North Carolina Housing Finance Agency

Audited Financial Statements

June 30, 2020

NORTH CAROLINA HOUSING FINANCE AGENCY
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2020

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June 30, 2020

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, 2020. 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 funding for the Section 8 programs, the HOME Investment Partnerships Program (HOME), the Low-Income Housing Tax Credits, the US Department of the Treasury's (Treasury) Hardest Hit Fund (HHF), the North Carolina Housing Trust Fund (HTF), the National Housing Trust Fund (NHTF) and other federal and state programs. The Agency uses these funds to provide different types of assistance such as down payment assistance, low-interest mortgage loans, 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, 2020, compared to the prior fiscal year's results and activities:

- *Total Assets* increased $350,190,000, or 17.9%
- *Deferred Outflows of Resources* increased $444,000, or 5.5%
- *Total Liabilities* increased $312,566,000, or 27.2%
- *Deferred Inflows of Resources* decreased $247,000, or 1.8%
- *Total Net Position* increased $38,315,000, or 4.8%

The Agency issued tax-exempt bonds in fiscal year 2020 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 financed with prepayments from both the HomeAd program and the FirstHome mortgage loan (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 $382,471,000, or 51.4%
- *Accrued interest receivable on investments* increased $578,000, or 16.1%
- *Bonds payable, net* increased $323,125,000, or 30.7%
- *Accrued interest payable* increased $4,013,000, or 24.8%
- *Interest on investments* increased $9,738,000, or 28.2%
- *Interest on bonds* increased $8,958,000, or 28.5%

The decrease in overall interest rates during the year and a large increase in MBS caused an increase in *Net increase in fair value of investments* of $23,909,000, or 92.0%.

In 2013, the Agency shifted from offering mortgages under the FirstHome program, in which the Agency owns the mortgage loan, to utilizing the HomeAd program, in which mortgage loans are pooled into MBS. As a result, the portfolio of mortgage loans in the FirstHome program continues to decline from prepayments, resulting in decreases in *Mortgage loans receivable, net* and related accounts as listed below:

- *Mortgage loans receivable, net* decreased $64,402,000, or 11.7%
- *Accrued interest receivable on mortgage loans* decreased $246,000, or 7.5%
- *Interest on mortgage loans* decreased $3,201,000, or 11.8%
- *Mortgage servicing expense* decreased $209,000, or 13.6%

Unearned revenues decreased $15,366,000, or 34.0%, because the Agency made its final drawdown of HHFs from Treasury for the North Carolina Foreclosure Prevention Fund (NCFPF) in fiscal year 2019 and is in the process of winding down the program. *Federal program awards received* and *Federal program expense* decreased primarily due to slowing NCFPF production related to the wind down. The decrease in both accounts were partially offset by a $2,000,000 increase in awards and disbursements from the NHTF. The cumulative effect of the change in these two amounts is reflected below:

- *Federal program awards received* decreased $17,919,000, or 8.5%
- *Federal program expense* decreased $1,770,000, or 0.8%

State appropriations received decreased $20,000,000, or 65.2%, because the Agency did not receive an appropriation for the Workforce Housing Loan Program (WHLP) in fiscal year 2020 as it had in the previous year due to a State budget impasse, discussed in more detail under "New Business."

The Agency is awarded Community Living Housing Funds (CLHF) from the North Carolina Department of Health and Human Services (DHHS) which cannot be used until appropriated by the North Carolina General Assembly (General Assembly). In fiscal year 2019, the Agency was awarded $7.3 million for CLHF, which was expected to be appropriated in fiscal year 2020. However, due to the budget impasse, it was not appropriated and is still reflected in *Deferred state grant*. In fiscal year 2020, the Agency was awarded an additional $1,229,000 of CLHF, resulting in an increase in *Deferred state grant* of $1,229,000, or 16.8%.

In fiscal year 2020, *State grants received* increased by $8,503,000, or 37.1%, due to the following:

- A $10 million increase in funding from the Hurricane Florence Disaster Recovery Fund that was awarded in fiscal year 2019 was received in fiscal year 2020;
- A $6 million increase in funding for Transitions to Community Living Voucher (TCLV) from $9.9 million in fiscal year 2019 to $15.9 million in fiscal year 2020;
- A $4 million decrease in CLHF due to the budget impasse discussed above;
- A $3.5 million decrease in Integrated Supportive Housing Financing Services as this was a one-time award received in fiscal year 2019.

State program expense increased $15,538,000, or 30.9%, in fiscal year 2020 due to increased disbursements for WHLP, Rental Production Program (RPP) and TCLV.

The Agency is required to reflect its proportionate share of the State's pension liability and postemployment benefits. Based on actuarial assumptions, the effect of these transactions is listed below:

- *Deferred outflows for pensions* decreased $784,000, or 22.2%
- *Deferred outflows for other postemployment benefits* increased $637,000, or 26.1%
- *Pension liability* increased $186,000, or 3.3%
- *Other postemployment benefits* increased $1,665,000, or 12.4%
- *Deferred inflows for pensions* decreased $45,000, or 80.4%
- *Deferred inflows for other postemployment benefits* decreased $1,431,000, or 21.3%

The net effect of the transactions detailed above, along with regular operations of the Agency, resulted in an increase in *Total Net Position* of $38,315,000, or 4.8%. The primary drivers of the change in net position relate to HomeAd production, decreases in the FirstHome portfolio, and the wind down of the NCFPF programs. The Agency did not receive funding related to the Novel Coronavirus Disease, COVID-19, as of June 30, 2020;

however, the overall impact of COVID-19 on the Agency's operations is discussed more in "Financial Conditions." 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, 2020 and June 30, 2019 *(in thousands)*:

	2020	2019	Change	%
Condensed Statements of Net Position				
Assets*				
Cash and cash equivalents	$ 675,551	$ 646,515	$ 29,036	4.5
Investments	1,126,222	743,751	382,471	51.4
Accrued interest receivable on investments	4,167	3,589	578	16.1
Mortgage loans receivable, net	484,316	548,718	(64,402)	(11.7)
Mortgage loans held for resale	3,697	-	3,697	100.0
Accrued interest receivable on mortgage loans	3,037	3,283	(246)	(7.5)
State receivables	-	10	(10)	(100.0)
Other assets, net	4,856	5,373	(517)	(9.6)
Capital assets, net	3,526	3,943	(417)	(10.6)
Total Assets	$ 2,305,372	$ 1,955,182	$ 350,190	17.9
Deferred Outflows of Resources				
Deferred outflows for pensions	$ 2,742	$ 3,526	$ (784)	(22.2)
Deferred outflows for other postemployment benefits	3,078	2,441	637	26.1
Accumulated decrease in fair value of hedging derivative	2,640	2,049	591	28.8
Total Deferred Outflows of Resources	$ 8,460	$ 8,016	$ 444	5.5
Liabilities*				
Bonds payable, net	$ 1,375,847	$ 1,052,722	$ 323,125	30.7
Accrued interest payable	20,227	16,214	4,013	24.8
Accounts payable	4,743	5,409	(666)	(12.3)
Derivative instrument – interest rate swap	2,640	2,049	591	28.8
Unearned revenues	29,767	45,133	(15,366)	(34.0)
Pension liability	5,739	5,553	186	3.3
Other postemployment benefits	15,063	13,398	1,665	12.4
Other liabilities	6,102	7,084	(982)	(13.9)
Total Liabilities	$ 1,460,128	$ 1,147,562	$ 312,566	27.2
Deferred Inflows of Resources				
Deferred state grant	$ 8,525	$ 7,296	$ 1,229	16.8
Deferred inflows for pensions	11	56	(45)	(80.4)
Deferred inflows for other postemployment benefits	5,291	6,722	$ (1,431)	(21.3)
Total Deferred Inflows of Resources	$ 13,827	$ 14,074	$ (247)	(1.8)
Net Position				
Net investment in capital assets	$ 3,526	$ 3,943	$ (417)	(10.6)
Restricted	823,409	790,409	33,000	4.2
Unrestricted	12,942	7,210	5,732	79.5
Total Net Position	$ 839,877	$ 801,562	$ 38,315	4.8

