# ALABAMA HOUSING FINANCE AUTHORITY

## COMPARATIVE FINANCIAL STATEMENTS

## SEPTEMBER 30, 2007 AND 2006

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### *Introduction*

This section of the annual financial report of the Alabama Housing Finance Authority (Authority) presents management's discussion and analysis of the financial position and results of operations during the fiscal year ended September 30, 2007. 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 Independent Auditors' Report, 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 of Alabama.

The financial transactions of the Authority are recorded in the funds, which consist of a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses as appropriate. Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 presentation.

### *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 presents the resulting change in net assets – calculated as revenues less expenses.

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

### *Condensed Financial Information*

### *Condensed Statements of Net Assets*

The following table presents condensed information about the net assets of the Authority as of September 30, 2007 and 2006, and changes in the balances of selected items during the fiscal year ended September 30, 2007 (in thousands):

**CONDENSED STATEMENTS OF NET ASSETS**

| | 2007 | 2006 | Change |
|---|---|---|---|
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash and restricted cash | $ 4,825 | $ 3,603 | $ 1,222 |
| Accrued interest receivable and restricted accrued interest | 11,807 | 10,026 | 1,781 |
| Mortgages and restricted mortgages | 38,391 | 23,562 | 14,829 |
| Investments and restricted investments | 276,566 | 161,262 | 115,304 |
| Other assets and restricted other assets | 1,442 | 1,611 | (169) |
| Total current assets | 333,031 | 200,064 | 132,967 |
| **NONCURRENT ASSETS** | | | |
| Mortgages, restricted mortgages and restricted mortgage-backed securities | 832,454 | 722,280 | 110,174 |
| Restricted HOME program mortgages | 187,476 | 161,579 | 25,897 |
| Investments and restricted investments | 40,293 | 52,517 | (12,224) |
| Other assets and restricted other assets | 1,062 | 1,415 | (353) |
| Deferred servicing costs and restricted deferred debt financing | 15,746 | 10,216 | 5,530 |
| Total noncurrent assets | 1,077,031 | 948,007 | 129,024 |
| **TOTAL ASSETS** | $ 1,410,062 | $ 1,148,071 | $ 261,991 |
| **LIABILITIES AND NET ASSETS** | | | |
| **CURRENT LIABILITIES** | | | |
| Bonds and notes payable | $ 59,183 | $ 55,126 | $ 4,057 |
| Accrued interest payable | 18,790 | 13,829 | 4,961 |
| Other liabilities | 805 | 991 | (186) |
| Total current liabilities | 78,778 | 69,946 | 8,832 |
| **NONCURRENT LIABILITIES** | | | |
| Bonds and notes payable | 902,820 | 681,818 | 221,002 |
| Refundable HOME program grants | 187,476 | 163,233 | 24,243 |
| Other liabilities | 17,082 | 13,282 | 3,800 |
| Total noncurrent liabilities | 1,107,378 | 858,333 | 249,045 |
| **TOTAL LIABILITIES** | 1,186,156 | 928,279 | 257,877 |
| **NET ASSETS** | | | |
| Invested in capital assets, net of related debt | 724 | 617 | 107 |
| Restricted | 175,341 | 172,589 | 2,752 |
| Unrestricted | 47,841 | 46,586 | 1,255 |
| Total net assets | 223,906 | 219,792 | 4,114 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 1,410,062 | $ 1,148,071 | $ 261,991 |

***Condensed Statements of Net Assets (Continued)***

Current assets increased $132,967,000 from September 30, 2006 to September 30, 2007, primarily due to an increase in restricted investments of $115,304,000 in the single-family and multifamily bond issues relating to bond proceeds received and loan prepayments received during the last half of 2007. Most of the restricted investment balance is held for bond redemptions and regular debt service payments scheduled for October 1, 2007. See Note 12, "Subsequent Events," for further information. Additional restricted investments are available for mortgage loan origination. Investments in the housing assistance fund declined over $5,720,000 due to the purchase of down payment assistance loans, which are classified as unrestricted mortgages in noncurrent assets. Mortgages, restricted and unrestricted, increased $14,829,000 due to an increase in mortgage loans held for sale at year-end, with these loans scheduled to be pooled into mortgage-backed securities. Restricted and unrestricted cash increased $1,222,000 because of investment income received in various bond issues on September 30, 2007, that was uninvested. This increase was net of a decrease of cash in the HOME fund for program grants received but not expended at the end of the fiscal year.

Noncurrent assets climbed $129,024,000 primarily due to an increase of $110,174,000 in mortgage loans and mortgage-backed securities, reflecting an increase in loan volume, net of normal mortgage loan repayments and prepayments received during the fiscal year. Restricted HOME program loans increased $25,897,000 due to an increase in lending under this program. Restricted and unrestricted investments declined $12,224,000 primarily due to changes of investment classification from noncurrent assets to current assets in the multifamily and single-family programs and a reduction of investment balances in the housing assistance and general funds in comparison to the prior year-end. Deferred servicing costs and restricted deferred debt financing increased $5,530,000, reflecting new unamortized bond issuance costs and additional loan fees paid from the general fund.

Current liabilities increased $8,832,000 from September 30, 2006 to September 30, 2007, primarily due to increases in bonds and notes payable classified as current and scheduled for maturity or redemption in the next twelve months. Accrued interest payable also realized an increase, reflecting the overall increase of bonds outstanding, current and noncurrent.

Noncurrent liabilities climbed $249,045,000, primarily due to the Authority's issuance of new bonds in the past fiscal year. Refundable HOME program grants increased $24,243,000 due to increased lending activity in that program. Other liabilities' increase of $3,800,000 reflects additional arbitrage rebate payable related to new single-family bonds issued and deferred commitment fees received from the Authority's customers. See Note 2, "*Summary of Significant Accounting Policies – Commitment Fees,*" for more information. The following chart summarizes the Authority's debt activity from September 30, 2006 to September 30, 2007 (in thousands):

| | Debt Balance 9/30/2006 | Debt Issued | Debt Paid | Debt Balance 9/30/2007 |
|---|---|---|---|---|
| Bonds payable | $ 724,132 | $ 497,321 | $ 259,450 | $ 962,003 |
| Notes payable | 12,812 | 150,375 | 163,187 | - |
| Refundable HOME program grants | 163,233 | 24,707 | 464 | 187,476 |
| | $ 900,177 | $ 672,403 | $ 423,101 | $ 1,149,479 |

***Revenues, Expenses, and Changes in Net Assets***

The following table presents condensed statements of revenues, expenses and changes in net assets for the Authority for the years ended September 30, 2007 and 2006, and the change from the prior year (in thousands):

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

| | 2007 | 2006 | Change |
|---|---|---|---|
| **OPERATING REVENUES** | | | |
| Interest on mortgage loans and mortgage-backed securities | $ 42,052 | $ 40,384 | $ 1,668 |
| Investment income | 9,153 | 2,064 | 7,089 |
| Loan fees and other income | 7,040 | 6,331 | 709 |
| Total operating revenues | 58,245 | 48,779 | 9,466 |
| **OPERATING EXPENSES** | | | |
| Interest on bonds and notes | 43,176 | 34,987 | 8,189 |
| Amortization of deferred debt financing and servicing costs | 2,022 | 2,377 | (355) |
| Program, general and administrative | 8,634 | 7,504 | 1,130 |
| Total operating expenses | 53,832 | 44,868 | 8,964 |
| **OPERATING INCOME** | 4,413 | 3,911 | 502 |
| **CAPITAL CONTRIBUTIONS AND EXTRAORDINARY LOSS** | | | |
| Owner contributions (reductions) | 253 | 328 | (75) |
| Extraordinary loss on early retirement of bonds | (552) | (780) | 228 |
| Total capital contributions and extraordinary loss | (299) | (452) | 153 |
| **CHANGES IN NET ASSETS** | 4,114 | 3,459 | 655 |
| **NET ASSETS AT BEGINNING OF YEAR** | 219,792 | 216,333 | 3,459 |
| **NET ASSETS AT END OF YEAR** | $ 223,906 | $ 219,792 | $ 4,114 |

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

Interest on mortgage loans and mortgage-backed securities increased $1,668,000 due to the overall increase in mortgage loan and mortgage-backed securities balances during 2007, net of repayments and prepayments received on older loans and mortgage-backed securities. Investment income increased $7,089,000, reflecting full-year income received on newer bond issues compared to the last fiscal year. Loan fees and other income also increased due to increased mortgage originations.

