North Carolina Housing Finance Agency

Audited Financial Statements

June 30, 2023

NORTH CAROLINA HOUSING FINANCE AGENCY
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2023

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MANAGEMENT'S DISCUSSION AND ANALYSIS *(Unaudited)*
June 30, 2023

The management's 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, 2023. 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 program, the HOME Investment Partnerships Program (HOME), the Low-Income Housing Tax Credits (LIHTC), the NC Homeowner Assistance Fund (HAF), the North Carolina Housing Trust Fund (HTF), the Workforce Housing Loan Program (WHLP), 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, 2023, compared to the prior fiscal year's results and activities:

- *Total Assets* increased $385,074,000, or 16.2%
- *Deferred Outflows of Resources* increased $1,172,000, or 14.6%
- *Total Liabilities* increased $230,382,000, or 14.5%
- *Deferred Inflows of Resources* decreased $1,855,000, or 24.5%
- *Total Net Position* increased $157,719,000, or 20.2%

The Agency issued bonds in fiscal year 2023 to finance a portion of its NC Home Advantage Mortgage (HomeAd) loans, which were securitized into MBS. These transactions caused an increase in *Investments, Bonds payable, net* as well as other related accounts. These transactions are primarily responsible for the increases and decreases in the accounts below:

- *Investments* increased $259,879,000, or 21.9%
- *Bonds payable, net* increased $197,950,000, or 13.2%
- *Interest on bonds* increased $5,938,000, or 16.1%
- *Nonfederal program expense* increased $7,329,000, or 27.0%
- *Net decrease in fair value of investments* decreased $57,674,000, or 51.4%

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*, *Program income/fees,* and related accounts as listed below:

- *Mortgage loans receivable, net* decreased $33,612,000 or 9.7%
- *Accrued interest receivable on mortgage loans* decreased $636,000, or 30.2%
- *Program income/fees* decreased $21,299,000, or 20.1%

- *Interest on mortgage loans* decreased $1,774,000, or 11.2%
- *Mortgage servicing expense* decreased $124,000, or 13.9%

The US Department of the Treasury (Treasury) approved North Carolina's plan for the HAF program, which launched statewide on January 31, 2022. The majority of HAF funds were received in fiscal year 2023, and, of the funds received, all but $15,195,000 were disbursed, resulting in increases in *Other assets, Unearned revenues, Federal program expense, Federal program awards received,* and *General and administrative expense* as listed below:

- *Other assets* increased $8,951,000, or 53.9%
- *Unearned revenues* increased $11,380,000, or 29.3%
- *Federal program expense* increased $99,020,000, or 35.5%
- *Federal program awards received* increased $167,163,000, or 79.9%
- *General and administrative expense* increased $15,982,000, or 60.5%

State appropriations received increased $200,000,000, or 1,876.2% in fiscal year 2023, because the Agency received non-recurring appropriations from the North Carolina General Assembly for WHLP and HTF of $190,000,000 and $10,000,000, respectively. This additional inflow and subsequent disbursement of funds, combined with rising interest rates resulted in increases in *Interest on investments, Accrued interest receivable on investments, and State program expense* as listed below:

- *Interest on investments* increased $34,311,000, or 83.0%
- *Accrued interest receivable on investments* increased $3,119,000, or 81.2%
- *State program expense* increased $34,259,000, or 54.0%

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

- *Deferred outflows for pensions* increased $2,466,000, or 75.4%
- *Deferred outflows for other postemployment benefits* decreased $538,000, or 13.5%
- *Pension liability* increased $5,832,000, or 213.6%
- *Other postemployment benefits* decreased $3,495,000, or 22.2%
- *Deferred inflows for pensions* decreased $3,327,000, or 96.6%
- *Deferred inflows for other postemployment benefits* increased $1,472,000, or 35.7%

The net effect of the transactions detailed above, along with regular operations of the Agency, resulted in an increase in *Total Net Position* of $157,719,000, or 20.2%. The primary driver of the change in net position is the State appropriation for WHLP. 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, 2023 and June 30, 2022 *(in thousands)*:

	2023	2022	Change	%
Condensed Statements of Net Position				
Assets*				
Cash and cash equivalents	$ 938,040	$ 811,458	$ 126,582	15.6
Investments	1,445,769	1,185,890	259,879	21.9
Accrued interest receivable on investments	6,958	3,839	3,119	81.2
Mortgage loans receivable, net	313,158	346,770	(33,612)	(9.7)
Mortgage loans held for resale	22,717	-	22,717	100.0
Accrued interest receivable on mortgage loans	1,467	2,103	(636)	(30.2)
State receivables	4	552	(548)	(99.3)
Other assets, net	25,547	16,596	8,951	53.9
Capital assets, net	3,261	4,639	(1,378)	(29.7)
Total Assets	$ 2,756,921	$ 2,371,847	$ 385,074	16.2
Deferred Outflows of Resources				
Deferred outflows for pensions	$ 5,737	$ 3,271	$ 2,466	75.4
Deferred outflows for other postemployment benefits	3,455	3,993	(538)	(13.5)
Accumulated decrease in fair value of hedging derivative	-	756	(756)	(100.0)
Total Deferred Outflows of Resources	$ 9,192	$ 8,020	$ 1,172	14.6
Liabilities*				
Bonds payable, net	$ 1,700,399	$ 1,502,449	$ 197,950	13.2
Accrued interest payable	24,970	18,628	6,342	34.0
Accounts payable	17,732	4,676	13,056	279.2
Derivative instrument – interest rate swap	-	756	(756)	(100.0)
Unearned revenues	50,285	38,905	11,380	29.3
Pension liability	8,562	2,730	5,832	213.6
Other postemployment benefits	12,237	15,732	(3,495)	(22.2)
Other liabilities	6,996	6,349	647	10.2
Lease liability	2,038	2,612	(574)	(22.0)
Total Liabilities	$ 1,823,219	$ 1,592,837	$ 230,382	14.5
Deferred Inflows of Resources				
Deferred inflows for pensions	$ 117	$ 3,444	$ (3,327)	(96.6)
Deferred inflows for other postemployment benefits	5,600	4,128	1,472	35.7
Total Deferred Inflows of Resources	$ 5,717	$ 7,572	$ (1,855)	(24.5)
Net Position				
Net investment in capital assets	$ 3,261	$ 4,639	$ (1,378)	(29.7)
Restricted net position	799,651	672,729	126,922	18.9
Unrestricted net position	134,265	102,090	32,175	31.5
Total Net Position	$ 937,177	$ 779,458	$ 157,719	20.2

