

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

**COLUMBIA, SOUTH CAROLINA**

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**REPORT ON FINANCIAL STATEMENTS**

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**YEAR ENDED JUNE 30, 2015**



*State of South Carolina*  
*Office of the State Auditor*

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STATE AUDITOR

RICHARD H. GILBERT, JR., CPA  
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October 15, 2015

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, 2015, was issued by Elliott Davis Decosimo, LLC, 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 blue ink that reads "George L. Kennedy, III".

George L. Kennedy, III, CPA  
State Auditor

GLKIII/trb

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**REPORT ON FINANCIAL STATEMENTS**

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**YEAR ENDED JUNE 30, 2015**

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## Independent Auditor's Report

Mr. George L. Kennedy, III, CPA  
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 of the South Carolina State Housing Finance and Development Authority (the "Authority"), a discretely presented component unit of the State of South Carolina, as of and for the year ended June 30, 2015, 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 these 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.

### Auditor's 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 auditor's 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.

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 South Carolina State Housing Finance and Development Authority, as of June 30, 2015, 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.

## **Prior Period Adjustment**

As described in Note 18 to the financial statements, net position as of July 1, 2014 has been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

## **Implementation of New Accounting Standard**

As described in Notes 1.T and 19 to the financial statements, the Authority adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, effective July 1, 2014. Our opinion is not modified with respect to this matter.

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 - 9, the schedule of the employer's proportionate share of the net pension liability on page 62 and the schedule of the employer's contributions on page 63 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.

## **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, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis 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 basic 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 basic 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 October 15, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Elliott Davis Decosimo, LLC". The signature is written in a cursive style with a long, sweeping underline.

Columbia, South Carolina  
October 15, 2015

# 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, 2015.

### **Financial Highlights**

- Net position of the Authority's proprietary funds increased \$13,609,112 to \$365,352,910. This increase is before the prior period adjustment of \$11,672,514 and an offsetting negative cumulative effect of implementing a new accounting standard of \$12,233,747, both of which restated the proprietary funds' net position as of the beginning of the fiscal year. (See Note 1.S., *Recent Accounting Developments*, in the Notes to Financial Statements for further discussion.)
- The governmental activities net position increased \$1,823,730 to \$20,400,112. This increase is primarily the result of an increase in documentary stamp fees in the Housing Trust Fund.
- Federal grant revenue increased \$1,965,186 to \$133,983,104. All federal assistance received by the Authority during the current fiscal year was from the U.S. Department of Housing and Urban Development (HUD). The increase in federal assistance is primarily due to an increase in funding in the Section 8 – Housing Assistance Payments Program, partially offset by the phase out of the Neighborhood Stabilization Program.
- The Authority made principal payments on mortgage revenue bonds of \$113,495,000 during the fiscal year, of that total \$109,530,000 of bonds were redeemed prior to their maturity.
- For the fiscal year ended June 30, 2015, the Authority purchased \$18,040,992 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 \$8,251,322 in loans that are held primarily as Government National Mortgage Association (GNMA) investments and a significant smaller portion held as Federal National Mortgage Association (FNMA) investments.
- Bonds Outstanding, net of unamortized premiums and discounts and deferred losses on refundings, decreased \$53,258,014 to \$485,990,685.
- The SC Housing Corp. 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 provided \$19,257,386 in Mortgage Payment Assistance, \$12,859,478 in Direct Loan Assistance, \$380,000 in Property Disposition Assistance, and \$1,957,906 in Long Term Assistance for a total of \$34,454,770 in program payments during the fiscal year ended June 30, 2015.

## Overview of the Financial Statements

This annual report consists 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 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 accounted for 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 funds 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 \$15,432,842. The following table summarizes the financial position for the Authority as of and for the fiscal years ended June 30, 2015 and 2014.

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Total current assets	\$ 19,227,186	\$ 18,452,021	\$ 218,616,506	\$ 199,653,446	\$ 237,843,692	\$ 218,105,467
Capital assets	-	-	214,449	265,235	214,449	265,235
Non-current assets	7,228,663	7,891,955	665,993,507	711,483,433	673,222,170	719,375,388
Total assets	<u>\$ 26,455,849</u>	<u>\$ 26,343,976</u>	<u>\$ 884,824,462</u>	<u>\$ 911,402,114</u>	<u>\$ 911,280,311</u>	<u>\$ 937,746,090</u>
Deferred Outflows of Resources						
Deferred loss on refunding	\$ -	\$ -	\$ 1,390,876	\$ 1,599,196	\$ 1,390,876	\$ 1,599,196
Pension plan between expected and actual experience	-	-	351,617	-	351,617	-
Pension plan contributions subsequent to measurement date	-	-	694,228	-	694,228	-
Total deferred outflows of resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,436,721</u>	<u>\$ 1,599,196</u>	<u>\$ 2,436,721</u>	<u>\$ 1,599,196</u>
Total current liabilities	\$ 6,055,737	\$ 7,767,594	\$ 32,929,797	\$ 33,565,314	\$ 38,985,534	\$ 41,332,908
Total long-term liabilities	-	-	486,891,204	526,718,980	486,891,204	526,718,980
Total liabilities	<u>\$ 6,055,737</u>	<u>\$ 7,767,594</u>	<u>\$ 519,821,001</u>	<u>\$ 560,284,294</u>	<u>\$ 525,876,738</u>	<u>\$ 568,051,888</u>
Deferred Inflows of Resources						
Deferred gain on refunding	\$ -	\$ -	\$ 1,041,109	\$ 411,985	\$ 1,041,109	\$ 411,985
Pension plan difference between projected and actual earnings on investments	-	-	1,046,163	-	1,046,163	-
Total deferred inflows of resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,087,272</u>	<u>\$ 411,985</u>	<u>\$ 2,087,272</u>	<u>\$ 411,985</u>
Net investment in capital assets	\$ -	\$ -	\$ 214,449	\$ 265,235	\$ 214,449	\$ 265,235
Net position - restricted	20,400,112	18,576,382	337,587,576	310,246,449	357,987,687	328,822,831
Net position - unrestricted	-	-	27,550,886	41,793,347	27,550,886	41,793,347
Total net position	<u>\$ 20,400,112</u>	<u>\$ 18,576,382</u>	<u>\$ 365,352,910</u>	<u>\$ 352,305,031</u>	<u>\$ 385,753,022</u>	<u>\$ 370,881,413</u>

Net position of the Authority's governmental funds increased \$1,823,730 to \$20,400,112. 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 \$13,609,112 to \$365,352,910.

**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 Fund 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.

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Totals</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Revenue:						
Charges for Services	\$ 767,579	\$ 476,081	\$ 37,989,214	\$ 41,160,752	\$ 38,756,793	\$ 41,636,833
Tax/Grant/Federal Revenues	39,264,282	46,207,524	143,857,194	144,149,076	183,121,476	190,356,600
Total Revenue	40,031,861	46,683,605	181,846,408	185,309,828	221,878,269	231,993,433
Expenses	48,811,288	55,009,857	168,237,296	172,813,295	217,048,584	227,823,152
Document Stamp Tax	10,603,157	9,209,777	-	-	10,603,157	9,209,777
Increase (decrease) in Net Position from current year activity	1,823,730	883,525	13,609,112	12,496,533	15,432,842	13,380,058
Net position, beginning of year (as originally reported)	18,576,382	17,692,857	352,305,031	346,441,241	370,881,413	364,134,098
Prior period adjustment	-	-	11,672,514	-	11,672,514	-
Implementation effect of GASB No. 68 and No. 65 for 2015 and 2014, respectively	-	-	(12,233,747)	(6,632,743)	(12,233,747)	(6,632,743)
Net position, beginning of year (as restated)	18,576,382	17,692,857	351,743,798	339,808,498	370,320,180	357,501,355
Net Position, end of year	\$ 20,400,112	\$ 18,576,382	\$ 365,352,910	\$ 352,305,031	\$ 385,753,022	\$ 370,881,413

In the above condensed Statement of Activities, the prior period adjustment and the cumulative effect of the change in accounting principle is shown for purposes of the main Financial Statements in fiscal year 2015. Although the restatement would apply to the earliest year provided, but since the above condensed Statement of Activities with comparisons to the prior year is for discussion purposes only, the prior period adjustment and cumulative effect changes are not shown for fiscal year 2014 to avoid confusion with the main Financial Statements of this report.

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 expenses were disbursements of grant awards. Revenues of the Authority's business-type activities were primarily from federal program revenue (\$133,983,104), charges for services (\$37,989,214), and program investment and other income (\$11,936,997). 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 \$13,609,112 for the business-type activities.

Net position of the Authority increased from the previous year by \$14,871,609, which includes the prior period adjustment of \$11,672,514 and the cumulative reduction of \$12,233,747 from the change in accounting principle in the beginning net position.

### **Debt Administration**

The Authority's total liabilities decreased \$42,175,150 to \$525,876,738. Long-term liabilities decreased \$39,827,776 to \$486,891,204. Refunding debt and optional bond redemptions are based on mortgage pre-payments received and an economic analysis of calling debt vs. making loans vs. investing funds. In recent years, calling debt has been the best financial alternative. The long-term debt consists of bonds payable (\$473,735,685), net pension liability (12,408,926), accrued compensated absences (\$207,716), and other non-current liabilities (\$538,877). See Notes 5 and 6 to the financial statements for more information on the Authority's long-term liabilities.