Interest expense rose $8,189,000 reflecting the previously noted increase in bonds outstanding (see comments on noncurrent liabilities). Program, general and administrative expenses increased $1,130,000, mainly reflecting an increase in loan loss reserves in the housing assistance fund.

## 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, 2007 and 2006. 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, 2007 and 2006, 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 2007 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2007 basic financial statements taken as a whole.

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

January 14, 2008

# ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2007 AND 2006

| | 2007 | 2006 |
|---|---|---|
| | (In thousands) | |
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash on deposit | $ 1,895 | $ 1,949 |
| Accrued interest receivable | 228 | 174 |
| Mortgage loans receivable, net | 1,100 | 1,000 |
| Investments | 3,963 | 9,598 |
| Other assets | 931 | 1,097 |
| Restricted: | | |
| Cash on deposit | 2,930 | 1,654 |
| Accrued interest receivable | 11,579 | 9,852 |
| Mortgage loans receivable, net | 3,237 | 4,313 |
| Mortgage loans held for sale | 34,054 | 18,249 |
| Investments | 272,603 | 151,664 |
| Other assets | 511 | 514 |
| Total current assets | 333,031 | 200,064 |
| **NONCURRENT ASSETS** | | |
| Mortgage loans receivable, net | 28,630 | 20,394 |
| Investments | 12,219 | 14,592 |
| Other assets | 1,062 | 1,415 |
| Deferred servicing costs | 10,621 | 6,617 |
| Restricted: | | |
| Mortgage-backed securities | 597,506 | 445,723 |
| Mortgage loans receivable, net | 206,318 | 256,163 |
| Investments | 28,074 | 37,925 |
| HOME program loans receivable, net | 187,476 | 161,579 |
| Deferred debt financing costs | 5,125 | 3,599 |
| Total noncurrent assets | 1,077,031 | 948,007 |
| **TOTAL ASSETS** | $ 1,410,062 | $ 1,148,071 |

| | 2007 | 2006 |
|---|---|---|
| | (In thousands) | |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Bonds payable, net of unamortized premiums | $ 59,183 | $ 42,314 |
| Notes payable | - | 12,812 |
| Accrued interest payable | 18,790 | 13,829 |
| Accrued arbitrage rebate | 85 | 184 |
| Other liabilities | 720 | 807 |
| Total current liabilities | 78,778 | 69,946 |
| **NONCURRENT LIABILITIES** | | |
| Bonds payable, net of unamortized premiums | 902,820 | 681,818 |
| Refundable HOME program grants | 187,476 | 163,233 |
| Accrued arbitrage rebate | 4,294 | 2,783 |
| Deferred commitment fees | 12,788 | 10,499 |
| Total noncurrent liabilities | 1,107,378 | 858,333 |
| **TOTAL LIABILITIES** | 1,186,156 | 928,279 |
| **NET ASSETS** | | |
| Invested in capital assets, net of related debt | 724 | 617 |
| Restricted | 175,341 | 172,589 |
| Unrestricted | 47,841 | 46,586 |
| Total net assets | 223,906 | 219,792 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 1,410,062 | $ 1,148,071 |

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, 2007 AND 2006

| | 2007 | 2006 |
|---|---|---|
| | (In thousands) | |
| **OPERATING REVENUES** | | |
| Interest on mortgage loans | $ 13,377 | $ 12,971 |
| Interest on mortgage-backed securities | 28,675 | 27,413 |
| Investment income | 16,459 | 8,411 |
| Net decrease in fair value of investments | (7,306) | (6,347) |
| Loan fees and other income | 7,040 | 6,331 |
| Total operating revenues | 58,245 | 48,779 |
| **OPERATING EXPENSES** | | |
| Interest on bonds and notes | 43,176 | 34,987 |
| Amortization of deferred debt financing and servicing costs | 2,022 | 2,377 |
| Program, general and administrative | 8,634 | 7,504 |
| Total operating expenses | 53,832 | 44,868 |
| **OPERATING INCOME** | 4,413 | 3,911 |
| **NONOPERATING REVENUE (EXPENSE)** | | |
| HOME program grants | 27,523 | 10,430 |
| HOME program expenditures | (27,523) | (10,430) |
| Total nonoperating revenue (expense) | - | - |
| **INCOME BEFORE CAPITAL CONTRIBUTIONS AND EXTRAORDINARY LOSS** | 4,413 | 3,911 |
| **CAPITAL CONTRIBUTIONS AND EXTRAORDINARY LOSS** | | |
| Owner contributions | 253 | 328 |
| Extraordinary loss on early retirement of bonds | (552) | (780) |
| **CHANGES IN NET ASSETS** | 4,114 | 3,459 |
| **NET ASSETS** | | |
| Beginning of the year | 219,792 | 216,333 |
| End of the year | $ 223,906 | $ 219,792 |

See independent auditors' report and notes to financial statements.

# ALABAMA HOUSING FINANCE AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

| | 2007 | 2006 |
|---|---|---|
| | (In thousands) | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Purchase of mortgage-backed securities | $ (225,015) | $ (30,603) |
| Proceeds from sales/maturities of mortgage-backed securities | 65,263 | 87,225 |
| Purchase of mortgage loans | (24,957) | (21,142) |
| Principal payments received on mortgage loans | 67,326 | 24,678 |
| Purchase of mortgage loans held for sale | (297,515) | (80,681) |
| Proceeds from mortgage loans held for sale | 281,454 | 63,103 |
| Interest received from mortgage loans | 13,338 | 13,123 |
| Interest received from mortgage-backed securities | 31,870 | 27,051 |
| Payments for arbitrage | (146) | (905) |
| Cash paid to suppliers for goods and services | (4,417) | (4,785) |
| Cash payments to employees for services | (2,832) | (2,656) |
| Loan fees, commitment fees and other income received | 9,329 | 8,193 |
| Net cash provided (used) by operating activities | (86,302) | 82,601 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| Proceeds from bonds issued | 497,320 | 135,905 |
| Borrowings under line of credit | 150,375 | 42,718 |
| Principal payments on bonds | (259,450) | (167,486) |
| Payments of debt financing costs | (2,636) | (767) |
| Payments on line of credit | (163,187) | (36,066) |
| Proceeds from HOME and ADDI grants, net | 24,244 | 10,643 |
| Contributions/distributions to owners, net | 252 | 657 |
| Interest paid on bonds and note | (39,656) | (37,752) |
| Net cash provided (used) in noncapital financing activities | 207,262 | (52,148) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Purchase of furniture and equipment | (477) | (84) |
| Purchase of mortgage service release premiums | (4,918) | (1,460) |
| Net cash used in capital and related financing activities | (5,395) | (1,544) |

See independent auditors' report and notes to financial statements.

