NORTH CAROLINA HOUSING FINANCE AGENCY
FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2010

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June 30, 2010

The 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, 2010. 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 North Carolina households with low and moderate incomes. The Agency has issued bonds to finance housing throughout the State of North Carolina (State). In addition to its bond programs, the Agency administers the Section 8 Programs, the HOME Investment Partnerships Program (HOME), Low-Income Housing Tax Credits, the North Carolina Housing Trust Fund (HTF) and other federal and state programs. These programs provide different types of assistance such as rent subsidies, down payment assistance, low-interest mortgage loans, foreclosure prevention counseling, 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, 2010:

- The Agency's total assets decreased $29,646,000, or 1.4%, and total liabilities decreased $46,218,000 or 2.9%.
  - Cash and cash equivalents decreased $51,584,000, or 15.1%, during the year primarily because the Agency had three bond calls in its single-family resolutions during the fiscal year. The Agency called the bonds in the 1984 F/G, 1984 H/I, 1994 and 1995 multifamily resolutions to minimize negative arbitrage. In addition, the Agency funded mortgage loans with its existing funds in the absence of a traditional bond issuance during the year (see additional comments under section ―Debt Administration").
  - Accrued interest receivable on mortgage loans increased $1,131,000, or 11.3%, as a result of increased delinquency interest due to the poor economic environment.
  - Investments increased $109,078,000, or 95.9%, while accrued interest receivable on investments decreased $469,000, or 34.3%. The increase in investments is a result of the New Issue Bond Program (NIBP) offered by the U.S. Treasury. The Agency sold $135,000,000 of bonds to Fannie Mae and Freddie Mac, these bonds are held in escrow (see additional comments under section ―Debt Administration"). Pursuant to program limitations, the only available investments for these escrowed proceeds are four-week treasury bills, which provide a negligible return. In addition, a $9 million government security was called, and a majority of the proceeds were invested in the Short Term Investment Fund (STIF) maintained by the State Treasurer. The STIF interest rate continued to decline during the year and a significant portion of the Agency's investments are in STIF.
  - Mortgage loans receivable decreased $93,629,000 or 6.1%. The number of new loans originated during the fiscal year decreased significantly due to the poor financial climate and the general reluctance of potential borrowers to buy a home in an unstable economy. Additionally, mortgage insurers' new restrictions have made it difficult for first-time home buyers to purchase a home without a larger down payment. Prepayments increased as a result of historically low market mortgage rates. Although the Agency did not issue traditional bonds during the fiscal year, the Agency continued to finance mortgage loans

using prepayments and revenue reserves. (see additional comments under section on "Debt Administration"). During the current fiscal year, the Agency purchased $30.3 million of new FirstHome loans. The decrease in new loans originated, coupled with an increase in prepayments, has resulted in a decrease in mortgage loans receivable.

- Deferred outflow of resources increased by $6,698,000, or 100%, with a corresponding increase in derivative instrument—interest rate swap under long-term liabilities. GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), requires that the fair value of derivatives be reported. The Agency has four, pay-fixed, interest rate swap agreements, each designated as a hedging derivative instrument representing cash flow hedges for the organization. GASB 53 was effective for fiscal years beginning after June 15, 2009.
- State tax credits receivable decreased $504,000, or 0.9%. Fewer projects were awarded credits in fiscal year 2010.
- Other assets, net decreased $367,000, or 2.4%, mostly due to a $520,000 decrease in cash that the Trustee is holding for payments on mortgage loans, a decrease of $202,000 due to depreciation of assets and an increase of $346,000 due to the accrual of administration costs for Hardest Hit Funds (see discussion under "New Business").
- Bonds payable decreased $44,625,000, or 3.0% and accrued interest payable decreased by $6,948,000 or 14.1% (see comments under "Debt Administration").
- Accounts payable decreased $501,000, or 17.4%. National Foreclosure Mitigation Counseling Program (NFMC) project earnings decreased since fiscal year 2009 from $545,000 to $199,000 since cycle three was not fully operational while cycle two ended during the current fiscal year. Employee withholding and payroll expenses decreased $78,000 due to a change in procedures regarding the timing of payments. Health insurance, hospitalization and retirement expenses for fiscal year 2010 will be paid in fiscal year 2011. Also, accounts payable decreased as $28,000 more of expenses were paid prior to fiscal year-end as compared to fiscal year 2009.
- Deferred revenues decreased $106,000, or 1.1% because 51 state tax credit property monitoring fees were added in fiscal year 2009, therefore receiving a full year of amortization in fiscal year 2010. However, only 30 tax credit property monitoring fees were added in fiscal year 2010, which received only partial year of amortization.
- Other liabilities decreased $736,000, or 11.7%. The temporary operating reserve of $351,000 for a Rental Production Program (RPP) project was repaid in the current fiscal year. The long-term arbitrage liability decreased $987,000, primarily due to a shift of the prior year liability from long-term to short-term for payments due in fiscal year 2011.

- Operating revenues increased $60,454,000, or 22.6%. Operating expenses increased $65,489,000, or 26.1%.
  - Interest on investments decreased $5,203,000, or 31.1%, correlating with the reduction in cash and cash equivalents. Investments increased overall due to the NIBP which earned negligible interest in escrow, but stripping out the effect of this program shows an otherwise decrease in investments because of the numerous single-family and multifamily bond calls made by the Agency. STIF interest rates continued to decline during the fiscal year, but STIF continued to significantly outperform other similar investment opportunities which the Agency monitored. In addition, a $9 million government security was called and reinvested in lower-yielding investments.
  - The net decrease in the fair value of the Agency's investments of $483,000, or 91.3%, resulted from government securities called during the current fiscal year.
  - Interest on mortgage loans decreased $5,372,000, or 6.1%, due to the decline in the number of mortgage loans purchased and an increase in prepayments.
  - Federal program awards received increased $71,658,000, or 48.2%, due to an increase in federal allocations of funding provided as a stimulus for the poor economy. The Agency received allocations of $95 million for the Exchange Program (Exchange), $52 million for the Tax Credit Assistance Program (TCAP) under the American Recovery and

Reinvestment Act of 2009 (ARRA) and $4.5 million for the Neighborhood Stabilization Program (NSP) from the Housing and Economic Recovery Act of 2008 (HERA).

- Other revenues decreased $1,071,000, or 77.6%. Government securities called in fiscal year 2009 generated $614,000 of income in the 1984 multifamily resolution, whereas current fiscal year gains on government securities were significantly less. In fiscal year 2010, the 1992 multifamily resolution generated $108,000 in income from a bond defeasance related to one of its properties. In the prior fiscal year, Federal and State Programs had a $660,000 gain on mortgage loan loss reserve. This year, Single Family loan delinquencies increased due to the economy, creating a $50,000 loan loss which is reflected in Other expenses.
- Interest expense on bonds decreased $5,299,000, or 6.8%, as a result of the Agency's numerous bond calls.
- Mortgage servicing expense decreased $309,000, or 6.3%, due to increased prepayments during the year resulting in fewer mortgage loans to service.
- Federal program expense increased $70,314,000, or 47.1%, related to new programs this year including $1.7 million for NSP, $3.9 million for TCAP, and $61.2 million for Exchange.
- Nonfederal program expenses decreased $1,072,000, or 58% as the Home Saver Loan (HSL) program decreased by $136,000 from prior year. The program closed due to the expansion of the Home Protection Program (HPP) to all North Carolina counties. The Statewide Down Payment Assistance Program (SWDAP) decreased $1.3 million from prior year because the Agency used more HTF state funds instead of non-federal reserve funds in fiscal year 2010. The Duke Home Energy Loan Pool (HELP) increased $347,000 over fiscal year 2009, as a result of the redesign and increased marketing of the program.
- General and administrative expenses increased $188,000, or 1.2%. Quadel Consulting expenses increased by $112,000 because the U.S. Department of Housing and Urban Development (HUD) increased fees based on rental values which are updated annually. General and administrative expenses increased $363,000 due to costs related to the implementation of the Temporary Credit and Liquidity Program (TCLP) from the Department of Treasury and increased remarketing fees related to the variable rate bonds. Operating expenses decreased $256,000. Due to current economic conditions, the Agency implemented expense and budget cuts mainly in payroll and travel expenses.
- Other expenses increased $1,667,000, or 173.5%. The Agency increased its loan loss expense by $1,001,000 for delinquent FirstHome loans insured by private mortgage insurers and by the United States Department of Agriculture (USDA) to take into consideration current real estate market conditions. In addition, HTF had a $443,000 increase in its loss on mortgage loan reserve due to increased delinquencies.

- Non-operating revenues and expenses decreased $8,223,000, or 64.3%.
  - State appropriations decreased $5,569,000 or 28.6%. Due to current economic conditions and state budget cuts, there was a 5% decrease in the HPP appropriation, the HOME match allocation, and HTF and a loss of the HTF-SA400 appropriation of $4.8 million from prior year.
  - State grants increased $1,670,000, or 47.4%. The Department of Health and Human Services (DHHS) state grant increased from $3.5 million in prior year to $5.2 million for the KEY Program. DHHS reduced the Agency's allocation in prior year but subsequently increased it in the current year.
  - State tax credits revenue decreased $7,387,000, or 20.9%. As a result of the poor economy, there were fewer willing equity investors. In reaction to the problem, the federal government provided the Exchange and TCAP stimulus programs, which increased Agency revenue elsewhere. Because state tax credits follow federal tax credit projects, and fewer projects were able to obtain equity investments, the State tax credits revenue decreased accordingly.

