

NORTH CAROLINA

HOUSING  
FINANCE  
AGENCY



# Audited Financial Statements

June 30, 2022

**NORTH CAROLINA HOUSING FINANCE AGENCY  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2022**

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**MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)**  
**June 30, 2022**

The management discussion and analysis of the North Carolina Housing Finance Agency's financial performance provides an overview of its financial activities for the fiscal year ended June 30, 2022. The financial statements, accompanying notes, and supplementary information should be read in conjunction with the following discussion.

**Overview**

The North Carolina Housing Finance Agency (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 issues bonds and sells mortgage-backed securities (MBS) on the secondary market to finance housing throughout the State of North Carolina (State). In addition, the Agency administers the funding for the Section 8 program, the HOME Investment Partnerships Program (HOME), the Low-Income Housing Tax Credits (LIHTC), the US Department of the Treasury's (Treasury) Homeowner Assistance Fund (HAF), the North Carolina Housing Trust Fund (HTF), the National Housing Trust Fund (NHTF) and other federal and state programs. The Agency uses these funds to provide different types of assistance such as down payment assistance, low-interest mortgage loans, 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, 2022, compared to the prior fiscal year's results and activities:

- *Total Assets* decreased \$107,982,000, or 4.4%
- *Deferred Outflows of Resources* increased \$223,000, or 2.9%
- *Total Liabilities* increased \$8,406,000, or 0.5%
- *Deferred Inflows of Resources* increased \$1,627,000, or 27.4%
- *Total Net Position* decreased \$117,792,000, or 13.1%

The Agency issued bonds in fiscal year 2022 to finance a portion of its NC Home Advantage Mortgage (HomeAd) loans, which were securitized into MBS. These transactions caused an increase in *Bonds payable, net* as well as other related accounts. *Investments* decreased due to the maturity of several Federal Investments in fiscal year 2022, as well as a significant decrease in the fair market value of investments as a result of rising interest rates. These transactions are primarily responsible for the increases and decrease in the accounts below:

- *Investments* decreased \$64,618,000, or 5.2%
- *Bonds payable, net* increased \$19,355,000, or 1.3%
- *Interest on bonds* decreased \$4,857,000, or 11.7%
- *Nonfederal program expense* decreased \$5,321,000, or 16.4%
- *Net fair value of investments* decreased \$113,107,000, or 12,794.9%

In 2013, the Agency shifted from offering mortgages under the FirstHome program, in which the Agency owns the mortgage loan, to utilizing the HomeAd program, in which mortgage loans are pooled into MBS. As a result, the portfolio of mortgage loans in the FirstHome program continues to decline from prepayments. In addition, the continued low interest rates resulted in prepayments of loans from other Agency programs. The combined effect resulted in decreases in *Mortgage loans receivable, net* and related accounts and an increase in *Program income/fees* as listed below:

- *Mortgage loans receivable, net* decreased \$64,547,000 or 15.7%
- *Accrued interest receivable on mortgage loans* decreased \$832,000, or 28.3%
- *Program income/fees* increased \$13,216,000, or 14.2%
- *Interest on mortgage loans* decreased \$3,608,000, or 18.5%
- *Mortgage servicing expense* decreased \$179,000, or 16.7%

*Unearned revenues* decreased \$9,394,000, or 19.4%, primarily due to the disbursement of program expenses for HAF. *Federal program expense* increased \$79,563,000, or 39.8%, primarily due to the return of program and interest income for the North Carolina Foreclosure Prevention Fund (NCFPF) to Treasury as well as the ramping up of HAF. *Federal program awards received* increased \$9,256,000, or 4.6%, due to an increase in federal project funds disbursed for HAF, Section 8, the Community Development Block Grant – Disaster Recovery (CDBG-DR) program, and the Housing Stability Counseling Program (HSCP). This increase was partially offset by decreases in federal project funds disbursed for NCFPF and HOME.

*State appropriations received* decreased \$20,000,000, or 65.2%, because the Agency did not receive an appropriation for the Workforce Housing Loan Program (WHLP) in fiscal year 2022 as it did in fiscal year 2021.

In fiscal year 2022, *State grants received* increased by \$6,990,000, or 18.2%, due to the following:

- A \$5.4 million increase in funding for Transitions to Community Living Voucher from \$22.4 million in fiscal year 2021 to \$27.9 million in fiscal year 2022;
- A \$2 million increase in funding for Key Rental Assistance (Key) from \$5.5 million in fiscal year 2021 to \$7.5 million in fiscal year 2022;
- A non-recurring appropriation of \$10 million received for a MF Robeson County project in January 2022;
- A \$10.5 million decrease in funding to the Community Living Housing Fund (CLHF) in fiscal year 2022

The Agency is required to reflect its proportionate share of the State's pension liability and postemployment benefits. Based on actuarial assumptions, the effect of these transactions is listed below:

- *Deferred outflows for pensions* increased \$124,000, or 3.9%
- *Deferred outflows for other postemployment benefits* increased \$1,193,000, or 42.6%
- *Pension liability* decreased \$4,085,000, or 59.9%
- *Other postemployment benefits* increased \$2,385,000, or 17.9%
- *Deferred inflows for pensions* increased \$3,444,000, or 100%
- *Deferred inflows for other postemployment benefits* decreased \$1,817,000, or 30.6%

The net effect of the transactions detailed above, along with regular operations of the Agency, resulted in a decrease in *Total Net Position* of \$117,792,000, or 13.1%. The primary driver of the change in net position is the decrease in the market value of investments due to rising interest rates in fiscal year 2022. Other drivers relate to HomeAd production and continued decreases in the FirstHome portfolio. The overall impact of COVID-19 on the Agency's operations is discussed more in "Financial Conditions". The Agency continues to proactively manage its programs to further its mission of creating affordable housing for North Carolinians with low and moderate incomes.

## Financial Analysis

The following tables summarize the changes in net position between June 30, 2022 and June 30, 2021 (*in thousands*):

	<u>2022</u>	<u>2021</u>	<u>Change</u>	<u>%</u>
<b>Condensed Statements of Net Position</b>				
<b>Assets*</b>				
Cash and cash equivalents	\$ 811,458	\$ 802,870	\$ 8,588	1.1
Investments	1,185,890	1,250,508	(64,618)	(5.2)
Accrued interest receivable on investments	3,839	4,115	(276)	(6.7)
Mortgage loans receivable, net	346,770	411,317	(64,547)	(15.7)
Accrued interest receivable on mortgage loans	2,103	2,935	(832)	(28.3)
State receivables	552	-	552	100.0
Other assets, net	16,596	5,685	10,911	191.9
Capital assets, net	4,639	2,399	2,240	93.4
<b>Total Assets</b>	<u>\$ 2,371,847</u>	<u>\$ 2,479,829</u>	<u>\$ (107,982)</u>	<u>(4.4)</u>
<b>Deferred Outflows of Resources</b>				
Deferred outflows for pensions	\$ 3,271	\$ 3,147	\$ 124	3.9
Deferred outflows for other postemployment benefits	3,993	2,800	1,193	42.6
Accumulated decrease in fair value of hedging derivative	756	1,850	(1,094)	(59.1)
<b>Total Deferred Outflows of Resources</b>	<u>\$ 8,020</u>	<u>\$ 7,797</u>	<u>\$ 223</u>	<u>2.9</u>
<b>Liabilities*</b>				
Bonds payable, net	\$ 1,502,449	\$ 1,483,094	\$ 19,355	1.3
Accrued interest payable	18,628	20,076	(1,448)	(7.2)
Accounts payable	4,676	5,055	(379)	(7.5)
Derivative instrument – interest rate swap	756	1,850	(1,094)	(59.1)
Unearned revenues	38,905	48,299	(9,394)	(19.4)
Pension liability	2,730	6,815	(4,085)	(59.9)
Other postemployment benefits	15,732	13,347	2,385	17.9
Other liabilities	6,349	5,895	454	7.7
Lease liability	2,612	-	2,612	100.0
<b>Total Liabilities</b>	<u>\$ 1,592,837</u>	<u>\$ 1,584,431</u>	<u>\$ 8,406</u>	<u>0.5</u>
<b>Deferred Inflows of Resources</b>				
Deferred inflows for pensions	\$ 3,444	\$ -	\$ 3,444	100.0
Deferred inflows for other postemployment benefits	4,128	5,945	(1,817)	(30.6)
<b>Total Deferred Inflows of Resources</b>	<u>\$ 7,572</u>	<u>\$ 5,945</u>	<u>\$ 1,627</u>	<u>27.4</u>
<b>Net Position</b>				
Net investment in capital assets	\$ 4,639	\$ 2,399	\$ 2,240	93.4
Restricted	672,729	875,081	(202,352)	(23.1)
Unrestricted	102,090	19,770	82,320	416.4
<b>Total Net Position</b>	<u>\$ 779,458</u>	<u>\$ 897,250</u>	<u>\$ (117,792)</u>	<u>(13.1)</u>

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

**Condensed Statements of Revenues, Expenses  
and Changes in Net Position**

	<u>2022</u>	<u>2021</u>	<u>Change</u>	<u>%</u>
<b>Operating Revenues</b>				
Interest on investments	\$ 41,340	\$ 43,134	\$ (1,794)	(4.2)
Net (decrease) increase in fair value of investments	(112,223)	884	(113,107)	(12,794.9)
Interest on mortgage loans	15,848	19,456	(3,608)	(18.5)
Federal program awards received	209,150	199,894	9,256	4.6
Program income/fees	106,217	93,001	13,216	14.2
Other revenues	65	540	(475)	(88.0)
<b>Total Operating Revenues</b>	<u>\$ 260,397</u>	<u>\$ 356,909</u>	<u>\$ (96,512)</u>	<u>(27.0)</u>
<b>Operating Expenses</b>				
Interest on bonds	\$ 36,771	\$ 41,628	\$ (4,857)	(11.7)
Lease interest expense	20	-	20	100.0
Mortgage servicing expense	894	1,073	(179)	(16.7)
Federal program expense	279,279	199,716	79,563	39.8
Nonfederal program expense	27,147	32,468	(5,321)	(16.4)
General and administrative expense	26,422	25,151	1,271	5.1
Other expenses	408	350	58	16.6
<b>Total Operating Expenses</b>	<u>\$ 370,941</u>	<u>\$ 300,386</u>	<u>\$ 70,555</u>	<u>23.5</u>
<b>Operating (Loss) Income</b>	<u>\$ (110,544)</u>	<u>\$ 56,523</u>	<u>\$ (167,067)</u>	<u>(295.6)</u>
<b>Non-Operating Revenues (Expenses)</b>				
State appropriations received	\$ 10,660	\$ 30,660	\$ (20,000)	(65.2)
State grants received	45,408	38,418	6,990	18.2
State program expense	(63,411)	(68,456)	5,045	(7.4)
Noncapital contributions	95	228	(133)	(58.3)
<b>Total Non-Operating Revenues (Expenses)</b>	<u>\$ (7,248)</u>	<u>\$ 850</u>	<u>\$ (8,098)</u>	<u>(952.7)</u>
<b>Change in Net Position</b>	<u>\$ (117,792)</u>	<u>\$ 57,373</u>	<u>\$ (175,165)</u>	<u>(305.3)</u>
<b>Total Net Position - Beginning</b>	<u>\$ 897,250</u>	<u>\$ 839,877</u>	<u>\$ 57,373</u>	<u>6.8</u>
<b>Total Net Position - Ending</b>	<u>\$ 779,458</u>	<u>\$ 897,250</u>	<u>\$ (117,792)</u>	<u>(13.1)</u>