### **Economic Factors**

The Authority's financial condition remained strong at June 30, 2015. The South Carolina economy continues to experience recovery. The most recent data from the Bureau of Labor Statistics indicates that the state's employment growth has returned to pre-recession levels. The Bureau of Economic analysis data reflects an increase of 5.2% in nominal personal income growth in South Carolina over the last year which ranks the State number one in its twelve state region and number six nationally. As a result delinquencies and foreclosures have stabilized and related losses have been mitigated by increasing property values. We continue to focus our efforts 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 recession resulted in the downgrading of most private mortgage insurers. These ratings are improving and the Authority originated a limited amount of conventional loans with private mortgage insurance in fiscal year 2015. Virtually all Authority single family mortgage production continues to be insured by the Federal government.

Decreases in interest rates afforded the Authority the opportunity to combine a bond refunding with new issuance to provide resources for lending.

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

**Requests for Information**

This financial report provides a general overview of the South Carolina State Housing Finance and Development Authority's 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, 2015**

	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Totals</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ -	\$ 22,918,980	\$ 22,918,980
Restricted assets:			
Cash and cash equivalents	17,037,104	50,460,888	67,497,992
Investments	-	122,797,633	122,797,633
Loans receivable	-	17,040,795	17,040,795
Accrued interest receivable:			
Loans	-	3,052,983	3,052,983
Deposits and investments	-	678,418	678,418
Accounts receivable:			
Due from grantor	-	314,993	314,993
Due from primary government	1,921,805	-	1,921,805
Internal balances	(51,561)	51,561	-
Other	-	433,485	433,485
Loans receivable	315,032	350,526	665,558
Accrued interest receivable:			
Loans	4,750	60,948	65,698
Deposits and investments	56	-	56
Other current assets	-	455,296	455,296
Total current assets	<u>19,227,186</u>	<u>218,616,506</u>	<u>237,843,692</u>
Noncurrent assets:			
Loans receivable, net of current portion	7,236,763	19,934,169	27,170,932
Allowance for doubtful loans	(8,100)	(310,507)	(318,607)
Restricted assets:			
Investments	-	164,782,514	164,782,514
Loans receivable, net of current portion	-	482,324,801	482,324,801
Allowance for doubtful loans	-	(737,470)	(737,470)
Capital assets, net of accumulated depreciation	-	214,449	214,449
Total noncurrent assets	<u>7,228,663</u>	<u>666,207,956</u>	<u>673,436,619</u>
Total assets	<u>26,455,849</u>	<u>884,824,462</u>	<u>911,280,311</u>
<b>Deferred Outflows of Resources</b>			
Deferred loss on refunding	-	1,390,876	1,390,876
Pension plan difference between expected and actual experience	-	351,617	351,617
Pension contributions subsequent to the measurement date	-	694,228	694,228
Total deferred outflows of resources	<u>-</u>	<u>2,436,721</u>	<u>2,436,721</u>

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

**STATEMENT OF NET POSITION**

**JUNE 30, 2015  
(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	-	12,255,000	12,255,000
Accrued interest payable on bonds	-	9,520,726	9,520,726
Other liabilities	-	29,181	29,181
Mortgage escrows	-	4,986,448	4,986,448
Total liabilities payable from restricted current assets	-	26,791,355	26,791,355
Accrued compensated absences	-	553,263	553,263
Accrued salaries and related payroll expenses	-	800,067	800,067
Advances from U.S. Department of Treasury	5,396,887	-	5,396,887
Unearned revenue	-	4,053,773	4,053,773
Accounts payable and accrued expenses	658,850	731,339	1,390,189
Total current liabilities	<u>6,055,737</u>	<u>32,929,797</u>	<u>38,985,534</u>
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	-	207,716	207,716
Bonds payable, net of current portion, unamortized premiums and discounts	-	473,735,685	473,735,685
Other noncurrent liabilities	-	538,877	538,877
Net pension liability	-	12,408,926	12,408,926
Total noncurrent liabilities	-	<u>486,891,204</u>	<u>486,891,204</u>
Total liabilities	<u>6,055,737</u>	<u>519,821,001</u>	<u>525,876,738</u>
Commitments and contingencies ( <i>Note 15</i> )			
<b>Deferred Inflows of Resources</b>			
Deferred gain on refunding	-	1,041,109	1,041,109
Net difference between projected and actual earnings on pension plan investments	-	1,046,163	1,046,163
Total deferred inflows of resources	-	<u>2,087,272</u>	<u>2,087,272</u>
<b>Net Position</b>			
Net investment in capital assets	-	214,449	214,449
Restricted for:			
Debt service	-	29,730,726	29,730,726
Bond reserves	-	8,000,403	8,000,403
Housing projects and development	20,400,112	299,856,446	320,256,558
Unrestricted	-	27,550,886	27,550,886
Total net position	<u>\$ 20,400,112</u>	<u>\$ 365,352,910</u>	<u>\$ 385,753,022</u>

See accompanying notes.

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

**STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2015**

	<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	\$ 5,930,736	\$ 851	\$ 5,429,885	\$ (500,000)	\$ -	\$ (500,000)
Housing assistance	34,491,650	657,253	33,834,397	-	-	-
Housing development	8,388,902	109,475	-	(8,279,427)	-	(8,279,427)
Total governmental activities	<u>48,811,288</u>	<u>767,579</u>	<u>39,264,282</u>	<u>(8,779,427)</u>	<u>-</u>	<u>(8,779,427)</u>
Business-type activities:						
Administrative	13,590,816	12,587,401	-	-	(1,003,415)	(1,003,415)
Single-Family mortgage loan programs	20,127,268	25,097,998	9,868,470	-	14,839,200	14,839,200
Federal programs	134,157,012	-	133,983,104	-	(173,908)	(173,908)
Program fund programs	362,200	303,815	5,620	-	(52,765)	(52,765)
Total business-type activities	<u>168,237,296</u>	<u>37,989,214</u>	<u>143,857,194</u>	<u>-</u>	<u>13,609,112</u>	<u>13,609,112</u>
Total functions/programs	<u>\$ 217,048,584</u>	<u>\$ 38,756,793</u>	<u>\$ 183,121,476</u>	<u>(8,779,427)</u>	<u>13,609,112</u>	<u>4,829,685</u>
General revenue:						
Documentary stamp taxes				<u>10,603,157</u>	<u>-</u>	<u>10,603,157</u>
Total general revenue and transfers				<u>10,603,157</u>	<u>-</u>	<u>10,603,157</u>
Change in net position				<u>1,823,730</u>	<u>13,609,112</u>	<u>15,432,842</u>
Net position, beginning of year, as originally reported				18,576,382	352,305,031	370,881,413
Prior period adjustment				-	11,672,514	11,672,514
Implementation effect of GASB No. 68				-	(12,233,747)	(12,233,747)
Net position, beginning of year, as restated				<u>18,576,382</u>	<u>351,743,798</u>	<u>370,320,180</u>
Net position, end of year				<u>\$ 20,400,112</u>	<u>\$ 365,352,910</u>	<u>\$ 385,753,022</u>

See accompanying notes.

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

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**JUNE 30, 2015**

	<b>Housing Trust Fund</b>	<b>SC Help Fund</b>	<b>Total</b>
<b>Assets</b>			
Current assets:			
Restricted:			
Cash and cash equivalents	\$ 10,929,862	\$ 6,107,242	\$ 17,037,104
Accounts receivable:			
Due from primary government	1,921,805	-	1,921,805
Loans receivable	315,032	-	315,032
Accrued interest receivable:			
Loans	4,750	-	4,750
Deposits and investments	-	56	56
Total current assets	13,171,449	6,107,298	19,278,747
Noncurrent assets:			
Loans receivable, net of current portion	7,236,763	-	7,236,763
Allowance for doubtful loans	(8,100)	-	(8,100)
Total noncurrent assets	7,228,663	-	7,228,663
Total assets	\$ 20,400,112	\$ 6,107,298	\$ 26,507,410
<b>Liabilities and Fund Balance</b>			
Current liabilities:			
Due to other funds	\$ -	\$ 51,561	\$ 51,561
Advances from U.S. Department of Treasury			
Treasury	-	5,396,887	5,396,887
Accounts payable and accrued expenses	-	658,850	658,850
Total current liabilities	-	6,107,298	6,107,298
Commitments and contingencies ( <i>Note 15</i> )			
Fund Balance:			
Restricted for:			
Housing projects and development	20,400,112	-	20,400,112
Total fund balance	20,400,112	-	20,400,112
Total liabilities and fund balance	\$ 20,400,112	\$ 6,107,298	\$ 26,507,410

*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, 2015**

	<u>Housing Trust Fund</u>	<u>SC Help Fund</u>	<u>Totals</u>
<b>Revenue</b>			
Documentary stamp taxes	\$ 10,603,157	-	\$ 10,603,157
Operating program revenue	-	39,264,282	39,264,282
Repayment of assistance funds disbursed	-	657,253	657,253
Interest on loans	102,789	-	102,789
Interest on deposits and investments	6,686	851	7,537
Total revenue	<u>10,712,632</u>	<u>39,922,386</u>	<u>50,635,018</u>
<b>Expenditures</b>			
General government	500,000	5,430,736	5,930,736
Housing assistance	-	34,491,650	34,491,650
Housing development	8,388,902	-	8,388,902
Total expenditures	<u>8,888,902</u>	<u>39,922,386</u>	<u>48,811,288</u>
Excess of revenue over expenditures	<u>1,823,730</u>	<u>-</u>	<u>1,823,730</u>
Net change in fund balance	1,823,730	-	1,823,730
Fund balance, beginning of year	<u>18,576,382</u>	<u>-</u>	<u>18,576,382</u>
Fund balance, end of year	<u>\$ 20,400,112</u>	<u>\$ -</u>	<u>\$ 20,400,112</u>