- State program expense decreased $3,063,000, or 6.7%. Supportive Housing Development Program 400 (SHDP400) disbursements decreased $2.1 million since more closings were funded with the HOME funds. State tax credits disbursements decreased $1.7 million because projects were delayed due to economy and inability to obtain equity financing. The Key 400 Initiative disbursements increased $460,000 over fiscal year 2009, as a result of using 400 initiative funds instead of using HOME Match funds.

- Net assets increased $16,572,000 or 3.3% due to the receipt of stimulus funds in difficult economic times and as a result of the Agency's proactive management of its assets in an unstable economy.

Financial Analysis

The following tables summarize the changes in net assets between June 30, 2010, and 2009 (*in thousands):*

Condensed Balance Sheet Information

	2010	2009	Change	%
Assets				
Cash and cash equivalents	$ 289,347	$ 340,931	$ (51,584)	(15.1)
Accrued interest receivable on investments	898	1,367	(469)	(34.3)
Accrued interest receivable on mortgage loans	11,111	9,980	1,131	11.3
Investments	222,770	113,692	109,078	95.9
Mortgage loans receivable, net	1,441,958	1,535,587	(93,629)	(6.1)
State tax credits receivable	53,040	53,544	(504)	(0.9)
Deferred outflow of resources	6,698	-	6,698	100.0
Other assets, net	15,029	15,396	(367)	(2.4)
Total Assets	$ 2,040,851	$ 2,070,497	$ (29,646)	(1.4)
Liabilities				
Bonds payable, net	$ 1,455,150	$ 1,499,775	$ (44,625)	(3.0)
Derivative instrument-interest rate swap	6,698	-	6,698	100.0
Accrued interest payable	42,217	49,165	(6,948)	(14.1)
Accounts payable	2,376	2,877	(501)	(17.4)
Deferred revenues	9,133	9,239	(106)	(1.1)
Other liabilities	5,566	6,302	(736)	(11.7)
Total Liabilities	$ 1,521,140	$ 1,567,358	$ (46,218)	(2.9)
Net Assets				
Restricted	$ 507,456	$ 491,277	$ 16,179	3.3
Unrestricted	12,255	11,862	393	3.3
Total Net Assets	$ 519,711	$ 503,139	$ 16,572	3.3
Total Liabilities and Net Assets	$ 2,040,851	$ 2,070,497	$ (29,646)	(1.4)

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

	2010	2009	Change	%
Operating Revenues				
Interest on investments	$ 11,501	$ 16,704	$ (5,203)	(31.1)
Net decrease in fair value of investments	(46)	(529)	483	(91.3)
Interest on mortgage loans	82,656	88,028	(5,372)	(6.1)
Federal program awards received	220,239	148,581	71,658	48.2
Program income/fees	13,551	13,592	(41)	(0.3)
Other revenues	310	1,381	(1,071)	(77.6)
Total Operating Revenues	$ 328,211	$ 267,757	$ 60,454	22.6
Operating Expenses				
Interest on bonds	$ 72,187	$ 77,486	$ (5,299)	(6.8)
Mortgage servicing expense	4,626	4,935	(309)	(6.3)
Federal program expense	219,474	149,160	70,314	47.1
Nonfederal program expense	775	1,847	(1,072)	(58.0)
General and administrative	16,512	16,324	188	1.2
Other expenses	2,628	961	1,667	173.5
Total Operating Expenses	$ 316,202	$ 250,713	$ 65,489	26.1
Operating Income	$ 12,009	$ 17,044	$ (5,035)	(29.5)
Non-operating Revenues (Expenses)				
State appropriations received	$ 13,878	$ 19,447	$ (5,569)	(28.6)
State grant received	5,170	3,500	1,670	47.7
State tax credits	28,005	35,392	(7,387)	(20.9)
State program expense	(42,490)	(45,553)	3,063	(6.7)
Total Non-operating Revenues (Expenses)	$ 4,563	$ 12,786	$ (8,223)	(64.3)
Change in Net Assets	$ 16,572	$ 29,830	$ (13,258)	(44.4)

New Business

Fiscal year 2010 was a challenging year. The continued collapse of the credit market and the recession impacted all of the Agency's programs, and the importance of helping troubled homeowners increased dramatically during this period. Given the historically low mortgage interest rate available in the open market, which allowed many low-income homebuyers more avenues through which to purchase a home, the Agency shifted its focus towards helping existing homeowners facing foreclosure.

North Carolina had the eighth highest unemployment rate in the nation. In light of the difficulties facing the state due to the high unemployment rate, the Obama administration developed the Hardest Hit Fund and allocated $159 million to North Carolina as of June 30, 2010. The funds are to be distributed over the next few years to qualifying homeowners based on programs designed by the Agency and approved by Treasury. As of June 30, 2010, the Agency was working with Treasury to design programs and navigate issues related to implementation of those programs.

The General Assembly appropriated $10 million to the Housing Trust Fund, $1.6 million as matching funds for the federal HOME Program, and $3 million for the Home Protection Program. During the fiscal year 2010, the State reduced the Agency's total appropriation by approximately $731,000 or 5%.

HUD appropriated $21.7 million of the HOME funding for fiscal year 2010, which was approximately the same level of funding as the previous year. HOME is the largest Federal block grant to state and local governments designed exclusively to create affordable housing for low-income households.

NeighborWorks® America awarded approximately $895,000 to the Agency for round three of the National Foreclosure Mitigation Counseling grant. This grant pays for housing counseling sessions needed by homeowners facing foreclosure.

The Agency was awarded $4.5 million of NSP funds from the federal stimulus bill by the Division of Community Assistance (DCA). The funding is provided through HUD's Community Development Block Grant (CDBG) program under the Housing and Economic Recovery Act of 2008 (HERA). The purpose of the funding is to reduce the inventory of foreclosed, vacant, and abandoned properties in 23 designated counties by providing second mortgages and affordable rental housing developments.

The American Recovery and Reinvestment Act of 2009 (ARRA) included two provisions related to the Housing Credit Program: the TCAP administered by HUD, and the ability to exchange certain allocations of Housing Credits for cash (Exchange Program) administered by the Department of Treasury (Treasury). The Agency's TCAP share is $52 million, and ten projects were approved for awards. Treasury approved the Agency's Exchange Program request for $95 million, and the Agency issued commitment letters for 36 projects.

The Temporary Credit and Liquidity Program (TCLP) was developed by Treasury to provide favorable liquidity rates for outstanding variable rate bonds of housing finance agencies (HFAs). All of the Agency's variable rate bonds are part of the TCLP (see further discussion under "Debt Administration"). The Agency did not issue any traditional bonds during fiscal year 2010 because of the unfavorable bond market. However, the Agency elected to participate in Treasury's New Issue Bond Program (NIBP) by selling $135,000,000 in bonds to Fannie Mae and Freddie Mac. The proceeds have remained in escrow because the full-spread mortgage rate on these bonds is not marketable at this time (see further discussion under "Debt Administration").

In the absence of a bond sale, the Agency continued to fund new mortgages with existing program funds and prepayments. As a result of the historical lows in overall mortgage rates and borrowers' reluctance to purchase a first home in an uncertain economy, the Agency did not purchase as many mortgages as it had in the prior year. Since market conditions made it impractical to finance first-time homebuyer mortgages by selling bonds, the Agency reacted by blending subsidy funds in existing programs to arrive at marketable mortgage rates. The Agency also increased the percentage on its Mortgage Credit Certificate (MCC) Program from 20% to 30%, allowing eligible first-time homebuyers to receive a federal income tax credit, 30% of mortgage interest paid, up to a maximum of $2,000. Many first-time home buyers required down payment assistance for their loans and used the Agency's down payment assistance program.

Debt Administration

The Agency's bonds payable decreased $44,625,000, or 3.0%, as a result of not issuing traditional bonds during fiscal year 2010. State housing finance agencies across the country had difficulty issuing tax-exempt housing bonds in a market experiencing unusually low mortgage rates. The elimination of the AMT tax for future issuances of housing bonds was expected to decrease the yield required on housing bonds and facilitate issuance. However, the low mortgage rates in the open market relative to the bond prices resulted in an inability to receive full-rate spread on a prospective bond issuance.

In addition, agencies with variable rate debt experienced a drastic increase in the pricing of liquidity. The Agency's liquidity provider has been Bank of America; however, Bank of America cancelled its evergreen provision, so the liquidity was set to expire in March 2010, and the rate to renew increased dramatically.

Given these two issues that affected many housing finance agencies, the U.S. Department of the Treasury, together with the Department of Housing and Urban Development (HUD) and the Federal Housing Finance Agency (FHFA), developed the HFA Initiative as a part of President Obama's *Making Home Affordable* program. The HFA Initiative involved two programs: the New Issue Bond Program

(NIBP) and the Temporary Credit and Liquidity Program (TCLP), The NIBP attempted to offer lower-cost bonds, and the TCLP was designed to offer more affordable liquidity rates on variable rate debt. The Agency participated in both programs in fiscal year 2010.

The Agency sold $135,000,000 of bonds to Fannie Mae and Freddie Mac (the GSEs) in December 2009 as a part of the NIBP, the proceeds of which were received in January 2010. It created the 2009 single-family resolution in which to place the NIBP proceeds. Based on program requirements, the bonds sold to the GSEs represent 60% of a total bond deal, and the other 40% is to be obtained on the open market. The agencies participating in the program are allowed up to three rollouts of the bonds through December 31, 2010. Until such a rollout occurs, the bonds are held in escrow. Based on the overall program limitations in conjunction with the North Carolina statutory limitations, the Agency was only allowed to invest in 4-week treasury bills while the bonds remain in escrow.

