Audited Financial Statements

June 30, 2016

NORTH CAROLINA
HOUSING
FINANCE
AGENCY

Let's Make Home Happen

NORTH CAROLINA HOUSING FINANCE AGENCY
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

FINANCIAL STATEMENTS

SUPPLEMENTARY INFORMATION

MANAGEMENT DISCUSSION AND ANALYSIS (*Unaudited*)
June 30, 2016

The management discussion and analysis of the North Carolina Housing Finance Agency's ("Agency") financial performance provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2016. The financial statements, accompanying notes, and supplementary information should be read in conjunction with the following discussion.

Overview

The North Carolina Housing Finance Agency was created in 1973 to provide financing for residential housing, both ownership and rental, to North Carolina households with low and moderate incomes. The Agency has issued bonds and sells mortgage-backed securities ("MBS") on the secondary market to finance housing throughout the state of North Carolina. In addition, the Agency administers the United States Department of the Treasury's ("Treasury") Hardest Hit Fund® ("HHF"), the Section 8 Program, the HOME Investment Partnerships Program ("HOME"), Low-Income Housing Tax Credits, the North Carolina Housing Trust Fund and other federal and state programs. These programs provide different types of assistance such as down payment assistance, low-interest mortgage loans, foreclosure prevention mortgage assistance, foreclosure prevention counseling, rent subsidies, and various types of rehabilitation of both single and multifamily properties.

Financial Highlights

The following information is an analysis of the Agency's performance for the year ended June 30, 2016, with reference to prior fiscal year's results and activities:

- *Total assets* decreased $94,788,000, or 6.4%
- *Deferred outflows of resources* increased $817,000, or 15.9%
- *Total liabilities* decreased $94,333,000, or 11.8%
- *Deferred inflows of resources* increased $863,000, or 17.0%
- *Total net position* decreased $501,000, or 0.1%

Low mortgage rates in fiscal year 2016 encouraged borrowers to refinance, which reduced balances in *Mortgage loans receivable, net* and related accounts. *Other expenses* decreased primarily as a result of decreases in foreclosures due to modest market improvement. The impact of these items is reflected below:

- *Mortgage loans receivable, net* decreased $119,899,000, or 12.7%
- *Accrued interest receivable on mortgage loans* decreased $1,253,000, or 17.0%
- *Interest on mortgage loans* decreased $6,994,000, or 14.0%
- *Mortgage servicing expense* decreased $385,000, or 13.7%
- *Other expenses* decreased $1,589,000, or 37.8%

The prepayments from mortgage loans were used to call bonds during fiscal year 2016, resulting in decreases associated with *Bonds payable, net* and related accounts. Interest rates dropped significantly at the end of fiscal year 2016, causing the increase in the *Derivative instrument – interest rate swap* and *Accumulated decrease in fair value of hedging derivative*. These transactions resulted in the following decreases and increases:

- *Bonds payable, net* decreased $99,515,000, or 13.5%
- *Accrued interest payable* decreased $2,607,000, or 18.6%
- *Derivative instrument – interest rate swap* increased $769,000, or 17.5%
- *Accumulated decrease in fair value of hedging derivative* increased $769,000, or 17.5%
- *Interest on bonds* decreased $3,337,000, or 11.4%

The Agency experienced increased production with its NC Home Advantage Mortgage ("HomeAd") program in fiscal year 2016, resulting in an increase in *Program income/fees* and *Nonfederal program expense.* The Agency utilizes its current master servicer for HomeAd loans locked on or after July 15, 2014 while retaining the previous master servicer for all HomeAd loans locked prior to July 15, 2014. Under Agency Programs, the previous master servicer sold the MBS to the Agency, and the Agency resold the MBS to its hedger, resulting in a gain on the sale of the MBS, which is a component of *Other revenues*. Under the 1998 Home Ownership Bond Program, the current master servicer sells the MBS directly to the hedger, resulting in program income for the Agency. When HomeAd operations transitioned from Agency Programs to the 1998 Home Ownership Bond Program with its change in master servicer, *Other revenues* declined by approximately $2.8 million for Agency Programs while *Program income/fees* for the 1998 Home Ownership Bond Program increased by approximately $18.7 million.

In addition to the HomeAd program, other material items affected *Program income/fees* and *Other revenues. Program income/fees* decreased by approximately $8 million related to a decrease in the receipt of Tax Credit Assistance Program ("TCAP") loan repayments and increased by approximately $2 million due to an increase in HHF repayments. *Other revenues* decreased by approximately $2.1 million due to a decrease in the Agency's mortgage loan loss reserve. The impact of these transactions were the primary reasons for the increases or decreases in the following items:

- *Program income/fees* increased by $13,824,000, or 26.2%, resulting primarily from the following:
  - An increase in HomeAd production
  - A decrease in the receipt of TCAP funds
  - An increase in HHF repayments
- *Other revenues* decreased by $3,883,000, or 66.6%, resulting primarily from the following:
  - A decrease in gain on sale of investments related to the HomeAd program, related to the transition to a new master servicer
  - A decrease in the mortgage loan loss reserve
- *Nonfederal program expense* increased by $6,326,000, or 43.3%, primarily related to the increase in the production of HomeAd loans

The HHF program received additional funding in fiscal year 2016, which allowed the Agency to increase its HHF loan production, resulting in the primary reason for the increase in *Unearned revenues, Federal program awards received* and *Federal program expense*:

- *Unearned revenues* increased $5,820,000, or 18.8%
- *Federal program awards received* increased $12,907,000, or 5.8%
- *Federal program expense* increased $15,426,000, or 6.9%

The State Tax Credit ("STC") expired on January 1, 2015, and was replaced by the Workforce Housing Loan Program ("WHLP"), resulting in a decrease to *State receivables* and *State tax credits*. The $2.5 million increase in the WHLP appropriation was the primary reason for the increase in *State appropriations received*. *State program expense* experienced a net increase of $1,986,000, which is attributable to an increase of $10,986,000 in spending on programs and a decrease of approximately $9 million due to the winding down of the Housing Counseling Capacity Building Program ("HCCBP").

- *State receivables* decreased $59,131,000, or 65.7%
- *State appropriations received* increased $3,377,000, or 18.5%
- *State tax credits* decreased $58,127,000, or 100.0%
- *State program expense* increased $1,986,000, or 2.8%

Deferred state grant and *State grants received* increased due to funds received from the North Carolina Department of Health and Human Services ("DHHS") related to the Transitions to Community Living Initiative, which is awaiting authorization from the State Legislature for disbursement. The impact of these transactions resulted in increases to the following items:

- *Deferred state grant* increased $2,627,000, or 90.8%
- *State grants received* increased $4,559,000, or 86.8%

In fiscal year 2015, the Agency implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"). Under GASB 68, the Agency is allocated its proportionate share of the Teachers' and State Employees' Retirement System of North Carolina's net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. The fiscal year 2016 increases and decreases in the following line items reflect changes in the Agency's portion of the State's pension:

- *Deferred outflows for pensions* increased $48,000, or 6.5%
- *Deferred inflows for pensions* decreased $1,764,000, or 80.7%

Although the Agency's investments did not fluctuate materially during the fiscal year, the decrease in interest rates created a substantial increase in *Net increase (decrease) in fair value of investments*. *Accrued interest receivable on investments* and *Interest on investments* increased primarily due to proceeds of $1.3 million in settlement funds received early July 2016 and accrued in fiscal year 2016. The class action suit resulted from bid-rigging in the sale of municipal derivative transactions by several counterparties for guaranteed investment contracts held from 1992 through 2001. These transactions resulted in the increases in the following accounts:

- *Accrued interest receivable on investments* increased $1,414,000, or 264.3%
- *Investments* increased $2,260,000, or 2.5%
- *Interest on investments* increased $2,517,000, or 56.5%
- *Net increase (decrease) in fair value of investments* increased $2,468,000, or 1495.8%

Cash and cash equivalents increased $82,084,000, or 24.4%, primarily due to the increased production associated with the HomeAd program, funds made available for the July 2016 debt service payment, recycled TCAP funds, and additional appropriations and HHF monies received. The net effect of the transactions detailed above along with regular operations of the Agency resulted in a small decrease in *Total Net Position* of $501,000, or 0.1%. The Agency continues to proactively manage its programs to further its mission of creating affordable housing for low and moderate-income North Carolinians.

Financial Analysis

The following tables summarize the changes in net position between June 30, 2016 and June 30, 2015 (*in thousands)*:

Condensed Statement of Net Position *(in thousands)*	2016	2015	Change	%
Assets*				
Cash and cash equivalents	$ 419,012	$ 336,928	$ 82,084	24.4
Accrued interest receivable on investments	1,949	535	1,414	264.3
Accrued interest receivable on mortgage loans	6,134	7,387	(1,253)	(17.0)
Investments	94,283	92,023	2,260	2.5
Mortgage loans receivable, net	821,975	941,874	(119,899)	(12.7)
State receivables	30,846	89,977	(59,131)	(65.7)
Other assets, net	10,927	11,190	(263)	(2.4)
Total Assets	$ 1,385,126	$ 1,479,914	$ (94,788)	(6.4)
Deferred Outflows of Resources				
Deferred outflows for pensions	$ 788	$ 740	$ 48	6.5
Accumulated decrease in fair value of hedging derivative	5,174	4,405	769	17.5
Total Deferred Outflows of Resources	$ 5,962	$ 5,145	$ 817	15.9

	2016	2015	Change	%
Condensed Statement of Net Position *(in thousands)*				
Liabilities*				
Bonds payable, net	$ 638,902	$ 738,417	$ (99,515)	(13.5)
Accrued interest payable	11,388	13,995	(2,607)	(18.6)
Accounts payable	3,816	3,326	490	14.7
Derivative instrument – interest rate swap	5,174	4,405	769	17.5
Unearned revenues	36,804	30,984	5,820	18.8
Other liabilities	6,975	6,265	710	11.3
Total Liabilities	$ 703,059	$ 797,392	$ (94,333)	(11.8)
Deferred Inflows of Resources				
Deferred state grant	$ 5,520	$ 2,893	$ 2,627	90.8
Deferred inflows for pensions	423	2,187	(1,764)	(80.7)
Total Deferred Inflows of Resources	$ 5,943	$ 5,080	$ 863	17.0
Net Position				
Restricted	$ 664,330	$ 667,999	$ (3,669)	(0.5)
Unrestricted	17,756	14,588	3,168	21.7
Total Net Position	$ 682,086	$ 682,587	$ (501)	(0.1)

Condensed Statement of Revenues, Expenses and Changes in Net Position *(in thousands)*				
Operating Revenues				
Interest on investments	$ 6,973	$ 4,456	$ 2,517	56.5
Net increase (decrease) in fair value of investments	2,303	(165)	2,468	(1495.8)
Interest on mortgage loans	42,885	49,879	(6,994)	(14.0)
Federal program awards received	236,308	223,401	12,907	5.8
Program income/fees	66,663	52,839	13,824	26.2
Other revenues	1,951	5,834	(3,883)	(66.6)
Total Operating Revenues	$ 357,083	$ 336,244	$ 20,839	6.2
Operating Expenses				
Interest on bonds	$ 26,060	$ 29,397	$ (3,337)	(11.4)
Mortgage servicing expense	2,422	2,807	(385)	(13.7)
Federal program expense	239,071	223,645	15,426	6.9
Nonfederal program expense	20,933	14,607	6,326	43.3
General and administrative expense	23,764	23,926	(162)	(0.7)
Other expenses	2,610	4,199	(1,589)	(37.8)
Total Operating Expenses	$ 314,860	$ 298,581	$ 16,279	5.5
Operating Income	$ 42,223	$ 37,663	$ 4,560	12.1
Non-Operating Revenues (Expenses)				
State appropriations received	$ 21,619	$ 18,242	$ 3,377	18.5
State grants received	9,814	5,255	4,559	86.8
State tax credits	-	58,127	(58,127)	(100.0)
State program expense	(74,157)	(72,171)	(1,986)	2.8
Total Non-Operating Revenues (Expenses)	$ (42,724)	$ 9,453	$ (52,177)	(552.0)
Change in Net Position	$ (501)	$ 47,116	$ (47,617)	(101.1)

*For information on current and noncurrent statement of net position items, please see the audited Statement of Net Position in the accompanying financial statements.

