NORTH CAROLINA HOUSING FINANCE AGENCY
FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008

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FINANCIAL STATEMENTS

ADDITIONAL INFORMATION

MANAGEMENT DISCUSSION AND ANALYSIS (*Unaudited*)
June 30, 2008

Our discussion and analysis of the North Carolina Housing Finance Agency's (the "Agency") financial performance provides an overview of the Agency's financial activities for the year ended June 30, 2008. The financial statements, accompanying notes, and additional information should be read in conjunction with the following discussion.

Overview

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

Financial Highlights

The following information is an analysis of the Agency's performance for the year ended June 30, 2008:

- The Agency's total assets decreased $6,408,000 or .3% and total liabilities decreased $47,381,000 or 2.9%.
    - Mortgage loans receivable increased $223,810,000 or 16.6%. Last summer and fall the Agency experienced unprecedented demand for its FirstHome Mortgage product. During this same time, the broader mortgage market was experiencing turmoil and many borrowers were seeking the Agency's product as a safe alternative. In order to meet the demand, the Agency issued two new bond series, 30 and 31, in its 98 Home Ownership Revenue Bonds for a total of $130,000,000. The Agency also remarketed Convertible Option Bonds (COBs) for Series 22CE in the amount of $80,000,000 to provide additional capital for FirstHome loans. During the winter and spring, the credit markets further tightened and the mortgage issuers enacted additional restrictions that made it difficult for first-time homebuyers to purchase a home without a down payment. These new restrictions, along with a volatile bond market, resulted in a decline in the number of loans purchased by the Agency. In June 2008, the Agency remarketed the series 27 COB in the amount of $65,000,000 and used savings from the COB to provide a favorable interest rate for its borrowers. The $848,000 or 10.6% increase in the accrued interest receivable on mortgage loans is a reflection of the increased loan production. The $49,391,000 or 3.1% decrease in bonds payable is attributable to the remarketing of the COBs (see additional comments under Debt Administration).
    - Investments decreased $358,808,000 or 68.8% due to the liquidation of the investment agreements associated with the remarketed COBs. Accrued interest receivable on investments decreased $517,000 or 18.9% because of the remarketed COBs and declining interest rates.
    - State tax credits receivable increased $7,863,000 or 19.0%. More awards were distributed to lower-income counties where projects receive higher state tax credits.
    - Other assets decreased $2,660,000 or 14.7% as a note receivable in the amount of $5,000,000 was paid back to the Agency. This was offset by monthly mortgage loan accounts receivable from our servicers increasing as a result of an increase in the mortgage loans receivable repayments.
    - Accounts payable increased $387,000 or 21.1% as third-party administrative fees and loans-in-progress accruals increased. The $784,000 or 15.8% increase in other liabilities was due to changes in the Agency's arbitrage liability and the Agency's mortgage loans escrow liability balances.

- Operating revenues increased $19,613,000 or 7.5%. Operating expenses increased $21,444,000 or 9.2%.
  - Interest on investments decreased $3,929,000 or 13.3% as market conditions resulted in lower interest rates. Funds were moved to higher yielding accounts to maximize the Agency's return.
  - The net decrease in the fair value of the Agency's investments of $460,000 or 26.7% resulted from current interest rate conditions as of June 30, 2008.
  - Mortgage loans interest income increased $12,743,000 or 17.9% and Federal program awards received increased $10,294,000 or 7.2% due to the higher volume of mortgage loans. Other revenues increased $935,000 or 117.9% as several multifamily loans in the Agency's Federal and State Programs were paid off. The increase was also attributed to the gains recognized when government investments were called.
  - Interest expense increased $4,903,000 or 6.4% as a result of the new bonds issued. Mortgage servicing expense increased $771,000 or 19.4% due to the higher level of loan activity. The Federal program expense increased $12,933,000 or 9.4% due to the Section 8 Contract Administration Program and the increased production in the Preservation Loan Program and the Rental Production Program. The Nonfederal program expenses increased $1,642,000 or 155.3% due to increased activity in the HELP loan program and Down Payment Assistance Program. General and administrative expenses increased $885,000 or 6.5% as a result of increased salaries, benefits, and general operating costs from the growth of the Agency.
  - Other Expenses increased $310,000 or 55.6%. Current market conditions caused an increase in delinquencies in the non-bond loan portfolio. These delinquencies resulted in an increase in the Agency's loan loss reserve.
- Non-operating revenues and expenses increased $6,738,000 or 85.0%.
  - State appropriations received decreased $3,580,000 or 16.1% due to a decrease in the Housing 400 Initiative funding from the State's Housing Trust Fund and a slight decrease in the HOME match funding.
  - State grants received increased $4,555,000 or 100% as the Agency agreed to administer North Carolina Department of Health and Human Services operating subsidies under the Key Program.
  - As of June 30, 2007, the Agency recognized State tax credit revenue for the 2006 award in the amount of $25,859,000. For the fiscal year ended June 30, 2008, the Agency recognized revenue for the 2007 award year in the amount of $35,701,000, resulting in a net increase of $9,842,000 or 38.1%.
- Net assets increased $40,973,000 or 9.5% due to the increase in loan production and the net result of activities surrounding the Agency's management of debt and investments. (See additional comments under Debt Administration).

Financial Analysis

The following tables summarize the change in net assets between June 30, 2008, and 2007 (*in thousands*):

Condensed Balance Sheet Information

	2008	2007	Change	%
Assets				
Cash and cash equivalents	$ 247,564	$ 124,508	$ 123,056	98.8
Accrued interest receivable on investments	2,219	2,736	(517)	(18.9)
Accrued interest receivable on mortgage loans	8,823	7,975	848	10.6
Investments	162,567	521,375	(358,808)	(68.8)
Mortgage loans receivable, net	1,570,116	1,346,306	223,810	16.6
State tax credits receivable	49,256	41,393	7,863	19.0
Other assets, net	15,386	18,046	(2,660)	(14.7)
Total Assets	$ 2,055,931	$ 2,062,339	$ (6,408)	(0.3)

	2008	2007	Change	%
Liabilities				
Bonds payable	$ 1,549,998	$ 1,599,389	$ (49,391)	(3.1)
Accrued interest payable	15,976	15,863	113	0.7
Accounts payable	2,218	1,831	387	21.1
Deferred revenues	8,674	7,948	726	9.1
Other liabilities	5,756	4,972	784	15.8
Total Liabilities	$ 1,582,622	$ 1,630,003	$ (47,381)	(2.9)
Net Assets				
Restricted	$ 459,323	$ 417,733	$ 41,590	10.0
Unrestricted	13,986	14,603	(617)	(4.2)
Total Net Assets	$ 473,309	$ 432,336	$ 40,973	9.5
Total Liabilities and Net Assets	$ 2,055,931	$ 2,062,339	$ (6,408)	(0.3)

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

	2008	2007	Change	%
Operating Revenues				
Interest on investments	$ 25,694	$ 29,623	$ (3,929)	(13.3)
Net increase in fair value of investments	1,260	1,720	(460)	(26.7)
Interest on mortgage loans	84,098	71,355	12,743	17.9
Federal program awards received	153,738	143,444	10,294	7.2
Nonfederal awards received	-	18	(18)	(100.0)
Program income/fees	13,566	13,518	48	0.4
Other revenues	1,728	793	935	117.9
Total Operating Revenues	$ 280,084	$ 260,471	$ 19,613	7.5
Operating Expenses				
Interest on bonds	$ 80,986	$ 76,083	$ 4,903	6.4
Mortgage servicing expense	4,749	3,978	771	19.4
Federal program expense	149,908	136,975	12,933	9.4
Nonfederal program expense	2,699	1,057	1,642	155.3
General and administrative	14,565	13,680	885	6.5
Other expenses	868	558	310	55.6
Total Operating Expenses	$ 253,775	$ 232,331	$ 21,444	9.2
Operating Income	$ 26,309	$ 28,140	$ (1,831)	(6.5)
Non-operating Revenues (Expenses)				
State appropriations received	$ 18,608	$ 22,188	$ (3,580)	(16.1)
State grant received	4,555	-	4,555	100.0
State tax credits	35,701	25,859	9,842	38.1
State program expense	(44,200)	(40,121)	(4,079)	(10.2)
Total Non-operating Revenues (Expenses)	$ 14,664	$ 7,926	$ 6,738	85.0
Change in Net Assets	$ 40,973	$ 36,066	$ 4,907	13.6

New Business

For fiscal year 2008, the General Assembly appropriated $18,608,417 to the Agency that included an increase of $5 million in recurring funds for the Housing Trust Fund (HTF). This increase brings the annual recurring appropriation for HTF to approximately $8 million. The budget also includes approximately $7.5 million in nonrecurring funds for the Housing Trust Fund that is targeted to produce independent and supportive apartments for persons with disabilities. Also appropriated to the Agency was approximately $1.5 million in nonrecurring funds for the Home Protection Program.

