

Semi-Annual Financial Statements

December 31, 2012



NORTH CAROLINA

HOUSING
FINANCE
AGENCY

Semi-Annual Financial Statements

Six months ended December 31, 2012

North Carolina Housing Finance Agency

**NORTH CAROLINA HOUSING FINANCE AGENCY
FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION
FOR THE SIX MONTHS ENDED DECEMBER 31, 2012**

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NORTH CAROLINA HOUSING FINANCE AGENCY

BALANCE SHEET
DECEMBER 31, 2012
(Unaudited)

(in thousands)

ASSETS

Current assets:

Cash and cash equivalents	\$ 3,214
Restricted cash and cash equivalents	344,063
Accrued interest receivable on investments	256
Mortgage loans receivable, net	147,743
Accrued interest receivable on mortgage loans	10,207
State receivable	43,181
Other assets	10,734
TOTAL CURRENT ASSETS	\$ 559,398

Noncurrent assets:

Restricted cash and cash equivalents	\$ 38,056
Investments	3,268
Restricted investments	59,169
Mortgage loans receivable, net	1,102,180
Deferred outflow of resources	7,378
Other assets, net	16,374
TOTAL NONCURRENT ASSETS	\$ 1,226,425
TOTAL ASSETS	\$ 1,785,823

LIABILITIES

Current liabilities:

Bonds payable	\$ 33,025
Accrued interest payable	24,322
Accounts payable	1,930
Deferred revenues	29,597
Other liabilities	140
TOTAL CURRENT LIABILITIES	\$ 89,014

Noncurrent liabilities:

Bonds payable, net	\$ 1,120,517
Derivative instrument - interest rate swap	7,378
Deferred revenues	9,506
Other liabilities	6,294
TOTAL NONCURRENT LIABILITIES	\$ 1,143,695
TOTAL LIABILITIES	\$ 1,232,709

NET ASSETS

Restricted	\$ 541,045
Unrestricted	12,069
TOTAL NET ASSETS	\$ 553,114
TOTAL LIABILITIES AND NET ASSETS	\$ 1,785,823

See Notes to Financial Statements

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

SIX MONTHS ENDED DECEMBER 31, 2012

(Unaudited)

(in thousands)

OPERATING REVENUES

Interest on investments	\$	1,582
Net increase in fair value of investments		575
Interest on mortgage loans		33,166
Federal program awards received		123,887
Program income/fees		15,053
Other revenues		19
TOTAL OPERATING REVENUES	\$	174,282

OPERATING EXPENSES

Interest on bonds	\$	24,928
Mortgage servicing expense		1,778
Federal program expense		125,594
Nonfederal program expense		2,449
General and administrative expense		14,217
Other expenses		1,769
TOTAL OPERATING EXPENSES	\$	170,735

OPERATING INCOME

\$ 3,547

NON-OPERATING REVENUES (EXPENSES)

State appropriations received	\$	804
State grant received		36,441
State program expense		(35,944)
TOTAL NON-OPERATING REVENUES (EXPENSES)	\$	1,301

CHANGE IN NET ASSETS

\$ 4,848

TOTAL NET ASSETS-BEGINNING

\$ 548,266

TOTAL NET ASSETS-ENDING

\$ 553,114

See Notes to Financial Statement.

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF CASH FLOWS

SIX MONTHS ENDED DECEMBER 31, 2012

(Unaudited)

(in thousands)

Cash flows from operating activities:

Interest on mortgage loans	\$ 33,246
Principal payments on mortgage loans	82,810
Purchase of mortgage loans	(44,429)
Federal program awards received	116,288
Federal program expense	(126,630)
Nonfederal program expense	(2,449)
Federal grant administration income	8,925
Program income/fees	5,822
Other expenses	(12,310)
Other revenues	(3,425)

Net cash provided by operating activities \$ 57,848

Cash flows from non-capital financing activities:

Issuance of bonds	\$ 121,670
Principal repayments on bonds	(179,725)
Interest paid	(26,695)
Bond issuance costs paid	(1,108)
State appropriations received	804
State grant received	9,950
State tax credits	31,976
State program expense	(35,944)

Net cash used in non-capital financing activities \$ (79,072)

Cash flows from investing activities:

Proceeds from sales or maturities of investments	\$ 24,029
Purchase of investments	(33,330)
Earnings on investments	1,492

