

Semi-Annual Financial Statements

December 31, 2017



Semi-Annual Financial Statements

Six months ended December 31, 2017

North Carolina Housing Finance Agency

**NORTH CAROLINA HOUSING FINANCE AGENCY
FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION
FOR THE SIX MONTHS ENDED DECEMBER 31, 2017**

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NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF NET POSITION

AS OF DECEMBER 31, 2017

(Unaudited)

(in thousands)

ASSETS

Current assets:

Cash and cash equivalents	\$	13,185
Restricted cash and cash equivalents		488,416
Investments		1,016
Restricted investments		6,105
Accrued interest receivable on investments		1,923
Mortgage loans receivable		124,722
Accrued interest receivable on mortgage loans		4,457
State receivables		836
Other assets		7,695
TOTAL CURRENT ASSETS	\$	648,355

Noncurrent assets:

Investments	\$	993
Restricted investments		440,486
Mortgage loans receivable, net		538,005
Other assets, net		2,667
TOTAL NONCURRENT ASSETS	\$	982,151
TOTAL ASSETS	\$	1,630,506

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows for pensions	\$	3,240
Accumulated decrease in fair value of hedging derivative		2,312
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$	5,552

LIABILITIES

Current liabilities:

Bonds payable	\$	26,055
Accrued interest payable		13,631
Accounts payable		3,185
Unearned revenues		12,969
Other liabilities		222
TOTAL CURRENT LIABILITIES	\$	56,062

Noncurrent liabilities:

Bonds payable, net	\$	782,601
Derivative instrument - interest rate swap		2,312
Unearned revenues		13,093
Other liabilities		9,553
TOTAL NONCURRENT LIABILITIES	\$	807,559
TOTAL LIABILITIES	\$	863,621

DEFERRED INFLOWS OF RESOURCES

Deferred state grant	\$	3,961
Deferred inflows for pensions		218
TOTAL DEFERRED INFLOWS OF RESOURCES	\$	4,179

NET POSITION

Restricted	\$	747,639
Unrestricted		20,619
TOTAL NET POSITION	\$	768,258

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

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

SIX MONTHS ENDED DECEMBER 31, 2017

(Unaudited)

(in thousands)

OPERATING REVENUES	
Interest on investments	\$ 10,642
Net increase in fair value of investments	10,077
Interest on mortgage loans	16,679
Federal program awards received	133,977
Program income/fees	36,491
Other revenues	532
TOTAL OPERATING REVENUES	\$ 208,398
OPERATING EXPENSES	
Interest on bonds	\$ 13,169
Mortgage servicing expense	941
Federal program expense	135,061
Nonfederal program expense	9,727
General and administrative expense	13,462
Other expenses	788
TOTAL OPERATING EXPENSES	\$ 173,148
OPERATING INCOME	\$ 35,250
NON-OPERATING REVENUES (EXPENSES)	
State appropriations received	\$ 7,304
State grants received	28,082
State program expense	(23,538)
TOTAL NON-OPERATING REVENUES (EXPENSES)	\$ 11,848
CHANGE IN NET POSITION	\$ 47,098
TOTAL NET POSITION - BEGINNING	\$ 721,160
TOTAL NET POSITION - ENDING	\$ 768,258

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

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF CASH FLOWS

SIX MONTHS ENDED DECEMBER 31, 2017

(Unaudited)

(in thousands)

