

**SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY**

**COLUMBIA, SOUTH CAROLINA**

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**AUDITED FINANCIAL STATEMENTS AND OTHER  
FINANCIAL INFORMATION**

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**YEAR ENDED JUNE 30, 2013**

*State of South Carolina*



*Office of the State Auditor*

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA  
DEPUTY STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

November 15, 2013

The Honorable Nikki R. Haley, Governor  
and  
Members of the Board of Commissioners  
South Carolina State Housing Finance and Development Authority  
Columbia, South Carolina

This report on the audit of the basic financial statements of the South Carolina State Housing Finance and Development Authority and the accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for the fiscal year ended June 30, 2013, was issued by WebsterRogers, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

RHGjr/trb

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## **Independent Auditors' Report**

Mr. Richard H. Gilbert, Jr. CPA  
Interim State Auditor  
Office of the State Auditor  
Columbia, South Carolina

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund for the South Carolina State Housing Finance and Development Authority (the "Authority") (a component unit of the State of South Carolina), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility 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; this includes 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.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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Interim State Auditor  
Office of the State Auditor  
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Authority as of June 30, 2013, 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.

### ***Other Matters***

#### ***Emphasis of Matter***

As described in Note 1 to the financial statements, the accompanying financial statements of the Authority are intended to present the financial position, the changes in financial position, and, where applicable, the cash flows of only the portion of the governmental activities, the business type activities, and each major fund that are attributable to the transactions of the Authority, a component unit of the State of South Carolina, and do not include any other agencies, institutions, divisions, instrumentalities, or any other component units of the State of South Carolina. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2013, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

#### ***Required Supplementary Information***

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

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Interim State Auditor  
Office of the State Auditor  
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*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2013, on our consideration of the Authority's internal control over financial reporting on and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Webster Rogers LLP*

Columbia, South Carolina  
November 5, 2013

# South Carolina State Housing Finance and Development Authority

## Management's Discussion and Analysis

As management of the South Carolina State Housing Finance and Development Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2013.

### Financial Highlights

- Net position of the Authority's proprietary funds increased \$7,183,232 to \$346,441,241. This increase is primarily attributable to the increase in the Authority's single family mortgage and mortgage backed securities investment portfolio.
- The governmental activities net position increased \$1,003,992 to \$17,692,857. This increase is primarily the result of an increase in documentary stamp fees in the Housing Trust Fund.
- Federal grant revenue decreased \$4,960,387 to \$139,857,094. All federal assistance received by the Authority during the current fiscal year was from the Department of Housing and Urban Development (HUD). The decrease in Federal assistance is primarily due to a reduction of funding in the HOME Investment Partnership Program and the phase out of the Neighborhood Stabilization Program.
- The Authority made principal payments on mortgage revenue bonds of \$206,125,000 during the fiscal year, of that total \$200,100,000 of bonds were redeemed prior to their maturity. The Authority issued \$65,710,000 in refunding bonds in the Mortgage Revenue Bond Indenture and \$50,110,000 in refunding bonds in the Homeownership Revenue Bond Indenture. For additional information on these refundings refer to Note 6.
- For the fiscal year ended June 30, 2013, the Authority purchased \$8,765,404 of single family first mortgages, down payment assistance loans, and multifamily mortgages in its proprietary funds. The majority of single family production was funded through the Home Ownership Revenue Bond indenture and is recorded as investments and not loans. The Authority securitized \$28,793,887 in loans that are held as Government National Mortgage Association (GNMA) investments. The downturn in the economy continues to adversely affect single family production.
- Bonds Outstanding net of unamortized premiums and discounts and deferred losses on refundings decreased \$89,265,002 to \$651,097,959.
- The South Carolina Housing Corporation was established to administer the South Carolina Homeownership Employment Lending Program (SC HELP). SC HELP was funded by the U.S. Department of Treasury's Hardest Hit Fund. The program is designed to help homeowners avoid foreclosure. The program continued to grow with an established infrastructure and increased marketing efforts that resulted in an increase of \$12,392,142 in program payments. The program provided \$17,799,689 in Mortgage Payment Assistance, \$22,597,624 in Direct Loan Assistance, and \$365,000 in Property Disposition Assistance for a total of \$ 40,762,313 in program payments during fiscal year ended June 30, 2013.

## Overview of the Financial Statements

The financial statements consist of three parts – management’s discussion and analysis, the basic financial statements, and supplementary information. The basic financial statements include two types of statements presenting different views of the Authority’s finances.

- The first two statements are Entity-wide financial statements that provide information about the Authority’s overall financial position and results. These statements, which are presented on an accrual basis, consist of the Statement of Net Position and the Statement of Activities. The Statement of Net Position includes all of the Authority’s assets and liabilities. All of the current year’s revenue and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. Most of the Authority’s activities are business-type activities and are reported in proprietary funds.
- The remaining statements are fund financial statements of the Authority’s proprietary funds which operate similar to business activities and for which the Authority follows an accrual basis of accounting and the governmental funds, which are special revenue funds.
- The basic financial statements also include a “Notes to Financial Statements” section that explains the information in the Entity-wide and fund financial statements. The notes also provide a more detailed explanation of data and significant accounting procedures and policies.

The remainder of this overview section explains the structure and contents of each of these statements. Prior year results referred to throughout this section are for comparison purposes only.

### Fund Financial Statements

The fund financial statements provide more detailed information about the Authority’s most significant funds and not the Authority as a whole. The Authority has two kinds of funds:

**Governmental Funds-** Governmental funds finance the Authority's governmental functions, including the disbursement of restricted monies. The Authority's governmental fund type is a Special Revenue Fund. Expendable assets are assigned to the applicable governmental fund according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; and the difference between assets and liabilities is fund balance.

The Special Revenue Funds account for the Housing Trust Fund and the South Carolina Homeownership Employment Lending Program (SC HELP). The Housing Trust Fund was established in May 1992 pursuant to South Carolina Code of Laws, Chapter 31, Article 4. The Authority receives funding from a percentage of the documentary stamp tax on instruments conveying real property. Under this enabling legislation, the Housing Trust Fund is to be used to “increase the supply of safe, decent, and affordable housing for members of the very low and lower income individuals and households.” SC HELP was established in January 2011 and was funded by the U.S. Department of Treasury’s Hardest Hit Fund. The program is designed to help homeowners avoid foreclosure.

As such, in accordance with governmental accounting standards, the portions of net position/fund balances that are not available for appropriation and expenditure and/or are legally segregated for a specified use are presented as restricted in the fund statement and restricted in the entity-wide statement.

**Proprietary Funds**-The Authority's primary activities are in its proprietary funds. These activities are accounted for in a manner similar to businesses operating in the private sector. Funding is primarily provided through the issuance of bonds, the proceeds of which are used to make various types of loans to finance low and moderate-income housing. HUD contracts are accounted for in the proprietary fund since the Authority receives fees to administer various HUD programs. The net position of these programs represent accumulated earnings since their inception and are generally restricted for program purposes.

## Financial Analysis of the Authority as a Whole

**Net Position.** The combined net position of the Authority increased by \$8,187,224. The following table summarizes the financial position for the Authority as of and for the years ended June 30, 2013 and 2012.

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Total current assets	\$ 15,578,664	\$ 10,998,743	\$ 231,709,292	\$ 231,823,948	\$ 247,287,956	\$ 242,822,691
Capital assets	-	-	434,120	639,216	434,120	639,216
Non-current assets	8,925,621	9,395,569	787,780,099	873,294,601	796,705,720	882,690,170
Total assets	<u>\$ 24,504,285</u>	<u>\$ 20,394,312</u>	<u>\$ 1,019,923,511</u>	<u>\$ 1,105,757,765</u>	<u>\$ 1,044,427,796</u>	<u>\$ 1,126,152,077</u>
Total current liabilities	\$ 6,811,428	\$ 3,705,447	\$ 34,379,908	\$ 34,410,145	\$ 41,191,336	\$ 38,115,592
Total long-term liabilities	-	-	639,102,362	732,089,611	639,102,362	732,089,611
Total liabilities	<u>\$ 6,811,428</u>	<u>\$ 3,705,447</u>	<u>\$ 673,482,270</u>	<u>\$ 766,499,756</u>	<u>\$ 680,293,698</u>	<u>\$ 770,205,203</u>
Net investment in capital assets	\$ -	\$ -	\$ 434,120	\$ 639,216	\$ 434,120	\$ 639,216
Net position-restricted	17,692,857	16,688,865	305,590,009	295,815,682	323,282,866	312,504,547
Net position-unrestricted	-	-	40,417,112	42,803,111	40,417,112	42,803,111
Total net position	<u>\$ 17,692,857</u>	<u>\$ 16,688,865</u>	<u>\$ 346,441,241</u>	<u>\$ 339,258,009</u>	<u>\$ 364,134,098</u>	<u>\$ 355,946,874</u>

Net position of the Authority's governmental funds increased \$1,003,992 to \$17,692,857. The Housing Trust Fund Act enacted by the General Assembly in 1992 restricts net position of the fund. The Authority receives funding from a percentage of the documentary stamp tax on the instruments conveying real property to finance in whole or in part, affordable housing projects, and/or developments eligible under the Housing Trust Fund Act. SC HELP was established in January 2011 and was funded by the U.S. Department of Treasury's Hardest Hit Fund. The program is designed to help homeowners avoid foreclosure.

Net position of the Authority's proprietary fund increased \$7,183,232 to \$346,441,241.

**Statement of Activities:** The Statement of Activities shows the sources of the Authority's changes in net position as they progress through the various programs and functions. The Housing Trust Fund and SC HELP are shown as governmental activities, and all other programs are shown as business-type activities. The business-type activities include the Single-Family Loan Programs, and federal housing assistance, tax credits allocations, compliance monitoring, and other activities that are part of the Authority's administrative functions.

A condensed Statement of Activities for the last two fiscal years is shown below.

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Revenue:						
Charges for Services	\$ 241,043	\$ -	\$ 44,725,350	\$ 50,398,030	\$ 44,966,393	\$ 50,398,030
Tax/Grant/Federal Revenues	47,132,406	34,552,793	150,635,798	156,563,938	197,768,204	191,116,731
Total Revenue	47,373,449	34,552,793	195,361,148	206,961,968	242,734,597	241,514,761
Expenses	53,700,916	43,987,089	188,577,916	197,271,362	242,278,832	241,258,451
Document Stamp Tax	7,731,459	6,149,727	-	-	7,731,459	6,149,727
Transfers between Funds	(400,000)	(400,000)	400,000	400,000	-	-
Increase (decrease) in Net Position	\$ 1,003,992	\$ (3,684,569)	\$ 7,183,232	\$ 10,090,606	\$ 8,187,224	\$ 6,406,037

Revenues of the Authority's governmental activities were derived from a documentary stamp tax, a federal grant, interest payments on loans, and investment income. All expenditures were disbursements of grant awards. Revenues of the Authority's business-type activities were primarily from federal program revenue (\$139,857,094), charges for services (\$44,725,350), and program investment and other income (\$10,778,704). Charges for services consist primarily of interest income on loans, HUD administrative fees, tax credit application fees, and various other small fees, such as monitoring and servicing. Program investment income came primarily from the bond programs, and the income is restricted to those programs.

Direct expenses of the Authority's business-type activities consist of two major types-housing assistance payments and bond interest. All administrative expenses were incurred in the Authority's General Operating Fund. Program revenue adequately covers all expenses of the Authority. The total of revenues and transfers exceeded expenses by \$7,183,232 for the business-type activities. Net position of the Authority increased from the previous year by \$8,187,224.

### Debt Administration

The Authority's total liabilities decreased \$89,911,505 to \$680,293,698. Long-term liabilities decreased \$92,987,249 to \$639,102,362. Refunding debt and optional bond redemptions are based on mortgage pre-payments received and an economic analysis of calling debt v making loans v investing funds. In recent years, calling debt has been the best financial alternative. The long-term debt consists of bonds payable (\$638,792,959), other non-current liabilities (\$37,771), and accrued compensated absences (\$271,632).

During the fiscal year, the Authority issued two refunding bonds. In September 2012, the Authority issued \$65,710,000 in taxable refunding Mortgage Revenue Bonds (Series 2012A) with fixed interest rates ranging from .35 to 4.0%. The refunding reduced total debt service payments over the next 22 years by nearly \$13.9 million. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$11.9 million. Also in April 2013, the Authority issued \$50,110,000 in taxable refunding Homeownership Revenue Bonds (Series 2013-1) with a fixed interest rate of 2.95%. This second refunding reduced total debt service payments over the next 29 years by nearly \$14.0 million. This results in an economic gain of \$9.4 million. For additional information, see Note 6.

## **New Servicing Platform**

In FY 2013, the Authority deployed a new residential mortgage servicing platform. The new technology system, procured through Lender Processing Services (LPS), replaced the previous system, AOD/Emphasys, and the conversion process was planned and executed over roughly an 18-month period. The decision to convert to LPS was largely due to the following considerations:

- The previous platform was not compliant with new regulations, including Dodd-Frank requirements and proposed regulations through the Consumer Financial Protection Bureau (CFPB).
- The previous platform did not have the flexibility required to support a business model that includes non-MRB production or sub-servicing for other entities, both of which are key components of SC Housing's strategic planning process.
- LPS offers almost unlimited scalability, with most ongoing costs being variable based on portfolio size.

The LPS implementation process was largely completed in April 2013 and the entire residential mortgage portfolio has been converted to the new platform. Several alternate servicing platforms/systems were considered during the procurement and evaluation process, and LPS scored higher in virtually every critical category. With the new platform now in place, the Authority has gained enormous flexibility and is significantly better positioned to thrive in a "post-crisis" mortgage lending environment.