If the Agency rolled out these bonds to market, the bond yield would be too high relative to the market mortgage rates to obtain full-rate spread. Therefore, as of June 30, 2010, the Agency had not rolled out any of the NIBP proceeds. To the extent that the Agency does not roll out any or all of the bonds as of December 31, 2010, the bonds will be redeemed and the money returned to the GSEs along with any interest earned.

Facing rising liquidity prices, the Agency elected to participate in the TCLP for its variable rate debt. Given the Agency's AA rating, this program offered liquidity rates of 50 basis points (bps) in year one, 75 bps in year two, and 100 bps in year three. Although these rates were significantly higher than what the Agency had historically been paying Bank of America for liquidity, they were much more favorable than the general market rates quoted by Bank of America and other providers given the expiration of the Agency's evergreen provision with Bank of America. In addition to TCLP which occurred in the current fiscal year, the Agency was also required under GASB 53, to report the fair value of its swaps related to its variable rate debt on the balance sheet.

In the absence of a bond sale or a rollout of NIBP, the Agency continued funding loans with unrestricted prepayments and use of revenue reserves. The tightening of credit standards, the recession, and the market-wide availability of low mortgage rates caused the Agency's production to remain slow. Prepayments increased as borrowers were able to refinance their mortgages at lower rates. Through the FirstHome Mortgage Program, the Agency assisted 295 additional families this year.

The Agency has many direct and indirect business partners, including repurchase agreement providers, private mortgage insurers, bond insurers and swap counterparties. As a result of the continued downgrades of the private mortgage insurers, the rating agencies assumed more rigorous stresses when determining the Agency's appropriate parity for its current bond ratings. In December 2009, Standard and Poor's requested that the Agency shift assets from the 1985 indenture to the 1998 indenture. The Agency responded by moving $5.9 million FHA-insured mortgage loans from the 1985 indenture to the 1998 indenture in February 2010. The Agency discontinued use of most private mortgage insurers on prospective loans, and the vast majority of all the loans that the Agency is currently making are FHA-insured.

In addition, Standard & Poor's reviewed the Agency's investment agreements with Bayerische Landesbank (Bayerische). The Agency's investment agreements with Bayerische are guaranteed by the country of Bavaria. However, Standard & Poor's does not recognize the guarantee of Bavaria in its loan loss calculations, so the Agency provided documentation to show that its cash flows could withstand the evaporation of the Agency's investments with Bayerische. All of the Agency's investment agreements are collateralized at least 100% or greater with a third-party custodian.

The rating agencies are keeping watch over HFA delinquency rates, and they are adjusting their loan loss models accordingly. As of June 30, 2010, the Agency's 60-day-plus quarterly average delinquency rate was 5.2%. This rate is below the North Carolina average of 5.4% and well below the national average of 6.3%. The loan servicers and the Agency are working closely with borrowers to ensure that they are receiving every loss mitigation tool possible to keep borrowers in their homes. The Agency informs the rating agencies of its loss mitigation tools and tracks the number of loans being modified.

The Agency had scheduled bond maturities of $35,215,000 for Single-Family Revenue Bonds and $1,650,000 for Multifamily Revenue Bonds. There were unscheduled bond redemptions of $127,260,000 for Single-Family Revenue Bonds and $18,490,000 for the Multifamily Revenue Bonds.

The Agency redeemed the 1984 F/G, 1984 H/I, 1994 and 1995 multifamily resolutions in their entirety since the interest rate on investments was lower than the bond yields. The remaining mortgage loans, cash and other assets in these resolutions were transferred to a new "Agency Contribution Fund" in the 1985 single-family resolution, with the exception of the 1995 FAF fund assets which were transferred to the 1992 multifamily resolution. In addition, the Agency redeemed Series AA/BB and Series II/JJ AMT bonds using revenue reserve funds that were invested in STIF, which was earning at a rate much lower than the rate paid on the bonds. Refer to the accompanying notes to financial statements for more detailed information concerning maturities and redemptions for the Single-Family and Multifamily Revenue Bonds.

Programs

For the year ended June 30, 2010 the Agency made cash disbursements of approximately $234,499,000 in Federal funds for the following programs:

- Construction Training Partnership Program (CTP)
- Displacement Prevention Partnership (DPP)
- Exchange Program (Exchange)
- Individual Development Account Loan Pool (IDALP)
- Lead Abatement Partnership Program (LAPP)
- National Foreclosure Mitigation Counseling Program (NFMC)
- National Foreclosure Mitigation Counseling Legal Assistance Program (NFMC-LA)
- New Homes Loan Pool (NHLP)
- Neighborhood Stabilization Program (NSLP)
- Preservation Loan Program (PLP)
- Rental Production Program (RPP)
- Self-Help Loan Pool (SHLP)
- Single-Family Rehabilitation (SFR)
- Statewide Down Payment Assistance Program (SWDAP)
- Statewide Down Payment Assistance Program High Income (SWDAPHI)
- Supportive Housing Development Program (SHDP)
- Supportive Housing Development Program 400 (SHDP400)
- Section 8 New Construction
- Section 8 Contract Administration
- Section 8 Moderate Rehabilitation
- Tax Credit Assistance Program (TCAP)
- Urgent Repair Program (URP)

For the year ended June 30, 2010 the Agency made cash disbursements of approximately $45,213,000 in State funds for the following programs:

- Displacement Prevention Partnership (DPP)
- Home Protection Program (HPP)
- Key Program (KEY)
- Preservation Loan Program (PLP)
- Rental Production Program (RPP)
- Statewide Down Payment Assistance Program (SWDAP)
- Supportive Housing Development Program (SHDP)
- Supportive Housing Development Program 400 (SHDP400)
- State Tax Credit (STC)
- Urgent Repair Program (URP)

For the year ended June 30, 2010 the Agency made cash disbursements of approximately $768,000 in Agency funds for the following programs:

- Duke Home Energy Loan Pool (HELP)
- Individual Development Account Loan Pool (IDALP)
- Home Saver Loan Program (HSL)
- Multifamily Rental Assistance (MFRA)
- Statewide Down Payment Assistance Program (SWDAP)

Home Ownership Programs The Agency's mission is to create affordable housing opportunities for North Carolinians whose needs are not met by the market. Given the historic lows in market mortgage rates and the overall recession, the Agency has focused its efforts to help homeowners in trouble or those needing assistance in buying or rehabilitating their home.

The FirstHome Mortgage Program, funded with tax-exempt mortgage revenue bonds, offers 30-year low-rate mortgages to moderate and low income individuals who have not owned a home in the last three years. Annual household income and home purchase price limits apply to borrowers. In the current fiscal year, 295 homes were purchased.

The SWDAP provides up to $8,000 for an interest-free deferred second mortgage to assist with down payment and closing costs for homebuyers equal to or below 80% of area median income. The SWDAPHI Program allows households above 80% of area or state median income, whichever is greater, to apply for a second mortgage up to $4,000. In the current economic times, the down payment assistance program has been a big benefit to borrowers, differentiating the Agency from many other lenders. In the current fiscal year, 132 loans were funded.

The Agency helped community-based groups bring homeownership opportunities to 356 lower-income households. The IDALP provides interest-free, deferred payment second mortgage loans to homebuyers participating in local Individual Development Account programs. Grants of up to $1,000 are also provided to participants to match their IDA savings. The NHLP provides interest-free, deferred payment second mortgages for the purchase of newly-constructed, substantially rehabilitated, or foreclosed homes. The SHLP provides interest-free mortgage loans for permanent financing of newly-built homes using homebuyer sweat equity. Grant funding of $5,000 is also available when homes are built to certain standards of energy efficiency and "green" building.

The MCC Program permits first-time homebuyers who are within federal guidelines for family income and acquisition costs to take up to 30% or $2,000 of annual mortgage interest as a federal income tax credit for every year the buyer occupies the home. The Agency provided credits for 507 homes this fiscal year.

Given North Carolina's high unemployment rate, the Agency made use of several programs that target troubled borrowers. The NFMC and the NFMC-LA Programs provide funds for foreclosure prevention counseling across the state. Counseling sessions are provided on a short-term basis by HUD-approved counseling intermediaries primarily in defined areas of greatest need. This year 8,981 homeowners were assisted.

Funded by the General Assembly, the Home Protection Program (HPP) partners with housing counseling organizations that serve all 100 counties. The program helps homeowners who lose their jobs through no fault of their own, and it provides up to $24,000 in assistance for up to a 24-month period. The zero-percent, deferred payment loan is used to cover monthly mortgage payments and mortgage-related expenses on a one-time, short-term, or long-term basis. This year 192 loans were funded.

The SFR Program provides deferred forgivable loans to rehabilitate moderately deteriorated owner-occupied homes, primarily assisting homeowners below 80% of area median income with elderly and/or disabled household members. All units are brought up to stringent energy and construction standards. This year 128 units were funded.

The URP provides grants to local governments, regional agencies and nonprofit organizations to correct housing conditions that pose an imminent threat to life, safety, or displacement of low-income homeowners. This year 570 units were funded.

The DPP, in partnership with local offices of the Independent Living Rehabilitation Program in the DHHS, provides accessibility modifications to very low-income households that may be displaced due to severe mobility limitations. This year 473 units were funded.

