

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

COLUMBIA, SOUTH CAROLINA

REPORT ON FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018



SOUTH CAROLINA OFFICE OF THE STATE AUDITOR
1401 Main Street, Suite 1200 • Columbia, SC 29201

October 5, 2018

Members of the Board of Commissioners
South Carolina State Housing Finance and Development Authority
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina State Housing Finance and Development Authority and the accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), for the fiscal year ended June 30, 2018, was issued by Elliott Davis, 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,

George L. Kennedy, III, CPA
State Auditor

GLKIII/sag

**SOUTH CAROLINA STATE HOUSING FINANCE
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REPORT ON FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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Independent Auditor's Report

Mr. George L. Kennedy, III, CPA
State Auditor
South Carolina 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, 2018, 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, 2018, 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.

Implementation of New Accounting Standard

As described in Notes 1.U and 18 to the financial statements, the Authority adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective July 1, 2017. 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, the schedule of the employer's proportionate share of the net pension liability, the schedule of the employer's pension plan contributions, the schedule of the employer's proportionate share of the net OPEB liability, and the schedule of the employer's OPEB plan contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 5, 2018 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, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina
October 5, 2018

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, 2018.

Financial Highlights

- Net position of the Authority's proprietary funds increased \$11,619,192 to \$394,393,191. This increase is primarily attributable to the increase in the Authority's single family mortgage portfolio and non-operating revenues in the General Operating Fund.
- The governmental activities net position increased \$6,791,548 to \$35,218,513. This increase is primarily the result of an increase in documentary stamp fees in the Housing Trust Fund.
- Federal grant revenue decreased \$1,502,598 to \$148,568,769. 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 decrease in federal assistance is primarily due to a decrease in funding in the HOME Investment Partnership Program and the Section 8 – Housing Assistance Payments Program.
- The Authority made principal payments on mortgage revenue bonds of \$60,680,000 during the fiscal year. Of that total, \$56,230,000 of bonds were redeemed prior to their maturity.
- For the fiscal year ended June 30, 2018, the Authority purchased \$103,600,541 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 Mortgage Revenue Bond indenture and is recorded as loans. The Authority securitized \$7,142,428 in loans held as Federal National Mortgage Association (FNMA) investments.
- Bonds Outstanding, net of unamortized premiums, decreased \$4,768,696 to \$422,017,660.
- 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 \$12,163,043 in Mortgage Payment Assistance, \$7,883,294 in Direct Loan Assistance, \$140,000 in Property Disposition Assistance, \$2,335,930 in Long Term Assistance, and \$13,693,791 in Blight Assistance for a total of \$36,216,058 in program payments during the fiscal year ended June 30, 2018.

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 of accounting, consist of the Statement of Net Position and the Statement of Activities. The Statement of Net Position includes all of the Authority's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. All of the current year's revenues 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 that follow the modified accrual basis of accounting.
- 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 during 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 during 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 entity-wide statements.

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 \$6,163,996. The following table summarizes the financial position for the Authority as of and for the fiscal years ended June 30, 2018 and 2017.

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Assets:						
Total current assets	\$ 68,257,535	\$ 31,326,432	\$ 176,641,065	\$ 191,747,390	\$ 244,898,600	\$ 223,073,822
Total non-current assets	5,994,939	6,597,805	689,609,913	666,010,594	695,604,852	672,608,399
Total assets	74,252,474	37,924,237	866,250,978	857,757,984	940,503,452	895,682,221
Deferred outflows of resources:						
Deferred loss on refunding	-	-	911,802	1,056,375	911,802	1,056,375
Deferred outflows related to pension plan	-	-	3,686,134	2,154,966	3,686,134	2,154,966
Deferred outflows related to OPEB plan	-	-	363,390	-	363,390	-
Total deferred outflows of resources	-	-	4,961,326	3,211,341	4,961,326	3,211,341
Liabilities:						
Total current liabilities	451,515	1,055,377	33,420,165	31,572,149	33,871,680	32,627,526
Total long-term liabilities	-	-	437,814,778	430,198,248	437,814,778	430,198,248
Total liabilities	451,515	1,055,377	471,234,943	461,770,397	471,686,458	462,825,774
Deferred inflows of resources:						
Deferred gain on refunding	-	-	3,245,851	3,595,523	3,245,851	3,595,523
Deferred inflows related to pension plan	-	-	1,216,329	582,662	1,216,329	582,662
Deferred inflows related to OPEB plan	-	-	1,121,990	-	1,121,990	-
Deferred inflows due to timing restrictions	38,582,446	8,441,895	-	-	38,582,446	8,441,895
Total deferred inflows of resources	38,582,446	8,441,895	5,584,170	4,178,185	5,584,170	4,178,185
Net position:						
Net investment in capital assets	-	-	348,377	164,310	348,377	164,310
Net position-restricted	35,218,513	28,426,965	382,712,689	367,918,510	417,931,202	396,345,475
Net position-unrestricted	-	-	11,332,125	26,937,923	11,332,125	26,937,923
Total net position	\$ 35,218,513	\$ 28,426,965	\$ 394,393,191	\$ 395,020,743	\$ 429,611,704	\$ 423,447,708

Fund balance of the Authority's governmental funds increased \$6,791,548 to \$35,218,513. The Housing Trust Fund Act enacted by the General Assembly during 1992 restricts fund balance of the Housing Trust 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 during 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 funds increased \$627,552 to \$394,393,191.

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, federal housing assistance, tax credits allocations, compliance monitoring, and other activities that are part of the Authority's administrative functions.

