NORTH CAROLINA
HOUSING FINANCE AGENCY

Audited Financial Statements

June 30, 2021

NORTH CAROLINA HOUSING FINANCE AGENCY
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2021

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MANAGEMENT DISCUSSION AND ANALYSIS *(Unaudited)*
June 30, 2021

The management discussion and analysis of the North Carolina Housing Finance Agency's financial performance provides an overview of its financial activities for the fiscal year ended June 30, 2021. The financial statements, accompanying notes, and supplementary information should be read in conjunction with the following discussion.

Overview

The North Carolina Housing Finance Agency (Agency) was created in 1973 to provide financing for residential housing, both ownership and rental, to North Carolina households with low and moderate incomes. The Agency issues bonds and sells mortgage-backed securities (MBS) on the secondary market to finance housing throughout the State of North Carolina (State). In addition, the Agency administers the funding for the Section 8 programs, the HOME Investment Partnerships Program (HOME), the Low-Income Housing Tax Credits (LIHTC), the US Department of the Treasury's (Treasury) Hardest Hit Fund (HHF), the North Carolina Housing Trust Fund (HTF), the National Housing Trust Fund (NHTF) and other federal and state programs. The Agency uses these funds to provide different types of assistance such as down payment assistance, low-interest mortgage loans, foreclosure prevention counseling, rent subsidies, 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, 2021, compared to the prior fiscal year's results and activities:

- *Total Assets* increased $174,457,000, or 7.6%
- *Deferred Outflows of Resources* decreased $663,000, or 7.8%
- *Total Liabilities* increased $124,303,000, or 8.5%
- *Deferred Inflows of Resources* decreased $7,882,000, or 57.0%
- *Total Net Position* increased $57,373,000, or 6.8%

The Agency issued bonds in fiscal year 2021 to refund higher cost bonds and to finance a portion of its NC Home Advantage Mortgage (HomeAd) loans, which were securitized into MBS. These transactions caused an increase in *Investments* and *Bonds payable, net* as well as other related accounts. However, monthly bond calls financed with prepayments from both the HomeAd program and the FirstHome Mortgage (FirstHome) program resulted in a more modest increase in *Bonds payable, net* relative to the increase in *Investments*. HomeAd production decreased in fiscal year 2021 due to the impacts of the novel coronavirus (COVID-19), including overlays placed on HomeAd production by the Federal National Mortgage Association (FNMA, or Fannie Mae), the Federal Home Loan Mortgage Corporation, the Government National Mortgage Association and the Agency's master servicer. These transactions are primarily responsible for the increases and decrease in the accounts below:

- *Investments* increased $124,286,000, or 11.0%
- *Bonds payable, net* increased $107,247,000, or 7.8%
- *Interest on bonds* increased $1,257,000, or 3.1%
- *Nonfederal program expense* decreased $4,276,000, or 11.6%

Federal investments reaching maturity and market fluctuations in fiscal year 2021 caused a decrease in *Net increase in fair value of investments* of $49,017,000, or 98.2%.

In 2013, the Agency shifted from offering mortgages under the FirstHome program, in which the Agency owns the mortgage loan, to utilizing the HomeAd program, in which mortgage loans are pooled into MBS. As a result, the portfolio of mortgage loans in the FirstHome program continues to decline from prepayments. In addition, the continued low interest rates resulted in prepayments of loans from other Agency programs. The combined effect resulted in decreases in *Mortgage loans receivable, net* and related accounts and an increase in *Program income/fees* as listed below:

- *Mortgage loans receivable, net* decreased $72,999,000, or 15.1%
- *Accrued interest receivable on mortgage loans* decreased $102,000, or 3.4%
- *Program income/fees* increased $22,452,000, or 31.8%
- *Interest on mortgage loans* decreased $4,497,000, or 18.8%
- *Mortgage servicing expense* decreased $259,000, or 19.4%

Unearned revenues increased $18,532,000, or 62.3%, primarily due to the receipt of $27.3 million for the Homeowner Assistance Fund (HAF) related to the American Rescue Plan Act of 2021. This increase was partially offset because the Agency is in the final stages of closing out the North Carolina Foreclosure Prevention Fund (NCFPF). *Federal program expense* decreased $14,132,000, or 6.6%, primarily due to slowing NCFPF production related to the wind down. *Federal program awards received* increased $7,780,000, or 4.0%, due to an increase in monthly payments for Section 8 properties, offset by a reduction in federal project funds received due to the wind down of NCFPF.

State appropriations received increased $20,000,000, or 187.6%, because the Agency received an appropriation for the Workforce Housing Loan Program (WHLP) in fiscal year 2021; no appropriation for WHLP was received in fiscal year 2020 due to a State budget impasse.

The Agency is awarded Community Living Housing Funds (CLHF) from the North Carolina Department of Health and Human Services (DHHS) which cannot be used until appropriated by the North Carolina General Assembly (General Assembly). In fiscal year 2019, the Agency was awarded $7,296,000 for CLHF, which was expected to be appropriated in fiscal year 2020. However, due to the fiscal year 2020 budget impasse, it was not appropriated until fiscal year 2021. The $1,229,000 of CLHF awarded in fiscal year 2020 and $1,948,000 awarded in fiscal year 2021 were also appropriated in fiscal year 2021. This resulted in a decrease in *Deferred state grant* of $8,525,000, or 100%.

In fiscal year 2021, *State grants received* increased by $6,999,000, or 22.3%, due to the following:

- A $6.5 million increase in funding for Transitions to Community Living Voucher from $15.9 million in fiscal year 2020 to $22.4 million in fiscal year 2021;
- A $10.5 million increase in CLHF due to the delayed appropriation discussed above;
- A $10 million decrease for Hurricane Florence Disaster Recovery Fund as this was a one-time award received in fiscal year 2020.

The Agency is required to reflect its proportionate share of the State's pension liability and postemployment benefits. Based on actuarial assumptions, the effect of these transactions is listed below:

- *Deferred outflows for pensions* increased $405,000, or 14.8%
- *Deferred outflows for other postemployment benefits* decreased $278,000, or 9.0%
- *Pension liability* increased $1,076,000, or 18.7%
- *Other postemployment benefits* decreased $1,716,000, or 11.4%
- *Deferred inflows for pensions* decreased $11,000, or 100%
- *Deferred inflows for other postemployment benefits* increased $654,000, or 12.4%

The net effect of the transactions detailed above, along with regular operations of the Agency, resulted in an increase in *Total Net Position* of $57,373,000, or 6.8%. The primary drivers of the change in net position relate to HomeAd production, decreases in the FirstHome portfolio, the wind down of the NCFPF programs, and new funding related to HAF. The overall impact of COVID-19 on the Agency's operations is discussed more in

"Financial Conditions". The Agency continues to proactively manage its programs to further its mission of creating affordable housing for North Carolinians with low and moderate incomes.

Financial Analysis

The following tables summarize the changes in net position between June 30, 2021 and June 30, 2020 *(in thousands)*:

	2021	2020	Change	%
Condensed Statements of Net Position				
Assets*				
Cash and cash equivalents	$ 802,870	$ 675,551	$ 127,319	18.8
Investments	1,250,508	1,126,222	124,286	11.0
Accrued interest receivable on investments	4,115	4,167	(52)	(1.2)
Mortgage loans receivable, net	411,317	484,316	(72,999)	(15.1)
Mortgage loans held for resale	-	3,697	(3,697)	(100.0)
Accrued interest receivable on mortgage loans	2,935	3,037	(102)	(3.4)
Other assets, net	5,685	4,856	829	17.1
Capital assets, net	2,399	3,526	(1,127)	(32.0)
Total Assets	$ 2,479,829	$ 2,305,372	$ 174,457	7.6
Deferred Outflows of Resources				
Deferred outflows for pensions	$ 3,147	$ 2,742	$ 405	14.8
Deferred outflows for other postemployment benefits	2,800	3,078	(278)	(9.0)
Accumulated decrease in fair value of hedging derivative	1,850	2,640	(790)	(29.9)
Total Deferred Outflows of Resources	$ 7,797	$ 8,460	$ (663)	(7.8)
Liabilities*				
Bonds payable, net	$ 1,483,094	$ 1,375,847	$ 107,247	7.8
Accrued interest payable	20,076	20,227	(151)	(0.7)
Accounts payable	5,055	4,743	312	6.6
Derivative instrument – interest rate swap	1,850	2,640	(790)	(29.9)
Unearned revenues	48,299	29,767	18,532	62.3
Pension liability	6,815	5,739	1,076	18.7
Other postemployment benefits	13,347	15,063	(1,716)	(11.4)
Other liabilities	5,895	6,102	(207)	(3.4)
Total Liabilities	$ 1,584,431	$ 1,460,128	$ 124,303	8.5
Deferred Inflows of Resources				
Deferred state grant	$ -	$ 8,525	$ (8,525)	(100.0)
Deferred inflows for pensions	-	11	(11)	(100.0)
Deferred inflows for other postemployment benefits	5,945	5,291	$ 654	12.4
Total Deferred Inflows of Resources	$ 5,945	$ 13,827	$ (7,882)	(57.0)
Net Position				
Net investment in capital assets	$ 2,399	$ 3,526	$ (1,127)	(32.0)
Restricted	875,081	823,409	51,672	6.3
Unrestricted	19,770	12,942	6,828	52.8
Total Net Position	$ 897,250	$ 839,877	$ 57,373	6.8

Condensed Statements of Revenues, Expenses and Changes in Net Position	**2021**	**2020**	**Change**	**%**
Operating Revenues				
Interest on investments	$ 43,134	$ 44,276	$ (1,142)	(2.6)
Net increase in fair value of investments	884	49,901	(49,017)	(98.2)
Interest on mortgage loans	19,456	23,953	(4,497)	(18.8)
Federal program awards received	199,894	192,114	7,780	4.0
Nonfederal program awards received	-	121	(121)	(100.0)
Program income/fees	93,001	70,549	22,452	31.8
Other revenues	540	417	123	29.5
Total Operating Revenues	$ 356,909	$ 381,331	$ (24,422)	(6.4)
Operating Expenses				
Interest on bonds	$ 41,628	$ 40,371	$ 1,257	3.1
Mortgage servicing expense	1,073	1,332	(259)	(19.4)
Federal program expense	199,716	213,848	(14,132)	(6.6)
Nonfederal program expense	32,468	36,744	(4,276)	(11.6)
General and administrative expense	25,151	26,127	(976)	(3.7)
Other expenses	350	830	(480)	(57.8)
Total Operating Expenses	$ 300,386	$ 319,252	$ (18,866)	(5.9)
Operating Income	$ 56,523	$ 62,079	$ (5,556)	(8.9)
Non-Operating Revenues (Expenses)				
State appropriations received	$ 30,660	$ 10,660	$ 20,000	187.6
State grants received	38,418	31,419	6,999	22.3
State program expense	(68,456)	(65,843)	(2,613)	4.0
Noncapital contributions	228	-	228	100.0
Total Non-Operating Revenues (Expenses)	$ 850	$ (23,764)	$ 24,614	103.6
Change in Net Position	$ 57,373	$ 38,315	$ 19,058	49.7
Total Net Position - Beginning	$ 839,877	$ 801,562	$ 38,315	4.8
Total Net Position - Ending	$ 897,250	$ 839,877	$ 57,373	6.8

*For information on current and noncurrent statement of net position items, please see the audited Statement of Net Position in the accompanying financial statements.

Financial Conditions

COVID-19 continued to be the defining event of fiscal year 2021. While the pace of infections declined as people received vaccinations, the virus continued to cause disruptions in industries and supply chains, affecting most people. The effects of the pandemic and the resulting economic crisis impacted the Agency’s borrowers, business partners and internal operations. The Agency adjusted quickly to the additional demands introduced by the pandemic. Health and safety remained the Agency’s top priorities, and approximately 90% of Agency staff have been working remotely since March 2020.