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

Condensed Statements of Revenues, Expenses and Changes in Net Position	**2023**	**2022**	**Change**	**%**
Operating Revenues				
Interest on investments	$ 75,651	$ 41,340	$ 34,311	83.0
Net decrease in fair value of investments	(54,549)	(112,223)	57,674	51.4
Interest on mortgage loans	14,074	15,848	(1,774)	(11.2)
Federal program awards received	376,313	209,150	167,163	79.9
Program income/fees	84,918	106,217	(21,299)	(20.1)
Other revenues	359	65	294	452.3
Total Operating Revenues	$ 496,766	$ 260,397	$ 236,369	90.8
Operating Expenses				
Interest on bonds	$ 42,709	$ 36,771	$ 5,938	16.1
Lease interest expense	32	20	12	60.0
Mortgage servicing expense	770	894	(124)	(13.9)
Federal program expense	378,299	279,279	99,020	35.5
Nonfederal program expense	34,476	27,147	7,329	27.0
General and administrative expense	42,404	26,422	15,982	60.5
Other expenses	176	408	(232)	(56.9)
Total Operating Expenses	$ 498,866	$ 370,941	$ 127,925	34.5
Operating Loss	$ (2,100)	$ (110,544)	$ 108,444	98.1
Non-Operating Revenues (Expenses)				
State appropriations received	$ 210,660	$ 10,660	$ 200,000	1,876.2
State grants received	46,736	45,408	1,328	2.9
Noncapital contributions	93	95	(2)	(2.1)
State program expense	(97,670)	(63,411)	(34,259)	54.0
Total Non-Operating Revenues (Expenses)	$ 159,819	$ (7,248)	$ 167,067	2,305.0
Change in Net Position	$ 157,719	$ (117,792)	$ 275,511	233.9
Total Net Position - Beginning	$ 779,458	$ 897,250	$ (117,792)	(13.1)
Total Net Position - Ending	$ 937,177	$ 779,458	$ 157,719	20.2

New Business

In September 2021, the US Department of Housing and Urban Development (HUD) announced the award of $65.6 million to the Agency for the HOME Investment Partnerships Program and Section 3205 of the American Rescue Plan (HOME-ARP). HOME-ARP is a new federal program to assist in the reduction of homelessness and increase housing stability. Program funds are available for obligation by HUD through September 2025 and available for Participating Jurisdiction expenditure through September 2030. The Agency has begun incurring start-up costs for this program as of June 30, 2023. Program awards and disbursements are expected to occur over the next 24 months.

The fiscal year 2023 State budget was approved on July 11, 2022 and included recurring appropriations for the Agency of $7.66 million for HTF and $3 million for HOME Match, along with non-recurring appropriations of $190 million for WHLP and an additional $10 million for HTF.

On April 1, 2023, the Agency increased the amount of NC 1st Home Advantage Down Payment Assistance associated with its bond funded loans from $8,000 to $15,000. This increase resulted in the highest quarter of reservation volume in the fourth quarter of fiscal year 2023 since the HomeAd program's inception in 2013.

Debt Administration

The Agency issued tax-exempt bonds in fiscal year 2023 to finance a portion of its HomeAd production. The Series 49 tax-exempt bond issuance closed in December 2022 for a total of $180,000,000 par plus a premium of $4,660,000. The Series 50 tax-exempt bond issuance closed in May 2023 for a total of $180,000,000 par plus a premium of $7,754,000. Proceeds have been used to finance production of both the Agency's first mortgage purchases and the NC 1st Home Advantage Down Payment Assistance.

In fiscal year 2023, the Agency had monthly bond calls and biannual debt service payments totaling $168,730,000. In conjunction with the October 2022 bond call, the Agency redeemed its remaining variable rate debt totaling $12,670,000, and terminated its remaining interest rate swaps.

The Agency issued conduit multifamily mortgage revenue bonds of $6,000,000 in fiscal year 2021 for the construction of a multifamily development for seniors, which was a disaster recovery project. In August 2022, an additional $2,981,000 of bonds were issued for the same project due to increased material and labor costs. Additionally, in August 2022, a conduit mortgage revenue bond was issued as a "draw down" bond for up to $37,515,000 for the acquisition and construction of a multifamily development for persons of low and moderate income. These bonds are limited obligations of the Agency, secured solely by the revenues and other assets pledged for their payment.

Programs and Activities

The Agency's mission is to provide safe, affordable housing opportunities to enhance the quality of life of North Carolinians. The Agency focuses its efforts on providing assistance to borrowers purchasing a home, financing affordable rental housing, and helping homeowners who are facing foreclosure or living in substandard housing.

For the year ended June 30, 2023, the Agency recorded expenditures of $415,360,000 in federal funds for the following programs:

- Community Partners Loan Pool (CPLP)
- Essential Single-Family Rehabilitation Loan Pool (ESFRLP)
- Integrated Supportive Housing Program (ISHP)
- NC Homeowner Assistance Fund (HAF)
- Housing Stability Counseling Program (HSCP)
- Rental Production Program (RPP)
- Rental Production Program – Disaster Recovery (RPP-DR)
- Section 8 Project-Based Contract Administration (Section 8 PBCA)
- Self-Help Loan Pool (SHLP)

For the year ended June 30, 2023, the Agency recorded expenditures of $97,804,000 in State funds for the following programs:

- Back@Home (BH)
- Displacement Prevention Partnership (DPP)
- Essential Single-Family Rehabilitation Loan Pool – Disaster Recovery (ESFRLP-DR)
- Housing Counseling Capacity Building Program (HCCBP)
- Housing Services (HS)
- Integrated Supportive Housing Program (ISHP)
- Key Rental Assistance (Key)
- Rental Production Program (RPP)
- Rental Production Program – Disaster Recovery (RPP-DR)
- Supportive Housing Development Program (SHDP)

- Transitions to Community Living Voucher (TCLV)
- Urgent Repair Program (URP)
- Workforce Housing Loan Program (WHLP)

For the year ended June 30, 2023, the Agency recorded expenditures of $469,892,000 from other funding sources for the following programs:

- Carryover Loan Program (COLP)
- Community Partners Loan Pool (CPLP)
- Construction Training Partnership (CTP)
- Essential Single-Family Rehabilitation Loan Pool (ESFRLP)
- NC Home Advantage Mortgage (HomeAd)
- NC 1st Home Advantage Down Payment Assistance (1st Home DPA)
- State Home Foreclosure Prevention Project (SHFPP)
- Urgent Repair Program (URP)

For the year ended June 30, 2023, the Agency made awards of $267,393,000 for the following programs:

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

All major programs for which the Agency recorded expenditures or made awards in the year ended June 30, 2023 are described in the section below:

Home Ownership Programs 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 provides 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% 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 a $15,000 deferred forgivable 15-year second mortgage.
- NC Home Advantage Tax Credit helps qualifying veterans and first-time 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 25% 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, forgiven 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, forgiven 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 interest-free, deferred, forgiven 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 interest-free, deferred, forgiven 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:

- NC Homeowner Assistance Fund provides mortgage payment assistance, mortgage reinstatement and housing related cost assistance, which may include insurance, homeowner fees and liens, and delinquent property taxes to eligible homeowners, to prevent homeowner delinquencies, defaults, foreclosures and homeowner displacement associated with housing-related hardships due to the COVID-19 pandemic.
- Housing Stability Counseling Program provides free counseling services from HUD-approved certified housing counselors to renters and homeowners facing housing instability.
- 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.

- Rental Production Program – Disaster Recovery provides loans to fund construction of affordable rental developments in counties with a federally-declared disaster designation due to Hurricane Florence in 2018 and Hurricane Matthew in 2016.
- Carryover Loan Program provides financing for the acquisition of land for 9% new construction tax credit properties.
- Integrated Supportive Housing Program provides long-term financing for developments that set aside up to 20% of units for people with disabilities. The Agency partners with the NC Department of Health and Human Services (DHHS) in administering this program.