Cash flows from operating activities:	
Interest on mortgage loans	\$ 16,932
Principal payments on mortgage loans	53,835
Purchase of mortgage loans	(7,173)
Principal payments on mortgage loans held for resale	23,341
Federal program awards received	86,111
Federal program expense	(135,193)
Nonfederal program expense	(9,727)
Federal grant administration income	8,006
Program income/fees	28,398
Other expenses	(20,205)
Other revenues	3,850
Net cash provided by operating activities	\$ 48,175
Cash flows from non-capital financing activities:	
Principal repayments on bonds	\$ (71,245)
Interest paid	(11,160)
Bond issuance costs paid	(8)
State appropriations received	7,304
State grants received	27,483
State program expense	(23,538)
Net cash used in non-capital financing activities	\$ (71,164)
Cash flows from investing activities:	
Proceeds from sales or maturities of investments	\$ 10,812
Purchase of investments	(150,473)
Earnings on investments	10,152
Net cash used in investing activities	\$ (129,509)
Net decrease in cash	\$ (152,498)
Cash and cash equivalents at beginning of year	654,099
Cash and cash equivalents at end of year	\$ 501,601
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 35,250
Adjustments to reconcile operating income to net cash provided by operating activities:	
Interest on investments	(10,642)
Increase in fair value of investments	(10,077)
Interest on bonds	13,169
Change in assets and liabilities:	
Decrease in mortgage loans receivable	46,764
Decrease in accrued interest receivable on mortgage loans	317
Decrease in mortgage loans held for resale	23,341
Decrease in other assets	2,533
Decrease in accounts payable and other liabilities	(6,290)
Decrease in unearned revenues	(46,190)
Total adjustments	\$ 12,925
Net cash provided by operating activities	\$ 48,175

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

NOTES TO FINANCIAL STATEMENTS *(Unaudited)*

- A. BASIS OF PRESENTATION** The accompanying financial statements of the North Carolina Housing Finance Agency (Agency) have been prepared in accordance with generally accepted accounting principles in the United States of America as applicable to governments. The Governmental Accounting Standards Board establishes standards of financial accounting and reporting for state and local government entities. For full note disclosure, refer to the June 30, 2017 financial statements posted on the Agency's website at www.nchfa.com.

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.

Housing Trust Fund Programs The North Carolina Trust and Oil Overcharge Act created the North Carolina Housing Trust Fund (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 of North Carolina (State) with low and moderate incomes. The Housing Partnership is responsible for developing policy for the operation of most programs within the HTF. The Agency staff provides services to the Housing Partnership and administers the HTF programs. The Agency received State appropriations in the amount of \$5,804,000 for the six months ended December 31, 2017. Of this amount, \$3,830,000 is a recurring appropriation that is used to make loans and grants under the HTF programs. The remaining \$1,974,000 nonrecurring appropriation is for the Workforce Housing Loan Program, which makes loans for qualified North Carolina low-income multifamily housing developments.

In fiscal year 2017, the Agency received \$4,221,000 from the North Carolina Department of Health and Human Services (DHHS) for the Community Living Housing Fund (CLHF), which was appropriated by the General Assembly in fiscal year 2018, and is reported in *State grants received*. Additional funds for CLHF in the amount of \$3,961,000 were received and recorded as *Deferred state grant* in *Deferred Inflows of Resources*. These funds will only be available for disbursement upon appropriation by the General Assembly.

In November 2017, the Agency received \$16,051,000 in a settlement between the Moody's Corporation and the United States Department of Justice, which is reported in *State grants received*.

Federal and State Programs The Agency administers seven federal programs. Of the Agency's federal programs, the Section 8 programs, the Hardest Hit Fund®, and the HOME Investment Partnerships Program (HOME) represent 53%, 31%, and 14% of federal expenditures, respectively. The Agency receives a fee for administering these programs. The HOME Program is matched with State funds appropriated by the General Assembly; during the six months ended December 31, 2017, \$1,500,000 of HOME Match funds were received.

The Agency received \$2,752,000 for the Key Rental Assistance program and \$5,058,000 for the Community Living Rental Assistance Program from DHHS during the six months ended December 31, 2017. Both amounts are reported in *State grants received*.

Home Ownership Bond Programs The Home Ownership Bond Programs were created through various single-family trust agreements and are restricted as to their use. The proceeds of individual bond issues have historically been used to purchase first-time home buyer mortgage loans for single-family residential units. These mortgage loans are reflected in *Mortgage loans receivable, net*, and the related interest income is reflected in *Interest on mortgage loans*. Starting with purchases in fiscal year

2017, new proceeds have been used to purchase mortgage-backed securities (MBS), in which first-time home buyer mortgage loans are pooled. These MBS are reflected in *Investments*, with the earnings from the MBS reflected in *Interest on investments*.

In addition to mortgage loans financed through the sale of bond issues, the Agency also finances mortgage loans through the sale of MBS on the secondary market. Because these MBS are sold on the secondary market, they are reflected in *Program income/fees*.