Net cash used in investing activities \$ (7,809)

Net decrease in cash (29,033)

Cash and cash equivalents at beginning of year 414,366

Cash and cash equivalents at end of year \$ 385,333

Reconciliation of operating income to net cash provided by operating activities:

Operating income \$ 3,547

Adjustments to reconcile operating income to net cash

(used in) provided by operating activities:

Interest on investments	(1,582)
Increase in fair value of investments	(575)
Interest on bonds	24,928

Change in assets and liabilities:

Decrease in mortgage loans	39,714
Decrease in interest receivable on mortgage loans	158
Increase in other assets	(1,761)
Increase in accounts payable and other liabilities	2,492
Decrease in deferred revenues	(9,073)

Total adjustments \$ 54,301

Net cash provided by operating activities \$ 57,848

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS *(Unaudited)*

- A. BASIS OF PRESENTATION** The Agency applies all statements issued by the Governmental Accounting Standards Board (GASB) and all Financial Accounting Standards Board (FASB) statements issued on or before November 30, 1989, except those that conflict with the GASB. For full note disclosure, refer to the June 30, 2012 financials posted on the website at www.nchfa.com.

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. A summary of the Agency's primary programs is as follows:

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

Housing Trust Fund Programs The North Carolina Housing Trust and Oil Overcharge Act created the North Carolina Housing Trust Fund (Housing Trust Fund) and the North Carolina Housing Partnership (Housing Partnership). The purpose of the Housing Trust Fund is to increase the supply of decent, affordable and energy efficient housing for residents of the State with low and moderate incomes. During the current fiscal year the General Assembly of the State of North Carolina ("General Assembly"), approved a nonrecurring reduction in an amount of \$7,877,000. The General Assembly Session Law 2012-142 Section 6.5(c) gave the North Carolina Housing Finance Agency permission to use a portion of the National Mortgage Settlement (AG Settlement) to offset the nonrecurring reduction in the amount of \$7,877,000. Substantially all of these funds will be used to make loans and grants under the Housing Trust Fund Programs. The Housing Partnership is responsible for developing policy with respect to the operation of programs within the Housing Trust Fund. The Agency provides staff services to the Housing Partnership and administers the Housing Trust Fund Programs.

Federal and State Programs The Agency administers seven federal programs. The Section 8 Lower Income Housing Assistance Payment Program, the HOME Investment Partnership Program, and the Hardest Hit Fund Program represent 99% of federal program expenditures. The Agency receives a fee for administering Section 8 contracts, Hardest Hit Fund, and HOME Investment Partnership Programs. The HOME Investment Partnership Program is matched with funds appropriated by the General Assembly. The amount of matching funds received during the six months ended December 31, 2012 was \$804,000. The Agency received \$2,573,000 from the North Carolina Commissioner of Banks for the State Home Foreclosure Prevention Project to provide counseling to homeowners who are at risk for foreclosure. Also, \$3,278,000 was received from the North Carolina Department of Health and Human Services to provide rent assistance for extremely low-income persons with disabilities, including the homeless. These monies from the State are reported in the financial statements as non-operating revenues. Also, \$30,590,000 was recorded as revenue from the North Carolina Department of Justice due to the AG Settlement received by the State of North Carolina. The funds are to be used for housing counselors and other assistance to help distressed homeowners.

Home Ownership Bond Programs The Home Ownership Bond Programs were created through various single family bond resolutions and are restricted as to their use. The proceeds of individual bond issues are used to purchase homebuyer mortgage loans on single family residential units.

B. BONDS PAYABLE

Bonds payable activity for the six months ended December 31, 2012 was as follows (in thousands):

Home Ownership	Beginning Balance	Additions	Reductions	Ending Balance
Bonds Payable	\$ 1,205,690	\$ 121,670	\$ (179,725)	\$ 1,147,635
Plus Bond Premium/ (Discount)	<u>5,858</u>	<u>1,061</u>	<u>(1,012)</u>	<u>5,907</u>
Total Bonds Payable, Net	<u>\$ 1,211,548</u>	<u>\$ 122,731</u>	<u>\$ (180,737)</u>	<u>\$ 1,153,542</u>

Bonds payable as of December 31, 2012 are as follows (in thousands):

