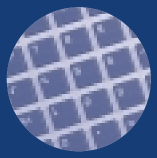
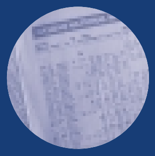
Alabama Housing Finance Authority

ACCOUNTABILITY





2001 Financial Statements and Information

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, 2001 and 2000. 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 auditing standards generally accepted in the United States. 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 at September 30, 2001 and 2000, and the results of operations and cash flows of its proprietary fund types for the years then ended in conformity with accounting principles generally accepted in the United States.

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 is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements. Such information has been subject to the auditing procedures applied in our audit of the 2001 general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2001 general-purpose financial statements taken as a whole.

Ernst + Young LLP

December 7, 2001

Balance Sheets (in thousands)

	September 30 2001	September 30 2000
Assets		
Cash on Deposit	**$ 2,192**	$ 235
Accrued Interest Receivable	**9,207**	11,325
Program Investments	**869,009**	795,516
Other Investments	**221,270**	220,453
Mortgage Loans Receivable, Net	**217,434**	217,673
Mortgage Loans Held for Sale	**6,608**	21,207
HOME Program Mortgage Loans Receivable, Net	**94,492**	82,327
Deferred Debt Financing Costs, Net	**10,335**	10,111
Other Assets	**1,327**	1,150
Total Assets	**$ 1,431,874**	$ 1,359,997
Liabilities and Fund Balances		
Liabilities:		
Bonds Payable, Net of Unamortized Discounts	**$ 1,112,706**	$ 1,096,814
Notes Payable	**2,200**	22,925
Refundable HOME Program Grants	**94,492**	82,327
Accrued Interest Payable	**26,949**	28,181
Deferred Commitment Fees	**11,717**	12,338
Other Liabilities	**248**	294
Program Funds Held for Others	**13,414**	2,005
Total Liabilities	**1,261,726**	1,244,884
Fund Balances:		
Reserved and Designated	**160,072**	106,651
Unreserved and Undesignated	**10,076**	8,462
Total Fund Balances	**170,148**	115,113
Total Liabilities and Fund Balances	**$ 1,431,874**	$ 1,359,997

See accompanying notes.

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

	Year Ended September 30 2001	Year Ended September 30 2000
Revenues		
Interest on Mortgage Loans	**$ 13,964**	$ 16,155
Investment Income	**65,392**	64,323
Unrealized Gains (Losses), Net	**40,919**	(1,557)
Loan Fees and Other Income	**2,054**	2,074
HOME Program Grants	**12,902**	19,087
Total Revenues	**135,231**	100,082
Expenses		
Interest on Bonds and Notes	**63,200**	64,650
HOME Program Expenditures	**12,902**	19,087
Program, General and Administrative	**3,051**	3,003
Total Expenses	**79,153**	86,740
Revenues Over Expenses Before Extraordinary Loss	**56,078**	13,342
Extraordinary Loss on Early Retirement of Bonds	**(705)**	(967)
Revenues Over Expenses	**55,373**	12,375
Fund Balances		
Beginning of the Year	**115,113**	103,122
Distribution to Owners, Net	**(338)**	(384)
End of the Year	**$ 170,148**	$ 115,113

See accompanying notes.

Statements of Cash Flows (in thousands)