New Business

Fiscal year 2016 brought challenges as interest rates remained low and the global markets experienced uncertainty. In spite of these challenges, the Agency's programs continued to support low and moderate-income North Carolinians for their housing needs and provided assistance to North Carolina home owners facing foreclosure.

The Agency's HomeAd program experienced increased production in fiscal year 2016. The popularity of the program was due in part to the introduction of a down payment assistance ("DPA") product funded by the HHF ("HHF DPA"). In September 2015, the Agency introduced the $15,000 HHF DPA with 0% interest, forgiven over five years at a rate of 20% per year. With $15 million of HHF funding, the HHF DPA will serve a total of 1,000 borrowers located in five counties: Cabarrus, Cumberland, Guilford, Johnston and Mecklenburg. These counties were selected based on the presence of distressed housing areas relative to performance factors for the state as a whole. These factors included seriously delinquent mortgage loans, negative equity, short sales, real estate owned sales, and foreclosures. The program is aimed at stabilizing distressed neighborhoods that may be at higher risk of foreclosure by encouraging borrowers to purchase homes in one of these five counties. These funds are only available to first-time home buyers, veterans or borrowers purchasing a home within a targeted area. Eligible borrowers must also be within the Mortgage Credit Certificate ("MCC") income and sales price limits, and the home must be existing construction, not new construction. As of June 30, 2016, the majority of these loans had been funded.

All NC Foreclosure Prevention Fund ("NCFPF") programs are funded by HHF; prior to fiscal year 2016, these programs included the Mortgage Payment Program, Second Mortgage Refinance Program, and the Modification Enabling Program. As mentioned above, the $15,000 HHF DPA program was introduced as a new NCFPF program in fiscal year 2016. In addition to the HHF DPA program, Treasury approved a new NCFPF program at the end of fiscal year 2015 to help home owners who have returned to work at a lower income or home owners living on a fixed income. Initiated in July 2016, the Principal Reduction Recast/Lien Extinguishment Program provides a principal reduction which may be used to reduce a home owner's unaffordable mortgage payment or to extinguish his or her remaining mortgage debt.

The Agency anticipated a wind down of the NCFPF by March 2016, ahead of schedule. Unexpectedly, Congress adopted a budget bill in December 2015 allocating an additional $2 billion nationwide for the HHF, which was made available in two phases in fiscal year 2016. The first phase allocated $1 billion based on each state's population and use of the original HHF allocation, for which the Agency was allocated $78 million. Phase two allocated $1 billion and was awarded based on applications submitted by the state housing finance agencies for the funds. The Agency was awarded $145.7 million in phase two, bringing the total of new HHF allocations to $223.7 million in fiscal year 2016. North Carolina received the fourth largest award among the participating states. Treasury announced that the revised HHF sunset date is December 31, 2020 and all future program income will be retained by the Agency for its use in foreclosure prevention.

For fiscal year 2016, the Agency received the following appropriations from both the federal government and the North Carolina State General Assembly, each of which are discussed in more detail below:

Federal appropriations:

- $12.37 million HOME Investment Partnership Program ("HOME")

North Carolina State appropriations:

- $12.50 million Workforce Housing Loan Program ("WHLP")
- $7.66 million Housing Trust Fund ("HTF")
- $1.46 million HOME Match

The STC expired in fiscal year 2015 in spite of the Agency's attempts to extend its sunset provision. The STC was replaced by the WHLP, a state program which provides loans up to $1 million to fund construction or substantial rehabilitation of affordable rental developments, administered in combination with Federal Low-Income Housing Tax Credits. The fiscal year 2016 WHLP appropriation increased $2.5 million over the $10 million appropriation in fiscal year 2015.

The HTF appropriation of $7.66 million represented a 13% increase relative to the fiscal year 2015 appropriation of $6.78 million. Separate from the State's HTF appropriation, the National Housing Trust Fund

("NHTF") is a federal award that was established in the Housing and Economic Recovery Act of 2008. The goal of the NHTF is to increase affordable housing for extremely and very low-income households, primarily for renters. Funds are allocated to states by a needs-based formula and the cost of construction in each state. The NHTF is capitalized through a fee on new business from Fannie Mae and Freddie Mac ("GSEs"). In 2009, prior to the Agency's receipt of any NHTF amounts, the Federal Housing Finance Agency ("FHFA") suspended these deposits due to the financial condition of the GSEs. In December 2014, the FHFA terminated the suspension, and the GSEs began making deposits starting in fiscal year 2016. In December 2015, the Governor designated the Agency the administrator of North Carolina's NHTF appropriation, but the funds will not be received until fiscal year 2017.

The HOME appropriation of $12.37 million reflected an approximate $744,000 increase relative to the $11.63 million appropriation for fiscal year 2015. Although the HOME appropriation increased in fiscal year 2016, it is substantially lower than the largest appropriation of $21.6 million that was received for fiscal year 2010. The HOME Match appropriation of $1.46 million was the same as the HOME Match appropriation in fiscal year 2015.

As of 2012, the State of North Carolina entered into a voluntary settlement with the United States Department of Justice that includes a goal to house 3,000 people with mental illness in their local communities by June 2020. The purpose of this agreement is to ensure that people with mental illness can receive the necessary services and supports to successfully live in the communities of their choice. DHHS is implementing this agreement in conjunction with the Agency and Local Management Entity/Managed Care Organizations in the state. The Agency executed an agreement with DHHS in June 2016 to assume responsibility over the housing administration for the Transitions to Community Living Voucher program and other housing initiatives. Currently, DHHS is using Quadel Consulting Corporation, its current housing administrator through December 31, 2016. The Agency has been actively working in fiscal year 2016 to staff the new initiative and scope out the framework for the processes and systems involved. In fiscal year 2016, the Agency recorded a $1,094,000 receivable for reimbursement of start-up costs incurred for the project. In support of the project and with funds from DHHS, the Agency has also entered into a contract in fiscal year 2016 with a national nonprofit, the Technical Assistance Collaborative, for the development of a housing plan.

The Agency added the word "Essential" to the name of the Single-Family Rehabilitation Loan Pool program in May 2016. The program is now targeted to a new minimum rehabilitation standard that will focus on essential repairs for health, safety, energy-efficiency, and the life-expectancy of major building systems. The maximum hard cost per unit will be reduced to $25,000 from $45,000. Households eligible for assistance must be low or moderate-income, elderly or disabled, or have a child under the age of six in a home with lead-based paint hazards. Veterans have been added as a special needs category.

Debt Administration

The Agency took advantage of the continued low interest rates in fiscal year 2016 by issuing a taxable debt refunding in the 1998 Trust Agreement. Series 36 closed in October 2015 for a total of $66 million, and it refunded Series 23, 24 and 26 in the 1998 Trust Agreement. Low interest rates made tax-exempt bond financing difficult, so the Agency continued to serve low and moderate-income borrowers using the HomeAd program, which is financed by the sale of MBS on the secondary market. In the absence of originating new mortgage revenue bond loans through its FirstHome program, the Agency allocated available Private Activity Bond Volume Cap towards its MCC program, which can be used in conjunction with the HomeAd program as well as other lender programs for qualifying borrowers.

For Series 16C in the 1998 Trust Agreement, the Agency cancelled $840,000 of the notional amount of its derivative interest rate swap on January 1, 2016. This optional cancellation is available under the existing swap contract with no swap termination charge. Series 16C is the only remaining variable rate series in the 1998 Trust Agreement with optional cancellations available.

Apart from scheduled debt service payments, the Agency had multiple bond calls in fiscal year 2016 which totaled $138,825,000. These bond calls included prepayment calls, debt service reserve calls and excess revenue calls.

Programs

For the year ended June 30, 2016, the Agency made cash disbursements of $268,628,000 in Federal funds for the following programs:

- Comprehensive Housing Counseling
- Carryover Loan Program
- Community Partners Loan Pool
- Hardest Hit Fund Down Payment Assistance
- Modification Enabling Program
- Mortgage Payment Program
- National Foreclosure Mitigation Counseling Program
- Principal Reduction Recast/Lien Extinguishment Program
- Rental Production Program
- Second Mortgage Refinance Program
- Section 8 New Construction
- Section 8 Contract Administration
- Self-Help Loan Pool
- Essential Single-Family Rehabilitation Loan Pool

For the year ended June 30, 2016, the Agency made cash disbursements of $74,439,000 in State funds for the following programs:

- Community Partners Loan Pool
- Displacement Prevention Partnership
- Housing Counseling Capacity Building Program
- Housing Placement Services
- Housing Services
- Key Program
- Rental Production Program
- Supportive Housing Development Program
- State Tax Credit
- Urgent Repair Program
- Workforce Housing Loan Program

For the year ended June 30, 2016, the Agency made cash disbursements of $22,052,000 from other funding sources for the following programs:

- Construction Training Partnership Program
- Community Partners Loan Pool
- FirstHome
- Multifamily Rental Assistance
- NC Home Advantage Mortgage
- NC Home Advantage Down Payment Assistance
- State Home Foreclosure Prevention Project
- Urgent Repair Program

For the year ended June 30, 2016, the Agency made awards of $749,321,000 from miscellaneous sources for the following programs:

- Low-Income Housing Tax Credit Program
- Mortgage Credit Certificate
- NC Home Advantage Mortgage

The Agency's mission is to create affordable housing opportunities for North Carolinians whose needs are not met by the market. The Agency focuses its efforts on providing assistance to borrowers purchasing their home, financing affordable rental housing, and helping home owners who are facing foreclosure or living in substandard housing.

<u>Home Ownership Programs</u> The Agency supported over 6,330 home buyers with disbursements from its Home Ownership Programs in fiscal year 2016.

The HomeAd program offers 30-year mortgages to low and moderate-income home buyers for the purchase of a home. Income and credit score limits apply, and up to 5% of deferred, forgiven HomeAd Down Payment Assistance ("HomeAd DPA") is available to any borrower obtaining a HomeAd mortgage. In fiscal year 2016, a special HHF DPA of $15,000 was offered with funding made available through the HHF; the HHF DPA was available for eligible borrowers purchasing an existing home in five counties within North Carolina. The mortgage loans are funded with taxable financing through the sale of Government National Mortgage Association and Federal National Mortgage Association insured MBS.

The Agency also helped community-based groups bring home ownership opportunities to lower-income households. The Community Partners Loan Pool offers gap financing as a deferred, interest-free loan that is generally used with a HomeAd or Rural Development Section 502 loan. The Self-Help Loan Pool provides interest-free, amortizing mortgage loans up to $30,000 for newly-constructed or rehabilitated homes produced in partnership with local Habitat for Humanity affiliates through a model of sweat equity, volunteers and donations. Incentive funding of up to $6,000 is available to both loan pools when homes are built to certain Advanced Energy standards of energy efficiency with an additional $1,000 if the affiliate also meets a major Green Building Certification. Home buyers in both pools must have a household income at or below 80% of their county's median income, complete a home buyer education course and receive home ownership counseling.