The Duke Home Energy Loan Pool provides funds for energy-efficiency measures performed in association with the comprehensive rehabilitation of the homes of Duke Energy customers. The Pool is funded by a subsidiary of Duke Energy Corporation. Eligible owner-occupants must have an income of 80% or less of the area median income. This year 58 units were funded.

The LAPP works with the DHHS and the Department of Environmental and Natural Resources (DENR) to eliminate lead paint hazards in owner-occupied homes where children have elevated blood lead levels. This year 13 units were assisted.

Rental Programs The Agency administers both the Federal Low-Income Housing Tax Credit Program and the State Tax Credit (STC) Program. These credits are available to developers on a competitive basis to fund the creation 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 establishes criteria to use in selecting developments that serve low-income residents that include the following: locations with strong market demand, healthy financial structures, attractive architectural design, and the best quality of building materials and workmanship. This year 2,460 units were funded with the federal tax credits.

Unlike the federal tax credit, the 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 by the N.C. Department of Revenue. The amount of the transferred STC becomes a secured loan from the Agency to the property owner. In every case to date, 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. This year 1,541 units were funded with the STC.

The RPP provides new development, substantial rehabilitation, or acquisition/rehabilitation loans for the production of rental housing for low income tenants. These RPP loans are usually gap financing for the projects financed with federal low-income tax credits. This year 789 units were funded.

The PLP provides funding for the rehabilitation of physical deficiencies in older affordable rental properties. Each project that is upgraded with a PLP loan will set aside units for persons with disabilities, and these units will be eligible for operating assistance under the Key Program. This year 119 units were funded.

The Agency and DHHS partnered to create the KEY Program by providing rental assistance to low-income persons with disabilities, including the homeless. Funding is available to all targeted units produced under the PLP, Housing Credit and the SHDP400 programs; however, it does not provide assistance if funding is available through another program. This year 392 units were funded.

The SHDP, through nonprofit organizations and local governmental agencies, provides persons with disabilities and special housing needs with permanent financing for emergency, transitional, and permanent housing. Eligible applicants are non-profit organizations and units of local government. This year 381 units were funded.

The SHDP400 utilizes funds to provide construction to permanent financing for independent apartments with supportive services for low-income disabled individuals. These units are eligible for Key Program operating assistance to make them affordable to low-income disabled individuals while they are awaiting a Section 8 rental assistance voucher. This year 14 units were funded.

The Agency administers the Section 8 Housing Assistance Payment Program for properties throughout North Carolina. The Agency contracted with a third-party administrator, Quadel Consulting

Corporation, to assist with the administration of the program. This year, the program provided assistance to approximately 25,000 apartments occupied by low-income tenants.

Other Programs The CTP, which is a partnership with the NC Home Builders Association (NCHBA) and local governments, provides funding for hard costs of new construction or rehabilitation projects. NCHBA conducts a range of training services to low-income unemployed persons. Training consists of classroom and ―hands on" residential field training followed by job placement activities. The local government pays for the cost of training, identifies eligible projects and serves as or procures a general contractor. This year approximately 50 students were placed in employment.

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, P.O. Box 28066, Raleigh, North Carolina 27611-8066, (919) 877-5687, eirozakis@nchfa.com, or visit the Agency's website at www.nchfa.com.

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

5430 Wade Park Blvd
Suite 300
Raleigh, North Carolina 27607

INDEPENDENT AUDITORS' REPORT

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, 2010, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, as well as 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 respective financial position of the Agency as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated September 16, 2010 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 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 12 is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

BDO USA, LLP

September 16, 2010

NORTH CAROLINA HOUSING FINANCE AGENCY

BALANCE SHEET

YEAR ENDED JUNE 30, 2010

(in thousands)		
ASSETS		
Current assets:		
Cash and cash equivalents	$	8,214
Restricted cash and cash equivalents		279,292
Restricted investments		135,150
Accrued interest receivable on investments		898
Mortgage loans receivable, net		144,014
Accrued interest receivable on mortgage loans		11,111
State tax credits receivable		53,040
Other assets		12,055
TOTAL CURRENT ASSETS	$	643,774
Noncurrent assets:		
Restricted cash and cash equivalents	$	1,841
Restricted investments		87,620
Mortgage loans receivable, net		1,297,944
Deferred outflow of resources		6,698
Other assets, net		2,974
TOTAL NONCURRENT ASSETS	$	1,397,077
TOTAL ASSETS	$	2,040,851
LIABILITIES		
Current liabilities:		
Bonds payable, net	$	171,379
Accrued interest payable		42,217
Accounts payable		2,376
Deferred revenues		1,078
Other liabilities		828
TOTAL CURRENT LIABILITIES	$	217,878
Noncurrent liabilities:		
Bonds payable, net	$	1,283,771
Derivative instrument - interest rate swap		6,698
Deferred revenues		8,055
Other liabilities		4,738
TOTAL NONCURRENT LIABILITIES	$	1,303,262
TOTAL LIABILITIES	$	1,521,140
NET ASSETS		
Restricted	$	507,456
Unrestricted		12,255
TOTAL NET ASSETS	$	519,711
TOTAL LIABILITIES AND NET ASSETS	$	2,040,851

See Notes to Financial Statements

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2010

(in thousands)

OPERATING REVENUES		
Interest on investments	$	11,501
Net decrease in fair value of investments		(46)
Interest on mortgage loans		82,656
Federal program awards received		220,239
Program income/fees		13,551
Other revenues		310
TOTAL OPERATING REVENUES	$	328,211
OPERATING EXPENSES		
Interest on bonds	$	72,187
Mortgage servicing expense		4,626
Federal program expense		219,474
Nonfederal program expense		775
General and administrative		16,512
Other expenses		2,628
TOTAL OPERATING EXPENSES	$	316,202
OPERATING INCOME	$	12,009
NON-OPERATING REVENUES (EXPENSES)		
State appropriations received	$	13,878
State grant received		5,170
State tax credits		28,005
State program expense		(42,490)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$	4,563
CHANGE IN NET ASSETS	$	16,572
TOTAL NET ASSETS-BEGINNING	$	503,139
TOTAL NET ASSETS-ENDING	$	519,711

See Notes to Financial Statements

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2010

(in thousands)		
Cash flows from operating activities:		
Interest on mortgage loans	$	81,745
Principal payments on mortgage loans		130,875
Purchase of mortgage loans		(39,674)
Federal awards received		219,869
Federal program expense		(219,899)
Nonfederal program expense		(775)
Federal grant administration income		7,210
Program income/fees		6,244
Other expenses		(21,875)
Other revenues		543
Net cash provided by operating activities	$	164,263
Cash flows from non-capital financing activities:		
Issuance of bonds	$	135,000
Principal repayments on bonds		(182,615)
Interest paid		(75,909)
Bond issuance costs paid		(236)
State appropriations received		13,878
State grant received		5,170
State tax credits		28,509
State program expense		(42,490)
Net cash used in non-capital financing activities	$	(118,693)
Cash flows from investing activities:		
Proceeds from sales or maturities of investments	$	792,928
Purchase of investments		(902,052)
Earnings on investments		11,970
Net cash used in investing activities	$	(97,154)
Net decrease in cash		(51,584)
Cash and cash equivalents at beginning of year		340,931
Cash and cash equivalents at end of year	$	289,347
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	12,009
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Interest on investments		(11,501)
Decrease in fair value of investments		46
Interest on bonds		72,187
Change in assets and liabilities:		
Decrease in mortgage loans		93,629
Increase in interest receivable on mortgage loans		(1,131)
Decrease in other assets		75
Decrease in accounts payable and other liabilities		(945)
Decrease in deferred revenues		(106)
Total adjustments	$	152,254
Net cash provided by operating activities	$	164,263

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2010

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 also applies all Financial Accounting Standards Board Statements 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 (STC) program, the General Assembly of the State of North Carolina awarded $220,976,000 in STCs, of which the Agency received $28,509,000 during fiscal year 2010. Under this program, the STC 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 $9,500,000 for the year ended June 30, 2010. 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 nine federal programs. The Section 8 Programs, the HOME Investment Partnerships Program, and the Low-Income Housing Projects in lieu of Tax Credits program represent 59%, 10% and 26%, 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 $1,528,000. The General Assembly of the State created the Home Protection Program (HPP) 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 $2,850,000 in fiscal year 2010 to provide loans.

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 homebuyer mortgage loans on single-family residential units.

Rental Bond Programs The Rental Bond Programs were created through various multifamily 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.

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

Cash and cash equivalents Cash and cash equivalents are comprised of cash on hand, amounts on deposit with financial institutions which are insured or 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 fewer. Funds deposited in an investment pool of the State Treasurer are invested in a variety of instruments as authorized by State law. The majority of cash and cash equivalents classified as restricted on the balance sheet are restricted for the Agency's debt service payments and bond calls and for purchasing mortgage loans under the Agency's different programs. Noncurrent cash and cash equivalents are funds held in Resolution Program accounts to purchase mortgage loans.

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 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 $53,040,000 receivable for STCs for the fiscal year ended June 30, 2010. This represents the remaining 2008 and 2009 outstanding awards. During the year, the Agency received STCs in the amount of $28,509,000 from the General Assembly for the 2007 outstanding awards (second installment) and the 2008 awards (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 $2,974,000 are included in Other assets in the financial statements. Recorded in Other assets (current) is $3,174,000 in accounts receivables for Quadel Consulting contract administration, HOME returned checks in fiscal year 2011, Hardest Hit Program administration fees earned, Neighborhood Stabilization Program (NSP) and Lead Hazard Control Program administration fees earned and reimbursement of program costs, National Foreclosure Mitigation Counseling (NFMC) Rounds Two and Three program close-out, and HOME Program loans closed in fiscal year 2010 but reimbursed in fiscal year 2011. Accounts receivable in the amount of $8,848,000 are reflected in the Home Ownership Bond Programs. This amount represents mortgage payments collected by servicers that will be remitted to the Agency in fiscal year 2011.