	Year Ended September 30 2001	2000
Operating Activities		
Purchase of Program Investments	**$ (92,105)**	$ (163,245)
Proceeds from Sale of Program Investments	**71,226**	60,455
Proceeds from HOME Grants	**12,165**	18,297
HOME Program Expenditures	**(12,308)**	(18,397)
Purchase of Mortgage Loans	**(39,392)**	(11,114)
Principal Payments Received on Mortgage Loans	**33,141**	14,890
Interest Received from Mortgage Loans	**9,000**	10,573
Interest Received from Program Investments	**53,284**	51,169
Payments for Arbitrage	**(309)**	(768)
Cash Paid to Suppliers for Goods and Services	**(1,966)**	(1,960)
Cash Payments to Employees for Services	**(1,313)**	(1,240)
Loan Fees, Commitment Fees and Other Income Received	**1,435**	2,780
Net Cash Provided by (Used in) Operating Activities	**32,858**	(38,560)
Noncapital Financing Activities		
Proceeds from Bonds Issued	**183,255**	152,740
Net Borrowings Under Line of Credit	**40,300**	89,660
Principal Payments on Bonds	**(167,363)**	(151,428)
Payments of Debt Financing Costs	**(1,476)**	(2,028)
Principal Payments on Note	**(61,025)**	(88,715)
Distributions to/Contributions from Owners, Net	**(338)**	(384)
Interest Paid on Bonds and Note	**(64,336)**	(62,623)
Net Cash Used in Noncapital Financing Activities	**(70,983)**	(62,778)
Capital and Related Financing Activities		
Purchase of Furniture and Equipment	**(40)**	(37)
Net Cash Used in Capital and Related Financing Activities	**(40)**	(37)
Investing Activities		
Purchases of Other Investments	**(654,011)**	(592,414)
Purchases of Mortgage Loans	**(81,611)**	(155,589)
Proceeds from Sale of Mortgages	**93,510**	165,414
Principal Payments Received on Mortgage Loans	**9,376**	7,012
Proceeds from Sales of Other Investments	**653,245**	662,583
Interest Received from Mortgage Loans	**5,232**	5,839
Interest Received from Other Investments	**14,381**	11,591
Net Cash Provided by Investing Activities	**40,122**	104,436
Increase in Cash on Deposit	**1,957**	3,061
Cash on Deposit at Beginning of the Year	**235**	(2,826)
Cash on Deposit at End of the Year	**$ 2,192**	$ 235

See accompanying notes.

Notes to Financial Statements

September 30, 2001 and 2000

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 multi-family 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 accounting principles generally accepted in the United States, which require 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.*

Significant New Accounting Pronouncement
In 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. That statement establishes a new financial reporting model for state and local governments and will be effective for the Authority for the year ending September 30, 2003. The effect of the implementation of this guidance on the Authority is not known at this time.

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, 2001, all cash on deposit was held by the Authority's trustees in the name of the Authority. Approximately $391,000 of cash on deposit at September 30, 2001 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.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* investment securities other than non-participating investment contracts (see below) are recorded at fair value and the unrealized gains or losses are reported in the statement of revenues, expenses and changes in fund balances. 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. Such rebateable earnings, which totalled $11,437,000 in 2001 and $907,000 in 2000, are classified as a reduction of unrealized gains on investment securities in the Statement of Revenues, Expenses and Changes in Fund Balances. The Code requires that such excess investment earnings be rebated to certain single-family borrowers upon payoff of their respective mortgages or remitted to the Internal Revenue Service. Gains on sales of securities in these bond issues would create excess rebateable earnings. This liability is recorded on the balance sheets as program funds held for others.

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

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 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, non-transferable, and redemption of the contracts is not based on current market rates. All of the Authority's investment contracts are non-participating and therefore reported at cost. Investments other than non-participating investment contracts are reported at fair value.

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 originated three loans that are forgivable for both principal and interest. These loans are not recorded as assets or liabilities of the Authority and totaled $2,950,000 at September 30, 2001 and 2000.

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.

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, 2001, program investments consisted of program certificates with interest rates ranging from 5.38% to 8.06%. The cost of program investments at September 30, 2001 and 2000 was $853,520,000 and $830,806,000, respectively.

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 1% and 9% of the carrying amount of these investments at September 30, 2001 and 2000, 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. Substantially all of the remaining 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. The cost basis of the U.S. government and agency securities at September 30, 2001 and 2000 was $47,283,000 and $52,904,000, respectively.

Investments in money market funds and repurchase agreements are carried at fair value, which is equal to the amortized cost basis.

