

Semi-Annual Financial Statements

December 31, 2016



Semi-Annual Financial Statements

Six months ended December 31, 2016

North Carolina Housing Finance Agency

**NORTH CAROLINA HOUSING FINANCE AGENCY
FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION
FOR THE SIX MONTHS ENDED DECEMBER 31, 2016**

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NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF NET POSITION

AS OF DECEMBER 31, 2016

(Unaudited)

(in thousands)

ASSETS

Current assets:

Cash and cash equivalents	\$	12,876
Restricted cash and cash equivalents		611,050
Accrued interest receivable on investments		695
Mortgage loans receivable		132,090
Mortgage loans held for resale		3,373
Accrued interest receivable on mortgage loans		5,601
Other assets		7,829
TOTAL CURRENT ASSETS	\$	773,514

Noncurrent assets:

Investments	\$	3,062
Restricted investments		86,684
Mortgage loans receivable, net		624,744
Other assets, net		3,082
TOTAL NONCURRENT ASSETS	\$	717,572
TOTAL ASSETS	\$	1,491,086

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows for pensions	\$	788
Accumulated decrease in fair value of hedging derivative		2,884
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$	3,672

LIABILITIES

Current liabilities:

Bonds payable	\$	24,705
Accrued interest payable		9,921
Accounts payable		2,353
Unearned revenues		52,161
Other liabilities		190
TOTAL CURRENT LIABILITIES	\$	89,330

Noncurrent liabilities:

Bonds payable, net	\$	691,669
Derivative instrument - interest rate swap		2,884
Unearned revenues		12,384
Other liabilities		6,109
TOTAL NONCURRENT LIABILITIES	\$	713,046
TOTAL LIABILITIES	\$	802,376

DEFERRED INFLOWS OF RESOURCES

Deferred state grant	\$	9,218
Deferred inflows for pensions		423
TOTAL DEFERRED INFLOWS OF RESOURCES	\$	9,641

NET POSITION

Restricted	\$	662,332
Unrestricted		20,409
TOTAL NET POSITION	\$	682,741

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

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

SIX MONTHS ENDED DECEMBER 31, 2016

(Unaudited)

(in thousands)

OPERATING REVENUES	
Interest on investments	\$ 3,182
Net decrease in fair value of investments	(3,316)
Interest on mortgage loans	19,290
Federal program awards received	110,403
Program income/fees	37,228
Other revenues	1,042
TOTAL OPERATING REVENUES	\$ 167,829
OPERATING EXPENSES	
Interest on bonds	\$ 13,182
Mortgage servicing expense	1,079
Federal program expense	110,871
Nonfederal program expense	11,710
General and administrative expense	13,736
Other expenses	768
TOTAL OPERATING EXPENSES	\$ 151,346
OPERATING INCOME	\$ 16,483
NON-OPERATING REVENUES (EXPENSES)	
State appropriations received	\$ 15,330
State grants received	9,858
State program expense	(41,016)
TOTAL NON-OPERATING REVENUES (EXPENSES)	\$ (15,828)
CHANGE IN NET POSITION	\$ 655
TOTAL NET POSITION - BEGINNING	\$ 682,086
TOTAL NET POSITION - ENDING	\$ 682,741

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

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF CASH FLOWS

SIX MONTHS ENDED DECEMBER 31, 2016

(Unaudited)

(in thousands)

