Audited Financial Statements

June 30, 2018

NORTH CAROLINA HOUSING FINANCE AGENCY
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018

TABLE OF CONTENTS

FINANCIAL STATEMENTS

SUPPLEMENTARY INFORMATION

MANAGEMENT DISCUSSION AND ANALYSIS (*Unaudited*)
June 30, 2018

The management discussion and analysis of the North Carolina Housing Finance Agency's financial performance provides an overview of its financial activities for the fiscal year ended June 30, 2018. The financial statements, accompanying notes, and supplementary information should be read in conjunction with the following discussion.

Overview

The North Carolina Housing Finance Agency (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 issues bonds and sells mortgage-backed securities (MBS) on the secondary market to finance housing throughout the State of North Carolina (State). In addition, the Agency administers the Section 8 program, the HOME Investment Partnerships Program (HOME), the US Department of the Treasury's Hardest Hit Fund (HHF), the Low-Income Housing Tax Credits (LIHTC) program, the North Carolina Housing Trust Fund (HTF) 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, 2018, compared to prior fiscal year's results and activities:

- *Total Assets* increased $23,008,000, or 1.4%
- *Deferred Outflows of Resources* decreased $344,000, or 5.8%
- *Total Liabilities* decreased $8,245,000, or 0.8%
- *Deferred Inflows of Resources* increased $4,684,000, or 105.5%
- *Total Net Position* increased $26,225,000, or 3.6%

The Agency issued tax-exempt bonds in June 2017 and June 2018 to finance a portion of its NC Home Advantage (HomeAd) mortgage loans, which were securitized into MBS. These transactions caused an increase in *Investments* and *Bonds payable, net* as well as other related accounts. However, monthly bond calls using prepayments from the HomeAd program and FirstHome program resulted in a more modest increase in *Bonds payable, net* relative to the increase in *Investments.* These transactions are primarily responsible for the increases in the accounts below:

- *Investments* increased $155,574,000, or 52.1%
- *Accrued interest receivable on investments* increased $767,000, or 53.9%
- *Bonds payable, net* increased $20,062,000, or 2.3%
- *Accrued interest payable* increased $1,031,000, or 9.2%
- *Interest on investments* increased $14,444,000, or 180.0%
- *Interest on bonds* increased $879,000, or 3.4%

Although *Investments* increased substantially from prior year, the increase in overall interest rates during the year caused a decrease in *Net (decrease) increase in fair value of investments* of $5,708,000, or 105.4%. The higher interest rates and a reduction in the notional amount of the swaps caused a decrease in both *Accumulated decrease in fair value of hedging derivative* and *Derivative instrument – interest rate swap* of $975,000, or 36.5%.

The Agency has an arrangement with its master servicer to temporarily purchase a portion of its HomeAd mortgage loans if mortgage loans purchased by its master servicer exceed $60 million. Because the volume of purchases remained below $60 million, there is no balance in *Mortgage loans held for resale* at June 30, 2018, representing a decrease of $23,341,000, or 100%. *Accounts payable* decreased $1,453,000, or 29.9% primarily due to changes in the amount of cash deposited in the clearing account with the Agency's trustee.

HomeAd production is funded with tax-exempt bonds and through the sale of MBS on the secondary market. The HomeAd loans associated with the Agency's HHF Down Payment Assistance (HHF DPA) program and the new 1st Home Advantage Down Payment Assistance (1st Home DPA) were primarily bond funded, causing a reduction in HomeAd production funded through sales on the secondary market. Because the HHF DPA was funded by the North Carolina Foreclosure Prevention Fund (NCFPF), which is a federal program, it caused a decrease in DPA loans funded with nonfederal funds. This resulted in overall decreases in *Program income/fees* of $5,387,000, or 7.3%, and *Nonfederal program expense* of $7,590,000, or 29.5%.

Tax-exempt mortgage revenue bonds became economically challenging to issue in the Great Recession; therefore, the Agency shifted from its historical FirstHome program to the HomeAd program in 2013, financing production through the sale of MBS. As a result, the portfolio of loans in the FirstHome program continues to decline from prepayments, resulting in decreases in *Mortgage loans receivable, net* and related accounts listed below:

- *Mortgage loans receivable, net* decreased $89,557,000, or 12.6%
- *Accrued interest receivable on mortgage loans* decreased $865,000, or 18.1%
- *Interest on mortgage loans* decreased $5,582,000, or 15.0%
- *Mortgage servicing expense* decreased $338,000, or 15.8%

Other liabilities decreased $2,040,000, or 27.1% due to the use of insurance proceeds from an insurance claim related to Hurricane Matthew damage.

Unearned revenues decreased $38,886,000, or 53.8%, primarily because disbursements for the NCFPF exceeded draws from the HHF. Despite this, *Federal program awards received* and *Federal program expense* decreased primarily due to slowing NCFPF production as it begins to wind down. In addition, *Federal program awards received* and *Federal program expense* decreased because of the wind down of the National Foreclosure Mitigation Counseling program. HOME program income was used instead of HOME entitlement. As a result, *Federal program expense* decreased less than *Federal program awards received*, as shown below:

- *Federal program awards received* decreased $15,735,000, or 6.2%
- *Federal program expense* decreased $5,149,000, or 2.0%

State appropriations received decreased $36,051,000, or 71.2%, and *State grants received* increased $18,332,000, or 138.9%, primarily because of the funding source for the Workforce Housing Loan Program (WHLP). In fiscal year 2017, WHLP was funded with a $20 million appropriation. In fiscal year 2018, it was funded with a $3.9 million appropriation and a $16.1 million State settlement with Moody's Corporation, Moody's Investor's Service, Inc., and Moody's Analytics, Inc. (Moody's settlement) to resolve allegations regarding their business practices. The Moody's settlement is reported as *State grants received.* The wind down of the State Tax Credit (STC) program caused a $36.7 million decrease to *State program expense*, which was offset by an increase in program expenditures related to Community Living Housing Fund (CLHF), WHLP, Key Rental Assistance (Key), and other programs. These factors netted to an overall decrease in *State program expense* of $25,486,000, or 36.6%.

In fiscal year 2018, the Agency implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75). GASB 75 requires the Agency to record its proportionate share of the State's net postemployment benefits, deferred outflows of resources, deferred inflows of resources, and other postemployment benefits (OPEB) expense. The cumulative effect of the change related to GASB 75 was a decrease to beginning fiscal year 2018 *Net Position* of $17,702,000. As a result of the GASB 75 adjustment, *Unrestricted net position* decreased by $16,628,000, or 103.1%, resulting in a negative *Unrestricted net position* of $502,000 as of June 30, 2018. Included in *General and administrative expense* is a $902,000 OPEB expense related to GASB 75, which was more than offset by decreases in miscellaneous contractor services and other various operating expenses of the Agency. The effect of these transactions is summarized as follows:

- *Deferred outflows for pensions* decreased $778,000, or 24.0%
- *Deferred outflows for other postemployment benefits* increased $1,409,000, or 100%
- *Pension liability* decreased $451,000, or 9.8%
- *Other postemployment benefits* increased $14,467,000, or 100%
- *Deferred inflows for pensions* decreased $82,000, or 37.6%
- *Deferred inflows for other postemployment benefits* increased $5,026,000, or 100%
- *General and administrative expense* decreased $2,086,000, or 7.1%

The net effect of the transactions detailed above, along with regular operations of the Agency, resulted in an increase in *Total Net Position* of $26,225,000, or 3.6%. The primary drivers of the increase include new HomeAd production offset by decreases in the FirstHome portfolio, the initial phase of the NCFPF wind down, the impacts of the sunset STC program, and the accounting change related to GASB 75. The Agency continues to proactively manage its programs to further its mission of creating affordable housing for North Carolinians with low and moderate incomes.

Financial Analysis

The following tables summarize the changes in net position between June 30, 2018 and June 30, 2017 (*in thousands)*:

	2018	2017	Change	%
Condensed Statement of Net Position				
Assets*				
Cash and cash equivalents	$ 635,725	$ 654,099	$ (18,374)	(2.8)
Investments	454,446	298,872	155,574	52.1
Accrued interest receivable on investments	2,190	1,423	767	53.9
Mortgage loans receivable, net	619,934	709,491	(89,557)	(12.6)
Mortgage loans held for resale	-	23,341	(23,341)	(100.0)
Accrued interest receivable on mortgage loans	3,910	4,775	(865)	(18.1)
State receivables	-	131	(131)	(100.0)
Other assets, net	9,952	11,017	(1,065)	(9.7)
Total Assets	$ 1,726,157	$ 1,703,149	$ 23,008	1.4
Deferred Outflows of Resources				
Deferred outflows for pensions	$ 2,462	$ 3,240	$ (778)	(24.0)
Deferred outflows for other postemployment benefits	1,409	-	1,409	100.0
Accumulated decrease in fair value of hedging derivative	1,698	2,673	(975)	(36.5)
Total Deferred Outflows of Resources	$ 5,569	$ 5,913	$ (344)	(5.8)
Liabilities*				
Bonds payable, net	$ 900,410	$ 880,348	$ 20,062	2.3
Accrued interest payable	12,214	11,183	1,031	9.2
Accounts payable	3,413	4,866	(1,453)	(29.9)
Derivative instrument – interest rate swap	1,698	2,673	(975)	(36.5)
Unearned revenues	33,366	72,252	(38,886)	(53.8)
Pension liability	4,155	4,606	(451)	(9.8)
Other postemployment benefits	14,467	-	14,467	100.0
Other liabilities	5,495	7,535	(2,040)	(27.1)
Total Liabilities	$ 975,218	$ 983,463	$ (8,245)	(0.8)
Deferred Inflows of Resources				
Deferred state grant	$ 3,961	$ 4,221	$ (260)	(6.2)
Deferred inflows for pensions	136	218	(82)	(37.6)
Deferred inflows for other postemployment benefits	5,026	-	5,026	100.0
Total Deferred Inflows of Resources	$ 9,123	$ 4,439	$ 4,684	105.5

	2018	2017	Change	%
Condensed Statement of Net Position (Continued)				
Net Position				
Net investment in capital assets	$ 3,367	$ 3,174	$ 193	6.1
Restricted net position	744,520	701,860	42,660	6.1
Unrestricted net position	(502)	16,126	(16,628)	(103.1)
Total Net Position	$ 747,385	$ 721,160	$ 26,225	3.6

