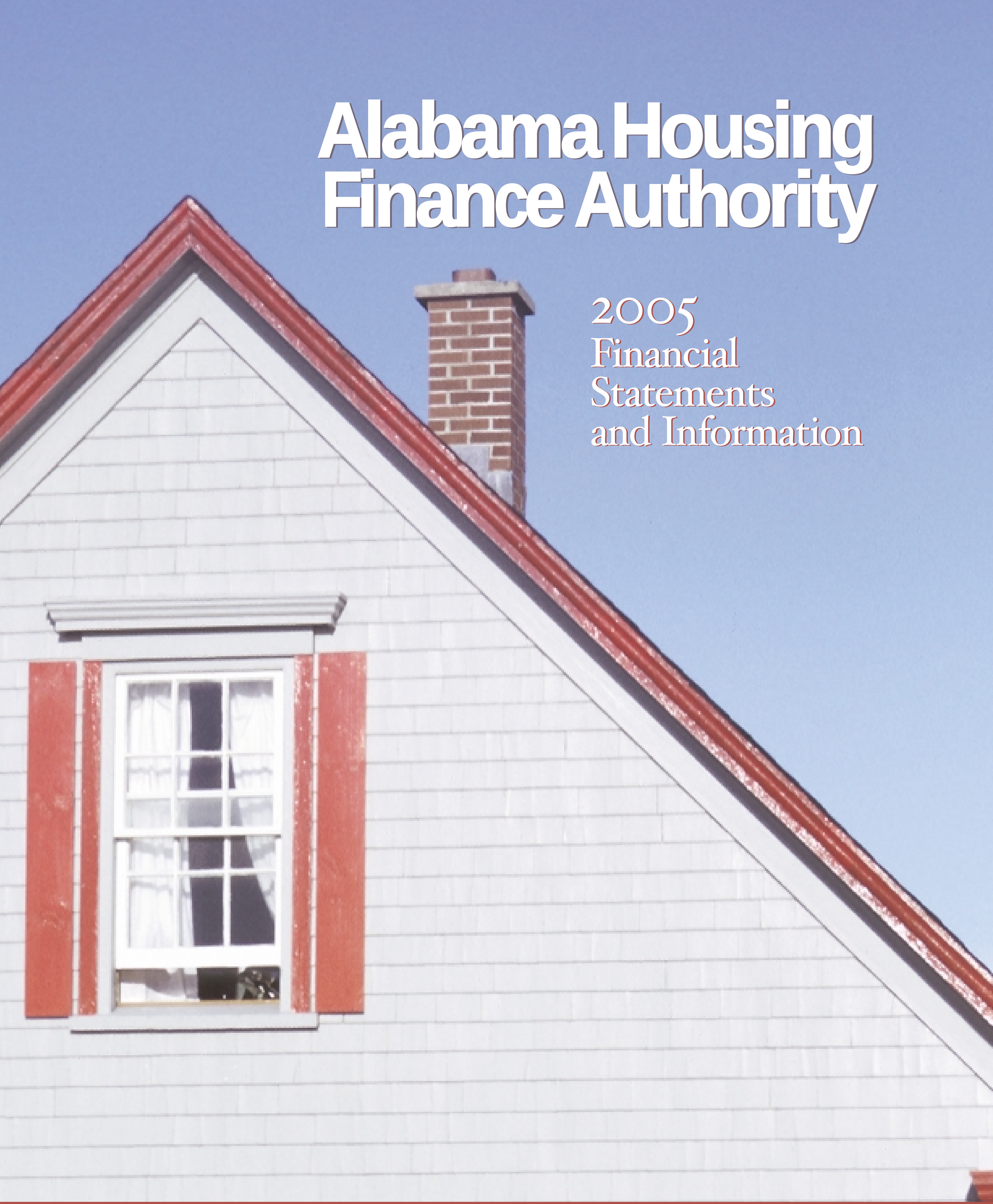
Alabama Housing Finance Authority

2005 Financial Statements and Information



ALABAMA HOUSING FINANCE AUTHORITY

COMPARATIVE FINANCIAL STATEMENTS

SEPTEMBER 30, 2005 AND 2004

ALABAMA HOUSING FINANCE AUTHORITY
SEPTEMBER 30, 2005 AND 2004

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Introduction

This section of the Alabama Housing Finance Authority's ("Authority") annual financial report presents management's discussion and analysis of the financial position and results of operations during the fiscal year ended September 30, 2005. This information is being presented to provide additional information regarding the activities of the Authority and to meet the disclosure requirements of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government*. This analysis should be read in conjunction with the Report of Independent Auditors, the audited financial statements and accompanying notes. Operations of the Authority include issuance of bonds to fund loans to qualified borrowers for single-family houses and multifamily developments. The Authority is entirely self-funded and does not draw upon the general taxing authority of the State.

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

Required Basic Financial Statements

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

All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. This statement measures the activities of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through its services provided.

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, noncapital financing, capital and related financing and investing activities and provides information regarding the sources and uses of cash and the change in the cash balance during the reporting period.

Condensed Financial Information

Condensed Statements of Net Assets

The following table presents condensed information about the net assets of the Authority as of September 30, 2005 and 2004, and changes in the balances of selected items during the fiscal year ended September 30, 2005 (in thousands):

CONDENSED STATEMENTS OF NET ASSETS

	2005	2004	Change
ASSETS			
CURRENT ASSETS			
Cash and restricted cash	$ 5,609	$ 1,795	$ 3,814
Accrued interest receivable and restricted accrued interest	8,076	8,240	(164)
Mortgages and restricted mortgages	4,809	4,979	(170)
Investments and restricted investments	78,255	139,178	(60,923)
Other assets and restricted other assets	2,390	1,398	992
Total current assets	99,139	155,590	(56,451)
NONCURRENT ASSETS			
Mortgages, restricted mortgages and restricted mortgage-backed securities	794,480	888,137	(93,657)
Restricted HOME program mortgages	152,590	134,174	18,416
Investments and restricted investments	108,250	101,706	6,544
Restricted deferred debt financing and servicing costs	10,365	5,657	4,708
Total noncurrent assets	1,065,685	1,129,674	(63,989)
TOTAL ASSETS	$ 1,164,824	$ 1,285,264	$ (120,440)
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Bonds and notes payable	$ 83,671	$ 101,429	$ (17,758)
Accrued interest payable	15,021	17,825	(2,804)
Other liabilities	1,754	1,526	228
Total current liabilities	100,446	120,780	(20,334)
NONCURRENT LIABILITIES			
Bonds and notes payable	678,202	791,993	(113,791)
Refundable HOME program grants	152,590	134,174	18,416
Other liabilities	17,253	27,008	(9,755)
Total noncurrent liabilities	848,045	953,175	(105,130)
TOTAL LIABILITIES	948,491	1,073,955	(125,464)
NET ASSETS			
Invested in capital assets, net of related debt	844	273	571
Restricted	168,433	172,451	(4,018)
Unrestricted	47,056	38,585	8,471
Total net assets	216,333	211,309	5,024
TOTAL LIABILITIES AND NET ASSETS	$ 1,164,824	$ 1,285,264	$ (120,440)

Condensed Statements of Net Assets (Continued)

Current assets decreased $56,451,000 from September 30, 2004, to September 30, 2005, primarily due to a decrease in investments in the single-family bond issues, notably the redemption of a variable rate bond issue and a decrease in the volume of loan repayments received during the last half of 2005. Most of the restricted investment balance is available for bond redemptions and regular debt service payments scheduled for October 1, 2005. See Note 12, "Subsequent Events," for additional information. Cash increased $3,814,000 due to funds received but not invested by the trustee on September 30 that were scheduled for single-family bond debt service and redemptions the following day and additional cash in the Authority's general fund at year end.