*See accompanying notes.*

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

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**

**JUNE 30, 2015**

	<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	\$ 11,526,743	\$ -	\$ 11,392,237	\$ -	\$ 22,918,980
Restricted assets:					
Cash and cash equivalents	8,970,793	41,490,095	-	-	50,460,888
Investments	2,183,564	120,614,069	-	-	122,797,633
Loans receivable	2,035,177	15,005,618	-	-	17,040,795
Accrued interest receivable:					
Loans	75,332	2,977,651	-	-	3,052,983
Deposits and investments	-	678,418	-	-	678,418
Accounts receivable:					
Due from grantor	314,993	-	-	-	314,993
Due from other funds	77,614	-	-	(26,053)	51,561
Other	433,485	-	-	-	433,485
Loans receivable	266,072	-	84,454	-	350,526
Accrued interest receivable:					
Loans	46,485	-	14,463	-	60,948
Other current assets	455,296	-	-	-	455,296
Total current assets	<u>26,385,554</u>	<u>180,765,851</u>	<u>11,491,154</u>	<u>(26,053)</u>	<u>218,616,506</u>
Noncurrent assets:					
Loans receivable, net of current portion	11,491,702	-	8,442,467	-	19,934,169
Allowance for doubtful loans	-	-	(310,507)	-	(310,507)
Restricted assets:					
Investments	-	164,782,514	-	-	164,782,514
Loans receivable, net of current portion	69,435,233	412,889,568	-	-	482,324,801
Allowance for doubtful loans	(428,881)	(308,589)	-	-	(737,470)
Capital assets, net of accumulated depreciation					
	214,449	-	-	-	214,449
Total noncurrent assets	<u>80,712,503</u>	<u>577,363,493</u>	<u>8,131,960</u>	<u>-</u>	<u>666,207,956</u>
Total assets	<u>107,098,057</u>	<u>758,129,344</u>	<u>19,623,114</u>	<u>(26,053)</u>	<u>884,824,462</u>
<b>Deferred Outflows of Resources</b>					
Deferred loss on refunding	-	1,390,876	-	-	1,390,876
Pension plan difference between expected and actual experience	351,617	-	-	-	351,617
Pension plan contributions subsequent to measurement date	694,228	-	-	-	694,228
Total deferred outflows of resources	<u>1,045,845</u>	<u>1,390,876</u>	<u>-</u>	<u>-</u>	<u>2,436,721</u>

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

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**

**JUNE 30, 2015  
(CONTINUED)**

	General Operating	Single-Family Finance Programs	Program	Eliminations	Totals
<b>Liabilities</b>					
Current liabilities:					
Liabilities payable from restricted assets:					
Bonds payable	-	12,255,000	-	-	12,255,000
Accrued interest payable on bonds	-	9,520,726	-	-	9,520,726
Other liabilities	29,181	-	-	-	29,181
Mortgage escrows	4,986,448	-	-	-	4,986,448
Total liabilities payable from restricted assets	5,015,629	21,775,726	-	-	26,791,355
Accrued compensated absences	553,263	-	-	-	553,263
Accrued salaries and related payroll expenses	800,067	-	-	-	800,067
Due to other funds	26,053	-	-	(26,053)	-
Unearned revenue	4,053,773	-	-	-	4,053,773
Accounts payable and accrued expenses	287,041	444,298	-	-	731,339
Total current liabilities	10,735,826	22,220,024	-	(26,053)	32,929,797
Noncurrent liabilities:					
Accrued compensated absences, net of current portion	207,716	-	-	-	207,716
Bonds payable, net of current portion unamortized premiums and discounts	-	473,735,685	-	-	473,735,685
Other noncurrent liabilities	497,640	41,237	-	-	538,877
Net pension liability	12,408,926	-	-	-	12,408,926
Total noncurrent liabilities	13,114,282	473,776,922	-	-	486,891,204
Total liabilities	23,850,108	495,996,946	-	(26,053)	519,821,001
Commitments and contingencies (Note 15)					
<b>Deferred Inflows of Resources</b>					
Deferred gain on refunding	-	1,041,109	-	-	1,041,109
Net difference between projected and actual earnings on pension plan investments	1,046,163	-	-	-	1,046,163
Total deferred inflows of resources	1,046,163	1,041,109	-	-	2,087,272
<b>Net Position</b>					
Net investment in capital assets	214,449	-	-	-	214,449
Restricted for:					
Debt service	-	29,730,726	-	-	29,730,726
Bond reserves	-	8,000,403	-	-	8,000,403
Housing projects and development	75,105,410	224,751,036	-	-	299,856,446
Unrestricted	7,927,772	-	19,623,114	-	27,550,886
Total net position	\$ 83,247,631	\$ 262,482,165	\$ 19,623,114	\$ -	\$ 365,352,910

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, 2015**

	<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	\$ 1,429,048	\$ 25,097,998	\$ 165,204	\$ -	\$ 26,692,250
Interest on deposits and investments	60,252	9,540,720	5,620	-	9,606,592
Administrative fees and other	13,204,346	327,750	138,611	(2,106,245)	11,564,462
Total operating revenue	<u>14,693,646</u>	<u>34,966,468</u>	<u>309,435</u>	<u>(2,106,245)</u>	<u>47,863,304</u>
<b>Operating Expenses</b>					
Bond interest	-	18,381,508	-	-	18,381,508
Program services	-	1,172,470	-	(1,143,551)	28,919
General and administrative	14,399,581	-	-	(962,694)	13,436,887
Bond issuance expense	-	1,339,524	-	-	1,339,524
Depreciation of capital assets	153,929	-	-	-	153,929
Other expenses	215,542	158,273	3,502	-	377,317
Total operating expenses	<u>14,769,052</u>	<u>21,051,775</u>	<u>3,502</u>	<u>(2,106,245)</u>	<u>33,718,084</u>
<b>Operating Income (Loss)</b>	<u>(75,406)</u>	<u>13,914,693</u>	<u>305,933</u>	<u>-</u>	<u>14,145,220</u>
<b>Nonoperating Revenue (Expenses)</b>					
Federal grant and contract revenue	133,983,104	-	-	-	133,983,104
Housing assistance payments and grant awards disbursed	(134,157,012)	-	(362,200)	-	(134,519,212)
Total nonoperating expenses	<u>(173,908)</u>	<u>-</u>	<u>(362,200)</u>	<u>-</u>	<u>(536,108)</u>
<b>Income (Loss) Before Operating Transfers</b>	<u>(249,314)</u>	<u>13,914,693</u>	<u>(56,267)</u>	<u>-</u>	<u>13,609,112</u>
<b>Transfers</b>					
Transfers in	-	884,134	-	(884,134)	-
Transfers out	(884,134)	-	-	884,134	-
Total transfers	<u>(884,134)</u>	<u>884,134</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	<u>(1,133,448)</u>	<u>14,798,827</u>	<u>(56,267)</u>	<u>-</u>	<u>13,609,112</u>
Net position, beginning of year, as originally reported	96,614,826	236,010,824	19,679,381	-	352,305,031
Prior period adjustment	-	11,672,514	-	-	11,672,514
Implementation effect of GASB No. 68	(12,233,747)	-	-	-	(12,233,747)
Net position, beginning of year, as restated	<u>84,381,079</u>	<u>247,683,338</u>	<u>19,679,381</u>	<u>-</u>	<u>351,743,798</u>
Net position, end of year	<u>\$ 83,247,631</u>	<u>\$ 262,482,165</u>	<u>\$ 19,623,114</u>	<u>\$ -</u>	<u>\$ 365,352,910</u>

See accompanying notes.

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

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**

**YEAR ENDED JUNE 30, 2015**

	<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	\$ 3,157,536	\$ 61,886,425	\$ 1,631,059	\$ -	\$ 66,675,020
Receipt of loan interest payments	1,002,587	25,556,205	164,712	-	26,723,504
Purchase/origination of new loans	(8,073,057)	(12,634,254)	(1,209,500)	-	(21,916,811)
Administrative fees and other	16,491,692	373,981	25	(2,106,245)	14,759,453
Payments to employees	(9,430,133)	-	-	-	(9,430,133)
Payments to vendors	(6,240,839)	(2,389,698)	(3,502)	2,106,245	(6,527,794)
Net cash flows provided by (used for) operating activities	<u>(3,092,214)</u>	<u>72,792,659</u>	<u>582,794</u>	<u>-</u>	<u>70,283,239</u>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Purchases of equipment	(103,143)	-	-	-	(103,143)
Net cash flows used for capital and related financing activities	<u>(103,143)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(103,143)</u>
<b>Cash Flows from Noncapital Financing Activities</b>					
Transfers from other funds	-	34,830,209	-	(34,830,209)	-
Transfers to other funds	(884,134)	(33,946,075)	-	34,830,209	-
Proceeds from sale of bonds	-	87,115,000	-	-	87,115,000
Premium received from sale of bonds	-	3,971,736	-	-	3,971,736
Receipts from HUD	134,274,270	-	-	-	134,274,270
Payments of housing assistance and grants	(134,187,098)	-	(362,200)	-	(134,549,298)
Principal payments on bonds payable	-	(141,640,000)	-	-	(141,640,000)
Interest payments on bonds payable	-	(21,785,078)	-	-	(21,785,078)
Net cash flows used for noncapital financing activities	<u>(796,962)</u>	<u>(71,454,208)</u>	<u>(362,200)</u>	<u>-</u>	<u>(72,613,370)</u>
<b>Cash Flows from Investing Activities</b>					
Purchases of investments	(2,146,542)	(68,736,744)	-	-	(70,883,286)
Sales of investments	-	21,542,026	-	-	21,542,026
Income on deposits and investments	23,229	8,590,010	5,620	-	8,618,859
Net cash flows provided by (used for) investing activities	<u>(2,123,313)</u>	<u>(38,604,708)</u>	<u>5,620</u>	<u>-</u>	<u>(40,722,401)</u>
Net increase (decrease) in cash and cash equivalents	(6,115,632)	(37,266,257)	226,214	-	(43,155,675)
Cash and cash equivalents, beginning of year	26,613,168	78,756,352	11,166,023	-	116,535,543
Cash and cash equivalents, end of year	<u>\$ 20,497,536</u>	<u>\$ 41,490,095</u>	<u>\$ 11,392,237</u>	<u>\$ -</u>	<u>\$ 73,379,868</u>