The federal government provided substantial funds to mitigate the problems caused by the pandemic, such as the Coronavirus Aid, Relief, and Economic Security (CARES) Act, passed in March 2020; the Coronavirus Response and Consolidated Appropriations Act, passed in December 2020; and the American Rescue Plan, passed in March 2021. The Agency was able to support relief efforts related to the federal funding as described in “New Business” below.

The foreclosure and eviction moratoriums that began in fiscal year 2020 continued through fiscal year 2021. Forbearance requests related to the Agency’s legacy FirstHome program remained stable while forbearance requests related to the HomeAd program declined in fiscal year 2021. Delinquency ratios for FirstHome and HomeAd loans fluctuated but showed improvement toward the end of fiscal year 2021. The Agency’s master servicers did not take action on the delinquencies due to the foreclosure and eviction moratoriums in place. The federal funds provided to mitigate the impacts of COVID-19 are expected to benefit

North Carolinians as programs roll out and eviction moratoriums end. In spite of the volume of forbearance requests, the Agency's bond ratings of AA+/AA1 offered by Standard & Poor's and Moody's Investor Services rating agencies remained stable.

The economic effects of COVID-19 caused significant increases in the cost of lumber and construction materials, supply change delays, shortage of labor, and delays in permitting, inspections and plan approvals. These factors have impacted all of the Agency's partners across all programs, making it difficult for many rental projects to move forward. Single-family home prices have skyrocketed due to low supply and high demand, pricing out many potential homebuyers. While there are no quick solutions to these issues, COVID-19 funding provided by the federal government and the State helps to mitigate some of these negative factors.

New Business

Appropriations and Awards

For fiscal year 2021, the Agency received the following appropriations and awards from the federal government, the General Assembly, and other State agencies:

Federal:

$	273.3 million	Homeowner Assistance Fund (HAF) from the NC Pandemic Recovery Office (NCPRO)*
$	179.2 million	Section 8 Project-Based and Traditional Contract Administration
$	18.2 million	HOME Investment Partnerships Program (HOME)
$	7.3 million	National Housing Trust Fund (NHTF)
$	7.0 million	Section 811 Project Rental Assistance Program (811 PRA)

North Carolina:

$	22.4 million	Transitions to Community Living Voucher (TCLV) from DHHS
$	20.0 million	Workforce Housing Loan Program (WHLP)
$	10.5 million	Community Living Housing Fund (CLHF) from DHHS
$	7.7 million	State Housing Trust Fund (HTF)
$	5.5 million	Key Rental Assistance (Key) from DHHS
$	3.0 million	HOME Match

**Sub-award of federal funds by another State agency*

New Activities

In August 2020, the US Department of Housing and Urban Development (HUD) announced the award of $7 million to the Agency for the Section 811 Project Rental Assistance Program (811 PRA). North Carolina was one of 12 state awardees nationwide. 811 PRA provides project-based rental assistance to assist extremely low-income persons with disabilities. The Agency and DHHS intend to use the 811 PRA funds as an additional rental assistance resource in our efforts to comply with the Olmstead settlement agreement, which was a voluntary settlement agreement with the US Department of Justice in 2012 for housing people with mental illness. As of June 30, 2021, the Agency is awaiting guidance from HUD to develop the program.

Also in August, Governor Cooper announced that $175 million was being set aside for rental and utility assistance for North Carolinians impacted by the COVID-19 pandemic, with DHHS and the North Carolina Office of Recovery and Resiliency (NCORR) serving as lead agencies. NCORR asked the Agency to serve as paying agent for its Housing Opportunities and Prevention of Evictions (HOPE) program. The Agency was already serving as paying agent for DHHS' Back@Home program associated with the disaster response for Hurricanes Florence and Dorian in previous years; therefore, the Agency accepted DHHS' request to expand its role to encompass the new funds. Both Back@Home and HOPE use a network of local partners/agencies to process applications, verify program eligibility and make payments to landlords and utility companies on behalf of the respective lead agencies.

The federal Coronavirus Response and Consolidated Appropriations Act, passed in December 2020, included a fixed rate for the 4% LIHTC, a key provision of the Affordable Housing Credit Improvement Act. The 9% LIHTC rate had been previously fixed in 2015, but the floating 4% rate was not addressed and has been an area of focus for housing advocates ever since. This change could yield as much as 25% more equity in a 4% LIHTC development and is projected to provide 130,000 additional units nationally over the next 10 years. The demand for affordable rental housing in North Carolina is significant. For the first time in the Agency's history, the total development costs for all housing credit projects awarded in calendar year 2020 exceeded $1 billion.

The federal American Rescue Plan Act (ARP) was enacted on March 11, 2021, and included a number of provisions to address the immediate housing needs for both homeowners and renters who have fallen behind on mortgage, rent and utilities during the pandemic. It also provided additional resources to help those experiencing or at risk of homelessness. The federal Homeowner Assistance Fund was a part of ARP and provides financial assistance for homeowners with mortgage and utility payments similar to the Hardest Hit Fund. The State was awarded over $273 million in April 2021. The North Carolina Pandemic Recovery Office (NCPRO) serves as the eligible entity for the program, and the Agency has been designated as the program administrator. In June 2021, the Agency received $27.3 million from NCPRO, and it is actively working on program development and design.

In May 2021, the Agency implemented the Fannie Mae Duty-to-Serve Rural Initiative Program in conjunction with its HomeAd program. Fannie Mae offers $2,000 in closing cost assistance to borrowers below 80% of area median income who purchase homes in certain census tracts within rural areas of North Carolina.

Debt Administration

The Agency issued taxable and tax-exempt bonds in fiscal year 2021 to refund higher rate bonds and to finance a portion of its HomeAd production.

On October 14, 2020, the Agency issued $200 million in Series 45 bonds in the 1998 Trust Indenture to advance refund all 2009 Trust Indenture bonds outstanding, totaling $71.5 million. While most of the proceeds were applied to new HomeAd production, a portion of the proceeds was used to defease the bonds and accrued interest in the 2009 Trust Indenture. The bonds in the 2009 Trust Indenture were not eligible to be called until January 1, 2021 and July 1, 2021, so $58.2 million of the Series 45 proceeds was placed into escrow by the Agency's trustee, Bank of New York Mellon, NA. In addition, $14.2 million of cash in the 2009 Trust Indenture was also placed into escrow. The amounts placed in escrow were invested by the trustee in state and local government securities generating earnings sufficient to refund the bonds and pay accrued interest in full on January 1, 2021 and July 1, 2021. As a result, the 2009 Trust Indenture was defeased effective October 2020.

The FirstHome mortgage loans in the 2009 Trust Indenture were transferred to the Series 45 Revenue Fund of the 1998 Trust Indenture as collateral for the Series 45 bonds, and all remaining assets of the 2009 Trust Indenture were transferred to the 1998 Trust Indenture.

The advance refunding associated with the defeasance of the 2009 Trust Indenture resulted in a reduction of the Agency's aggregate debt service payments and an economic gain of $7.06 million based on a 0% prepayment speed.

On April 22, 2021, the Agency issued $167,865,000 in Series 46 bonds in the 1998 Trust Indenture. Of this total, $150,000,000 was issued as tax-exempt bonds, the proceeds of which were applied to new HomeAd production. The remaining $17,865,000 consisted of taxable bonds used to refund the Series 32 bonds in the 1998 Trust Indenture.

The Agency has three swaps with two counterparties, Bank of America, N.A. and Goldman Sachs Mitsui Marine, discussed in detail in Note E, "Derivative Instrument – Interest Rate Swap."

In fiscal year 2021, the Agency had monthly bond calls and biannual debt service payments totaling $268,280,000.

Programs and Activities

The Agency's mission is to create affordable housing opportunities for North Carolinians whose needs are not met by the market. The Agency focuses its efforts on providing assistance to borrowers purchasing their home, financing affordable rental housing, and helping homeowners who are facing foreclosure or living in substandard housing.

For the year ended June 30, 2021, the Agency recorded expenditures of $221,889,000 in federal funds for the following programs:

- Carryover Loan Program (COLP)
- Community Partners Loan Pool (CPLP)
- Essential Single-Family Rehabilitation Loan Pool (ESFRLP)
- Mortgage Payment Program (MPP)
- Principal Reduction Recast/Lien Extinguishment for Unaffordable Mortgages Program (PRRLE)
- Rental Production Program (RPP)
- Rental Production Program – Disaster Recovery (RPP-DR)
- Section 8 Project-Based Contract Administration (Section 8 PBCA)
- Section 8 Traditional Contract Administration (Section 8 TCA)
- Self-Help Loan Pool (SHLP)
- Supportive Housing Development Program (SHDP)

For the year ended June 30, 2021, the Agency recorded expenditures of $91,754,000 in State funds for the following programs:

- Back@Home (BH)
- Displacement Prevention Partnership (DPP)
- Essential Single-Family Rehabilitation Loan Pool – Disaster Recovery (ESFRLP-DR)
- Housing Counseling Capacity Building Program (HCCBP)
- Housing Opportunities and Prevention of Evictions (HOPE)
- Housing Services (HS)
- Integrated Supportive Housing Program (ISHP)
- Key Rental Assistance (Key)
- Rental Production Program (RPP)
- Rental Production Program – Disaster Recovery (RPP-DR)
- Supportive Housing Development Program (SHDP)
- Transitions to Community Living Voucher (TCLV)
- Urgent Repair Program (URP)
- Workforce Housing Loan Program (WHLP)

For the year ended June 30, 2021, the Agency recorded expenditures of $340,200,000 from other funding sources for the following programs:

- Community Partner Loan Pool (CPLP)
- Construction Training Partnership (CTP)
- Essential Single-Family Rehabilitation Loan Pool (ESFRLP)
- Multifamily Rental Assistance (MF RA)
- NC Home Advantage Mortgage (HomeAd)
- NC Home Advantage Down Payment Assistance (HomeAd DPA)
- NC 1st Home Advantage Down Payment Assistance (1st Home DPA)
- Lead Abatement Partnership Program (LAP)

- Rental Production Program (RPP)
- State Home Foreclosure Prevention Project (SHFPP)

For the year ended June 30, 2021, the Agency made awards of $421,168,000 for the following programs:

- Low-Income Housing Tax Credit (LIHTC)
- NC Home Advantage Tax Credit
- NC Home Advantage Mortgage (HomeAd)

All major programs for which the Agency recorded expenditures or made awards in the year ended June 30, 2021 are described in the section below:

Home Ownership Programs The Agency offers low-cost mortgages, down payment assistance and mortgage credit certificates (MCCs) for qualified buyers through the following programs:

- NC Home Advantage Mortgage provides affordable mortgage options and forgivable down payment assistance to first-time or move-up homebuyers. Borrowers are offered 30-year fixed rate mortgages and 15-year deferred, forgivable second mortgages of 3% or 5% of the first mortgage amount.
- NC 1st Home Advantage Down Payment Assistance program provides another down payment assistance option for qualifying veterans and first-time homebuyers. This comes in the form of an $8,000 deferred forgivable 15-year second mortgage.
- NC Home Advantage Tax Credit helps qualifying veterans and homebuyers increase their mortgage affordability by providing MCCs. MCCs are federal tax credits that reduce tax liability annually by up to 30% of mortgage interest for existing homes or up to 50% for new construction, each with a maximum credit of $2,000 annually.
- Self-Help Loan Pool provides affordable mortgage assistance to qualified homebuyers purchasing homes through nonprofit Self-Help Housing loan pool members. Homebuyers are offered interest-free amortizing loans in combination with SHLP nonprofit member financing.
- Community Partners Loan Pool provides down payment assistance to qualifying homebuyers purchasing a home through local governments and nonprofits. Homebuyers are offered interest-free, deferred second mortgages up to 20% of the purchase price when combined with a HomeAd mortgage or up to 10% when combined with a USDA Section 502 loan.