The MCC program permits qualifying home buyers who meet federal guidelines for family income and acquisition costs to take a federal income tax credit for every year the home buyer occupies the home. The home buyer may take 30% of annual mortgage interest as a tax credit if purchasing existing housing, or 50% if purchasing new construction housing, with a maximum tax credit of $2,000 per year. The MCC program is also available for qualifying home buyers using the HomeAd program.

<u>Housing Preservation Programs</u> The Agency supported over 1,680 households with disbursements from its Housing Preservation Programs in fiscal year 2016.

The Essential Single-Family Rehabilitation Loan Pool program provides deferred, forgivable loans to home owners through regional agencies, units of local government, and nonprofit organizations for rehabilitation costs addressing essential repairs for health and safety, reasonable energy-efficiency measures, and life expectancy of major building systems. The program assists home owners with elderly, disabled or veteran household members, or homes with lead hazards housing a child under age six.

The Urgent Repair Program provides funds to local governments, regional agencies, and non-profit organizations to correct a specific housing problem that poses an imminent threat to life, safety, or displacement of low-income home owners.

The Displacement Prevention Partnership, which operates in partnership with local offices of the Independent Living Rehabilitation Program within DHHS, provides accessibility modifications to very low-income households that may be displaced due to severe mobility limitations.

The Construction Training Partnership Program, which is a partnership with the North Carolina Home Builders Association ("NCHBA") and local governments, provides funding for the hard costs of new construction or rehabilitation projects. NCHBA conducts a range of training services to low-income unemployed persons. Training consists of classroom and "hands on" residential field training followed by job placement activities. The local government pays for the cost of training, identifies eligible projects, and serves as or procures a general contractor.

Foreclosure Prevention Financing Programs The Agency disbursed funds from the NCFPF to over 5,520 households in fiscal year 2016.

The Mortgage Payment Program of the HHF pays mortgage payments and related expenses for home owners who are unemployed, veterans, or those under other temporary financial hardship. Payments are made up to 18 months while home owners look for a job or up to 36 months while they complete job training, with maximum assistance of $36,000. The assistance is in the form of an interest-free deferred loan which will be forgiven if the home owner continues to live in the home for ten years.

The Second Mortgage Refinance Program of HHF provides assistance to recovered, employed home owners who have an unaffordable second mortgage due to prior unemployment, under-employment, or other program-eligible financial hardship. The assistance is in the form of an interest-free, non-recourse, deferred-payment subordinate loan up to $50,000.

New in fiscal year 2016, the Principal Reduction Recast/Lien Extinguishment Program provides a principal reduction either to reduce a home owner's unaffordable mortgage payment or to extinguish his or her remaining debt.

Also new in fiscal year 2016, the HHF DPA program provides down payment assistance in the form of a deferred forgiven loan to encourage home buyers to purchase a home in certain counties to stabilize distressed neighborhoods.

Foreclosure Counseling The Agency funded more than 4,730 foreclosure prevention counseling sessions for households across the state through disbursements to local counseling agencies in fiscal year 2016.

The National Foreclosure Mitigation Counseling Program provides federal funds for foreclosure prevention counseling and legal assistance across the state. Counseling sessions are provided on a short-term basis by United States Department of Housing and Urban Development ("HUD") approved counseling intermediaries primarily in defined areas of greatest need.

Through the State Home Foreclosure Prevention Project, every home owner facing foreclosure is notified of available counseling services. Fees paid by servicers for each registered home foreclosure are used to pay for housing counseling, legal aid, and administrative costs. Counseling agencies throughout the State provide assistance to home owners and servicers regarding foreclosure alternatives.

The HCCBP received funding from the 2012 National Mortgage Settlement, which was a landmark agreement between state Attorneys General and the five largest mortgage servicers. In fiscal year 2016, the Agency funded 35 organizations with approximately $600,000 to build human capital, training, technology and marketing capacity of HUD-approved non-profit housing and foreclosure counseling agencies.

Rental Development Programs The Agency supported nearly 5,400 households with disbursements from its Rental Development Programs in fiscal year 2016.

The Agency administers both the Federal Low-Income Housing Tax Credit program and the STC program. These credits are available to developers on a competitive basis to fund the creation of affordable rental housing in the state. The Agency's goals include awarding tax credits to the best developments possible given limited resources available. The Qualified Allocation Plan establishes criteria that include the following for selecting developments that serve low-income residents: locations with strong market demand, healthy financial structures, attractive architectural design, and the best quality of building materials and workmanship.

The STC expired in fiscal year 2015 and was replaced by the WHLP. The WHLP is a state program under which funds are made available as a loan to fund construction or substantial rehabilitation of affordable rental developments, and it is administered in combination with the Federal Low-Income Housing Tax Credit program.

The Rental Production Program provides low cost loans for rental housing, mainly targeting households below 50% of area median income. These Rental Production Program loans are usually gap financing for the projects financed with Federal Low-Income Housing Tax Credits.

The Carryover Loan Program provides funding to acquire land for Low-Income Housing Tax Credit properties, primarily targeting rental developments serving households below 50% of area median income. The loan amount is the lower of 95% of the approved land cost or $1 million.

Rental Assistance Programs The Agency supported over 24,811 households with disbursements from its Rental Assistance Programs in fiscal year 2016.

The Agency administers the Section 8 Housing Assistance Payment Program on behalf of HUD for properties throughout North Carolina. The Agency contracted with a third-party administrator, Quadel Consulting Corporation, to assist with the administration of this program.

The Agency and DHHS partnered to create the Key Program by providing rental assistance for low-income persons with disabilities and those who are homeless. Funding is available to all targeted units produced under the Preservation Loan Program, the Low-Income Housing Tax Credit program, and the Supportive Housing Development Program; however, the Key Program does not provide assistance if rental subsidies are available through another program.

The Agency and DHHS are also working on establishing the Transitions to Community Living Voucher Program, which is discussed in more detail in the "New Business" section and is supported by the Key Program. No disbursements for this program were made in fiscal year 2016.

Supportive Housing Development Program The Agency supported over 200 households with disbursements from its Supportive Housing Development Program in fiscal year 2016. The Supportive Housing Development Program provides funding for emergency, transitional, and permanent housing for children and adults with a wide range of disabilities or special housing needs. Eligible applicants are mission-driven non-profit organizations and units of local government.

Additional Information

This discussion and analysis is intended to provide additional information regarding the activities of the Agency. If you have questions about the report or need additional financial information, contact S. Carrie Freeman, Interim Chief Financial Officer, North Carolina Housing Finance Agency, P.O. Box 28066, Raleigh, North Carolina 27611-8066, (919) 877-5680, scfreeman@nchfa.com, or visit the Agency's website at www.nchfa.com.

This page intentionally left blank

Tel: 919-754-9370
Fax: 919-754-9369
www.bdo.com

5430 Wade Park Boulevard
Suite 208
Raleigh, NC 27607

Independent Auditor's Report

The Board of Directors
North Carolina Housing Finance Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and programs of the North Carolina Housing Finance Agency (the "Agency"), a public agency and component unit of the State of North Carolina, as of and for the year ended June 30, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Housing Finance Agency as of June 30, 2016, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2016 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

BDO USA, LLP

September 22, 2016

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF NET POSITION

AS OF JUNE 30, 2016

(in thousands)

ASSETS		
Current assets:		
Cash and cash equivalents	$	8,873
Restricted cash and cash equivalents		410,139
Accrued interest receivable on investments		1,949
Mortgage loans receivable		136,318
Accrued interest receivable on mortgage loans		6,134
State receivables		30,846
Other assets		7,286
TOTAL CURRENT ASSETS	$	601,545
Noncurrent assets:		
Investments	$	3,139
Restricted investments		91,144
Mortgage loans receivable, net		685,657
Other assets, net		3,641
TOTAL NONCURRENT ASSETS	$	783,581
TOTAL ASSETS	$	1,385,126
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows for pensions	$	788
Accumulated decrease in fair value of hedging derivative		5,174
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$	5,962
LIABILITIES		
Current liabilities:		
Bonds payable	$	25,795
Accrued interest payable		11,388
Accounts payable		3,816
Unearned revenues		24,925
Other liabilities		615
TOTAL CURRENT LIABILITIES	$	66,539
Noncurrent liabilities:		
Bonds payable, net	$	613,107
Derivative instrument - interest rate swap		5,174
Unearned revenues		11,879
Other liabilities		6,360
TOTAL NONCURRENT LIABILITIES	$	636,520
TOTAL LIABILITIES	$	703,059
DEFERRED INFLOWS OF RESOURCES		
Deferred state grant	$	5,520
Deferred inflows for pensions		423
TOTAL DEFERRED INFLOWS OF RESOURCES	$	5,943
NET POSITION		
Restricted	$	664,330
Unrestricted		17,756
TOTAL NET POSITION	$	682,086

The accompanying notes are an integral part of this financial statement.

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2016

(in thousands)		
OPERATING REVENUES		
Interest on investments	$	6,973
Net increase in fair value of investments		2,303
Interest on mortgage loans		42,885
Federal program awards received		236,308
Program income/fees		66,663
Other revenues		1,951
TOTAL OPERATING REVENUES	$	357,083
OPERATING EXPENSES		
Interest on bonds	$	26,060
Mortgage servicing expense		2,422
Federal program expense		239,071
Nonfederal program expense		20,933
General and administrative expense		23,764
Other expenses		2,610
TOTAL OPERATING EXPENSES	$	314,860
OPERATING INCOME	$	42,223
NON-OPERATING REVENUES (EXPENSES)		
State appropriations received	$	21,619
State grants received		9,814
State program expense		(74,157)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$	(42,724)
CHANGE IN NET POSITION	$	(501)
TOTAL NET POSITION - BEGINNING	$	682,587
TOTAL NET POSITION - ENDING	$	682,086

The accompanying notes are an integral part of this financial statement.

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2016

(in thousands)

Cash flows from operating activities:		
Interest on mortgage loans	$	44,019
Principal payments on mortgage loans		136,588
Purchase of mortgage loans		(15,973)
Federal program awards received		240,279
Federal program expense		(238,971)
Nonfederal program expense		(20,933)
Federal grant administration income		14,559
Program income/fees		52,651
Other expenses		(30,791)
Other revenues		4,202
Net cash provided by operating activities	$	185,630
Cash flows from non-capital financing activities:		
Issuance of bonds	$	66,000
Principal repayments on bonds		(165,600)
Interest paid		(27,887)
Bond issuance costs paid		(695)
State appropriations received		21,619
State grants received		19,224
State tax credits		51,842
State program expense		(73,651)
Net cash used in non-capital financing activities	$	(109,148)
Cash flows from investing activities:		
Proceeds from sales or maturities of investments	$	4,487
Purchase of investments		(4,444)
Earnings on investments		5,559
Net cash provided by investing activities	$	5,602
Net increase in cash	$	82,084
Cash and cash equivalents at beginning of year		336,928
Cash and cash equivalents at end of year	$	419,012
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	42,223
Adjustments to reconcile operating income to net cash provided by operating activities:		
Interest on investments		(6,973)
Increase in fair value of investments		(2,303)
Interest on bonds		26,060
Change in assets and liabilities:		
Decrease in mortgage loans receivable		119,899
Decrease in accrued interest receivable on mortgage loans		1,253
Decrease in other assets		3,201
Decrease in accounts payable and other liabilities		(3,550)
Increase in unearned revenues		5,820
Total adjustments	$	143,407
Net cash provided by operating activities	$	185,630

The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016

A. AUTHORIZING LEGISLATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Authorizing Legislation The North Carolina Housing Finance Agency ("Agency") is a public agency and component unit of the State of North Carolina ("State"). The accompanying financial statements represent the financial position of the Agency only. The Agency was created to provide financing for residential housing construction, new or rehabilitated, for sale or rental, to residents of the State with low and moderate incomes. Pursuant to its enabling legislation, the Agency is authorized to issue bonds and other obligations to fulfill its corporate purpose up to a total outstanding amount of $3 billion. The debt obligations of the Agency do not constitute a debt, grant or line of credit of the State, and the State is not liable for the repayment of such obligations.