Other investments consist of the following at September 30 *(in thousands):*

	2001	2000
Non-Participating Investment Contracts (at cost):		
Collateralized Investment Agreements:		
Chemical/Manufacturers Hanover, 11.95% (Single-family Series 1984 A)	**$ —**	$ 7,500
Compass Bank, 7.5% to 8.07% (Single-family Series 1984 A, 1985 A&B)	**—**	829
Morgan Guaranty Trust Company, 5.5% to 8.1% (Single-family Series 1992 A, 1997 D, Multifamily Series 2000 E)	**1,128**	345
	1,128	8,674
Uncollateralized Investment Agreements (at cost):		
AIG Matched Funding Corp., 4.99% 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, 2000 B, 2001 A)	**59,811**	53,275
Bayerische Landesbank, 5.25% to 6.15%, Variable (Single-family Series 1995 B, 1998 B, 2000 C, 2001 B, Multifamily Series 1989 C, 1992 B)	**20,402**	16,854
Berkshire Hathaway, 7.42% (Single-family Series 1991 A)	**—**	156
Financial Guaranty Insurance Corp., 4% to 6.5% (Single-family Series 1994 B, 1995 A, Multifamily Series 2000 K, 2001 A)	**234**	452
Lehman Brothers, 4.41% (Single-family Series 2000 B)	**11,925**	20,321
Trinity Funding, 6.51% (Single-family Series 1996 C)	**5**	114
Westdeutsche Landesbank, 4% to 6.52% (Single-family Series 1997 B, 2000 A&B, Multifamily Series 1996 D&E)	**617**	640
	92,994	91,812
Total Non-Participating Investment Agreements	**94,122**	100,486
U.S. Government Securities (at Fair Value)	**49,333**	53,394
Money Market Funds/Repurchase Agreements (at Fair Value)	**77,815**	66,573
	$ 221,270	$ 220,453

Investment Securities
During the year ended September 30, 2001, the Authority transferred other investments with a cost basis of $1,526,000 to program investments. As a result of changes in the fair value of investment securities, the Authority recorded an unrealized gain of $40,919,000 for the year ended September 30, 2001 and an unrealized loss of $1,557,000 for the year ended September 30, 2000. 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 consists of the following at September 30 *(in thousands):*

	2001	2000
Single-family Mortgage Loans (7.92% to 13.85%)		
Conventional	**$ 29,077**	$ 36,032
FHA-Insured	**5,593**	6,668
VA-Insured	**5,064**	6,194
Step Up Program Loans	**868**	—
Down Payment Assistance/ Habitat Loans	**10,365**	9,383
	50,967	58,277
Less Allowance for Loan Losses	**(5,155)**	(5,446)
Total Single-family Mortgage Loans	**45,812**	52,831
Multifamily Mortgage Loans (4.00% to 7.875%)	**171,622**	164,842
	$ 217,434	$ 217,673

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, 2001, are as follows: General Electric Mortgage Insurance Company (68%) and Mortgage Guaranty Insurance Company (32%).

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.

The Authority's publicly offered multifamily bonds are considered conduit debt obligations and are secured by several forms of credit enhancement, including FHA-insured mortgage loans, GNMA-guaranteed certificates and letters of credit from financial institutions including collateralized, insured, and uncollateralized and uninsured arrangements. The Authority has no obligation for the bonds beyond the resources provided above.

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

	Aggregate Principal Outstanding 2001	2000	Original Maturity Value
Single-family Bond Programs:			
1982 Series B (9.8% to 10.75%), Due 1989 to 2013	**$ 719**	$ 1,532	$ 100,000
1984 Series A (9.0% to 11.75%), Due 1989 to 2016	**—**	1,051	485,087
1989 Series A-C, 1990 Series A-B, 1991 Series A (5.2% to 8.0%), Due 1990 to 2022	**—**	61,775	285,000
1990 Series C, 1991 Series B (5.25% to 7.75%), Due 1992 to 2023	**—**	7,770	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	**536,235**	585,590	824,250
1999 Series A-C (4.40% to 6.03%), Due 2001 to 2030; 2000 Series A-C (4.80% to 6.25%), Due 2001 to 2031; 2001 Series A-B (4.65% to 5.45%, Variable), Due 2001 to 2032	**320,360**	245,135	395,555
2000 Step Up Program (6.79% to 7.80%), Due 2001 to 2032	**19,072**	—	20,000
2001 Series C (4.02%), Due 2002 to 2006	**29,110**	—	29,110