	2018	2017	Change	%
Condensed Statement of Revenues, Expenses and Changes in Net Position				
Operating Revenues				
Interest on investments	$ 22,468	$ 8,024	$ 14,444	180.0
Net (decrease) increase in fair value of investments	(291)	5,417	(5,708)	(105.4)
Interest on mortgage loans	31,755	37,337	(5,582)	(15.0)
Federal program awards received	239,872	255,607	(15,735)	(6.2)
Program income/fees	68,488	73,875	(5,387)	(7.3)
Other revenues	944	1,021	(77)	(7.5)
Total Operating Revenues	$ 363,236	$ 381,281	$ (18,045)	(4.7)
Operating Expenses				
Interest on bonds	$ 27,042	$ 26,163	$ 879	3.4
Mortgage servicing expense	1,803	2,141	(338)	(15.8)
Federal program expense	246,260	251,409	(5,149)	(2.0)
Nonfederal program expense	18,179	25,769	(7,590)	(29.5)
General and administrative expense	27,111	29,197	(2,086)	(7.1)
Other expenses	992	1,839	(847)	(46.1)
Total Operating Expenses	$ 321,387	$ 336,518	$ (15,131)	(4.5)
Operating Income	$ 41,849	$ 44,763	$ (2,914)	(6.5)
Non-Operating Revenues (Expenses)				
State appropriations received	$ 14,609	$ 50,660	$ (36,051)	(71.2)
State grants received	31,527	13,195	18,332	138.9
State program expense	(44,058)	(69,544)	25,486	(36.6)
Total Non-Operating Revenues (Expenses)	$ 2,078	$ (5,689)	$ 7,767	(136.5)
Change in Net Position	$ 43,927	$ 39,074	$ 4,853	12.4
Total net position - beginning (as previously reported)	$ 721,160	$ 682,086	$ 39,074	5.7
Cumulative effect of change in accounting principle**	(17,702)	-	(17,702)	100.0
Total Net Position - Beginning	$ 703,458	$ 682,086	$ 21,372	3.1
Total Net Position - Ending	$ 747,385	$ 721,160	$ 26,225	3.6

* 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 2018, the Agency implemented GASB 75, which resulted in a decrease to the beginning fiscal year 2018 *Net Position* of $17,702,000. The fiscal year 2017 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

The Agency's production remained strong in fiscal year 2018, with funding remaining steady and multiple financing options for programs providing flexibility to the Agency and its borrowers. These items are discussed in more detail below.

Appropriations, Awards and Legislation

For fiscal year 2018, the Agency received the following appropriations and awards from the federal government, the North Carolina General Assembly, and other State departments, which are discussed in more detail below:

<u>Federal:</u>

$	159.8 million	Section 8 (Project-Based and Traditional Contract Administration)
$	12.4 million	HOME Investment Partnerships Program
$	4.4 million	National Housing Trust Fund

<u>North Carolina:</u>

$	20.0 million	Workforce Housing Loan Program*****
$	7.7 million	Housing Trust Fund*****
$	4.2 million	Community Living Housing Fund*****
$	5.8 million	Transitions to Community Living Voucher
$	5.5 million	Key Rental Assistance
$	3.0 million	HOME Match

***** Appropriations from the Housing Trust Fund

The Agency received $159.8 million in fiscal year 2018 to administer the Section 8 programs, which represents an increase of $5.6 million from the prior year.

The $12.4 million HOME award provided by the US Department of Housing and Urban Development (HUD) was consistent with amounts received in the prior fiscal year.

The $4.4 million National Housing Trust Fund (NHTF) award provided by HUD was $1.1 million greater than the prior fiscal year. Although NHTF was established in the Housing and Economic Recovery Act of 2008, the award received in fiscal year 2017 was the first time the Agency received the award.

The Agency received $20 million in nonrecurring funds for WHLP in fiscal year 2018, consistent with the prior year. The fiscal year 2018 amount was comprised of a $3.9 million WHLP appropriation and a $16.1 million Moody's settlement which the State allocated to the program.

The Agency received a recurring $7.7 million appropriation for the HTF in fiscal year 2018, consistent with the prior year. In fiscal year 2017, the Agency received a nonrecurring $20 million appropriation related to the Disaster Recovery Act of 2016. The funds for disaster recovery efforts received in fiscal year 2017 were fully committed in fiscal year 2018.

The Agency received $4.2 million in fiscal year 2017 for CLHF, which was appropriated and available for use in fiscal year 2018. This appropriation is $1.3 million less than last year's CLHF appropriation.

The NC Department of Health and Human Services (DHHS) provides funding to the Agency to administer several DHHS programs, including the Transitions to Community Living Voucher (TCLV) program and the Key program. In fiscal year 2017, the Agency received $5.8 million for TCLV, which was appropriated and available for use in fiscal year 2018, a $3.6 million increase from the prior fiscal year. The Key program funding of $5.5 million was consistent with prior year funding.

The HOME Match is funding received from the State to supplement the federal funding received from the HOME program. The HOME Match appropriation of $3 million is the same level as the prior fiscal year.

The Federal Tax Cuts and Jobs Act (Tax Act) was signed into law on December 22, 2017. Initial drafts of the bill proposed to eliminate the issuance of tax-exempt private activity bonds (PABs), including multifamily and single-family housing bonds, after December 31, 2017. The proposals also would have eliminated the Agency's Mortgage Credit Certificate (MCC) program and the 4% LIHTC. The Tax Act ultimately retained the issuance of tax-exempt PABs, allowing the Agency to continue this funding source and its MCC program. The tax rate reduction in the Tax Act decreased the value of the low-income housing tax credits; however, the Agency continued to have strong demand for its LIHTC program in fiscal year 2018.

New Activities

The Agency developed the 1st Home DPA for its HomeAd program in response to the wind down of the HHF DPA program in fiscal year 2018. Rolled out in March 2018, the 1st Home DPA offers $8,000 in down payment assistance for a 15-year term at 0% interest. The loan is forgiven at the end of years 11 through 15 at a rate of 20% per year—the same terms as the Agency's existing 3% and 5% HomeAd DPA programs. The 3% and 5% HomeAd DPA serves any borrowers eligible for the HomeAd program, whereas the 1st Home DPA is limited to first-time home buyers, veterans or borrowers located in a targeted area within certain income and sales price limits. Unlike the HHF DPA, which was only available in five counties, the 1st Home DPA is available statewide to qualifying borrowers. The Agency issued Series 39 tax-exempt bonds in June 2018 to finance the 1st Home DPA and its related HomeAd first mortgages, which is discussed in more detail in the "Debt Administration" section.

In 2012, the State entered into a voluntary settlement agreement with the US Department of Justice (known as the Olmstead Settlement) for housing people with mental illness. In response to the settlement, DHHS created the Transitions to Community Living Initiative (TCLI) to ensure that people with certain disabilities can receive the necessary services and support to successfully live in the communities of their choice. In addition to the existing programs the Agency administers on behalf of DHHS for TCLI, the Agency created the Integrated Supportive Housing Program (ISHP) in collaboration with DHHS in fiscal year 2018. ISHP will finance up to $13.5 million of integrated permanent supportive housing and is designed to allow innovation and flexibility to meet local needs as identified by Local Management Entities/Managed Care Organizations (LME/MCOs) in partnership with local housing developers. The funding for ISHP is provided by CLHF funding through the HTF.

The Agency's Board of Directors approved $100,000 for the Landlord Incentive Pilot Program, a risk mitigation and incentive toolkit to assist local organizations in the recruitment and retention of landlords to provide housing for homeless veterans. This program was developed as a part of the Agency's participation with the Governor's Working Group on Veterans and the Operation Home Task Force focused on veterans housing issues. The NC Coalition to End Homelessness (NCCEH) serves as the administrator of the program. The Agency reimburses costs to landlords after submission and approval of the costs by NCCEH.

Debt Administration

The Agency issued tax-exempt bonds in fiscal year 2018 to finance a portion of HomeAd production and to refund an existing bond series. The Series 39 tax-exempt bond issuance closed in June 2018 for a total of $150,000,000 par plus a premium of $2,785,000. Most of the proceeds will be used to finance HomeAd production, but $13,085,000 was used to refund Series 22CE in June 2018. The proceeds used for new production finances both the first mortgage and the Agency's new 1st Home DPA, which rolled out in March 2018. The 1st Home DPA provides $8,000 in down payment assistance in the form of a 0% interest, subordinated mortgage loan that accompanies a HomeAd loan, discussed in more detail in the "New Business" section.

The Agency has three swaps with two counterparties, Bank of America and Goldman Sachs Mitsui Marine, discussed in detail in Note E, "Derivative Instrument – Interest Rate Swap." Only one of the three swaps has a remaining optional cancellation provision. This provision benefits the Agency as it allows cancellations with no associated termination fee. The counterparty for this swap is Bank of America, and the Agency exercised its optional cancellation for $280,000 on July 1, 2017 and $270,000 on January 1, 2018.

The Agency had monthly bond calls and biannual debt service payments in fiscal year 2018 which totaled $131,725,000. The bond calls included prepayment calls and debt service reserve calls.

The Agency issued conduit multifamily mortgage revenue bonds of $17,691,000 in March 2018 for the acquisition and rehabilitation of ten existing multifamily properties in nine counties serving families and the elderly. These bonds are not a debt of the Agency and are secured by the related properties. After the projects are placed in service and the rehabilitation is complete, the bonds will be paid off with the proceeds of a US Department of Agriculture Rural Development (USDA) Section 538 loan. This issuance represents the only outstanding multifamily mortgage revenue bonds as two other issuances were redeemed within this fiscal year.