## **New Program**

During the fiscal year, the Authority launched the Mortgage Credit Certificate Program (MCC). The Program provides financial assistance to first-time homebuyers by allowing borrowers to take 30% of their annual mortgage interest payments as a Federal tax credit against their personal income tax. The MCCs are available to buyers, on a first-come first-served basis, who receive mortgage loan financing from a lender for eligible homes located in the State of South Carolina. Applicants must meet first-time homebuyer eligibility requirements and obtain financing from a lender that meets the Authority's lender eligibility requirements and has executed an MCC agreement with the Authority. Under the Program, the Authority will limit eligible mortgages to those that either conform to Fannie Mae/Freddie Mac standards or are HUD/FHA insured. The Authority currently has 20 participating lenders.

## **Economic Factors**

The Authority's financial condition remained strong at June 30, 2013. The national economy is experiencing recovery. Unemployment rates have continued to improve resulting in a stabilization of delinquencies and foreclosures. The performance of the Authority's loan portfolio exceeds state and national averages. Our efforts focus on loan servicing and loss mitigation in order to prevent foreclosure. Staff members begin the counseling process early in delinquency. We maintain constant communication with borrowers in an effort to both protect Authority assets and allow borrowers to remain in their homes.

Unfortunately, higher foreclosure rates attributed to the economic downturn resulted in the downgrading of most private mortgage insurers. These ratings have not improved, and virtually all Authority single family mortgage production is insured by the Federal government.

The U.S. Treasury established the New Issue Bond Program (NIBP) in 2009 in an effort to bolster the Mortgage Revenue Bond Market. NIBP provided the Authority's Homeownership Revenue Bond Program a lower than market rate for up to 60% of the bonds issued. All NIBP bonds were issued prior to fiscal year 2013, however, the mortgage purchases and securitizations were not complete as of June 30, 2013. The current interest rate environment has allowed the Authority to blend NIBP funds with other single family sources in order to fund ongoing first-time homebuyer production.

The Authority will continue to monitor all economic factors impacting its financial stability and will work diligently to minimize any negative effect.

### **Requests for Information**

This financial report is designed to provide a general overview of the South Carolina State Housing Finance and Development Authority finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the following:

South Carolina State Housing Finance and Development Authority  
Finance Division  
300-C Outlet Pointe Boulevard  
Columbia, South Carolina 29210

## FINANCIAL STATEMENTS

**SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY**

**STATEMENT OF NET POSITION**

**JUNE 30, 2013**

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Totals</u>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 13,966,530	\$ 24,837,122	\$ 38,803,652
Restricted assets:			
Cash and cash equivalents	-	130,926,696	130,926,696
Investments	-	47,763,121	47,763,121
Loans receivable	-	19,342,775	19,342,775
Accrued interest receivable:			
Loans	-	4,508,535	4,508,535
Deposits and investments	-	866,902	866,902
Accounts receivable:			
Due from grantor	-	821,286	821,286
Due from primary government	1,562,811	-	1,562,811
Internal balances	(390,228)	390,228	-
Other	-	772,061	772,061
Loans receivable	427,260	272,601	699,861
Accrued interest receivable:			
Loans	12,273	223,331	235,604
Deposits and investments	18	-	18
Unamortized bond issuance costs	-	480,997	480,997
Other current assets	-	503,637	503,637
Total current assets	<u>15,578,664</u>	<u>231,709,292</u>	<u>247,287,956</u>
Noncurrent assets:			
Loans receivable, net of current portion	8,950,089	17,174,238	26,124,327
Allowance for doubtful loans	(24,468)	(1,033,357)	(1,057,825)
Restricted assets:			
Investments	-	166,331,385	166,331,385
Loans receivable, net of current portion	-	604,816,624	604,816,624
Allowance for doubtful loans	-	(5,660,537)	(5,660,537)
Unamortized bond issuance costs	-	6,151,746	6,151,746
Capital assets, net of accumulated depreciation	-	434,120	434,120
Total noncurrent assets	<u>8,925,621</u>	<u>788,214,219</u>	<u>797,139,840</u>
Total assets	<u>24,504,285</u>	<u>1,019,923,511</u>	<u>1,044,427,796</u>

(CONTINUED)

**SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY**

**STATEMENT OF NET POSITION**

**JUNE 30, 2013  
(CONTINUED)**

	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Totals</b>
<b>Liabilities</b>			
Current liabilities:			
Liabilities payable from restricted assets:			
Bonds payable, net of unamortized premiums and discounts and deferred losses on refundings	\$ -	\$ 12,305,000	\$ 12,305,000
Accrued interest payable on bonds	-	13,577,053	13,577,053
Other liabilities	-	46,249	46,249
Mortgage escrows	-	5,251,084	5,251,084
Total liabilities payable from restricted current assets	-	31,179,386	31,179,386
Accrued compensated absences	-	502,139	502,139
Accrued salaries and related payroll expenses	-	780,708	780,708
Advances from grantors	5,868,691	-	5,868,691
Deferred revenue	-	1,309,254	1,309,254
Other liabilities	942,737	608,421	1,551,158
Total current liabilities	<u>6,811,428</u>	<u>34,379,908</u>	<u>41,191,336</u>
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	-	271,632	271,632
Bonds payable, net of current portion and unamortized premiums and discounts and deferred losses on refundings	-	638,792,959	638,792,959
Other noncurrent liabilities	-	37,771	37,771
Total noncurrent liabilities	-	<u>639,102,362</u>	<u>639,102,362</u>
Total liabilities	<u>6,811,428</u>	<u>673,482,270</u>	<u>680,293,698</u>
Commitments and contingencies ( <i>Note 15</i> )			
<b>Net Position</b>			
Net investment in capital assets	-	434,120	434,120
Restricted for:			
Debt service	-	48,126,413	48,126,413
Bond reserves	-	8,686,953	8,686,953
Housing projects and development	17,692,857	248,776,643	266,469,500
Unrestricted	-	40,417,112	40,417,112
Total net position	<u>\$ 17,692,857</u>	<u>\$ 346,441,241</u>	<u>\$ 364,134,098</u>

*See accompanying notes.*

**SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2013**

	<u>Program Revenue</u>			<u>Net (Expenses) Revenue and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<b>Functions/Programs</b>						
Governmental activities:						
General government	\$ 6,529,255	\$ 886	\$ 6,434,425	\$ (93,944)	\$ -	\$ (93,944)
Housing assistance	40,697,981	64,332	40,697,981	64,332.00	-	64,332.00
Housing development	6,473,680	175,825	-	(6,297,855)	-	(6,297,855)
Total governmental activities	<u>53,700,916</u>	<u>241,043</u>	<u>47,132,406</u>	<u>(6,327,467)</u>	<u>-</u>	<u>(6,327,467)</u>
Business-type activities:						
Administrative	14,202,701	11,829,952	-	-	(2,372,749)	(2,372,749)
Single Family Mortgage Loan Programs	38,388,189	32,477,403	10,765,419	-	4,854,633	4,854,633
Federal Programs	134,976,809	-	139,857,094	-	4,880,285	4,880,285
Program Fund Programs	<u>1,010,217</u>	<u>417,995</u>	<u>13,285</u>	<u>-</u>	<u>(578,937)</u>	<u>(578,937)</u>
Total business-type activities	<u>188,577,916</u>	<u>44,725,350</u>	<u>150,635,798</u>	<u>-</u>	<u>6,783,232</u>	<u>6,783,232</u>
Total functions/programs	<u>\$ 242,278,832</u>	<u>\$ 44,966,393</u>	<u>\$ 197,768,204</u>	<u>(6,327,467)</u>	<u>6,783,232</u>	<u>455,765</u>
General revenue:						
Documentary stamp taxes				7,731,459	-	7,731,459
Transfers between activities				(400,000)	400,000	-
Total general revenue and transfers				<u>7,331,459</u>	<u>400,000</u>	<u>7,731,459</u>
Change in net position				1,003,992	7,183,232	8,187,224
Net position, at beginning of year				<u>16,688,865</u>	<u>339,258,009</u>	<u>355,946,874</u>
Net position, at end of year				<u>\$ 17,692,857</u>	<u>\$ 346,441,241</u>	<u>\$ 364,134,098</u>

See accompanying notes.

**SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**JUNE 30, 2013**

	<b>Housing Trust Fund</b>	<b>SC Help Fund</b>	<b>Total</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 6,819,285	\$ 7,147,245	\$ 13,966,530
Accounts receivable:			
Due from primary government	1,562,811	-	1,562,811
Loans receivable	427,260	-	427,260
Accrued interest receivable:			
Loans	12,273	-	12,273
Deposits and investments	-	18	18
Total current assets	8,821,629	7,147,263	15,968,892
Noncurrent assets:			
Loans receivable, net of current portion	8,950,089	-	8,950,089
Allowance for doubtful loans	(24,468)	-	(24,468)
Total noncurrent assets	8,925,621	-	8,925,621
Total assets	\$ 17,747,250	\$ 7,147,263	\$ 24,894,513
<b>Liabilities and Fund Balance</b>			
Current liabilities:			
Due to other funds	\$ -	\$ 390,228	\$ 390,228
Advances from grantors	-	5,868,691	5,868,691
Other liabilities	54,393	888,344	942,737
Total current liabilities	54,393	7,147,263	7,201,656
Commitments and contingencies ( <i>Note 15</i> )			
Fund balance:			
Restricted for:			
Housing projects and development	17,692,857	-	17,692,857
Total fund balance	17,692,857	-	17,692,857
Total liabilities and fund balance	\$ 17,747,250	\$ 7,147,263	\$ 24,894,513

*See accompanying notes.*

**SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY**

**STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS**

**YEAR ENDED JUNE 30, 2013**

	<u>Housing Trust Fund</u>	<u>SC Help Fund</u>	<u>Total</u>
<b>Revenue</b>			
Documentary stamp taxes	\$ 7,731,459	\$ -	\$ 7,731,459
Federal grants	-	47,132,406	47,132,406
Repayment of assistance funds disbursed	-	64,332	64,332
Interest on loans	167,435	-	167,435
Interest on deposits and investments	8,390	886	9,276
Total revenue	<u>7,907,284</u>	<u>47,197,624</u>	<u>55,104,908</u>
<b>Expenditures:</b>			
General government	29,612	6,435,311	6,464,923
Housing assistance	-	40,762,313	40,762,313
Housing development	6,473,680	-	6,473,680
Total expenditures	<u>6,503,292</u>	<u>47,197,624</u>	<u>53,700,916</u>
Excess of revenues over expenditures	<u>1,403,992</u>	<u>-</u>	<u>1,403,992</u>
<b>Other Financing Sources (Uses)</b>			
Transfer to other funds	(400,000)	-	(400,000)
Total other financing sources (uses)	<u>(400,000)</u>	<u>-</u>	<u>(400,000)</u>
Net change in fund balance	1,003,992	-	1,003,992
Fund balance, at beginning of year	<u>16,688,865</u>	<u>-</u>	<u>16,688,865</u>
Fund balance, at end of year	<u>\$ 17,692,857</u>	<u>\$ -</u>	<u>\$ 17,692,857</u>

*See accompanying notes.*

**SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY**

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**

**JUNE 30, 2013**

	<b>General Operating</b>	<b>Single Family Finance Programs</b>	<b>Program</b>	<b>Eliminations</b>	<b>Totals</b>
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 14,274,154	\$ -	\$ 10,562,968	\$ -	\$ 24,837,122
Restricted assets:					
Cash and cash equivalents	8,202,269	122,724,427	-	-	130,926,696
Investments	-	47,763,121	-	-	47,763,121
Loans receivable	2,558,390	16,784,385	-	-	19,342,775
Accrued interest receivable:					
Loans	281,731	4,226,804	-	-	4,508,535
Deposits and investments	-	866,902	-	-	866,902
Accounts receivable:					
Due from grantor	821,286	-	-	-	821,286
Due from other funds	540,680	1,475,257	42,622	(1,668,331)	390,228
Other	772,061	-	-	-	772,061
Loans receivable	182,026	-	90,575	-	272,601
Accrued interest receivable:					
Loans	50,099	-	173,232	-	223,331
Deposits and investments	-	-	-	-	-
Unamortized bond issuance costs	-	480,997	-	-	480,997
Other current assets	503,637	-	-	-	503,637
Total current assets	<u>28,186,333</u>	<u>194,321,893</u>	<u>10,869,397</u>	<u>(1,668,331)</u>	<u>231,709,292</u>
Noncurrent assets:					
Loans receivable, net of current portion	7,459,569	-	9,714,669	-	17,174,238
Allowance for doubtful losses	-	-	(1,033,357)	-	(1,033,357)
Restricted assets:					
Investments	-	166,331,385	-	-	166,331,385
Loans receivable, net of current portion	73,026,864	531,789,760	-	-	604,816,624
Allowance for doubtful loans	(3,133,651)	(2,526,886)	-	-	(5,660,537)
Unamortized bond issuance costs	-	6,151,746	-	-	6,151,746
Capital assets, net of accumulated depreciation					
	434,120	-	-	-	434,120
Total noncurrent assets	<u>77,786,902</u>	<u>701,746,005</u>	<u>8,681,312</u>	<u>-</u>	<u>788,214,219</u>
Total assets	<u>\$ 105,973,235</u>	<u>\$ 896,067,898</u>	<u>\$ 19,550,709</u>	<u>\$ (1,668,331)</u>	<u>\$ 1,019,923,511</u>