Condensed Statements of Revenues, Expenses and Changes in Net Position	**2020**	**2019**	**Change**	**%**
Operating Revenues				
Interest on investments	$ 44,276	$ 34,538	$ 9,738	28.2
Net increase in fair value of investments	49,901	25,992	23,909	92.0
Interest on mortgage loans	23,953	27,154	(3,201)	(11.8)
Federal program awards received	192,114	210,033	(17,919)	(8.5)
Nonfederal program awards received	121	90	31	34.4
Program income/fees	70,549	65,358	5,191	7.9
Other revenues	417	29	388	1,337.9
Total Operating Revenues	$ 381,331	$ 363,194	$ 18,137	5.0
Operating Expenses				
Interest on bonds	$ 40,371	$ 31,413	$ 8,958	28.5
Mortgage servicing expense	1,332	1,541	(209)	(13.6)
Federal program expense	213,848	215,618	(1,770)	(0.8)
Nonfederal program expense	36,744	36,341	403	1.1
General and administrative expense	26,127	26,503	(376)	(1.4)
Other expenses	830	731	99	13.5
Total Operating Expenses	$ 319,252	$ 312,147	$ 7,105	2.3
Operating Income	$ 62,079	$ 51,047	$ 11,032	21.6
Non-Operating Revenues (Expenses)				
State appropriations received	$ 10,660	$ 30,660	$ (20,000)	(65.2)
State grants received	31,419	22,916	8,503	37.1
State program expense	(65,843)	(50,305)	(15,538)	30.9
Total Non-Operating Revenues (Expenses)	$ (23,764)	$ 3,271	$ (27,035)	(826.5)
Change in Net Position	$ 38,315	$ 54,318	$ (16,003)	(29.5)
Total net position - beginning (previously reported)	$ 801,562	$ 747,385	$ 54,177	7.2
Cumulative effect of change in accounting principle**	-	(141)	141	100.0
Total Net Position - Beginning	$ 801,562	$ 747,244	$ 54,318	7.3
Total Net Position - Ending	$ 839,877	$ 801,562	$ 38,315	4.8

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

**In fiscal year 2019, the Agency began reporting its workers' compensation liability balance as determined by the North Carolina Office of State Human Resources in accordance with GASB Codification C50.110. The implementation of this standard required the Agency to record beginning workers' compensation liability, which resulted in a decrease in the beginning fiscal year 2019 *Net Position* of $141,000.

Financial Conditions

The defining event for fiscal year 2020 was the onset of the Novel Coronavirus Disease, COVID-19, which was declared a pandemic by the World Health Organization on March 11, 2020. The COVID-19 pandemic has had a profound impact on every aspect of daily life and required the Agency to alter business operations to keep all lines of business operating in compliance with the ever-changing State and federal orders. As a government entity, the Agency is considered an "essential operation" which allowed it to remain open when non-essential business operations were otherwise curbed or closed by the Governor of North Carolina during the pandemic.

The effects of the pandemic and the resulting economic crisis impacted the Agency's borrowers, business partners and internal operations. The Agency adjusted quickly to the additional demands introduced by the pandemic. Health and safety remained the Agency's top priorities, and approximately 90% of Agency staff have been working remotely on a daily basis since April 2020.

New Business

Appropriations and Awards

For fiscal year 2020, the Agency received the following appropriations and awards from the federal government, the General Assembly, and other State agencies:

<u>Federal:</u>

$	166.0 million	Section 8 Project-Based and Traditional Contract Administration
$	16.8 million	HOME Investment Partnerships Program (HOME)
$	5.3 million	National Housing Trust Fund (NHTF)

<u>North Carolina:</u>

$	22.9 million	Community Development Block Grant Disaster Recovery (CDBG-DR) from the North Carolina Office of Recovery and Resiliency (NCORR)
$	15.9 million	Transitions to Community Living Voucher (TCLV) from DHHS
$	7.7 million	State Housing Trust Fund (HTF)
$	4.5 million	Back@Home from DHHS
$	5.5 million	Key Rental Assistance (Key) from DHHS
$	3.0 million	HOME Match

The Agency received $166 million in fiscal year 2020 to administer the Section 8 programs, $6.2 million more than in prior year.

The 2019 HOME and NHTF awards were made by the US Department of Housing and Urban Development (HUD) in fiscal year 2020. The HOME award of $16.8 million received in fiscal year 2020 was $1.5 million less than the amount received in fiscal year 2019. The NHTF award of $5.3 million was $600,000 less than in the prior fiscal year.

The Agency has received $20 million as a nonrecurring appropriation for WHLP in prior years. The General Assembly and Governor were unable to agree on a fiscal year 2020 budget. In the absence of a budget, State appropriations default to recurring appropriations from the prior year approved budget. WHLP was a nonrecurring appropriation in previous years, so it was not received in fiscal year 2020. Although the Agency did not receive WHLP funding for fiscal year 2020, the General Assembly ratified Session Law 2020-28 on June 11, 2020, to provide the $20 million WHLP funding for fiscal year 2021. In addition to the loss of WHLP in fiscal year 2020, the Agency was also unable to use $7.3 million of funding from its CLHF appropriation due to the budget impasse. The Agency was able to retain its $7.7 million HTF and $3 million HOME Match appropriation since they were both recurring appropriations.

New Activities

The Government National Mortgage Association (GNMA, or Ginnie Mae), the Federal National Mortgage Association (FNMA, or Fannie Mae) and the Federal Home Loan Mortgage Corporation (FHLMC, or Freddie Mac) reacted to the high unemployment rates resulting from the COVID-19 pandemic by offering forbearance options for borrowers facing financial difficulties. These forbearance options were available to borrowers who used the Agency's FirstHome and HomeAd mortgage loan programs. HomeAd production decreased significantly in March 2020 when the Agency's master servicer implemented a requirement to verify employment prior to the purchase of the mortgage loan. Production improved after this requirement was eliminated in June 2020. In spite of the volume of forbearance requests, the Agency's bond ratings of AA+/AA1 offered by Standard & Poor's and Moody's Investor Services ratings agencies remained stable.

The Agency offered its own forbearance options for borrowers with Agency loans not associated with Ginnie Mae, Fannie Mae and Freddie Mac, such as the Self-Help Loan Pool (SHLP) program, and it extended its deadlines within the bounds of regulations where possible. The State also offered moratoriums on evictions and utility cut-offs to help those in need.

In July 2019, the Agency entered into a Memorandum of Agreement with NCORR for $22.9 million of CDBG-DR funds to be used to fund new construction multifamily rental housing developments in the counties most impacted by Hurricane Matthew. The CDBG-DR funds are part of the $236 million appropriated by HUD to North Carolina following Hurricane Matthew, which hit the State in 2016.

The NCFPF closed its portal to new applications as of July 31, 2019 because all remaining awarded funds provided by HHF were committed in fiscal year 2019. The Agency financed remaining loans using program income from the NCFPF. As of June 30, 2020, the NCFPF assisted nearly 29,800 households facing foreclosure.

Debt Administration

The Agency issued tax-exempt bonds in fiscal year 2020 to finance a portion of its HomeAd production. The Series 42 tax-exempt bond issuance closed in September 2019 for a total of $150,000,000 par plus a premium of $5,850,000. The Series 43 tax-exempt bond issuance closed in January 2020 for a total of $150,000,000 par plus a premium of $5,260,000. The Series 44 tax-exempt bond issuance closed in May 2020 for a total of $120,000,000 par plus a premium of $3,270,000. Proceeds have been used to finance production of both the Agency's first mortgage purchases and the NC 1st Home Advantage Down Payment Assistance.

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 $165,000 on July 1, 2019 and $175,000 on January 1, 2020.

In fiscal year 2020, the Agency had monthly bond calls and biannual debt service payments totaling $108,905,000.

Programs and Activities

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.