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

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**

**YEAR ENDED JUNE 30, 2015  
(CONTINUED)**

	<b>General Operating</b>	<b>Single-Family Finance Programs</b>	<b>Program</b>	<b>Totals</b>
<b>Reconciliation of Operating Income to Net Cash Flows Provided by (used for) Operating Activities:</b>				
Operating income (loss)	\$ (75,406)	\$ 13,914,693	\$ 305,933	\$ 14,145,220
Adjustments to reconcile operating income (loss) to net cash flows provided by (used for) operating activities:				
Depreciation	153,929	-	-	153,929
Provision for loan losses	14,862	(1,330,429)	(389,215)	(1,704,782)
Bond premium amortization	-	(1,989,801)	-	(1,989,801)
Deferred gain on refunding amortization	-	(73,106)	-	(73,106)
Deferral of pension contributions subsequent to measurement date	(694,228)	-	-	(694,228)
Pension expense related to recognition of net pension liability	869,725	-	-	869,725
Deferred loss on refunding amortization	-	192,188	-	192,188
Bonds interest expense reclassified to noncapital financing activities	-	20,252,227	-	20,252,227
Income on deposits and investments reclassified to investing activities	(60,252)	(9,540,721)	(5,620)	(9,606,593)
Change in assets and liabilities:				
Loans receivable	(5,061,084)	50,468,610	666,932	46,074,458
Accounts receivable	169,551	658,934	-	828,485
Accrued interest receivable-loans	16,544	458,207	4,764	479,515
Other current assets	(102,573)	-	-	(102,573)
Accounts payable, accrued expenses and deferred revenue	690,726	(218,143)	-	472,583
Mortgage escrows	51,225	-	-	51,225
Other liabilities	934,767	-	-	934,767
Total adjustments	(3,016,808)	58,877,966	276,861	56,138,019
Net cash flows provided by (used for) operating activities	<u>\$ (3,092,214)</u>	<u>\$ 72,792,659</u>	<u>\$ 582,794</u>	<u>\$ 70,283,239</u>

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

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**

**YEAR ENDED JUNE 30, 2015**

**(CONTINUED)**

**Noncash Noncapital Financing Activities**

- a. Interest payments on bonds do not include \$3,412 of amortization of bond discounts, \$1,989,801 amortization of bond premiums, \$192,188 of amortization of deferred losses on refundings of debt, and \$73,106 of amortization of deferred gains on refundings of debt that were included in operating revenues and expenses in the Single Family Finance Program Funds.
- b. The Authority recorded an increase in the fair value of investments in the amount of \$1,041,817 for the fiscal year ended June 30, 2015.

	General Operating	Single Family Finance Program	Program	Total
Cash is Reported on the Statement of Net Position as:				
Cash and cash equivalents	\$ 11,526,743	\$ -	\$ 11,392,237	\$ 22,918,980
Restricted cash and cash equivalents	8,970,793	41,490,095	-	50,460,888
Total Cash and Cash Equivalents	\$ 20,497,536	\$ 41,490,095	\$ 11,392,237	\$ 73,379,868

*See accompanying notes.*

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### **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 most 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 a discretely presented component unit 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 discretely presented 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 of South Carolina and policies and procedures specified by the State of South Carolina 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.

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by GAAP, 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.

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

#### **1.A Reporting Entity (Continued)**

Using the criteria of GASB Statement No. 14, “The Financial Reporting Entity,” as amended by GASB Statement No. 39 “Determining Whether Certain Organizations Are Component Units,” and GASB Statement 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.

GASB Statement No. 61 clarified previous statements by requiring a financial benefit or burden criteria to be present in order for a separate entity to be dependent on a primary government and included as a component unit of the primary entity, regardless of whether the primary government appoints a voting majority of the organization’s governing body. The financial benefit or burden exists if the primary government is (a) legally entitled or can access the organization’s resources, or (b) legally obligated or has assumed the obligation to finance deficits or provide financial support to the organization or (c) obligated in some manner for the debt of the organization. In addition, the relationship to the primary government can also be determined by the services provided by the component unit to the citizens, such that separate reporting as a major component unit is considered essential to the financial statement users.

Based on the new criteria, the Authority has been determined to be classified as a discretely presented component unit of the State of South Carolina and that SC Housing Corp. is a blended component unit of the Authority. These financial statements report the activity of the Authority and SC Housing Corp.

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 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 of South Carolina, 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.

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

#### 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.

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** The **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 U.S. Department of Treasury (Treasury) that Treasury had approved the proposal of the Authority for administration and distribution of \$138 million to help the State of South Carolina's "hardest hit" homeowners. The program is administered by 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.

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

#### 1.B Fund Accounting (Continued)

##### 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 operating 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.

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 Single Family Mortgage Purchase Bond Indenture, the Mortgage Revenue Bonds Indenture and the 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 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 AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### **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 fund balance.

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.

#### **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 Fund are reflected as either restricted for debt service or for special programs in the accompanying statements.

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

#### **1.E Discounts, Premiums, and Deferred Gains and Losses on Refundings of Debt**

Bond discounts and premiums are amortized over the terms of the bonds. The deferred gains and losses on refundings of debt include the call premiums and the unamortized premiums or discounts 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. The deferred gains on refundings of debt represent a deferred inflow of resources, which is reported separately on the statement of net position. The deferred losses on refundings of debt represent a deferred outflow of resources, which is reported separately on the statement of net position. Amortization of bond discounts and the deferred losses on refunding of debt and amortization of bond premiums and the deferred gains on refunding of debt are included in interest expense.

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

In accordance with the terms of contracts between the Authority and 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.

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### 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's Office, 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.

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*.

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

#### **1.G Cash and Cash Equivalents (Continued)**

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**

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, Government National Mortgage Association (GNMA) and Federal National Mortgage Association, (FNMA) Mortgage Backed Securities (MBS), and the SC State Treasurer's Investment Pool are recorded at fair value and unrealized gains or losses are reported in the Statement of Revenues, Expenses and Changes in Net Position.

#### **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 \$17.2 million in the General Operating and Program Fund are insured with various governmental agencies and private mortgage insurance carriers at specified percentages of the original loan amount varying from 25% to 100%. Loans closed after July 29, 1999 are covered by the Homeowners Protection Act. Private mortgage insurance is cancelled after the loan-to-value ratio reaches 79% as provided by federal law. The Authority considers the mortgaged property as adequate collateral against significant potential loan losses for such uninsured properties. 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 loans which are considered adequate.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

**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.

**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 work week) 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.

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

#### **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, 2015, reported as other noncurrent liabilities for business-type activities is an arbitrage rebate liability of \$41,237 associated with the Authority's Mortgage Revenue Bonds Outstanding.

#### **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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

**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 Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended June 30, 2011. GASB Statement No. 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 Statement No. 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, 2015.

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.

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.

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

#### **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 Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the South Carolina Retirement System (SCRS) and additions to/deductions from SCRS fiduciary net position have been determined on the same basis as they are reported by the South Carolina Public Employee Benefit Authority (PEBA). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### **1.S Deferred Outflows of Resources and Deferred Inflows of Resources**

Changes in the net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources. Deferred outflows of resources and deferred inflows of resources are also determined by the difference in actual and expected liability experience and projected and actual return on investments, respectively. Deferred outflows of resources and deferred inflows of resources also include deferred losses and deferred gains on bond refundings, respectively.

#### **1.T Recent Accounting Developments**

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 implemented this Statement in conjunction with PEBA in the fiscal year ended June 30, 2015.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

**1.T Recent Accounting Developments (Continued)**

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*. This Statement is to address an issue regarding the application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. In addition to addressing presentation requirements as they relate to the pension liability and the recognition of deferred outflows of resources and deferred inflows of resources, the Statement also provides guidance on the timing of pension contributions, which could result in significant understatement of beginning net position and expense in the initial period of implementation. The Authority implemented this Statement in conjunction with PEBA in the fiscal year ended June 30, 2015.

**1.U Subsequent Events**

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through October 15, 2015, the date these financial statements were available to be issued.

**2. Deposits and Investments**

Financial Statements	Footnotes
Current assets:	Deposits:
Cash and cash equivalents:	Deposits held by State
Unrestricted	Treasurer
Restricted	Deposits with banks
Investments:	Other deposits
Restricted	Total deposits
Non-current assets:	Investments:
Investments:	Treasurer
Restricted	Other investments
Total	Total investments
	Total

**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, 2015, the Authority's bank and other deposits had a carrying amount of \$58,507,940 and a bank balance of \$58,386,037. \$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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

**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.

**2.C Investments**

At June 30, 2015, 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)	164,441,541	-	164,441,541
Federal National Mortgage Association Mortgage Backed Securities (FNMAs)	340,973	-	340,973
SC State Treasurer Pool	122,797,633	122,797,633	-
<b>Totals</b>	<b>287,580,147</b>	<b>122,797,633</b>	<b>164,782,514</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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

**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.

**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's internal cash management pool. Although the State's internal cash management 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 GICs 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. The Authority's investments are as follows: *GNMAs 57.2%, FNMA's 0.1% and State Treasurer Investment Pools 42.7%*.