(CONTINUED)

**SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY**

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**

**JUNE 30, 2013  
(CONTINUED)**

	<b>General Operating</b>	<b>Single Family Finance Programs</b>	<b>Program</b>	<b>Eliminations</b>	<b>Totals</b>
<b>Liabilities</b>					
Current liabilities:					
Liabilities payable from restricted assets:					
Bonds payable	\$ -	\$ 12,305,000	\$ -	\$ -	\$ 12,305,000
Accrued interest payable on bonds	-	13,577,053	-	-	13,577,053
Other liabilities	46,249	-	-	-	46,249
Mortgage escrows	5,251,084	-	-	-	5,251,084
Total liabilities payable from restricted assets	5,297,333	25,882,053	-	-	31,179,386
Accrued compensated absences	502,139	-	-	-	502,139
Accrued salaries and related payroll expenses	780,708	-	-	-	780,708
Due to other funds	355,832	1,312,499	-	(1,668,331)	-
Deferred revenue	1,267,254	42,000	-	-	1,309,254
Other liabilities	608,421	-	-	-	608,421
Total current liabilities	8,811,687	27,236,552	-	(1,668,331)	34,379,908
Noncurrent liabilities:					
Accrued compensated absences, net of current portion	271,632	-	-	-	271,632
Bonds payable, net of current portion and unamortized premiums and discounts and deferred losses on refundings	-	638,792,959	-	-	638,792,959
Other noncurrent liabilities	-	37,771	-	-	37,771
Total noncurrent liabilities	271,632	638,830,730	-	-	639,102,362
Total liabilities	9,083,319	666,067,282	-	(1,668,331)	673,482,270
Commitments and contingencies (Note 15)					
<b>Net Position</b>					
Net investment in capital assets	434,120	-	-	-	434,120
Restricted for:					
Debt service	-	48,126,413	-	-	48,126,413
Bond reserves	-	8,686,953	-	-	8,686,953
Housing projects and developments	75,589,393	173,187,250	-	-	248,776,643
Unrestricted	20,866,403	-	19,550,709	-	40,417,112
Total net position	\$ 96,889,916	\$ 230,000,616	\$ 19,550,709	\$ -	\$ 346,441,241

See accompanying notes.

**SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY**

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS**

**YEAR ENDED JUNE 30, 2013**

	<b>General Operating</b>	<b>Single Family Finance Programs</b>	<b>Program</b>	<b>Eliminations</b>	<b>Totals</b>
<b>Operating Revenue</b>					
Interest and other charges on loans	\$ 998,017	\$ 32,477,403	\$ 417,907	\$ -	\$ 33,893,327
Interest on deposits and investments	1,761	9,184,774	13,285	-	9,199,820
Administrative fees and other	13,261,254	1,580,645	88	(2,431,080)	12,410,907
Total operating revenue	<u>14,261,032</u>	<u>43,242,822</u>	<u>431,280</u>	<u>(2,431,080)</u>	<u>55,504,054</u>
<b>Operating Expenses</b>					
Bond interest	-	30,783,849	-	-	30,783,849
Program services	-	6,330,874	-	(1,472,819)	4,858,055
General and administrative	14,922,894	-	-	(958,261)	13,964,633
Bond issuance cost amortization	-	566,879	-	-	566,879
Depreciation of capital assets	238,068	-	-	-	238,068
Other expenses	643,356	1,127,584	408,466	-	2,179,406
Total operating expenses	<u>15,804,318</u>	<u>38,809,186</u>	<u>408,466</u>	<u>(2,431,080)</u>	<u>52,590,890</u>
<b>Operating Income (Loss)</b>	<u>(1,543,286)</u>	<u>4,433,636</u>	<u>22,814</u>	<u>-</u>	<u>2,913,164</u>
<b>Nonoperating Revenue (Expenses)</b>					
Federal grant and contract revenue	139,857,094	-	-	-	139,857,094
Housing assistance payments and grant awards disbursed	(134,976,809)	-	(1,010,217)	-	(135,987,026)
Total nonoperating revenue (expenses)	<u>4,880,285</u>	<u>-</u>	<u>(1,010,217)</u>	<u>-</u>	<u>3,870,068</u>
<b>Income (Loss) Before Transfers</b>	<u>3,336,999</u>	<u>4,433,636</u>	<u>(987,403)</u>	<u>-</u>	<u>6,783,232</u>
<b>Transfers</b>					
Transfers in	400,000	525,000	-	(525,000)	400,000
Transfers out	(525,000)	-	-	525,000	-
Total transfers	<u>(125,000)</u>	<u>525,000</u>	<u>-</u>	<u>-</u>	<u>400,000</u>
Increase (decrease) in net position	3,211,999	4,958,636	(987,403)	-	7,183,232
Net position, at beginning of year	93,677,917	225,041,980	20,538,112	-	339,258,009
Net position, at end of year	<u>\$ 96,889,916</u>	<u>\$ 230,000,616</u>	<u>\$ 19,550,709</u>	<u>\$ -</u>	<u>\$ 346,441,241</u>

See accompanying notes.

**SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**

**YEAR ENDED JUNE 30, 2013**

	<b>General Operating</b>	<b>Single Family Finance Programs</b>	<b>Program</b>	<b>Eliminations</b>	<b>Totals</b>
<b>Cash Flows From Operating Activities</b>					
Receipt of loan principal payments	\$ 3,939,100	\$ 82,684,044	\$ 2,527,275	\$ -	\$ 89,150,419
Receipt of loan interest payments	1,396,769	34,037,533	131,975	-	35,566,277
Purchase/origination of new loans	(7,815,421)	(115,983)	(834,000)	-	(8,765,404)
Administrative fees and other	15,393,365	504,636	88	(2,431,080)	13,467,009
Payments to employees	(8,048,393)	-	-	-	(8,048,393)
Payments to vendors	(7,993,976)	(3,709,832)	(1,390)	2,431,080	(9,274,118)
Net cash flows provided (used) for operating activities	<u>(3,128,556)</u>	<u>113,400,398</u>	<u>1,823,948</u>	<u>-</u>	<u>112,095,790</u>
<b>Cash Flows From Capital and Related Financing Activities</b>					
Purchase of equipment	(32,973)	-	-	-	(32,973)
Net cash flows provided (used) for capital and related financing activities	<u>(32,973)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(32,973)</u>
<b>Cash Flows From Noncapital Financing Activities</b>					
Transfers from other programs	400,000	525,000	-	(525,000)	400,000
Transfers to other programs	(525,000)	-	-	525,000	-
Loans from (to) other programs	-	(247,244)	(20,622)	-	(267,866)
Receipts from HUD	139,857,094	-	-	-	139,857,094
Payments of housing assistance and grants	(134,976,809)	-	(1,010,217)	-	(135,987,026)
Proceeds from sale of bonds	-	115,820,000	-	-	115,820,000
Premium received from sale of bonds	-	2,452,585	-	-	2,452,585
Principal payments on bonds payable	-	(206,125,000)	-	-	(206,125,000)
Interest payments on bonds payable	-	(34,615,381)	-	-	(34,615,381)
Payment on bond issuance costs	-	(1,184,657)	-	-	(1,184,657)
Net cash provided (used) for noncapital financing activities	<u>4,755,285</u>	<u>(123,374,697)</u>	<u>(1,030,839)</u>	<u>-</u>	<u>(119,650,251)</u>
<b>Cash Flows From Investing Activities</b>					
Purchase of investments	-	(29,382,299)	-	-	(29,382,299)
Sale of investments	-	70,040,503	-	-	70,040,503
Income on deposits and investments	1,761	10,968,132	13,285	-	10,983,178
Cash flows from investing activities	<u>1,761</u>	<u>51,626,336</u>	<u>13,285.00</u>	<u>-</u>	<u>51,641,382</u>
Net increase (decrease) in cash and cash equivalents	1,595,517	41,652,037	806,394	-	44,053,948
Cash and cash equivalents, beginning of year	20,880,906	81,072,390	9,756,574	-	111,709,870
Cash and cash equivalents, end of year	<u>\$ 22,476,423</u>	<u>\$122,724,427</u>	<u>\$10,562,968</u>	<u>\$ -</u>	<u>\$155,763,818</u>

(CONTINUED)

**SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**

**YEAR ENDED JUNE 30, 2013  
(CONTINUED)**

	<u>General Operating</u>	<u>Single Family Finance Programs</u>	<u>Program</u>	<u>Totals</u>
<b>Reconciliation of Operating Income to Net Cash Flows Provided by (used in) Operating Activities:</b>				
Operating income (loss)	\$ (1,543,286)	\$ 4,433,636	\$ 22,814	\$ 2,913,164
Adjustments to reconcile operating income (loss) to net cash flows provided by (used in) operating activities:				
Depreciation	238,068	-	-	238,068
Bond premium amortization	-	(1,076,009)	-	(1,076,009)
Bond discount amortization	-	12,647	-	12,647
Deferred loss on refunding amortization	-	131,263	-	131,263
Bond issuance cost amortization	-	566,879	-	566,879
Bonds interest expense reclassified to noncapital financing activities	-	30,783,849	-	30,783,849
Income on deposits and investments reclassified to investing activities	(1,761)	(9,184,774)	(13,285)	(9,199,820)
Receipt of loan principal payments	3,939,100	82,684,044	2,527,275	89,150,419
Purchase/origination of new loans	(7,815,421)	(115,983)	(834,000)	(8,765,404)
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	687,245	-	-	687,245
(Increase) decrease in prepaid expenses	84,354	8,258	-	92,612
Increase (decrease) in accounts payable, accrued expenses and deferred revenue	1,979,015	3,749,569	287,599	6,016,183
Increase (decrease) in mortgage escrows	26,829	-	-	26,829
Increase (decrease) in other liabilities	(760,948)	-	-	(760,948)
(Increase) decrease in accrued interest receivable loans	38,249	1,407,019	(166,455)	1,278,813
Total adjustments	(1,585,270)	108,966,762	1,801,134	109,182,626
Net cash provided by (used in) operating activities	<u>\$ (3,128,556)</u>	<u>\$ 113,400,398</u>	<u>\$ 1,823,948</u>	<u>\$ 112,095,790</u>

(CONTINUED)

**SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**

**YEAR ENDED JUNE 30, 2013  
(CONTINUED)**

**Noncash Noncapital Financing Activities**

- a. Interest payments on bonds do not include \$12,647 amortization of bond discounts and \$131,263 of amortization of deferred losses on refundings of debt that were included in operating expense as bond interest in the Single Family Finance Program Fund.
- b. The Authority recorded an increase in the fair value of investments in the amount of \$950,611 for the fiscal year ended June 30, 2013.

	General Operating	Single Family Finance Program	Program	Total
Cash is Reported on the Statement of Net Position as:				
Cash and cash equivalents	\$ 14,274,154	\$ -	\$ 10,562,968	\$ 24,837,122
Restricted cash and cash equivalents	8,202,269	122,724,427	-	130,926,696
Total Cash and Cash Equivalents	\$ 22,476,423	\$ 122,724,427	\$ 10,562,968	\$ 155,763,818

*See accompanying notes.*

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

**1. Summary of Significant Accounting Policies**

The financial statements of South Carolina State Housing Finance and Development Authority (the Authority) were prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental entities. The Government Accounting Standards Board (GASB) is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Authority are described hereafter.

**1.A Reporting Entity**

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The Authority, a primary entity, is a public body, corporate and politic, and is part of the primary government of the State of South Carolina. As such, its funds are included in the Comprehensive Annual Financial Report of the State of South Carolina as a component unit.

The Authority was established in 1971 pursuant to Section 31-13-20 of the South Carolina Code of Laws. The laws of the State and policies and procedures specified by the State for State agencies are applicable to the Authority. The powers of the Authority were expanded through the passage of the South Carolina State Housing Act of 1977 (31-13-10 through 330 and 31-3-1510), and as amended in 1982 (31-13-70), 1983 (31-13-80), 1986 (31-1-340), 1988 (31-13-50) and 1990 (31-13-200).

The Act empowers the Authority to enter into grants and contracts with the federal government and to issue bonds and notes. In 1992, the General Assembly amended Chapter 13, Title 13 by adding Article 4 which enacts the Housing Trust Fund Act of 1992.

The Authority's Board of Commissioners (the Board), whose members are appointed by the Governor, is the governing body of the Authority. The Board administers, has jurisdiction over, and is responsible for the management of the Authority.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**1. Summary of Significant Accounting Policies (Continued)**

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the officials of the primary government are financially accountable. In turn, component units may also have component units.

Using the criteria of GASB Statement 14, “the Financial Reporting Entity,” as amended by GASB No. 39 “Determining Whether Certain Organizations Are Component Units,” and GASB No. 61 “The Financial Reporting Entity Omnibus” discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government. SC Housing Corp is a blended component unit of the Authority.

An entity is financially accountable if it appoints a voting majority of the organization's governing body including situations in which the voting majority consists of the entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary entity. The entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the entity that holds one or more of the following powers:

1. Determines its budget without another government having the authority to approve and modify that budget.
2. Levies taxes or set rates or charges without approval by another government.
3. Issues bonded debt without approval by another government.