Housing Preservation Programs The Agency partners with local governments, nonprofits and regional councils to finance the rehabilitation of substandard owner-occupied homes to prevent displacement through the following programs:

- Essential Single-Family Rehabilitation Loan Pool provides essential and critical home rehabilitation for qualifying homeowners. Funds are provided to partners in the form of interest-free, deferred, forgiven loans. The program benefits homeowners earning up to 80% of area median income with full-time household members who are elderly, disabled, qualified veterans and/or children under the age of six years old frequently present in a home with lead hazards.
- Essential Single-Family Rehabilitation Loan Pool – Disaster Recovery program provides interest-free, deferred, forgiven loans to eligible homeowners to provide essential rehabilitations in response to damage from Hurricane Matthew and Tropical Storms Julia and Hermine. Homeowners earning up to 100% of area median income whose homes were affected by these storms in the counties listed in the Disaster Recovery Act of 2016 are eligible for loans for rehabilitation.
- Urgent Repair Program provides interest-free, deferred, forgiven loans to assist qualifying homeowners with emergency repairs and modifications that address imminent threats to health or safety. Homeowners who are elderly, special needs, veterans or disabled earning up to 50% of area median income are eligible.

- Displacement Prevention Partnership offers interest-free, deferred, forgiven loans through the North Carolina Division of Vocational Rehabilitation and Independent Living Offices to repair or improve home accessibility for qualifying homeowners with mobility issues. Homeowners who are disabled earning up to 50% of area median income are eligible for these loans.

Foreclosure Prevention Programs The Agency provides foreclosure prevention services in partnership with housing counseling organizations approved by HUD through various programs, including the following:

- North Carolina Foreclosure Prevention Fund, which was made possible by funding from the HHF, was a suite of Agency-developed programs designed to help qualifying North Carolina homeowners who were struggling with their mortgages. The Agency discontinued accepting applications in fiscal year 2020 and final program disbursements were made in fiscal year 2021.
- State Home Foreclosure Prevention Project provides free housing counseling and legal assistance to homeowners facing foreclosure. These services are funded through foreclosure filing fees, which are paid by servicers of North Carolina home loans.

Rental Development Programs The Agency finances affordable homes and apartments developed by local governments, nonprofits and private developers through various programs, including the following:

- Low-Income Housing Tax Credit provides eligible rental developers with financing necessary to develop and substantially rehabilitate affordable rental housing in the State. The tax credit reduces the investors' federal tax liability by up to 9% of the eligible project cost each year for 10 years, and participation in the program ensures the creation and/or preservation of affordable rental housing for households earning up to 80% of the area median income.
- Workforce Housing Loan Program provides long-term financing for tax credit developments. Assistance is available in the form of 30-year balloon loans for a percentage of development costs based on income designations for each county.
- Rental Production Program provides long-term financing for tax credit developments. Amortizing or deferred loans are available up to 20 years.
- Rental Production Program – Disaster Recovery provides loans to fund construction of affordable rental developments in counties with a federally-declared disaster designation due to Hurricane Florence in 2018 and Hurricane Matthew in 2016.
- Carryover Loan Program provides financing for the acquisition of land for 9% new construction tax credit properties.
- The Integrated Supportive Housing Program, a collaboration with DHHS, provides long-term financing for developments that set aside up to 20% of units for people with disabilities.

Rental Assistance Programs The Agency administers rent assistance contracts for privately owned apartments or intermediaries through the following programs:

- Section 8 rent assistance projects are administered by the Agency for certain project-based Section 8 Housing Assistance Payment contracts on behalf of HUD. For Project-Based Contract Administration (PBCA) projects, the Agency partners with NC Quadel Consulting Corporation to manage the contract administration duties. For Traditional Contract Administration (TCA) projects, the Agency was directly responsible for receiving and distributing rental assistance payments from HUD. All remaining TCA projects were transferred to PBCA in September 2020 and are no longer managed by the Agency.
- Key Rental Assistance, a DHHS program for which the Agency serves as a partner, provides rental assistance for low-income persons with disabilities, including those experiencing homelessness. The Agency is responsible for executing agreements with property owners, reviewing income eligibility documentation at move-in and recertification periods, making rental assistance payments to owners and projecting costs of the program.

- Transition to Community Living Voucher, a DHHS program for which the Agency serves as a partner, was established in 2016 to create an efficient and effective state housing administration system to allow people with certain disabilities to successfully live in the communities of their choice. The Agency supports Local Management Entities/Managed Care Organizations in administering vouchers through the development and maintenance of a secure electronic funds management and document collection system, reviewing payment requests for compliance and disbursing funds accordingly.
- Back@Home supports homelessness prevention and rapid rehousing services needed as a result of Hurricane Florence, Hurricane Dorian, and the COVID-19 pandemic. The Agency reviews and reimburses expenditures incurred and submitted by designated rehousing agencies per contract with DHHS.
- Housing Opportunities and Prevention of Evictions is a program administered by NCORR which seeks to alleviate financial pressure on low- and moderate-income households as a result of the COVID-19 pandemic and to provide increased housing security to renters by providing rent and utility payment assistance. The Agency reviews and reimburses expenditures incurred and submitted by designated rehousing agencies.

Supportive Housing Programs The Agency finances the development of supportive housing for North Carolinians through its partners across the State:

- The Supportive Housing Development Program provides amortizing or deferred loans to local governments, nonprofits and regional councils to finance the production of emergency and permanent supportive housing. This program benefits people earning up to 50% of the area median income who have supportive housing needs or are experiencing homelessness.

Additional Information

This discussion and analysis is intended to provide additional information regarding the activities of the North Carolina Housing Finance Agency. If you have questions about the report or need additional financial information, contact S. Carrie Freeman, Chief Financial Officer, North Carolina Housing Finance Agency, P.O. Box 28066, Raleigh, North Carolina 27611-8066, (919) 877-5680, scfreeman@nchfa.com, or visit the Agency’s website at www.nchfa.com.

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Independent Auditor's Report

The Board of Directors
North Carolina Housing Finance Agency

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and programs 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, 2021, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities and programs of the Agency, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design 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. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2021 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 solely 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 effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

BDO USA, LLP

September 20, 2021

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF NET POSITION

AS OF JUNE 30, 2021

(in thousands)

ASSETS	
Current assets:	
Cash and cash equivalents	$ 40,028
Restricted cash and cash equivalents	762,842
Restricted investments	24,562
Accrued interest receivable on investments	4,115
Mortgage loans receivable	78,363
Accrued interest receivable on mortgage loans	2,935
Other assets	5,661
TOTAL CURRENT ASSETS	$ 918,506
Noncurrent assets:	
Restricted investments	$ 1,225,946
Mortgage loans receivable, net	332,954
Other assets, net	24
Capital assets, net	2,399
TOTAL NONCURRENT ASSETS	$ 1,561,323
TOTAL ASSETS	$ 2,479,829
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows for pensions	$ 3,147
Deferred outflows for other postemployment benefits	2,800
Accumulated decrease in fair value of hedging derivative	1,850
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 7,797
LIABILITIES	
Current liabilities:	
Bonds payable	$ 42,940
Accrued interest payable	20,076
Accounts payable	5,055
Unearned revenues	29,863
Other liabilities	568
TOTAL CURRENT LIABILITIES	$ 98,502
Noncurrent liabilities:	
Bonds payable, net	$ 1,440,154
Derivative instrument - interest rate swap	1,850
Unearned revenues	18,436
Pension liability	6,815
Other postemployment benefits	13,347
Other liabilities	5,327
TOTAL NONCURRENT LIABILITIES	$ 1,485,929
TOTAL LIABILITIES	$ 1,584,431
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows for other postemployment benefits	$ 5,945
TOTAL DEFERRED INFLOWS OF RESOURCES	$ 5,945
NET POSITION	
Net investment in capital assets	$ 2,399
Restricted net position	875,081
Unrestricted net position	19,770
TOTAL NET POSITION	$ 897,250

The accompanying notes are an integral part of these financial statements.

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2021

(in thousands)		
OPERATING REVENUES		
Interest on investments	$	43,134
Net increase in fair value of investments		884
Interest on mortgage loans		19,456
Federal program awards received		199,894
Program income/fees		93,001
Other revenues		540
TOTAL OPERATING REVENUES	$	356,909
OPERATING EXPENSES		
Interest on bonds	$	41,628
Mortgage servicing expense		1,073
Federal program expense		199,716
Nonfederal program expense		32,468
General and administrative expense		25,151
Other expenses		350
TOTAL OPERATING EXPENSES	$	300,386
OPERATING INCOME	$	56,523
NON-OPERATING REVENUES (EXPENSES)		
State appropriations received	$	30,660
State grants received		38,418
State program expense		(68,456)
Noncapital contributions		228
TOTAL NON-OPERATING REVENUES (EXPENSES)	$	850
CHANGE IN NET POSITION	$	57,373
TOTAL NET POSITION - BEGINNING	$	839,877
TOTAL NET POSITION - ENDING	$	897,250

The accompanying notes are an integral part of these financial statements.

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2021

(in thousands)

Cash flows from operating activities:	
Interest on mortgage loans	$ 19,484
Principal payments on mortgage loans	89,019
Purchase of mortgage loans	(16,642)
Principal payments on mortgage loans held for resale	3,697
Federal program awards received	216,632
Federal program expense	(199,629)
Nonfederal program expense	(32,468)
Federal grant administration income	9,393
Program income/fees	84,331
Other expenses	(24,397)
Other revenues	(872)
Net cash provided by operating activities	$ 148,548
Cash flows from non-capital financing activities:	
Issuance of bonds	$ 367,865
Principal repayments on bonds	(196,770)
Interest paid	(30,305)
Bond issuance costs paid	(2,942)
Net transfers	(72,380)
State appropriations received	30,660
State grants received	29,893
State program expense	(67,263)
Noncapital contributions	228
Net cash provided by non-capital financing activities	$ 58,986
Cash flows from investing activities:	
Proceeds from sales or maturities of investments	$ 188,553
Purchase of investments	(313,530)
Earnings on investments	44,762
Net cash used in investing activities	$ (80,215)
Net increase in cash, cash equivalents and restricted cash	$ 127,319
Cash, cash equivalents and restricted cash at beginning of year	675,551
Cash, cash equivalents and restricted cash at end of year	$ 802,870
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 56,523
Adjustments to reconcile operating income to net cash provided by operating activities:	
Interest on investments	(43,134)
Increase in fair value of investments	(884)
Interest on bonds	41,628
Non-operating mortgage loan loss	(1,193)
Change in operating assets and liabilities:	
Decrease in mortgage loans receivable	72,999
Decrease in accrued interest receivable on mortgage loans	102
Decrease in mortgage loans held for resale	3,697
Increase in other assets	(742)
Increase in deferred outflows of resources	(128)
Increase in accounts payable and other liabilities	505
Increase in deferred inflows of resources	643
Increase in unearned revenues	18,532
Total adjustments	$ 92,025
Net cash provided by operating activities	$ 148,548

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

A. AUTHORIZING LEGISLATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation The accompanying financial statements of the Agency have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) establishes standards of financial accounting and reporting for state and local government entities.

Measurement Focus and Basis of Accounting The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Programs The Agency's accounts are organized on the basis of programs. Each program represents a separate accounting entity. Agency resources are allocated to these programs based on legal responsibility, fiscal accountability, and management designation. 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. Among the most active programs are the federal Low-Income Housing Tax Credit (LIHTC) program and the State Home Foreclosure Prevention Project (SHFPP). The Agency administers LIHTC for the State. The Agency evaluates applications for the tax credits and monitors the rental properties for the compliance period to ensure that they meet federal program requirements, among other responsibilities. The Agency earns fees related to the applications and monitoring of LIHTC properties.

In 2008, the State authorized the formation of SHFPP in response to the foreclosure crisis. State statute requires that all parties who wish to initiate a foreclosure against a home in North Carolina remit a $75 fee to the Agency. The fees collected are used to counsel and/or provide legal assistance to homeowners at risk of foreclosure. Any excess funds are allocated to the North Carolina Housing Trust Fund (HTF) annually.