For the year ended June 30, 2020, the Agency recorded expenditures of $234,470,000 in federal funds for the following programs:

- Carryover Loan Program (COLP)
- Community Partners Loan Pool (CPLP)
- Essential Single-Family Rehabilitation Loan Pool (ESFRLP)
- Mortgage Payment Program (MPP)
- Principal Reduction Recast/Lien Extinguishment for Unaffordable Mortgages Program (PRRLE)
- Rental Production Program (RPP)
- 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, 2020, the Agency recorded expenditures of $69,448,000 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)
- Integrated Supportive Housing Program (ISHP)
- Key Rental Assistance (Key)
- Rental Production Program (RPP)
- Self-Help Loan Pool (SHLP)
- Supportive Housing Development Program (SHDP)
- State Tax Credit (STC)
- Transitions to Community Living Voucher (TCLV)
- Urgent Repair Program (URP)
- Workforce Housing Loan Program (WHLP)

For the year ended June 30, 2020, the Agency recorded expenditures of $439,185,000 from other funding sources for the following programs:

- Community Partner 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)
- NC 1st Home Advantage Down Payment Assistance (1st Home DPA)
- Landlord Incentive Pilot Program (LIPP)
- State Home Foreclosure Prevention Project (SHFPP)
- Urgent Repair Program (URP)

For the year ended June 30, 2020, the Agency made awards of $403,090,000 for the following programs:

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

All major programs for which the Agency recorded expenditures or made awards in the year ended June 30, 2020 are described in the section below:

<u>Home Ownership Programs</u> The Agency offers low-cost mortgages, down payment assistance and mortgage credit certificates (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. 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 mortgage assistance to qualified homebuyers purchasing homes through nonprofit Self-Help Housing loan pool members. Homebuyers are offered interest-free amortizing loans 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.

Housing Preservation Programs 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. Funds are provided to partners in the form of interest-free, deferred loans. The program benefits homeowners earning up to 80% of area median income with full-time household members who are elderly, disabled, qualified veterans and/or children under the age of six years old frequently present in a home with lead hazards.
- 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 for rehabilitation.
- Urgent Repair Program provides loans 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 North Carolina 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 these loans.

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, 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 and the Principal Reduction Recast/Lien Extinguishment for Unaffordable Mortgages 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. The Agency discontinued accepting applications after July 31, 2019 since all awarded HHFs were committed within fiscal year 2019.
- 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:

- Low-Income Housing Tax Credit 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 80% of the area median income.

- 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.
- Rental Production Program provides long-term financing for tax credit developments. Amortizing or deferred loans are available up to 20 years.
- Carryover Loan Program provides financing for the acquisition of land for 9% new construction tax credit properties.

Rental Assistance Programs The Agency administers rent assistance contracts for privately owned apartments or intermediaries 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 projects, the Agency partners with NC Quadel Consulting Corporation to manage the contract administration duties. For Traditional Contract Administration (TCA) projects, the Agency is directly responsible for receiving and distributing rental assistance payments from HUD. To assist in the TCA process, the Agency contracts with EPS, Inc. 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.
- Transition to Community Living Voucher, 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 the communities of their choice. The Agency supports Local Management Entities/Managed Care Organizations (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. In 2019, the SHDP program piloted moderate rehab of existing SHDP projects in the form of interest-free deferred balloon loans.
- 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.

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Independent Auditor's Report

The Board of Directors
North Carolina Housing Finance Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and programs of the North Carolina Housing Finance Agency (the "Agency"), a public agency and component unit of the State of North Carolina , as of and for the year ended June 30, 2020, 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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the North Carolina Finance Agency as of June 30, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2020 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 Agency's internal control over financial reporting and compliance.

BDO USA, LLP

September 23, 2020

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF NET POSITION

AS OF JUNE 30, 2020

(in thousands)

ASSETS	
Current assets:	
Cash and cash equivalents	$ 31,404
Restricted cash and cash equivalents	644,147
Restricted investments	9,542
Accrued interest receivable on investments	4,167
Mortgage loans receivable	86,643
Mortgage loans held for resale	3,697
Accrued interest receivable on mortgage loans	3,037
Other assets	4,836
TOTAL CURRENT ASSETS	$ 787,473
Noncurrent assets:	
Investments	$ 1,036
Restricted investments	1,115,644
Mortgage loans receivable, net	397,673
Other assets, net	20
Capital assets, net	3,526
TOTAL NONCURRENT ASSETS	$ 1,517,899
TOTAL ASSETS	$ 2,305,372
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows for pensions	$ 2,742
Deferred outflows for other postemployment benefits	3,078
Accumulated decrease in fair value of hedging derivative	2,640
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 8,460
LIABILITIES	
Current liabilities:	
Bonds payable	$ 40,840
Accrued interest payable	20,227
Accounts payable	4,743
Unearned revenues	12,578
Other liabilities	581
TOTAL CURRENT LIABILITIES	$ 78,969
Noncurrent liabilities:	
Bonds payable, net	$ 1,335,007
Derivative instrument - interest rate swap	2,640
Unearned revenues	17,189
Pension liability	5,739
Other postemployment benefits	15,063
Other liabilities	5,521
TOTAL NONCURRENT LIABILITIES	$ 1,381,159
TOTAL LIABILITIES	$ 1,460,128
DEFERRED INFLOWS OF RESOURCES	
Deferred state grant	$ 8,525
Deferred inflows for pensions	11
Deferred inflows for other postemployment benefits	5,291
TOTAL DEFERRED INFLOWS OF RESOURCES	$ 13,827
NET POSITION	
Net investment in capital assets	$ 3,526
Restricted net position	823,409
Unrestricted net position	12,942
TOTAL NET POSITION	$ 839,877

The accompanying notes are an integral part of these financial statements.

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2020

(in thousands)

OPERATING REVENUES		
Interest on investments	$	44,276
Net increase in fair value of investments		49,901
Interest on mortgage loans		23,953
Federal program awards received		192,114
Nonfederal program awards received		121
Program income/fees		70,549
Other revenues		417
TOTAL OPERATING REVENUES	$	381,331
OPERATING EXPENSES		
Interest on bonds	$	40,371
Mortgage servicing expense		1,332
Federal program expense		213,848
Nonfederal program expense		36,744
General and administrative expense		26,127
Other expenses		830
TOTAL OPERATING EXPENSES	$	319,252
OPERATING INCOME	$	62,079
NON-OPERATING REVENUES (EXPENSES)		
State appropriations received	$	10,660
State grants received		31,419
State program expense		(65,843)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$	(23,764)
CHANGE IN NET POSITION	$	38,315
TOTAL NET POSITION - BEGINNING	$	801,562
TOTAL NET POSITION - ENDING	$	839,877

The accompanying notes are an integral part of these financial statements.

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2020

(in thousands)		
Cash flows from operating activities:		
Interest on mortgage loans	$	24,071
Principal payments on mortgage loans		80,739
Purchase of mortgage loans		(17,044)
Principal payments on mortgage loans held for resale		83,471
Purchase of mortgage loans held for resale		(87,168)
Federal program awards received		173,489
Federal program expense		(214,678)
Nonfederal program awards received		121
Nonfederal program expense		(36,744)
Federal grant administration income		11,383
Program income/fees		62,731
Other expenses		(31,917)
Other revenues		5,212
Net cash provided by operating activities	$	53,666
Cash flows from non-capital financing activities:		
Issuance of bonds	$	420,000
Principal repayments on bonds		(108,905)
Interest paid		(20,641)
Bond issuance costs paid		(3,687)
State appropriations received		10,660
State grants received		32,648
State tax credits		10
State program expense		(65,843)
Net cash provided by non-capital financing activities	$	264,242
Cash flows from investing activities:		
Proceeds from sales or maturities of investments	$	67,620
Purchase of investments		(402,839)
Earnings on investments		46,347
Net cash used in investing activities	$	(288,872)
Net increase in cash, cash equivalents and restricted cash	$	29,036
Cash, cash equivalents and restricted cash at beginning of year		646,515
Cash, cash equivalents and restricted cash at end of year	$	675,551
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	62,079
Adjustments to reconcile operating income to net cash provided by operating activities:		
Interest on investments		(44,276)
Increase in fair value of investments		(49,901)
Interest on bonds		40,371
Change in operating assets and liabilities:		
Decrease in mortgage loans receivable		64,402
Decrease in accrued interest receivable on mortgage loans		246
Increase in mortgage loans held for resale		(3,697)
Decrease in other assets		5,925
Decrease in deferred outflows of resources		147
Decrease in accounts payable and other liabilities		(4,788)
Decrease in deferred inflows of resources		(1,476)
Decrease in unearned revenues		(15,366)
Total adjustments	$	(8,413)
Net cash provided by operating activities	$	53,666

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2020

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 housing 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:

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

The Agency operates the federal Low-Income Housing Tax Credit (LIHTC) program for the State. The Agency evaluates applications for the tax credits and monitors the rental properties for the compliance period to ensure that they meet federal program requirements, among other responsibilities. In fiscal year 2020, the Agency earned fees of $9,566,000 related to the applications and monitoring of LIHTC properties.