The Agency currently has a record number of loans in its portfolio – up from 15,440 loans as of June 30, 2007 to 16,960 as of June 30, 2008. Although the Agency has seen a decrease in mortgages closed in the latter part of fiscal year 2008, it is still closing mortgages at a higher rate than in years prior to fiscal year 2007. The Agency attributes this trend to the stability of its 30-year fixed-rate mortgages in an otherwise unstable market. This overall increase in mortgages has been accomplished without a significant increase in delinquencies or foreclosures. The Agency's quarterly delinquency rate for loans that are 60 days plus delinquent is 2.43%. This is in line with the North Carolina average of 2.43%. While delinquencies on a national front are a significant problem, the Agency's delinquency rate is below the national average of 6.35%.

In May 2008, the Agency reached an agreement with U.S. Bank to act as a servicer for its FirstHome loans. U.S. Bank has a division that specializes exclusively in servicing mortgage-revenue-bond loans. Based upon U.S. Bank's experience with bond loans and competitive servicing release premiums, the Agency believes this relationship will benefit its borrowers, its lenders, and the Agency.

Statutory authority was granted to the Agency to appoint its bond financing team. This followed the closure of the municipal securities division at UBS, the Agency's long-time senior underwriter. In June 2008, the Agency sent out a request for proposals for senior underwriting services. The Agency expects to have a recommendation for a new senior underwriter by September 2008.

In response to the nationwide sub-prime foreclosure crisis, Congress approved the National Foreclosure Mitigation Counseling Program and selected NeighborWorks ® America to administer the program. The Agency solicited local counseling agencies across the state to participate in the competitive grant application and program. With the information obtained during the solicitation process, the Agency submitted an application in February 2008 containing projections received from 20 local counseling agencies which outlined counseling session goals for each agency. In March of 2008, the Agency was awarded $3,033,000 of these Federal funds. North Carolina's award was the 11th largest grant in the country and the 5th largest awarded to a state housing agency. The grant will pay the local counseling agencies for approximately 12,000 counseling sessions to help prevent foreclosure. The Agency is responsible for receiving monthly reporting from the 20 counseling agencies and meeting quarterly reporting requirements of NeighborWorks ® America. As of June 30, 2008, the Agency has received the first draw of funds of $1,221,811, and approximately one-third of these funds have been disbursed to the local agencies for counseling sessions and program-related support.

The Agency has taken the lead in promoting energy-efficient construction across the state by holding training sessions that give the contractors the skills to either build or rehabilitate energy-efficient homes. These skills were used in virtually all the Habitat for Humanity homes funded by the Agency in 2008. Energy Star specifications are being used in 20 tax credit projects that will provide 1,043 energy-efficient rental units. In June 2008, the Agency completed second mortgage funding of the 1,000th SystemVision house. These homes far exceed the national Energy Star guidelines for energy conservation by providing additional operating efficiencies in the homes' other systems.

The National Council of State Housing Agencies awarded the Agency the Legislative Award for Federal Legislative Campaign. The award recognizes the Agency's strategic efforts to reach out to its Congressional delegation. The Agency provides members of Congress and their staffs direct contact with caseworkers in their respective districts and holds an annual housing briefing.

Debt Administration

The Agency's bonds payable decreased 3.1% during fiscal year 2008. The Agency issued two Home Ownership Bond Series in the amount of $130,000,000 (Series 30 and Series 31) and remarketed two existing series of Convertible Option Bonds (COBs) in the amount of $145,000,000 (Series 22CE and Series 27) to be used for the purchase of FirstHome mortgages. Because of the unstable bond market, the Agency used some prepayments to fund mortgages. This enabled the Agency to delay the issuance of bonds until a favorable market for bond pricing. Through the FirstHome Mortgage Program, the Agency assisted 2,456 additional families this year.

The Agency had scheduled bond maturities of $29,615,000 for Single-family Revenue Bonds and $1,435,000 for Multifamily Revenue Bonds. There were unscheduled bond redemptions of $280,600,000 for Single-family Revenue Bonds and $13,140,000 for the Multifamily Revenue Bonds. Refer to the accompanying footnotes for more detailed information concerning maturities and redemptions for the Single-family and Multifamily Revenue Bonds.

The Agency acted as a conduit and issued $9,385,000 of Multifamily Housing Revenue Bonds on January 24, 2008 to finance the acquisition and rehabilitation of nine separate multifamily housing projects. These bonds will allow for the preservation of the affordable housing stock in the State. The bonds are secured solely by the properties and related revenues and are not guaranteed by the Agency. The projects received firm commitments from USDA/Rural Development for permanent funding from their Section 515 program. At the end of construction, the equity from the sale of Federal Housing Credits and the Section 515 loan will be used to retire the bonds.

The Agency has many direct and indirect business partners including investment agreement providers, mortgage lenders, and bond insurers. In light of the volatile market, the Agency continues to closely monitor the ratings and economic situation of these business partners to ensure that there are no negative impacts to the Agency's bond ratings.

Programs

Home Ownership Programs Since the inception of the Agency, over $5.3 billion in mortgage loans have been financed for first-time homebuyers. For the FirstHome Mortgage Program this year, 32% of mortgages were issued to homebuyers earning less than 60% of area median income, 36% of mortgages to buyers earning 61% to 80% of area median income, and 32% to buyers earning more than 80% of area median. Currently, the Agency has 16,960 loans in its portfolio. The majority of these loans are serviced by outside servicers.

The Agency established a Mortgage Credit Certificate (MCC) Program in July 1987. A MCC permits first-time homebuyers who are within federal guidelines for family income and acquisition cost to take 20% of annual mortgage interest as a federal income tax credit. As of June 30, 2008, the Agency had issued 24,116 Mortgage Credit Certificates under the MCC program totaling $1,819,210,000 in credit authority.

The Home Saver Loan Program was created to assist borrowers of the Agency's FirstHome loans. It provides payments or forbearance for up to four months of principal and interest payments should a borrower become eligible for unemployment benefits. The program helps families avoid losing their homes to foreclosure. As of June 30, 2008, the Home Saver Loan Program has assisted 157 homeowners using $326,000 of financing.

The Home Protection Program (HPP) was expanded into 61 counties effective July 1, 2007. HPP has helped homeowners who lost their jobs due to changing economic conditions by providing loans up to $20,000 for their mortgage payments. Potential applicants are referred to the Agency through housing counselors. More than 450 families have benefited from the temporary stay of foreclosure offered by the program. Since the Program's inception, the Agency has approved 331 loans and committed $3,460,000 in loan assistance.

Through three strategic loan pools, the Agency helped 129 community-based groups bring homeownership opportunities to 406 lower-income families this year and helped reverse local imbalances in homeownership rates by race. A total of 254 of the homes produced under the loan pools were SystemVision high-performance homes. The New Homes Loan Pool works with local homebuyer education and counseling organizations, while the Individual Development Account (IDA) Loan Pool works through local IDA sites that match participant savings. Through the Self-Help Loan Pool, the Agency continued its partnership with Habitat for Humanity (Habitat), investing about $5 million to finance over 200 homes - the majority of the Habitat homes built in North Carolina this year. To date, the Agency has provided over $20 million in funding for Habitat homes.

The Single-Family Rehabilitation (SFR) Program provides deferred forgivable loans to rehabilitate moderately deteriorated owner-occupied homes, primarily targeting homeowners below 80% of area median income with elderly and/or disabled household members. All units are brought up to stringent energy and construction standards. The SFR 2008 cycle awarded $7,600,000 in funds to assist 188 homeowners.

The Urgent Repair Program (URP) provides grants to low-income homeowners to correct housing conditions that pose an imminent threat to life, safety, or displacement to a household. The 2008 URP cycle awarded $2,200,000.

Rental Programs The Agency administers both the Federal Low-Income Housing Tax Credit Program and the State Tax Credit Program. These credits are available to developers on a competitive basis and fund the creation of affordable rental housing in the State. The Agency's goals include supporting the best developments possible given the limited resources available. The Qualified Allocation Plan establishes criteria to use in selecting developments that serve low-income residents that include the following: locations with strong market demand, healthy financial structures, attractive architectural design, and the best quality of building materials and workmanship. The Agency has administered this program since its inception in 1987 and has allocated $2.11 billion of tax credits creating 1,729 projects consisting of 49,123 rental units.