# ALABAMA HOUSING FINANCE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

| | 2007 | 2006 |
|---|---|---|
| | (In thousands) | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of investments | $ (971,278) | $ (677,191) |
| Proceeds from sales of investments | 868,290 | 649,360 |
| Interest received from investments | 14,542 | 5,905 |
| HOME program mortgage loans funded | (25,897) | (8,989) |
| Net cash used by investing activities | (114,343) | (30,915) |
| **NET INCREASE (DECREASE) IN CASH ON DEPOSIT** | 1,222 | (2,006) |
| **CASH ON DEPOSIT AT BEGINNING OF YEAR** | 3,603 | 5,609 |
| **CASH ON DEPOSIT AT END OF YEAR** | $ 4,825 | $ 3,603 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES** | | |
| Operating income | $ 4,413 | $ 3,911 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | |
| Depreciation | 283 | 311 |
| Amortization of deferred debt financing and servicing costs | 2,024 | 2,377 |
| Amortization of deferred commitment fees | (1,724) | (1,902) |
| Gross unrealized loss on investments | 7,877 | 10,322 |
| Loss on disposal of fixed asset | 88 | - |
| Provision for loan losses, net | 941 | 314 |
| Extraordinary loss on early retirement of bonds | (552) | (780) |
| Commitment fees received | 4,012 | 3,763 |
| Interest received from investments | (14,542) | (6,234) |
| Interest paid on bonds and notes | 39,656 | 37,752 |
| Changes in operating assets and liabilities: | | |
| Accrued interest receivable | (1,781) | (1,950) |
| Mortgage loans receivable | 42,105 | 3,480 |
| Mortgage loans held for sale | (15,805) | (17,530) |
| Mortgage-backed securities | (159,752) | 56,622 |
| Other assets | 169 | (67) |
| Accrued interest payable | 4,961 | (1,194) |
| Accrued arbitrage rebate | 1,412 | (6,670) |
| Other liabilities | (87) | 76 |
| **NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES** | $ (86,302) | $ 82,601 |

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, among other things, to issue bonds to finance residential housing for persons and families of low and moderate income in the State of Alabama. The Authority is a component unit of the State of Alabama.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Basis of Accounting*

The Authority's accounts are organized as funds, which include accounts of the assets, 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, 2007, all cash on deposit held by the Authority's trustees was in the name of the Authority. All cash on deposit at September 30, 2007 was covered by federal depository insurance or collateralized by the various financial institutions.

***Investments***

The Act authorizes the Authority to invest in bonds or other obligations issued or guaranteed by the U.S. Government, any agency thereof, or the State of Alabama. In addition, the Authority may invest in interest-bearing bank and savings and loan association deposits, any obligations in which a State chartered savings and loan association may invest its funds, any agreement to repurchase any of the foregoing, or any combination thereof. Each of the trust indentures established under the Authority's bond programs contains further restrictions on the investment of 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 and housing assistance funds. 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.

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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Investments (Continued)***

The Authority follows the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 addresses disclosures on deposits and investments, focusing on common investment risks related to interest rate risk, credit risk, custodial credit risk, foreign currency risk and concentration of credit risk. 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 (Ginnie Mae) or Fannie Mae 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 $919,000 in 2007 and $5,780,000 in 2006, 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. Commitment fees related to loans pooled and sold in secondary markets are recognized at the time of sale.

***Mortgage Loans Receivable***

Mortgage loans are carried at their unpaid principal balances less an allowance for loan losses. Management determines the allowance for loan losses based on historical losses and current economic conditions as well as its evaluation of the loan portfolio and the underlying security.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***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, which were closed in 1994, are not recorded as assets or liabilities of the Authority and totaled $2,950,000 at September 30, 2007 and 2006.

***Deferred Debt Financing Costs***

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

***Mortgage Servicing Rights***

The Authority follows the provisions of Statement of Financial Accounting Standards No. 65, entitled *Accounting for Certain Mortgage Banking Activities.* In accordance with those standards, the cost of loan servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenue.

***Other Real Estate Owned***

The Authority states its other real estate owned acquired through foreclosure without further obligation to security holders, which is included in noncurrent other assets, at the lower of cost or fair value at the date of foreclosure. Fair value is determined based on independent appraisals and other relevant factors. Any write-down to fair value at the time of foreclosure is charged to an allowance for loan losses. The Authority held properties totaling approximately $338,000 and $161,000 at September 30, 2007 and 2006, respectively.

## 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 or a Fannie Mae-approved lender, as the issuers of the guaranteed securities, and are either insured or registered in the Authority’s name. Ginnie Mae and Fannie Mae guarantee timely payment of principal and interest on guaranteed securities. At September 30, 2007, 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, 2007 and 2006 was $602,038,414 and $442,286,068, respectively. As a result of changes in the fair value of mortgage-backed securities, the Authority recorded unrealized losses of $7,050,000 and $3,981,000 for the years ended September 30, 2007 and 2006, respectively. It is the intention of the Authority to hold these securities until the underlying loan is paid in full.

## 4. INVESTMENTS

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

| Investment Type | 2007 | % of Total | 2006 | % of Total |
|---|---|---|---|---|
| Money Market Funds | $ 49,465 | 16% | $ 67,401 | 32% |
| Money Market Mutual Funds | 12,145 | 4% | 11,614 | 5% |
| Guaranteed Investment Contracts | 220,100 | 69% | 92,546 | 43% |
| U.S. Government Agency Securities | 6,223 | 2% | 10,043 | 5% |
| Mortgage-Backed Securities | 27,220 | 8% | 32,149 | 15% |
| Certificates of Deposit | 1,706 | 1% | - | 0% |
| Demand Deposit | - | 0% | 26 | 0% |
| | $ 316,859 | 100% | $ 213,779 | 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 | $ 49,465 | $ 49,465 | $ - | $ - | $ - |
| Money Market Mutual Funds | 12,145 | - | 12,145 | - | - |
| Guaranteed Investment Contracts | 220,100 | 217,419 | 2,681 | - | - |
| U.S. Government Agency Securities | 6,223 | 6,223 | - | - | - |
| Mortgage-Backed Securities | 27,220 | - | 2 | 11 | 27,207 |
| Certificates of Deposit | 1,706 | 1,706 | - | - | - |
| | $ 316,859 | $ 274,813 | $ 14,828 | $ 11 | $ 27,207 |

## 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, 2007, 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, 2007 (in thousands).

| Provider | Money Market And Other | Guaranteed Investment Contract | U.S. Government | U.S. Agencies | Certificates of Deposit | Total | Percent |
|---|---|---|---|---|---|---|---|
| AIG | $ - | $ 11,862 | $ - | $ - | $ - | $ 11,862 | 4% |
| American Savings Bank | - | - | - | - | 100 | 100 | 0% |
| Bank of Evansville | 100 | - | - | - | - | 100 | 0% |
| Bayerische LB | - | 164,518 | - | - | - | 164,518 | 52% |
| CIB Maine Bank | 100 | - | - | - | - | 100 | 0% |
| Citizen's Financial Bank | 100 | - | - | - | - | 100 | 0% |
| Federated Government Obligations | 3,755 | - | - | - | - | 3,755 | 1% |
| Federated U.S. Treasury Obligations | 396 | - | - | - | - | 396 | 0% |
| Federated GNMA Money Market | 12,145 | - | - | - | - | 12,145 | 4% |
| Fifth Third Bank | 100 | - | - | - | - | 100 | 0% |
| First American Treasury Obligations | 41,309 | - | - | - | - | 41,309 | 13% |
| First Commercial Trust UST | 123 | - | - | - | - | 123 | 0% |
| First Federal Savings Bank | 100 | - | - | - | - | 100 | 0% |
| First Indiana Bank | - | - | - | - | 101 | 101 | 0% |
| Five Points Bank | 100 | - | - | - | - | 100 | 0% |
| FGIC | - | 284 | - | - | - | 284 | 0% |
| Flagstar Bank | - | - | - | - | 100 | 100 | 0% |
| GNMA Mortgage-Backed Securities | - | - | - | 27,220 | - | 27,220 | 9% |
| Goldman U.S. Treasury Only | 151 | - | - | - | - | 151 | 0% |
| Heritage Bank | 100 | - | - | - | - | 100 | 0% |
| Huntington Bank | 100 | - | - | - | - | 100 | 0% |

