

SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS

North Carolina Housing Finance Agency
Year Ended June 30, 2009
With Report of Independent Auditors

North Carolina Housing Finance Agency

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

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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, 2009, and have issued our report thereon dated September 16, 2009. 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, 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*.

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

September 16, 2009

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 US Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal program for the year ended June 30, 2009. The Agency's major federal program is 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, 2009.

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.

Schedule of expenditures of federal awards

We have audited the financial statements of the Agency as of and for the year ended June 30, 2009, and have issued our report thereon dated September 16, 2009. 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.

A handwritten signature in cursive script that reads 'Ernst & Young LLP'.

September 29, 2009

North Carolina Housing Finance Agency

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

Federal Grantor Program Title	Note References	Federal CFDA Number	Grant Number	Federal Expenditures (1) <i>(In Thousands)</i>
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	\$ 1,608
Section 8 Housing Assistance Payments Program – Special Allocations	(2)	14.195	NC80-0CC0-001	132,362
Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation	(2)	14.856	A-3338	310
Total Section 8 Project-Based Cluster				134,280
Home Investment Partnerships Program	(2)	14.239	n/a	26,798
Stewart B. McKinney Homeless Assistance Act	(3)	n/a	n/a	903
Passed through North Carolina Department of Energy and Natural Resources				
Lead-Based Paint Hazard Control in Privately-Owned Housing	(2)	14.900	657	8
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				161,989
U.S. DEPARTMENT OF TREASURY:				
Pass Through from Neighbor Works America				
National Foreclosure Mitigation Counseling Program	(2)	21.000	PL110-16195X1350	2,099
TOTAL FEDERAL FINANCIAL ASSISTANCE				\$ 164,088

North Carolina Housing Finance Agency

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

(1) The schedule of expenditures of federal awards is prepared on the accrual basis of accounting. As directed by the Office of the State Auditor of North Carolina, expenditures of funds from the State of North Carolina totaling \$46,744,817 are excluded from the above schedule.

(2) Fiscal year 2009 expenditures include administrative fees as follows:

Section 8 New Construction and Substantial Rehabilitation	\$ 6,132
Section 8 Housing Assistance Payments Program – Special Allocations	5,969,777
Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation	67,896
Home Investment Partnership Program	3,204,328
Lead-Based Paint Hazard Control in Privately-Owned Housing	747
National Foreclosure Mitigation Counseling Program	122,675
Total	<u>\$ 9,371,555</u>

(3) No CFDA and/or grant number available.

North Carolina Housing Finance Agency

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

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?

_____ **yes** X **no**

North Carolina Housing Finance Agency

Schedule of Findings and Questioned Costs (continued)

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, 14.195, 14.856	Section 8 Project-Based Cluster

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)

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)

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.

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