NORTH CAROLINA HOUSING FINANCE AGENCY
FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2009

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FINANCIAL STATEMENTS

ADDITIONAL INFORMATION

MANAGEMENT DISCUSSION AND ANALYSIS (*Unaudited*)
June 30, 2009

The discussion and analysis of the North Carolina Housing Finance Agency's (the Agency) financial performance provides an overview of the Agency's financial activities for the year ended June 30, 2009. The financial statements, accompanying notes, and additional information should be read in conjunction with the following discussion.

Overview

The North Carolina Housing Finance Agency was created in 1974 to provide financing for residential housing, both ownership and rental, to North Carolina households with low and moderate incomes. The Agency has issued bonds to finance housing throughout the State of North Carolina (State). In addition to its bond programs, the Agency administers the Section 8 Programs, the HOME Investment Partnerships Program (HOME), Low-Income Housing Tax Credits, the North Carolina Housing Trust Fund (HTF) and other federal and state programs. These programs provide different types of assistance such as rent subsidies, down payment assistance, low-interest mortgage loans, foreclosure prevention counseling, 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, 2009:

- The Agency's total assets increased $14,566,000, or 0.7%, and total liabilities decreased $15,264,000 or 1.0%.
  - Cash and cash equivalents increased $93,367,000, or 37.7%, during the year primarily because of the debt service payment and bond call that was made on July 1, 2009. Bondholders have always been paid on July 1 as required, but the Agency has historically placed the money in a good faith account with the trustee to ensure that the bondholders were paid timely. However, a new FDIC fee applies to balances maintained in the good faith account at quarter-end, so the Agency chose to retain the money until the actual July 1, 2009 payment was made. This change impacted Accrued interest payable, which increased by $33,189,000, or 207.7%, due to the timing of moving the funds for the July 1, 2009 debt service payment. The increase in cash and cash equivalents was also attributable to the payouts of certain repurchase agreements and government securities that were called during the fiscal year.
  - Accrued interest receivable on mortgage loans increased $1,157,000, or 13.1%. Newer loans pay more interest at the beginning of the loan. Fiscal year 2008 was a record year for loan originations and the increase in Accrued interest on mortgage loans reflects the impact of these more recent loans.
  - Investments decreased $48,875,000, or 30.1%, and Accrued interest receivable on investments decreased $852,000 or 38.4%. Two of the repurchase agreement providers, AIG and Depfa, ratings were downgraded during the year; as a result, the funds invested with these agreements were paid out. Additionally, all but one of the government securities held by the Agency were called during the fiscal year. The funds from these investments were deposited in either repurchase agreements or the Short Term Investment Fund (STIF) maintained by the State Treasurer. The STIF accounts have yielded much lower interest rates than the original investments (which were earning between 4.0% and 7.15%). State statute limits the types of investments available to the Agency, and the current investment market is not offering rates comparable to the original investments.
  - Mortgage loans receivable decreased $34,529,000 or 2.2%. The number of new loans originated during the fiscal year decreased significantly due to the poor financial climate and general reluctance of potential borrowers to buy a home in an unstable economy. Additionally, mortgage insurers' new restrictions have made it difficult for first-time home buyers to purchase a home without a larger down payment. Although the Agency did not issue new bonds during the fiscal year, the Agency continued to finance mortgage loans with

proceeds from the Series 27 remarketing which closed in June 2008 as well as from prepayments (see additional comments under section on "Debt Administration"). During the current fiscal year, the Agency purchased $84 million of new FirstHome loans. The decrease in new loans originated, coupled with prepayments, has resulted in a decrease in mortgage loans receivable.

- State tax credits receivable increased $4,288,000 or 8.7%. The amount the Agency received increased as the number of projects increased. The funds will make possible the construction of 40 properties in 28 counties.
- Bonds payable decreased $50,223,000, or 3.2%, (see comments under "Debt Administration).
- Accounts payable increased $659,000, or 29.7%, as third party administration fees for Section 8 contract administration increased $74,000, HOME loans in progress increased $80,000, and the amount to be paid to partners for counseling under the National Foreclosure Mitigation Counseling Program (NFMC) increased to $545,000.
- Deferred revenues increased $565,000 or 6.5%. The Agency collected monitoring fees for 51 low income housing tax credit properties during fiscal year 2009.
- Other liabilities increased $546,000, or 9.5%, as a result of an increase in the operating and replacement reserves for the Agency's multifamily properties.

- Operating revenues decreased $12,327,000 or 4.4%. Operating expenses decreased $3,062,000 or 1.2%.
  - Interest on investments decreased $8,990,000, or 35%, as market conditions resulted in significantly lower interest rates. Some repurchase agreements with AIG and all repurchase agreements with Depfa were paid out due to the drop in their ratings, and all but one of the Agency's government securities were called during the year. This influx of cash was generally invested in money market funds at much lower rates of interest. The Agency shifted money to the highest yielding money market fund available, although the interest rates were significantly lower than prior year due to market conditions.
  - The net decrease in the fair value of the Agency's investments of $1,789,000, or 142%, resulted from government securities called during the current fiscal year.
  - Interest on mortgage loans increased $3,930,000, or 4.7%. Although mortgage loans decreased during the year, mortgage loan interest income increased. New borrowers contributed toward the increase in mortgage loans interest income since mortgage payments on new loans are mainly comprised of interest.
  - Federal program awards received decreased $5,157,000, or 3.4%, due to a change of funding source for some of the Agency's programs. Previously the programs have been funded with HOME funds, and during the current fiscal year they were funded with a state appropriation.
  - Other revenues decreased $347,000, or 20.1%, as the note receivable in the amount of $5,000,000 was paid off in fiscal year 2008, and there was no related income in fiscal year 2009. The decrease was also attributed to fewer gains recognized when government investments were called.
  - Interest expense on bonds decreased $3,500,000, or 4.3%, since no new bonds were issued in the current fiscal year, and the Agency's bonds payable decreased by $50,223,000 or 3.2%.
  - Federal program expense decreased $748,000, or 0.5%, because the Urgent Repair Program (URP) used state appropriated funding instead of federal funding.
  - Nonfederal program expenses decreased $852,000, or 31.6%, mainly due to the Statewide Down Payment Assistance Program (SWDAP) and Individual Development Account Loan Pool (IDALP) now using both federal and state funds.
  - General and administrative expenses increased $1,759,000, or 12.1%, as a result of increased salaries, benefits and general operating costs.
  - Other expenses increased $93,000 or 10.7%. The Agency recorded a loan loss reserve in the amount of $418,000 for delinquent FirstHome loans insured by private mortgage insurers and by United States Department of Agriculture (USDA) to take into consideration current real estate market conditions.

- Non-operating revenues and expenses decreased $1,878,000 or 12.8%.
  - State appropriations received increased $839,000 or 4.5%. There was an increase in the Home Protection Program (HPP) appropriation and a slight decrease in Housing Trust Funds.
  - State grants decreased $1,055,000, or 23.2%, due to state budget cuts in the North Carolina Department of Health and Human Services funding for the Key program.
  - State tax credit revenue decreased $309,000, or 0.9%, as a result of the lower cost and size of the 40 projects that qualified under the 2008 awards.
  - State program expense increased $1,353,000, or 3.1%. This expense was impacted by an increase of $7,105,000 in the Supportive Housing Development Program (SHDP) and Urgent Repair Program (URP) and a decrease of $5,427,000 for qualifying state tax credit loans and $325,000 from fewer Rental Production Program (RPP) closings.
- Net assets increased $29,830,000, or 6.3%, due to the Agency's proactive management of its assets in an unstable economy. (See additional comments under Debt Administration).

Financial Analysis

The following tables summarize the changes in net assets between June 30, 2009, and 2008 (*in thousands):*

Condensed Balance Sheet Information

	2009	2008	Change	%
Assets				
Cash and cash equivalents	$ 340,931	$ 247,564	$ 93,367	37.7
Accrued interest receivable on investments	1,367	2,219	(852)	(38.4)
Accrued interest receivable on mortgage loans	9,980	8,823	1,157	13.1
Investments	113,692	162,567	(48,875)	(30.1)
Mortgage loans receivable, net	1,535,587	1,570,116	(34,529)	(2.2)
State tax credits receivable	53,544	49,256	4,288	8.7
Other assets, net	15,396	15,386	10	0.1
Total Assets	$ 2,070,497	$ 2,055,931	$ 14,566	0.7
Liabilities				
Bonds payable, net	$ 1,499,775	$ 1,549,998	$ (50,223)	(3.2)
Accrued interest payable	49,165	15,976	33,189	207.7
Accounts payable	2,877	2,218	659	29.7
Deferred revenues	9,239	8,674	565	6.5
Other liabilities	6,302	5,756	546	9.5
Total Liabilities	$ 1,567,358	$ 1,582,622	$ (15,264)	(1.0)
Net Assets				
Restricted	$ 491,277	$ 459,323	$ 31,954	7.0
Unrestricted	11,862	13,986	(2,124)	(15.2)
Total Net Assets	$ 503,139	$ 473,309	$ 29,830	6.3
Total Liabilities and Net Assets	$ 2,070,497	$ 2,055,931	$ 14,566	0.7