Basis of Presentation The accompanying financial statements of the Agency have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") as applicable to governments. The Governmental Accounting Standards Board ("GASB") establishes standards of financial accounting and reporting for state and local government entities.

Measurement Focus and Basis of Accounting The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for Agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Programs The Agency's accounts are organized on the basis of programs. Each program represents a separate accounting entity. Agency resources are allocated to these programs based on legal responsibility, fiscal accountability, and management designation. The Agency's primary programs are summarized below:

<u>Agency Programs</u> Direct administrative and operational activities, including operating expenses of various programs, are recorded in Agency Programs.

The North Carolina General Assembly ("General Assembly") provides state tax credits to the Agency for use in developing housing credit properties. The Agency received $51,842,000 in state tax credits during fiscal year 2016. Under this program, the state tax credit project will receive the credit in the form of a loan or direct refund. The State Tax Credit ("STC") expired on January 1, 2015. The General Assembly replaced the STC with the Workforce Housing Loan Program. See "Housing Trust Fund Programs" below.

In 2008, the State authorized the formation of the State Home Foreclosure Prevention Project ("SHFPP") in response to the foreclosure crisis. State statute requires all parties who wish to initiate a foreclosure against a home in North Carolina to remit a $75 fee to the Agency. The fees collected are used to counsel and/or provide legal assistance to home owners who are at risk of foreclosure. Any excess funds are allocated to the North Carolina Housing Trust Fund ("Housing Trust Fund") annually. SHFPP transferred $182,000 to the Housing Trust Fund for fiscal year 2016. Funds in the amount of $2,500,000 were received and recorded as *Program income/fees* under Agency Programs. Expenses of $1,581,000 related to SHFPP are reflected in *Nonfederal program expense* during fiscal year 2016.

<u>Housing Trust Fund Programs</u> The North Carolina Housing Trust and Oil Overcharge Act created the Housing Trust Fund and the North Carolina Housing Partnership ("Housing Partnership"). The purpose of the Housing Trust Fund is to increase the supply of decent, affordable, and energy-efficient housing for residents of the State with low and moderate incomes. The Housing Partnership is responsible for developing policy for the operation of programs within the Housing Trust Fund. The

Agency provides staff services to the Housing Partnership and administers the Housing Trust Fund Programs. The Agency received State appropriations in the amount of $20,160,000 for the year ended June 30, 2016. Of this amount, $7,660,000 is a recurring appropriation that is used to make loans and grants under the Housing Trust Fund Programs. The remaining $12,500,000 nonrecurring appropriation is the Workforce Housing Loan Program. These appropriations are reported in *Non-Operating Revenues (Expenses)* in the accompanying financial statements.

The General Assembly appropriated $2,893,000 from the North Carolina Department of Health and Human Services ("DHHS") for the Community Living Housing Fund to provide permanent community-based housing in integrated settings appropriate for individuals with disabilities in support of the Transitions to Community Living Initiative. These appropriations are reported in *State grants received*. Additional funds for the Community Living Housing Fund in the amount of $5,520,000 were received and recorded as *Deferred state grant* in *Deferred Inflows of Resources.* These funds will only be available for disbursement upon appropriation by the General Assembly.

<u>Federal and State Programs</u> The Agency administers eight federal programs. Of the Agency's federal programs, the Section 8 Programs, the Hardest Hit Fund® ("HHF"), and the HOME Investment Partnerships Program ("HOME Program") represent 57%, 31%, and 9%, respectively. The Agency receives a fee for administering these programs. The HOME Program is matched with funds appropriated by the General Assembly; the amount of matching funds received during the fiscal year was $1,459,000.

The State of North Carolina was awarded $338 million from the National Mortgage Settlement. In fiscal year 2013, the Agency signed a Memorandum of Understanding with the North Carolina Department of Justice to oversee $30,590,000 of these funds. These funds are used to help build the capacity of housing counseling agencies in the state as well as to provide funding for legal services. In fiscal year 2016, the Agency received $572,000 in residual funds, which is reported as part of *State grants received*. As of June 30, 2016, $312,000 is reflected in *State program expense*.

In fiscal year 2016, the Agency accrued $1,094,000 to fund start-up costs related to the housing administration for the Transitions to Community Living Voucher Program and other housing outcomes. These funds are recorded as *State receivables.*

<u>Home Ownership Bond Programs</u> The Home Ownership Bond Programs were created through various single-family trust agreements and are restricted as to their use. The proceeds of individual bond issues are used to purchase first-time homebuyer mortgage loans for single-family residential units.

The operations for the NC Home Advantage Mortgage Program ("HomeAd") are reflected in the 1998 Home Ownership Bond Program. In fiscal year 2016, the 1998 Home Ownership Bond Program recorded program income of $31,256,000 related to HomeAd which is included as part of *Program income/fees.* Deferred forgiven down payment assistance loans totaling $13,933,000 and lender compensation totaling $4,234,000 related to the HomeAd program are reflected as a part of *Nonfederal program expense*. Recording fees of $94,000 are reflected in *General and administrative expense,* representing a new expense of the HomeAd program related to a $65 recording fee paid to lenders to cover the cost of recording the down payment assistance loan.

Significant Accounting Policies Below is a summary of the Agency's significant accounting policies:

<u>Cash and cash equivalents</u> *Cash and cash equivalents* are comprised of cash on hand, amounts on deposit with financial institutions which are insured or are collateralized under provisions of North Carolina laws and regulations, amounts in pooled cash accounts managed by the State Treasurer, and highly liquid investments with original maturities of three months or fewer. Funds deposited in an investment pool of the State Treasurer are invested in a variety of instruments as authorized by State law. The majority of *Cash and cash equivalents* classified as restricted on the accompanying Statement

of Net Position are for the Agency's debt service payments, bond calls, and for funding home ownership under the Agency's different programs.

Investments *Investments* are reported at fair value in accordance with GASB Section I50, *Investments* ("GASB I50"), except for certain mortgage backed securities ("MBS").

Mortgage loans receivable, net *Mortgage loans receivable, net* are carried at cost less a loan loss reserve. It is the Agency's policy to provide for potential mortgage loan losses based on a periodic evaluation of the loan portfolios.

State receivables In 2002, the General Assembly converted the STC into a refundable credit providing funds that can be efficiently invested directly in housing credit properties through the Agency. The Agency recorded a $29,752,000 receivable for state tax credits for the fiscal year ended June 30, 2016, representing the remaining 2014 outstanding award. The Agency received state tax credits of $51,842,000 from the General Assembly for the 2013 outstanding awards (second installment) and the 2014 awards (first installment). These funds are used to provide loans to housing credit properties. The STC expired on January 1, 2015.

The Agency has a $1,094,000 receivable from DHHS for activities related to the Transitions to Community Living Initiative as of June 30, 2016.

Other assets, net Fixed assets, net of accumulated depreciation, in the amount of $3,641,000 are included in *Other assets, net* in the accompanying financial statements. Assets of $5,000 or greater are capitalized and depreciated over a five-year economic useful life using the straight-line method. *Other assets* (current) for Federal and State Programs of $2,031,000 includes the HOME Program, Section 8 contract administration, HHF advanced expenses and National Foreclosure Mitigation Counseling ("NFMC") rounds eight and nine program close-outs. *Other assets* (current) in the amount of $4,917,000 are reflected in the Home Ownership Bond Programs and include mortgage payments collected by servicers that will be remitted to the Agency in fiscal year 2017.

Bond premium Bond premium represents the difference in the amount received upon the sale of the bonds versus the par value of the bonds and is included as a part of *Bonds payable, net* in the accompanying financial statements. The premiums relate to the planned amortization class ("PAC") bonds sold in conjunction with many series in the 1998 and 2009 Trust Agreements. The bond premium is amortized using the effective interest rate method over the life of the related PAC bonds and is adjusted accordingly for any bond calls that occur during the year. The amortization of the bond premium is included as a component of *Interest on bonds* in the accompanying financial statements.

Unearned revenues *Unearned revenues* are monitoring fees received for the Low-Income Housing Tax Credit and for loans issued under the State Disaster Program. These fees are amortized on a straight-line basis over the life of the tax credit or over the life of the loan. Also included under *Unearned revenues* is funding from the Treasury for the HHF. The funds are used to assist home owners at risk of foreclosure.

Interprogram receivable (payable) During the normal course of operations, the Agency has numerous transactions among programs in order to provide services. If certain transactions among programs have not been settled as of June 30, 2016, these balances are recorded as *Interprogram receivable (payable)*. These interprogram transactions are eliminated in the accompanying financial statements.

Deferred Outflows/Inflows of Resources In addition to assets, the Statement of Net Position includes a separate section for *Deferred Outflows of Resources*. This section of the financial statements represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Agency has two items that meet this criterion in fiscal year 2016: contributions made to the pension plan and an accumulated decrease in fair value of hedging derivative instruments. In addition to liabilities, the Statement of Net Position includes a separate section for *Deferred Inflows of Resources*. This section of the financial statements represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Agency has two items that meet the criterion: deferred state grant revenue and deferrals of pension expense that result from the implementation of GASB No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68").

Net Position *Net Position* is reported as restricted when constraints placed on it are externally imposed by creditors, grantors, laws or regulations, or by law through constitutional provisions.

The Agency's Board of Directors approves an operating budget annually that is funded with revenues generated by administrative fees earned on federal programs, interest income earned on investments, earnings from the HomeAd, repayment of program funds, and reserves from trust agreements. All of these revenue sources are earmarked to cover operating expenses. The decision to use restricted or unrestricted receipts to fund a payment is transaction-based.

As of June 30, 2016, the Agency had $17,756,000 of unrestricted net position. The Agency intends to use net position for potential home ownership mortgage loan losses, to meet rating agencies' requirements, to cover the operating budget, and to support other Agency housing commitments.

Net position of the Home Ownership Bond Programs is restricted pursuant to the Agency's agreements with its bondholders as determined in each trust agreement. The Agency has restricted these funds in amounts sufficient to meet required debt service and operating expenses as defined by each trust agreement.

Net position of the Housing Trust Fund is restricted in accordance with the policies of the Housing Partnership. The Federal and State Programs' net position is restricted in accordance with each specific program's requirements.

The Agency implemented GASB I50, which requires the Agency to report investments at fair market value. The effect of the adoption on the Agency's financial statements for the years ended June 30, 2016 and 2015 are as follows (*in thousands*):

	June 30, 2016	**June 30, 2015**
Increase/(Decrease) in Operating Income	$ 2,303	$ (165)
Increase/(Decrease) in Net Position	$ 1,560	$ (743)

Operating Revenues and Expenses Historically, one of the Agency's main functions has been to borrow funds in the bond market and to use those funds to make home ownership loans. The Agency has the authority to issue bonds to the investing public in order to create a flow of private capital. These funds are used to purchase mortgage loans for qualified borrowers. A significant portion of operating income is derived from interest earned on mortgage loans less the interest expense of bonds outstanding. Additional operating income is earned from the administration of federal programs and the sale of MBS associated with the HomeAd Program.