	Aggregate Principal Outstanding 2001	2000	Original Maturity Value
Multifamily Bond Programs:			
1987 Series A&B (Variable), Due 1989 to 2014	**—**	4,765	13,500
1989 Series A-F (6.0% to 7.5%; Variable), Due 1989 to 2024	**8,775**	9,090	15,490
1991 Series A-D (5.0% to 7.0%; Variable), Due 1992 to 2009	**5,345**	5,665	8,525
1992 Series A-I (5.9% to 7.63%,Variable), Due 1993 to 2023	**5,178**	22,448	36,890
1994 Series A-F (7.1% to 7.65%), Due 1994 to 2024	**46,967**	47,345	51,320
1995 Series A-M (5.65% to 8.65%; Variable), Due 1996 to 2030	**31,108**	31,308	32,090
1996 Series A-F (6.2% to 8.10%; Variable), Due 2000 to 2038	**47,695**	47,705	53,755
1997 Series A-B (4.0% to 5.55%; Variable), Due 1999 to 2016	**4,685**	4,875	10,350
1999 Series A-B (4.8% to 5.7%; Variable), Due 2000 to 2029	**6,985**	7,085	7,200
2000 Series A-K (5.6% to 5.95%; Variable), Due 2001 to 2033	**41,945**	13,675	45,325
2001 Series A-C (4.875% to 6.83%), Due 2013 to 2031	**8,527**	—	8,527
	$ 1,112,706	$ 1,096,814	

Principal payments on bonds after 2001 are scheduled as follows *(in thousands)*:

Fiscal Year Ending September 30	Single-Family Bonds	Multifamily Bonds	Totals
2002	**$ 17,565**	**$ 2,361**	**$ 19,926**
2003	**19,475**	**2,716**	**22,191**
2004	**39,300**	**3,071**	**42,371**
2005	**22,480**	**3,338**	**25,818**
2006	**19,800**	**3,848**	**23,648**
Thereafter	**786,878**	**191,875**	**978,753**
Less Unamortized Discount	**(1)**	**—**	**(1)**
	$ 905,497	**$ 207,209**	**$ 1,112,706**

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. A portion of outstanding borrowings under the line of credit are long-term, with interest at a variable rate (4.19% at September 30, 2001), repayable over five years. Outstanding borrowings for the long-term portion of the line of credit were $2,200,000 as of September 30, 2001. Borrowings under the credit facility are secured by a pledge of approximately $43,556,000 in mortgage loans receivable and mortgage loans held for sale at September 30, 2001.

7. Fund Balances

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

	2001	2000
Reserved:		
Reserved for Debt Service	**$ 81,326**	$ 27,605
Owners' Reserve	**2,247**	743
Designated for Rating Agency	**335**	335
Designated for Program Purposes	**76,164**	77,968
Unreserved and Undesignated	**10,076**	8,462
	$ 170,148	$ 115,113

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 accompanying 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 $335,000 in its unencumbered operating fund at both September 30, 2001 and 2000, to be used, if needed, to pay debt service on several single-family mortgage revenue bond issues.

As of September 30, 2001 and 2000, the Authority designated $76,164,000 and $77,968,000, 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 revenues over expenses to net cash provided by (used in) operating activities, and interest paid for the years ended September 30, 2001 and 2000, follows *(in thousands)*:

	2001	2000
Revenues Over Expenses	**$ 55,373**	$ 12,375
Adjustments to Reconcile Revenues Over Expenses to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	**69**	70
Accretion of Premiums and Discounts on Investments, Net	**(310)**	(186)
Accretion of Discount on Bonds Payable	**—**	184
Amortization of Deferred Financing Costs	**547**	500
Amortization of Deferred Commitment Fees	**(1,370)**	(1,245)
Gross Unrealized (Gains) Losses on Investments	**(52,355)**	2,464
Provision for Loan Losses	**(291)**	(124)
Extraordinary Loss on Early Retirement of Bonds	**705**	967
Commitment Fees Received	**749**	1,951
Changes in Operating Assets and Liabilities:		
Accrued Interest Receivable	**2,118**	(2,005)
Other Assets	**(131)**	(124)
Refundable HOME Program Grants	**12,165**	18,297
Accrued Interest Payable	**(1,232)**	1,712
Program Funds Held for Others	**11,409**	(1,156)
Other Liabilities	**(46)**	(122)
Interest on Other Investments	**(14,381)**	(11,591)
Interest Paid on Bonds and Notes	**64,366**	62,623
Interest Received from Mortgage Loans	**(5,232)**	(5,839)
Purchase of Program Investments	**(92,105)**	(163,245)
Proceeds from Sale of Program Investments	**71,226**	60,455
HOME Program Mortgage Loans Funded	**(12,165)**	(18,297)
Purchase of Mortgage Loans	**(39,392)**	(11,114)
Principal Payments Received on Mortgages	**33,141**	14,890
Net Cash Provided by (Used in) Operating Activities	**$ 32,858**	$ (38,560)