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

- Section 8 Project-Based Contract Administration (PBCA) rental assistance projects are administered by the Agency for certain project-based Section 8 Housing Assistance Payment contracts on behalf of HUD. The Agency partners with NC Quadel Consulting Corporation to manage the contract administration duties.
- Key Rental Assistance provides rental assistance for low-income persons with disabilities, including those experiencing homelessness. The Agency is responsible for executing agreements with property owners, reviewing income eligibility documentation at move-in and recertification periods, making rental assistance payments to owners and projecting costs of the program. The Agency partners with DHHS in administering this program.
- Transition to Community Living Voucher 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 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. The Agency partners with DHHS in administering this program.
- Back@Home supports homelessness prevention and rapid rehousing services needed as a result of the COVID-19 pandemic. The Agency reviews and reimburses expenditures incurred and submitted by designated rehousing agencies per contract with DHHS.

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.

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 Brett Warner, Chief Financial Officer, North Carolina Housing Finance Agency, P.O. Box 28066, Raleigh, North Carolina 27611-8066, (919) 981-2519, bawarner@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 Audit of the Financial Statements

Opinions

We have audited the 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, 2023, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and programs of the Agency, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 22, 2023 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

BDO USA, P.C.

September 22, 2023

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF NET POSITION

AS OF JUNE 30, 2023

(in thousands)	
ASSETS	
Current assets:	
Cash and cash equivalents	$ 142,568
Restricted cash and cash equivalents	795,472
Restricted investments	4,954
Accrued interest receivable on investments	6,958
Mortgage loans receivable	53,502
Mortgage loans held for resale	22,717
Accrued interest receivable on mortgage loans	1,467
State receivables	4
Other assets	25,547
TOTAL CURRENT ASSETS	$ 1,053,189
Noncurrent assets:	
Restricted investments	$ 1,440,815
Mortgage loans receivable, net	259,656
Capital assets, net	3,261
TOTAL NONCURRENT ASSETS	$ 1,703,732
TOTAL ASSETS	$ 2,756,921
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows for pensions	$ 5,737
Deferred outflows for other postemployment benefits	3,455
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 9,192
LIABILITIES	
Current liabilities:	
Bonds payable	$ 38,885
Accrued interest payable	24,970
Accounts payable	17,732
Unearned revenues	28,657
Other liabilities	1,242
TOTAL CURRENT LIABILITIES	$ 111,486
Noncurrent liabilities:	
Bonds payable, net	$ 1,661,514
Unearned revenues	21,628
Pension liability	8,562
Other postemployment benefits	12,237
Other liabilities	5,754
Lease liability	2,038
TOTAL NONCURRENT LIABILITIES	$ 1,711,733
TOTAL LIABILITIES	$ 1,823,219
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows for pensions	$ 117
Deferred inflows for other postemployment benefits	5,600
TOTAL DEFERRED INFLOWS OF RESOURCES	$ 5,717
NET POSITION	
Net investment in capital assets	$ 3,261
Restricted net position	799,651
Unrestricted net position	134,265
TOTAL NET POSITION	$ 937,177

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, 2023

(in thousands)		
OPERATING REVENUES		
Interest on investments	$	75,651
Net decrease in fair value of investments		(54,549)
Interest on mortgage loans		14,074
Federal program awards received		376,313
Program income/fees		84,918
Other revenues		359
TOTAL OPERATING REVENUES	$	496,766
OPERATING EXPENSES		
Interest on bonds	$	42,709
Lease interest expense		32
Mortgage servicing expense		770
Federal program expense		378,299
Nonfederal program expense		34,476
General and administrative expense		42,404
Other expenses		176
TOTAL OPERATING EXPENSES	$	498,866
OPERATING LOSS	$	(2,100)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations received	$	210,660
State grants received		46,736
Noncapital contributions		93
State program expense		(97,670)
TOTAL NON-OPERATING REVENUES	$	159,819
CHANGE IN NET POSITION	$	157,719
TOTAL NET POSITION - BEGINNING	$	779,458
TOTAL NET POSITION - ENDING	$	937,177

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

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2023

(in thousands)

Cash flows from operating activities:		
Interest on mortgage loans	$	14,562
Principal payments on mortgage loans		50,520
Purchase of mortgage loans		(16,407)
Purchase of mortgage loans held for resale		(22,717)
Federal program awards received		378,249
Federal program expense		(363,730)
Nonfederal program expense		(34,476)
Federal grant administration income		26,804
Program income/fees		58,353
Other expenses		(44,450)
Other revenues		278
Net cash provided by operating activities	$	46,986
Cash flows from non-capital financing activities:		
Issuance of bonds	$	360,000
Principal repayments on bonds		(168,730)
Interest paid		(26,812)
Bond issuance costs paid		(2,875)
State tax credits		90
State appropriations received		210,660
State grants received		46,736
State program expense		(97,670)
Noncapital contributions		93
Net cash provided by non-capital financing activities	$	321,492
Cash flows from investing activities:		
Proceeds from sales or maturities of investments	$	111,299
Purchase of investments		(426,050)
Earnings on investments		72,855
Net cash used in investing activities	$	(241,896)
Net increase in cash and cash equivalents, unrestricted and restricted	$	126,582
Cash and cash equivalents, unrestricted and restricted, at beginning of year		811,458
Cash and cash equivalents, unrestricted and restricted, at end of year	$	938,040
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(2,100)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Interest on investments		(75,651)
Decrease in fair value of investments		54,549
Interest on bonds		42,709
Change in operating assets and liabilities:		
Decrease in mortgage loans receivable		33,612
Decrease in accrued interest receivable on mortgage loans		636
Increase in mortgage loans held for resale		(22,717)
Increase in other assets		(7,545)
Increase in deferred outflows of resources		(1,928)
Increase in accounts payable and other liabilities		15,896
Decrease in deferred inflows of resources		(1,855)
Increase in unearned revenues		11,380
Total adjustments	$	49,086
Net cash provided by operating activities	$	46,986

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

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

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:

Agency Programs Direct administrative and operational activities, including operating expenses of various programs, are recorded in Agency Programs. Among the most active programs are the federal Low-Income Housing Tax Credit (LIHTC) program and the State Home Foreclosure Prevention Project (SHFPP). The Agency administers LIHTC for the State, evaluating applications for the tax credits and monitoring the rental properties for the compliance period to ensure that they meet federal program requirements, among other responsibilities. The Agency earns fees related to the applications and monitoring of LIHTC properties.

In 2008, the State authorized the formation of SHFPP in response to the foreclosure crisis. State statute requires that all parties who wish to initiate a foreclosure against a home in North Carolina remit a $75 fee to the Agency. The fees collected are used to counsel and/or provide legal assistance to homeowners at risk of foreclosure. Any excess funds are allocated to the North Carolina Housing Trust Fund (HTF) annually.

Housing Trust Fund Programs The North Carolina Housing Trust and Oil Overcharge Act created the HTF and the North Carolina Housing Partnership (Housing Partnership). The purpose of the HTF is to increase the supply of decent, affordable, and energy-efficient housing for residents of the State with low and moderate incomes. The Housing Partnership is responsible for developing policy for the operation of several programs within the HTF. The Agency staff provides services to the Housing Partnership and administers the HTF programs. State appropriations are reported in *Non-Operating Revenues (Expenses)* in the accompanying financial statements, and include a recurring appropriation that is used to make loans and grants under the HTF programs and nonrecurring appropriations for the Workforce Housing Loan Program (WHLP).