Cash flows from operating activities:	
Interest on mortgage loans	\$ 19,733
Principal payments on mortgage loans	73,502
Purchase of mortgage loans	(7,795)
Principal payments on mortgage loans held for resale	22,495
Purchase of mortgage loans held for resale	(25,868)
Federal program awards received	137,302
Federal program expense	(111,290)
Nonfederal program expense	(11,710)
Federal grant administration income	7,696
Program income/fees	29,743
Other expenses	(19,598)
Other revenues	3,508
Net cash provided by operating activities	<u>\$ 117,718</u>
Cash flows from non-capital financing activities:	
Issuance of bonds	\$ 216,745
Principal repayments on bonds	(142,730)
Interest paid	(9,474)
Bond issuance costs paid	(1,718)
State appropriations received	15,330
State grants received	14,650
State tax credits	29,752
State program expense	(41,016)
Net cash provided by non-capital financing activities	<u>\$ 81,539</u>
Cash flows from investing activities:	
Proceeds from sales or maturities of investments	\$ 2,885
Purchase of investments	(1,664)
Earnings on investments	4,436
Net cash provided by investing activities	<u>\$ 5,657</u>
Net increase in cash	\$ 204,914
Cash and cash equivalents at beginning of year	419,012
Cash and cash equivalents at end of year	<u>\$ 623,926</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 16,483
Adjustments to reconcile operating income to net cash provided by operating activities:	
Interest on investments	(3,182)
Decrease in fair value of investments	3,316
Interest on bonds	13,182
Change in assets and liabilities:	
Decrease in mortgage loans receivable	65,141
Decrease in accrued interest receivable on mortgage loans	533
Increase in mortgage loans held for resale	(3,373)
Decrease in other assets	3,343
Decrease in accounts payable and other liabilities	(5,466)
Increase in unearned revenues	27,741
Total adjustments	<u>\$ 101,235</u>
Net cash provided by operating activities	<u>\$ 117,718</u>

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

NOTES TO FINANCIAL STATEMENTS *(Unaudited)*

- A. BASIS OF PRESENTATION** The accompanying financial statements of the 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. For full note disclosure, refer to the June 30, 2016 financial statements posted on the website at www.nchfa.com.

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

Agency Programs Direct administrative and operational activities, including operating expenses of various programs, are recorded in Agency Programs.

Housing Trust Fund Programs The North Carolina Trust and Oil Overcharge Act created the North Carolina Housing Trust Fund (“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 Housing Partnership is responsible for developing policy for 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. The Agency received State appropriations in the amount of \$13,830,000 for the six months ended December 31, 2016. Of this amount, \$3,830,000 is a recurring appropriation that is used to make loans and grants under the Housing Trust Fund Programs. The remaining \$10,000,000 nonrecurring appropriation is the Workforce Housing Loan Program which makes loans for qualified North Carolina low-income multifamily housing developments.

The General Assembly appropriated \$5,520,000 from the North Carolina Department of Health and Human Services (“DHHS”) for the Community Living Housing Fund to provide permanent community-based housing in integrated settings appropriate for individuals with severe and persistent mental illness. These appropriations are reported in *State grants received*. Additional funds for the Community Living Housing Fund in the amount of \$9,218,000 were received and recorded as *Deferred state grant*. These funds will only be available for disbursement upon appropriation by the General Assembly.

On December 14, 2016 the General Assembly appropriated \$20,000,000 to the Housing Trust Fund to mitigate damage caused by Hurricane Matthew and the wildfires in the western part of the State. The Agency announced a proposal to make funds available to eligible organizations for the rehabilitation of homes and properties in affected counties.

Federal and State Programs The Agency administers seven federal programs. Of the Agency's federal programs, the Section 8 Programs, the Hardest Hit Fund®, and the HOME Investment Partnerships Program (“HOME Program”) represent 61%, 26%, and 9%, respectively. The Agency receives a fee for administering these programs. The HOME Program is matched with funds appropriated by the General Assembly; the amount of matching funds received during the six months ended December 31, 2016 was \$1,500,000. Also, \$2,627,000 was received from DHHS to provide rent assistance for extremely low-income persons with disabilities, including the homeless, and \$1,711,000 for Community Living Rental Assistance to provide rental assistance under the Department of Justice Olmstead Settlement Agreement. These monies from the State are reported in the financial statements as *Non-Operating Revenues (Expenses)*.

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 from individual bond issues have historically been used to purchase first-time homebuyer mortgage loans for single-family residential units associated with the Agency's FirstHome Mortgage program. In November 2016, the Agency issued bonds for the purpose of purchasing mortgage-backed securities ("MBS") associated with the Agency's NC Home Advantage Mortgage ("HomeAd") program. Therefore, the 1998 Home Ownership Bond Program reflects both *Mortgage loans receivable, net* for the FirstHome loans as well as *Investments* for the MBS associated with the HomeAd program.

On September 1, 2016, the Agency signed a contract with its master servicer to purchase a limited number of mortgage loans associated with its HomeAd program. The Agency holds the loans on a short-term basis between the time of purchase to the time the loans are pooled into an MBS. These loans held on a short-term basis are reflected in *Mortgage loans held for resale*, and their associated interest income and servicer fee expense are reflected in *Interest on mortgage loans* and *Mortgage servicing expense*.

