Audited Financial Statements

June 30, 2015

NORTH CAROLINA HOUSING FINANCE AGENCY
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015

TABLE OF CONTENTS

FINANCIAL STATEMENTS

SUPPLEMENTARY INFORMATION

MANAGEMENT DISCUSSION AND ANALYSIS (*Unaudited*)
June 30, 2015

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, 2015. The financial statements, accompanying notes, and supplementary information should be read in conjunction with the following discussion.

Overview

The North Carolina Housing Finance Agency was created in 1973 to provide financing for residential housing, both ownership and rental, to North Carolina households with low and moderate incomes. The Agency has issued bonds and sells mortgage-backed securities ("MBS") on the secondary market to finance housing throughout the state of North Carolina. In addition, the Agency administers the United States Department of the Treasury's ("Treasury") Hardest Hit Fund®, the Section 8 Program, the HOME Investment Partnerships Program, Low-Income Housing Tax Credits, the North Carolina Housing Trust Fund and other federal and state programs. These programs provide different types of assistance such as down payment assistance, low-interest mortgage loans, foreclosure prevention mortgage assistance, foreclosure prevention counseling, rent subsidies, and various types of rehabilitation of both single and multifamily properties.

Financial Highlights

The following information is an analysis of the Agency's performance for the year ended June 30, 2015, with reference to prior fiscal year's results and activities:

- *Total assets* decreased $142,967,000, or 8.8%
- *Deferred outflows of resources* increased $554,000, or 12.1%
- *Total liabilities* decreased $192,114,000, or 19.4%
- *Deferred inflows of resources* increased $5,080,000, or 100.0%
- *Total net position* increased $44,621,000, or 7.0%

Low mortgage rates in fiscal year 2015 encouraged borrowers to refinance, which reduced balances in *Mortgage loans receivable, net* and related accounts. Although the number of loans in foreclosure was lower at the end of fiscal year 2015 relative to the end of fiscal year 2014, the Agency experienced an increase in foreclosure expenses during the year, which is the primary reason for the increase in *Other expenses.* The impact of these items is reflected below:

- *Mortgage loans receivable, net* decreased $125,309,000, or 11.7%
- *Accrued interest receivable on mortgage loans* decreased $1,897,000, or 20.4%
- *Interest on mortgage loans* decreased $6,407,000, or 11.4%
- *Mortgage servicing expense* decreased $388,000, or 12.1%
- *Other expenses* increased $2,451,000, or 140.2%

The prepayments from mortgage loans were used to call bonds during fiscal year 2015, resulting in decreases associated with *Cash and cash equivalents, Bonds payable, net* and related accounts. In conjunction with the prepayment bond calls, the Agency took advantage of optional swap cancellations available under the swap contracts, causing a decrease in *Accumulated decrease in fair value of hedging derivative*. In addition to the impact from the bond calls, *Interest on bonds* decreased due to the implementation of Governmental Accounting Standards Board ("GASB") Statement No. 65*, Items Previously Reported as Assets and Liabilities*, in fiscal year 2014, which required the Agency to write-off $12.3 million of bond issuance costs. These transactions resulted in the following decreases:

- *Cash and cash equivalents* decreased $20,563,000, or 5.8%
- *Bonds payable, net* decreased $158,986,000, or 17.7%
- *Accrued interest payable* decreased $3,062,000, or 18.0%
- *Derivative instrument—interest rate swap* decreased $186,000, or 4.1%
- *Accumulated decrease in fair value of hedging derivative* decreased $186,000, or 4.1%
- *Interest on bonds* decreased $22,826,000, or 43.7%

The Agency experienced increased production with its N.C. Home Advantage Mortgage ("HomeAd") in fiscal year 2015. The Agency obtained a new master servicer for HomeAd loans locked on or after July 15, 2014 while retaining the existing master servicer for all HomeAd loans locked prior to July 15, 2014. The HomeAd operations associated with the existing master servicer are reflected in Agency Programs, and the HomeAd income related to these loans is reflected under *Other revenues.* The HomeAd operations associated with the new master servicer are reflected in the 1998 Home Ownership Bond Program, and the income for these loans is reflected under *Program income/fees.* The reason for the different accounting for the two operations is related to how the MBS are transferred to the Agency's hedger. Under Agency Programs, the master servicer sells the MBS to the Agency, and the Agency then sells the MBS to its hedger, resulting in a gain on the sale of the MBS. Under the 1998 Home Ownership Bond Program, the master servicer sells the MBS directly to the hedger, so the Agency records program income for its earnings. As HomeAd operations transitioned from Agency Programs to the 1998 Home Ownership Bond Program, *Other revenues* declined by approximately $3.3 million for Agency Programs while *Program income/fees* for the 1998 Home Ownership Bond Program increased by approximately $12 million.

In addition to the HomeAd program, other material items affected *Program income/fees* and *Other revenues. Program income/fees* decreased by approximately $37.3 million related to a decrease in the receipt of Tax Credit Assistance Program ("TCAP") loan repayments. *Other revenues* increased by approximately $2.9 million due to a decrease in the Agency's mortgage loan loss reserve which resulted from a decline in the foreclosure rate in fiscal year 2015.

The impact of these transactions resulted in decreases or increases to the following items:

- *Program income/fees* decreased by $24,667,000, or 31.8%, resulting primarily from a decrease of $37.3 million in the receipt of TCAP funds and an increase of $12 million associated with the HomeAd program.
- *Other revenues* decreased by $427,000, or 6.8%, resulting primarily from a decrease of $3.3 million related to the HomeAd Program in its transition from Agency Programs to the 1998 Home Ownership Bond Program, and an increase of $2.9 million associated with the decrease in the mortgage loan loss reserve.
- *Nonfederal program expense* increased by $7,887,000, or 117.4%, primarily related to the HomeAd program's transition from Agency Programs to the 1998 Home Ownership Bond Program and the increased production of HomeAd loans in fiscal year 2015.

Due to a decrease in Hardest Hit Fund® ("HHF") loan production, less money was disbursed for mortgage payments and spent on administrative costs related to the program. Additionally, *Unearned revenues* decreased because the Agency did not draw down HHF funds from the Treasury at the end of fiscal year 2015 as it did in the prior year. The decline in production resulted in decreases to the following items:

- *Unearned revenues* decreased $30,066,000, or 49.2%
- *Federal program awards received* decreased $23,744,000, or 9.6%
- *Federal program expense* decreased $23,286,000, or 9.4%
- *General and administrative expense* decreased $2,267,000, or 8.7%

The State Tax Credit ("STC") expired on January 1, 2015, and was replaced by the Workforce Housing Loan Program ("WHLP") with a nonrecurring $10 million appropriation. The WHLP appropriation resulted in a net increase in *State appropriations received* of $9,934,000. Although the STC expired in fiscal year 2015, the final awards will be paid out over fiscal years 2015 and 2016. Because of the increased need for affordable housing, *State tax credits* increased $11,972,000 during the fiscal year in spite of the expiration of the STC in fiscal year 2015. *State program expense* increased $4,900,000 primarily due an increase in disbursements of STC projects. *State grants received* decreased $1,000,000 due to a reduction in funding from the North Carolina Department of Health and Human Services. *Deferred state grant* increased $2,893,000 because of the Community Living Housing Fund grant, which is awaiting authorization from the State Legislature for disbursement. The impact of these transactions resulted in increases or decreases to the following items:

- *State receivables* increased $3,933,000, or 4.6%
- *Deferred state grant* increased $2,893,000, or 100.0%
- *State appropriations received* increased $9,934,000, or 119.6%
- *State grants received* decreased $1,000,000, or 16%
- *State tax credits* increased $11,972,000, or 25.9%
- *State program expense* increased $4,900,000, or 7.3%

In fiscal year 2015, the Agency implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"). Under GASB 68, the Agency is allocated its proportionate share of the Teachers' and State Employees' Retirement System of North Carolina's net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. As a result of the implementation, the cumulative effect of the change is a decrease to beginning fiscal year 2015 *Net Position* of $2,495,000. The implementation of GASB 68 also resulted in the following:

- *Deferred outflows for pensions* increased $740,000, or 100.0%
- *Deferred inflows for pensions* increased $2,187,000, or 100.0%

Total Net Position increased $44,621,000, or 7.0%. Of this change, $47,116,000 is due to calling bonds with available prepayments and proactive management of the Agency's programs including the State Tax Credit, the N.C. Home Advantage Mortgage program and the Workforce Housing Loan program. In addition, the *Cumulative effect of the change in accounting principles* related to GASB 68 was a $2,495,000 reduction of the beginning *Net Position,* which is discussed in more detail in the Notes to the Financial Statements.

Financial Analysis

The following tables summarize the changes in net position between June 30, 2015 and June 30, 2014 (*in thousands)*:

Condensed Statement of Net Position *(in thousands)*	**2015**	**2014**	**Change**	**%**
Assets*				
Cash and cash equivalents	$ 336,928	$ 357,491	$ (20,563)	(5.8)
Accrued interest receivable on investments	535	457	78	17.1
Accrued interest receivable on mortgage loans	7,387	9,284	(1,897)	(20.4)
Investments	92,023	89,108	2,915	3.3
Mortgage loans receivable, net	941,874	1,067,183	(125,309)	(11.7)
State receivables	89,977	86,044	3,933	4.6
Other assets, net	11,190	13,314	(2,124)	(16.0)
Total Assets	$ 1,479,914	$ 1,622,881	$ (142,967)	(8.8)
Deferred Outflows of Resources				
Deferred outflows for pensions	$ 740	$ -	$ 740	100.0
Accumulated decrease in fair value of hedging derivative	4,405	4,591	(186)	(4.1)
Total Deferred Outflows of Resources	$ 5,145	$ 4,591	$ 554	12.1