The Agency receives funds from the North Carolina Department of Health and Human Services (DHHS) for the Community Living Housing Fund. In October 2022, Session Law 2022-180 established a $3.8 million recurring appropriation which is reported in *State grants received*. Any funds received in addition to this appropriation are reported in *Deferred state grants* until appropriated by the North Carolina General Assembly (General Assembly), when they are moved to *State grants received.*

<u>Federal and State Programs</u> The Agency administers several federal programs including the NC Homeowner Assistance Fund (HAF), Section 8, the combined HOME Investment Partnerships Program (HOME) and the HOME Investment Partnerships American Rescue Plan Program (HOME-ARP), and National Housing Trust Fund (NHTF), which represent 46%, 45%, 6%, and 3% of federal expenditures, respectively. The Agency receives a fee for administering these programs. The HOME program is matched with State funds of up to $3 million annually as appropriated by the General Assembly.

The Agency receives funds from DHHS for the Transitions to Community Living Voucher program (TCLV), the Key Rental Assistance (Key) program and other housing programs. TCLV is a tenant-based, rental assistance program, which also provides assistance with security deposits, holding fees and risk mitigation claims. The Key program provides assistance and services to low-income individuals with disabilities and those who are homeless. These funds are reported in *State grants received*.

<u>Home Ownership Bond Programs</u> The Home Ownership Bond Programs were created through a single-family trust agreement 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 the 1998 Home Ownership Bond Program. Mortgage loan interest income related to the Home Ownership Bond Programs 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 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:

<u>Cash and Cash Equivalents</u> *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 in the North Carolina State Treasurer (State Treasurer), and highly liquid investments with original maturities of three months or less. 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 Periodically, 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 includes receivables related to the HOME, Section 8, HAF, and NHTF programs. *Other assets* reflected in the Home Ownership Bond Programs include mortgage payments collected by servicers that will be remitted to the Agency in the upcoming fiscal year.

Capital Assets, Net Fixed assets, net of accumulated depreciation and amortization, are included in *Capital assets, net* in the accompanying financial statements. Fixed assets of $5,000 or greater, intangible assets of $100,000 or greater, and internally developed software with development costs of $1 million or greater are capitalized and depreciated over a five-year economic useful life using the straight-line method. Right-to-use (RTU) buildings and RTU machinery and equipment, net of accumulated amortization, are also included in *Capital assets, net*. RTU assets with a lease term of greater than 12 months are capitalized and amortized over the lesser of the lease term or the useful life of the asset, using the straight-line method.

Bond Premium and Discount Bond premium and discount 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 bond premium and discount are amortized using the effective interest rate method over the life of the related bonds and are adjusted accordingly for any bond calls that occur during the year. The amortization of the bond premium and discount 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 HAF, and from NeighborWorks America for the Housing Stability Counseling Program (HSCP). As these funds are disbursed, unearned revenue is reduced and revenue is recognized as *Federal program awards received.*

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, 2023, 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 two items that meet the criterion: contributions to the pension plan and contributions to other postemployment benefits (OPEB). 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 two items that meets the criterion: deferred inflows related to the pension plan and deferred inflows related to OPEB.

<u>Net Position</u> *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, repayment of program funds, and earnings 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 considered at the transaction level depending on the nature of the payment.

Net position of the Home Ownership Bond Programs is restricted pursuant to the Agency's agreements with its bondholders as determined in its trust agreement. The Agency has restricted these funds in amounts sufficient to meet required debt service and operating expenses as defined by the trust agreement.

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

<u>Operating Revenues and Expenses</u> 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, offset by 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*.

<u>Non-Operating Revenues and Expenses</u> *State appropriations received* and *State grants received* are classified as *Non-Operating Revenues (Expenses).* The related expenses are classified as *State program expense*.

<u>General and Administrative Expense</u> *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.

<u>Use of Estimates</u> 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.

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

Cash and Cash Equivalents As of June 30, 2023, the Agency had deposits with a carrying value of $61,618,000 and a bank balance of $62,085,000 in its primary operating account. Of this amount, $59,110,000 was classified as restricted funds.

The Agency had deposits in pooled investment accounts of the State Treasurer with a carrying value of $11,099,000 and a bank balance of $6,691,000. Of this balance, $6,837,000 was classified as restricted funds. 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 was $3,754,000 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 $865,320,000 and a bank balance $867,076,000 on deposit with the Agency's fiduciary agents. Of this balance, $729,523,000 was classified as restricted funds. Such deposits are held in accordance with State Statute 159-31(b) by a third-party custodian. The Agency also had deposits held in other financial institutions with a carrying value of $3,000 and a bank balance of $2,000. Of this balance, $2,000 was classified as restricted funds.

<u>Deposits - Custodial Credit Risk</u> 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, 2023, the Agency was not exposed to any material custodial credit risk.

<u>Deposits - Foreign Currency Risk</u> Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of a deposit. The Agency does not have exposure to foreign currency risk.

Investments The Agency's restricted 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, 2023, the Agency held the following investments with the listed maturities at annual rates ranging from 1.675% 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+	$ 732,087	$ 2	$ -	$ -	$ 732,085
FNMA MBS Rated Aaa/AA+	615,324	-	-	-	615,324
FHLMC MBS Rated Aaa/AA+	91,137	-	-	-	91,137
US Agency Securities Rated Aaa/AA+	7,221	4,952	2,269	-	-
Total Categorized	**$1,445,769**	**$ 4,954**	**$ 2,269**	**$ -**	**$1,438,546**

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's investment strategy is designed to match the life of the asset with the date of its related liability. The Agency seeks to minimize interest rate risk by structuring the portfolio to meet ongoing program and operational cash requirements without having to sell securities prior to maturity.

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, GNMA, and FHLMC. The US Agency securities are direct obligations of the Federal Farm Credit Bank and Federal Home Loan Bank.

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. The Agency's investments in FNMA and FHLMC both exceed 5% of total investments as of June 30, 2023.

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 foreign exchange rates will adversely affect the fair value of an investment. The Agency does not have investments denominated in foreign currencies, and thus 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, 2023 *(in thousands)*:

Investment Type	Fair Value	Input Level	
Short Term Investment Fund (STIF)	$10,938	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	$7,221	Level 2	Valuation of the underlying assets is performed using the policies and procedures established by the Agency's custodian.
MBS	$1,438,548	Level 2	Valuation of the underlying assets is performed using the policies and procedures established by the Agency's custodian.

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 2023, 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 receivable, as of June 30, 2023 are as follows (*in thousands*):

	Agency Programs	Housing Trust Fund Programs	Federal and State Programs	Home Ownership Bond Programs	Total
Mortgage loans receivable	$ 10,307	$ 10,466	$ 83,664	$ 208,973	$ 313,410
Less: allowance for loan losses	(1)	(13)	(100)	(138)	(252)
	$ 10,306	$ 10,453	$ 83,564	$ 208,835	$ 313,158
Less: current portion	(9,275)	(1,073)	(7,244)	(35,910)	(53,502)
Mortgage loans receivable, net	**$ 1,031**	**$ 9,380**	**$ 76,320**	**$ 172,925**	**$ 259,656**

For the Home Ownership Bond Programs, the Agency has collateralized $196,557,000 in mortgage loans receivable and $1,835,942,000 in cash and investments pledged to repay the $1,650,715,000 single-family bonds payable outstanding as of June 30, 2023. Proceeds from the bonds issued were used to finance housing throughout the State. The outstanding bonds are payable through fiscal year 2054 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 based on projected cash flows as of June 30, 2023 is $2,638,545,000 (see "Maturities" under Note D).

For the current fiscal year, debt service payments, bond calls and related interest payments totaling $195,542,000 were made for the Home Ownership Bond Programs. Payments received on mortgage loans and MBS for the Home Ownership Bond Programs were $42,324,000 and $156,551,000, respectively.