9. Retirement Plan

Substantially all full-time employees of the Authority participate in a defined contribution retirement plan, the Alabama Housing Finance Authority Money Purchase Thrift Plan (the Plan), which provides retirement benefits to Plan participants. The Plan is administered by an independent third-party administrator. To be eligible, an employee must be over age 21 and contribute 5% of his or her 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 $88,000 and $63,000, respectively, in fiscal 2001 and $84,000 and $60,000, respectively, in fiscal 2000.

10. Early Retirement of Bonds

The Authority's mortgage revenue bonds are subject to certain extraordinary redemption provisions. During the years ended September 30, 2001 and 2000, the Authority called approximately $128,582,000 and $140,915,000 (net of $4,575,000 and $13,752,000 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.

Prior to September 30, 2001, the Authority defeased one single-family bond issue by placing funds in irrevocable trusts to provide for the payment of principal and interest on the bonds. At September 30, 2001, the total principal amount of the bonds, which has been excluded from the accompanying balance sheet, was approximately $35,995,000. On October 1, 2001, the bonds were redeemed prior to their scheduled maturities using the funds placed in the trust accounts. The funds used to redeem these bonds were obtained, in part, from 2001 bond issues. Accordingly, the difference between the reacquisition price and the carrying value of the old bonds, approximately $310,000, has been reported as deferred debt financing costs and will be amortized over the remaining life of the new bonds as the remaining life of the old bonds exceeded that of the new bonds.

11. Segment Financial Data

Financial and operating data of the various funds of the Authority as of September 30, 2001 and 2000 and for the years then ended is summarized as follows *(in thousands)*:

	Total Revenues		Excess Revenues (Expenses)		Total Assets		Fund Balances (Deficits)	
	2001	**2000**	**2001**	**2000**	**2001**	**2000**	**2001**	**2000**
Operating Fund	**$ 13,886**	$ 10,821	**$ 10,780**	$ 7,354	**$ 99,524**	$ 121,296	**$ 86,575**	$ 86,765
HOME Program Fund	**12,902**	19,087	**—**	—	**96,661**	83,906	**—**	—
Single-family Program Funds:								
1982 Series B	**335**	403	**205**	171	**2,947**	3,617	**2,192**	2,007
1984 Series A	**18**	1,708	**(30)**	1,518	**—**	15,365	**—**	14,267
1985 Series A&B and 1986 Series A	**—**	—	**—**	(4)	**—**	—	**—**	—
1989 Series A-C, 1990 Series A-B and 1991 Series A	**4,470**	6,108	**788**	1,105	**172**	80,197	**—**	15,014
1990 Series C and 1991 Series B	**307**	3,122	**28**	18	**—**	8,617	**—**	443
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	**61,023**	43,718	**28,089**	7,767	**586,554**	601,024	**24,984**	(2,572)
1999 Series A-C, 2000 Series A-C, 2001 A-B	**24,266**	3,762	**8,286**	(6,089)	**342,167**	250,140	**8,765**	(1,692)
Step Up	**1,204**	—	**857**	—	**20,152**	138	**992**	138
2001 Series C	**4,528**	—	**4,528**	—	**73,503**	—	**44,393**	—
Multifamily Program Funds:								
1987 Series A-B	**114**	197	**—**	—	**—**	4,765	**—**	—
1989 Series A-F	**734**	611	**187**	26	**9,241**	9,379	**312**	125
1991 Series A-D	**225**	265	**6**	7	**5,409**	5,726	**45**	39
1992 Series A-I	**677**	1,572	**12**	102	**5,568**	23,871	**380**	1,231
1994 Series A-F	**3,126**	3,579	**12**	15	**47,346**	47,972	**299**	335
1995 Series A-M	**2,117**	1,883	**370**	116	**32,206**	31,452	**923**	(32)
1996 Series A-F	**1,901**	2,124	**168**	18	**48,007**	47,849	**250**	82
1997 Series A-B	**651**	454	**399**	128	**4,863**	4,655	**137**	(262)
1999 Series A-B	**876**	490	**514**	123	**6,844**	6,430	**(171)**	(685)
2000 Series A-K	**1,745**	178	**193**	—	**42,053**	13,598	**54**	(90)
2001 Series A-C	**126**	—	**(19)**	—	**8,657**	—	**18**	—
	$ 135,231	$ 100,082	**$ 55,373**	$12,375	**$1,431,874**	$1,359,997	**$170,148**	$ 115,113