	2015	2014	Change	%
Condensed Statement of Net Position *(in thousands)*				
Liabilities*				
Bonds payable, net	$ 738,417	$ 897,403	$ (158,986)	(17.7)
Accrued interest payable	13,995	17,057	(3,062)	(18.0)
Accounts payable	3,326	3,582	(256)	(7.1)
Derivative instrument--interest rate swap	4,405	4,591	(186)	(4.1)
Unearned revenues	30,984	61,050	(30,066)	(49.2)
Other liabilities	6,265	5,823	442	7.6
Total Liabilities	$ 797,392	$ 989,506	$ (192,114)	(19.4)
Deferred Inflows of Resources				
Deferred state grant	$ 2,893	$ -	$ 2,893	100.0
Deferred inflows for pensions	2,187	-	$ 2,187	100.0
Total Deferred Inflows of Resources	$ 5,080	$ -	$ 5,080	100.0
Net Position				
Restricted	$ 667,999	$ 620,584	$ 47,415	7.6
Unrestricted	14,588	17,382	(2,794)	(16.1)
Total Net Position	$ 682,587	$ 637,966	$ 44,621	7.0
Condensed Statement of Revenues, Expenses and Changes in Net Position *(in thousands)*				
Operating Revenues				
Interest on investments	$ 4,456	$ 4,231	$ 225	5.3
Net (decrease) increase in fair value of investments	(165)	1,023	(1,188)	(116.1)
Interest on mortgage loans	49,879	56,286	(6,407)	(11.4)
Federal program awards received	223,401	247,145	(23,744)	(9.6)
Program income/fees	52,839	77,506	(24,667)	(31.8)
Other revenues	5,834	6,261	(427)	(6.8)
Total Operating Revenues	$ 336,244	$ 392,452	$ (56,208)	(14.3)
Operating Expenses				
Interest on bonds	$ 29,397	$ 52,223	$ (22,826)	(43.7)
Mortgage servicing expense	2,807	3,195	(388)	(12.1)
Federal program expense	223,645	246,931	(23,286)	(9.4)
Nonfederal program expense	14,607	6,720	7,887	117.4
General and administrative expense	23,926	26,193	(2,267)	(8.7)
Other expenses	4,199	1,748	2,451	140.2
Total Operating Expenses	$ 298,581	$ 337,010	$ (38,429)	(11.4)
Operating Income	$ 37,663	$ 55,442	$ (17,779)	(32.1)
Non-Operating Revenues (Expenses)				
State appropriations received	$ 18,242	$ 8,308	$ 9,934	119.6
State grants received	5,255	6,255	(1,000)	(16.0)
State tax credits	58,127	46,155	11,972	25.9
State program expense	(72,171)	(67,271)	(4,900)	7.3
Total Non-Operating Revenues (Expenses)	$ 9,453	$ (6,553)	$ 16,006	(244.3)
Change in Net Position	$ 47,116	$ 48,889	$ (1,773)	(3.6)
Total net position - beginning (previously reported)	$ 637,966	$ 589,077	$ 48,889	8.3
Cumulative effect of change in accounting principle**	(2,495)	-	(2,495)	100.0
Total Net Position - Beginning	$ 635,471	$ 589,077	$ 46,394	7.9
Total Net Position - Ending	$ 682,587	$ 637,966	$ 44,621	7.0

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

**For fiscal year 2015, the Agency implemented GASB 68, which resulted in a decrease in the beginning fiscal year 2015 *Net Position* of $2,495,000. The fiscal year 2014 financial information presented above has not been restated to reflect the cumulative effect of this change. See additional discussion in Financial Highlights and the Notes to the Financial Statements.

New Business

Fiscal year 2015 brought challenges as interest rates remained low and the global markets experienced uncertainty. In spite of these challenges, the Agency's programs continued to support low and moderate-income North Carolinians for their housing needs and provided assistance to North Carolina home owners facing foreclosure.

The Agency's N.C. Home Advantage Mortgage ("HomeAd") experienced increased production in fiscal year 2015. Many new lenders joined the HomeAd program in fiscal year 2015, broadening the program's capacity in the State of North Carolina ("the State"). The Agency selected a new master servicer for HomeAd loans locked on or after July 15, 2014. The prior master servicer continues to service HomeAd loans locked prior to July 15, 2014. In conjunction with the transition to a new master servicer, the Agency reduced the minimum FICO scores required for its conventional HomeAd mortgage to 640 and allowed the use of condominiums, aligning the product more closely with Fannie Mae requirements and streamlining the program's requirements. The Agency also expanded the down payment assistance ("DPA") offered for the HomeAd program. In December 2014, the Agency added a 5% DPA for FHA, VA and USDA mortgage loans in addition to its existing 3% DPA option, and it increased the 2% DPA on conventional loans to 3%. These numerous changes resulted in an overall increase in HomeAd production in fiscal year 2015.

The State Tax Credit expired January 1, 2015, in spite of the Agency's attempts to extend its sunset provision. The State Tax Credit was replaced by the Workforce Housing Loan Program ("WHLP") in fiscal year 2015 with a non-recurring $10 million appropriation. The WHLP is a state program which provides loans up to $1 million to fund construction or substantial rehabilitation of affordable rental developments, and it is administered in combination with federal housing credits. The WHLP appropriation represents a significant reduction in resources compared to the historical annual average of $30 million for the State Tax Credit. In many cases, the amount available to projects under the new WHLP will be less than 30% of the amount that the same project would be eligible for under the State Tax Credit.

In addition to the $10 million appropriated for the Workforce Housing Loan Program, the North Carolina General Assembly also appropriated $6.86 million for the Housing Trust Fund and approximately $1.38 million for the federal HOME Program match for fiscal year 2015. These appropriations represented only immaterial decreases relative to the prior fiscal year appropriations for these items. The HOME Investment Partnership Program ("HOME") fiscal year 2015 appropriation was $11.6 million, a $1.3 million decrease from the 2014 appropriation of $12.9 million. The Agency's HOME appropriation has been cut substantially over the last 5 years; in 2010 the appropriation was $21.6 million. The decrease in the appropriation will reduce the Agency's ability to serve low to moderate-income families.

The Hardest Hit Fund ("HHF") expanded its program guidelines in fiscal year 2015 to provide assistance to underemployed home owners who experienced a reduction in income since their previous employment-related hardship. In addition, it allowed veterans who are receiving the GI Bill to receive up to 36 months of assistance. At the end of fiscal year 2015, Treasury approved a pilot expansion of the HHF to help home owners who have returned to work but at a lower income or home owners who are receiving a fixed income. Rolled out at the beginning of fiscal year 2016, the pilot program provides a principal reduction to reduce the home owner's monthly payments.

Under round nine of the National Foreclosure Mitigation Counseling Program ("NFMC"), NeighborWorks® America ("NW") awarded the Agency $1.5 million, which was the second highest award of 25 participating housing finance agencies. The Agency received appropriations in all previous eight rounds, and it has partnered with 27 participating housing counseling organizations ("PHCOs") to facilitate the program. NFMC disburses funds to approved housing counseling agencies for counseling sessions attended by home owners facing foreclosure. Disbursements of the new funding are expected to assist 5,000 households. Through the partner network, the Agency has assisted over 46,000 home owners by paying for foreclosure prevention counseling sessions.

The Agency is required by statute to have an internal audit function and to adopt and submit an Internal Audit Plan ("the Plan") to the Office of Internal Audit. The Plan was approved in May 2015 and included an updated Enterprise Risk Assessment, 2016 Internal Audit Plan and Sub-Recipient Monitoring for the Agency's Urgent Repair Program ("URP"). With a focus on the use of data analytics as a monitoring tool to test internal controls and additional site visits for the URP, the Agency is strengthening its internal controls and its oversight of business partners.

Debt Administration

Low interest rates made tax-exempt bond financing difficult, so the Agency continued to serve moderate and low-income borrowers using its N.C. Home Advantage Mortgage ("HomeAd"), which is financed by the sale of MBS on the secondary market in lieu of issuing tax-exempt bonds. In the absence of originating new mortgage revenue bond loans through its FirstHome Program, the Agency has allocated available Private Activity Bond Volume Cap towards its Mortgage Credit Certificate Program, which can be used in conjunction with the Agency's HomeAd program as well as other lender programs for qualifying borrowers.

For Series 16C in the 1998 Single Family Trust Agreement, the Agency cancelled $535,000 of the notional amount of its derivative interest rate swap on July 1, 2014 and an additional $495,000 on January 1, 2015. For Series 18C in the 1998 Single Family Trust Agreement, the Agency cancelled $3,290,000 of the notional amount on its derivative interest rate swap on January 1, 2015. In each instance, the Agency called variable rate bonds on the same date as the swap cancellation to maintain an equal balance between bonds outstanding and swap notional amount. These optional cancellations were available under the existing swap contracts with no swap termination charges.

The Agency issued conduit multifamily draw-down mortgage revenue bonds of $14,595,000 in October 2014 for the acquisition and rehabilitation of seven existing apartment properties located in Buncombe and Bladen Counties serving families and the elderly. These bonds are secured solely by the properties and are not a debt of the Agency. After the projects are placed in service and rehabilitation is complete, the bonds will be paid off with the proceeds of an USDA Rural Development Section 515 loan and Housing Credit equity from Regions Bank, an Alabama banking corporation. The bonds will be paid off no later than December 31, 2016.

Apart from scheduled debt service payments, the Agency had multiple bond calls in fiscal year 2015 which totaled $127,780,000. These bond calls included prepayment calls and the redemption of the variable rate bonds associated with the swap cancellations referenced above.

Programs

For the year ended June 30, 2015, the Agency made cash disbursements of $258,869,000 in Federal funds for the following programs:

- Comprehensive Housing Counseling
- Carryover Loan Program
- Community Partners Loan Pool
- Making Home Affordable
- Modification Enabling Pilot Program
- Mortgage Payment Program
- National Foreclosure Mitigation Counseling Program
- Rental Production Program
- Second Mortgage Refinance Program
- Section 8 New Construction
- Section 8 Contract Administration
- Self-Help Loan Pool
- Single-Family Rehabilitation Loan Pool
- Supportive Housing Development Program

For the year ended June 30, 2015, the Agency made cash disbursements of $75,123,000 in State funds for the following programs:

- Community Partners Loan Pool
- Displacement Prevention Partnership
- Housing Counseling Capacity Building Program
- Key Program
- National Mortgage Settlement-Legal Services
- N.C. Home Advantage Down Payment Assistance
- Preservation Loan Program
- Rental Production Program
- Single-Family Rehabilitation Loan Pool
- Supportive Housing Development Program
- Supportive Housing Development Program 400
- State Tax Credit
- Urgent Repair Program

For the year ended June 30, 2015, the Agency made cash disbursements of $100,277,000 from other funding sources for the following programs:

- Affordable Home Ownership Program
- Construction Training Partnership Program
- Community Partners Loan Pool
- Duke Home Energy Loan Pool
- FirstHome
- Multifamily Rental Assistance
- N.C. Home Advantage Mortgage
- N.C. Home Advantage Down Payment Assistance
- State Home Foreclosure Prevention Project

For the year ended June 30, 2015, the Agency made awards of $113,668,000 in miscellaneous funds for the following programs:

- Low-Income Housing Tax Credit Program
- Mortgage Credit Certificate

The Agency's mission is to create affordable housing opportunities for North Carolinians whose needs are not met by the market. Given the historical lows in market mortgage rates and the recent recession, the Agency has focused its efforts to help home owners in trouble or those needing additional assistance in buying or rehabilitating their home.

<u>Home Ownership Programs</u> The Agency supported over 4,500 home buyers with disbursements from its Home Ownership programs in fiscal year 2015.