Non-Operating Revenues and Expenses *State appropriations received, State grants received*, and *State tax credits* from the State of North Carolina are classified in *Non-Operating Revenues (Expenses)*. The related expenses are classified as *State program expense*.

General and administrative expense *General and administrative expense* is classified by the related program. To the extent allowed by the trust agreements and federal and state programs, transfers are made from the funds of the bond issue or the federal and state programs to the Agency to reimburse certain general and administrative expenses. If the Home Ownership Bond Programs or

Federal and State Programs do not permit payment of general and administrative expenses, expenses are paid from Agency reserve funds. Certain indirect costs are allocated to Federal and State Programs based on an independently prepared cost allocation plan. These costs are allocated based on certain parameters such as office square footage, number of approved positions, and number of transactions processed.

Use of estimates The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period (e.g., loan loss reserve). Actual results could differ from those estimates.

B. CASH, CASH EQUIVALENTS, INVESTMENTS, FAIR VALUE MEASUREMENTS AND SECURITIES LENDING TRANSACTIONS

Cash and cash equivalents As of June 30, 2016, the Agency had deposits in pooled investment accounts of the State Treasurer with a carrying value of approximately $188,374,000, and a bank balance of approximately $188,874,000. The State Treasurer investment account has the characteristics of a demand deposit account in that the Agency may deposit and withdraw cash at any time without prior notice or penalty. Included in the investment accounts of the State Treasurer is $3,528,000 of escrow and replacement reserves maintained on behalf of multifamily and single-family mortgagors; accordingly, a corresponding liability of the same amount is also included on the statement of net position.

The Agency had deposits with a carrying value of $230,636,000 and a bank balance approximating $230,750,000 on deposit with the Agency's fiduciary agent. Such deposits are collateralized with eligible securities held by a third-party custodian. The Agency also had deposits held in other financial institutions with both a carrying value and bank balance of $2,000.

Deposits - custodial credit risk Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned. At June 30, 2016, the Agency was not exposed to any material custodial credit risk.

Investments The Agency's investments include repurchase agreements, government securities (Federal Farm Credit Bank securities, Federal Home Loan Bank securities, Federal Home Loan Mortgage Corporation securities) and MBS insured by the Federal National Mortgage Association ("FNMA") and the Government National Mortgage Association ("GNMA").

Repurchase agreements are collateralized by obligations of the US Government, its agencies, or direct investments of such obligations. The market value of securities subject to such agreements must be maintained at least equal to 100% of the principal and accrued interest on the invested funds daily. The Agency invests in repurchase agreements for mostly long-term investments. On June 30, 2016, approximately $2,123,000 was invested in such long-term agreements having maturity dates ranging from July 1, 2032 to January 1, 2035 at a rate of 4.01%.

For the Agency's HomeAd program, mortgages are made by the lenders, purchased by the Agency's master servicer and securitized into GNMA and FNMA MBS. The Agency's master servicer sells the security to the Agency's third-party hedger. Because the MBS are sold directly by the master servicer to the third-party hedger, there is no balance of MBS reflected on the Statement of Net Position as of June 30, 2016 related to the Agency's HomeAd program.

At June 30, 2016, the Agency held the following investments with the listed maturities at annual rates ranging from 1.25% to 6.90%. Ratings are displayed with Moody's Investors Service ("Moody's") rating listed first and Standard & Poor's ("S&P") rating listed second (*in thousands*):

		Investment Maturities (*In Years*)			
Investments	**Carrying Amount**	**Less Than 1**	**1 – 5**	**6 – 10**	**More Than 10**
GNMA MBS					
Rated Aaa/AA+	$ 808	$ -	$ -	$ 808	$ -
FNMA MBS					
Rated Aaa/AA+	143	-	-	143	-
Repurchase Agreements					
Rated A2/AA	2,123	-	-	-	2,123
Government Securities					
Rated Aaa/AA+	91,209	-	54,279	35,028	1,902
Total Categorized	**$94,283**	**$ -**	**$54,279**	**$35,979**	**$4,025**

Interest rate risk Interest rate risk is the risk that changes in market rates will adversely affect the fair market value of an investment. The Agency does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. In practice, the Agency does limit investments to 20 years to minimize fair value losses arising from interest rate risk.

Credit risk Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The General Statutes of the State authorize the Agency to invest in (i) direct obligations or obligations on which the principal and interest are unconditionally guaranteed by the US Government; (ii) obligations issued by an approved agency or corporation wholly-owned by the US Government; (iii) interest-bearing time deposits, certificates of deposit, or other approved forms of deposits in any bank or trust company in North Carolina which satisfies insurance and, if necessary, collateral requirements for holding Agency money; (iv) duly established investment programs of the State Treasurer; (v) repurchase agreements; and (vi) repurchase agreements with banks and financial institutions which are chartered outside of North Carolina and meet specified rating and collateral requirements of the various trust agreements. MBS are securitized by FNMA (fair value - $143,000, rated Aaa/AA+) and by GNMA (fair value - $808,000, rated Aaa/AA+). GNMA is a direct obligation of the US Government. Repurchase agreements are fully collateralized by obligations issued by the US Government or its agencies. The government securities are comprised of Federal Farm Credit Bank, Federal Home Loan Bank and Federal Home Loan Mortgage Corporation securities which are direct obligations of the Treasury (rated Aaa/AA+). The government securities have a fair value of $91,209,000.

Concentration of credit risk The Agency has a historical practice of entering into repurchase agreements with several investment providers to minimize the Agency's exposure to a bond rating downgrade should one of the providers have a ratings event. However, all but one investment agreement have been terminated through bond refundings and investment agreement terminations due to the low interest rate environment. The investments consist of repurchase agreements and obligations of the US Government which represent 2% and 97%, respectively, of the Agency's total investments.

Investments in any one issuer that represent 5% or more of total investments as of June 30, 2016 are as follows *(in thousands)*:

Investment Issuer	**Amount**
Federal Home Loan Bank	$65,984
Federal Farm Credit Bank	18,014
Federal Home Loan Mortgage Corporation	7,210

Custodial credit risk Custodial credit risk occurs when investment securities are uninsured and are not registered in the name of the Agency, and there is a failure of the counterparty. At year end, the Agency was not exposed to custodial credit risk. The government securities are on deposit with the Agency's fiduciary agent, which holds these securities by book entry in its fiduciary Federal Reserve accounts. The Agency's ownership of these securities is identified through the internal records of the fiduciary agent.

Bond proceeds were used to purchase GNMA and FNMA MBS from pools of qualified mortgages originated under the Agency's FirstHome program guidelines. The securities are based on cash flows from underlying mortgages and are not considered derivatives. These MBS are not related to the HomeAd Program, which are not purchased with bond proceeds.

Foreign currency risk Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Agency is not at risk for foreign currency risk.

Fair value measurements The Agency implemented GASB Statement No. 72, *Fair Value Measurement and Application* ("GASB 72"), for the year ended June 30, 2016. To the extent available, the Agency's investments are recorded at fair value, which are within the fair value hierarchy established by GAAP. GASB 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1	Investments whose values are based on quoted prices (unadjusted) for identical assets (or liabilities) in active markets that a government can access at the measurement date.
Level 2	Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset (or liability), either directly or indirectly.
Level 3	Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

The Agency has the following recurring fair value measurements as of June 30, 2016 *(in thousands)*:

Investment Type	Fair Value	Input Level	Description
Short Term Investment Fund ("STIF")	$280,508	Level 2	The ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year-end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the State's custodian.
Government Securities	$91,209	Level 2	Valuation of the underlying assets is performed using the policies and procedures established by the Agency's custodian.
Derivative Instrument - Interest Rate Swap	$5,174	Level 2	The fair value was estimated by a consulting firm using the zero coupon method.

Securities lending transactions GASB Section I60, *Investments—Security Lending* ("GASB I60"), establishes accounting and financial reporting standards for transactions where governmental entities transfer their securities to broker-dealers and other entities (borrowers) in exchange for collateral (which may be cash, securities, or letters of credit) and simultaneously agree to return the collateral in exchange for the original securities in the future. The Agency does not directly engage in securities lending transactions; however, the State Treasurer is authorized to engage in these types of transactions under North Carolina General Statute 147-69.3e. The types of securities include government securities and corporate bonds and notes which are held in the pooled investment accounts of the State Treasurer. A securities custodian manages the securities lending program for the State and receives cash as collateral from the borrowers. Collateral is invested in a collateral investment pool and must be maintained at 100% of the market value of the original securities. This investment in the collateral investment pool is considered to be a highly liquid investment. The State has a custodial credit risk related to the transactions.

Throughout fiscal year 2016, the Agency had deposits in the pooled investment accounts of the State Treasurer. The risk associated with these transactions will be recorded by the State in its fiduciary funds. No allocation will be made to the Agency; therefore, the accompanying financial statements do not reflect the risk associated with securities lending transactions in accordance with GASB I60.

C. MORTGAGE LOANS RECEIVABLE

Mortgage loans purchased with the proceeds of the various single-family bond issuances have stated interest rates ranging from 3% to 10.35%.

The existing and future mortgage loans which the Agency may purchase under the bond programs must comply with guidelines established by the Agency, including the requirement that all such mortgage loans be insured by the Federal Housing Administration, guaranteed by the Veterans Administration, guaranteed by the US Department of Agriculture, Rural Development, insured under a private mortgage insurance program, or have a loan-to-value ratio equal to or less than 80%. As of June 30, 2016, all outstanding mortgage loans purchased with mortgage revenue bond proceeds satisfy these requirements. The Agency has an allowance for loan losses in the single-family mortgage loan program of $1,462,000 as of June 30, 2016.

Mortgage loans made with funds from the Agency Programs, Housing Trust Fund Programs, and Federal and State Programs have allowances for loan losses of $5,000, $77,000 and $75,000, respectively, as of June 30, 2016.

For the Home Ownership Bond Programs, the Agency has collateralized $708,784,000 in mortgage loans receivable and $176,304,000 in debt service, insurance, and revenue reserves to repay $637,190,000 single-family bonds payable at June 30, 2016. Proceeds from the bonds issued were used to finance housing throughout the State. The bonds are payable through July 2041 and are paid down from cash collections on mortgage loans receivable, interest receivable on mortgage loans, unexpended bond proceeds, and sale of investments. The Agency expects 100% of the mortgage loans, both principal and interest, to pay the principal and interest debt service requirements on the bonds. The total debt service requirement to be paid based on projected cash flows as of June 30, 2016 is $903,736,000 (see "Maturities" under Note D). For the current fiscal year, debt service payments, bond calls and related interest payments totaling $193,487,000 were made for the Home Ownership Bond Programs. Principal and interest payments received on mortgage loans for the Home Ownership Bond Programs were $163,371,000 in fiscal year 2016.