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

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Revenues:						
Charges for services	\$ 2,201,215	\$ 1,317,443	\$ 37,058,864	\$ 36,868,509	\$ 39,260,079	\$ 38,185,952
General revenues	14,756,806	13,784,530	-	-	14,756,806	13,784,530
Operating grants and contributions	37,321,270	34,365,642	153,314,929	148,501,684	190,636,199	182,867,326
Total revenues	54,279,291	49,467,615	190,373,793	185,370,193	244,653,084	234,837,808
Expenses	47,487,743	43,648,147	178,754,601	173,016,972	226,242,344	216,665,119
Changes in net position	6,791,548	5,819,468	11,619,192	12,353,221	18,410,740	18,172,689
Net position, beginning of year, as originally reported	28,426,965	22,607,497	395,020,743	382,667,522	423,447,708	405,275,019
Implementation effect of GASB Statement No. 75	-	-	(12,246,744)	-	(12,246,744)	-
Net position, beginning of year, as restated	28,426,965	22,607,497	382,773,999	382,667,522	411,200,964	405,275,019
Net position, end of year	<u>\$ 35,218,513</u>	<u>\$ 28,426,965</u>	<u>\$ 394,393,191</u>	<u>\$ 395,020,743</u>	<u>\$ 429,611,704</u>	<u>\$ 423,447,708</u>

In the above condensed Statement of Activities, the cumulative effect of the change in accounting principle is shown for purposes of the Statement of Activities during fiscal year 2018. Although the cumulative effect of the change in accounting principle would apply to the earliest year presented, it is not shown for fiscal year 2017 to avoid confusion with the Statement of Activities 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. Revenues of the Authority's business-type activities were primarily from federal program revenue (\$148,568,769), charges for services (\$37,058,864), and net program investment income (\$4,746,160) including a fair value adjustment of \$2,018,667. Charges for services consist primarily of interest income on loans, HUD administrative fees, tax credit application fees, and various other 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 \$11,619,192 for the business-type activities.

Net position of the Authority increased from the previous year by \$6,163,966 to \$429,611,704.

Debt Administration

The Authority's total liabilities increased \$418,789 to \$471,686,458. Long-term liabilities increased \$7,616,530 to \$437,814,778. 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 (\$409,497,660), net pension liability (\$15,960,282), net OPEB liability (\$11,867,444) accrued compensated absences (\$116,348), and other non-current liabilities (\$373,044). See Notes 5, 6, 12 and 13 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, 2018. The South Carolina economy continues to experience steady growth, with the current economic expansion having entered its tenth year during 2018. The most recent data from the U.S. Bureau of Labor Statistics indicates that South Carolina's employment growth has returned to pre-recession levels and shows continued improvement. The U.S. Bureau of Economic Analysis data reflects an increase of 4.9% in personal income growth in South Carolina which ranks the State third in its twelve state region and seventeenth nationally. Data from the Authority's Mortgage Servicing and Investor Services divisions support the assertion that the South Carolina economy continues to improve. Foreclosures have declined and the number of properties held as Real Estate Owned has continued to decrease. The Authority will continue to focus its efforts on loan servicing and loss mitigation in order to prevent foreclosure and preserve assets.

The performance of private mortgage insurers continues to improve. The Authority will continue to monitor the conventional lending market. Currently, conventional lending is securitized by the Federal National Mortgage Association (FNMA). Virtually all Authority single family mortgage production continues to be insured by the Federal government.

Interest rates have increased but remain historically low. The Authority was able to remain in the bond market based on the strength of the Statement of Net Position. The Authority will continue to monitor all economic factors impacting its financial stability.

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, 2018

	Governmental Activities	Business Type Activities	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ -	\$ 20,017,039	\$ 20,017,039
Restricted assets:			
Cash and cash equivalents	66,158,173	83,329,278	149,487,451
Investments	-	45,526,216	45,526,216
Loans receivable	-	19,993,597	19,993,597
Accounts receivable - other	-	493,402	493,402
Accrued interest receivable:			
Loans	-	2,215,953	2,215,953
Deposits and investments	-	922,391	922,391
Accounts receivable:			
Due from grantor	-	838,057	838,057
Due from primary government	1,521,070	-	1,521,070
Internal balances	222,594	(222,594)	-
Other	-	294,761	294,761
Loans receivable	302,673	628,775	931,448
Accrued interest receivable:			
Loans	3,610	45,901	49,511
Deposits and investments	49,415	-	49,415
Other current assets	-	2,558,289	2,558,289
Total current assets	<u>68,257,535</u>	<u>176,641,065</u>	<u>244,898,600</u>
Noncurrent assets:			
Loans receivable, net of current portion	5,994,939	18,695,293	24,690,232
Allowance for doubtful loans	-	(361,228)	(361,228)
Restricted assets:			
Investments	-	105,420,008	105,420,008
Loans receivable, net of current portion	-	566,322,216	566,322,216
Allowance for doubtful loans	-	(814,753)	(814,753)
Capital assets, net of accumulated depreciation	-	348,377	348,377
Total noncurrent assets	<u>5,994,939</u>	<u>689,609,913</u>	<u>695,604,852</u>
Total assets	<u>74,252,474</u>	<u>866,250,978</u>	<u>940,503,452</u>
Deferred Outflows of Resources			
Deferred loss on refunding	-	911,802	911,802
Deferred outflows related to pension plan	-	3,686,134	3,686,134
Deferred outflows related to OPEB plan	-	363,390	363,390
Total deferred outflows of resources	<u>-</u>	<u>4,961,326</u>	<u>4,961,326</u>

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

STATEMENT OF NET POSITION

JUNE 30, 2018

	Governmental Activities	Business Type Activities	Totals
Liabilities			
Current liabilities:			
Liabilities payable from restricted assets:			
Bonds payable, net of unamortized premiums	-	12,520,000	12,520,000
Accrued interest payable on bonds	-	7,283,614	7,283,614
Other liabilities	-	51,932	51,932
Mortgage escrows	-	5,720,604	5,720,604
Total liabilities payable from restricted current assets	-	25,576,150	25,576,150
Accrued compensated absences	-	593,880	593,880
Accrued salaries and related payroll expenses	-	885,890	885,890
Unearned revenues	-	6,105,984	6,105,984
Accounts payable and accrued expenses	451,515	258,261	709,776
Total current liabilities	451,515	33,420,165	33,871,680
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	-	116,348	116,348
Bonds payable, net of current portion and unamortized premiums	-	409,497,660	409,497,660
Other noncurrent liabilities	-	373,044	373,044
Net pension liability	-	15,960,282	15,960,282
Net OPEB liability	-	11,867,444	11,867,444
Total noncurrent liabilities	-	437,814,778	437,814,778
Total liabilities	451,515	471,234,943	471,686,458
Commitments and contingencies (<i>Note 15</i>)			
Deferred Inflows of Resources			
Deferred gain on refunding	-	3,245,851	3,245,851
Deferred inflows related to pension plan	-	1,216,329	1,216,329
Deferred inflows related to OPEB plan	-	1,121,990	1,121,990
Deferred inflows due to timing restrictions	38,582,446	-	38,582,446
Total deferred inflows of resources	38,582,446	5,584,170	44,166,616
Net Position			
Net investment in capital assets	-	348,377	348,377
Restricted for:			
Debt service	-	17,273,614	17,273,614
Bond reserves	-	10,444,950	10,444,950
Housing projects and development	35,218,513	354,994,125	390,212,638
Unrestricted	-	11,332,125	11,332,125
Total net position	\$ 35,218,513	\$ 394,393,191	\$ 429,611,704

See accompanying notes to financial statements.