The N.C. Home Advantage Mortgage ("HomeAd") offers 30-year mortgages to moderate and low-income home buyers for the purchase of a home. Income and credit score limits apply, and up to 5% of deferred, forgiven HomeAd Down Payment Assistance is available to any borrower obtaining a HomeAd Mortgage. The mortgage loans are funded with taxable financing through the sale of Government National Mortgage Association ("GNMA") and Federal National Mortgage Association ("FNMA") insured MBS.

The Agency helped community-based groups bring home ownership opportunities to lower-income households. The Community Partners Loan Pool offers gap financing as a deferred, interest-free loan that is generally used with a HomeAd or Rural Development Section 502 loan. The Self-Help Loan Pool provides interest-free, amortizing mortgage loans up to $30,000 for newly-constructed and rehabilitated homes produced in partnership with local Habitat for Humanity affiliates through a model of sweat equity, volunteers and donations. Incentive funding of up to $6,000 is available to both loan pools when homes are built to certain Advanced Energy standards of energy efficiency with an additional $1,000 if the affiliate also meets a major Green Building Certification. Home buyers in both pools must have a household income at or below 80% of their county's median income, complete a home buyer education course and receive home ownership counseling.

The Mortgage Credit Certificate Program permits first-time home buyers who meet federal guidelines for family income and acquisition costs to take a federal income tax credit for every year the home buyer occupies the home. The home buyer may take 30% of annual mortgage interest as a tax credit if purchasing existing housing, or 50% if purchasing new construction housing, with a maximum tax credit of $2,000 per year. The Mortgage Credit Certificate Program is also available for qualifying first-time home buyers using the HomeAd Mortgage.

Housing Preservation Programs The Agency supported over 2,700 households with disbursements from its Housing Preservation Programs in fiscal year 2015.

The Single-Family Rehabilitation Loan Pool Program provides deferred, forgivable loans to rehabilitate moderately deteriorated, owner-occupied homes, assisting home owners below 80% of area median income, primarily with elderly and/or disabled household members. All units are improved to stringent energy and construction standards.

The Urgent Repair Program provides funds to local governments, regional agencies, and non-profit organizations to correct housing conditions that pose an imminent threat to life, safety, or displacement of low-income home owners.

The Displacement Prevention Partnership, which operates in partnership with local offices of the Independent Living Rehabilitation Program in the North Carolina Department of Health and Human Services ("DHHS"), provides accessibility modifications to very low-income households that may be displaced due to severe mobility limitations.

The Rental Production Program provides substantial rehabilitation or acquisition/rehabilitation loans for the financing of rental housing, primarily targeting households below 50% of area median income. The Rental Production Program loans are usually gap financing for the projects financed with Federal Low-Income Housing Tax Credits.

The Construction Training Partnership Program, which is a partnership with the North Carolina Home Builders Association ("NCHBA") and local governments, provides funding for the hard costs of new construction or rehabilitation projects. NCHBA conducts a range of training services to low-income unemployed persons. Training consists of classroom and "hands on" residential field training followed by job placement activities. The local government pays for the cost of training, identifies eligible projects, and serves as or procures a general contractor.

Foreclosure Prevention Financing Programs The Agency made use of several programs that assist home owners in financial trouble. The Agency disbursed funds from the N.C. Foreclosure Prevention Fund to over 7,500 households in fiscal year 2015.

The Mortgage Payment Program of the Hardest Hit Fund® ("HHF") pays mortgage payments and related expenses for home owners who are unemployed, veterans, or those under other temporary financial hardship. Payments are made up to 18 months while home owners look for a job or up to 36 months while they complete job training, with maximum assistance of $36,000. The assistance is in the form of an interest-free deferred loan which will be forgiven if the home owner continues to live in the home for ten years.

The Second Mortgage Refinance Program of HHF provides assistance to recovered, employed home owners who have an unaffordable second mortgage due to prior unemployment, under-employment, or other program-eligible financial hardship. The assistance is in the form of an interest-free, non-recourse, deferred-payment subordinate loan up to $50,000.

The Modification Enabling Pilot Program is administered in partnership with National Community Capital II LLC ("NCC"). Funding under the Modification Enabling Pilot Program is designed to provide assistance to eligible borrowers under the NCC ReStart Program with the intent to permanently modify and reduce the borrower's loan amount to an affordable level.

Foreclosure Counseling The Agency financed more than 11,000 foreclosure prevention counseling sessions for households across the state through disbursements to local counseling agencies in fiscal year 2015.

The National Foreclosure Mitigation Counseling Program provides federal funds for foreclosure prevention counseling and legal assistance across the state. Counseling sessions are provided on a short-term basis by United States Department of Housing and Urban Development ("HUD") approved counseling intermediaries primarily in defined areas of greatest need.

Through the State Home Foreclosure Prevention Project, every home owner facing foreclosure is notified of available counseling services. Fees paid by servicers for each registered home foreclosure are used to pay for housing counseling, legal aid, and administrative costs. Counseling agencies throughout the state provide assistance to home owners and servicers regarding foreclosure alternatives.

The Housing Counseling Capacity Building Program received funding from the 2012 National Mortgage Settlement, which was a landmark agreement between state Attorneys General and the five largest mortgage servicers. In fiscal year 2015, the Agency funded 47 organizations with over $6,250,000 to build human capital, training, technology and marketing capacity of HUD-approved non-profit housing and foreclosure counseling agencies. The program also funded over $3,050,000 million to Legal Aid of North Carolina, which disburses funds to qualified non-profit legal services providers.

Rental Production Programs The Agency supported over 6,900 households with disbursements from its Rental Production Programs in fiscal year 2015.

The Agency administers both the Federal Low-Income Housing Tax Credit program and the State Tax Credit program. These credits are available to developers on a competitive basis to fund the creation of affordable rental housing in the state. The Agency's goals include awarding tax credits to the best developments possible given limited resources available. The Qualified Allocation Plan establishes criteria that include the following for selecting developments that serve low-income residents: locations with strong market demand, healthy financial structures, attractive architectural design, and the best quality of building materials and workmanship.

The State Tax Credit expired in fiscal year 2015. Unlike the Federal Low-Income Housing Tax Credit, the State Tax Credit 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 State Tax Credit becomes a secured loan from the Agency to the property owner. In every case to date, the owner has opted to transfer its credit to the Agency because of the federal income tax treatment and the needs of the project. Once the property has reached certain milestones, primarily completion of a certain amount of construction, the loan becomes eligible to close.

The State Tax Credit was replaced by the Workforce Housing Loan Program in fiscal year 2015. The Workforce Housing Loan Program is a state program under which funds are made available as a loan to fund construction or substantial rehabilitation of affordable rental developments, and it is administered in combination with the Federal Low-Income Housing Tax Credit program.

The Rental Production Program provides low cost loans for rental housing, mainly targeting households below 50% of area median income. These Rental Production Program loans are usually gap financing for the projects financed with Federal Low-Income Housing Tax Credits.

The Carryover Loan Program, funded with the repayments from the Tax Credit Assistance Program, provides funding to acquire land for low-income Housing Tax Credit properties, primarily targeting rental developments serving households below 50% of area median income. The loan amount is the lower of 95% of the approved land cost or $1,000,000.

Rental Assistance Programs The Agency supported over 25,800 households with disbursements from its Rental Assistance Programs in fiscal year 2015.

The Agency administers the Section 8 Housing Assistance Payment Program on behalf of HUD for properties throughout North Carolina. The Agency contracted with a third-party administrator, Quadel Consulting Corporation, to assist with the administration of this program.

The Agency and DHHS partnered to create the Key Program by providing rental assistance for low income persons with disabilities, including the homeless. Funding is available to all targeted units produced under the Preservation Loan Program, Housing Credit, and the Supportive Housing Development Program; however, the Key Program does not provide assistance if rental subsidies are available through another program.

Special Needs Housing Programs The Agency supported over 160 households with disbursements from its Special Needs Housing Programs in fiscal year 2015.

The Supportive Housing Development Program provides funding for emergency, transitional, and permanent housing for children and adults with a wide range of disabilities or special housing needs. Eligible applicants are mission-driven non-profit organizations and units of local government.

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, P.O. 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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Independent Auditor's Report

The Board of Directors
North Carolina Housing Finance Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and programs of the North Carolina Housing Finance Agency (the "Agency"), a public agency and component unit of the State of North Carolina, as of and for the year ended June 30, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Housing Finance Agency as of June 30, 2015, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2015 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

BDO USA, LLP

September 15, 2015

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF NET POSITION

AS OF JUNE 30, 2015

(in thousands)		
ASSETS		
Current assets:		
Cash and cash equivalents	$	8,108
Restricted cash and cash equivalents		328,820
Accrued interest receivable on investments		535
Mortgage loans receivable		151,010
Accrued interest receivable on mortgage loans		7,387
State receivables		89,977
Other assets		7,104
TOTAL CURRENT ASSETS	$	592,941
Noncurrent assets:		
Investments	$	3,110
Restricted investments		88,913
Mortgage loans receivable, net		790,864
Other assets, net		4,086
TOTAL NONCURRENT ASSETS	$	886,973
TOTAL ASSETS	$	1,479,914
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows for pensions	$	740
Accumulated decrease in fair value of hedging derivative		4,405
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$	5,145
LIABILITIES		
Current liabilities:		
Bonds payable	$	28,085
Accrued interest payable		13,995
Accounts payable		3,257
Unearned revenues		19,852
Other liabilities		84
TOTAL CURRENT LIABILITIES	$	65,273
Noncurrent liabilities:		
Bonds payable, net	$	710,332
Derivative instrument - interest rate swap		4,405
Accounts payable		69
Unearned revenues		11,132
Other liabilities		6,181
TOTAL NONCURRENT LIABILITIES	$	732,119
TOTAL LIABILITIES	$	797,392
DEFERRED INFLOWS OF RESOURCES		
Deferred state grant	$	2,893
Deferred inflows for pensions		2,187
TOTAL DEFERRED INFLOWS OF RESOURCES	$	5,080
NET POSITION		
Restricted	$	667,999
Unrestricted		14,588
TOTAL NET POSITION	$	682,587

The accompanying notes are an integral part of this financial statement.

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2015

(in thousands)

OPERATING REVENUES		
Interest on investments	$	4,456
Net decrease in fair value of investments		(165)
Interest on mortgage loans		49,879
Federal program awards received		223,401
Program income/fees		52,839
Other revenues		5,834
TOTAL OPERATING REVENUES	$	336,244
OPERATING EXPENSES		
Interest on bonds	$	29,397
Mortgage servicing expense		2,807
Federal program expense		223,645
Nonfederal program expense		14,607
General and administrative expense		23,926
Other expenses		4,199
TOTAL OPERATING EXPENSES	$	298,581
OPERATING INCOME	$	37,663
NON-OPERATING REVENUES (EXPENSES)		
State appropriations received	$	18,242
State grants received		5,255
State tax credits		58,127
State program expense		(72,171)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$	9,453
CHANGE IN NET POSITION	$	47,116
Total net position - beginning (previously reported)	$	637,966
Cumulative effect of change in accounting priniciple		(2,495)
TOTAL NET POSITION - BEGINNING	$	635,471
TOTAL NET POSITION - ENDING	$	682,587

The accompanying notes are an integral part of this financial statement.

