NORTH CAROLINA HOUSING FINANCE AGENCY
FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012

TABLE OF CONTENTS

FINANCIAL STATEMENTS

ADDITIONAL INFORMATION

MANAGEMENT DISCUSSION AND ANALYSIS (*Unaudited*)
June 30, 2012

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, 2012. The financial statements, accompanying notes, and additional information should be read in conjunction with the following discussion and analysis:

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. In addition to its bond programs, the Agency administers the United States Department of the Treasury's Hardest Hit Fund® (HHF), the Section 8 Program, the HOME Investment Partnerships Program, Low-Income Housing Tax Credits, the North Carolina Housing Trust Fund 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 mortgage assistance, 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, 2012, with reference to prior fiscal year's results and activities.

The Agency's *Total assets* decreased $90,455,000, or 4.7%, and *Total liabilities* decreased $102,285,000, or 7.3%. *Total operating revenues* decreased $55,151,000, or 14.2%, and *Total operating expenses* decreased $57,793,000, or 15.4%.

The low interest rates in the current market presented certain challenges, but the Agency took advantage of the interest rates by refunding bonds and issuing new bonds under the New Issue Bond Program (NIBP). Historically low interest rates prompted borrowers to refinance their mortgages while continued concern over the economy deterred potential first-time homebuyers from purchasing their first home. As a result, the Agency's purchase of FirstHome Program mortgage loans remained relatively flat while experiencing continued payoffs of existing loans, resulting in a decrease of *Mortgage loans receivable, net* of $57,935,000, or 4.3%, a decrease in *Accrued interest receivable on mortgage loans* of $733,000, or 6.6%, a decrease in *Interest on mortgage loans* of $5,705,000, or 7.5%, and a decrease in *Mortgage servicing expense* of $1,119,000, or 25.9%. Settlements received from servicers accounted for a reduction of $557,000 in *Mortgage servicing expense* during the fiscal year.

The estimated loss of mortgage loan interest income from foreclosures was reclassified from a component of *Mortgage loans receivable, net* and *Other expenses* in the prior year to *Accrued interest receivable on mortgage loans* and *Interest on mortgage loans* for fiscal year 2012, reducing *Accrued interest receivable on mortgage loans* and *Interest on mortgage loans. Other expenses* decreased $3,580,000, or 56.1% in part because of this reclassification of estimated loss of mortgage loan interest income. Although actual foreclosure expenses which are reflected as a component part of *Other expenses* increased during the current fiscal year, the large estimated mortgage loan loss reserve for USDA and conventional loans recorded in fiscal year 2011 did not change significantly in the current year.

The low interest rates had negative effects for the Agency on investment income as well as on the fair market value of the Agency's swaps on variable rate debt. The decrease in the long-term interest rates caused the negative fair market value of the swaps to increase, resulting in an increase of $3,083,000, or 61%, for *Derivative instrument—interest rate swap* and a corresponding increase in *Deferred outflow of resources.* While the decrease in *Interest on investments* of $660,000, or 8.1%, and the decrease in *Accrued interest receivable on investments* of $668,000, or 80.1%, were in part due to a reduction in the interest rates during the year, there were additional factors that contributed to the decreases. The Agency terminated many guaranteed investment contracts (GICs) resulting from bond transactions that occurred during the year; the proceeds from GICs were transferred to a lower-earning cash equivalent account, which caused a $177,406,000 decrease in *Investments*, or 77.1%, and contributed to the $148,735,000 increase in *Cash and cash equivalents*, or 56%. In conjunction with some GIC terminations, the Agency negotiated the receipt of a termination payment in addition to a payment of interest and principal; these termination payments resulted in a majority of the increase in *Other liabilities* of $1,771,000, or 36.5%, as the arbitrage liability increased.

The Agency issued Series 32 in the 1998 Trust Agreement for $136,160,000, refunding several older series of bonds at higher rates of interest with lower rates in the current market. Though the issuance resulted in the termination of many GICs, over $14 million in savings is anticipated on the transaction. The Agency also refunded the remaining bonds in the 1992 Multifamily Resolution and the 1985 Single Family Resolution in addition to having two prepayment bond calls, which further reduced the amount of outstanding bonds. Although the Agency had two new money New Issue Bond Program (NIBP) bond issuances during the year, $85 million for Series 1 and Series A-1 and $100 million for Series 2 and Series A-2, the effect of the multiple refundings, bond calls and scheduled debt service payments decreased *Bonds payable, net* by $128,085,000, or 9.6%, *Interest on bonds* by $3,007,000, or 4.8%, and *Accrued interest payable* by $2,419,000, or 8.3%. The Agency also purchased investments in government securities yielding higher returns than its cash equivalents and partially mitigated the impact of the termination of certain GICs. The investment in government securities resulted in a $726,000 increase in *Net increase in fair value of investments*, or 407.9%.

Federal program awards received and *Federal program expense* decreased $58,066,000, or 20.5%, and $59,866,000, or 21.2%, respectively. Although funding from HHF increased by $58 million during the fiscal year, the amounts from the Tax Credit Assistance Program and Exchange Program decreased $119 million as these programs came to an end. *Nonfederal program expense* increased by $1,168,000, or 121.3%, due to an increase in funding of down payment assistance during the fiscal year. *State tax credits* decreased by $3,358,000, or 9.8%, due to changes in the number of projects awarded and whether these projects are in a low, moderate or high income county. *State program expense* increased $5,239,000, or 9.7%, primarily resulting from a $4.5 million disbursement to counseling agencies from State Home Foreclosure Prevention Project (SHFPP), a $900,000 HOME Match disbursement for Rental Production Program (RPP) loans, a $1.7 million increase in program disbursements for Preservation Loan Program (PLP), RPP and Urgent Repair Program (URP), and a $2 million decrease in loans funded by the Home Protection Program (HPP) now funded through HHF.

Deferred revenues increased $23,194,000, or 92.8%, from HHF funds the Agency received but had not disbursed as of June 30, 2012. *Accounts payable* increased $171,000, or 5.7%, and *General and administrative expense* increased $8,611,000, or 44.1%, because of additional operating expenses the Agency incurred for HHF and SHFPP as these programs were operated for a full year. *Program income/fees* increased $7,528,000, or 38.2%, primarily from an increase of $7.8 million in reimbursement costs associated with HHF which was offset by a $1.5 million decrease in Section 8 Contract Administration costs due to a new interim contract that became effective October 1, 2011. Two multifamily delinquent loans became current in the fiscal year 2012, resulting in a $1.3 million gain which comprises the majority of the increase in *Other revenues* of $1,026,000, or 356.3%.

As discussed in the "New Business" section, SHFPP was transferred from the Commissioner of Banks (COB) to the Agency effective July 1, 2011. With the transfer, SHFPP is now reported as a part of Federal and State Programs on the Agency's Financial Statements. The State statute requires any remaining funds in the program at fiscal year end be transferred to Housing Trust Fund (HTF) for use in its programs. In fiscal year 2011, $6.1 million was remaining in SHFPP and was accrued as a part of *State receivable*s from COB. At June 30, 2012, Federal and State Programs and HTF recorded an *Interprogram receivable/(payable)* for the $2.7 million remaining in SHFPP at year end. This change in reporting accounts for the $5,804,000 decrease in *State receivables*, or 10.7%. Also, as a result of the transfer of SHFPP, *State grant received* increased $3,072,000, or 25.5%. Since HTF received funding from SHFPP and the Agency received federal funding for HHF, the General Assembly reduced the amount of the appropriations to the Agency for HTF and HPP. Homeowners who would have previously been assisted with HPP are instead assisted with HHF. As a result, *State appropriations received* decreased $2,012,000, or 17.2%.

Net assets increased $11,830,000, or 2.2%, primarily due to the receipt of federal stimulus funds in difficult economic times and as a result of the Agency's proactive management of its funds in an unstable economy.

Financial Analysis

The following tables summarize the change in net assets between June 30, 2012 and 2011 *(in thousands)*:

Condensed Balance Sheet Information

	2012	2011	Change	%
Assets**				
Cash and cash equivalents	$414,366	$265,631	$148,735	56.0
Accrued interest receivable on investments	166	834	(668)	(80.1)
Accrued interest receivable on mortgage loans	10,365	11,098	(733)	(6.6)
Investments	52,561	229,967	(177,406)	(77.1)
Mortgage loans receivable, net	1,289,637	1,347,572	(57,935)	(4.3)
State receivables	48,666	54,470	(5,804)	(10.7)
Deferred outflow of resources	8,141	5,058	3,083	61.0
Other assets, net	28,856	28,583	273	1.0
Total Assets	$1,852,758	$1,943,213	$(90,455)	(4.7)
Liabilities**				
Bonds payable	$1,211,548	$1,339,633	$(128,085)	(9.6)
Accrued interest payable	26,855	29,274	(2,419)	(8.3)
Accounts payable	3,145	2,974	171	5.7
Derivative instrument-interest rate swap	8,141	5,058	3,083	61.0
Deferred revenues	48,176	24,982	23,194	92.8
Other liabilities	6,627	4,856	1,771	36.5
Total Liabilities	$1,304,492	$1,406,777	$(102,285)	(7.3)
Net Assets				
Restricted	$534,216	$522,565	$11,651	2.2
Unrestricted	14,050	13,871	179	1.3
Total Net Assets	$548,266	$536,436	$11,830	2.2
Total Liabilities and Net Assets	$1,852,758	$1,943,213	$(90,455)	(4.7)