**Financial Conditions**

The foreclosure and eviction moratoriums that began in fiscal year 2020 expired during fiscal year 2022. The economic effects of COVID-19 caused significant increases in the cost of lumber and construction materials, supply change delays, labor shortages, and delays in permitting, inspections and plan approvals. These factors have impacted the Agency's partners across all programs, making it difficult for many rental projects to move forward. Single-family home prices have skyrocketed due to low supply and high demand, pricing out many potential homebuyers. While there are no quick solutions to these issues, COVID-19 funding provided by the federal government and the State helps to mitigate some of these negative factors.

## **New Business**

### *New Activities*

On July 22, 2021, the Agency entered into a Memorandum of Agreement (MOA) with the North Carolina Office of Recovery and Resiliency (NCORR) for up to \$40,000,000 of CDBG-DR funds to be used to fund new construction multi-family rental housing developments in the counties classified as most impacted and distressed following Hurricanes Matthew and Florence.

In September 2021, the US Department of Housing and Urban Development (HUD) announced the award of \$65,600,000 to the Agency for the HOME Investment Partnerships Program and Section 3205 of the American Rescue Plan (HOME-ARP). HOME-ARP is a new federal homelessness assistance and supportive services program. Program funds are available for obligation by HUD through Sept 2025 and available for PJ expenditure through Sept 2030. As of June 30, 2022, the Agency is awaiting HUD approval of its allocation plan. Also in September, NeighborWorks announced the Agency was awarded \$2,762,211 for foreclosure and eviction prevention housing counseling. Based on the funding available, the Agency's goal is to assist 2,520 renter and homeowner households.

The fiscal year 2022 State Budget was approved on November 18, 2021 and included recurring appropriations of \$7,660,000 for the state Housing Trust Fund and \$3M for the HOME Match. It also included appropriations of \$170,000,000 for the Workforce Housing Loan Program to address cost increases associated with the pandemic, and \$10,000,000 for a multifamily affordable housing project in Robeson County.

Treasury approved North Carolina's HAF Plan on December 6, 2021. On January 17, 2022 the Agency began program operations with a soft launch of the HAF Program. This consisted of targeted outreach to the 7,500+ homeowners that had signed up for program notification prior to plan approval and program roll out. The program launched statewide on January 31, 2022.

## **Debt Administration**

The Agency issued tax-exempt bonds in fiscal year 2022 to finance a portion of its HomeAd production. The Series 47 tax-exempt bond issuance closed in September 2021 for a total of \$162,000,000 par plus a premium of \$5,468,000. The Series 48 tax-exempt bond issuance closed in April 2022 for a total of \$200,000,000 par plus a premium of \$6,444,000. Proceeds have been used to finance production of both the Agency's first mortgage purchases and the NC 1<sup>st</sup> Home Advantage Down Payment Assistance.

The Agency has three swaps with two counterparties, Bank of America, N.A. and Goldman Sachs Mitsui Marine, discussed in detail in Note E, "Derivative Instrument – Interest Rate Swap." Only one of the three swaps has a remaining optional cancellation provision. This provision benefits the Agency as it allows cancellations with no associated termination fee. The counterparty for this swap is Bank of America, and the Agency exercised its optional cancellation for \$115,000 on July 1, 2021 and \$90,000 on January 1, 2022.

In fiscal year 2022, the Agency had monthly bond calls and biannual debt service payments totaling \$348,735,000.

The Agency issued conduit multifamily mortgage revenue bonds of \$6,000,000 in July 2021 for the construction of a multifamily development for seniors, a disaster recovery project. After the project is placed in service, the bonds will be paid off with a combination of proceeds from a CDBG-DR loan, investor equity in housing credits, and a US Department of Agriculture (USDA) Rural Development Section 538 loan. In October 2021, \$8,000,000 in conduit multifamily mortgage revenue bonds were issued for the acquisition and rehabilitation of a multifamily development for persons of low and moderate income. After the project is placed in service, the bonds will be paid off with a combination of proceeds of a HUD 221(d)(4) loan, and equity in housing credits. Finally, in April 2022, a conduit mortgage revenue bond was issued as a "draw down" bond, for up to \$4,700,000, for construction of a multifamily development, also a disaster recovery project. After the project is placed in service, the bonds will be paid off with a combination of proceeds from a CDBG-DR loan, investor equity in housing credits, and a bank loan. These bonds are not a debt of the Agency and are secured by the related properties.

## Programs and Activities

The Agency's mission is to create safe affordable housing opportunities to enhance the quality of life of North Carolinians. The Agency focuses its efforts on providing assistance to borrowers purchasing their home, financing affordable rental housing, and helping homeowners who are facing foreclosure or living in substandard housing.

For the year ended June 30, 2022, the Agency recorded expenditures of \$229,584,000 in federal funds for the following programs:

- Community Partners Loan Pool (CPLP)
- Essential Single-Family Rehabilitation Loan Pool (ESFRLP)
- Homeowner Assistance Fund (HAF)
- Housing Stability Counseling Program (HSCP)
- Rental Production Program (RPP)
- Rental Production Program – Disaster Recovery (RPP-DR)
- Section 8 Project-Based Contract Administration (Section 8 PBCA)
- Self-Help Loan Pool (SHLP)

For the year ended June 30, 2022, the Agency recorded expenditures of \$76,439,000 in State funds for the following programs:

- Back@Home (BH)
- Displacement Prevention Partnership (DPP)
- Essential Single-Family Rehabilitation Loan Pool – Disaster Recovery (ESFRLP-DR)
- Housing Opportunities and Prevention of Evictions (HOPE)
- Housing Services (HS)
- Integrated Supportive Housing Program (ISHP)
- Key Rental Assistance (Key)
- Rental Production Program (RPP)
- Rental Production Program – Disaster Recovery (RPP-DR)
- Supportive Housing Development Program (SHDP)
- Transitions to Community Living Voucher (TCLV)
- Urgent Repair Program (URP)
- Workforce Housing Loan Program (WHLP)

For the year ended June 30, 2022, the Agency recorded expenditures of \$334,340,000 from other funding sources for the following programs:

- Carryover Loan Program (COLP)
- Construction Training Partnership (CTP)
- Essential Single-Family Rehabilitation Loan Pool (ESFRLP)
- NC Home Advantage Mortgage (HomeAd)
- NC Home Advantage Down Payment Assistance (HomeAd DPA)
- NC 1st Home Advantage Down Payment Assistance (1st Home DPA)
- Rental Production Program (RPP)
- Self-Help Loan Pool (SHLP)
- State Home Foreclosure Prevention Project (SHFPP)

For the year ended June 30, 2022, the Agency made awards of \$314,165,000 for the following programs:

- Low-Income Housing Tax Credit (LIHTC)
- NC Home Advantage Tax Credit
- NC Home Advantage Mortgage (HomeAd)

All major programs for which the Agency recorded expenditures or made awards in the year ended June 30, 2022 are described in the section below:

Home Ownership Programs The Agency offers low-cost mortgages, down payment assistance and mortgage credit certificates (MCCs) for qualified buyers through the following programs:

- NC Home Advantage Mortgage provides affordable mortgage options and forgivable down payment assistance to first-time or move-up homebuyers. Borrowers are offered 30-year fixed rate mortgages and 15-year deferred, forgivable second mortgages of 3% of the first mortgage amount.
- NC 1<sup>st</sup> Home Advantage Down Payment Assistance program provides another down payment assistance option for qualifying veterans and first-time homebuyers. This comes in the form of an \$8,000 deferred forgivable 15-year second mortgage.
- NC Home Advantage Tax Credit helps qualifying veterans and homebuyers increase their mortgage affordability by providing MCCs. MCCs are federal tax credits that reduce tax liability annually by up to 30% of mortgage interest for existing homes or up to 50% for new construction, each with a maximum credit of \$2,000 annually.
- Self-Help Loan Pool provides affordable mortgage assistance to qualified homebuyers purchasing homes through nonprofit Self-Help Housing loan pool members. Homebuyers are offered interest-free amortizing loans in combination with SHLP nonprofit member financing.
- Community Partners Loan Pool provides down payment assistance to qualifying homebuyers purchasing a home through local governments and nonprofits. Homebuyers are offered interest-free, deferred second mortgages up to 20% of the purchase price when combined with a HomeAd mortgage or up to 10% when combined with a USDA Section 502 loan.

Housing Preservation Programs The Agency partners with local governments, nonprofits and regional councils to finance the rehabilitation of substandard owner-occupied homes to prevent displacement through the following programs:

- Essential Single-Family Rehabilitation Loan Pool provides essential and critical home rehabilitation for qualifying homeowners. Funds are provided to partners in the form of interest-free, deferred, forgiven loans. The program benefits homeowners earning up to 80% of area median income with full-time household members who are elderly, disabled, qualified veterans and/or children under the age of six years old frequently present in a home with lead hazards.
- Essential Single-Family Rehabilitation Loan Pool – Disaster Recovery program provides interest-free, deferred, forgiven loans to eligible homeowners to provide essential rehabilitations in response to damage from Hurricane Matthew and Tropical Storms Julia and Hermine. Homeowners earning up to 100% of area median income whose homes were affected by these storms in the counties listed in the Disaster Recovery Act of 2016 are eligible for loans for rehabilitation.
- Urgent Repair Program provides interest-free, deferred, forgiven loans to assist qualifying homeowners with emergency repairs and modifications that address imminent threats to health or safety. Homeowners who are elderly, special needs, veterans or disabled earning up to 50% of area median income are eligible.
- Displacement Prevention Partnership offers interest-free, deferred, forgiven loans through the North Carolina Division of Vocational Rehabilitation and Independent Living Offices to repair or improve home accessibility for qualifying homeowners with mobility issues. Homeowners who are disabled earning up to 50% of area median income are eligible for these loans.