Unlike the Federal Tax Credit, the State Tax Credit (STC) is not a tax-shelter equity investment. It is either claimed directly by the property owner in the form of a grant or transferred to the Agency 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 preferential federal income tax treatment. Once the property has reached certain milestones, primarily completion of a certain amount of construction, the loan becomes eligible to close. The STC program began in fiscal year 2003. Since its inception through June 30, 2008, the Agency has processed 150 STC loans for a total of $107,826,000. The STC has been extended to January 2015.

The Rental Production Program (RPP) provides new development, substantial rehabilitation, or acquisition/rehabilitation loans for the production of rental housing, primarily 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. During this fiscal year, $11,400,000 was awarded to 21 projects, creating 888 units.

The Supportive Housing Development Program (SHDP) utilizes funds from the North Carolina Housing Trust Fund and the HOME Program to provide persons with disabilities and special housing needs with permanent financing for emergency, transitional and permanent housing. Eligible applicants are non-profit organizations and units of local government. Since its inception, the Supportive Housing Development Program has helped to create over 2,100 units of supportive housing in 50 counties. Loans up to $500,000 or 75% of the total project costs are amortized at zero-percent interest on the principal and/or deferred for up to 30 years. For fiscal year ended June 30, 2008, the SHDP awarded $3,266,000 in funding to eight projects to create 62 new units of housing for persons with disabilities and special housing needs.

The Supportive Housing Development Program 400 (SHDP400) utilizes funds from the North Carolina Housing Trust Fund to provide construction to permanent financing for independent apartments with supportive services for low-income disabled individuals. These units are eligible for Key Program operating assistance to make them affordable to low-income disabled individuals (30% of area median or SSI/SSDI income) while they are waiting for a Section 8 rental assistance voucher. Eligible applicants are non-profit organizations, units of local government or private for-profit developers. Loans up to $1.2 million are amortized and/or deferred for 30 years at zero-percent interest. During the period July 1, 2007 through June 30, 2008, the Agency funded six projects totaling $3,626,000 creating 47 new units of independent supportive housing. All of the projects funded were in counties not previously served by the SHDP400.

Additional Information

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

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Report of Independent Auditors

The Board of Directors
North Carolina Housing Finance Agency

We have audited the accompanying basic financial statements of the North Carolina Housing Finance Agency (the Agency), a public agency and component unit of the State of North Carolina as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2008, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2008 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Ernst & Young LLP

September 5, 2008

NORTH CAROLINA HOUSING FINANCE AGENCY

BALANCE SHEET

YEAR ENDED JUNE 30, 2008

(in thousands)

ASSETS	
Current assets:	
Cash and cash equivalents	$ 3,880
Restricted cash and cash equivalents	174,573
Accrued interest receivable on investments	2,219
Accrued interest receivable on mortgage loans	8,823
State tax credits receivable	49,256
Other assets	12,060
TOTAL CURRENT ASSETS	$ 250,811
Noncurrent assets:	
Restricted cash and cash equivalents	$ 69,111
Investments	4,772
Restricted investments	157,795
Mortgage loans receivable, net	1,570,116
Other assets, net	3,326
TOTAL NONCURRENT ASSETS	$ 1,805,120
TOTAL ASSETS	$ 2,055,931
LIABILITIES	
Current liabilities:	
Bonds payable	$ 35,635
Accrued interest payable	15,976
Accounts payable	2,218
Deferred revenues	874
Other liabilities	54
TOTAL CURRENT LIABILITIES	$ 54,757
Noncurrent liabilities:	
Bonds payable, net	$ 1,514,363
Deferred revenues	7,800
Other liabilities	5,702
TOTAL NONCURRENT LIABILITIES	$ 1,527,865
TOTAL LIABILITIES	$ 1,582,622
NET ASSETS	
Restricted	$ 459,323
Unrestricted	13,986
TOTAL NET ASSETS	$ 473,309
TOTAL LIABILITIES AND NET ASSETS	$ 2,055,931

See Notes to Financial Statements

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2008

(in thousands)

OPERATING REVENUES	
Interest on investments	$ 25,694
Net increase in fair value of investments	1,260
Interest on mortgage loans	84,098
Federal program awards received	153,738
Program income/fees	13,566
Other revenues	1,728
TOTAL OPERATING REVENUES	$ 280,084
OPERATING EXPENSES	
Interest on bonds	$ 80,986
Mortgage servicing expense	4,749
Federal program expense	149,908
Nonfederal program expense	2,699
General and administrative	14,565
Other expenses	868
TOTAL OPERATING EXPENSES	$ 253,775
OPERATING INCOME	$ 26,309
NONOPERATING REVENUES (EXPENSES)	
State appropriations received	$ 18,608
State grant received	4,555
State tax credits	35,701
State program expense	(44,200)
TOTAL NONOPERATING REVENUES (EXPENSES)	$ 14,664
CHANGE IN NET ASSETS	$ 40,973
TOTAL NET ASSETS-BEGINNING	$ 432,336
TOTAL NET ASSETS-ENDING	$ 473,309

See Notes to Financial Statements

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2008

(in thousands)	
Cash flows from operating activities:	
Interest on mortgage loans	$ 83,516
Principal payments on mortgage loans	360,836
Purchase of mortgage loans	(584,304)
Federal awards received	153,619
Federal program expense	(149,643)
Nonfederal program expense	(2,699)
Federal grant administration income	7,283
Program income/fees	4,277
Other expenses	(19,825)
Other revenues	(683)
Net cash used in operating activities	**$ (147,623)**
Cash flows from non-capital financing activities:	
Issuance of bonds	$ 275,000
Principal repayments on bonds	(324,790)
Interest paid	(77,665)
Bond issuance costs paid	(2,809)
State appropriations received	18,608
State grant received	4,555
State tax credits	35,701
State program expense	(44,200)
Net cash used by non-capital financing activities	**$ (115,600)**
Cash flows from investing activities:	
Proceeds from sales or maturities of investments	$ 556,336
Purchase of investments	(196,268)
Earnings on investments	26,211
Net cash provided by investing activities	**$ 386,279**
Net increase in cash	123,056
Cash and cash equivalents at beginning of year	124,508
Cash and cash equivalents at end of year	**$ 247,564**
Reconciliation of operating income to net cash used in operating activities:	
Operating income	$ 26,309
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Interest on investments	(25,694)
Increase in fair value of investments	(1,260)
Interest on bonds	80,986
Change in assets and liabilities:	
Increase in mortgage loans	(223,810)
Increase in interest receivable on mortgage loans	(848)
Increase in state tax credits receivable	(7,863)
Decrease in other assets	2,245
Increase in accounts payable and other liabilities	1,586
Increase in deferred revenues	726
Total adjustments	**$ (173,932)**
Net cash used in operating activities	**$ (147,623)**

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008

A. AUTHORIZING LEGISLATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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 program, the General Assembly of the State of North Carolina awarded $157,579,000 in State Tax Credits, of which the Agency received $27,838,000 during fiscal year 2008. Under this program, the State tax credit 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 General Assembly of the State of North Carolina has appropriated funds of which substantially all are to be used to make loans and grants under the Housing Trust Fund Programs. The Agency received State appropriations in the amount of $15,500,000 for the year ended June 30, 2008. This appropriation is reported in Nonoperating Revenues (Expenses) in the financial statements. The Housing Partnership is responsible for developing policy with respect to the operation of programs within the Housing Trust Fund. The Agency provides staff services to the Housing Partnership and administers the Housing Trust Fund Programs.

Federal and State Programs The Agency administers seven federal programs. The Section 8 Lower Income Housing Assistance Program ("Section 8 Program") and the HOME Investment Partnership Program represent 75% and 23%, respectively, of federal program expenditures. The Agency receives a fee for administering these programs. The HOME Investment Partnership Program ("HOME Program") is matched with funds appropriated by the General Assembly of the State; the amount of matching funds received during the year was $1,608,000. The General Assembly of the State created the Home Protection Pilot Program (HPPP) in 2004 to assist North Carolinians who have lost their jobs due to changing economic conditions. The purpose of this program is to help citizens keep their homes while they search for new jobs and/or learn new job skills. The Agency received an appropriation of $1,500,000 in fiscal year 2008 to administer the program.

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

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

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

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

Investments Investments are reported at fair value in accordance with GASB Statement 31 *Accounting and Financial Reporting for Certain Investments and External Investment Pools* (GASB 31), except for certain mortgage-backed securities. The Agency intends to hold all securities to maturity.