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Home Ownership Revenue Bonds			
(1998 Trust Agreement)			
Series 15	Variable - 4.95	7/1/2032	\$ 21,955
Series 16	Variable - 5.40	7/1/2032	20,925
Series 17	Variable - 5.00	7/1/2034	26,770
Series 18	Variable - 4.45	1/1/2035	19,550
Series 19	4.15 - 5.15	7/1/2035	35,695
Series 20	3.90 - 4.75	7/1/2035	39,585
Series 21	4.15 - 5.00	7/1/2035	35,560
Series 22 A	4.25 - 5.50	1/1/2037	39,130
Series 22 CE	4.30 - 5.25	1/1/2039	58,685
Series 23	3.75 - 5.00	1/1/2037	37,415
Series 24	3.90 - 5.50	1/1/2038	51,045
Series 25	4.20 - 5.75	7/1/2037	41,055
Series 26	3.75 - 5.50	7/1/2038	42,115
Series 27 A	4.55 - 6.00	7/1/2038	46,580
Series 28	3.65 - 5.50	1/1/2039	44,985
Series 29	4.05 - 5.50	7/1/2038	64,515
Series 30	3.65 - 5.50	7/1/2039	46,745
Series 31	3.45 - 5.50	7/1/2038	50,445
Series 32	4.00	1/1/2030	120,815
Series 33	0.41- 4.32	1/1/2034	<u>120,950</u>
			\$ 964,520
Home Ownership Revenue Bonds			
(2009 Trust Agreement)			
Series A-1 and Series 1	0.75 - 4.50	7/1/2041	\$ 83,210
Series A-2 and Series 2	0.45 - 4.25	7/1/2041	<u>99,905</u>
			\$ 183,115
Total Bonds Outstanding			<u>\$ 1,147,635</u>
Plus Bond Premium/(Discount)			<u>\$ 5,907</u>
Total Home Ownership Bond Programs			<u>\$ 1,153,542</u>

Series 33 in the 1998 Trust Agreement closed on July 19, 2012. On August 1, 2012 the proceeds of Series 33 in the 1998 Trust Agreement refunded bonds in the following amounts for the series below (in thousands):

<u>Series</u>	<u>Bonds Refunded</u>
1998 Trust Agreement Series 2	\$ 6,680
1998 Trust Agreement Series 3	14,405
1998 Trust Agreement Series 4	10,305
1998 Trust Agreement Series 8	175
1998 Trust Agreement Series 10	8,295
1998 Trust Agreement Series 12	29,520
1998 Trust Agreement Series 13	23,310
1998 Trust Agreement Series 14	<u>28,980</u>
Total	\$ <u>121,670</u>

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

Bonds payable as of December 31, 2012 for Special Facilities are as follows (in thousands):

<u>Issue</u>	<u>Bond Type</u>	<u>Bonds Outstanding</u>
2002 Resolution* (Series A, B, C, D)	Multifamily Housing Revenue Bonds	\$ 8,640
2010 Resolution	Multifamily Housing Revenue Bonds	14,200
2012 Resolution	Multifamily Housing Revenue Bonds	<u>13,901</u>
Total Special Facilities (Conduits)		<u>\$36,741</u>

*These are Section 501(c)3 entities and did not require volume cap when bonds were issued.

C. SUBSEQUENT EVENT

On January 15, 2013, the 2010 Resolution, Multifamily Housing Revenue Bonds, were redeemed at par.

North Carolina Housing Finance Agency

Additional Information

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING BALANCE SHEET

DECEMBER 31, 2012

(Unaudited)