## 4. INVESTMENTS (Continued)

### *Concentration Risk (Continued)*

| Provider | Money Market And Other | Guaranteed Investment Contract | U.S. Government | U.S. Agencies | Certificates of Deposit | Total | Percent |
|---|---|---|---|---|---|---|---|
| HYPO Public Finance | $ - | $ 2,362 | $ - | $ - | $ - | $ 2,362 | 1% |
| International City Bank | - | - | - | - | 100 | 100 | 0% |
| Irwin Union Bank | - | - | - | - | 100 | 100 | 0% |
| JP Morgan Chase Bank | - | - | - | - | 100 | 100 | 0% |
| JP Morgan U.S. Treasury | 1,776 | - | - | - | - | 1,776 | 1% |
| Key Bank | 100 | - | - | - | - | 100 | 0% |
| Keystone Bank | - | - | - | - | 103 | 103 | 0% |
| LaSalle Bank | - | - | - | - | 101 | 101 | 0% |
| Mainsouce Bank | - | - | - | - | 100 | 100 | 0% |
| Morgan Guaranty | - | 1,698 | - | - | - | 1,698 | 1% |
| Mutual Federal Savings Bank | 100 | - | - | - | - | 100 | 0% |
| National City Bank | - | - | - | - | 100 | 100 | 0% |
| Pallas Capital Corp. | - | 34,456 | - | - | - | 34,456 | 11% |
| People’s Bank | - | - | - | - | 100 | 100 | 0% |
| Regions Bank | - | - | - | - | 100 | 100 | 0% |
| Regions U.S. Treasury | 849 | - | - | - | - | 849 | 0% |
| River Bank & Trust | 106 | - | - | - | - | 106 | 0% |
| Salin Bank | - | - | - | - | 100 | 100 | 0% |
| Sky Bank | - | - | - | - | 101 | 101 | 0% |
| Strategic Capital Bank | - | - | - | - | 100 | 100 | 0% |
| U.S. Government Agency Securities | - | - | 6,223 | - | - | 6,223 | 2% |
| United Fidelity Bank | - | - | - | - | 100 | 100 | 0% |
| Valley View Bank | - | - | - | - | 100 | 100 | 0% |
| Westdeutsche LB | - | 4,920 | - | - | - | 4,920 | 1% |
| | $ 61,610 | $ 220,100 | $ 6,223 | $ 27,220 | $ 1,706 | $ 316,859 | 100% |

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

| | 2007 | 2006 |
|---|---|---|
| Current assets – Investments | $ 3,963 | $ 9,598 |
| Current assets – Restricted Investments | 272,603 | 151,664 |
| Noncurrent assets – Investments | 12,219 | 14,592 |
| Noncurrent assets – Restricted Investments | 28,074 | 37,925 |
| | $ 316,859 | $ 213,779 |

## 5. MORTGAGE LOANS RECEIVABLE

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

| | 2007 | 2006 |
|---|---|---|
| Single-family mortgage loans (5.00% to 13.85%): | | |
| Conventional | $ 9,585 | $ 11,291 |
| FHA insured | 1,144 | 1,746 |
| VA insured | 1,563 | 1,644 |
| Down payment assistance/Habitat loans (0% to 8.40%) | 28,799 | 19,664 |
| | 41,091 | 34,345 |
| Less allowance for loan losses | (1,534) | (834) |
| Total single-family mortgage loans | 39,557 | 33,511 |
| Multifamily mortgage loans (3.30% to 9.92%) | 199,728 | 248,359 |
| | $ 239,285 | $ 281,870 |

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

Conventionally financed single-family loans owned by the Authority may also be insured by supplemental pool insurance. Supplemental pool insurance is maintained over the life of the loan. As of September 30, 2007, 51% of conventionally financed single-family mortgage loans (excluding housing assistance fund loans) owned by the Authority are insured by private mortgage insurance and 80% are insured by supplemental pool insurance.

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, 2007 and 2006, the Authority serviced $723,581,000 and $423,000,000, respectively, in loans including $661,375,000 and $384,200,000, respectively, serviced for other entities. Escrow balances associated with these loans are not included in the statements of net assets of the Authority.

**5. MORTGAGE LOANS RECEIVABLE (Continued)**

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

| | 2007 | 2006 |
|---|---|---|
| Current assets – Mortgage loans receivable, net | $ 1,100 | $ 1,000 |
| Current assets – Restricted Mortgage loans receivable, net | 3,237 | 4,313 |
| Noncurrent assets – Mortgage loans receivable, net | 28,630 | 20,394 |
| Noncurrent assets – Restricted Mortgage loans receivable, net | 206,318 | 256,163 |
| | $ 239,285 | $ 281,870 |

**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.

The Authority's multifamily bonds are considered conduit debt obligations and the publicly offered bonds are secured by several forms of credit enhancement, including FHA insured mortgage loans, GNMA guaranteed certificates and letters of credit from financial institutions. Bonds which are privately placed are sold only to a single accredited investor and are generally secured only by the project being financed. The Authority has no obligation for the bonds beyond the resources provided above.

## 6. BONDS PAYABLE (Continued)

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

| | Aggregate Principal Outstanding 2007 | Aggregate Principal Outstanding 2006 | Original Maturity Value |
|---|---|---|---|
| Single-family bond programs: | | | |
| 1996 Series A-D, 1997 Series A-D, 1998 Series A-B (4.3% to 6.15%) due 2007 to 2029 | $ 49,030 | $ 95,140 | $ 789,250 |
| 1999 Series B-C, 2000 Series A-B, 2001 Series A, 2002 Series B (3.25% to 6.25%), due 2007 to 2032 | 103,255 | 127,320 | 459,105 |
| 2000/2003 Step-Up Program (4.42% to 7.80%), due 2034 to 2037 | 66,294 | 79,598 | 128,927 |
| 2002 Series D, 2004 Series A-B, 2005 Series A-B, 2006 Series A, 2007 Series A, 2007 Series F (2.57% to 5.3016%), due 2007 to 2012 | 70,720 | 53,665 | 127,090 |
| 2003 First Step Program (4.82% to 5.09%), due 2036 | 691 | 703 | 793 |
| 2006 Series B-G, 2007 Series B-E (3.5% to 5.75%) due 2008 to 2038 | 332,441 | 85,590 | 332,537 |
| 2006 Series H (variable) due 2009 | 108,950 | - | 200,000 |
| Multifamily bond programs: | | | |
| 1989 Series A (variable), due 2008 to 2014 | 1,925 | 2,105 | 17,640 |
| 1991 Series B (variable), due 2007 to 2008 | 2,140 | 2,350 | 8,525 |
| 1992 Series B (7.25%), due 2008 to 2023 | 1,470 | 1,545 | 36,890 |
| 1995 Series A-I (5.65% to 8.65%, variable), due 2008 to 2030 | 11,380 | 11,525 | 32,090 |
| 1996 Series D-E (6.20% to 8.10%, variable), due 2007 to 2038 | 2,530 | 47,620 | 53,755 |
| 1997 Series B (4.95% to 5.55%, variable), due 2007 | - | 3,590 | 10,350 |
| 1999 Series A (4.80% to 5.20%, variable), due 2008 to 2029 | 6,270 | 6,405 | 7,200 |
| 2000 Series A-K (5.125% to 5.95%, variable), due 2008 to 2033 | 27,475 | 41,175 | 45,325 |
| 2001 Series A-D (4.875% to 7.09%), due 2007 to 2034 | 15,657 | 15,800 | 16,027 |
| 2002 Series A-J (4.65% to 5.55%, variable), due 2007 to 2035 | 21,105 | 21,405 | 34,125 |
| 2003 Series A-N (4.255% to 9.25%, variable), due 2007 to 2039 | 35,935 | 36,396 | 55,856 |
| 2004 Series A-H (5.20% to 8.00%, variable) due 2007 to 2045 | 28,259 | 28,463 | 29,672 |
| 2005 Series A-F (4.50% to 5.06%, variable) due 2007 to 2038 | 63,696 | 63,737 | 63,798 |
| 2007 Series A-B (4.80% to 4.90%, variable), due 2009 to 2048 | 12,780 | - | 12,780 |
| | 962,003 | 724,132 | |
| Less current maturities | (59,183) | (42,314) | |
| Noncurrent maturities | $ 902,820 | $ 681,818 | |