Programs and Activities

For the year ended June 30, 2018, the Agency recorded expenditures of $275,702,000 in federal funds for the following programs:

- Carryover Loan Program (COLP)
- Community Partners Loan Pool (CPLP)
- Essential Single-Family Rehabilitation Loan Pool (ESFRLP)
- Hardest Hit Fund Down Payment Assistance (HHF DPA)
- Mortgage Payment Program (MPP)
- National Foreclosure Mitigation Counseling (NFMC)
- Principal Reduction Recast/Lien Extinguishment for Unaffordable Mortgages Program (PRRLE)
- Rental Production Program (RPP)
- Second Mortgage Refinance Program (SMRP)
- Section 8 Project-Based Contract Administration (Section 8 PBCA)
- Section 8 Traditional Contract Administration (Section 8 TCA)
- Self-Help Loan Pool (SHLP)
- Supportive Housing Development Program (SHDP)

For the year ended June 30, 2018, the Agency recorded expenditures of $46,646,000 in State funds for the following programs:

- Displacement Prevention Partnership (DPP)
- Essential Single-Family Rehabilitation Loan Pool – Disaster Recovery (ESFRLP-DR)
- Housing Counseling Capacity Building Program (HCCBP)
- Housing Placement Services (HPS)
- Housing Services (HS)
- Key Rental Assistance (Key)
- Rental Production Program (RPP)
- Self-Help Loan Pool (SHLP)
- State Tax Credit (STC)
- Supportive Housing Development Program (SHDP)
- Transitions to Community Living Voucher (TCLV)
- Urgent Repair Program (URP)
- Workforce Housing Loan Program (WHLP)

For the year ended June 30, 2018, the Agency recorded expenditures of $191,616,000 from other funding sources for the following programs:

- Community Partners Loan Pool (CPLP)
- Construction Training Partnership (CTP)
- Essential Single-Family Rehabilitation Loan Pool (ESFRLP)
- Multifamily Rental Assistance (MF RA)
- NC Home Advantage Mortgage (HomeAd)
- NC Home Advantage Down Payment Assistance (HomeAd DPA) and NC 1st Home Advantage Down Payment Assistance (1st Home DPA)

- Self-Help Loan Pool (SHLP)
- State Home Foreclosure Prevention Project (SHFPP)

For the year ended June 30, 2018, the Agency made awards of $568,378,000 for the following programs:

- Low-Income Housing Tax Credit (LIHTC)
- NC Home Advantage Tax Credit
- NC Home Advantage Mortgage (HomeAd)

The Agency's mission is to create affordable housing opportunities for North Carolinians whose needs are not met by the market. The Agency focuses its efforts on providing assistance to borrowers purchasing their home, financing affordable rental housing, and helping homeowners who are facing foreclosure or living in substandard housing.

<u>Home Ownership Programs</u> The Agency offers low-cost mortgages, down payment assistance, and MCCs for qualified buyers through the following programs:

- NC Home Advantage Mortgage offers affordable mortgage options and forgivable down payment assistance to first-time or move-up homebuyers. Borrowers are offered 30-year fixed rate mortgages and 15-year deferred, forgivable second mortgages of 3% or 5% of the first mortgage amount.
- NC 1st Home Advantage Down Payment Assistance program provides another down payment assistance option for qualifying veterans and first-time homebuyers using the HomeAd mortgage. This comes in the form of an $8,000 deferred forgivable 15-year second mortgage.
- NC Home Advantage Tax Credit helps qualifying veterans and homebuyers increase their mortgage affordability by providing MCCs. MCCs are federal tax credits that reduce tax liability annually by up to 30% of mortgage interest for existing homes or up to 50% for new construction, each with a maximum credit of $2,000 annually.
- Self-Help Loan Pool provides affordable mortgages to homebuyers purchasing homes through nonprofit Self-Help Housing loan pool members. Homebuyers are offered interest-free amortizing loans, with up to 33-year terms, for up to $35,000, in combination with SHLP nonprofit member financing.
- Community Partners Loan Pool provides down payment assistance to qualifying homebuyers purchasing a home through local governments and nonprofits. Homebuyers are offered interest-free, deferred second mortgages up to 20% of the purchase price when combined with a HomeAd mortgage or up to 10% when combined with a USDA Section 502 loan, up to $30,000.

<u>Housing Preservation Programs</u> The Agency partners with local governments, nonprofits, and regional councils to finance the rehabilitation of substandard owner-occupied homes to prevent displacement through the following programs:

- Essential Single-Family Rehabilitation Loan Pool provides essential and critical home rehabilitation for qualifying homeowners. A minimum of $175,000 is provided to partners in the form of interest-free, deferred loans, and partners may use up to $25,000 per unit for construction. The program benefits homeowners earning up to 80% of area median income who are elderly, disabled, qualified veterans, and/or people who live in homes with children under age six.
- Essential Single-Family Rehabilitation Loan Pool – Disaster Recovery program provides interest-free deferred loans to eligible homeowners to provide essential rehabilitations in response to damage from Hurricane Matthew and Tropical Storms Julia and Hermine. Homeowners earning up to 100% of area median income whose homes were affected by these storms in the counties listed in the Disaster Recovery Act of 2016 are eligible for loans up to $40,000 for rehabilitation.

- Urgent Repair Program provides loans up to $8,000 to assist qualifying homeowners with emergency repairs and modifications that address imminent threats to health or safety. Homeowners who are elderly, special needs, veterans or disabled earning up to 50% of area median income are eligible.
- Displacement Prevention Partnership offers loans through the NC Division of Vocational Rehabilitation and Independent Living Offices to repair or improve home accessibility for qualifying homeowners with mobility issues. Homeowners who are disabled earning up to 50% of area median income are eligible for loans up to $8,000.

Foreclosure Prevention Programs The Agency provides foreclosure prevention services in partnership with housing counseling organizations approved by HUD through various programs, including the following:

- North Carolina Foreclosure Prevention Fund (NCFPF), which was made possible by funding from the HHF, is a suite of Agency-developed programs designed to help qualifying North Carolina homeowners who are struggling with their mortgages. These programs include the Mortgage Payment Program, the Principal Reduction Recast/Lien Extinguishment for Unaffordable Mortgages Program, and the Second Mortgage Refinance Program. Assistance comes in the form of interest-free deferred loans that serve to reduce monthly payments for homeowners on a reduced or fixed income or to make mortgage payments for homeowners recovering from hardship or seeking reemployment. More information on the NCFPF can be found on its website at www.ncforeclosureprevention.gov.
- The State Home Foreclosure Prevention Project provides free housing counseling and legal assistance to homeowners facing foreclosure. These services are funded through foreclosure filing fees, which are paid by servicers of North Carolina home loans.

Rental Development Programs The Agency finances affordable homes and apartments developed by local governments, nonprofits, and private developers through various programs, including the following:

- The Low-Income Housing Tax Credit program provides eligible rental developers with financing necessary to develop and substantially rehabilitate affordable rental housing in the State. The tax credit reduces the investors' federal tax liability by up to 9% of the eligible project cost each year for 10 years, and participation in the program ensures the creation and/or preservation of affordable rental housing for households earning up to 60% of the area median income.
- The Workforce Housing Loan Program provides long-term financing for tax credit developments. Assistance is available in the form of 30-year balloon loans for a percentage of development costs based on income designations for each county. Loans are available up to $250,000 per project in high-income counties, up to $1.5 million in moderate-income counties, and up to $2 million in low-income counties.
- The Rental Production Program provides long-term financing for tax credit developments. Amortizing or deferred loans are available up to $800,000 per project, with a maximum interest rate of 2% for up to 20 years.
- The Carryover Loan Program provides financing for the acquisition of land for 9% new construction tax credit properties which primarily serve households earning up to 60% of the area median income. The fixed rate loan has a 3.5% interest rate on the lower of 95% of the approved land cost or $1,000,000.

Rental Assistance Programs The Agency administers rent assistance contracts for privately owned apartments through the following programs:

- Section 8 rent assistance projects are administered by the Agency for certain project-based Section 8 Housing Assistance Payment contracts on behalf of HUD. For Project-Based Contract Administration (Section 8 PBCA) projects, the Agency partners with NC Quadel Consulting Corporation to manage the contract administration duties. For Traditional Contract Administration (Section 8 TCA) projects, the Agency is directly responsible for receiving and distributing rental assistance payments from HUD. To assist in the

Section 8 TCA process, the Agency contracts with Independent CA Professionals, LLC to electronically process vouchers and submit to HUD.

- Key Rental Assistance, a DHHS program for which the Agency serves as a partner, provides rental assistance for low-income persons with disabilities, including those experiencing homelessness. The Agency is responsible for executing agreements with property owners, reviewing income eligibility documentation at move-in and recertification periods, making rental assistance payments to owners, and projecting costs of the program.
- The Transition to Community Living Voucher program, a DHHS program for which the Agency serves as a partner, was established in 2016 to create an efficient and effective state housing administration system to allow people with certain disabilities to successfully live in communities of their choice. The Agency supports LME/MCOs in administering vouchers through the development and maintenance of a secure electronic funds management and document collection system, reviewing payment requests for compliance and disbursing funds accordingly.

Supportive Housing Programs The Agency finances the development of supportive housing for North Carolinians through its partners across the State:

- The Supportive Housing Development Program provides amortizing or deferred loans to local governments, nonprofits, and regional councils to finance the production of emergency and permanent supportive housing. This program benefits people earning up to 50% of the area median income who have supportive housing needs or are experiencing homelessness. Loans are available up to the lesser of $700,000 or 70% of project costs, depending on whether the area is an entitlement area.
- The Integrated Supportive Housing Program, a collaboration with DHHS, finances integrated permanent supportive housing to meet the needs of people with certain disabilities as identified by LME/MCOs in partnership with local housing developers.

Additional Information

This discussion and analysis is intended to provide additional information regarding the activities of the North Carolina Housing Finance Agency. If you have questions about the report or need additional financial information, contact S. Carrie Freeman, Chief Financial Officer, North Carolina Housing Finance Agency, P.O. Box 28066, Raleigh, North Carolina 27611-8066, (919) 877-5680, scfreeman@nchfa.com, or visit the Agency's website at www.nchfa.com.