**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, 2015 are as follows:

	<b>Reserve Requirements</b>	<b>Actual Funding</b>	<b>Over</b>
Single Family Mortgage Reserve Funds-1998	\$ 2,560,800	\$ 2,640,450	\$ 79,650
Mortgage Revenue Indenture Reserve Funds	5,344,350	5,359,953	15,603
Totals	\$ 7,905,150	\$ 8,000,403	\$ 95,253

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

**3. Loans Receivable**

Loans receivable consist of the following:

**Governmental Funds**

Housing Trust Fund notes maturing on various dates 2015-2045 plus interest ranging from 0.000%-4.000% per annum, payable in monthly installments of principal and interest, as provided in the notes. Reported net of allowance for doubtful accounts of \$8,100.

\$ 7,543,695

Total governmental funds

\$ 7,543,695

**Proprietary Funds**

General Operating Fund notes maturing on various dates from 2015-2044 plus interest ranging from 0.000%-6.250% per annum, payable in installments of principal and interest as provided in the notes. Reported net of allowance for doubtful accounts of \$428,881.

\$ 82,799,303

Program Fund notes maturing on various dates from 2023-2045 plus interest ranging from 0.000% - 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 \$310,507.

8,216,414

Single Family Finance Programs notes maturing on various dates from 2015-2045 plus interest ranging from 3.500%-11.950% per annum, payable in monthly installments of principal and interest. Reported net of allowance for doubtful accounts of \$308,589.

427,586,597

Total proprietary funds

\$518,602,314

**4. Capital Assets**

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>June 30, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2015</u>
Equipment and furniture	\$ 1,872,330	\$ 103,143	\$ (187,167)	\$ 1,788,306
Accumulated depreciation	<u>(1,607,095)</u>	<u>(153,929)</u>	<u>187,167</u>	<u>(1,573,857)</u>
Capital assets, net of accumulated depreciation	<u>\$ 265,235</u>	<u>\$ (50,786)</u>	<u>\$ -</u>	<u>\$ 214,449</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

Long-term liabilities activity for the year ended June 30, 2015 was as follows:

	<b>Beginning Balances June 30, 2014</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balances June 30, 2015</b>	<b>Due within One Year</b>
Bonds payable	\$ 529,145,000	\$ 87,115,000	\$ 141,640,000	\$ 474,620,000	\$ 12,255,000
Unamortized premiums and discounts	10,103,699	3,971,736	2,704,750	11,370,685	-
Total bonds payable	<u>539,248,699</u>	<u>91,086,736</u>	<u>144,344,750</u>	<u>485,990,685</u>	<u>12,255,000</u>
Net pension liability	12,927,684	869,725	1,388,483	12,408,926	-
Accrued compensated absences	772,465	541,777	553,263	760,979	553,263
Other noncurrent liabilities	<u>39,466</u>	<u>748,231</u>	<u>-</u>	<u>787,697</u>	<u>248,820</u>
Total other long-term liabilities	<u>13,739,615</u>	<u>2,159,733</u>	<u>1,941,746</u>	<u>13,957,602</u>	<u>802,083</u>
Total long-term liabilities	<u><u>\$ 552,988,314</u></u>	<u><u>\$ 93,246,469</u></u>	<u><u>\$ 146,286,496</u></u>	<u><u>\$ 499,948,287</u></u>	<u><u>\$ 13,057,083</u></u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

**6. Bonds Payable**

At June 30, 2015, bonds payable, including unamortized premiums and unamortized discounts, consisted of the following:

	<b>Date Issued</b>	<b>Issue Amount</b>	<b>Outstanding Balance</b>
Single Family Mortgage Purchase Bonds			
(5.00% to 5.50%) due 2015-2035	09/11/98	\$ 106,975,000	\$ 85,360,000
Plus: Unamortized premium			670,200
			86,030,200
Mortgage Revenue Bonds			
2006A/B (3.75% to 5.75%) due 2015-2037	06/30/06	98,000,000	41,420,000
2006C (3.55% to 5.50%) due 2015-2037	12/19/06	83,540,000	35,500,000
2007A (3.95% to 5.55%) due 2015-2038	09/11/07	83,000,000	29,310,000
2008A (2.85% to 6.00%) due 2015-2039	06/04/08	20,000,000	8,540,000
2008B (3.65% to 6.00%) due 2015-2039	08/28/08	45,215,000	13,460,000
2012A (0.35% to 4.00%) due 2015-2034	09/26/12	65,710,000	39,720,000
2014A (0.35% to 4.00%) due 2015-2041	12/16/14	87,115,000	87,115,000
			255,065,000
Plus: Unamortized premium			9,763,468
Less: Unamortized discounts			(28,050)
			264,800,418
Homeownership Revenue Bonds			
2010-1 (0.70% to 5.00%) due 2015-2041	07/01/10	100,000,000	17,340,000
2010-2 (1.00% to 5.00%) due 2015-2041	12/09/10	40,000,000	25,330,000
2011-1 (0.60% to 4.50%) due 2015-2041	10/20/11	70,000,000	53,020,000
2013-1 (2.95%) due 2041	04/17/13	50,110,000	38,505,000
			134,195,000
Plus: Unamortized premium			965,067
			135,160,067
Total bonds payable, including unamortized premiums and discounts			\$ 485,990,685

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

**6. Bonds Payable (Continued)**

Amounts, including interest, required to complete payment of the bond obligations as of June 30, 2015 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2016	\$ 12,255,000	\$ 19,746,830	\$ 32,001,830
2017	15,755,000	19,206,407	34,961,407
2018	16,675,000	18,644,638	35,319,638
2019	16,695,000	18,013,049	34,708,049
2020	15,600,000	17,357,630	32,957,630
2021-2025	87,605,000	75,630,688	163,235,688
2026-2030	97,140,000	54,398,641	151,538,641
2031-2035	104,460,000	31,721,137	136,181,137
2036-2040	62,025,000	12,206,749	74,231,749
2041	46,410,000	874,908	47,284,908
Total	<u>\$ 474,620,000</u>	<u>\$ 267,800,677</u>	<u>\$ 742,420,677</u>

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 from 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, 2015:

Single Family Finance Programs:

<b>Mortgage Revenue Bonds</b>	
Series 2004 A	\$ 36,885,000
Series 2005 A	30,810,000
Series 2006 A and B	6,325,000
Series 2006 C	6,780,000
Series 2007 A	14,920,000
Series 2008 A	1,155,000
Series 2008 B	4,265,000
Series 2012 A	8,390,000
<b>Homeownership Revenue Bonds</b>	
Series 2010-1	5,425,000
Series 2010-2	5,395,000
Series 2011-1	6,300,000
Series 2013-1	4,945,000
<b>Total</b>	<u>\$ 131,595,000</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

**6. Bonds Payable (Continued)**

In December 2014, the Authority issued \$87,115,000 in Mortgage Revenue Bonds Series 2014A, with fixed interest rates ranging from 0.35% to 4.00%. Of the proceeds, \$27,115,000 was used to refund all of the outstanding principal of the Series 2005A Bonds. The remaining \$60 million will purchase first-time homeowner mortgages.

The Bonds were issued at a premium of \$3,971,736 with issuance costs and underwriters fees of \$895,227.

Housing bonds, as opposed to most bonds, are designed to be called prior to maturity based on mortgage pre-payments. As such, the economic benefit should be calculated with estimated pre-payments (and resulting bond calls prior to maturity) taken into account. This results in a lower, but more accurate, estimate of economic gain. Series 2014A refunding of Series 2005A Bonds resulted in an economic gain, using a 3.0% discount, of over \$2 million.

Amortization of bond discounts for the year ended June 30, 2015 that was included in bond interest expense in the Single Family Finance Programs Fund was \$3,412. Bond premium amortized for the year ended June 30, 2015 and attributable to the Single Family Finance Programs Fund bonds totaled \$1,989,801 and was reported as interest expense in the fund.

Amortization of deferred losses on refundings of debt of \$192,188 for the year ended June 30, 2015 was attributable to the Single Family Finance Programs Fund bonds and was included in interest expense in the proprietary fund. Amortization of deferred gains on refundings of debt of \$73,106 for the year ended June 30, 2015 was attributable to the Single Family Finance Programs Fund bonds and was included in interest expense in the proprietary fund.

**7. Leases**

At June 30, 2015, 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%.

Office equipment leases expire during fiscal years 2016 and 2017.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

**7. Leases (Continued)**

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>	
2016	\$ 360,224
2017	123,750
Total leases with external entities	<u>\$ 483,974</u>

The Authority incurred rental expense of approximately \$353,409 under the aforementioned leases for the fiscal year ended June 30, 2015.

The Authority also leases motor vehicles from the State Budget and Control Board which can be cancelled with 30 day-notice. Under this agreement, the Authority incurred expenses of \$153,625 in fiscal year 2015.

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.
- The employee insurance plans and retirement plan are administered by PEBA. PEBA was created July 1, 2012, by the South Carolina General Assembly as a state agency responsible for the administration and management of the State's employee insurance programs and retirement systems.
- 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.

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

- Services provided at no cost from various divisions of the State Budget and Control Board include grant services, personnel management, review, and approval of certain budget amendments, procurement services, and other centralized functions. The Authority paid \$1,115,795 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 2015 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, 2015 are as follows:

- \$33,946,075 from the Revenue Reserve Fund to the Mortgage Revenue Bond indenture to fund the Series 2004A Bond call on July 1, 2014.
- \$884,134 from the General Operating Fund to the Mortgage Revenue Bond indenture to fund the Series 2014A Cost of Issuance and Capitalized Interest.