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

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs						
Governmental activities:						
General government	\$ 3,642,812	\$ 351,077	\$ 2,579,734	\$ (712,001)	\$ -	\$ (712,001)
Housing assistance	36,216,058	1,474,522	34,741,536	-	-	-
Housing development	7,628,873	375,616	-	(7,253,257)	-	(7,253,257)
Total governmental activities	<u>47,487,743</u>	<u>2,201,215</u>	<u>37,321,270</u>	<u>(7,965,258)</u>	<u>-</u>	<u>(7,965,258)</u>
Business-type activities:						
Administrative	15,024,003	13,616,394	-	-	(1,407,609)	(1,407,609)
Single-Family mortgage loan programs	15,765,843	23,233,471	4,632,079	-	12,099,707	12,099,707
Federal programs	147,452,795	-	148,568,769	-	1,115,974	1,115,974
Program fund programs	511,960	208,999	114,081	-	(188,880)	(188,880)
Total business-type activities	<u>178,754,601</u>	<u>37,058,864</u>	<u>153,314,929</u>	<u>-</u>	<u>11,619,192</u>	<u>11,619,192</u>
Total functions/programs	<u>\$ 226,242,344</u>	<u>\$ 39,260,079</u>	<u>\$ 190,636,199</u>	<u>(7,965,258)</u>	<u>11,619,192</u>	<u>3,653,934</u>
General revenue:						
Documentary stamp taxes				14,756,806	-	14,756,806
Total general revenue and transfers				<u>14,756,806</u>	<u>-</u>	<u>14,756,806</u>
Changes in net position				<u>6,791,548</u>	<u>11,619,192</u>	<u>18,410,740</u>
Net position, beginning of year, as originally reported				28,426,965	395,020,743	423,447,708
Implementation effect of GASB Statement No. 75				<u>-</u>	<u>(12,246,744)</u>	<u>(12,246,744)</u>
Net position, beginning of year, as restated				<u>28,426,965</u>	<u>382,773,999</u>	<u>411,200,964</u>
Net position, end of year				<u>\$ 35,218,513</u>	<u>\$ 394,393,191</u>	<u>\$ 429,611,704</u>

See accompanying notes to financial statements.

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

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2018

	Housing Trust Fund	SC Help Fund	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 27,560,470	\$ 38,597,703	\$ 66,158,173
Accounts receivable:			
Due from other funds	34,481	188,363	222,844
Due from primary government	1,521,070	-	1,521,070
Loans receivable	302,673	-	302,673
Accrued interest receivable:			
Loans	3,610	-	3,610
Deposits and investments	-	49,415	49,415
Total current assets	<u>29,422,304</u>	<u>38,835,481</u>	<u>68,257,785</u>
Noncurrent assets:			
Loans receivable, net of current portion	5,994,939	-	5,994,939
Total noncurrent assets	<u>5,994,939</u>	<u>-</u>	<u>5,994,939</u>
Total assets	<u><u>\$ 35,417,243</u></u>	<u><u>\$ 38,835,481</u></u>	<u><u>\$ 74,252,724</u></u>
Liabilities and Fund Balance			
Current liabilities:			
Due to other funds	\$ -	\$ 250	\$ 250
Accounts payable and accrued expenses	198,730	252,785	451,515
Total current liabilities	<u>198,730</u>	<u>253,035</u>	<u>451,765</u>
Commitments and contingencies (<i>Note 15</i>)			
Deferred Inflows of Resources			
Deferred inflows due to timing			
restrictions	-	38,582,446	38,582,446
Total deferred inflows of resources	<u>-</u>	<u>38,582,446</u>	<u>38,582,446</u>
Fund Balance:			
Restricted for:			
Housing projects and development	35,218,513	-	35,218,513
Total fund balance	<u>35,218,513</u>	<u>-</u>	<u>35,218,513</u>
Total liabilities and fund balance	<u><u>\$ 35,417,243</u></u>	<u><u>\$ 38,835,481</u></u>	<u><u>\$ 74,252,724</u></u>

See accompanying notes to financial statements.

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

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

YEAR ENDED JUNE 30, 2018

	<u>Housing Trust Fund</u>	<u>SC Help Fund</u>	<u>Totals</u>
Revenues			
Documentary stamp taxes	\$ 14,756,806	\$ -	\$ 14,756,806
Operating program revenue	-	37,321,270	37,321,270
Repayment of assistance funds disbursed	-	1,474,522	1,474,522
Interest on loans	84,781	-	84,781
Interest on deposits and investments	290,835	351,077	641,912
Total revenues	<u>15,132,422</u>	<u>39,146,869</u>	<u>54,279,291</u>
Expenditures			
General government	712,001	2,930,811	3,642,812
Housing assistance	-	36,216,058	36,216,058
Housing development	7,628,873	-	7,628,873
Total expenditures	<u>8,340,874</u>	<u>39,146,869</u>	<u>47,487,743</u>
Excess of revenues over expenditures	<u>6,791,548</u>	<u>-</u>	<u>6,791,548</u>
Changes in fund balance	6,791,548	-	6,791,548
Fund balance, beginning of year	<u>28,426,965</u>	<u>-</u>	<u>28,426,965</u>
Fund balance, end of year	<u>\$ 35,218,513</u>	<u>\$ -</u>	<u>\$ 35,218,513</u>

See accompanying notes to financial statements.