Housing Trust Fund Programs The North Carolina Housing Trust and Oil Overcharge Act created the HTF and the North Carolina Housing Partnership (Housing Partnership). The purpose of the HTF 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 several programs within the HTF. The Agency staff provides services to the Housing Partnership and administers the HTF programs. State appropriations are reported in *Non-Operating Revenues (Expenses)* in the accompanying financial statements, and include a recurring appropriation that is used to make loans and grants under the HTF programs and a nonrecurring appropriation for the Workforce Housing Loan Program (WHLP).

The Agency receives funds from the North Carolina Department of Health and Human Services (DHHS) for the Community Living Housing Fund. These are reported in *Deferred state grants* until appropriated by the North Carolina General Assembly (General Assembly), when they are moved to *State grants received.*

Federal and State Programs The Agency administers several federal programs. Of the Agency's federal programs, the Section 8 programs, the HOME Investment Partnerships Program (HOME), the Hardest Hit Fund (HHF), and the National Housing Trust Fund (NHTF) represent 80%, 12%, 2% and 2% of federal expenditures, respectively. The Agency receives a fee for administering these programs. The HOME program is matched with State funds of up to $3 million annually as appropriated by the General Assembly.

In fiscal year 2021, the Agency also received federal funds for the Community Development Block Grant Disaster Recovery Fund (CDBG-DR) from the North Carolina Office of Recovery and Resiliency (NCORR) to fund multifamily rental housing development in counties impacted by Hurricane Matthew.

The Agency receives funds from DHHS for the Transitions to Community Living Voucher program (TCLV), the Key Rental Assistance (Key) program and other housing programs. TCLV is a tenant-based, rental assistance program, which also provides assistance with security deposits, holding fees and risk mitigation claims. The Key program provides assistance and services to low-income individuals with disabilities and those who are homeless. These funds are reported in *State grants received*.

Home Ownership Bond Programs The Home Ownership Bond Programs were created through various single-family trust agreements and are restricted as to their use. The proceeds of individual bond issues are used to purchase qualifying mortgage loans for single-family residential units.

The Agency's former FirstHome Mortgage (FirstHome) program was funded with tax-exempt mortgage revenue bonds, and the mortgage loans are reported in *Mortgage loans receivable* and *Mortgage loans receivable, net* in the 1998 Home Ownership Bond Program. Mortgage loans related to the former 2009 Home Ownership Bond Program were consolidated in the 1998 Home Ownership Program after the defeasance of the related bonds as described in Note D, "Bonds Payable." Mortgage loan interest income related to the Home Ownership Bond Programs is reported in *Interest on mortgage loans.*

The operations for the NC Home Advantage Mortgage (HomeAd) program are financed through the issuance of tax-exempt mortgage revenue bonds as well as the sale of mortgage-backed securities (MBS). The production related to the HomeAd program is reported in the 1998 Home Ownership Bond Program. In contrast to the FirstHome program, in which the Agency owns the mortgage loans, all HomeAd production is pooled into MBS, regardless of the method of financing. For HomeAd loans funded through the sale of MBS, the related program income is recorded in *Program income/fees*. The MBS funded with bond proceeds are reported in *Investments*, which also include US Agency securities held by the Agency, as described in Note B, "Cash, Cash Equivalents, Investments, Fair Value Measurements and Securities Lending Transactions." The corresponding earnings from the bond-funded MBS are reported in *Interest on investments*. The down payment assistance loans and lender compensation incurred by the HomeAd program are reported in *Nonfederal program expense,* regardless of the method of financing.

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

Cash and Cash Equivalents *Cash and cash equivalents* are comprised of cash on hand, amounts on deposit with financial institutions which are insured or collateralized under provisions of State laws and regulations, amounts in pooled cash accounts managed by the North Carolina State

Treasurer (State Treasurer), and highly liquid investments with original maturities of three months or fewer. Funds deposited in an investment pool of the State Treasurer are invested in a variety of instruments as authorized by State law. The majority of *Cash and cash equivalents* classified as restricted on the accompanying Statement of Net Position are for the Agency's debt service payments, bond calls, and for funding home ownership under the Agency's different programs.

Investments *Investments* are reported at fair value in accordance with GASB Codification Section I50, *Investments*.

Mortgage Loans Receivable, Net *Mortgage loans receivable, net* are carried at cost less a loan loss reserve. It is the Agency's policy to provide for potential mortgage loan losses based on a periodic evaluation of the loan portfolios.

Mortgage Loans Held For Resale Occasionally, the Agency purchases a portion of HomeAd mortgage loans from its originating lenders to hold from the time of loan purchase to the subsequent securitization of the loan. When these loans are purchased, they are included in *Mortgage loans held for resale*. The interest income and servicing fees associated with these loans are included in *Interest on mortgage loans* and *Mortgage servicing expense*, respectively. As of June 30, 2021, the Agency had no mortgage loans held for resale.

Other Assets *Other assets* for Federal and State Programs includes receivables related to the HOME, Section 8, and NHTF programs. *Other assets* reflected in the Home Ownership Bond Programs include mortgage payments collected by servicers that will be remitted to the Agency in the upcoming fiscal year.

Capital Assets, Net Fixed assets, net of accumulated depreciation, are included in *Capital assets, net* in the accompanying financial statements. Fixed assets of $5,000 or greater, intangible assets of $100,000 or greater, and internally developed software with development costs of $1 million or greater are capitalized and depreciated over a five-year economic useful life using the straight-line method.

Bond Premium and Discount Bond premium and discount represents the difference in the amount received upon the sale of bonds and the par value and is included as a component of *Bonds payable, net* in the accompanying financial statements. The premium and discount relate to some term bonds sold in conjunction with several bond series in the 1998 and 2009 Trust Agreements. The bond premium and discount are amortized using the effective interest rate method over the life of the related term bonds and are adjusted accordingly for any bond calls that occur during the year. The amortization of the bond premium and discount is included as a component of *Interest on bonds* in the accompanying financial statements.

Unearned Revenues *Unearned revenues* includes monitoring fees received upon the completion of LIHTC projects. Since the Agency's monitoring of LIHTC projects occurs over time, these fees are amortized on a straight-line basis over the life of the tax credit or over the life of the loan. Also included in *Unearned revenues* is funding from the US Department of the Treasury (Treasury) for the Homeowner Assistance Fund (HAF), which was received in June 2021. Disbursements related to HAF are expected to begin in fiscal year 2022.

Interprogram Receivable (Payable) During the normal course of operations, the Agency has numerous transactions among programs to provide services. If certain transactions among programs have not been settled as of June 30, 2021, these balances are recorded as *Interprogram receivable (payable)* and eliminated in the accompanying financial statements.

Deferred Outflows/Inflows of Resources In addition to Assets, the Statement of Net Position includes a separate section for *Deferred Outflows of Resources*. This section of the financial statements represents a consumption of net position that applies to a future period and will not be recognized as an expense or expenditure until then. The Agency has three items that meet the criterion: contributions to the pension plan, contributions to other postemployment benefits (OPEB), and an accumulated decrease in fair value of hedging derivative instruments. In addition to Liabilities, the Statement of Net Position includes a separate section for *Deferred Inflows of Resources*. This section of the financial statements represents an acquisition of net position that applies to a future period and will not be recognized as revenue until then. The Agency has one item that meets the criterion: deferred inflows related to OPEB.

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

The Agency's Board of Directors approves an operating budget annually that is funded with revenues generated by administrative fees earned on programs, interest income earned on investments, repayment of program funds, and earnings and reserves from trust agreements. These revenue sources are used to cover operating expenses. The decision to use restricted or unrestricted receipts to fund a payment is transaction-based.

Net position of the Home Ownership Bond Programs is restricted pursuant to the Agency's agreements with its bondholders as determined in its trust agreement. The Agency has restricted these funds in amounts sufficient to meet required debt service and operating expenses as defined by the trust agreement.

Net position of the HTF is restricted in accordance with the policies of the Housing Partnership. The Federal and State Programs' net position is restricted in accordance with each program's requirements.

Operating Revenues and Expenses As one of its primary funding sources, the Agency has the authority to issue bonds to the investing public to create inflows of private capital. These funds are used to finance mortgage loans for qualified borrowers. A significant amount of operating revenues is derived from federal programs, interest earned on mortgage loans and MBS that are financed with bonds, and the GASB Statement No. 31 fair market value adjustments associated with the investments resulting from market fluctuations. Additional operating income is earned from the sale of MBS associated with the HomeAd program.

Accordingly, the primary operating expenses of the Agency are those related to federal programs and the interest expense on bonds outstanding. Other significant operating expenses include down payment assistance and lender compensation, which are reported in *Nonfederal program expense*, and Agency operations, which are reported in *General and administrative expense*.

Non-Operating Revenues and Expenses *State appropriations received* and *State grants received* are classified as *Non-Operating Revenues (Expenses).* The related expenses are classified as *State program expense*.

General and Administrative Expense *General and administrative expense* is classified by the related program. To the extent allowed by federal and state programs and trust agreements, transfers are made from proceeds of federal and state programs or bond issuances to the Agency to reimburse allowable general and administrative expenses. Certain indirect costs are allocated to Federal and State Programs based on an independently prepared cost allocation plan.

Use of Estimates The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the contingent and reported amounts of assets, liabilities, deferred inflows and outflows of resources 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 estimates.

B. CASH, CASH EQUIVALENTS, INVESTMENTS, FAIR VALUE MEASUREMENTS AND SECURITIES LENDING TRANSACTIONS

Cash and Cash Equivalents As of June 30, 2021, the Agency had deposits in pooled investment accounts of the State Treasurer with a carrying value of approximately $283,125,000 and a bank balance of approximately $282,793,000. The State Treasurer investment account has the characteristics of a demand deposit account in that the Agency may deposit and withdraw cash at any time without prior notice or penalty. Included in the investment accounts of the State Treasurer is $3,708,000 of escrow and replacement reserves maintained on behalf of multifamily and single-family mortgagors; accordingly, a corresponding liability of the same amount is also included on the Statement of Net Position.

The Agency had deposits with a carrying value of $519,731,000 and a bank balance approximating $519,815,000 on deposit with the Agency's fiduciary agent. Such deposits are held in accordance with State Statute 159-31(b) by a third-party custodian. The Agency also had deposits held in other financial institutions carrying value and a book balance of $14,000 and a bank balance of $2,000.

Deposits - Custodial Credit Risk Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned. At June 30, 2021, the Agency was not exposed to any material custodial credit risk.

Investments The Agency's investments include US Agency securities and MBS insured by the Federal National Mortgage Association (FNMA), the Government National Mortgage Association (GNMA), and the Federal Home Loan Mortgage Corporation (FHLMC).

The Agency funds a portion of its HomeAd production with tax-exempt bonds. In the HomeAd program, mortgages are made by lenders, purchased by the Agency's master servicer and securitized into MBS. For MBS that are financed with tax-exempt bonds, the MBS are reflected in *Investments* on the Statement of Net Position.

At June 30, 2021, the Agency held the following investments with the listed maturities at annual rates ranging from 1.675% to 6.90%. Ratings are displayed with the Moody's Investors Service (Moody's) rating listed first and the Standard & Poor's (S&P) rating listed second (*in thousands*):

		Investment Maturities (*In Years)*			
Investments	**Carrying Amount**	**Less Than 1**	**1 – 5**	**6 – 10**	**More Than 10**
GNMA MBS					
Rated Aaa/AA+	$ 568,103	$ -	$ 111	$ -	$ 567,992
FNMA MBS					
Rated Aaa/AA+	590,589	-	10	-	590,579
FHLMC MBS					
Rated Aaa/AA+	56,850	-	-	-	56,850
US Agency Securities					
Rated Aaa/AA+	34,966	24,562	8,434	1,970	-
Total Categorized	**$1,250,508**	**$ 24,562**	**$ 8,555**	**$ 1,970**	**$1,215,421**

Interest Rate Risk Interest rate risk is the risk that changes in market rates will adversely affect the fair market value of an investment. The Agency does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. In practice, the Agency limits investments to 20 years to minimize fair value losses arising from interest rate risk, with the exception of the MBS that the Agency holds related to its Home Ownership Bond Programs.