Condensed Statement of Revenues, Expenses and Changes in Net Assets Information

	2009	2008	Change	%
Operating Revenues				
Interest on investments	$ 16,704	$ 25,694	$ (8,990)	(35.0)
Net (decrease) increase in fair value of investments	(529)	1,260	(1,789)	(142.0)
Interest on mortgage loans	88,028	84,098	3,930	4.7
Federal program awards received	148,581	153,738	(5,157)	(3.4)
Program income/fees	13,592	13,566	26	0.2
Other revenues	1,381	1,728	(347)	(20.1)
Total Operating Revenues	$ 267,757	$ 280,084	$ (12,327)	(4.4)
Operating Expenses				
Interest on bonds	$ 77,486	$ 80,986	$ (3,500)	(4.3)
Mortgage servicing expense	4,935	4,749	186	3.9
Federal program expense	149,160	149,908	(748)	(0.5)
Nonfederal program expense	1,847	2,699	(852)	(31.6)
General and administrative	16,324	14,565	1,759	12.1
Other expenses	961	868	93	10.7
Total Operating Expenses	$ 250,713	$ 253,775	$ (3,062)	(1.2)
Operating Income	$ 17,044	$ 26,309	$ (9,265)	(35.2)
Non-operating Revenues (Expenses)				
State appropriations received	$ 19,447	$ 18,608	$ 839	4.5
State grant received	3,500	4,555	(1,055)	(23.2)
State tax credits	35,392	35,701	(309)	(0.9)
State program expense	(45,553)	(44,200)	(1,353)	3.1
Total Non-operating Revenues (Expenses)	$ 12,786	$ 14,664	$ (1,878)	(12.8)
Change in Net Assets	$ 29,830	$ 40,973	$ (11,143)	(27.2)

New Business

Fiscal year 2009 was a challenging year. The collapse of the credit market and the recession impacted all of the Agency's programs and required creative solutions in uncertain times.

The General Assembly appropriated $17 million to the Housing Trust Fund, which includes $7 million for the Housing Initiative to finance construction of independent apartments for persons with disabilities, $1.61 million as matching funds for the federal HOME Program, and $3 million for the Home Protection Program. During the fiscal year 2009, the State reduced the Agency's total appropriation by $2.2 million or 10%. The State also reduced the $6.5 million appropriated to the DHHS for rent assistance by $3 million. This appropriation is managed by the Agency in partnership with DHHS.

The U.S. Department of Housing and Urban Development (HUD) appropriated $21.7 million of HOME funding for 2009. The Agency has received annual appropriations since 1992 totaling $351.5 million.

The Agency did not issue bonds during fiscal year 2009 because of the unfavorable bond market. The Agency continued to fund new mortgages with existing program funds and prepayments. As a result of the historical lows in overall mortgage rates and borrowers' reluctance to purchase a first home in an uncertain economy, the Agency did not purchase as many mortgages as it had in the prior year.

Since market conditions made it impractical to finance first-time home buyer mortgages by selling bonds, the Agency reacted by converting $215 million of volume cap to expand its Mortgage Credit Certificate (MCC) Program. MCCs allow eligible first-time home buyers to reduce their federal tax liability by up to 20% of the mortgage interest they pay annually.

Credit standards tightened and the private mortgage insurance companies changed their policy to discontinue insuring future loans with no down payment. As a result, first-time home buyers had more difficulty obtaining loans. The Agency responded by enhancing its already existing down payment assistance program for borrowers 80% or below median income. Additionally, the Agency created a down payment assistance program for borrowers with strong credit and income greater than 80% of median income.

The Agency's 60-day-plus quarterly delinquency rate was 3.85%. This rate is below the North Carolina average of 4.3% and well below the national average of 5.35%. The loan servicers and the Agency are working closely with borrowers to ensure that they are receiving every loss mitigation tool possible to keep borrowers in their homes.

The Agency adjusted its 2009 federal Housing Credit Program to compensate for market conditions and investor demands. While 44 properties received Housing Credits in 2008, only 24 were financed with 2009 credits. In addition, to preserve 64 of the 2007 and 2008 awards that were unable to find investors, the Agency allowed sponsors to return their credits for 2009 allocations.

Debt Administration

The Agency's bonds payable decreased $50,223,000, or 3.2%, as a result of not issuing bonds during fiscal year 2009. The elimination of the AMT tax for future issuances of housing bonds was expected to decrease the yield required on housing bonds and facilitate issuance. However, the low mortgage rates in the open market relative to the bond prices resulted in an inability to receive full-rate spread on a prospective bond issuance.

Instead of issuing new bonds, the Agency used the proceeds from the Series 27 remarketing of $65,000,000 which closed in June 2008 along with prepayments to fund the mortgages purchased during the fiscal year. Through the FirstHome Mortgage Program, the Agency assisted 750 additional families this year.

The Agency has many direct and indirect business partners including repurchase agreement providers, private mortgage insurers, bond insurers and swap counterparties. In light of the volatile market, a number of business partners were downgraded by the rating agencies. The repurchase agreements require certain actions in the event of ratings downgrades. During the fiscal year, two providers, AIG and Depfa, were downgraded requiring some AIG agreements and all Depfa agreements to pay out. The Agency's repurchase agreements require at least 100% collateralization according to North Carolina statute. All of the private mortgage insurers were downgraded significantly during the year. These downgrades caused the Agency to discontinue use of most private mortgage insurers for prospective loans; as a result, the majority of loans financed in the fiscal year were FHA-insured.

The rating agencies, Moody's and Standard & Poor's, calculate the downgrades of business partners into their models in order to determine whether the Agency's bonds are adequately capitalized for their current rating. They also assess the overall housing market and add "stresses" in their models which include assuming significantly increased foreclosure rates and disallowing "credit" for business partners that fall below certain ratings. The Agency reacted accordingly to the new models by shifting $9.26 million in assets from the 1985 Single Family Bond Resolution to the 1998 Home Ownership Revenue Bonds in order to maintain adequate parity in both resolutions.

The Agency had scheduled bond maturities of $18,075,000 for Single-Family Revenue Bonds and $670,000 for Multifamily Revenue Bonds. There were unscheduled bond redemptions of $32,705,000 for Single-Family Revenue Bonds and none for the Multifamily Revenue Bonds. Refer to the accompanying notes to financial statements for more detailed information concerning maturities and redemptions for the Single-Family and Multifamily Revenue Bonds.

Liquidity related to derivatives was a considerable issue in the broader economy during the fiscal year. The Agency has no bank bonds, and less than 5% of its bonds are variable rate debt. The Agency's current liquidity provider is Bank of America. This liquidity facility will expire in March 2010, and the Agency intends to renegotiate a contract. Upon renegotiation, the liquidity fee is expected to increase since the overall demand in the market for liquidity exceeds the supply.

Statutory authority was granted to the Agency to appoint its bond financing team. Following the closure of the municipal securities division at UBS, the Agency's long-time senior underwriter, the Agency selected two new senior underwriters: Bank of America/Merrill Lynch (formerly Merrill Lynch) and RBC Centura. The Agency chose two senior underwriters to increase the resources available to the Agency and to minimize exposure to the possibility of an underwriter exiting the market.

Programs

For the year ended June 30, 2009, the Agency made disbursements of $153,840,000 in Federal funds for the following programs:

- Construction Training Partnership Program (CTP),
- Displacement Prevention Partnership (DPP),
- Individual Development Account Loan Pool (IDALP),
- National Foreclosure Mitigation Counseling Program (NFMC),
- New Homes Loan Pool (NHLP),
- Preservation Loan Program (PLP),
- Rural Opportunity Mortgage (ROM) (program closed),
- Rental Production Program (RPP),
- Self-Help Loan Pool (SHLP),
- Single-Family Rehabilitation (SFR),
- Statewide Down Payment Assistance Program (SWDAP),
- Supportive Housing Development Program (SHDP),
- Supportive Housing Development Program 400 (SHDP400),
- Section 8 New Construction,
- Section 8 Contract Administration,
- Section 8 Moderate Rehabilitation, and
- Urgent Repair Program (URP).

For the year ended June 30, 2009, the Agency made disbursements of $46,639,000 in State funds for the following programs:

- Displacement Prevention Partnership (DPP),
- Home Protection Program (HPP),
- Individual Development Account Loan Pool (IDALP),
- Key Program (KEY),
- Preservation Loan Program (PLP),
- Rental Production Program (RPP),
- Statewide Down Payment Assistance Program (SWDAP),
- Supportive Housing Development Program (SHDP),
- Supportive Housing Development Program 400 (SHDP400),
- State Tax Credit (STC), and
- Urgent Repair Program (URP).

Home Ownership Programs Since its inception, the Agency has financed approximately $6.1 billion for first-time home buyers.

For the FirstHome Mortgage Program this year, 45% of mortgages were issued to home buyers earning less than 60% of area median income, 34% of mortgages to buyers earning 60% to 79% of area median income, and 21% to buyers earning 80% or more than the area median. Currently, the Agency has 16,717 loans in its portfolio. The majority of these loans are serviced by outside servicers.

The SWDAP was created in 1992 and currently provides up to $8,000 for down payment and closing costs for buyers whose income is equal to or below 80% of area median income. The loan is secured by a note and deed of trust at 0% interest repayable on the resale or refinance of the home. In June 2009, to better assist first-time home buyers who are using the Agency’s FirstHome Mortgage Program, the Board authorized a $4,000 maximum down payment loan amount for households above 80% of area or state median income, whichever is greater, and below the Agency’s adopted income limits for the FirstHome Mortgage Program.

The Agency established the MCC Program in July 1987. An MCC permits first-time home buyers who are within federal guidelines for family income and acquisition cost to take up to 20% or $2,000 of annual mortgage interest as a federal income tax credit. As of June 30, 2009, the Agency had issued 24,420 Mortgage Credit Certificates under this program totaling $1,848,191,000 in credit authority.