Noncurrent assets decreased $63,989,000 due to a decrease in mortgage loans and restricted mortgage-backed securities of $93,657,000 reflecting normal mortgage loan repayments and prepayments during the fiscal year. Restricted HOME program loans increased $18,416,000 due to an increase in lending under this program and new lending under the American Dream Downpayment Initiative. Restricted and unrestricted investments increased $6,544,000 primarily due to a net increase in excess repayments received in the Authority's single-family taxable bond issues and housing assistance fund. This increase was offset by a decrease in investments in the general fund. Restricted deferred debt financing costs increased $4,708,000 reflecting the purchase of mortgage servicing rights related to the transfer of loans to the Authority's servicing department. This increase was offset by a decrease in single-family financing costs due to continuing prepayment of single-family bonds from loan prepayments during 2005.

Total liabilities decreased $125,464,000 due to a decrease in bonds and notes payable, current and noncurrent, of $131,549,000 due to the early redemption of bonds and scheduled debt service payments exceeding the amount of new bonds and notes issued. Refundable HOME program grants increased $18,416,000 due to increased lending activity in that program in addition to new lending under the American Dream Downpayment Initiative. The following chart summarizes the Authority's debt activity from September 30, 2004 to September 30, 2005 (in thousands):

	Debt Balance 9/30/2004	Debt Issued	Debt Paid	Debt Balance 9/30/2005
Bonds payable	$ 891,422	$ 78,895	$ 214,604	$ 755,713
Notes payable	2,000	11,010	6,850	6,160
Refundable HOME program grants	134,174	18,424	8	152,590
	$ 1,027,596	$ 108,329	$ 221,462	$ 914,463

Noncurrent other liabilities decreased $9,755,000 due to a decrease in accrued arbitrage rebates payable related to the net decrease in fair value of mortgage-backed securities. See Note 3, "Mortgage-Backed Securities," for further information.

Revenues, Expenses, and Changes in Net Assets

The following table presents condensed statements of revenues, expenses and changes in net assets for the Authority as of September 30, 2005 and 2004, and the change from the prior year (in thousands):

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	2005	2004	Change
OPERATING REVENUES			
Interest on mortgage loans and mortgage-backed securities	$ 45,288	$ 48,408	$ (3,120)
Investment income	3,582	7,037	(3,455)
Loan fees and other income	3,458	3,063	395
Total operating revenues	52,328	58,508	(6,180)
OPERATING EXPENSES			
Interest on bonds and notes	38,995	43,665	(4,670)
Amortization of deferred debt financing and servicing costs	2,236	2,260	(24)
Program, general and administrative	5,878	4,145	1,733
Total operating expenses	47,109	50,070	(2,961)
OPERATING INCOME	5,219	8,438	(3,219)
CAPITAL CONTRIBUTIONS AND EXTRAORDINARY LOSS			
Owner contributions (reductions)	126	291	(165)
Extraordinary loss on early retirement of bonds	(321)	(159)	(162)
Total capital contributions and extraordinary loss	(195)	132	(327)
CHANGE IN NET ASSETS	5,024	8,570	(3,546)
NET ASSETS AT BEGINNING OF YEAR	211,309	202,739	8,570
NET ASSETS AT END OF YEAR	$ 216,333	$ 211,309	$ 5,024

Interest on mortgage loans and mortgage-backed securities decreased $3,120,000 due to the decrease in mortgage loan and mortgage-backed securities balances during 2005, reflecting the repayments and prepayments discussed in the balance sheet section. Mortgage loans and mortgage-backed securities earning higher rates from older bond issues are prepaying faster than normal and new mortgage-backed securities originated during the fiscal year have lower interest rates; plus, loan originations declined in 2005.

Revenues, Expenses, and Changes in Net Assets (Continued)

Investment income decreased $3,455,000 due to a net decrease in the fair value of mortgage-backed securities and investments. See Note 3, "Mortgage-Backed Securities," for further information. Loan fees and other income increased $395,000 reflecting servicing fee income earned from the Authority's servicing department that was created during 2005.

Interest expense declined $4,670,000 reflecting redemptions of older, higher interest rate bond issues, the continuing low-interest rate environment, management of the Authority's interest costs through issuance of lower fixed interest rate bonds, and normal bond redemptions from mortgage-backed securities repayments and prepayments received during fiscal year 2005.

Program, general and administrative expenses increased $1,733,000 primarily due to an overall increase of expenses in the multi-family bond program and additional general fund expenses related to the addition of the loan servicing department.

Independent Auditors' Report

Board of Directors
Alabama Housing Finance Authority
Montgomery, Alabama

We have audited the accompanying basic financial statements of the Alabama Housing Finance Authority, a component unit of the State of Alabama, as of and for the years ended September 30, 2005 and 2004. These basic financial statements are the responsibility of the Alabama Housing Finance Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Alabama Housing Finance Authority at September 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 5 is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying additional segment data is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the 2005 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2005 basic financial statements taken as a whole.

Wilson, Price, Barranco, Blankenship & Billingsley, P.C.

December 21, 2005

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2005 AND 2004

	2005	2004
	(In thousands)	
ASSETS		
CURRENT ASSETS		
Cash on deposit	$ 3,092	$ 1,790
Accrued interest receivable	220	298
Mortgage loans receivable, net	1,000	615
Investments	63	1,218
Other assets	1,068	1,038
Restricted:		
Cash on deposit	2,517	5
Accrued interest receivable	7,856	7,942
Mortgage loans receivable, net	3,090	2,657
Mortgage loans held for sale	719	1,707
Investments	78,192	137,960
Other assets	1,322	360
Total current assets	99,139	155,590
NONCURRENT ASSETS		
Mortgage loans receivable, net	17,255	15,538
Investments	24,250	18,361
Restricted:		
Mortgage-backed securities	512,106	615,393
Mortgage loans receivable, net	265,119	257,206
Investments	84,000	83,345
HOME program loans receivable, net	152,590	134,174
Deferred debt financing and servicing costs	10,365	5,657
Total noncurrent assets	1,065,685	1,129,674
TOTAL ASSETS	$ 1,164,824	$ 1,285,264

	2005	2004
	(In thousands)	
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Bonds payable, net of unamortized discounts	$ 77,511	$ 99,429
Notes payable	6,160	2,000
Accrued interest payable	15,021	17,825
Accrued arbitrage rebate	1,023	461
Other liabilities	731	1,065
Total current liabilities	100,446	120,780
NONCURRENT LIABILITIES		
Bonds payable, net of unamortized discounts	678,202	791,993
Refundable HOME program grants	152,590	134,174
Accrued arbitrage rebate	8,615	18,719
Deferred commitment fees	8,638	8,289
Total noncurrent liabilities	848,045	953,175
TOTAL LIABILITIES	948,491	1,073,955
NET ASSETS		
Invested in capital assets, net of related debt	844	273
Restricted	168,433	172,451
Unrestricted	47,056	38,585
Total net assets	216,333	211,309
TOTAL LIABILITIES AND NET ASSETS	$ 1,164,824	$ 1,285,264

See independent auditors' report and notes to financial statements.