In 2008, the State authorized the formation of the State Home Foreclosure Prevention Project 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. Funds in the amount of $1,802,000 were received and recorded as *Program income/fees* under Agency Programs.

<u>Housing Trust Fund Programs</u> 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 several 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 $7,660,000 for the year ended June 30, 2020. This amount is a recurring appropriation that

is used to make loans and grants under the HTF programs. State appropriations are reported in *Non-Operating Revenues (Expenses)* in the accompanying financial statements.

In fiscal years 2019 and 2020, the Agency received $7,296,000 and $1,229,000, respectively, from the North Carolina Department of Health and Human Services (DHHS) for the Community Living Housing Fund, which was reported as *Deferred state grant.* These funds will only be available for disbursement upon appropriation by the General Assembly.

Federal and State Programs The Agency administers several 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 68%, 14%, 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 2020, $3,000,000 of HOME Match funds was received.

In fiscal year 2020, the Agency received $15,914,000 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, 2020, $12,950,000 related to TCLV is recorded as *State program expense.* The Agency earned fees of $1,554,000 for the administration of this program.

The Agency received $5,505,000 from DHHS in fiscal year 2020 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 2020, $11,746,000 was disbursed and is reflected in *State program expense.* The Agency earned fees of $250,000 for the administration of the program.

In fiscal year 2019, the Agency was appropriated $10,000,000 by the General Assembly for the Hurricane Florence Disaster Recovery Fund (HFDRF). HFDRF provides necessary and appropriate relief and assistance to households affected by Hurricane Florence, which caused extensive flooding and damage in the State in 2018. These funds were received in fiscal year 2020 and are reported in *State grants received.*

Home Ownership Bond Programs 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 qualifying 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 reported 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 reported in *Interest on mortgage loans.*

The operations for the NC Home Advantage Mortgage (HomeAd) program are financed through the issuance of tax-exempt mortgage revenue bonds as well as the sale of mortgage-backed securities (MBS). The production related to the HomeAd program is only reported 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 reported in *Investments*, which also include US Agency 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 reported in *Interest on investments*. The down payment assistance loans and lender compensation incurred by the HomeAd program are reported 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 (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 Codification 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 loan. When these loans are purchased, they are included in *Mortgage loans held for resale*. The interest income and servicing fees associated with these loans are included in *Interest on mortgage loans* and *Mortgage servicing expense*, respectively.

Other Assets *Other assets* for Federal and State Programs of $1,548,000 includes receivables related to the HOME, Section 8, HHF and National Housing Trust Fund (NHTF) programs. *Other assets* in the amount of $3,153,000 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 2020.

Capital Assets, Net Fixed assets, net of accumulated depreciation, in the amount of 3,526,000 are included in *Capital 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.

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 component of *Bonds payable, net* in the accompanying financial statements. The premiums relate to the planned amortization class (PAC) bonds sold in conjunction with several bond 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 upon the completion of LIHTC projects. Since the Agency's monitoring of LIHTC projects occurs over time, 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, 2020, these balances are recorded as *Interprogram receivable (payable)* and 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 the criterion: 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.

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 programs, interest income earned on investments, earnings from HomeAd, repayment of program funds, and reserves from trust agreements. 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.

In fiscal years 2015 and 2018, the Agency implemented GASB Statements No. 68 and 75, respectively, to record the Agency's portion of the State's pension and OPEB liabilities, expenses and deferred inflows/outflows of resources. In fiscal year 2020, the Home Ownership Bond Programs transferred $896,000 to the general fund to recover the current year impact of these GASB implementations to the Agency and to cover the Agency's annual costs associated with the TBA-funded HomeAd loans.

Operating Revenues and Expenses As one of its primary funding sources, the Agency has the authority to issue bonds to the investing public to create inflows of private capital. These funds are used to finance mortgage loans for qualified borrowers. A significant amount of operating revenues is derived from federal programs, interest earned on mortgage loans and MBS that are financed with bonds, and the GASB Statement No. 31 fair market value adjustments associated with the investments resulting from market fluctuations. Additional operating income is earned from the sale of MBS associated with the HomeAd program.

Accordingly, the primary operating expenses of the Agency are those related to federal programs and the interest expense on bonds outstanding. Other significant operating expenses include down payment assistance and lender compensation, which are reported in *Nonfederal program expense*, and Agency operations, which are reported in *General and administrative expense*.

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 federal and state programs and trust agreements, transfers are made from proceeds of federal and state programs or bond issuances to the Agency to reimburse allowable general and administrative expenses. Certain indirect costs are allocated to Federal and State Programs based on an independently prepared cost allocation plan.

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, 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 estimates made.

B. CASH, CASH EQUIVALENTS, INVESTMENTS, FAIR VALUE MEASUREMENTS AND SECURITIES LENDING TRANSACTIONS

Cash and Cash Equivalents As of June 30, 2020, the Agency had deposits in pooled investment accounts of the State Treasurer with a carrying value of approximately $243,501,000 and a bank balance of approximately $244,171,000. 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 $4,045,000 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 $432,042,000 and a bank balance approximating $432,420,000 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 carrying value and a book balance of $8,000 and a 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, 2020, the Agency was not exposed to any material custodial credit risk.

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

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, 2020, the Agency held the following investments with the listed maturities at annual rates ranging from 2.125% 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+	$ 453,138	$ -	$ 223	$ -	$ 452,915
FNMA MBS					
Rated Aaa/AA+	584,692	-	18	-	584,674
FHLMC MBS					
Rated Aaa/AA+	42,948	-	-	-	42,948
US Agency Securities					
Rated Aaa/AA+	45,444	9,542	33,169	2,733	-
Total Categorized	**$1,126,222**	**$ 9,542**	**$ 33,410**	**$ 2,733**	**$1,080,537**

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 limits 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 - $584,692,000, rated Aaa/AA+), by GNMA (fair value - $453,138,000, rated Aaa/AA+) and by FHLMC (fair value - $42,948,000, rated Aaa/AA+). The GNMA MBS are direct obligations of the US Government. The US Agency securities are direct obligations of the Federal Farm Credit Bank, Federal Home Loan Bank and the FHLMC notes (rated Aaa/AA+) and have a fair value of $45,444,000.

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, 2020 *(in thousands)*:

Investment Issuer	**Amount**
FNMA - MBS	$584,692

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 US Agency 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, 2020 *(in thousands)*:

Investment Type	**Fair Value**	**Input Level**	
Short Term Investment Fund (STIF)	$456,442	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.
US Agency Securities	$45,444	Level 2	Valuation of the underlying assets is performed using the policies and procedures established by the Agency's custodian.
MBS	$1,080,778	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	$2,640	Level 2	The fair value was estimated by a consulting firm using the zero coupon method.

Securities Lending Transactions GASB Codification 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 2020, 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

The Agency's mortgage loans are derived from various funding sources. Loans made from Agency Programs, Housing Trust Fund Programs and Federal and State Programs carry balances of $1,844,000, $14,802,000, and $94,615,000, respectively, as of June 30, 2020. These balances include allowances for loan losses of $54,000, $122,000, and $212,000, respectively.