## 6. BONDS PAYABLE (Continued)

Principal and interest payments on bonds after 2007 are scheduled as follows (in thousands):

| Fiscal year ending September 30 | Single-family Bonds Principal | Single-family Bonds Interest | Multifamily Bonds Principal | Multifamily Bonds Interest | Total Principal | Total Interest |
|---|---|---|---|---|---|---|
| 2008 | $ 51,061 | $ 31,428 | $ 8,122 | $ 10,136 | $ 59,183 | $ 41,564 |
| 2009 | 136,465 | 31,452 | 3,563 | 10,298 | 140,028 | 41,750 |
| 2010 | 24,525 | 27,300 | 1,801 | 10,202 | 26,326 | 37,502 |
| 2011 | 18,840 | 26,219 | 1,949 | 10,105 | 20,789 | 36,324 |
| 2012 | 14,045 | 25,422 | 2,077 | 10,001 | 16,122 | 35,423 |
| 2013-2017 | 52,020 | 119,634 | 10,304 | 48,339 | 62,324 | 167,973 |
| 2018-2022 | 68,085 | 104,991 | 12,022 | 45,328 | 80,107 | 150,319 |
| 2023-2027 | 89,000 | 85,042 | 21,495 | 40,374 | 110,495 | 125,416 |
| 2028-2032 | 103,360 | 59,486 | 37,385 | 33,853 | 140,745 | 93,339 |
| 2033-2037 | 163,325 | 25,988 | 116,324 | 16,818 | 279,649 | 42,806 |
| 2038-2042 | 10,655 | 329 | 13,620 | 1,002 | 24,275 | 1,331 |
| 2043-2047 | - | - | 1,705 | 271 | 1,705 | 271 |
| 2048-2052 | - | - | 255 | 9 | 255 | 9 |
| | $ 731,381 | $ 537,291 | $ 230,622 | $ 236,736 | $ 962,003 | $ 774,027 |

## 7. NOTES PAYABLE

The Authority has established a $50,000,000 line of credit primarily 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 $0 and $12,812,000 as of September 30, 2007 and 2006, respectively. Borrowings under the credit facility are secured by pledges of approximately $43,881,000 and $30,366,000 in mortgage loans receivable and mortgage loans held for sale at September 30, 2007 and 2006, respectively.

## 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 net assets 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 net assets consist 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, 2007 and 2006 totaling $47,841,000 and $46,586,000, 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

### *Defined Contribution Plan*

Substantially all full-time employees of the Authority participate in a defined contribution retirement plan, the Alabama Housing Finance Authority Retirement Plan (the Retirement Plan), which provides retirement benefits to Plan participants. The Retirement Plan is administered by an independent third-party administrator. To be eligible, an employee must meet certain age and service requirements. Once an employee is eligible, participation is mandatory. Each employee must contribute 5% of their compensation to the Retirement Plan annually. The Authority contributes an amount equal to 7% of each participant's compensation annually. The Authority's and employees' contributions to the Retirement Plan were $203,000 and $145,000, respectively, in fiscal 2007 and $179,000 and $128,000, respectively, in fiscal 2006. The employees vest in the Authority's contribution based upon a six-year vesting schedule.

### *Defined Benefit Plan*

The Authority established the Alabama Housing Finance Authority Employees' Pension Plan (the Pension Plan), a single-employer defined benefit pension plan, on September 26, 2002. All plan investments are reported at fair value. The Pension 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, 2007, 2006 and 2005 were $650,000, $558,000 and $452,000, respectively, or about 22.0%, 23.1% and 24.3% of covered participant compensation, respectively. Actual employer contributions to the plan totaled $650,000, $670,000 and $432,000 for the years ended September 30, 2007, 2006 and 2005, respectively. The net pension asset at September 30, 2007, 2006 and 2005 was $730,000, $498,000 and $374,000.

The annual required contribution for the current year was determined as part of the September 30, 2007 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, 2007, the plan had the following participants:

| | |
|---|---|
| Active participants | 55 |
| Vested terminated participants | 1 |
| Retired participants and beneficiaries | 0 |
| Total | 56 |

## 10. OPERATING LEASES

The Authority leases office space under operating leases expiring through 2010. Rent expense for the years ended September 30, 2007 and 2006, totaled $263,000 and $256,000, respectively. These amounts are included in program, general and administrative expenses in the accompanying financial statements. Future minimum rental payments required under these leases for the year ending September 30 are as follows (in thousands):

| | | |
|---|---|---|
| 2008 | $ | 195 |
| 2009 | | 253 |
| 2010 | | 93 |

## 11. EARLY RETIREMENT OF BONDS

The Authority's mortgage revenue bonds are subject to certain extraordinary redemption provisions. During the years ended September 30, 2007 and 2006, the Authority called approximately $259,450,000 and $167,479,000 (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, 2007 through January 14, 2008, the Authority issued approximately $239,500,000 of bonds in the single-family bond program and called approximately $111,130,000 of bonds prior to their scheduled maturities. The Authority issued $11,965,000 of bonds in the multifamily bond program during the same time period with approximately $2,290,000 called prior to their scheduled maturities.

**13. RECLASSIFICATIONS**

Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 presentation.

# OTHER FINANCIAL INFORMATION

# ALABAMA HOUSING FINANCE AUTHORITY

STATEMENTS OF NET ASSETS
SINGLE-FAMILY BOND SERIES
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
SEPTEMBER 30, 2007