Foreclosure Prevention Programs The Agency provides foreclosure prevention services in partnership with housing counseling organizations approved by HUD through various programs, including the following:

- Homeowner Assistance Fund provides mortgage payment assistance, mortgage reinstatement and housing related cost assistance, which may include insurance, homeowner fees and liens, and delinquent property taxes to eligible homeowners, to prevent homeowner delinquencies, defaults, foreclosures and homeowner displacement associated with housing-related hardships due to the COVID-19 pandemic.

- Housing Stability Counseling Program provides free counseling services from HUD-approved certified housing counselors to renters and homeowners facing housing instability.
- State Home Foreclosure Prevention Project provides free housing counseling and legal assistance to homeowners facing foreclosure. These services are funded through foreclosure filing fees, which are paid by servicers of North Carolina home loans.

Rental Development Programs The Agency finances affordable homes and apartments developed by local governments, nonprofits and private developers through various programs, including the following:

- Low-Income Housing Tax Credit provides eligible rental developers with financing necessary to develop and substantially rehabilitate affordable rental housing in the State. The tax credit reduces the investors' federal tax liability by up to 9% of the eligible project cost each year for 10 years, and participation in the program ensures the creation and/or preservation of affordable rental housing for households earning up to 80% of the area median income.
- Workforce Housing Loan Program provides long-term financing for tax credit developments. Assistance is available in the form of 30-year balloon loans for a percentage of development costs based on income designations for each county.
- Rental Production Program provides long-term financing for tax credit developments. Amortizing or deferred loans are available up to 20 years.
- Rental Production Program – Disaster Recovery provides loans to fund construction of affordable rental developments in counties with a federally-declared disaster designation due to Hurricane Florence in 2018 and Hurricane Matthew in 2016.
- Carryover Loan Program provides financing for the acquisition of land for 9% new construction tax credit properties.
- The Integrated Supportive Housing Program, a collaboration with DHHS, provides long-term financing for developments that set aside up to 20% of units for people with disabilities.

Rental Assistance Programs The Agency administers rent assistance contracts for privately owned apartments or intermediaries through the following programs:

- Section 8 rent assistance projects are administered by the Agency for certain project-based Section 8 Housing Assistance Payment contracts on behalf of HUD. For Project-Based Contract Administration (PBCA) projects, the Agency partners with NC Quadel Consulting Corporation to manage the contract administration duties.
- Key Rental Assistance, a DHHS program for which the Agency serves as a partner, provides rental assistance for low-income persons with disabilities, including those experiencing homelessness. The Agency is responsible for executing agreements with property owners, reviewing income eligibility documentation at move-in and recertification periods, making rental assistance payments to owners and projecting costs of the program.
- Transition to Community Living Voucher, a DHHS program for which the Agency serves as a partner, was established in 2016 to create an efficient and effective state housing administration system to allow people with certain disabilities to successfully live in the communities of their choice. The Agency supports Local Management Entities/Managed Care Organizations in administering vouchers through the development and maintenance of a secure electronic funds management and document collection system, reviewing payment requests for compliance and disbursing funds accordingly.
- Back@Home supports homelessness prevention and rapid rehousing services needed as a result of Hurricane Florence, Hurricane Dorian, and the COVID-19 pandemic. The Agency reviews and reimburses expenditures incurred and submitted by designated rehousing agencies per contract with DHHS.
- Housing Opportunities and Prevention of Evictions is a program administered by NCORR which seeks to alleviate financial pressure on low- and moderate- income households as a result of the COVID-19 pandemic and to provide increased housing security to renters by providing rent and utility payment assistance. The Agency reviews and reimburses expenditures incurred and submitted by designated rehousing agencies.

Supportive Housing Programs The Agency finances the development of supportive housing for North Carolinians through its partners across the State:

- The Supportive Housing Development Program provides amortizing or deferred loans to local governments, nonprofits and regional councils to finance the production of emergency and permanent supportive housing. This program benefits people earning up to 50% of the area median income who have supportive housing needs or are experiencing homelessness.

#### **Additional Information**

This discussion and analysis is intended to provide additional information regarding the activities of the North Carolina Housing Finance Agency. If you have questions about the report or need additional financial information, contact Brett Warner, Chief Financial Officer, North Carolina Housing Finance Agency, P.O. Box 28066, Raleigh, North Carolina 27611-8066, (919) 981-2519, [bawarner@nchfa.com](mailto:bawarner@nchfa.com), or visit the Agency's website at [www.nchfa.com](http://www.nchfa.com).



## Independent Auditor's Report

The Board of Directors  
North Carolina Housing Finance Agency

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited the 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, 2022, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and programs of the Agency, as of June 30, 2022 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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, 2022 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 solely 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 the effectiveness of the Agency's 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, 2022

# NORTH CAROLINA HOUSING FINANCE AGENCY

## STATEMENT OF NET POSITION

AS OF JUNE 30, 2022

(in thousands)

### ASSETS

#### Current assets:

Cash and cash equivalents	\$ 116,602
Restricted cash and cash equivalents	694,856
Restricted investments	2,253
Accrued interest receivable on investments	3,839
Mortgage loans receivable	90,747
Accrued interest receivable on mortgage loans	2,103
State receivables	552
Other assets	16,588
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 927,540</b>

#### Noncurrent assets:

Restricted investments	\$ 1,183,637
Mortgage loans receivable, net	256,023
Other assets, net	8
Capital assets, net	4,639
<b>TOTAL NONCURRENT ASSETS</b>	<b>\$ 1,444,307</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,371,847</b>

### DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows for pensions	\$ 3,271
Deferred outflows for other postemployment benefits	3,993
Accumulated decrease in fair value of hedging derivative	756
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 8,020</b>

### LIABILITIES

#### Current liabilities:

Bonds payable	\$ 37,505
Accrued interest payable	18,628
Accounts payable	4,676
Unearned revenues	18,116
Other liabilities	1,232
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 80,157</b>

#### Noncurrent liabilities:

Bonds payable, net	\$ 1,464,944
Derivative instrument - interest rate swap	756
Unearned revenues	20,789
Pension liability	2,730
Other postemployment benefits	15,732
Other liabilities	5,117
Lease liabilities	2,612
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>\$ 1,512,680</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 1,592,837</b>

### DEFERRED INFLOWS OF RESOURCES

Deferred inflows for pensions	\$ 3,444
Deferred inflows for other postemployment benefits	4,128
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 7,572</b>

### NET POSITION

Net investment in capital assets	\$ 4,639
Restricted net position	672,729
Unrestricted net position	102,090
<b>TOTAL NET POSITION</b>	<b>\$ 779,458</b>

The accompanying notes are an integral part of these financial statements.

# NORTH CAROLINA HOUSING FINANCE AGENCY

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2022

(in thousands)

<b>OPERATING REVENUES</b>	
Interest on investments	\$ 41,340
Net decrease in fair value of investments	(112,223)
Interest on mortgage loans	15,848
Federal program awards received	209,150
Program income/fees	106,217
Other revenues	65
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 260,397</b>
<b>OPERATING EXPENSES</b>	
Interest on bonds	\$ 36,771
Lease interest expense	20
Mortgage servicing expense	894
Federal program expense	279,279
Nonfederal program expense	27,147
General and administrative expense	26,422
Other expenses	408
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 370,941</b>
<b>OPERATING LOSS</b>	<b>\$ (110,544)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
State appropriations received	\$ 10,660
State grants received	45,408
State program expense	(63,411)
Noncapital contributions	95
<b>TOTAL NON-OPERATING EXPENSES</b>	<b>\$ (7,248)</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ (117,792)</b>
<b>TOTAL NET POSITION - BEGINNING</b>	<b>\$ 897,250</b>
<b>TOTAL NET POSITION - ENDING</b>	<b>\$ 779,458</b>

The accompanying notes are an integral part of these financial statements.

# NORTH CAROLINA HOUSING FINANCE AGENCY

## STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2022

(in thousands)

<b>Cash flows from operating activities:</b>	
Interest on mortgage loans	\$ 16,341
Principal payments on mortgage loans	74,773
Purchase of mortgage loans	(10,023)
Federal program awards received	186,049
Federal program expense	(278,332)
Nonfederal program expense	(27,147)
Federal grant administration income	10,903
Program income/fees	97,749
Other expenses	(29,571)
Other revenues	37
<b>Net cash provided by operating activities</b>	<b>\$ 40,779</b>
<b>Cash flows from non-capital financing activities:</b>	
Issuance of bonds	\$ 362,000
Principal repayments on bonds	(348,735)
Interest paid	(29,256)
Bond issuance costs paid	(2,873)
State appropriations received	10,660
State grants received	45,408
State program expense	(63,411)
State tax credits	(90)
Noncapital contributions	95
<b>Net cash used in non-capital financing activities</b>	<b>\$ (26,202)</b>
<b>Cash flows from investing activities:</b>	
Proceeds from sales or maturities of investments	\$ 253,024
Purchase of investments	(301,767)
Earnings on investments	42,754
<b>Net cash used in investing activities</b>	<b>\$ (5,989)</b>
Net increase in cash, cash equivalents and restricted cash and cash equivalents	\$ 8,588
Cash, cash equivalents and restricted cash and cash equivalents at beginning of year	802,870
<b>Cash, cash equivalents and restricted cash and cash equivalents at end of year</b>	<b>\$ 811,458</b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating loss	\$ (110,544)
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>	
Interest on investments	(41,340)
Decrease in fair value of investments	112,223
Interest on bonds	36,771
<b>Change in operating assets and liabilities:</b>	
Decrease in mortgage loans receivable	64,547
Decrease in accrued interest receivable on mortgage loans	832
Increase in other assets	(13,475)
Increase in deferred outflows of resources	(1,317)
Increase in accounts payable and other liabilities	849
Increase in deferred inflows of resources	1,627
Decrease in unearned revenues	(9,394)
<b>Total adjustments</b>	<b>\$ 151,323</b>
<b>Net cash provided by operating activities</b>	<b>\$ 40,779</b>

The accompanying notes are an integral part of these financial statements.

# NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2022

## 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 housing 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. 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:

Agency Programs Direct administrative and operational activities, including operating expenses of various programs, are recorded in Agency Programs. Among the most active programs are the federal Low-Income Housing Tax Credit (LIHTC) program and the State Home Foreclosure Prevention Project (SHFPP). The Agency administers LIHTC for the State, evaluating applications for the tax credits and monitoring the rental properties for the compliance period to ensure that they meet federal program requirements, among other responsibilities. The Agency earns fees related to the applications and monitoring of LIHTC properties.

In 2008, the State authorized the formation of SHFPP in response to the foreclosure crisis. State statute requires that all parties who wish to initiate a foreclosure against a home in North Carolina remit a \$75 fee to the Agency. The fees collected are used to counsel and/or provide legal assistance to homeowners at risk of foreclosure. Any excess funds are allocated to the North Carolina Housing Trust Fund (HTF) annually.

Housing Trust Fund Programs The North Carolina Housing Trust and Oil Overcharge Act created the HTF and the North Carolina Housing Partnership (Housing Partnership). The purpose of the HTF 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 several programs within the HTF. The Agency staff provides services to the Housing Partnership and administers the HTF programs. State appropriations are reported in *Non-Operating Revenues (Expenses)* in the accompanying financial statements, and include a recurring appropriation that is used to make loans and grants under the HTF programs and a nonrecurring appropriation for the Workforce Housing Loan Program (WHLP).

The Agency receives funds from the North Carolina Department of Health and Human Services (DHHS) for the Community Living Housing Fund. These are reported in *Deferred state grants* until appropriated by the North Carolina General Assembly (General Assembly), when they are moved to *State grants received*.

Federal and State Programs The Agency administers several federal programs including Section 8, NC Pro Homeowner Assistance Fund (HAF), HOME Investment Partnerships Program (HOME), Community Development Block Grant Disaster Recovery (CDBG-DR), National Housing Trust Fund (NHTF), Housing

Stability Counseling Program (HSCP), and Hardest Hit Fund (HHF), which represent 79%, 5%, 9%, 3%, 2%, 1% and 1% of federal expenditures, respectively. The Agency receives a fee for administering these programs. The HOME program is matched with State funds of up to \$3 million annually as appropriated by the General Assembly.

At the end of fiscal year 2021, the Agency received federal funds for HAF to provide pandemic relief. In fiscal year 2022, the Agency also received federal funds for HSCP to provide housing stability counseling to renters or homeowners facing housing instability.

The Agency receives funds from DHHS for the Transitions to Community Living Voucher program (TCLV), the Key Rental Assistance (Key) program and other housing programs. TCLV is a tenant-based, rental assistance program, which also provides assistance with security deposits, holding fees and risk mitigation claims. The Key program provides assistance and services to low-income individuals with disabilities and those who are homeless. These funds are reported in *State grants received*.

Home Ownership Bond Programs The Home Ownership Bond Programs were created through single-family trust agreements and are restricted as to their use. The proceeds of individual bond issues are used to purchase qualifying mortgage loans for single-family residential units.

The Agency's former FirstHome program was funded with tax-exempt mortgage revenue bonds, and the mortgage loans are reported in *Mortgage loans receivable* and *Mortgage loans receivable, net* in the 1998 Home Ownership Bond Program. Mortgage loan interest income related to the Home Ownership Bond Programs is reported in *Interest on mortgage loans*.

The operations for the NC Home Advantage Mortgage (HomeAd) program are financed through the issuance of tax-exempt mortgage revenue bonds as well as the sale of mortgage-backed securities (MBS). The production related to the HomeAd program is reported in the 1998 Home Ownership Bond Program. In contrast to the FirstHome program, in which the Agency owns the mortgage loans, all HomeAd production is pooled into MBS, regardless of the method of financing. For HomeAd loans funded through the sale of MBS, the related program income is recorded in *Program income/fees*. The MBS funded with bond proceeds are reported in *Investments*, which also include US Agency securities held by the Agency, as described in Note B, "Cash, Cash Equivalents, Investments, Fair Value Measurements and Securities Lending Transactions." The corresponding earnings from the bond-funded MBS are reported in *Interest on investments*. The down payment assistance loans and lender compensation incurred by the HomeAd program are reported in *Nonfederal program expense*, regardless of the method of financing.

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

Cash and Cash Equivalents *Cash and cash equivalents* are comprised of cash on hand, amounts on deposit with financial institutions which are insured or collateralized under provisions of State laws and regulations, amounts in pooled cash accounts managed by in the North Carolina State Treasurer (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 Codification Section 150, *Investments*.

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.

Other Assets *Other assets* for Federal and State Programs includes receivables related to the HOME, Section 8, and NHTF programs. *Other assets* reflected in the Home Ownership Bond Programs include mortgage payments collected by servicers that will be remitted to the Agency in the upcoming fiscal year.

Capital Assets, Net Fixed assets, net of accumulated depreciation, are included in *Capital assets, net* in the accompanying financial statements. Fixed assets of \$5,000 or greater, intangible assets of \$100,000 or greater, and internally developed software with development costs of \$1 million or greater are capitalized and depreciated over a five-year economic useful life using the straight-line method. Right-to-use (RTU) buildings and RTU Machinery & Equipment, net of accumulated depreciation, are also included in *Capital assets, net*. RTU assets with a lease term greater than 12 months are capitalized and depreciated over the lease term or the useful life of the asset, whichever is less, using the straight-line method.

Bond Premium and Discount Bond premium and discount represents the difference in the amount received upon the sale of bonds and the par value and is included as a component of *Bonds payable, net* in the accompanying financial statements. The bond premium and discount are amortized using the effective interest rate method over the life of the related bonds and is adjusted accordingly for any bond calls that occur during the year. The amortization of the bond premium and discount is included as a component of *Interest on bonds* in the accompanying financial statements.

Unearned Revenues *Unearned revenues* includes monitoring fees received upon the completion of LIHTC projects. Since the Agency's monitoring of LIHTC projects occurs over time, 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 in *Unearned revenues* is funding from the US Department of the Treasury (Treasury) for HAF. As HAF funds are disbursed, unearned revenue is reduced and revenue is recognized as *Federal program awards received*.

Interprogram Receivable (Payable) During the normal course of operations, the Agency has numerous transactions among programs to provide services. If certain transactions among programs have not been settled as of June 30, 2022, these balances are recorded as *Interprogram receivable (payable)* and 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 will not be recognized as an expense or expenditure until then. The Agency has three items that meet the criterion: contributions to the pension plan, contributions to other postemployment benefits (OPEB), 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 will not be recognized as revenue until then. The Agency has one item that meets the criterion: deferred inflows related to OPEB.

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 programs, interest income earned on investments, repayment of program funds, and earnings and reserves from trust agreements. These revenue sources are used to cover operating expenses. The decision to use restricted or unrestricted receipts to fund a payment is considered at the transaction level depending on the nature of the payment.

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

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

Operating Revenues and Expenses As one of its primary funding sources, the Agency has the authority to issue bonds to the investing public to create inflows of private capital. These funds are used to finance mortgage loans for qualified borrowers. A significant amount of operating revenues is derived from federal programs, interest earned on mortgage loans and MBS that are financed with bonds, and the GASB Statement No. 31 fair market value adjustments associated with the investments resulting from market

fluctuations. Additional operating income is earned from the sale of MBS associated with the HomeAd program.

Accordingly, the primary operating expenses of the Agency are those related to federal programs and the interest expense on bonds outstanding. Other significant operating expenses include down payment assistance and lender compensation, which are reported in *Nonfederal program expense*, and Agency operations, which are reported in *General and administrative expense*.

Non-Operating Revenues and Expenses *State appropriations received* and *State grants received* are classified as *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 federal and state programs and trust agreements, transfers are made from proceeds of federal and state programs or bond issuances to the Agency to reimburse allowable general and administrative expenses. Certain indirect costs are allocated to federal and state programs based on an independently prepared cost allocation plan.

Use of Estimates The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the contingent and reported amounts of assets, liabilities, deferred inflows and outflows of resources 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 estimates.

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

**Cash and Cash Equivalents** As of June 30, 2022, the Agency had deposits in pooled investment accounts of the State Treasurer with a carrying value of approximately \$228,943,000 and a bank balance of approximately \$228,429,000. Of this balance, \$197,520,000 were restricted. 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 was \$3,603,000 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 \$582,266,000 and a bank balance approximating \$581,843,000 on deposit with the Agency's fiduciary agent. Of this balance, \$85,020,000 were restricted. Such deposits are held in accordance with State Statute 159-31(b) by a third-party custodian. The Agency also had deposits held in other financial institutions with a carrying value and a book balance of \$248,000 and a bank balance of \$55,000. Of this balance, \$59,000 were restricted.

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, 2022, the Agency was not exposed to any material custodial credit risk.

**Investments** The Agency's restricted investments include US Agency securities and MBS insured by the Federal National Mortgage Association (FNMA), the Government National Mortgage Association (GNMA), and the Federal Home Loan Mortgage Corporation (FHLMC).

The Agency funds a portion of its HomeAd production with tax-exempt bonds. In the HomeAd program, mortgages are made by lenders, purchased by the Agency's master servicer and securitized into MBS. For MBS that are financed with tax-exempt bonds, the MBS are reflected in *Investments* on the Statement of Net Position.

At June 30, 2022, the Agency held the following investments with the listed maturities at annual rates ranging from 1.675% to 6.90%. Ratings are displayed with the Moody's Investors Service (Moody's) rating listed first and the Standard & Poor's (S&P) rating listed second (*in thousands*):

Investments	Carrying Amount	Investment Maturities (In Years)			
		Less Than 1	1 – 5	6 – 10	More Than 10
GNMA MBS					
Rated Aaa/AA+	\$ 594,520	\$ 19	\$ 5	\$ -	\$ 594,496
FNMA MBS					
Rated Aaa/AA+	527,793	3	-	-	527,790
FHLMC MBS					
Rated Aaa/AA+	53,926	-	-	-	53,926
US Agency Securities					
Rated Aaa/AA+	9,651	2,231	5,660	1,760	-
<b>Total Categorized</b>	<b>\$1,185,890</b>	<b>\$ 2,253</b>	<b>\$ 5,665</b>	<b>\$ 1,760</b>	<b>\$1,176,212</b>

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 limits investments to 20 years to minimize fair value losses arising from interest rate risk, with the exception of the MBS that the Agency holds related to its Home Ownership Bond Programs.