The organization is fiscally independent if it holds all three of those powers. Based on these criteria, the Authority has determined it is not a component of another entity and that the SC Housing Corp is a component of the Authority. The financial statements report the activity of the Authority and the SC Housing Corp.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**1. Summary of Significant Accounting Policies (Continued)**

The accompanying financial statements present the financial position, results of operations, and cash flows of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the Authority and the SC Housing Corp. The mortgage revenue bonds are special obligations of the Authority and are not a debt, grant or loan of the State of South Carolina nor any political subdivision of the State, and neither the State of South Carolina nor any political subdivision thereof is liable. The bonds are secured by and payable solely from the monies, income, and receipts of the Authority pledged for the payment thereof under the Indentures. Payment of the principal or redemption price of, and interest on, all bonds is secured ratably and equally by the proceeds of the bonds, revenue (including scheduled payments of principal and interest on mortgages and repayments of mortgage loans and interest and income received on investments of money held in the funds and accounts), and the right, title, and interest of the Authority in and to the mortgage loans.

**1.B Fund Accounting**

Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives, in accordance with limitations and restrictions imposed by sources outside the entity and in accordance with directives issued by the governing board.

The Authority's funds are classified into two categories - governmental and proprietary.

**1.B.1 Governmental Funds**

Governmental funds finance the Authority's governmental functions including the disbursement of restricted monies. Within the Authority's governmental funds, expendable assets are assigned to the applicable governmental fund according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; and the difference between assets and liabilities is fund balance.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**1. Summary of Significant Accounting Policies (Continued)**

As such, in accordance with governmental accounting standards, the portions of net position/fund balances that are not available for appropriation and are legally segregated for a specified use are presented as restricted in the entity-wide statement.

**1.B.1.a The Housing Trust Fund**, a Special Revenue Fund, was established in May 1992 pursuant to South Carolina Code of Laws, Chapter 31, Article 4. The Authority receives funding from a percentage of the documentary stamp tax on instruments conveying real property. Under this legislation, the Housing Trust Fund is to be used to “increase the supply of safe, decent and affordable housing for members of the very low and lower income individuals and households.”

**1.B.1.b SC HELP Fund**, SC Housing Corp, a blended component unit, is presented as a Special Revenue Fund of the Authority under the title “SC HELP Fund.” On August 3, 2010, the Authority was notified by officials at the US Department of Treasury (Treasury) that Treasury had approved the proposal of the South Carolina State Housing Finance and Development Authority for administration and distribution of \$138 million to help the state’s “hardest hit” homeowners. The program is administered by the SC Housing Corp., a not for profit entity qualifying as a blended component unit of the Authority. On August 11, 2010, Treasury announced an additional \$58.8 million in funding for this program. On September 29, 2010, Treasury announced an additional incremental award to the Authority of approximately \$98.6 million in funding for this program. The total program award is currently \$295.4 million. SC Housing Corp is presented as a special revenue fund in the SC Help fund in the accompanying financial statements. Separate financial statements for SC Housing Corp may be obtained from its executive director upon request.

**1.B.2 Proprietary Funds**

The proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration. Goods or services from activities of the Authority are provided to outside parties, and such activities are accounted for in an enterprise fund type. An enterprise fund accounts for activities that are self-sustaining, primarily through user charges or are used when management wants to control or measure costs of services.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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NOTES TO FINANCIAL STATEMENTS

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**1. Summary of Significant Accounting Policies (Continued)**

The Authority's proprietary fund category includes the following enterprise funds:

**1.B.2.a The General Operating Fund** records administrative fees from the U.S. Department of Housing and Urban Development (HUD), loan servicing fees, other fee type income, and interest earned on loans and investments. These sources of funds as well as operating transfers from other programs are used to defray the general and administrative expenses of the Authority. The General Operating Fund also accounts for HUD funds that are used to provide rental assistance to qualified recipients as well as fund loans and grants for various other rental, homeownership, rehabilitation and development activities.

**1.B.2.b The Single Family Finance Programs Fund** accounts for the financing activities of the Authority's 1979 Single Family Mortgage Purchase Bond Indenture, the 1994 Mortgage Revenue Bonds Indenture and the 2009 Homeownership Revenue Bond Indenture. The proceeds of each series of bonds issued under these three programs are used to purchase mortgage loans made to the State's moderate-to-low income citizens who meet federal and Authority eligibility requirements. The Authority created the Homeownership Revenue Bond Indenture in FY 2010. The 2010 Homeownership Revenue Bond Indenture, as opposed to the 1979 Single Family and 1994 Mortgage Revenue Bond programs, holds only mortgage backed securities (MBS) instead of home mortgages and MBS as security for the bonds. These MBS are made up of mortgages on single family homes in South Carolina made through the Authority's homeownership program. Currently, all of the MBS's held by the Authority are backed by Ginnie Mae (GNMA). The three Indentures generate income to cover the costs of administration and debt service on the bonds. Excess funds as determined by cash flow analysis and certification may be transferred to the other programs at the discretion of the Authority.

**1.B.2.c The Program Fund** was established in accordance with Section 31-13-340 of the South Carolina Code of Laws. Monies not required to be accounted for elsewhere can be deposited into the Program Fund. This fund is used by the Authority to finance special initiatives and down payment assistance loans (both forgivable and repayable) as authorized by the Authority's Board.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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NOTES TO FINANCIAL STATEMENTS

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**1. Summary of Significant Accounting Policies (Continued)**

**1.C Basis of Accounting and Reporting**

All governmental funds are accounted for using the current financial resources measurement focus whereby only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

Governmental fund revenues and expenditures are recognized on the modified accrual basis of accounting. Revenues and other fund financial resources are recognized in the accounting period in which they become both measurable and available to finance expenditures. For this purpose, the Authority considers funds to be available if they are collected within sixty days of the end of the current fiscal year. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Proprietary funds are accounted for via the flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases and decreases in total net position.

The Authority recognizes revenues and expenses and the recording of depreciation expense for the enterprise fund-type using the accrual basis of accounting. Revenues and federal reimbursement type grants are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Transfers of financial resources among funds are recognized in all affected funds in the period in which the related interfund receivables and payables arise.

The Authority has elected to treat all funds as major and present them in separate columns.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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NOTES TO FINANCIAL STATEMENTS

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**1. Summary of Significant Accounting Policies (Continued)**

**1.D Restricted Assets and Liabilities Payable from Restricted Assets under Revenue Bond Resolutions**

Generally, under the applicable bond indentures, the earnings and receipts of loan payments related to investment and mortgage loan assets in the Single Family Finance Program Fund are required to be used to purchase mortgages or for the related debt service payments. Because these assets are generally restricted for this purpose, they have been reflected as current and noncurrent restricted assets in the accompanying statements of net position. Net restricted position for bond reserves are computed July 1 of each year by a percentage of the then outstanding bond principal in accordance with the bond indenture (see *Note 2E*). Under provisions of applicable debt indentures, net restricted position not restricted for the respective bond reserves of the Single Family Finance Program are reflected as either restricted for debt service or for special programs in the accompanying statements.

**1.E Discounts, Premiums, Deferred Losses on Refundings of Debt, Issuance Costs, and Bond Amortization**

Bond discounts and premiums are amortized over the terms of the bonds. Costs incurred in connection with the bond issues are deferred and amortized using the effective interest method over the term of the related issues. The deferred losses on refundings of debt include the call premiums and the unamortized premiums or discounts and issuance costs attributable to the bonds refunded and are amortized over the term of the refunded issues or the new issues whichever is shorter, using the bonds outstanding method. Amortization of bond discounts and the deferred losses on refunding of debt is included in operating expenses as an addition to interest expense. Amortization of bond premium is included in operating revenue as an addition to administrative fees. Amortization of bond issuance costs is included in operating expenses as a separate line item amount. See Note 1.R. – Recent Accounting Developments for a significant change to become effective in the next fiscal year ending June 30, 2014.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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NOTES TO FINANCIAL STATEMENTS

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**1. Summary of Significant Accounting Policies (Continued)**

**1.F Federally Assisted Program Advances and Fees**

In accordance with the terms of contracts between the Authority and the U.S. Department of Housing and Urban Development (HUD), the Authority administers Section 8 Housing Assistance Payments Programs, Contract Administration, and the Housing Choice Voucher Program in certain areas of South Carolina. Under these programs, housing assistance payments are made to eligible individuals or to owners of rental housing on behalf of persons of limited income who meet the eligibility requirements.

Generally, HUD advances the Authority sufficient funds to cover the current month's housing assistance payments before such disbursements are made by the Authority. Additionally, HUD advances funds on a monthly basis for the Authority's costs of administering the subsidy contracts. These administrative fees are recognized as operating revenue when earned in the General Operating Fund. Because such funds are generally restricted as to purpose, they have been reflected in the restricted portion of the accompanying statements where appropriate.

The Authority also administers the Home Investments Partnership Program and Neighborhood Stabilization Program. The Home Investments Partnership Program provides loans and grants to local governments and nonprofit entities to assist private property owners in building new and rehabilitating existing rental housing for low-income tenants. The Home Investments Partnership Program also provides forgivable and repayable down payment assistance loans to qualified first time homebuyers. The Neighborhood Stabilization Program provides grants to other entities, primarily local governments and nonprofit entities, to purchase foreclosed or abandoned properties and to rehabilitate, resell, or redevelop these properties in order to stabilize neighborhoods and stem the decline of value for other homes in the neighborhood. Under both of these programs, an administrative fee is drawn from HUD to reimburse the Authority, as well as the entity that has been awarded funds under the program, for administrative costs. These administrative fees are recognized as operating revenue when earned. Funds granted and passed through by the Authority are included in the accompanying financial statements in the General Operating Fund as nonoperating revenue and expense.

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NOTES TO FINANCIAL STATEMENTS

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**1. Summary of Significant Accounting Policies (Continued)**

**1.G Cash and Cash Equivalents**

Amounts denoted in the financial statements as "cash and cash equivalents" represent cash on deposit in banks, cash on deposit with the State Treasurer, cash invested in various instruments with banks and short term investments, such as guaranteed investment contracts, not held by the State Treasurer's Office and having a maturity at purchase of three months or less.

For purposes of the statement of cash flows, the Authority considers all highly liquid debt instruments purchased with a maturity of three months or less at the time of acquisition to be cash equivalents.

Most State agencies, including the Authority, participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements and certain corporate bonds.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State.

Interest earned by the Authority on amounts held in special deposit accounts is posted to the Authority's accounts at the end of each month and is retained by the Authority. Interest earnings are allocated based on the percentage of the Authority's accumulated daily interest income receivable to the total income receivable of the pool. Reported interest income includes interest earnings at the stated rate, realized gains/losses, and unrealized gains/losses arising from changes in fair value on investments held by the pool. Realized gains and losses are allocated daily and are included in the receivable. Unrealized gains and losses are allocated at year-end based on the Authority's percentage ownership in the pool.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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NOTES TO FINANCIAL STATEMENTS

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**1. Summary of Significant Accounting Policies (Continued)**

Although the cash management pool may include some long-term investments, it operates as a demand deposit account. Credit risk information pertaining to the cash management pool is contained in *Note 2D*.

The Authority has funds in State Treasurer accounts not included in the State's internal cash management pool and at other institutions. For these accounts, cash equivalents include investments in short-term, highly liquid securities having an initial maturity of three months or less at the time of acquisition.

The Authority records and reports its deposits in the general deposit account at cost but reports its deposits in the special deposit accounts at fair value.

**1.H Investments**

Investments in the SC State Treasurer's Pool and GNMA's not pledged to Bonds are carried at fair value. Fair value is determined by quoted market prices. Purchases and sales are accounted for on the trade date. Investment income includes interest and dividend income, realized gains/losses on investments, and unrealized changes in fair value of the investments. GNMA's pledged to Bonds are carried at cost. GNMA's are pledged to support the Single Family Mortgage Purchase and Homeownership Revenue Bonds and are not held for resale.

**1.I Loans Receivable**

Loans receivable consist of mortgage loans, which are carried at par. Most mortgage loans in the Single Family Finance Program Fund as well as the single family mortgage loans of approximately \$15.2 million in the General Operating and Program Fund are insured with various mortgage insurance carriers at specified percentages of the original loan amount varying from 25% to 100%. However, once the loan to property value ratio falls below 80%, borrowers have the right to cancel the mortgage insurance if certain conditions have been met as provided by federal law and/or the insurance carrier. As required by the Homeowners Protection Act, mortgage insurance is automatically cancelled when the original loan to value ratio reaches 79%. In the past the Authority considered the mortgaged property as adequate collateral against significant potential loan losses for such uninsured properties. However, declines in property values have occurred in some areas of South Carolina that may result in losses higher than experienced in the past. The Authority does not anticipate that the increase in

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NOTES TO FINANCIAL STATEMENTS

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**1. Summary of Significant Accounting Policies (Continued)**

losses will place undue stress on the Authority's financial position. Many of the private mortgage insurers continued to experience rating downgrades during the current fiscal year. As a result, since March 2009, the Authority discontinued originating mortgage loans with private mortgage insurance and will not resume such loans until these insurers see significant rating upgrades or until the Authority is in a position to securitize those loans through Ginnie Mae, Fannie Mae and/or Freddie Mac. Most loans made from the Housing Trust Fund and a portion of the loans in the General Operating Fund are not single family mortgage loans and are not insured.

Management is of the opinion that the mortgage insurance coverage, in addition to over-collateralization, is adequate to cover any significant potential loan losses under the Single Family Finance Programs should they occur. Loans determined to be uncollectible and unrecoverable from mortgage insurance carriers are charged off against program income. The Authority has recorded allowances for doubtful accounts which are considered adequate.

**1.J Capital Assets**

Capital assets are recorded at cost at the date of acquisition. The Authority follows capitalization guidelines established by the State of South Carolina. The Authority capitalizes furniture and equipment with a unit value exceeding \$5,000 and an estimated useful life of more than two years. Routine repairs and maintenance are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over estimated useful lives of three to ten years for furniture, equipment and leasehold improvements and five years for software. Currently, the Authority owns personal property only and owns no real property (land, buildings, attachments, etc.).