B. BONDS PAYABLE

Bonds payable activity for the six months ended December 31, 2016 is as follows (*in thousands*):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Bonds payable				
Home Ownership	\$ 637,190	\$ 216,745	\$ (142,730)	\$ 711,205
Bond premium	1,712	3,981	(524)	5,169
Total Bonds payable, net	\$ 638,902	\$ 220,726	\$ (143,254)	\$ 716,374

Bonds payable as of December 31, 2016 is as follows (*in thousands*):

<u>Issue</u>	<u>Stated Rates (%)</u>	<u>Final Maturity</u>	<u>Principal Amount</u>
Home Ownership Revenue Bonds			
(1998 Housing Revenue Bonds Trust Agreement)			
Series 22 CE	4.550 - 5.250	1/1/2039	27,760
Series 27 A	6.000	1/1/2038	5,170
Series 28	3.850 - 4.800	1/1/2039	19,970
Series 29	4.350 - 4.850	7/1/2038	25,820
Series 30	4.000 - 5.250	7/1/2039	20,230
Series 31	3.850 - 5.250	7/1/2038	21,140
Series 32	4.00	1/1/2030	57,930
Series 33	1.817 - 4.319	1/1/2034	64,335
Series 34	1.512 - 4.002	7/1/2035	37,900
Series 35	1.194 - 3.886	7/1/2032	34,385
Series 36	0.917 - 3.907	1/1/2033	55,490
Series 37	Variable - 3.600	7/1/2041	216,745
			<u>\$ 586,875</u>

<u>Issue</u>	<u>Stated Rates (%)</u>	<u>Final Maturity</u>	<u>Principal Amount</u>
Home Ownership Revenue Bonds			
(2009 Housing Revenue Bonds Trust Agreement)			
Series A-1 and Series 1	2.375 - 4.500	7/1/2041	\$ 52,155
Series A-2 and Series 2	2.200 - 4.250	7/1/2041	<u>72,175</u>
			<u>\$ 124,330</u>
Total Bonds Outstanding			<u>\$ 711,205</u>
Plus Bond Premium			<u>\$ 5,169</u>
Home Ownership Bond Programs			<u><u>\$ 716,374</u></u>

Special Facilities (Conduits) The Agency issued Multifamily Housing Revenue Bonds which are not presented in the financial statements of the Agency. These bonds are secured solely by the properties and related revenues of the projects and the applicable credit enhancements, with the exception of the 2002 Resolution, which is secured by payments received on GNMA mortgages. 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 December 31, 2016 for special facilities is as follows (*in thousands*):

<u>Issue</u>	<u>Bond Type</u>	<u>Bonds Outstanding</u>
2002 Resolution* (Series D)	Multifamily Housing Revenue Bonds	\$ 2,085
2016 Resolution	Multifamily Housing Revenue Bonds	<u>14,800</u>
Total		<u><u>\$ 16,885</u></u>

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

On October 3, 2016, the 2014 Resolution, Multifamily Housing Revenue Bonds, were redeemed at par.

North Carolina Housing Finance Agency

Additional Information

NORTH CAROLINA HOUSING FINANCE AGENCY
COMBINING STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2016
(Unaudited)