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

	2012	2011	Change	%
Operating Revenues				
Interest on investments	$7,503	$8,163	$(660)	(8.1)
Net increase in fair value of investments	904	178	726	407.9
Interest on mortgage loans	70,666	76,371	(5,705)	(7.5)
Federal program awards received	225,841	283,907	(58,066)	(20.5)
Program income/fees	27,244	19,716	7,528	38.2
Other revenues	1,314	288	1,026	356.3
Total Operating Revenues	$333,472	$388,623	$(55,151)	(14.2)
Operating Expenses				
Interest on bonds	$59,098	$62,105	$(3,007)	(4.8)
Mortgage servicing expense	3,195	4,314	(1,119)	(25.9)
Federal program expense	223,061	282,927	(59,866)	(21.2)
Nonfederal program expense	2,131	963	1,168	121.3
General and administrative	28,132	19,521	8,611	44.1
Other expenses	2,796	6,376	(3,580)	(56.1)
Total Operating Expenses	$318,413	$376,206	$(57,793)	(15.4)
Operating Income	$15,059	$12,417	$2,642	21.3
Non-operating Revenues (Expenses)				
State appropriations received	$9,673	$11,685	$(2,012)	(17.2)
State grant received	15,125	12,053	3,072	25.5
State tax credits	30,981	34,339	(3,358)	(9.8)
State program expense	(59,008)	(53,769)	(5,239)	9.7
Total Non-operating Revenue(Expenses)	$(3,229)	$4,308	$(7,537)	(175.0)
Change in Net Assets	$11,830	$16,725	$(4,895)	(29.3)

** For information on current and noncurrent balance sheet items, please see the audited balance sheet in the accompanying financial statements.

New Business

Although the economy continued to face difficulties in fiscal year 2012, the United States (US) experienced modest declines in unemployment rates at a federal level as well as in the State of North Carolina. However, the sluggish US recovery and the deepening European financial crisis tempered optimism that the US economy has turned a corner.

Amidst continued federal budget constraints, the US Congress decreased the overall US Department of Housing and Urban Development's (HUD) HOME Investment Partnerships Program (HOME) allocations by 34% for fiscal year 2012 after a 12% cut in fiscal year 2011. The Agency's appropriation for fiscal year 2012 was $12.5 million, down from $19.1 million in fiscal year 2011 and $21.6 million in fiscal year 2010. If the State had continued receiving HOME appropriations at the 2009 level, it is projected that 790 more households would have taken advantage of affordable housing programs using HOME funding.

The NC General Assembly reduced the Housing Trust Fund (HTF) appropriation to $7.9 million, which is a $1.7 million decrease from fiscal year 2011. The allocation for the State's matching funds for HOME remained at $1.6 million, the same as fiscal year 2011.

The reduced HTF appropriation was primarily offset by a $6.1 million transfer of the foreclosure filing fees collected in 2011 by the Commissioner of Banks (COB) for the State Home Foreclosure Prevention Project (SHFPP). This amount was the balance remaining in the fund at the end of the fiscal year; by statute, those remaining monies are transferred to HTF annually. The administration of SHFPP was transferred from COB to the Agency effective July 1, 2011. Through SHFPP, every homeowner facing foreclosure is notified of available counseling services. The counseling agencies can assist in communication with servicers to expedite potential foreclosure alternatives. Servicers pay a fee for each registration which provides funding for housing counseling, legal aid services, and the Agency's administrative costs of the program.

The Agency has maintained a contract with HUD for Project-Based Contract Administration since 2001, with Quadel Consulting Corporation as a partner, to administer the Section 8 Housing Assistance Payment Program in North Carolina. This year HUD executed a short-term contract extension while it developed a Notice of Funding Availability (NOFA) to rebid the work. The short-term extension was at a reduced fee and reduced scope of work. The Agency is currently operating under the short-term extension and expects results from its NOFA submission in fiscal year 2013.

The Agency had a productive year for bond sales, issuing new funds as well as taking advantage of the low interest rates with a current refunding. The Agency issued bonds out of the New Issue Bond Program (NIBP) in the 2009 Trust Agreement to fund mortgages. Recycled prepayments and reserves were used to fund mortgage loan production until that time. On August 25, 2011, the Agency issued $34 million of Series 1 bonds and converted $51 million of existing NIBP bonds, for total bonds of $85 million. The proceeds were used towards the purchase of warehoused mortgage loans as well as the purchase of new mortgage loans. On December 22, 2011, the Agency issued $40 million of Series 2 bonds and converted $60 million of existing NIBP bonds, totaling $100 million used for the purchase of new mortgage loans.

Capitalizing on the low market rates, the Agency issued Series 32 in the 1998 Trust Agreement on November 17, 2011. Series 32 refunded selected series out of the 1985 Resolution and the 1998 Trust Agreement at higher rates of interest with bonds at lower current market rates.

The bond sales are discussed in more detail in the "Debt Administration" section.

Debt Administration

The economy continues to experience historically low interest rates. While these rates made traditional tax-exempt bond financing difficult, the Agency took advantage of the market in a variety of ways.

The New Issue Bond Program (NIBP) allowed the Agency to offer competitive interest rates on its mortgages, which would not otherwise have been available under traditional tax-exempt bond issuances. NIBP was a part of the Housing Finance Agency Initiative (HFA Initiative), an initiative developed by Treasury, the Department of Housing and Urban Development (HUD) and the Federal Housing Finance Agency (FHFA) as a part of President Obama's Making Home Affordable Program, a history of which follows.

The Agency sold $135 million of bonds to Fannie Mae and Freddie Mac (the GSEs) in December 2009 as a part of NIBP and received the proceeds of the sale in January 2010. The Agency created the 2009 Single Family Trust Agreement in which to place NIBP proceeds in escrow. Based on program requirements, the bonds sold to the GSEs would represent 60% of a total bond issue, and the other 40% would be sold on the open market.

These NIBP bonds remained in escrow until the Agency completed its first NIBP "rollout" on August 25, 2011, converting $51 million of escrowed proceeds into Series A-1 (60% of the bond issuance) and issuing $34 million in Series 1 market bonds (40% of the bond issuance) for bond proceeds of $85,630,435 ($85 million in par value plus $630,435 related to the premium generated by the super sinker bond). Prior to this bond issuance, the Agency warehoused loans using either recycled prepayments or reserves to fund the purchase of the mortgage loans. Bond proceeds from Series A-1 of $41.7 million were used to purchase the warehoused loans, leaving the remaining $43.9 million available for purchase of new mortgage loans and payment of bond issuance costs.

On December 22, 2011, the Agency had its second rollout of NIBP escrowed bonds, converting $60 million of escrowed proceeds into Series A-2 (60% of the bond issuance) and issuing $40 million in Series 2 market bonds (40% of the bond issuance) for bond proceeds of $100,535,436 ($100 million in par value plus $535,436 related to the premium generated by the super sinker bond). The entire bond proceeds are devoted to the purchase of new mortgage loans.

NIBP was originally set to expire by December 2010, which was later extended until December 2011 under largely the same program parameters. The program was extended once again in December 2011, with a new expiration date of December 2012. The parameters of the new extension differed greatly from the previous program parameters, limiting the cost effectiveness of the program. Although the Agency agreed to an extension of the program for its remaining $24 million of escrowed proceeds in December 2011, it chose to refund these bonds in March 2012 prior to incurring an additional NIBP charge to maintain the bonds.

In addition to NIBP, the HFA Initiative offered a second program, the Temporary Credit and Liquidity Program (TCLP), in which the Agency participated starting in January 2010. The TCLP offered more affordable liquidity rates on variable rate debt than those available on the open market at the time. However, as TCLP rates became less favorable than market rates, the Agency changed its liquidity provider to Toronto-Dominion Bank (TD Bank) for a three-year facility which closed on January 11, 2012.

On November 17, 2011, the Agency issued Series 32, a taxable issuance, under the 1998 Trust Agreement for $136,160,000. Series 32 refunded Series EE, FF, GG, HH, KK, LL, MM, NN, OO, PP, QQ, RR, SS, TT and WW in the 1985 Single Family Resolution and Series 1, 5, 6, 7, 9 and 11 in the 1998 Single Family Trust Agreement. The Agency anticipates over $14 million in debt service savings for the Agency.

The Agency had a December 1, 2011 prepayment bond call and a June 1, 2012 prepayment bond call for $53,990,000 and $64,785,000, respectively, for its single family resolutions and trust agreements. In addition, the Agency used special redemption funds and reserves to redeem the remaining $9,285,000 in bonds associated with the 1992 Multifamily Resolution on May 1, 2012, and the remaining $11,075,000 in bonds associated with the 1985 Single Family Resolution on June 10, 2012. The remaining assets in the 1992 Multifamily Resolution and the 1985 Single Family Resolution were transferred to the 1998 Single Family Trust Agreement. As of June 30, 2012, the Agency's remaining trust agreements are the 1998 Single Family Trust Agreement, which houses the Agency's non-NIBP mortgage revenue bond assets, and the 2009 Single Family Trust Agreement, which houses NIBP mortgage loans and assets.

The Agency had several guaranteed investment contracts (GICs) associated with series that were refunded in the current fiscal year. As the series were refunded, the associated GICs were terminated, reducing the Agency's exposure to counterparty risk. In addition, the Agency voluntarily terminated its agreement with Societe Generale in return for a negotiated termination payment as well as the payment of principal and accrued interest.