### **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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

**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.

## SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

**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	\$ 7,423,000
<b>Fiscal Year 2003 (02/03)</b>			
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	2,695,000
04/04	Multifamily Rental Housing Revenue Bonds (Hillandale Apartments Project)	6,660,000	5,295,000
06/04	Multifamily Rental Housing Revenue Bonds (Greenville Arms Apartments Project)	4,265,000	3,770,000
06/04	Multifamily Rental Housing Revenue Bonds (Canebreak Apartments Project)	4,500,000	3,950,121
<b>Fiscal Year 2005 (04/05)</b>			
07/04	Multifamily Rental Housing Revenue Bonds (Bayside Apartments Project)	17,250,000	17,200,000
12/04	Multifamily Rental Housing Revenue Bonds (Wyndham Pointe Apartments Project)	9,400,000	6,750,400
12/04	Multifamily Rental Housing Revenue Bonds (Planters Retreat Apartments Project)	11,850,000	10,367,094
05/05	Multifamily Rental Housing Revenue Bonds (Wenmont Apartments Project)	6,210,000	5,725,929

## SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

## 11. Conduit Debt (Continued)

<u>Date</u>	<u>Bond/Note Title</u>	<u>Amount</u>	<u>Outstanding</u>
<b>Fiscal Year 2006 (05/06)</b>			
09/05	Multifamily Rental Housing Revenue Bonds (Hallmark Homes Apartments Project)	12,840,000	9,625,431
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	8,377,117
01/06	Multifamily Rental Housing Revenue Bonds (Rocky Creek Apartments Project)	12,745,000	6,145,000
06/06	Multifamily Rental Housing Revenue Bonds (Spanish Trace Apartments Project)	3,685,000	3,415,000
<b>Fiscal Year 2008 (07/08)</b>			
01/08	Multifamily Rental Housing Revenue Bonds (Bridle Ridge Apartments)	7,885,000	7,625,000
<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	1,105,000
<b>Fiscal Year 2015 (14/15)</b>			
11/14	Multifamily Rental Housing Revenue Bonds (Ashley Arms Apartments)	6,600,000	6,600,000
11/14	Multifamily Rental Housing Revenue Bonds (Palmilla Apartments)	14,385,000	14,385,000
12/14	2014 Multifamily - Various Rural Housing Properties	25,021,000	25,021,000
5/15	Multifamily Rental Housing Revenue Bonds (Village at River's Edge)	11,000,000	438,611
Total		<u>\$222,146,000</u>	<u>\$186,608,703</u>

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### **12. Pension Plan**

#### **12.A Description**

The majority of employees of the Authority are covered by a retirement plan through the SCRS, a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Benefits Division of PEBA. 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 life-time monthly retirement annuity benefits to eligible members as well as disability, survivor options, annual benefit adjustments, and incidental death benefits to eligible employees and retired members. A member of the system with an effective date of membership prior to July 1, 2012, is a Class II member. A member of the system with an effective date of membership on or after July 1, 2012, is a Class III member.

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, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the five pension plans are included in the State of South Carolina's CAFR.

Under SCRS, a Class II member who has separated from service with at least five years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class III member who has separated from service with at least eight years of earned service is eligible for a monthly pension subject to the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class II and Class III members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. Incidental death benefits are also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Beginning July 1, 2012, and annually thereafter, the annual retirement allowance received by retirees or their surviving annuitants must be increased by the lesser of one percent or five hundred dollars. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

**12. Pension Plan (Continued)**

**12.A Description (Continued)**

**Class II Members (members hired prior to July 1, 2012)**

Average Final Compensation (AFC) is based on the highest 12 consecutive quarters of earnable compensation. The determination of a member's AFC includes up to 45 days of unused annual leave paid at termination. Monthly benefits are based on one-twelfth of the retirement benefit. The retirement benefit amount is equal to the 1.82% of the member's AFC times the member's credited service (years). Credited service may include up to 90 days of unused sick leave. Members are eligible to commence their retirement benefit after they have (i) 28 years of credited service or (ii) attained age 65 with 5 years of earned service. At each July 1 after their first full year of retirement, annuitants will receive an automatic cost of living adjustment equal to the lesser of 1.00% of their retirement benefit or \$500 per annum.

**Class III Members (members hired after June 30, 2012)**

Average Final Compensation (AFC) is based on the highest twenty (20) consecutive quarters of earnable compensation. The determination of a member's AFC will not include unused annual leave paid at termination. Monthly benefits are based on one-twelfth of the retirement benefit. The retirement benefit is equal to 1.82% of the member's AFC times the member's credited service (years). Credited service will not include unused sick leave. Members are eligible to commence a retirement benefit after they have (i) attained age 60 with eight years of earned service or (ii) the combination of the member's age and years of credited service equals or exceeds 90 (i.e. the rule of 90). At each July 1 after their first full year of retirement, annuitants will receive an automatic cost of living adjustment equal to the lesser of 1.00% of their retirement benefit or \$500 per annum.

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 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 benefit adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit and are ineligible for disability retirement benefits. The TERI program will end effective June 30, 2018 and a member's participation may not continue after this date.

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### 12. Pension Plan (Continued)

#### 12.B Funding Policies

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement plans be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws prescribes requirements relating to membership, benefits, and employee/employer contributions for each plan. The PEBA Board may increase the SCRS and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9 percent of earnable compensation for the SCRS. An increase in the contribution rates adopted by the PEBA Board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the PEBA Board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

By law, employees participating in the SCRS for the fiscal year ended June 30, 2015, were required to contribute 8% of all earnable compensation. The Actuarially-determined employer contribution rate for SCRS was 10.90%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.75%, .15% for the incidental death benefit program and a 4.92% surcharge that will fund retiree health and dental insurance coverage. The Authority's actual retirement and incidental death benefit program contributions to the SCRS for the fiscal year ended June 30, 2015 were \$684,743 and \$9,485 respectively.

#### 12.C Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

At June 30, 2015, the Authority reported \$12,408,926 for its proportionate share of the net pension liability of SCRS. The net pension liability of the SCRS was determined based on the July 1, 2013 actuarial valuations, using membership data as of July 1, 2013, projected forward to June 30, 2014, and financial information of the pension trust funds as of June 30, 2014, using generally accepted actuarial procedures. The Authority's proportion of the net pension liability was based on the Authority's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2014, the Authority's SCRS proportion was .072078 percent, which was the same as its proportion of the net pension liability measured as of June 30, 2013.

For the year ended June 30, 2015, the Authority recognized pension expense of \$869,725 for SCRS.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

**12. Pension Plan (Continued)**

**12.C Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions (Continued)**

At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>Deferred Outflows of Resources</b>	<b>SCRS</b>
Differences between expected and actual experience	\$ 351,617
Pension contributions subsequent to the measurement date	\$ 694,228
<b>Deferred Inflows of Resources</b>	
Net difference between projected and actual earnings pension plan investments	\$ 1,046,163

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u><b>Year Ended June 30,</b></u>	<u><b>SCRS</b></u>
2016	\$ 152,728
2017	152,728
2018	152,728
2019	236,362
2020	—
Thereafter	—

During fiscal year 2015, the Authority recognized net pension expense from the deferred outflows of resources and deferred inflows of resources related to pensions of \$152,728.

The total pension liabilities in the July 1, 2013 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

	<u><b>SCRS</b></u>
Actuarial Cost Method	Entry Age
Actuarial Assumptions:	
Investment Rate of Return	7.5%
Projected Salary Increases	Levels Off at 3.5%
Inflation Rate	2.75%
Benefit Adjustments	Lesser of 1% or \$500

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

**12. Pension Plan (Continued)**

**12.C Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions (Continued)**

South Carolina State statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study is scheduled to be conducted after the June 30, 2015 annual valuation is complete.

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000.

<u>Former Job Class</u>	<u>Males</u>	<u>Females</u>
General Employees	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the end of the third quarter 2012. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission (RSIC) using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary of the Systems, statutory provisions and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table below. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

**12. Pension Plan (Continued)**

**12.C Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions (Continued)**

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Short Term	<b>5.0%</b>		
Cash	2.0%	0.3%	0.01%
Short Duration	3.0%	0.6%	0.02%
Domestic Fixed Income	<b>13.0%</b>		
Core Fixed Income	7.0%	1.1%	0.08%
High Yield	2.0%	3.5%	0.07%
Bank Loans	4.0%	2.8%	0.11%
Global Fixed Income	<b>9.0%</b>		
Global Fixed Income	3.0%	0.8%	0.02%
Emerging Markets Debt	6.0%	4.1%	0.25%
Global Public Equity	<b>31.0%</b>	7.8%	2.42%
Global Tactical Asset Allocation	<b>10.0%</b>	5.1%	0.51%
Alternatives	<b>32.0%</b>		
Hedge Funds (Low Beta)	8.0%	4.0%	0.32%
Private Debt	7.0%	10.2%	0.71%
Private Equity	9.0%	10.2%	0.92%
Real Estate (Broad Market)	5.0%	5.9%	0.29%
Commodities	3.0%	5.1%	0.15%
Total Expected Real Return	<b>100.0%</b>		5.88%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			<b>8.63%</b>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

**12. Pension Plan (Continued)**

**12.D Sensitivity of the Authority’s proportionate share of the net pension liability to changes in the discount rate**

The following table presents the Authority’s proportionate share of the net SCRS pension liabilities calculated using the discount rate of 7.50 percent, as well as what the Authority’s respective net pension liabilities would be if it were calculated using a discount rate of 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

<b>Plan</b>	<b>1% Decrease (6.50%)</b>	<b>Current Discount Rate (7.50%)</b>	<b>1% Increase (8.50%)</b>
SCRS	\$ 16,057,917	\$ 12,408,926	\$ 9,364,620

**12.E SCRS Fiduciary Net Position**

Detailed information about the SCRS’s fiduciary net position is available in a separately issued PEBA financial report. This financial report may be obtained on the internet at [www.peba.sc.gov](http://www.peba.sc.gov). SCRS’s fiduciary net position was determined on the same accounting basis used by the pension plan. SCRS accounts for all funds using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan.