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, 2023, 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%.

D. BONDS PAYABLE

Bonds issued by the Agency are limited obligations payable solely from and secured by a pledge of mortgage loans, MBS or other assets for payment of principal and interest. The bonds are collateralized under a single bond indenture, and subject to all of the covenants, agreements and conditions of the trust agreement. In addition, certain assets are further restricted for payment of interest and principal in the event that the related debt service and other available funds are insufficient. Such assets are segregated within various funds and held in cash or investments.

Bonds payable activity for the year ended June 30, 2023 was as follows (*in thousands*):

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds Payable				
Home Ownership	$ 1,445,965	$ 360,000	$ (155,250)	$ 1,650,715
Home Ownership (Direct Placement)	13,480	-	(13,480)	-
	$ 1,459,445	$ 360,000	$ (168,730)	$ 1,650,715
Unamortized Bond Premium/Discount	43,004	12,414	(5,734)	49,684
Total Bonds Payable, Net	**$ 1,502,449**	**$ 372,414**	**$ (174,464)**	**$ 1,700,399**

Bonds payable as of June 30, 2023 are as follows (*in thousands*):

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Home Ownership Revenue Bonds			
(1998 Housing Revenue Bonds Trust Agreement)			
Series 34	2.812	7/1/2035	$ 2,620
Series 35	2.870	7/1/2032	3,925
Series 36	3.000 – 3.482	1/1/2033	4,635
Series 37	1.950 – 3.500	7/1/2039	35,430
Series 38	2.000 – 4.000	7/1/2047	103,880
Series 39	2.600 – 4.000	7/1/2048	48,355
Series 40	2.600 – 4.250	7/1/2047	20,310
Series 41	1.900 – 4.000	1/1/2050	89,190
Series 42	1.300 – 4.000	1/1/2050	102,820
Series 43	1.350 – 4.000	7/1/2050	108,755
Series 44	1.300 – 4.000	7/1/2050	99,965
Series 45	0.400 – 3.000	7/1/2051	165,815
Series 46	0.350 – 3.000	7/1/2051	147,905
Series 47	0.200 – 3.000	7/1/2051	157,405
Series 48	1.450 – 5.000	7/1/2052	199,705
Series 49	3.000 – 6.000	7/1/2053	180,000
Series 50	2.600 – 5.500	1/1/2054	180,000
Total Bonds Outstanding			$ 1,650,715
Plus Unamortized Bond Premium & Discount			$ 49,684
Total Bonds Payable, Net			**$ 1,700,399**

Maturities Debt service requirements, including sinking fund requirements on term bonds, subsequent to June 30, 2023, are as follows (*in thousands*):

Fiscal Year Ending June 30	Principal	Interest
2024	$ 38,885	$ 52,155
2025	43,940	53,863
2026	44,275	53,075
2027	44,770	52,265
2028	45,970	51,271
2029-2033	244,165	238,132
2034-2038	274,110	201,217
2039-2043	297,595	155,823
2044-2048	344,275	98,464
2049-2053	260,650	31,158
2054	12,080	407
Total Requirements	**$ 1,650,715**	**$ 987,830**

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, 2023, bond redemptions were as follows (*in thousands*):

Issue	Amount Redeemed
Housing Revenue Bonds (1998 Trust Agreement)	$ 168,730

Special Facilities (Conduits) The Agency issued Multifamily Housing Revenue Bonds which are not presented in the financial statements of the Agency. These bonds are limited obligations of the Agency, secured solely by the revenues and other assets pledged for their payment. These bonds do not constitute a debt of and are not guaranteed by the State or any political subdivision thereof. Accordingly, these obligations are excluded from the Agency's financial statements.

Bonds payable as of June 30, 2023 for special facilities are as follows *(in thousands)*:

Issue	Bond Type	Bonds Outstanding
Series 2021 (Wind Crest Senior Living, LP)	Multifamily Housing Revenue Bonds	$6,000
Series 2022 (Wind Crest Senior Living, LP)	Multifamily Housing Revenue Bonds	2,981
Series 2022 (Five Points Crossing, LP)*	Multifamily Housing Revenue Bonds	4,261
Series 2022 (South Emerson Hills Apartment Homes)**	Multifamily Housing Revenue Bonds	9,212
Total		**$22,454**

* The bonds were issued as "draw down" bonds, in which the principal amount of the bonds will increase from time to time as the bond proceeds are advanced to pay for eligible construction expenses up to an amount not to exceed $4,700,000. As of June 30, 2023, $4,261,000 has been advanced.

** The bonds were issued as "draw down" bonds, in which the principal amount of the bonds will increase from time to time as the bond proceeds are advanced to pay for eligible construction expenses up to an amount not to exceed $37,515,000. As of June 30, 2023, $9,212,000 has been advanced.

Bonds related to special facilities that were redeemed in fiscal year 2023 are as follows:

Issue	Bond Type	Redemption Date
Series 2021 (Johnson Court Housing Partners, LP)	Multifamily Housing Revenue Bonds	4/1/2023

E. DERIVATIVE INSTRUMENT - INTEREST RATE SWAP

Summary Information During fiscal year 2023, the Agency redeemed its direct placement bonds in Series 37C, and terminated the existing swaps with Bank of America, N.A. and Goldman Sachs Mitsui Marine used to hedge those bonds.

The Agency's three pay-fixed, interest rate swap agreements with two financial counterparties were designated as hedging derivative instruments representing cash flow hedges for the organization *(in thousands)*:

Hedgeable Item	Notional Amount	Classification	FMV at June 30, 2023 Liability	Classification	Net Change in FMV	Termination Value
Series 37C (formerly Series 16C)	$0	Hedging Derivative	$0	Deferred Outflows of Resources	$182	$(107)
Series 37C (formerly Series 17C)	$0	Hedging Derivative	$0	Deferred Outflows of Resources	$409	$(233)
Series 37C (formerly Series 18C)	$0	Hedging Derivative	$0	Deferred Outflows of Resources	$165	$(75)

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 was to create more certainty for the Agency associated with the interest rate spread between its assets and liabilities.

Fair Value In total, the swaps were terminated at their fair value of negative $415,000 on October 31, 2022. The variable-rate bonds for which the swap provided a hedge were redeemed on the same day. Their notional amount at the time of termination was $12,670,000 and the fair value was determined based on market interest rates at the time of termination.

Interest Rate Risk Under all of the swaps, the Agency paid the counterparties a fixed rate and received a variable payment. The Agency does not have current interest rate risk since the swaps were terminated and bonds redeemed during the fiscal year.

Basis Risk and Termination Risk The swaps exposed the Agency to basis risk to the extent that the interest payments on its variable-rate bonds did not match the variable-rate payments received on the associated swaps. The Agency's swaps were subject to termination if the counterparty's or the Agency's rating fell below Baa2 as issued by Moody's or BBB as issued by S&P. The Agency does not face current risk to these factors since the swaps were terminated during the fiscal year.

Credit Risk Credit risk is the risk that the counterparty will not fulfill its obligations. As of June 30, 2023, all contracts have been terminated, therefore, the Agency does not have current credit risk. The Agency monitors the ratings of its counterparties to ascertain credit risk.

Foreign Currency Risk Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Agency's swaps were denominated in US dollars and, therefore, were 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 matched the maturity dates of the hedged debts, and the swaps were terminated in conjunction with associated outstanding debt being redeemed; 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 has no current market access risk since the Series 37C variable-rate bonds have been redeemed and associated swaps have been terminated.