The "M. Subsequent Events" footnote identifies additional bond transactions that occurred after fiscal year end.

Programs

For the year ended June 30, 2012, the Agency made cash disbursements of approximately $257,924,000 in Federal funds for the following programs:

- Affordable Home Ownership Program (AHOP)
- Construction Training Partnership Program (CTP)
- Displacement Prevention Partnership (DPP)
- Exchange Program (Exchange)
- Individual Development Account Loan Pool (IDALP)
- Lead Abatement Partnership Program (LAPP)
- Mortgage Payment Program (MPP)
- National Foreclosure Mitigation Counseling Program (NFMC)
- National Foreclosure Mitigation Counseling Legal Assistance Program (NFMC-LA)
- Neighborhood Stabilization Loan Pool (NSLP)
- New Homes Loan Pool (NHLP)

- Rental Production Program (RPP)
- Second Mortgage Refinance Program (SMRP)
- Section 8 New Construction
- Section 8 Contract Administration
- Self-Help Loan Pool (SHLP)
- Single-Family Rehabilitation (SFR)
- Single-Family Rehabilitation Loan Pool (SFRLP)
- Statewide Down Payment Assistance Program (SWDAP)
- Supportive Housing Development Program (SHDP)
- Supportive Housing Predevelopment Loan Program (SHPL)
- Tax Credit Assistance Program (TCAP)
- Urgent Repair Program (URP)

For the year ended June 30, 2012, the Agency made cash disbursements of approximately $63,248,000 in State funds for the following programs:

- Displacement Prevention Partnership (DPP)
- Home Protection Program (HPP)
- Individual Development Account Loan Pool (IDALP)
- Key Program (KEY)
- New Homes Loan Pool (NHLP)
- Preservation Loan Program (PLP)
- Rapid Equity Builder (REB)
- Rental Production Program (RPP)
- State Home Foreclosure Prevention Project (SHFPP)
- Self-Help Loan Pool (SHLP)
- 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, 2012, the Agency made cash disbursements of approximately $77,378,000 from other funding sources for the following programs:

- Duke Home Energy Loan Pool (HELP)
- Construction Training Partnership Program (CTP)
- FirstHome Program (FirstHome)
- Individual Development Account Loan Pool (IDALP)
- Multifamily Rental Assistance (MFRA)
- Rapid Equity Builder (REB)
- Self-Help Loan Pool (SHLP)
- Statewide Down Payment Assistance Program (SWDAP)
- Supportive Housing Development Program (SHDP)

For the year ended June 30, 2012, the Agency made non-cash disbursements of approximately $36,065,000 in miscellaneous funds for the following programs:

- Low-Income Housing Tax Credit Program (LIHTC)
- Mortgage Credit Certificate (MCC)

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 additional assistance in buying or rehabilitating their home.

Home Ownership Programs The Agency supported approximately 1,500 homebuyers with disbursements from its Home Ownership Programs in fiscal year 2012.

The FirstHome 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.

The Statewide Down Payment Assistance Program is used to increase the homeowner benefit from FirstHome and to differentiate the Agency's program from other lenders. It offers $8,000 for an interest-free, deferred subordinate mortgage to qualified households. This assistance is available for FHA and VA loans only, and it requires a 650 minimum credit score and $1,000 investment from the borrower's own funds.

The Agency helped community-based groups bring home ownership opportunities to lower-income households. The Individual Development Account Loan Pool provides interest-free, deferred second mortgages to homebuyers participating in local Individual Development Account (IDA) programs. Grants of up to $1,000 are also provided to participants to match their IDA savings. The New Home Loan Pool provides interest-free, deferred payment second mortgages for the purchase of newly-constructed, substantially rehabilitated, or foreclosed homes. The Self-Help Loan Pool provides interest-free and amortizing mortgage loans for permanent financing of newly-built or foreclosed homes using homebuyer sweat equity. Incentive funding of $4,000 is also available when homes are built to certain SystemVision standards of energy efficiency with an additional $1,000 if the affiliate also meets a major Green Building Certification.

The Mortgage Credit Certificate 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 homebuyer occupies the home.

The Construction Training Program, which is a partnership with the North Carolina Home Builders Association (NCHBA) and local governments, provides funding for the 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.

Housing Preservation Programs The Agency supported approximately 2,900 households with disbursements from its Housing Preservation Programs in fiscal year 2012.

The Single-Family Rehabilitation Loan Pool 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 improved to stringent energy and construction standards.

The Urgent Repair Program 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.

The Displacement Prevention Partnership, which operates in partnership with local offices of the Independent Living Rehabilitation Program in the North Carolina Department of Health and Human Services (DHHS), provides accessibility modifications to very low-income households that may be displaced due to severe mobility limitations.

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 have an income of 80% or less of area median income.

The Rental Production Program (RPP) provides substantial rehabilitation or acquisition/rehabilitation loans for the production of rental housing, primarily targeting household below 50% of area median income. These RPP loans are usually gap financing for the projects financed with federal low-income tax credits.

Foreclosure Prevention Financing Programs In light of the State's high unemployment rate, the Agency made use of several programs that target troubled homeowners. The Agency prevented approximately 6,700 foreclosures with disbursements from its Foreclosure Prevention Financing Programs in fiscal year 2012.

The Mortgage Payment Program of Hardest Hit Fund® (HHF) pays mortgage payments and related expenses for unemployed homeowners up to 18 months while they look for a job or up to 36 months while they complete job training, with a standard maximum assistance of $36,000. The assistance is in the form of a 0% interest deferred loan which will be forgiven if the homeowner continues to live in the home for ten years.

The Second Mortgage Refinance Program of HHF provides assistance to recovered, employed homeowners who have an unaffordable second mortgage due to prior unemployment, under-employment, or other program-eligible financial hardship. The assistance is in the form of a 0% interest, non-recourse, deferred-payment subordinate loan.

Foreclosure Counseling The Agency provided counseling to approximately 12,000 homeowners with disbursements to local counseling agencies from its Foreclosure Counseling Programs in fiscal year 2012.

The National Foreclosure Mitigation Program provides federal funds for foreclosure prevention counseling and legal assistance across the State. Counseling sessions are provided on a short-term basis by United States Department of Housing and Urban Development (HUD) approved counseling intermediaries primarily in defined areas of greatest need.

Through the State Home Foreclosure Prevention Project, discussed in the "New Business" section, every homeowner facing foreclosure is notified of available counseling services. Fees paid by servicers for each registered home foreclosure are used to pay for housing counseling, legal aid, and administrative costs. Counseling agencies throughout the State provide assistance to homeowners and servicers regarding foreclosure alternatives.

Rental Production Programs The Agency supported approximately 5,000 households with disbursements from its Rental Production Programs in fiscal year 2012.

The Agency administers both the Federal Low-Income Housing Tax Credit Program and the State Tax Credit Program (STC). 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 awarding tax credits to the best developments possible given limited resources available. The Qualified Allocation Plan establishes criteria that include the following to use in selecting developments that serve low-income residents: locations with strong market demand, healthy financial structures, attractive architectural design, and the best quality of building materials and workmanship.

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 North Carolina 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 federal income tax treatment and the needs of the project. Once the property has reached certain milestones, primarily completion of a certain amount of construction, the loan becomes eligible to close.

The Rental Production Program provides low cost loans for rental housing, mainly targeting households below 50% of area median income. These RPP loans are usually gap financing for the projects financed with federal low-income tax credits.

Rental Assistance Programs The Agency supported approximately 26,000 households with disbursements from its Rental Assistance Programs in fiscal year 2012.

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 Preservation Loan Program, Housing Credit, and the Supportive Housing Development Program; however, it does not provide assistance if rental subsidies are available through another program.

The Agency administers the Section 8 Housing Assistance Payment Program on behalf of HUD for properties throughout North Carolina. The Agency contracted with a third-party administrator, Quadel Consulting Corporation, to assist with the administration of this program.

Special Needs Housing Programs The Agency supported approximately 400 households with disbursements from its Special Needs Housing Programs in fiscal year 2012.

The Supportive Housing Development Program provides funding for emergency, transitional, and permanent housing for children and adults with a wide range of disabilities or special housing needs. Eligible applicants are mission driven nonprofit organizations and units of local government.

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 Boulevard
Suite 208
Raleigh, NC 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, 2012, 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. An audit includes 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 opinions.

