NORTH CAROLINA HOUSING FINANCE AGENCY
FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007

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MANAGEMENT DISCUSSION AND ANALYSIS (*Unaudited*)
June 30, 2007

Our discussion and analysis of the North Carolina Housing Finance Agency's (the "Agency") financial performance provides an overview of the Agency's financial activities for the year ended June 30, 2007. The financial statements, accompanying notes, and additional information should be read in conjunction with the following discussion.

Overview

The North Carolina Housing Finance Agency was created in 1974 to provide financing for residential housing, both ownership and rental, to families of North Carolina with low and moderate incomes. The Agency has issued bonds to finance housing throughout the State of North Carolina (the "State"). In addition to its bond programs, the Agency administers the Section 8 Lower Income Housing Assistance Program, the HOME Investment Partnership Program ("HOME Program"), Low Income Housing Tax Credits, the North Carolina Housing Trust Fund and other federal and state programs. These programs provide for different types of assistance such as rental subsidies, downpayment assistance, low-interest mortgage loans, 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, 2007:

- The Agency's total assets increased $121,987,000 or 6.2% and liabilities increased $85,921,000 or 5.4%.
  - Mortgage loans receivable increased $162,410,000 or 13.3%. Favorable interest rates on tax-exempt bonds allowed for mortgage loan interest rates 75 to 100 basis points below the market rate. Additionally, offering recapture reimbursement to FirstHome borrowers boosted demand for this product. Because of the interest rate environment and program changes, loan purchases increased resulting in five new bond issuances. The new issues in the 1998 Single Family Bond Series totaled $360,000,000. Of the bonds issued, $65,000,000 were Convertible Option Bonds ("COB's") that will preserve volume cap. The $353,000 or 4.5% increase in the accrued interest receivable on mortgage loans is a reflection of the increased loan production. The $90,747,000 or 5.9% increase in bonds payable and the $3,715,000 or 30% increase in interest payable are also attributed to the bond issuances (see additional comments under Debt Administration).
  - Investments decreased $25,575,000 or 4.7%. In June 2006, the Bank of New York ("Trustee") did not liquidate investment agreements to meet debt service obligation in three of the multifamily and in the 1998 singlefamily resolutions which resulted in an abnormal balance at the end of the prior fiscal year. Accrued interest receivable on investments decreased $122,000 or 4.3% for the same reason. In September, the Agency liquidated its Reverse Repurchase Agreement in the amount of $4,615,000 with Merrill Lynch Government Securities. Other liquid funds were then used to issue a note to an Agency partner to assist in making homeownership loans.
  - State Tax Credits receivable decreased $5,551,000 or 11.8% as more of the awards were in higher income counties which receive lower state tax credits.
  - Other assets decreased $5,116,000 or 22.1%. In fiscal year 2006, the Trustee held investment earnings that have since been repaid to the Agency. Additionally, a debenture for one multifamily property that defaulted under the 1984 Multifamily Bond Resolution was paid by HUD in fiscal year 2007.
  - Accounts payable decreased $5,157,000 or 73.8%. The prior year's balance was due to the Trustee's paying the July 1, 2006, debt service payment on the Agency's behalf from their own funds. The $830,000 or 20% increase in other liabilities was due to the changes in the Agency's arbitrage liability.

- Operating revenues increased $17,527,000 or 7.2%. Operating expenses increased $21,074,000 or 9.9%.
  - Although investments decreased $25,575,000 or 4.7%, interest on investments increased $3,104,000 or 11.7% due to the movement of liquid funds to the higher yielding accounts with the North Carolina Capital Management Trust.
  - The net increase in the fair value of the Agency's investments of $4,580,000 or 160.1% resulted from current market conditions as of June 30, 2007.
  - Mortgage loan interest income increased $5,465,000 or 8.1% and Federal program awards increased $4,961,000 or 3.6% due to the higher level of mortgage loan closings. Recorded in Nonfederal awards received is $18,000 from the Home Builders Association to help fund downpayment assistance for the FirstHome loans. Other revenues decreased $436,000 or 35.5% due to the recognition of bond defeasance income that was received in fiscal year 2006 but not in fiscal year 2007.
  - Interest expense increased $5,803,000 or 8.1% as a result of the new bonds issued. Mortgage servicing expense increased $239,000 or 6.4% due to the higher level of loan activity. The Federal program expense increased $14,397,000 or 11.8% due to increased production in the Preservation Loan Program and the Rental Production Program, both funded by HOME funds, as well as an increase in the Section 8 Contract Administration Program. The Nonfederal program expenses increased $674,000 or 176.0% due to increased activity in the Downpayment Assistance Program. General and administrative expenses increased $819,000 or 6.4% as a result of increased salaries, benefits, and general operating costs from the growth of the Agency.
  - Other Expenses decreased $858,000 or 60.6%. Due to market conditions on June 30, 2006, the Agency recorded a net loss of $452,000 and interest expense of $259,000 for the reverse repurchase agreement. In September 2006 the reverse repurchase was terminated. Due to market conditions at the time of the termination the Agency reflected a gain of $165,000 in Other Revenues. The June 30, 2007 balance of Other Expenses includes only $54,000 of interest expense related to the reverse repurchase agreement.
- Non-operating revenues and expenses increased $4,498,000 or 131.2%.
  - State Appropriations increased by $11,737,000 or 112.3%. The General Assembly appropriated $10,937,500 to the Housing Trust Fund to promote the State's Housing 400 Initiative.
  - As of June 30, 2006, the Agency recognized State Tax Credit revenue for the 2005 and 2006 awards in the amount of $31,068,000. For the fiscal year ended June 30, 2007, the Agency recognized revenue for the 2005 and 2006 award years in the amount of $25,859,000, resulting in a net decrease of $5,209,000 or 16.8%. More of the awards were in higher income counties, which receive lower state tax credits.
- Net assets increased $36,066,000 or 9.1% due to the increase in loan production and methods used to manage debt and investments. (See additional comments under Debt Administration).

Financial Analysis

The following tables summarize the change in net assets between June 30, 2007, and 2006 (*in thousands*):

Condensed Balance Sheet Information

	2007	2006	Change	%
Assets				
Cash and cash equivalents	$ 124,508	$124,305	$ 203	0.2
Accrued interest receivable on investments	2,736	2,858	(122)	(4.3)
Accrued interest receivable on mortgage loans	8,231	7,878	353	4.5
Investments	521,375	546,950	(25,575)	(4.7)
Investments-reverse repurchase agreement	-	4,615	(4,615)	(100.0)
Mortgage loans receivable, net	1,383,396	1,220,986	162,410	13.3

	2007	2006	Change	%
State tax credits receivable	41,393	46,944	(5,551)	(11.8)
Other assets, net	18,046	23,162	(5,116)	(22.1)
Total Assets	$ 2,099,685	$1,977,698	$121,987	6.2
Liabilities				
Bonds payable	$ 1,636,479	1,545,732	$ 90,747	5.9
Accrued interest payable	16,119	12,404	3,715	30.0
Accounts payable	1,831	6,988	(5,157)	(73.8)
Deferred revenues	7,948	7,547	401	5.3
Obligations under reverse repurchase agreement	-	4,615	(4,615)	(100.0)
Other liabilities	4,972	4,142	830	20.0
Total Liabilities	$ 1,667,349	$1,581,428	$ 85,921	5.4
Net Assets				
Restricted	$ 417,733	$ 381,801	$ 35,932	9.4
Unrestricted	14,603	14,469	134	0.9
Total Net Assets	$ 432,336	$ 396,270	$ 36,066	9.1
Total Liabilities and Net Assets	$ 2,099,685	$ 1,977,698	$ 121,987	6.2

Condensed Statement of Revenues, Expenses and Change in Net Assets Information

Operating Revenues				
Interest on investments	$ 29,623	$ 26,519	$ 3,104	11.7
Net increase (decrease) in fair value of investments	1,720	(2,860)	4,580	160.1
Interest on mortgage loans	72,877	67,412	5,465	8.1
Federal program awards received	143,444	138,483	4,961	3.6
Nonfederal awards received	18	-	18	100.0
Program income/fees	13,518	13,683	(165)	(1.2)
Other revenues	793	1,229	(436)	(35.5)
Total Operating Revenues	$ 261,993	$ 244,466	$ 17,527	7.2
Operating Expenses				
Interest on bonds	$ 77,605	$ 71,802	$ 5,803	8.1
Mortgage servicing expense	3,978	3,739	239	6.4
Federal program expense	136,975	122,578	14,397	11.8
Nonfederal program expense	1,057	383	674	176.0
General and administrative	13,680	12,861	819	6.4
Other expenses	558	1,416	(858)	(60.6)
Total Operating Expenses	$ 233,853	$ 212,779	$ 21,074	9.9
Operating Income	$ 28,140	$ 31,687	$ (3,547)	(11.2)

	2007	2006	Change	%
Non-operating Revenues (Expenses)				
State appropriations received	$ 22,188	$ 10,451	$ 11,737	112.3
State grant received	-	1,000	(1,000)	(100.0)
State tax credits	25,859	31,068	(5,209)	(16.8)
State program expense	(40,121)	(39,091)	(1,030)	(2.6)
Total Non-operating Revenues (Expenses)	$ 7,926	$ 3,428	$ 4,498	131.2
Change in Net Assets	$ 36,066	$ 35,115	$ 951	2.7

New Business

In 2006, the General Assembly appropriated $10.9 million in capital funding to the Housing Trust Fund and $1.2 million in recurring operating subsidies to the Department of Health and Human Services (“DHHS”). Through its partnership with DHHS, the Agency used these funds to promote the State’s Housing 400 Initiative. The Housing 400 Initiative’s goal is to provide 400 independent apartments for persons with disabilities. The Agency used three programs to reach the goal: the Supportive Housing Development Program (“SHDP400”), the Preservation Loan Program (“PLP400”), and the Key Program. The SHDP financed construction and will provide operating assistance for 120 supportive housing units; the PLP will provide rehabilitation funding and operating assistance for 27 units; and the Key Program will provide operating assistance for an additional 278 apartments that were approved for federal housing tax credits in November 2006 and August 2007.