The down payment assistance and the lender compensation related to the mortgage loans, regardless of whether sold on the secondary market or financed with bond proceeds, are reflected in *Nonfederal program expense*.

B. BONDS PAYABLE

Bonds payable activity for the year ended December 31, 2017 was as follows (*in thousands*):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Bonds payable				
Home Ownership	\$ 868,070	-	\$ (71,245)	\$ 796,825
Bond premium	12,278	-	(447)	11,831
Total Bonds payable, net	\$ 880,348	\$ -	\$ (71,692)	\$ 808,656

Bonds payable as of December 31, 2017 are as follows (*in thousands*):

<u>Issue</u>	<u>Stated Rates (%)</u>	<u>Final Maturity</u>	<u>Principal Amount</u>
Home Ownership Revenue Bonds			
(1998 Housing Revenue Bonds Trust Agreement)			
Series 22 CE	5.100 - 5.200	7/1/2032	\$ 17,795
Series 27 A	6.00	1/1/2038	4,030
Series 32	4.00	1/1/2030	47,875
Series 33	2.263 - 4.319	1/1/2034	53,835
Series 34	2.062 - 3.752	7/1/2035	29,625
Series 35	1.840 - 3.786	7/1/2032	29,250
Series 36	1.341 - 3.582	1/1/2033	43,755
Series 37	Variable - 3.600	7/1/2041	202,540
Series 38	1.200 - 4.000	7/1/2047	255,560
			<u>\$ 684,265</u>
Home Ownership Revenue Bonds			
(2009 Housing Revenue Bonds Trust Agreement)			
Series A-1 and Series 1	2.850 - 4.500	7/1/2041	\$ 47,180
Series A-2 and Series 2	2.550 - 4.250	7/1/2041	65,380
			<u>\$ 112,560</u>
Total Bonds Outstanding			<u>\$ 796,825</u>
Plus Bond Premium			<u>\$ 11,831</u>
Total Bonds Payable, Net			<u><u>\$ 808,656</u></u>

Special Facilities (Conduits) The Agency issued Multifamily Housing Revenue Bonds which are not presented in the financial statements of the Agency. These bonds are secured solely by the properties and related revenues of the projects and the applicable credit enhancements, with the exception of the 2002 Resolution, which is secured by payments received on GNMA mortgages. On October 17, 2017, the 2002 Resolution (Series D), Multifamily Housing Revenue Bonds, were redeemed at par.

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

Bonds payable as of December 31, 2017 for special facilities are as follows (*in thousands*):

<u>Issue</u>	<u>Bond Type</u>	<u>Bonds Outstanding</u>
2016 Resolution (Series A)	Multifamily Housing Revenue Bonds	\$ 14,800

North Carolina Housing Finance Agency

Additional Information

NORTH CAROLINA HOUSING FINANCE AGENCY
COMBINING STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2017
(Unaudited)