| | 1996 A-D 1997 A-D 1998 A-B | 1999 A-B 2000 A-B 2001 A 2002 B | 2003 First Step | 2000/2003 Step Up | 2002 D 2004 A-B 2005 A-B 2006 A 2007 A&F | 2006 B-G 2007 B-E | 2006 H | Combined Single-Family |
|---|---|---|---|---|---|---|---|---|
| **CURRENT ASSETS** | | | | | | | | |
| Cash on deposit | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Accrued interest receivable | - | - | - | - | - | - | - | - |
| Mortgage loans receivable, net | - | - | - | - | - | - | - | - |
| Investments | - | - | - | - | - | - | - | - |
| Other assets | - | - | - | - | - | - | - | - |
| Restricted: | | | | | | | | |
| Cash on deposit | 65 | 171 | - | - | - | 2,525 | - | 2,761 |
| Accrued interest receivable | 328 | 884 | 4 | 408 | 1,250 | 1,888 | 442 | 5,204 |
| Mortgage loans receivable, net | - | - | - | - | - | - | - | - |
| Mortgage loans held for sale | - | - | - | - | - | - | - | - |
| Investments | 16,098 | 17,279 | 34 | 1,569 | 20,731 | 88,179 | 111,123 | 255,013 |
| Other assets | - | - | - | - | - | - | - | - |
| Total current assets | 16,491 | 18,334 | 38 | 1,977 | 21,981 | 92,592 | 111,565 | 262,978 |
| **NONCURRENT ASSETS** | | | | | | | | |
| Mortgage loans receivable, net | - | - | - | - | - | - | - | - |
| Investments | - | - | - | - | - | - | - | - |
| Other assets | - | - | - | - | - | - | - | - |
| Deferred servicing costs | - | - | - | - | - | - | - | - |
| Restricted: | | | | | | | | |
| Mortgage-backed securities | 38,093 | 102,895 | 669 | 64,268 | 133,720 | 240,825 | - | 580,470 |
| Mortgage loans receivable, net | - | - | - | - | - | - | - | - |
| Investments | 68 | 214 | - | - | 27,146 | 646 | - | 28,074 |
| HOME program loans receivable, net | - | - | - | - | - | - | - | - |
| Deferred debt financing costs | 384 | 1,289 | 95 | 117 | 146 | 3,000 | 94 | 5,125 |
| Total noncurrent assets | 38,545 | 104,398 | 764 | 64,385 | 161,012 | 244,471 | 94 | 613,669 |
| **TOTAL ASSETS** | $ 55,036 | $ 122,732 | $ 802 | $ 66,362 | $ 182,993 | $ 337,063 | $ 111,659 | $ 876,647 |
| **LIABILITIES AND NET ASSETS** | | | | | | | | |
| **CURRENT LIABILITIES** | | | | | | | | |
| Bonds payable, net | $ 15,115 | $ 11,525 | $ 1 | $ 1,145 | $ 20,360 | $ 2,915 | $ - | $ 51,061 |
| Notes payable | - | - | - | - | - | - | - | - |
| Accrued interest payable | 1,286 | 2,927 | 3 | 309 | 60 | 6,861 | 321 | 11,767 |
| Accrued arbitrage rebate | 68 | 17 | - | - | - | - | - | 85 |
| Due to (from) other funds | 19 | 51 | - | - | (30,000) | 124 | - | (29,806) |
| Other liabilities | 4 | 8 | - | - | - | 20 | 1 | 33 |
| Total current liabilities | 16,492 | 14,528 | 4 | 1,454 | (9,580) | 9,920 | 322 | 33,140 |
| **NONCURRENT LIABILITIES** | | | | | | | | |
| Bonds payable, net | 33,915 | 91,730 | 690 | 65,149 | 50,360 | 329,526 | 108,950 | 680,320 |
| Refundable HOME program grants | - | - | - | - | - | - | - | - |
| Accrued arbitrage rebate | 50 | 1,777 | - | - | - | 646 | 1,821 | 4,294 |
| Deferred commitment fees | - | - | - | - | - | - | - | - |
| Total noncurrent liabilities | 33,965 | 93,507 | 690 | 65,149 | 50,360 | 330,172 | 110,771 | 684,614 |
| **TOTAL LIABILITIES** | 50,457 | 108,035 | 694 | 66,603 | 40,780 | 340,092 | 111,093 | 717,754 |
| **NET ASSETS** | | | | | | | | |
| Restricted | 4,579 | 14,697 | 108 | (241) | 142,213 | (3,029) | 566 | 158,893 |
| Unrestricted | - | - | - | - | - | - | - | - |
| Total net assets | 4,579 | 14,697 | 108 | (241) | 142,213 | (3,029) | 566 | 158,893 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 55,036 | $ 122,732 | $ 802 | $ 66,362 | $ 182,993 | $ 337,063 | $ 111,659 | $ 876,647 |

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, 2007

| | 1996 A-D 1997 A-D 1998 A-B | 1999 A-B 2000 A-B 2001 A 2002 B | 2003 First Step | 2000/2003 Step Up | 2002 D 2004 A-B 2005 A-B 2006 A 2007 A&F | 2006 B-G 2007 B-E | 2006 H | Combined Single-Family |
|---|---|---|---|---|---|---|---|---|
| **OPERATING REVENUES** | | | | | | | | |
| Interest on mortgage loans | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Interest on mortgage-backed securities | 3,747 | 6,709 | 36 | 4,114 | 7,835 | 5,282 | - | 27,723 |
| Investment income | 335 | 670 | 2 | 36 | 3,206 | 4,843 | 4,902 | 13,994 |
| Net increase (decrease) in fair value of investments | (114) | (15) | (3) | (197) | 402 | (6,994) | - | (6,921) |
| Loan fees and other income | - | - | - | 67 | - | - | - | 67 |
| Total operating revenues | 3,968 | 7,364 | 35 | 4,020 | 11,443 | 3,131 | 4,902 | 34,863 |
| **OPERATING EXPENSES** | | | | | | | | |
| Interest on bonds and notes | 3,576 | 6,140 | 34 | 4,078 | 2,739 | 9,262 | 4,875 | 30,704 |
| Amortization of deferred debt financing and servicing costs | 481 | 370 | 5 | 24 | 96 | 77 | 56 | 1,109 |
| Program, general and administrative | 10 | 17 | - | 13 | (15) | 27 | 55 | 107 |
| Total operating expenses | 4,067 | 6,527 | 39 | 4,115 | 2,820 | 9,366 | 4,986 | 31,920 |
| **OPERATING INCOME (LOSS)** | (99) | 837 | (4) | (95) | 8,623 | (6,235) | (84) | 2,943 |
| **NONOPERATING REVENUES (EXPENSES)** | | | | | | | | |
| HOME program grants | - | - | - | - | - | - | - | - |
| HOME program expenditures | - | - | - | - | - | - | - | - |
| Total nonoperating revenues (expenses) | - | - | - | - | - | - | - | - |
| **INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS, TRANSFERS AND EXTRAORDINARY LOSS** | (99) | 837 | (4) | (95) | 8,623 | (6,235) | (84) | 2,943 |
| **CAPITAL CONTRIBUTIONS, TRANSFERS AND EXTRAORDINARY LOSS** | | | | | | | | |
| Owner contributions (reductions) | - | - | - | - | - | - | - | - |
| Transfers in (out) | (7,008) | (106) | - | (53) | 7,316 | 2,725 | 650 | 3,524 |
| Extraordinary loss on early retirement of bonds | (552) | - | - | - | - | - | - | (552) |
| **CHANGES IN NET ASSETS** | (7,659) | 731 | (4) | (148) | 15,939 | (3,510) | 566 | 5,915 |
| **NET ASSETS** | | | | | | | | |
| Beginning of year | 12,238 | 13,966 | 112 | (93) | 126,274 | 481 | - | 152,978 |
| End of year | $ 4,579 | $ 14,697 | $ 108 | $ (241) | $ 142,213 | $ (3,029) | $ 566 | $ 158,893 |

See independent auditors' report.

# ALABAMA HOUSING FINANCE AUTHORITY

STATEMENTS OF NET ASSETS
MULTIFAMILY BOND SERIES
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
SEPTEMBER 30, 2007