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2015

(in thousands)		
Cash flows from operating activities:		
Interest on mortgage loans	$	51,061
Principal payments on mortgage loans		147,034
Purchase of mortgage loans		(20,073)
Federal program awards received		193,826
Federal program expense		(224,576)
Nonfederal program expense		(14,607)
Federal grant administration income		15,020
Program income/fees		39,246
Other expenses		(29,605)
Other revenues		3,845
Net cash provided by operating activities	$	161,171
Cash flows from non-capital financing activities:		
Principal repayments on bonds	$	(156,960)
Interest paid		(34,485)
State appropriations received		18,242
State grants received		14,697
State tax credits		47,645
State program expense		(72,171)
Net cash used in non-capital financing activities	$	(183,032)
Cash flows from investing activities:		
Proceeds from sales or maturities of investments	$	92,887
Purchase of investments		(95,967)
Earnings on investments		4,378
Net cash provided by investing activities	$	1,298
Net decrease in cash	$	(20,563)
Cash and cash equivalents at beginning of year		357,491
Cash and cash equivalents at end of year	$	336,928
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	37,663
Adjustments to reconcile operating income to net cash provided by operating activities:		
Interest on investments		(4,456)
Decrease in fair value of investments		165
Interest on bonds		29,397
Change in assets and liabilities:		
Decrease in mortgage loans receivable		125,309
Decrease in accrued interest receivable on mortgage loans		1,897
Decrease in other assets		2,959
Decrease in accounts payable and other liabilities		(1,697)
Decrease in unearned revenues		(30,066)
Total adjustments	$	123,508
Net cash provided by operating activities	$	161,171

The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2015

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 accompanying financial statements represent the financial position of the Agency only. 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 line of credit of the State, and the State is not liable for the repayment of such obligations.

Basis of Presentation The accompanying financial statements of the Agency have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") as applicable to governments. The Governmental Accounting Standards Board ("GASB") establishes standards of financial accounting and reporting for state and local government entities.

Measurement Focus and Basis of Accounting The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for Agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Programs The Agency's accounts are organized on the basis of programs. Each program represents a separate accounting entity. Agency resources are allocated to these programs based on legal responsibility, fiscal accountability, and management designation. 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.

The North Carolina General Assembly ("General Assembly") provides state tax credits to the Agency for use in developing housing credit properties. The Agency received $47,645,000 in state tax credits during fiscal year 2015. Under this program, the state tax credit project will receive the credit in the form of a loan or direct refund. The State Tax Credit expired on January 1, 2015. The General Assembly replaced the State Tax Credit with a $10 million nonrecurring appropriation for the Workforce Housing Loan Program. See "Housing Trust Fund Programs" below.

In 2008, the State authorized the formation of the State Home Foreclosure Prevention Project ("SHFPP") in response to the foreclosure crisis. State statute requires all parties who wish to initiate a foreclosure against a home in North Carolina to remit a $75 fee to the Agency. The fees collected are used to counsel and/or provide legal assistance to home owners who are at risk of foreclosure. Any excess funds are allocated to the Housing Trust Fund annually. SHFPP transferred $214,000 to the Housing Trust Fund for fiscal year 2015. Funds in the amount of $2,815,000 were received and recorded as *Program income/fees* under Agency Programs. Expenses of $1,820,000 related to SHFPP are reflected in *Nonfederal program expense* during fiscal year 2015.

The N.C. Home Advantage Mortgage Program ("HomeAd") offers 30-year mortgages to moderate and low-income first-time homebuyers as well as move-up buyers for the purchase of a home. Income limits and credit score limits apply, and up to 5% of deferred, forgiven HomeAd Down Payment Assistance is available to any borrower obtaining a HomeAd loan. The mortgage loans are funded with taxable financing through the sale of mortgage-backed securities ("MBS") insured by Government National Mortgage Association ("GNMA") and Federal National Mortgage Association ("FNMA"). The

Agency recorded gains on sale of investments of $2,802,000 which is included as part of *Other revenues* under Agency Programs. Likewise, deferred forgiven loans in the amount of $1,689,000 are shown as a part of *Nonfederal program expenses* in the Agency Programs. With the addition of a new master servicer in fiscal year 2015, the operations for HomeAd transitioned from Agency to the 1998 Home Ownership Bond Program. See "Home Ownership Bond Programs" for a discussion on HomeAd activity reflected in the 1998 Home Ownership Bond Programs for fiscal year 2015.

<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 Housing Partnership is responsible for developing policy for 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. The Agency received State appropriations in the amount of $16,783,000 for the year ended June 30, 2015. Of this amount, $6,738,000 is a recurring appropriation that is used to make loans and grants under the Housing Trust Fund Programs. The remaining $10,000,000 nonrecurring appropriation is the Workforce Housing Loan Program. These appropriations are reported in *Non-Operating Revenues (Expenses)* in the accompanying financial statements.

The Agency also received $2,893,000 from the North Carolina Department of Health and Human Services to provide permanent community-based housing in integrated settings appropriate for individuals with severe and persistent mental illness. The Community Living Housing Fund receipts are reported as *Deferred state grant* under *Deferred Inflows of Resources* in the accompanying financial statements. The funds will only be available for disbursement upon appropriation by the General Assembly.

<u>Federal and State Programs</u> The Agency administers nine federal programs. Of the Agency's federal programs, the Section 8 Programs, the Hardest Hit Fund®, and the HOME Investment Partnerships Program ("HOME Program") represent 59%, 29%, and 8%, respectively. The Agency receives a fee for administering these programs. The HOME Program is matched with funds appropriated by the General Assembly; the amount of matching funds received during the year was $1,459,000.

The State of North Carolina was awarded $338 million from the National Mortgage Settlement. In fiscal year 2013, the Agency signed a Memorandum of Understanding with the North Carolina Department of Justice ("DOJ") to oversee $30,590,000 of these funds. These funds are used to help build the capacity of HUD-approved housing counseling agencies in the state as well as to provide funding for legal services. As of June 30, 2015, $9,356,000 was disbursed and reflected in *State program expense* and $7,877,000 was recorded as *State receivables* in the accompanying financial statements.

<u>Home Ownership Bond Programs</u> The Home Ownership Bond Programs were created through various single-family trust agreements and are restricted as to their use. The proceeds of individual bond issues are used to purchase first-time homebuyer mortgage loans for single-family residential units.

The N.C. Home Advantage Mortgage Program ("HomeAd") was transitioned in fiscal year 2015 from Agency Programs to the 1998 Home Ownership Bond Program in conjunction with the transition of its master servicer. HomeAd loans locked on or after July 15, 2014 are serviced by a new master servicer and are reflected in the 1998 Home Ownership Bond Program. The previous master servicer continues to service HomeAd loans locked prior to July 15, 2014, and the activity for these operations continues to be reflected in Agency Programs. Because the new master servicer transfers the MBS directly to the Agency's hedger, the Agency does not reflect a gain on sale of the securities in the 1998 Home Ownership Bond Program as it does in its arrangement with the previous master servicer. In fiscal year 2015, the 1998 Home Ownership Bond Program recorded program income of $12,074,000 related to HomeAd which is included as part of *Program income/fees.* Likewise, deferred forgiven loans totaling $7,392,000 and lender compensation totaling $2,947,000 related to the HomeAd program are reflected as a part of *Nonfederal program expense* in the 1998 Home Ownership Bond Program.

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

Cash and cash equivalents *Cash and cash equivalents* are comprised of cash on hand, amounts on deposit with financial institutions which are insured or are collateralized under provisions of North Carolina laws and regulations, amounts in pooled cash accounts managed by the State Treasurer, and highly liquid investments with original maturities of three months or fewer. Funds deposited in an investment pool of the State Treasurer are invested in a variety of instruments as authorized by State law. The majority of *Cash and cash equivalents* classified as restricted on the accompanying statement of net position are restricted for the Agency's debt service payments, bond calls, and for purchasing mortgage loans under the Agency's different programs.

Investments *Investments* are reported at fair value in accordance with GASB Section I50, *Investments* (GASB I50"), except for certain MBS.

Mortgage loans receivable, net *Mortgage loans receivable, net* are carried at cost less a loan loss reserve. It is the Agency's policy to provide for potential mortgage loan losses based on a periodic evaluation of the loan portfolios.

State receivables In 2002, the General Assembly converted the State Tax Credit ("STC") into a refundable credit providing funds that can be efficiently invested directly in housing credit properties through the Agency. The Agency recorded a $82,100,000 receivable for state tax credits for the fiscal year ended June 30, 2015, representing the remaining 2013 and 2014 outstanding awards. The Agency received state tax credits of $47,645,000 from the General Assembly for the 2012 outstanding awards (second installment) and the 2013 awards (first installment). These funds are used to provide loans to housing credit properties. The STC expired on January 1, 2015.

The Agency has a $7,877,000 receivable from the North Carolina Department of Justice ("DOJ") for the National Mortgage Settlement as of June 30, 2015.

Other assets, net Fixed assets, net of accumulated depreciation, in the amount of $4,086,000 are included in *Other assets, net* in the accompanying financial statements. Assets of $5,000 or greater are capitalized and depreciated over a five-year economic useful life using the straight-line method. Recorded in *Other assets* (current) for Federal and State Programs in the amount of $780,000 includes Quadel Consulting Corporation, Section 8 contract administration, Hardest Hit Fund® advanced expenses, trustee reconciling items, National Foreclosure Mitigation Counseling ("NFMC") Round Eight Program close-out, and Comprehensive Housing Counseling Grant ("CHC") receivable. *Other assets* in the amount of $6,069,000 are reflected in the Home Ownership Bond Programs and include mortgage payments collected by servicers that will be remitted to the Agency in fiscal year 2016.

Bond premium Bond premium represents the difference in the amount received upon the sale of the bonds versus the par value of the bonds and is included as a part of *Bonds payable, net* in the accompanying financial statements. The premiums relate to the planned amortization class ("PAC") bonds sold in conjunction with many series in the 1998 and 2009 Trust Agreements. The bond premium is amortized using the effective interest rate method over the life of the related PAC bonds and is adjusted accordingly for any bond calls that occur during the year. The amortization of the bond premium is included as a component of *Interest on bonds* in the accompanying financial statements.

Unearned revenues *Unearned 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. Also included under *Unearned revenues* is funding from the Treasury for the Hardest Hit Fund®. The funds are used to assist home owners at risk of foreclosure. During fiscal year 2015, the Agency entered into a contract to manage the development of the Statewide Rental Assistance Referral and Management System. Funding for this system is also recorded under *Unearned revenues*.