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

STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS

JUNE 30, 2018

	General Operating	Single-Family Finance Programs	Program	Eliminations	Totals
Assets					
Current assets:					
Cash and cash equivalents	\$ 11,204,481	\$ -	\$ 8,812,558	\$ -	\$ 20,017,039
Restricted assets:					
Cash and cash equivalents	11,286,620	72,042,658	-	-	83,329,278
Investments	3,385,607	42,140,609	-	-	45,526,216
Loans receivable	2,827,672	17,165,925	-	-	19,993,597
Accounts receivable - other	-	493,402	-	-	493,402
Accrued interest receivable:					
Loans	32,452	2,183,501	-	-	2,215,953
Deposits and investments	-	922,391	-	-	922,391
Accounts receivable:					
Due from grantor	838,057	-	-	-	838,057
Due from other funds	34,622	-	-	-	34,622
Other	294,761	-	-	-	294,761
Loans receivable	245,984	-	382,791	-	628,775
Accrued interest receivable:					
Loans	36,890	-	9,011	-	45,901
Other current assets	2,558,289	-	-	-	2,558,289
Total current assets	<u>32,745,435</u>	<u>134,948,486</u>	<u>9,204,360</u>	<u>-</u>	<u>176,898,281</u>
Noncurrent assets:					
Loans receivable, net of current portion	8,919,757	-	9,775,536	-	18,695,293
Allowance for doubtful loans	(15,530)	-	(345,698)	-	(361,228)
Restricted assets:					
Investments	-	105,420,008	-	-	105,420,008
Loans receivable, net of current portion	81,188,100	485,134,116	-	-	566,322,216
Allowance for doubtful loans	(480,176)	(334,577)	-	-	(814,753)
Capital assets, net of accumulated depreciation	348,377	-	-	-	348,377
Total noncurrent assets	<u>89,960,528</u>	<u>590,219,547</u>	<u>9,429,838</u>	<u>-</u>	<u>689,609,913</u>
Total assets	<u>\$ 122,705,963</u>	<u>\$ 725,168,033</u>	<u>\$ 18,634,198</u>	<u>\$ -</u>	<u>\$ 866,508,194</u>
Deferred Outflows of Resources					
Deferred loss on refunding	-	911,802	-	-	911,802
Deferred outflows related to pension plan	3,686,134	-	-	-	3,686,134
Deferred outflows related to OPEB plan	363,390	-	-	-	363,390
Total deferred outflows of resources	<u>4,049,524</u>	<u>911,802</u>	<u>-</u>	<u>-</u>	<u>4,961,326</u>

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

STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS

June 30, 2018

	General Operating	Single-Family Finance Programs	Program	Eliminations	Totals
Liabilities					
Current liabilities:					
Liabilities payable from restricted assets:					
Bonds payable	\$ -	\$ 12,520,000	\$ -	\$ -	\$ 12,520,000
Accrued interest payable on bonds	-	7,283,614	-	-	7,283,614
Other liabilities	51,932	-	-	-	51,932
Mortgage escrows	5,720,604	-	-	-	5,720,604
Total liabilities payable from restricted assets	5,772,536	19,803,614	-	-	25,576,150
Accrued compensated absences	593,880	-	-	-	593,880
Accrued salaries and related payroll expenses	885,890	-	-	-	885,890
Due to other funds	257,216	-	-	-	257,216
Unearned revenues	6,105,984	-	-	-	6,105,984
Accounts payable and accrued expenses	258,261	-	-	-	258,261
Total current liabilities	13,873,767	19,803,614	-	-	33,677,381
Noncurrent liabilities:					
Accrued compensated absences, net of current portion	116,348	-	-	-	116,348
Bonds payable, net of current portion and unamortized premiums	-	409,497,660	-	-	409,497,660
Other noncurrent liabilities	373,044	-	-	-	373,044
Net pension liability	15,960,282	-	-	-	15,960,282
Net OPEB liability	11,867,444	-	-	-	11,867,444
Total noncurrent liabilities	28,317,118	409,497,660	-	-	437,814,778
Total liabilities	42,190,885	429,301,274	-	-	471,492,159
Commitments and contingencies (Note 15)					
Deferred Inflows of Resources					
Deferred gain on refunding	-	3,245,851	-	-	3,245,851
Deferred inflows related to pension plan	1,216,329	-	-	-	1,216,329
Deferred inflows related to OPEB plan	1,121,990	-	-	-	1,121,990
Total deferred inflows of resources	2,338,319	3,245,851	-	-	5,584,170
Net Position					
Net investment in capital assets	348,377	-	-	-	348,377
Restricted for:					
Debt service	-	17,273,614	-	-	17,273,614
Bond reserves	-	10,444,950	-	-	10,444,950
Housing projects and development	89,179,979	265,814,146	-	-	354,994,125
Unrestricted	(7,302,073)	-	18,634,198	-	11,332,125
Total net position	\$ 82,226,283	\$ 293,532,710	\$ 18,634,198	\$ -	\$ 394,393,191

See accompanying notes to financial statements.

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES FUND IN NET POSITION - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2018