| | 1989 A | 1991 B | 1992 B | 1995 A-I | 1996 D-E | 1997 B |
|---|---|---|---|---|---|---|
| **CURRENT ASSETS** | | | | | | |
| Cash on deposit | $ - | $ - | $ - | $ - | $ - | $ - |
| Accrued interest receivable | - | - | - | - | - | - |
| Mortgage loans receivable, net | - | - | - | - | - | - |
| Investments | - | - | - | - | - | - |
| Other assets | - | - | - | - | - | - |
| Restricted: | | | | | | |
| Cash on deposit | - | - | - | - | - | - |
| Accrued interest receivable | 6 | 7 | 1 | 115 | 15 | - |
| Mortgage loans receivable, net | 200 | 230 | 22 | 110 | - | - |
| Mortgage loans held for sale | - | - | - | - | - | - |
| Investments | - | 202 | 194 | 6,322 | 103 | - |
| Other assets | - | - | - | - | - | - |
| Total current assets | 206 | 439 | 217 | 6,547 | 118 | - |
| **NONCURRENT ASSETS** | | | | | | |
| Mortgage loans receivable, net | - | - | - | - | - | - |
| Investments | - | - | - | - | - | - |
| Other assets | - | - | - | - | - | - |
| Deferred servicing costs | - | - | - | - | - | - |
| Restricted: | | | | | | |
| Mortgage-backed securities | - | - | - | 2,798 | 2,500 | - |
| Mortgage loans receivable, net | 1,725 | 1,743 | 1,890 | 2,307 | - | - |
| Investments | - | - | - | - | - | - |
| HOME program loans receivable, net | - | - | - | - | - | - |
| Deferred debt financing costs | - | - | - | - | - | - |
| Total noncurrent assets | 1,725 | 1,743 | 1,890 | 5,105 | 2,500 | - |
| **TOTAL ASSETS** | $ 1,931 | $ 2,182 | $ 2,107 | $ 11,652 | $ 2,618 | $ - |
| **LIABILITIES AND NET ASSETS** | | | | | | |
| **CURRENT LIABILITIES** | | | | | | |
| Bonds payable, net | $ 200 | $ 230 | $ 50 | $ 6,305 | $ 20 | $ - |
| Notes payable | - | - | - | - | - | - |
| Accrued interest payable | 6 | 7 | 8 | 129 | 59 | - |
| Accrued arbitrage rebate | - | - | - | - | - | - |
| Due to (from) other funds | - | - | - | - | - | - |
| Other liabilities | - | - | - | - | - | - |
| Total current liabilities | 206 | 237 | 58 | 6,434 | 79 | - |
| **NONCURRENT LIABILITIES** | | | | | | |
| Bonds payable, net | 1,725 | 1,910 | 1,420 | 5,075 | 2,510 | - |
| Refundable HOME program grants | - | - | - | - | - | - |
| Accrued arbitrage rebate | - | - | - | - | - | - |
| Deferred commitment fees | - | - | - | - | - | - |
| Total noncurrent liabilities | 1,725 | 1,910 | 1,420 | 5,075 | 2,510 | - |
| **TOTAL LIABILITIES** | 1,931 | 2,147 | 1,478 | 11,509 | 2,589 | - |
| **NET ASSETS** | | | | | | |
| Restricted | - | 35 | 629 | 143 | 29 | - |
| Unrestricted | - | - | - | - | - | - |
| Total net assets | - | 35 | 629 | 143 | 29 | - |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 1,931 | $ 2,182 | $ 2,107 | $ 11,652 | $ 2,618 | $ - |

| 1999 A | 2000 A-K | 2001 A-D | 2002 A-J | 2003 A-N | 2004 A-H | 2005 A-F | 2007 A-B | Combined Multi Family |
|---|---|---|---|---|---|---|---|---|
| $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | 162 | - | 162 |
| 28 | 66 | 35 | 50 | 113 | 113 | 93 | 65 | 707 |
| - | 170 | 54 | 220 | 400 | 145 | 186 | - | 1,737 |
| - | - | - | - | - | - | - | - | - |
| 89 | 260 | 216 | 419 | 665 | 446 | 1,527 | 7,147 | 17,590 |
| - | - | - | - | - | - | - | - | - |
| 117 | 496 | 305 | 689 | 1,178 | 704 | 1,968 | 7,212 | 20,196 |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 6,162 | - | - | - | - | 3,629 | - | 1,947 | 17,036 |
| - | 27,268 | 15,607 | 20,800 | 35,342 | 24,402 | 62,805 | 4,102 | 197,991 |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 6,162 | 27,268 | 15,607 | 20,800 | 35,342 | 28,031 | 62,805 | 6,049 | 215,027 |
| $ 6,279 | $ 27,764 | $ 15,912 | $ 21,489 | $ 36,520 | $ 28,735 | $ 64,773 | $ 13,261 | $ 235,223 |
| $ 140 | $ 80 | $ 58 | $ 220 | $ 612 | $ 163 | $ 44 | $ - | $ 8,122 |
| - | - | - | - | - | - | - | - | - |
| 27 | 113 | 126 | 158 | 300 | 116 | 219 | 87 | 1,355 |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | 46 | - | - | 90 | 12 | 336 | - | 484 |
| 167 | 239 | 184 | 378 | 1,002 | 291 | 599 | 87 | 9,961 |
| 6,130 | 27,395 | 15,599 | 20,885 | 35,323 | 28,096 | 63,652 | 12,780 | 222,500 |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 6,130 | 27,395 | 15,599 | 20,885 | 35,323 | 28,096 | 63,652 | 12,780 | 222,500 |
| 6,297 | 27,634 | 15,783 | 21,263 | 36,325 | 28,387 | 64,251 | 12,867 | 232,461 |
| (18) | 130 | 129 | 226 | 195 | 348 | 522 | 394 | 2,762 |
| - | - | - | - | - | - | - | - | - |
| (18) | 130 | 129 | 226 | 195 | 348 | 522 | 394 | 2,762 |
| $ 6,279 | $ 27,764 | $ 15,912 | $ 21,489 | $ 36,520 | $ 28,735 | $ 64,773 | $ 13,261 | $ 235,223 |

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, 2007

| | 1989 A | 1991 B | 1992 B | 1995 A-I | 1996 D-E | 1997 B |
|---|---|---|---|---|---|---|
| **OPERATING REVENUES** | | | | | | |
| Interest on mortgage loans | $ 76 | $ 82 | $ 151 | $ 92 | $ 510 | $ - |
| Interest on mortgage-backed securities | - | - | - | 202 | 165 | - |
| Investment income | 4 | 6 | 13 | 280 | 168 | 85 |
| Net increase (decrease) in fair value of investments | - | - | - | (74) | 2 | - |
| Loan fees and other income | - | - | - | - | - | - |
| Total operating revenues | 80 | 88 | 164 | 500 | 845 | 85 |
| **OPERATING EXPENSES** | | | | | | |
| Interest on bonds and notes | 76 | 82 | 111 | 632 | 796 | 223 |
| Amortization of deferred debt financing and servicing costs | - | - | - | - | - | - |
| Program, general and administrative | - | - | 2 | 9 | 54 | 8 |
| Total operating expenses | 76 | 82 | 113 | 641 | 850 | 231 |
| **OPERATING INCOME (LOSS)** | 4 | 6 | 51 | (141) | (5) | (146) |
| **NONOPERATING REVENUES (EXPENSES)** | | | | | | |
| HOME program grants | - | - | - | - | - | - |
| HOME program expenditures | - | - | - | - | - | - |
| Total nonoperating revenues (expenses) | - | - | - | - | - | - |
| **INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS, TRANSFERS AND EXTRAORDINARY LOSS** | 4 | 6 | 51 | (141) | (5) | (146) |
| **CAPITAL CONTRIBUTIONS, TRANSFERS AND EXTRAORDINARY LOSS** | | | | | | |
| Owner contributions (reductions) | (28) | - | - | - | (236) | - |
| Transfers in (out) | - | - | - | - | - | - |
| Extraordinary loss on early retirement of bonds | - | - | - | - | - | - |
| **CHANGES IN NET ASSETS** | (24) | 6 | 51 | (141) | (241) | (146) |
| **NET ASSETS** | | | | | | |
| Beginning of year | 24 | 29 | 578 | 284 | 270 | 146 |
| End of year | $ - | $ 35 | $ 629 | $ 143 | $ 29 | $ - |

| 1999 A | 2000 A-K | 2001 A-D | 2002 A-J | 2003 A-N | 2004 A-H | 2005 A-F | 2007 A-B | Combined Multi Family |
|---|---|---|---|---|---|---|---|---|
| $ - | $ 1,259 | $ 747 | $ 920 | $ 2,038 | $ 1,209 | $ 2,601 | $ - | $ 9,685 |
| 341 | - | - | - | - | 203 | - | 41 | 952 |
| 6 | 14 | 9 | 16 | 33 | 21 | 200 | 207 | 1,062 |
| (41) | - | - | - | - | (90) | - | (41) | (244) |
| - | - | - | - | - | - | - | - | - |
| 306 | 1,273 | 756 | 936 | 2,071 | 1,343 | 2,801 | 207 | 11,455 |
| 327 | 1,247 | 730 | 897 | 1,992 | 1,395 | 2,711 | 269 | 11,488 |
| - | - | - | - | - | - | - | - | - |
| 9 | 9 | 10 | 6 | 8 | 13 | 3 | 1 | 132 |
| 336 | 1,256 | 740 | 903 | 2,000 | 1,408 | 2,714 | 270 | 11,620 |
| (30) | 17 | 16 | 33 | 71 | (65) | 87 | (63) | (165) |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| (30) | 17 | 16 | 33 | 71 | (65) | 87 | (63) | (165) |
| (41) | - | 9 | - | - | (27) | 119 | 457 | 253 |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| (71) | 17 | 25 | 33 | 71 | (92) | 206 | 394 | 88 |
| 53 | 113 | 104 | 193 | 124 | 440 | 316 | - | 2,674 |
| $ (18) | $ 130 | $ 129 | $ 226 | $ 195 | $ 348 | $ 522 | $ 394 | $ 2,762 |

See independent auditors' report.