F. NONCURRENT LIABILITIES

Noncurrent liabilities for the year ended June 30, 2023 were as follows *(in thousands):*

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds payable					
Bonds payable, net	$ 1,459,445	$ 360,000	$(168,730)	$ 1,650,715	$ 38,885
Unamortized bond premium	43,004	12,414	(5,734)	49,684	-
Derivative instrument – interest rate swap	756	-	(756)	-	-
Unearned revenues	38,905	205,764	(194,384)	50,285	28,657
Pension liability	2,730	5,832	-	8,562	-
OPEB liability	15,732	15	(3,510)	12,237	-
Other noncurrent liabilities					
Arbitrage rebate payable	-	463	-	463	-
Compensated absences	1,894	85	-	1,979	588
Deposits payable	3,607	1,696	(1,543)	3,760	14
Workers' compensation	244	15	(55)	204	50
Lease liability	3,216	673	(1,261)	2,628	590
	$ 1,569,533	**$ 586,957**	**$ (375,973)**	**$ 1,780,517**	**$ 68,784**

G. LEASES

As of June 30, 2023, the Agency leases a building with a five-year term, which expires September 30, 2027, a copier with a 24-month term, which expires July 31, 2023, and a postage meter with a 60-month term, which expires May 6, 2028.

Lease asset activity for the year ended June 30, 2023 was as follows *(in thousands)*:

Asset Class	Beginning Asset	Lease Asset Modifications	Accumulated Amortization	Ending Net Asset
Buildings	$ 3,747	$ (21)	$ (1,196)	$ 2,530
Machinery & Equipment	60	19	(47)	32
	$ 3,807	**$ (2)**	**$ (1,243)**	**$ 2,562**

Lease liability activity for the year ended June 30, 2023, each of the five subsequent years, and in five-year increments thereafter is as follows *(in thousands)*:

Fiscal Year Ending June 30	Principal	Interest
Buildings		
2023	$ 568	$ 31
2024	582	36
2025	600	37
2026	618	42
2027	690	43
2028	160	10
Machinery & Equipment		
2023	$ 30	$ 1
2024	8	1
2025	6	1
2026	6	1
2027	6	1

H. FEDERAL AWARDS

As a designated public housing agency for the US Department of Housing and Urban Development (HUD) Section 8 program, the Agency requisitions Section 8 program funds and makes disbursements to eligible landlords. For the year ended June 30, 2023, $179,701,000 was received by the Agency and disbursed to property owners.

The Agency is designated as the participating entity under grant agreements with HUD for the HOME, HOME-ARP and the NHTF programs. The HOME and HOME-ARP programs provide funding for the purpose of developing affordable housing for persons of low and very low income. For the year ended June 30, 2023, $9,857,000 in entitlement funds was received and the Agency disbursed $19,481,000 in entitlement and program income funds.

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, 2023, $11,384,000 was received and disbursed by the Agency.

The Agency received Community Development Block Grant Disaster Recovery funds from the NC Office of Recovery and Resiliency, a component of the NC Department of Public Safety, who is the participating entity with HUD. These funds are to be used for new construction of multifamily rental housing in counties impacted by Hurricane Matthew. For the year ended June 30, 2023, $982,000 was received and disbursed by the Agency.

The Agency was designated by the NC Office of State Budget and Management to accept and administer HAF funding received by the NC Pandemic Recovery Office. These funds may be used for assistance with mortgage payments, homeowner's insurance, utility payments, and other specified purposes. The Agency contracts with Innovative Emergency Management Inc. (IEM) to administer this program. For the year ended June 30, 2023, the Agency received $173,399,000 and disbursed $173,520,000 to program participants.

HSCP provides funding for local partners to conduct housing counseling for renters and homeowners. The Agency received $715,000 and disbursed $624,000 for HSCP for the year ended June 30, 2023.

The Agency earned fees of $28,734,000 for administering these and other federal programs for the year ended June 30, 2023. Of these fees, $4,985,000 was paid to Quadel Consulting Corporation for the Section 8 Project-Based Contract Administration, $16,633,000 was paid to IEM and other partners for HAF administration, and $113,000 was paid to supportive housing partners in implementing the Supportive Housing American Rescue Plan program funded by HOME-ARP. These fees 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 Annual Comprehensive Financial Report (Annual Report) for the State. The State's Annual Report 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.

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 2023 rate is 17.38% 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, 2023, 2022, and 2021 *(in thousands):*

	2023	**2022**	**2021**
Retirement Contribution	$1,935	$1,722	$1,512
Percentage of Covered Payroll	17.38%	16.38%	14.78%

Net Pension Liability At June 30, 2023, the Agency reported a liability of $8,562,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension was determined by an actuarial valuation as of December 31, 2021. The total pension liability was then rolled forward to the measurement date of June 30, 2022 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, 2022 and at June 30, 2021, the Agency's proportion was 0.05769% and 0.05829%, respectively.

Deferred Outflows/Inflows of Resources Related to Pensions For the year ended June 30, 2023, the Agency recognized pension expense of $1,973,000, which is reported in *General and administrative expense*. At June 30, 2023, 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	$ 37	$ 117
Changes of assumptions	676	-
Net difference between projected and actual earnings on pension plan investments	2,812	-
Change in proportion and differences between Agency's contributions and proportionate share of contributions	277	-
Contributions subsequent to the measurement date	1,935	-
Total	**$ 5,737**	**$ 117**

Deferred Outflows of Resources of $1,935,000 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, 2023. Other amounts reported as *Deferred Outflows of Resources* and *Deferred Inflows of Resources* at June 30, 2023 related to pensions will be recognized as pension expense as follows *(in thousands)*:

Year ending June 30:	
2024	$ 1,077
2025	944
2026	317
2027	1,348
Total	**$ 3,686**

Actuarial Assumptions The total pension liability was determined by an actuarial valuation performed as of December 31, 2021. 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, 2022. 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 2.5%, and salary increases range from 3.25% to 8.05% which includes 3.25% 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 6.5% 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, 2021 valuations were based on the results of an actuarial experience review for the period January 1, 2015 through December 31, 2019.

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, 2022 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.1%
Global Equity	6.5%
Real Estate	5.9%
Alternatives	7.5%
Opportunistic Fixed Income	5.0%
Inflation Sensitive	2.7%

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 2.25%. 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, 2022 is 0.78%.

Discount Rate The discount rate used to measure the total pension liability was 6.5% for the December 31, 2021 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 plans' 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 6.5%, 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 (5.5%) or one percentage point higher (7.5%) than the current rate *(in thousands)*:

	1% Decrease (5.5%)	**Discount Rate (6.5%)**	**1% Increase (7.5%)**
Agency's proportionate share of the net pension liability	$15	$9	$3

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

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 Annual Report includes financial statements and required supplementary information for each plan. See Note I. "Pension Plan" for information about obtaining the Annual Report 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 and before January 1, 2021, 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. Employees hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

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, 2023, 2022, and 2021 (*in thousands*):

	2023	**2022**	**2021**
Health Care Benefit	$ 767	$ 660	$ 683
Disability Benefit	$ 11	$ 9	$ 9
Percentage of Covered Payroll			
Health Care Benefit	6.89%	6.29%	6.68%
Disability Benefit	0.10%	0.09%	0.09%

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

Net OPEB Liability At June 30, 2023, the Agency reported a liability of $12,222,000 and $15,000 for its proportionate share of the collective net OPEB liability for RHBF and DIPNC, respectively. The net OPEB liability was measured as of June 30, 2022. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2021, and update procedures were used to roll forward the total OPEB liability to June 30, 2022. The Agency's proportion of the net OPEB liability 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, 2022 and at June 30, 2021, the Agency's proportion was 0.05769% and 0.05829%, respectively.