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 and are written down to the extent any bond calls are done. 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 for loans issued under the 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, 2010, these balances are recorded as interprogram receivables or payables. These interprogram transactions are eliminated in the financial statements.

Net assets As of June 30, 2010, the Agency has $12,255,000 of unrestricted net assets. The Agency intends to utilize these net assets for potential home ownership mortgage loan losses, to meet rating agencies' requirements, to cover the operating budget, and to 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, 2010 is as follows:

(in thousands)	**June 30, 2010**	**June 30, 2009**
Decrease in Operating Income	$ (46)	$ (529)
Increase in Net Assets	$ 7	$ 53

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.

Non-operating Revenues and Expenses State appropriations received, State grants received, and STCs from the State of North Carolina are classified in Non-operating Revenues (Expenses). The related expenses are classified as State program expense. In fiscal year 2010, the Agency accrued $28,005,000 in State Housing Credits for the 2009 award year (see additional comments under STCs 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 Programs 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, 2010, the Agency had deposits in pooled investment accounts of the State Treasurer with a carrying value of approximately $112,167,000 and a bank balance of approximately $113,092,000. Included in the investment accounts of the State Treasurer is the amount of $3,463,000 representing escrow and replacement reserves maintained on behalf of multifamily and single-family mortgagors; accordingly, a corresponding liability of the same amount is also included on the balance sheet.

The Agency also had deposits with both a carrying value of $177,176,000 and bank balance approximating $177,316,000 on deposit with the Agency's fiduciary agent. Such deposits are collateralized with eligible securities held by a third-party custodian. The Agency also had deposits held in other financial institutions with both a carrying value and bank balance of $4,000.

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, 2010, approximately $83,953,000 was invested in such long-term agreements having maturity dates ranging from November 1, 2010 to July 1, 2039 primarily at rates ranging from 4.01% to 7.15%.

At June 30, 2010, the Agency held the following investments with the listed maturities at annual rates ranging from 4.01% to 7.15%. Ratings are displayed with the Standard & Poor's rating listed first and the Moody's Investors Service second.

(in thousands)		**Investment Maturities (in Years)**			
Investments	Carry Amount	Less Than 1	1 - 5	6 – 10	More Than 10
GNMA MBS's Rated AAA/Aaa	$ 2,058	$ -	$ -	$ -	$ 2,058
FNMA MBS's Rated Aaa	430	-	-	-	430
Repurchase Agreements- Rated BBB+*/A3or higher	83,953	6	-	14,410	69,537
US Agency and State and Local Obligations- Rated AAA/Aaa	136,329	135,144	1,185	-	-
Total Categorized	$222,770	$135,150	$1,185	$14,410	$72,025

*Note that Bayerische Landesbank and Westdeutsche Landesbank are guaranteed by the country of Bavaria.

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. In practice, the Agency 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) repurchase 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) are securitized by the Federal National Mortgage Association (FNMA), (Fair Value - $430,000, rated AAA/Aaa), and by the Government National Mortgage Association (GNMA), (Fair Value - $2,058,000, 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 Government Securities are comprised of US Treasuries and State and Local Government Securities, both of which are direct obligations of the US Treasury (rated AAA/Aaa). The US Treasuries have a Fair Value of $135,036,000 and the State and Local Government Securities have a Fair Value of $1,293,000.

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 37.69% and 61.20%, respectively, of the Agency's total investments. Investments in any one issuer that represent 5% or more of total investments as of June 30, 2010 are as follows (in thousands):

Investment Issuer	Amount
Bayerische Landesbank, repurchase agreement	$19,839
Westdeutsche Landesbank, repurchase agreement	18,114
Societe Generale, repurchase agreement	12,401

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 its fiduciary Federal Reserve accounts. The Agency's ownership of these securities is identified through the internal records of the fiduciary agent.

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 United States Government securities and corporate bonds and notes which are held in the pooled investment accounts of the State Treasurer. A securities custodian manages the securities lending program for the State and receives cash as collateral from the borrowers. Collateral is invested in a collateral investment pool and must be maintained at 100% of the market value of the original securities 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, 2010 related to these transactions.

As of June 30, 2010, 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 3.99% to 13.00%. Unamortized discounts as of June 30, 2010 total $813,000.

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 equal to or less than 80%. As of June 30, 2010, all outstanding mortgage loans purchased with mortgage revenue bond proceeds satisfy these requirements. The Agency has allowance for loan losses in the single-family mortgage loan program of $1,836,000 as of June 30, 2010.

Mortgage loans made with funds from the Agency Programs, Housing Trust Fund Programs, and Federal and State Programs have allowances for loan losses of $163,000, $1,383,000 and $141,000, respectively, as of June 30, 2010.

For the Home Ownership and Rental Bond Programs, the Agency has collateralized $1,354,391,000 in mortgage loans receivable, $142,620,000 in reserves, and $1,847,000 in program funds to repay $1,470,170,000 single family and multiple family bonds payable at June 30, 2010. Proceeds from the bonds issued were utilized to finance housing throughout the State of North Carolina. The bonds are payable through 2039 and are paid down from cash collections on mortgage loans receivable, interest receivable on mortgage loans, unexpended bond proceeds, and sale of investments. The Agency expects 100% of the mortgage loans, both principal and interest, to pay the principal and interest debt service requirements on the bonds. The total debt service requirement to be paid based on projected cash flows as of June 30, 2010 is $2,471,767,000 (see page 28 "maturities"). For the current fiscal year, principal and interest paid for scheduled debt service payments and Homeownership and Rental Programs' operating income excluding bond interest expense were $112,774,000 and $83,967,000 respectively.

D. BONDS PAYABLE

Bonds payable activity for the year ended June 30, 2010 was as follows (*in thousands*):

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds Payable				
Home Ownership	$ 1,485,430	$ 135,000	$ (162,475)	$ 1,457,955
Rental	32,355	-	(20,140)	12,215
	$ 1,517,785	$ 135,000	$ (182,615)	$ 1,470,170
Less Deferred Bond Financing Costs				
Home Ownership	$ (16,397)	$ (236)	$ 2,118	$ (14,515)
Rental	(1,613)	-	1,108	(505)
	$ (18,010)	$ (236)	$ 3,226	$ (15,020)
Total Bonds payable, net	**$ 1,499,775**	**$ 134,764**	**$ (179,389)**	**$ 1,455,150**

Bonds payable as of June 30, 2010 are as follows (*in thousands*):

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Single-family Revenue Bonds			
(1985 Resolution)			
Series AA/BB	6.25	2017	$ 2,190
Series CC/DD	5.60 - 6.20	2027	3,030
Series EE/FF	5.90 - 6.25	2028	3,505
Series GG/HH	5.90 - 6.30	2028	4,655
Series II/JJ	6.15 - 6.20	2017	4,680
Series KK/LL	5.88 - 6.20	2028	4,435
Series MM/NN	5.40 - 5.95	2028	2,750
Series OO/PP	5.80 - 6.25	2028	7,345
Series QQ/RR	5.20 - 5.85	2028	10,785
Series SS/TT	5.10 - 5.70	2028	4,840
Series UU/VV	4.75 - 5.35	2029	8,310
Series WW	6.25	2018	24,695
			81,220

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Home Ownership Revenue Bonds			
(1998 Trust Agreement)			
Series 1	5.00 - 5.38	2030	$ 15,875
Series 2	4.60 - 5.25	2030	9,065
Series 3	4.45 - 5.20	2030	19,585
Series 4	4.60 - 5.30	2030	14,155
Series 5	5.15 - 5.63	2030	13,770
Series 6	5.35 - 6.20	2030	7,680
Series 7	5.40 - 6.25	2031	14,630
Series 8	5.95 - 6.40	2031	3,945
Series 9	4.85 - 5.88	2032	26,105
Series 10	4.25 - 5.40	2033	15,695
Series 11	4.45 - 5.38	2033	28,235
Series 12	4.45 - 5.45	2033	35,080
Series 13	4.45 - 5.35	2034	32,450
Series 14	4.40 - 5.53	2034	38,290
Series 15	Variable - 4.95	2032	29,390
Series 16	Variable - 5.38	2032	29,505
Series 17	Variable - 5.00	2034	34,710
Series 18	Variable - 5.00	2035	32,145
Series 19	3.60 - 5.25	2035	46,720
Series 20	3.35 - 4.75	2035	48,720
Series 21	3.25 - 5.00	2035	48,910
Series 22A	3.85 - 5.50	2037	53,290
Series 22CE	3.95 - 5.25	2039	75,020
Series 23	3.80 - 5.00	2037	52,235
Series 24	3.65 - 5.50	2038	70,275
Series 25	4.00 - 5.75	2037	55,290
Series 26	3.50 - 5.50	2038	57,030
Series 27	3.80 - 6.00	2038	61,255
Series 28	3.55 - 5.50	2039	59,470
Series 29	3.85 - 5.50	2038	90,780
Series 30	3.50 - 5.50	2039	61,615
Series 31	3.30 - 5.50	2038	60,815
			1,241,735

Issue	
Home Ownership Revenue Bonds (*see next page)	
(2009 Resolution) Series A	135,000
Total Bonds Outstanding	1,457,955
Less Deferred Bond Financing Costs	(14,515)
Total Home Ownership Bond Programs	**$1,443,440**

* On December 18, 2009, the Agency closed on the 2009 Resolution Series A Home Ownership Revenue Bonds associated with the New Issue Bond Program (NIBP) offered by the Treasury. The bond proceeds of $135,000,000 were received January 12, 2010.