12. Subsequent Events

From October 1, 2001 through December 7, 2001, the Authority called approximately $37,720,000 of bonds prior to their scheduled maturities as shown in Note 5.

OTHER FINANCIAL INFORMATION

Additional Segment Data *(in thousands)*

SINGLE-FAMILY BOND SERIES

September 30, 2001 BALANCE SHEET	**1982 B**	**1984 A**	**1989 A-C 1990 A&B, 1991 A**	**1990 C, 1991 B**
Assets				
Cash on Deposit	$ —	$ —	$ —	$ —
Accrued Interest Receivable	29	—	22	—
Program Investments	—	—	—	—
Other Investments	523	—	150	—
Mortgage Loans Receivable, Net	2,379	—	—	—
Mortgage Loans Held for Sale	—	—	—	—
HOME Program Mortgage Loans Receivable, Net	—	—	—	—
Deferred Debt Financing Cost	—	—	—	—
Other Assets	16	—	—	—
Total Assets	$ 2,947	$ —	$ 172	$ —
Liabilities and Fund Balances				
Liabilities:				
Bonds Payable, Net	$ 719	$ —	$ —	$ —
Notes Payable	—	—	—	—
Refundable HOME Program Grants	—	—	—	—
Accrued Interest Payable	26	—	—	—
Deferred Commitment Fees	—	—	—	—
Other Liabilities	5	—	—	—
Program Funds Held for Others	—	—	43	—
Due to Other Funds	5	—	129	—
Total Liabilities	755	—	172	—
Fund Balances	2,192	—	—	—
Total Liabilities & Fund Balances	$ 2,947	$ —	$ 172	$ —

INCOME STATEMENT	**1982 B**	**1984 A**	**1989 A-C 1990 A&B, 1991 A**	**1990 C, 1991 B**
Revenues				
Interest on Mortgage Loans	$ 303	$ —	$ —	$ —
Interest on Investments	26	18	4,470	307
Unrealized Gains	3	—	—	—
Loan Fees and Other Income	3	—	—	—
HOME Program Grants	—	—	—	—
Total Revenues	335	18	4,470	307
Expenses				
Bond Interest	112	—	3,522	269
HOME Program Expenditures	—	—	—	—
Program, General & Administrative	17	46	34	1
Total Expenses	129	46	3,556	270
Revenues Over (Under) Expenses				
Before Extraordinary Loss	206	(28)	914	37
Extraordinary Loss on Early Retirement of Bonds	(1)	(2)	(126)	(9)
Revenues Over (Under) Expenses	205	(30)	788	28
Fund Balances				
Beginning of the Year	2,007	14,267	15,014	443
Fund Transfers In (Out)	(20)	(14,237)	(15,802)	(471)
End of the Year	$ 2,192	$ —	$ —	$ —