(in thousands)	AGENCY	GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS		Total
	PROGRAMS	Housing Trust	Federal and	1998	2009	
		Fund Programs	State Programs			
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 13,185	-	-	-	-	\$ 13,185
Restricted cash and cash equivalents	57,791	110,552	105,777	201,653	12,643	488,416
Investments	1,016	-	-	-	-	1,016
Restricted Investments	1,016	-	-	4,070	1,019	6,105
Accrued interest receivable on investments	35	121	24	1,697	46	1,923
Mortgage loans receivable	142	1,194	11,671	94,814	16,901	124,722
Accrued interest receivable on mortgage loans	3	16	224	3,505	709	4,457
State receivables	366	-	470	-	-	836
Other assets	277	56	3,073	3,739	550	7,695
Interprogram receivable (payable)	3,774	(19)	(5,693)	1,614	324	-
TOTAL CURRENT ASSETS	\$ 77,605	111,920	115,546	311,092	32,192	\$ 648,355
Noncurrent assets:						
Investments	\$ 993	-	-	-	-	\$ 993
Restricted investments	2,053	-	-	432,353	6,080	440,486
Mortgage loans receivable, net	2,284	14,696	82,525	345,487	93,013	538,005
Other assets, net	2,667	-	-	-	-	2,667
TOTAL NONCURRENT ASSETS	\$ 7,997	14,696	82,525	777,840	99,093	\$ 982,151
TOTAL ASSETS	\$ 85,602	126,616	198,071	1,088,932	131,285	\$ 1,630,506
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows for pensions	\$ 3,240	-	-	-	-	\$ 3,240
Accumulated decrease in fair value of hedging derivative	-	-	-	2,312	-	2,312
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 3,240	-	-	2,312	-	\$ 5,552
LIABILITIES						
Current liabilities:						
Bonds payable	\$ -	-	-	22,745	3,310	\$ 26,055
Accrued interest payable	-	-	-	11,872	1,759	13,631
Accounts payable	371	-	1,565	881	368	3,185
Unearned revenues	1,684	-	11,285	-	-	12,969
Other liabilities	207	13	2	-	-	222
TOTAL CURRENT LIABILITIES	\$ 2,262	13	12,852	35,498	5,437	\$ 56,062
Noncurrent liabilities:						
Bonds payable, net	\$ -	-	-	673,047	109,554	\$ 782,601
Derivative instrument - interest rate swap	-	-	-	2,312	-	2,312
Unearned revenues	13,093	-	-	-	-	13,093
Other liabilities	9,553	-	-	-	-	9,553
TOTAL NONCURRENT LIABILITIES	\$ 22,646	-	-	675,359	109,554	\$ 807,559
TOTAL LIABILITIES	\$ 24,908	13	12,852	710,857	114,991	\$ 863,621
DEFERRED INFLOWS OF RESOURCES						
Deferred state grant	\$ -	3,961	-	-	-	\$ 3,961
Deferred inflows for pensions	218	-	-	-	-	218
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 218	3,961	-	-	-	\$ 4,179
NET POSITION						
Restricted	\$ 43,097	122,642	185,219	380,387	16,294	\$ 747,639
Unrestricted	20,619	-	-	-	-	20,619
TOTAL NET POSITION	\$ 63,716	122,642	185,219	380,387	16,294	\$ 768,258

NORTH CAROLINA HOUSING FINANCE AGENCY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
SIX MONTHS ENDED DECEMBER 31, 2017
(Unaudited)

(in thousands)	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS		Total
		Housing Trust Fund Programs	Federal and State Programs	1998	2009	
OPERATING REVENUES						
Interest on investments	\$ 479	623	565	8,847	128	\$ 10,642
Net (decrease) increase in fair value of investments	(82)	-	-	10,248	(89)	10,077
Interest on mortgage loans	15	290	699	13,397	2,278	16,679
Federal program awards received	-	-	133,977	-	-	133,977
Program income/fees	6,517	1,533	16,176	12,265	-	36,491
Other revenues	3	38	-	472	19	532
TOTAL OPERATING REVENUES	\$ 6,932	2,484	151,417	45,229	2,336	\$ 208,398
OPERATING EXPENSES						
Interest on bonds	\$ -	-	-	11,454	1,715	\$ 13,169
Mortgage servicing expense	-	-	-	737	204	941
Federal program expense	-	-	135,061	-	-	135,061
Nonfederal program expense	909	-	-	8,818	-	9,727
General and administrative expense	9,628	-	3,447	367	20	13,462
Other expenses	-	4	599	176	9	788
TOTAL OPERATING EXPENSES	\$ 10,537	4	139,107	21,552	1,948	\$ 173,148
OPERATING (LOSS) INCOME	\$ (3,605)	2,480	12,310	23,677	388	\$ 35,250
NON-OPERATING REVENUES (EXPENSES)						
Transfers in (out)	\$ 8,479	(40)	(8,439)	-	-	\$ -
State appropriations received	-	5,804	1,500	-	-	7,304
State grants received	-	20,272	7,810	-	-	28,082
State program expense	(696)	(14,220)	(8,622)	-	-	(23,538)
TOTAL NON-OPERATING REVENUES (EXPENSES)	\$ 7,783	11,816	(7,751)	-	-	\$ 11,848
CHANGE IN NET POSITION	\$ 4,178	14,296	4,559	23,677	388	\$ 47,098
TOTAL NET POSITION - BEGINNING	\$ 59,538	108,346	180,660	356,710	15,906	\$ 721,160
TOTAL NET POSITION - ENDING	\$ 63,716	122,642	185,219	380,387	16,294	\$ 768,258

