage Loans Funded	**(11,204)**	(16,197)
Purchase of Mortgage Loans	**—**	(5,000)
Principal Payments Received on Mortgages	**28,170**	11,936
Net Cash Provided by (Used in) Operating Activities	**$ 90,152**	$ 16,616

9. Retirement Plan

Substantially all full-time employees of the Authority participate in a defined contribution retirement plan (the Plan) which provides retirement benefits to Plan participants. The Plan is administered by an independent third-party administrator. The Plan was created by and its provisions, including contribution requirements may be amended by the Board of Directors of the Authority. To be eligible, an employee must be over age 21 and contribute 5% of his compensation to the Plan annually. The Authority contributes an amount equal to 7% of the each participant's compensation annually. The Authority's and employees' contributions to the Plan were $78,000 and $56,000, respectively, in fiscal 1999 and $73,000 and $52,000, respectively, in fiscal 1998.

10. Early Retirement of Bonds

The Authority's mortgage revenue bonds are subject to certain extraordinary redemption provisions. During the years ended September 30, 1999 and 1998, the Authority called approximately $162,410,000 and $98,125,000 (net of $24,268,000 and $36,129,000 in unamortized discounts), respectively, of bonds in advance of their scheduled maturities. The loss on early retirement of these bonds recognized in the financial statements is primarily comprised of unamortized deferred debt financing costs and unamortized discount.

11. Segment Financial Data

Financial and operating data of the various funds of the Authority as of September 30, 1999 and 1998 and for the years then ended is summarized as follows *(in thousands)*:

	Total Revenues		Excess Revenues (Expenses)		Total Assets		Fund Balances	
	1999	**1998**	**1999**	**1998**	**1999**	**1998**	**1999**	**1998**
Operating Fund	$ 8,704	$ 8,419	$ 5,578	$ 4,955	$ 96,243	$ 76,435	$ 59,949	$ 59,201
HOME Program Fund	11,913	16,784	—	—	65,203	53,583	—	—
Single-family Program Funds:								
1982 Series A	—	409	—	317	—	—	—	—
1982 Series B	541	687	163	147	4,624	6,239	1,856	1,713
1984 Series A	1,852	2,114	1,307	1,166	16,486	18,965	12,749	11,442
1984 Series B	—	187	—	162	—	—	—	—
1985 Series A&B and 1986 Series A	1,993	2,550	1,664	1,379	19,887	26,476	19,300	17,636
1987 Series A	—	2	—	2	—	—	—	—
1988 Series A	771	1,421	216	159	—	17,577	—	1,513
1989 Series A-C, 1990 Series A-B and 1991 Series A	8,342	9,945	1,132	674	96,626	132,517	13,952	8,274
1990 Series C and 1991 Series B	4,042	4,911	126	180	51,669	67,344	3,048	2,956
1991 Series D, 1992 Series A, 1994 Series A-B, 1995 Series A-C, 1996 Series A-D, 1997 Series A-D, 1998 Series A-B	7,900	56,009	(31,087)	19,688	648,836	726,929	(9,760)	21,845
1999 Series A-C	1,048	—	(1,149)	—	134,526	—	1,436	—
Multifamily Program Funds:								
1985 Series A-DD	—	1	—	1	—	—	—	—
1987 Series A&B	171	176	—	—	4,950	5,135	—	—
1988 Series A-C	92	271	3	7	—	7,124	—	3
1989 Series A-F	422	835	(274)	130	9,695	11,598	99	373
1991 Series A-D	220	277	5	6	6,021	6,320	32	27
1992 Series A-I	1,546	1,964	62	82	24,202	34,615	1,159	1,264
1994 Series A-F	3,635	3,709	22	24	48,732	49,171	584	571
1995 Series A-M	1,254	2,302	(460)	555	31,516	32,157	(148)	312
1996 Series A-F	1,700	2,036	(154)	14	53,842	54,006	64	218
1997 Series A-B	97	598	(341)	134	9,708	12,646	(390)	149
1999 Series A-B	(606)	—	(830)	—	6,398	—	(808)	—
	$ 55,637	$ 115,607	$ (24,017)	$ 29,782	$ 1,329,164	$ 1,338,837	$ 103,122	$ 127,497

12. Subsequent Events

From October 1, 1999 through December 1, 1999, the Authority called approximately $41,009,000 of bonds prior to their scheduled maturities as shown in Note 5.