For the Home Ownership Bond Programs, the Agency has collateralized $348,239,000 in mortgage loans receivable and $1,302,568,000 in cash and investments pledged to repay the $1,346,595,000 single-family bonds payable outstanding as of June 30, 2020. Proceeds from the bonds issued were used to finance housing throughout the State. The outstanding bonds are payable through fiscal year 2051 and are repaid from principal and interest on mortgage loans and MBS, unexpended bond proceeds, proceeds from the sale of investments as well as interest income from 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, 2020 is $2,061,954,000 (see "Maturities" under Note D).

The existing and future mortgage loans which the Agency may purchase under the Home Ownership 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, 2020, all outstanding FirstHome mortgage loans purchased with mortgage revenue bond proceeds satisfy these requirements and have stated interest rates ranging from 3% to 10.35%. The Agency has allowances for loan principal and interest losses in the single-family FirstHome mortgage loan program of $634,000 and $49,000, respectively, as of June 30, 2020.

For the current fiscal year, debt service payments, bond calls and related interest payments totaling $129,546,000 were made for the Home Ownership Bond Programs. Payments received on mortgage loans and MBS for the Home Ownership Bond Programs were $87,782,000 and $78,863,000, respectively.

D. BONDS PAYABLE

Bonds payable activity for the year ended June 30, 2020 was as follows (*in thousands*):

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds Payable				
Home Ownership	$ 1,016,075	$ 420,000	$ (106,685)	$ 1,329,390
Home Ownership (Direct Placement)	19,425	-	(2,220)	17,205
	$ 1,035,500	$ 420,000	$ (108,905)	$ 1,346,595
Unamortized Bond Premium	17,222	14,380	(2,350)	29,252
Total Bonds Payable, Net	**$ 1,052,722**	**$ 434,380**	**$ (111,255)**	**$ 1,375,847**

Bonds payable as of June 30, 2020 are as follows (*in thousands*):

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Home Ownership Revenue Bonds			
(1998 Housing Revenue Bonds Trust Agreement)			
Series 32	4.000	1/1/2030	$ 28,755
Series 33	3.163 – 4.319	1/1/2029	30,755
Series 34	2.812 – 3.602	7/1/2035	13,380
Series 35	2.870 – 3.686	7/1/2032	16,220
Series 36	2.194 – 3.482	1/1/2031	24,560
Series 37A & Series 37B	1.650 – 3.500	7/1/2039	124,985
Series 37C (Direct Placement)	Variable	1/1/2035	17,205
Series 38	1.700 – 4.000	7/1/2047	221,435
Series 39	2.250 – 4.000	7/1/2048	135,050
Series 40	2.100 – 4.250	7/1/2047	93,655
Series 41	1.650 – 4.000	1/1/2050	144,270
Series 42	1.050 – 4.000	1/1/2050	149,955
Series 43	1.100 – 4.000	7/1/2050	150,000
Series 44	0.875 – 4.000	7/1/2050	120,000
			$ 1,270,225
(2009 Housing Revenue Bonds Trust Agreement)			
Series A-1 and Series 1	2.920 – 4.500	7/1/2041	$ 32,525
Series A-2 and Series 2	2.640 – 4.250	7/1/2041	43,845
			76,370
Total Bonds Outstanding			$ 1,346,595
Plus Unamortized Bond Premium			$ 29,252
Total Bonds Payable, Net			**$ 1,375,847**

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, 2020, are as follows (*in thousands*):

Bonds Outstanding without Interest Rate Swaps

Fiscal Year Ending June 30	Principal	Interest
2021	$ 39,135	$ 43,078
2022	44,245	42,128
2023	44,020	41,060
2024	43,770	39,952
2025	45,145	38,826
2026-2030	224,770	175,693
2031-2035	219,550	142,235
2036-2040	231,565	105,190
2041-2045	223,020	65,603
2046-2050	209,510	20,988
2051	4,660	93
Total Requirements	**$ 1,329,390**	**$ 714,846**

Bonds Outstanding with Interest Rate Swaps (Direct Placement)

Fiscal Year Ending June 30	Principal	Interest
2021	$ 1,705	$ 140
2022	1,585	67
2023	1,450	61
2024	1,595	54
2025	1,755	47
2026-2030	6,905	127
2031-2035	2,210	17
Total Requirements	**$ 17,205**	**$ 513**

Total Bonds Outstanding

Fiscal Year Ending June 30	Principal	Interest
2021	$ 40,840	$ 43,218
2022	45,830	42,195
2023	45,470	41,121
2024	45,365	40,006
2025	46,900	38,873
2026-2030	231,675	175,820
2031-2035	221,760	142,252
2036-2040	231,565	105,190
2041-2045	223,020	65,603
2046-2050	209,510	20,988
2051	4,660	93
Total Requirements	**$ 1,346,595**	**$ 715,359**

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, 2020, bond redemptions were as follows (*in thousands*):

Issue	Amount Redeemed
Housing Revenue Bonds (1998 Trust Agreement)	$ 96,540
Housing Revenue Bonds (2009 Trust Agreement)	12,365
Total Home Ownership Bond Programs	**$ 108,905**

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, 2020 for special facilities are as follows *(in thousands)*:

Issue	Bond Type	Bonds Outstanding
Series 2018 (Catawba Pines Apartments)	Multifamily Housing Revenue Bonds	$ 3,000
Series 2019 (Weaver Investment Company Rural Development Portfolio)	Multifamily Housing Revenue Bonds	15,235
Total		**$ 18,235**

Bonds related to special facilities that were redeemed in fiscal year 2020 are as follows:

Issue	Bond Type	Redemption Date
Series 2018 (WWJ Investments, LLC)	Multifamily Housing Revenue Bonds	9/1/2019

E. DERIVATIVE INSTRUMENT - INTEREST RATE SWAP

Summary Information During fiscal year 2020, 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 direct placement, and prior to January 2019, the interest payment was equal to 70% of the 1-month LIBOR rate plus 28 basis points (bps). However, a provision in the supplemental trust agreement allows for a rate adjustment due to changes in tax laws. The Tax Cuts and Jobs Act of 2017 negatively impacted the bondholder's after-tax return on the tax-exempt bonds, as corporate tax rates were reduced from 35% to 21%. As a result, the bondholder exercised its rights under the provision to adjust the rate effective January 1, 2019, and the new interest rate was equal to 84.7% of the 1-month LIBOR plus 28 bps. With the agreement set to expire in November 2019, the parties agreed to amend and restate certain provisions to extend the term and modify the interest rate calculation. The new interest rate commenced on November 16, 2019 and is equal to 81.5% of the 1-month LIBOR plus 30 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	FMV at June 30, 2020 Liability	Classification	Net Change in FMV
Series 37C (formerly Series 16C)	Pay-Fixed Interest Rate Swap	$5,045	Hedging Derivative	$(660)	Deferred Outflows of Resources	$(152)
Series 37C (formerly Series 17C)	Pay-Fixed Interest Rate Swap	$8,305	Hedging Derivative	$(1,364)	Deferred Outflows of Resources	$(267)
Series 37C (formerly Series 18C)	Pay-Fixed Interest Rate Swap	$3,855	Hedging Derivative	$(616)	Deferred Outflows of Resources	$(172)

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, 2020 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
$5,045*	Bank of America, N.A.	Aa2/A+	9/16/2003	7/1/2032	3.810%	63%L** + 0.30%
$8,305	Bank of America, N.A.	Aa2/A+	12/11/2003	7/1/2032	3.725%	63%L** + 0.30%
$3,855	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 $2,640,000 as of June 30, 2020. 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 fair value of the swap.

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 as of November 16, 2019 based on 81.5% of 1-month LIBOR plus 30 bps, which was 0.17263% as of June 30, 2020.