On June 30, the Agency completed work on the NFMC Program Round One grant. The Agency worked with 30 housing counseling agencies during the grant period, March 1, 2008, to June 30, 2009. The counseling agencies provided a total of 10,215 counseling sessions to 8,536 homeowners facing a possible foreclosure.

In December 2008, NeighborWorks® America awarded the Agency an NFMC Round Two grant in the amount of $2,497,200. Of that amount, $600,000 will be used to provide legal assistance through four legal partners to approximately 1,080 clients. The rest of the funds, $1,897,200, will be used to provide approximately 7,126 counseling sessions to North Carolina homeowners facing a possible foreclosure during the first half of fiscal year 2010. The services will be provided by 18 agencies.

For the fiscal year 2009, the Agency received $3 million in recurring funds from the General Assembly to continue the HPP and expand it statewide. As part of the expansion, the Agency added several new partners to help cover the 39 counties not previously included in the program. The current maximum loan amount is $24,000, and loan funds are used to cover monthly mortgage payments and mortgage-related expenses (i.e. property taxes, homeowners insurance, homeowner association dues). The Agency assisted 106 homeowners and awarded more than $1.29 million in HPP loans. In addition, more than 1,500 homeowners have benefitted from foreclosure prevention services offered by participating housing counseling agencies. Because of the expansion of HPP to all counties in North Carolina, the Agency discontinued its Home Saver Loan Program, which had provided four months of mortgage assistance to borrowers who had lost their job.

Through three strategic loan pools, the Agency helped 81 community-based groups bring homeownership opportunities to 371 lower-income families this year and helped reverse local imbalances in homeownership rates by race. A total of 262 of the homes produced under the loan pools were SystemVision® high-performance energy-efficient homes. The NHLP works with local homebuyer education and counseling organizations, while the IDAP works through local IDA sites that match participant savings. The NHLP allocation for the fiscal year was $2,836,000, and the IDALP allocation was $1,015,000. Since the inception of the SHLP, the Agency has worked in partnership with Habitat for Humanity (Habitat), investing $28 million to finance over 1,189 homes.

The SFR Program provides deferred forgivable loans to rehabilitate moderately deteriorated owner-occupied homes, primarily assisting homeowners below 80% of area median income with elderly and/or disabled household members. All units are brought up to stringent energy and construction standards. The SFR 2009 cycle awarded $7,594,000 in funds to assist 177 homeowners in 24 counties.

The URP provides grants to low-income homeowners to correct housing conditions that pose an imminent threat to life, safety, or displacement to a household. Under the 2009 URP cycle, the Agency increased funding from $2.2 million in 2008 to $3.5 million. The additional funding increased the number of projects to 41 for the year and provided assistance needed to make repairs to 922 homes.

The DPP in partnership with local offices of the Independent Living Rehabilitation Program in the DHHS, assists very low-income households that may be displaced due to severe mobility limitations. The 2009 cycle allocation for this program was $1.5 million, and the Agency assisted 391 households in fiscal year 2009.

The Duke Home Energy Loan Pool (HELP) provides funds for energy-efficiency measures performed in association with the comprehensive rehabilitation of the homes of Duke Energy customers and must be used from other resources such as CDBG or HOME. The Pool is funded by a subsidiary of Duke Energy Corporation. Eligible owner-occupants must have an income of 80% or less of the area median income. This year the Agency assisted 21 homeowners.

Rental Programs The Agency administers both the Federal Low-Income Housing Tax Credit Program and the STC Program. These credits are available to developers on a competitive basis and fund the creation of affordable rental housing in the State. The Agency's goals include supporting the best developments possible given the limited resources available. The Qualified Allocation Plan establishes criteria to use in selecting developments that serve low-income residents that include the following: locations with strong market demand, healthy financial structures, attractive architectural design, and the best quality of building materials and workmanship. The Agency has administered the federal program since its inception in 1987 and has allocated $2.35 billion (10 year amount) of tax credits creating 1,774 projects consisting of 51,662 rental units.

Unlike the federal tax credit, the STC is not a tax-shelter equity investment. It is either claimed directly by the property owner in the form of a grant or transferred to the Agency by the North Carolina Department of Revenue. The amount of the transferred STC becomes a secured loan from the Agency to the property owner. In every case to date, the owner has transferred its credit to the Agency because of the preferential federal income tax treatment. Once the property has reached certain milestones, primarily completion of a certain amount of construction, the loan becomes eligible to close. The STC program began in fiscal year 2003 and has been extended to January 2015. Since its inception through June 30, 2009, the Agency has processed 179 STC loans for a total of $133,506,000.

The RPP provides new development, substantial rehabilitation, or acquisition/rehabilitation loans for the production of rental housing, primarily targeting households below 50% of area median income. These RPP loans are usually gap financing for the projects financed with federal low-income tax credits. During this fiscal year, $13,615,552 was awarded to 20 projects, creating 1,189 units.

The PLP provides funding for the rehabilitation of physical deficiencies in older affordable rental properties. The program is part of the $23.2 million that was appropriated by the General Assembly of the Housing Initiative. Each project that is upgraded with a PLP loan will set aside units for persons with disabilities, and these units will be eligible for operating assistance under the Key Program. The Agency allocated $3,261,850 to eight projects which will assist 228 units.

The Agency and DHHS partnered in 2004 to create the KEY Program (KEY) by providing rental assistance to low-income persons with disabilities, including the homeless. Funding is available to all targeted units produced under the PLP, Housing Credit and the SHDP400 programs; however, it does not provide assistance if available through another program, such as Section 8. This program has assisted 223 units this year with an average monthly payment of $199.

The SHDP utilizes funds from the North Carolina Housing Trust Fund and the HOME Program to provide persons with disabilities and special housing needs with permanent financing for emergency, transitional and permanent housing. Eligible applicants are non-profit organizations and units of local government. Since its inception, the SHDP has helped to create over 2,579 units of supportive housing in 54 counties. Loans up to $500,000, or 75%, of the total project costs are amortized at zero-percent interest on the principal and/or deferred for up to 30 years. For fiscal year ended June 30, 2009, the SHDP awarded $4,940,000 in funding to ten projects to create 202 new units of housing for persons with disabilities and special housing needs. In addition, SHDP awarded $648,550 in supplemental funding to three previously approved projects.

The SHDP400 utilizes funds to provide construction to permanent financing for independent apartments with supportive services for low-income disabled individuals. These units are eligible for Key Program operating assistance to make them affordable to low-income disabled individuals (30% of area median or SSI/SSDI income) while they are awaiting a Section 8 rental assistance voucher. Eligible applicants are non-profit organizations, units of local government or private for-profit developers. Loans up to $1.2 million are amortized and/or deferred for 30 years at zero-percent interest. During this fiscal year, the Agency funded six projects totaling $3,471,681, creating 40 new units of independent supportive housing.

In fiscal year 2002, the Agency was awarded a contract with HUD to administer the Section 8 Housing Assistance Payment Program for properties throughout North Carolina. The Agency contracted with a third party administrator, Quadel Consulting Corporation, to assist with the administration of the program. During fiscal year 2009, the program provided $126 million to approximately 25,000 units.

<u>Other Programs</u> In 2009, a total of $205,000 was made available for the CTP which is in partnership with the NC Home Builders Association and local governments to train low-income unemployed persons in construction trades. About 740 people have enrolled since the program started. Of those enrolled, 81% have completed training and 70% of those have had positive outcomes, such as acquiring jobs or continuing their education.

Additional Information

This discussion and analysis is intended to provide additional information regarding the activities of the Agency. If you have questions about the report or need additional financial information, contact Elizabeth I. Rozakis, Chief Financial Officer, North Carolina Housing Finance Agency, PO Box 28066, Raleigh, North Carolina 27611-8066, (919)877-5687, eirozakis@nchfa.com, or visit the Agency's website at www.nchfa.com.

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Report of Independent Auditors

The Board of Directors
North Carolina Housing Finance Agency

We have audited the accompanying 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, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Agency's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Agency as of June 30, 2009, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with US generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2009 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst & Young LLP

September 16, 2009

0909-1090303

NORTH CAROLINA HOUSING FINANCE AGENCY

BALANCE SHEET

YEAR ENDED JUNE 30, 2009

(in thousands)		
ASSETS		
Current assets:		
Cash and cash equivalents	$	7,054
Restricted cash and cash equivalents		332,047
Accrued interest receivable on investments		1,367
Mortgage loans receivable		114,899
Accrued interest receivable on mortgage loans		9,980
State tax credits receivable		53,544
Other assets		12,214
TOTAL CURRENT ASSETS	$	531,105
Noncurrent assets:		
Restricted cash and cash equivalents	$	1,830
Restricted investments		113,692
Mortgage loans receivable, net		1,420,688
Other assets, net		3,182
TOTAL NONCURRENT ASSETS	$	1,539,392
TOTAL ASSETS	$	2,070,497
LIABILITIES		
Current liabilities:		
Bonds payable	$	72,630
Accrued interest payable		49,165
Accounts payable		2,877
Deferred revenues		1,035
Other liabilities		166
TOTAL CURRENT LIABILITIES	$	125,873
Noncurrent liabilities:		
Bonds payable, net	$	1,427,145
Deferred revenues		8,204
Other liabilities		6,136
TOTAL NONCURRENT LIABILITIES	$	1,441,485
TOTAL LIABILITIES	$	1,567,358
NET ASSETS		
Restricted	$	491,277
Unrestricted		11,862
TOTAL NET ASSETS	$	503,139
TOTAL LIABILITIES AND NET ASSETS	$	2,070,497