(in thousands)	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS		Total
		Housing Trust	Federal and	1998	2009	
		Fund	State Programs			
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 12,876	-	-	-	-	\$ 12,876
Restricted cash and cash equivalents	61,833	72,713	134,975	334,927	6,602	611,050
Accrued interest receivable on investments	39	60	-	554	42	695
Mortgage loans receivable	370	1,462	9,164	104,227	16,867	132,090
Mortgage loans held for resale	-	-	-	3,373	-	3,373
Accrued interest receivable on mortgage loans	3	16	42	4,711	829	5,601
Other assets	465	60	2,503	4,153	648	7,829
Interprogram receivable (payable)	2,717	(17)	(3,959)	1,008	251	-
TOTAL CURRENT ASSETS	\$ 78,303	74,294	142,725	452,953	25,239	\$ 773,514
Noncurrent assets:						
Investments	\$ 3,062	-	-	-	-	\$ 3,062
Restricted investments	8,184	-	-	70,293	8,207	86,684
Mortgage loans receivable, net	2,416	15,728	82,512	414,912	109,176	624,744
Other assets, net	3,082	-	-	-	-	3,082
TOTAL NONCURRENT ASSETS	\$ 16,744	15,728	82,512	485,205	117,383	\$ 717,572
TOTAL ASSETS	\$ 95,047	90,022	225,237	938,158	142,622	\$ 1,491,086
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows for pensions	\$ 788	-	-	-	-	\$ 788
Accumulated decrease in fair value of hedging derivative	-	-	-	2,884	-	2,884
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 788	-	-	2,884	-	\$ 3,672
LIABILITIES						
Current liabilities:						
Bonds payable	\$ -	-	-	21,430	3,275	\$ 24,705
Accrued interest payable	-	-	-	7,979	1,942	9,921
Accounts payable	132	-	1,419	539	263	2,353
Unearned revenues	1,587	-	50,574	-	-	52,161
Other liabilities	163	2	6	19	-	190
TOTAL CURRENT LIABILITIES	\$ 1,882	2	51,999	29,967	5,480	\$ 89,330
Noncurrent liabilities:						
Bonds payable, net	\$ -	-	-	570,179	121,490	\$ 691,669
Derivative instrument - interest rate swap	-	-	-	2,884	-	2,884
Unearned revenues	12,384	-	-	-	-	12,384
Other liabilities	6,109	-	-	-	-	6,109
TOTAL NONCURRENT LIABILITIES	\$ 18,493	-	-	573,063	121,490	\$ 713,046
TOTAL LIABILITIES	\$ 20,375	2	51,999	603,030	126,970	\$ 802,376
DEFERRED INFLOWS OF RESOURCES						
Deferred state grant	\$ -	9,218	-	-	-	\$ 9,218
Deferred inflows for pensions	423	-	-	-	-	423
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 423	9,218	-	-	-	\$ 9,641
NET POSITION						
Restricted	\$ 54,628	80,802	173,238	338,012	15,652	\$ 662,332
Unrestricted	20,409	-	-	-	-	20,409
TOTAL NET POSITION	\$ 75,037	80,802	173,238	338,012	15,652	\$ 682,741

NORTH CAROLINA HOUSING FINANCE AGENCY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
SIX MONTHS ENDED DECEMBER 31, 2016
(Unaudited)

(in thousands)	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS		Total
		Housing Trust Fund	Federal and State Programs	1998	2009	
OPERATING REVENUES						
Interest on investments	\$ 484	313	313	1,955	117	\$ 3,182
Net decrease in fair value of investments	(236)	-	-	(2,778)	(302)	(3,316)
Interest on mortgage loans	23	283	587	15,876	2,521	19,290
Federal program awards received	-	-	110,403	-	-	110,403
Program income/fees	7,918	676	12,887	15,747	-	37,228
Other revenues	3	6	600	433	-	1,042
TOTAL OPERATING REVENUES	\$ 8,192	1,278	124,790	31,233	2,336	\$ 167,829
OPERATING EXPENSES						
Interest on bonds	\$ -	-	-	11,249	1,933	\$ 13,182
Mortgage servicing expense	-	-	-	851	228	1,079
Federal program expense	-	-	110,871	-	-	110,871
Nonfederal program expense	985	-	-	10,725	-	11,710
General and administrative expense	9,752	-	3,491	470	23	13,736
Other expenses	2	-	274	445	47	768
TOTAL OPERATING EXPENSES	\$ 10,739	-	114,636	23,740	2,231	\$ 151,346
OPERATING (LOSS) INCOME	\$ (2,547)	1,278	10,154	7,493	105	\$ 16,483
NON-OPERATING REVENUES (EXPENSES)						
Transfers in (out)	\$ 12,000	(40)	(11,960)	-	-	\$ -
State appropriations received	-	13,830	1,500	-	-	15,330
State grants received	-	5,520	4,338	-	-	9,858
State program expense	(24,936)	(10,436)	(5,644)	-	-	(41,016)
TOTAL NON-OPERATING REVENUES (EXPENSES)	\$ (12,936)	8,874	(11,766)	-	-	\$ (15,828)
CHANGE IN NET POSITION	\$ (15,483)	10,152	(1,612)	7,493	105	\$ 655
TOTAL NET POSITION - BEGINNING	\$ 90,520	70,650	174,850	330,519	15,547	\$ 682,086
TOTAL NET POSITION - ENDING	\$ 75,037	80,802	173,238	338,012	15,652	\$ 682,741