	General Operating	Single-Family Finance Programs	Program	Eliminations	Totals
Operating Revenue					
Interest and other charges on loans	\$ 1,269,883	\$ 23,233,471	\$ 185,198	\$ -	\$ 24,688,552
Interest on deposits and investments	105,324	6,495,862	114,081	-	6,715,267
Net increase (decrease) in the fair value of investments	9,457	(2,028,124)	-	-	(2,018,667)
Administrative fees and other	14,622,208	164,341	23,801	(2,390,478)	12,419,872
Total operating revenues	<u>16,006,872</u>	<u>27,865,550</u>	<u>323,080</u>	<u>(2,390,478)</u>	<u>41,805,024</u>
Operating Expenses					
Bond interest	-	14,023,096	-	-	14,023,096
Program services	-	1,624,570	-	(1,384,284)	240,286
General and administrative	15,957,108	-	-	(1,006,194)	14,950,914
Bond issuance expense	-	614,171	-	-	614,171
Depreciation of capital assets	73,089	-	-	-	73,089
Other expenses	210,696	177,483	500,111	-	888,290
Total operating expenses	<u>16,240,893</u>	<u>16,439,320</u>	<u>500,111</u>	<u>(2,390,478)</u>	<u>30,789,846</u>
Operating Income (Loss)	<u>(234,021)</u>	<u>11,426,230</u>	<u>(177,031)</u>	<u>-</u>	<u>11,015,178</u>
Non-operating Revenues (Expenses)					
Federal grant and contract revenue	148,568,769	-	-	-	148,568,769
Housing assistance payments and grant awards disbursed	(147,452,795)	-	(511,960)	-	(147,964,755)
Total non-operating revenues (expenses)	<u>1,115,974</u>	<u>-</u>	<u>(511,960)</u>	<u>-</u>	<u>604,014</u>
Income (Loss) Before Transfers	<u>881,953</u>	<u>11,426,230</u>	<u>(688,991)</u>	<u>-</u>	<u>11,619,192</u>
Transfers					
Transfers in	1,133,721	2,697,960	-	(3,831,681)	-
Transfers out	(2,713,606)	(1,118,075)	-	3,831,681	-
Total transfers	<u>(1,579,885)</u>	<u>1,579,885</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	<u>(697,932)</u>	<u>13,006,115</u>	<u>(688,991)</u>	<u>-</u>	<u>11,619,192</u>
Net position, beginning of year, as originally reported	95,170,959	280,526,595	19,323,189	-	395,020,743
Implementation effect of GASB Statement No. 75	(12,246,744)	-	-	-	(12,246,744)
Net position, beginning of year, as restated	<u>82,924,215</u>	<u>280,526,595</u>	<u>19,323,189</u>	<u>-</u>	<u>382,773,999</u>
Net position, end of year	<u>\$ 82,226,283</u>	<u>\$ 293,532,710</u>	<u>\$ 18,634,198</u>	<u>\$ -</u>	<u>\$ 394,393,191</u>

See accompanying notes to financial statements.

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

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2018

	General Operating	Single-Family Finance Programs	Program	Eliminations	Totals
Cash Flows From Operating Activities					
Receipt of loan principal payments	\$ 4,448,089	\$ 59,381,394	\$ 1,845,740	\$ -	\$ 65,675,223
Receipt of loan interest payments	1,270,025	23,178,391	181,773	-	24,630,189
Purchases/originations of new loans	(2,928,682)	(97,985,843)	(2,686,016)	-	(103,600,541)
Administrative fees and other	16,744,202	164,343	23,801	(2,390,478)	14,541,868
Payments to employees	(10,399,452)	-	-	-	(10,399,452)
Payments to vendors	(6,486,773)	(2,124,432)	(11,787)	2,390,478	(6,232,514)
Net cash flows provided by (used for) operating activities	2,647,409	(17,386,147)	(646,489)	-	(15,385,227)
Cash Flows from Capital and Related Financing Activities					
Purchases of equipment	(257,156)	-	-	-	(257,156)
Net cash flows used for capital and related financing activities	(257,156)	-	-	-	(257,156)
Cash Flows from Noncapital Financing Activities					
Transfers from other programs	1,133,721	2,697,960	-	(3,831,681)	-
Transfers to other programs	(2,713,606)	(1,118,075)	-	3,831,681	-
Loans from (to) other programs	-	-	-	-	-
Proceeds from sale of bonds	-	55,000,000	-	-	55,000,000
Premium received from sale of bonds	-	2,152,040	-	-	2,152,040
Receipts from HUD	148,272,667	-	-	-	148,272,667
Payments of housing assistance and grants	(147,472,024)	-	(511,960)	-	(147,983,984)
Proceeds from sale of bonds	-	-	-	-	-
Premium received from sale of bonds	-	-	-	-	-
Proceeds from sale of notes	-	-	-	-	-
Principal payments on bonds payable	-	(60,680,000)	-	-	(60,680,000)
Principal payments on notes	-	-	-	-	-
Interest payments on bonds payable	-	(15,503,197)	-	-	(15,503,197)
Payment of bond issuance costs	-	-	-	-	-
Net cash flows used for noncapital financing activities	(779,242)	(17,451,272)	(511,960)	-	(18,742,474)
Cash Flows from Investing Activities					
Purchases of investments	(611,787)	(9,689,574)	-	-	(10,301,361)
Proceeds from sales of investments	-	78,699,967	-	-	78,699,967
Income on deposits and investments	105,324	6,397,247	114,081	-	6,616,652
Net cash flows provided by (used for) investing activities	(506,463)	75,407,640	114,081	-	75,015,258
Net increase (decrease) in cash and cash equivalents	1,104,548	40,570,221	(1,044,368)	-	40,630,401
Cash and cash equivalents, beginning of year	21,386,553	31,472,437	9,856,926	-	62,715,916
Cash and cash equivalents, end of year	\$ 22,491,101	\$ 72,042,658	\$ 8,812,558	\$ -	\$ 103,346,317

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

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2018

	General Operating	Single-Family Finance Programs	Program	Totals
Reconciliation of Operating Income (Loss) to Net Cash Flows Provided by (Used for) Operating Activities:				
Operating income (loss)	\$ (234,021)	\$ 11,426,230	\$ (177,031)	\$ 11,015,178
Adjustments to reconcile operating income (loss) to net cash flows provided by (used for) operating activities:				
Depreciation	73,089	-	-	73,089
Provision for loan losses	(490)	101,190	143,530	244,230
Net (increase) decrease in the fair value of investments	(9,458)	2,028,125		2,018,667
Gain on bond extinguishment	-	-	-	
Bond discount amortization	-	-	-	
Deferred gain on refunding	-	-	-	
Deferred loss on refunding	-	-	-	
Bond issuance cost amortization	-	-	-	
Loss on bond extinguishment	-	-	-	
Deferral of pension contributions subsequent to measurement date	(115,768)	-	-	(115,768)
Pension expense related to recognition of net pension liability	747,405	-	-	747,405
Deferral of OPEB contributions subsequent to measurement date	(342,999)	-	-	(342,999)
OPEB expense related to recognition of net OPEB liability	722,299	-	-	722,299
Bonds interest expense reclassified to noncapital financing activities	-	14,023,095	-	14,023,095
Income on deposits and investments reclassified to investing activities	(48,933)	(6,495,862)	(114,081)	(6,658,876)
Change in assets and liabilities:				
Loans receivable	1,414,460	(38,413,846)	(496,273)	(37,495,659)
Accounts receivable	82,721	-	-	82,721
Prepaid expenses	(978,125)	-	-	(978,125)
Accounts payable, accrued expenses and due to grantor	857,358	-	-	857,358
Mortgage escrows	250,784	-	-	250,784
Other liabilities	219,249	-	-	219,249
Accrued interest receivable-loans	9,838	(55,079)	(2,634)	(47,875)
Total adjustments	2,881,430	(28,812,377)	(469,458)	(26,400,405)
Net cash flows provided by (used for) operating activities	<u>\$ 2,647,409</u>	<u>\$ (17,386,147)</u>	<u>\$ (646,489)</u>	<u>\$ (15,385,227)</u>