See Notes to Financial Statements

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2009

(in thousands)	
OPERATING REVENUES	
Interest on investments	$ 16,704
Net decrease in fair value of investments	(529)
Interest on mortgage loans	88,028
Federal program awards received	148,581
Program income/fees	13,592
Other revenues	1,381
TOTAL OPERATING REVENUES	$ 267,757
OPERATING EXPENSES	
Interest on bonds	$ 77,486
Mortgage servicing expense	4,935
Federal program expense	149,160
Nonfederal program expense	1,847
General and administrative	16,324
Other expenses	961
TOTAL OPERATING EXPENSES	$ 250,713
OPERATING INCOME	$ 17,044
NON-OPERATING REVENUES (EXPENSES)	
State appropriations received	$ 19,447
State grant received	3,500
State tax credits	35,392
State program expense	(45,553)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$ 12,786
CHANGE IN NET ASSETS	$ 29,830
TOTAL NET ASSETS-BEGINNING	$ 473,309
TOTAL NET ASSETS-ENDING	$ 503,139

See Notes to Financial Statements

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2009

(in thousands)

Cash flows from operating activities:	
Interest on mortgage loans	$ 87,166
Principal payments on mortgage loans	136,543
Purchase of mortgage loans	(102,032)
Federal awards received	148,516
Federal program expense	(148,284)
Nonfederal program expense	(1,847)
Federal grant administration income	6,896
Program income/fees	7,313
Other expenses	(21,258)
Other revenues	474
Net cash provided by operating activities	**$ 113,487**
Cash flows from non-capital financing activities:	
Principal repayments on bonds	$ (51,450)
Interest paid	(43,070)
State appropriations received	19,447
State grant received	3,500
State tax credits	31,104
State program expense	(45,553)
Net cash used in non-capital financing activities	**$ (86,022)**
Cash flows from investing activities:	
Proceeds from sales or maturities of investments	$ 145,474
Purchase of investments	(97,128)
Earnings on investments	17,556
Net cash provided by investing activities	**$ 65,902**
Net increase in cash	93,367
Cash and cash equivalents at beginning of year	247,564
Cash and cash equivalents at end of year	**$ 340,931**
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 17,044
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Interest on investments	(16,704)
Decrease in fair value of investments	529
Interest on bonds	77,486
Change in assets and liabilities:	
Decrease in mortgage loans	34,529
Increase in interest receivable on mortgage loans	(1,157)
Increase in other assets	(120)
Increase in accounts payable and other liabilities	1,315
Increase in deferred revenues	565
Total adjustments	**$ 96,443**
Net cash provided by operating activities	**$ 113,487**

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

A. AUTHORIZING LEGISLATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation The Agency applies all statements issued by the Governmental Accounting Standards Board (GASB) and also applies all Financial Accounting Standards Board Statements issued on or before November 30, 1989, except those that conflict with the GASB.

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 are as follows:

<u>Agency Programs</u> Direct administrative and operational activities, including operating expenses of various programs, are recorded in Agency Programs. Since the inception of the State Tax Credit (STC) program, the General Assembly of the State of North Carolina awarded $192,971,000 in STCs, of which the Agency received $31,104,000 during fiscal year 2009. Under this program, the STC project will receive the credit in the form of a loan or direct refund.

<u>Housing Trust Fund Programs</u> 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. The General Assembly of the State of North Carolina has appropriated funds of which substantially all are to be used to make loans and grants under the Housing Trust Fund Programs. The Agency received State appropriations in the amount of $14,839,000 for the year ended June 30, 2009. This appropriation is reported in Nonoperating Revenues (Expenses) in the financial statements. 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.

<u>Federal and State Programs</u> The Agency administers five federal programs. The Section 8 Programs and the HOME Investment Partnerships Program represent 82% and 16%, respectively, of federal program expenditures. The Agency receives a fee for administering these programs. The HOME Investment Partnership Program (HOME Program) is matched with funds appropriated by the General Assembly of the State; the amount of matching funds received during the year was $1,608,000. The General Assembly of the State created the Home Protection Program (HPP) in 2004 to assist North Carolinians who have lost their jobs due to changing economic conditions. The purpose of this program is to help citizens keep their homes while they search for new jobs and/or learn new job skills. The Agency received an appropriation of $3,000,000 in fiscal year 2009 to provide loans.

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 first-time homebuyer mortgage loans on single-family residential units.

Rental Bond Programs The Rental Bond Programs were created through various multifamily bond resolutions and are restricted as to their use. The proceeds of individual bond issues are used to provide mortgage loans to developers of rental housing projects.

Significant Accounting Policies Below is a discussion 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 are collateralized under provisions of North Carolina laws and regulations, amounts in pooled cash accounts managed by the State Treasurer and North Carolina Capital Management Trust, 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 balance sheet are restricted for the Agency's debt service payments and bond calls and for purchasing mortgage loans under the Agency's different programs. Noncurrent cash and cash equivalents are funds held in Resolution Program accounts to purchase mortgage loans.

Investments Investments are reported at fair value in accordance with GASB Statement 31 *Accounting and Financial Reporting for Certain Investments and External Investment Pools* (GASB 31), except for certain mortgage-backed securities. The Agency intends to hold all securities to maturity.

Mortgage loans receivable, net Mortgage loans receivable are carried at cost less unamortized discount and loan loss reserve, plus unamortized direct loan origination costs. The discount on loans and all direct loan origination costs are amortized over the terms of the mortgages using the effective interest rate method. It is the Agency's policy to provide for potential mortgage loan losses based on a periodic evaluation of the loan portfolios.

State tax credits receivable In 2002, the General Assembly converted the State Housing Credit into a refundable credit providing funds that can be efficiently invested directly in Housing Credit properties through the Agency. The Agency has recorded a $53,544,000 receivable for STCs for the fiscal year ended June 30, 2009. This represents the remaining 2007 and 2008 outstanding awards. During the year, the Agency received STCs in the amount of $31,104,000 from the General Assembly for the 2006 outstanding awards (second installment) and the 2007 awards (first installment). These funds are committed to provide loans to housing credit properties through the Agency. Funds received and disbursed are reflected in Nonoperating Revenues (Expenses).

Other assets, net Fixed assets, net of accumulated depreciation, in the amount of $3,176,000 are included in Other assets in the financial statements. Recorded in Other assets (current) is $2,804,000 in accounts receivables for Quadel Contract Administration, HOME Program administration fees earned, National Foreclosure Mitigation Counseling (NFMC) Round One program close-out, and HOME Program loans closed in fiscal year 2009 but reimbursed in fiscal year 2010. Accounts Receivable in the amount of $9,368,000 are reflected in the Home Ownership Bond Programs. This amount represents mortgage payments collected by servicers that will be remitted to the Agency.

Deferred bond financing costs Deferred bond financing costs represent deferred bond issuance costs and deferred losses on refundings. Deferred losses on refundings result from a difference between the reacquisition price and the net carrying amount of the old debt and are amortized on a straight-line basis over the shorter of the life of the old debt or the new debt.

Deferred bond issuance costs are amortized on a straight-line basis over the terms of the bonds and are written down to the extent any bond calls are done. The amortization of deferred losses on refunding and deferred bond issuance costs is included as a component of Interest on bonds. Deferred bond financing costs are included in Bonds payable, net for financial statement presentation.

Deferred revenues Deferred revenues are monitoring fees received for the Low-Income Housing Tax Credit and for loans issued under the State Disaster Program. These fees are amortized on a straight-line basis over the life of the tax credit or over the life of the loan.

Interprogram receivable/payable During the normal course of operations, the Agency has numerous transactions among programs in order to provide services. To the extent that certain transactions among programs have not been settled as of June 30, 2009, these balances are recorded as interprogram receivables or payables. These interprogram transactions are eliminated in the financial statements.

Net assets As of June 30, 2009, the Agency has $11,862,000 of unrestricted net assets. The Agency intends to utilize these net assets for potential home ownership mortgage loan losses, to meet rating agencies' requirements, to cover the operating budget, and to support other Agency housing commitments.

Net assets of the Home Ownership Bond Programs and Rental Bond Programs are restricted pursuant to the Agency's agreements with its bondholders as determined in each bond resolution. The Agency has restricted net assets in amounts sufficient to meet required debt service and operating expenses as defined by each bond resolution.

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

The Agency implemented GASB 31 on July 1, 1997, which requires the Agency to report investments at fair market value. The effect of the adoption on the Agency's financial statements for the past year ended June 30, 2009 is as follows:

(*in thousands*)	**June 30, 2009**	**June 30, 2008**
(Decrease) Increase in Operating Income	$ (529)	$ 1,260
Increase in Net Assets	$ 53	$ 582

Operating Revenues and Expenses One of the Agency's main functions is to borrow funds in the bond market and to use those funds to make home ownership and rental mortgage loans. The Agency has the authority to issue bonds to the investing public in order to create a flow of private capital. These funds are used to purchase mortgage loans for qualified housing sponsors and certain qualified individuals. A significant portion of operating income is derived from interest earned on mortgage loans less the interest expense of bonds outstanding. Additional operating income is earned from the administration of federal programs.

Non-operating Revenues and Expenses State appropriations received, State grants received, and STCs from the State of North Carolina are classified in Non-operating Revenues (Expenses). The related expenses are classified as State program expense. In fiscal year 2009, the Agency accrued $35,392,000 in State Housing Credits for the 2008 award year (see additional comments under STCs Receivable).