Since 1990, the Hispanic population in North Carolina has grown from 76,000 to more than 500,000, comprising seven percent of the state’s total population. As part of its outreach to the Hispanic community, the Agency has implemented two important initiatives in 2007: It created the Hispanic Marketing Advisory Panel and developed a Spanish counterpart to our public website (www.suprimeracasa-nc.com). The Advisory Panel, composed of members of the media, real estate agents, lenders and housing counselors, helps the Agency direct its outreach to the Hispanic population. The Agency produces marketing materials in Spanish, attends Latino events and promotes communication between the Latino community and the Agency’s housing partners. The Spanish website provides information about the Agency’s home ownership programs.

In partnership with SocialServe and several other organizations, the Agency created NCHousingSearch.org, a statewide service that provides free rental housing listings for landlords and a free apartment search feature for renters. SocialServe manages the website and provides a toll-free call center so anyone in the state with a computer or a telephone can locate affordable rental housing in their area. Launched in December 2006, the website averages 4,600 hits a day and lists over 50,000 apartments in 96 counties. The Agency recruits sponsors to fund this service and markets to landlords and social service groups. Other partners include nonprofit organizations, the N.C. Department of Health and Human Services (DHHS) and the N.C. Department of Correction.

A major cost for renters and homeowners is heating and air-conditioning. Through its partnership with Advanced Energy, the Agency is actively promoting energy-efficient construction. The Agency offers financial incentives to build tax credit apartment units that meet the Energy Star standards. The Agency also requires that all units funded in our Supportive Housing Program conform to the Energy Star guidelines. In addition to the Energy Star initiative, the Agency and Advanced Energy operate the SystemVision performance guarantee program, with standards of construction in affordable single-family homes that exceed Energy Star standards. This national award-winning program shows builders how to build homes that exceed code in efficiency, comfort, health, safety and durability. To date, over 1,400 homes have been built to these specifications, including 732 financed by the Agency. Of those units, 465 were produced by Habitat for Humanity affiliates. The owners are guaranteed to save 30%-50% on their heating and cooling costs.

The Agency received five national awards from the National Council of State Housing Agencies this fiscal year in recognition of its efforts to serve the citizens of North Carolina: The Field Guide to Multifamily Construction helps builders of tax credit apartments ensure that their projects meet the building codes and the Agency's standards for accessibility. The Key Program provides operating assistance for persons with disabilities. The Rural Opportunity Mortgage Program, created in partnership with USDA-Rural Development, provides low-cost mortgages for home buyers in under-served rural regions of the State. The Agency also received a Legislative Award for its work with the General Assembly and an Impact Award for its assistance to the Louisiana Housing Finance Agency during the Hurricane Katrina recovery effort.

Debt Administration

The Agency's bonds payable increased 5.9% during fiscal year 2007**.** As a result of the increased demand for mortgage loans, Single Family Bonds have been issued at a higher volume than in 2006. The Agency issued four Home Ownership Bond Series in the amount of $295,000,000. As it did in fiscal year 2006, the Agency again issued bonds in the amount of $65,000,000 to preserve private activity volume cap that was set to expire at the end of calendar year 2006. COB's are short-term bonds that are scheduled to mature in stages. At maturity, the COB's will be refunded or remarketed with long-term bonds. COB's issued in November 2005 were refunded during the year, $65,000,000 for Series 25 in September 2006, and $40,000,000 for Series 28 in April 2007. The FirstHome Mortgage Program enabled the Agency to assist 2,824 additional families this year.

In June 2006, the 1993 multifamily bonds were redeemed. In July 2006, the 1993 resolution was dissolved and all of the remaining assets were transferred to the 1984 resolution. In May 2007, the 1992 Multifamily Series D variable rate debt was redeemed due to the related mortgage loans prepaying.

The Agency had scheduled bond maturities of $27,605,000 for Single Family Revenue Bonds and $2,650,000 for Multifamily Revenue Bonds. There were unscheduled bond redemptions of $227,485,000 for Single Family Revenue Bonds and $11,025,000 for the Multifamily Revenue Bonds. Refer to the accompanying footnotes for more detailed information concerning maturities and redemptions for the Single Family and Multifamily Revenue Bonds.

Programs

<u>Home Ownership Programs.</u> Since the inception of the FirstHome Mortgage Program the Agency has financed over $5.1 billion of mortgage loans for first-time home buyers. In the current year, 36% of mortgages were issued to home buyers earning less than 60% of area median income. The Agency has also issued 34% of mortgages to buyers earning 61% to 80% of area median income and 30% to buyers earning more than 80% of area median. Currently, the Agency has over 15,440 loans in its portfolio. The majority of these loans are serviced by outside servicers.

The Agency established a Mortgage Credit Certificate ("MCC") Program in July 1987. A MCC permits first-time home buyers who meet federal limits for family income and acquisition cost to take 20% of annual mortgage interest as a federal income tax credit. As of June 30, 2007, the Agency had issued 24,356 Mortgage Credit Certificates under the MCC program totaling $1,839,426,178 in credit authority.

The Home Saver Loan Program was created for borrowers of the Agency's FirstHome loans to provide payment or forbearance of up to four months principal and interest payments after a borrower is eligible for unemployment benefits. The program helps families avoid losing their homes to foreclosure. As of June 30, 2007, the Home Saver Loan Program has assisted 127 homeowners using $292,645 of financing.

The Home Protection Pilot Program ("HPPP") has been expanded this year from twenty-eight to sixty-one counties. During the year, HPPP has helped homeowners who have lost their jobs because of changing economic conditions by providing loans up to $20,000 to help them make mortgage payments. The potential applicants are referred through housing counselors. More than 300 families have benefited from the temporary stay of foreclosure offered by the program. The Agency has approved 224 loans and provided $2,210,249 in loan assistance for loans closed from the program's inception through June 30, 2007.

The Rural Opportunity Mortgage ("ROM") Program provides home ownership opportunities to rural residents whose income is too low to qualify for the Agency's FirstHome Mortgage Program. The Agency and the USDA have collaborated to offer a program for very-low-income North Carolinians purchasing newly constructed homes. As of June 30, 2007, the Agency originated 567 ROM loans totaling $27,872,591 to help rural residents in North Carolina.

The Agency continued its partnership with Habitat for Humanity in their efforts to provide affordable housing. The Agency helped finance 70% of the Habitat homes built in North Carolina this year and has provided over $15 million in funding for Habitat homes to date.

Rental Programs. The Agency administers both the Federal Low Income Housing Tax Credit Program and the State Tax Credit Programs. These credits are available to developers on a competitive basis for the development of affordable rental housing in the State. The Agency's goals include supporting the best developments possible given the limited resources available. The Qualified Allocation Plan has criteria to use in selecting developments to serve low-income residents. The criteria include locations with strong market demand; healthy financial structures; attractive architectural design; and the best quality of building materials and workmanship. The Agency has administered this program since its inception in 1987 and has helped create 1,695 projects consisting of 43,028 rental units, and allocated $1,370,664,765 of tax credits.

Unlike the Federal Tax Credit, the State Tax Credit ("STC") is not a tax-shelter equity investment. It is either claimed directly by the property owner in the form of a grant or transferred to the Agency. The amount of the transferred STC becomes a secured loan from the Agency to the property. In every case so far, the owner has transferred its credit to the Agency because of the preferential federal income tax treatment. Once the property has reached certain milestones, primarily completion of a certain amount of construction, the loan becomes eligible to close. The STC program began in fiscal year 2003. Since its inception in 2003 through June 30, 2007, the Agency has processed 114 STC loans for the total amount of $76,719,852. The STC has been extended to January 2010.