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

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2018

Noncash Noncapital Financing Activities

- a. Interest payments on bonds do not include \$1,240,736 amortization of bond premiums, \$0 amortization of bond discounts, \$144,573 of amortization of deferred losses on refundings of debt, and \$349,672 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 a decrease in the fair value of investments in the amount of \$2,018,667 for the fiscal year ended June 30, 2018.
- c. The Authority recorded \$365,764 of amortization of servicing release premiums and \$354,598 of amortization of deferred fee revenue in the General Operating Fund.

	General Operating	Single Family Finance Program	Program	Total
Cash is reported on the Statement of Net Position as:				
Cash and cash equivalents	\$ 11,204,481	\$ -	\$ 8,812,558	\$ 20,017,039
Restricted cash and cash equivalents	11,286,620	72,042,658	-	83,329,278
Total cash and cash equivalents	<u>\$ 22,491,101</u>	<u>\$ 72,042,658</u>	<u>\$ 8,812,558</u>	<u>\$ 103,346,317</u>

See accompanying notes to financial statements.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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 in the United States of America (GAAP) as applied to governmental entities. The Governmental 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 during 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 during 1982 (31-13-70), 1983 (31-13-80), 1986 (31-1-340), 1988 (31-13-50) and 1990 (31-13-200).

The South Carolina State Housing Act empowers the Authority to enter into grants and contracts with the federal government and to issue bonds and notes. During 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
YEAR ENDED JUNE 30, 2018

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 this 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 bond 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
YEAR ENDED JUNE 30, 2018

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 balance that are not available for appropriation and are legally segregated for a specified use are presented as restricted in the entity-wide and fund statements.

1.B.1.a The Housing Trust Fund, a special revenue fund, was established during 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. On February 19, 2016, Treasury announced that it would extend the program through 2020, and make \$22.1 million of additional assistance available to the Authority under the program. The total program award is currently \$317.5 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
YEAR ENDED JUNE 30, 2018

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 of South Carolina'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
YEAR ENDED JUNE 30, 2018

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 during 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 during 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 liabilities associated with the operation of these funds are included on the Statement of Fund Net Position. 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 during the accounting period in which they are earned and become measurable; expenses are recognized during the period incurred, if measurable.

Transfers of financial resources among funds are recognized in all affected funds during 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 Programs 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 bond indentures, net restricted position not restricted for the respective bond reserves of the Single Family Finance Programs 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
YEAR ENDED JUNE 30, 2018

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 premiums and deferred losses and 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 revenues 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 revenues when earned.

Funds granted and passed through by the Authority are included in the accompanying financial statements in the General Operating Fund as non-operating revenues and expenses.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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 and cash on deposit with the State Treasurer's Office.

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 of South Carolina's 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 cash management 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 of South Carolina's cash management pool consists of a general deposit account and several special deposit accounts. The State of South Carolina 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 of South Carolina.

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 cash management 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 cash management 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 cash management 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*.

The Authority has funds in State Treasurer accounts not included in the State's 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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

1. Summary of Significant Accounting Policies (Continued)

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 State of South Carolina's cash management pool are recorded at fair value and unrealized gains or losses are reported in the Statement of Revenues, Expenses and Changes in Net Position.

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, the Authority uses valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value of investments.

1.I Loans Receivable

Loans receivable consist of mortgage loans, which are carried at par. Most mortgage loans in the Single Family Finance Programs Fund as well as the single family mortgage loans of approximately \$12 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 78% 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.

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 during 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 and equipment. Currently, the Authority owns personal property only and owns no real property (land, buildings, attachments, etc.).

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

1. Summary of Significant Accounting Policies (Continued)

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 month) are entitled to accrue and carry forward calendar year-end maximums of 180 days sick and 45 days of 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 General Operating Fund on the Statement of Net Fund Position under current and noncurrent liabilities as appropriate.

1.M Rebutable 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 to 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, 2018, the Authority had no arbitrage rebate liability associated with the Authority's Mortgage Revenue Bonds outstanding.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

1. Summary of Significant Accounting Policies (Continued)

1.N Budget Policy

The Appropriations Act as enacted by the General Assembly becomes the legal operating budget for the Authority. The Appropriations Act authorizes expenditures from funds appropriated from the General Fund of the State of South Carolina and authorizes expenditures of Total Funds. The Total Funds column in the Appropriations 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 of South Carolina's budgetary accounting system only if enough appropriation authorization exists and generally if sufficient cash is on hand.

1.O Operating and Non-operating Revenues and Expenses

The Authority distinguishes operating revenues and expenses from non-operating 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 non-operating revenues and expenses.

1.P Net Position and Fund Balance

Net position or fund balance is 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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

1. Summary of Significant Accounting Policies (Continued)

1.P Net Position and Fund Balance (Continued)

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 fiscal year ended June 30, 2011. GASB Statement No. 54 established 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, 2018.

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.

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 Pension

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), as well as additions to and deductions from SCRS' fiduciary net position, have been determined on the same basis as they are reported by SCRS. 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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

1. Summary of Significant Accounting Policies (Continued)

1.S Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the South Carolina Retiree Health Insurance Trust Fund (SCRHITF), as well as additions to and deductions from SCRHITF's fiduciary net position, have been determined on the same basis as they are reported by SCRHITF. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Therefore, benefit and administrative expenses are recognized when due and payable. Investments are reported at fair value.