Issue	Stated Rates (%)	Final Maturity		Principal Amount
Multifamily Revenue Bonds				
(1984 Resolution) Series J	5.45 - 5.55	2029	$	685
Multifamily Revenue Refunding Bonds				
(1992 Resolution) Series C	3.10 - 4.80	2024		11,530
				12,215
Less Deferred Bond Financing Costs				(505)
Total Rental Bond Programs			**$**	**11,710**

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 money 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, 2010, are as follows (*in thousands*):

Fiscal Year Ending June 30, 2010		Home Ownership Programs		Rental Programs		Total
2011	$	234,201	$	1,077	$	235,278
2012		99,192		1,104		100,296
2013		100,320		1,127		101,447
2014		99,558		1,147		100,705
2015		99,388		1,165		100,553
2016-2020		447,015		6,148		453,163
2021-2025		394,408		4,969		399,377
2026-2030		448,135		213		448,348
2031-2035		375,039		0		375,039
2036-2040		157,561		0		157,561
Total Requirements	$	2,454,817	$	16,950	$	2,471,767
Less Interest		(996,862)		(4,735)		(1,001,597)
Principal	**$**	**1,457,955**	**$**	**12,215**	**$**	**1,470,170**
Less Deferred Bond Financing Cost		(14,515)		(505)		(15,020)
Bonds payable, net	**$**	**1,443,440**	**$**	**11,710**	**$**	**1,455,150**

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 .5% for up to twelve years after the date of issue.

For the year ended June 30, 2010 bond redemptions by resolution were as follows (*in thousands*):

Issue		Amount Redeemed		Loss Recorded
Single-family Revenue Bonds (1985 Resolution)	$	15,920	$	(233)
Home Ownership Revenue Bonds (1998 Trust Agreement)		111,340		(1,131)
Total Home Ownership Bond Programs	**$**	**127,260**	**$**	**(1,364)**
Multifamily Revenue Bonds (1984 Resolution)	$	12,135	$	(717)
Multifamily Revenue Bonds (1994 Resolution)		2,090		(55)
Multifamily Revenue Bonds (1995 Resolution)		4,265		(225)
Total Multifamily Ownership Bond Programs	**$**	**18,490**	**$**	**(997)**

Special Facilities (Conduits) The Agency issued the Housing Facilities Revenue Bonds, Multifamily Housing Revenue Bonds and Student Housing Variable and Taxable Rate Revenue Bonds which are not presented in the basic 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. These bonds do not constitute a debt of and are not guaranteed by the State of North Carolina, any political subdivision thereof or the Agency. Accordingly, these obligations are excluded from the Agency's financial statements.

Bonds Payable as of June 30, 2010 for Special Facilities is as follows (in thousands):

Issue	Bond Type	Bonds Outstanding
2000 Resolution* (Series A/B)	Student Housing Variable and Taxable Rate Revenue Bonds	$16,775
2002 Resolution* (Series A, B, C, D)	Multifamily Housing Revenue Bonds	8,925
2002 Resolution*	Housing Facilities Revenue Bonds	4,400
Total		**$30,100**

On December 11, 2009, the Agency issued $8,764,000 in Rural Housing Preservation Multifamily Revenue Bonds, Series A and B. These bonds were redeemed at par on June 8, 2010.

*These are Section 501(c)3 entities and did not require volume cap when bonds were issued.

E. INTEREST RATE SWAP

Summary Information. During the reporting period from July 1, 2009 to June 30, 2010 the North Carolina Finance Agency did not execute, amend or terminate any derivative contracts. The Agency has four, pay-fixed, interest rate swap agreements with four separate financial counterparties (further described herein) each designated as a hedging derivative instrument representing cash flow hedges for the organization.

			Fair Value at June 30, 2010		Change in Fair Value	
Hedgeable Item	Hedging Derivative Instrument	Notional Amount	Classification	Liability	Classification	Decrease
Series 15C Bonds	Pay-Fixed Interest Rate Swap	$16,015	Hedging Derivative	$ (1,230)	Deferred Outflow of Resources	$ (407)
Series 16C Bonds	Pay-Fixed Interest Rate Swap	16,355	Hedging Derivative	(1,782)	Deferred Outflow of Resources	(439)
Series 17C Bonds	Pay-Fixed Interest Rate Swap	20,000	Hedging Derivative	(2,369)	Deferred Outflow of Resources	(597)
Series 18C Bonds	Pay-Fixed Interest Rate Swap	20,000	Hedging Derivative	(1,317)	Deferred Outflow of Resources	(588)

There were no derivative instruments reclassified from a hedging derivative to an investment derivative instrument during the period. There was no deferral amount within investment revenue due to any reclassifications during the period.

Objective. The Agency has entered into interest rate swaps in connection with all of its 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 and fair value. The terms and fair value of the outstanding swaps as of June 30, 2010 were as follows (dollars in thousands).

Notional Amount	Counterparty	Counterparty Credit Rating Moody's/S&P	Date of Swap Execution	Maturity Date of Swap	Fixed Rate	Floating Index
$16,015[1]	UBS AG	Aa3/A+	5/8/2003	7/1/2032	3.508%	63%L[2] + 0.30%
16,355[1]	Bank of America, N.A.	Aa3/A+	9/16/2003	7/1/2032	3.810%	63%L[2] + 0.30%
20,000[1]	Bank of America, N.A.	Aa3/A+	12/11/2003	7/1/2032	3.725%	63%L[2] + 0.30%
20,000[1]	Goldman Sachs Mitsui Marine	A1/AAA	4/20/2004	1/1/2035	3.288%	63%L[2] + 0.30%

[1] The swap contracts contain optionality that allows the Agency the right to change the notional to better match the principal schedule on the bonds.

[2] L represents the USD, 1-Month LIBOR index as published on Telerate page 3750

Under all of the swaps, the Agency pays the counterparties a fixed rate and receives a variable payment computed as 63% of 1-Month, LIBOR plus 30 basis points. The bonds' variable-rate coupons are remarketed weekly and generally track the variable SIFMA index, which was 0.25% as of June 30, 2010.

Fair value. In total, the swaps have a fair value of negative $6.698 million as of June 30, 2010. 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 SIFMA converge, changing the synthetic rate on the bonds. The swaps contracts for the Agency utilize a compound formula for the floating rate index to reduce this risk. During the accounting period, the Agency realized a benefit of 15.67 basis points due to the floating rate formula for its swap contracts when compared to the floating rate on the respective bonds. For all swaps, collateral thresholds have been established if the counterparty's ratings reach A2 for Moody's or A for 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.

Quantitative Method of Evaluating Effectiveness. In order to assess the effectiveness of each hedging derivative instrument, the Agency employed the –Synthetic Instrument Method". Under the Synthetic Instrument Method, a hedging derivative instrument is effective if the synthetic price is substantively fixed. The synthetic price as of the evaluation date, June 30, 2010, is compared to the synthetic price expected at the establishment of the hedge by calculation of an effectiveness percentage. If the effectiveness percentage is within a range of 90 to 111 percent, the synthetic price is substantively fixed. Following are the results of the testing as of the end of the reporting period:

Hedgeable Item	Hedgeable Item Effective Bond Variable Rate	Derivative Instrument Floating Rate	Floating Rate Basis	Synthetic Price	90 to 111% Range	Test Performance
Series 15C Bonds	0.3169	0.4736	0.1567	3.4133%	3.2130 – 3.9627	PASS
Series 16C Bonds	0.3169	0.4736	0.1567	3.6533%	3.4290 – 4.2291	PASS
Series 17C Bonds	0.3169	0.4736	0.1567	3.5683%	3.3525 – 4.1348	PASS
Series 18C Bonds	0.3169	0.4736	0.1567	3.1313%	2.9592 – 3.6497	PASS

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, 2010, debt service requirements of the variable-rate debt and net swap payments are as follows. The amounts below are in thousands:

Fiscal Year	Variable-Rate Bond		Interest Rate	Total
Ending June 30	Principal	Interest	Swap, Net	Interest
2011	$ 1,470	$ 178	$ 2,201	$ 2,379
2012	1,420	176	2,155	2,331
2013	1,355	172	2,110	2,282
2014	1,300	168	2,067	2,235
2015	1,235	166	2,027	2,193
2016-2035	65,210	1,980	24,423	26,403
Total	**$71,990**	**$2,840**	**$34,983**	**$37,823**

F. OPERATING LEASE

The Agency leases office space with future minimum lease payments of $512,000 for fiscal year 2011, and $85,000 for two months in fiscal year 2012. Total rent expense for all operating leases amounted to $511,000 for the year ended June 30, 2010.

G. FEDERAL AWARDS

As a designated Public Housing Authority for the Department of Housing and Urban Development's (HUD) Section 8 Programs, the Agency requisitions Section 8 Program funds and makes disbursements to eligible landlords. For the year ended June 30, 2010, $133,068,000 which was received by the Agency and disbursed to landlords or families, is included in the Federal program awards received and 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, 2010, $21,413,000, which was received and disbursed by the Agency, is included in the Federal program awards received and Federal program expense and Mortgage loans receivable, net in the Federal and State Programs, depending upon the terms of the transaction.