Additional Information

This discussion and analysis is intended to provide additional information regarding the activities of the Agency. If you have questions about the report or need additional financial information, contact Elizabeth I. Rozakis, Chief Financial Officer, North Carolina Housing Finance Agency, PO Box 28066, Raleigh, North Carolina 27611-8066, (919) 877-5687, eirozakis@nchfa.com, or go to the Agency's website at www.nchfa.com.

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Report of Independent Auditors

The Board of Directors
North Carolina Housing Finance Agency

We have audited the accompanying basic financial statements 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, 2007, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Agency's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2007, and the changes in financial position and, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2007 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst + Young LLP

August 31, 2007

NORTH CAROLINA HOUSING FINANCE AGENCY

BALANCE SHEET

YEAR ENDED JUNE 30, 2007

(in thousands)	
ASSETS	
Current assets:	
Cash and cash equivalents	$ 771
Restricted cash and cash equivalents	123,126
Accrued interest receivable on investments	2,736
Accrued interest receivable on mortgage loans	8,231
State tax credits receivable	41,393
Other assets	15,591
TOTAL CURRENT ASSETS	191,848
Noncurrent assets:	
Restricted cash and cash equivalents	$ 611
Investments	5,615
Restricted investments	515,760
Mortgage loans receivable, net	1,383,396
Other assets, net	2,455
TOTAL NONCURRENT ASSETS	$ 1,907,837
TOTAL ASSETS	$ 2,099,685
LIABILITIES	
Current liabilities:	
Bonds payable	$ 179,865
Accrued interest payable	16,119
Accounts payable	1,831
Deferred revenues	874
Other liabilities	127
TOTAL CURRENT LIABILITIES	$ 198,816
Noncurrent liabilities:	
Bonds payable, net	$ 1,456,614
Deferred revenues	7,074
Other liabilities	4,845
TOTAL NONCURRENT LIABILITIES	$ 1,468,533
TOTAL LIABILITIES	$ 1,667,349
NET ASSETS	
Restricted	$ 417,733
Unrestricted	14,603
TOTAL NET ASSETS	$ 432,336
TOTAL LIABILITIES AND NET ASSETS	$ 2,099,685

See Notes to Financial Statements

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2007

(in thousands)

OPERATING REVENUES	
Interest on investments	$ 29,623
Net increase in fair value of investments	1,720
Interest on mortgage loans	72,877
Federal program awards received	143,444
Nonfederal awards received	18
Program income/fees	13,518
Other revenues	793
TOTAL OPERATING REVENUES	$ 261,993
OPERATING EXPENSES	
Interest on bonds	$ 77,605
Mortgage servicing expense	3,978
Federal program expense	136,975
Nonfederal program expense	1,057
General and administrative	13,680
Other expenses	558
TOTAL OPERATING EXPENSES	$ 233,853
OPERATING INCOME	$ 28,140
NONOPERATING REVENUES (EXPENSES)	
State appropriations received	$ 22,188
State tax credits	25,859
State program expense	(40,121)
TOTAL NONOPERATING REVENUES (EXPENSES)	$ 7,926
CHANGE IN NET ASSETS	$ 36,066
TOTAL NET ASSETS-BEGINNING	396,270
TOTAL NET ASSETS-ENDING	$ 432,336

See Notes to Financial Statements

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2007

(in thousands)

Cash flows from operating activities:	
Interest on mortgage loans	$ 72,558
Principal payments on mortgage loans	155,830
Purchase of mortgage loans	(317,528)
Federal awards received	143,145
Federal program expense	(137,474)
Nonfederal awards received	18
Nonfederal program expense	(1,057)
Federal grant administration income	7,962
Program income/fees	11,527
Other expenses	(22,754)
Other revenues	6,153
Net cash used in operating activities	**$ (81,620)**
Cash flows from non-capital financing activities:	
Issuance of bonds	$ 360,000
Principal repayments on bonds	(268,765)
Interest paid	(70,893)
Bond issuance costs paid	(3,485)
State appropriations received	22,188
State tax credits	25,859
State program expense	(40,121)
Net cash provided by non-capital financing activities	**$ 24,783**
Cash flows from investing activities:	
Proceeds from sales or maturities of investments	$ 1,103,010
Purchase of investments	(1,075,715)
Earnings on investments	29,745
Net cash provided by investing activities	**$ 57,040**
Net increase in cash	203
Cash and cash equivalents at beginning of year	124,305
Cash and cash equivalents at end of year	**$ 124,508**
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 28,140
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Interest on investments	(29,623)
Increase in fair value of investments	(1,720)
Interest on bonds	77,605
Change in assets and liabilities:	
Increase in mortgage loans	(162,410)
Increase in interest receivable on mortgage loans	(353)
Decrease state tax credit receivable	5,551
Decrease in other assets	5,198
Decrease in accounts payable and other liabilities	(4,409)
Increase in deferred revenues	401
Total adjustments	**$ (109,760)**
Net cash used in operating activities	**$ (81,620)**

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2007

A. AUTHORIZING LEGISLATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Authorizing Legislation The North Carolina Housing Finance Agency (the "Agency") is a public agency and component unit of the State of North Carolina (the "State"). The Agency was created to provide financing for residential housing construction, new or rehabilitated, for sale or rental, to residents of the State with low and moderate incomes. Pursuant to its enabling legislation, the Agency is authorized to issue bonds and other obligations to fulfill its corporate purpose up to a total outstanding amount of $3 billion. The debt obligations of the Agency do not constitute a debt, grant or loan of credit of the State, and the State is not liable for the repayment of such obligations.

Basis of Presentation The Agency applies all statements issued by the Governmental Accounting Standards Board ("GASB") and Financial Accounting Standards Board issued on or before November 30, 1989, except those that conflict with the GASB.

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

<u>Agency Programs</u> Direct administrative and operational activities, including operating expenses of various programs, are recorded in Agency Programs. Since the inception of the State Tax Credit program, the General Assembly of the State of North Carolina awarded $121,878,000 in State Tax Credits, of which the Agency received $31,410,000 during fiscal year 2007. Under this program the project will receive the credit in the form of a loan or direct refund.

<u>Housing Trust Fund Programs</u> The North Carolina Housing Trust and Oil Overcharge Act created the North Carolina Housing Trust Fund ("Housing Trust Fund") and the North Carolina Housing Partnership ("Housing Partnership"). The purpose of the Housing Trust Fund is to increase the supply of decent, affordable, and energy-efficient housing for residents of the State with low and moderate incomes. The General Assembly of the State of North Carolina has appropriated funds of which substantially all are to be used to make loans and grants under the Housing Trust Fund Programs. The Agency received State appropriations in the amount of $18,937,500 for the year ended June 30, 2007. This appropriation is reported in Nonoperating Revenues (Expenses) in the financial statements. The Housing Partnership is responsible for developing policy with respect to the operation of programs within the Housing Trust Fund. The Agency provides staff services to the Housing Partnership and administers the Housing Trust Fund Programs.

<u>Federal and State Programs</u> The Agency administers six federal programs. The Section 8 Lower Income Housing Assistance Program ("Section 8 Program") and the HOME Investment Partnership Program represent 74% and 24%, respectively, of federal program expenditures. The Agency receives a fee for administering these programs. The HOME Investment Partnership Program ("HOME Program") is matched with funds appropriated by the General Assembly of the State; the amount of matching funds received during the year was $1,751,000. The General Assembly of the State created the Home Protection Pilot Program in 2004 to assist North Carolinians who have lost their jobs due to changing economic conditions. The purpose of this program is to help citizens keep their homes while they search for new jobs and/or learn new job skills. The Agency received an appropriation of $1,500,000 in fiscal year 2007 to administer the program.

Home Ownership Bond Programs The Home Ownership Bond Programs were created through various single family bond resolutions and are restricted as to their use. The proceeds of individual bond issues are used to purchase first-time home buyer mortgage loans on single family residential units.

Rental Bond Programs The Rental Bond Programs were created through various multifamily and special facilities bond resolutions and are restricted as to their use. The proceeds of individual bond issues are used to provide mortgage loans to developers of rental housing projects.

Accounting Policies Below is a discussion of the Agency's accounting policies:

Cash and Cash Equivalents Cash and cash equivalents are comprised of cash on hand, amounts on deposit with financial institutions which are insured or are collateralized under provisions of North Carolina laws and regulations, amounts in pooled cash accounts managed by the State Treasurer and North Carolina Capital Management Trust, 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 balance sheet are restricted for purchasing mortgage loans under our different programs. Cash and cash equivalents that are not available to cover current liabilities are classified as noncurrent.

Investments Investments are reported at fair value in accordance with GASB Statement 31 "Accounting and Financial Reporting for Certain Investments and External Investment Pools" ("GASB 31"), except for certain mortgage-backed securities. The difference between fair value and carrying value for these securities is not significant to the accompanying financial statements. The Agency intends to hold all securities to maturity.

