

SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS

North Carolina Housing Finance Agency
Year Ended June 30, 2007

North Carolina Housing Finance Agency
Schedule of Expenditures of Federal Awards

Year Ended June 30, 2007

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

The Audit Committee of the Board of Directors
North Carolina Housing Finance Agency

We have audited the basic financial statements 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, 2007, and have issued our report thereon dated August 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Agency in a separate letter dated August 31, 2007.

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

Ernst + Young LLP

August 31, 2007

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

The Audit Committee of the Board of Directors
North Carolina Housing Finance Agency

Compliance

We have audited the compliance of the North Carolina Housing Finance Agency (the Agency) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

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

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 07-01.

Internal Control Over Compliance

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Agency's response and accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Agency as of and for the year ended June 30, 2007, and have issued our report thereon dated August 31, 2007. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Ernst + Young LLP

August 31, 2007

North Carolina Housing Finance Agency
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

Federal Grantor Program Title	Note References	Federal CFDA Number	Grant Number	Federal Expenditures (in thousands)
U.S. Department of Housing and Urban Development:				
Direct:				
Section 8 Project-Based Cluster:				
Section 8 New Construction and Substantial Rehabilitation	(2)	14.182	A-3259	\$ 19,030
Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation	(2)	14.856	A-3338	313
Section 8 Housing Assistance Payments Program – Special Allocations	(2)	14.195	NC80-0CC0-001	99,088
Total Section 8 Project-Based Cluster				118,431
HOME Investment Partnerships Program	(2)	14.239	n/a	38,187
Stewart B. McKinney Homeless Assistance Act	(1)	n/a	n/a	1,548
Total U.S. Department of Housing and Urban Development				158,166
U.S. DEPARTMENT OF ENERGY – Direct – Petroleum Violation Escrow Fund	(1)(2)	n/a	n/a	838
TOTAL FEDERAL FINANCIAL ASSISTANCE (3)				\$ 159,004

NOTES:

(1) No CFDA and/or grant number available

(2) Fiscal year 2007 expenditures include administrative fees as follows:

Section 8 New Construction and Substantial Rehabilitation – \$950,484; Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation – \$58,406; Section 8 Housing Assistance Payments Program – Special Allocations – \$4,622,390; HOME Investment Partnership Program – \$2,531,063; Petroleum Violation Escrow Fund – \$1,361

(3) The above schedule is prepared on the accrual basis of accounting. As directed by the Office of the State Auditor of North Carolina, expenditures of funds from the State of North Carolina totaling \$42,171,876 are excluded from the above schedule

North Carolina Housing Finance Agency

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

Part I—Summary of Auditor’s Results

Financial Statement Section

Type of auditor’s report issued (unqualified, qualified, adverse, or disclaimer):

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ **Yes** X **No**

Significant deficiency(ies) identified that are not considered to be material weaknesses?

_____ **Yes** X **None reported**

Noncompliance material to financial statements noted?

_____ **Yes** X **No**

Federal Awards Section

Internal control over major programs:

Material weakness(es) identified?

_____ **Yes** X **No**

Significant deficiency(ies) identified that are not considered to be material weaknesses?

_____ **Yes** X **None reported**

Type of auditor’s report issued on compliance for major programs (unqualified, qualified, adverse, or disclaimer):

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?

 X **Yes** _____ **No**

North Carolina Housing Finance Agency

Schedule of Findings and Questioned Costs (continued)

Year Ended June 30, 2007

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.182, 14.856, 14.195	Section 8 Project-Based Cluster
14.239	HOME Investment Partnerships Program

Dollar threshold used to distinguish between
Type A and Type B programs:

\$ 3,000,000

Auditee qualified as low-risk auditee?

X **Yes** **No**

North Carolina Housing Finance Agency

Schedule of Findings and Questioned Costs (continued)

Year Ended June 30, 2007

Part II—Financial Statement Findings Section

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

No financial statement findings noted.

North Carolina Housing Finance Agency

Schedule of Findings and Questioned Costs (continued)

Year Ended June 30, 2007

Part III—Federal Award Findings and Questioned Costs Section

This section identifies the audit findings required to be reported by Circular A-133 section .510(a) (for example, significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program. Where practical, findings should be organized by federal agency or pass-through entity.

07-01

Federal program information:

HOME Investment Partnership Program
(CFDA 14.239)

Criteria or specific requirement (including statutory, regulatory, or other citation):

For each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043)* (the Form).

Condition:

The submission of the Form was not made.

Questioned costs:

N/A

Context:

N/A

Effect:

The Agency is not in compliance with required federal reporting guidelines.

Cause:

An oversight in the submission of the Form occurred.

Recommendation:

We recommend that the Agency submit the Form in accordance with the required federal reporting guidelines.

Views of Responsible Officials and
Planned Corrective Actions:

On August 30th, we filed the form 60002 for the report due in April 2007 using the data that we had available regarding Section 3. We are currently reviewing our data collection processes to ensure that we are meeting this requirement for reporting this data in the future.

Conclusion