**12.F Optional Retirement Program**

As an alternative to membership in SCRS, certain State, public school, and higher education employees and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (ORP). Participants in the State ORP direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers and are governed by the terms of the contracts that those providers issue. Accordingly, balances of the State ORP are not reported in the accompanying financial statements.

Under State law, contributions to the State ORP are at the same rates as for the SCRS. A direct remittance is required from the employers to the investment providers for the employee contribution (8.00%) and a portion of the employer contribution (5.00%), which is immediately vested to the employee. A direct remittance is also required to the SCRS for a portion of the employer contribution (5.75%), a group life contribution (0.15%), and a retiree surcharge of (4.92%) which is retained by the SCRS. The activity for the Authority’s ORP for the fiscal year ended June 30, 2015 is as follows:

Covered payroll	\$ 491,085
Employee contributions to providers	53,713
Employer contributions to providers	25,327

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

**12. Pension Plan (Continued)**

**12.G Deferred Retirement Option Plans**

The Teacher and Employee Retention Incentive (TERI) program, established by State law, became effective January 1, 2001. The program is a deferred retirement option available to SCRS members eligible for service retirement. Upon entering the TERI program, a member's status changes from active to retired. A TERI participant agrees to continue employment with an employer participating in the system for a specified period, not to exceed five years.

TERI participants retain the same status and employment rights they held upon entering the program but are not considered active employees for purposes of the disability retirement programs. A TERI retiree's monthly benefits are accrued and remain in the SCRS trust account during the TERI participation period, but no interest is accrued or paid thereon. Upon termination of employment or at the end of the TERI participation period (whichever is earlier), a retiree may roll over some or all of the accumulated TERI balance into a qualified, tax-sheltered retirement plan and/or receive a lump-sum distribution.

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

**13.A 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 (OPEB plans) to retired State and school district employees and their covered dependents. The OPEB plans have been determined to be cost-sharing multiple-employer defined benefit plans and are administered by the Insurance Benefits Division, a part of 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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

**13.B Funding Policies**

Sections 1-11-705 through 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 Insurance Benefit Division and participating retirees to PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the Insurance Benefit Division, for its active employees who are not funded by State General Fund appropriations. Employers participating in the healthcare plan are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 4.92% of annual covered payroll for 2015.

The Insurance Benefits Division sets the employer contribution rate based on a pay-as-you-go basis. The Authority paid approximately \$337,973 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal year ended June 30, 2015. 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 the Insurance Benefit Division was \$3.22 for the fiscal year ended June 30, 2015. The Authority recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately \$5,603 for the fiscal year ended June 30, 2015.

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 South Carolina Retiree Health Insurance Trust Fund is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated Insurance Benefit Division reserves, and income generated from investments. The South Carolina Long-Term Disability Insurance Trust Fund is primarily funded through investment income and employer contributions.

A copy of the separately issued financial statements for the benefit plans and the trust funds may be obtained by writing to the South Carolina Public Employee Benefit Authority - Insurance Benefits Division, P.O. Box 11960, Columbia, South Carolina 29211-1960.

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

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, 2015.

**15. Commitments and Contingencies**

*Financial Award Commitments*

As of June 30, 2015, the Authority has financial award commitments outstanding totaling \$9,368,127 under the Housing Trust Fund programs and \$350,000 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, 2015, or earlier years will not have a material impact on the Authority's financial statements.

**16. Subsequent Events**

On July 7, 2015, the Authority issued Mortgage Revenue Bond Series 2015A in the amount of \$39,595,000. These proceeds, along with Series 2006A funds were used to call all outstanding Series 2006A bonds on July 9, 2015. The outstanding Series 2006A loans have been assigned to the Series 2015A bonds.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

**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, 2015, is presented on the following pages.

<b>Statement of Net Position - June 30, 2015</b>					
	<b>Single Family</b>	<b>Mortgage Revenue</b>	<b>Homeownership Bond</b>	<b>Revenue Reserve</b>	<b>Totals</b>
<b>Assets</b>					
Current assets:					
Restricted assets:					
Cash and cash equivalents	\$ 7,375,530	\$ 25,139,211	\$ 7,407,261	\$ 1,568,093	\$ 41,490,095
Investments	40,276,256	48,899,498	-	31,438,315	120,614,069
Loans receivable	3,034,663	11,847,173	-	123,782	15,005,618
Accrued interest receivable:					
Loans	578,683	2,385,331	-	13,637	2,977,651
Deposits and investments	118,451	98,466	423,575	37,926	678,418
Total current assets	51,383,583	88,369,679	7,830,836	33,181,753	180,765,851
Non-current assets:					
Restricted assets:					
Investments	13,661,622	8,613,660	142,507,232	-	164,782,514
Loans receivable	99,360,040	310,739,747	-	2,789,781	412,889,568
Allowance for doubtful loans	(13,167)	(295,422)	-	-	(308,589)
Total noncurrent assets	113,008,495	319,057,985	142,507,232	2,789,781	577,363,493
Total assets	164,392,078	407,427,664	150,338,068	35,971,534	758,129,344
<b>Deferred Outflow of Resources</b>					
Deferred loss on refunding	-	1,390,876	-	-	1,390,876
Total deferred outflows of resources	-	1,390,876	-	-	1,390,876

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

<b>Statement of Net Position - June 30, 2015</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	\$ 2,800,000	\$ 7,950,000	\$ 1,505,000	\$ -	\$ 12,255,000
Accrued interest payable on bonds	2,236,013	5,584,694	1,700,019	-	9,520,726
Total liabilities payable from restricted assets	5,036,013	13,534,694	3,205,019	-	21,775,726
Accounts payable and accrued expenses	-	444,298	-	-	444,298
Total current liabilities	5,036,013	13,978,992	3,205,019	-	22,220,024
Non-current liabilities:					
Bonds payable, net of current portion and unamortized premiums and discounts	83,230,200	256,850,418	133,655,067	-	473,735,685
Other noncurrent liabilities	-	41,237	-	-	41,237
Total noncurrent liabilities	83,230,200	256,891,655	133,655,067	-	473,776,922
Total Liabilities	88,266,213	270,870,647	136,860,086	-	495,996,946
<b>Deferred Inflows of Resources</b>					
Deferred Gain on Refunding	-	668,359	372,750	-	1,041,109
Total deferred inflows of resources	-	668,359	372,750	-	1,041,109
<b>Net Position</b>					
Restricted for:					
Debt service	5,036,013	20,444,694	4,250,019	-	29,730,726
Bond reserves	2,640,450	5,359,953	-	-	8,000,403
Housing projects and development	68,449,402	111,474,887	8,855,213	35,971,534	224,751,036
Total net position	<u>\$ 76,125,865</u>	<u>\$ 137,279,534</u>	<u>\$ 13,105,232</u>	<u>\$ 35,971,534</u>	<u>\$ 262,482,165</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

	<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	\$ 5,876,339	\$ 19,036,784	\$ -	\$ 184,875	\$ 25,097,998
Income on deposit and investments	1,360,394	1,790,594	5,528,684	861,048	9,540,720
Administrative fees and other	42,672	221,733	-	63,345	327,750
Total operating revenue	<u>7,279,405</u>	<u>21,049,111</u>	<u>5,528,684</u>	<u>1,109,268</u>	<u>34,966,468</u>
<b>Operating expenses</b>					
Bond interest	4,401,165	9,394,224	4,586,119	-	18,381,508
Program services	281,573	835,137	46,964	8,796	1,172,470
Bond issuance expense	-	1,339,524	-	-	1,339,524
Other expenses	10,597	65,978	-	81,698	158,273
Total operating expenses	<u>4,693,335</u>	<u>11,634,863</u>	<u>4,633,083</u>	<u>90,494</u>	<u>21,051,775</u>
<b>Operating income</b>	<u>2,586,070</u>	<u>9,414,248</u>	<u>895,601</u>	<u>1,018,774</u>	<u>13,914,693</u>
<b>Transfers</b>					
Transfers in	-	34,830,209	-	-	34,830,209
Transfers out	-	-	-	(33,946,075)	(33,946,075)
Total transfers	<u>-</u>	<u>34,830,209</u>	<u>-</u>	<u>(33,946,075)</u>	<u>884,134</u>
Increase (decrease) in net position	<u>2,586,070</u>	<u>44,244,457</u>	<u>895,601</u>	<u>(32,927,301)</u>	<u>14,798,827</u>
Net position, at beginning of year	73,258,333	93,035,077	818,579	68,898,835	236,010,824
Prior period adjustment	281,462	-	11,391,052	-	11,672,514
Net position, at beginning of year, as restated	<u>73,539,795</u>	<u>93,035,077</u>	<u>12,209,631</u>	<u>68,898,835</u>	<u>247,683,338</u>
Net position, at end of year	<u>\$ 76,125,865</u>	<u>\$ 137,279,534</u>	<u>\$ 13,105,232</u>	<u>\$ 35,971,534</u>	<u>\$ 262,482,165</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