1.T Deferred Outflows of Resources and Deferred Inflows of Resources

Changes in the net pension liability, net OPEB liability not included in pension expense or OPEB expense, respectively, and advances from US Treasury are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions made subsequent to the measurement date of the net pension liability and net OPEB 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, projected and actual returns on investments, deferred amounts from changes in the Authority's proportionate share, changes in assumptions, and differences between the Authority's contributions and its proportionate share of the total employer contributions to the plans. Deferred outflows of resources and deferred inflows of resources also include deferred losses and deferred gains on bond refundings, respectively.

1.U Adoption of New Accounting Standards

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was adopted by the Authority effective July 1, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of GASB Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

1. Summary of Significant Accounting Policies (Continued)

1.V Subsequent Events

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through October 5, 2018, the date these financial statements were available to be issued.

2. Deposits and Investments

<u>Financial Statements</u>		<u>Footnotes</u>	
Current assets:		Deposits:	
Cash and cash equivalents:		Deposits held by State	
Unrestricted	\$ 20,017,039	Treasurer	\$ 46,678,503
Restricted	149,487,451	Deposits with banks	122,825,987
Investments:		Total deposits	<u>169,504,490</u>
Unrestricted	-	Investments:	
Restricted	45,526,216	Treasurer	45,526,216
Non-current assets:		Other investments	105,420,008
Investments:		Total investments	<u>150,946,224</u>
Restricted	105,420,008		
Total	<u>\$ 320,450,714</u>	Total	<u>\$ 320,450,714</u>

2.A Deposits

All deposits of the Authority are insured or collateralized by using the dedicated method. Under the dedicated method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by each of the depository banks. At June 30, 2018, the Authority's cash had a carrying amount of \$122,825,987 and a bank balance of \$124,035,499. Of that balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the dedicated method.

2.B Deposits Held by State Treasurer

State law requires full collateralization of all deposits and investments of State funds. The depository institution must correct any deficiencies in collateral within seven days. With respect to investments in the State's 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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

2. Deposits and Investments (Continued)

2.C Investments

At June 30, 2018, the Authority's investment balances were as follows:

	Fair Value	Less Than 1 Year	Greater Than 1 Year
SC State Treasurer Pool	\$ 45,526,216	\$ 45,526,216	\$ -
Government National Mortgage Association Insured Mortgage Backed Securities (GNMAs)	93,817,370	-	93,817,370
Federal National Mortgage Association Mortgage Backed Securities (FNMAs)	11,602,638	-	11,602,638
Totals	\$ 150,946,224	\$ 45,526,216	\$ 105,420,008

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The Authority has the following recurring fair value measurements as of June 30, 2018: The South Carolina Treasurer's Pool of \$45,526,216 is valued using quoted prices for similar assets or liabilities in active markets (Level 2 inputs). GNMAs of \$93,817,370 and FNMAs of \$11,602,638 are valued using a matrix pricing model (Level 2 inputs).

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. It is the Authority's policy to limit interest rate risk by calling debt as quickly as allowed. During the fiscal year ended June 30, 2018, the Authority called approximately \$56 million in debt prior to maturity.

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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

2. Deposits and Investments (Continued)

2.D.3 Credit Risk

The Authority follows Section 11-9-660 of the South Carolina Code of Laws regarding credit risk. The Authority places a portion of its funds on deposit in the State's cash management pool. Although the State's 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.

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 62.1%, State Treasurer Investment Pools 30.2%, and FNMA's 7.7%.*

2.E Restricted Deposits and Investments

Under provisions of applicable bond 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 Funds 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, 2018 are as follows:

	<u>Reserve Requirements</u>	<u>Actual Funding</u>	<u>Over</u>
Single Family Indenture Bond Reserve Funds	\$ 2,294,850	\$ 2,640,450	\$ 345,600
Mortgage Revenue Indenture Bond Reserve Funds	<u>8,150,100</u>	<u>8,265,257</u>	<u>115,157</u>
Totals	<u>\$10,444,950</u>	<u>\$10,905,707</u>	<u>\$ 460,757</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

3. Loans Receivable

Loans receivable consist of the following:

Governmental Funds

Housing Trust Fund notes maturing on various dates from 2018-2045 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 \$0.

\$ 6,297,612

Total governmental funds

\$ 6,297,612

Proprietary Funds

General Operating Fund notes maturing on various dates from 2018-2058 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 \$495,706.

\$ 92,685,807

Program Fund notes maturing on various dates from 2018-2030 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 \$345,698.

9,812,629

Single Family Finance Programs notes maturing on various dates from 2018-2048 plus interest ranging from 3.000%-9.500% per annum, payable in monthly installments of principal and interest, reported net of allowance for doubtful accounts of \$334,577.

501,965,464

Total proprietary funds

\$ 604,463,900

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

4. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	<u>June 30, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2018</u>
Equipment and furniture	\$ 1,839,825	\$ 257,156	\$ -	\$ 2,096,981
Accumulated depreciation	(1,675,515)	(73,089)	-	(1,748,604)
Capital assets, net of accumulated depreciation	<u>\$ 164,310</u>	<u>\$ 184,067</u>	<u>\$ -</u>	<u>\$ 348,377</u>

5. Changes in Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended June 30, 2018 was as follows:

	<u>June 30, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2018</u>	<u>Due within One Year</u>
Bonds payable	\$ 415,900,000	\$ 55,000,000	\$ 60,680,000	\$ 410,220,000	\$ 12,520,000
Unamortized premiums	10,886,356	2,152,040	1,240,736	\$ 11,797,660	-
Total bonds payable	<u>426,786,356</u>	<u>57,152,040</u>	<u>61,920,736</u>	<u>422,017,660</u>	<u>12,520,000</u>
Net pension liability	14,431,143	1,529,139	-	15,960,282	-
Net OPEB liability	12,246,744	-	379,300	11,867,444	-
Accrued compensated absences	798,473	505,635	593,880	710,228	593,880
Other noncurrent liabilities	<u>559,566</u>	<u>186,522</u>	<u>186,522</u>	<u>559,566</u>	<u>186,522</u>
Total other long-term liabilities	<u>28,035,926</u>	<u>2,221,296</u>	<u>1,159,702</u>	<u>29,097,520</u>	<u>780,402</u>
Total long-term liabilities	<u>\$ 454,822,282</u>	<u>\$ 59,373,336</u>	<u>\$ 63,080,438</u>	<u>\$ 451,115,180</u>	<u>\$ 13,300,402</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