Credit Risk Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State statutes authorize the Agency to invest in (i) direct obligations or obligations on which the principal and interest are unconditionally guaranteed by the US Government; (ii) obligations issued by an approved agency or corporation wholly-owned by the US Government; (iii) interest-bearing time deposits, certificates of deposit, or other approved forms of deposits in any bank or trust company in North Carolina which satisfies insurance and, if necessary, collateral requirements for holding Agency money; (iv) duly established investment programs of the State Treasurer; (v) repurchase agreements; and (vi) repurchase agreements with banks and financial institutions which are chartered outside of the State and meet specified rating and collateral requirements of the various trust agreements. The MBS are securitized by FNMA (fair value - $590,589,000, rated Aaa/AA+), by GNMA (fair value - $568,103,000, rated Aaa/AA+) and by FHLMC (fair value - $56,850,000, rated Aaa/AA+). The GNMA MBS are direct obligations of the US Government. The US Agency securities are direct obligations of the Federal Farm Credit Bank, Federal Home Loan Bank and the FHLMC notes (rated Aaa/AA+) and have a fair value of $34,966,000.

Concentration of Credit Risk Concentration of credit risk is the risk of loss related to the percentage of the Agency's investment portfolio in any single issuer, except for investments explicitly backed by the US government. Listed below are the Agency's investments in a single issuer which exceed 5% of total investments as of June 30, 2021 *(in thousands)*:

Investment Issuer	**Amount**
FNMA - MBS	$590,589

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

Foreign Currency Risk Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Agency does not have exposure to foreign currency risk.

Fair Value Measurements To the extent available, the Agency's investments are recorded at fair value within the fair value hierarchy established by GAAP, in accordance with GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available. The carrying amounts of the Agency's financial instruments, including cash and cash equivalents, accounts receivable, prepaid assets, accounts payable, accrued expenses, and deferred revenue approximate fair value due to their short-term maturities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1	Investments whose values are based on quoted prices (unadjusted) for identical assets (or liabilities) in active markets that a government can access at the measurement date.
Level 2	Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset (or liability), either directly or indirectly.
Level 3	Investments with unobservable inputs and may require a degree of professional judgment.

The Agency had the following recurring fair value measurements as of June 30, 2021 *(in thousands)*:

Investment Type	Fair Value	Input Level	
Short Term Investment Fund (STIF)	$505,259	Level 2	The ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year-end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the State's custodian.
US Agency Securities	$34,966	Level 2	Valuation of the underlying assets is performed using the policies and procedures established by the Agency's custodian.
MBS	$1,215,542	Level 2	Valuation of the underlying assets is performed using the policies and procedures established by the Agency's custodian.
Derivative Instrument - Interest Rate Swap	$1,850	Level 2	The fair value was estimated by a consulting firm using the zero-coupon method.

Securities Lending Transactions GASB Codification Section I60, *Investments—Security Lending* (GASB I60), establishes 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 is authorized to engage in these types of transactions under State Statute 147-69.3(e). The types of securities include government securities and corporate bonds and notes which are held in the pooled investment accounts of the State Treasurer. A securities custodian manages the securities lending program for the State and receives cash as collateral from the borrowers. Collateral is invested in a collateral investment pool and must be maintained at 100% of the market value of the original securities. 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.

Throughout fiscal year 2021, 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, the accompanying financial statements do not reflect the risk associated with securities lending transactions in accordance with GASB I60.

C. MORTGAGE LOANS RECEIVABLE

The Agency's mortgage loans are derived from various funding sources. Loans made from Agency Programs, Housing Trust Fund Programs and Federal and State Programs carry balances of $7,231,000, $12,456,000, and $89,670,000, respectively, as of June 30, 2021. These balances include allowances for loan losses of $53,000, $57,000, and $12,000, respectively.

For the Home Ownership Bond Programs, the Agency has collateralized $281,525,000 in mortgage loans receivable and $1,483,027,000 in cash and investments pledged to repay the $1,446,180,000 single-family bonds payable outstanding as of June 30, 2021. Proceeds from the bonds issued were used to finance housing throughout the State. The outstanding bonds are payable through fiscal year 2052 and are repaid from principal and interest on mortgage loans and MBS, unexpended bond proceeds, proceeds from the sale of investments as well as interest income from investments. The Agency expects 100% of the mortgage loans and MBS, both principal and interest, to pay the principal and interest debt service requirements on the bonds. The total debt service requirement to be paid based on projected cash flows as of June 30, 2021 is $2,165,649,000 (see "Maturities" under Note D).

The existing and future mortgage loans which the Agency may purchase under the Home Ownership Bond Programs must comply with guidelines established by the Agency, including the requirement that all such mortgage loans be insured by the Federal Housing Administration, guaranteed by the Veterans Administration, guaranteed by the US Department of Agriculture, Rural Development, insured under a private mortgage insurance program, or have a loan-to-value ratio equal to or less than 80%. As of June 30, 2021, all outstanding FirstHome mortgage loans purchased with mortgage revenue bond proceeds satisfy these requirements and have stated interest rates ranging from 3% to 10.35%. The Agency has allowances for mortgage loan loss for the FirstHome and HomeAd programs of $359,000, as of June 30, 2021.

For the current fiscal year, debt service payments, bond calls and related interest payments totaling $227,075,000 were made for the Home Ownership Bond Programs. Payments received on mortgage loans and MBS for the Home Ownership Bond Programs were $89,102,000 and $195,490,000, respectively.

D. BONDS PAYABLE

Bonds payable activity for the year ended June 30, 2021 was as follows (*in thousands*):

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds Payable				
Home Ownership	$ 1,329,390	$ 367,865	$ (266,305)	$ 1,430,950
Home Ownership (Direct Placement)	17,205	-	(1,975)	15,230
	$ 1,346,595	$ 367,865	$ (268,280)	$ 1,446,180
Unamortized Bond Premium/Discount	29,252	11,812	(4,150)	36,914
Total Bonds Payable, Net	**$ 1,375,847**	**$ 379,677**	**$ (272,430)**	**$ 1,483,094**

Bonds payable as of June 30, 2021 are as follows (*in thousands*):

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Home Ownership Revenue Bonds			
(1998 Housing Revenue Bonds Trust Agreement)			
Series 32	4.000	1/1/2030	$ 22,230
Series 33	3.263 – 3.141	1/1/2026	4,795
Series 34	2.812 – 3.602	7/1/2035	6,555
Series 35	2.870 – 3.686	7/1/2032	10,775
Series 36	2.628 – 3.482	1/1/2031	15,505
Series 37A & Series 37B	1.800 – 3.500	7/1/2039	93,980
Series 37C (Direct Placement)	Variable	1/1/2035	15,230
Series 38	1.750 – 4.000	7/1/2047	181,710
Series 39	2.500 – 4.000	7/1/2048	114,680
Series 40	2.300 – 4.250	7/1/2047	80,235
Series 41	1.750 – 4.000	1/1/2050	131,280
Series 42	1.150 – 4.000	1/1/2050	141,905
Series 43	1.200 – 4.000	7/1/2050	145,015
Series 44	0.900 – 4.000	7/1/2050	118,810
Series 45	0.150 – 3.000	7/1/2051	195,610
Series 46	0.200 – 3.000	7/1/2051	167,865
Total Bonds Outstanding			$ 1,446,180
Plus Unamortized Bond Premium/Discount			$ 36,914
Total Bonds Payable, Net			**$ 1,483,094**

On October 14, 2020, the Agency issued $200 million in Series 45 bonds in the 1998 Trust Indenture to advance refund all 2009 resolution bonds outstanding, totaling $71.5 million. While most of the proceeds were applied to new HomeAd production, a portion of the proceeds was used to defease the bonds and accrued interest in the 2009 Trust Indenture. The bonds in the 2009 Trust Indenture were not eligible to be called until January 1, 2021 and July 1, 2021, so $58.2 million of the Series 45 proceeds was placed into escrow by the Agency's trustee, Bank of New York Mellon, NA. In addition, $14.2 million of cash in the 2009 Trust Indenture was also placed into escrow. The amounts placed in escrow were invested by the trustee in state and local government securities generating earnings sufficient to refund the bonds and pay accrued interest in full on January 1, 2021 and July 1, 2021. As a result, the 2009 Trust Indenture was defeased effective October 2020. The FirstHome mortgage loans in the 2009 Trust Indenture were transferred to the Series 45 Revenue Fund of the 1998 Trust Indenture as collateral for the Series 45 bonds, and the all remaining assets of the 2009 Trust Indenture were transferred to the 1998 Trust Indenture.

The advance refunding associated with the defeasance of the 2009 Trust Indenture resulted in a reduction of the Agency's aggregate debt service payments and an economic gain of $7.06 million based on a 0% prepayment speed.

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

Maturities Debt service requirements, including sinking fund requirements on term bonds, subsequent to June 30, 2021, are as follows (*in thousands*):

Bonds Outstanding without Interest Rate Swaps

Fiscal Year Ending June 30	Principal	Interest
2022	$ 41,385	$ 42,027
2023	45,560	41,234
2024	43,885	40,463
2025	44,835	39,696
2026	45,270	38,822
2027-2031	243,835	178,241
2032-2036	235,335	145,952
2037-2041	254,445	108,282
2042-2046	259,510	66,230
2047-2051	212,335	18,140
2052	4,555	68
Total Requirements	**$ 1,430,950**	**$ 719,155**

Bonds Outstanding with Interest Rate Swaps (Direct Placement)

Fiscal Year Ending June 30	Principal	Interest
2022	$ 1,555	$ 58
2023	1,420	51
2024	1,570	45
2025	1,720	39
2026	1,650	33
2027-2031	6,025	81
2032-2036	1,290	7
Total Requirements	**$ 15,230**	**$ 314**

Total Bonds Outstanding

Fiscal Year Ending June 30	Principal	Interest
2022	$ 42,940	$ 42,085
2023	46,980	41,285
2024	45,455	40,508
2025	46,555	39,735
2026	46,920	38,855
2027-2031	249,860	178,322
2032-2036	236,625	145,959
2037-2041	254,445	108,282
2042-2046	259,510	66,230
2047-2051	212,335	18,140
2052	4,555	68
Total Requirements	**$ 1,446,180**	**$ 719,469**

Bond Redemptions The trust agreements provide for various methods of redemption. Bonds are redeemed at par from prepayments of mortgage loans securing the issues, from unexpended bond proceeds of the issues, from excess revenues, or from funds released via the related decreases in the respective debt service reserve requirements.

For the year ended June 30, 2021, bond redemptions were as follows (*in thousands*):

Issue	Amount Redeemed
Housing Revenue Bonds (1998 Trust Agreement)	$ 191,910
Housing Revenue Bonds (2009 Trust Agreement)	76,370
Total Home Ownership Bond Programs	**$ 268,280**

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. These bonds do not constitute a debt of and are not guaranteed by the State, any political subdivision thereof, or the Agency. Accordingly, these obligations are excluded from the Agency's financial statements. There were no bonds associated with special facilities outstanding as of June 30, 2021. However, bonds related to special facilities that were redeemed in fiscal year 2021 are as follows:

Issue	Bond Type	Redemption Date
Series 2018 (Catawba Pines Apartments)	Multifamily Housing Revenue Bonds	9/1/2020
Series 2019 (Weaver Investment Company Rural Development Portfolio)	Multifamily Housing Revenue Bonds	1/1/2021

E. DERIVATIVE INSTRUMENT - INTEREST RATE SWAP

Summary Information During fiscal year 2021, the Agency did not initiate any new swaps. The existing swaps with Bank of America, N.A. and Goldman Sachs Mitsui Marine remain in place to hedge Series 37C, which was a direct placement.