Tel: 919-754-9370
Fax: 919-754-9369
www.bdo.com

421 Fayetville Street
Suite 300
Raleigh, NC 27601

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, 2018, 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 audit. We conducted our audit 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, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A to the financial statements, during the year ended June 30, 2018, the Agency adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

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 26, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's 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 26, 2018

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF NET POSITION

AS OF JUNE 30, 2018

(in thousands)

ASSETS		
Current assets:		
Cash and cash equivalents	$	15,338
Restricted cash and cash equivalents		620,387
Investments		1,006
Restricted investments		11,004
Accrued interest receivable on investments		2,190
Mortgage loans receivable		107,612
Accrued interest receivable on mortgage loans		3,910
Other assets		6,558
TOTAL CURRENT ASSETS	$	768,005
Noncurrent assets:		
Investments	$	974
Restricted investments		441,462
Mortgage loans receivable, net		512,322
Other assets, net		3,394
TOTAL NONCURRENT ASSETS	$	958,152
TOTAL ASSETS	$	1,726,157
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows for pensions	$	2,462
Deferred outflows for other postemployment benefits		1,409
Accumulated decrease in fair value of hedging derivative		1,698
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$	5,569
LIABILITIES		
Current liabilities:		
Bonds payable	$	26,200
Accrued interest payable		12,214
Accounts payable		3,413
Unearned revenues		19,506
Other liabilities		216
TOTAL CURRENT LIABILITIES	$	61,549
Noncurrent liabilities:		
Bonds payable, net	$	874,210
Derivative instrument - interest rate swap		1,698
Unearned revenues		13,860
Pension liability		4,155
Other postemployment benefits		14,467
Other liabilities		5,279
TOTAL NONCURRENT LIABILITIES	$	913,669
TOTAL LIABILITIES	$	975,218
DEFERRED INFLOWS OF RESOURCES		
Deferred state grant	$	3,961
Deferred inflows for pensions		136
Deferred inflows for other postemployment benefits		5,026
TOTAL DEFERRED INFLOWS OF RESOURCES	$	9,123
NET POSITION		
Net investment in capital assets	$	3,367
Restricted net position		744,520
Unrestricted net position		(502)
TOTAL NET POSITION	$	747,385

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, 2018

(in thousands)		
OPERATING REVENUES		
Interest on investments	$	22,468
Net decrease in fair value of investments		(291)
Interest on mortgage loans		31,755
Federal program awards received		239,872
Program income/fees		68,488
Other revenues		944
TOTAL OPERATING REVENUES	$	363,236
OPERATING EXPENSES		
Interest on bonds	$	27,042
Mortgage servicing expense		1,803
Federal program expense		246,260
Nonfederal program expense		18,179
General and administrative expense		27,111
Other expenses		992
TOTAL OPERATING EXPENSES	$	321,387
OPERATING INCOME	$	41,849
NON-OPERATING REVENUES (EXPENSES)		
State appropriations received	$	14,609
State grants received		31,527
State program expense		(44,058)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$	2,078
CHANGE IN NET POSITION	$	43,927
Total net position - beginning (as previously reported)	$	721,160
Cumulative effect of change in accounting principle		(17,702)
TOTAL NET POSITION - BEGINNING	$	703,458
TOTAL NET POSITION - ENDING	$	747,385

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

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2018

(in thousands)

Cash flows from operating activities:		
Interest on mortgage loans	$	32,475
Principal payments on mortgage loans		104,369
Purchase of mortgage loans		(14,278)
Principal payments on mortgage loans held for resale		96,755
Purchase of mortgage loans held for resale		(73,414)
Federal program awards received		200,236
Federal program expense		(246,388)
Nonfederal program expense		(18,179)
Federal grant administration income		14,513
Program income/fees		55,146
Other expenses		(36,956)
Other revenues		5,511
Net cash provided by operating activities	$	119,790
Cash flows from non-capital financing activities:		
Issuance of bonds	$	150,000
Principal repayments on bonds		(131,725)
Interest paid		(22,807)
Bond issuance costs paid		(1,417)
State appropriations received		14,609
State grants received		31,398
State program expense		(44,058)
Net cash used in non-capital financing activities	$	(4,000)
Cash flows from investing activities:		
Proceeds from sales or maturities of investments	$	16,689
Purchase of investments		(172,587)
Earnings on investments		21,734
Net cash used in investing activities	$	(134,164)
Net decrease in cash	$	(18,374)
Cash and cash equivalents at beginning of year		654,099
Cash and cash equivalents at end of year	$	635,725
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	41,849
Adjustments to reconcile operating income to net cash provided by operating activities:		
Interest on investments		(22,468)
Decrease in fair value of investments		291
Interest on bonds		27,042
Change in assets and liabilities:		
Decrease in mortgage loans receivable		89,557
Decrease in accrued interest receivable on mortgage loans		865
Decrease in mortgage loans held for resale		23,341
Decrease in other assets		5,066
Decrease in accounts payable and other liabilities		(6,867)
Decrease in unearned revenues		(38,886)
Total adjustments	$	77,941
Net cash provided by operating activities	$	119,790

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2018

A. AUTHORIZING LEGISLATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Authorizing Legislation The North Carolina Housing Finance Agency (Agency) is a public agency and component unit of the State of North Carolina (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 (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. 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. The Agency's primary programs are summarized below:

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

The North Carolina General Assembly (General Assembly) provides tax credits to the Agency for use in developing housing credit properties. While the State Tax Credit (STC) officially expired on January 1, 2015, the Agency received its final STC allocation of $29,752,000 during fiscal year 2017 and is continuing to disburse funds to approved properties. Under this program, projects receive the credit in the form of a loan or direct refund. The General Assembly replaced the STC with the Workforce Housing Loan Program (WHLP). See "Housing Trust Fund Programs" below for additional information on the WHLP appropriation.

In 2008, the State authorized the formation of the State Home Foreclosure Prevention Project (SHFPP) in response to the foreclosure crisis. State statute requires that all parties who wish to initiate a foreclosure against a home in North Carolina remit a $75 fee to the Agency. The fees collected are used to counsel and/or provide legal assistance to homeowners at risk of foreclosure. Any excess funds are allocated to the North Carolina Housing Trust Fund (HTF) annually. SHFPP transferred $140,000 to the HTF for fiscal year 2018. Funds in the amount of $2,027,000 were received and recorded as *Program income/fees* under Agency Programs. Expenses of $1,140,000 related to SHFPP are reflected in *Nonfederal program expense*. During fiscal year 2018, the Agency earned fees of $751,000 for the administration of this program.

Housing Trust Fund Programs The North Carolina Housing Trust and Oil Overcharge Act created the HTF and the North Carolina Housing Partnership (Housing Partnership). The purpose of the HTF 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 most programs within the HTF. The Agency staff provides services to the Housing Partnership and administers the HTF programs. The Agency received State appropriations in the amount of $11,609,000 for the year ended June 30, 2018. Of this amount, $7,660,000 is a recurring appropriation that is used to make loans and grants under the HTF programs. The remaining $3,949,000 nonrecurring appropriation is for WHLP. State appropriations are reported in *Non-Operating Revenues (Expenses)* in the accompanying financial statements.

In fiscal year 2017, the Agency received $4,221,000 from the North Carolina Department of Health and Human Services (DHHS) for the Community Living Housing Fund (CLHF), which was appropriated by the General Assembly in fiscal year 2018 and is reported in *State grants received*. Additional funds for CLHF of $3,961,000 were received and recorded as *Deferred state grant* in *Deferred Inflows of Resources*. These funds will only be available for disbursement upon appropriation by the General Assembly. Also included in *State grants received* is $16,051,000 for WHLP, which constitutes the remainder of the $20,000,000 in WHLP funding the Agency received in fiscal year 2018. These funds were provided by a State settlement with Moody's Corporation, Moody's Investor's Services, Inc. and Moody's Analytics, Inc. to resolve allegations regarding their business practices.

<u>Federal and State Programs</u> The Agency administers eight federal programs. Of the Agency's federal programs, the Section 8 programs, the Hardest Hit Fund (HHF), and the HOME Investment Partnerships Program (HOME) represent 58%, 27%, and 13% of federal expenditures, respectively. The Agency receives a fee for administering these programs. The HOME program is matched with State funds appropriated by the General Assembly; in fiscal year 2018, $3,000,000 of HOME Match funds were received.

In fiscal year 2018, the Agency received $5,750,000 from DHHS for the Transitions to Community Living Voucher program (TCLV) and other housing outcomes. TCLV is a tenant-based, rental assistance program, which also provides assistance with security deposits, holding fees and risk mitigation claims. These funds are reported in *State grants received.* As of June 30, 2018, $3,901,000 related to TCLV is recorded as *State program expense.* The Agency earned fees of $1,381,000 for the administration of this program.

The Agency received $5,505,000 from DHHS in fiscal year 2018 for the administration of the Key Rental Assistance (Key) program, which is reflected in *State grants received.* The Key program provides assistance and services to low-income individuals with disabilities and those who are homeless. During fiscal year 2018, $13,475,000 was disbursed and is reflected in *State program expense.* The Agency earned fees of $250,000 for the administration of the program.

<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 home buyer mortgage loans for single-family residential units.

The Agency's former FirstHome program was funded with tax-exempt mortgage revenue bonds, and the mortgage loans are reflected in *Mortgage loans receivable* and *Mortgage loans receivable, net* in both the 1998 and 2009 Home Ownership Bond Programs. The related income for this program is reflected in *Interest on mortgage loans.*

The operations for the NC Home Advantage Mortgage (HomeAd) program are financed through the sale of mortgage-backed securities (MBS) as well as tax-exempt mortgage revenue bonds, and all HomeAd production is reflected in the 1998 Home Ownership Bond Program. In contrast to the FirstHome program, in which the Agency owns the mortgage loans, all HomeAd production is pooled into MBS, regardless of the method of financing. For HomeAd loans funded through the sale of MBS, the related program income is recorded in *Program income/fees*. The MBS funded with bond proceeds are reflected in *Investments*, which also include other government securities held by the Agency, as described in Note B, “Cash, Cash Equivalents, Investments, Fair Value Measurements and Securities Lending Transactions.” The corresponding earnings from the bond-funded MBS are reflected in *Interest on investments*. The down payment assistance loans and lender compensation incurred by the HomeAd program are reflected in *Nonfederal program expense,* regardless of the method of financing.

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 collateralized under provisions of State laws and regulations, amounts in pooled cash accounts managed by the North Carolina 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 for the Agency’s debt service payments, bond calls, and for funding home ownership under the Agency’s different programs.

Investments *Investments* are reported at fair value in accordance with GASB Section I50, *Investments*.

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.

Mortgage loans held for resale Occasionally, the Agency purchases a portion of HomeAd mortgage loans from its originating lenders to hold from the time of loan purchase to the subsequent securitization of the loans. When these loans are purchased, they are reflected in *Mortgage loans held for resale*. At June 30, 2018, there was no balance reported in this account. The interest income and servicing fees associated with these loans are reflected in *Interest on mortgage loans* and *Mortgage servicing expense*, respectively.