Mortgage Loans Receivable, Net Mortgage loans receivable are carried at cost less unamortized discount and loan loss reserve, plus unamortized direct loan origination costs. The discount on loans and all direct loan origination costs are amortized over the terms of the mortgages using the effective interest rate method. It is the Agency's policy to provide for potential mortgage loan losses based on a periodic evaluation of the loan portfolios.

State Tax Credits Receivable In 2002, the General Assembly converted the State Housing Credit into a refundable credit providing funds that can be efficiently invested directly in Housing Credit properties through the Agency. The Agency has recorded a $41,393,000 receivable in State Housing Credits for the fiscal year ended June 30, 2007. This represents the remaining 2005 and 2006 outstanding awards. During the year, the Agency received State Tax Credits in the amount of $31,410,000 from the General Assembly for the 2004 outstanding awards (second installment) and the 2005 award (first installment). These funds are committed to provide loans to housing credit properties through the Agency. Funds received and disbursed are reflected in Nonoperating Revenues (Expenses).

Other Assets, net Fixed assets, net of accumulated depreciation, in the amount of $2,455,000 are included in Other assets, net in the financial statements. During fiscal year 2007, the Agency capitalized internally developed software costs in the amount of $600,000. Recorded in Other assets (current) is $2,620,000 in accounts receivables for Quadel Contract Administration, Section 8 Program Contract Administration, HOME Program administration fees earned, and HOME Program loans closed in fiscal year 2007 but reimbursed in fiscal year 2008.

Accounts Payable Certain expenses were incurred for the Federal and State Programs. Of these expenses $660,000 represents mortgage loans closed in June 2007 but purchased under the HOME Program in 2008, HUD is due $39,000 for the Section 8 Programs, and $572,000 will be paid for cost incurred to administer the Section 8 Program Contract Administration.

Deferred Bond Financing Costs Deferred bond financing costs represent deferred bond issuance costs and deferred losses on refundings. Deferred losses on refundings result from a difference between the reacquisition price and the net carrying amount of the old debt and are amortized on a straight-line basis over the shorter of the life of the old debt or the new debt. Deferred bond issuance costs are amortized on a straight-line basis over the terms of the bonds. The amortization of deferred losses on refunding and deferred bond issuance costs is included as a component of Interest on bonds. Deferred bond financing costs are included in Bonds payable, net for financial statement presentation.

Deferred Revenues Deferred revenues are monitoring fees received for the Low Income Housing Tax Credit and State Disaster Program. These fees are amortized on a straight-line basis over the life of the tax credit or over the life of the loan.

Interprogram Receivable/Payable During the normal course of operations, the Agency has numerous transactions among programs in order to provide services. To the extent that certain transactions among programs have not been settled as of June 30, 2007, these balances are recorded as interprogram receivables or payables. These interprogram transactions are eliminated in the financial statements.

Net Assets As of June 30, 2007, the Agency has $14,603,000 of unrestricted net assets. The Agency intends to utilize these net assets for potential home ownership mortgage loan losses, meet rating agencies' requirements, cover 2008 operating budget, and support other Agency housing commitments.

Net assets of the Home Ownership Bond Programs and Rental Bond Programs are restricted pursuant to the Agency's agreements with its bondholders as determined in each bond resolution. The Agency has restricted net assets in amounts sufficient to meet required debt service and operating expenses as defined by each bond resolution.

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

The Agency implemented GASB 31 on July 1, 1997, which requires the Agency to report investments at fair market value. The effect of the adoption on the Agency's financial statements for the past year ended June 30, 2007 is as follows:

(*in thousands*)	**June 30, 2007**	**June 30, 2006**
Increase (Decrease) in Operating Income	$ 1,720	$ (2,860)
Decrease in Net Assets	$ (678)	$ (2,398)

Operating Revenues and Expenses One of the Agency's main functions is to borrow funds in the bond market and to use those funds to make home ownership and rental mortgage loans. The Agency has the authority to issue bonds to the investing public in order to create a flow of private capital. These funds are used to purchase mortgage loans for qualified housing sponsors and certain qualified individuals. A significant portion of operating income is derived from interest earned on mortgage loans less the interest expense of bonds outstanding. Additional operating income is earned from the administration of federal programs.

Nonoperating Revenues and Expenses State appropriations received, State grants received, and State tax credits from the State of North Carolina are classified in Nonoperating Revenues (Expenses). The related expenses are classified as State program expense. In fiscal year 2007, the Agency accrued $25,859,000 in State Housing Credits for the 2006 award year (see additional comments under State Tax Credits Receivable).

General and Administrative Expenses General and administrative expenses are classified by the related program. To the extent allowed by bond resolutions and Federal and State Programs, transfers are made from the funds of the bond issue or the Federal and State Programs to the Agency to reimburse certain general and administrative expenses. In the event the bond resolution or Federal and State Program do not permit payment of general and administrative expenses, expenses are paid from Agency reserve funds. Certain indirect costs were allocated to Federal and State Programs based on an independently prepared cost allocation study. These costs are allocated on certain parameters such as square footage, number of approved positions, and number of transactions processed.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period (e.g. loan loss reserve). Actual results could differ from those estimates.

B. CASH, CASH EQUIVALENTS, INVESTMENTS, AND SECURITIES LENDING TRANSACTIONS

Cash and Cash Equivalents As of June 30, 2007, the Agency had deposits in pooled investment accounts of the State Treasurer with a carrying value of approximately $53,708,000 and a bank balance of approximately $54,913,000. Included in the investment accounts of the State Treasurer is the amount of $3,147,000 representing escrow and replacement reserves maintained on behalf of multifamily mortgagors; accordingly, a corresponding liability of the same amount is also included on the balance sheet.

The Agency also held deposits with Wachovia Bank with a carrying value of $7,000 and a bank balance of $393,000. These deposits are collateralized with eligible securities held by a third party custodian.

The Agency also had deposits with both a carrying value and bank balance approximating $53,345,000 on deposit with the Agency's fiduciary agent. Such deposits are collateralized with eligible securities held by a third-party custodian.

The Agency has deposits with a carrying value of $17,450,000 with the North Carolina Capital Management Trust. The North Carolina Capital Management Trust invests in higher-grade money market investments as specified in the North Carolina General Statute 159-30 and in 20 North Carolina Administrative Code 3.0703. The fund is AAAm rated by Standard & Poor's.

Custodial credit risk At year end, the Agency was not exposed to any material custodial credit risk.

Investments Repurchase agreements are collateralized by obligations of the United States Government, its agencies, or direct investments of such obligations. The market value of securities subject to such agreements must be maintained at least equal to 100 percent of the principal and accrued interest on the invested funds daily. The Agency invests in repurchase agreements for mostly long-term (generally reserved) investments. On June 30, 2007, approximately $439,308,000 was invested in such long-term agreements having maturity dates ranging from April 1, 2008 to July 1, 2039 primarily at rates ranging from 3.50% to 7.15%. The counterparties to the repurchase agreements are institutions whose unsecured debt securities are rated at least in one of the two highest rating categories by a nationally recognized securities rating agency.

At June 30, 2007, the Agency held the following investments with the listed maturities at annual rates ranging from 0% to 12%. Ratings are displayed with the Standard & Poor's rating listed first and the Moody's Investors Service second.

Investment Maturities (in years)

(in thousands)

Investments	Carry Amount	Less Than 1	1 - 5	6 - 10	More Than 10
GNMA MBS's Rated AAA/Aaa	$3,058	$ -	$ -	$ -	$3,058
FNMA MBS's Rated AAA/Aaa	587	-	-	-	587
Repurchase Agreements- Rated AAA/Aaa	439,308	-	-	-	439,308
US Agency Obligations- Rated AAA/Aaa	70,540	-	-	3,648	66,892
US Treasury Bonds	7,882	848	6,480	554	-
Total Categorized	$521,375	$848	$6,480	$4,202	$509,845

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

Credit risk The General Statutes of the State authorize the Agency to invest in (i) direct obligations or obligations on which the principal and interest are unconditionally guaranteed by the United States Government; (ii) obligations issued by an approved agency or corporation wholly-owned by the United States 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) investment agreements with banks and financial institutions which are chartered outside of North Carolina and meet specified rating and collateral requirements of the various bond resolutions. Mortgage-Backed Securities ("MBS's") are securitized by the Federal National Mortgage Association ("FNMA"), (Fair Value - $587,000, rated AAA/Aaa), and by the Government National Mortgage Association ("GNMA"), (Fair Value - $3,058,000, rated AAA/Aaa). The Government National Mortgage Association is a direct obligation of the US Government. Repurchase agreements are fully collateralized by obligations issued by the United States Government or its agencies. The US Agency Obligations are comprised of Federal National Mortgage Association (Fair Value - $53,481,000, rated AAA/Aaa), Federal Home Loan Mortgage Corporation (Fair Value - $6,826,000, rated AAA/Aaa), and Federal Home Loan Bank (Fair Value- $9,147,000, rated AAA/Aaa). The Agency does not have a formal investment policy that would further limit its investment choices.