Except for the exercise of certain cancellation options, described in “Market Access Risk”, the Agency will continue to monitor the market and explore termination options accordingly. The Agency’s three pay-fixed, interest rate swap agreements with two financial counterparties are designated as hedging derivative instruments representing cash flow hedges for the organization *(in thousands)*:

Hedgeable Item	Hedging Derivative Instrument	Notional Amount	Classification	FMV at June 30, 2021 Liability	Classification	Net Change in FMV
Series 37C (formerly Series 16C)	Pay-Fixed Interest Rate Swap	$4,230	Hedging Derivative	$(452)	Deferred Outflows of Resources	$208
Series 37C (formerly Series 17C)	Pay-Fixed Interest Rate Swap	$7,505	Hedging Derivative	$(967)	Deferred Outflows of Resources	$397
Series 37C (formerly Series 18C)	Pay-Fixed Interest Rate Swap	$3,495	Hedging Derivative	$(431)	Deferred Outflows of Resources	$185

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

Objective The Agency entered into interest rate swaps, in connection with all its variable-rate revenue bonds associated with the series listed in the above table, as a means to manage the future cash flow impact associated with the hedged debt. The intention of the swaps is to create more certainty for the Agency associated with the interest rate spread between its assets and liabilities.

Terms and Credit Risk The terms and credit risk of the outstanding swaps as of June 30, 2021 were as follows *(in thousands)*:

Notional Amount	Counterparty	Counterparty Credit Rating Moody's/S&P	Date of Swap Execution	Maturity Date of Swap	Fixed Rate	Floating Index
$4,230*	Bank of America, N.A.	Aa2/A+	9/16/2003	7/1/2032	3.810%	63%L** + 0.30%
$7,505	Bank of America, N.A.	Aa2/A+	12/11/2003	7/1/2032	3.725%	63%L** + 0.30%
$3,495	Goldman Sachs Mitsui Marine	Aa2/AA-	4/20/2004	1/1/2035	3.251%	63%L** + 0.30%

* The swap contract contains optionality that allows the Agency the right to change the notional to better match the principal schedule on the bonds.

** L represents the USD, 1-Month LIBOR index.

Fair Value In total, the swaps have a fair value of negative $1,850,000 as of June 30, 2021. Because the coupons on the Agency's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap. Additionally, if at the time of termination, the swap has a negative fair value, the Agency would be liable to the counterparty for a payment equal to the fair value of the swap.

Interest Rate Risk Under all of the swaps, the Agency pays the counterparties a fixed rate and receives a variable payment computed as 63% of 1-Month LIBOR plus 30 bps. The variable payment to the bondholder is computed based on 81.5% of 1-month LIBOR plus 30 bps. The 1-month LIBOR rate was 0.09213% as of June 30, 2021.

Basis Risk and Termination Risk The swaps expose the Agency to basis risk as the LIBOR rate changes, changing the synthetic rate on the bonds. The swap contracts for the Agency use a compound formula for the floating rate index to reduce this risk. During the accounting period, the Agency realized a cost of 1.85 bps for all variable-rate series due to the floating rate formula for its swap contracts when compared to the floating rate on the bonds. For all swaps, collateral thresholds have been established if the counterparty ratings reach A2 for Moody's or A for S&P. The Agency's 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.

Credit Risk Credit risk is the risk that the counterparty will not fulfill its obligations. All contracts as of June 30, 2021 reflect liabilities and, therefore, the Agency does not have current credit risk on its contracts. The Agency monitors the ratings of its counterparties to ascertain credit risk.

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

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

Market Access Risk Market access risk is the risk that the Agency will not be able to enter credit markets as planned or that credit will become more costly. The Agency's current market access risk is limited because the Series 37C variable-rate bonds have been directly purchased by TD Bank as the Agency's sole bondholder. The Bank of America, N.A. swap originally associated with Series 16C is the only swap with optional cancellations available.

Quantitative Method of Evaluating Effectiveness To assess the effectiveness of each hedging derivative instrument, the Agency employed the Synthetic Instrument Method. Under the Synthetic Instrument Method, a hedging derivative instrument is effective if the synthetic price is substantively fixed. The synthetic price as of the evaluation date, June 30, 2021, is compared to the synthetic price expected at the establishment of the hedge by calculation of an effectiveness percentage. If the effectiveness percentage is within a range of 90 to 111 percent, the synthetic price is substantively fixed. Following are the results of the testing as of the end of the reporting period:

Hedgeable Item	Hedgeable Item Effective Bond Variable Rate	Derivative Instrument Floating Rate	Floating Rate Basis	Synthetic Price	90 to 111% Range	Test Performance
Series 37C (formerly Series 16C)	0.4111%	0.3927%	(0.0185%)	3.8%	3.4% – 4.2%	PASS
Series 37C (formerly Series 17C)	0.4111%	0.3927%	(0.0185%)	3.7%	3.4% – 4.1%	PASS
Series 37C (formerly Series 18C)	0.4111%	0.3927%	(0.0185%)	3.3%	2.9% – 3.6%	PASS

Swap Payments and Associated Debt As rates vary, variable-rate bond interest payments and net swap payments will differ between the fixed rate paid to the counterparty and the variable rate paid to the Agency. Using rates as of June 30, 2021, debt service requirements of the variable-rate debt and net swap payments are as follows (*in thousands*):

Fiscal Year Ending June 30	Variable-Rate Bond Principal	Variable-Rate Bond Interest	Interest Rate Swap, Net	Total Interest
2022	$ 1,555	$ 58	$ 485	$ 543
2023	1,420	51	436	487
2024	1,570	45	390	435
2025	1,720	39	335	374
2026	1,650	33	279	312
2027-2031	6,025	81	695	776
2032-2036	1,290	7	55	62
Total	**$ 15,230**	**$ 314**	**$ 2,675**	**$ 2,989**

F. NONCURRENT LIABILITIES

Noncurrent liabilities for the year ended June 30, 2021 were as follows *(in thousands):*

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds payable					
Bonds payable, net	$ 1,346,595	$ 367,865	$ (268,280)	$ 1,446,180	$ 42,940
Unamortized bond premium	29,252	11,812	(4,150)	36,914	-
Derivative instrument – interest rate swap	2,640	-	(790)	1,850	-
Unearned revenues	29,767	31,754	(13,222)	48,299	29,863
Pension liability	5,739	1,076	-	6,815	-
OPEB liability	15,063	-	(1,716)	13,347	-
Other noncurrent liabilities					
Compensated absences	1,898	60	(4)	1,954	496
Deposits payable	4,057	2,435	(2,776)	3,716	7
Workers' compensation	147	78	-	225	65
	$ 1,435,158	**$ 415,080**	**$ (290,938)**	**$ 1,559,300**	**$ 73,371**

G. OPERATING LEASE

As of June 30, 2021, the Agency leases two adjacent buildings with future minimum lease payments for fiscal years 2022 and 2023 in the amounts of $668,000 and $146,000, respectively. Rent expenses for all operating leases totaled $698,000 for the year ended June 30, 2021. The Agency's lease for the main building will expire September 2022 and the lease for the secondary building will expire February 2022.

H. FEDERAL AWARDS

As a designated public housing agency for the US Department of Housing and Urban Development (HUD) Section 8 programs, the Agency requisitions Section 8 program funds and makes disbursements to eligible landlords. For the year ended June 30, 2021, $172,700,000 was received by the Agency and disbursed to property owners.

The Agency is designated as the participating entity under grant agreements with HUD for the HOME program and the NHTF. 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, 2021, $12,793,000 was received and the Agency disbursed $23,951,000.

The NHTF provides funding to increase and preserve the supply of decent, safe and sanitary affordable housing for extremely low and very low-income households. For the year ended June 30, 2021, $4,200,000 was received and disbursed by the Agency.

The Agency is designated as the participating entity under a grant agreement with Treasury for the HHF, which provides funding for homeowners facing foreclosure and stabilizes neighborhoods with poorly performing housing indicators. For the year ended June 30, 2021, $2,589,000 was disbursed by the Agency, representing the completion of all remaining loan disbursements under this program.

The Agency received CDBG-DR funds from NCORR, a component of the NC Department of Public Safety, who is the participating entity with HUD. These funds are to be used for new construction of multifamily rental housing in counties impacted by Hurricane Matthew. For the year ended June 30, 2021, $2,184,000 was received and disbursed by the Agency.

The Agency was designated by the NC Office of State Budget and Management (OSBM) to accept and administer HAF funding received by the NC Pandemic Recovery Office (NCPRO). These funds may be used for assistance with mortgage payments, homeowner's insurance, utility payments, and other specified purposes. For the year ended June 30, 2021, $27,334,000 was received by the Agency. Funds are expected to be disbursed beginning in fiscal year 2022.

The Agency earned fees of $11,629,000 for administering these and other federal programs for the year ended June 30, 2021. Of these fees, $4,440,000 was paid to Quadel Consulting Corporation for the Section 8 Project-Based Contract Administration, which is reported in *General and administrative expense*.

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

I. PENSION PLAN

Plan Description All permanent, full-time employees of the Agency participate in the Teachers' and State Employees' Retirement System of North Carolina (TSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State. TSERS provides retirement benefits to plan members and beneficiaries. State statute assigns the authority to establish and amend benefit provisions to the General Assembly. TSERS is included in the Comprehensive Annual Financial Report (Annual Report) for the State. The State's Annual Report includes financial statements and required supplementary information for TSERS. The report may be obtained from the website for the North Carolina Office of State Controller (OSC) using the following link: https://www.osc.nc.gov/public-information/reports.

Benefits Provided TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate

Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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 fiscal year 2021 rate is 14.78% of the annual covered payroll. The contribution requirements of plan members and the Agency are established and may be amended by the 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, 2021, 2020, and 2019 *(in thousands):*

	2021	**2020**	**2019**
Retirement Contribution	$1,512	$1,289	$1,161
Percentage of Covered Payroll	14.78%	12.97%	12.29%

Net Pension Liability At June 30, 2021, the Agency reported a liability of $6,815,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension was determined by an actuarial valuation as of December 31, 2019. The total pension liability was then rolled forward to the measurement date of June 30, 2020 utilizing update procedures incorporating the actuarial assumptions listed below. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. At June 30, 2020 and at June 30, 2019, the Agency's proportion was 0.05641% and 0.05536%, respectively.

Deferred Outflows/Inflows of Resources Related to Pensions For the year ended June 30, 2021, the Agency recognized pension expense of $2,169,000. At June 30, 2021, the Agency reported *Deferred Outflows of Resources* and *Deferred Inflows of Resources* related to pensions from the following sources *(in thousands)*:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Difference between actual and expected experience	$ 375	$ -
Changes of assumptions	231	-
Net difference between projected and actual earnings on pension plan investments	754	-
Change in proportion and differences between Agency's contributions and proportionate share of contributions	276	-
Contributions subsequent to the measurement date	1,511	-
Total	**$ 3,147**	**$ -**

Deferred Outflows of Resources of $1,511,000 related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2022. Other amounts reported as *Deferred Outflows of Resources* and *Deferred Inflows of Resources* at June 30, 2021 related to pensions will be recognized as pension expense as follows *(in thousands)*:

Year ending June 30:	
2022	$ 612
2023	443
2024	356
2025	225
Total	**$ 1,636**

Actuarial Assumptions The total pension liability was determined by an actuarial valuation performed as of December 31, 2019. The total pension liability was calculated through the use of update procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2020. The update procedures incorporated the actuarial assumptions used in the valuation. The entry age normal actuarial cost method was utilized. Inflation is assumed to be 3%, and salary increases range from 3.5% to 8.1% which includes 3.5% inflation and productivity factor. The long-term expected rate of return on pension plan investments used in the determination of the total pension liability is 7% and is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and studies that cover significant portions of the US population. The mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2019 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

Future ad hoc Cost of Living Adjustment amounts are not considered to be substantively automatic and are not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of June 30, 2020 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	4.0%

The information above is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability and investment policy of the North Carolina Retirement Systems, including TSERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2020 is 1.2%.