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

State Tax Credits Receivable In 2002, the General Assembly converted the State Housing Credit into a refundable credit providing funds that can be efficiently invested directly in Housing Credit properties through the Agency. The Agency has recorded a $49,256,000 receivable for State Tax Credits for the fiscal year ended June 30, 2008. This represents the remaining 2006 and 2007 outstanding awards. During the year, the Agency received State Tax Credits in the amount of $27,838,000 from the General Assembly for the 2005 outstanding awards (second installment) and the 2006 awards (first installment). These funds are committed to provide loans to housing credit properties through the Agency. Funds received and disbursed are reflected in Nonoperating Revenues (Expenses).

Other Assets, net Fixed assets, net of accumulated depreciation, in the amount of $3,317,000 are included in other assets in the financial statements. Recorded in Other assets (current) is $2,739,000 in accounts receivables for Quadel Contract Administration, Section 8 Program Contract Administration, HOME Program administration fees earned, and HOME Program loans closed in fiscal year 2008 but reimbursed in fiscal year 2009.

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

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

Interprogram Receivable/Payable During the normal course of operations, the Agency has numerous transactions among programs in order to provide services. To the extent that certain transactions among programs have not been settled as of June 30, 2008, these balances are recorded as interprogram receivables or payables. These interprogram transactions are eliminated in the financial statements.

Net Assets As of June 30, 2008, the Agency has $13,986,000 of unrestricted net assets. The Agency intends to utilize these net assets for potential home ownership mortgage loan losses, to meet rating agencies' requirements, to cover 2009 operating budget, and to support other Agency housing commitments.

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

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

The Agency implemented GASB 31 on July 1, 1997, which requires the Agency to report investments at fair market value. The effect of the adoption on the Agency's financial statements for the past year ended June 30, 2008 is as follows:

(*in thousands*)	**June 30, 2008**	**June 30, 2007**
Increase in Operating Income	$ 1,260	$ 1,720
Increase (Decrease) in Net Assets	$ 582	$ (678)

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

Nonoperating Revenues and Expenses State appropriations received, State grants received, and State tax credits from the State of North Carolina are classified in Nonoperating Revenues (Expenses). The related expenses are classified as State program expense. In fiscal year 2008, the Agency accrued $35,701,000 in State Housing Credits for the 2007 award year (see additional comments under State Tax Credits Receivable).

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

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

Adoption of Accounting Pronouncement In September 2006, the Governmental Accounting Standards Board (GASB) issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* (GASB 48). Governments sometimes exchange an interest in their expected cash flows from collecting specific receivables or future revenues for immediate cash payments. GASB 48 establishes provisions of how to account for payment received in exchange for giving up the right to receive cash flows from collections of specific receivables or future revenues, the required disclosure for future revenues that have been sold or pledged to collateralize debt, and how to account for certain intra-entity transfers. The requirements of GASB 48 are effective for fiscal periods beginning after December 15, 2006. The adoption of GASB 48 did not have a material impact on the financial position, results of operations, or cash flows of the Agency.

Reclassifications Certain amounts in the 2007 financial statements have been reclassified to conform with the 2008 presentation. These reclassifications did not result in any changes to net assets.

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

Cash and Cash Equivalents As of June 30, 2008, the Agency had deposits in pooled investment accounts of the State Treasurer with a carrying value of approximately $86,988,000 and a bank balance of approximately $88,422,000. Included in the investment accounts of the State Treasurer is the amount of $3,316,000 representing escrow and replacement reserves maintained on behalf of multifamily mortgagors; accordingly, a corresponding liability of the same amount is also included on the balance sheet.

The Agency also had deposits with both a carrying value and bank balance approximating $160,546,000 on deposit with the Agency's fiduciary agent. Such deposits are collateralized with eligible securities held by a third-party custodian.

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

Investments Repurchase agreements are collateralized by obligations of the United States Government, its agencies, or direct investments of such obligations. The market value of securities subject to such agreements must be maintained at least equal to 100 percent of the principal and accrued interest on the invested funds daily. The Agency invests in repurchase agreements for mostly long-term (generally reserved) investments. On June 30, 2008, approximately $112,682,000 was invested in such long-term agreements having maturity dates ranging from February 1, 2009 to July 1, 2038 primarily at rates ranging from 4.00% to 7.15%.

At June 30, 2008, the Agency held the following investments with the listed maturities at annual rates ranging from 0% to 12%. Ratings are displayed with the Standard & Poor's rating listed first and the Moody's Investors Service second.

Investment Maturities (in years)

(in thousands)

Investments	Carry Amount	Less Than 1	1 - 5	6 – 10	More Than 10
GNMA MBS's Rated AAA/Aaa	$ 2,638	$ -	$ -	$ -	$ 2,638
FNMA MBS's Rated AAA/Aaa	558	-	-	-	558
Repurchase Agreements- Rated A-/A2 or higher	112,682	-	-	-	112,682
US Agency Obligations- Rated AAA/Aaa	46,168	-	-	6,074	40,094
US Treasury Bonds	521	-	-	521	-
Total Categorized	$162,567	$ -	$ -	$ 6,595	$155,972

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

Credit risk The General Statutes of the State authorize the Agency to invest in (i) direct obligations or obligations on which the principal and interest are unconditionally guaranteed by the United States Government; (ii) obligations issued by an approved Agency or corporation wholly-owned by the United States Government; (iii) interest-bearing time deposits, certificates of deposit, or other approved forms of deposits in any bank or trust company in North Carolina which satisfies insurance and, if necessary, collateral requirements for holding Agency money; (iv) duly established investment programs of the State Treasurer; (v) repurchase agreements; and (vi) investment agreements with banks and financial institutions which are chartered outside of North Carolina and meet specified rating and collateral requirements of the various bond resolutions. Mortgage-Backed Securities (MBS) are securitized by the Federal National Mortgage Association (FNMA), (Fair Value - $558,000, rated AAA/Aaa), and by the Government National Mortgage Association (GNMA), (Fair Value - $2,638,000, rated AAA/Aaa). The Government National Mortgage Association is a direct obligation of the US Government. Repurchase agreements are fully collateralized by obligations issued by the United States Government or its agencies. The US Agency Obligations are comprised of Federal National Mortgage Association (Fair Value - $39,607,000, rated AAA/Aaa), Federal Home Loan Mortgage Corporation (Fair Value - $4,501,000, rated AAA/Aaa), and Federal Home Loan Bank (Fair Value- $2,060,000, rated AAA/Aaa). The Agency does not have a formal investment policy that would further limit its investment choices.

Concentration of credit risk The Agency has a practice of entering into repurchase agreements with several investment providers to minimize the Agency's exposure to a bond rating downgrade should one of the providers have a ratings event. The investments consist of repurchase agreements and obligations of the United States Government which represent 69.31% and 28.72%, respectively, of the Agency's total investments. Investments in any one issuer that represent 5% or more of total investments as of June 30, 2008 are as follows:

Investment Issuer	Amount
Federal National Mortgage Association	$39,606,000
Bayerische Landesbank, repurchase agreement	19,527,000
Westdeutsche Landesbank, repurchase agreement	18,732,000
Societe Generale, repurchase agreement	14,670,000
AIG Matched Funding, repurchase agreement	14,637,000
Trinity Plus, repurchase agreement	10,477,000
JPMorgan Chase Bank, N.A., repurchase agreement	8,363,000

Custodial credit risk At year end, the Agency was not exposed to custodial credit risk. The United States Government securities are on deposit with the Agency's fiduciary agent, which holds these securities by book entry in its fiduciary Federal Reserve accounts. The Agency's ownership of these securities is identified through the internal records of the fiduciary agent. Certain of these securities are optionally callable at par by the issuer on specified dates.

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

Securities Lending Transactions GASB Statement No. 28 "Accounting and Financial Reporting for Securities Lending Transactions" (GASB 28) established accounting and financial reporting standards for transactions where governmental entities transfer their securities to broker-dealers and other entities (borrowers) in exchange for collateral (which may be cash, securities, or letters of credit) and simultaneously agree to return the collateral in exchange for the original securities in the future. The Agency does not directly engage in securities lending transactions; however, the State Treasurer does. The State Treasurer is authorized to engage in these types of transactions under North Carolina General Statute 147-69.3c. The types of securities loaned include 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 102% of the market value of the original securities lent. This investment in the collateral investment pool is considered to be a highly liquid investment. The State has a custodial credit risk related to the transactions and incurred no losses during the year ended June 30, 2008 related to these transactions.