General and administrative expenses General and administrative expenses are classified by the related program. To the extent allowed by bond resolutions and Federal and State Programs, transfers are made from the funds of the bond issue or the Federal and State Programs to the Agency to reimburse certain general and administrative expenses. In the event the bond resolution or Federal and State Programs do not permit payment of general and administrative expenses, expenses are paid from Agency reserve funds. Certain indirect costs were allocated to Federal and State Programs based on an independently prepared cost allocation study. These costs are allocated on certain parameters such as square footage, number of approved positions, and number of transactions processed.

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

B. CASH, CASH EQUIVALENTS, INVESTMENTS, AND SECURITIES LENDING TRANSACTIONS

Cash and cash equivalents As of June 30, 2009, the Agency had deposits in pooled investment accounts of the State Treasurer with a carrying value of approximately $100,290,000 and a bank balance of approximately $101,533,000. Included in the investment accounts of the State Treasurer is the amount of $3,869,000 representing 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 balance sheet.

The Agency also had deposits with both a carrying value of $240,586,000 and bank balance approximating $240,868,000 on deposit with the Agency's fiduciary agent. Such deposits are collateralized with eligible securities held by a third-party custodian.

Custodial credit risk At year end, the Agency was not exposed to any material custodial credit risk.

Investments Repurchase agreements are collateralized by obligations of the United States Government, its agencies, or direct investments of such obligations. The market value of securities subject to such agreements must be maintained at least equal to 100 percent of the principal and accrued interest on the invested funds daily. The Agency invests in repurchase agreements for mostly long-term (generally reserved) investments. On June 30, 2009, approximately $101,753,000 was invested in such long-term agreements having maturity dates ranging from November 1, 2010 to July 1, 2038 primarily at rates ranging from 4.00% to 7.15%.

At June 30, 2009, the Agency held the following investments with the listed maturities at annual rates ranging from 4.0% to 7.15%. Ratings are displayed with the Standard & Poor's rating listed first and the Moody's Investors Service second.

Investment Maturities (in years)

(in thousands)

Investments	Carry Amount	Less Than 1	1 - 5	6 – 10	More Than 10
GNMA MBS's Rated AAA/Aaa	$ 2,403	$ -	$ -	$ -	$ 2,403
FNMA MBS's Rated AAA/Aaa	482	-	-	-	482
Repurchase Agreements- Rated A/A3or higher	101,753	-	405	12,463	88,885
US Agency Obligations- Rated AAA/Aaa	9,054	-	-	-	9,054
Total Categorized	$113,692	$ -	$ 405	$ 12,463	$100,824

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

Credit risk The General Statutes of the State authorize the Agency to invest in (i) direct obligations or obligations on which the principal and interest are unconditionally guaranteed by the United States Government; (ii) obligations issued by an approved Agency or corporation wholly-owned by the United States Government; (iii) interest-bearing time deposits, certificates of deposit, or other approved forms of deposits in any bank or trust company in North Carolina which satisfies insurance and, if necessary, collateral requirements for holding Agency money; (iv) duly established investment programs of the State Treasurer; (v) repurchase agreements; and (vi) repurchase agreements with banks and financial institutions which are chartered outside of North Carolina and meet specified rating and collateral requirements of the various bond resolutions. Mortgage-Backed Securities (MBS) are securitized by the Federal National Mortgage Association (FNMA), (Fair Value - $482,000, rated AAA/Aaa), and by the Government National Mortgage Association (GNMA), (Fair Value - $2,403,000, rated AAA/Aaa). The Government National Mortgage Association is a direct obligation of the US Government. Repurchase agreements are fully collateralized by obligations issued by the United States Government or its agencies. The US Agency Obligations are Federal National Mortgage Association (Fair Value - $9,054,000, rated AAA/Aaa) investments. The Agency does not have a formal investment policy that would further limit its investment choices.

Concentration of credit risk The Agency has a practice of entering into repurchase agreements with several investment providers to minimize the Agency's exposure to a bond rating downgrade should one of the providers have a ratings event. The investments consist of repurchase agreements and obligations of the United States Government which represent 89.50% and 7.96%, respectively, of the Agency's total investments. Investments in any one issuer that represent 5% or more of total investments as of June 30, 2009 are as follows:

Investment Issuer	**Amount**
Federal National Mortgage Association, US agency obligation	$ 9,054,000
Westdeutsche Landesbank, repurchase agreement	20,750,000
Bayerische Landesbank, repurchase agreement	19,719,000
Societe Generale, repurchase agreement	13,895,000
Trinity Plus, repurchase agreement	10,705,000
JPMorgan Chase Bank, N.A., repurchase agreement	9,917,000
FSA Capital Management, repurchase agreement	8,459,000
HSBC, repurchase agreement	7,328,000

Custodial credit risk At year end, the Agency was not exposed to custodial credit risk. The United States Government securities are on deposit with the Agency's fiduciary agent, which holds these securities by book entry in its fiduciary Federal Reserve accounts. The Agency's ownership of these securities is identified through the internal records of the fiduciary agent. Certain of these securities are optionally callable at par by the issuer on specified dates.

In accordance with the 1985 Single-family Revenue Bonds Series U and V, bond proceeds were used to purchase fully-modified mortgage-backed pass-through certificates of the GNMA and mortgage-backed pass-through certificates of FNMA from pools of qualified mortgages originated under the Agency's program guidelines. The securities are based on cash flows from underlying mortgages and are not considered derivatives.

Securities Lending Transactions GASB Statement No. 28 "Accounting and Financial Reporting for Securities Lending Transactions" (GASB 28) established 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 does. The State Treasurer is authorized to engage in these types of transactions under North Carolina General Statute 147-69.3c. The types of securities loaned include United States 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 lent. 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 and incurred no losses during the year ended June 30, 2009 related to these transactions.

As of June 30, 2009, and during the year then ended, 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, these financial statements do not reflect the risk associated with securities lending transactions as called for in GASB 28.

C. MORTGAGE LOANS RECEIVABLE

Mortgage loans purchased with the proceeds of the various single-family and multifamily bond issues have stated interest rates ranging from 4.50% to 13.00%. Unamortized discounts as of June 30, 2009 total $918,000.

The existing and future mortgage loans which the Agency may purchase under the bond programs must comply with guidelines established by the Agency, including the requirement that all such mortgage loans be insured by the Federal Housing Administration, guaranteed by the Veterans Administration, guaranteed by the United States Department of Agriculture, Rural Department, insured under a private mortgage insurance program, or have a loan-to-value ratio equal to or less than 80%. As of June 30, 2009, all outstanding mortgage loans purchased with mortgage revenue bond proceeds satisfy these requirements. The Agency has allowance for loan losses in the single-family mortgage loan program of $418,000 as of June 30, 2009.

Mortgage loans made with funds from the Agency Programs, Housing Trust Fund Programs, and Federal and State Programs have allowances for loan losses of $244,000, $632,000 and $91,000, respectively, as of June 30, 2009.

For the Home Ownership and Rental Bond Programs, the Agency has collateralized $1,448,715,000 in mortgage loans receivable, $160,141,000 in reserves, and $2,235,000 in program funds to repay $1,517,785,000 bonds payable at June 30, 2009. Proceeds from the bonds issued were utilized to finance housing throughout the State of North Carolina. The bonds are payable through 2039 and are paid down from cash collections on mortgage loans receivable, interest receivable on mortgage loans, unexpended bond proceeds, and sale of investments. The total principal and interest payable outstanding on bonds as of June 30, 2009 is $1,554,857,000. Principal and interest paid on bonds for fiscal year 2009 and total interest and principal payments on mortgage loans receivable were $94,520,000 and $217,012,000, respectively.

D. BONDS PAYABLE

Bonds payable activity for the year ended June 30, 2009 was as follows (*in thousands*):

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds Payable				
Home Ownership	$1,536,210	$ -	$ (50,780)	$1,485,430
Rental	33,025	-	(670)	32,355
	$1,569,235	$ -	$ (51,450)	$1,517,785
Less Deferred Bond Financing Costs				
Home Ownership	$ (17,519)	$ -	$ 1,122	$ (16,397)
Rental	(1,718)	-	105	(1,613)
	$ (19,237)	$ -	$ 1,227	$ (18,010)
Total Bonds Payable, Net	**$1,549,998**	**$ -**	**$ (50,223)**	**$1,499,775**

Bonds payable as of June 30, 2009 are as follows (*in thousands*):

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Single-family Revenue Bonds			
(1985 Resolution)			
Series AA/BB	6.00 - 6.50	2026	$ 5,815
Series CC/DD	5.45 - 6.20	2027	4,140
Series EE/FF	5.60 - 6.25	2028	4,245
Series GG/HH	5.60 - 6.30	2028	5,575
Series II/JJ	6.15 - 6.45	2028	9,825
Series KK/LL	5.40 - 6.20	2028	5,140
Series MM/NN	5.15 - 5.95	2028	3,585
Series OO/PP	5.80 - 6.25	2028	8,445
Series QQ/RR	5.00 - 5.85	2028	12,690
Series SS/TT	4.90 - 5.70	2028	6,035
Series UU/VV	4.60 - 5.35	2029	10,215
Series WW	6.25	2018	26,800
			102,510