Interprogram receivable/(payable) During the normal course of operations, the Agency has numerous transactions among programs in order to provide services. If certain transactions among programs have not been settled as of June 30, 2015, these balances are recorded as *Interprogram receivable/(payable)*. These interprogram transactions are eliminated in the accompanying financial statements.

Deferred Outflows/Inflows of Resources In addition to assets, the Statement of Net Position includes a separate section for *Deferred Outflows of Resources*. This section of the financial statements represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Agency has two items that meet this criterion: contributions made to the pension plan in fiscal year 2015 and an accumulated decrease in fair value of hedging derivative instruments. In addition to liabilities, the Statement of Net Position includes a separate section for *Deferred Inflows of Resources*. This section of the financial statements represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Agency has two items that meet the criterion: deferred state grant revenue and deferrals of pension expense that result from the implementation of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68").

Net position *Net position* is reported as restricted when constraints placed on it are externally imposed by creditors, grantors, laws or regulations, or by law through constitutional provisions.

The Agency's Board of Directors annually approves an operating budget that is funded with revenues generated by administrative fees earned on federal programs, interest income earned on investments, earnings from the HomeAd, repayment of program funds, and reserves from trust agreements. All of these revenue sources are earmarked to cover operating expenses. The decision to use restricted or unrestricted receipts to fund a payment is transaction-based. For projects funded with tax-exempt bond proceeds and other resources, the bond proceeds are always used first.

As of June 30, 2015, the Agency had $14,588,000 of unrestricted net position. The Agency intends to use net position 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 position of the Home Ownership Bond Programs is restricted pursuant to the Agency's agreements with its bondholders as determined in each trust agreement. The Agency has restricted these funds in amounts sufficient to meet required debt service and operating expenses as defined by each trust agreement.

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

The Agency implemented GASB I50, which requires the Agency to report investments at fair market value. The effect of the adoption on the Agency's financial statements for the years ended June 30, 2015 and 2014 are as follows (*in thousands*):

	June 30, 2015	**June 30, 2014**
(Decrease)/Increase in Operating Income	$ (165)	$ 1,023
Decrease in Net Position	$ (743)	$ (578)

The Agency implemented GASB 68, in the fiscal year ending June 30, 2015. The implementation of this statement required the Agency to record beginning net pension liability and the effects on net position of contributions made by the Agency during the measurement period (fiscal year ending June 30, 2014). As a result of the implementation, net position as of June 30, 2014, as previously reported in the Agency's 2014 audited financial statements, was adjusted as follows (*in thousands*):

June 30, 2014 Net position, as previously reported	$	637,966
Prior period adjustment		
Net pension liability (measurement date of June 30, 2013)		(3,163)
Deferred outflows		
Contributions during the fiscal year ended June 30, 2014		668
Total prior period adjustment	$	(2,495)
June 30, 2014 Net position, as adjusted	$	635,471

Operating Revenues and Expenses Historically, one of the Agency's main functions is to borrow funds in the bond market and to use those funds to make home ownership 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 and the sale of MBS associated with the HomeAd Program.

Non-Operating Revenues and Expenses *State appropriations received, State grants received*, and *State tax credits* from the State of North Carolina are classified in *Non-Operating Revenues (Expenses)*. The related expenses are classified as *State program expense*.

General and administrative expense *General and administrative expense* is classified by the related program. To the extent allowed by the trust agreements 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. If the Home Ownership Bond Programs or Federal and State Programs do not permit payment of general and administrative expenses, expenses are paid from Agency reserve funds. Certain indirect costs are allocated to Federal and State Programs based on an independently prepared cost allocation plan. These costs are allocated based on certain parameters such as office 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, 2015, the Agency had deposits in pooled investment accounts of the State Treasurer with a carrying value of approximately $161,574,000, and a bank balance of approximately $162,207,000. The State Treasurer investment account has the characteristics of a demand deposit account in that the Agency may deposit and withdraw cash at any time without prior notice or penalty. Included in the investment accounts of the State Treasurer is the amount of $3,498,000 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 statement of net position.

The Agency had deposits with a carrying value of $175,352,000 and a bank balance approximating $175,411,000 on deposit with the Agency's fiduciary agent. Such deposits are collateralized with eligible securities held by a third-party custodian. The Agency also had deposits held in other financial institutions with both a carrying value and bank balance of $2,000.

Deposits - custodial credit risk Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned. At June 30, 2015, the Agency was not exposed to any material custodial credit risk.

Investments The Agency's investments include repurchase agreements and government securities which consist of Federal Farm Credit Bank securities, Federal Home Loan Bank securities, Federal Home Loan Mortgage Corporation securities, and MBS insured by FNMA and GNMA.

Repurchase agreements are collateralized by obligations of the US 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% 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, 2015, approximately $1,894,000 was invested in such long-term agreements having maturity dates ranging from July 1, 2032 to January 1, 2035 at a rate of 4.01%.

For the Agency's HomeAd program, mortgages are made by the lenders, purchased by the Agency's master servicer and securitized into GNMA and FNMA MBS. Under the arrangement with the Agency's new master servicer, the master servicer sells the security to the Agency's third-party hedger. Because the MBS is sold directly by the master servicer to the third-party hedger, there is no balance of MBS reflected on the Statement Of Net Position as of June 30, 2015 related to the Agency's HomeAd program.

At June 30, 2015, the Agency held the following investments with the listed maturities at annual rates ranging from 1.25% to 6.90%. Ratings are displayed with Moody's Investors Service rating listed first and Standard & Poor's ("S&P") rating listed second (*in thousands*):

		Investment Maturities (*In Years*)			
Investments	**Carrying Amount**	**Less Than 1**	**1 – 5**	**6 – 10**	**More Than 10**
GNMA MBS Rated Aaa/AA+	$ 1,034	$ -	$ -	$ 1,034	$ -
FNMA MBS Rated Aaa/AA+	189	-	-	189	-
Repurchase Agreements- Rated A2/AA	1,894	-	-	-	1,894
Government Securities Rated Aaa/AA+	88,906	-	43,356	43,232	2,318
Total Categorized	**$92,023**	**$ -**	**$43,356**	**$44,455**	**$4,212**

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

Credit risk Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. 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 US Government; (ii) obligations issued by an approved Agency or corporation wholly-owned by the US Government; (iii) interest-bearing time deposits, certificates of deposit, or other approved forms of deposits in any bank or trust company in North Carolina which satisfies insurance and, if necessary, collateral requirements for holding Agency money; (iv) duly established investment programs of the State Treasurer; (v) repurchase agreements; and (vi) repurchase agreements with banks and financial institutions which are chartered outside of North Carolina and meet specified rating and collateral requirements of the various trust agreements. Mortgage-backed securities ("MBS") are securitized by FNMA, (fair value - $189,000, rated AA+/Aaa), and by GNMA, (fair value - $1,034,000, rated AA+/Aaa). GNMA is a direct obligation of the US Government. Repurchase agreements are fully collateralized by obligations issued by the US Government or its agencies. The government securities are comprised of Federal Farm Credit Bank, Federal Home Loan Bank and Federal Home Loan Mortgage Corporation securities which are direct obligations of the Treasury (rated Aaa/AA+). The government securities have a fair value of $88,906,000.

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 US Government which represent 2% and 97%, respectively, of the Agency's total investments.

Investments in any one issuer that represent 5% or more of total investments as of June 30, 2015 are as follows *(in thousands)*:

Investment Issuer	**Amount**
Federal Home Loan Bank	$64,360
Federal Farm Credit Bank	17,482
Federal Home Loan Mortgage Corporation	7,064

Custodial credit risk Custodial credit risk occurs in the event that investment securities are uninsured and are not registered in the name of the Agency, and there is a failure of the counterparty. At year end, the Agency was not exposed to custodial credit risk. The 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.

Bond proceeds were used to purchase GNMA and FNMA MBS 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. These MBS are not related to the HomeAd Program.

Foreign currency risk Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Agency is not at risk for foreign currency risk.

Securities lending transactions GASB Section I60, *Investments—Security Lending* (*"*GASB I60"), establishes accounting and financial reporting standards for transactions where governmental entities transfer their securities to broker-dealers and other entities (borrowers) in exchange for collateral (which may be cash, securities, or letters of credit) and simultaneously agree to return the collateral in exchange for the original securities in the future. The Agency does not directly engage in securities lending transactions; however, the State Treasurer does. The State Treasurer is authorized to engage in these types of transactions under North Carolina General Statute 147-69.3e. The types of securities loaned include government securities and corporate bonds and notes which are held in the pooled investment accounts of the State Treasurer. A securities custodian manages the securities lending program for the State and receives cash as collateral from the borrowers. Collateral is invested in a collateral investment pool and must be maintained at 100% of the market value of the original securities 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.

As of June 30, 2015, 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, the accompanying financial statements do not reflect the risk associated with securities lending transactions as called for in GASB I60.

C. MORTGAGE LOANS RECEIVABLE

Mortgage loans purchased with the proceeds of the various single-family bond issuances have stated interest rates ranging from 3% to 10.7%.

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 US 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, 2015, all outstanding mortgage loans purchased with mortgage revenue bond proceeds satisfy these requirements. The Agency has an allowance for loan losses in the single-family mortgage loan program of $2,314,000 as of June 30, 2015.

Mortgage loans made with funds from the Agency Programs, Housing Trust Fund Programs, and Federal and State Programs have allowances for loan losses of $5,000, $108,000 and $11,000, respectively, as of June 30, 2015.

For the Home Ownership Bond Programs, the Agency has collateralized $830,452,000 in mortgage loans receivable and $157,296,000 in debt service, insurance, and revenue reserves to repay $736,790,000 single-family bonds payable at June 30, 2015. Proceeds from the bonds issued were used to finance housing throughout the State. The bonds are payable through July 2041 and are paid down from cash collections on mortgage loans receivable, interest receivable on mortgage loans, unexpended bond proceeds, and sales of investments. The Agency expects 100% of the mortgage loans, both principal and interest, to pay the principal and interest debt service requirements on the bonds. The total debt service requirement to be paid based on projected cash flows as of June 30, 2015 is $1,086,316,000 (see page 28 "Maturities"). For the current fiscal year, debt service payments totaling $191,445,000 were made for the Home Ownership Bond Programs. Principal and interest payments received on mortgage loans for the Home Ownership Bond Programs were $181,401,000 in fiscal year 2015.