As of June 30, 2008, and during the year then ended, the Agency had deposits in the pooled investment accounts of the State Treasurer. The risk associated with these transactions will be recorded by the State in its fiduciary funds. No allocation will be made to the Agency; therefore, these financial statements do not reflect the risk associated with securities lending transactions as called for in GASB 28.

C. MORTGAGE LOANS RECEIVABLE

Mortgage loans purchased with the proceeds of the various single-family and multifamily bond issues have stated interest rates ranging from 4.50% to 13.00%. Unamortized discounts as of June 30, 2008 total $972,000.

The existing and future mortgage loans which the Agency may purchase under the bond programs must comply with guidelines established by the Agency, including the requirement that all such mortgage loans be insured by the Federal Housing Administration, guaranteed by the Veterans Administration, guaranteed by the United States Department of Agriculture, Rural Department, insured under a private mortgage insurance program, or have a loan-to-value ratio equal to or less than 80%. As of June 30, 2008, all outstanding mortgage loans purchased with mortgage revenue bond proceeds satisfy these requirements, and accordingly, no allowance for uncollectible mortgage loans has been recorded.

Mortgage loans made with funds from the Agency Programs, Housing Trust Fund Programs, and Federal and State Programs have allowances for loan losses of $167,000, $326,000 and $751,000, respectively, as of June 30, 2008.

The Agency has collateralized $1,483,964,000 in mortgage loans receivable, $160,939,000 in reserves, and $71,389,000 in program funds to repay $1,569,235,000 bonds payable at June 30, 2008. Proceeds from the bonds issued were utilized to finance housing throughout the State of North Carolina. The bonds are payable through 2039 and are paid down from cash collections on mortgage loans receivable, interest receivable on mortgage loans, unexpended bond proceeds, and sale of investments. The total principal and interest payable outstanding on bonds as of June 30, 2008 is $1,571,493,000. Principal and interest paid for fiscal year 2008 and total collections on mortgage loans receivable were $109,439,000 and $113,983,000, respectively.

D. BONDS PAYABLE

Bonds payable activity for the year ended June 30, 2008 was as follows (*in thousands*):

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds Payable				
Home Ownership	$1,571,425	$275,000	$(310,215)	$1,536,210
Rental	47,600	-	(14,575)	33,025
	$1,619,025	$275,000	$(324,790)	$1,569,235
Less Deferred Bond Financing Costs				
Home Ownership	$ (17,093)	$ (2,809)	$ 2,383	$ (17,519)
Rental	(2,543)	-	825	(1,718)
	$ (19,636)	$ (2,809)	$ 3,208	$ (19,237)
Total Bonds Payable, Net	**$1,599,389**	**$272,191**	**$(321,582)**	**$1,549,998**

Bonds payable as of June 30, 2008 are as follows (*in thousands*):

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Single-family Revenue Bonds			
(1985 Resolution)			
Series AA/BB	6.00 - 6.50	2026	$ 6,260
Series CC/DD	5.45 - 6.20	2027	4,450
Series EE/FF	5.60 - 6.25	2028	4,595
Series GG/HH	5.60 - 6.30	2028	5,815
Series II/JJ	6.15 - 6.45	2028	10,885
Series KK/LL	5.40 - 6.20	2028	5,730
Series MM/NN	5.15 - 5.95	2028	3,895
Series OO/PP	5.80 - 6.25	2028	9,070
Series QQ/RR	5.00 - 5.85	2028	13,415
Series SS/TT	4.90 - 5.70	2028	6,675
Series UU/VV	4.60 - 5.35	2029	11,190
Series WW	6.25	2018	28,775
			110,755
Home Ownership Revenue Bonds			
(1998 Trust Agreement)			
Series 1	4.90 - 5.38	2030	20,360
Series 2	4.50 - 5.25	2030	11,630
Series 3	4.35 - 5.20	2030	24,625
Series 4	4.45 - 5.30	2030	18,825
Series 5	4.90 - 5.63	2030	17,825
Series 6	5.25 - 6.20	2030	10,800
Series 7	5.35 - 6.25	2031	20,155
Series 8	5.55 - 6.40	2031	8,665
Series 9	4.80 - 5.88	2032	33,035
Series 10	4.15 - 5.40	2033	18,970
Series 11	4.13 - 5.38	2033	34,615
Series 12	4.30 - 5.45	2033	37,490
Series 13	3.95 - 5.35	2034	40,650
Series 14	3.95 - 5.53	2034	47,355
Series 15	Variable-4.95	2032	35,325
Series 16	Variable-5.40	2032	35,385
Series 17	Variable-5.00	2034	39,590
Series 18	Variable-5.00	2035	36,680
Series 19	3.00 - 5.25	2035	53,270
Series 20	3.10 - 4.75	2035	55,330
Series 21	3.10 - 5.00	2035	57,120

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Series 22A	3.65 - 5.50	2037	60,530
Series 22CE	3.85 - 5.25	2039	80,000
Series 23	3.55 - 5.00	2037	60,415
Series 24	3.65 - 5.50	2038	81,095
Series 25	3.90 - 5.75	2037	62,915
Series 26	3.50 - 5.50	2038	64,280
Series 27	3.25 - 5.55	2038	65,000
Series 28	3.55 - 5.50	2039	64,455
Series 29	3.80 - 5.50	2038	99,690
Series 30	3.50 - 5.50	2039	64,755
Series 31	3.25 - 5.50	2038	64,620
			1,425,455
			1,536,210
Less deferred bond financing costs			(17,519)
Total Home Ownership Bond Programs			**$1,518,691**
Multifamily Revenue Bonds			
(1984 Resolution)			
Series F/G	6.60 - 8.25	2027	$ 2,740
Series H/I	5.95 - 7.85	2028	9,905
Series J	5.05 - 5.55	2029	1,115
			13,760
Multifamily Revenue Refunding Bonds			
(1992 Resolution)			
Series C	2.70 - 4.80	2024	12,250
Multifamily Revenue Bonds			
(1994 Resolution) Series 1994	5.35 - 5.45	2024	2,305
Multifamily Revenue Bonds			
(1995 Resolution) Series C/D	5.80 - 5.90	2020	4,710
			33,025
Less deferred bond financing costs			(1,718)
Total Rental Bond Programs			**$ 31,307**

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

Maturities Debt service requirements, including sinking fund requirements on term bonds, subsequent to June 30, 2008, are as follows (*in thousands*):

Fiscal Year Ending June 30, 2008	Home Ownership Programs	Rental Programs	Total
2009	$ 109,694	$ 3,052	$ 112,746
2010	112,120	3,066	115,186
2011	111,507	3,065	114,572
2012	111,599	3,104	114,703
2013	111,453	3,101	114,554
2014-2018	535,516	15,689	551,205
2019-2023	458,067	14,071	472,138
2024-2028	507,301	6,244	513,545
2029-2033	471,259	21	471,280
2034-2038	269,374	-	269,374
2039	6,310	-	6,310
Total Requirements	$ 2,804,200	$ 51,413	$ 2,855,613
Less Interest	(1,267,990)	(18,388)	(1,286,378)
Principal	**$ 1,536,210**	**$ 33,025**	**$ 1,569,235**
Less Deferred Bond Financing Cost	(17,519)	(1,718)	(19,237)
Bonds Payable Net	**$ 1,518,691**	**$ 31,307**	**$ 1,549,998**

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

For the year ended June 30, 2008 bond redemptions by resolution were as follows (*in thousands*):

Issue	Amount Redeemed	Loss Recorded
Single-family Revenue Bonds (1985 Resolution)	$ 29,335	$ (331)
Home Ownership Revenue Bonds (1998 Trust Agreement)	251,265	(1,345)
Total Home Ownership Bond Programs	**$ 280,600**	**$ (1,676)**
Multifamily Revenue Bonds (1984 Resolution)	$ 9,600	$ (525)
Multifamily Revenue Bonds (1994 Resolution)	860	(15)
Multifamily Revenue Bonds (1995 Resolution)	2,680	(153)
Total Multifamily Ownership Bond Programs	**$ 13,140**	**$ (693)**

Special Facilities (Conduits) The Agency issued the Housing Facilities Revenue Bonds, Multifamily Housing Revenue Bonds and Student Housing Variable and Taxable Rate Revenue Bonds which are not presented in the basic financial statements of the Agency. These bonds are secured solely by the properties and related revenues of the projects and the applicable credit enhancements, with the exception of the 2002 Resolution, which is secured by payments received on GNMA mortgages. These bonds do not constitute a debt of and are not guaranteed by the State of

North Carolina, any political subdivision thereof or the Agency. Accordingly, these obligations are excluded from the Agency's financial statements.