The Agency is designated as a participating entity under a grant agreement with HUD for the Tax Credit Assistance Program (TCAP). TCAP provides funding for the purpose of developing housing for persons of low and very low income to qualified low income builders. For the year ended June 30, 2010, $3,932,000 was received and disbursed by the Agency and is included in the Federal program awards received and Federal program expense in the Federal and State Programs.

The Agency was selected as a participating entity under a grant agreement with the United States Department of Treasury for the Section 1602-Grants to Low-Income Housing in Lieu of Low-Income Housing Credits Program. The Section 1602 program provides funding for the purpose of financing construction of low-income housing in lieu of low-income housing tax credits. For the year ended June 30, 2010, $61,976,000 was received and disbursed by the Agency, is included in the Federal program awards received and Federal program expense in the Federal and State Programs.

The Agency was selected as a participating entity under a grant agreement with the United States Department of Treasury passed through NeighborWorks ® for the National Foreclosure Mitigation Counseling Program (NFMC). The NFMC Program provides funding for the purpose of counseling homeowners who are in danger of foreclosure. For the year ended

June 30, 2010, $2,749,000 was received and disbursed by the Agency, and is included in the Federal program awards received and Federal program expense in the Federal and State Programs.

The Agency earned fees of $9,656,000 for administering these and other federal programs for the year ended June 30, 2010. Of these fees, $4,311,000 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 8.75% 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 following table represents the three-year trend of the annual contributions made by the Agency to the State retirement system. The Agency made 100% of its required contributions for the years ended June 30, 2010, 2009, and 2008.

	2010	2009	2008
Retirement Benefit	$244,000	$238,000	$203,000
Percentage of Covered Payroll	3.57%	3.36%	3.05%

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 retirees enrolled in the State's self-funded Teachers' and State Employees' Preferred Provider Organization (PPO) medical plan who were hired prior to October 1, 2006, and retire with five or more years of State System membership service. For employees hired on or after October 1, 2006, the System will pay the full cost of coverage for retirees with 20 or more years of service, the System will pay 50% of the cost of coverage for retirees with at least 10 years but less than 20 years of service, and the retiree with less than 10 years of service will pay the full cost of coverage. In addition, persons who became surviving spouses of retirees prior to October 1, 1986, receive the same coverage as retirees. Retirees and the aforementioned surviving spouses pay for the entire cost of coverage of their dependents. 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 payrolls. 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.

The following table represents the three year trend of the annual contributions made by the Agency to the State post employment benefit plans. The Agency made 100% of its required contributions for the year ended June 30, 2010, 2009, and 2008.

	2010	2009	2008
Health Care Benefit	$307,000	$291,000	$274,000
Disability Benefit	36,000	37,000	35,000
Death Benefit	11,000	11,000	11,000
Percentage of Covered Payroll			
Health Care Benefit	4.50%	4.10%	4.10%
Disability Benefit	0.52%	0.52%	0.52%
Death Benefit	0.16%	0.16%	0.16%

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:

- Automobile, Fire and Other Property Losses
- Public Officers' and Employees' Liability Insurance
- Employee Dishonesty and Computer Fraud
- Workers' Compensation Program/ Fund
- Employee Benefit Plans

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, 2010 for these two segments are as follows (*in thousands*):

BALANCE SHEET	Home Ownership	Rental
ASSETS		
Current assets		
Restricted cash and cash equivalents	$143,170	$20,558
Restricted investments	135,042	108
Accrued interest receivable on investments	815	25
Mortgage loans receivable	137,819	565
Accrued interest receivable on mortgage loans	10,953	52
Other assets	8,848	-
Interprogram receivable	9	801
TOTAL CURRENT ASSETS	$436,656	$22,109
Noncurrent assets		
Restricted cash and cash equivalents	$1,841	$ -
Restricted investments	81,391	6,229
Mortgage loans receivable, net	1,203,847	10,594
Deferred outflow of resources	6,698	-
TOTAL NONCURRENT ASSETS	$1,293,777	$16,823
TOTAL ASSETS	$1,730,433	$38,932
LIABILITIES		
Current liabilities		
Bonds payable	$170,839	$540
Accrued interest payable	41,948	269
Accounts payable	223	-
Other liabilities	694	-
TOTAL CURRENT LIABILITIES	$213,704	$809
Noncurrent liabilities		
Bonds payable, net	$1,272,601	$11,170
Derivative instrument - interest rate swap	6,698	-
Other liabilities	410	-
TOTAL NONCURRENT LIABILITIES	$1,279,709	$11,170
TOTAL LIABILITIES	$1,493,413	$11,979
TOTAL NET ASSETS, RESTRICTED	$237,020	$26,953
TOTAL LIABILITIES AND NET ASSETS	$1,730,433	$38,932

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Home Ownership	Rental
OPERATING REVENUES		
Interest on investments	$8,457	$1,346
Net decrease in fair value of investments	(40)	(6)
Interest on mortgage loans	79,302	2,135
Other revenues	81	108
TOTAL OPERATING REVENUE	$87,800	$3,583
OPERATING EXPENSES		
Interest on bonds	$69,485	$2,702
Mortgage servicing expense	4,589	33
General and administrative	972	12
Other expenses	1,808	2
TOTAL OPERATING EXPENSES	$76,854	$2,749
OPERATING INCOME	$10,946	$834
NON-OPERATING REVENUES (EXPENSES)		
Transfers in (out) to other Agency Programs	$18,193	$(25,154)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$18,193	$(25,154)
CHANGE IN NET ASSETS	$29,139	$(24,320)
TOTAL NET ASSETS - BEGINNING	207,881	51,273
TOTAL NET ASSETS - ENDING	$237,020	$26,953

STATEMENT OF CASH FLOWS

Net cash provided by operating activities	$163,813	$4,575
Net cash used in non-capital financing activities	(102,672)	(28,049)
Net cash (used in) provided by investing activities	(111,885)	13,006
Net decrease in cash	$(50,744)	$(10,468)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	195,755	31,026
CASH AND CASH EQUIVALENTS AT END OF YEAR	$145,011	$20,558

L. SUBSEQUENT EVENTS

On September 1, 2010, the U.S. Department of the Treasury announced changes to the New Issue Bond Program (NIBP). These changes included extending the program from its original date of December 31, 2010 until December 31, 2011. At June 30, 2010 the NIBP bonds payable and related assets in the 2009 Resolution are reflected as current.

North Carolina Housing Finance Agency

Additional Information

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

5430 Wade Park Blvd
Suite 300
Raleigh, North Carolina 27607

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL MATERIAL

Our audit of the basic financial statements of the North Carolina Housing Finance Agency included in the preceding section of this report were performed for the purpose of forming an opinion on those statements taken as a whole. The supplemental material presented in the following section of this report 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 audits 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 a whole.

BDO USA, LLP

September 16, 2010

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING BALANCE SHEET

YEAR ENDED JUNE 30, 2010

	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS		
(in thousands)		Housing Trust Fund	Federal and State Programs	1985	1998	2009
ASSETS						
Current assets:						
Cash and cash equivalents	$ 8,214	-	-	-	-	-
Restricted cash and cash equivalents	47,547	39,512	28,505	14,388	128,781	1
Restricted investments	-	-	-	-	6	135,036
Accrued interest receivable on investments	13	45	-	682	133	-
Mortgage loans receivable, net	726	986	3,918	12,797	125,022	-
Accrued interest receivable on mortgage loans	82	10	14	1,223	9,730	-
State tax credits receivable	53,040	-	-	-	-	-
Other assets	33	-	3,174	968	7,880	-
Interprogram receivable/(payable)	852	(15)	(1,647)	2	7	-
TOTAL CURRENT ASSETS	$ 110,507	40,538	33,964	30,060	271,559	135,037
Noncurrent assets:						
Restricted cash and cash equivalents	$ -	-	-	-	1,841	-
Restricted investments	-	-	-	34,714	46,677	-
Mortgage loans receivable, net	4,190	16,140	63,173	116,765	1,087,082	-
Deferred outflow of resources	-	-	-	-	6,698	-
Other assets, net	2,974	-	-	-	-	-
TOTAL NONCURRENT ASSETS	$ 7,164	16,140	63,173	151,479	1,142,298	-
TOTAL ASSETS	$ 117,671	56,678	97,137	181,539	1,413,857	135,037
LIABILITIES						
Current liabilities:						
Bonds payable, net	$ -	-	-	5,465	30,610	134,764
Accrued interest payable	-	-	-	1,509	40,439	-
Accounts payable	154	-	1,999	-	223	-
Deferred revenues	1,078	-	-	-	-	-
Other liabilities	131	1	2	-	694	-
TOTAL CURRENT LIABILITIES	$ 1,363	1	2,001	6,974	71,966	134,764
Noncurrent liabilities:						
Bonds payable, net	$ -	-	-	74,295	1,198,306	-
Derivative instrument - interest rate swap	-	-	-	-	6,698	-
Deferred revenues	8,055	-	-	-	-	-
Other liabilities	4,328	-	-	87	323	-
TOTAL NONCURRENT LIABILITIES	$ 12,383	-	-	74,382	1,205,327	-
TOTAL LIABILITIES	$ 13,746	1	2,001	81,356	1,277,293	134,764
NET ASSETS						
Restricted	$ 91,670	56,677	95,136	100,183	136,564	273
Unrestricted	12,255	-	-	-	-	-
TOTAL NET ASSETS	$ 103,925	56,677	95,136	100,183	136,564	273
TOTAL LIABILITIES AND NET ASSETS	$ 117,671	56,678	97,137	181,539	1,413,857	135,037