D. BONDS PAYABLE

Bonds payable activity for the year ended June 30, 2015 was as follows (*in thousands*):

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds payable				
Home Ownership	$ 893,750	$ -	$ (156,960)	$ 736,790
Bond premium	3,653	-	(2,026)	1,627
Total Bonds payable, net	**$ 897,403**	**$ -**	**$ (158,986)**	**$ 738,417**

Bonds payable as of June 30, 2015 are as follows (*in thousands*):

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Home Ownership Revenue Bonds			
(1998 Housing Revenue Bonds Trust Agreement)			
Series 15	Variable	7/1/2032	$ 5,240
Series 16	Variable	7/1/2032	10,365
Series 17	Variable - 5.00	7/1/2034	13,560
Series 18	Variable - 4.45	1/1/2035	7,515
Series 22 CE	4.45 - 5.25	1/1/2039	38,465
Series 23	3.95 - 4.80	1/1/2037	22,780
Series 24	4.10 - 4.90	1/1/2038	32,715
Series 25	4.35 - 5.75	7/1/2037	24,605
Series 26	3.75 - 5.50	7/1/2038	25,045
Series 27 A	4.85 - 6.00	1/1/2038	10,080
Series 28	3.75 - 5.50	1/1/2039	27,905
Series 29	4.15 - 5.50	7/1/2038	38,945
Series 30	3.85 - 5.50	7/1/2039	29,965
Series 31	3.65 - 5.50	7/1/2038	31,745
Series 32	4.00	1/1/2030	77,300
Series 33	1.36 - 4.32	1/1/2034	83,125
Series 34	0.59 - 4.00	7/1/2035	52,110
Series 35	0.59 - 3.99	7/1/2032	46,560
			$ 578,025

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Home Ownership Revenue Bonds			
(2009 Housing Revenue Bonds Trust Agreement)			
Series A-1 and Series 1	1.75 - 4.50	7/1/2041	$ 70,680
Series A-2 and Series 2	1.60 - 4.25	7/1/2041	88,085
			$ 158,765
Total Bonds Outstanding			$ 736,790
Plus Bond Premium			$ 1,627
Home Ownership Bond Programs			**$ 738,417**

See Note E, "Derivative Instrument - Interest Rate Swap," for variable rate interest calculation methodology.

Maturities Debt service requirements, including sinking fund requirements on term bonds, subsequent to June 30, 2015, are as follows (*in thousands*):

Bonds Outstanding without Interest Rate Swaps

Fiscal Year Ending June 30	Principal	Interest
2016	$ 27,355	$ 27,412
2017	27,850	26,618
2018	27,560	25,740
2019	27,135	24,812
2020	27,665	23,833
2021-2025	152,130	101,934
2026-2030	162,845	68,814
2031-2035	132,740	38,208
2036-2040	104,375	11,458
2041-2042	12,690	338
Total Requirements	**$ 702,345**	**$ 349,167**

Bonds Outstanding with Interest Rate Swaps

Fiscal Year Ending June 30	Principal	Interest
2016	$ 730	$ 31
2017	1,030	30
2018	1,225	29
2019	1,190	28
2020	1,160	27
2021-2025	6,885	119
2026-2030	12,490	75
2031-2035	9,735	20
Total Requirements	**$ 34,445**	**$ 359**

Total Bonds Outstanding

Fiscal Year Ending June 30		Principal		Interest
2016	$	28,085	$	27,443
2017		28,880		26,648
2018		28,785		25,769
2019		28,325		24,840
2020		28,825		23,860
2021-2025		159,015		102,053
2026-2030		175,335		68,889
2031-2035		142,475		38,228
2036-2040		104,375		11,458
2041-2042		12,690		338
Total Requirements	**$**	**736,790**	**$**	**349,526**

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, from excess revenues, or from funds released via the related decreases in the respective debt service reserve requirements.

For the year ended June 30, 2015 scheduled and unscheduled bond redemptions were as follows (*in thousands*):

Issue		Amount Redeemed
Housing Revenue Bonds (1998 Trust Agreement)	$	144,020
Housing Revenue Bonds (2009 Trust Agreement)		12,940
Total Home Ownership Bond Programs	**$**	**156,960**

Special facilities (Conduits) The Agency issued Multifamily Housing Revenue Bonds which are not presented in the financial statements of the Agency. These bonds are secured solely by the properties and related revenues of the projects and the applicable credit enhancements, 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.

On December 15, 2014, the 2013 Resolution, Multifamily Housing Revenue Bonds, were redeemed at par. Bonds payable as of June 30, 2015 for special facilities are as follows (*in thousands*):

Issue	Bond Type		Bonds Outstanding
2002 Resolution* (Series D)	Multifamily Housing Revenue Bonds	$	2,125
2014 Resolution (Series A and B)	Multifamily Housing Revenue Bonds		7,543
Total		**$**	**9,668**

*This is a Section 501(c)3 entity and did not require volume cap when the bonds were issued.

E. DERIVATIVE INSTRUMENT - INTEREST RATE SWAP

Summary Information During the reporting period from July 1, 2014, to June 30, 2015, the Agency did not execute or terminate any derivative contracts with the exception of the exercise of certain cancellation options described in "Market Access Risk." The Agency has four pay-fixed, interest rate swap agreements with three financial counterparties (further described herein) each designated as a hedging derivative instrument representing cash flow hedges for the organization (*in thousands*):

Hedgeable Item	Hedging Derivative Instrument	Notional Amount	Classification	Fair Value at June 30, 2015 Liability	Classification	Net Decrease in Fair Value
Series 15C	Pay-Fixed Interest Rate Swap	$6,320	Hedging Derivative	$(750)	Deferred Outflows of Resources	$16
Series 16C	Pay-Fixed Interest Rate Swap	$11,120	Hedging Derivative	$(1,248)	Deferred Outflows of Resources	$23
Series 17C	Pay-Fixed Interest Rate Swap	$13,530	Hedging Derivative	$(1,761)	Deferred Outflows of Resources	$91
Series 18C	Pay-Fixed Interest Rate Swap	$6,220	Hedging Derivative	$(646)	Deferred Outflows of Resources	$56

There were no derivative instruments reclassified from a hedging derivative to an investment derivative instrument during the period. There was no deferral amount within investment revenue due to any reclassifications during the period.

Objective The Agency has entered into interest rate swaps in connection with all of its variable-rate revenue bonds associated with four series in its 1998 Trust Agreement as a means to manage the future cash flow impact associated with the hedged debt. The intention of the swaps was to create more certainty for the Agency associated with the interest rate spread between its assets and liabilities.

Terms and credit risk The terms and credit risk of the outstanding swaps as of June 30, 2015 were as follows (*in thousands*):

Notional Amount	Counterparty	Counterparty Credit Rating Moody's/S&P	Date of Swap Execution	Maturity Date of Swap	Fixed Rate	Floating Index
$6,320	UBS AG	NR/BBB+	5/8/2003	7/1/2032	3.445%	63%L** + 0.30%
$11,120*	Bank of America, N.A.	A1/A	9/16/2003	7/1/2032	3.810%	63%L** + 0.30%
$13,530	Bank of America, N.A.	A1/A	12/11/2003	7/1/2032	3.725%	63%L** + 0.30%
$6,220	Goldman Sachs Mitsui Marine	Aa2/AAA	4/20/2004	1/1/2035	3.251%	63%L** + 0.30%

* The swap contract contains optionality that allows the Agency the right to change the notional to better match the principal schedule on the bonds.

** L represents the USD, 1-Month LIBOR index as published on Telerate page 3750.

Fair value In total, the swaps have a fair value of negative $4,405,000 as of June 30, 2015. Because the coupons on the Agency's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap. Additionally, if at the time of termination, the swap has a negative fair value, the Agency would be liable to the counterparty for a payment equal to the swap's fair value.

Interest rate risk Under all of the swaps, the Agency pays the counterparties a fixed rate and receives a variable payment computed as 63% of 1-Month LIBOR plus 30 basis points. The bonds' variable-rate coupons are remarketed weekly and generally track the variable SIFMA index, which was 0.09% for all four series as of June 30, 2015.

Basis risk and termination risk The swaps expose the Agency to basis risk should the relationship between LIBOR and SIFMA converge, changing the synthetic rate on the bonds. The swap contracts for the Agency use a compound formula for the floating rate index to reduce this risk. During the accounting period, the Agency realized a benefit of 34.85 basis points ("bps") for all four variable rate series due to the floating rate formula for its swap contracts when compared to the floating rate on the respective bonds. For all swaps, collateral thresholds have been established if the counterparty ratings reach A2 for Moody's or A for S&P. Series 16C, 17C and 18C 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. The Series 15C 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 Credit risk is the risk that the counterparty will not fulfill its obligations. All of the contracts as of June 30, 2015 reflect liabilities and, therefore, the Agency does not have current credit risk on its contracts. The Agency monitors the ratings of its counterparties to ascertain credit risk.

Foreign currency risk Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. All of the Agency's swaps are denominated in US dollars and are, therefore, not subject to foreign currency risk.

Rollover risk Rollover risk exists when the derivative does not last as long as the associated debt is outstanding. The maturity dates of the Agency's swap contracts match the maturity dates of the hedged debts; therefore, the Agency has no rollover risk.

Market access risk Market access risk is the risk that the Agency will not be able to enter credit markets as planned or that credit will become more costly. The Agency's current market access risk is limited because of its liquidity agreement with TD Bank, N.A. which was extended in May 2014 and will not expire until May 2017. The cancellation feature associated with the Series 15C swap was fully exercised on July 1, 2013, and the remaining swap on Series 15C has no cancellation option. The cancellation features associated with the Series Series 18C swap was fully exercised on January 1, 2015 with no further cancellation options. The swap for Series 17C does not have any optional cancellation features.

Quantitative method of evaluating effectiveness In order to assess the effectiveness of each hedging derivative instrument, the Agency employed the Synthetic Instrument Method. Under the Synthetic Instrument Method, a hedging derivative instrument is effective if the synthetic price is substantively fixed. The synthetic price as of the evaluation date, June 30, 2015, is compared to the synthetic price expected at the establishment of the hedge by calculation of an effectiveness percentage. If the effectiveness percentage is within a range of 90 to 111 percent, the synthetic price is substantively fixed. Following are the results of the testing as of the end of the reporting period:

Hedgeable Item	Hedgeable Item Effective Bond Variable Rate	Derivative Instrument Floating Rate	Floating Rate Basis	Synthetic Price	90 to 111% Range	Test Performance
Series 15C	0.0608	0.4093	0.3485	3.1%	3.1% – 3.8%	PASS
Series 16C	0.0608	0.4093	0.3485	3.5%	3.4% – 4.2%	PASS
Series 17C	0.0608	0.4093	0.3485	3.4%	3.4% – 4.1%	PASS
Series 18C	0.0608	0.4093	0.3485	2.9%	2.9% – 3.6%	PASS

Swap payments and associated debt As rates vary, variable-rate bond interest payments and net swap payments will differ between the fixed rate paid to the counterparty and the variable rate paid to the Agency. Using rates as of June 30, 2015, debt service requirements of the variable-rate debt and net swap payments are as follows (*in thousands*):

Fiscal Year Ending June 30	Variable-Rate Bond Principal	Variable-Rate Bond Interest	Interest Rate Swap, Net	Total Interest
2016	$ 730	$ 31	$ 1,099	$ 1,130
2017	1,030	30	1,076	1,106
2018	1,225	29	1,037	1,066
2019	1,190	28	998	1,026
2020	1,160	27	959	986
2021-2025	6,885	119	4,233	4,352
2026-2030	12,490	75	2,641	2,716
2031-2035	9,735	20	674	694
Total	**$34,445**	**$359**	**$12,717**	**$13,076**

F. NONCURRENT LIABILITIES

Noncurrent liabilities for the year ended June 30, 2015 were as follows *(in thousands):*

	Beginning Balance	Prior Year Adj.	Additions	Deletions	Ending Balance	Due Within One Year
Bonds payable						
Bonds payable, net	$893,750	$ -	$ -	$(156,960)	$736,790	$28,085
Bond premium	3,653	-	-	(2,026)	1,627	-
Derivative instrument—interest rate swap	4,591	-	-	(186)	4,405	-
Accounts payable	-	-	69	-	69	-
Unearned revenues	61,050	-	47,950	(78,016)	30,984	19,852
Other liabilities						
Arbitrage rebate payable	1,148	-	-	(234)	914	-
Compensated absences	1,143	-	144	(46)	1,241	79
Deposits payable	3,532	-	1,770	(1,798)	3,504	5
Net pension liability*	-	3,163	-	(2,557)	606	-
	$968,867	**$3,163**	**$49,933**	**$(241,823)**	**$780,140**	**$48,021**

*Additional information regarding the net pension liability is included in Note I, “Pension Plan.”