ALABAMA HOUSING FINANCE AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	2005	2004
	(In thousands)	
OPERATING REVENUES		
Interest on mortgage loans	$ 12,514	$ 10,377
Interest on mortgage-backed securities	32,774	38,031
Investment income	7,661	9,072
Net decrease in fair value of investments	(4,079)	(2,035)
Loan fees and other income	3,458	3,063
Total operating revenues	52,328	58,508
OPERATING EXPENSES		
Interest on bonds and notes	38,995	43,665
Amortization of deferred debt financing and servicing costs	2,236	2,260
Program, general and administrative	5,878	4,145
Total operating expenses	47,109	50,070
OPERATING INCOME	5,219	8,438
NONOPERATING REVENUE (EXPENSE)		
HOME program grants	17,666	15,032
HOME program expenditures	(17,666)	(15,032)
Total nonoperating revenue (expense)	-	-
INCOME BEFORE CAPITAL CONTRIBUTIONS AND EXTRAORDINARY LOSS	5,219	8,438
CAPITAL CONTRIBUTIONS AND EXTRAORDINARY LOSS		
Owner contributions	126	291
Extraordinary loss on early retirement of bonds	(321)	(159)
CHANGE IN NET ASSETS	5,024	8,570
NET ASSETS		
Beginning of the year	211,309	202,739
End of the year	$ 216,333	$ 211,309

See independent auditors' report and notes to financial statements.

ALABAMA HOUSING FINANCE AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	2005	2004
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Purchase of mortgage-backed securities	$ (17,108)	$ (50,112)
Proceeds from sales/maturities of mortgage-backed securities	108,483	137,465
Purchase of mortgage loans	(57,312)	(51,307)
Principal payments received on mortgage loans	46,721	26,355
Purchase of mortgage loans held for sale	(14,754)	(30,336)
Proceeds from mortgage loans held for sale	15,715	38,624
Interest received from mortgage loans	12,673	10,293
Interest received from mortgage-backed securities	33,393	39,054
Payments for arbitrage	(429)	(798)
Cash paid to suppliers for goods and services	(3,984)	(1,883)
Cash payments to employees for services	(2,263)	(1,674)
Loan fees, commitment fees and other income received	3,831	2,210
Net cash provided by operating activities	124,966	117,891
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from bonds issued	78,895	103,094
Net borrowings under line of credit	11,010	3,350
Principal payments on bonds	(214,604)	(254,260)
Payments of debt financing costs	(94)	(133)
Principal payments on note	(6,850)	(5,250)
Proceeds from HOME and ADDI grants, net	18,424	13,271
Contributions/distributions to owners, net	126	291
Interest paid on bonds and note	(42,834)	(48,547)
Net cash used in noncapital financing activities	(155,927)	(188,184)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of furniture and equipment	(827)	(45)
Purchase of mortgage servicing rights	(6,836)	-
Net cash used in capital and related financing activities	(7,663)	(45)

See independent auditors' report and notes to financial statements.

ALABAMA HOUSING FINANCE AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	2005	2004
	(In thousands)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	$ (518,296)	$ (798,341)
Proceeds from sales of investments	572,143	873,609
Interest received from investments	7,015	8,863
HOME program mortgage loans funded	(18,424)	(14,140)
Net cash provided by investing activities	42,438	69,991
NET INCREASE (DECREASE) IN CASH ON DEPOSIT	3,814	(347)
CASH ON DEPOSIT AT BEGINNING OF YEAR	1,795	2,142
CASH ON DEPOSIT AT END OF YEAR	$ 5,609	$ 1,795
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 5,219	$ 8,438
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	257	148
Amortization of deferred debt financing and servicing costs	2,236	2,261
Amortization of deferred commitment fees	(1,753)	(2,000)
Gross unrealized loss on investments	12,441	7,452
Provision for loan losses, net	165	121
Extraordinary loss on early retirement of bonds	(321)	(159)
Commitment fees received	2,103	1,102
Interest received from investments	(7,015)	(8,863)
Interest paid on bonds and notes	42,834	48,546
Changes in operating assets and liabilities:		
Accrued interest receivable	164	207
Mortgage loans receivable	(10,626)	(24,991)
Mortgage loans held for sale	988	8,318
Mortgage-backed securities	91,375	87,353
Other assets	(421)	310
Accrued interest payable	(2,804)	(4,091)
Accrued arbitrage rebate	(9,542)	(6,324)
Other liabilities	(334)	63
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 124,966	$ 117,891

See independent auditors' report and notes to financial statements.

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

Basis of Accounting

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

The Authority uses the accrual method of accounting. The Authority's Program Funds, HOME Fund, Housing Assistance Fund and General Fund have been presented on a combined basis, as the Authority is considered a single enterprise fund for financial reporting purposes. Current assets include cash and amounts convertible to cash during the next normal operating cycle or one year. Current liabilities include those obligations to be liquidated with current assets. All inter-fund balances and transactions have been eliminated in the accompanying financial statements.

Revenues and expenses from the Program Funds, Housing Assistance Fund and General Fund are reported as operating revenues and expenses. Revenues derived from Program Funds serve as security for the single-family and multifamily bond programs.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates in the Preparation of Financial Statements

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

Cash and Cash Equivalents

Cash and cash equivalents 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, 2005, all cash on deposit held by the Authority's trustees was in the name of the Authority. All cash on deposit at September 30, 2005 was covered by federal depository insurance, collateralized by the various financial institutions or the Security for Alabama Funds Enhancement Act.

Investments

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

Investments consist of unexpended bond proceeds, temporary and debt service reserve funds established under the provisions of various trust indentures and investments of the Authority's general fund. In connection with the Authority's 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 uncollateralized investment agreements generally require the issuer to collateralize the principal amount on deposit from time to time in the event the issuer's credit rating drops below acceptable standards. The Authority continually monitors the credit ratings of all parties to guaranteed investment contracts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

The provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, permit the recording of guaranteed investment contracts at cost if the contracts are non-participating. Non-participating contracts are those that are non-negotiable and non-transferable and redeemable at contract or stated value, rather than fair value based on current market rates. All of the Authority's investment contracts are non-participating and are therefore reported at cost. Investments other than non-participating investment contracts are reported at fair value.