RENTAL BOND PROGRAMS				
1984	1992	1994	1995	TOTAL
-	-	-	-	$ 8,214
7,174	13,384	-	-	279,292
-	108	-	-	135,150
8	17	-	-	898
29	536	-	-	144,014
5	47	-	-	11,111
-	-	-	-	53,040
-	-	-	-	12,055
-	801	-	-	-
7,216	14,893	-	-	$ 643,774
-	-	-	-	$ 1,841
2,219	4,010	-	-	87,620
950	9,644	-	-	1,297,944
-	-	-	-	6,698
-	-	-	-	2,974
3,169	13,654	-	-	$ 1,397,077
10,385	28,547	-	-	$ 2,040,851
20	520	-	-	$ 171,379
18	251	-	-	42,217
-	-	-	-	2,376
-	-	-	-	1,078
-	-	-	-	828
38	771	-	-	$ 217,878
632	10,538	-	-	$ 1,283,771
-	-	-	-	6,698
-	-	-	-	8,055
-	-	-	-	4,738
632	10,538	-	-	$ 1,303,262
670	11,309	-	-	$ 1,521,140
9,715	17,238	-	-	$ 507,456
-	-	-	-	12,255
9,715	17,238	-	-	$ 519,711
10,385	28,547	-	-	$ 2,040,851

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2010

	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP PROGRAMS		
(in thousands)		**Housing Trust Fund**	**Federal and State Programs**	**1985**	**1998**	**2009**
OPERATING REVENUES						
Interest on investments	$ 852	644	202	2,630	5,827	-
Net increase (decrease) in fair value of investments	-	-	-	(47)	-	7
Interest on mortgage loans	98	337	784	7,872	71,430	-
Federal program awards received	-	-	220,239	-	-	-
Program income/fees	3,583	698	9,270	-	-	-
Other revenues	121	-	-	-	52	29
TOTAL OPERATING REVENUES	$ 4,654	1,679	230,495	10,455	77,309	36
OPERATING EXPENSES						
Interest on bonds	$ -	-	-	5,884	63,601	-
Mortgage servicing expense	4	-	-	431	4,158	-
Federal program expense	1,707	-	217,767	-	-	-
Nonfederal program expense	775	-	-	-	-	-
General and administrative	11,215	-	4,313	55	901	16
Other expenses	16	751	51	32	1,776	-
TOTAL OPERATING EXPENSES	$ 13,717	751	222,131	6,402	70,436	16
OPERATING INCOME (LOSS)	$ (9,063)	928	8,364	4,053	6,873	20
NON-OPERATING REVENUES (EXPENSES)						
Transfers in (out)	$ 12,403	(88)	(5,354)	12,787	5,153	253
State appropriations received	-	9,500	4,378	-	-	-
State grant received	-	-	5,170	-	-	-
State tax credits	28,005	-	-	-	-	-
State program expense	(23,111)	(15,028)	(4,351)	-	-	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	$ 17,297	(5,616)	(157)	12,787	5,153	253
CHANGE IN NET ASSETS	$ 8,234	(4,688)	8,207	16,840	12,026	273
TOTAL NET ASSETS - BEGINNING	95,691	61,365	86,929	83,343	124,538	-
TOTAL NET ASSETS - ENDING	$ 103,925	56,677	95,136	100,183	136,564	273

RENTAL BOND PROGRAMS					
1984	1992	1994	1995		TOTAL
695	379	123	149	$	11,501
(6)	-	-	-		(46)
1,011	602	188	334		82,656
-	-	-	-		220,239
-	-	-	-		13,551
-	108	-	-		310
1,700	1,089	311	483	$	328,211
1,523	541	178	460	$	72,187
13	11	3	6		4,626
-	-	-	-		219,474
-	-	-	-		775
6	2	2	2		16,512
2	-	-	-		2,628
1,544	554	183	468	$	316,202
156	535	128	15	$	12,009
(13,547)	(3,287)	(4,281)	(4,039)	$	-
-	-	-	-		13,878
-	-	-	-		5,170
-	-	-	-		28,005
-	-	-	-		(42,490)
(13,547)	(3,287)	(4,281)	(4,039)	$	4,563
(13,391)	(2,752)	(4,153)	(4,024)	$	16,572
23,106	19,990	4,153	4,024		503,139
9,715	17,238	-	-	$	519,711

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2010

	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP PROGRAMS		
(in thousands)		**Housing Trust Fund**	**Federal and State Programs**	**1985**	**1998**	**2009**
Cash flows from operating activities:						
Interest on mortgage loans	$ 111	338	784	7,571	70,672	-
Principal payments on mortgage loans	715	1,252	4,357	11,565	109,940	-
Purchase of mortgage loans	-	(2,272)	(7,109)	(9,030)	(21,263)	-
Federal awards received	-	-	219,869	-	-	-
Federal program expense	(1,707)	-	(218,192)	-	-	-
Nonfederal program expense	(775)	-	-	-	-	-
Federal grant administration income	-	-	7,210	-	-	-
Program income/fees	3,486	698	2,060	-	-	-
Other expenses	(11,550)	(4)	(4,031)	(497)	(5,730)	(16)
Other revenues	635	-	-	87	485	29
Net cash provided by (used in) operating activities	$ (9,085)	12	4,948	9,696	154,104	13
Cash flows from non-capital financing activities:						
Issuance of bonds	$ -	-	-	-	-	135,000
Principal repayments on bonds	-	-	-	(21,290)	(141,185)	-
Interest paid	-	-	-	(6,053)	(67,661)	-
Bond issuance costs paid	-	-	-	-	-	(236)
Net transfers	12,403	(88)	(5,354)	(1,082)	(418)	253
State appropriations received	-	9,500	4,378	-	-	-
State grant received	-	-	5,170	-	-	-
State tax credits	28,509	-	-	-	-	-
State program expense	(23,111)	(15,028)	(4,351)	-	-	-
Net cash provided by (used in) non-capital financing activities	$ 17,801	(5,616)	(157)	(28,425)	(209,264)	135,017
Cash flows from investing activities:						
Proceeds from sales or maturities of investments	$ -	-	-	24,723	72,411	675,032
Purchase of investments	-	-	-	(17,614)	(65,041)	(810,061)
Earnings on investments	859	664	202	2,770	5,895	-
Net cash provided by (used in) investing activities	$ 859	664	202	9,879	13,265	(135,029)
Net increase (decrease) in cash	$ 9,575	(4,940)	4,993	(8,850)	(41,895)	1
Cash and cash equivalents at beginning of year	46,186	44,452	23,512	23,238	172,517	-
Cash and cash equivalents at end of year	$ 55,761	39,512	28,505	14,388	130,622	1
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	$ (9,063)	928	8,364	4,053	6,873	20
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:						
Interest on investments	(852)	(644)	(202)	(2,630)	(5,827)	-
Decrease (increase) in fair value of investments	-	-	-	47	-	(7)
Interest on bonds	-	-	-	5,884	63,601	-
Net operating transfers		-	-	13,869	5,571	-
Change in assets and liabilities:						
(Increase) decrease in mortgage loans	631	(269)	(2,702)	(11,425)	84,908	-
(Increase) decrease in interest receivable on mortgage loans	13	1	-	(213)	(1,066)	-
(Increase) decrease in other assets	726	-	(370)	87	433	-
Increase (decrease) in accounts payable and other liabilities	(434)	(4)	(142)	24	(389)	-
Increase (decrease) in deferred revenues	(106)	-	-	-	-	-
Total adjustments	$ (22)	(916)	(3,416)	5,643	147,231	(7)
Net cash provided by (used in) operating activities	$ (9,085)	12	4,948	9,696	154,104	13

RENTAL BOND PROGRAMS				
1984	1992	1994	1995	Total
1,092	609	204	364	$ 81,745
368	1,712	113	853	130,875
-	-	-	-	(39,674)
-	-	-	-	219,869
-	-	-	-	(219,899)
-	-	-	-	(775)
-	-	-	-	7,210
-	-	-	-	6,244
(21)	(13)	(5)	(8)	(21,875)
-	(693)	-	-	543
1,439	1,615	312	1,209	$ 164,263
-	-	-	-	$ 135,000
(12,890)	(490)	(2,195)	(4,565)	(182,615)
(1,184)	(515)	(146)	(350)	(75,909)
-	-	-	-	(236)
(1,200)	(3,644)	(1,371)	501	-
-	-	-	-	13,878
-	-	-	-	5,170
-	-	-	-	28,509
-	-	-	-	(42,490)
(15,274)	(4,649)	(3,712)	(4,414)	$ (118,693)
9,068	1,012	6,752	3,930	$ 792,928
(1,895)	(2,694)	(3,515)	(1,232)	(902,052)
882	387	162	149	11,970
8,055	(1,295)	3,399	2,847	$ (97,154)
(5,780)	(4,329)	(1)	(358)	$ (51,584)
12,954	17,713	1	358	340,931
7,174	13,384	-	-	$ 289,347
156	535	128	15	$ 12,009
(695)	(379)	(123)	(149)	(11,501)
6	-	-	-	46
1,523	541	178	460	72,187
(12,347)	357	(2,910)	(4,540)	-
12,715	1,355	3,023	5,393	93,629
81	7	16	30	(1,131)
-	(801)	-	-	75
-	-	-	-	(945)
-	-	-	-	(106)
1,283	1,080	184	1,194	$ 152,254
1,439	1,615	312	1,209	$ 164,263