Other assets, net Fixed assets, net of accumulated depreciation, in the amount of $3,367,000 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. *Other assets* (current) for Federal and State Programs of $1,329,000 includes receivables related to the HOME, Section 8, HHF, National Foreclosure Mitigation Counseling and National Housing Trust Fund programs. *Other assets* (current) in the amount of $5,026,000 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 2019.

Bond Premium Bond premium represents the difference in the amount received upon the sale of bonds and the par value 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* includes monitoring fees received for the Low-Income Housing Tax Credit. 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 in *Unearned revenues* is funding from the US Department of the Treasury (Treasury) for the HHF, which is used to assist homeowners at risk of foreclosure.

Interprogram receivable (payable) During the normal course of operations, the Agency has numerous transactions among programs to provide services. If certain transactions among programs have not been settled as of June 30, 2018, 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 will not be recognized as an expense or expenditure until then. The Agency has three items that meet this criterion in fiscal year 2018: contributions to the pension plan, contributions to other postemployment benefits (OPEB), 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 will not be recognized as revenue until then. The Agency has three items that meet the criterion: deferred state grant revenue, deferred inflows related to pensions, and deferred inflows related to OPEB resulting from the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75).

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 approves an operating budget annually that is funded with revenues generated by administrative fees earned on federal programs, interest income earned on investments, earnings from HomeAd, repayment of program funds, and reserves from trust agreements. All these revenue sources are used to cover operating expenses. The decision to use restricted or unrestricted receipts to fund a payment is transaction-based.

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

The Agency implemented GASB 75 in fiscal year 2018. The implementation of this statement required the Agency to record a beginning net OPEB liability and asset and the effects of contributions made by the Agency during the measurement period (fiscal year ending June 30, 2017). As a result of the implementation, net position as of June 30, 2017, as previously reported in the Agency's 2017 audited financial statements, was adjusted as follows *(in thousands)*:

	Retiree Health Benefit Fund	**Disability Income Plan**	**TOTAL**
June 30, 2017 Net position, as previously reported	$ -	$ -	$ 721,160
Prior period adjustment			
Net OPEB (liability) asset (measured at June 30, 2016)	(18,267)	27	(18,240)
Deferred outflows			
Contributions during fiscal year ended June 30, 2017	505	33	538
Total prior period adjustment	$ (17,762)	$ 60	$ (17,702)
June 30, 2017 Net position, as adjusted			**$ 703,458**

The effect of the adoption of GASB 75 on the Agency's financial statements is as follows *(in thousands)*:

	Without GASB 75	With GASB 75
Investment in capital assets	$ 3,367	$ 3,367
Restricted net position	744,460	744,520
Unrestricted net position	17,260	(502)
Total net position at June 30, 2018	**$ 765,087**	**$ 747,385**

Operating Revenues and Expenses As one of its primary funding resources, the Agency has the authority to issue bonds to the investing public to create a flow of private capital. These funds are used to finance mortgage loans for qualified borrowers. A significant portion of operating income is derived from interest earned on mortgage loans and MBS as well as the sale of MBS associated with the HomeAd program, less the interest expense of bonds outstanding. Additional operating income is earned from the administration of federal programs.

Non-Operating Revenues and Expenses *State appropriations received* and *State grants received* are classified as *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 trust agreements or 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 number of approved positions and number of transactions processed.

Use of Estimates The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the contingent and reported amounts of assets, liabilities and deferred inflows and outflows of resources 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, FAIR VALUE MEASUREMENTS AND SECURITIES LENDING TRANSACTIONS

Cash and cash equivalents As of June 30, 2018, the Agency had deposits in pooled investment accounts of the State Treasurer with a carrying value of approximately $237,172,000, and a bank balance of approximately $238,035,000. 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 $4,109,000 of 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 $398,551,000 and a bank balance approximating $398,933,000 on deposit with the Agency's fiduciary agent. Such deposits are held in accordance with State Statute 159-31(b) 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, 2018, the Agency was not exposed to any material custodial credit risk.

Investments The Agency's investments include government securities (Federal Farm Credit Bank, Federal Home Loan Bank and Federal Home Loan Mortgage Corporation) and MBS insured by the Federal National Mortgage Association (FNMA) and the Government National Mortgage Association (GNMA).

The Agency funds a portion of its HomeAd production with tax-exempt bonds. In the HomeAd program, mortgages are made by lenders, purchased by the Agency's master servicer and securitized into MBS. For MBS that are financed with tax-exempt bonds, the MBS are reflected in *Investments* on the Statement of Net Position.

At June 30, 2018, the Agency held the following investments with the listed maturities at annual rates ranging from 1.63% to 6.90%. Ratings are displayed with the Moody's Investors Service (Moody's) rating listed first and the 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+	$129,627	$ -	$ 501	$ 15	$129,111
FNMA MBS Rated Aaa/AA+	246,918	-	75	-	246,843
Government Securities Rated Aaa/AA+	77,901	12,010	58,392	7,499	-
Total Categorized	**$454,446**	**$ 12,010**	**$ 58,968**	**$ 7,514**	**$375,954**

Interest Rate Risk Interest rate risk is the risk that changes in 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, with the exception of the MBS that the Agency holds related to its Home Ownership Bond Programs.

Credit Risk Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State statutes 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 the State and meet specified rating and collateral requirements of the various trust agreements. The MBS are securitized by FNMA (fair value - $246,918,000, rated Aaa/AA+) and by GNMA (fair value - $129,627,000, rated Aaa/AA+). The GNMA MBS are direct obligations of the US Government. The government securities are direct obligations of the Treasury (rated Aaa/AA+) and have a fair value of $77,901,000.

Concentration of Credit Risk Concentration of credit risk is the risk of loss related to the percentage of the Agency's investment portfolio in any single issuer, except for investments explicitly backed by the US government. Listed below are the Agency's investments in a single issuer which exceed 5% of total investments as of June 30, 2018 *(in thousands)*:

Investment Issuer	Amount
FNMA - MBS	$246,918
Federal Home Loan Bank	58,128

Custodial Credit Risk Custodial credit risk occurs when 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.

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 does not have exposure to foreign currency risk.

Fair Value Measurements To the extent available, the Agency's investments are recorded at fair value within the fair value hierarchy established by GAAP, in accordance with GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1	Investments whose values are based on quoted prices (unadjusted) for identical assets (or liabilities) in active markets that a government can access at the measurement date.
Level 2	Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset (or liability), either directly or indirectly.
Level 3	Investments with unobservable inputs and may require a degree of professional judgment.

The Agency had the following recurring fair value measurements as of June 30, 2018 *(in thousands)*:

Investment Type	Fair Value	Input Level	
Short Term Investment Fund (STIF)	$430,365	Level 2	The ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year-end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the State's custodian.
Government Securities	$77,901	Level 2	Valuation of the underlying assets is performed using the policies and procedures established by the Agency's custodian.
MBS	$376,545	Level 2	Valuation of the underlying assets is performed using the policies and procedures established by the Agency's custodian.
Derivative Instrument - Interest Rate Swap	$1,698	Level 2	The fair value was estimated by a consulting firm using the zero coupon method.

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 is authorized to engage in these types of transactions under State Statute 147-69.3(e). The types of securities 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. 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.

Throughout fiscal year 2018, 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 in accordance with GASB I60.

C. MORTGAGE LOANS RECEIVABLE

FirstHome mortgage loans purchased with the proceeds of the various single-family bond issuances have stated interest rates ranging from 3% to 10.35%.

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 Development, insured under a private mortgage insurance program, or have a loan-to-value ratio equal to or less than 80%. As of June 30, 2018, all outstanding FirstHome mortgage loans purchased with mortgage revenue bond proceeds satisfy these requirements. The Agency has allowances for loan principal and interest losses in the single-family FirstHome mortgage loan program of $390,000 and $234,000, respectively, as of June 30, 2018.

Mortgage loans made with funds from the Agency Programs, Housing Trust Fund Programs, and Federal and State Programs have allowances for loan losses of $347,000, $57,000 and $42,000, respectively, as of June 30, 2018.

For the Home Ownership Bond Programs, the Agency has collateralized $472,900,000 in mortgage loans receivable and $604,893,000 in cash and investments pledged to repay the $886,345,000 single-family bonds payable outstanding as of June 30, 2018. Proceeds from the bonds issued were used to finance housing throughout the State. The outstanding bonds are payable through fiscal year 2049 and are repaid from principal and interest on mortgage loans and MBS, unexpended bond proceeds and proceeds from the sale of investments. The Agency expects 100% of the mortgage loans and MBS, 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, 2018 is $1,318,981,000 (see "Maturities" under Note D).

For the current fiscal year, debt service payments, bond calls and related interest payments totaling $154,532,000 were made for the Home Ownership Bond Programs. Payments received on mortgage loans and MBS for the Home Ownership Bond Programs were $119,001,000 and $22,025,000 respectively.