SINGLE-FAMILY BOND SERIES

1991 D, 1992A, 1994 A&B, 1995 A-C, 1996 A-D 1997 A-D, 1998 A&B	1999 A-C 2000 A-C, 2001 A&B	Step Up	2001 C	Combined Single-Family
$ 90	$ 233	$ —	$ —	$ 323
4,217	1,925	114	445	6,752
524,448	226,267	19,720	72,678	843,113
52,385	109,313	193	13	162,577
—	—	—	—	2,379
—	—	—	—	—
—	—	—	—	—
5,414	4,429	125	367	10,335
—	—	—	—	16
$ 586,554	$ 342,167	$ 20,152	$ 73,503	$ 1,025,495
$ 536,235	$ 320,360	$ 19,073	$ 29,110	$ 905,497
—	—	—	—	—
—	—	—	—	—
15,679	8,862	87	—	24,654
—	—	—	—	—
67	28	—	—	100
9,331	4,040	—	—	13,414
258	112	—	—	504
561,570	333,402	19,160	29,110	944,169
24,984	8,765	992	44,393	81,326
$ 586,554	$ 342,167	$ 20,152	$ 73,503	$ 1,025,495
$ —	$ —	$ —	$ —	$ 303
35,211	17,107	537	445	58,121
25,812	7,159	663	4,083	37,720
—	—	4	—	7
—	—	—	—	—
61,023	24,266	1,204	4,528	96,151
32,375	15,776	345	—	52,399
—	—	—	—	—
135	61	2	—	296
32,510	15,837	347	—	52,695
28,513	8,429	857	4,528	43,456
(424)	(143)	—	—	(705)
28,089	8,286	857	4,528	42,751
(2,572)	(1,692)	138	—	27,605
(533)	2,171	(3)	39,865	10,970
$ 24,984	$ 8,765	$ 992	$ 44,393	$ 81,326

Additional Segment Data *(in thousands)*

September 30, 2001 BALANCE SHEET	MULTIFAMILY BOND SERIES 1987 A-B	1989 A-F	1991 A-D	1992 A-I	1994 A-F	1995 A-M	1996 A-F
Assets							
Cash on Deposit	$ —	$ —	$ —	$ —	$ 113	$ —	$ —
Accrued Interest Receivable	—	45	19	1	—	41	15
Program Investments	—	4,559	—	—	—	7,380	2,592
Other Investments	—	422	230	192	299	6,949	325
Mortgage Loans Receivable, Net	—	4,215	5,160	5,375	46,934	17,836	45,075
Mortgage Loans Held for Sale	—	—	—	—	—	—	—
HOME Program Mortgage Loans Receivable, Net	—	—	—	—	—	—	—
Deferred Debt Financing Cost	—	—	—	—	—	—	—
Other Assets	—	—	—	—	—	—	—
Total Assets	$ —	$ 9,241	$ 5,409	$ 5,568	$ 47,346	$ 32,206	$ 48,007
Liabilities and Fund Balances							
Liabilities:							
Bonds Payable, Net	$ —	$ 8,775	$ 5,345	$ 5,177	$ 46,967	$ 31,108	$ 47,695
Notes Payable	—	—	—	—	—	—	—
Refundable HOME Program Grants	—	—	—	—	—	—	—
Accrued Interest Payable	—	154	19	11	80	173	62
Deferred Commitment Fees	—	—	—	—	—	—	—
Other Liabilities	—	—	—	—	—	2	—
Program Funds Held for Others	—	—	—	—	—	—	—
Due to (from) Other Funds	—	—	—	—	—	—	—
Total Liabilities	—	8,929	5,364	5,188	47,047	31,283	47,757
Fund Balances (Deficits)	—	312	45	380	299	923	250
Total Liabilities & Fund Balances	$ —	$ 9,241	$ 5,409	$ 5,568	$ 47,346	$ 32,206	$ 48,007