Credit Risk Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State statutes 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 the State and meet specified rating and collateral requirements of the various trust agreements. The MBS are securitized by FNMA (fair value - \$527,793,000, rated Aaa/AA+), by GNMA (fair value - \$594,520,000, rated Aaa/AA+) and by FHLMC (fair value - \$53,926,000, rated Aaa/AA+). The GNMA MBS are direct obligations of the US Government. The US Agency securities are direct obligations of the Federal Farm Credit Bank and Federal Home Loan Bank (rated Aaa/AA+) and have a fair value of \$9,651,000.

Concentration of Credit Risk Concentration of credit risk is the risk of loss related to the percentage of the Agency's investment portfolio in any single issuer, except for investments explicitly backed by the US government. Listed below are the Agency's investments in a single issuer which exceed 5% of total investments as of June 30, 2022 (*in thousands*):

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 US Agency 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.

<u>Investment Issuer</u>	<u>Amount</u>
FNMA - MBS	\$527,793

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 does not have exposure to foreign currency risk.

**Fair Value Measurements** To the extent available, the Agency's investments are recorded at fair value within the fair value hierarchy established by GAAP, in accordance with GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72). 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 with unobservable inputs and may require a degree of professional judgment.

The Agency had the following recurring fair value measurements as of June 30, 2022 (*in thousands*):

Investment Type	Fair Value	Input Level	
Short Term Investment Fund (STIF)	\$515,185	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.
US Agency Securities	\$9,652	Level 2	Valuation of the underlying assets is performed using the policies and procedures established by the Agency's custodian.
MBS	\$1,176,238	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	\$756	Level 2	The fair value was estimated by a consulting firm using the zero-coupon method.

**Securities Lending Transactions** GASB Codification 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 State Statute 147-69.3(e). 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 2022, 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

The Agency's mortgage loans are derived from various funding sources. Loans receivable, as of June 30, 2022 are as follows:

	<u>Agency Programs</u>	<u>Housing Trust Fund Programs</u>	<u>Federal and State Programs</u>	<u>Home Ownership Bond Programs</u>	<u>Total</u>
Loans Receivable	\$ 7,484	\$ 11,546	\$ 85,411	\$ 242,949	\$ 347,390
Less: allowance for loan losses	(48)	(26)	(111)	(435)	(620)
	<u>\$ 7,436</u>	<u>\$ 11,520</u>	<u>\$ 85,300</u>	<u>\$ 242,514</u>	<u>\$ 346,770</u>
Less: current portion	(6,004)	(1,120)	(12,111)	(71,512)	(90,747)
<b>Noncurrent loans receivable, net</b>	<u>\$ 1,432</u>	<u>\$ 10,400</u>	<u>\$ 73,189</u>	<u>\$ 171,002</u>	<u>\$ 256,023</u>

For the Home Ownership Bond Programs, the Agency has collateralized \$227,171,000 in mortgage loans receivable and \$1,576,356,000 in cash and investments pledged to repay the \$1,459,445,000 single-family bonds payable outstanding as of June 30, 2022. Proceeds from the bonds issued were used to finance housing throughout the State. The outstanding bonds are payable through fiscal year 2053 and are repaid from principal and interest on mortgage loans and MBS, unexpended bond proceeds, proceeds from the sale of investments as well as interest income from investments. The Agency expects 100% of the mortgage loans and MBS, both principal and interest, to pay the principal and interest debt service requirements on the bonds. The total debt service requirement based on projected cash flows as of June 30, 2022 is \$2,194,988,000 (see "Maturities" under Note D).

For the current fiscal year, debt service payments, bond calls and related interest payments totaling \$377,991,000 were made for the Home Ownership Bond Programs. Payments received on mortgage loans and MBS for the Home Ownership Bond Programs were \$74,535,000 and \$269,502,000, respectively.

The existing and future mortgage loans which the Agency may purchase under the Home Ownership 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, 2022, all outstanding FirstHome mortgage loans purchased with mortgage revenue bond proceeds satisfy these requirements and have stated interest rates ranging from 3% to 10.35%.

**D. BONDS PAYABLE**

Bonds payable activity for the year ended June 30, 2022 was as follows (*in thousands*):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<b>Bonds Payable</b>				
Home Ownership	\$ 1,430,950	\$ 362,000	\$ (346,985)	\$ 1,445,965
Home Ownership (Direct Placement)	15,230	-	(1,750)	13,480
	<u>\$ 1,446,180</u>	<u>\$ 362,000</u>	<u>\$ (348,735)</u>	<u>\$ 1,459,445</u>
Unamortized Bond Premium/Discount	36,914	11,913	(5,823)	43,004
<b>Total Bonds Payable, Net</b>	<u><b>\$ 1,483,094</b></u>	<u><b>\$ 373,913</b></u>	<u><b>\$ (354,558)</b></u>	<u><b>\$ 1,502,449</b></u>

Bonds payable as of June 30, 2022 are as follows (*in thousands*):

<u>Issue</u>	<u>Stated Rates (%)</u>	<u>Final Maturity</u>	<u>Principal Amount</u>
<b>Home Ownership Revenue Bonds</b> (1998 Housing Revenue Bonds Trust Agreement)			
Series 34	2.812	7/1/2035	\$ 3,430
Series 35	2.870 – 3.686	7/1/2032	5,060
Series 36	2.878 – 3.482	1/1/2031	8,660
Series 37A & Series 37B	1.900 – 3.500	7/1/2039	54,880
Series 37C (Direct Placement)	Variable	1/1/2035	13,480
Series 38	1.850 – 4.000	7/1/2047	129,245
Series 39	2.600 – 4.000	7/1/2048	70,985
Series 40	2.450 – 4.250	7/1/2047	29,630
Series 41	1.800 – 4.000	1/1/2050	101,300
Series 42	1.200 – 4.000	1/1/2050	115,440
Series 43	1.300 – 4.000	7/1/2050	121,675
Series 44	1.125 – 4.000	7/1/2050	108,065
Series 45	0.300 – 3.000	7/1/2051	177,110
Series 46	0.250 – 3.000	7/1/2051	158,485
Series 47	0.100 – 3.000	7/1/2051	162,000
Series 48	1.250 – 5.000	7/1/2052	200,000
<b>Total Bonds Outstanding</b>			<u>\$ 1,459,445</u>
<b>Plus Unamortized Bond Premium &amp; Discount</b>			<u>\$ 43,004</u>
<b>Total Bonds Payable, Net</b>			<u><b>\$ 1,502,449</b></u>

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, 2022, are as follows (*in thousands*):

**Bonds Outstanding without Interest Rate Swaps**

<b>Fiscal Year</b>			
<b>Ending June 30</b>	<b>Principal</b>		<b>Interest</b>
2023	\$ 35,565	\$	41,732
2024	40,555		41,280
2025	41,760		40,686
2026	41,975		39,987
2027	42,405		39,277
2028-2032	228,290		180,972
2033-2037	239,555		149,914
2038-2042	258,555		113,358
2043-2047	292,670		69,293
2048-2052	220,000		18,207
2053	4,635		87
<b>Total Requirements</b>	<b>\$ 1,445,965</b>	<b>\$</b>	<b>734,793</b>

**Bonds Outstanding with Interest Rate Swaps  
(Direct Placement)**

<b>Fiscal Year</b>			
<b>Ending June 30</b>	<b>Principal</b>		<b>Interest</b>
2023	\$ 1,395	\$	122
2024	1,545		139
2025	1,700		120
2026	1,625		99
2027	1,495		81
2028-2032	5,125		181
2033-2037	595		8
<b>Total Requirements</b>	<b>\$ 13,480</b>	<b>\$</b>	<b>750</b>

**Total Bonds Outstanding**

<b>Fiscal Year</b>			
<b>Ending June 30</b>	<b>Principal</b>		<b>Interest</b>
2023	\$ 36,960	\$	41,854
2024	42,100		41,419
2025	43,460		40,806
2026	43,600		40,086
2027	43,900		39,358
2028-2032	233,415		181,153
2033-2037	240,150		149,922
2038-2042	258,555		113,358
2043-2047	292,670		69,293
2048-2052	220,000		18,207
2053	4,635		87
<b>Total Requirements</b>	<b>\$ 1,459,445</b>	<b>\$</b>	<b>735,543</b>

**Bond Redemptions** The 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, 2022, bond redemptions were as follows (*in thousands*):

<u>Issue</u>	<u>Amount Redeemed</u>
Housing Revenue Bonds (1998 Trust Agreement)	\$ 348,735

**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. These bonds do not constitute a debt of and are not guaranteed by the State, any political subdivision thereof, or the Agency. Accordingly, these obligations are excluded from the Agency's financial statements. Bonds payable as of June 30, 2022 for special facilities are as follows (*in thousands*):

<u>Issue</u>	<u>Bond Type</u>	<u>Bonds Outstanding</u>
Series 2021 (Wind Crest Senior Living, LP)	Multifamily Housing Revenue Bonds	\$6,000
Series 2021 (Johnson Court Housing Partners, LP)	Multifamily Housing Revenue Bonds	8,000
Series 2022 (Five Points Crossing, LP)*	Multifamily Housing Revenue Bonds	436
<b>Total</b>		<b><u>\$14,436</u></b>

\*The Bonds were issued as “draw down” bonds, in which the principal amount of the Bonds will increase from time to time as the Bank reimburses the borrower for eligible construction expenses up to an amount not to exceed \$4,700,000.

**E. DERIVATIVE INSTRUMENT - INTEREST RATE SWAP**

**Summary Information** During fiscal year 2022, the Agency did not initiate any new swaps. The existing swaps with Bank of America, N.A. and Goldman Sachs Mitsui Marine remain in place to hedge Series 37C, which was a direct placement.

Except for the exercise of certain cancellation options, described in “Market Access Risk”, the Agency will continue to monitor the market and explore termination options accordingly. The Agency's three pay-fixed, interest rate swap agreements with two financial counterparties are designated as hedging derivative instruments representing cash flow hedges for the organization (*in thousands*):

Hedgeable Item	Hedging Derivative Instrument	Notional Amount	Classification	FMV at June 30, 2022 Liability	Classification	Net Change in FMV
Series 37C (formerly Series 16C)	Pay-Fixed Interest Rate Swap	\$3,535	Hedging Derivative	\$(182)	Deferred Outflows of Resources	\$270
Series 37C (formerly Series 17C)	Pay-Fixed Interest Rate Swap	\$6,780	Hedging Derivative	\$(409)	Deferred Outflows of Resources	\$558
Series 37C (formerly Series 18C)	Pay-Fixed Interest Rate Swap	\$3,165	Hedging Derivative	\$(165)	Deferred Outflows of Resources	\$266

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 entered into interest rate swaps, in connection with all its variable-rate revenue bonds associated with the series listed in the above table, as a means to manage the future cash flow impact associated with the hedged debt. The intention of the swaps is 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, 2022 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
\$3,535*	Bank of America, N.A.	Aa2/A+	9/16/2003	7/1/2032	3.810%	63%L** + 0.30%
\$6,780	Bank of America, N.A.	Aa2/A+	12/11/2003	7/1/2032	3.725%	63%L** + 0.30%
\$3,165	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.