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, 2012, 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 13, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BDO USA, LLP

September 13, 2012

NORTH CAROLINA HOUSING FINANCE AGENCY

BALANCE SHEET

AS OF JUNE 30, 2012

(in thousands)

ASSETS	
Current assets:	
Cash and cash equivalents	$ 3,329
Restricted cash and cash equivalents	331,428
Accrued interest receivable on investments	166
Mortgage loans receivable, net	148,490
Accrued interest receivable on mortgage loans	10,365
State receivables	48,666
Other assets	12,230
TOTAL CURRENT ASSETS	$ 554,674
Noncurrent assets:	
Restricted cash and cash equivalents	$ 79,609
Investments	3,226
Restricted investments	49,335
Mortgage loans receivable, net	1,141,147
Deferred outflow of resources	8,141
Other assets, net	16,626
TOTAL NONCURRENT ASSETS	$ 1,298,084
TOTAL ASSETS	$ 1,852,758
LIABILITIES	
Current liabilities:	
Bonds payable	$ 34,835
Accrued interest payable	26,855
Accounts payable	3,145
Deferred revenues	39,080
Other liabilities	143
TOTAL CURRENT LIABILITIES	$ 104,058
Noncurrent liabilities:	
Bonds payable, net	$ 1,176,713
Derivative instrument - interest rate swap	8,141
Deferred revenues	9,096
Other liabilities	6,484
TOTAL NONCURRENT LIABILITIES	$ 1,200,434
TOTAL LIABILITIES	$ 1,304,492
NET ASSETS	
Restricted	$ 534,216
Unrestricted	14,050
TOTAL NET ASSETS	$ 548,266
TOTAL LIABILITIES AND NET ASSETS	$ 1,852,758

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

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2012

(in thousands)

OPERATING REVENUES		
Interest on investments	$	7,503
Net increase in fair value of investments		904
Interest on mortgage loans		70,666
Federal program awards received		225,841
Program income/fees		27,244
Other revenues		1,314
TOTAL OPERATING REVENUES	$	333,472
OPERATING EXPENSES		
Interest on bonds	$	59,098
Mortgage servicing expense		3,195
Federal program expense		223,061
Nonfederal program expense		2,131
General and administrative expense		28,132
Other expenses		2,796
TOTAL OPERATING EXPENSES	$	318,413
OPERATING INCOME	$	15,059
NON-OPERATING REVENUES (EXPENSES)		
State appropriations received	$	9,673
State grant received		15,125
State tax credits		30,981
State program expense		(59,008)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$	(3,229)
CHANGE IN NET ASSETS	$	11,830
TOTAL NET ASSETS-BEGINNING	$	536,436
TOTAL NET ASSETS-ENDING	$	548,266

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

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2012

(in thousands)

Cash flows from operating activities:		
Interest on mortgage loans	$	70,516
Principal payments on mortgage loans		146,321
Purchase of mortgage loans		(87,472)
Federal program awards received		248,087
Federal program expense		(222,613)
Nonfederal program expense		(2,131)
Federal grant administration income		19,392
Program income/fees		8,491
Other expenses		(30,314)
Other revenues		(934)
Net cash provided by operating activities	$	149,343
Cash flows from non-capital financing activities:		
Issuance of bonds	$	210,160
Principal repayments on bonds		(337,600)
Interest paid		(59,527)
Bond issuance costs paid		(2,697)
State appropriations received		9,673
State grant received		21,184
State tax credits		30,726
State program expense		(59,008)
Net cash used in non-capital financing activities	$	(187,089)
Cash flows from investing activities:		
Proceeds from sales or maturities of investments	$	867,416
Purchase of investments		(689,106)
Earnings on investments		8,171
Net cash provided by investing activities	$	186,481
Net increase in cash		148,735
Cash and cash equivalents at beginning of year		265,631
Cash and cash equivalents at end of year	$	414,366
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	15,059
Adjustments to reconcile operating income to net cash		
(used in) provided by operating activities:		
Interest on investments		(7,503)
Increase in fair value of investments		(904)
Interest on bonds		59,098
Change in assets and liabilities:		
Decrease in mortgage loans		57,935
Decrease in interest receivable on mortgage loans		733
Increase in other assets		(1,562)
Increase in accounts payable and other liabilities		3,293
Increase in deferred revenues		23,194
Total adjustments	$	134,284
Net cash provided by operating activities	$	149,343

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

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2012

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 accompanying financial statements represent the financial position of the Agency only. 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 line of credit of the State, and the State is not liable for the repayment of such obligations.

Basis of Presentation The accompanying financial statements of the Agency have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) establishes standards of financial accounting and reporting for state and local government entities. Financial Accounting Standards Board standards of financial accounting and reporting issued on or before November 30, 1989, are applied by the Agency to the extent that those standards do not conflict with or contradict GASB pronouncements.

Measurement Focus and Basis of Accounting The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for Agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

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

Agency Programs 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 $286,296,000 in STCs, of which the Agency received $30,726,000 during fiscal year 2012. Under this program, the STC project will receive the credit in the form of a loan or direct refund.

Housing Trust Fund Programs 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 State 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 of $7,877,000 for the year ended June 30, 2012. This appropriation is reported in *Non-Operating 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. In June 2011, the North Carolina General Assembly, Session 2011, passed a bill to transfer the management of the State Home Foreclosure Prevention Project and Fund to the Agency. Allocated funds are to be used to counsel homeowners who are at risk of foreclosure. The act became effective July 1, 2011. Per the enabling legislation, the remainder of the 2012 fund in the amount of $2,713,000 was transferred to the Housing Trust Fund in July 2012. These funds complement the amount appropriated by the General Assembly for the Housing Trust Fund. These funds are also reported in *Non-Operating Revenues (Expenses)* in the financial statements.

Federal and State Programs The Agency administers ten federal programs. Of the Agency's federal programs, the Section 8 Programs, the Hardest Hit Fund®, and the HOME Investment Partnerships Program (HOME Program) represent 58%, 31%, and 9% respectively, of federal programs. The Agency receives a fee for administering these programs. The HOME Program is matched with funds appropriated by the General Assembly of the State; the amount of matching funds received during the year was $1,608,000. In June, 2011, the NC General Assembly transferred the management of the State Home Foreclosure Prevention Project to the Agency as of July 1, 2011. The fees collected from Mortgage Servicers were collected by the State of North Carolina and transferred to the Agency on a monthly basis. The amount received for 2012 under *State grant received* was $8,570,000.

Home Ownership Bond Programs The Home Ownership Bond Programs were created through various single-family trust agreements and are restricted as to their use. The proceeds of individual bond issues are used to purchase 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 were used to provide mortgage loans to developers of rental housing projects. As of May 1, 2012, the remaining bonds associated with the Rental Bond Programs were refunded.

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

Cash and cash equivalents *Cash and cash equivalents* are comprised of cash on hand, amounts on deposit with financial institutions, which are insured or are collateralized under provisions of North Carolina laws and regulations, amounts in pooled cash accounts managed by the State Treasurer, and highly liquid investments with original maturities of three months or fewer. Funds deposited in an investment pool of the State Treasurer are invested in a variety of instruments as authorized by State law. The majority of *Cash and cash equivalents* classified as restricted on the balance sheet are restricted for the Agency's debt service payments, bond calls, and for purchasing mortgage loans under the Agency's different programs.

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 are carried at cost less loan loss reserve plus unamortized direct loan origination costs. The estimated loss of mortgage loan interest income from foreclosures was reclassified from a component of *Mortgage loans receivable, net* and *Other expenses* in the prior year to *Accrued interest receivable on mortgage loans* and *Interest on mortgage loans* for fiscal year 2012, respectively. 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 receivables 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 recorded a $48,666,000 receivable for STCs for the fiscal year ended June 30, 2012. This amount represents the remaining 2010 and 2011 outstanding awards. During the year, the Agency received STCs in the amount of $30,726,000 from the General Assembly for the 2009 outstanding awards (second installment) and the 2010 awards (first installment). These funds are committed to provide loans to housing credit properties through the Agency.

Other assets, net Fixed assets, net of accumulated depreciation, in the amount of $3,879,000 are included in *Other assets, net* in the financial statements. Assets of $5,000 or greater are capitalized and depreciated over a five-year economic useful life using the straight-line method.

Recorded in *Other assets* (current) for Federal and State Programs in the amount of $3,568,000 includes Quadel Consulting Corporation contract administration, Hardest Hit Fund® advanced expenses and trustee reconciling items, National Foreclosure Mitigation Counseling (NFMC) rounds four and five program close-out, HOME Program loans closed in fiscal year 2012 but reimbursed in fiscal year 2013, and State Home Foreclosure Prevention Project fees earned but not received. Other assets in the amount of $21,080,000 are reflected in the Home Ownership Bond Programs. Included in this amount are mortgage payments collected by servicers that will be remitted to the Agency in fiscal year 2013 and deferred bond issuance costs of $13,260,000 (see footnote below).

Deferred bond issuance costs These costs are included as a component of *Other assets, net* and represent unamortized bond issuance costs and 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 completed. The amortization of deferred losses on refunding and deferred bond issuance costs is included as a component of *Interest on bonds.*

Bond premium/discount Bond premium/discount on bonds represents the difference in the amount received upon the sale of the bonds versus the par value of the bonds and is included as a part of *Bonds payable, net*. The premiums and discounts relate to the planned amortization (PAC) bonds sold in conjunction with many series in the 1998 and 2009 Housing Revenue Bonds Trust Agreements. The bond premium/discount is amortized using the effective interest rate method over the life of the related PAC bonds and are adjusted accordingly for any bond calls that occur during the year. The amortization of the bond premium/discount is included as a component of *Interest on bonds.*

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. Also included under *Deferred revenues* is funding from the Treasury for the Hardest Hit Fund®. The funds are used for loans to assist homeowners at risk of foreclosure.

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, 2012, these balances are recorded as *Interprogram receivable/(payable)*. These interprogram transactions are eliminated in the financial statements.

Net assets *Net assets* are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, or laws or regulations or by law through constitutional provisions.

The Agency's Board of Directors annually approves an operating budget that is funded with revenues generated by administrative fees earned on federal programs, interest income earned on investments, and reserves from trust agreements. All of these revenue sources are earmarked to cover operating expenses. The decision to use restricted or unrestricted receipts to fund a payment is transaction-based. For projects funded by tax-exempt debt proceeds and other resources, the debt proceeds are always used first.

