

SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS

North Carolina Housing Finance Agency  
Year Ended June 30, 2006

North Carolina Housing Finance Agency  
Financial Statements and Other Financial Information  
Year Ended June 30, 2006

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## Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors  
North Carolina Housing Finance Agency

We have audited the financial statements of the North Carolina Housing Finance Agency (the Agency) as of and for the year ended June 30, 2006, and have issued our report thereon dated August 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### ***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst + Young LLP*

August 31, 2006

## Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Board of Directors  
North Carolina Housing Finance Agency

### ***Compliance***

We have audited the compliance of the North Carolina Housing Finance Agency (the Agency) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

### ***Internal Control Over Compliance***

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

### *Schedule of Expenditures of Federal Awards*

We have audited the financial statements of the Agency as of and for the year ended June 30, 2006, and have issued our report thereon dated August 31, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Agency's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst + Young LLP*

August 31, 2006

North Carolina Housing Finance Agency  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2006

Federal Grantor Program Title	Note References	Federal CFDA Number	Grant Number	Federal Expenditures (in thousands)
<b>U.S. Department of Housing and Urban Development:</b>				
Direct:				
Section 8 Project-Based Cluster:				
Lower Income Housing Assistance – Section 8 New Construction	(2)	14.182	A-3259	\$ 18,560
Lower Income Housing – Section 8 Moderate Rehabilitation	(2)	14.856	A-3338	338
Lower Income Housing Assistance – Section 8 Contract Administration	(2)	14.195	NC80-0CC0-001	94,274
Total Section 8 Project-Based Cluster				113,172
HOME Investment Partnership Program	(2)	14.239		36,552
Stewart B. McKinney Homeless Assistance Act	(1)	n/a		2,646
Total U.S. Department of Housing and Urban Development				152,370
U.S. DEPARTMENT OF ENERGY – Direct – Petroleum Violation Escrow Fund	(1)(2)	n/a		1,010
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE (3)</b>				<b>\$ 153,380</b>

*NOTES:*

(1) *No CFDA and/or grant number available*

(2) *Fiscal year 2006 expenditures include administrative fees as follows:*

*Section 8 New Construction – \$709,312; Section 8 Moderate Rehabilitation – \$44,231; Section 8 Contract Administration – \$2,611,643; HOME Investment Partnership – \$4,524,470; Petroleum Escrow Fund – \$2,803*

(3) *The above schedule is prepared on the accrual basis of accounting. As directed by the Office of the State Auditor of North Carolina, expenditures of funds from the state of North Carolina totaling \$46,410,209 are excluded from the above schedule*

North Carolina Housing Finance Agency  
 Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Part I—Summary of Auditor’s Results

**Financial Statement Section**

Type of auditor’s report issued:	Unqualified Opinion	
	<b>Yes</b>	<b>No</b>
Internal control over financial reporting:		
Material weakness(es) identified?		X
Reportable condition(s) identified not considered to be material weaknesses?		X
Noncompliance material to financial statements noted?		X

**Federal Awards Section**

Internal control over major programs:		
Material weakness(es) identified?		X
Reportable condition(s) identified not considered to be material weaknesses?		X
Type of auditor’s report on compliance for major programs:	Unqualified Opinion	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510(a))?		X

North Carolina Housing Finance Agency

Schedule of Findings and Questioned Costs (continued)

Year Ended June 30, 2006

Part I—Summary of Auditor’s Results (continued)

**Federal and State Awards Section (Continued)**

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.182	Lower Income Housing Assistance – Section 8 New Construction
14.856	Lower Income Housing – Section 8 Moderate Rehabilitation
14.195	Lower Income Housing Assistance – Section 8 Contract Administration

Dollar threshold used to determine Type A programs: \$ 3,000,000

	<u>Yes</u>	<u>No</u>
Auditee qualified as low-risk auditee?	X	

**Part II—Financial Statement Findings Section**

There were no findings or questioned costs identified as a result of our financial statement test procedures.

**Part III—Federal Award Findings and Questioned Costs Section**

There were no findings or questioned costs identified as a result of our test procedures.