**Fair Value** In total, the swaps have a fair value of negative \$756,000 as of June 30, 2022. 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 fair value of the swap.

**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 bps. The variable payment to the bondholder is computed based on 81.5% of 1-month LIBOR plus 30 bps. The 1-month LIBOR rate was 1.06157% as of June 30, 2022.

**Basis Risk and Termination Risk** The swaps expose the Agency to basis risk as the LIBOR rate changes, 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 cost of 5.61 bps for all variable-rate series due to the floating rate formula for its swap contracts when compared to the floating rate on the bonds. For all swaps, collateral thresholds have been established if the counterparty ratings reach A2 for Moody's or A for S&P. The Agency's 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.

**Credit Risk** Credit risk is the risk that the counterparty will not fulfill its obligations. All contracts as of June 30, 2022 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. 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 the Series 37C variable-rate bonds have been directly purchased by TD Bank as the Agency's sole bondholder. The Bank of America, N.A. swap originally associated with Series 16C is the only swap with optional cancellations available.

**Quantitative Method of Evaluating Effectiveness** 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, 2022, 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 37C (formerly Series 16C)	0.5243%	0.4682%	(0.0561%)	3.9%	3.4% – 4.2%	PASS
Series 37C (formerly Series 17C)	0.5243%	0.4682%	(0.0561%)	3.8%	3.4% – 4.1%	PASS
Series 37C (formerly Series 18C)	0.5243%	0.4682%	(0.0561%)	3.3%	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, 2022, debt service requirements of the variable-rate debt and net swap payments are as follows (*in thousands*):

Fiscal Year Ending June 30	Variable-Rate Bond Principal	Interest Rate Interest	Interest Rate Swap, Net	Total Interest
2023	\$ 1,395	\$ 122	\$ 377	\$ 499
2024	1,545	139	314	453
2025	1,700	120	270	390
2026	1,625	99	225	324
2027	1,495	81	182	263
2028-2032	5,125	181	406	587
2033-2037	595	8	16	24
<b>Total</b>	<b>\$ 13,480</b>	<b>\$ 750</b>	<b>\$ 1,790</b>	<b>\$ 2,540</b>

## F. NONCURRENT LIABILITIES

Noncurrent liabilities for the year ended June 30, 2022 were as follows (*in thousands*):

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Bonds payable					
Bonds payable, net	\$ 1,446,180	\$ 362,000	\$ (348,735)	\$ 1,459,445	\$ 37,505
Unamortized bond premium	36,914	11,913	(5,823)	43,004	-
Derivative instrument – interest rate swap	1,850	-	(1,094)	756	-
Unearned revenues	48,299	22,823	(32,217)	38,905	18,116
Pension liability	6,815	-	(4,085)	2,730	-
OPEB liability	13,347	2,385	-	15,732	-
Other noncurrent liabilities					
Compensated absences	1,954	60	(120)	1,894	557
Deposits payable	3,716	1,240	(1,349)	3,607	6
Workers' compensation	225	19	-	244	65
Lease Liability	-	3,807	(591)	3,216	604
	<b>\$ 1,559,300</b>	<b>\$ 404,247</b>	<b>\$ (394,014)</b>	<b>\$ 1,569,533</b>	<b>\$ 56,853</b>

## G. LEASES

As of June 30, 2022, the Agency leases a building with a five-year term, which expires September 30, 2022, a copier with a twenty-four month term, which expires July 31, 2023, and a postage meter with a sixty-three month term, which expires May 6, 2023.

Lease asset for the year ended June 30, 2022 were as follows (*in thousands*):

<b>Asset Class</b>	<b>Beginning Asset</b>	<b>Accumulated Depreciation</b>	<b>Ending Net Asset</b>
Buildings	\$ 3,747	\$ 599	\$ 3,148
Machinery & Equipment	60	29	31
	<b>\$ 3,807</b>	<b>\$ 628</b>	<b>\$ 3,179</b>

Lease liability for the year ended June 30, 2022, each of the five subsequent years, and in five-year increments thereafter are as follows (*in thousands*):

	<b>Principle</b>	<b>Interest</b>
Buildings		
June 30, 2022	\$ 3,186	\$ 18
2023	2,610	19
2024	2,020	19
2025	1,415	20
2026	795	20
2027	160	21
2032	-	5
Machinery & Equipment		
June 30, 2022	\$ 31	\$ 1
2023	2	1
2024	-	-
2025	-	-
2026	-	-

## H. FEDERAL AWARDS

As a designated public housing agency for the US Department of Housing and Urban Development (HUD) Section 8 program, the Agency requisitions Section 8 program funds and makes disbursements to eligible landlords. For the year ended June 30, 2022, \$176,387,000 was received by the Agency and disbursed to property owners.

The Agency is designated as the participating entity under grant agreements with HUD for the HOME program and the NHTF. 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, 2022, \$11,512,000 was received and the Agency disbursed \$18,002,000.

The NHTF provides funding to increase and preserve the supply of decent, safe and sanitary affordable housing for extremely low and very low-income households. For the year ended June 30, 2022, \$4,250,000 was received and disbursed by the Agency.

The Agency was designated as the participating entity under a grant agreement with Treasury for the HHF, which provided funding for homeowners facing foreclosure and stabilized neighborhoods with poorly performing housing indicators. All loan disbursement payments under the program were completed in fiscal year 2021 representing program completion. For the year ended June 30, 2022, residual program and interest income of \$68.4 million was returned to Treasury in accordance with the grant agreement following program completion.

The Agency received CDBG-DR funds from NCORR, a component of the NC Department of Public Safety, who is the participating entity with HUD. These funds are to be used for new construction of multifamily rental housing in counties impacted by Hurricane Matthew. For the year ended June 30, 2022, \$7,294,000 was received and disbursed by the Agency.

The Agency was designated by the NC Office of State Budget and Management (OSBM) to accept and administer HAF funding received by the NC Pandemic Recovery Office (NCPRO). These funds may be used for assistance with mortgage payments, homeowner's insurance, utility payments, and other specified purposes. During fiscal year 2022, the Agency disbursed \$20,000,000 as an advance to Innovative Emergency Management Inc. (IEM) who has been contracted by the Agency to administer the program. As of June 30, 2022, IEM had disbursed \$8,700,000 to program participants.

The Agency received \$1,037,000 and disbursed \$1,129,000 for NW Housing Stability Counseling Program (HSCP) for the year ended June 30, 2022.

The Agency earned fees of \$13,853,000 for administering these and other federal programs for the year ended June 30, 2022. Of these fees, \$4,657,000 was paid to Quadel Consulting Corporation for the Section 8 Project-Based Contract Administration and \$1,930,000 was paid to IEM for HAF contract administration, 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 Annual Comprehensive Financial Reports (Annual Report) for the State. The State's Annual Report 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 (OSC) using the following link: <https://www.osc.nc.gov/public-information/reports>.

**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 2022 rate is 16.38% 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, 2022, 2021, and 2020 (*in thousands*):

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Retirement Contribution	\$1,722	\$1,512	\$1,289
Percentage of Covered Payroll	16.38%	14.78%	12.97%

**Net Pension Liability** At June 30, 2022, the Agency reported a liability of \$2,730,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension was determined by an actuarial valuation as of December 31, 2020. The total pension liability was then rolled forward to the measurement date of June 30, 2021 utilizing update procedures incorporating the actuarial assumptions listed below. 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, 2021 and at June 30, 2020, the Agency's proportion was 0.05829% and 0.05641%, respectively.

**Deferred Outflows/Inflows of Resources Related to Pensions** For the year ended June 30, 2022, the Agency recognized pension expense of \$955,000. At June 30, 2022, the Agency reported *Deferred Outflows of Resources* and *Deferred Inflows of Resources* related to pensions from the following sources (*in thousands*):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between actual and expected experience	\$ 154	\$ 62
Changes of assumptions	1,023	-
Net difference between projected and actual earnings on pension plan investments	-	3,382
Change in proportion and differences between Agency's contributions and proportionate share of contributions	372	-
Contributions subsequent to the measurement date	1,722	-
<b>Total</b>	<u>\$ 3,271</u>	<u>\$ 3,444</u>

*Deferred Outflows of Resources* of \$1,722,000 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, 2022. Other amounts reported as *Deferred Outflows of Resources* and *Deferred Inflows of Resources* at June 30, 2022 related to pensions will be recognized as pension expense as follows (*in thousands*):

Year ending June 30:	
2023	\$ (182)
2024	(271)
2025	(405)
2026	(1,037)
<b>Total</b>	<b>\$ (1,895)</b>

**Actuarial Assumptions** The total pension liability was determined by an actuarial valuation performed as of December 31, 2020. 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, 2021. 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 2.5%, and salary increases range from 3.25% to 8.05% which includes 3.25% 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 6.5% 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 mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2020 valuations were based on the results of an actuarial experience review for the period January 1, 2015 through December 31, 2019.

Future ad hoc Cost of Living Adjustment 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. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of June 30, 2021 (the valuation date) are summarized in the following table:

<b>Asset Class</b>	<b>Long-Term Expected Real Rate of Return</b>
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	4.0%

The information above is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability and investment policy of 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 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2021 is 1.3%.

**Discount Rate** The discount rate used to measure the total pension liability was 6.5% for the December 31, 2020 valuation. The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at contractually 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 6.5%, 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 (5.5%) or one percentage point higher (7.5%) than the current rate (*in thousands*):

	<b>1% Decrease (5.5%)</b>	<b>Discount Rate (6.5%)</b>	<b>1% Increase (7.5%)</b>
Agency's proportionate share of the net pension liability	\$9,156	\$2,729	(\$2,612)

**Pension Plan Fiduciary Net Position** Detailed information about the pension plan’s fiduciary net position is available in the separately issued Annual Report for the State.