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 approximately 26 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, 2020 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, 2020, 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)	1.5790%	1.3191%	(0.2599%)	4.1%	3.4% – 4.2%	PASS
Series 37C (formerly Series 17C)	1.5790%	1.3191%	(0.2599%)	4.0%	3.4% – 4.1%	PASS
Series 37C (formerly Series 18C)	1.5790%	1.3191%	(0.2599%)	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, 2020, 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
2021	$ 1,705	$ 140	$ 490	$ 630
2022	1,585	67	488	555
2023	1,450	61	437	498
2024	1,595	54	391	445
2025	1,755	47	336	383
2026-2030	6,905	127	913	1,040
2031-2035	2,210	17	117	134
Total	**$ 17,205**	**$ 513**	**$ 3,172**	**$ 3,685**

F. NONCURRENT LIABILITIES

Noncurrent liabilities for the year ended June 30, 2020 were as follows *(in thousands):*

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds payable					
Bonds payable, net	$1,035,500	$ 420,000	$ (108,905)	$ 1,346,595	$ 40,840
Unamortized bond premium	17,222	14,380	(2,350)	29,252	-
Derivative instrument – interest rate swap	2,049	591	-	2,640	-
Unearned revenues	45,133	8,287	(23,653)	29,767	12,578
Pension liability	5,553	186	-	5,739	-
OPEB liability	13,398	1,665	-	15,063	-
Other noncurrent liabilities					
Compensated absences	1,670	611	(383)	1,898	501
Deposits payable	5,279	8,548	(9,770)	4,057	15
Workers' compensation	135	12	-	147	65
	$1,125,939	**$ 454,280**	**$ (145,061)**	**$ 1,435,158**	**$ 53,999**

G. OPERATING LEASE

As of June 30, 2020, the Agency leases two adjacent buildings with future minimum lease payments for fiscal years 2021, 2022 and 2023 in the amounts of $698,000, $602,000 and $146,000, respectively. Rent expenses for all operating leases totaled $755,000 for the year ended June 30, 2020. The Agency's lease for the main building will expire September 2022 and the lease for the secondary building will expire August 2021.

H. FEDERAL AWARDS

As a designated public housing agency 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, 2020, $160,589,000 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 and the NHTF. 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, 2020, $14,106,000 was received and is included in *Federal program awards received* in Federal and State Programs. In fiscal year 2020, the Agency disbursed $27,714,000, which is included in *Federal program expense* and *Mortgage loans receivable, net*, depending upon the terms of the transaction.

The NHTF provides funding to increase and preserve the supply of decent, safe and sanitary affordable housing for extremely low and very low-income households. For the year ended June 30, 2020, $2,600,000 was received and disbursed by the Agency and is included in *Federal program awards received* and *Federal program expense,* respectively, in Federal and State Programs.

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, 2020, $1,279,000 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 the 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, 2020, $14,819,000 was received by the Agency and is included in *Federal program awards received*, and $29,561,000 was disbursed by the Agency and is included in *Federal program expense* in Federal and State Programs.

The Agency earned fees of $13,004,000 for administering these and other federal programs for the year ended June 30, 2020. Of these fees, $4,258,000 was paid to Quadel Consulting Corporation for the Section 8 Project-Based Contract Administration, and $868,000 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 (OSC) 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 2020 rate is 12.97% 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, 2020, 2019, and 2018 *(in thousands):*

	2020	2019	2018
Retirement Contribution	$1,289	$1,161	$954
Percentage of Covered Payroll	12.97%	12.29%	10.78%

Net Pension Liability At June 30, 2020, the Agency reported a liability of $5,739,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 utilizing update procedures incorporating the actuarial assumptions listed below. 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, 2019 and at June 30, 2018, the Agency's proportion was 0.05536% and 0.05577%, respectively.

Deferred Outflows/Inflows of Resources Related to Pensions For the year ended June 30, 2020, the Agency recognized pension expense of $2,216,000. At June 30, 2020, 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	$ 480	$ 11
Changes of assumptions	612	-
Net difference between projected and actual earnings on pension plan investments	110	-
Change in proportion and differences between Agency's contributions and proportionate share of contributions	250	-
Contributions subsequent to the measurement date	1,290	-
Total	**$ 2,742**	**$ 11**

Deferred Outflows of Resources of $1,289,000 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, 2021. Other amounts reported as *Deferred Outflows of Resources* and *Deferred Inflows of Resources* at June 30, 2020 related to pensions will be recognized as pension expense as follows *(in thousands)*:

Year ending June 30:	
2021	$ 987
2022	291
2023	124
2024	38
Total	**$ 1,440**

Actuarial Assumptions The total pension liability was determined by an actuarial valuation performed as of December 31, 2018. 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, 2019. 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% 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, 2018 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, 2019 (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 Sensitive	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, 2019 is 1.4%.

Discount Rate The discount rate used to measure the total pension liability was 7% for the December 31, 2018 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%, 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%) or one percentage point higher (8%) than the current rate *(in thousands)*:

	1% Decrease (6%)	Discount Rate (7%)	1% Increase (8%)
Agency's proportionate share of the net pension liability	$10,923	$5,739	$1,390

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 OSC.

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.

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 workers' compensation to which the recipient may be entitled up to a maximum of $3,900 per month. When an employee qualifies for an unreduced service retirement allowance from 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 post-employment benefit plans. The Agency made 100% of its required contributions for the years ended June 30, 2020, 2019, and 2018 (*in thousands*):

	2020	**2019**	**2018**
Health Care Benefit	$ 643	$ 592	$ 535
Disability Benefit	$ 10	$ 13	$ 12
Percentage of Covered Payroll			
Health Care Benefit	6.47%	6.27%	6.05%
Disability Benefit	0.10%	0.14%	0.14%

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.

	RHBF	**DIPNC**
Valuation Date	12/31/2018	12/31/2018
Inflation	3.00%	3.00%
Salary Increases*	3.50% - 8.10%	3.50% - 8.10%
Investment Rate of Return**	7.00%	3.75%
Healthcare Cost Trend Rate - Medical	5.00% - 6.50%	5.00% - 6.50%
Healthcare Cost Trend Rate - Prescription Drug	5.00% - 9.50%	5.00% - 9.50%
Healthcare Cost Trend Rate - Medicare Advantage	5.00% - 6.50%	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 OPEB plan investment expense, including inflation.

Net OPEB Liability (Asset) At June 30, 2020, the Agency reported a liability of $15,063,000 for its proportionate share of the collective net OPEB liability for RHBF. The Agency also reported an asset of $20,000 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB liability (asset) was measured as of June 30, 2019. The total OPEB liability (asset) used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total OPEB liability (asset) to June 30, 2019. 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, 2019 and at June 30, 2018, the Agency's proportion was 0.05536% and 0.05577%, respectively.

Actuarial Assumptions The total OPEB liabilities (assets) for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2018, 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, 2019 utilizing update procedures incorporating the actuarial assumptions.

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, 2019.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2019 (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 Sensitive	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, 2019 (the valuation date) was 1.4%.

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, 2018 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 3.5%. 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 3.5% was used as the discount rate used to measure the total OPEB liability. The 3.5% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2019.

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 (2.5%)	**Discount Rate (3.5%)**	**1% Increase (4.5%)**
RHBF	$21	$18	$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	$18	$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, 2020, the Agency recognized OPEB expense of $222,000 for RHBF and $21,000 for DIPNC. At June 30, 2020, 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	$ -	$ 21	$ 21
Changes of assumptions	724	2	726
Net difference between projected and actual earnings on OPEB plan investments	10	4	14
Change in proportion and differences between Agency's contributions and proportionate share of contributions	1,661	3	1,664
Contributions subsequent to the measurement date	643	10	653
Total	**$ 3,038**	**$ 40**	**$ 3,078**

Deferred Inflows of Resources Related to OPEB by Classification

	RHBF	DIPNC	TOTAL
Difference between actual and expected experience	$ 759	$ -	$ 759
Changes of assumptions	4,529	2	4,531
Net difference between projected and actual earnings on OPEB plan investments	-	-	-
Change in proportion and differences between Agency's contributions and proportionate share of contributions	-	1	1
Contributions subsequent to the measurement date	-	-	-
Total	**$ 5,288**	**$ 3**	**$ 5,291**

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, 2021. Other amounts reported as *Deferred Outflows of Resources* and *Deferred Inflows of Resources* at June 30, 2020 related to OPEB will be recognized in OPEB expense as follows *(in thousands)*:

Year ending June 30:	RHBF	DIPNC
2021	$ (998)	$ 9
2022	(998)	6
2023	(997)	4
2024	(84)	3
2025	185	4
Thereafter	-	1
Total	**$ (2,892)**	**$ 27**

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 vendors and staff.