**1.K Mortgage Escrows**

Under provisions of certain mortgage loan agreements, the Authority is responsible for collecting deposits from homeowners for payment of property taxes and insurance.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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NOTES TO FINANCIAL STATEMENTS

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**1. Summary of Significant Accounting Policies (Continued)**

**1.L Compensated Absences**

Generally, all permanent full-time State employees and certain part-time employees (those scheduled to work at least one-half of the established workweek) are entitled to accrue and carry forward calendar year-end maximums of 180 days sick and of 45 days vacation leave. Upon termination of State employment, qualified employees are entitled to payment for accumulated unused vacation leave not exceeding the maximum carry forward balance at calendar year end. Employees are not entitled to payment for unused sick leave balances at termination. Annually, at fiscal year-end, the Authority calculates and records a liability for compensated absences based on the total eligible balance of unused employee vacation leave. The liability is calculated using the current employee salary and related benefits data and is reported in the statement of net position of the General Operating Fund under current and noncurrent liabilities as appropriate.

**1.M Rebatable Arbitrage**

Arbitrage involves the investment of proceeds from the sale of tax-exempt debt in a taxable investment that yields a higher rate than the rate of the obligation. This results in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units may avoid the requirement to rebate the "excess" earnings to the federal government under certain circumstances if they issue no more than \$5 million in total of all such debt in a calendar year and if they meet specified targets for expenses of the proceeds and interest earnings thereon. For this purpose, tax-exempt indebtedness includes bonds, notes, and certain capital leases and installment purchases. The federal government only requires arbitrage be calculated, reported, and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. At June 30, 2013, reported as other liabilities for business-type activities is an arbitrage rebate liability of \$37,771 associated with the Authority's Mortgage Revenue Bonds Outstanding.

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NOTES TO FINANCIAL STATEMENTS

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**1. Summary of Significant Accounting Policies (Continued)**

**1.N Budget Policy**

The Appropriation Act as enacted by the General Assembly becomes the legal operating budget for the Authority. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of Total Funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough appropriation authorization exists and generally if sufficient cash is on hand.

**1.O Operating and Nonoperating Revenues and Expenses**

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal ongoing operations including granting and collecting loans. The Authority's primary operating revenues are from administrative fees for the administration of HUD programs and interest and other charges on loans. Operating expenses include the Authority's administrative expenses and depreciation on capital assets. All revenues and expenses (excluding bond interest expense) not meeting this definition are reported as nonoperating revenues and expenses.

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NOTES TO FINANCIAL STATEMENTS

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**1. Summary of Significant Accounting Policies (Continued)**

**1.P Net Position and Fund Balance**

Net position or fund balances are presented in the following components or classifications:

Net investment in capital assets – Consists of capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted assets – Net position or fund balance, for enterprise or governmental fund types respectively, are reported as restricted when constraints placed on resource use are restricted by legal and/or contractual requirements. Generally, such assets have use restrictions placed on them by (1) external parties such as creditors, grantors, contributions, or laws or regulations of other governments; or (2) laws of the enabling government. The Authority’s restrictions are primarily due to requirements of bond indentures, South Carolina law and Federal program requirements.

Unrestricted assets – For business type activities, all assets not meeting the definition of “restricted” or “net investment in capital assets” are classified as unrestricted.

Other governmental fund balance classifications – The Authority adopted GASB 54 for the year ended June 30, 2011. GASB 54 establishes a uniform hierarchy based largely on the extent to which a government is required to observe spending constraints governing how it may use amounts reported in the fund balance section of the balance sheet of governmental funds. Under GASB 54, all governmental fund assets of the Authority not meeting the definition of "restricted" are classified as “nonspendable,” “committed,” “assigned,” or “unassigned” as appropriate. The Authority had no such governmental fund balance classifications for the fiscal year ended June 30, 2013.

For governmental funds, it is the policy of the Authority to spend unassigned fund balances first followed thereafter by restricted, committed, and assigned resources as needed.

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NOTES TO FINANCIAL STATEMENTS

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**1. Summary of Significant Accounting Policies (Continued)**

For business type activities, when both restricted and unrestricted resources are available, it is the policy of the Authority to spend restricted resources first followed thereafter by unrestricted resources as needed.

**1.Q Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions at the date of financial statement preparation that affect certain reported amounts of assets, liabilities, revenues, expenses, and disclosures of contingent assets and liabilities, for the reporting period. Actual results may differ from those estimates.

**1.R Recent Accounting Developments**

In March 2012, the (GASB) issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This Statement has a standard that applies specifically to debt issuance costs. Debt issuance costs include all costs incurred to issue the bonds, including but not limited to insurance costs, financing costs (such as rating agency fees), and other related costs (such as legal and trustee expenses). The Authority will be required to write-off the remaining unamortized bond issuance costs of \$6,632,743 in the Single Family Finance Program. This Statement will be adopted by the Authority in the fiscal year ending June 30, 2014.

Also in March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 (an amendment of GASB Statements No. 10 and No. 62)*. This Statement is intended to improve accounting and financial reporting for governmental entity by resolving conflicting guidance in two previous pronouncements. The Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, and instead follow guidance other previous Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. In addition, this Statement amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB*

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**1. Summary of Significant Accounting Policies (Continued)**

*and AICPA Pronouncements*, by modifying accounting guidance for (1) operating lease payments that vary from straight-line basis, (2) the difference between initial investment (purchase price) and the principal amount of purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The implementation of this Statement is not expected to have a significant effect on the Authority's financial position or results from operations. The provisions of this Statement will become effective in the fiscal year ending June 30, 2014.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*. The objective of this Statement is to improve the accounting and financial reporting by state and local governmental employers about financial support for pensions that is provided by other entities, with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This pronouncement addresses financial statement preparation requirements for the recognition of the net pension liability and pension expenditures, specific disclosures for the Notes to Financial Statements, and certain required supplementary information. This Statement is effective for fiscal years beginning after June 15, 2014 with earlier application encouraged. The Authority will implement this Statement in conjunction with the South Carolina Public Employee Benefit Authority (PEBA).

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This pronouncement relates to agreements where a government entity extends financial guarantees for the obligations of another government, a not-for-profit organization, a private entity, or individual without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). The objective of this pronouncement is to improve accounting and financial reporting by government entities that extend and receive nonexchange financial guarantees. The provisions of this statement will be effective in the fiscal year ending June 30, 2014, however, the Authority does not have any nonexchange financial guarantees.

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NOTES TO FINANCIAL STATEMENTS

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**2. Deposits and Investments**

<b>Financial Statements</b>	<b>Footnotes</b>
Current assets:	Deposits:
Cash and cash equivalents:	Deposits held by State
Unrestricted           \$ 38,803,652	Treasurer           \$ 27,234,901
Restricted           130,926,696	Deposits with banks   138,494,516
Investments:	Other deposits           4,000,931
Restricted           47,763,121	Total deposits <u>169,730,348</u>
Non-current assets:	Investments:
Cash and cash equivalents:	Treasurer           47,763,121
Restricted           -	Other investments <u>166,331,385</u>
Investments:	Total investments <u>214,094,506</u>
Restricted <u>166,331,385</u>	
 Total <u>\$ 383,824,854</u>	 Total <u>\$ 383,824,854</u>

**2.A Deposits**

All deposits of the Authority are insured or collateralized by using the dedicated method. Under the dedicated method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by each of the depository banks. At June 30, 2013, the Authority's bank deposits had a carrying amount of \$138,494,546 and a bank balance of \$138,278,693. \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the dedicated method. Other deposits are Guaranteed Investment Contracts issued by institutions rated by a national rating organization.

**2.B Deposits Held by State Treasurer**

State law requires full collateralization of all deposits and investments of the State funds. The depository institution must correct any deficiencies in collateral within seven days. With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

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NOTES TO FINANCIAL STATEMENTS

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**2. Deposits and Investments (Continued)**

**2.C Investments**

At June 30, 2013, the Authority's investment balances were as follows:

	<b>Carrying Value</b>	<b>Less Than 1 Year</b>	<b>Greater Than 1 Year</b>
Government National Mortgage Association Insured Mortgage Backed Securities (GNMAs)	\$ 166,331,385	\$ -	\$ 166,331,385
SC State Treasurer Pool	47,763,121	47,763,121	-
<b>Totals</b>	<b>\$ 214,094,506</b>	<b>\$ 47,763,121</b>	<b>\$ 166,331,385</b>

**2.D Investment Risk Factors**

There are a number of variables that affect the value of investments. These risks are discussed below.

**2.D.1 Interest Rate Risk**

Interest rate risk is the risk that the value of fixed income securities will decline because of changes in interest rates. As a means of limiting its exposure to interest rate risk, the revenue funds for some bond issues are tied to a guaranteed investment contract (GIC). The interest rate of each GIC is guaranteed for the term of the bonds in order to limit interest rate risk exposure for each issue. As an additional measure to limit interest rate risk, the Authority does not invest in certificates of deposit with a maturity exceeding one year.

**2.D.2 Custodial Credit Risk**

For a deposit, the custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its deposits, investments, or collateral securities held by an outside party. The Authority has no policy on custodial credit risk.

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NOTES TO FINANCIAL STATEMENTS

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**2. Deposits and Investments (Continued)**

**2.D.3 Credit Risk**

The Authority follows Section 11-9-660 of the South Carolina Code of Laws regarding credit risk. The Authority places a portion of its funds on deposit in the State Treasurer’s Investment Pool. Although the Pool itself is unrated, it is invested according to the requirements of State law, which allows only limited investments in instruments subject to credit risk. State law further requires that investments in obligations of corporations and in state or political subdivisions of the United States have an investment grade rating from at least two nationally recognized rating agencies. State Law also requires that guaranteed investment contracts (GIC’s) bear the two highest ratings from at least two nationally recognized rating agencies at the time of purchase.

**2.D.4 Concentration of Credit Risk**

The Authority places no limit on the amount it may invest in any one issuer. More than 5% of the Authority’s investments are in the following investments: *GNMAs 50%, Tri-Party Repos 35%, and State Treasurer Investment Pools 14%*.

**2.E Restricted Deposits and Investments**

Under provisions of applicable debt indentures, the Authority is required to restrict sufficient assets with an independent trustee (The Bank of New York/Mellon) in the Single Family Finance Program Fund in order to meet reserve requirements for payment of debt service on bonds. The required and actual reserve amounts for each program at June 30, 2013 are as follows:

	<b>Reserve Requirements</b>	<b>Actual Funding</b>	<b>Over (Short)</b>
Single Family Mortgage Reserve Funds-1998	\$ 2,640,450	\$ 2,640,450	\$ -
Mortgage Revenue Indenture Reserve Funds	4,858,200	6,046,503	1,188,303
Totals	<u>\$ 7,498,650</u>	<u>\$ 8,686,953</u>	<u>\$ 1,188,303</u>

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NOTES TO FINANCIAL STATEMENTS

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**3. Loans Receivable**

Loans receivable consist of the following:

**Governmental Funds**

Housing Trust Fund notes maturing on various dates 2014-2048 plus interest ranging from 0.000%-5.500% per annum payable in monthly installments of principal and interest, as provided in the notes. Reported net of allowance for doubtful accounts of \$24,468.

\$ 9,352,881

Total governmental funds

\$ 9,352,881

**Proprietary Funds**

General Operating Fund notes maturing on various dates from 2013-2048 plus interest ranging from 0.000%-6.000% per annum, payable in installments of principal and interest as provided in the notes. Reported net of allowance for doubtful accounts of \$3,133,651.

\$ 80,093,198

Program Fund notes maturing on various dates from 2014-2031 plus interest ranging from 2.790% - 5.000% per annum; payable in monthly installments of principal and interest as provided in the notes. Reported net of allowance for doubtful accounts of \$1,033,357.

8,771,887

Single Family Finance Programs notes maturing on various dates from 2013-2042 plus interest ranging from 4.000%-10.750% per annum, payable in monthly installments of principal and interest. Reported net of allowance for doubtful accounts of \$2,526,886.