Required Supplementary Information
Year 2000

The Authority is working to resolve the potential impact of the year 2000 on the ability of the Authority's computerized information systems to accurately process information that may be date-sensitive. Any of the Authority's programs that recognize a date using "00" as the year 1900 rather than the year 2000 could result in errors or system failures. This could cause a system failure or miscalculations resulting in disruptions of operations, including, among other things, a temporary inability to process transactions or engage in normal business activities.

The Authority has a five-step plan to resolve the Year 2000 Issue. This plan includes:

1. Establishing a budget and awareness of and educating key personnel with respect to the Year 2000 issues and the Authority's plan to address those potential problems;

2. Identifying significant systems and assessing potential Year 2000 issues relating to those systems;

3. Renovating and repairing noncompliant systems;

4. Testing and validating solutions; and

5. Implementing those solutions.

To date, the Authority has completed all five steps of the Year 2000 plan. The Authority determined that it must upgrade portions of its software and hardware so that those systems will properly utilize dates beyond December 31, 1999. The Authority believes that with these upgrades of its existing software and hardware, potential Year 2000 issues can be mitigated.

The Authority utilized both internal and external resources to reprogram, replace and test software and other components of its systems for Year 2000 modifications. Modifications were scheduled to ensure that mission-critical systems were completed in time to allow for extended testing.

The Authority's systems are divided into two categories, those maintained internally by the Authority's information systems personnel and those provided by external vendors. For internally maintained systems, revisions were implemented in the first quarter of 1999. The Authority installed the Year 2000 releases provided by vendors of its core-business systems and completed century date testing and validation of these core business systems by mid 1999. For the remainder of the externally maintained systems, the Authority received written confirmation from its vendors that each system will be made Year 2000 compliant in 1999. The Authority continues to assess, with its vendors, the status of their Year 2000 compliance and install any necessary additional code releases through 1999.

The majority of the Authority's software which affects the most significant systems of the Authority is supplied by third parties. The Authority formally communicated with all of its significant suppliers and large customers to determine the extent to which the Authority is vulnerable to those third parties' failure to remediate their own Year 2000 issues. The Authority applied the majority of its resources that were allocated to the Year 2000 Issue to installing and testing vendor releases. To date, the Authority is not aware of any external agent with a Year 2000 issue that would have a material adverse effect on the Authority's financial condition or results of operations.

The total cost of the Year 2000 project was approximately $175,000 and was funded through operating cash flows. The costs of the Year 2000 modifications were based on management's best estimates, which were derived utilizing numerous assumptions of future events including the continued availability of certain resources, third party modification plans and other factors.

The Authority believes it has an effective program in place to resolve the Year 2000 Issue in a timely manner. However, disruptions in the economy that are beyond the Authority's control resulting from Year 2000 issues could materially adversely affect the Authority. Furthermore, the Authority has no means of ensuring that third parties that it does not control will be Year 2000 compliant. The Authority believes that failure of third parties to address their Year 2000 problems in a timely fashion presents the greatest likelihood of the Authority not being Year 2000 compliant. Such a failure could materially adversely impact the Authority's operations, the estimated costs of the Year 2000 project and the target dates for completion. The effect of non-compliance by third parties is not determinable at this time. The Authority could be subject to litigation for computer systems product failure, including equipment shutdown or failure to properly date business records. The amount of potential liability, if any, cannot be reasonably estimated at this time.

Additional Segment Data (in thousands)