COVID-19 Considerations The global outbreak of the novel coronavirus (COVID-19), a respiratory disease declared to be a pandemic by the World Health Organization, is affecting the national capital markets and has caused a significant disruption to the national and world economy. As of June 30, 2020, the pandemic has not had a materially adverse impact on the Agency. However, if the pandemic continues, it may have an adverse impact on results of future operations, financial position, the State's housing market and its overall economy.

Management has taken steps to limit operational disruptions for its employees as a result of the pandemic. Actions taken by management include: (1) management has encouraged staff to work remotely as much as possible. This was done to protect the safety of employees and to preserve the ability of the Agency to continue to operate effectively; (2) for staff who chose to work in the office, the Agency instituted policies related to masks, social distancing and personal hygiene practices; and (3) the Agency's use of laptops and remote Virtual Private Networks have provided an effective transition to allow working from home for a majority of the staff.

Management has identified potential exposures to the programmatic operations of the Agency as a result of the COVID-19 pandemic. The Agency has already experienced an increase in forbearance requests and delinquency in its home ownership programs. The loans related to the Agency's HomeAd program are pooled into MBS, limiting the Agency's risk with respect to the underlying loans. The Agency's FirstHome loans, which are owned directly by the Agency, are a smaller portion of the Agency's portfolio. The FirstHome loans are older; therefore, the borrowers have more equity and opportunity to refinance their mortgage loans in an historically low interest rate environment. Any prepayments of bond-financed mortgage loans are used to call bonds, reducing the Agency's financing costs.

While difficult to quantify, the impact of COVID-19 could include but cannot be limited to the following: (1) economic conditions may impact the demand for Agency financing of new home purchases; (2) government restrictions and overlays imposed to ensure potential borrowers were employed prior to loan purchase by the Agency's servicer may delay pipeline progression and negatively impact lenders participating in the HomeAd program; (3) the State-ordered suspension of all evictions and foreclosure hearings may have an effect on the Agency's programs assisting in the providing of housing to low and moderate income households in the State; (4) implementation of foreclosure and eviction moratoriums for single-family homeowners by HUD, the Federal Housing Administration, US Department of Agriculture, FHMA and FHLMC may have an effect on the Agency's programs; and (5) forbearance or disaster relief options for homeowners who cannot afford their mortgage payments could cause a hardship to master servicers, including the Agency's master servicer.

Once the government forbearance options available to borrowers and the eviction moratoriums available to renters expire, the Agency's risks may increase. Likewise, the Agency offers existing programs to help borrowers and renters facing financial difficulties, which can be leveraged as other government options expire. The Agency has maintained adequate reserves related to its bond programs to sustain stable ratings from Moody's and S&P rating agencies, showing its financial stability in an uncertain market.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted. The CARES Act is an approximately $2 trillion emergency economic stimulus package in response to the Coronavirus outbreak, which among other things contains numerous income tax and cost protection provisions. The State receives certain stimulus funds from the federal government under the CARES Act and other stimulus funding programs. However, as of June 30, 2020, the Agency had not applied for or received federal funding related to the CARES Act. Discussions are ongoing with other State agencies regarding the distribution of funds.

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, 2020 for this segment are as follows (*in thousands*):

STATEMENT OF NET POSITION	**Home Ownership**
ASSETS	
Current assets:	
Restricted cash and cash equivalents	$ 362,381
Restricted investments	7,594
Accrued interest receivable on investments	4,023
Mortgage loans receivable	69,562
Mortgage loans held for resale	3,697
Accrued interest receivable on mortgage loans	2,885
Other assets	3,153
Interprogram receivable	250
TOTAL CURRENT ASSETS	$ 453,545
Noncurrent assets:	
Restricted investments	$ 1,115,644
Mortgage loans receivable, net	303,493
TOTAL NONCURRENT ASSETS	$ 1,419,137
TOTAL ASSETS	$ 1,872,682
DEFERRED OUTFLOWS OF RESOURCES	
Accumulated decrease in fair value of hedging derivative	$ 2,640
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 2,640

STATEMENT OF NET POSITION (Continued)	Home Ownership
LIABILITIES	
Current liabilities:	
Bonds payable	$ 40,840
Accrued interest payable	20,227
Accounts payable	1,276
TOTAL CURRENT LIABILITIES	$ 62,343
Noncurrent liabilities:	
Bonds payable, net	$ 1,335,007
Derivative instrument - interest rate swap	2,640
TOTAL NONCURRENT LIABILITIES	$ 1,337,647
TOTAL LIABILITIES	$ 1,399,990
NET POSITION	
Restricted	$ 475,332
TOTAL NET POSITION	$ 475,332

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

OPERATING REVENUES	
Interest on investments	$ 38,898
Net increase in fair value of investments	49,908
Interest on mortgage loans	22,438
Program income/fees	19,786
Other revenues	71
TOTAL OPERATING REVENUES	$ 131,101
OPERATING EXPENSES	
Interest on bonds	$ 40,371
Mortgage servicing expense	1,332
Nonfederal program expense	34,014
General and administrative expense	447
Other expenses	309
TOTAL OPERATING EXPENSES	$ 76,473
OPERATING INCOME	$ 54,628
NON-OPERATING EXPENSES	
Transfers out	$ (1,024)
TOTAL NON-OPERATING EXPENSES	$ (1,024)
CHANGE IN NET POSITION	$ 53,604
TOTAL NET POSITION - BEGINNING	$ 421,728
TOTAL NET POSITION - ENDING	$ 475,332

STATEMENT OF CASH FLOWS	Home Ownership
Net cash provided by operating activities	$ 64,367
Net cash provided by non-capital financing activities	285,743
Net cash used in investing activities	(294,479)
Net increase in cash, cash equivalents and restricted cash	$ 55,631
CASH, CASH EQUIV. AND RESTRICTED CASH AT BEGINNING OF YEAR	306,750
CASH, CASH EQUIV. AND RESTRICTED CASH AT END OF YEAR	$ 362,381

North Carolina Housing Finance Agency

Supplementary Information

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Independent Auditor's Report on Supplementary Information

Our audit of the financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the 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 23, 2020

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF NET POSITION
AS OF JUNE 30, 2020