G. OPERATING LEASE

The Agency leases office space with future minimum lease payments for fiscal years 2016 and 2017 in the amounts of $546,000 and $513,000, respectively, and three months in fiscal year 2018 in the amount of $129,000. Rent expenses for all operating leases totaled $631,000 for the year ended June 30, 2015. The Agency's lease for the main office will expire September 2017.

H. 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, 2015, $147,499,000 which was received by the Agency and disbursed to property owners is included in *Federal program awards received* and *Federal program expense* in 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, 2015, $18,794,000 was received and disbursed by the Agency and is included in *Federal program awards received*, *Federal program expense* and *Mortgage loans receivable, net* in Federal and State Programs, depending upon the terms of the transaction.

The Agency was selected as a participating entity under a grant agreement with Treasury passed through NeighborWorks® for the National Foreclosure Mitigation Counseling Program ("NFMC"). NFMC provides funding for the purpose of counseling home owners at risk of foreclosure. For the year ended June 30, 2015, $1,303,000 was received and disbursed by the Agency and is included in *Federal program awards received* and *Federal program expense* in Federal and State Programs.

The Agency received repayments of Mortgage Loans that were funded under the Tax Credit Assistance Program ("TCAP"). These repayments provide funding for the Carryover Loan Program ("COLP"). The loan amount provided under the COLP is the lower of 95% of the approved land cost or $1 million, and the loan program primarily targets rental developments serving households below 50% of the area median income. For the year ended June 30, 2015, $7,092,000 was received and $8,460,000 was disbursed and is included as a part of *Program income/fees* and *Mortgage loans receivable, net* in the Federal and State Programs.

The Agency was selected as a participating entity under a grant agreement with the Treasury for the Hardest Hit Fund® ("HHF"). HHF provides funding for the purpose of providing loans to unemployed home owners unable to make their mortgage payments and in danger of losing their homes to foreclosure. Loan proceeds will be used to pay the mortgage and related costs such as real estate taxes, home owner insurance and home owner dues until the home owner secures employment or completes training for a new career. For the year ended June 30, 2015, $63,998,000 was received and disbursed by the Agency and is included in *Federal program awards received* and *Federal program expense* in Federal and State Programs.

The Agency was awarded Comprehensive Housing Counseling Program ("CHC") funds through the Department of Housing and Urban Development, Office of Housing Counseling. The program provides counseling to home owners at risk of foreclosure. For the year ended June 30, 2015, $602,000 was disbursed by the Agency and is included in *Federal program awards received* and *Federal program expense* in Federal and State Programs.

The Agency earned fees of $15,900,000 for administering these and other federal programs for the year ended June 30, 2015. Of these fees, $3,400,000 was paid to Quadel Consulting Corporation for the Section 8 Program Contract Administration, and $3,756,000 was paid to counseling agencies for providing HHF counseling services which is reported in *General and administrative expense*.

Federal awards are subject to audit by the grantor agencies. The Agency could be held liable for amounts received in excess of allowable expenditures.

I. PENSION PLAN

Plan description All permanent full-time employees of the Agency participate in the Teachers' and State Employees' Retirement System of North Carolina ("TSERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State. TSERS provides retirement benefits to plan members and beneficiaries. State statute assigns the authority to establish and amend benefit provisions to the General Assembly. TSERS is included in the Comprehensive Annual Financial Report ("CAFR") for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for TSERS. The report may be obtained from the website for the North Carolina Office of State Controller using the following link: http://www.osc.nc.gov/financial/index.html.

Benefits provided TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service (or 10 years of creditable service for members joining TSERS on or after August 1, 2011), at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (or 10 years of creditable service for members joining TSERS on or after August 1, 2011). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60 (10 years for members joining on or after August 1, 2011). Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Funding policy Plan members are required to contribute 6% of their annual covered salary, and the Agency is required to contribute at an actuarially determined rate. The fiscal year 2015 rate is 9.15% of the annual covered payroll. The contribution requirements of plan members and the Agency are established and may be amended by the General Assembly. The following table represents the three-year trend of the annual contributions made by the Agency to the State retirement system. The Agency made 100% of its required contributions for the years ended June 30, 2015, 2014, and 2013:

	2015	2014	2013
Retirement Contribution	$710,000	$668,000	$624,000
Percentage of Covered Payroll	9.15%	8.69%	8.33%

Net pension liability At June 30, 2015, the Agency reported a liability of $606,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. At June 30, 2014 and at June 30, 2013, the Agency's proportion was 0.05166% and 0.05210%, respectively.

Deferred inflows of resources and deferred outflows of resources related to pensions For the year ended June 30, 2015, the Agency recognized pension expense of $267,000. At June 30, 2015, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ -	$ 141,000
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments (see note below)	-	2,046,000
Change in proportion and differences between agency's contributions and proportionate share of contributions	30,000	-
Contributions subsequent to the measurement date	710,000	-
Total	**$ 740,000**	**$ 2,187,000**

Deferred Outflows of Resources of $710,000 related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	
2016	$ (541,000)
2017	(541,000)
2018	(541,000)
2019	(534,000)
2020	-
Total	**$(2,157,000)**

Actuarial assumptions The total pension liability was determined by an actuarial valuation performed as of December 31, 2013. The total pension liability was calculated through the use of update procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2014. The update procedures incorporated the actuarial assumptions used in the valuation. The entry age normal actuarial cost method was utilized. Inflation is assumed to be 3% and salary increases range 4.25% to 9.10% which includes 3.5% inflation and productivity factor. The long-term expected rate of return on pension plan investments used in the determination of the total pension liability is 7.25% and is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and studies that cover significant portions of the US population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment ("COLA") amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014 are summarized in the following table:

Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Fixed Income	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
Total	100%	

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems, including TSERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, implements changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

Discount rate The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the Agency's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Agency's proportionate share of the net pension liability (asset)	$ 4,348,000	$ 606,000	$ (2,554,000)

Pension plan fiduciary net position Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report ("CAFR") for the State of North Carolina.

J. 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 who have at least five years of creditable service with TSERS. TSERS pays the full cost of coverage for retirees enrolled in the State's self-funded Teachers' and State Employees' Preferred Provider Organization ("PPO") medical plan who were hired prior to October 1, 2006, and retire with five or more years of State TSERS membership service. For employees hired on or after October 1, 2006, TSERS will pay the full cost of coverage for retirees with 20 or more years of service, TSERS will pay 50% of the cost of coverage for retirees with at least 10 years but less than 20 years of service, and the retiree with less than 10 years of service will pay the full cost of coverage. 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 with TSERS earned within 96 months prior to the end of the short-term disability period; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period, after salary continuation payments cease, or after monthly payments for workers' compensation cease, whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of employees' usual occupation; (4) the disability must have been continuous, likely to be permanent and incurred at the time of active employment; and (5) the employee must not be eligible to receive unreduced retirement benefits from TSERS. 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 worker's compensation to which the recipient may be entitled up to a maximum of $3,900 per month. When an employee qualifies for an unreduced service retirement allowance from TSERS, the benefits payable from the Disability Income Plan cease, and the employee will commence retirement under TSERS.

All short-term disability benefit payments are made by the various State-administered plans. The Agency has no liability beyond payment of monthly contributions except for short-term disability benefits, which are paid by the Agency during the first six months of the short-term period. Contributions are determined as a percentage of covered monthly payrolls. Annually, the State sets monthly contribution rates for 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 years ended June 30, 2015, 2014, and 2013:

	2015	**2014**	**2013**
Health Care Benefit	$426,000	$415,000	$397,000
Disability Benefit	32,000	34,000	33,000
Death Benefit	12,000	12,000	12,000
Percentage of Covered Payroll			
Health Care Benefit	5.49%	5.40%	5.30%
Disability Benefit	0.41%	0.44%	0.44%
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.

K. RISK MANAGEMENT

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

- Automobile, Fire and Other Property Losses
- Public Officers' and Employees' Liability Insurance
- Employee Dishonesty and Computer Fraud
- Workers' Compensation Program/Fund

The State is responsible for the administration of all liability insurance policies. The deductible and amount of loss in excess of the policy is the responsibility of the Agency.