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Home Ownership Revenue Bonds			
(1998 Trust Agreement)			
Series 1	4.90 - 5.38	2030	$ 19,450
Series 2	4.50 - 5.25	2030	10,685
Series 3	4.35 - 5.20	2030	22,765
Series 4	4.45 - 5.30	2030	18,170
Series 5	4.90 - 5.63	2030	17,405
Series 6	5.25 - 6.20	2030	10,265
Series 7	5.35 - 6.25	2031	19,700
Series 8	5.55 - 6.40	2031	6,310
Series 9	4.80 - 5.88	2032	32,360
Series 10	4.15 - 5.40	2033	18,530
Series 11	4.13 - 5.38	2033	32,115
Series 12	4.30 - 5.45	2033	36,995
Series 13	3.95 - 5.35	2034	39,080
Series 14	3.95 - 5.53	2034	44,805
Series 15	Variable-4.95	2032	33,165
Series 16	Variable-5.40	2032	33,685
Series 17	Variable-5.00	2034	38,170
Series 18	Variable-5.00	2035	35,290
Series 19	3.00 - 5.25	2035	51,415
Series 20	3.10 - 4.75	2035	53,175
Series 21	3.10 - 5.00	2035	54,830
Series 22A	3.65 - 5.50	2037	58,335
Series 22CE	3.85 - 5.25	2039	79,700
Series 23	3.55 - 5.00	2037	58,450
Series 24	3.65 - 5.50	2038	78,740
Series 25	3.90 - 5.75	2037	61,270
Series 26	3.50 - 5.50	2038	62,675
Series 27	3.25 - 5.55	2038	65,000
Series 28	3.55 - 5.50	2039	63,790
Series 29	3.80 - 5.50	2038	98,120
Series 30	3.50 - 5.50	2039	64,460
Series 31	3.25 - 5.50	2038	64,015
			1,382,920
			1,485,430
Less deferred bond financing costs			(16,397)
Total Home Ownership Bond Programs			**$1,469,033**

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Multifamily Revenue Bonds			
(1984 Resolution)			
Series F/G	6.60 - 8.25	2027	$ 2,705
Series H/I	5.95 - 7.85	2028	9,775
Series J	5.05 - 5.55	2029	1,095
			13,575
Multifamily Revenue Refunding Bonds			
(1992 Resolution)			
Series C	2.70 - 4.80	2024	12,020
Multifamily Revenue Bonds			
(1994 Resolution) Series 1994	5.35 - 5.45	2024	2,195
Multifamily Revenue Bonds			
(1995 Resolution) Series A	5.80 - 5.90	2020	4,565
			32,355
Less deferred bond financing costs			(1,613)
Total Rental Bond Programs			**$ 30,742**

To the extent provided in the authorizing resolutions, the bonds of each Home Ownership Bond Program and Rental Bond Program are collateralized by the investments and mortgage loans receivable of that program and revenues derived therefrom and do not constitute a general obligation of the Agency. The bond resolutions further provide for the processing of money through specifically designated funds and accounts, periodic reporting, and the performance of other covenants, conditions, agreements, and provisions contained therein.

Maturities Debt service requirements, including sinking fund requirements on term bonds, subsequent to June 30, 2009, are as follows (*in thousands*):

Fiscal Year Ending June 30, 2009	Home Ownership Programs	Rental Programs	Total
2010	$ 106,966	$ 3,068	$ 110,034
2011	107,919	3,066	110,985
2012	108,061	3,089	111,150
2013	109,337	3,121	112,458
2014	108,729	3,121	111,850
2015-2019	511,153	15,930	527,083
2020-2024	438,447	13,439	451,886
2025-2029	494,332	5,201	499,533
2030-2034	444,294	-	444,294
2035-2039	235,767	-	235,767
2040	1,837	-	1,837
Total Requirements	$ 2,666,842	$ 50,035	$ 2,716,877
Less Interest	(1,181,412)	(17,680)	(1,199,092)
Principal	**$ 1,485,430**	**$ 32,355**	**$ 1,517,785**
Less Deferred Bond Financing Cost	(16,397)	(1,613)	(18,010)
Bonds Payable Net	**$ 1,469,033**	**$ 30,742**	**$ 1,499,775**

Bond Redemptions The bond series resolutions 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, or from funds released via the related decreases in the respective debt service reserve requirements. Losses on these bond redemptions represent the reduction of the proportionate amount of unamortized deferred bond issuance costs for the bonds redeemed. Such losses are included in Interest on bonds for financial statement purposes. Various bond issues are redeemable at the option of the Agency with premiums ranging up to .5% for up to twelve years after the date of issue.

For the year ended June 30, 2009 bond redemptions by resolution were as follows (*in thousands*):

Issue	Amount Redeemed	Loss Recorded
Single-family Revenue Bonds (1985 Resolution)	$ 2,875	$ (36)
Home Ownership Revenue Bonds (1998 Trust Agreement)	29,830	(311)
Total Home Ownership Bond Programs	**$ 32,705**	**$ (347)**
Multifamily Revenue Bonds (1984 Resolution)	$ -	$ -
Multifamily Revenue Bonds (1992 Resolution)	-	-
Multifamily Revenue Bonds (1994 Resolution)	-	-
Multifamily Revenue Bonds (1995 Resolution)	-	-
Total Multifamily Ownership Bond Programs	**$ -**	**$ -**

Special Facilities (Conduits) The Agency issued the Housing Facilities Revenue Bonds, Multifamily Housing Revenue Bonds and Student Housing Variable and Taxable Rate 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 June 30, 2009 for Special Facilities is as follows:

Issue	Bond Type	Bonds Outstanding
2000 Resolution* (Series A/B)	Student Housing Variable and Taxable Rate Revenue Bonds	$18,480,000
2002 Resolution* (Series A, B, C, D)	Multifamily Housing Revenue Bonds	8,970,000
2002A Resolution*	Housing Facilities Revenue Bonds	4,800,000
2008 Resolution	Multifamily Housing Revenue Bonds	9,385,000
Total		**$41,635,000**

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

E. INTEREST RATE SWAP

Objective of the interest rate swap The Agency has entered into interest rate swaps in connection with its $73,905,000 variable-rate revenue bonds associated with several series in its 1998 Home Ownership Revenue Bond Resolution as a means to lower its borrowing costs when compared against fixed-rate bonds at the time of issuance. The intention of the swap was to effectively lower the Agency's interest rate on the long-term bonds to a fixed rate.

Terms

Series	Counterparty	Rating***	Notional $ Amount	Date of Swap	Maturity Date of Swap	Fixed Rate Paid	FMV
15	UBS AG	Aa2 / A+	$16,780,000	May 8, 2003	July 1, 2032	3.508%	$(1,068,601)
16	Bank of America NA	Aa3 / A+	$17,125,000	Sept. 16, 2003	July 1, 2032	3.810%	$(1,619,608)
17	Bank of America NA	Aa3 / A+	$20,000,000	Dec. 11, 2003	July 1, 2032	3.725%	$(2,086,533)
18	Goldman Sachs Mitsui Marine	Aa1 / AAA	$20,000,000	April 20, 2004	Jan. 1, 2035	3.288%	$ (998,561)

*** Ratings are Moody's Investor Service, Inc./Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc.

Under all of the swaps, the Agency pays the counterparties a fixed rate and receives a variable payment computed as 63% of the London Interbank Offered Rate (LIBOR), plus 30 basis points. The bonds' variable-rate coupons are based on the variable Bond Market Association Municipal Swap Index (BMA), which was 0.32% as of June 30, 2009.

Fair value In total, the swaps have a negative fair value of ($5,773,303) as of June 30, 2009. 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.

Basis risk and termination risk The swaps expose the Agency to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. For all swaps, collateral thresholds have been established if the counterparty's ratings reach "A2" for Moody's or "A" for Standard & Poor's (S&P). Series 16, 17 and 18 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. Series 15 swap may be terminated if the counterparty's or the Agency's rating falls below "Baa3" as issued by Moody's and "BBB-" as issued by S&P.

Credit risk All of the Agency's swaps rely upon the performance of the third parties who serve as swap counterparties, and as a result the Agency is exposed to credit risk – i.e., the risk that a swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps, as shown in the column labeled "FMV" in the above table. The Agency is exposed to credit risk in the amount of any positive net fair value exposure to each counterparty. As of June 30, 2009, the Agency was exposed to a total of ($5,773,303) of credit risk to 3 counterparties. To mitigate the credit risk to each party to the swap agreement of a decline in credit quality of the other party, each swap agreement provides that collateral must be posted if either party's rating falls below A1 for Moody's and A+ for S&P. The collateral must be posted with a third-party in the form of cash or United States Government Securities. Additionally, each of the swap agreements has termination provisions if ratings fall below certain levels. These termination provisions are detailed in the paragraph above, "Basis risk and termination risk".

Swap payments and associated debt As rates vary, variable-rate bond interest payments and net swap payments will differ between the fixed payments paid to the counterparty and the variable rate paid to the Agency. Using rates as of June 30, 2009, debt service requirements of the variable-rate debt and net swap payments are as follows. The amounts below are in thousands:

Fiscal Year	Variable-Rate Bond		Interest Rate	Total
Ending June 30	Principal	Interest	Swap, Net	Interest
2010	$ 1,535	$ 237	$ 2,277	$ 2,514
2011	1,470	231	2,228	2,459
2012	1,420	227	2,181	2,408
2013	1,355	223	2,137	2,360
2014	1,300	217	2,094	2,311
2015-2035	66,825	2,819	26,830	29,649
Total	**$73,905**	**$3,954**	**$37,747**	**$41,701**

F. OPERATING LEASE

The Agency leases office space with future minimum lease payments of $512,000 for fiscal year 2010, and $84,000 for two months in fiscal year 2011. Total rent expense for all operating leases amounted to $511,436 for the year ended June 30, 2009.