Concentration of credit risk The Agency has a practice of entering into repurchase agreements with several investment providers to minimize the Agency's exposure to a bond rating downgrade should one of the providers have a ratings event. The investments consist of repurchase agreements and obligations of the United States Government which represent 84.26% and 15.04%, respectively, of the Agency's total investments. Investments in any one issuer that represent 5 % or more of total investments as of June 30, 2007 are as follows:

Investment Issuer	**Amount**
Federal National Mortgage Association (FNMA)	$ 53,481,000
AIG Matched Funding, repurchase agreements	73,889,000
FSA Capital Management Services, repurchase agreements	50,763,000
Societe Generale, repurchase agreements	42,165,000
Royal Bank, repurchase agreements	40,000,000
DEPFA Bank, repurchase agreements	113,977,000

Custodial credit risk At year end, the Agency was not exposed to custodial credit risk.

The United States Government securities are on deposit with the Agency's fiduciary agent, which holds these securities by book entry in their fiduciary Federal Reserve accounts. The Agency's ownership of these securities is identified through the internal records of the fiduciary agent. Certain of these securities are optionally callable at par by the issuer on specified dates.

In accordance with the 1985 Single Family Revenue Bonds Series U and V, bond proceeds were used to purchase fully-modified mortgage-backed pass-through certificates of the GNMA and mortgage-backed pass-through certificates of FNMA from pools of qualified mortgages originated under the Agency's program guidelines. The securities are based on cash flows from underlying mortgages and are not considered derivatives.

Securities Lending Transactions GASB Statement No. 28 "Accounting and Financial Reporting for Securities Lending Transactions" ("GASB 28") established accounting and financial reporting standards for transactions where governmental entities transfer their securities to broker-dealers and other entities (borrowers) in exchange for collateral (which may be cash, securities, or letters of credit) and simultaneously agree to return the collateral in exchange for the original securities in the future. The Agency does not directly engage in securities lending transactions; however, the State Treasurer does. The State Treasurer is authorized to engage in these types of transactions under North Carolina General Statute 147-69.3c. The types of securities loaned include U.S. 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 102% of the market value of the original securities lent. This investment in the collateral investment pool is considered to be a highly liquid investment. The State has a custodial credit risk related to the transactions and incurred no losses during the year ended June 30, 2007 related to these transactions.

As of June 30, 2007, and during the year then ended, the Agency had deposits in the pooled investment accounts of the State Treasurer. The risk associated with these transactions will be recorded by the State in its fiduciary funds. No allocation will be made to the Agency; therefore, these financial statements do not reflect the risk associated with securities lending transactions as called for in GASB 28.

C. MORTGAGE LOANS RECEIVABLE

Mortgage loans purchased with the proceeds of the various single family and multifamily bond issues have stated interest rates ranging from 4.50% to 13.00%. Unamortized discounts as of June 30, 2007 total $1,055,000.

The existing and future mortgage loans which the Agency may purchase under the bond programs must comply with guidelines established by the Agency, including the requirement that all such mortgage loans be insured by the Federal Housing Administration, guaranteed by the Veterans Administration, guaranteed by the United States Department of Agriculture, Rural Department, insured under a private mortgage insurance program, or have a loan to value ratio of less than 80%. As of June 30, 2007, all outstanding mortgage loans purchased with mortgage revenue bond proceeds satisfy these requirements and, accordingly, no allowance for uncollectible mortgage loans is considered necessary.

Mortgage loans made with funds from the Agency Programs, Housing Trust Fund Programs, and Federal and State Programs have allowances for loan losses of $160,700, $914,900 and $126,800, respectively, as of June 30, 2007.

D. BONDS PAYABLE

Bonds payable activity for the year ended June 30, 2007 was as follows (*in thousands*):

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds Payable				
Home Ownership	$1,466,515	$360,000	$(255,090)	$1,571,425
Rental	98,365	-	(13,675)	84,690
	$1,564,880	$360,000	$(268,765)	$1,656,115
Less Deferred Bond Financing Costs				
Home Ownership	$(15,915)	$(3,485)	$2,307	$(17,093)
Rental	(3,233)	-	690	(2,543)
	$(19,148)	$(3,485)	$2,997	$(19,636)
Total Bonds Payable, Net	**$1,545,732**	**$356,515**	**$265,768**	**$1,636,479**

Bonds payable as of June 30, 2007 are as follows (*in thousands*):

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Single Family Revenue Bonds			
(1985 Resolution)			
Series Y/Z	6.30 - 6.60	2026	$5,685
Series AA/BB	5.90 - 6.50	2026	7,930
Series CC/DD	5.30 - 6.20	2027	5,695
Series EE/FF	5.50 - 6.25	2028	5,765
Series GG/HH	5.60 - 6.30	2028	7,345
Series II/JJ	5.85 - 6.45	2028	12,945
Series KK/LL	5.30 - 6.20	2028	7,250
Series MM/NN	5.15 - 5.95	2028	5,005
Series OO/PP	5.55 - 6.25	2028	13,895
Series QQ/RR	5.00 - 5.85	2028	19,940
Series SS/TT	4.90 - 5.70	2028	7,780
Series UU/VV	4.60 - 5.35	2029	16,095
Series WW	6.25	2018	30,625
			145,955

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Home Ownership Revenue Bonds			
(1998 Trust Agreement)			
Series 1	4.80 - 5.38	2030	26,450
Series 2	4.40 - 5.25	2030	16,390
Series 3	4.25 - 5.20	2030	27,630
Series 4	4.35 - 5.30	2030	24,460
Series 5	4.80 - 5.63	2030	23,655
Series 6	5.15 - 6.20	2030	15,135
Series 7	5.30 - 6.25	2031	25,840
Series 8	5.50 - 6.40	2031	12,425
Series 9	4.75 - 5.88	2032	39,180
Series 10	4.05 - 5.40	2033	22,960
Series 11	4.00 - 5.38	2033	42,595
Series 12	4.10 - 5.45	2033	40,565
Series 13	3.75 - 5.35	2034	50,590
Series 14	3.75 - 5.53	2034	55,245
Series 15	Variable-4.95	2032	39,300
Series 16	Variable-5.40	2032	41,110
Series 17	Variable-5.00	2034	46,675
Series 18	Variable-5.00	2035	41,310
Series 19	2.75 - 5.25	2035	58,165
Series 20	2.15 - 4.75	2035	60,185
Series 21	2.90 - 5.00	2035	61,435
Series 22A	3.50 - 5.50	2037	64,320
Series 22C	3.65	2038	40,000
Series 22E	3.55	2039	40,000
Series 23	3.30 - 5.00	2037	64,850
Series 24	3.50 - 5.50	2038	85,000
Series 25	3.80 - 5.75	2037	65,000
Series 26	3.40 - 5.50	2038	65,000
Series 27	3.70	2038	65,000
Series 28	3.50 - 5.50	2039	65,000
Series 29	3.80 - 5.50	2038	100,000
			1,425,470
			1,571,425
Less deferred bond financing costs			(17,093)
Total Home Ownership Bond Programs			**$1,554,332**

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Multifamily Revenue bonds			
(1984 Resolution)			
Series F/G	6.60 - 8.25	2027	$2,800
Series H/I	5.95 - 7.85	2028	12,720
Series J	5.05 - 5.55	2029	8,395
			23,915
Multifamily Revenue Refunding Bonds			
(1992 Resolution)			
Series C	2.30 - 4.80	2024	12,690
Multifamily Revenue Bonds			
(1994 Resolution) Series 1994	5.35 - 5.45	2024	3,300
Multifamily Revenue Bonds			
(1995 Resolution) Series C/D	5.30 - 5.90	2020	7,695
Special Facility Bonds*			
(2000 Resolution) Series A/B	Variable	2029	22,095
Special Facility Bonds*			
(2002 Resolution) Series A, B, C, D	5.10 - 5.50	2043	9,395
Special Facility Bonds*			
(2002A Resolution)	Variable	2020	5,600
			84,690
Less deferred bond financing costs			(2,543)
Total Rental Bond Programs			**$82,147**

*These bonds represent special financings that are issued on behalf of Not-for-Profit 501(c)(3) qualified entities.

To the extent provided in the authorizing resolutions, the bonds of each Home Ownership Bond Program and Rental Bond Program are collateralized by the investments and mortgage loans receivable of that program and revenues derived therefrom and do not constitute a general obligation of the Agency. The bond resolutions further provide for the processing of monies through specifically designated funds and accounts, periodic reporting, and the performance of other covenants, conditions, agreements, and provisions contained therein.