L. SEGMENT INFORMATION

The Agency's Home Ownership 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, 2015 for this segment is as follows (*in thousands*):

STATEMENT OF NET POSITION

	Home Ownership
ASSETS	
Current assets:	
Restricted cash and cash equivalents	$ 143,156
Accrued interest receivable on investments	482
Mortgage loans receivable	135,888
Accrued interest receivable on mortgage loans	7,272
Other assets	6,069
Interprogram receivable	1,261
TOTAL CURRENT ASSETS	$ 294,128
Noncurrent assets:	
Restricted investments	$ 80,594
Mortgage loans receivable, net	692,251
TOTAL NONCURRENT ASSETS	$ 772,845
TOTAL ASSETS	$ 1,066,973
DEFERRED OUTFLOWS OF RESOURCES	
Accumulated decrease in fair value of hedging derivative	$ 4,405
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 4,405
LIABILITIES	
Current liabilities:	
Bonds payable	$ 28,085
Accrued interest payable	13,995
Accounts payable	1,341
TOTAL CURRENT LIABILITIES	$ 43,421
Noncurrent liabilities:	
Bonds payable, net	$ 710,332
Derivative instrument - interest rate swap	4,405
Other liabilities	914
TOTAL NONCURRENT LIABILITIES	$ 715,651
TOTAL LIABILITIES	$ 759,072

	Home Ownership
NET POSITION	
Restricted	$ 312,306
TOTAL NET POSITION	$ 312,306

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

OPERATING REVENUES	
Interest on investments	$ 3,369
Net decrease in fair value of investments	(127)
Interest on mortgage loans	47,713
Program income/fees	12,074
Other revenues	2,872
TOTAL OPERATING REVENUES	$ 65,901
OPERATING EXPENSES	
Interest on bonds	$ 29,397
Mortgage servicing expense	2,806
Nonfederal program expense	10,339
General and administrative expense	689
Other expenses	3,685
TOTAL OPERATING EXPENSES	$ 46,916
OPERATING INCOME	$ 18,985
NON-OPERATING EXPENSES	
Transfers in	$ 2,895
TOTAL NON-OPERATING EXPENSES	$ 2,895
CHANGE IN NET POSITION	$ 21,880
TOTAL NET POSITION - BEGINNING	$ 290,426
TOTAL NET POSITION - ENDING	$ 312,306

STATEMENT OF CASH FLOWS

Net cash provided by operating activities	$ 177,187
Net cash used in non-capital financing activities	(188,550)
Net cash provided by investing activities	218
Net decrease in cash	$ (11,145)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	$ 154,301
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 143,156

North Carolina Housing Finance Agency

Supplementary Information

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Independent Auditor's Report on Supplementary Information

Our audits of the financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BDO USA, LLP

September 15, 2015

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF NET POSITION

AS OF JUNE 30, 2015

	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS		
(in thousands)		Housing Trust Fund	Federal and State Programs	1998	2009	Total
ASSETS						
Current assets:						
Cash and cash equivalents	$ 8,108	-	-	-	-	$ 8,108
Restricted cash and cash equivalents	42,364	35,346	107,954	128,943	14,213	328,820
Accrued interest receivable on investments	37	16	-	439	43	535
Mortgage loans receivable	216	1,006	13,900	120,130	15,758	151,010
Accrued interest receivable on mortgage loans	3	12	100	6,397	875	7,387
State receivables	82,100	-	7,877	-	-	89,977
Other assets	255	-	780	5,232	837	7,104
Interprogram receivable/(payable)	903	8,077	(10,241)	1,219	42	-
TOTAL CURRENT ASSETS	$ 133,986	44,457	120,370	262,360	31,768	$ 592,941
Noncurrent assets:						
Investments	$ 3,110	-	-	-	-	$ 3,110
Restricted investments	8,319	-	-	72,343	8,251	88,913
Mortgage loans receivable, net	3,044	17,195	78,374	555,564	136,687	790,864
Other assets, net	4,086	-	-	-	-	4,086
TOTAL NONCURRENT ASSETS	$ 18,559	17,195	78,374	627,907	144,938	$ 886,973
TOTAL ASSETS	$ 152,545	61,652	198,744	890,267	176,706	$ 1,479,914
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows for pensions	$ 740	-	-	-	-	$ 740
Accumulated decrease in fair value of hedging derivative	-	-	-	4,405	-	4,405
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 740	-	-	4,405	-	$ 5,145
LIABILITIES						
Current liabilities:						
Bonds payable	$ -	-	-	24,490	3,595	$ 28,085
Accrued interest payable	-	-	-	11,519	2,476	13,995
Accounts payable	178	-	1,738	1,282	59	3,257
Unearned revenues	1,871	-	17,981	-	-	19,852
Other liabilities	81	-	3	-	-	84
TOTAL CURRENT LIABILITIES	$ 2,130	-	19,722	37,291	6,130	$ 65,273
Noncurrent liabilities:						
Bonds payable, net	$ -	-	-	554,441	155,891	$ 710,332
Derivative instrument - interest rate swap	-	-	-	4,405	-	4,405
Accounts payable	69	-	-	-	-	69
Unearned revenues	11,132	-	-	-	-	11,132
Other liabilities	5,267	-	-	914	-	6,181
TOTAL NONCURRENT LIABILITIES	$ 16,468	-	-	559,760	155,891	$ 732,119
TOTAL LIABILITIES	$ 18,598	-	19,722	597,051	162,021	$ 797,392
DEFERRED INFLOWS OF RESOURCES						
Deferred state grant	$ -	2,893	-	-	-	$ 2,893
Deferred inflows for pensions	2,187	-	-	-	-	2,187
TOTAL DEFERRED INFLOWS OF RESOURCES	$ 2,187	$ 2,893	-	-	-	$ 5,080
NET POSITION						
Restricted	$ 117,912	58,759	179,022	297,621	14,685	$ 667,999
Unrestricted	14,588	-	-	-	-	14,588
TOTAL NET POSITION	$ 132,500	58,759	179,022	297,621	14,685	$ 682,587

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2015

	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS		
(in thousands)		Housing Trust Fund	Federal and State Programs	1998	2009	Total
OPERATING REVENUES						
Interest on investments	$ 569	137	381	3,184	185	$ 4,456
Net decrease in fair value of investments	(38)	-	-	(112)	(15)	(165)
Interest on mortgage loans	57	458	1,651	41,439	6,274	49,879
Federal program awards received	-	-	223,401	-	-	223,401
Program income/fees	10,576	1,063	29,126	12,074	-	52,839
Other revenues	2,810	-	152	2,859	13	5,834
TOTAL OPERATING REVENUES	$ 13,974	1,658	254,711	59,444	6,457	$ 336,244
OPERATING EXPENSES						
Interest on bonds	$ -	-	-	24,503	4,894	$ 29,397
Mortgage servicing expense	1	-	-	2,233	573	2,807
Federal program expense	-	-	223,645	-	-	223,645
Nonfederal program expense	4,268	-	-	10,339	-	14,607
General and administrative expense	16,081	-	7,156	645	44	23,926
Other expenses	9	19	486	3,684	1	4,199
TOTAL OPERATING EXPENSES	$ 20,359	19	231,287	41,404	5,512	$ 298,581
OPERATING (LOSS) INCOME	$ (6,385)	1,639	23,424	18,040	945	$ 37,663
NON-OPERATING REVENUES (EXPENSES)						
Transfers in (out)	$ 12,679	134	(15,708)	2,895	-	$ -
State appropriations received	-	16,783	1,459	-	-	18,242
State grants received	-	-	5,255	-	-	5,255
State tax credits	58,127	-	-	-	-	58,127
State program expense	(44,615)	(11,378)	(16,178)	-	-	(72,171)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$ 26,191	5,539	(25,172)	2,895	-	$ 9,453
CHANGE IN NET POSITION	$ 19,806	7,178	(1,748)	20,935	945	$ 47,116
Total net position - beginning (previously reported)	$ 115,189	51,581	180,770	276,686	13,740	$ 637,966
Cumulative effect of change in accounting priniciple	(2,495)	-	-	-	-	(2,495)
TOTAL NET POSITION - BEGINNING	$ 112,694	51,581	180,770	276,686	13,740	$ 635,471
TOTAL NET POSITION - ENDING	$ 132,500	58,759	179,022	297,621	14,685	$ 682,587

NORTH CAROLINA HOUSING FINANCE AGENCY
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2015

(in thousands)	AGENCY PROGRAMS	GRANT PROGRAMS: Housing Trust Fund	GRANT PROGRAMS: Federal and State Programs	HOME OWNERSHIP BOND PROGRAMS: 1998	HOME OWNERSHIP BOND PROGRAMS: 2009	Total
Cash flows from operating activities:						
Interest on mortgage loans	$ 57	459	1,169	43,180	6,196	$ 51,061
Principal payments on mortgage loans	218	997	13,794	115,923	16,102	147,034
Purchase of mortgage loans	-	(1,250)	(18,058)	(765)	-	(20,073)
Federal program awards received	-	-	193,826	-	-	193,826
Federal program expense	-	-	(224,576)	-	-	(224,576)
Nonfederal program expense	(4,268)	-	-	(10,339)	-	(14,607)
Federal grant administration income	-	-	15,020	-	-	15,020
Program income/fees	12,003	1,063	14,106	12,074	-	39,246
Other expenses	(16,896)	-	(7,992)	(4,158)	(559)	(29,605)
Other revenues	4,559	(247)	-	(419)	(48)	3,845
Net cash (used in) provided by operating activities	$ (4,327)	1,022	(12,711)	155,496	21,691	$ 161,171
Cash flows from non-capital financing activities:						
Principal repayments on bonds	$ -	-	-	(144,020)	(12,940)	$ (156,960)
Interest paid	-	-	-	(29,144)	(5,341)	(34,485)
Net transfers	12,679	134	(15,708)	2,895	-	-
State appropriations received	-	16,783	1,459	-	-	18,242
State grants received	-	2,893	11,804	-	-	14,697
State tax credits	47,645	-	-	-	-	47,645
State program expense	(44,615)	(11,378)	(16,178)	-	-	(72,171)
Net cash provided by (used in) non-capital financing activities	$ 15,709	8,432	(18,623)	(170,269)	(18,281)	$ (183,032)
Cash flows from investing activities:						
Proceeds from sales or maturities of investments	$ 86,724	-	-	6,163	-	$ 92,887
Purchase of investments	(86,724)	-	-	(6,133)	(3,110)	(95,967)
Earnings on investments	569	130	381	3,117	181	4,378
Net cash provided by (used in) investing activities	$ 569	130	381	3,147	(2,929)	$ 1,298
Net increase (decrease) in cash	$ 11,951	9,584	(30,953)	(11,626)	481	$ (20,563)
Cash and cash equivalents at beginning of year	38,521	25,762	138,907	140,569	13,732	357,491
Cash and cash equivalents at end of year	$ 50,472	35,346	107,954	128,943	14,213	$ 336,928
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:						
Operating (loss) income	$ (6,385)	1,639	23,424	18,040	945	$ 37,663
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:						
Interest on investments	(569)	(137)	(381)	(3,184)	(185)	(4,456)
Decrease in fair value of investments	38	-	-	112	15	165
Interest on bonds	-	-	-	24,503	4,894	29,397
Change in assets and liabilities:						
Decrease (increase) in mortgage loans receivable	218	(234)	(4,416)	113,698	16,043	125,309
Decrease (increase) in interest receivable on mortgage loans	-	1	3	1,925	(32)	1,897
Decrease (increase) in other assets	1,673	(215)	1,873	(324)	(48)	2,959
(Decrease) increase in accounts payable and other liabilities	(684)	(32)	(1,766)	726	59	(1,697)
Increase (decrease) in unearned revenues	1,382	-	(31,448)	-	-	(30,066)
Total adjustments	$ 2,058	(617)	(36,135)	137,456	20,746	$ 123,508
Net cash (used in) provided by operating activities	$ (4,327)	1,022	(12,711)	155,496	21,691	$ 161,171