D. BONDS PAYABLE

Bonds payable activity for the year ended June 30, 2018 was as follows (*in thousands*):

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds payable				
Home Ownership	$ 868,070	$ 150,000	$ (131,725)	$ 886,345
Bond premium	12,278	2,785	(998)	14,065
Total Bonds payable, net	**$ 880,348**	**$ 152,785**	**$ (132,723)**	**$ 900,410**

Bonds payable as of June 30, 2018 are as follows (*in thousands*):

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Home Ownership Revenue Bonds			
(1998 Housing Revenue Bonds Trust Agreement)			
Series 27 A	6.00	1/1/2038	$ 2,850
Series 32	4.00	1/1/2030	43,675
Series 33	2.413 – 4.319	1/1/2034	49,520
Series 34	2.162 – 3.752	7/1/2035	26,120
Series 35	2.040 – 3.786	7/1/2032	27,025
Series 36	1.541 – 3.532	1/1/2033	39,445
Series 37	Variable – 3.600	7/1/2041	190,435
Series 38	1.300 – 4.000	7/1/2047	252,570
Series 39	1.900 – 4.000	7/1/2048	150,000
			$ 781,640
(2009 Housing Revenue Bonds Trust Agreement)			
Series A-1 and Series 1	2.920 – 4.500	7/1/2041	$ 44,070
Series A-2 and Series 2	2.640 – 4.250	7/1/2041	60,635
			$ 104,705
Total Bonds Outstanding			$ 886,345
Plus Bond Premium			$ 14,065
Total Bonds Payable, Net			**$ 900,410**

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, 2018, are as follows (*in thousands*):

Bonds Outstanding without Interest Rate Swaps

Fiscal Year Ending June 30	Principal	Interest
2019	$ 24,130	$ 26,475
2020	30,935	28,295
2021	32,235	27,484
2022	33,895	26,581
2023	34,665	25,571
2024-2028	169,105	112,008
2029-2033	168,765	83,654
2034-2038	153,825	56,742
2039-2043	112,610	31,740
2044-2048	102,475	11,612
2049	1,755	35
Total Requirements	**$ 864,395**	**$ 430,197**

Bonds Outstanding with Interest Rate Swaps

Fiscal Year Ending June 30	Principal	Interest
2019	$ 2,070	$ 345
2020	1,920	328
2021	1,790	297
2022	1,660	266
2023	1,530	239
2024-2028	8,280	772
2029-2033	4,500	188
2034-2035	200	4
Total Requirements	**$ 21,950**	**$ 2,439**

Total Bonds Outstanding

Fiscal Year Ending June 30	Principal	Interest
2019	$ 26,200	$ 26,820
2020	32,855	28,623
2021	34,025	27,781
2022	35,555	26,847
2023	36,195	25,810
2024-2028	177,385	112,780
2029-2033	173,265	83,842
2034-2038	154,025	56,746
2039-2043	112,610	31,740
2044-2048	102,475	11,612
2049	1,755	35
Total Requirements	**$ 886,345**	**$ 432,636**

Bond Redemptions The trust agreements 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, 2018, scheduled and unscheduled bond redemptions were as follows (*in thousands*):

Issue	Amount Redeemed
Housing Revenue Bonds (1998 Trust Agreement)	$ 114,705
Housing Revenue Bonds (2009 Trust Agreement)	17,020
Total Home Ownership Bond Programs	**$ 131,725**

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. These bonds do not constitute a debt of and are not guaranteed by the State, any political subdivision thereof, or the Agency. Accordingly, these obligations are excluded from the Agency's financial statements.

Bonds payable as of June 30, 2018 for special facilities are as follows *(in thousands)*:

Issue	Bond Type	Bonds Outstanding
Series 2018 (WWJ Investments, LLC)	Multifamily Housing Revenue Bonds	$ 17,691

Bonds related to special facilities that were redeemed during the fiscal year ended June 30, 2018 are as follows:

Issue	Bond Type	Redemption Date
2002 Resolution* (Series D)	Multifamily Housing Revenue Bonds	10/17/2017
2016 Resolution (Series A)	Multifamily Housing Revenue Bonds	6/1/2018

* This is related to 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 fiscal year 2018, the Agency did not initiate any new swaps. The existing swaps with Bank of America, N.A. and Goldman Sachs Mitsui Marine remain in place to hedge Series 37C. Series 37C was a private placement, and the interest payment is equal to 70% of the 1-month LIBOR rate plus 28 basis points (bps).

Except for the exercise of certain cancellation options, described in “Market Access Risk”, the Agency will continue to monitor the market and explore termination options accordingly. The Agency’s three pay-fixed, interest rate swap agreements with two financial counterparties are designated as hedging derivative instruments representing cash flow hedges for the organization *(in thousands)*:

Hedgeable Item	Hedging Derivative Instrument	Notional Amount	Classification	Fair Value at June 30, 2018 Liability	Classification	Net Decrease in Fair Value
Series 37C (formerly Series 16C)	Pay-Fixed Interest Rate Swap	$7,120	Hedging Derivative	$(490)	Deferred Outflows of Resources	$305
Series 37C (formerly Series 17C)	Pay-Fixed Interest Rate Swap	$10,140	Hedging Derivative	$(889)	Deferred Outflows of Resources	$471
Series 37C (formerly Series 18C)	Pay-Fixed Interest Rate Swap	$4,690	Hedging Derivative	$(319)	Deferred Outflows of Resources	$199

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 entered into interest rate swaps, in connection with all its variable-rate revenue bonds associated with the series listed in the above table, as a means to manage the future cash flow impact associated with the hedged debt. The intention of the swaps is 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, 2018 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
$7,120*	Bank of America, N.A.	Aa3/A+	9/16/2003	7/1/2032	3.810%	63%L** + 0.30%
$10,140	Bank of America, N.A.	Aa3/A+	12/11/2003	7/1/2032	3.725%	63%L** + 0.30%
$4,690	Goldman Sachs Mitsui Marine	Aa2/AA-	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.

Fair Value In total, the swaps have a fair value of negative $1,698,000 as of June 30, 2018. 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 bps. The variable payment to the bondholder is computed based on 70% of 1-month LIBOR plus 28 bps, which was 1.66772% as of June 30, 2018.

Basis risk and termination risk The swaps expose the Agency to basis risk as the LIBOR rate changes, 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 cost of 25 bps for all variable-rate series due to the floating rate formula for its swap contracts when compared to the floating rate on the bonds. For all swaps, collateral thresholds have been established if the counterparty ratings reach A2 for Moody's or A for S&P. The Agency's 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.

Credit Risk Credit risk is the risk that the counterparty will not fulfill its obligations. All contracts as of June 30, 2018 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. 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 the Series 37C variable-rate bonds have been directly purchased by TD Bank as the Agency's sole bondholder. The Bank of America, N.A. swap originally associated with Series 16C is the only swap with optional cancellations available.

Quantitative Method of Evaluating Effectiveness 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, 2018, 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 37C (formerly Series 16C)	1.5084	1.2613	(0.2471)	4.1%	3.4% – 4.2%	PASS
Series 37C (formerly Series 17C)	1.5084	1.2613	(0.2471)	4.0%	3.4% – 4.1%	PASS
Series 37C (formerly Series 18C)	1.5084	1.2613	(0.2471)	3.5%	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, 2018, debt service requirements of the variable-rate debt and net swap payments are as follows (*in thousands*):

Fiscal Year	Variable-Rate Bond		Interest Rate	Total
Ending June 30	Principal	Interest	Swap, Net	Interest
2019	$ 2,070	$ 345	$ 463	$ 808
2020	1,920	328	405	733
2021	1,790	297	366	663
2022	1,660	266	329	595
2023	1,530	239	294	533
2024-2028	8,280	772	949	1,721
2029-2033	4,500	188	227	415
2034-2035	200	4	4	8
Total	**$ 21,950**	**$ 2,439**	**$ 3,037**	**$ 5,476**

F. NONCURRENT LIABILITIES

Noncurrent liabilities for the year ended June 30, 2018 were as follows *(in thousands):*

	Beginning Balance	Prior Year Adj.	Additions	Deletions	Ending Balance	Due Within One Year
Bonds payable						
Bonds payable, net	$868,070	$ -	$150,000	$(131,725)	$886,345	$ 26,200
Bond premium	12,278	-	2,785	(998)	14,065	-
Derivative instrument – interest rate swap	2,673	-	-	(975)	1,698	-
Unearned revenues	72,252	-	39,259	(78,145)	33,366	19,506
Pension liability	4,606	-	-	(451)	4,155	-
OPEB liability*	-	18,267	-	(3,800)	14,467	-
Other liabilities						
Compensated absences	1,193	-	292	(111)	1,374	204
Deposits payable	6,342	-	5,841	(8,062)	4,121	12
	$967,414	**$18,267**	**$198,177**	**$(224,267)**	**$959,591**	**$ 45,922**

* Additional information regarding the OPEB liability is included in Note J, "Other Postemployment Benefits."

G. OPERATING LEASE

The Agency leases two adjacent buildings with future minimum lease payments for fiscal years 2019, 2020, 2021, 2022 and 2023 in the amounts of $766,000, $696,000, $587,000, $580,000 and $146,000, respectively. Rent expenses for all operating leases totaled $737,000 for the year ended June 30, 2018. The Agency's lease for the main building will expire September 2022.

H. FEDERAL AWARDS

As a designated Public Housing Authority for the US Department of Housing and Urban Development (HUD) Section 8 programs, the Agency requisitions Section 8 program funds and makes disbursements to eligible landlords. For the year ended June 30, 2018, $154,401,000 was received by the Agency and disbursed to property owners and 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, 2018, $18,206,000 was received and is included in *Federal program awards received* in Federal and State Programs. In fiscal year 2018, the Agency disbursed $32,168,000, which is included in *Federal program expense* and *Mortgage loans receivable, net*, depending upon the terms of the transaction.

The Agency received repayments of mortgage loans that were funded under the Tax Credit Assistance Program. These repayments provide funding for the Carryover Loan Program. For the year ended June 30, 2018, $5,841,000 was disbursed and is included as a part of *Mortgage loans receivable, net* in Federal and State Programs.

The Agency was selected as a participating entity under a grant agreement with Treasury for the HHF, which provides funding for homeowners facing foreclosure and stabilizes neighborhoods with poorly performing housing indicators. For the year ended June 30, 2018, $67,262,000 was received by the Agency and is included in *Federal program awards received*, and $67,272,000 was disbursed by the Agency and is included in *Federal program expense* in Federal and State Programs.

The Agency earned fees of $16,016,000 for administering these and other federal programs for the year ended June 30, 2018. Of these fees, $4,240,000 was paid to Quadel Consulting Corporation for the Section 8 Project-Based Contract Administration, and $2,244,000 was paid to counseling agencies for HHF counseling services, which are 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. 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: https://www.osc.nc.gov/public-information/reports.

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, 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. 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. 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 2018 rate is 10.78% 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, 2018, 2017, and 2016 *(in thousands):*

	2018	2017	2016
Retirement Contribution	$954	$862	$722
Percentage of Covered Payroll	10.78%	9.98%	9.15%

Net Pension Liability At June 30, 2018, the Agency reported a liability of $4,154,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 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, 2017 and at June 30, 2016, the Agency's proportion was 0.05326% and 0.05011%, respectively.