September 30, 1999	**Combined Totals**	**General Fund**	**HOME Fund**	**Combined Single-Family/ GNMA**	**Combined Multi-Family**	**1987 A&B**
BALANCE SHEET						
Assets						
Cash on Deposit	$ 210	$ —	$ 59	$ —	$ 151	$ —
Accrued Interest Receivable	9,320	691	729	7,493	407	—
Program Investments	725,452	—	—	700,714	24,738	—
Other Investments	260,174	28,121	—	228,749	3,304	—
Mortgage Loans Receivable, Net	226,339	33,931	—	25,944	166,464	4,950
Mortgage Loans Held for Sale	32,880	32,880	—	—	—	—
HOME Program Mortgage Loans Receivable, Net	64,030	—	64,030	—	—	—
Deferred Debt Financing Cost, Net	9,547	—	—	9,547	—	—
Other Assets	1,212	620	385	207	—	—
Total Assets	$ 1,329,164	$ 96,243	$ 65,203	$ 972,654	$ 195,064	$ 4,950
Liabilities and Fund Balances						
Liabilities:						
Checks Outstanding	$ 3,036	$ 3,002	$ —	$ 34	$ —	$ —
Bonds Payable, Net of Unamortized Discounts	1,095,318	—	—	901,891	193,427	4,950
Notes Payable	21,980	21,980	—	—	—	—
Refundable HOME Program Grants	64,030	—	64,030	—	—	—
Accrued Interest Payable	26,469	73	729	24,624	1,043	—
Deferred Commitment Fees	11,632	11,632	—	—	—	—
Program Funds Held for Others	3,161	—	—	3,161	—	—
Other Liabilities	416	180	—	234	2	—
Due to (from) Other Funds	—	(573)	444	129	—	—
Total Liabilities	1,226,042	36,294	65,203	930,073	194,472	4,950
Fund Balances	103,122	59,949	—	42,581	592	—
Total Liabilities & Fund Balances	$ 1,329,164	$ 96,243	$ 65,203	$ 972,654	$ 195,064	$ 4,950
INCOME STATEMENT						
Revenues						
Interest on Mortgage Loans	$ 16,684	$ 4,639	$ —	$ 3,081	$ 8,964	$ 171
Interest on Investments	60,947	2,107	—	57,087	1,753	—
Unrealized Gains (Losses)	(36,336)	94	—	(34,243)	(2,187)	—
Loan Fees and Other Income	2,429	1,864	—	564	1	—
HOME Program Grants	11,913	—	11,913	—	—	—
Total Revenues	55,637	8,704	11,913	26,489	8,531	171
Expenses						
Interest on Bonds and Notes	63,630	644	—	52,526	10,460	171
HOME Program Expenditures	11,913	—	11,913	—	—	—
Program, General & Administrative	2,840	2,482	—	320	38	—
Total Expenses	78,383	3,126	11,913	52,846	10,498	171
Revenues Over Expenses Before Extraordinary Loss	(22,746)	5,578	—	(26,357)	(1,967)	—
Extraordinary Loss on Early Retirement of Bonds	(1,271)	—	—	(1,271)	—	—
Revenues Over Expenses	(24,017)	5,578	—	(27,628)	(1,967)	—
Fund Balances						
Beginning of the Year	127,497	59,201	—	65,379	2,917	—
Fund Transfers In (Out)	—	(4,830)	—	4,830	—	—
Contributions From/Distributions to Owners, Net	(358)	—	—	—	(358)	—
End of the Year	$ 103,122	$ 59,949	$ —	$ 42,581	$ 592	$ —

MULTIFAMILY BOND ISSUES

1988 A-C	1989 A-F	1991 A-D	1992 A-I	1994 A-F	1995 A-M	1996 A-F	1997 A-B	1999 A-B
$ —	$ 15	$ —	$ —	$ 113	$ 23	$ —	$ —	$ —
—	64	24	93	—	157	14	23	32
—	4,499	—	—	—	6,933	2,476	4,544	6,286
—	413	217	1,192	821	163	277	141	80
—	4,704	5,780	22,917	47,798	24,240	51,075	5,000	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
$ —	$ 9,695	$ 6,021	$ 24,202	$ 48,732	$ 31,516	$ 53,842	$ 9,708	$ 6,398
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
—	9,380	5,965	22,847	47,852	31,488	53,715	10,055	7,175
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	216	24	196	296	174	63	43	31
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	2	—	—	—
—	—	—	—	—	—	—	—	—
—	9,596	5,989	23,043	48,148	31,664	53,778	10,098	7,206
—	99	32	1,159	584	(148)	64	(390)	(808)
$ —	$ 9,695	$ 6,021	$ 24,202	$ 48,732	$ 31,516	$ 53,842	$ 9,708	$ 6,398
$ 89	$ 344	$ 215	$ 1,470	$ 3,613	$ 1,216	$ 1,673	$ 173	$ —
3	356	5	76	22	512	186	333	260
—	(279)	—	—	—	(474)	(159)	(409)	(866)
—	1	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
92	422	220	1,546	3,635	1,254	1,700	97	(606)
89	691	215	1,481	3,613	1,704	1,834	438	224
—	—	—	—	—	—	—	—	—
—	5	—	3	—	10	20	—	—
89	696	215	1,484	3,613	1,714	1,854	438	224
3	(274)	5	62	22	(460)	(154)	(341)	(830)
—	—	—	—	—	—	—	—	—
3	(274)	5	62	22	(460)	(154)	(341)	(830)
3	373	27	1,264	571	312	218	149	—
—	—	—	—	—	—	—	—	—
(6)	—	—	(167)	(9)	—	—	(198)	22
$ —	$ 99	$ 32	$ 1,159	$ 584	$ (148)	$ 64	$ (390)	$ (808)