As of June 30, 2012, the Agency had $14,050,000 of unrestricted net assets. The Agency intends to use 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 are restricted pursuant to the Agency's agreements with its bondholders as determined in each trust agreement. The Agency has restricted net assets in amounts sufficient to meet required debt service and operating expenses as defined by each trust agreement.

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 Accounting and Financial Reporting for Certain Investments and for External Investment Pools 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 years ended June 30, 2012 and 2011 are as follows (*in thousands*):

	June 30, 2012	June 30, 2011
Increase in Operating Income	$ 904	$ 178
Increase in Net Assets	$ 1,089	$ 185

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 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 grant received*, and *State tax credits* 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 2012, the Agency accrued $30,981,000 in *State tax credits* for the 2011 award year.

General and administrative expense *General and administrative expense* is classified by the related program. To the extent allowed by the trust agreements 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 trust agreements 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 based on certain parameters such as office 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, 2012, the Agency had deposits in pooled investment accounts of the State Treasurer with a carrying value of approximately $117,010,000 and a bank balance of approximately $117,713,000. The State Treasurer investment account has the characteristics of a demand deposit account in that the Agency may deposit cash at any time and may withdraw cash at any time without prior notice or penalty. Included in the investment accounts of the State Treasurer is the amount of $3,450,000 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 $297,352,000 and bank balance approximating $297,352,000 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.

Deposits - custodial credit risk Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. At June 30, 2012, the Agency was not exposed to any material custodial credit risk.

Investments Repurchase agreements are collateralized by obligations of the US 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, 2012, approximately $20,439,000 was invested in such long-term agreements having maturity dates ranging from January 1, 2030 to July 1, 2039 primarily at rates ranging from 4.01% to 7.15%.

At June 30, 2012, the Agency held the following investments with the listed maturities at annual rates ranging from 1.25% to 7.15%. Ratings are displayed with the Standard & Poor's rating listed first and the Moody's Investors Service second (*in thousands*):

Investments	Carry Amount	**Investment Maturities (in Years)** Less Than 1	1 - 5	6 – 10	More Than 10
GNMA MBS's Rated AA+/Aaa	$ 1,492	$ -	$ -	$ -	$ 1,492
FNMA MBS's Rated AA+/Aaa	347	-	-	-	347
Repurchase Agreements- Rated AA-/Baa1 or higher	20,439	-	-	-	20,439
US Agency Rated AA+/Aaa	30,283	-	7,318	22,965	-
Total Categorized	$52,561	$ -	$7,318	$22,965	$22,278

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

Credit risk Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. 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 US Government; (ii) obligations issued by an approved Agency or corporation wholly-owned by the US Government; (iii) interest-bearing time deposits, certificates of deposit, or other approved forms of deposits in any bank or trust company in North Carolina which satisfies insurance and, if necessary, collateral requirements for holding Agency money; (iv) duly established investment programs of the State Treasurer; (v) repurchase agreements; and (vi) repurchase agreements with banks and financial institutions which are chartered outside of North Carolina and meet specified rating and collateral requirements of the various trust agreements. Mortgage-Backed Securities (MBS) are securitized by the Federal National Mortgage Association (FNMA), (Fair Value - $347,000, rated AA+/Aaa), and by the Government National Mortgage Association (GNMA), (Fair Value - $1,492,000, rated AA+/Aaa). The Government National Mortgage Association is a direct obligation of the US Government. Repurchase agreements are fully collateralized by obligations issued by the US Government or its agencies. The Government Securities are comprised of Federal Farm Credit Bank and Federal Home Loan Bank Securities which are direct obligations of the Treasury (rated AA+/Aaa). The Government Securities have a Fair Value of $30,283,000.

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 US Government which represent 39% and 58%, respectively, of the Agency's total investments. Investments in any one issuer that represent 5% or more of total investments as of June 30, 2012 are as follows (in thousands):

Investment Issuer	**Amount**
Westdeutsche Landesbank, repurchase agreement	$6,088
FSA Capital Management, repurchase agreement	4,575
Trinity Plus Funding Co, repurchase agreement	4,280
Bayerische Landesbank, repurchase agreement	4,093

Custodial credit risk Custodial credit risk occurs in the event that investment securities are uninsured and are not registered in the name of the Agency, and there is a failure of the counterparty. At year end, the Agency was not exposed to custodial credit risk. The US 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.

Bond proceeds were used to purchase fully-modified mortgage-backed pass-through certificates of 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.

Foreign currency risk Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Agency is not at risk for foreign currency risk.

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 147-69.3e. 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.

As of June 30, 2012, 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 issuances have stated interest rates ranging from 3.25% to 13.00%.

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 US 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, 2012, all outstanding mortgage loans purchased with mortgage revenue bond proceeds satisfy these requirements. The Agency has an allowance for loan losses in the single-family mortgage loan program of $4,569,000 as of June 30, 2012.

Mortgage loans made with funds from the Agency Programs, Housing Trust Fund Programs, and Federal and State Programs have allowances for loan losses of $11,000, $246,000 and $126,000 respectively, as of June 30, 2012.

For the Home Ownership Programs, the Agency has collateralized $1,195,850,000 in mortgage loans receivable, $130,782,000 in debt service, insurance, and revenue reserves and $79,614,000 in Program Funds to repay $1,205,690,000 single-family bonds payable at June 30, 2012. Proceeds from the bonds issued were used to finance housing throughout the State. The bonds are payable through 2041 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, 2012 is $1,981,136,000 (see page 24 "maturities"). For the current fiscal year, scheduled debt service payments in the amount of $118,327,000 were made for the Home Ownership and Rental Bond Programs. Operating Income excluding bond interest expense was $70,428,000 for the Home Ownership and Rental Bond Programs.

D. BONDS PAYABLE

Bonds payable activity for the year ended June 30, 2012 was as follows (*in thousands*):

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds payable				
Home Ownership	$ 1,322,120	$ 210,160	$ (326,590)	$ 1,205,690
Rental	11,010	-	(11,010)	-
	$ 1,333,130	$ 210,160	$ (337,600)	$ 1,205,690
Plus Bond Premium/(Discount)				
Home Ownership	$ 6,503	$ 1,166	$ (1,811)	$ 5,858
Total Bonds payable, net	**$ 1,339,633**	**$ 211,326**	**$ (339,411)**	**$ 1,211,548**

Bonds payable as of June 30, 2012 are as follows (*in thousands*):

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Home Ownership Revenue Bonds			
(1998 Housing Revenue Bonds Trust Agreement)			
Series 2	4.80 - 5.25	2030	$ 6,925
Series 3	5.15 - 5.20	2030	14,950
Series 4	4.75 - 5.30	2030	10,680
Series 8	6.05 - 6.40	2028	700
Series 10	4.50 - 5.40	2033	9,740
Series 12	4.65 - 5.45	2033	31,910
Series 13	4.70 - 5.35	2034	24,880
Series 14	4.60 - 5.53	2034	30,320
Series 15	*Variable - 4.95	2032	23,125
Series 16	*Variable - 5.40	2032	22,200
Series 17	*Variable - 5.00	2034	27,760
Series 18	*Variable - 4.45	2035	24,720
Series 19	3.95 - 5.25	2035	37,360
Series 20	3.90 - 4.75	2035	40,795
Series 21	4.10 - 5.00	2035	37,150
Series 22 A	4.15 - 5.50	2037	40,845
Series 22 CE	4.15 - 5.25	2039	61,585
Series 23	3.75 - 5.00	2037	39,575
Series 24	3.90 - 5.50	2038	53,175
Series 25	4.15 - 5.75	2037	44,735
Series 26	3.75 - 5.50	2038	45,650
Series 27 A	4.40 - 6.00	2038	49,110
Series 28	3.65 - 5.50	2039	48,075
Series 29	4.00 - 5.50	2038	67,785
Series 30	3.60 - 5.50	2039	49,225
Series 31	3.40 - 5.50	2038	51,605
Series 32	4.00	2030	126,840
			$1,021,420
Home Ownership Revenue Bonds			
(2009 Housing Revenue Bonds Trust Agreement)			
Series A-1 and Series 1	0.40 - 4.50	2041	$ 84,270
Series A-2 and Series 2	0.30 - 4.25	2041	100,000
			$ 184,270
Total Bonds Outstanding			$1,205,690
Plus Bond Premium/(Discount)			$ 5,858
Total Home Ownership Bond Programs			**$1,211,548**

*See Footnote E. "Derivative Instrument-Interest Rate Swap" for variable rate interest calculation methodology.

Series 32 in the 1998 Trust Agreement closed on November 17, 2011. On December 1, 2011, the proceeds of Series 32 in the 1998 Trust Agreement refunded all bonds in the following amounts for the series listed below (*in thousands)*:

Series	**Bonds Refunded**
1985 Resolution, Series EE/FF	$ 2,710
1985 Resolution, Series GG/HH	4,085
1985 Resolution, Series KK/LL	4,115
1985 Resolution, Series MM/NN	2,010
1985 Resolution, Series OO/PP	6,410
1985 Resolution, Series QQ/RR	9,255
1985 Resolution, Series SS/TT	4,050
1985 Resolution, Series WW	16,840
1998 Trust Agreement, Series 1	13,740
1998 Trust Agreement, Series 5	11,780
1998 Trust Agreement, Series 6	6,310
1998 Trust Agreement, Series 7	11,540
1998 Trust Agreement, Series 9	22,300
1998 Trust Agreement, Series 11	23,355
Total	**$138,500**

The bonds associated with the 1992 Multifamily Resolution were refunded on May 1, 2012, and the bonds associated with the 1985 Single Family Resolution were refunded on June 10, 2012. The remaining assets in these resolutions were transferred to the 1998 Housing revenue Bonds Trust Agreement.