Deferred Outflows/Inflows of Resources Related to Pensions For the year ended June 30, 2018, the Agency recognized pension expense of $1,198,000. At June 30, 2018, the Agency reported *Deferred Outflows of Resources* and *Deferred Inflows of Resources* related to pensions from the following sources *(in thousands)*:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ 90	$ 136
Changes of assumptions	656	-
Net difference between projected and actual earnings on pension plan investments	562	-
Change in proportion and differences between Agency's contributions and proportionate share of contributions	200	-
Contributions subsequent to the measurement date	954	-
Total	**$ 2,462**	**$ 136**

Deferred Outflows of Resources of $954,000 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, 2019. Other amounts reported as *Deferred Outflows of Resources* and *Deferred Inflows of Resources* related to pensions will be recognized as pension expense as follows *(in thousands)*:

Year ending June 30:	
2019	$ 306
2020	855
2021	436
2022	(225)
Total	**$ 1,372**

Actuarial Assumptions The total pension liability was determined by an actuarial valuation performed as of December 31, 2016. 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, 2017. 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 from 3.50% to 8.10% 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 7.20% 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 mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

Future ad hoc Cost of Living Adjustment amounts are not considered to be substantively automatic and are 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. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of June 30, 2017 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Protection	4.0%

The information above is based on 30-year expectations developed with the consulting actuary and is part of the asset liability and investment policy of 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 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 is 1.3%.

Discount Rate The discount rate used to measure the total pension liability was lowered from 7.25% to 7.20% for the December 31, 2016 valuation. The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at contractually 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 7.20%, 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 (6.20%) or one percentage point higher (8.20%) than the current rate *(in thousands)*:

	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
Agency's proportionate share of the net pension liability	$8,699	$4,226	$478

Pension Plan Fiduciary Net Position Detailed information about the pension plan's fiduciary net position is available in the separately issued CAFR for the State of North Carolina.

J. OTHER POSTEMPLOYMENT BENEFITS

Plan Description In addition to providing pension benefits, the Agency participates in two postemployment benefit plans, the Retiree Health Benefit Fund (RHBF) and the Disability Income Plan of North Carolina (DIPNC), that are administered by the State as pension and other employee benefit trust funds. The Agency makes monthly contributions to the State for these benefits. The State's CAFR includes financial statements and required supplementary information for each plan. See Note I. "Pension Plan" for information about obtaining the CAFR from the North Carolina Office of State Controller.

The RHBF has been established as a fund to provide health benefits to long-term disability beneficiaries of the DIPNC 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 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.

Short-term and long-term disability benefits are provided through the DIPNC. Long-term disability benefits are payable from the DIPNC 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; (5) the employee must not be eligible to receive unreduced retirement benefits from TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. 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 DIPNC 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 postemployment health care benefits, death benefits and disability benefits, which are the same for all agencies across the State.

Contributions Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly and coincide with the State's fiscal year. The Agency assumes no liability for retiree health care or long-term disability benefits other than its required contributions.

The following table represents the three-year trend of the annual contributions made by the Agency to the State postemployment benefit plans. The Agency made 100% of its required contributions for the years ended June 30, 2018, 2017, and 2016 *(in thousands)*:

	2018	**2017**	**2016**
Health Care Benefit	$535	$502	$442
Disability Benefit	12	33	32
Percentage of Covered Payroll			
Health Care Benefit	6.05%	5.81%	5.60%
Disability Benefit	0.14%	0.38%	0.41%

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.

Net OPEB Liability (Asset) At June 30, 2018, the Agency reported a liability of $14,467,000 for its proportionate share of the collective net OPEB liability for RHBF. The Agency also reported an asset of $27,000 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB liability (asset) was measured as of June 30, 2017. The total OPEB liability (asset) used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB liability (asset) to June 30, 2017. The Agency's proportion of the net OPEB liability (asset) was based on the present value of future salaries for the Agency relative to the present value of future salaries for all participating employers, actuarially-determined. At June 30, 2017 and at June 30, 2016, the Agency's proportion was 0.05326% and 0.05011%, respectively.

Actuarial Assumptions The total OPEB liabilities (assets) for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities (assets) were then rolled forward to June 30, 2017 utilizing update procedures incorporating the actuarial assumptions.

	RHBF	**DIPNC**
Valuation Date	12/31/2016	12/31/2016
Inflation	2.75%	3.00%
Salary Increases*	3.50% - 8.10%	3.50% - 8.10%
Investment Rate of Return**	7.20%	3.75%
Healthcare Cost Trend Rate - Medical	5.00% - 6.50%	N/A
Healthcare Cost Trend Rate - Prescription Drug	5.00% - 7.25%	N/A
Healthcare Cost Trend Rate - Medicare Advantage	4.00% - 5.00%	N/A
Healthcare Cost Trend Rate - Administrative	3.00%	N/A

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return is net of pension plan investment expense, including inflation.

The OPEB plans currently use 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 projected long-term investment returns and inflation assumptions are developed through a 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 projects 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. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2017.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2017 (the valuation date) are summarized in the following table:

Asset Class	**Long-Term Expected Real Rate of Return**
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Protection	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. 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 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 (the valuation date) was 1.3%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial assumptions used for RHBF are consistent with those used to value the pension benefits of TSERS where appropriate. These assumptions are based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience study prepared as of December 31, 2014.

Discount Rate The discount rate used to measure the total OPEB liability for RHBF was 3.58%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.58% was used as the discount rate used to measure the total OPEB liability. The 3.58% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2017.

The discount rate used to measure the total OPEB asset for DIPNC was 3.75%. 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 those assumptions, the 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 plan investments was applied to all periods of projected benefit payments to determine the total OPEB asset.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate The following presents the Agency's proportionate share of the net OPEB liability of the plans, as well as what the plans' net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate *(in thousands):*

	1% Decrease (2.58%)	**Discount Rate (3.58%)**	**1% Increase (4.58%)**
RHBF	$21	$17	$15

	1% Decrease (2.75%)	**Discount Rate (3.75%)**	**1% Increase (4.75%)**
DIPNC	$ -	$ -	$ -

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates The following presents the net OPEB liability of the plans, as well as what the plans' net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates *(in thousands):*

	1% Decrease	**Healthcare Cost Trend Rates**	**1% Increase**
RHBF	$14	$17	$22

	1% Decrease	**Healthcare Cost Trend Rates**	**1% Increase**
DIPNC	N/A	N/A	N/A

Deferred Outflows/Inflows of Resources Related to OPEB For the year ended June 30, 2018, the Agency recognized OPEB expense of $886,000 for RHBF and $16,000 for DIPNC. At June 30, 2018, the Agency reported *Deferred Outflows of Resources* and *Deferred Inflows of Resources* related to OPEB from the following sources *(in thousands)*:

Deferred Outflows of Resources Related to OPEB by Classification

	RHBF	DIPNC	TOTAL
Difference between actual and expected experience	$ -	$ 8	$ 8
Changes of assumptions	-	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	-	6
Change in proportion and differences between Agency's contributions and proportionate share of contributions	845	3	848
Contributions subsequent to the measurement date	535	12	547
Total	**$ 1,380**	**$ 29**	**$ 1,409**

Deferred Inflows of Resources Related to OPEB by Classification

	RHBF	DIPNC	TOTAL
Difference between actual and expected experience	$ 1,037	$ -	$ 1,037
Changes of assumptions	3,984	-	3,984
Net difference between projected and actual earnings on OPEB plan investments	5	-	5
Change in proportion and differences between Agency’s contributions and proportionate share of contributions	-	-	-
Contributions subsequent to the measurement date	-	-	-
Total	**$ 5,026**	**$ -**	**$ 5,026**

Amounts reported as *Deferred outflows of resources* related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 2019. Other amounts reported as *Deferred Outflows of Resources* and *Deferred Inflows of Resources* related to OPEB will be recognized in OPEB expense as follows *(in thousands)*:

Year ending June 30:	RHBF	DIPNC
2019	$ (837)	$ 5
2020	(837)	5
2021	(837)	5
2022	(836)	2
2023	(835)	-
Total	**$ (4,182)**	**$ 17**

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's CAFR:

- 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.

In addition to the State's policies, the Agency has Cyber Liability and Fraudulent Instruction coverage, which is intended to mitigate financial losses associated with criminal acts of breach and fraudulent impersonation of Agency staff.

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, 2018 for this segment are as follows *(in thousands*):

STATEMENT OF NET POSITION	**Home Ownership**
ASSETS	
Current assets:	
Restricted cash and cash equivalents	$ 343,258
Restricted investments	9,998
Accrued interest receivable on investments	1,952
Mortgage loans receivable	91,562
Accrued interest receivable on mortgage loans	3,721
Other assets	5,026
Interprogram receivable	413
TOTAL CURRENT ASSETS	$ 455,930
Noncurrent assets:	
Restricted investments	$ 439,465
Mortgage loans receivable, net	416,313
TOTAL NONCURRENT ASSETS	$ 855,778
TOTAL ASSETS	$ 1,311,708
DEFERRED OUTFLOWS OF RESOURCES	
Accumulated decrease in fair value of hedging derivative	$ 1,698
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 1,698

		Home Ownership
LIABILITIES		
Current liabilities:		
Bonds payable	$	26,200
Accrued interest payable		12,214
Accounts payable		1,115
TOTAL CURRENT LIABILITIES	$	39,529
Noncurrent liabilities:		
Bonds payable, net	$	874,210
Derivative instrument - interest rate swap		1,698
TOTAL NONCURRENT LIABILITIES	$	875,908
TOTAL LIABILITIES	$	915,437
NET POSITION		
Restricted net position	$	397,969
TOTAL NET POSITION	$	397,969
OPERATING REVENUES		
Interest on investments	$	18,702
Net decrease in fair value of investments		(114)
Interest on mortgage loans		29,824
Program income/fees		22,647
Other revenues		732
TOTAL OPERATING REVENUES	$	71,791
OPERATING EXPENSES		
Interest on bonds	$	27,042
Mortgage servicing expense		1,803
Nonfederal program expense		16,273
General and administrative expense		667
Other expenses		568
TOTAL OPERATING EXPENSES	$	46,353
OPERATING INCOME	$	25,438
NON-OPERATING EXPENSES		
Transfers out	$	(85)
TOTAL NON-OPERATING EXPENSES	$	(85)
CHANGE IN NET POSITION	$	25,353
TOTAL NET POSITION - BEGINNING	$	372,616
TOTAL NET POSITION - ENDING	$	397,969
STATEMENT OF CASH FLOWS		
Net cash provided by operating activities	$	150,422
Net cash used in non-capital financing activities		(6,034)
Net cash used in investing activities		(143,871)
Net increase in cash	$	517
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	$	342,741
CASH AND CASH EQUIVALENTS AT END OF YEAR	$	343,258