Bonds Payable as of June 30, 2008 for Special Facilities is as follows:

Issue	Bond Type	Bonds Outstanding
2000 Resolution* (Series A/B)	Student Housing Variable and Taxable Rate Revenue Bonds	$18,480,000**
2002 Resolution* (Series A, B, C, D)	Multifamily Housing Revenue Bonds	9,320,000**
2002A Resolution*	Housing Facilities Revenue Bonds	5,200,000**
2008 Resolution	Multifamily Housing Revenue Bonds	9,385,000
Total		**$42,385,000**

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

**In prior financial statements of the Agency, these special facilities were included in the combined financial statements. NCGA Statement 1 of GASB requires only footnote disclosure for conduits. For the fiscal year ended June 30, 2008 and for prospective financial statements, the Agency is reflecting these entities in a footnote disclosure to be consistent with NCGA Statement 1.

E. INTEREST RATE SWAP

Objective of the interest rate swap The Agency has entered into interest rate swaps in connection with its $74,690,000 variable-rate revenue bonds associated with several series in its 1998 Home Ownership Revenue Bond Resolution as a means to lower its borrowing costs when compared against fixed-rate bonds at the time of issuance. The intention of the swap was to effectively lower the Agency's interest rate on the long-term bonds to a fixed rate.

Terms

Series	Counterparty	Rating***	Notional $ Amount	Date of Swap	Maturity Date of Swap	Fixed Rate Paid	FMV
15	UBS AG	Aa2/AA-	$17,170,000	May 8, 2003	July 1, 2032	3.508%	$ (250,934)
16	Bank of America NA	Aaa/AA+	$17,520,000	Sept. 16, 2003	July 1, 2032	3.810%	$ (625,482)
17	Bank of America NA	Aaa/AA+	$20,000,000	Dec. 11, 2003	July 1, 2032	3.725%	$ (799,791)
18	Goldman Sachs Mitsui Marine	Aaa/AAA	$20,000,000	April 20, 2004	Jan. 1, 2035	3.288%	$ 88,025

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

Under all of the swaps, the Agency pays the counterparties a fixed rate and receives a variable payment computed as 63% of the London Interbank Offered Rate (LIBOR), plus 30 basis points. The bonds' variable-rate coupons are based on the variable Bond Market Association Municipal Swap Index (BMA), which was 1.70% as of June 30, 2008.

Fair value In total, the swaps have a negative fair value of ($1,588,182) as of June 30, 2008. Because the coupons on the Agency's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

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

Credit risk All of the Agency's swaps rely upon the performance of the third parties who serve as swap counterparties, and as a result the Agency is exposed to credit risk – i.e., the risk that a swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps, as shown in the column labeled "FMV" in the above table. The Agency is exposed to credit risk in the amount of any positive net fair value exposure to each counterparty. As of June 30, 2008, the Agency was exposed to a total of ($1,588,182) of credit risk to 3 counterparties. To mitigate the credit risk to each party to the swap agreement of a decline in credit quality of the other party, each swap agreement provides that collateral must be posted if either party's rating falls below A1 for Moody's and A+ for S&P. The collateral must be posted with a third-party in the form of cash or United States Government Securities. Additionally, each of the swap agreements has termination provisions if ratings fall below certain levels. These termination provisions are detailed in the paragraph above, "Basis risk and termination risk".

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, 2008, debt service requirements of the variable-rate debt and net swap payments are as follows. The amounts below are in thousands:

Fiscal Year	**Variable-Rate Bond**		**Interest Rate**	**Total**
Ending June 30	**Principal**	**Interest**	**Swap, Net**	**Interest**
2009	$ 1,560	$ 1,270	$ 1,289	$ 2,559
2010	1,505	1,243	1,262	2,505
2011	1,440	1,218	1,234	2,452
2012	1,390	1,193	1,208	2,401
2013	1,330	1,169	1,183	2,352
2014 - 2035	67,465	15,565	15,478	31,043
Total	**$74,690**	**$21,658**	**$21,654**	**$43,312**

F. OPERATING LEASE

The Agency leases office space with future minimum lease payments of $512,000 for fiscal year 2009, and $84,000 for two months in fiscal year 2010. Total rent expense for all operating leases amounted to $511,436 for the year ended June 30, 2008.

G. FEDERAL AWARDS

As a designated Public Housing Authority for the Department of Housing and Urban Development's (HUD) Section 8 Lower Income Housing Assistance Program (Section 8 Program), the Agency requisitions Section 8 Program funds and makes disbursements to eligible landlords. For the year ended June 30, 2008, $121,600,000, which was received by the Agency and disbursed to landlords or families, is included in Federal program expense in the Federal and State Programs.

The Agency is designated as the participating entity under grant agreements with HUD for the HOME Program. The HOME Program provides funding for the purpose of developing affordable housing for persons of low and very low income. For the year ended June 30, 2008, $35,960,000, which was received and disbursed by the Agency, is included in Federal program expense and Mortgage loans receivable, net in the Federal and State Programs, depending upon the terms of the transaction.

The Agency was selected as a participating entity under a grant agreement with the United States Department of Treasury passed through NeighborWorks ® for the National Foreclosure Mitigation Counseling Program (NFMC). The NFMC Program provides funding for the purpose of counseling homeowners who are in danger of foreclosure. For the year ended June 30, 2008, $1,163,000 was received and $349,000 was disbursed by the Agency, and is included in the Federal program awards received and Federal program expense in the Federal and State Programs.

The Agency earned fees of $9,079,000 for administering these and other federal programs for the year ended June 30, 2008 and are reported in Program income/fees. Of these fees, $4,061,000 was paid to Quadel Consulting Corporation for the Section 8 Program Contract Administration, which is reported in General and administrative expense.

H. PENSION PLAN

Plan Description All permanent full-time employees of the Agency participate in the Teachers' and State Employees' Retirement System of North Carolina (the "System"), a cost-sharing multiple-employer defined benefit pension plan administered by the State. The System provides retirement benefits to plan members and beneficiaries. State statute assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Teachers' and State Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the System. The report may be obtained by writing to the Office of the State Controller, 3512 Bush Street, Raleigh, North Carolina 27609, or by calling (919) 981-5454.

Funding Policy Plan members are required to contribute 6% of their annual covered salary, and the Agency is required to contribute at an actuarially determined rate. The current rate is 3.05% 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, 2008, 2007, and 2006.

	2008	2007	2006
Retirement Benefit	$203,000	$157,000	$125,000
Percentage of Covered Payroll	3.05%	2.66%	2.34%

I. POST-EMPLOYMENT / DISABILITY BENEFITS

In addition to pension benefits, employees are provided post-employment health care benefits and long-term disability benefits in accordance with State statutes. These benefits are provided through plans administered by the State. The Agency makes monthly contributions to the State for these benefits. Health care benefits are provided to long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the System who have at least five years of creditable service under the System. The System pays the full cost of coverage for retirees enrolled in the State's self-funded Teachers' and State Employees' Preferred Provider Organization (PPO) medical plan who were hired prior to October 1, 2006, and retire with five or more years of State System membership service. For employees hired on or after October 1, 2006, the System will pay the full cost of coverage for retirees with 20 or more years of service, the System will pay 50% of the cost of coverage for retires with at least 10 years but less than 20 years of service, and the retiree with less than 10 years of service will pay the full cost of coverage. In addition, persons who became surviving spouses of retirees prior to October 1, 1986, receive the same coverage as retirees. Retirees and the aforementioned surviving spouses pay for the entire cost of coverage of their dependents. The health benefit plans are funded by the State on a pay-as-you-go basis.

Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina ("Disability Income Plan"), a State-administered plan. Long-term disability benefits are payable from the Disability Income Plan after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five years of contributing membership service in the System earned within 96 months prior to the end of the short-term disability period; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period, after salary continuation payments cease, or after monthly payments for workers' compensation cease, whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of employees' usual occupation; (4) the disability must have been continuous, likely to be permanent and incurred at the time of active employment; and (5) the employee must not be eligible to receive unreduced retirement benefits from the System. In addition, recipients of long-term disability benefits are eligible to receive the State-paid health insurance coverage. The monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation reduced by any social security or workers compensation to which the recipient may be entitled up to a maximum of $3,900 per month. When an employee qualifies for an unreduced service retirement allowance from the System, the benefits payable from the Disability Income Plan cease, and the employee will commence retirement under the System.