## J. OTHER POSTEMPLOYMENT BENEFITS

**Plan Description** In addition to providing pension benefits, the Agency participates in two postemployment benefit plans, the Retiree Health Benefit Fund (RHBF) and the Disability Income Plan of North Carolina (DIPNC), that are administered by the State as pension and other employee benefit trust funds. The Agency makes monthly contributions to the State for these benefits. The State’s Annual Report includes financial statements and required supplementary information for each plan. See Note I. “Pension Plan” for information about obtaining the Annual Report from OSC.

The RHBF has been established as a fund to provide health benefits to long-term disability beneficiaries of the DIPNC 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 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 and before January 1, 2021, 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. Employees hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

Short-term and long-term disability benefits are provided through the DIPNC. Long-term disability benefits are payable from the DIPNC 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; (5) the employee must not be eligible to receive unreduced retirement benefits from TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. 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 workers' 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 DIPNC 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 postemployment health care benefits, death benefits and disability benefits, which are the same for all agencies across the State.

**Contributions** Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly and coincide with the State's fiscal year. The Agency assumes no liability for retiree health care or long-term disability benefits other than its required contributions.

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, 2022, 2021, and 2020 (*in thousands*):

	2022	2021	2020
Health Care Benefit	\$ 660	\$ 683	\$ 643
Disability Benefit	\$ 9	\$ 9	\$ 10
<b>Percentage of Covered Payroll</b>			
Health Care Benefit	6.29%	6.68%	6.47%
Disability Benefit	0.09%	0.09%	0.10%

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.

	RHBF	DIPNC
Valuation Date	12/31/2020	12/31/2020
Inflation	2.5%	2.5%
Salary Increases*	3.25% - 8.05%	3.25% - 8.05%
Investment Rate of Return**	6.5%	3%
Healthcare Cost Trend Rate - Medical	5% - 6%	5% - 6%
Healthcare Cost Trend Rate - Prescription Drug	5% - 9.5%	5% - 9.5%
Healthcare Cost Trend Rate - Medicare Advantage	5%	N/A
Healthcare Cost Trend Rate - Administrative	3%	3%

\*Salary increases include 3.5% inflation and productivity factor.

\*\*Investment rate of return is net of OPEB plan investment expense, including inflation.

**Net OPEB Liability (Asset)** At June 30, 2022, the Agency reported a liability of \$15,732,000 for its proportionate share of the collective net OPEB liability for RHBF. The Agency also reported an asset of \$8,000

for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB liability (asset) was measured as of June 30, 2021. The total OPEB liability (asset) used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of December 31, 2020, and update procedures were used to roll forward the total OPEB liability (asset) to June 30, 2021. The Agency's proportion of the net OPEB liability (asset) was based on the present value of future salaries for the Agency relative to the present value of future salaries for all participating employers, actuarially-determined. At June 30, 2021 and at June 30, 2020, the Agency's proportion was 0.05829% and 0.05641%, respectively.

**Actuarial Assumptions** The total OPEB liabilities (assets) for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2020, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities (assets) were then rolled forward to June 30, 2021 utilizing update procedures incorporating the actuarial assumptions.

The OPEB plans currently use 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 projected long-term investment returns and inflation assumptions are developed through a 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 projects 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. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2021.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2021 (the valuation date) are summarized in the following table:

<b>Asset Class</b>	<b>Long-Term Expected Real Rate of Return</b>
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. 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 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2021 (the valuation date) was 1.3%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial assumptions used for RHBF are consistent with those used to value the pension benefits of TSERS where appropriate. These assumptions are based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used in the December 31, 2020 valuations were based on the results of an actuarial experience study prepared as of December 31, 2019.

**Discount Rate** The discount rate used to measure the total OPEB liability for RHBF was 2.16%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 2.16% was used as the discount rate used to measure the total OPEB liability. The 2.16% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2021.

The discount rate used to measure the total OPEB asset for DIPNC was 3.00%. 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 those assumptions, the 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 plan investments was applied to all periods of projected benefit payments to determine the total OPEB asset.

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate** The following presents the Agency's proportionate share of the net OPEB liability of the plans, as well as what the plans' net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate (*in thousands*):

	<b>1% Decrease (1.16%)</b>	<b>Discount Rate (2.16%)</b>	<b>1% Increase (3.16%)</b>
<b>RHBF</b>	\$21	\$18	\$15
	<b>1% Decrease (2.75%)</b>	<b>Discount Rate (3.75%)</b>	<b>1% Increase (4.75%)</b>
<b>DIPNC</b>	-	-	-

**Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates** The following presents the net OPEB liability of the plans, as well as what the plans' net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates (*in thousands*):

	<b>1% Decrease</b>	<b>Healthcare Cost Trend Rates</b>	<b>1% Increase</b>
<b>RHBF</b>	\$15	\$18	\$23
	<b>1% Decrease</b>	<b>Healthcare Cost Trend Rates</b>	<b>1% Increase</b>
<b>DIPNC</b>	N/A	N/A	N/A

**Deferred Outflows/Inflows of Resources Related to OPEB** For the year ended June 30, 2022, the Agency recognized OPEB expense of \$138,000 for RHBF and \$18,000 for DIPNC. At June 30, 2022, the Agency reported *Deferred Outflows of Resources* and *Deferred Inflows of Resources* related to OPEB from the following sources (*in thousands*):

**Deferred Outflows of Resources Related to OPEB by Classification**

	RHBF	DIPNC	TOTAL
Difference between actual and expected experience	\$ 93	\$ 21	\$ 114
Changes of assumptions	1,287	1	1,288
Net difference between projected and actual earnings on OPEB plan investments	-	1	1
Change in proportion and differences between Agency's contributions and proportionate share of contributions	1,918	2	1,920
Contributions subsequent to the measurement date	660	10	670
<b>Total</b>	<b>\$ 3,958</b>	<b>\$ 35</b>	<b>\$ 3,993</b>

**Deferred Inflows of Resources Related to OPEB by Classification**

	RHBF	DIPNC	TOTAL
Difference between actual and expected experience	\$ 293	\$ -	\$ 293
Changes of assumptions	3,823	3	3,826
Net difference between projected and actual earnings on OPEB plan investments	8	0	8
Change in proportion and differences between Agency's contributions and proportionate share of contributions	-	1	1
Contributions subsequent to the measurement date	-	-	-
<b>Total</b>	<b>\$ 4,124</b>	<b>\$ 4</b>	<b>\$ 4,128</b>

Amounts reported as *Deferred outflows of resources* related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 2022. Other amounts reported as *Deferred Outflows of Resources* and *Deferred Inflows of Resources* at June 30, 2022 related to OPEB will be recognized in OPEB expense as follows (*in thousands*):

Year ending June 30:	RHBF	DIPNC
2023	\$ (1,141)	\$ 6
2024	(154)	4
2025	148	5
2026	(50)	3
2027	371	1
Thereafter	-	3
<b>Total</b>	<b>\$ (826)</b>	<b>\$ 22</b>

## 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's Annual Report:

- Automobile, Fire and Other Property Losses
- Public Officers' and Employees' Liability Insurance
- Employee Dishonesty and Computer Fraud
- Statewide 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.

In addition to the State's policies, the Agency has Cyber Liability and Fraudulent Instruction coverage, which is intended to mitigate financial losses associated with criminal acts of breach and fraudulent impersonation of Agency vendors and staff.

**COVID-19 Considerations** At the start of fiscal year 2022, the Delta variant of the coronavirus precipitated a new wave of infections, slowing economic recovery. By October 2021, this "Delta wave" had peaked and was beginning to fall, and the economic recovery was beginning to accelerate once more. Going forward, the economy remains tied to the rate of transmission of the coronavirus. Given falling infection and hospitalization rates, the economic outlook is positive.

Management identified potential exposures to the programmatic operations of the Agency as a result of the COVID-19 pandemic. The loans related to the Agency's HomeAd program are pooled into MBS, limiting the Agency's risk with respect to the underlying loans. The Agency's FirstHome loans, which are owned directly by the Agency, are a smaller portion of the Agency's portfolio. The FirstHome loans are older; therefore, the borrowers have more equity and opportunity to refinance their mortgage loans in lower interest rate environments. Any prepayments of bond-financed mortgage loans are used to call bonds, reducing the Agency's financing costs.

Other indirect impacts experienced as a result of the COVID-19 pandemic have included increased construction costs due to spikes in material prices and limited supply. The increased construction costs and delays have impacted the Agency's partners across all programs.

While difficult to quantify, the impacts of COVID-19 may include but are not limited to the following: (1) economic conditions impacting the demand for Agency financing of new home purchases; (2) government restrictions and overlays may delay pipeline progression and negatively impact lenders participating in the HomeAd program; (3) forbearance or disaster relief options for homeowners who cannot afford their mortgage payments can cause a hardship to master servicers, including the Agency's master servicer.

The Agency offers existing programs to help borrowers and renters facing financial difficulties, which can be leveraged as other government options expire. The Agency maintains adequate reserves related to its bond programs to sustain stable ratings from Moody's and S&P rating agencies, showing its financial stability in an uncertain market.

In fiscal year 2021, the Agency was designated by OSBM to administer HAF, a federal assistance program for homeowners included as part of the American Rescue Plan Act of 2021. The Agency entered into an agreement with NCPRO for the administration of the HAF program and fund disbursement began in fiscal year 2022.