D. BONDS PAYABLE

Bonds payable activity for the year ended June 30, 2016 was as follows (*in thousands*):

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds payable				
Home Ownership	$ 736,790	$ 66,000	$ (165,600)	$ 637,190
Bond premium	1,627	631	(546)	1,712
Total Bonds payable, net	**$ 738,417**	**$ 66,631**	**$ (166,146)**	**$ 638,902**

Bonds payable as of June 30, 2016 are as follows (*in thousands*):

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Home Ownership Revenue Bonds			
(1998 Housing Revenue Bonds Trust Agreement)			
Series 15	Variable	7/1/2032	$ 4,525
Series 16	Variable	7/1/2032	9,005
Series 17	Variable - 5.000	7/1/2034	12,350
Series 18	Variable - 4.450	1/1/2035	5,985
Series 22 CE	4.500 - 5.250	1/1/2039	33,375
Series 25	4.400 - 4.900	7/1/2037	19,680
Series 27 A	5.000 - 6.000	1/1/2038	6,905
Series 28	3.800 - 4.800	1/1/2039	24,465
Series 29	4.250 - 5.500	7/1/2038	32,510
Series 30	3.950 - 5.500	7/1/2039	24,280
Series 31	3.750 - 5.500	7/1/2038	26,445
Series 32	4.00	1/1/2030	67,485
Series 33	1.717 - 4.319	1/1/2034	73,435
Series 34	1.022 - 4.002	7/1/2035	44,185
Series 35	0.938 - 3.986	7/1/2032	41,325
Series 36	0.890 - 3.907	1/1/2033	65,855
			$ 491,810

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Home Ownership Revenue Bonds			
(2009 Housing Revenue Bonds Trust Agreement)			
Series A-1 and Series 1	2.000 - 4.500	7/1/2041	$ 62,550
Series A-2 and Series 2	2.000 - 4.250	7/1/2041	82,830
			$ 145,380
Total Bonds Outstanding			$ 637,190
Plus Bond Premium			$ 1,712
Home Ownership Bond Programs			**$ 638,902**

See Note E, "Derivative Instrument - Interest Rate Swap," for variable rate interest calculation methodology.

Maturities Debt service requirements, including sinking fund requirements on term bonds, subsequent to June 30, 2016, are as follows (*in thousands*):

Bonds Outstanding without Interest Rate Swaps

Fiscal Year Ending June 30	Principal	Interest
2017	$ 24,850	$ 22,539
2018	25,065	21,836
2019	25,725	21,057
2020	26,180	20,204
2021	27,115	19,286
2022-2026	147,995	80,037
2027-2031	149,320	49,392
2032-2036	105,450	24,525
2037-2041	70,600	6,217
2042	3,390	46
Total Requirements	**$ 605,690**	**$ 265,139**

Bonds Outstanding with Interest Rate Swaps

Fiscal Year Ending June 30	Principal	Interest
2017	$ 945	$ 129
2018	1,115	124
2019	1,080	120
2020	1,055	115
2021	1,020	111
2022-2026	7,585	484
2027-2031	11,930	275
2032-2035	6,770	49
Total Requirements	**$ 31,500**	**$ 1,407**

Total Bonds Outstanding

Fiscal Year Ending June 30	Principal	Interest
2017	$ 25,795	$ 22,668
2018	26,180	21,960
2019	26,805	21,177
2020	27,235	20,319
2021	28,135	19,397
2022-2026	155,580	80,521
2027-2031	161,250	49,667
2032-2036	112,220	24,574
2037-2041	70,600	6,217
2042	3,390	46
Total Requirements	**$ 637,190**	**$ 266,546**

Bond redemptions The bond trust agreements provide for various methods of redemption. Bonds are redeemed at par from prepayments of mortgage loans securing the issues, from unexpended bond proceeds of the issues, from excess revenues, or from funds released via the related decreases in the respective debt service reserve requirements.

For the year ended June 30, 2016, scheduled and unscheduled bond redemptions were as follows (*in thousands*):

Issue	Amount Redeemed
Housing Revenue Bonds (1998 Trust Agreement)	$ 152,215
Housing Revenue Bonds (2009 Trust Agreement)	13,385
Total Home Ownership Bond Programs	**$ 165,600**

Special facilities (Conduits) The Agency issued Multifamily Housing Revenue Bonds which are not presented in the financial statements of the Agency. These bonds are secured solely by the properties and related revenues of the projects and the applicable credit enhancements, with the exception of the 2002 Resolution, which is secured by payments received on GNMA mortgages. These bonds do not constitute a debt of and are not guaranteed by the State of North Carolina, any political subdivision thereof or the Agency. Accordingly, these obligations are excluded from the Agency's financial statements.

Bonds payable as of June 30, 2016 for special facilities are as follows (*in thousands*):

Issue	Bond Type	Bonds Outstanding
2002 Resolution* (Series D)	Multifamily Housing Revenue Bonds	$ 2,095
2014 Resolution** (Series A)	Multifamily Housing Revenue Bonds	11,481
Total		**$ 13,576**

*This is a Section 501(c)3 entity and did not require volume cap when the bonds were issued.
**The 2014 Resolution (Series A) has a maturity date of October 1, 2016.

E. DERIVATIVE INSTRUMENT - INTEREST RATE SWAP

Summary Information During the reporting period from July 1, 2015, to June 30, 2016, the Agency did not execute or terminate any derivative contracts with the exception of the exercise of certain cancellation options described in “Market Access Risk.” The Agency has four pay-fixed, interest rate swap agreements with three financial counterparties (further described herein) each designated as a hedging derivative instrument representing cash flow hedges for the organization (*in thousands*):

Hedgeable Item	Hedging Derivative Instrument	Notional Amount	Classification	Fair Value at June 30, 2016 Liability	Classification	Net Increase in Fair Value
Series 15C	Pay-Fixed Interest Rate Swap	$6,030	Hedging Derivative	$(925)	Deferred Outflows of Resources	$175
Series 16C	Pay-Fixed Interest Rate Swap	$9,760	Hedging Derivative	$(1,319)	Deferred Outflows of Resources	$71
Series 17C	Pay-Fixed Interest Rate Swap	$12,305	Hedging Derivative	$(2,090)	Deferred Outflows of Resources	$329
Series 18C	Pay-Fixed Interest Rate Swap	$5,665	Hedging Derivative	$(840)	Deferred Outflows of Resources	$194

There were no derivative instruments reclassified from a hedging derivative to an investment derivative instrument during the period. There was no deferral amount within investment revenue due to any reclassifications during the period.

Objective The Agency has entered into interest rate swaps in connection with all of its variable-rate revenue bonds associated with four series in its 1998 Trust Agreement as a means to manage the future cash flow impact associated with the hedged debt. The intention of the swaps was to create more certainty for the Agency associated with the interest rate spread between its assets and liabilities.

Terms and credit risk The terms and credit risk of the outstanding swaps as of June 30, 2016 were as follows (*in thousands*):

Notional Amount	Counterparty	Counterparty Credit Rating Moody's/S&P	Date of Swap Execution	Maturity Date of Swap	Fixed Rate	Floating Index
$6,030	UBS AG	A1/A+	5/8/2003	7/1/2032	3.445%	63%L** + 0.30%
$9,760*	Bank of America, N.A.	A1/A	9/16/2003	7/1/2032	3.810%	63%L** + 0.30%
$12,305	Bank of America, N.A.	A1/A	12/11/2003	7/1/2032	3.725%	63%L** + 0.30%
$5,665	Goldman Sachs Mitsui Marine	Aa2/AA-	4/20/2004	1/1/2035	3.251%	63%L** + 0.30%

* The swap contract contains optionality that allows the Agency the right to change the notional to better match the principal schedule on the bonds.
** L represents the USD, 1-Month LIBOR index as published on Telerate page 3750.

Fair value In total, the swaps have a fair value of negative $5,174,000 as of June 30, 2016, which are reported as a liability in *Derivative instrument – interest rate swap*. Because the coupons on the Agency's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap. Additionally, if at the time of termination, the swap has a negative fair value, the Agency would be liable to the counterparty for a payment equal to the swap's fair value. Additional information regarding the reporting of fair value in accordance with GASB 72 is included in Note B, "Cash, Cash Equivalents, Investments, Fair Value Measurements and Security Lending Transactions."

Interest rate risk Under all of the swaps, the Agency pays the counterparties a fixed rate and receives a variable payment computed as 63% of 1-Month LIBOR plus 30 basis points. The bonds' variable-rate coupons are remarketed weekly and generally track the variable SIFMA index, which was 0.41% for all four series as of June 30, 2016.

Basis risk and termination risk The swaps expose the Agency to basis risk should the relationship between LIBOR and SIFMA converge, changing the synthetic rate on the bonds. The swap contracts for the Agency use a compound formula for the floating rate index to reduce this risk. During the accounting period, the Agency realized a benefit of 37.31 basis points for all four variable rate series due to the floating rate formula for its swap contracts when compared to the floating rate on the respective bonds. For all swaps, collateral thresholds have been established if the counterparty ratings reach A2 for Moody's or A for S&P. Series 16C, 17C and 18C swaps may be terminated if the counterparty's or the Agency's rating falls below Baa2 as issued by Moody's or BBB as issued by S&P. The Series 15C swap may be terminated if the counterparty's or the Agency's rating falls below Baa3 as issued by Moody's and BBB- as issued by S&P.

Credit risk Credit risk is the risk that the counterparty will not fulfill its obligations. All of the contracts as of June 30, 2016 reflect liabilities and, therefore, the Agency does not have current credit risk on its contracts. The Agency monitors the ratings of its counterparties to ascertain credit risk.

Foreign currency risk Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. All of the Agency's swaps are denominated in US dollars and are, therefore, not subject to foreign currency risk.

Rollover risk Rollover risk exists when the derivative does not last as long as the associated debt is outstanding. The maturity dates of the Agency's swap contracts match the maturity dates of the hedged debts; therefore, the Agency has no rollover risk.

Market access risk Market access risk is the risk that the Agency will not be able to enter credit markets as planned or that credit will become more costly. The Agency's current market access risk is limited because of its liquidity agreement with TD Bank, N.A. which was extended in May 2014 and will not expire until May 2017. The cancellation feature associated with the Series 15C swap was fully exercised on July 1, 2013, and the remaining swap on Series 15C has no cancellation option. The cancellation features associated with the Series 18C swap was fully exercised on January 1, 2015 with no further cancellation options. The swap for Series 17C does not have any optional cancellation features.

Quantitative method of evaluating effectiveness In order to assess the effectiveness of each hedging derivative instrument, the Agency employed the Synthetic Instrument Method. Under the Synthetic Instrument Method, a hedging derivative instrument is effective if the synthetic price is substantively fixed. The synthetic price as of the evaluation date, June 30, 2016, is compared to the synthetic price expected at the establishment of the hedge by calculation of an effectiveness percentage.