In fiscal year 2005, the Authority implemented 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. This pronouncement requires additional disclosure to be presented in the notes but has no impact on the net assets of the Authority.

Mortgage-Backed Securities

Mortgage-backed securities 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.

In accordance with GASB Statement No. 31, investment securities other than non-participating guaranteed investment contracts (see above) are recorded at fair value and unrealized gains or losses are reported in the statements of revenues, expenses and changes in net assets. The Authority records a portion of net unrealized gains on investment securities as a liability to the extent that such gains would be rebateable to the United States government under Section 103A of the Internal Revenue Code, as amended (the Code), for tax-exempt bond issues sold after 1981. Such rebateable earnings, which totaled $9,243,000 in 2005 and $5,875,000 in 2004, are classified as a reduction of unrealized gains on investment securities in the statements of revenues, expenses and changes in net assets. The Code requires that such excess investment earnings be rebated to certain single-family borrowers upon payoff of their respective mortgages or remitted to the Internal Revenue Service. Gains on sales of securities in these bond issues would create excess rebateable earnings. This liability is recorded on the statements of net assets as accrued arbitrage rebate.

Commitment Fees

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Loans Receivable

HOME Program loans include loans originated under the HOME Program. This program is designed to assist very low income tenants, and, as such, some mortgages originated under the program are structured in such a way that repayment will only occur in limited circumstances. The Authority 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, 2005 and 2004.

Deferred Debt Financing Costs

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

Mortgage Servicing Rights

The cost of loan servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenue.

3. MORTGAGE-BACKED SECURITIES

Mortgage-backed securities held by the Authority include securitized mortgage obligations, backed by pools of single-family and multifamily mortgage loans originated under the Authority's program guidelines. These securities are "fully modified pass through" mortgage-backed securities which require monthly payments by an FHA-approved lender, as the issuer of the guaranteed security, and are either insured or registered in the Authority's name. GNMA and FNMA guarantee timely payment of principal and interest on guaranteed securities. At September 30, 2005, mortgage-backed securities consisted of program certificates with interest rates ranging from 4.00% to 8.625%. The cost of program investments at September 30, 2005 and 2004 was $498,908,209 and $590,284,000, respectively. As a result of changes in the fair value of mortgage-backed securities, the Authority recorded unrealized losses of ($2,668,000) and ($815,000) for the years ended September 30, 2005 and 2004, respectively. It is the intention of the Authority to hold these securities until the underlying loan is paid in full.

4. INVESTMENTS

The fair value of investments consisted of the following at September 30 (in thousands):

Investment Type	2005	% of Total	2004	% of Total
Money Market Funds	$ 70,426	38%	$ 86,831	36%
Money Market Mutual Funds	56,540	30%	57,182	24%
Guaranteed Investment Contracts	7,660	4%	30,841	13%
U.S. Government Agency Securities	10,451	6%	12,287	5%
Mortgage-Backed Securities	41,365	22%	53,371	22%
Demand Deposit	63	0%	372	0%
	$ 186,505	100%	$ 240,884	100%

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.

		Investment Maturities in Years (in thousands)			
Investment Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
Money Market Funds	$ 70,426	$ 70,426	$ -	$ -	$ -
Money Market Mutual Funds	56,540	-	54,305	2,235	-
Guaranteed Investment Contracts	7,660	7,358	302	-	-
U.S. Government Agency Securities	10,451	408	10,040	3	-
Mortgage-Backed Securities	41,365	-	3	23	41,339
Demand Deposit	63	63	-	-	-
	$ 186,505	$ 78,255	$ 64,650	$ 2,261	$ 41,339

4. INVESTMENTS (Continued)

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, 2005, the Authority's money market, government and government agency investments in funds were rated Aaa by Moody's Investor Services, with guaranteed investment contracts rated from Aa to Aaa, meeting the criteria of the Authority and rating agencies of those respective bond issues.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of a custodial agent, the Authority may not be able to recover the value of investments or collateral securities that are in the 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. All guaranteed investment contracts are tri-party agreements where third parties hold the underlying investment on behalf of the Authority.

Concentration Risk

Concentration risk is the risk of loss that may be attributed to the magnitude of an investment in a single type of security. The table below lists all investments by investment provider and type as of September 30, 2005 (in thousands).

Provider	Money Market And Other	Guaranteed Investment Contract	U.S. Government	U.S. Agencies	Total	% of Total
AIG	$ -	$ 4,108	$ -	$ -	$ 4,108	2%
AmSouth Bank U.S. Treasury	121	-	-	-	121	0%
Bayerische LB	-	1,033	-	-	1,033	1%
Compass Bank	-	2	-	-	2	0%
Evergreen U.S. Treasury	67,747	-	-	-	67,747	36%
Federated U.S. Treasury obligations	464	-	-	-	464	0%
Federated GNMA Money Market	56,541	-	-	-	56,541	30%
First Commercial Trust UST	88	-	-	-	88	0%
FGIC	-	248	-	-	248	0%
GNMA Mortgage-Backed Securities	-	-	-	41,362	41,362	22%
Goldman U.S. Treasury Only	110	-	-	-	110	0%
JP Morgan U.S. Treasury	849	-	-	-	849	1%
Morgan Guaranty	-	250	-	-	250	0%
Pioneer U.S. Treasury Reserve	176	-	-	-	176	0%
Regions U.S. Treasury	871	-	-	-	871	1%
Trinity	-	121	-	-	121	0%
U.S. Government Agency Securities	-	-	10,451	-	10,451	6%
Wachovia demand deposit mma	63	-	-	-	63	0%
Westdeutsche LB	-	1,900	-	-	1,900	1%
	$ 127,030	$ 7,662	$ 10,451	$ 41,362	$ 186,505	100%

4. INVESTMENTS (Continued)

Concentration Risk (Continued)

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

	2005	2004
Current assets – Investments	$ 63	$ 1,218
Current assets – Restricted Investments	78,192	137,960
Noncurrent assets – Investments	24,250	18,361
Noncurrent assets – Restricted Investments	84,000	83,345
	$ 186,505	$ 240,884

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

	2005	2004
Single-family mortgage loans (5.00% to 13.85%):		
Conventional	$ 12,710	$ 14,047
FHA insured	2,031	2,467
VA insured	2,313	2,745
Step up down payment assistance loans (5.02% to 8.40%)	3,757	3,953
Down payment assistance/habitat loans (0%)	13,051	12,775
	33,862	35,987
Less allowance for loan losses	(708)	(684)
Total single-family mortgages loans	33,154	35,303
Multifamily mortgage loans (2.19% to 7.96%)	253,310	240,713
	$ 286,464	$ 276,016

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. Also, all single-family mortgage loans are insured under supplemental mortgage pool insurance contracts. As of September 30, 2005, 88% of the remaining single-family mortgage loans are insured and 79% have supplemental pool insurance.