<b>Statement of Cash Flows - Year Ended June 30, 2015</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	\$ 14,311,082	\$ 46,693,170	\$ -	\$ 882,173	\$ 61,886,425
Receipt of loan interest payments	6,515,837	18,843,663	-	196,705	25,556,205
Purchase/origination of new loans	-	(12,634,254)	-	-	(12,634,254)
Administrative fees and other	42,673	267,963	-	63,345	373,981
Payments to vendors	(306,262)	(1,944,147)	(46,964)	(92,325)	(2,389,698)
Net cash flows provided by (used in) operating activities	<u>20,563,330</u>	<u>51,226,395</u>	<u>(46,964)</u>	<u>1,049,898</u>	<u>72,792,659</u>
<b>Cash Flows From Noncapital Financing Activities</b>					
Transfers from other programs	-	34,830,209	-	-	34,830,209
Transfers to other programs	-	-	-	(33,946,075)	(33,946,075)
Loans from other programs	-	-	-	-	-
Proceeds from sale of bonds	-	87,115,000	-	-	87,115,000
Premium received from sale of bonds	-	3,971,736	-	-	3,971,736
Principal payments on bonds payable	(2,655,000)	(113,495,000)	(25,490,000)	-	(141,640,000)
Interest payments on bonds payable	(4,545,038)	(12,172,180)	(5,067,859)	-	(21,785,077)
Net cash flows provided by (used in) noncapital financing activities	<u>(7,200,038)</u>	<u>249,765</u>	<u>(30,557,859)</u>	<u>(33,946,075)</u>	<u>(71,454,207)</u>
<b>Cash Flows From Investing Activities</b>					
Purchases of investments	(15,049,785)	(48,305,047)	-	(5,381,912)	(68,736,744)
Sale of investments	1,075,489	166,522	20,300,015	-	21,542,026
Income on deposits and investments	1,276,081	555,239	5,777,692	980,997	8,590,009
Net cash flows provided by (used in) investing activities	<u>(12,698,215)</u>	<u>(47,583,286)</u>	<u>26,077,707</u>	<u>(4,400,915)</u>	<u>(38,604,709)</u>
Net increase (decrease) in cash and cash equivalents	665,077	3,892,874	(4,527,116)	(37,297,092)	(37,266,257)
Cash and cash equivalents, beginning of year	6,710,453	21,246,337	11,934,377	38,865,185	78,756,352
Cash and cash equivalents, end of year	<u>\$ 7,375,530</u>	<u>\$ 25,139,211</u>	<u>\$ 7,407,261</u>	<u>\$ 1,568,093</u>	<u>\$ 41,490,095</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

**Statement of Cash Flows - Year Ended June 30, 2015**

	<u>Single Family</u>	<u>Mortgage Revenue</u>	<u>Homeownership Bond</u>	<u>Revenue Reserve</u>	<u>Totals</u>
<b>Reconciliation of Operating Income to Cash Flows Provided by (Used for) Operating Activities:</b>					
Operating income	\$ 2,586,070	\$ 9,414,248	\$ 895,601	\$ 1,018,774	\$ 13,914,693
Adjustments to reconcile operating income to net cash flows provided by operating activities:					
Provision for loan losses	(118,390)	(1,212,039)	-	-	(1,330,429)
Bond premium amortization	(70,860)	(1,821,977)	(96,964)	-	(1,989,801)
Deferred gain on refunding amortization	-	(33,871)	(39,235)	-	(73,106)
Deferred loss on refunding amortization	-	192,188	-	-	192,188
Bonds interest expense reclassified to non-capital financing activities	4,472,025	11,057,884	4,722,318	-	20,252,227
Income on deposits and investments reclassified to investing activities	(1,360,394)	(1,790,595)	(5,528,684)	(861,048)	(9,540,721)
Change in assets and liabilities:					
Loans receivable	14,461,612	35,124,749	-	882,249	50,468,610
Accounts receivable	612,703	46,231	-	-	658,934
Accrued interest receivable-loans	26,795	419,582	-	11,830	458,207
Accounts payable, accrued expenses and unearned revenue	(46,231)	(170,005)	-	(1,907)	(218,143)
Total adjustments	<u>17,977,260</u>	<u>41,812,147</u>	<u>(942,565)</u>	<u>31,124</u>	<u>58,877,966</u>
Net cash provided by (used for) operating activities	<u>\$ 20,563,330</u>	<u>\$ 51,226,395</u>	<u>\$ (46,964)</u>	<u>\$ 1,049,898</u>	<u>\$ 72,792,659</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

**18. Prior Period Adjustment**

The Authority discovered that its assets and correspondingly its net position as of July 1, 2014 were understated by \$11,672,514 in the single family finance program funds as a result of the Authority not carrying its mortgage backed securities investments at market value. Accordingly, the beginning balance for investments and net position as of July 1, 2014 were restated by \$11,672,514 as a result of this adjustment.

In previous fiscal years, the Authority was following the guidance prescribed by FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, which requires mortgage backed securities investments that are held to maturity to be reported at amortized cost. Since the accepted standard-setting body for the Authority is the GASB, the Authority should have followed the guidance prescribed by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires mortgage backed securities investments to be reported at fair value. The Authority implemented GASB Statement No. 31 during the fiscal year ended June 30, 2015.

**19. Implementation of New Accounting Standard**

During the fiscal year ended June 30, 2015, the Authority adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*. Due to implementing this new accounting standard, beginning net position for the business-type activities has been decreased by \$12,233,747. This decrease represents a restatement for net pension liability that was not recognized under prior standards.

## REQUIRED SUPPLEMENTARY INFORMATION

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

SCHEDULE OF THE EMPLOYER'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY

YEAR ENDED JUNE 30, 2015

	<b>SCRS</b>	
	<b>2015</b>	<b>2014</b>
Employer's proportion of the net pension liability	0.07208%	0.07208%
Employer's proportionate share of the net pension liability	\$ 12,408,926	\$ 12,927,684
Employer's covered payroll during the measurement period	\$ 5,481,134	\$ 5,390,921
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll during the measurement period	226.39341%	239.80474%
Plan fiduciary net position as a percentage of the total pension liability	59.90000%	56.38821%

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

SCHEDULE OF THE EMPLOYER'S CONTRIBUTIONS

YEAR ENDED JUNE 30, 2015

	SCRS									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 694,228	\$ 693,610	N/A							
Contributions in relation to the contractually required contribution	694,228	693,610	N/A							
Contribution deficiency (excess)	\$ -	\$ -	N/A							
Employer's covered-employee payroll	\$ 5,144,169	\$ 5,481,134	N/A							
Contributions as a percentage of covered-employee payroll	13.49544%	12.65450%	N/A							

## SINGLE AUDIT SECTION

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2015**

<u>Federal Grantor / Program Title</u>	<u>CFDA Number</u>	<u>Total Awards/ Expenditures</u>
<b>Department of Housing and Urban Development</b>		
Section 8 Project-Based Cluster:		
Section 8 - Housing Assistance Payments Program-Special Allocations	14.195	\$ 121,940,769
HOME Investment Partnership Program	14.239	4,591,925
HERA Neighborhood Stabilization Program	14.228	528,417
Housing Voucher Cluster		
Section 8 - Housing Choice Vouchers	14.871	<u>12,383,711</u>
Total Direct - Department of Housing and Urban Development		<u>\$ 139,444,822</u>

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2015

**Accounting Principles**

The Schedule of Expenditures of Federal Awards includes the Federal grant activity of the 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.

**HOME Investment Partnership Program**

Total expenditures for the HOME Investment Partnership Program for the fiscal year ended June 30, 2015 include \$2,666,120 of disbursements that have been recorded as *Loans Receivable* in the Statement of Net Position and not included in *Housing Assistance Payments and Grant Awards Disbursements* on the Statement of Revenue, Expenses and Changes in Net Position. The total balance of loans for which the federal government has continuing compliance requirements is \$70,520,848.

**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. George L. Kennedy, III, CPA  
State Auditor  
Office of the State Auditor  
Columbia, South Carolina

We have audited, in accordance with the 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, the business-type activities, and each major fund of the South Carolina State Housing Finance and Development Authority (the “Authority”), a discretely presented component unit of the State of South Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated October 15, 2015.

**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 entity’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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2015-1 that we consider to be a material weakness.

## **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*.

## **South Carolina State Housing Finance and Development Authority's Response to the Finding**

The Authority's response to the finding 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Elliott Davis Decosimo, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina  
October 15, 2015



## **Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance**

Mr. George L. Kennedy, III, CPA  
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 Authority's major federal programs for the year ended June 30, 2015. 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for 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.

### **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, 2015.

## 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 types 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  
October 15, 2015

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015

**Section I - Summary of Auditor's Results**

***Financial Statements***

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

***Federal Awards***

Internal control over major federal programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.195	Section 8 Project-Based Cluster - Section 8 Housing Assistance Payments Program - Special Allocations
14.239	HOME Investment Partnership Program

Dollar threshold used to distinguish between Type A and Type B programs	<u>\$ 3,000,000</u>
Auditee qualified as a low risk auditee?	No

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015

**Section II - Financial Statement Findings**

**Item 2015-1: Prior Period Adjustment**

**Condition:** During the year ended June 30, 2015, it was discovered that the Authority's mortgage backed securities investments were valued at amortized cost instead of fair value in its financial statements as of and for the year ended June 30, 2014.

**Criteria:** GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires mortgage backed securities investments to be reported at fair value.

**Cause:** The Authority reported its mortgage backed securities investments at amortized cost based on guidance prescribed by FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

**Effect:** The Authority's investments and correspondingly its net position were understated by \$11,672,514 in its financial statements as of and for the year ended June 30, 2014.

**Recommendation:** We recommend that the Authority's Finance Department periodically review all GASB standards to ensure its financial statements are prepared in accordance with the standards prescribed by the GASB and that its financial statements include all required disclosures.

**Views of Responsible Officials and Planned Corrective Actions:** In previous fiscal years, the Authority was following guidance received from its predecessor auditor for recording mortgage backed securities investments, which effectively was in line with FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. In future years, the Authority will review all GASB standards to ensure its financial statements are prepared in accordance with the standards prescribed by the GASB and that its financial statements include all required disclosures.

**Section III - Federal Award Findings and Questioned Costs**

None reported