North Carolina Housing Finance Agency

Supplementary Information

Tel: 919-754-9370
Fax: 919-754-9369
www.bdo.com

421 Fayetteville Street
Suite 300
Raleigh, NC 27601

Independent Auditor's Report on Supplementary Information

Our audit of the financial statements included in the preceding section of this report was 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

BDO USA, LLP

September 26, 2018

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF NET POSITION

AS OF JUNE 30, 2018

	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS		
(in thousands)		**Housing Trust Fund Programs**	**Federal and State Programs**	**1998**	**2009**	**Total**
ASSETS						
Current assets:						
Cash and cash equivalents	$ 15,338	-	-	-	-	$ 15,338
Restricted cash and cash equivalents	61,572	110,037	105,520	330,715	12,543	620,387
Investments	1,006	-	-	-	-	1,006
Restricted investments	1,006	-	-	8,990	1,008	11,004
Accrued interest receivable on investments	44	145	49	1,901	51	2,190
Mortgage loans receivable	193	2,662	13,195	74,030	17,532	107,612
Accrued interest receivable on mortgage loans	2	17	170	3,134	587	3,910
Other assets	203	-	1,329	3,661	1,365	6,558
Interprogram receivable (payable)	2,813	125	(3,351)	110	303	-
TOTAL CURRENT ASSETS	$ 82,177	112,986	116,912	422,541	33,389	$ 768,005
Noncurrent assets:						
Investments	$ 974	-	-	-	-	$ 974
Restricted investments	1,997	-	-	433,516	5,949	441,462
Mortgage loans receivable, net	1,826	12,612	81,571	332,324	83,989	512,322
Other assets, net	3,394	-	-	-	-	3,394
TOTAL NONCURRENT ASSETS	$ 8,191	12,612	81,571	765,840	89,938	$ 958,152
TOTAL ASSETS	$ 90,368	125,598	198,483	1,188,381	123,327	$ 1,726,157
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows for pensions	$ 2,462	-	-	-	-	$ 2,462
Deferred outflows for other postemployment benefits	1,409	-	-	-	-	1,409
Accumulated decrease in fair value of hedging derivative	-	-	-	1,698	-	1,698
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 3,871	-	-	1,698	-	$ 5,569
LIABILITIES						
Current liabilities:						
Bonds payable	$ -	-	-	22,945	3,255	$ 26,200
Accrued interest payable	-	-	-	10,577	1,637	12,214
Accounts payable	492	237	1,569	813	302	3,413
Unearned revenues	1,836	-	17,670	-	-	19,506
Other liabilities	211	-	5	-	-	216
TOTAL CURRENT LIABILITIES	$ 2,539	237	19,244	34,335	5,194	$ 61,549
Noncurrent liabilities:						
Bonds payable, net	$ -	-	-	772,510	101,700	$ 874,210
Derivative instrument - interest rate swap	-	-	-	1,698	-	1,698
Unearned revenues	13,860	-	-	-	-	13,860
Pension liability	4,155	-	-	-	-	4,155
Other postemployment benefits	14,467	-	-	-	-	14,467
Other liabilities	5,279	-	-	-	-	5,279
TOTAL NONCURRENT LIABILITIES	$ 37,761	-	-	774,208	101,700	$ 913,669
TOTAL LIABILITIES	$ 40,300	237	19,244	808,543	106,894	$ 975,218
DEFERRED INFLOWS OF RESOURCES						
Deferred state grant	$ -	3,961	-	-	-	$ 3,961
Deferred inflows for pensions	136	-	-	-	-	136
Deferred inflows for other postemployment benefits	5,026	-	-	-	-	5,026
TOTAL DEFERRED INFLOWS OF RESOURCES	$ 5,162	3,961	-	-	-	$ 9,123
NET POSITION						
Net investment in capital assets	$ 3,367	-	-	-	-	$ 3,367
Restricted net position	45,912	121,400	179,239	381,536	16,433	744,520
Unrestricted net position	(502)	-	-	-	-	(502)
TOTAL NET POSITION	$ 48,777	121,400	179,239	381,536	16,433	$ 747,385

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2018

(in thousands)	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS		Total
		Housing Trust Fund Programs	Federal and State Programs	1998	2009	
OPERATING REVENUES						
Interest on investments	$ 1,075	1,428	1,263	18,429	273	$ 22,468
Net (decrease) increase in fair value of investments	(177)	-	-	116	(230)	(291)
Interest on mortgage loans	29	565	1,337	25,533	4,291	31,755
Federal program awards received	-	-	239,872	-	-	239,872
Program income/fees	11,626	2,996	31,219	22,647	-	68,488
Other revenues	23	60	129	693	39	944
TOTAL OPERATING REVENUES	$ 12,576	5,049	273,820	67,418	4,373	$ 363,236
OPERATING EXPENSES						
Interest on bonds	$ -	-	-	23,712	3,330	$ 27,042
Mortgage servicing expense	-	-	-	1,409	394	1,803
Federal program expense	-	-	246,260	-	-	246,260
Nonfederal program expense	1,906	-	-	16,273	-	18,179
General and administrative expense	19,796	-	6,648	636	31	27,111
Other expenses	347	34	43	477	91	992
TOTAL OPERATING EXPENSES	$ 22,049	34	252,951	42,507	3,846	$ 321,387
OPERATING (LOSS) INCOME	$ (9,473)	5,015	20,869	24,911	527	$ 41,849
NON-OPERATING REVENUES (EXPENSES)						
Transfers in (out)	$ 17,924	61	(17,900)	(85)	-	$ -
State appropriations received	-	11,609	3,000	-	-	14,609
State grants received	-	20,272	11,255	-	-	31,527
State program expense	(1,510)	(23,903)	(18,645)	-	-	(44,058)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$ 16,414	8,039	(22,290)	(85)	-	$ 2,078
CHANGE IN NET POSITION	$ 6,941	13,054	(1,421)	24,826	527	$ 43,927
Total net position - beginning (as previously reported)	$ 59,538	108,346	180,660	356,710	15,906	$ 721,160
Cumulative effect of change in accounting principle	(17,702)	-	-	-	-	(17,702)
TOTAL NET POSITION - BEGINNING	$ 41,836	108,346	180,660	356,710	15,906	$ 703,458
TOTAL NET POSITION - ENDING	$ 48,777	121,400	179,239	381,536	16,433	$ 747,385

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018

(in thousands)	AGENCY PROGRAMS	GRANT PROGRAMS: Housing Trust Fund Programs	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	$ 29	565	1,276	26,202	4,403	$ 32,475
Principal payments on mortgage loans	167	1,973	13,833	71,170	17,226	104,369
Purchase of mortgage loans	-	(677)	(13,601)	-	-	(14,278)
Principal payments on mortgage loans held for resale	-	-	-	96,755	-	96,755
Purchase of mortgage loans held for resale	-	-	-	(73,414)	-	(73,414)
Federal program awards received	-	-	200,236	-	-	200,236
Federal program expense	-	-	(246,388)	-	-	(246,388)
Nonfederal program expense	(1,906)	-	-	(16,273)	-	(18,179)
Federal grant administration income	-	-	14,513	-	-	14,513
Program income/fees	12,898	2,996	16,605	22,647	-	55,146
Other expenses	(21,566)	191	(11,322)	(3,866)	(393)	(36,956)
Other revenues	(378)	(76)	-	6,865	(900)	5,511
Net cash (used in) provided by operating activities	$ (10,756)	4,972	(24,848)	130,086	20,336	$ 119,790
Cash flows from non-capital financing activities:						
Issuance of bonds	$ -	-	-	150,000	-	$ 150,000
Principal repayments on bonds	-	-	-	(114,705)	(17,020)	(131,725)
Interest paid	-	-	-	(19,062)	(3,745)	(22,807)
Bond issuance costs paid	-	-	-	(1,417)	-	(1,417)
Net transfers	17,924	61	(17,900)	(85)	-	-
State appropriations received	-	11,609	3,000	-	-	14,609
State grants received	-	20,012	11,386	-	-	31,398
State program expense	(1,510)	(23,903)	(18,645)	-	-	(44,058)
Net cash provided by (used in) non-capital financing activities	$ 16,414	7,779	(22,159)	14,731	(20,765)	$ (4,000)
Cash flows from investing activities:						
Proceeds from sales or maturities of investments	$ 6,000	-	-	9,689	1,000	$ 16,689
Purchase of investments	-	-	-	(172,587)	-	(172,587)
Earnings on investments	1,092	1,373	1,242	17,748	279	21,734
Net cash provided by (used in) investing activities	$ 7,092	1,373	1,242	(145,150)	1,279	$ (134,164)
Net increase (decrease) in cash	$ 12,750	14,124	(45,765)	(333)	850	$ (18,374)
Cash and cash equivalents at beginning of year	64,160	95,913	151,285	331,048	11,693	654,099
Cash and cash equivalents at end of year	$ 76,910	110,037	105,520	330,715	12,543	$ 635,725
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:						
Operating (loss) income	$ (9,473)	5,015	20,869	24,911	527	$ 41,849
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:						
Interest on investments	(1,075)	(1,428)	(1,263)	(18,429)	(273)	(22,468)
Decrease (increase) in fair value of investments	177	-	-	(116)	230	291
Interest on bonds	-	-	-	23,712	3,330	27,042
Change in assets and liabilities:						
Decrease in mortgage loans receivable	507	1,236	103	70,570	17,141	89,557
(Increase) decrease in interest receivable on mortgage loans	-	-	(61)	768	158	865
Decrease in mortgage loans held for resale	-	-	-	23,341	-	23,341
(Increase) decrease in other assets	(1,222)	(42)	395	6,835	(900)	5,066
(Decrease) increase in accounts payable and other liabilities	(916)	191	(4,759)	(1,506)	123	(6,867)
Increase (decrease) in unearned revenues	1,246	-	(40,132)	-	-	(38,886)
Total adjustments	$ (1,283)	(43)	(45,717)	105,175	19,809	$ 77,941
Net cash (used in) provided by operating activities	$ (10,756)	4,972	(24,848)	130,086	20,336	$ 119,790

NORTH CAROLINA
HOUSING
FINANCE
AGENCY

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

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

Our Values: *We Care, We Act, We Lead*

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

919-877-5700 www.nchfa.com