5. MORTGAGE LOANS RECEIVABLE (Continued)

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

As of September 30, 2005 the Authority serviced $476 million in loans including $454.6 million serviced for other entities. Escrow balances associated with these loans are not included in the statements of net assets of the Authority.

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

	2005	2004
Current assets – Mortgage loans receivable, net	$ 1,000	$ 615
Current assets – Restricted Mortgage loans receivable, net	3,090	2,657
Noncurrent assets – Mortgage loans receivable, net	17,255	15,538
Noncurrent assets – Restricted Mortgage loans receivable, net	265,119	257,206
	$ 286,464	$ 276,016

6. BONDS PAYABLE

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

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.

6. BONDS PAYABLE (Continued)

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

	Aggregate Principal Outstanding		Original Maturity
	2005	2004	Value
Single-family bond programs:			
1992 Series A converted, 1994 Series A-B, 1995 Series A-B, 1996 Series B-D, 1997 Series A-D, 1998 Series A-B (3.70% to 6.90%) due 1994 to 2029	$ 168,920	$ 235,120	$ 789,250
1999 Series B-C, 2000 Series A-B, 2001 Series A-B, 2002 Series A-C (2.50% to 6.25%, variable), due 2001 to 2032	161,060	240,605	459,105
2000/2003 Step-Up Program (4.42% to 7.80%), due 2001 to 2036	93,944	90,491	110,761
2001 Series C (4.02%), due 2001 to 2006	5,110	11,110	29,110
2002 Series D, 2004 Series A-B, 2005 Series A-B (2.57% to 4.57%), due 2002 to 2010	42,710	30,910	42,250
2003 First Step Program (4.82% to 5.09%), due 2036	714	786	793
Multifamily bond programs:			
1989 Series A-F (6.00% to 7.50%, variable), due 1989 to 2024	2,270	2,420	17,640
1991 Series A-D (5.00% to 7.00%, variable), due 1992 to 2009	2,540	2,710	8,525
1992 Series A-I (5.90% to 7.63%, variable), due 1993 to 2023	1,610	1,690	36,890
1994 Series A-F (7.10% to 7.65%), due 1994 to 2024	-	33,484	51,320
1995 Series A-M (5.65% to 8.65%, variable), due 1996 to 2030	20,608	23,848	32,090
1996 Series A-F (6.20% to 8.10%, variable), due 2000 to 2038	47,635	47,650	53,755
1997 Series A-B (4.00% to 5.55%, variable), due 1999 to 2016	3,835	4,060	10,350
1999 Series A-B (4.80% to 5.70%, variable), due 2000 to 2029	6,535	6,660	7,200
2000 Series A-K (4.25% to 5.95%, variable), due 2003 to 2033	41,245	41,315	45,325
2001 Series A-D (4.875% to 6.83%), due 2013 to 2034	15,935	15,981	16,027
2002 Series A-J (4.65% to 5.55%, variable), due 2012 to 2035	21,780	25,010	31,525
2003 Series A-N (4.255% to 7.25%, variable), due 2006 to 2039	47,428	47,907	55,856
2004 Series A-H (5.20% to 8.00%, variable) due 2008 to 2045	29,607	29,665	29,672
2005 Series A-D (5.025% to 5.625%, variable) due 2006 to 2035	42,227	-	42,248
	755,713	891,422	
Less current maturities	(77,511)	(99,429)	
Noncurrent maturities	$ 678,202	$ 791,993	

6. BONDS PAYABLE (Continued)

Principal and interest payments on bonds after 2005 are scheduled as follows (in thousands):

Fiscal year ending September 30	Single-family Bonds		Multifamily Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	$ 75,461	$ 15,021	$ 2,050	$ 10,506	$ 77,511	$ 25,527
2007	18,280	21,650	1,982	11,113	20,262	32,763
2008	14,015	20,987	8,261	11,014	22,276	32,001
2009	13,530	20,370	3,923	10,531	17,453	30,901
2010	10,555	19,797	2,146	10,423	12,701	30,220
2011-2015	41,010	92,336	17,439	48,698	58,449	141,034
2016-2020	53,410	79,694	11,735	45,420	65,145	125,114
2021-2025	70,900	62,202	20,172	41,453	91,072	103,655
2026-2030	67,690	40,644	71,725	32,233	139,415	72,877
2031-2035	79,422	24,292	105,086	20,329	184,508	44,621
2036-2040	28,185	1,677	37,736	1,387	65,921	3,064
2041-2045	-	-	1,000	148	1,000	148
	$ 472,458	$ 398,670	$ 283,255	$ 243,255	$ 755,713	$ 641,925

7. 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. Outstanding borrowings under the line of credit were $6,160,000 and $2,000,000 as of September 30, 2005 and 2004, respectively. Borrowings under the credit facility are secured by a pledge of approximately $15,617,000 in mortgage loans receivable and mortgage loans held for sale at September 30, 2005.

8. NET ASSETS

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

8. NET ASSETS (Continued)

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

Under the terms of the Authority’s multifamily bond programs, certain funds on hand in excess of stipulated minimum balances are periodically remitted to the owners of the multifamily 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. Therefore, such amounts are reflected as restricted components of net assets.

The Authority’s Board of Directors has designated its unrestricted net assets as of September 30, 2005 and 2004 totaling $47,056,000 and $38,585,000, respectively, for funding of future single-family mortgage revenue bond programs, to support its single-family mortgage loan origination and warehousing operations, and to cover its operating expense budget for the following fiscal year.

9. RETIREMENT PLANS

Money Purchase Thrift 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 Thrift Plan), which provides retirement benefits to Plan participants. The Thrift 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 each participant’s compensation annually. The Authority’s and employees’ contributions to the Thrift Plan were $138,000 and $99,000, respectively, in fiscal 2005 and $126,000 and $90,000, respectively, in fiscal 2004.

Employees’ Pension Plan

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

Benefit provisions are established under a formal, written plan document and assets are held under a separate tax-qualified plan trust. The plan and trust information can be obtained from the Alabama Housing Finance Authority, 2000 Interstate Park, Suite 408, Montgomery, AL 36123-0909. A separate stand-alone financial report for the pension plan is not available.

9. RETIREMENT PLANS (Continued)

The Plan is funded in full by the Alabama Housing Finance Authority. Plan participants do not contribute to the plan. The contribution rates to fund the plan are determined annually by an independent actuarial valuation of plan liabilities and assets. This report contains applicable actuarial assumptions and methods and plan liability and asset calculations including the annual required contribution (ARC).

The required contributions to fund the annual pension cost of the Plan for the years ended September 30, 2005 and 2004 were $452,000 and $372,000, respectively, or about 24.3% and 21.8% of covered participant compensation, respectively. Actual employer contributions to the plan totaled $432,000 and $499,000 for the years ended September 30, 2005 and 2004, respectively. The net pension (asset) obligation at September 30, 2005 and 2004 was ($374,000) and ($382,000).