Maturities Debt service requirements, including sinking fund requirements on term bonds, subsequent to June 30, 2007, are as follows (*in thousands*):

Fiscal Year Ended June 30, 2007	Home Ownership Programs	Rental Programs	Total
2008	$251,207	$7,876	$259,083
2009	105,258	6,483	111,741
2010	105,779	6,524	112,303
2011	105,128	6,525	111,653
2012	103,923	6,578	110,501
2013 - 2017	514,510	33,117	547,627

Fiscal Year Ended June 30, 2007	Home Ownership Programs	Rental Programs	Total
2018 – 2021	425,435	31,271	456,706
2022 – 2026	461,690	22,677	484,367
2027 – 2032	440,297	8,986	449,283
2033 – 2037	237,169	3,103	240,272
2038 – After	14,747	3,820	18,567
Total Requirements	$2,765,143	$136,960	$2,902,103
Less Interest	(1,193,718)	(52,270)	(1,245,988)
Principal	**$1,571,425**	**$84,690**	**$1,656,115**
Less deferred bond financing costs	(17,093)	(2,543)	(19,636)
Bonds payable, net	**$1,554,332**	**$82,147**	**$1,636,479**

Bond Redemptions The bond series resolutions provide for various methods of redemption. Bonds are redeemed at par from prepayments of mortgage loans securing the issues, from unexpended bond proceeds of the issues, or from funds released via the related decreases in the respective debt service reserve requirements. Losses on these bond redemptions represent the reduction of the proportionate amount of unamortized deferred bond issuance costs for the bonds redeemed. Such losses are included in Interest on Bonds for financial statement purposes. Various bond issues are redeemable at the option of the Agency with premiums ranging up to 2% for up to twelve years after the date of issue.

For the year ended June 30, 2007 bond redemptions by resolution were as follows (*in thousands*):

Issue	Amount Redeemed	Loss Recorded
Single Family Revenue Bonds (1985 Resolution)	$26,940	$(312)
Single Family Revenue Bonds (1998 Resolution)	200,545	(1,343)
Total Home Ownership Bond Programs	**$227,485**	**$(1,655)**
Multifamily Revenue Bonds (1984 Resolution)	5,400	(354)
Multifamily Revenue Bonds (1992 Resolution)	2,865	(87)
Multifamily Revenue Bonds (1995 Resolution)	1,505	(87)
Special Facility Bonds (2000 Resolution)	1,200	0
Special Facility Bonds (2002A Resolution)	400	0
Total Multifamily Ownership Bond Programs	**$11,370**	**$(528)**

E. INTEREST RATE SWAP

Objective of the interest rate swap The Agency has entered into interest rate swaps in connection with its $76,310,000 variable-rate revenue bonds associated with several series in its 1998 Home Ownership Revenue Bond Resolution as a means to lower its borrowing costs when compared against fixed-rate bonds at the time of issuance. The intention of the swap was to effectively lower the Agency's interest rate on the long term bonds to a fixed rate.

Terms

Series	Counterparty	Rating*	Notional $ Amount	Date of Swap	Maturity Date of Swap	Fixed Rate Paid	FMV
15	UBS AG	Aa2/AA+	$17,975,000	May 8, 2003	July 1, 2032	3.510%	$ 637,217
16	Bank of America NA	Aaa/AA+	$18,335,000	Sept. 16, 2003	July 1, 2032	3.810%	$ 236,069
17	Bank of America NA	Aaa/AA+	$20,000,000	Dec. 11, 2003	July 1, 2032	3.725%	$ 211,701
18	Goldman Sachs Mitsui Marine	Aaa/AAA	$20,000,000	April 20, 2004	Jan. 1, 2035	3.288%	$1,035,822

* Ratings are Moody's Investor Service, Inc./Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc.

Under all of the swaps, the Agency pays the counterparties a fixed rate and receives a variable payment computed as 63% of the London Interbank Offered Rate ("LIBOR"), plus 30 basis points. The bonds' variable-rate coupons are based on the variable Bond Market Association Municipal Swap Index ("BMA"), which was 3.80% as of June 30, 2007.

Fair value In total, the swaps have a positive fair value of $2,120,809 as of June 30, 2007. Because the coupons on the Agency's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Basis risk and termination risk The swaps expose the Agency to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. For all swaps, collateral thresholds have been established if the counterparty's ratings reach "A2" for Moody's or "A" for Standard & Poor's ("S&P"). Series 16, 17 and 18 swaps may be terminated if the counterparty's or the Agency's rating falls below "Baa2" as issued by Moody's or "BBB" as issued by S&P. Series 15 swap may be terminated if the counterparty's or the Agency's rating falls below "Baa3" as issued by Moody's and "BBB-" as issued by S&P.

Credit risk All of the Agency's swaps rely upon the performance of the third parties who serve as swap counterparties, and as a result the Agency is exposed to credit risk – i.e., the risk that a swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps, as shown in the column labeled "FMV" in the above table. The Agency is exposed to credit risk in the amount of any positive net fair value exposure to each counterparty. As of June 30, 2007, the Agency was exposed to a total of $2,120,809 of credit risk to 3 counterparties. To mitigate the credit risk to each party to the swap agreement of a decline in credit quality of the other party, each swap agreement provides that collateral must be posted if either party's rating falls below A1 for

Moody's and A+ for S&P. The collateral must be posted with a third party in the form of cash or U.S. Government Securities. Additionally, each of the swap agreements has termination provisions if ratings fall below certain levels. These termination provisions are detailed in the previous "Basis risk and termination risk" on page 24.

Swap payments and associated debt As rates vary, variable-rate bond interest payments and net swap payments will differ between the fixed payments paid to the counterparty and the variable rate paid to the Agency. Using rates as of June 30, 2007, debt service requirements of the variable-rate debt and net swap payments are as follows. The amounts below are in thousands:

Fiscal Year Ending June 30	Variable-Rate Bond Principal	Variable-Rate Bond Interest	Interest Rate Swap, Net	Total Interest
2008	$1,620	$2,900	$(55)	$2,845
2009	1,560	2,838	(55)	2,783
2010	1,885	2,765	(53)	2,712
2011	4,480	2,592	(50)	2,542
2012	4,475	2,420	(45)	2,375
2013 - 2035	62,290	20,510	(360)	20,150
Total	**$76,310**	**$34,025**	**$(618)**	**$33,407**

F. OPERATING LEASE

The Agency leases office space with future minimum lease payments of $512,000 for fiscal years 2008 and 2009, and $84,000 for two months in fiscal year 2010. Total rent expense for all operating leases amounted to $503,430 for the year ended June 30, 2007.

G. FEDERAL AWARDS

As a designated Public Housing Authority for the Department of Housing and Urban Development's ("HUD") Section 8 Lower Income Housing Assistance Program (Section 8 Program), the Agency requisitions Section 8 Program funds and makes disbursements to eligible landlords. For the year ended June 30, 2007, $112,800,000 which was received by the Agency and disbursed to landlords or families, is included in Federal program expense in the Federal and State Programs.

The Agency is designated as the participating entity under grant agreements with HUD for the HOME Program. The HOME Program provides funding for the purpose of developing affordable housing for persons of low and very low income. For the year ended June 30, 2007, $35,656,000, which was received and disbursed by the Agency, is included in Federal program expense and Mortgage loans receivable, net in the Federal and State Programs, depending upon the terms of the transaction.

The Agency earned fees of $8,164,000 for administering these and other federal programs for the year ended June 30, 2007 and are reported in Program income/fees. Of these fees, $3,246,000 was paid to Quadel Consulting Corporation for the Section 8 Program Contract Administration, which is reported in General and administrative expense.

H. PENSION PLAN

Plan Description All permanent full-time employees of the Agency participate in the Teachers' and State Employees' Retirement System of North Carolina (the "System"), a cost-sharing multiple-employer defined benefit pension plan administered by the State. The System provides retirement benefits to plan members and beneficiaries. State statute assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Teachers' and State Employees' Retirement System is included in the Comprehensive Annual

Financial Report ("CAFR") for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the System. The report may be obtained by writing to the Office of the State Controller, 3512 Bush Street, Raleigh, North Carolina 27609, or by calling (919) 981-5454.

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 current rate is 2.660% of the annual covered payroll. The contribution requirements of plan members and the Agency are established and may be amended by the North Carolina General Assembly. The Agency's contribution to the System for the year ended June 30, 2007 was $157,000, equal to the required contributions for the year.

I. POST-EMPLOYMENT / DISABILITY BENEFITS

In addition to pension benefits, employees are provided post-employment health care benefits and long-term disability benefits in accordance with State statutes. These benefits are provided through plans administered by the State. The Agency makes monthly contributions to the State for these benefits. Health care benefits are provided to long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the System who have at least five years of creditable service under the System. The System pays the full cost of coverage for all retirees enrolled in the State's self-funded Teachers' and State Employees' Comprehensive Major Medical Plan. In addition, persons who became surviving spouses of retirees prior to October 1, 1986, receive the same coverage as retirees. Retirees and the aforementioned surviving spouses pay for the entire cost of coverage of their dependents. The health benefit plans are funded by the State on a pay-as-you-go basis.

Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina ("Disability Income Plan"), a State-administered plan. Long-term disability benefits are payable from the Disability Income Plan after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five years of contributing membership service in the System earned within 96 months prior to the end of the short-term disability period; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period, after salary continuation payments cease, or after monthly payments for workers' compensation cease, whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of employees' usual occupation; (4) the disability must have been continuous, likely to be permanent and incurred at the time of active employment; and (5) the employee must not be eligible to receive unreduced retirement benefits from the System. 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 the System, the benefits payable from the Disability Income Plan cease and the employee will commence retirement under the System.

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 payroll. Annually, the State sets monthly contribution rates for post-employment health care benefits, death benefits and disability benefits, which are the same for all agencies across the State.

For the year ended June 30, 2007, the Agency made contributions to the State for post-employment health care, disability and death benefits of $225,000, $31,000 and $9,000, respectively. These contributions represent 7.14%, .520% and .16% of covered payroll, respectively. 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.

J. RISK MANAGEMENT

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

(i) Fire and Other Property Losses
(ii) Public Officer's and Employees' Liability
(iii) Workers' Compensation
(iv) Unemployment Insurance
(v) Contributory Death Benefit for Retirees
(vi) Employee Health Benefits

K. SEGMENT INFORMATION

The Agency's Home Ownership Bond Programs and Rental Bond Programs are initially funded with bond proceeds. These proceeds are used to purchase mortgage loans which provide the income along with investment earnings to repay the debt. Condensed financial statements at June 30, 2007 for these two segments are as follows (*in thousands*):

BALANCE SHEET

	Home Ownership	Rental
ASSETS		
Current assets		
Restricted cash and cash equivalents	$42,998	$6,977
Accrued interest receivable on investments	2,079	318
Accrued interest receivable on mortgage loans	7,567	486
Other assets	7,730	10
Interprogram receivable/(payable)	26	-
TOTAL CURRENT ASSETS	$60,400	$7,791
Noncurrent assets		
Restricted cash and cash equivalents	$611	$ -
Restricted investments	466,925	45,309
Mortgage loans receivable, net	1,224,936	78,410
TOTAL NONCURRENT ASSETS	$1,692,472	$123,719
TOTAL ASSETS	**$1,752,872**	**$131,510**
LIABILITIES		
Current liabilities		
Bonds payable	$175,955	$3,910
Accrued interest payable	15,804	315
Accounts payable	327	88
Other liabilities	58	-
TOTAL CURRENT LIABILITIES	$192,144	$4,313

	Home Ownership	Rental
Noncurrent liabilities		
Bonds payable, net	$1,378,377	$78,237
Other liabilities	1,005	-
TOTAL NONCURRENT LIABILITIES	$1,379,382	$78,237
TOTAL LIABILITIES	**$1,571,526**	**$82,550**
TOTAL NET ASSETS, RESTRICTED	**181,346**	**48,960**
TOTAL LIABILITIES AND NET ASSETS	**$1,752,872**	**$131,510**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

OPERATING REVENUES		
Interest on investments	$23,734	$2,354
Net increase in fair value of investments	758	786
Interest on mortgage loans	66,781	5,111
Other revenues	-	65
TOTAL OPERATING REVENUE	**$91,273**	**$8,316**
OPERATING EXPENSES		
Interest on bonds	$72,348	$5,257
Mortgage servicing expense	3,927	50
Federal program expense	-	1
General and administrative	578	29
Other expenses	218	65
TOTAL OPERATING EXPENSES	**$77,071**	**$5,402**
OPERATING INCOME	**$14,202**	**$2,914**
NONOPERATING REVENUES (EXPENSES)		
Transfers out from other Agency Programs	$(1,538)	$(1,223)
TOTAL NONOPERATING REVENUES (EXPENSES)	**$(1,538)**	**$(1,223)**
CHANGE IN NET ASSETS	$12,664	$1,691
TOTAL NET ASSETS – BEGINNING	168,682	47,269
TOTAL NET ASSETS – ENDING	**$181,346**	**$48,960**

STATEMENT OF CASH FLOWS

Net cash (used in) provided by operating activities	$(102,029)	$20,378
Net cash provided by (used in) non-capital financing activities	33,120	(19,574)
Net cash provided by (used in) investing activities	56,522	(5,029)
Net decrease in cash	$(12,387)	$(4,225)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	55,996	11,202
CASH AND CASH EQUIVALENTS AT END OF YEAR	$43,609	$6,977

North Carolina Housing Finance Agency

Additional Information

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Report of Independent Auditors

The Board of Directors
North Carolina Housing Finance Agency

We have audited the accompanying basic financial statements 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, 2007 as listed in the table of contents. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information listed in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

Ernst & Young LLP

August 31, 2007

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING BALANCE SHEET

YEAR ENDED JUNE 30, 2007

	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS	
(in thousands)		Housing Trust Fund	Federal and State Programs	1985	1998
ASSETS					
Current assets:					
Cash and cash equivalents	$ 771	-	-	-	-
Restricted cash and cash equivalents	26,756	34,439	11,956	18,527	24,471
Accrued interest receivable on investments	200	139	-	1,315	764
Accrued interest receivable on mortgage loans	150	10	18	1,212	6,355
State tax credits receivable	41,393	-	-	-	-
Other assets	5,231	-	2,620	1,330	6,400
Interprogram receivable/(payable)	798	93	(917)	4	22
TOTAL CURRENT ASSETS	$ 75,299	34,681	13,677	22,388	38,012
Noncurrent assets:					
Restricted cash and cash equivalents	$ -	-	-	-	611
Investments	5,615	-	-	-	-
Restricted investments	3,526	-	-	66,509	400,416
Mortgage loans receivable, net	5,924	17,279	56,847	143,518	1,081,418
Other assets, net	2,455	-	-	-	-
TOTAL NONCURRENT ASSETS	$ 17,520	17,279	56,847	210,027	1,482,445
TOTAL ASSETS	$ 92,819	51,960	70,524	232,415	1,520,457
LIABILITIES					
Current liabilities:					
Bonds payable	$ -	-	-	6,245	169,710
Accrued interest payable	-	-	-	2,910	12,894
Accounts payable	131	-	1,285	29	298
Deferred revenues	874	-	-	-	-
Other liabilities	52	3	14	35	23
TOTAL CURRENT LIABILITIES	$ 1,057	3	1,299	9,219	182,925
Noncurrent liabilities:					
Bonds payable, net	$ -	-	-	137,194	1,241,183
Deferred revenues	7,074	-	-	-	-
Other liabilities	3,840	-	-	9	996
TOTAL NONCURRENT LIABILITIES	$ 10,914	-	-	137,203	1,242,179
TOTAL LIABILITIES	$ 11,971	3	1,299	146,422	1,425,104
NET ASSETS					
Restricted	$ 66,245	51,957	69,225	85,993	95,353
Unrestricted	14,603	-	-	-	-
TOTAL NET ASSETS	$ 80,848	51,957	69,225	85,993	95,353
TOTAL LIABILITIES AND NET ASSETS	$ 92,819	51,960	70,524	232,415	1,520,457

RENTAL BOND PROGRAMS						
1984	1992	1993	1994	1995	Special Facilities	TOTAL
-	-	-	-	-	-	$ 771
236	6,630	-	33	78	-	123,126
146	145	-	23	4	-	2,736
107	58	-	21	44	256	8,231
-	-	-	-	-	-	41,393
-	-	-	-	10	-	15,591
-	-	-	-	-	-	-
489	6,833	-	77	136	256	$ 191,848
-	-	-	-	-	-	$ 611
-	-	-	-	-	-	5,615
25,792	13,245	-	2,878	3,394	-	515,760
17,162	12,533	-	4,020	7,605	37,090	1,383,396
-	-	-	-	-	-	2,455
42,954	25,778	-	6,898	10,999	37,090	$ 1,907,837
43,443	32,611	-	6,975	11,135	37,346	$ 2,099,685
585	440	-	135	430	2,320	$ 179,865
-	-	-	59	-	256	16,119
72	-	-	-	16	-	1,831
-	-	-	-	-	-	874
-	-	-	-	-	-	127
657	440	-	194	446	2,576	$ 198,816
21,901	11,677	-	3,068	6,821	34,770	$ 1,456,614
-	-	-	-	-	-	7,074
-	-	-	-	-	-	4,845
21,901	11,677	-	3,068	6,821	34,770	$ 1,468,533
22,558	12,117	-	3,262	7,267	37,346	$ 1,667,349
20,885	20,494	-	3,713	3,868	-	$ 417,733
-	-	-	-	-	-	14,603
20,885	20,494	-	3,713	3,868	-	$ 432,336
43,443	32,611	-	6,975	11,135	37,346	$ 2,099,685