INCOME STATEMENT

	1987 A-B	1989 A-F	1991 A-D	1992 A-I	1994 A-F	1995 A-M	1996 A-F
Revenues							
Interest on Mortgage Loans	$ 114	$ 209	$ 219	$ 554	$ 3,114	$ 1,138	$ 1,591
Interest on Investments	—	350	6	123	12	506	186
Unrealized Gains	—	174	—	—	—	473	124
Loan Fees and Other Income	—	1	—	—	—	—	—
HOME Program Grants	—	—	—	—	—	—	—
Total Revenues	114	734	225	677	3,126	2,117	1,901
Expenses							
Interest on Bonds and Notes	114	546	219	662	3,114	1,733	1,712
HOME Program Expenditures	—	—	—	—	—	—	—
Program, General & Administrative	—	1	—	3	—	14	21
Total Expenses	114	547	219	665	3,114	1,747	1,733
Revenues Over (Under) Expenses Before Extraordinary Loss	—	187	6	12	12	370	168
Extraordinary Loss on Early Retirement of Bonds	—	—	—	—	—	—	—
Revenues Over (Under) Expenses	—	187	6	12	12	370	168
Fund Balances (Deficits)							
Beginning of the Year	—	125	39	1,231	335	(32)	82
Fund Transfers In (Out)	—	—	—	—	—	—	—
Owner Contributions/Reductions	—	—	—	(863)	(48)	585	—
End of the Year	$ —	$ 312	$ 45	$ 380	$ 299	$ 923	$ 250

MULTIFAMILY BOND SERIES

1997 A-B	1999 A-B	2000 A-K	2001 A-C	Combined Multifamily	Combined Single-Family	HOME Fund	General Fund	Combined Totals
$ —	$ —	$ 1	$ —	$ 114	$ 323	$ —	$ 1,755	$ 2,192
22	31	—	2	176	6,752	1,543	736	9,207
4,667	6,698	—	—	25,896	843,113	—	—	869,009
174	115	3,432	249	12,387	162,577	—	46,306	221,270
—	—	38,620	8,406	171,621	2,379	—	43,434	217,434
—	—	—	—	—	—	—	6,608	6,608
—	—	—	—	—	—	94,492	—	94,492
—	—	—	—	—	10,335	—	—	10,335
—	—	—	—	—	16	626	685	1,327
$ 4,863	$ 6,844	$ 42,053	$ 8,657	$ 210,194	$ 1,025,495	$ 96,661	$ 99,524	$ 1,431,874

1997 A-B	1999 A-B	2000 A-K	2001 A-C	Combined Multifamily	Combined Single-Family	HOME Fund	General Fund	Combined Totals
$ 4,685	$ 6,985	$ 41,945	$ 8,527	$ 207,209	$ 905,497	$ —	$ —	$ 1,112,706
—	—	—	—	—	—	—	2,200	2,200
—	—	—	—	—	—	94,492	—	94,492
41	30	54	112	736	24,654	1,543	16	26,949
—	—	—	—	—	—	—	11,717	11,717
—	—	—	—	2	100	—	146	248
—	—	—	—	—	13,414	—	—	13,414
—	—	—	—	—	504	626	(1,130)	—
4,726	7,015	41,999	8,639	207,947	944,169	96,661	12,949	1,261,726
137	(171)	54	18	2,247	81,326	—	86,575	170,148
$ 4,863	$ 6,844	$ 42,053	$ 8,657	$ 210,194	$ 1,025,495	$ 96,661	$ 99,524	$ 1,431,874

1997 A-B	1999 A-B	2000 A-K	2001 A-C	Combined Multifamily	Combined Single-Family	HOME Fund	General Fund	Combined Totals
$ —	$ —	$ 1,411	$ 124	$ 8,474	$ 303	$ —	$ 5,187	$ 13,964
273	385	334	2	2,177	58,121	—	5,094	65,392
378	491	—	—	1,640	37,720	—	1,559	40,919
—	—	—	—	1	7	—	2,046	2,054
—	—	—	—	—	—	12,902	—	12,902
651	876	1,745	126	12,292	96,151	12,902	13,886	135,231
249	362	1,546	145	10,402	52,399	—	399	63,200
—	—	—	—	—	—	12,902	—	12,902
3	—	6	—	48	296	—	2,707	3,051
252	362	1,552	145	10,450	52,695	12,902	3,106	79,153
399	514	193	(19)	1,842	43,456	—	10,780	56,078
—	—	—	—	—	(705)	—	—	(705)
399	514	193	(19)	1,842	42,751	—	10,780	55,373
(262)	(685)	(90)	—	743	27,605	—	86,765	115,113
—	—	—	—	—	10,970	—	(10,970)	—
—	—	(49)	37	(338)	—	—	—	(338)
$ 137	$ (171)	$ 54	$ 18	$ 2,247	$ 81,326	$ —	$ 86,575	$ 170,148

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