Discount Rate The discount rate used to measure the total pension liability was 7% for the December 31, 2019 valuation. The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7%, as well as what the Agency's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6%) or one percentage point higher (8%) than the current rate *(in thousands)*:

	1% Decrease (6%)	**Discount Rate (7%)**	**1% Increase (8%)**
Agency's proportionate share of the net pension liability	$12,266	$6,815	$2,243

Pension Plan Fiduciary Net Position Detailed information about the pension plan's fiduciary net position is available in the separately issued Annual Report for the State.

J. OTHER POSTEMPLOYMENT BENEFITS

Plan Description In addition to providing pension benefits, the Agency participates in two postemployment benefit plans, the Retiree Health Benefit Fund (RHBF) and the Disability Income Plan of North Carolina (DIPNC), that are administered by the State as pension and other employee benefit trust funds. The Agency makes monthly contributions to the State for these benefits. The State's Annual Report includes financial statements and required supplementary information for each plan. See Note I. "Pension Plan" for information about obtaining the Annual Report from OSC.

The RHBF has been established as a fund to provide health benefits to long-term disability beneficiaries of the DIPNC and retirees who have at least five years of creditable service with TSERS. TSERS pays the full cost of coverage for retirees enrolled in the State's self-funded Teachers' and State Employees' Preferred Provider Organization medical plan who were hired prior to October 1, 2006, and retire with five or more years of State TSERS membership service. For employees hired on or after October 1, 2006 and before January 1, 2021, TSERS will pay the full cost of coverage for retirees with 20 or more years of service, TSERS will pay 50% of the cost of coverage for retirees with at least 10 years but less than 20 years of service, and the retiree with less than 10 years of service will pay the full cost of coverage. Employees hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

Short-term and long-term disability benefits are provided through the DIPNC. Long-term disability benefits are payable from the DIPNC 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 with TSERS 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; (5) the employee must not be eligible to receive unreduced retirement benefits from TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. 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 TSERS, the benefits payable from the DIPNC cease, and the employee will commence retirement under TSERS.

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 postemployment health care benefits, death benefits and disability benefits, which are the same for all agencies across the State.

Contributions Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly and coincide with the State's fiscal year. The Agency assumes no liability for retiree health care or long-term disability benefits other than its required contributions.

The following table represents the three-year trend of the annual contributions made by the Agency to the State post-employment benefit plans. The Agency made 100% of its required contributions for the years ended June 30, 2021, 2020, and 2019 (*in thousands*):

	2021	2020	2019
Health Care Benefit	$ 683	$ 643	$ 592
Disability Benefit	$ 9	$ 10	$ 13
Percentage of Covered Payroll			
Health Care Benefit	6.68%	6.47%	6.27%
Disability Benefit	0.09%	0.10%	0.14%

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.

	RHBF	DIPNC
Valuation Date	12/31/2019	12/31/2019
Inflation	3%	3%
Salary Increases*	3.5% - 8.1%	3.5% - 8.1%
Investment Rate of Return**	7%	3.75%
Healthcare Cost Trend Rate - Medical	5% - 6.5%	5% - 6.5%
Healthcare Cost Trend Rate - Prescription Drug	5% - 9.5%	5% - 9.5%
Healthcare Cost Trend Rate - Medicare Advantage	5%	5%
Healthcare Cost Trend Rate - Administrative	3%	3%

*Salary increases include 3.5% inflation and productivity factor.
**Investment rate of return is net of OPEB plan investment expense, including inflation.

Net OPEB Liability (Asset) At June 30, 2021, the Agency reported a liability of $13,347,000 for its proportionate share of the collective net OPEB liability for RHBF. The Agency also reported an asset of $24,000 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB liability (asset) was measured as of June 30, 2020. The total OPEB liability (asset) used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of December 31, 2019, and update procedures were used to roll forward the total OPEB liability (asset) to June 30, 2020. The Agency's proportion of the net OPEB liability (asset) was based on the present value of future salaries for the Agency relative to the present value of future salaries for all participating employers, actuarially-determined. At June 30, 2020 and at June 30, 2019, the Agency's proportion was 0.05641% and 0.05536%, respectively.

Actuarial Assumptions The total OPEB liabilities (assets) for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities (assets) were then rolled forward to June 30, 2020 utilizing update procedures incorporating the actuarial assumptions.

The OPEB plans currently use mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and studies that cover significant portions of the US population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The projected long-term investment returns and inflation assumptions are developed through a review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projects are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2020.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2020 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2020 (the valuation date) was 1.2%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial assumptions used for RHBF are consistent with those used to value the pension benefits of TSERS where appropriate. These assumptions are based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used in the December 31, 2019 valuations were based on the results of an actuarial experience study prepared as of December 31, 2014.

Discount Rate The discount rate used to measure the total OPEB liability for RHBF was 2.21%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 2.21% was used as the discount rate used to measure the total OPEB liability. The 2.21% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2020.

The discount rate used to measure the total OPEB asset for DIPNC was 3.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB asset.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate The following presents the Agency's proportionate share of the net OPEB liability of the plans, as well as what the plans' net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate *(in thousands*):

	1% Decrease (1.21%)	Discount Rate (2.21%)	1% Increase (3.21%)
RHBF	$19	$16	$13

	1% Decrease (2.75%)	Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	$ -	$ -	$ -

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates The following presents the net OPEB liability of the plans, as well as what the plans' net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates (*in thousands*):

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
RHBF	$13	$16	$20

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
DIPNC	N/A	N/A	N/A

Deferred Outflows/Inflows of Resources Related to OPEB For the year ended June 30, 2021, the Agency recognized OPEB expense of $117,000 for RHBF and $19,000 for DIPNC. At June 30, 2021, the Agency reported *Deferred Outflows of Resources* and *Deferred Inflows of Resources* related to OPEB from the following sources (*in thousands*):

Deferred Outflows of Resources Related to OPEB by Classification

	RHBF	DIPNC	TOTAL
Difference between actual and expected experience	$ 12	$ 17	$ 29
Changes of assumptions	586	2	588
Net difference between projected and actual earnings on OPEB plan investments	28	-	28
Change in proportion and differences between Agency's contributions and proportionate share of contributions	1,460	3	1,463
Contributions subsequent to the measurement date	683	9	692
Total	**$ 2,769**	**$ 31**	**$ 2,800**

Deferred Inflows of Resources Related to OPEB by Classification

	RHBF	DIPNC	TOTAL
Difference between actual and expected experience	$ 522	$ -	$ 522
Changes of assumptions	5,416	2	5,418
Net difference between projected and actual earnings on OPEB plan investments	-	4	4
Change in proportion and differences between Agency's contributions and proportionate share of contributions	-	1	1
Contributions subsequent to the measurement date	-	-	-
Total	**$ 5,938**	**$ 7**	**$ 5,945**

Amounts reported as *Deferred outflows of resources* related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 2022. Other amounts reported as *Deferred Outflows of Resources* and *Deferred Inflows of Resources* at June 30, 2021 related to OPEB will be recognized in OPEB expense as follows *(in thousands)*:

Year ending June 30:	RHBF	DIPNC
2022	$ (1,398)	$ 5
2023	(1,396)	3
2024	(472)	2
2025	(198)	3
2026	(389)	1
Thereafter	-	1
Total	**$ (3,853)**	**$ 15**

K. RISK MANAGEMENT

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

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

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

In addition to the State's policies, the Agency has Cyber Liability and Fraudulent Instruction coverage, which is intended to mitigate financial losses associated with criminal acts of breach and fraudulent impersonation of Agency vendors and staff.

COVID-19 Considerations The global outbreak of the novel coronavirus (COVID-19), a respiratory disease declared to be a pandemic by the World Health Organization in March 2020, continues to disrupt the national and world economy. As of June 30, 2021, the pandemic has not had a materially adverse impact on the Agency. Agency staff has continued to work primarily remotely since the start of the pandemic, and management ended unnecessary travel.

Management identified potential exposures to the programmatic operations of the Agency as a result of the COVID-19 pandemic. The Agency experienced an increase in forbearance requests and delinquency in its home ownership programs in fiscal year 2020, but forbearance requests declined in fiscal year 2021. Delinquency rates for the home ownership programs fluctuated but showed some improvement toward the end of fiscal year 2021. The loans related to the Agency's HomeAd program are pooled into MBS, limiting the Agency's risk with respect to the underlying loans. The Agency's FirstHome loans, which are owned directly by the Agency, are a smaller portion of the Agency's portfolio. The FirstHome loans are older; therefore, the borrowers have more equity and opportunity to refinance their mortgage loans in the low interest rate environment. Any prepayments of bond-financed mortgage loans are used to call bonds, reducing the Agency's financing costs.

Other indirect impacts experienced as a result of the COVID-19 pandemic have included increased construction costs due to spikes in material prices and limited supply. The increased construction costs and delays have impacted the Agency's partners across all programs.

While difficult to quantify, the impacts of COVID-19 may include but are not limited to the following: (1) economic conditions impacting the demand for Agency financing of new home purchases; (2) government restrictions and overlays may delay pipeline progression and negatively impact lenders participating in the HomeAd program; (3) the State-ordered suspension of all evictions and foreclosure hearings may have an effect on the Agency's programs assisting in the providing of housing to low and moderate income households in the State; (4) implementation of foreclosure and eviction moratoriums for single-family homeowners by HUD, the Federal Housing Administration, US Department of Agriculture, FHMA and FHLMC may have an effect on the Agency's programs; and (5) forbearance or disaster relief options for homeowners who cannot afford their mortgage payments can cause a hardship to master servicers, including the Agency's master servicer.

As government forbearance options available to borrowers and the eviction moratoriums available to renters expire, the Agency's risks may increase. The Agency offers existing programs to help borrowers and renters facing financial difficulties, which can be leveraged as other government options expire. The Agency maintains adequate reserves related to its bond programs to sustain stable ratings from Moody's and S&P rating agencies, showing its financial stability in an uncertain market.

In fiscal year 2021, the Agency was designated by OSBM to administer HAF, a federal assistance program for homeowners included as part of the American Rescue Plan Act of 2021. The Agency entered into an agreement with NCPRO for the administration of the HAF program; program development is in process and fund disbursement is expected to begin in fiscal year 2022.