G. FEDERAL AWARDS

As a designated Public Housing Authority for the Department of Housing and Urban Development's (HUD) Section 8 Programs, the Agency requisitions Section 8 Program funds and makes disbursements to eligible landlords. For the year ended June 30, 2009, $128,236,000, which was received by the Agency and disbursed to landlords or families, is included in Federal program expense in the Federal and State Programs.

The Agency is designated as the participating entity under grant agreements with HUD for the HOME Program. The HOME Program provides funding for the purpose of developing affordable housing for persons of low and very low income. For the year ended June 30, 2009, $23,594,000, which was received and disbursed by the Agency, is included in Federal program expense and Mortgage loans receivable, net in the Federal and State Programs, depending upon the terms of the transaction.

The Agency was selected as a participating entity under a grant agreement with the United States Department of Treasury passed through NeighborWorks ® for the National Foreclosure Mitigation Counseling Program (NFMC). The NFMC Program provides funding for the purpose of counseling homeowners who are in danger of foreclosure. For the year ended June 30, 2009, $1,162,000 was received and $1,976,000 was disbursed by the Agency, and is included in the Federal program awards received and Federal program expense in the Federal and State Programs.

The Agency earned fees of $9,372,000 for administering these and other federal programs for the year ended June 30, 2009 and are reported in Program income/fees. Of these fees, $4,199,000 was paid to Quadel Consulting Corporation for the Section 8 Program Contract Administration, which is reported in General and administrative expense.

H. PENSION PLAN

Plan Description All permanent full-time employees of the Agency participate in the Teachers' and State Employees' Retirement System of North Carolina (the System), a cost-sharing multiple-employer defined benefit pension plan administered by the State. The System provides retirement benefits to plan members and beneficiaries. State statute assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Teachers' and State Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the System. The report may be obtained by writing to the Office of the State Controller, 3512 Bush Street, Raleigh, North Carolina 27609, or by calling (919) 981-5454.

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 current rate is 3.36% of the annual covered payroll. The contribution requirements of plan members and the Agency are established and may be amended by the North Carolina 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, 2009, 2008, and 2007.

	2009	2008	2007
Retirement Benefit	$238,166	$203,000	$157,000
Percentage of Covered Payroll	3.36%	3.05%	2.66%

I. POST-EMPLOYMENT / DISABILITY BENEFITS

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

Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (Disability Income Plan), a State-administered plan. Long-term disability benefits are payable from the Disability Income Plan after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five years of contributing membership service in the System earned within 96 months prior to the end of the short-term disability period; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period, after salary continuation payments cease, or after monthly payments for workers' compensation cease, whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of employees' usual occupation; (4) the disability must have been continuous, likely to be permanent and incurred at the time of active employment; and (5) the employee must not be eligible to receive unreduced retirement benefits from the System. 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 the System, the benefits payable from the Disability Income Plan cease, and the employee will commence retirement under the System.

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

The following table represents the three year trend of the annual contributions made by the Agency to the State post employment benefit plans. The Agency made 100% of its required contributions for the year ended June 30, 2009, 2008, and 2007.

	2009	2008	2007
Health Care Benefit	$290,619	$274,000	$225,000
Disability Benefit	36,859	35,000	31,000
Death Benefit	11,341	11,000	9,000
Percentage of Covered Payroll			
Health Care Benefit	4.10%	4.10%	3.80%
Disability Benefit	0.52%	0.52%	0.52%
Death Benefit	0.16%	0.16%	0.16%

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

J. RISK MANAGEMENT

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

- Automobile, Fire and Other Property Losses
- Public Officer's and Employees' Liability
- Employee Dishonesty and Computer Fraud
- Workers' Compensation
- Contributory Death Benefit for Retirees
- Employee Health Benefits

K. SEGMENT INFORMATION

The Agency's Home Ownership Bond Programs and Rental Bond Programs are initially funded with bond proceeds. These proceeds are used to purchase mortgage loans which provide the income along with investment earnings to repay the debt. Condensed financial statements at June 30, 2009 for these two segments are as follows (*in thousands*):

BALANCE SHEET

	Home Ownership	Rental
ASSETS		
Current assets		
Restricted cash and cash equivalents	$193,925	$31,026
Accrued interest receivable on investments	1,023	259
Mortgage loans receivable	107,814	1,282
Accrued interest receivable on mortgage loans	9,674	186
Other assets	9,368	-
Interprogram receivable (payable)	9	-
TOTAL CURRENT ASSETS	$321,813	$32,753
Noncurrent assets		
Restricted cash and cash equivalents	$1,830	$ -
Restricted investments	95,923	17,769
Mortgage loans receivable, net	1,307,335	32,363
TOTAL NONCURRENT ASSETS	$1,405,088	$50,132
TOTAL ASSETS	**$1,726,901**	**$82,885**
LIABILITIES		
Current liabilities		
Bonds payable	$70,955	$1,675
Accrued interest payable	48,295	870
Accounts payable	195	-
Other liabilities	100	-
TOTAL CURRENT LIABILITIES	$119,545	$2,545
Noncurrent liabilities		
Bonds payable, net	$1,398,078	$29,067
Other liabilities	1,397	-
TOTAL NONCURRENT LIABILITIES	$1,399,475	$29,067
TOTAL LIABILITIES	**$1,519,020**	**$31,612**
TOTAL NET ASSETS, RESTRICTED	**207,881**	**51,273**
TOTAL LIABILITIES AND NET ASSETS	**$1,726,901**	**$82,885**

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Home Ownership	Rental
OPERATING REVENUES		
Interest on investments	$10,953	$2,048
Net increase (decrease) in fair value of investments	15	(459)
Interest on mortgage loans	84,515	2,298
Other revenues	1	616
TOTAL OPERATING REVENUE	**$95,484**	**$4,503**

	Home Ownership	Rental
OPERATING EXPENSES		
Interest on bonds	$75,586	$1,900
Mortgage servicing expense	4,898	36
Federal program expense	-	10
General and administrative	569	15
Other expenses	534	-
TOTAL OPERATING EXPENSES	**$81,587**	**$1,961**
OPERATING INCOME	**$13,897**	**$2,542**
NON-OPERATING REVENUES (EXPENSES)		
Transfers out to other Agency Programs	$(1,384)	$(1,174)
TOTAL NON-OPERATING REVENUES (EXPENSES)	**$(1,384)**	**$(1,174)**
CHANGE IN NET ASSETS	$12,513	$1,368
TOTAL NET ASSETS - BEGINNING	195,368	49,905
TOTAL NET ASSETS - ENDING	**$207,881**	**$51,273**

STATEMENT OF CASH FLOWS

	Home Ownership	Rental
Net cash provided by operating activities	$111,274	$4,534
Net cash used in non-capital financing activities	(94,267)	(2,811)
Net cash provided by investing activities	43,241	10,432
Net increase in cash	$60,248	$12,155
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	135,507	18,871
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$195,755**	**$31,026**

L. SUBSEQUENT EVENTS

The 2008 Resolution Multifamily Housing Revenue Bonds of $9,385,000 were redeemed at par on July 20, 2009.

North Carolina Housing Finance Agency

Additional Information

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Report of Independent Auditors

The Board of Directors
North Carolina Housing Finance Agency

We have audited the accompanying 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, as listed in the table of contents. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information listed in the foregoing table of contents is presented for purposes of additional analysis 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 whole.

Ernst & Young LLP

September 16, 2009

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING BALANCE SHEET

YEAR ENDED JUNE 30, 2009

(in thousands)	AGENCY PROGRAMS	GRANT PROGRAMS Housing Trust Fund	GRANT PROGRAMS Federal and State Programs	HOME OWNERSHIP BOND PROGRAMS 1985	HOME OWNERSHIP BOND PROGRAMS 1998
ASSETS					
Current assets:					
Cash and cash equivalents	$ 7,054	-	-	-	-
Restricted cash and cash equivalents	39,132	44,452	23,512	23,238	170,687
Accrued interest receivable on investments	20	65	-	822	201
Mortgage loans receivable	521	1,050	4,232	12,902	94,912
Accrued interest receivable on mortgage loans	95	11	14	1,010	8,664
State tax credits receivable	53,544	-	-	-	-
Other assets	42	-	2,804	1,053	8,315
Interprogram receivable/(payable)	1,361	(17)	(1,353)	4	5
TOTAL CURRENT ASSETS	$ 101,769	45,561	29,209	39,029	282,784
Noncurrent assets:					
Restricted cash and cash equivalents	$ -	-	-	-	1,830
Restricted investments	-	-	-	41,870	54,053
Mortgage loans receivable, net	5,026	15,807	60,157	105,235	1,202,100
Other assets, net	3,182	-	-	-	-
TOTAL NONCURRENT ASSETS	$ 8,208	15,807	60,157	147,105	1,257,983
TOTAL ASSETS	$ 109,977	61,368	89,366	186,134	1,540,767
LIABILITIES					
Current liabilities:					
Bonds payable	$ -	-	-	8,860	62,095
Accrued interest payable	-	-	-	2,056	46,239
Accounts payable	258	-	2,424	-	195
Deferred revenues	1,035	-	-	-	-
Other liabilities	50	3	13	-	100
TOTAL CURRENT LIABILITIES	$ 1,343	3	2,437	10,916	108,629
Noncurrent liabilities:					
Bonds payable, net	$ -	-	-	91,812	1,306,266
Deferred revenues	8,204	-	-	-	-
Other liabilities	4,739	-	-	63	1,334
TOTAL NONCURRENT LIABILITIES	$ 12,943	-	-	91,875	1,307,600
TOTAL LIABILITIES	$ 14,286	3	2,437	102,791	1,416,229
NET ASSETS					
Restricted	$ 83,829	61,365	86,929	83,343	124,538
Unrestricted	11,862	-	-	-	-
TOTAL NET ASSETS	$ 95,691	61,365	86,929	83,343	124,538
TOTAL LIABILITIES AND NET ASSETS	$ 109,977	61,368	89,366	186,134	1,540,767