If the effectiveness percentage is within a range of 90 to 111 percent, the synthetic price is substantively fixed. Following are the results of the testing as of the end of the reporting period:

Hedgeable Item	Hedgeable Item Effective Bond Variable Rate	Derivative Instrument Floating Rate	Floating Rate Basis	Synthetic Price	90 to 111% Range	Test Performance
Series 15C	0.1338	0.5069	0.3731	3.1%	3.1% – 3.8%	PASS
Series 16C	0.1338	0.5069	0.3731	3.4%	3.4% – 4.2%	PASS
Series 17C	0.1338	0.5069	0.3731	3.4%	3.4% – 4.1%	PASS
Series 18C	0.1338	0.5069	0.3731	2.9%	2.9% – 3.6%	PASS

Swap payments and associated debt As rates vary, variable-rate bond interest payments and net swap payments will differ between the fixed rate paid to the counterparty and the variable rate paid to the Agency. Using rates as of June 30, 2016, debt service requirements of the variable-rate debt and net swap payments are as follows (*in thousands*):

Fiscal Year	Variable-Rate Bond		Interest Rate	Total
Ending June 30	Principal	Interest	Swap, Net	Interest
2017	$ 945	$ 129	$ 953	$ 1,082
2018	1,115	124	920	1,044
2019	1,080	120	885	1,005
2020	1,055	115	852	967
2021	1,020	111	820	931
2022-2026	7,585	484	3,567	4,051
2027-2031	11,930	275	2,006	2,281
2032-2035	6,770	49	349	398
Total	**$31,500**	**$1,407**	**$10,352**	**$11,759**

F. NONCURRENT LIABILITIES

Noncurrent liabilities for the year ended June 30, 2016 were as follows *(in thousands):*

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds payable					
Bonds payable, net	$736,790	$ 66,000	$(165,600)	$637,190	$ 25,795
Bond premium	1,627	631	(546)	1,712	-
Derivative instrument – interest rate swap	4,405	769	-	5,174	-
Accounts payable	69	-	(69)	-	-
Unearned revenues	30,984	108,689	(102,869)	36,804	24,925
Other liabilities					
Arbitrage rebate payable	914	-	(506)	408	408
Compensated absences	1,241	123	(235)	1,129	202
Deposits payable	3,504	1,848	(1,817)	3,535	5
Net pension liability*	606	1,297	-	1,903	-
	$780,140	**$179,357**	**$(271,642)**	**$687,855**	**$ 51,335**

*Additional information regarding the net pension liability is included in Note I, “Pension Plan.”

G. OPERATING LEASE

The Agency leases office space with future minimum lease payments for fiscal year 2017 in the amount of $555,000 and three months in fiscal year 2018 in the amount of $129,000. Rent expenses for all operating leases totaled $631,000 for the year ended June 30, 2016. The Agency’s lease for the main office will expire September 2017.

H. FEDERAL AWARDS

As a designated Public Housing Authority for the HUD Section 8 Programs, the Agency requisitions Section 8 Program funds and makes disbursements to eligible landlords. For the year ended June 30, 2016, $148,908,000 was received by the Agency and disbursed to property owners and is included in *Federal program awards received* and *Federal program expense* in Federal and State Programs.

The Agency is designated as the participating entity under grant agreements with HUD for the HOME Program. The HOME Program provides funding for the purpose of developing affordable housing for persons of low and very low income. For the year ended June 30, 2016, $23,040,000 was received and disbursed by the Agency and is included in *Federal program awards received*, *Federal program expense* and *Mortgage loans receivable, net* in Federal and State Programs, depending upon the terms of the transaction.

The Agency was selected as a participating entity under a grant agreement with Treasury passed through NeighborWorks® for the NFMC grant, which provides funding for counseling home owners at risk of foreclosure. For the year ended June 30, 2016, $1,425,000 was received and disbursed by the Agency and is included in *Federal program awards received* and *Federal program expense* in Federal and State Programs.

The Agency received repayments of mortgage loans that were funded under the Tax Credit Assistance Program. These repayments provide funding for the Carryover Loan Program. For the year ended June 30, 2016, $6,738,000 was disbursed and is included as a part of *Mortgage loans receivable, net* in the Federal and State Programs.

The Agency was selected as a participating entity under a grant agreement with Treasury for the HHF, which provides funding for homeowners facing foreclosure and stabilizes neighborhoods with poorly performing housing indicators. For the year ended June 30, 2016, $73,409,000 was received by the Agency and is included in *Federal program awards received* in Federal and State Programs. In fiscal year 2016, $73,956,000 was disbursed by the Agency and is included in *Federal program expense.* Also included in that amount is $547,000 of program income received from lien satisfactions.

The Agency was awarded Comprehensive Housing Counseling Program funds through HUD's Office of Housing Counseling. The program provides counseling to home owners at risk of foreclosure. For the year ended June 30, 2016, $565,000 was disbursed by the Agency and is included in *Federal program awards received* and *Federal program expense* in Federal and State Programs.

The Agency earned fees of $15,650,000 for administering these and other federal programs for the year ended June 30, 2016. Of these fees, $3,490,000 was paid to Quadel Consulting Corporation for the Section 8 Program Contract Administration, and $2,695,000 was paid to counseling agencies for providing HHF counseling services which is reported in *General and administrative expense*.

Federal awards are subject to audit by the grantor agencies. The Agency could be held liable for amounts received in excess of allowable expenditures.

I. PENSION PLAN

Plan description All permanent full-time employees of the Agency participate in the Teachers' and State Employees' Retirement System of North Carolina ("TSERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State. TSERS provides retirement benefits to plan members and beneficiaries. State statute assigns the authority to establish and amend benefit provisions to the General Assembly. TSERS is included in the Comprehensive Annual Financial Report ("CAFR") for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for TSERS. The report may be obtained from the website for the North Carolina Office of State Controller using the following link: http://www.osc.nc.gov/financial/index.html.

Benefits provided TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Funding policy Plan members are required to contribute 6% of their annual covered salary, and the Agency is required to contribute at an actuarially determined rate. The fiscal year 2016 rate is 9.15% of the annual covered payroll. The contribution requirements of plan members and the Agency are established and may be amended by the General Assembly. The following table represents the three-year trend of the annual contributions made by the Agency to the State retirement system. The Agency made 100% of its required contributions for the years ended June 30, 2016, 2015, and 2014 *(in thousands):*

	2016	2015	2014
Retirement Contribution	$722	$710	$668
Percentage of Covered Payroll	9.15%	9.15%	8.69%

Net pension liability At June 30, 2016, the Agency reported a liability of $1,903,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. At June 30, 2015 and at June 30, 2014, the Agency's proportion was 0.05164% and 0.05166%, respectively.

Deferred inflows of resources and deferred outflows of resources related to pensions For the year ended June 30, 2016, the Agency recognized pension expense of $206,000. At June 30, 2016, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources *(in thousands)*:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ -	$ 217
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	206
Change in proportion and differences between Agency's contributions and proportionate share of contributions	66	-
Contributions subsequent to the measurement date	722	-
Total	**$ 788**	**$ 423**

Deferred Outflows of Resources of $722,000 related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows *(in thousands)*:

Year ending June 30:	
2017	$ (228)
2018	(228)
2019	(221)
2020	320
Total	**$ (357)**

Actuarial assumptions The total pension liability was determined by an actuarial valuation performed as of December 31, 2014. The total pension liability was calculated through the use of update procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2015. The update procedures incorporated the actuarial assumptions used in the valuation. The entry age normal actuarial cost method was utilized. Inflation is assumed to be 3%, and salary increases range from 4.25% to 9.10% which includes 3.5% inflation and productivity factor. The long-term expected rate of return on pension plan investments used in the determination of the total pension liability is 7.25% and is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and studies that cover significant portions of the US population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment ("COLA") amounts are not considered to be substantively automatic and are not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	100.0%	

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset liability and investment policy study for the North Carolina Retirement Systems, including TSERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount rate The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the Agency's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage-point higher (8.25%) than the current rate *(in thousands)*:

	1% Decrease (6.25%)	**Discount Rate (7.25%)**	**1% Increase (8.25%)**
Agency's proportionate share of the net pension liability (asset)	$ 5,728	$ 1,903	$ (1,343)

Pension plan fiduciary net position Detailed information about the pension plan's fiduciary net position is available in the separately issued CAFR for the State of North Carolina.

J. POST-EMPLOYMENT / DISABILITY BENEFITS

In addition to pension benefits, employees are provided post-employment health care benefits and long-term disability benefits in accordance with State statutes. These benefits are provided through plans administered by the State. The Agency makes monthly contributions to the State for these benefits. Health care benefits are provided to long-term disability beneficiaries of the Disability Income Plan of North Carolina ("Disability Income Plan") and retirees who have at least five years of creditable service with TSERS. TSERS pays the full cost of coverage for retirees enrolled in the State's self-funded Teachers' and State Employees' Preferred Provider Organization ("PPO") medical plan who were hired prior to October 1, 2006, and retire with five or more years of State TSERS membership service. For employees hired on or after October 1, 2006, TSERS will pay the full cost of coverage for retirees with 20 or more years of service, TSERS will pay 50% of the cost of coverage for retirees with at least 10 years but less than 20 years of service, and the retiree with less than 10 years of service will pay the full cost of coverage. In addition, persons who became surviving spouses of retirees prior to October 1, 1986, receive the same coverage as retirees. Retirees and the aforementioned surviving spouses pay for the entire cost of coverage of their dependents. The health benefit plans are funded by the State on a pay-as-you-go basis.

Short-term and long-term disability benefits are provided through the Disability Income Plan. Long-term disability benefits are payable from the Disability Income Plan after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five years of contributing membership service with TSERS earned within 96 months prior to the end of the short-term disability period; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period, after salary continuation payments cease, or after monthly payments for workers' compensation cease, whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of employees' usual occupation; (4) the disability must have been continuous, likely to be permanent and incurred at the time of active employment; and (5) the employee must not be eligible to receive unreduced retirement benefits from TSERS. In addition, recipients of long-term disability benefits are eligible to receive the State-paid health insurance coverage. The monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation reduced by any social security or worker's compensation to which the recipient may be entitled up to a maximum of $3,900 per month. When an employee qualifies for an unreduced service retirement allowance from TSERS, the benefits payable from the Disability Income Plan cease, and the employee will commence retirement under TSERS.

All short-term disability benefit payments are made by the various State-administered plans. The Agency has no liability beyond payment of monthly contributions except for short-term disability benefits, which are paid by the Agency during the first six months of the short-term period. Contributions are determined as a percentage of covered monthly payrolls. Annually, the State sets monthly contribution rates for post-employment health care benefits, death benefits and disability benefits, which are the same for all agencies across the State.

The following table represents the three-year trend of the annual contributions made by the Agency to the State post-employment benefit plans. The Agency made 100% of its required contributions for the years ended June 30, 2016, 2015, and 2014 *(in thousands)*:

	2016	**2015**	**2014**
Health Care Benefit	$442	$426	$415
Disability Benefit	32	32	34
Death Benefit	13	12	12
Percentage of Covered Payroll			
Health Care Benefit	5.60%	5.49%	5.40%
Disability Benefit	0.41%	0.41%	0.44%
Death Benefit	0.16%	0.16%	0.16%

Since the benefit payments are made by the various State-administered plans and not by the Agency, the Agency does not determine the number of eligible participants.

K. RISK MANAGEMENT

The Agency's risk management policies provide for participation in the State's risk management programs. The following types of risk are covered under these programs, as disclosed in the State of North Carolina's CAFR:

- Automobile, Fire and Other Property Losses
- Public Officers' and Employees' Liability Insurance
- Employee Dishonesty and Computer Fraud
- Workers' Compensation Program/Fund

The State is responsible for the administration of all liability insurance policies. The deductible and amount of loss in excess of the policy is the responsibility of the Agency.