Additional Segment Data (in thousands)

September 30, 1999	Combined Single-Family/ GNMA	1982 B	1984 A	1985 A-B 1986 A
		SINGLE-FAMILY BOND SERIES		
BALANCE SHEET				
Assets				
Cash on Deposit	$ —	$ —	$ —	$ —
Accrued Interest Receivable	7,493	41	143	261
Program Investments	700,714	—	—	—
Other Investments	228,749	980	9,151	4,259
Mortgage Loans Receivable, Net	25,944	3,546	7,151	15,247
Deferred Debt Financing Costs, Net	9,547	—	7	4
Other Assets	207	57	34	116
Total Assets	$ 972,654	$ 4,624	$ 16,486	$ 19,887
Liabilities and Fund Balance				
Liabilities:				
Checks Outstanding	$ 34	$ —	$ —	$ —
Bonds Payable, Net of Unamortized Discounts	901,891	2,645	3,676	685
Accrued Interest Payable	24,624	95	—	33
Deferred Commitment Fees	—	—	—	—
Program Funds Held for Others	3,161	—	—	—
Other Liabilities	234	23	61	42
Due to (from) Other Funds	129	5	—	(173)
Total Liabilities	930,073	2,768	3,737	587
Fund Balances	42,581	1,856	12,749	19,300
Total Liabilities & Fund Balances	$ 972,654	$ 4,624	$ 16,486	$ 19,887
INCOME STATEMENT				
Revenues				
Interest on Mortgage Loans	$ 3,081	$ 478	$ 872	$ 1,731
Interest on Investments	57,087	52	980	252
Unrealized Gains (Losses)	(34,243)	8	—	—
Loan Fees and Other Income	564	3	—	10
Total Revenues	26,489	541	1,852	1,993
Expenses				
Interest on Bonds and Notes	52,526	365	497	259
Program, General and Administrative	320	10	38	19
Total Expenses	52,846	375	535	278
Revenues Over Expenses Before Extraordinary Loss	(26,357)	166	1,317	1,715
Extraordinary Loss on Early Retirement of Bonds	(1,271)	(3)	(10)	(51)
Revenues Over Expenses	(27,628)	163	1,307	1,664
Fund Balances				
Beginning of the Year	$ 65,379	$ 1,713	$ 11,442	$ 17,636
Fund Transfers In (Out)	4,830	(20)	—	—
End of the Year	$ 42,581	$ 1,856	$ 12,749	$ 19,300

SINGLE-FAMILY BOND SERIES

1988 A	1989 A-C 1990 A-B 1991 A	1990 C 1991 B	1991 D/1992 A 1994 A-B/1995 A-B 1996 A-D, 1997 A-D 1998 A-B	1999 A-C
$ —	$ —	$ —	$ —	$ —
—	809	407	4,957	875
—	79,573	43,119	570,530	7,492
—	15,479	7,724	66,394	124,762
—	—	—	—	—
—	765	419	6,955	1,397
—	—	—	—	—
$ —	$ 96,626	$ 51,669	$ 648,836	$ 134,526
$ —	$ 1	$ —	$ 33	$ —
—	78,345	46,100	638,950	131,490
—	2,912	1,735	18,664	1,185
—	—	—	—	—
—	1,412	763	576	410
—	—	7	100	1
—	4	16	273	4
—	82,674	48,621	658,596	133,090
—	13,952	3,048	(9,760)	1,436
$ —	$ 96,626	$ 51,669	$ 648,836	$ 134,526
$ —	$ —	$ —	$ —	$ —
523	8,017	4,047	41,502	1,714
(1)	23	(5)	(33,602)	(666)
249	302	—	—	—
771	8,342	4,042	7,900	1,048
502	6,899	3,783	38,439	1,782
3	30	14	195	11
505	6,929	3,797	38,634	1,793
266	1,413	245	(30,734)	(745)
(50)	(281)	(119)	(353)	(404)
216	1,132	126	(31,087)	(1,149)
$ 1,513	$ 8,274	$ 2,956	$ 21,845	$ —
(1,729)	4,546	(34)	(518)	2,585
$ —	$ 13,952	$ 3,048	$ (9,760)	$ 1,436