546,047,259

Total proprietary funds

\$634,912,344

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NOTES TO FINANCIAL STATEMENTS

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**4. Capital Assets**

Capital asset activity for the year ended June 30, 2013 was as follows:

	<b>Beginning Balances July 1, 2012</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances June 30, 2013</b>
Equipment and furniture	\$ 1,895,515	\$ 32,972	\$ (126,976)	\$ 1,801,511
Accumulated depreciation	(1,256,299)	(238,068)	126,976	(1,367,391)
Capital assets, net of accumulated depreciation	<u>\$ 639,216</u>	<u>\$ (205,096)</u>	<u>\$ -</u>	<u>\$ 434,120</u>

**5. Changes in Long-Term Liabilities**

Long-term liabilities activity for the year ended June 30, 2013 was as follows:

	<b>Beginning Balances July 1, 2012</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balances June 30, 2013</b>	<b>Due within One Year</b>
Bonds payable	\$ 731,780,000	\$ 115,820,000	\$ 206,125,000	\$ 641,475,000	\$ 12,305,000
Unamortized premiums and discounts	9,975,342	2,452,585	996,655	11,431,272	-
Deferred amount on refunding	(1,392,381)	(547,195)	(131,263)	(1,808,313)	-
Total bonds payable	<u>740,362,961</u>	<u>117,725,390</u>	<u>206,990,392</u>	<u>651,097,959</u>	<u>12,305,000</u>
Accrued arbitrage	54,223	115	16,567	37,771	-
Accrued compensated absences	<u>704,541</u>	<u>571,369</u>	<u>502,139</u>	<u>773,771</u>	<u>502,139</u>
Totals	<u>\$ 741,121,725</u>	<u>\$ 118,296,874</u>	<u>\$ 207,509,098</u>	<u>\$ 651,909,501</u>	<u>\$ 12,807,139</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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NOTES TO FINANCIAL STATEMENTS

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**6. Bonds Payable**

At June 30, 2013, bonds payable, including unamortized premiums and net of unamortized discounts and deferred losses on refunding of debt, consisted of the following:

	<u>Date Issued</u>	<u>Issue Amount</u>	<u>Outstanding Balance</u>
Single Family Mortgage Revenue Bonds 1998 (5.00% to 5.5%) due 2014-2035	09/11/98	\$ 106,975,000	\$ 88,015,000
Plus: Unamortized premium			<u>798,690</u>
			<u>88,813,690</u>
Mortgage Revenue Bonds			
2003A (3.90% to 5.45%) due 2013-2034	09/10/03	50,000,000	18,645,000
2004A (3.80% to 5.50%) due 2013-2035	07/01/04	100,000,000	45,200,000
2005A (3.25% to 5.00%) due 2013-2036	06/15/05	81,720,000	38,585,000
2006A/B (3.75% to 5.75%) due 2013-2037	06/30/06	98,000,000	57,205,000
2006C (3.55% to 5.50%) due 2013-2037	12/19/06	83,540,000	52,210,000
2007A (3.95% to 5.55%) due 2013-2038	09/11/07	83,000,000	56,760,000
2008A (2.85% to 6.00%) due 2013-2039	06/04/08	20,000,000	12,660,000
2008B (3.65% to 6.00%) due 2013-2039	08/28/08	45,215,000	30,475,000
2012A (0.35% to 4.00%) due 2013-2034	09/26/12	65,710,000	62,045,000
			<u>373,785,000</u>
Plus: Unamortized premium			9,079,298
Less: Unamortized discounts			(47,247)
Unamortized deferred losses on refundings of debt			<u>(1,808,313)</u>
			<u>381,008,738</u>
Homeownership Revenue Bonds			
2010-1 (0.70% to 5.00%) due 2013-2041	07/01/10	100,000,000	29,665,000
2010-2 (1.00% to 5.00%) due 2013-2041	12/09/10	40,000,000	35,080,000
2011-1 (0.60% to 4.50%) due 2013-2041	10/20/11	70,000,000	66,120,000
2013-1 (2.95%) due 2041	04/17/13	50,110,000	48,810,000
			<u>179,675,000</u>
Plus: Unamortized premium			<u>1,600,531</u>
			<u>181,275,531</u>
Total bonds payable, including unamortized premiums and net of unamortized discounts and deferred losses on refundings of debt			<u><u>\$ 651,097,959</u></u>

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NOTES TO FINANCIAL STATEMENTS

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**6. Bonds Payable (Continued)**

Amounts, including interest, required to complete payment of the bond obligations as of June 30, 2013 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2014	\$ 12,305,000	\$ 28,288,384	\$ 40,593,384
2015	17,070,000	27,872,425	44,942,425
2016	17,720,000	27,266,094	44,986,094
2017	18,920,000	26,593,939	45,513,939
2018	19,980,000	25,821,276	45,801,276
2019-2023	109,375,000	114,899,085	224,274,085
2024-2028	125,175,000	86,528,940	211,703,940
2029-2033	132,935,000	55,169,027	188,104,027
2034-2038	115,180,000	23,845,852	139,025,852
2039-2042	72,815,000	4,861,738	77,676,738
Total	<u>\$ 641,475,000</u>	<u>\$421,146,760</u>	<u>\$ 1,062,621,760</u>

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**6. Bonds Payable (Continued)**

The Authority has the option to redeem most of its bonds prior to maturity on the first of any month, as specified under each bond issue, plus accrued interest to the date of redemption. These early redemptions are funded by mortgage pre-payments and other income. The mortgage pre-payment/re-financing rate varies for year-to-year and determines the amount of funds available to call bonds prior to maturity. Below is a listing of the Single Family Finance Program bonds redeemed prior to their maturity during the year ended June 30, 2013:

Single Family Finance Programs:

Mortgage Revenue Bonds	
Series 1997 A	\$ 5,810,000
Series 1999 A	4,480,000
Series 1999 B	15,685,000
Series 2000 A	12,410,000
Series 2001 A	18,645,000
Series 2002 A	15,750,000
Series 2003 A	1,785,000
Series 2004 A	7,910,000
Series 2005 A	10,010,000
Series 2006 A and B	8,720,000
Series 2006 C	11,060,000
Series 2007 A	7,985,000
Series 2008 A	2,875,000
Series 2008 B	7,080,000
Series 2012 A	2,200,000
Homeownership Revenue Bonds	
Series 2010-1	59,365,000
Series 2010-2	3,670,000
Series 2011-1	3,360,000
Series 2013-1	1,300,000
Total	<u><u>\$ 200,100,000</u></u>

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**6. Bonds Payable (Continued)**

In September 2012, the Authority issued \$65,710,000 in taxable refunding Mortgage Revenue Bonds (Series 2012A) with fixed interest rates ranging from .35 to 4.0%. The proceeds were used to refund all of the outstanding principal, \$65,710,000, of the in Series 1997A, 1999A, 1999B, 2000A, 2001A, and 2002A Bonds with an average interest rate of 5.547%. The Bonds were issued at a premium of \$2,452,585 with issuance costs and underwriters fees of \$668,029. The refunding reduced total debt service payments over the next 22 years by nearly \$13.9 million. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$11.9 million.

In April 2013, the Authority issued \$50,110,000 in taxable refunding Homeownership Revenue Bonds (Series 2013-1) with a fixed interest rate of 2.95%. The proceeds were used to refund \$50,110,000 in Series 2010-1 Bonds with an average interest rate of 4.05%. The Bonds were issued at par with issuance costs and underwriters fees of \$516,628. The refunding reduced total debt service payments over the next 29 years by nearly \$14.0 million. This results in an economic gain of \$9.4 million.

Amortization of bond discounts for the year ended June 30, 2013 that were included in bond interest expense in the Single Family Finance Programs Fund was \$12,647. Bond premium amortized for the year ended June 30, 2013 and attributable to the Single Family Finance Programs Fund bonds totaled \$1,076,009 and was reported as other revenue in the fund.

Amortization of deferred losses on refundings of debt of \$131,263 for the year ended June 30, 2013 and attributable to the Single Family Finance Programs Fund bonds was included in bond interest expense in the proprietary fund.

**7. Leases**

At June 30, 2013, the Authority was obligated under various operating leases with external parties for office space and office equipment having noncancelable lease terms in excess of one year.

The lease for the Authority's office space expires in October 2016 and is payable monthly. The Authority is responsible for the pro rata share of increases in the building's real property taxes over the preceding rental year. However, the increase in a given year may not exceed 5%.

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NOTES TO FINANCIAL STATEMENTS

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**7. Leases (Continued)**

Office equipment leases expire in various fiscal years from 2014 through 2017.

Future minimum annual lease payments under noncancelable operating leases with remaining terms in excess of one year are as follows:

<u>Year Ending June 30,</u>	
2014	\$ 345,954
2015	353,003
2016	360,223
2017	123,750
Total leases with external entities	<u>\$ 1,182,930</u>

The Authority incurred rental expense of approximately \$388,452 under the aforementioned leases for the fiscal year ended June 30, 2013.

The Authority also leases motor vehicles from the State Budget and Control Board which can be cancelled with 30 day-notice. Under this lease agreement, the Authority incurred expenses of \$135,076 in fiscal year 2013.

The above information includes existing leases only and is not necessarily a forecast of total future rental expense. In the normal course of business, the Authority may renew or replace existing operating leases or enter into new operating leases.

**8. Transactions with State Entities**

These financial statements include the following related party transactions between the Authority and the State of South Carolina and various State agencies:

- The South Carolina Department of Revenue collects documentary stamp taxes and remits \$.20 of every \$1.30 collected to the Authority for the Housing Trust Fund.
- Services received at no cost from State agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation, banking and investment functions from the State Treasurer; and legal services from the Attorney General.

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NOTES TO FINANCIAL STATEMENTS

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**8. Transactions with State Entities (Continued)**

- Services provided at no cost from various divisions of the State Budget and Control Board include retirement plan administration, grant services, insurance plan administration, personnel management, review, and approval of certain budget amendments, procurement services, and other centralized functions. The Authority paid \$318,260 through the Statewide Cost Allocation Plan during the fiscal year.
- Financial transactions include payments to divisions of the State Budget and Control Board for vehicle rental, insurance coverage, office supplies, printing, telephone, and interagency mail. Payments were also made for the workers' compensation insurance coverage and unemployment compensation. The amounts for such items applicable to fiscal year 2013 expenditures were not readily available.

**9. Fund Transfers**

Fund transfers to and from other funds, which are legally allowable and in accordance with the terms of the respective bond indentures, as applicable, during the year ended June 30, 2013 are as follows:

- \$525,000 from the General Operating Fund to the Homeownership Bond segment to fund cost of issuance for bonds.
- \$400,000 from the Housing Trust Fund to the General Operating Fund to fund administrative and operational expenses.

**10. Risk Management**

The Authority is exposed to various risks of loss and maintains State or commercial insurance coverage for such risks except business interruption insurance. The Authority has arranged for backup facilities for its information technology needs. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settled claims have not exceeded this coverage in any of the past three years. The Authority pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accordance with insurance policy and benefit program limits except for deductibles.

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**10. Risk Management (Continued)**

Several State funds accumulate assets and the State assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (SC Department of Employment and Workforce)
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund)
3. Claims of covered public employees for health and dental insurance benefits (Public Employee Benefit Authority Insurance Benefits)
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Public Employee Benefit Authority Insurance Benefits)

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All other coverage listed above is through the applicable State self-insured plan except that dependent and optional life premiums are remitted to commercial carriers.

The Authority and other entities pay premiums to the State's Insurance Reserve Fund (IRF), which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets
2. Torts

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property and equipment. IRF rates are determined actuarially.

The Authority obtains coverage through a commercial insurer for employee fidelity bond insurance for potential losses arising from theft or misappropriation by employees.

The Authority records expenditures for insurance premiums in the general and administrative expense category of the General Operating Fund.

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NOTES TO FINANCIAL STATEMENTS

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**11. Conduit Debt**

From time to time, the Authority has issued bonds to provide mortgages for the citizens of South Carolina for multifamily housing. These bonds are special limited obligations of the Authority, payable solely from and secured by mortgages to be received from mortgage loans with various mortgagees. The bonds do not constitute a debt or pledge of the faith and credit of the Authority or the State, and accordingly, have not been reported in the accompanying financial statements.

<b>Issue Date</b>	<b>Bond/Note Title</b>	<b>Original Issue Amount</b>	<b>Amount Outstanding</b>
<b>Fiscal Year 2001 (00/01)</b>			
12/00	Multifamily Rental Housing Revenue Bonds (Bent Tree Apts./Richland Oxford)	\$ 11,130,000	\$ 7,578,000
06/01	Multifamily Housing Revenue Bonds (Fairway Apts. Project)	7,735,000	7,735,000
06/01	Multifamily Rental Housing Revenue Refunding Bonds (Martin's Creek Project)	7,300,000	7,300,000
<b>Fiscal Year 2003 (02/03)</b>			
11/02	Multifamily Guaranteed Mortgage Revenue Bonds (CTS Parklane)	12,050,000	12,050,000
12/02	Multifamily Rental Housing Revenue Bonds (Spring Grove Apartments Project)	7,410,000	6,540,000
<b>Fiscal Year 2004 (03/04)</b>			
04/04	Multifamily Rental Housing Revenue Bonds (Beverly Apartments Project)	3,010,000	2,775,000
04/04	Multifamily Rental Housing Revenue Bonds (Hillandale Apartments Project)	6,660,000	5,535,000
06/04	Multifamily Rental Housing Revenue Bonds (Greenville Arms Apartments Project)	4,265,000	3,890,000
06/04	Multifamily Rental Housing Revenue Bonds (Canebreak Apartments Project)	4,500,000	4,071,063

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NOTES TO FINANCIAL STATEMENTS

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**11. Conduit Debt (Continued)**

<b>Issue Date</b>	<b>Bond/Note Title</b>	<b>Original Issue Amount</b>	<b>Amount Outstanding</b>
<b>Fiscal Year 2005 (04/05)</b>			
07/04	Multifamily Rental Housing Revenue Bonds (Bayside Apartments Project)	\$ 17,250,000	\$ 17,250,000
12/04	Multifamily Rental Housing Revenue Bonds (Wyndham Pointe Apartments Project)	9,400,000	6,838,043
12/04	Multifamily Rental Housing Revenue Bonds (Planters Retreat Apartments Project)	11,850,000	10,577,615
05/05	Multifamily Rental Housing Revenue Bonds (Wenmont Apartments Project)	6,210,000	5,876,264
<b>Fiscal Year 2006 (05/06)</b>			
09/05	Multifamily Rental Housing Revenue Bonds (Hallmark Homes Apartments Project)	12,840,000	9,750,160
09/05	Multifamily Rental Housing Revenue Bonds (Appian Way Apartments Project)	11,500,000	10,000,000
09/05	Multifamily Rental Housing Revenue Bonds (Cross Creek Apartments Project)	8,850,000	8,533,714
11/05	Multifamily Rental Housing Revenue Bonds (Runaway Bay Project)	8,365,000	8,365,000
01/06	Multifamily Rental Housing Revenue Bonds (Rocky Creek Apartments Project)	12,745,000	12,135,000
04/06	Multifamily Rental Housing Revenue Bonds (Towers East Apartments Project)	11,500,000	10,925,000
06/06	Multifamily Rental Housing Revenue Bonds (Spanish Trace Apartments Project)	3,685,000	3,495,000
<b>Fiscal Year 2008 (07/08)</b>			
01/08	Multifamily Rental Housing Revenue Bonds (Bridle Ridge Apartments)	7,885,000	7,740,000

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NOTES TO FINANCIAL STATEMENTS

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**11. Conduit Debt (Continued)**

<b>Fiscal Year 2009 (08/09)</b>			
11/08	Multifamily Rental Housing Revenue Bonds (Franklin Square Apartments)	\$ 9,800,000	\$ 9,800,000
12/08	Multifamily Rental Housing Revenue Bonds (Brookside Crossing)	9,900,000	9,380,000
<b>Fiscal Year 2011 (10/11)</b>			
5/11	Multifamily Rental Housing Revenue Bonds (North Augusta Gardens Apartments)	4,975,000	4,975,000
	Multifamily Rental Housing Revenue Bonds (Pickens Gardens Apartments)	1,275,000	1,190,000
<b>Fiscal Year 2013 (12/13)</b>			
12/12	2012 Multifamily Rental Housing Revenue Bonds (Columbiana Ridge Apartments Project)	7,000,000	7,000,000
5/13	The Parker at Cone (Phase II Apartments)	5,250,000	5,250,000
Total		<u>\$224,340,000</u>	<u>\$206,554,859</u>

**12. Pension Plans**

The majority of employees of the Authority are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the South Carolina Public Employee Benefit Authority (PEBA), a public employee retirement system. Generally, all full-time or part-time equivalent State employees in a permanent position are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP). The SCRS plan provides a life-time monthly retirement annuity benefits to members as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental benefits to eligible employees and retired members.