All short-term disability benefit payments are made by the various State-administered plans. The Agency has no liability beyond payment of monthly contributions except for short-term disability benefits, which are paid by the Agency during the first six months of the short-term period. Contributions are determined as a percentage of covered monthly payrolls. Annually, the State sets monthly contribution rates for post-employment health care benefits, death benefits and disability benefits, which are the same for all agencies across the State.

The following table represents the three year trend of the annual contributions made by the Agency to the State post employment benefit plans. The Agency made 100% of its required contributions for the year ended June 30, 2008, 2007, and 2006.

	2008	**2007**	**2006**
Health Care Benefit	$274,000	$225,000	$204,000
Disability Benefit	$ 35,000	$ 31,000	$ 28,000
Death Benefit	$ 11,000	$ 9,000	$ 8,000
Percentage of Covered Payroll			
Health Care Benefit	4.10%	3.80%	3.80%
Disability Benefit	0.52%	0.52%	0.52%
Death Benefit	0.16%	0.16%	0.16%

Since the benefit payments are made by the various State-administered plans and not by the Agency, the Agency does not determine the number of eligible participants.

J. RISK MANAGEMENT

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

- Fire and Other Property Losses
- Public Officer's and Employees' Liability
- Workers' Compensation
- Unemployment Insurance
- Contributory Death Benefit for Retirees
- Employee Health Benefits

K. SEGMENT INFORMATION

The Agency's Home Ownership Bond Programs and Rental Bond Programs are initially funded with bond proceeds. These proceeds are used to purchase mortgage loans which provide the income along with investment earnings to repay the debt. Condensed financial statements at June 30, 2008 for these two segments are as follows (*in thousands*):

BALANCE SHEET

	Home Ownership	**Rental**
ASSETS		
Current assets		
Restricted cash and cash equivalents	$66,396	$18,871
Accrued interest receivable on investments	1,566	302
Accrued interest receivable on mortgage loans	8,511	196
Other assets	9,225	6
Interprogram receivable/(payable)	14	-
TOTAL CURRENT ASSETS	$85,712	$19,375

	Home Ownership	Rental
Noncurrent assets		
Restricted cash and cash equivalents	$ 69,111	$ -
Restricted investments	127,653	26,569
Mortgage loans receivable, net	1,449,443	35,313
TOTAL NONCURRENT ASSETS	$1,646,207	$61,882
TOTAL ASSETS	**$1,731,919**	**$81,257**
LIABILITIES		
Current liabilities		
Bonds payable	$ 34,380	$ 1,255
Accrued interest payable	15,934	42
Accounts payable	362	3
TOTAL CURRENT LIABILITIES	$ 50,676	$ 1,300
Noncurrent liabilities		
Bonds payable, net	$1,484,311	$30,052
Other liabilities	1,564	-
TOTAL NONCURRENT LIABILITIES	$1,485,875	$30,052
TOTAL LIABILITIES	**$1,536,551**	**$31,352**
TOTAL NET ASSETS, RESTRICTED	**195,368**	**49,905**
TOTAL LIABILITIES AND NET ASSETS	**$1,731,919**	**$81,257**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Home Ownership	Rental
OPERATING REVENUES		
Interest on investments	$ 18,963	$ 2,318
Net increase in fair value of investments	955	109
Interest on mortgage loans	80,312	2,601
Other revenues	74	877
TOTAL OPERATING REVENUE	**$ 100,304**	**$ 5,905**
OPERATING EXPENSES		
Interest on bonds	$ 77,707	$ 3,279
Mortgage servicing expense	4,707	41
Federal program expense	-	2
General and administrative	621	15
Other expenses	85	71
TOTAL OPERATING EXPENSES	**$ 83,120**	**$ 3,408**
OPERATING INCOME	**$ 17,184**	**$ 2,497**
NONOPERATING REVENUES (EXPENSES)		
Transfers out to other Agency Programs	$ (3,162)	$(1,552)
TOTAL NONOPERATING REVENUES (EXPENSES)	**$ (3,162)**	**$(1,552)**
CHANGE IN NET ASSETS	$ 14,022	$945
TOTAL NET ASSETS – BEGINNING	181,346	48,960
TOTAL NET ASSETS – ENDING	**$ 195,368**	**$49,905**

	Home Ownership	Rental
STATEMENT OF CASH FLOWS		
Net cash (used in) provided by operating activities	$(150,750)	$ 9,309
Net cash used in non-capital financing activities	(117,055)	(18,598)
Net cash provided by investing activities	359,703	21,183
Net increase in cash	$ 91,898	$ 11,894
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	43,609	6,977
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 135,507	$ 18,871

North Carolina Housing Finance Agency

Additional Information

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Report of Independent Auditors

The Board of Directors
North Carolina Housing Finance Agency

We have audited the accompanying basic financial statements of the North Carolina Housing Finance Agency (the Agency), a public agency and component unit of the State of North Carolina as of and for the year ended June 30, 2008 as listed in the table of contents. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information listed in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

Ernst + Young LLP

September 5, 2008

0808-0974850

member firm of Ernst & Young Global Limited

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING BALANCE SHEET

YEAR ENDED JUNE 30, 2008

	AGENCY PROGRAMS		GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS	
(in thousands)			**Housing Trust Fund**	**Federal and State Programs**	**1985**	**1998**
ASSETS						
Current assets:						
Cash and cash equivalents	$	3,880	-	-	-	-
Restricted cash and cash equivalents		27,353	44,108	17,845	19,059	47,337
Accrued interest receivable on investments		183	168	-	1,102	464
Accrued interest receivable on mortgage loans		91	8	17	1,013	7,498
State tax credits receivable		49,256	-	-	-	-
Other assets		90	-	2,739	1,070	8,155
Interprogram receivable/(payable)		1,246	(12)	(1,248)	7	7
TOTAL CURRENT ASSETS	$	82,099	44,272	19,353	22,251	63,461
Noncurrent assets:						
Restricted cash and cash equivalents	$	-	-	-	-	69,111
Investments		4,772	-	-	-	-
Restricted investments		3,573	-	-	48,236	79,417
Mortgage loans receivable, net		6,165	17,050	62,145	129,204	1,320,239
Other assets, net		3,326	-	-	-	-
TOTAL NONCURRENT ASSETS	$	17,836	17,050	62,145	177,440	1,468,767
TOTAL ASSETS	$	99,935	61,322	81,498	199,691	1,532,228
LIABILITIES						
Current liabilities:						
Bonds payable	$	-	-	-	5,420	28,960
Accrued interest payable		-	-	-	2,168	13,766
Accounts payable		305	-	1,548	-	362
Deferred revenues		874	-	-	-	-
Other liabilities		50	-	4	-	-
TOTAL CURRENT LIABILITIES	$	1,229	-	1,552	7,588	43,088
Noncurrent liabilities:						
Bonds payable, net	$	-	-	-	103,310	1,381,001
Deferred revenues		7,800	-	-	-	-
Other liabilities		4,138	-	-	38	1,526
TOTAL NONCURRENT LIABILITIES	$	11,938	-	-	103,348	1,382,527
TOTAL LIABILITIES	$	13,167	-	1,552	110,936	1,425,615
NET ASSETS						
Restricted	$	72,782	61,322	79,946	88,755	106,613
Unrestricted		13,986	-	-	-	-
TOTAL NET ASSETS	$	86,768	61,322	79,946	88,755	106,613
TOTAL LIABILITIES AND NET ASSETS	$	99,935	61,322	81,498	199,691	1,532,228

RENTAL BOND PROGRAMS				
1984	1992	1994	1995	TOTAL
-	-	-	-	$ 3,880
3,897	14,913	-	61	174,573
138	120	41	3	2,219
90	56	17	33	8,823
-	-	-	-	49,256
-	6	-	-	12,060
-	-	-	-	-
4,125	15,095	58	97	$ 250,811
-	-	-	-	$ 69,111
-	-	-	-	4,772
16,232	4,875	3,036	2,426	157,795
14,406	12,048	3,128	5,731	1,570,116
-	-	-	-	3,326
30,638	16,923	6,164	8,157	$ 1,805,120
34,763	32,018	6,222	8,254	$ 2,055,931
375	470	110	300	$ 35,635
-	-	42	-	15,976
-	-	-	3	2,218
-	-	-	-	874
-	-	-	-	54
375	470	152	303	$ 54,757
12,549	11,241	2,118	4,144	$ 1,514,363
-	-	-	-	7,800
-	-	-	-	5,702
12,549	11,241	2,118	4,144	$ 1,527,865
12,924	11,711	2,270	4,447	$ 1,582,622
21,839	20,307	3,952	3,807	$ 459,323
-	-	-	-	13,986
21,839	20,307	3,952	3,807	$ 473,309
34,763	32,018	6,222	8,254	$ 2,055,931