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2007

	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS	
(in thousands)		Housing Trust Fund	Federal and State Programs	1985	1998
OPERATING REVENUES					
Interest on investments	$ 2,233	1,230	72	4,822	18,912
Net increase (decrease) in fair value of investments	176	-	-	418	340
Interest on mortgage loans	154	245	586	10,566	56,215
Federal program awards received	-	-	143,444	-	-
Nonfederal awards received	18	-	-	-	-
Program income/fees	2,675	430	10,413	-	-
Other revenues	456	-	272	-	-
TOTAL OPERATING REVENUES	$ 5,712	1,905	154,787	15,806	75,467
OPERATING EXPENSES					
Interest on bonds	$ -	-	-	9,785	62,563
Mortgage servicing expense	1	-	-	566	3,361
Federal program expense	1,546	836	134,592	-	-
Nonfederal program expense	1,057	-	-	-	-
General and administrative	9,823	-	3,250	43	535
Other expenses	106	168	1	79	139
TOTAL OPERATING EXPENSES	$ 12,533	1,004	137,843	10,473	66,598
OPERATING INCOME (LOSS)	$ (6,821)	901	16,944	5,333	8,869
NONOPERATING REVENUES (EXPENSES)					
Transfers in (out)	$ 7,751	(78)	(4,912)	(1,458)	(80)
Equity transfer in (out)	-	-	-	-	-
State appropriations received	-	18,937	3,251	-	-
State tax credits	25,859	-	-	-	-
State program expense	(31,311)	(7,363)	(1,447)	-	-
TOTAL NONOPERATING REVENUES (EXPENSES)	$ 2,299	11,496	(3,108)	(1,458)	(80)
CHANGE IN NET ASSETS	$ (4,522)	12,397	13,836	3,875	8,789
TOTAL NET ASSETS - BEGINNING	85,370	39,560	55,389	82,118	86,564
TOTAL NET ASSETS - ENDING	$ 80,848	51,957	69,225	85,993	95,353

RENTAL BOND PROGRAMS							
					Special		
1984	1992	1993	1994	1995	Facilities		TOTAL
1,021	1,013	2	150	168	-	$	29,623
598	126	-	57	5	-		1,720
1,472	1,167	-	259	691	1,522		72,877
-	-	-	-	-	-		143,444
-	-	-	-	-	-		18
-	-	-	-	-	-		13,518
50	-	-	-	15	-		793
3,141	2,306	2	466	879	1,522	$	261,993
2,102	794	-	187	652	1,522	$	77,605
19	16	-	4	11	-		3,978
-	-	-	-	1	-		136,975
-	-	-	-	-	-		1,057
6	14	-	2	7	-		13,680
50	-	-	-	15	-		558
2,177	824	-	193	686	1,522	$	233,853
964	1,482	2	273	193	-	$	28,140
-	(1,223)	-	-	-	-	$	-
-	964	(964)	-	-	-		-
-	-	-	-	-	-		22,188
-	-	-	-	-	-		25,859
-	-	-	-	-	-		(40,121)
-	(259)	(964)	-	-	-	$	7,926
964	1,223	(962)	273	193	-	$	36,066
19,921	19,271	962	3,440	3,675	-		396,270
20,885	20,494	-	3,713	3,868	-	$	432,336

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2007

(in thousands)		AGENCY PROGRAMS	GRANT PROGRAMS Housing Trust Fund	GRANT PROGRAMS Federal and State Programs	HOME OWNERSHIP PROGRAMS 1985	HOME OWNERSHIP PROGRAMS 1998
Cash flows from operating activities:						
Interest on mortgage loans	$	155	248	581	10,808	55,694
Principal payments on mortgage loans		395	1,654	5,537	23,888	109,850
Purchase of mortgage loans		(200)	(1,752)	(17,116)	(767)	(297,693)
Federal awards received		-	-	143,145	-	-
Federal program expense		(1,546)	(836)	(135,091)	-	-
Nonfederal awards received		18	-	-	-	-
Nonfederal program expense		(1,057)	-	-	-	-
Federal grant administration income			-	7,962	-	-
Program income/fees		8,646	430	2,451	-	-
Other expenses		(10,785)	(71)	(3,190)	(870)	(6,320)
Other revenues		546	(93)	-	4,000	(619)
Net cash provided by (used in) operating activities	**$**	**(3,828)**	**(420)**	**4,279**	**37,059**	**(139,088)**
Cash flows from non-capital financing activities:						
Issuance of bonds	$	-	-	-	-	360,000
Principal repayments on bonds		-	-	-	(33,285)	(221,805)
Interest paid		-	-	-	(9,949)	(56,268)
Bond issuance costs paid		-	-	-	-	(3,485)
Net transfers		8,301	(78)	(4,912)	(1,458)	(630)
State appropriations received		-	18,937	3,251	-	-
State tax credits		25,859	-	-	-	-
State program expense		(31,311)	(7,363)	(1,447)	-	-
Net cash provided by (used in) non-capital financing activities	**$**	**2,849**	**11,496**	**(3,108)**	**(44,692)**	**77,812**
Cash flows from investing activities:						
Proceeds from sales or maturities of investments	$	2,033	-	-	84,159	983,961
Purchase of investments		-	-	-	(74,978)	(960,461)
Earnings on investments		2,282	1,160	72	5,087	18,754
Net cash provided by (used in) investing activities	**$**	**4,315**	**1,160**	**72**	**14,268**	**42,254**
Net increase (decrease) in cash	$	3,336	12,236	1,243	6,635	(19,022)
Cash and cash equivalents at beginning of year		24,191	22,203	10,713	11,892	44,104
Cash and cash equivalents at end of year	**$**	**27,527**	**34,439**	**11,956**	**18,527**	**25,082**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	$	(6,821)	901	16,944	5,333	8,869
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:						
Interest on investments		(2,233)	(1,230)	(72)	(4,822)	(18,912)
Decrease (increase) in fair value of investments		(176)	-	-	(418)	(340)
Interest on bonds		-	-	-	9,785	62,563
Net operating transfers		(550)	-	-	-	550
Change in assets and liabilities:						
(Increase) decrease in mortgage loans		122	51	(11,851)	23,059	(188,166)
(Increase) decrease in interest receivable on mortgage loans		1	3	(5)	304	(748)
(Increase) decrease state tax credit receivable		5,551	-	-	-	-
(Increase) decrease in other assets		(45)	(93)	(299)	4,000	(619)
Increase (decrease) in accounts payable and other liabilities		(78)	(52)	(438)	(182)	(2,285)
Increase (decrease) in deferred revenues		401	-	-	-	-
Total adjustments	**$**	**2,993**	**(1,321)**	**(12,665)**	**31,726**	**(147,957)**
Net cash provided by (used in) operating activities	**$**	**(3,828)**	**(420)**	**4,279**	**37,059**	**(139,088)**

RENTAL BOND PROGRAMS

1984	1992	1993	1994	1995	Special Facilities	Total
1,504	1,071	-	260	709	1,528	$ 72,558
5,105	3,999	-	116	3,141	2,145	155,830
-	-	-	-	-	-	(317,528)
-	-	-	-	-	-	143,145
-	-	-	-	(1)	-	(137,474)
-	-	-	-	-	-	18
-	-	-	-	-	-	(1,057)
-	-	-	-	-	-	7,962
-	-	-	-	-	-	11,527
(1,457)	(32)	-	(6)	(23)	-	(22,754)
1,962	112	15	129	101	-	6,153
7,114	**5,150**	**15**	**499**	**3,927**	**3,673**	**$ (81,620)**
-	-	-	-	-	-	$ 360,000
(6,065)	(3,355)	-	(130)	(1,980)	(2,145)	(268,765)
(1,769)	(668)	-	(184)	(527)	(1,528)	(70,893)
-	-	-	-	-	-	(3,485)
-	(259)	(964)	-	-	-	-
-	-	-	-	-	-	22,188
-	-	-	-	-	-	25,859
-	-	-	-	-	-	(40,121)
(7,834)	**(4,282)**	**(964)**	**(314)**	**(2,507)**	**(3,673)**	24,783
15,735	6,389	-	1,896	8,837	-	$ 1,103,010
(17,174)	(10,094)	-	(2,219)	(10,789)	-	(1,075,715)
1,022	1,036	8	155	169	-	29,745
(417)	**(2,669)**	**8**	**(168)**	**(1,783)**	**-**	$ 57,040
(1,137)	(1,801)	(941)	17	(363)	-	$ 203
1,373	8,431	941	16	441	-	124,305
236	**6,630**	**-**	**33**	**78**	**-**	**124,508**
964	1,482	2	273	193	-	$ 28,140
(1,021)	(1,013)	(2)	(150)	(168)	-	(29,623)
(598)	(126)	-	(57)	(5)	-	(1,720)
2,102	794		187	652	1,522	77,605
-	-	-	-	-	-	-
5,105	3,868	-	116	3,141	2,145	(162,410)
32	35		1	18	6	(353)
-	-	-	-	-	-	5,551
1,912	112	15	129	86	-	5,198
(1,382)	(2)	-	-	10	-	(4,409)
-	-	-	-	-	-	401
6,150	**3,668**	**13**	**226**	**3,734**	**3,673**	**$ (109,760)**
7,114	**5,150**	**15**	**499**	**3,927**	**3,673**	**$ (81,620)**