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**12. Pension Plans (Continued)**

The Retirement Division maintains five independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Division and the five pension plans are included in the State of South Carolina's CAFR.

Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90). The benefit formula for full benefits effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Disability annuity benefits are payable to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job related injury). Class III members qualify for disability annuity benefits provided they have a minimum of eight years of credited service. An incidental death benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active

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**12. Pension Plans (Continued)**

member. For eligible retired members, a lump-sum payment is made to the retiree’s beneficiary of up to \$6,000 based on years of service at retirement. TERI participants and retired contributing members are eligible for the increased death benefit equal to their annual salary in lieu of the standard retired member benefit.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years.

Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. The TERI program will end effective June 30, 2018.

Effective July 1, 2012, employees participating in the SCRS were required to contribute 7.00% of all earnable compensation. The employer contribution rate for SCRS was 15.15%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.45%, .15% for the incidental death program and a 4.55% surcharge that will fund retiree health and dental insurance coverage. Employer contributions for State ORP include a 5.45% employer retirement contribution, 4.55% retiree insurance surcharge and .15% incidental death program. The Authority’s actual retirement and incidental death program contributions to the SCRS for the years ended June 30, 2013, 2012, and 2011 were:

<u>Fiscal Year</u> <u>Ended</u>	<u>Retirement</u>		<u>Incidental Death</u>	
	<u>Rate</u>	<u>Contribution</u>	<u>Rate</u>	<u>Contribution</u>
2013	10.450%	\$ 657,840	.15%	\$ 9,419
2012	9.385%	\$ 554,059	.15%	\$ 8,780
2011	9.240%	\$ 544,014	.15%	\$ 8,802

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**12. Pension Plans (Continued)**

As an alternative to membership to SCRS, newly hired State and school district employees may elect to participate in the State Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 20, of the South Carolina Code of Laws. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for State ORP plan other than for payment of contributions to designated companies. To elect participation in the ORP, eligible employees must elect membership within their first 30 days of employment. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 10.60% plus the retiree surcharge of 4.55% from the employer in fiscal year 2013. Of the 10.60% employer retirement contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 5.45% and .15% incidental death program contribution amounts are remitted to SCRS.

For fiscal year 2013, total contributions requirements to the ORP were approximately \$15,733 (excluding the surcharge) from the Authority as employer and approximately \$21,529 from its employees as plan members.

The amounts paid by the Authority for pension, incidental death program, and accidental death program contributions are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related salaries are charged.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS and PORS are actuarially determined.

The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates.

For the current fiscal year, the SCRS and PORS do not make separate measurements of assets and pension benefit obligations for individual employers within the cost-sharing plan. Under Title 9 of the South Carolina Code of Laws, the Authority's liability under the plans is limited to the amount of required

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**12. Pension Plans (Continued)**

employer contributions (stated as a percentage of covered payroll) as established by the South Carolina Public Employee Benefit Authority and as appropriated in the South Carolina Appropriation Act and from other applicable revenue sources. Accordingly, the Authority recognizes no contingent liability for unfunded costs associated with participation in the plans.

**13. Post-Employment Benefits Other than Pensions**

**Plan Description**

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The Authority contributes to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), cost-sharing multiple employer defined benefit postemployment healthcare, and long-term disability plans administered by the Insurance Benefits Division (IB), a part of the South Carolina Public Employee Benefit Authority (PEBA).

Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15 through 24 years of service for 50% employer funding.

Benefits become effective when the former employee retires under a State retirement system. Basic Long-Term Disability (BLTD) benefits are provided to active state, public school district, and participating local government employees approved for disability.

**Funding Policies**

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund

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**13. Post-Employment Benefits Other than Pensions (Continued)**

appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 4.55% of annual covered payroll for 2013 and 4.30% of annual covered payroll for 2012. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Authority paid approximately \$300,310 and \$265,463 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2013 and 2012, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was \$3.22 for the fiscal years ended June 30, 2013 and 2012. The Authority recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately \$5,100 and \$4,907 for the years ended June 30, 2013 and 2012, respectively.

Effective May 1, 2008, the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated IB reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions.

A copy of the complete financial statements for the benefit plans and the trust funds is available from PEBA Retirement Benefits and Insurance Benefits, 202 Arbor Lake Drive, Suite 360, Columbia, SC 29223.

**14. Deferred Compensation Plans**

Several optional deferred compensation plans are available to State employees and employees of its political subdivisions. Certain employees of the Authority have elected to participate in such plans. The multiple-employer plans, created under Internal Revenue Code Section 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employees. The State has no liability for losses under the plans. Employees may withdraw the current value of their

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**14. Deferred Compensation Plans (Continued)**

contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

The State has authorized deferred compensation matching contributions, which are funded from various funding sources based on the same percentages used for employees' salaries. The Authority made no contributions for the fiscal year ended June 30, 2013.

**15. Commitments and Contingencies**

*Financial Award Commitments*

As of June 30, 2013, the Authority has financial award commitments outstanding totaling approximately \$5,350,000 under the Housing Trust Fund programs and \$425,000 for special initiatives under the Program Fund.

The Authority receives significant federal grant and entitlement revenues. Compliance audits of federal programs may identify disallowed expenditures. Disallowances by federal program officials as a result of these audits may become liabilities of the Authority. The Authority records a liability for pending disallowances if settlement is probable and the settlement amount is reasonably estimable. Otherwise, the liability is recorded only when the Authority and the federal government agree on reimbursement terms. Based on an analysis of historical data, the Authority believes that any such disallowances relating to the fiscal year ended June 30, 2013, or earlier years will not have a material impact on the Authority's financial statements.

*Financial Crisis and Potential Impacts*

The United States economy is experiencing recovery. Unemployment rates continue to improve resulting in a stabilization of delinquencies and foreclosures. The performance of the Authority's loan portfolio continues to exceed state and national averages. Virtually all Authority single family production is insured by the Federal government.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**16. Subsequent Events**

On October 22, 2013, the Authority was named in a lawsuit concerning its administration of the Low-income Housing Tax Credit program. The suit requests \$2.6 million in damages. The Authority's attorneys expect to prevail at trial. There are no additional subsequent events through November 5, 2013, which is the date the financial statements were available to be issued.

**17. Segment Financial Information**

Segment financial information as required by the bond trustees for each indenture of the Authority's Single Family Finance Programs as of and for the year ended June 30, 2013, is presented on the following pages.

**Statement of Net Position - June 30, 2013**

	Single Family	Mortgage Revenue	Homeownership Bond	Revenue Reserve	Totals
<b>Assets</b>					
Current assets:					
Restricted assets:					
Cash and cash equivalents	\$ 40,690,977	\$ 54,556,885	\$ 24,867,083	\$ 2,609,482	\$122,724,427
Investments	5,197,556	11,309,633	-	31,255,932	47,763,121
Loans receivable	3,156,421	13,270,077	-	357,887	16,784,385
Accrued interest receivable:					
Loans	696,092	3,506,373	-	24,339	4,226,804
Deposits and investments	127,073	105,734	564,659	69,436	866,902
Due from other funds	1,216,011	-	-	259,246	1,475,257
Unamortized bond issuance costs	40,042	329,244	111,711	-	480,997
Total current assets	<u>51,124,172</u>	<u>83,077,946</u>	<u>25,543,453</u>	<u>34,576,322</u>	<u>194,321,893</u>
Non-current assets:					
Restricted assets:					
Investments	1,250,198	-	158,263,081	6,818,106	166,331,385
Loans receivable	129,104,642	398,096,326	-	4,588,792	531,789,760
Allowance for uncollectible loans	(197,420)	(2,329,466)	-	-	(2,526,886)
Unamortized bond issuance costs	522,343	3,789,660	1,839,743	-	6,151,746
Total noncurrent assets	<u>130,679,763</u>	<u>399,556,520</u>	<u>160,102,824</u>	<u>11,406,898</u>	<u>701,746,005</u>
Total assets	<u>181,803,935</u>	<u>482,634,466</u>	<u>185,646,277</u>	<u>45,983,220</u>	<u>896,067,898</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**17. Segment Financial Information (Continued)**

<b>Statement of Net Position - June 30, 2013</b>					
	<b>Single Family</b>	<b>Mortgage Revenue</b>	<b>Homeownership Bond</b>	<b>Revenue Reserve</b>	<b>Totals</b>
<b>Liabilities</b>					
Current liabilities:					
Liabilities payable from restricted assets:					
Bonds payable	\$ -	\$ 8,660,000	\$ 3,645,000	\$ -	\$ 12,305,000
Accrued interest payable on bonds	2,309,025	8,982,387	2,285,641	-	13,577,053
Total liabilities payable from restricted assets	2,309,025	17,642,387	5,930,641	-	25,882,053
Due to other funds	-	1,216,011	-	96,488	1,312,499
Deferred revenue	-	-	-	42,000	42,000
Total current liabilities	2,309,025	18,858,398	5,930,641	138,488	27,236,552
Non-current liabilities:					
Bonds payable, net of current portion and unamortized premiums and discounts and deferred losses on refundings					
	88,813,690	372,348,738	177,630,531	-	638,792,959
Other noncurrent liabilities	-	37,771	-	-	37,771
Total noncurrent liabilities	88,813,690	372,386,509	177,630,531	-	638,830,730
Total Liabilities	91,122,715	391,244,907	183,561,172	138,488	666,067,282
<b>Net Position</b>					
Restricted for:					
Debt service	2,309,025	45,817,388	-	-	48,126,413
Bond reserves	2,640,450	6,046,503	-	-	8,686,953
Special programs	85,731,745	39,525,668	2,085,105	45,844,732	173,187,250
Total net position	\$ 90,681,220	\$ 91,389,559	\$ 2,085,105	\$ 45,844,732	\$230,000,616

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**17. Segment Financial Information (Continued)**

**Statement of Revenue, Expenses, and Changes in Net Position - Year Ended June 30, 2013**

	<b>Single Family</b>	<b>Mortgage Revenue</b>	<b>Homeownership Bond</b>	<b>Revenue Reserve</b>	<b>Totals</b>
<b>Operating revenue</b>					
Interest and other charges on loans	\$ 7,235,961	\$ 24,935,675	\$ -	\$ 305,767	\$ 32,477,403
Income on deposits and investments	(209,362)	949,639	7,415,781	1,028,716	9,184,774
Administrative fees and other	54,658	900,582	120,769	504,636	1,580,645
Total operating revenue	<u>7,081,257</u>	<u>26,785,896</u>	<u>7,536,550</u>	<u>1,839,119</u>	<u>43,242,822</u>
<b>Operating expenses</b>					
Bond interest	4,618,050	19,645,357	6,520,442	-	30,783,849
Program services	356,791	5,789,213	66,651	118,219	6,330,874
Bond issuance cost amortization	38,487	417,070	111,322	-	566,879
Other expenses	6,200	287,804	-	833,580	1,127,584
Total operating expenses	<u>5,019,528</u>	<u>26,139,444</u>	<u>6,698,415</u>	<u>951,799</u>	<u>38,809,186</u>
<b>Operating income (loss)</b>	<u>2,061,729</u>	<u>646,452</u>	<u>838,135</u>	<u>887,320</u>	<u>4,433,636</u>
<b>Transfers</b>					
Transfers in	-	18,556,358	525,000	1,823,331	20,904,689
Transfers out	(18,781,984)	-	(1,597,705)	-	(20,379,689)
Total transfers	<u>(18,781,984)</u>	<u>18,556,358</u>	<u>(1,072,705)</u>	<u>1,823,331</u>	<u>525,000</u>
Increase (decrease) in net position	(16,720,255)	19,202,810	(234,570)	2,710,651	4,958,636
Net position, at beginning of year	107,401,475	72,186,749	2,319,675	43,134,081	225,041,980
Net position, at end of year	<u>\$ 90,681,220</u>	<u>\$ 91,389,559</u>	<u>\$ 2,085,105</u>	<u>\$ 45,844,732</u>	<u>\$230,000,616</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**17. Segment Financial Information (Continued)**