RENTAL BOND PROGRAMS				
1984	1992	1994	1995	TOTAL
-	-	-	-	$ 7,054
12,954	17,713	1	358	332,047
195	25	39	-	1,367
346	506	104	326	114,899
86	54	16	30	9,980
-	-	-	-	53,544
-	-	-	-	12,214
-	-	-	-	-
13,581	18,298	160	714	$ 531,105
-	-	-	-	$ 1,830
9,398	2,436	3,237	2,698	113,692
13,348	11,029	2,919	5,067	1,420,688
-	-	-	-	3,182
22,746	13,465	6,156	7,765	$ 1,539,392
36,327	31,763	6,316	8,479	$ 2,070,497
760	490	105	320	$ 72,630
437	259	40	134	49,165
-	-	-	-	2,877
-	-	-	-	1,035
-	-	-	-	166
1,197	749	145	454	$ 125,873
12,024	11,024	2,018	4,001	$ 1,427,145
-	-	-	-	8,204
-	-	-	-	6,136
12,024	11,024	2,018	4,001	$ 1,441,485
13,221	11,773	2,163	4,455	$ 1,567,358
23,106	19,990	4,153	4,024	$ 491,277
-	-	-	-	11,862
23,106	19,990	4,153	4,024	$ 503,139
36,327	31,763	6,316	8,479	$ 2,070,497

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2009

(in thousands)	AGENCY PROGRAMS	GRANT PROGRAMS: Housing Trust Fund	GRANT PROGRAMS: Federal and State Programs	HOME OWNERSHIP PROGRAMS: 1985	HOME OWNERSHIP PROGRAMS: 1998
OPERATING REVENUES					
Interest on investments	$ 1,754	1,651	298	3,449	7,504
Net increase (decrease) in fair value of investments	(85)	-	-	23	(8)
Interest on mortgage loans	125	306	784	8,554	75,961
Federal program awards received	-	-	148,581	-	-
Program income/fees	3,863	661	9,068	-	-
Other revenues	104	-	660	-	1
TOTAL OPERATING REVENUES	$ 5,761	2,618	159,391	12,026	83,458
OPERATING EXPENSES					
Interest on bonds	$ -	-	-	6,616	68,970
Mortgage servicing expense	1	-	-	454	4,444
Federal program expense	893	-	148,257	-	-
Nonfederal program expense	1,847	-	-	-	-
General and administrative	11,540	-	4,200	30	539
Other expenses	118	308	1	12	522
TOTAL OPERATING EXPENSES	$ 14,399	308	152,458	7,112	74,475
OPERATING INCOME (LOSS)	$ (8,638)	2,310	6,933	4,914	8,983
NON-OPERATING REVENUES (EXPENSES)					
Transfers in (out)	$ 7,849	(114)	(5,177)	(10,326)	8,942
State appropriations received	-	14,839	4,608	-	-
State grant received	-	-	3,500	-	-
State tax credits	35,392	-	-	-	-
State program expense	(25,680)	(16,992)	(2,881)	-	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	$ 17,561	(2,267)	50	(10,326)	8,942
CHANGE IN NET ASSETS	$ 8,923	43	6,983	(5,412)	17,925
TOTAL NET ASSETS - BEGINNING	86,768	61,322	79,946	88,755	106,613
TOTAL NET ASSETS - ENDING	$ 95,691	61,365	86,929	83,343	124,538

RENTAL BOND PROGRAMS				
1984	1992	1994	1995	TOTAL
994	773	136	145	$ 16,704
(459)	-	-	-	(529)
1,062	659	196	381	88,028
-	-	-	-	148,581
-	-	-	-	13,592
616	-	-	-	1,381
2,213	1,432	332	526	$ 267,757
925	555	126	294	$ 77,486
15	12	3	6	4,935
-	6	-	4	149,160
-	-	-	-	1,847
6	2	2	5	16,324
-	-	-	-	961
946	575	131	309	$ 250,713
1,267	857	201	217	$ 17,044
-	(1,174)	-	-	$ -
-	-	-	-	19,447
-	-	-	-	3,500
-	-	-	-	35,392
-	-	-	-	(45,553)
-	(1,174)	-	-	$ 12,786
1,267	(317)	201	217	$ 29,830
21,839	20,307	3,952	3,807	473,309
23,106	19,990	4,153	4,024	$ 503,139

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2009

		AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP PROGRAMS	
(in thousands)			**Housing Trust Fund**	**Federal and State Programs**	**1985**	**1998**
Cash flows from operating activities:						
Interest on mortgage loans	$	121	303	787	8,524	75,123
Principal payments on mortgage loans		541	973	3,972	23,273	106,116
Purchase of mortgage loans		-	(1,086)	(5,556)	(12,173)	(83,217)
Federal awards received		-	-	148,516	-	-
Federal program expense		(893)	-	(147,381)	-	-
Nonfederal program expense		(1,847)	-	-	-	-
Federal grant administration income		-	-	6,896	-	-
Program income/fees		4,480	661	2,172	-	-
Other expenses		(10,888)	6	(4,087)	(471)	(5,764)
Other revenues		(11)	-	-	20	(157)
Net cash provided by (used in) operating activities	**$**	**(8,497)**	**857**	**5,319**	**19,173**	**92,101**
Cash flows from non-capital financing activities:						
Principal repayments on bonds	$	-	-	-	(8,245)	(42,535)
Interest paid		-	-	-	(6,541)	(35,562)
Net transfers		7,849	(114)	(5,177)	(10,326)	8,942
State appropriations received		-	14,839	4,608	-	-
State grant received		-	-	3,500	-	-
State tax credits		31,104	-	-	-	-
State program expense		(25,680)	(16,992)	(2,881)	-	-
Net cash provided by (used in) non-capital financing activities	**$**	**13,273**	**(2,267)**	**50**	**(25,112)**	**(69,155)**
Cash flows from investing activities:						
Proceeds from sales or maturities of investments	$	8,260	-	-	23,879	98,434
Purchase of investments		-	-	-	(17,490)	(73,078)
Earnings on investments		1,917	1,754	298	3,729	7,767
Net cash provided by (used in) investing activities	**$**	**10,177**	**1,754**	**298**	**10,118**	**33,123**
Net increase (decrease) in cash	$	14,953	344	5,667	4,179	56,069
Cash and cash equivalents at beginning of year		31,233	44,108	17,845	19,059	116,448
Cash and cash equivalents at end of year	**$**	**46,186**	**44,452**	**23,512**	**23,238**	**172,517**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	$	(8,638)	2,310	6,933	4,914	8,983
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:						
Interest on investments		(1,754)	(1,651)	(298)	(3,449)	(7,504)
Decrease (increase) in fair value of investments		85	-	-	(23)	8
Interest on bonds		-	-	-	6,616	68,970
Change in assets and liabilities:						
(Increase) decrease in mortgage loans		618	193	(2,244)	11,067	23,227
(Increase) decrease in interest receivable on mortgage loans		(4)	(3)	3	3	(1,166)
(Increase) decrease in other assets		77	-	(65)	20	(158)
Increase (decrease) in accounts payable and other liabilities		554	8	990	25	(259)
Increase (decrease) in deferred revenues		565	-	-	-	-
Total adjustments	**$**	**141**	**(1,453)**	**(1,614)**	**14,259**	**83,118**
Net cash provided by (used in) operating activities	**$**	**(8,497)**	**857**	**5,319**	**19,173**	**92,101**

RENTAL BOND PROGRAMS				
1984	**1992**	**1994**	**1995**	**Total**
1,066	661	197	384	$ 87,166
712	513	105	338	136,543
-	-	-	-	(102,032)
-	-	-	-	148,516
-	(6)	-	(4)	(148,284)
-	-	-	-	(1,847)
-	-	-	-	6,896
-	-	-	-	7,313
(21)	(14)	(5)	(14)	(21,258)
616	6	-	-	474
2,373	**1,160**	**297**	**704**	**$ 113,487**
(185)	(230)	(110)	(145)	$ (51,450)
(443)	(263)	(123)	(138)	(43,070)
-	(1,174)	-	-	-
-	-	-	-	19,447
-	-	-	-	3,500
-	-	-	-	31,104
-	-	-	-	(45,553)
(628)	**(1,667)**	**(233)**	**(283)**	**$ (86,022)**
8,656	4,291	784	1,170	$ 145,474
(2,281)	(1,852)	(985)	(1,442)	(97,128)
937	868	138	148	17,556
7,312	**3,307**	**(63)**	**(124)**	**$ 65,902**
9,057	2,800	1	297	$ 93,367
3,897	14,913	-	61	247,564
12,954	**17,713**	**1**	**358**	**$ 340,931**
1,267	857	201	217	$ 17,044
(994)	(773)	(136)	(145)	(16,704)
459	-	-	-	529
925	555	126	294	77,486
712	513	105	338	34,529
4	2	1	3	(1,157)
-	6	-	-	(120)
-	-	-	(3)	1,315
-	-	-	-	565
1,106	**303**	**96**	**487**	**$ 96,443**
2,373	**1,160**	**297**	**704**	**$ 113,487**