The annual required contribution for the current year was determined as part of the September 30, 2005 actuarial valuation using the individual spread gain actuarial cost method. This method does not separately identify or separately amortize unfunded liabilities. The significant actuarial assumptions utilized were as follows: 4.5% annual projected salary increases, 7% pre-retirement investment returns and 6% post-retirement investment returns.

At the plan's most recent actuarial date, September 30, 2005, the plan had the following participants:

Active participants	46
Vested terminated participants	1
Retired participants and beneficiaries	0
Total	47

10. OPERATING LEASES

The Authority leases office space under operating leases expiring through 2010. Rent expense for the years ended September 30, 2005 and 2004, totaled $234,000 and $183,000, 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 (in thousands):

2006	$	256
2007		263
2008		270
2009		124
2010		25

11. EARLY RETIREMENT OF BONDS

The Authority's mortgage revenue bonds are subject to certain extraordinary redemption provisions. During the years ended September 30, 2005 and 2004, the Authority called approximately $214,604,000 and $194,215,000 (net of 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 comprised of the premium paid to retire the bonds.

12. SUBSEQUENT EVENTS

From October 1, 2005 through December 21, 2005, the Authority called approximately $49,795,000 of bonds prior to their scheduled maturities in the single-family bond program with none issued. The Authority issued $21,550,000 of bonds in the multi-family bond program during the same time period with none called.

13. RECLASSIFICATIONS

Certain reclassifications have been made to the 2004 financial statements to conform to the 2005 presentation.

OTHER FINANCIAL INFORMATION

ALABAMA HOUSING FINANCE AUTHORITY

STATEMENTS OF NET ASSETS
SINGLE-FAMILY BOND SERIES
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
SEPTEMBER 30, 2005

	1991 D,1992 A, 1994 A-B, 1995 A-C 1996 A-D 1997 A-D 1998 A-B	1999 A-C 2000 A-C 2001 A-B 2002 A-C	2003 First Step	2000/2003 Step Up	2001 C	2002 D 2004 A&B	Combined Single-family
CURRENT ASSETS							
Cash on deposit	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Accrued interest receivable	-	-	-	-	-	-	-
Mortgage loans receivable, net	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-
Restricted:							
Cash on deposit	2,483	1	-	7	-	-	2,491
Accrued interest receivable	1,102	1,134	3	432	180	425	3,276
Mortgage loans receivable, net	-	-	-	-	-	-	-
Mortgage loans held for sale	-	-	-	-	-	-	-
Investments	40,369	27,475	29	2,548	50	3,662	74,133
Other assets	-	-	-	-	-	-	-
Total current assets	43,954	28,610	32	2,987	230	4,087	79,900
NONCURRENT ASSETS							
Mortgage loans receivable, net	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Restricted:							
Mortgage-backed securities	150,323	151,373	707	92,679	20,471	76,975	492,528
Mortgage loans receivable, net	-	-	-	-	-	-	-
Investments	205	2,334	-	-	35,829	27,349	65,717
HOME program loans receivable, net	-	-	-	-	-	-	-
Deferred debt financing and servicing costs	1,519	2,156	105	172	17	170	4,139
Total noncurrent asset	152,047	155,863	812	92,851	56,317	104,494	562,384
TOTAL ASSETS	$ 196,001	$ 184,473	$ 844	$ 95,838	$ 56,547	$ 108,581	$ 642,284
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES							
Bonds payable, net	$ 36,385	$ 19,145	$ 1	$ 2,115	$ 5,110	$ 12,705	$ 75,461
Notes payable	-	-	-	-	-	-	-
Accrued interest payable	4,746	4,547	3	433	2	22	9,753
Accrued arbitrage rebate	75	948	-	-	-	-	1,023
Due to (from) other funds	81	74	-	-	-	-	155
Other liabilities	22	20	-	-	-	-	42
Total current liabilities	41,309	24,734	4	2,548	5,112	12,727	86,434
NONCURRENT LIABILITIES							
Bonds payable, net	132,535	141,915	713	91,829	-	30,005	396,997
Notes payable	-	-	-	-	-	-	-
Refundable HOME program grants	-	-	-	-	-	-	-
Accrued arbitrage rebate payable	4,228	4,387	-	-	-	-	8,615
Deferred commitment fees	-	-	-	-	-	-	-
Total noncurrent liabilities	136,763	146,302	713	91,829	-	30,005	405,612
TOTAL LIABILITIES	178,072	171,036	717	94,377	5,112	42,732	492,046
NET ASSETS							
Restricted	17,929	13,437	127	1,461	51,435	65,849	150,238
Unrestricted	-	-	-	-	-	-	-
Total net assets	17,929	13,437	127	1,461	51,435	65,849	150,238
TOTAL LIABILITIES AND NET ASSETS	$ 196,001	$ 184,473	$ 844	$ 95,838	$ 56,547	$ 108,581	$ 642,284

See independent auditors' report.

ALABAMA HOUSING FINANCE AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
SINGLE-FAMILY BOND SERIES
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	1991 D,1992 A, 1994 A-B, 1995 A-C 1996 A-D 1997 A-D 1998 A-B	1999 A-C 2000 A-C 2001 A-B 2002 A-C	2003 First Step	2000/2003 Step Up	2001 C	2002 D 2004 A&B	Combined Single-family
OPERATING REVENUES							
Interest on mortgage loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interest on mortgage-backed securities	10,893	9,899	38	5,228	1,671	3,885	31,614
Investment income	1,070	1,385	1	12	1,669	1,231	5,368
Net (decrease) in fair value of investments	-	(24)	(5)	(1,262)	(1,420)	(889)	(3,600)
Loan fees and other income	-	-	-	91	-	-	91
Total operating revenues	11,963	11,260	34	4,069	1,920	4,227	33,473
OPERATING EXPENSES							
Interest on bonds and notes	10,351	9,923	38	5,224	333	1,012	26,881
Amortization of deferred debt financing and servicing costs	660	786	15	23	17	111	1,612
Program, general and administrative	48	48	-	28	1	13	138
Total operating expenses	11,059	10,757	53	5,275	351	1,136	28,631
OPERATING INCOME (LOSS)	904	503	(19)	(1,206)	1,569	3,091	4,842
NONOPERATING REVENUES (EXPENSES)							
HOME program grants	-	-	-	-	-	-	-
HOME program expenditures	-	-	-	-	-	-	-
Total nonoperating revenues (expenses)	-	-	-	-	-	-	-
INCOME BEFORE CAPITAL CONTRIBUTIONS, TRANSFERS AND EXTRAORDINARY LOSS	904	503	(19)	(1,206)	1,569	3,091	4,842
CAPITAL CONTRIBUTIONS, TRANSFERS AND EXTRAORDINARY LOSS							
Owner contributions (reductions)	-	-	-	-	-	-	-
Transfers in (out)	(5,768)	(152)	-	(64)	(2,204)	5,121	(3,067)
Extraordinary loss on early retirement of bonds	(321)	-	-	-	-	-	(321)
CHANGES IN NET ASSETS	(5,185)	351	(19)	(1,270)	(635)	8,212	1,454
NET ASSETS							
Beginning of year	23,114	13,086	146	2,731	52,070	57,637	148,784
End of year	$ 17,929	$ 13,437	$ 127	$ 1,461	$ 51,435	$ 65,849	$ 150,238

See independent auditors' report.

ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF NET ASSETS
MULTIFAMILY BOND SERIES
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
SEPTEMBER 30, 2005

	1989 A-F	1991 A-D	1992 A-I	1994 A-F	1995 A-M	1996 A-F
CURRENT ASSETS						
Cash on deposit	$ -	$ -	$ -	$ -	$ -	$ -
Accrued interest receivable	-	-	-	-	-	-
Mortgage loans receivable, net	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Restricted:						
Cash on deposit	-	-	-	-	-	-
Accrued interest receivable	5	5	1	-	150	63
Mortgage loans receivable, net	165	190	20	-	90	-
Mortgage loans held for sale	-	-	-	-	-	-
Investments	74	172	208	-	256	340
Other assets	-	-	-	-	-	-
Total current assets	244	367	229	-	496	403
NONCURRENT ASSETS						
Mortgage loans receivable, net	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Restricted:						
Mortgage-backed securities	-	-	-	-	6,883	2,586
Mortgage loans receivable, net	2,052	2,202	1,933	-	7,605	45,075
Investments	-	-	-	-	6,297	-
HOME program loans receivable, net	-	-	-	-	-	-
Deferred debt financing and servicing costs	-	-	-	-	-	-
Total noncurrent assets	2,052	2,202	1,933	-	20,785	47,661
TOTAL ASSETS	$ 2,296	$ 2,569	$ 2,162	$ -	$ 21,281	$ 48,064
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Bonds payable, net	$ 165	$ 190	$ 50	$ -	$ 230	$ 15
Notes payable	-	-	-	-	-	-
Accrued interest payable	5	5	10	-	188	108
Program funds held for others	-	-	-	-	-	-
Due to (from) other funds	-	-	-	-	-	-
Other liabilities	-	-	-	-	1	-
Total current liabilities	170	195	60	-	419	123
NONCURRENT LIABILITIES						
Bonds payable, net	2,105	2,350	1,560	-	20,378	47,620
Notes payable	-	-	-	-	-	-
Refundable HOME program grants	-	-	-	-	-	-
Program funds held for others	-	-	-	-	-	-
Deferred commitment fees	-	-	-	-	-	-
Total noncurrent liabilities	2,105	2,350	1,560	-	20,378	47,620
TOTAL LIABILITIES	2,275	2,545	1,620	-	20,797	47,743
NET ASSETS						
Restricted	21	24	542	-	484	321
Unrestricted	-	-	-	-	-	-
Total net assets	21	24	542	-	484	321
TOTAL LIABILITIES AND NET ASSETS	$ 2,296	$ 2,569	$ 2,162	$ -	$ 21,281	$ 48,064

1997 A&B	1999 A&B	2000 A-K	2001 A-D	2002 A-J	2003 A-N	2004 A-H	2005 A-D	Combined Multi Family
$ -	$ -	$ -	$ -	$ -	$ -	$	$ -	$ -
-		-	-	-	-	-	-	-
-		-	-	-	-	-	-	-
-		-	-	-	-	-	-	-
-		-	-	-	-	-	-	-
-	-	-	22	-	4	-	-	26
18	29	61	26	34	90	92	17	591
-	-	100	47	195	515	230	38	1,590
-	-	-	-	-	-	-	-	-
336	110	303	175	341	501	749	494	4,059
17	-	-	-	-	-	-	-	17
371	139	464	270	570	1,110	1,071	549	6,283
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	6,541	-	-	-	-	3,568	-	19,578
-	-	41,005	15,880	21,513	46,794	25,473	42,189	251,721
3,742	-	-	-	-	-	-	-	10,039
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
3,742	6,541	41,005	15,880	21,513	46,794	29,041	42,189	281,338
$ 4,113	$ 6,680	$ 41,469	$ 16,150	$ 22,083	$ 47,904	$ 30,112	$ 42,738	$ 287,621
$ 245	$ 130	$ 70	$ 54	$ 195	$ 520	$ 147	$ 39	$ 2,050
-	-	-	-	-	-	-	-	-
34	28	109	119	150	275	105	143	1,279
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	12	-	-	116	12	368	509
279	158	191	173	345	911	264	550	3,838
3,590	6,405	41,175	15,881	21,585	46,908	29,460	42,188	281,205
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
3,590	6,405	41,175	15,881	21,585	46,908	29,460	42,188	281,205
3,869	6,563	41,366	16,054	21,930	47,819	29,724	42,738	285,043
244	117	103	96	153	85	388	-	2,578
-	-	-	-	-	-	-	-	-
244	117	103	96	153	85	388	-	2,578
$ 4,113	$ 6,680	$ 41,469	$ 16,150	$ 22,083	$ 47,904	$ 30,112	$ 42,738	$ 287,621

See independent auditors' report.

ALABAMA HOUSING FINANCE AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
MULTIFAMILY BOND SERIES
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	1989 A-F	1991 A-D	1992 A-I	1994 A-F	1995 A-M	1996 A-F
OPERATING REVENUES						
Interest on mortgage loans	$ 54	$ 57	$ 154	$ 1,879	$ 449	$ 997
Interest on mortgage-backed securities	-	-	-	-	469	168
Investment income	1	2	14	1	374	8
Net increase (decrease) in fair value of investments	-	-	-	-	51	(58)
Loan fees and other income	-	-	-	-	-	-
Total operating revenues	55	59	168	1,880	1,343	1,115
OPERATING EXPENSES						
Interest on bonds and notes	54	57	119	1,879	1,248	1,169
Amortization of deferred debt financing and servicing costs	-	-	-	-	-	-
Program, general and administrative	-	-	2	-	25	22
Total operating expenses	54	57	121	1,879	1,273	1,191
OPERATING INCOME (LOSS)	1	2	47	1	70	(76)
NONOPERATING REVENUES (EXPENSES)						
HOME program grants	-	-	-	-	-	-
HOME program expenditures	-	-	-	-	-	-
Total nonoperating revenues (expenses)	-	-	-	-	-	-
INCOME BEFORE CAPITAL CONTRIBUTIONS, TRANSFERS AND EXTRAORDINARY LOSS	1	2	47	1	70	(76)
CAPITAL CONTRIBUTIONS, TRANSFERS AND EXTRAORDINARY LOSS						
Owner contributions (reductions)	-	-	-	(1)	-	-
Transfers in (out)	-	-	-	-	-	-
Extraordinary loss on early retirement of bonds	-	-	-	-	-	-
CHANGES IN NET ASSETS	1	2	47	-	70	(76)
NET ASSETS						
Beginning of year	20	22	495	-	414	397
End of year	$ 21	$ 24	$ 542	$ -	$ 484	$ 321