Actuarial Assumptions The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2021, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities were then rolled forward to June 30, 2022 utilizing update procedures incorporating the actuarial assumptions.

	RHBF	**DIPNC**
Valuation Date	12/31/2021	12/31/2021
Inflation	2.5%	2.5%
Salary Increases*	3.25% - 8.05%	3.25% - 8.05%
Investment Rate of Return**	6.5%	3%
Healthcare Cost Trend Rate - Medical	5% - 6%	N/A
Healthcare Cost Trend Rate - Prescription Drug	5% - 9.5%	N/A
Healthcare Cost Trend Rate - Medicare Advantage	0% - 5%	N/A
Healthcare Cost Trend Rate - Administrative	3%	N/A

*Salary increases include 3.25% inflation and productivity factor.
**Investment rate of return is net of OPEB plan investment expense, including inflation.

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

The projected long-term investment returns and inflation assumptions are developed through a review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projects are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2022.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2022 (the valuation date) are summarized in the following table:

Asset Class	**Long-Term Expected Real Rate of Return**
Fixed Income	1.1%
Global Equity	6.5%
Real Estate	5.9%
Alternatives	7.5%
Opportunistic Fixed Income	5.0%
Inflation Sensitive	2.7%

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 2.25%. 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, 2022 (the valuation date) was 0.78%.

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, 2021 valuations were based on the results of an actuarial experience study prepared as of December 31, 2019.

Discount Rate The discount rate used to measure the total OPEB liability for RHBF was 3.54%. 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 3.54% was used as the discount rate used to measure the total OPEB liability. The 3.54% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2022.

The discount rate used to measure the total OPEB liability for DIPNC was 3.08%. 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 liability.

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 (2.54%)	**Discount Rate (3.54%)**	**1% Increase (4.54%)**
RHBF	$16	$14	$12

	1% Decrease (2.08%)	**Discount Rate (3.08%)**	**1% Increase (4.08%)**
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	$11	$14	$17

Effective with the actuarial valuation as of December 31, 2021, the liability for the State's potential reimbursement of costs incurred by employers was removed because the reimbursement by DIPNC was eliminated for disabilities occurring on or after July 1, 2019. Thus, the sensitivity to changes in the healthcare cost trend rates is not applicable for DIPNC.

Deferred Outflows/Inflows of Resources Related to OPEB For the year ended June 30, 2023, 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	$ 118	$ 16	$ 134
Changes of assumptions	979	1	980
Net difference between projected and actual earnings on OPEB plan investments	106	16	122
Change in proportion and differences between Agency's contributions and proportionate share of contributions	1,438	3	1,441
Contributions subsequent to the measurement date	767	11	778
Total	**$ 3,408**	**$ 47**	**$ 3,455**

Deferred Inflows of Resources Related to OPEB by Classification

	RHBF	DIPNC	TOTAL
Difference between actual and expected experience	$ 33	$ -	$ 33
Changes of assumptions	5,563	3	5,566
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	**$ 5,596**	**$ 4**	**$ 5,600**

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 for RHBF and DIPNC in the fiscal year ended June 30, 2023. Other amounts reported as *Deferred Outflows of Resources* and *Deferred Inflows of Resources* at June 30, 2023 related to OPEB will be recognized in OPEB expense as follows *(in thousands)*:

Year ending June 30:	**RHBF**	**DIPNC**
2024	$ (977)	$ 8
2025	(668)	9
2026	(869)	7
2027	(442)	5
2028	-	2
Thereafter	-	2
Total	**$ (2,956)**	**$ 33**

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 Annual Report:

- Automobile, Fire and Other Property Losses
- Public Officers' and Employees' Liability Insurance
- Employee Dishonesty and Computer Fraud
- Statewide 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.

L. SUBSEQUENT EVENTS

The Agency has evaluated subsequent events and determined that there have been no events that have occurred that would require adjustments to our disclosures in the fiscal year 2023 consolidated financial statements.

North Carolina Housing Finance Agency

Supplementary Information

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421 Fayetteville Street, Suite 300
Raleigh, NC 27601

Independent Auditor's Report on Supplementary Information

We have audited the financial statements of the business-type activities and programs of the North Carolina Housing Finance Agency (the "Agency"), as of and for the year ended June 30, 2023, and have issued our report thereon dated September 22, 2023 which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information presented in the following section of this report is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BDO USA, P.C.

September 22, 2023

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF NET POSITION

AS OF JUNE 30, 2023

(in thousands)	AGENCY PROGRAMS	GRANT PROGRAMS: Housing Trust Fund Programs	GRANT PROGRAMS: Federal and State Programs	HOME OWNERSHIP BOND PROGRAMS	Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 114,290	$ -	$ 28,278	$ -	$ 142,568
Restricted cash and cash equivalents	49,293	242,637	109,995	393,547	795,472
Restricted investments	-	-	-	4,954	4,954
Accrued interest receivable on investments	-	4	-	6,954	6,958
Mortgage loans receivable	9,275	1,073	7,244	35,910	53,502
Mortgage loans held for resale	-	-	-	22,717	22,717
Accrued interest receivable on mortgage loans	1	8	58	1,400	1,467
State receivables	-	-	4	-	4
Other assets	196	-	23,095	2,256	25,547
Interprogram receivable (payable)	3,685	135	(4,244)	424	-
TOTAL CURRENT ASSETS	$ 176,740	$ 243,857	$ 164,430	$ 468,162	$ 1,053,189
Noncurrent assets:					
Restricted investments	$ -	$ -	$ -	$ 1,440,815	$ 1,440,815
Mortgage loans receivable, net	1,031	9,380	76,320	172,925	259,656
Capital assets, net	3,261	-	-	-	3,261
TOTAL NONCURRENT ASSETS	$ 4,292	$ 9,380	$ 76,320	$ 1,613,740	$ 1,703,732
TOTAL ASSETS	$ 181,032	$ 253,237	$ 240,750	$ 2,081,902	$ 2,756,921
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows for pensions	$ 5,737	$ -	$ -	$ -	$ 5,737
Deferred outflows for other postemployment benefits	3,455	-	-	-	3,455
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 9,192	$ -	$ -	$ -	$ 9,192
LIABILITIES					
Current liabilities:					
Bonds payable	$ -	$ -	$ -	$ 38,885	$ 38,885
Accrued interest payable	-	-	-	24,970	24,970
Accounts payable	491	-	16,920	321	17,732
Unearned revenues	2,576	-	26,081	-	28,657
Other liabilities	1,238	-	4	-	1,242
TOTAL CURRENT LIABILITIES	$ 4,305	$ -	$ 43,005	$ 64,176	$ 111,486
Noncurrent liabilities:					
Bonds payable, net	$ -	$ -	$ -	$ 1,661,514	$ 1,661,514
Unearned revenues	21,628	-	-	-	21,628
Pension liability	8,562	-	-	-	8,562
Other postemployment benefits	12,237	-	-	-	12,237
Other liabilities	5,291	-	-	463	5,754
Lease liability	2,038	-	-	-	2,038
TOTAL NONCURRENT LIABILITIES	$ 49,756	$ -	$ -	$ 1,661,977	$ 1,711,733
TOTAL LIABILITIES	$ 54,061	$ -	$ 43,005	$ 1,726,153	$ 1,823,219
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows for pensions	$ 117	$ -	$ -	$ -	$ 117
Deferred inflows for other postemployment benefits	5,600	-	-	-	5,600
TOTAL DEFERRED INFLOWS OF RESOURCES	$ 5,717	$ -	$ -	$ -	$ 5,717
NET POSITION					
Net investment in capital assets	$ 3,261	$ -	$ -	$ -	$ 3,261
Restricted net position	20,778	253,237	169,887	355,749	799,651
Unrestricted net position	106,407	-	27,858	-	134,265
TOTAL NET POSITION	$ 130,446	$ 253,237	$ 197,745	$ 355,749	$ 937,177