# **North Carolina Housing Finance Agency**

## **Supplementary Information**



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## Independent Auditor's Report on Supplementary Information

Our audit 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, 2022

**NORTH CAROLINA HOUSING FINANCE AGENCY**

COMBINING STATEMENT OF NET POSITION  
AS OF JUNE 30, 2022

(in thousands)	AGENCY	GRANT		HOME OWNERSHIP	Total
	PROGRAMS	PROGRAMS		BOND PROGRAMS	
		Housing Trust	Federal and		
		Fund Programs	State Programs		
<b>ASSETS</b>					
<b>Current assets:</b>					
Cash and cash equivalents	\$ 99,532	\$ -	\$ 17,070	\$ -	\$ 116,602
Restricted cash and cash equivalents	46,920	78,067	82,624	487,245	694,856
Restricted investments	-	-	-	2,253	2,253
Accrued interest receivable on investments	-	40	-	3,799	3,839
Mortgage loans receivable	6,004	1,120	12,111	71,512	90,747
Accrued interest receivable on mortgage loans	1	11	149	1,942	2,103
State receivables	90	-	462	-	552
Other assets	165	-	13,891	2,532	16,588
Interprogram receivable (payable)	2,960	(17)	(3,814)	871	-
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 155,672</b>	<b>\$ 79,221</b>	<b>\$ 122,493</b>	<b>\$ 570,154</b>	<b>\$ 927,540</b>
<b>Noncurrent assets:</b>					
Restricted investments	\$ -	\$ -	\$ -	\$ 1,183,637	\$ 1,183,637
Mortgage loans receivable, net	1,432	10,400	73,189	171,002	256,023
Other assets, net	8	-	-	-	8
Capital assets, net	4,639	-	-	-	4,639
<b>TOTAL NONCURRENT ASSETS</b>	<b>\$ 6,079</b>	<b>\$ 10,400</b>	<b>\$ 73,189</b>	<b>\$ 1,354,639</b>	<b>\$ 1,444,307</b>
<b>TOTAL ASSETS</b>	<b>\$ 161,751</b>	<b>\$ 89,621</b>	<b>\$ 195,682</b>	<b>\$ 1,924,793</b>	<b>\$ 2,371,847</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred outflows for pensions	\$ 3,271	\$ -	\$ -	\$ -	\$ 3,271
Deferred outflows for other postemployment benefits	3,993	-	-	-	3,993
Accumulated decrease in fair value of hedging derivative	-	-	-	756	756
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 7,264</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 756</b>	<b>\$ 8,020</b>
<b>LIABILITIES</b>					
<b>Current liabilities:</b>					
Bonds payable	\$ -	\$ -	\$ -	\$ 37,505	\$ 37,505
Accrued interest payable	-	-	-	18,628	18,628
Accounts payable	1,170	-	2,351	1,155	4,676
Unearned revenues	2,387	-	15,729	-	18,116
Other liabilities	1,229	-	3	-	1,232
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 4,786</b>	<b>\$ -</b>	<b>\$ 18,083</b>	<b>\$ 57,288</b>	<b>\$ 80,157</b>
<b>Noncurrent liabilities:</b>					
Bonds payable, net	\$ -	\$ -	\$ -	\$ 1,464,944	\$ 1,464,944
Derivative instrument - interest rate swap	-	-	-	756	756
Unearned revenues	20,789	-	-	-	20,789
Pension liability	2,730	-	-	-	2,730
Other postemployment benefits	15,732	-	-	-	15,732
Other liabilities	5,117	-	-	-	5,117
Lease liability	2,612	-	-	-	2,612
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>\$ 46,980</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,465,700</b>	<b>\$ 1,512,680</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 51,766</b>	<b>\$ -</b>	<b>\$ 18,083</b>	<b>\$ 1,522,988</b>	<b>\$ 1,592,837</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred Inflows for Pensions	\$ 3,444	\$ -	\$ -	\$ -	\$ 3,444
Deferred inflows for other postemployment benefits	4,128	-	-	-	4,128
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 7,572</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,572</b>
<b>NET POSITION</b>					
Net investment in capital assets	\$ 4,639	\$ -	\$ -	\$ -	\$ 4,639
Restricted net position	19,388	89,621	161,159	402,561	672,729
Unrestricted net position	85,650	-	16,440	-	102,090
<b>TOTAL NET POSITION</b>	<b>\$ 109,677</b>	<b>\$ 89,621</b>	<b>\$ 177,599</b>	<b>\$ 402,561</b>	<b>\$ 779,458</b>

**NORTH CAROLINA HOUSING FINANCE AGENCY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEAR ENDED JUNE 30, 2022**

(in thousands)	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS	Total
		Housing Trust Fund Programs	Federal and State Programs		
<b>OPERATING REVENUES</b>					
Interest on investments	\$ 277	\$ 169	\$ 182	\$ 40,712	\$ 41,340
Net increase (decrease) in fair value of investments	-	-	-	(112,223)	(112,223)
Interest on mortgage loans	94	546	959	14,249	15,848
Federal program awards received	-	-	209,150	-	209,150
Program income/fees	28,442	3,453	44,300	30,022	106,217
Other revenues	21	44	-	-	65
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 28,834</b>	<b>\$ 4,212</b>	<b>\$ 254,591</b>	<b>\$ (27,240)</b>	<b>\$ 260,397</b>
<b>OPERATING EXPENSES</b>					
Interest on bonds	\$ -	\$ -	\$ -	\$ 36,771	\$ 36,771
Lease interest expense	20	-	-	-	20
Mortgage servicing expense	-	-	-	894	894
Federal program expense	-	-	279,279	-	279,279
Nonfederal program expense	1,590	-	-	25,557	27,147
General and administrative expense	19,405	-	6,587	430	26,422
Other expenses	90	-	158	160	408
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 21,105</b>	<b>\$ -</b>	<b>\$ 286,024</b>	<b>\$ 63,812</b>	<b>\$ 370,941</b>
<b>OPERATING LOSS</b>	<b>\$ 7,729</b>	<b>\$ 4,212</b>	<b>\$ (31,433)</b>	<b>\$ (91,052)</b>	<b>\$ (110,544)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Transfers in (out)	\$ 12,263	\$ (155)	\$ (11,727)	\$ (381)	\$ -
State appropriations received	-	7,660	3,000	-	10,660
State grants received	-	-	45,408	-	45,408
Noncapital contributions	95	-	-	-	95
State program expense	(1)	(28,658)	(34,752)	-	(63,411)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>\$ 12,357</b>	<b>\$ (21,153)</b>	<b>\$ 1,929</b>	<b>\$ (381)</b>	<b>\$ (7,248)</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ 20,086</b>	<b>\$ (16,941)</b>	<b>\$ (29,504)</b>	<b>\$ (91,433)</b>	<b>\$ (117,792)</b>
<b>TOTAL NET POSITION - BEGINNING</b>	<b>\$ 89,591</b>	<b>\$ 106,562</b>	<b>\$ 207,103</b>	<b>\$ 493,994</b>	<b>\$ 897,250</b>
<b>TOTAL NET POSITION - ENDING</b>	<b>\$ 109,677</b>	<b>\$ 89,621</b>	<b>\$ 177,599</b>	<b>\$ 402,561</b>	<b>\$ 779,458</b>

**NORTH CAROLINA HOUSING FINANCE AGENCY**  
**COMBINING STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2022**

(in thousands)	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS	Total
		Housing Trust Fund Programs	Federal and State Programs		
<b>Cash flows from operating activities:</b>					
Interest on mortgage loans	\$ 95	\$ 546	\$ 986	\$ 14,714	\$ 16,341
Principal payments on mortgage loans	4,016	1,175	9,761	59,821	74,773
Purchase of mortgage loans	(4,269)	(252)	(5,502)	-	(10,023)
Federal program awards received	-	-	186,049	-	186,049
Federal program expense	-	-	(278,332)	-	(278,332)
Nonfederal program expense	(1,590)	-	-	(25,557)	(27,147)
Federal grant administration income	-	-	10,903	-	10,903
Program income/fees	31,006	3,453	33,268	30,022	97,749
Other expenses	(21,645)	(1)	(6,786)	(1,139)	(29,571)
Other revenues	(473)	-	(462)	972	37
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 7,140</b>	<b>\$ 4,921</b>	<b>\$ (50,115)</b>	<b>\$ 78,833</b>	<b>\$ 40,779</b>
<b>Cash flows from non-capital financing activities:</b>					
Issuance of bonds	\$ -	\$ -	\$ -	\$ 362,000	\$ 362,000
Principal repayments on bonds	-	-	-	(348,735)	(348,735)
Interest paid	-	-	-	(29,256)	(29,256)
Bond issuance costs paid	-	-	-	(2,873)	(2,873)
Net transfers	12,263	(155)	(11,727)	(381)	-
Noncapital contributions	95	-	-	-	95
State appropriations received	-	7,660	3,000	-	10,660
State grants received	-	-	45,408	-	45,408
State program expense	(1)	(28,658)	(34,752)	-	(63,411)
State tax credits	(90)	-	-	-	(90)
<b>Net cash provided by (used in) non-capital financing activities</b>	<b>\$ 12,267</b>	<b>\$ (21,153)</b>	<b>\$ 1,929</b>	<b>\$ (19,245)</b>	<b>\$ (26,202)</b>
<b>Cash flows from investing activities:</b>					
Proceeds from sales or maturities of investments	\$ -	\$ -	\$ -	\$ 253,024	\$ 253,024
Purchase of investments	-	-	-	(301,767)	(301,767)
Earnings on investments	281	147	182	42,144	42,754
<b>Net cash provided by (used in) investing activities</b>	<b>\$ 281</b>	<b>\$ 147</b>	<b>\$ 182</b>	<b>\$ (6,599)</b>	<b>\$ (5,989)</b>
Net increase (decrease) in cash, cash equivalents and restricted cash and cash equivalents	\$ 19,688	\$ (16,085)	\$ (48,004)	\$ 52,989	\$ 8,588
Cash, cash equivalents and restricted cash and cash equivalents at beginning of year	126,764	94,152	147,698	434,256	802,870
<b>Cash, cash equivalents and restricted cash at end of year</b>	<b>\$ 146,452</b>	<b>\$ 78,067</b>	<b>\$ 99,694</b>	<b>\$ 487,245</b>	<b>\$ 811,458</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>					
Operating income (loss)	\$ 7,729	\$ 4,212	\$ (31,433)	\$ (91,052)	\$ (110,544)
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:</b>					
Interest on investments	(277)	(169)	(182)	(40,712)	(41,340)
Decrease (increase) in fair value of investments	-	-	-	112,223	112,223
Interest on bonds	-	-	-	36,771	36,771
<b>Change in operating assets and liabilities:</b>					
Decrease (increase) in mortgage loans receivable	(258)	879	4,358	59,568	64,547
Decrease (increase) in accrued interest receivable on mortgage loans	1	-	27	804	832
Decrease (increase) in other assets	(2,713)	-	(11,734)	972	(13,475)
Decrease (increase) deferred outflows	(1,317)	-	-	-	(1,317)
Increase (decrease) in accounts payable and other liabilities	(216)	(1)	807	259	849
Increase (decrease) deferred inflows	1,627	-	-	-	1,627
Increase (decrease) in unearned revenues	2,564	-	(11,958)	-	(9,394)
<b>Total adjustments</b>	<b>\$ (589)</b>	<b>\$ 709</b>	<b>\$ (18,682)</b>	<b>\$ 169,885</b>	<b>\$ 151,323</b>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 7,140</b>	<b>\$ 4,921</b>	<b>\$ (50,115)</b>	<b>\$ 78,833</b>	<b>\$ 40,779</b>

This audit report required 800 audit hours at a cost of \$114,500.

NORTH CAROLINA

**HOUSING**  
**FINANCE**  
**AGENCY**

Our mission is to create affordable housing options 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.