<b>Statement of Cash Flows - Year Ended June 30, 2013</b>					
	<b>Single Family</b>	<b>Mortgage Revenue</b>	<b>Homeownership Bond</b>	<b>Revenue Reserve</b>	<b>Totals</b>
<b>Cash Flows From Operating Activities</b>					
Receipt of loan principal payments	\$ 17,751,583	\$ 64,717,940	\$ -	\$ 214,521	\$ 82,684,044
Receipt of loan interest payments	8,273,855	25,451,062	-	312,616	34,037,533
Purchase/origination of new loans	-	-	-	(115,983)	(115,983)
Other receipts	-	-	-	504,636	504,636
Payments to vendors	(236,113)	(2,355,548)	(58,393)	(1,059,778)	(3,709,832)
Net cash flows provided by (used in) operating activities	<u>25,789,325</u>	<u>87,813,454</u>	<u>(58,393)</u>	<u>(143,988)</u>	<u>113,400,398</u>
<b>Cash Flows From Noncapital Financing Activities</b>					
Transfers from other programs	-	18,556,358	525,000	1,823,331	20,904,689
Transfers to other programs	(18,781,984)	-	(1,597,705)	-	(20,379,689)
Loans from other programs	-	-	-	(247,244)	(247,244)
Proceeds from sale of bonds	-	65,710,000	50,110,000	-	115,820,000
Premium received from sale of bonds	-	2,452,585	-	-	2,452,585
Principal payments on bonds payable	-	(135,400,000)	(70,725,000)	-	(206,125,000)
Interest payments on bonds payable	(4,618,050)	(22,261,574)	(7,735,757)	-	(34,615,381)
Payment on bond issuance costs	-	(668,029)	(516,628)	-	(1,184,657)
Net cash flows provided by (used in) noncapital financing activities	<u>(23,400,034)</u>	<u>(71,610,660)</u>	<u>(29,940,090)</u>	<u>1,576,087</u>	<u>(123,374,697)</u>
<b>Cash Flows From Investing Activities</b>					
Purchase of investments	(1,254,320)	(1,276,818)	(10,435,569)	(16,415,592)	(29,382,299)
Sale of investments	35,072,393	-	20,999,860	13,968,250	70,040,503
Income on deposits and investments	938,912	1,056,860	7,454,034	1,518,326	10,968,132
Net cash flows provided by (used in) investing activities	<u>34,756,985</u>	<u>(219,958)</u>	<u>18,018,325</u>	<u>(929,016)</u>	<u>51,626,336</u>
Net increase (decrease) in cash and cash equivalents	37,146,276	15,982,836	(11,980,158)	503,083	41,652,037
Cash and cash equivalents, beginning of year	<u>3,544,701</u>	<u>38,574,049</u>	<u>36,847,241</u>	<u>2,106,399</u>	<u>81,072,390</u>
Cash and cash equivalents, end of year	<u>\$ 40,690,977</u>	<u>\$ 54,556,885</u>	<u>\$ 24,867,083</u>	<u>\$ 2,609,482</u>	<u>\$122,724,427</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**17. Segment Financial Information (Continued)**

<b>Statement of Cash Flows - Year Ended June 30, 2013</b>					
	<b>Single Family</b>	<b>Mortgage Revenue</b>	<b>Homeownership Bond</b>	<b>Revenue Reserve</b>	<b>Totals</b>
<b>Reconciliation of Operating Income</b>					
<b>(Loss) to Cash Flows Provided</b>					
<b>by (Used in) Operating Activities:</b>					
Operating income (loss)	\$ 2,061,729	\$ 646,452	\$ 838,135	\$ 887,320	\$ 4,433,636
Adjustments to reconcile operating income (loss) to cash flows provided by (used in) operating activities:					
Bond premium amortization	(54,658)	(900,582)	(120,769)	-	(1,076,009)
Bond discount amortization	-	12,647	-	-	12,647
Bond early exit amortization	-	131,263	-	-	131,263
Bond issuance cost amortization	38,487	417,070	111,322	-	566,879
Bonds interest expense reclassified to non-capital financing activities	4,618,050	19,645,357	6,520,442	-	30,783,849
Income on deposits and investments reclassified to investing activities	209,362	(949,639)	(7,415,781)	(1,028,716)	(9,184,774)
Receipt of loan principal payments	17,751,583	64,717,940	-	214,521	82,684,044
Purchase/origination of new loans	-	-	-	(115,983)	(115,983)
Change in assets and liabilities:					
(Increase) decrease in accrued interest receivable-loans	185,743	1,214,427	-	6,849	1,407,019
(Increase) decrease in prepaid expenses	-	-	8,258	-	8,258
Increase (decrease) in accounts payable, accrued expenses and due to grantor	979,029	2,878,519	-	(107,979)	3,749,569
Total adjustments	23,727,596	87,167,002	(896,528)	(1,031,308)	108,966,762
Net cash provided by (used in) operating activities	\$ 25,789,325	\$ 87,813,454	\$ (58,393)	\$ (143,988)	\$113,400,398

## OTHER FINANCIAL INFORMATION

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Total Awards/ Expenditures</u>	<u>Awards/ Expenditures to Subrecipients</u>
<b>Department of Housing and Urban Development</b>			
Housing Assistance Payments Program-Special allocations	14.195	\$ 118,141,748	\$ -
HERA Neighborhood Stabilization Program	14.228	4,599,669	3,248,244
*HOME Investment Partnership Program	14.239	11,051,937	-
Section 8 - Housing Choice Vouchers Program	14.871	<u>12,742,278</u>	<u>-</u>
Total Direct - Department of Housing and Urban Development		<u>\$ 146,535,632</u>	<u>\$ 3,248,244</u>

\* Total Expenditures for the HOME Investment Partnership Program include \$7,815,421 of disbursements that have been recorded as Loans Receivable in the Statement of Net Position and not included as Nonoperating Expenses - Housing assistance payments and grant awards disbursed.

*See accompanying notes to schedule of expenditures of federal awards.*

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY**

**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2013**

**Accounting Principles**

The Schedule of Expenditures of Federal Awards includes the Federal grant activity of South Carolina State Housing Finance and Development Authority and has been prepared on the accrual basis method of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS*

Mr. Richard H. Gilbert, Jr. CPA  
Interim State Auditor  
Office of the State Auditor  
Columbia, South Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, and each major fund of the South Carolina State Housing Finance and Development Authority (the “Authority”), a component unit of the State of South Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements and have issued our report thereon dated November 5, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority’s financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies. These are listed as findings 2013-001 through 2013-004.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**The Authority's Response to Findings**

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Columbia, South Carolina  
November 5, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE REQUIRED BY  
OMB CIRCULAR A-133

Mr. Richard H. Gilbert, Jr. CPA  
Interim State Auditor  
Office of the State Auditor  
Columbia, South Carolina

**Report on Compliance for Each Major Federal Program**

We have audited South Carolina State Housing Finance and Development Authority's (the "Authority") compliance with the types of compliance requirements described in the OMB Circular A-133, *Compliance Supplement*, that could have a direct and material effect on each of the South Carolina State Housing Finance and Development Authority's major federal programs for the year ended June 30, 2013. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance with each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Mr. Richard H. Gilbert, Jr. CPA  
Interim State Auditor  
Office of the State Auditor  
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***Opinion on Each Major Federal Program***

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

**Report on Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the type of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Columbia, South Carolina  
November 5, 2013

**South Carolina State Housing Finance and Development Authority**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2013**

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**Summary of Auditors' Results**

1. The auditors' report expresses an unmodified opinion on the financial statements of the South Carolina State Housing Finance and Development Authority.
2. Four significant deficiencies disclosed during the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of the South Carolina State Housing Finance and Development Authority, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal awards are reported in the Report on Compliance for Each Major Program and Report on Internal Control over Compliance.
5. The auditors' report on compliance for the major federal award programs for the South Carolina State Housing Finance and Development Authority expresses an unmodified opinion on all major federal programs.
6. No audit findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 in this Schedule.
7. The programs tested as major programs were: Section 8 Housing Assistance Payments Program - CFDA Number 14.195; HERA Neighborhood Stabilization Program - CFDA Number 14.228; Section 8 - Housing Choice Vouchers Program - CFDA Number 14.871.
8. The threshold used for distinguishing between Type A and Type B program was \$3,000,000.
9. The South Carolina State Housing Finance and Development Authority was determined to be a low risk auditee.

**Findings Relating to the Basic Financial Statements Reported in Accordance with *Government Auditing Standards***

**Finding 2013-001 Journal Entries**

**Criteria or specific requirement:** A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

**South Carolina State Housing Finance and Development Authority**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2013**

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**Condition:** Through our audit procedures over the Authority's 2013 financial statement, we identified a significant deficiency in internal control associated with the Authority's preparation and recording of journal entries.

**Context:** During our audit procedures, we reviewed and tested various journal entries. During the procedures we noted some journal entries were recorded to the wrong account based on the supporting documentation. A revenue account balance was reduced instead of increasing an expense account balance.

**Effect:** Certain audit differences were proposed and recorded by the Authority to appropriately state the 2013 financial statements.

**Cause:** Administrative oversight.

**Recommendation:** We recommend the Authority enhance its internal controls over journal entries to prevent journal entries from being posted to incorrect accounts. We recommend a second member of management and internal audit review all significant and unusual journal entries prior to them being posted to the general ledger.

**Views of responsible officials and planned corrective actions:** Effective November 1, 2013, all non-automated journal entries will be reviewed by the Controller prior to posting to the general ledger. Finance has requested Internal Audit to provide assurance on processing journal entries. Internal Audit has added this task to their FY2014 audit plan. The Controller will review the coding of all automated journal entry programs prior to December 31, 2013.

#### **Finding 2013-002 Software Implementation**

**Criteria or specific requirement:** A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

**Condition:** During the year ended June 30, 2013, the Authority implemented a new mortgage loan servicing software, Lender Processing Services ("LPS"). Through our audit procedures over the Authority's 2013 financial statement, we identified a significant deficiency in internal control associated with processing mortgage payments within LPS.

**Context:** LPS is used by the Authority to process mortgage payments. During our audit procedures, we scanned and tested various general ledger accounts normally affected by mortgage transactions. During the procedures, we noted mortgage transactions were not being recorded in the same accounts by LPS as they had been prior to the conversion to LPS.

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**Effect:** Transactions were not mapped to the proper account and, as a result, were recorded in incorrect accounts. This delayed the preparation of the financial statements as additional account analysis was required to determine the proper account where these transactions should be recorded as well as the correct amount to be recorded.

**Cause:** Administrative oversight.

**Recommendation:** Prior to the implementation of any software, we recommend the new software be implemented in a test environment to determine the transactions are mapped to the proper general ledger accounts.

**Views of responsible officials and planned corrective action:** The servicing system conversion to LPS was a considerable undertaking and was problematic. Finance has undertaken a review of processes and information flow to ensure activity is mapped to appropriate general ledger accounts. The Controller will review the coding of the automated LPS journal entry programs prior to December 31, 2013. The Authority will review testing protocol prior to any software upgrade or implementation.

#### **Finding 2013-003 Account Reconciliations**

**Criteria or specific requirement:** A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

**Condition:** Through our audit procedures over the Authority's 2013 financial statement, we identified a significant deficiency in internal control associated with the Authority's preparation of general ledger account reconciliations.

**Context:** During our audit procedures, we reviewed and tested various account reconciliations. During the procedures we noted some account reconciliations were not being timely prepared.

**Effect:** The delay in preparing account reconciliations contributed to the delay in the preparation of the financial statements.

**Cause:** Administrative oversight.

**Recommendation:** We recommend the Authority enhance its internal controls over account reconciliations to require them to be performed in a timelier manner. Account reconciliations can be effective procedures for the detection and correction of errors. To be most effective, they should be performed on a timely basis.

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**Views of responsible officials and planned corrective actions:** The Authority acknowledges that the implementation of the LPS system was problematic. This required extensive analysis in order to complete reconciliations, thereby causing delays in the closing process. Account reconciliations will be completed and reviewed within 45-days of month end.

**Finding 2013-004 Grants Receivable**

**Criteria or specific requirement:** A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

**Condition:** Through our audit procedures over the Authority's 2013 financial statement, we identified a significant deficiency in internal control associated with the Authority's grants receivable.

**Context:** During our audit procedures, we reviewed and tested various receivables accounts. During the procedures, we noted a HUD grant receivable that was not a valid receivable as of June 30, 2013.

**Effect:** An audit adjustment was recorded to reduce the grants receivable and related grant revenue as of and for the year ended June 30, 2013.

**Cause:** Administrative oversight.

**Recommendation:** We recommend the Authority design and implement an internal control to ensure only valid grant receivables and related revenue recognized are appropriately accounted for as of each period end.

**Views of responsible officials and planned corrective actions:** Effective August 2013, all accruals impacting federal funds are to be made through an auto-reversing process. In addition, appropriate staff will be assigned to review account balances prior to the month end close. The Controller will review closing entries to ensure accruals are reversed appropriately.

**Findings and Questioned Costs Relating to Federal Awards**

There were no findings related to federal awards for the year ended June 30, 2013.