L. SEGMENT INFORMATION

The Agency's Home Ownership Bond Programs are initially funded with bond proceeds. These proceeds are used to purchase mortgage loans which provide the income along with investment earnings to repay the debt. Condensed financial statements at June 30, 2016 for this segment is as follows (*in thousands*):

STATEMENT OF NET POSITION		**Home Ownership**
ASSETS		
Current assets:		
Restricted cash and cash equivalents	$	188,174
Accrued interest receivable on investments		1,872
Mortgage loans receivable		121,796
Accrued interest receivable on mortgage loans		6,022
Other assets		4,917
Interprogram receivable		7,134
TOTAL CURRENT ASSETS	$	329,915
Noncurrent assets:		
Restricted investments	$	82,801
Mortgage loans receivable, net		585,526
TOTAL NONCURRENT ASSETS	$	668,327
TOTAL ASSETS	$	998,242
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated decrease in fair value of hedging derivative	$	5,174
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$	5,174
LIABILITIES		
Current liabilities:		
Bonds payable	$	25,795
Accrued interest payable		11,388
Accounts payable		1,478
Other liabilities		408
TOTAL CURRENT LIABILITIES	$	39,069
Noncurrent liabilities:		
Bonds payable, net	$	613,107
Derivative instrument - interest rate swap		5,174
TOTAL NONCURRENT LIABILITIES	$	618,281
TOTAL LIABILITIES	$	657,350
NET POSITION		
Restricted	$	346,066
TOTAL NET POSITION	$	346,066

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	Home Ownership
OPERATING REVENUES	
Interest on investments	$ 5,261
Net increase in fair value of investments	2,250
Interest on mortgage loans	41,146
Program income/fees	31,256
Other revenues	875
TOTAL OPERATING REVENUES	$ 80,788
OPERATING EXPENSES	
Interest on bonds	$ 26,060
Mortgage servicing expense	2,421
Nonfederal program expense	18,167
General and administrative expense	745
Other expenses	1,958
TOTAL OPERATING EXPENSES	$ 49,351
OPERATING INCOME	$ 31,437
NON-OPERATING EXPENSES	
Transfers in	$ 2,323
TOTAL NON-OPERATING EXPENSES	$ 2,323
CHANGE IN NET POSITION	$ 33,760
TOTAL NET POSITION - BEGINNING	$ 312,306
TOTAL NET POSITION - ENDING	$ 346,066

STATEMENT OF CASH FLOWS	
Net cash provided by operating activities	$ 166,963
Net cash used in non-capital financing activities	(125,859)
Net cash provided by investing activities	3,914
Net increase in cash	$ 45,018
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	143,156
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 188,174

North Carolina Housing Finance Agency

Supplementary Information

Tel: 919-754-9370
Fax: 919-754-9369
www.bdo.com

5430 Wade Park Boulevard
Suite 208
Raleigh, NC 27607

Independent Auditor's Report on Supplementary Information

Our audits of the financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BDO USA, LLP

September 22, 2016

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF NET POSITION

AS OF JUNE 30, 2016

(in thousands)	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS		Total
		Housing Trust Fund	Federal and State Programs	1998	2009	
ASSETS						
Current assets:						
Cash and cash equivalents	$ 8,873	-	-	-	-	$ 8,873
Restricted cash and cash equivalents	56,268	58,566	107,131	170,164	18,010	410,139
Accrued interest receivable on investments	38	39	-	1,829	43	1,949
Mortgage loans receivable	536	1,778	12,208	105,436	16,360	136,318
Accrued interest receivable on mortgage loans	3	16	93	5,191	831	6,134
State receivables	29,752	-	1,094	-	-	30,846
Other assets	306	32	2,031	4,220	697	7,286
Interprogram (payable) receivable	(2,598)	169	(4,705)	6,764	370	-
TOTAL CURRENT ASSETS	$ 93,178	60,600	117,852	293,604	36,311	$ 601,545
Noncurrent assets:						
Investments	$ 3,139	-	-	-	-	$ 3,139
Restricted investments	8,343	-	-	74,292	8,509	91,144
Mortgage loans receivable, net	2,352	15,737	82,042	466,299	119,227	685,657
Other assets, net	3,641	-	-	-	-	3,641
TOTAL NONCURRENT ASSETS	$ 17,475	15,737	82,042	540,591	127,736	$ 783,581
TOTAL ASSETS	$ 110,653	76,337	199,894	834,195	164,047	$ 1,385,126
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows for pensions	$ 788	-	-	-	-	$ 788
Accumulated decrease in fair value of hedging derivative	-	-	-	5,174	-	5,174
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 788	-	-	5,174	-	$ 5,962
LIABILITIES						
Current liabilities:						
Bonds payable	$ -	-	-	22,300	3,495	$ 25,795
Accrued interest payable	-	-	-	9,117	2,271	11,388
Accounts payable	333	167	1,838	1,207	271	3,816
Unearned revenues	1,722	-	23,203	-	-	24,925
Other liabilities	204	-	3	408	-	615
TOTAL CURRENT LIABILITIES	$ 2,259	167	25,044	33,032	6,037	$ 66,539
Noncurrent liabilities:						
Bonds payable, net	$ -	-	-	470,644	142,463	$ 613,107
Derivative instrument - interest rate swap	-	-	-	5,174	-	5,174
Unearned revenues	11,879	-	-	-	-	11,879
Other liabilities	6,360	-	-	-	-	6,360
TOTAL NONCURRENT LIABILITIES	$ 18,239	-	-	475,818	142,463	$ 636,520
TOTAL LIABILITIES	$ 20,498	167	25,044	508,850	148,500	$ 703,059
DEFERRED INFLOWS OF RESOURCES						
Deferred state grant	$ -	5,520	-	-	-	$ 5,520
Deferred inflows for pensions	423	-	-	-	-	423
TOTAL DEFERRED INFLOWS OF RESOURCES	$ 423	5,520	-	-	-	$ 5,943
NET POSITION						
Restricted	$ 72,764	70,650	174,850	330,519	15,547	$ 664,330
Unrestricted	17,756	-	-	-	-	17,756
TOTAL NET POSITION	$ 90,520	70,650	174,850	330,519	15,547	$ 682,086

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2016

(in thousands)	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS		Total
		Housing Trust Fund	Federal and State Programs	1998	2009	
OPERATING REVENUES						
Interest on investments	$ 826	365	521	5,022	239	$ 6,973
Net increase in fair value of investments	53	-	-	1,992	258	2,303
Interest on mortgage loans	49	551	1,139	35,641	5,505	42,885
Federal program awards received	-	-	236,308	-	-	236,308
Program income/fees	11,195	1,496	22,716	31,256	-	66,663
Other revenues	1	586	489	848	27	1,951
TOTAL OPERATING REVENUES	$ 12,124	2,998	261,173	74,759	6,029	$ 357,083
OPERATING EXPENSES						
Interest on bonds	$ -	-	-	21,521	4,539	$ 26,060
Mortgage servicing expense	1	-	-	1,912	509	2,422
Federal program expense	-	-	239,071	-	-	239,071
Nonfederal program expense	2,766	-	-	18,167	-	20,933
General and administrative expense	16,833	-	6,186	707	38	23,764
Other expenses	3	-	649	1,877	81	2,610
TOTAL OPERATING EXPENSES	$ 19,603	-	245,906	44,184	5,167	$ 314,860
OPERATING (LOSS) INCOME	$ (7,479)	2,998	15,267	30,575	862	$ 42,223
NON-OPERATING REVENUES (EXPENSES)						
Transfers in (out)	$ 16,270	106	(18,699)	2,323	-	$ -
State appropriations received	-	20,160	1,459	-	-	21,619
State grants received	-	2,893	6,921	-	-	9,814
State program expense	(50,771)	(14,266)	(9,120)	-	-	(74,157)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$ (34,501)	8,893	(19,439)	2,323	-	$ (42,724)
CHANGE IN NET POSITION	$ (41,980)	11,891	(4,172)	32,898	862	$ (501)
TOTAL NET POSITION - BEGINNING	$ 132,500	58,759	179,022	297,621	14,685	$ 682,587
TOTAL NET POSITION - ENDING	$ 90,520	70,650	174,850	330,519	15,547	$ 682,086

NORTH CAROLINA HOUSING FINANCE AGENCY
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016

(in thousands)	AGENCY PROGRAMS	GRANT PROGRAMS Housing Trust Fund	GRANT PROGRAMS Federal and State Programs	HOME OWNERSHIP BOND PROGRAMS 1998	HOME OWNERSHIP BOND PROGRAMS 2009	Total
Cash flows from operating activities:						
Interest on mortgage loans	$ 49	547	1,146	36,730	5,547	$ 44,019
Principal payments on mortgage loans	369	1,462	13,663	104,227	16,867	136,588
Purchase of mortgage loans	-	(190)	(15,562)	(221)	-	(15,973)
Federal program awards received	-	-	240,279	-	-	240,279
Federal program expense	-	-	(238,971)	-	-	(238,971)
Nonfederal program expense	(2,766)	-	-	(18,167)	-	(20,933)
Federal grant administration income	-	-	14,559	-	-	14,559
Program income/fees	11,742	1,496	8,157	31,256	-	52,651
Other expenses	(14,301)	167	(11,959)	(4,300)	(398)	(30,791)
Other revenues	904	7,876	-	(4,392)	(186)	4,202
Net cash (used in) provided by operating activities	$ (4,003)	11,358	11,312	145,133	21,830	$ 185,630
Cash flows from non-capital financing activities:						
Issuance of bonds	$ -	-	-	66,000	-	$ 66,000
Principal repayments on bonds	-	-	-	(152,215)	(13,385)	(165,600)
Interest paid	-	-	-	(23,000)	(4,887)	(27,887)
Bond issuance costs paid	-	-	-	(695)	-	(695)
Net transfers	16,270	106	(18,699)	2,323	-	-
State appropriations received	-	20,160	1,459	-	-	21,619
State grants received	-	5,520	13,704	-	-	19,224
State tax credits	51,842	-	-	-	-	51,842
State program expense	(50,265)	(14,266)	(9,120)	-	-	(73,651)
Net cash provided by (used in) non-capital financing activities	$ 17,847	11,520	(12,656)	(107,587)	(18,272)	$ (109,148)
Cash flows from investing activities:						
Proceeds from sales or maturities of investments	$ -	-	-	4,487	-	$ 4,487
Purchase of investments	-	-	-	(4,444)	-	(4,444)
Earnings on investments	825	342	521	3,632	239	5,559
Net cash provided by investing activities	$ 825	342	521	3,675	239	$ 5,602
Net increase (decrease) in cash	$ 14,669	23,220	(823)	41,221	3,797	$ 82,084
Cash and cash equivalents at beginning of year	50,472	35,346	107,954	128,943	14,213	336,928
Cash and cash equivalents at end of year	$ 65,141	58,566	107,131	170,164	18,010	$ 419,012
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:						
Operating (loss) income	$ (7,479)	2,998	15,267	30,575	862	$ 42,223
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:						
Interest on investments	(826)	(365)	(521)	(5,022)	(239)	(6,973)
Increase in fair value of investments	(53)	-	-	(1,992)	(258)	(2,303)
Interest on bonds	-	-	-	21,521	4,539	26,060
Change in assets and liabilities:						
Decrease (increase) in mortgage loans receivable	372	686	(1,976)	103,959	16,858	119,899
(Increase) decrease in interest receivable on mortgage loans	-	(4)	7	1,206	44	1,253
Decrease (increase) in other assets	1,297	7,876	(1,251)	(4,533)	(188)	3,201
Increase (decrease) in accounts payable and other liabilities	2,088	167	(5,436)	(581)	212	(3,550)
Increase in unearned revenues	598	-	5,222	-	-	5,820
Total adjustments	$ 3,476	8,360	(3,955)	114,558	20,968	$ 143,407
Net cash (used in) provided by operating activities	$ (4,003)	11,358	11,312	145,133	21,830	$ 185,630

Our Mission *is to create affordable housing opportunities for North Carolinians whose needs are not met by the market*

Our Vision *is to lead the nation in creating sustainable housing opportunities that people can afford.*

Our Values*: We Care, We Act, We Lead*

North Carolina Housing Finance Agency
3508 Bush Street
Raleigh, NC 27609-7509

919-877-5700
www.nchfa.com