L. SEGMENT INFORMATION

The Agency's Home Ownership 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, 2021 for this segment are as follows (*in thousands*):

STATEMENT OF NET POSITION	**Home Ownership**
ASSETS	
Current assets:	
Restricted cash and cash equivalents	$ 434,256
Restricted investments	24,562
Accrued interest receivable on investments	4,093
Mortgage loans receivable	65,046
Accrued interest receivable on mortgage loans	2,746
Other assets	2,915
Interprogram receivable	1,460
TOTAL CURRENT ASSETS	$ 535,078
Noncurrent assets:	
Restricted investments	$ 1,225,946
Mortgage loans receivable, net	237,036
TOTAL NONCURRENT ASSETS	$ 1,462,982
TOTAL ASSETS	$ 1,998,060
DEFERRED OUTFLOWS OF RESOURCES	
Accumulated decrease in fair value of hedging derivative	$ 1,850
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 1,850
LIABILITIES	
Current liabilities:	
Bonds payable	$ 42,940
Accrued interest payable	20,076
Accounts payable	896
TOTAL CURRENT LIABILITIES	$ 63,912
Noncurrent liabilities:	
Bonds payable, net	$ 1,440,154
Derivative instrument - interest rate swap	1,850
TOTAL NONCURRENT LIABILITIES	$ 1,442,004
TOTAL LIABILITIES	$ 1,505,916
NET POSITION	
Restricted	$ 493,994
TOTAL NET POSITION	$ 493,994

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	Home Ownership
OPERATING REVENUES	
Interest on investments	$ 42,166
Net increase in fair value of investments	680
Interest on mortgage loans	17,759
Program income/fees	31,014
Other revenues	274
TOTAL OPERATING REVENUES	$ 91,893
OPERATING EXPENSES	
Interest on bonds	$ 41,628
Mortgage servicing expense	1,073
Nonfederal program expense	29,162
General and administrative expense	443
Other expenses	290
TOTAL OPERATING EXPENSES	$ 72,596
OPERATING INCOME	$ 19,297
NON-OPERATING EXPENSES	
Transfers out	$ (635)
TOTAL NON-OPERATING EXPENSES	$ (635)
CHANGE IN NET POSITION	$ 18,662
TOTAL NET POSITION - BEGINNING	$ 475,332
TOTAL NET POSITION - ENDING	$ 493,994

STATEMENT OF CASH FLOWS	
Net cash provided by operating activities	$ 91,536
Net cash provided by non-capital financing activities	64,833
Net cash used in investing activities	(84,494)
Net increase in cash, cash equivalents and restricted cash	$ 71,875
CASH, CASH EQUIV. AND RESTRICTED CASH AT BEGINNING OF YEAR	362,381
CASH, CASH EQUIV. AND RESTRICTED CASH AT END OF YEAR	$ 434,256

North Carolina Housing Finance Agency

Supplementary Information

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Independent Auditor's Report on Supplementary Information

Our audit of the financial statements included in the preceding section of this report was conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BDO USA, LLP

September 20, 2021

NORTH CAROLINA HOUSING FINANCE AGENCY
COMBINING STATEMENT OF NET POSITION
AS OF JUNE 30, 2021

(in thousands)		AGENCY PROGRAMS	GRANT PROGRAMS: Housing Trust Fund Programs	GRANT PROGRAMS: Federal and State Programs	HOME OWNERSHIP BOND PROGRAMS: 1998	HOME OWNERSHIP BOND PROGRAMS: 2009		Total
ASSETS								
Current assets:								
Cash and cash equivalents	$	40,028	-	-	-	-	$	40,028
Restricted cash and cash equivalents		86,736	94,152	147,698	434,256	-		762,842
Restricted investments		-	-	-	24,562	-		24,562
Accrued interest receivable on investments		4	18	-	4,093	-		4,115
Mortgage loans receivable		254	1,128	11,935	65,046	-		78,363
Accrued interest receivable on mortgage loans		2	11	176	2,746	-		2,935
Other assets		127	-	2,619	2,915	-		5,661
Interprogram receivable (payable)		2,509	(17)	(3,952)	1,460	-		-
TOTAL CURRENT ASSETS	$	129,660	95,292	158,476	535,078	-	$	918,506
Noncurrent assets:								
Restricted investments	$	-	-	-	1,225,946	-	$	1,225,946
Mortgage loans receivable, net		6,924	11,271	77,723	237,036	-		332,954
Other assets, net		24	-	-	-	-		24
Capital assets, net		2,399	-	-	-	-		2,399
TOTAL NONCURRENT ASSETS	$	9,347	11,271	77,723	1,462,982	-	$	1,561,323
TOTAL ASSETS	$	139,007	106,563	236,199	1,998,060	-	$	2,479,829
DEFERRED OUTFLOWS OF RESOURCES								
Deferred outflows for pensions	$	3,147	-	-	-	-	$	3,147
Deferred outflows for other postemployment benefits		2,800	-	-	-	-		2,800
Accumulated decrease in fair value of hedging derivative		-	-	-	1,850	-		1,850
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$	5,947	-	-	1,850	-	$	7,797
LIABILITIES								
Current liabilities:								
Bonds payable	$	-	-	-	42,940	-	$	42,940
Accrued interest payable		-	-	-	20,076	-		20,076
Accounts payable		2,755	-	1,404	896	-		5,055
Unearned revenues		2,176	-	27,687	-	-		29,863
Other liabilities		562	1	5	-	-		568
TOTAL CURRENT LIABILITIES	$	5,493	1	29,096	63,912	-	$	98,502
Noncurrent liabilities:								
Bonds payable, net	$	-	-	-	1,440,154	-	$	1,440,154
Derivative instrument - interest rate swap		-	-	-	1,850	-		1,850
Unearned revenues		18,436	-	-	-	-		18,436
Pension liability		6,815	-	-	-	-		6,815
Other postemployment benefits		13,347	-	-	-	-		13,347
Other liabilities		5,327	-	-	-	-		5,327
TOTAL NONCURRENT LIABILITIES	$	43,925	-	-	1,442,004	-	$	1,485,929
TOTAL LIABILITIES	$	49,418	1	29,096	1,505,916	-	$	1,584,431
DEFERRED INFLOWS OF RESOURCES								
Deferred inflows for other postemployment benefits	$	5,945	-	-	-	-	$	5,945
TOTAL DEFERRED INFLOWS OF RESOURCES	$	5,945	-	-	-	-	$	5,945
NET POSITION								
Net investment in capital assets	$	2,399	-	-	-	-	$	2,399
Restricted net position		67,422	106,562	207,103	493,994	-		875,081
Unrestricted net position		19,770	-	-	-	-		19,770
TOTAL NET POSITION	$	89,591	106,562	207,103	493,994	-	$	897,250

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2021

	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS		
(in thousands)		Housing Trust Fund Programs	Federal and State Programs	1998	2009	Total
OPERATING REVENUES						
Interest on investments	$ 290	436	242	42,122	44	$ 43,134
Net increase (decrease) in fair value of investments	204	-	-	637	43	884
Interest on mortgage loans	22	693	982	17,154	605	19,456
Federal program awards received	-	-	199,894	-	-	199,894
Program income/fees	20,070	3,475	38,442	31,014	-	93,001
Other revenues	1	65	200	264	10	540
TOTAL OPERATING REVENUES	$ 20,587	4,669	239,760	91,191	702	$ 356,909
OPERATING EXPENSES						
Interest on bonds	$ -	-	-	40,766	862	$ 41,628
Mortgage servicing expense	-	-	-	1,001	72	1,073
Federal program expense	-	-	199,716	-	-	199,716
Nonfederal program expense	3,306	-	-	29,162	-	32,468
General and administrative expense	20,268	-	4,440	443	-	25,151
Other expenses	22	-	38	273	17	350
TOTAL OPERATING EXPENSES	$ 23,596	-	204,194	71,645	951	$ 300,386
OPERATING INCOME (LOSS)	$ (3,009)	4,669	35,566	19,546	(249)	$ 56,523
NON-OPERATING REVENUES (EXPENSES)						
Transfers in (out)	$ 18,115	41	(17,521)	17,362	(17,997)	$ -
State appropriations received	-	27,660	3,000	-	-	30,660
State grants received	-	10,473	27,945	-	-	38,418
State program expense	-	(39,795)	(28,661)	-	-	(68,456)
Noncapital contributions	228	-	-	-	-	228
TOTAL NON-OPERATING REVENUES (EXPENSES)	$ 18,343	(1,621)	(15,237)	17,362	(17,997)	$ 850
CHANGE IN NET POSITION	$ 15,334	3,048	20,329	36,908	(18,246)	$ 57,373
TOTAL NET POSITION - BEGINNING	$ 74,257	103,514	186,774	457,086	18,246	$ 839,877
TOTAL NET POSITION - ENDING	$ 89,591	106,562	207,103	493,994	-	$ 897,250

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2021

(in thousands)	AGENCY PROGRAMS	GRANT PROGRAMS: Housing Trust Fund Programs	GRANT PROGRAMS: Federal and State Programs	HOME OWNERSHIP BOND PROGRAMS: 1998	HOME OWNERSHIP BOND PROGRAMS: 2009	Total
Cash flows from operating activities:						
Interest on mortgage loans	$ 23	689	948	16,720	1,104	$ 19,484
Principal payments on mortgage loans	282	1,556	15,903	67,515	3,763	89,019
Purchase of mortgage loans	(5,615)	(281)	(10,746)	-	-	(16,642)
Principal payments on mortgage loans held for resale	-	-	-	3,697	-	3,697
Federal program awards received	-	-	216,632	-	-	216,632
Federal program expense	-	-	(199,629)	-	-	(199,629)
Nonfederal program expense	(3,306)	-	-	(29,162)	-	(32,468)
Federal grant administration income	-	-	9,393	-	-	9,393
Program income/fees	21,462	3,475	28,380	31,014	-	84,331
Other expenses	(18,889)	-	(3,216)	(1,719)	(573)	(24,397)
Other revenues	(231)	182	-	(1,637)	814	(872)
Net cash provided by (used in) operating activities	$ (6,274)	5,621	57,665	86,428	5,108	$ 148,548
Cash flows from non-capital financing activities:						
Issuance of bonds	$ -	-	-	367,865	-	$ 367,865
Principal repayments on bonds	-	-	-	(191,910)	(4,860)	(196,770)
Interest paid	-	-	-	(29,100)	(1,205)	(30,305)
Bond issuance costs paid	-	-	-	(2,942)	-	(2,942)
Net transfers	18,115	41	(17,521)	(55,884)	(17,131)	(72,380)
State appropriations received	-	27,660	3,000	-	-	30,660
State grants received	-	1,948	27,945	-	-	29,893
State program expense	-	(38,602)	(28,661)	-	-	(67,263)
Noncapital contributions	228	-	-	-	-	228
Net cash provided by (used in) non-capital financing activities	$ 18,343	(8,953)	(15,237)	88,029	(23,196)	$ 58,986
Cash flows from investing activities:						
Proceeds from sales or maturities of investments	$ 2,881	-	-	179,426	6,246	$ 188,553
Purchase of investments	-	-	-	(313,530)	-	(313,530)
Earnings on investments	641	515	242	43,280	84	44,762
Net cash provided by (used in) investing activities	$ 3,522	515	242	(90,824)	6,330	$ (80,215)
Net increase (decrease) in cash, cash equivalents and restricted cash	$ 15,591	(2,817)	42,670	83,633	(11,758)	$ 127,319
Cash, cash equivalents and restricted cash at beginning of year	111,173	96,969	105,028	350,623	11,758	675,551
Cash, cash equivalents and restricted cash at end of year	$ 126,764	94,152	147,698	434,256	-	$ 802,870
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	$ (3,009)	4,669	35,566	19,546	(249)	$ 56,523
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Interest on investments	(290)	(436)	(242)	(42,122)	(44)	(43,134)
Decrease (increase) in fair value of investments	(204)	-	-	(637)	(43)	(884)
Interest on bonds	-	-	-	40,766	862	41,628
Non-operating mortgage loan loss	-	(1,193)	-	-	-	(1,193)
Net operating transfers	-	-	-	73,246	(73,246)	-
Change in operating assets and liabilities:						
Decrease (increase) in mortgage loans receivable	(5,334)	2,403	4,957	(5,931)	76,904	72,999
Decrease (increase) in accrued interest receivable on mortgage loans	1	(4)	(34)	(377)	516	102
Decrease (increase) in mortgage loans held for resale	-	-	-	3,697	-	3,697
Decrease (increase) in other assets	892	182	(1,071)	(1,637)	892	(742)
Decrease (increase) in deferred outflows of resources	(128)	-	-	-	-	(128)
Increase (decrease) in accounts payable and other liabilities	(237)	-	1,349	(123)	(484)	505
Increase (decrease) in deferred inflows of resources	643	-	-	-	-	643
Increase (decrease) in unearned revenues	1,392	-	17,140	-	-	18,532
Total adjustments	$ (3,265)	952	22,099	66,882	5,357	$ 92,025
Net cash provided by (used in) operating activities	$ (6,274)	5,621	57,665	86,428	5,108	$ 148,548

This audit report required 985 audit hours at a cost of $112,500.

NORTH CAROLINA
HOUSING
FINANCE
AGENCY

Our mission is to create affordable housing options 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.