1997 A&B	1999 A&B	2000 A-K	2001 A-D	2002 A-J	2003 A-N	2004 A-H	2005 A-D	Combined Multi Family
$ -	$ -	$ 1,213	$ 650	$ 756	$ 2,302	$ 918	$ 913	$ 10,342
-	355	-	-	-	-	168	-	1,160
134	3	10	5	6	18	94	2	672
-	(46)	-	-	-	(2)	70	-	15
-	-	-	-	-	-	-	-	-
134	312	1,223	655	762	2,318	1,250	915	12,189
210	339	1,202	634	733	2,189	1,234	916	11,983
-	-	-	-	-	-	-	-	-
8	10	10	4	4	471	8	-	564
218	349	1,212	638	737	2,660	1,242	916	12,547
(84)	(37)	11	17	25	(342)	8	(1)	(358)
-	-	-	-	-	-		-	-
-	-	-	-	-	-		-	-
-	-	-	-	-	-		-	-
(84)	(37)	11	17	25	(342)	8	(1)	(358)
-	-	(1)	-	-	(49)	176	1	126
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-		-	-
(84)	(37)	10	17	25	(391)	184	-	(232)
328	154	93	79	128	476	204	-	2,810
$ 244	$ 117	$ 103	$ 96	$ 153	$ 85	$ 388	$ -	$ 2,578

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ALABAMA HOUSING FINANCE AUTHORITY

STATEMENTS OF NET ASSETS
COMBINING ALL FUNDS
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Combined Single Family	Combined Multi Family	HOME Fund	Housing Assistance Fund	General Fund	Combined Totals
CURRENT ASSETS						
Cash on deposit	$ -	$ -	$ -	$ 52	$ 3,040	$ 3,092
Accrued interest receivable	-	-	-	58	162	220
Mortgage loans receivable, net	-	-	-	1,000	-	1,000
Investments	-	-	-	-	63	63
Other assets	-	-	-	-	1,068	1,068
Restricted:						
Cash on deposit	2,491	26	-	-	-	2,517
Accrued interest receivable	3,276	591	3,989	-	-	7,856
Mortgage loans receivable, net	-	1,590	-	-	1,500	3,090
Mortgage loans held for sale	-	-	-	-	719	719
Investments	74,133	4,059	-	-	-	78,192
Other assets	-	17	461	-	844	1,322
Total current assets	79,900	6,283	4,450	1,110	7,396	99,139
NONCURRENT ASSETS						
Mortgage loans receivable, net	-	-	-	17,255	-	17,255
Investments	-	-	-	22,563	1,687	24,250
Restricted:						
Mortgage-backed securities	492,528	19,578	-	-	-	512,106
Mortgage loans receivable, net	-	251,721	-	-	13,398	265,119
Investments	65,717	10,039	-	-	8,244	84,000
HOME program loans receivable, net	-	-	152,590	-	-	152,590
Deferred debt financing and servicing costs	4,139	-	-	-	6,226	10,365
Total noncurrent assets	562,384	281,338	152,590	39,818	29,555	1,065,685
TOTAL ASSETS	$ 642,284	$ 287,621	$ 157,040	$ 40,928	$ 36,951	$ 1,164,824
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Bonds payable, net	$ 75,461	$ 2,050	$ -	$ -	$ -	$ 77,511
Notes payable	-	-	-	-	6,160	6,160
Accrued interest payable	9,753	1,279	3,989	-	-	15,021
Program funds held for others	1,023	-	-	-	-	1,023
Due to (from) other funds	155	-	461	(108)	(508)	-
Other liabilities	42	509	-	-	180	731
Total current liabilities	86,434	3,838	4,450	(108)	5,832	100,446
NONCURRENT LIABILITIES						
Bonds payable, net	396,997	281,205	-	-	-	678,202
Notes payable	-	-	-	-	-	-
Refundable HOME program grants	-	-	152,590	-	-	152,590
Accrued arbitrage rebate payable	8,615	-	-	-	-	8,615
Deferred commitment fees	-	-	-	-	8,638	8,638
Total noncurrent liabilities	405,612	281,205	152,590	-	8,638	848,045
TOTAL LIABILITIES	492,046	285,043	157,040	(108)	14,470	948,491
NET ASSETS						
Restricted	150,238	2,578	-	-	16,461	169,277
Unrestricted	-	-	-	41,036	6,020	47,056
Total net assets	150,238	2,578	-	41,036	22,481	216,333
TOTAL LIABILITIES AND NET ASSETS	$ 642,284	$ 287,621	$ 157,040	$ 40,928	$ 36,951	$ 1,164,824

See independent auditors' report.

ALABAMA HOUSING FINANCE AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
COMBINING ALL FUNDS
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Combined Single Family	Combined Multi Family	HOME Fund	Housing Assistance Fund	General Fund	Combined Totals
OPERATING REVENUES						
Interest on mortgage loans	$ -	$ 10,342	$ -	$ 321	$ 1,851	$ 12,514
Interest on mortgage-backed securities	31,614	1,160	-	-	-	32,774
Investment income	5,368	672	-	746	875	7,661
Net increase (decrease) in fair value of investments	(3,600)	15	-	(272)	(222)	(4,079)
Loan fees and other income	91	-	-	12	3,355	3,458
Total operating revenues	33,473	12,189	-	807	5,859	52,328
OPERATING EXPENSES						
Interest on bonds and notes	26,881	11,983	-	-	131	38,995
Amortization of deferred debt financing and servicing costs	1,612	-	-	-	624	2,236
Program, general and administrative	138	564	-	170	5,006	5,878
Total operating expenses	28,631	12,547	-	170	5,761	47,109
OPERATING INCOME (LOSS)	4,842	(358)	-	637	98	5,219
NONOPERATING REVENUES (EXPENSES)						
HOME program grants	-	-	17,666	-	-	17,666
HOME program expenditures	-	-	(17,666)	-	-	(17,666)
Total nonoperating revenues (expenses)	-	-	-	-	-	-
INCOME BEFORE CAPITAL CONTRIBUTIONS, TRANSFERS AND EXTRAORDINARY LOSS	4,842	(358)	-	637	98	5,219
CAPITAL CONTRIBUTIONS, TRANSFERS AND EXTRAORDINARY LOSS						
Owner contributions (reductions)	-	126	-	-	-	126
Transfers in (out)	(3,067)	-	-	10,000	(6,933)	-
Extraordinary loss on early retirement of bonds	(321)	-	-	-	-	(321)
CHANGES IN NET ASSETS	1,454	(232)	-	10,637	(6,835)	5,024
NET ASSETS						
Beginning of year	148,784	2,810	-	30,399	29,316	211,309
End of year	$ 150,238	$ 2,578	$ -	$ 41,036	$ 22,481	$ 216,333

See independent auditors' report.

ALABAMA HOUSING FINANCE AUTHORITY

P.O. Box 230909
Montgomery, Alabama
36123-0909

2000 Interstate Park Drive
Suite 408
Montgomery, Alabama
36109

334/244-9200
334/271-6785 (TTY)
www.ahfa.com