(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
ASSETS						
Current assets:						
Cash and cash equivalents	$ 31,404	-	-	-	-	$ 31,404
Restricted cash and cash equivalents	79,769	96,969	105,028	350,623	11,758	644,147
Restricted investments	1,948	-	-	7,594	-	9,542
Accrued interest receivable on investments	47	97	-	3,983	40	4,167
Mortgage loans receivable	166	1,226	15,689	56,120	13,442	86,643
Mortgage loans held for resale	-	-	-	3,697	-	3,697
Accrued interest receivable on mortgage loans	3	7	142	2,369	516	3,037
Other assets	135	-	1,548	2,738	415	4,836
Interprogram receivable (payable)	2,270	165	(2,685)	(227)	477	-
TOTAL CURRENT ASSETS	$ 115,742	98,464	119,722	426,897	26,648	$ 787,473
Noncurrent assets:						
Investments	$ 1,036	-	-	-	-	$ 1,036
Restricted investments	-	-	-	1,109,441	6,203	1,115,644
Mortgage loans receivable, net	1,678	13,576	78,926	240,031	63,462	397,673
Other assets, net	20	-	-	-	-	20
Capital assets, net	3,526	-	-	-	-	3,526
TOTAL NONCURRENT ASSETS	$ 6,260	13,576	78,926	1,349,472	69,665	$ 1,517,899
TOTAL ASSETS	$ 122,002	112,040	198,648	1,776,369	96,313	$ 2,305,372
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows for pensions	$ 2,742	-	-	-	-	$ 2,742
Deferred outflows for other postemployment benefits	3,078	-	-	-	-	3,078
Accumulated decrease in fair value of hedging derivative	-	-	-	2,640	-	2,640
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 5,820	-	-	2,640	-	$ 8,460
LIABILITIES						
Current liabilities:						
Bonds payable	$ -	-	-	38,300	2,540	$ 40,840
Accrued interest payable	-	-	-	19,040	1,187	20,227
Accounts payable	2,150	-	1,317	792	484	4,743
Unearned revenues	2,031	-	10,547	-	-	12,578
Other liabilities	570	1	10	-	-	581
TOTAL CURRENT LIABILITIES	$ 4,751	1	11,874	58,132	4,211	$ 78,969
Noncurrent liabilities:						
Bonds payable, net	$ -	-	-	1,261,151	73,856	$ 1,335,007
Derivative instrument - interest rate swap	-	-	-	2,640	-	2,640
Unearned revenues	17,189	-	-	-	-	17,189
Pension liability	5,739	-	-	-	-	5,739
Other postemployment benefits	15,063	-	-	-	-	15,063
Other liabilities	5,521	-	-	-	-	5,521
TOTAL NONCURRENT LIABILITIES	$ 43,512	-	-	1,263,791	73,856	$ 1,381,159
TOTAL LIABILITIES	$ 48,263	1	11,874	1,321,923	78,067	$ 1,460,128
DEFERRED INFLOWS OF RESOURCES						
Deferred state grant	$ -	8,525	-	-	-	$ 8,525
Deferred inflows for pensions	11	-	-	-	-	11
Deferred inflows for other postemployment benefits	5,291	-	-	-	-	5,291
TOTAL DEFERRED INFLOWS OF RESOURCES	$ 5,302	8,525	-	-	-	$ 13,827
NET POSITION						
Net investment in capital assets	$ 3,526	-	-	-	-	$ 3,526
Restricted net position	57,789	103,514	186,774	457,086	18,246	823,409
Unrestricted net position	12,942	-	-	-	-	12,942
TOTAL NET POSITION	$ 74,257	103,514	186,774	457,086	18,246	$ 839,877

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2020

(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
OPERATING REVENUES						
Interest on investments	$ 1,942	2,048	1,388	38,608	290	$ 44,276
Net increase (decrease) in fair value of investments	(7)	-	-	49,806	102	49,901
Interest on mortgage loans	23	476	1,016	19,209	3,229	23,953
Federal program awards received	-	-	192,114	-	-	192,114
Nonfederal program awards received	121	-	-	-	-	121
Program income/fees	13,804	1,847	35,112	19,786	-	70,549
Other revenues	346	-	-	-	71	417
TOTAL OPERATING REVENUES	$ 16,229	4,371	229,630	127,409	3,692	$ 381,331
OPERATING EXPENSES						
Interest on bonds	$ -	-	-	37,975	2,396	$ 40,371
Mortgage servicing expense	-	-	-	1,039	293	1,332
Federal program expense	-	-	213,848	-	-	213,848
Nonfederal program expense	2,730	-	-	34,014	-	36,744
General and administrative expense	20,554	-	5,126	425	22	26,127
Other expenses	52	59	410	264	45	830
TOTAL OPERATING EXPENSES	$ 23,336	59	219,384	73,717	2,756	$ 319,252
OPERATING INCOME (LOSS)	$ (7,107)	4,312	10,246	53,692	936	$ 62,079
NON-OPERATING REVENUES (EXPENSES)						
Transfers in (out)	$ 18,165	45	(17,186)	(1,024)	-	$ -
State appropriations received	-	7,660	3,000	-	-	10,660
State grants received	-	-	31,419	-	-	31,419
State program expense	(114)	(38,143)	(27,586)	-	-	(65,843)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$ 18,051	(30,438)	(10,353)	(1,024)	-	$ (23,764)
CHANGE IN NET POSITION	$ 10,944	(26,126)	(107)	52,668	936	$ 38,315
TOTAL NET POSITION - BEGINNING	$ 63,313	129,640	186,881	404,418	17,310	$ 801,562
TOTAL NET POSITION - ENDING	$ 74,257	103,514	186,774	457,086	18,246	$ 839,877

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2020

(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	$ 22	482	1,052	19,315	3,200	$ 24,071
Principal payments on mortgage loans	197	1,157	14,118	53,366	11,901	80,739
Purchase of mortgage loans	-	(1,651)	(15,393)	-	-	(17,044)
Principal payments on mortgage loans held for resale	-	-	-	83,471	-	83,471
Purchase of mortgage loans held for resale	-	-	-	(87,168)	-	(87,168)
Federal program awards received	-	-	173,489	-	-	173,489
Federal program expense	-	-	(214,678)	-	-	(214,678)
Nonfederal program awards received	121	-	-	-	-	121
Nonfederal program expense	(2,730)	-	-	(34,014)	-	(36,744)
Federal grant administration income	-	-	11,383	-	-	11,383
Program income/fees	17,094	1,847	24,004	19,786	-	62,731
Other expenses	(20,171)	1	(5,839)	(5,288)	(620)	(31,917)
Other revenues	4,750	44	-	134	284	5,212
Net cash provided by (used in) operating activities	$ (717)	1,880	(11,864)	49,602	14,765	$ 53,666
Cash flows from non-capital financing activities:						
Issuance of bonds	$ -	-	-	420,000	-	$ 420,000
Principal repayments on bonds	-	-	-	(96,540)	(12,365)	(108,905)
Interest paid	-	-	-	(17,929)	(2,712)	(20,641)
Bond issuance costs paid	-	-	-	(3,687)	-	(3,687)
Net transfers	18,165	45	(17,186)	(1,024)	-	-
State appropriations received	-	7,660	3,000	-	-	10,660
State grants received	-	1,229	31,419	-	-	32,648
State tax credits	10	-	-	-	-	10
State program expense	(114)	(38,143)	(27,586)	-	-	(65,843)
Net cash provided by (used in) non-capital financing activities	$ 18,061	(29,209)	(10,353)	300,820	(15,077)	$ 264,242
Cash flows from investing activities:						
Proceeds from sales or maturities of investments	$ -	-	-	67,620	-	$ 67,620
Purchase of investments	-	-	-	(402,839)	-	(402,839)
Earnings on investments	1,948	2,159	1,500	40,432	308	46,347
Net cash provided by (used in) investing activities	$ 1,948	2,159	1,500	(294,787)	308	$ (288,872)
Net increase (decrease) in cash, cash equivalents and restricted cash	$ 19,292	(25,170)	(20,717)	55,635	(4)	$ 29,036
Cash, cash equivalents and restricted cash at beginning of year	91,881	122,139	125,745	294,988	11,762	646,515
Cash, cash equivalents and restricted cash at end of year	$ 111,173	96,969	105,028	350,623	11,758	$ 675,551
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	$ (7,107)	4,312	10,246	53,692	936	$ 62,079
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Interest on investments	(1,942)	(2,048)	(1,388)	(38,608)	(290)	(44,276)
Decrease (increase) in fair value of investments	7	-	-	(49,806)	(102)	(49,901)
Interest on bonds	-	-	-	37,975	2,396	40,371
Change in operating assets and liabilities:						
Decrease (increase) in mortgage loans receivable	(95)	(435)	(223)	53,349	11,806	64,402
Decrease (increase) in interest receivable on mortgage loans	(1)	6	36	210	(5)	246
Decrease (increase) in mortgage loans held for resale	-	-	-	(3,697)	-	(3,697)
Decrease (increase) in other assets	5,157	44	306	134	284	5,925
Decrease (increase) in deferred outflows of resources	147	-	-	-	-	147
Increase (decrease) in accounts payable and other liabilities	1,303	1	(2,185)	(3,647)	(260)	(4,788)
Increase (decrease) in deferred inflows of resources	(1,476)	-	-	-	-	(1,476)
Increase (decrease) in unearned revenues	3,290	-	(18,656)	-	-	(15,366)
Total adjustments	$ 6,390	(2,432)	(22,110)	(4,090)	13,829	$ (8,413)
Net cash provided by (used in) operating activities	$ (717)	1,880	(11,864)	49,602	14,765	$ 53,666

This audit report required 1,025 audit hours at a cost of $108,700.

NORTH CAROLINA
HOUSING
FINANCE
AGENCY

Our mission is to create affordable housing options 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.