To the extent provided in the trust agreements, the bonds of each Home Ownership 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 trust agreements 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, 2012, are as follows (*in thousands*):

Bonds Outstanding without Interest Rate Swaps

Fiscal Year Ending June 30	**Principal**	**Interest**
2013	$ 33,480	$ 51,585
2014	34,750	50,244
2015	36,435	48,826
2016	34,445	47,359
2017	34,740	45,917
2018-2022	181,450	206,111
2023-2027	203,950	162,237
2028-2032	253,265	107,549
2033-2037	242,940	47,891
2038-2041	87,260	5,459
Total Requirements	**$ 1,142,715**	**$ 773,178**

Bonds Outstanding with Interest Rate Swaps

Fiscal Year Ending June 30	Principal	Interest
2013	$ 1,355	$ 173
2014	1,300	169
2015	1,235	164
2016	1,185	160
2017	1,695	156
2018-2022	9,490	675
2023-2027	15,695	499
2028-2032	21,870	243
2033-2035	9,150	29
Total Requirements	**$ 62,975**	**$ 2,268**

Total Bonds Outstanding

Fiscal Year Ending June 30	Principal	Interest
2013	$ 34,835	$ 51,758
2014	36,050	50,413
2015	37,670	48,990
2016	35,630	47,519
2017	36,435	46,073
2018-2022	190,940	206,786
2023-2027	219,645	162,736
2028-2032	275,135	107,792
2033-2037	252,090	47,920
2038-2041	87,260	5,459
Total Requirements	**$ 1,205,690**	**$ 775,446**

Bond redemptions The bond resolutions and trust agreements provide for various methods of redemption. Bonds are redeemed at par from prepayments of mortgage loans securing the issues, from unexpended bond proceeds of the issues, 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. Currently, no outstanding bonds have any prepayment premiums.

For the year ended June 30, 2012 bond redemptions and losses recognized by bond programs were as follows (*in thousands*):

Issue	Amount Redeemed	Loss Recorded
Single Family Revenue Bonds (1985 Resolution)	$ 68,595	$ (324)
Housing Revenue Bonds (1998 Trust Agreement)	199,340	(1,174)
Housing Revenue Bonds (2009 Trust Agreement)	24,415	(47)
Total Home Ownership Bond Programs	**$ 292,350**	**$ (1,545)**
Multifamily Revenue Bonds (1992 Resolution)	$ 10,450	$ (411)
Total Multifamily Ownership Bond Programs	**$ 10,450**	**$ (411)**

Special facilities (Conduits) The Agency issued Multifamily Housing 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, 2012 for Special facilities are as follows (*in thousands*):

Issue	Bond Type	Bonds Outstanding
2002 Resolution* (Series A, B, C, D)	Multifamily Housing Revenue Bonds	$ 8,690
2010 Resolution (Series 2010)	Multifamily Housing Revenue Bonds	13,156
Total		**$21,846**

*This is a Section 501(c)3 entity and did not require volume cap when the bonds were issued.

On December 1, 2011, the 2002 Resolution, Housing Facilities Revenue Bonds, were redeemed at par. On June 26, 2012, the 2000 Resolution, Student Housing Variable and Taxable Rate Revenue Bonds were redeemed at par.

E. DERIVATIVE INSTRUMENT - INTEREST RATE SWAP

Summary Information During the reporting period from July 1, 2011, to June 30, 2012 the Agency did not execute or terminate any derivative contracts. On December 15, 2011, the Agency amended its swap agreement on Series 18C with Goldman Sachs Mitsui Marine to reflect a reduced fixed rate of 3.251% as of January 2012 from a prior fixed rate of 3.288%. 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 (*in thousands*):

Hedgeable Item	Hedging Derivative Instrument	Notional Amount	Classification	Fair Value at June 30, 2012 Liability	Classification	Change in Fair Value Decrease
Series 15C Bonds	Pay-Fixed Interest Rate Swap	$14,580	Hedging Derivative	$ (1,371)	Deferred Outflow of Resources	$ (803)
Series 16C Bonds	Pay-Fixed Interest Rate Swap	14,900	Hedging Derivative	(2,220)	Deferred Outflow of Resources	(588)
Series 17C Bonds	Pay-Fixed Interest Rate Swap	17,780	Hedging Derivative	(2,993)	Deferred Outflow of Resources	(1,061)
Series 18C Bonds	Pay-Fixed Interest Rate Swap	17,235	Hedging Derivative	(1,557)	Deferred Outflow of Resources	(631)

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 four series in its 1998 Housing Revenue Bond Trust Agreement as a means to manage the future cash flow impact associated with the hedged debt. The intention of the swap was to create more certainty for the Agency associated with the interest rate spread between its assets and liabilities.

Terms and credit risk The terms and credit risk of the outstanding swaps as of June 30, 2012 were as follows (*in thousands*):

Notional Amount	Counterparty	Counterparty Credit Rating Moody's/S&P	Date of Swap Execution	Maturity Date of Swap	Fixed Rate	Floating Index
$14,580[1]	UBS AG	A2/A	5/8/2003	7/1/2032	3.508%	63%L[2] + 0.30%
14,900[1]	Bank of America, N.A.	A3/A	9/16/2003	7/1/2032	3.810%	63%L[2] + 0.30%
17,780[1]	Bank of America, N.A.	A3/A	12/11/2003	7/1/2032	3.725%	63%L[2] + 0.30%
17,235[1]	Goldman Sachs Mitsui Marine	Aa2/AAA	4/20/2004	1/1/2035	3.251%[3]	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

[3] The fixed rate for the swap on Series 18C was reduced to 3.251% effective January 2012.

Fair value In total, the swaps have a fair value of negative $8,141,000 as of June 30, 2012. Because the coupons on the Agency's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap. Additionally, if at the time of termination, the swap has a negative fair value, the Agency would be liable to the counterparty for a payment equal to the swap's fair value.

Interest rate risk Under all of the swaps, the Agency pays the counterparties a fixed rate and receives a variable payment computed as 63% of 1-Month LIBOR plus 30 basis points. The bonds' variable-rate coupons are remarketed weekly and generally track the variable SIFMA index, which was 0.50% for Series 15 and 0.21% for Series 16, 17, and 18 as of June 30, 2012.

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 swap contracts for the Agency use a compound formula for the floating rate index to reduce this risk. During the accounting period, the Agency realized a benefit of 24.97 basis points (bps) for Series 15, 29.51 bps for Series 16 and 18, and 29.34 bps for Series 17 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 counterpartys' ratings reach A2 for Moody's or A for S&P. Series 16C, 17C and 18C swaps may be terminated if the counterpartys' or the Agency's rating falls below Baa2 as issued by Moody's or BBB as issued by S&P. The Series 15C swap may be terminated if the counterparty's or the Agency's rating falls below Baa3 as issued by Moody's and BBB- as issued by S&P.

Credit risk Credit risk is the risk that the counterparty will not fulfill its obligations. All of the contracts as of June 30, 2012 reflect liabilities and, therefore, the Agency does not have current credit risk on its contracts. The Agency monitors the ratings of its counterparties to ascertain credit risk.

Foreign currency risk Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. All of the Agency's swaps are denominated in US dollars and are, therefore, not subject to foreign currency risk.

Rollover risk Rollover risk exists when the derivative does not last as long as the associated debt is outstanding. The maturity dates of the Agency's swap contracts match the maturity dates of the hedged debts; therefore, the Agency has no rollover risk.

Market access risk Market access risk is the risk that the Agency will not be able to enter credit markets as planned or that credit will become more costly. The Agency's current market access risk is limited because of its recently executed liquidity agreement with TD Bank on January 11, 2012 which will not expire until January 2015, and the Agency has cancellation features available with each of its swaps except for Series 17C, offering the Agency further flexibility.

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, 2012, 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	0.2092	0.4589	0.2497	3.32%	3.2130 – 3.9627	PASS
Series 16C Bonds	0.1638	0.4589	0.2951	3.51%	3.4290 – 4.2291	PASS
Series 17C Bonds	0.1655	0.4589	0.2934	3.43%	3.3525 – 4.1348	PASS
Series 18C Bonds	0.1638	0.4589	0.2951	2.97%	2.9426 – 3.6293	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, 2012, debt service requirements of the variable-rate debt and net swap payments are as follows (*in thousands*):

Fiscal Year	Variable-Rate Bond		Interest Rate	Total
Ending June 30	Principal	Interest	Swap, Net	Interest
2013	$ 1,355	$ 173	$ 1,952	$ 2,125
2014	1,300	169	1,908	2,077
2015	1,235	164	1,867	2,031
2016	1,185	160	1,828	1,988
2017	1,695	156	1,790	1,946
2018-2022	9,490	675	8,023	8,698
2023-2027	15,695	499	6,310	6,809
2028-2032	21,870	243	3,228	3,471
2033-2035	9,150	29	402	431
Total	**$62,975**	**$2,268**	**$27,308**	**$29,576**

F. NONCURRENT LIABILITY

Noncurrent Liability and Current Debt

Noncurrent liability and current debt activity for the year ended June 30, 2012 was as follows *(in thousands):*

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds Payable					
Bonds Payable, net	$1,333,130	$210,160	($337,600)	$1,205,690	$34,835
Bond Premium/(Discount)	6,503	1,166	(1,811)	5,858	-
Derivative Instrument— Interest Rate Swap	5,058	3,083	-	8,141	-
Deferred Revenues	24,982	150,780	(127,586)	48,176	39,080
Other Liabilities					
Arbitrage Rebate Payable	418	1,676	(140)	1,954	1
Compensated Absences	1,018	563	(364)	1,217	127
Deposits Payable	3,420	2,092	(2,056)	3,456	15
	$1,374,529	$369,520	($469,557)	$1,274,492	$74,058

G. OPERATING LEASE

The Agency leases office space with future minimum lease payments of $546,000 for fiscal year 2013, $515,000 for fiscal year 2014, and $130,000 for three months in fiscal year 2015. Total rent expense for all operating leases amounted to $638,000 for the year ended June 30, 2012. The Agency's lease for its main office will expire September 30, 2014.