NORTH CAROLINA HOUSING FINANCE AGENCY
COMBINING STATEMENT OF CASH FLOWS
SIX MONTHS ENDED DECEMBER 31, 2016
(Unaudited)

(in thousands)	AGENCY	GRANT	PROGRAMS	HOME OWNERSHIP BOND PROGRAMS		Total
	PROGRAMS	Housing Trust Fund	Federal and State Programs	1998	2009	
Cash flows from operating activities:						
Interest on mortgage loans	\$ 23	283	638	16,270	2,519	\$ 19,733
Principal payments on mortgage loans	101	581	10,389	52,903	9,528	73,502
Purchase of mortgage loans	-	(250)	(7,465)	(80)	-	(7,795)
Principal payments on mortgage loans held for resale	-	-	-	22,495	-	22,495
Purchase of mortgage loans held for resale	-	-	-	(25,868)	-	(25,868)
Federal program awards received	-	-	137,302	-	-	137,302
Federal program expense	-	-	(111,290)	-	-	(111,290)
Nonfederal program expense	(985)	-	-	(10,725)	-	(11,710)
Federal grant administration income	-	-	7,696	-	-	7,696
Program income/fees	8,129	676	5,191	15,747	-	29,743
Other expenses	(12,285)	(148)	(4,258)	(2,617)	(290)	(19,598)
Other revenues	(2,714)	141	-	5,909	172	3,508
Net cash (used in) provided by operating activities	\$ (7,731)	1,283	38,203	74,034	11,929	\$ 117,718
Cash flows from non-capital financing activities:						
Issuance of bonds	\$ -	-	-	216,745	-	\$ 216,745
Principal repayments on bonds	-	-	-	(121,680)	(21,050)	(142,730)
Interest paid	-	-	-	(7,069)	(2,405)	(9,474)
Bond issuance costs paid	-	-	-	(1,718)	-	(1,718)
Net transfers	12,000	(40)	(11,960)	-	-	-
State appropriations received	-	13,830	1,500	-	-	15,330
State grants received	-	9,218	5,432	-	-	14,650
State tax credits	29,752	-	-	-	-	29,752
State program expense	(24,936)	(10,436)	(5,644)	-	-	(41,016)
Net cash provided by (used in) non-capital financing activities	\$ 16,816	12,572	(10,672)	86,278	(23,455)	\$ 81,539
Cash flows from investing activities:						
Proceeds from sales or maturities of investments	\$ -	-	-	2,885	-	\$ 2,885
Purchase of investments	-	-	-	(1,664)	-	(1,664)
Earnings on investments	483	292	313	3,230	118	4,436
Net cash provided by investing activities	\$ 483	292	313	4,451	118	\$ 5,657
Net increase (decrease) in cash	\$ 9,568	14,147	27,844	164,763	(11,408)	\$ 204,914
Cash and cash equivalents at beginning of year	65,141	58,566	107,131	170,164	18,010	419,012
Cash and cash equivalents at end of year	\$ 74,709	72,713	134,975	334,927	6,602	\$ 623,926
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:						
Operating (loss) income	\$ (2,547)	1,278	10,154	7,493	105	\$ 16,483
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:						
Interest on investments	(484)	(313)	(313)	(1,955)	(117)	(3,182)
Decrease in fair value of investments	236	-	-	2,778	302	3,316
Interest on bonds	-	-	-	11,249	1,933	13,182
Change in assets and liabilities:						
Decrease in mortgage loans receivable	102	325	2,574	52,596	9,544	65,141
Decrease in interest receivable on mortgage loans	-	-	51	480	2	533
Increase in mortgage loans held for resale	-	-	-	(3,373)	-	(3,373)
(Increase) decrease in other assets	(2,317)	141	(472)	5,823	168	3,343
Decrease in accounts payable and other liabilities	(3,091)	(148)	(1,162)	(1,057)	(8)	(5,466)
Increase in unearned revenues	370	-	27,371	-	-	27,741
Total adjustments	\$ (5,184)	5	28,049	66,541	11,824	\$ 101,235
Net cash (used in) provided by operating activities	\$ (7,731)	1,283	38,203	74,034	11,929	\$ 117,718



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

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

Our Values : We Care, We Act, We Lead

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