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2023

(in thousands)	AGENCY PROGRAMS	GRANT PROGRAMS: Housing Trust Fund Programs	GRANT PROGRAMS: Federal and State Programs	HOME OWNERSHIP BOND PROGRAMS	Total
OPERATING REVENUES					
Interest on investments	$ 4,958	$ 6,788	$ 2,818	$ 61,087	$ 75,651
Net decrease in fair value of investments	-	-	-	(54,549)	(54,549)
Interest on mortgage loans	261	515	1,035	12,263	14,074
Federal program awards received	-	-	376,313	-	376,313
Program income/fees	23,290	2,504	46,934	12,190	84,918
Other revenues	51	-	11	297	359
TOTAL OPERATING REVENUES	$ 28,560	$ 9,807	$ 427,111	$ 31,288	$ 496,766
OPERATING EXPENSES					
Interest on bonds	$ -	$ -	$ -	$ 42,709	$ 42,709
Lease interest expense	32	-	-	-	32
Mortgage servicing expense	-	-	-	770	770
Federal program expense	-	-	378,299	-	378,299
Nonfederal program expense	907	-	-	33,569	34,476
General and administrative expense	20,195	-	21,731	478	42,404
Other expenses	3	-	101	72	176
TOTAL OPERATING EXPENSES	$ 21,137	$ -	$ 400,131	$ 77,598	$ 498,866
OPERATING LOSS	$ 7,423	$ 9,807	$ 26,980	$ (46,310)	$ (2,100)
NON-OPERATING REVENUES (EXPENSES)					
Transfers in (out)	$ 13,253	$ 56	$ (12,807)	$ (502)	$ -
State appropriations received	-	207,660	3,000	-	210,660
State grants received	-	3,575	43,161	-	46,736
Noncapital contributions	93	-	-	-	93
State program expense	-	(57,482)	(40,188)	-	(97,670)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$ 13,346	$ 153,809	$ (6,834)	$ (502)	$ 159,819
CHANGE IN NET POSITION	$ 20,769	$ 163,616	$ 20,146	$ (46,812)	$ 157,719
TOTAL NET POSITION - BEGINNING	$ 109,677	$ 89,621	$ 177,599	$ 402,561	$ 779,458
TOTAL NET POSITION - ENDING	$ 130,446	$ 253,237	$ 197,745	$ 355,749	$ 937,177

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2023

(in thousands)	AGENCY PROGRAMS	GRANT PROGRAMS: Housing Trust Fund Programs	GRANT PROGRAMS: Federal and State Programs	HOME OWNERSHIP BOND PROGRAMS	Total
Cash flows from operating activities:					
Interest on mortgage loans	$ 261	$ 518	$ 1,126	$ 12,657	$ 14,562
Principal payments on mortgage loans	5,981	1,078	9,339	34,122	50,520
Purchase of mortgage loans	(8,804)	(11)	(7,592)	-	(16,407)
Purchase of mortgage loans held for resale	-	-	-	(22,717)	(22,717)
Federal program awards received	-	-	378,249	-	378,249
Federal program expense	-	-	(363,730)	-	(363,730)
Nonfederal program expense	(907)	-	-	(33,569)	(34,476)
Federal grant administration income	-	-	26,804	-	26,804
Program income/fees	24,318	2,503	19,342	12,190	58,353
Other expenses	(21,360)	-	(21,401)	(1,689)	(44,450)
Other revenues	(752)	(151)	458	723	278
Net cash provided by (used in) operating activities	$ (1,263)	$ 3,937	$ 42,595	$ 1,717	$ 46,986
Cash flows from non-capital financing activities:					
Issuance of bonds	$ -	$ -	$ -	$ 360,000	$ 360,000
Principal repayments on bonds	-	-	-	(168,730)	(168,730)
Interest paid	-	-	-	(26,812)	(26,812)
Bond issuance costs paid	-	-	-	(2,875)	(2,875)
Net transfers	13,253	56	(12,807)	(502)	-
State tax credits	90	-	-	-	90
State appropriations received	-	207,660	3,000	-	210,660
State grants received	-	3,575	43,161	-	46,736
State program expense	-	(57,482)	(40,188)	-	(97,670)
Noncapital contributions	93	-	-	-	93
Net cash provided by (used in) non-capital financing activities	$ 13,436	$ 153,809	$ (6,834)	$ 161,081	$ 321,492
Cash flows from investing activities:					
Proceeds from sales or maturities of investments	$ -	$ -	$ -	$ 111,299	$ 111,299
Purchase of investments	-	-	-	(426,050)	(426,050)
Earnings on investments	4,958	6,824	2,818	58,255	72,855
Net cash provided by (used in) investing activities	$ 4,958	$ 6,824	$ 2,818	$ (256,496)	$ (241,896)
Net increase (decrease) in cash and cash equivalents, unrestricted and restricted	$ 17,131	$ 164,570	$ 38,579	$ (93,698)	$ 126,582
Cash and cash equivalents, unrestricted and restricted, at beginning of year	146,452	78,067	99,694	487,245	811,458
Cash and cash equivalents, unrestricted and restricted, at end of year	$ 163,583	$ 242,637	$ 138,273	$ 393,547	$ 938,040
Reconciliation of operating income (loss) to net cash provided by operating activities: cash provided by (used in) operating activities:					
Operating income (loss)	$ 7,423	$ 9,807	$ 26,980	$ (46,310)	$ (2,100)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Interest on investments	(4,958)	(6,788)	(2,818)	(61,087)	(75,651)
Decrease in fair value of investments	-	-	-	54,549	54,549
Interest on bonds	-	-	-	42,709	42,709
Change in operating assets and liabilities:					
Decrease (increase) in mortgage loans receivable	(2,870)	1,067	1,736	33,679	33,612
Decrease (increase) in accrued interest receivable on mortgage loans	-	3	91	542	636
Decrease (increase) in mortgage loans held for resale	-	-	-	(22,717)	(22,717)
Decrease (increase) in other assets	630	(152)	(8,746)	723	(7,545)
Decrease (increase) in deferred outflows of resources	(1,928)	-	-	-	(1,928)
Increase (decrease) in accounts payable and other liabilities	1,267	-	15,000	(371)	15,896
Increase (decrease) in deferred inflows of resources	(1,855)	-	-	-	(1,855)
Increase (decrease) in unearned revenues	1,028	-	10,352	-	11,380
Total adjustments	$ (8,686)	$ (5,870)	$ 15,615	$ 48,027	$ 49,086
Net cash provided by (used in) operating activities	$ (1,263)	$ 3,937	$ 42,595	$ 1,717	$ 46,986

This audit report required 800 audit hours at a cost of $117,150.

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.