H. 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, 2012, $143,381,000 which was received by the Agency and disbursed to property owners is included in *Federal program awards received* and *Federal program expense* in Federal and State Programs.

The Agency is designated as the participating entity under grant agreements with HUD for the HOME Program. 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, 2012, $21,221,000 was received and disbursed by the Agency and is included in *Federal program awards received*, *Federal program expense* and *Mortgage loans receivable, net* in 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, 2012, $593,000 was received and disbursed by the Agency and is included in *Federal program awards received* and *Federal program expense* in Federal and State Programs.

The Agency was selected as a participating entity under a grant agreement with Treasury passed through NeighborWorks® for the National Foreclosure Mitigation Counseling Program (NFMC). NFMC provides funding for the purpose of counseling homeowners at risk of foreclosure. For the year ended June 30, 2012, $1,871,000 was received and disbursed by the Agency and is included in *Federal program awards received* and *Federal program expense* in Federal and State Programs.

The Agency was selected as a participating entity under a grant agreement with the Treasury for the Hardest Hit Fund® (HHF). HHF provides funding for the purpose of providing loans to unemployed homeowners unable to make their mortgage payments and in danger of losing their homes to foreclosure.

Loan proceeds will be used to pay the mortgage and related costs such as real estate taxes, homeowner insurance and homeowner dues until the homeowner secures employment or completes training for a new career. For the year ended June 30, 2012, $63,739,000 was received and disbursed to the Agency and is included in *Federal program awards received* and *Federal program expense* in Federal and State Programs.

The Agency was awarded Neighborhood Stabilization Program (NSP) funds through the State of North Carolina, Department of Commerce, Division of Community Assistance. NSP funding is provided to the State through the US Department of Urban Development Community Development Block Grant. NSP provides funding for the purpose of providing zero-interest forgivable loans on foreclosed properties to stabilize neighborhoods in North Carolina. For the year ended June 30, 2012, $449,000 was disbursed by the Agency and is included in *Federal program awards received, Federal program expense* and *Mortgage loans receivable, net* in Federal and State Programs depending upon the terms of the transaction.

The Agency earned fees of $21,328,000 for administering these and other federal programs for the year ended June 30, 2012. Of these fees, $3,754,000 was paid to Quadel Consulting Corporation for the Section 8 Program Contract Administration, and $6,366,000 was paid to counseling agencies for providing counseling services under HHF which is reported in *General and administrative expense*.

Federal awards are subject to audit by the grantor agencies. The Agency could be held liable for amounts received in excess of allowable expenditures.

I. PENSION PLAN

Plan description All permanent full-time employees of the Agency participate in the Teachers' and State Employees' Retirement System of North Carolina (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) 707-0500.

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 13.12% 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, 2012, 2011, and 2010:

	2012	2011	2010
Retirement Benefit	$546,000	$335,000	$244,000
Percentage of Covered Payroll	7.44%	4.93%	3.57%

J. 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 worker's 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 years ended June 30, 2012, 2011, and 2010:

	2012	**2011**	**2010**
Health Care Benefit	$367,000	$333,000	$307,000
Disability Benefit	38,000	35,000	36,000
Death Benefit	12,000	11,000	11,000
Percentage of Covered Payroll			
Health Care Benefit	5.00%	4.90%	4.50%
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.

K. RISK MANAGEMENT

The Agency's risk management policies provide for participation in the State's risk management programs. The following types of risk are covered under these programs, as disclosed in the State 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

The State is responsible for the administration of all liability insurance policies. The deductible and amount of loss in excess of the policy is the responsibility of the Agency.

L. 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, 2012 for these two segments are as follows (*in thousands*):

BALANCE SHEET	**Home Ownership**	**Rental**
ASSETS		
Current assets		
Restricted cash and cash equivalents	$ 172,957	$ -
Accrued interest receivable on investments	137	-
Mortgage loans receivable, net	142,687	-
Accrued interest receivable on mortgage loans	10,258	-
Other assets	8,333	-
Interprogram receivable/(payable)	22	-
TOTAL CURRENT ASSETS	$ 334,394	$ -
Noncurrent assets		
Restricted cash and cash equivalents	$ 79,609	$ -
Restricted investments	43,106	-
Mortgage loans receivable, net	1,049,284	-
Deferred outflow of resources	8,141	-
Other assets, net	12,747	-
TOTAL NONCURRENT ASSETS	$ 1,192,887	$ -
TOTAL ASSETS	$ 1,527,281	$ -
LIABILITIES		
Current liabilities		
Bonds payable	$ 34,835	$ -
Accrued interest payable	26,855	-
Accounts payable	237	-
Other liabilities	1	-
TOTAL CURRENT LIABILITIES	$ 61,928	$ -

BALANCE SHEET (continued)	Home Ownership	Rental
Noncurrent liabilities		
Bonds payable, net	$ 1,176,713	$ -
Derivative instrument - interest rate swap	8,141	-
Other liabilities	1,953	-
TOTAL NONCURRENT LIABILITIES	$ 1,186,807	$ -
TOTAL LIABILITIES	$ 1,248,735	$ -
TOTAL NET ASSETS, RESTRICTED	$ 278,546	$ -
TOTAL LIABILITIES AND NET ASSETS	$ 1,527,281	$ -

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

OPERATING REVENUES		
Interest on investments	$ 6,315	$ 201
Net increase in fair value of investments	532	-
Interest on mortgage loans	68,888	431
Other revenues	15	-
TOTAL OPERATING REVENUE	$ 75,750	$ 632
OPERATING EXPENSES		
Interest on bonds	$ 58,282	$ 816
Mortgage servicing expense	3,178	8
General and administrative	1,270	1
Other expenses	1,497	-
TOTAL OPERATING EXPENSES	$ 64,227	$ 825
OPERATING INCOME	$ 11,523	$ (193)
NON-OPERATING REVENUES (EXPENSES)		
Transfers in (out) to other Agency Programs	$ 13,117	$ (17,343)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$ 13,117	$ (17,343)
CHANGE IN NET ASSETS	$ 24,640	$ (17,536)
TOTAL NET ASSETS - BEGINNING	$ 253,906	$ 17,536
TOTAL NET ASSETS - ENDING	$ 278,546	$ -

STATEMENT OF CASH FLOWS

Net cash provided by operating activities	$ 128,800	$ 2,210
Net cash used in non-capital financing activities	(173,543)	(20,279)
Net cash provided by investing activities	185,987	4,485
Net increase/(decrease) in cash	$ 141,244	$ (13,584)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	111,322	13,584
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 252,566	$ -

M. SUBSEQUENT EVENTS

On July 19, 2012, the Agency issued the Home Ownership Revenue Refunding Bonds, Series 33 for $121,670,000 in the 1998 Trust Agreement, the proceeds of which refunded Series 2, 3, 4, 8, 10, 12, 13 and 14 of the 1998 Trust Agreement on August 1, 2012.

North Carolina Housing Finance Agency

Additional Information

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

5430 Wade Park Blvd
Suite 208
Raleigh, North Carolina 27607

Independent Auditor's Report on Additional Information

Our audits of the basic financial statements 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 additional information 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BDO USA, LLP