(in thousands)	AGENCY PROGRAMS		GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS		Total
		Housing Trust Fund	Federal and State Programs		1998	2009	
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 3,214	-	-	-	-	-	\$ 3,214
Restricted cash and cash equivalents	48,895	39,766	70,189	173,532	11,681		344,063
Accrued interest receivable on investments	8	15	-	192	41		256
Mortgage loans receivable, net	401	1,225	4,772	137,368	3,977		147,743
Accrued interest receivable on mortgage loans	76	11	26	9,518	576		10,207
State receivable	16,690	-	26,491	-	-		43,181
Other assets	1,038	-	1,798	7,234	664		10,734
Interprogram receivable/(payable)	2,011	7,862	(10,389)	515	1		-
TOTAL CURRENT ASSETS	\$ 72,333	48,879	92,887	328,359	16,940		\$ 559,398
Noncurrent assets:							
Restricted cash and cash equivalents	\$ -	-	-	-	38,056		\$ 38,056
Investments	3,268	-	-	-	-		3,268
Restricted investments	6,279	-	-	47,494	5,396		59,169
Mortgage loans receivable, net	3,813	14,511	71,135	872,739	139,982		1,102,180
Deferred outflow of resources	-	-	-	7,378	-		7,378
Other assets, net	3,266	-	-	11,696	1,412		16,374
TOTAL NONCURRENT ASSETS	\$ 16,626	14,511	71,135	939,307	184,846		\$ 1,226,425
TOTAL ASSETS	\$ 88,959	63,390	164,022	1,267,666	201,786		\$ 1,785,823
LIABILITIES							
Current liabilities:							
Bonds payable	\$ -	-	-	30,145	2,880		\$ 33,025
Accrued interest payable	-	-	-	21,501	2,821		24,322
Accounts payable	85	-	1,566	259	20		1,930
Deferred revenues	1,154	-	28,443	-	-		29,597
Other liabilities	116	-	24	-	-		140
TOTAL CURRENT LIABILITIES	\$ 1,355	-	30,033	51,905	5,721		\$ 89,014
Noncurrent liabilities:							
Bonds payable, net	\$ -	-	-	939,166	181,351		\$ 1,120,517
Derivative instrument - interest rate swap	-	-	-	7,378	-		7,378
Deferred revenues	9,506	-	-	-	-		9,506
Other liabilities	4,356	-	-	1,938	-		6,294
TOTAL NONCURRENT LIABILITIES	\$ 13,862	-	-	948,482	181,351		\$ 1,143,695
TOTAL LIABILITIES	\$ 15,217	-	30,033	1,000,387	187,072		\$ 1,232,709
NET ASSETS							
Restricted	\$ 61,673	63,390	133,989	267,279	14,714		\$ 541,045
Unrestricted	12,069	-	-	-	-		12,069
TOTAL NET ASSETS	\$ 73,742	63,390	133,989	267,279	14,714		\$ 553,114
TOTAL LIABILITIES AND NET ASSETS	\$ 88,959	63,390	164,022	1,267,666	201,786		\$ 1,785,823

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

SIX MONTHS ENDED DECEMBER 31, 2012

(Unaudited)

(in thousands)	AGENCY			HOME OWNERSHIP BOND PROGRAMS		Total
	PROGRAMS	GRANT	PROGRAMS	1998	2009	
		Housing Trust Fund	Federal and State Programs			
OPERATING REVENUES						
Interest on investments	\$ 215	94	62	1,138	73	\$ 1,582
Net increase in fair value of investments	92	-	-	481	2	575
Interest on mortgage loans	37	183	491	29,926	2,529	33,166
Federal program awards received	-	-	123,887	-	-	123,887
Program income/fees	4,441	384	10,228	-	-	15,053
Other revenues	10	-	9	-	-	19
TOTAL OPERATING REVENUES	\$ 4,795	661	134,677	31,545	2,604	\$ 174,282
OPERATING EXPENSES						
Interest on bonds	\$ -	-	-	22,100	2,828	\$ 24,928
Mortgage servicing expense	1	-	-	1,566	211	1,778
Federal program expense	-	-	125,594	-	-	125,594
Nonfederal program expense	2,449	-	-	-	-	2,449
General and administrative expense	8,550	-	5,068	580	19	14,217
Other expenses	-	116	25	1,628	-	1,769
TOTAL OPERATING EXPENSES	\$ 11,000	116	130,687	25,874	3,058	\$ 170,735
OPERATING (LOSS) INCOME	\$ (6,205)	545	3,990	5,671	(454)	\$ 3,547
NON-OPERATING REVENUES (EXPENSES)						
Transfers in (out)	\$ 8,516	7,835	(14,581)	(5,992)	4,222	\$ -
State appropriations received	-	-	804	-	-	804
State grant received	-	-	36,441	-	-	36,441
State program expense	(26,404)	(5,828)	(3,712)	-	-	(35,944)
TOTAL NON-OPERATING REVENUES (EXPENSES)	\$ (17,888)	2,007	18,952	(5,992)	4,222	\$ 1,301
CHANGE IN NET ASSETS	\$ (24,093)	2,552	22,942	(321)	3,768	\$ 4,848
TOTAL NET ASSETS - BEGINNING	97,835	60,838	111,047	267,600	10,946	548,266
TOTAL NET ASSETS - ENDING	\$ 73,742	63,390	133,989	267,279	14,714	\$ 553,114