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2008

	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP PROGRAMS	
(in thousands)		Housing Trust Fund	Federal and State Programs	1985	1998
OPERATING REVENUES					
Interest on investments	$ 2,206	2,000	207	4,455	14,508
Net increase (decrease) in fair value of investments	196	-	-	491	464
Interest on mortgage loans	140	303	742	9,292	71,020
Federal program awards received	-	-	153,738	-	-
Program income/fees	3,044	1,105	9,417	-	-
Other revenues	196	580	1	71	3
TOTAL OPERATING REVENUES	$ 5,782	3,988	164,105	14,309	85,995
OPERATING EXPENSES					
Interest on bonds	$ -	-	-	8,154	69,553
Mortgage servicing expense	1	-	-	495	4,212
Federal program expense	1,660	135	148,111	-	-
Nonfederal program expense	2,699	-	-	-	-
General and administrative	9,866	-	4,063	53	568
Other expenses	70	-	642	-	85
TOTAL OPERATING EXPENSES	$ 14,296	135	152,816	8,702	74,418
OPERATING INCOME (LOSS)	$ (8,514)	3,853	11,289	5,607	11,577
NONOPERATING REVENUES (EXPENSES)					
Transfers in (out)	$ 9,839	(101)	(5,024)	(2,845)	(317)
State appropriations received	-	15,500	3,108	-	-
State grant received	-	-	4,555	-	-
State tax credits	35,701	-	-	-	-
State program expense	(31,106)	(9,887)	(3,207)	-	-
TOTAL NONOPERATING REVENUES (EXPENSES)	$ 14,434	5,512	(568)	(2,845)	(317)
CHANGE IN NET ASSETS	$ 5,920	9,365	10,721	2,762	11,260
TOTAL NET ASSETS - BEGINNING	80,848	51,957	69,225	85,993	95,353
TOTAL NET ASSETS - ENDING	$ 86,768	61,322	79,946	88,755	106,613

RENTAL BOND PROGRAMS

1984	1992	1994	1995	TOTAL
1,051	964	155	148	$ 25,694
38	72	(9)	8	1,260
1,224	687	239	451	84,098
-	-	-	-	153,738
-	-	-	-	13,566
752	75	50	-	1,728
3,065	1,798	435	607	$ 280,084
2,017	566	184	512	$ 80,986
17	12	4	8	4,749
-	-	-	2	149,908
-	-	-	-	2,699
6	2	2	5	14,565
71	-	-	-	868
2,111	580	190	527	$ 253,775
954	1,218	245	80	$ 26,309
-	(1,405)	(6)	(141)	$ -
-	-	-	-	18,608
-	-	-	-	4,555
-	-	-	-	35,701
-	-	-	-	(44,200)
-	(1,405)	(6)	(141)	$ 14,664
954	(187)	239	(61)	$ 40,973
20,885	20,494	3,713	3,868	432,336
21,839	20,307	3,952	3,807	$ 473,309

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2008

	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP PROGRAMS	
(in thousands)		Housing Trust Fund	Federal and State Programs	1985	1998
Cash flows from operating activities:					
Interest on mortgage loans	$ 199	305	743	9,445	70,189
Principal payments on mortgage loans	677	1,808	3,832	17,868	330,644
Purchase of mortgage loans	(950)	(990)	(9,754)	(3,508)	(569,102)
Federal awards received	-	-	153,619	-	-
Federal program expense	(1,660)	(135)	(147,848)	-	-
Nonfederal program expense	(2,699)	-	-	-	-
Federal grant administration income	-	-	7,283	-	-
Program income/fees	1,038	1,105	2,134	-	-
Other expenses	(10,971)	(3)	(3,760)	(583)	(4,294)
Other revenues	(252)	96	1	328	(1,737)
Net cash provided by (used in) operating activities	**$ (14,618)**	**2,186**	**6,250**	**23,550**	**(174,300)**
Cash flows from non-capital financing activities:					
Issuance of bonds	$ -	-	-	-	275,000
Principal repayments on bonds	-	-	-	(35,200)	(275,015)
Interest paid	-	-	-	(8,405)	(66,789)
Bond issuance costs paid	-	-	-	-	(2,809)
Net transfers	10,514	(101)	(5,024)	(2,845)	(992)
State appropriations received	-	15,500	3,108	-	-
State grant received	-	-	4,555	-	-
State tax credits	35,701	-	-	-	-
State program expense	(31,106)	(9,887)	(3,207)	-	-
Net cash provided by (used in) non-capital financing activities	**$ 15,109**	**5,512**	**(568)**	**(46,450)**	**(70,605)**
Cash flows from investing activities:					
Proceeds from sales or maturities of investments	$ 992	-	-	61,466	448,651
Purchase of investments	-	-	-	(42,702)	(127,188)
Earnings on investments	2,223	1,971	207	4,668	14,808
Net cash provided by (used in) investing activities	**$ 3,215**	**1,971**	**207**	**23,432**	**336,271**
Net increase (decrease) in cash	$ 3,706	9,669	5,889	532	91,366
Cash and cash equivalents at beginning of year	27,527	34,439	11,956	18,527	25,082
Cash and cash equivalents at end of year	**$ 31,233**	**44,108**	**17,845**	**19,059**	**116,448**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	$ (8,514)	3,853	11,289	5,607	11,577
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:					
Interest on investments	(2,206)	(2,000)	(207)	(4,455)	(14,508)
Decrease (increase) in fair value of investments	(196)	-	-	(491)	(464)
Interest on bonds	-	-	-	8,154	69,553
Net operating transfers	(675)	-	-	-	675
Change in assets and liabilities:					
(Increase) decrease in mortgage loans	(241)	229	(5,298)	14,314	(238,821)
(Increase) decrease in interest receivable on mortgage loans	59	2	1	199	(1,143)
(Increase) decrease in state tax credits receivable	(7,863)	-	-	-	-
(Increase) decrease in other assets	3,822	93	(119)	257	(1,740)
Increase (decrease) in accounts payable and other liabilities	470	9	584	(35)	571
Increase (decrease) in deferred revenues	726	-	-	-	-
Total adjustments	**$ (6,104)**	**(1,667)**	**(5,039)**	**17,943**	**(185,877)**
Net cash provided by (used in) operating activities	**$ (14,618)**	**2,186**	**6,250**	**23,550**	**(174,300)**

RENTAL BOND PROGRAMS				
1984	1992	1994	1995	Total
1,241	689	243	462	$ 83,516
2,756	485	892	1,874	360,836
-	-	-	-	(584,304)
-	-	-	-	153,619
-	-	-	-	(149,643)
-	-	-	-	(2,699)
-	-	-	-	7,283
-	-	-	-	4,277
(166)	(14)	(6)	(28)	(19,825)
752	69	50	10	(683)
4,583	**1,229**	**1,179**	**2,318**	**$ (147,623)**
-	-	-	-	$ 275,000
(10,155)	(440)	(995)	(2,985)	(324,790)
(1,424)	(532)	(181)	(334)	(77,665)
-	-	-	-	(2,809)
-	(1,405)	(6)	(141)	-
-	-	-	-	18,608
-	-	-	-	4,555
-	-	-	-	35,701
-	-	-	-	(44,200)
(11,579)	**(2,377)**	**(1,182)**	**(3,460)**	$ (115,600)
26,134	11,427	3,370	4,296	$ 556,336
(16,536)	(2,985)	(3,537)	(3,320)	(196,268)
1,059	989	137	149	26,211
10,657	**9,431**	**(30)**	**1,125**	$ 386,279
3,661	8,283	(33)	(17)	$ 123,056
236	6,630	33	78	124,508
3,897	**14,913**	**-**	**61**	**$ 247,564**
954	1,218	245	80	$ 26,309
(1,051)	(964)	(155)	(148)	(25,694)
(38)	(72)	9	(8)	(1,260)
2,017	566	184	512	80,986
-	-	-	-	-
2,756	485	892	1,874	(223,810)
17	2	4	11	(848)
-	-	-	-	(7,863)
(72)	(6)	-	10	2,245
-	-	-	(13)	1,586
-	-	-	-	726
3,629	**11**	**934**	**2,238**	**$ (173,932)**
4,583	**1,229**	**1,179**	**2,318**	**$ (147,623)**