September 13, 2012

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING BALANCE SHEET

AS OF JUNE 30, 2012

	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS			RENTAL BOND PROGRAMS	
(in thousands)		Housing Trust Fund	Federal and State Programs	1985	1998	2009	1992	Total
ASSETS								
Current assets:								
Cash and cash equivalents	$ 3,329	-	-	-	-	-	-	$ 3,329
Restricted cash and cash equivalents	39,170	41,727	77,574	-	162,445	10,512	-	331,428
Accrued interest receivable on investments	10	19	-	-	128	9	-	166
Mortgage loans receivable, net	311	1,278	4,214	-	139,222	3,465	-	148,490
Accrued interest receivable on mortgage loans	76	12	19	-	9,866	392	-	10,365
State receivables	48,666	-	-	-	-	-	-	48,666
Other assets	329	-	3,568	-	7,826	507	-	12,230
Interprogram receivable/(payable)	3,731	2,698	(6,451)	-	(38)	60	-	-
TOTAL CURRENT ASSETS	$ 95,622	45,734	78,924	-	319,449	14,945	-	$ 554,674
Noncurrent assets:								
Restricted cash and cash equivalents	$ -	-	-	-	-	79,609	-	$ 79,609
Investments	3,226	-	-	-	-	-	-	3,226
Restricted investments	6,229	-	-	-	40,847	2,259	-	49,335
Mortgage loans receivable, net	4,101	15,104	72,658	-	948,518	100,766	-	1,141,147
Deferred outflow of resources	-	-	-	-	8,141	-	-	8,141
Other assets, net	3,879	-	-	-	11,306	1,441	-	16,626
TOTAL NONCURRENT ASSETS	$ 17,435	15,104	72,658	-	1,008,812	184,075	-	$ 1,298,084
TOTAL ASSETS	$ 113,057	60,838	151,582	-	1,328,261	199,020	-	$ 1,852,758
LIABILITIES								
Current liabilities:								
Bonds payable	$ -	-	-	-	32,980	1,855	-	$ 34,835
Accrued interest payable	-	-	-	-	24,208	2,647	-	26,855
Accounts payable	306	-	2,602	-	217	20	-	3,145
Deferred revenues	1,161	-	37,919	-	-	-	-	39,080
Other liabilities	128	-	14	-	1	-	-	143
TOTAL CURRENT LIABILITIES	$ 1,595	-	40,535	-	57,406	4,522	-	$ 104,058
Noncurrent liabilities:								
Bonds payable, net	$ -	-	-	-	993,161	183,552	-	$ 1,176,713
Derivative instrument - interest rate swap	-	-	-	-	8,141	-	-	8,141
Deferred revenues	9,096	-	-	-	-	-	-	9,096
Other liabilities	4,531	-	-	-	1,953	-	-	6,484
TOTAL NONCURRENT LIABILITIES	$ 13,627	-	-	-	1,003,255	183,552	-	$ 1,200,434
TOTAL LIABILITIES	$ 15,222	-	40,535	-	1,060,661	188,074	-	$ 1,304,492
NET ASSETS								
Restricted	$ 83,785	60,838	111,047	-	267,600	10,946	-	$ 534,216
Unrestricted	14,050	-	-	-	-	-	-	14,050
TOTAL NET ASSETS	$ 97,835	60,838	111,047	-	267,600	10,946	-	$ 548,266
TOTAL LIABILITIES AND NET ASSETS	$ 113,057	60,838	151,582	-	1,328,261	199,020	-	$ 1,852,758

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2012

(in thousands)	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP PROGRAMS			RENTAL BOND PROGRAMS	
		Housing Trust Fund	Federal and State Programs	1985	1998	2009	1992	Total
OPERATING REVENUES								
Interest on investments	$ 502	310	175	1,650	4,555	110	201	$ 7,503
Net increase (decrease) in fair value of investments	372	-	-	(27)	357	202	-	904
Interest on mortgage loans	81	374	892	4,712	61,425	2,751	431	70,666
Federal program awards received	-	-	225,841	-	-	-	-	225,841
Program income/fees	4,879	789	21,576	-	-	-	-	27,244
Other revenues	21	-	1,278	-	15	-	-	1,314
TOTAL OPERATING REVENUES	$ 5,855	1,473	249,762	6,335	66,352	3,063	632	$ 333,472
OPERATING EXPENSES								
Interest on bonds	$ -	-	-	2,498	52,222	3,562	816	$ 59,098
Mortgage servicing expense	9	-	-	194	2,782	202	8	3,195
Federal program expense	573	-	222,488	-	-	-	-	223,061
Nonfederal program expense	2,131	-	-	-	-	-	-	2,131
General and administrative expense	16,741	-	10,120	17	1,199	54	1	28,132
Other expenses	7	523	769	2	1,495	-	-	2,796
TOTAL OPERATING EXPENSES	$ 19,461	523	233,377	2,711	57,698	3,818	825	$ 318,413
OPERATING INCOME (LOSS)	$ (13,606)	950	16,385	3,624	8,654	(755)	(193)	$ 15,059
NON-OPERATING REVENUES (EXPENSES)								
Transfers in (out)	$ 16,579	2,628	(14,981)	(116,674)	118,332	11,459	(17,343)	$ -
State appropriations received	-	7,877	1,796	-	-	-	-	9,673
State grant received	-	-	15,125	-	-	-	-	15,125
State tax credits	30,981	-	-	-	-	-	-	30,981
State program expense	(38,180)	(12,876)	(7,952)	-	-	-	-	(59,008)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$ 9,380	(2,371)	(6,012)	(116,674)	118,332	11,459	(17,343)	$ (3,229)
CHANGE IN NET ASSETS	$ (4,226)	(1,421)	10,373	(113,050)	126,986	10,704	(17,536)	$ 11,830
TOTAL NET ASSETS - BEGINNING	102,061	62,259	100,674	113,050	140,614	242	17,536	536,436
TOTAL NET ASSETS - ENDING	$ 97,835	60,838	111,047	-	267,600	10,946	-	$ 548,266

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2012

(in thousands)	AGENCY PROGRAMS	GRANT PROGRAMS Housing Trust Fund	GRANT PROGRAMS Federal and State Programs	HOME OWNERSHIP PROGRAMS 1985	HOME OWNERSHIP PROGRAMS 1998	HOME OWNERSHIP PROGRAMS 2009	RENTAL BOND PROGRAMS 1992	Total
Cash flows from operating activities:								
Interest on mortgage loans	$ 81	373	894	5,200	61,101	2,391	476	$ 70,516
Principal payments on mortgage loans	401	1,226	4,772	8,074	129,294	1,612	942	146,321
Purchase of mortgage loans	-	(1,840)	(10,408)	(1,299)	(9,973)	(63,952)	-	(87,472)
Federal program awards received	-	-	248,087	-	-	-	-	248,087
Federal program expense	(573)	-	(222,040)	-	-	-	-	(222,613)
Nonfederal program expense	(2,131)	-	-	-	-	-	-	(2,131)
Federal grant administration income	-	-	19,392	-	-	-	-	19,392
Program income/fees	5,518	789	2,184	-	-	-	-	8,491
Other expenses	(17,105)	(16)	(8,762)	(446)	(3,720)	(256)	(9)	(30,314)
Other revenues	189	(2,698)	-	1,129	160	(515)	801	(934)
Net cash (used in) provided by operating activities	$ (13,620)	(2,166)	34,119	12,658	176,862	(60,720)	2,210	$ 149,343
Cash flows from non-capital financing activities:								
Issuance of bonds	$ -	-	-	-	136,160	74,000	-	$ 210,160
Principal repayments on bonds	-	-	-	(72,135)	(229,725)	(24,730)	(11,010)	(337,600)
Interest paid	-	-	-	(3,559)	(55,526)	179	(621)	(59,527)
Bond issuance costs paid	-	-	-	-	(1,384)	(1,313)	-	(2,697)
Net transfers	16,815	2,628	(15,285)	18,584	18,427	(32,521)	(8,648)	-
State appropriations received	-	7,877	1,796	-	-	-	-	9,673
State grant received	-	6,059	15,125	-	-	-	-	21,184
State tax credits	30,726	-	-	-	-	-	-	30,726
State program expense	(38,180)	(12,876)	(7,952)	-	-	-	-	(59,008)
Net cash provided by (used in) non-capital financing activities	$ 9,361	3,688	(6,316)	(57,110)	(132,048)	15,615	(20,279)	$ (187,089)
Cash flows from investing activities:								
Proceeds from sales or maturities of investments	$ -	-	-	41,863	81,602	738,697	5,254	$ 867,416
Purchase of investments	(4,995)	-	-	(8,143)	(71,410)	(603,573)	(985)	(689,106)
Earnings on investments	503	326	175	2,342	4,508	101	216	8,171
Net cash (used in) provided by investing activities	$ (4,492)	326	175	36,062	14,700	135,225	4,485	$ 186,481
Net (decrease) increase in cash	$ (8,751)	1,848	27,978	(8,390)	59,514	90,120	(13,584)	$ 148,735
Cash and cash equivalents at beginning of year	51,250	39,879	49,596	8,390	102,931	1	13,584	265,631
Cash and cash equivalents at end of year	$ 42,499	41,727	77,574	-	162,445	90,121	-	$ 414,366
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:								
Operating (loss) income	$ (13,606)	950	16,385	3,624	8,654	(755)	(193)	$ 15,059
Adjustments to reconcile operating income to net cash (used in) provided by operating activities:								
Interest on investments	(502)	(310)	(175)	(1,650)	(4,555)	(110)	(201)	(7,503)
(Increase) decrease in fair value of investments	(372)	-	-	27	(357)	(202)	-	(904)
Interest on bonds	-	-	-	2,498	52,222	3,562	816	59,098
Net operating transfers	(236)	-	304	(130,436)	97,140	41,923	(8,695)	-
Change in assets and liabilities:								
Decrease (increase) in mortgage loans	399	(91)	(6,451)	136,521	22,151	(104,231)	9,637	57,935
Decrease (increase) in interest receivable on mortgage loans	-	(1)	2	1,165	(86)	(392)	45	733
Decrease (increase) in other assets	(411)	(2,698)	(13)	1,129	145	(515)	801	(1,562)
Increase (decrease) in accounts payable and other liabilities	173	(16)	1,808	(220)	1,548	-	-	3,293
Increase in deferred revenues	935	-	22,259	-	-	-	-	23,194
Total adjustments	$ (14)	(3,116)	17,734	9,034	168,208	(59,965)	2,403	$ 134,284
Net cash (used in) provided by operating activities	$ (13,620)	(2,166)	34,119	12,658	176,862	(60,720)	2,210	$ 149,343