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF CASH FLOWS

SIX MONTHS ENDED DECEMBER 31, 2012

(Unaudited)

(in thousands)	AGENCY PROGRAMS		GRANT PROGRAMS	HOME OWNERSHIP BOND PROGRAMS		Total
	Housing Trust Fund	Federal and State Programs		1998	2009	
Cash flows from operating activities:						
Interest on mortgage loans	\$ 37	184	484	30,180	2,361	\$ 33,246
Principal payments on mortgage loans	203	530	2,650	77,636	1,791	82,810
Purchase of mortgage loans	-	-	(1,808)	(1,086)	(41,535)	(44,429)
Federal program awards received	-	-	116,288	-	-	116,288
Federal program expense	-	-	(126,630)	-	-	(126,630)
Nonfederal program expense	(2,449)	-	-	-	-	(2,449)
Federal grant administration income	-	-	8,925	-	-	8,925
Program income/fees	4,135	384	1,303	-	-	5,822
Other expenses	(8,351)	-	(1,120)	(2,609)	(230)	(12,310)
Other revenues	1,730	(5,164)	-	107	(98)	(3,425)
Net cash (used in) provided by operating activities	\$ (4,695)	(4,066)	92	104,228	(37,711)	\$ 57,848
Cash flows from non-capital financing activities:						
Issuance of bonds	\$ -	-	-	121,670	-	\$ 121,670
Principal repayments on bonds	-	-	-	(178,570)	(1,155)	(179,725)
Interest paid	-	-	-	(24,049)	(2,646)	(26,695)
Bond issuance costs paid	-	-	-	(1,108)	-	(1,108)
Net transfers	8,516	7,835	(14,581)	(5,992)	4,222	-
State appropriations received	-	-	804	-	-	804
State grant received	-	-	9,950	-	-	9,950
State tax credits	31,976	-	-	-	-	31,976
State program expense	(26,404)	(5,828)	(3,712)	-	-	(35,944)
Net cash provided by (used in) non-capital financing activities	\$ 14,088	2,007	(7,539)	(88,049)	421	\$ (79,072)
Cash flows from investing activities:						
Proceeds from sales or maturities of investments	\$ -	-	-	24,029	-	\$ 24,029
Purchase of investments	-	-	-	(30,195)	(3,135)	(33,330)
Earnings on investments	217	98	62	1,074	41	1,492
Net cash (used in) provided by investing activities	\$ 217	98	62	(5,092)	(3,094)	\$ (7,809)
Net increase (decrease) in cash	\$ 9,610	(1,961)	(7,385)	11,087	(40,384)	\$ (29,033)
Cash and cash equivalents at beginning of year	42,499	41,727	77,574	162,445	90,121	414,366
Cash and cash equivalents at end of year	\$ 52,109	39,766	70,189	173,532	49,737	\$ 385,333
Reconciliation of operating income (loss) to net cash used in (provided by) operating activities:						
Operating (loss) income	\$ (6,205)	545	3,990	5,671	(454)	\$ 3,547
Adjustments to reconcile operating income to net cash (used in) provided by operating activities:						
Interest on investments	(215)	(94)	(62)	(1,138)	(73)	(1,582)
Increase in fair value of investments	(92)	-	-	(481)	(2)	(575)
Interest on bonds	-	-	-	22,100	2,828	24,928
Change in assets and liabilities:						
Decrease (increase) in mortgage loans	198	646	965	77,633	(39,728)	39,714
Decrease (increase) in interest receivable on mortgage loans	-	1	(7)	348	(184)	158
Decrease (increase) in other assets	1,624	(5,164)	1,770	107	(98)	(1,761)
(Decrease) increase in accounts payable and other liabilities	(408)	-	2,912	(12)	-	2,492
Increase (decrease) in deferred revenues	403	-	(9,476)	-	-	(9,073)
Total adjustments	\$ 1,510	(4,611)	(3,898)	98,557	(37,257)	\$ 54,301
Net cash (used in) provided by operating activities	\$ (4,695)	(4,066)	92	104,228	(37,711)	\$ 57,848



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

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

Our Values : We Care, We Act, We Lead

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

919-877-5700
www.nchfa.com