# ALABAMA HOUSING FINANCE AUTHORITY

STATEMENTS OF NET ASSETS
COMBINING ALL FUNDS
ADDITIONAL SEGMENT DATA (IN THOUSANDS)
SEPTEMBER 30, 2007

| | Combined Single-Family | Combined Multi Family | HOME Fund | Housing Assistance Fund | General Fund | Combined Totals |
|---|---|---|---|---|---|---|
| **CURRENT ASSETS** | | | | | | |
| Cash on deposit | $ - | $ - | $ - | $ 290 | $ 1,605 | $ 1,895 |
| Accrued interest receivable | - | - | - | 37 | 191 | 228 |
| Mortgage loans receivable, net | - | - | - | 1,100 | - | 1,100 |
| Investments | - | - | - | 3,662 | 301 | 3,963 |
| Other assets | - | - | - | - | 931 | 931 |
| Restricted: | | | | | | |
| Cash on deposit | 2,761 | 162 | 7 | - | - | 2,930 |
| Accrued interest receivable | 5,204 | 707 | 5,668 | - | - | 11,579 |
| Mortgage loans receivable, net | - | 1,737 | - | - | 1,500 | 3,237 |
| Mortgage loans held for sale | - | - | - | - | 34,054 | 34,054 |
| Investments | 255,013 | 17,590 | - | - | - | 272,603 |
| Other assets | - | - | 511 | - | - | 511 |
| Total current assets | 262,978 | 20,196 | 6,186 | 5,089 | 38,582 | 333,031 |
| **NONCURRENT ASSETS** | | | | | | |
| Mortgage loans receivable, net | - | - | - | 28,630 | - | 28,630 |
| Investments | - | - | - | 8,593 | 3,626 | 12,219 |
| Other assets | - | - | - | - | 1,062 | 1,062 |
| Deferred servicing costs | - | - | - | - | 10,621 | 10,621 |
| Restricted: | | | | | | |
| Mortgage-backed securities | 580,470 | 17,036 | - | - | - | 597,506 |
| Mortgage loans receivable, net | - | 197,991 | - | - | 8,327 | 206,318 |
| Investments | 28,074 | - | - | - | - | 28,074 |
| HOME program loans receivable, net | - | - | 187,476 | - | - | 187,476 |
| Deferred debt financing costs | 5,125 | - | - | - | - | 5,125 |
| Total noncurrent assets | 613,669 | 215,027 | 187,476 | 37,223 | 23,636 | 1,077,031 |
| **TOTAL ASSETS** | $ 876,647 | $ 235,223 | $ 193,662 | $ 42,312 | $ 62,218 | $ 1,410,062 |
| **LIABILITIES AND NET ASSETS** | | | | | | |
| **CURRENT LIABILITIES** | | | | | | |
| Bonds payable, net | $ 51,061 | $ 8,122 | $ - | $ - | $ - | $ 59,183 |
| Accrued interest payable | 11,767 | 1,355 | 5,668 | - | - | 18,790 |
| Accrued arbitrage rebate | 85 | - | - | - | - | 85 |
| Due to (from) other funds | (29,806) | - | 518 | (183) | 29,471 | - |
| Other liabilities | 33 | 484 | - | - | 203 | 720 |
| Total current liabilities | 33,140 | 9,961 | 6,186 | (183) | 29,674 | 78,778 |
| **NONCURRENT LIABILITIES** | | | | | | |
| Bonds payable, net | 680,320 | 222,500 | - | - | - | 902,820 |
| Refundable HOME program grants | - | - | 187,476 | - | - | 187,476 |
| Accrued arbitrage rebate | 4,294 | - | - | - | - | 4,294 |
| Deferred commitment fees | - | - | - | - | 12,788 | 12,788 |
| Total noncurrent liabilities | 684,614 | 222,500 | 187,476 | - | 12,788 | 1,107,378 |
| **TOTAL LIABILITIES** | 717,754 | 232,461 | 193,662 | (183) | 42,462 | 1,186,156 |
| **NET ASSETS** | | | | | | |
| Restricted | 158,893 | 2,762 | - | - | 14,410 | 176,065 |
| Unrestricted | - | - | - | 42,495 | 5,346 | 47,841 |
| Total net assets | 158,893 | 2,762 | - | 42,495 | 19,756 | 223,906 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 876,647 | $ 235,223 | $ 193,662 | $ 42,312 | $ 62,218 | $ 1,410,062 |

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, 2007

| | Combined Single-Family | Combined Multi Family | HOME Fund | Housing Assistance Fund | General Fund | Combined Totals |
|---|---|---|---|---|---|---|
| **OPERATING REVENUES** | | | | | | |
| Interest on mortgage loans | $ - | $ 9,685 | $ - | $ 587 | $ 3,105 | $ 13,377 |
| Interest on mortgage-backed securities | 27,723 | 952 | - | - | - | 28,675 |
| Investment income | 13,994 | 1,062 | - | 867 | 536 | 16,459 |
| Net increase (decrease) in fair value of investments | (6,921) | (244) | - | 115 | (256) | (7,306) |
| Loan fees and other income | 67 | - | - | 1 | 6,972 | 7,040 |
| Total operating revenues | 34,863 | 11,455 | - | 1,570 | 10,357 | 58,245 |
| **OPERATING EXPENSES** | | | | | | |
| Interest on bonds and notes | 30,704 | 11,488 | - | - | 984 | 43,176 |
| Amortization of deferred debt financing and servicing costs | 1,109 | - | - | - | 913 | 2,022 |
| Program, general and administrative | 107 | 132 | - | 863 | 7,532 | 8,634 |
| Total operating expenses | 31,920 | 11,620 | - | 863 | 9,429 | 53,832 |
| **OPERATING INCOME (LOSS)** | 2,943 | (165) | - | 707 | 928 | 4,413 |
| **NONOPERATING REVENUES (EXPENSES)** | | | | | | |
| HOME program grants | - | - | 27,523 | - | - | 27,523 |
| HOME program expenditures | - | - | (27,523) | - | - | (27,523) |
| Total nonoperating revenues (expenses) | - | - | - | - | - | - |
| **INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS, TRANSFERS AND EXTRAORDINARY LOSS** | 2,943 | (165) | - | 707 | 928 | 4,413 |
| **CAPITAL CONTRIBUTIONS, TRANSFERS AND EXTRAORDINARY LOSS** | | | | | | |
| Owner contributions (reductions) | - | 253 | - | - | - | 253 |
| Transfers in (out) | 3,524 | - | - | 4 | (3,528) | - |
| Extraordinary loss on early retirement of bonds | (552) | - | - | - | - | (552) |
| **CHANGES IN NET ASSETS** | 5,915 | 88 | - | 711 | (2,600) | 4,114 |
| **NET ASSETS** | | | | | | |
| Beginning of year | 152,978 | 2,674 | - | 41,784 | 22,356 | 219,792 |
| End of year | $ 158,893 | $ 2,762 | $ - | $ 42,495 | $ 19,756 | $ 223,906 |

See independent auditors' report.