NORTH CAROLINA HOUSING FINANCE AGENCY
COMBINING STATEMENT OF CASH FLOWS
SIX MONTHS ENDED DECEMBER 31, 2017
(Unaudited)

(in thousands)	AGENCY PROGRAMS		GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS		Total
		Housing Trust Fund Programs	Federal and State Programs		1998	2009	
Cash flows from operating activities:							
Interest on mortgage loans	\$ 14	291	584	13,761	2,282	\$ 16,932	
Principal payments on mortgage loans	100	1,331	6,591	37,015	8,798	53,835	
Purchase of mortgage loans	-	(677)	(6,496)	-	-	(7,173)	
Principal payments on mortgage loans held for resale	-	-	-	23,341	-	23,341	
Federal program awards received	-	-	86,111	-	-	86,111	
Federal program expense	-	-	(135,193)	-	-	(135,193)	
Nonfederal program expense	(909)	-	-	(8,818)	-	(9,727)	
Federal grant administration income	-	-	8,006	-	-	8,006	
Program income/fees	6,430	1,533	8,170	12,265	-	28,398	
Other expenses	(11,752)	(14)	(5,760)	(2,635)	(44)	(20,205)	
Other revenues	(1,355)	27	-	5,283	(105)	3,850	
Net cash (used in) provided by operating activities	\$ (7,472)	2,491	(37,987)	80,212	10,931	\$ 48,175	
Cash flows from non-capital financing activities:							
Principal repayments on bonds	\$ -	-	-	(62,080)	(9,165)	\$ (71,245)	
Interest paid	-	-	-	(9,206)	(1,954)	(11,160)	
Bond issuance costs paid	-	-	-	(8)	-	(8)	
Net transfers	8,479	(40)	(8,439)	-	-	-	
State appropriations received	-	5,804	1,500	-	-	7,304	
State grants received	-	20,012	7,471	-	-	27,483	
State program expense	(696)	(14,220)	(8,622)	-	-	(23,538)	
Net cash provided by (used in) non-capital financing activities	\$ 7,783	11,556	(8,090)	(71,294)	(11,119)	\$ (71,164)	
Cash flows from investing activities:							
Proceeds from sales or maturities of investments	\$ 6,022	-	-	3,790	1,000	\$ 10,812	
Purchase of investments	-	-	-	(150,473)	-	(150,473)	
Earnings on investments	483	592	569	8,370	138	10,152	
Net cash provided by (used in) investing activities	\$ 6,505	592	569	(138,313)	1,138	\$ (129,509)	
Net increase (decrease) in cash	\$ 6,816	14,639	(45,508)	(129,395)	950	\$ (152,498)	
Cash and cash equivalents at beginning of year	64,160	95,913	151,285	331,048	11,693	654,099	
Cash and cash equivalents at end of year	\$ 70,976	110,552	105,777	201,653	12,643	\$ 501,601	
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:							
Operating (loss) income	\$ (3,605)	2,480	12,310	23,677	388	\$ 35,250	
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:							
Interest on investments	(479)	(623)	(565)	(8,847)	(128)	(10,642)	
Decrease (Increase) in fair value of investments	82	-	-	(10,248)	89	(10,077)	
Interest on bonds	-	-	-	11,454	1,715	13,169	
Change in assets and liabilities:							
Decrease in mortgage loans receivable	100	620	673	36,623	8,748	46,764	
(Increase) Decrease in interest receivable on mortgage loans	(1)	-	(115)	397	36	317	
Decrease in mortgage loans held for resale	-	-	-	23,341	-	23,341	
(Increase) Decrease in other assets	(1,265)	-	(1,349)	5,253	(106)	2,533	
(Decrease) Increase in accounts payable and other liabilities	(2,631)	14	(2,424)	(1,438)	189	(6,290)	
Increase (Decrease) in unearned revenues	327	-	(46,517)	-	-	(46,190)	
Total adjustments	\$ (3,867)	11	(50,297)	56,535	10,543	\$ 12,925	
Net cash (used in) provided by operating activities	\$ (7,472)	2,491	(37,987)	80,212	10,931	\$ 48,175	



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

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

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

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