6. Bonds Payable

At June 30, 2018, bonds payable, including unamortized premiums, consisted of the following:

	Date Issued	Issue Amount	Outstanding Balance
Single Family Mortgage Purchase Bonds			
(5.00% to 5.50%) due 2018-2035	09/11/98	\$ 106,975,000	\$ 76,495,000
Plus: Unamortized premium			488,845
			<u>76,983,845</u>
Mortgage Revenue Bonds			
2012A (2.524% to 4.00%) due 2018-2034	09/26/12	65,710,000	7,805,000
2014A (1.85% to 4.00%) due 2018-2041	12/16/14	87,115,000	55,795,000
2015A (2.217% to 4.023%) due 2018-2037	07/07/15	39,595,000	24,075,000
2016A (0.90% to 4.00%) due 2018-2036	02/23/16	30,000,000	23,975,000
2016B (0.90% to 4.00%) due 2018-2043	08/02/16	67,000,000	57,190,000
2017A (1.35% to 4.00%) due 2018-2047	01/19/17	50,000,000	48,155,000
2017B (0.85% to 4.00%) due 2018-2047	09/07/17	55,000,000	54,675,000
			<u>271,670,000</u>
Plus: Unamortized premium			10,554,490
			<u>282,224,490</u>
Homeownership Revenue Bonds			
2010-1 (3.70% to 5.00%) due 2018-2028	07/01/10	100,000,000	5,665,000
2010-2 (5.00%) due 2018-2027	12/09/10	40,000,000	720,000
2011-1 (2.32% to 4.50%) due 2018-2041	10/20/11	70,000,000	31,350,000
2013-1 (2.95%) due 2041	04/17/13	50,110,000	24,320,000
			<u>62,055,000</u>
Plus: Unamortized premium			754,325
			<u>62,809,325</u>
Total bonds payable, including unamortized premiums			<u><u>\$ 422,017,660</u></u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

6. Bonds Payable (Continued)

Amounts, including interest, required to complete payment of the bond obligations as of June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2019	\$ 61,570,000	\$ 13,824,616	\$ 75,394,616
2020	15,115,000	12,179,086	27,294,086
2021	15,635,000	11,694,060	27,329,060
2022	16,160,000	11,169,118	27,329,118
2023	16,770,000	10,600,541	27,370,541
2024-2028	76,965,000	43,842,819	120,807,819
2029-2033	73,550,000	30,915,848	104,465,848
2034-2038	65,360,000	17,670,513	83,030,513
2039-2043	54,210,000	7,490,250	61,700,250
2044-2048	14,885,000	1,391,925	16,276,925
Total	<u>\$ 410,220,000</u>	<u>\$ 160,778,776</u>	<u>\$ 570,998,776</u>

On July 1, 2018, the Authority optionally called \$43,955,000 of Single Family Bonds and \$5,095,000 of Mortgage Revenue Bonds.

The Authority has the option to redeem most of its bonds prior to maturity as specified under each bond issue. These early redemptions are funded by mortgage pre-payments and other income. The mortgage pre-payment 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 fiscal year ended June 30, 2018:

Single Family Finance Programs:

Mortgage Revenue Bonds

Series 2012 A	\$ 9,535,000
Series 2014 A	16,550,000
Series 2015 A	5,710,000
Series 2016A	3,380,000
Series 2016B	6,575,000
Series 2017A	1,845,000
Series 2017B	325,000

Homeownership Revenue Bonds

Series 2010-1	2,335,000
Series 2010-2	780,000
Series 2011-1	5,960,000
Series 2013-1	3,235,000

Total	<u>\$ 56,230,000</u>
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SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

6. Bonds Payable (Continued)

During September 2017, the Authority issued \$55,000,000 in Mortgage Revenue Bonds, Series 2017B, with fixed interest rates ranging from 0.85% to 4.00%. The proceeds will purchase first-time homeowner mortgages. The Series 2017B Bonds were issued at a premium of \$2,152,040 with issuance costs and underwriters fees of \$625,000.

Bond premium amortized for the fiscal year ended June 30, 2018 and attributable to the Single Family Finance Programs Fund bonds totaled \$1,445,835 and was reported as interest expense in the fund.

Amortization of net deferred gains on refundings of debt of \$205,099 for the fiscal year ended June 30, 2018 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, 2018, the Authority was obligated under various operating leases with external parties for office space and office equipment having non-cancelable lease terms in excess of one year.

The lease for office space was renewed for seven years from November 1, 2016 to October 31, 2023. The first year of the renewal reflects an initial decrease of 6.7% in lease payments; however, the lease escalates 2.5% annually for each subsequent year.

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>	
2019	\$ 342,845
2020	351,417
2021	360,202
2022	369,207
2023	378,437
Thereafter	<u>127,180</u>
Total leases with external entities	<u>\$ 1,929,288</u>

The Authority incurred rental expense of \$334,483 under the aforementioned leases for the fiscal year ended June 30, 2018.

The Authority also leases motor vehicles from the Department of Administration which can be cancelled with a 30 day-notice. Under this agreement, the Authority incurred expenses of \$150,474 during the fiscal year ended June 30, 2018.

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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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 \$0.20 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.
- Services provided at no cost from various divisions of the Department of Administration include grant services, personnel management, review, and approval of certain budget amendments, procurement services, and other centralized functions. The Authority paid \$186,522 through the Statewide Cost Allocation Plan during the fiscal year ended June 30, 2018.
- Financial transactions include payments to divisions of the Department of Administration 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 2018 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 fiscal year ended June 30, 2018 are as follows:

- \$2,697,960 from the General Operating Fund to the Mortgage Revenue Bond Fund to fund the Series 2017B cost of issuance, capitalized interest and bond reserve.
- \$1,118,075 from the Single Family Finance Programs Fund to the General Operating Fund to pay loan purchase fees and fund escrows.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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.

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

1. Claims of State employees for unemployment compensation benefits (South Carolina 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 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 expenses 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
YEAR ENDED JUNE 30, 2018

11. Conduit Debt

The Authority has issued bonds to provide financing 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 of South Carolina, and accordingly, have not been reported in the accompanying financial statements.

Issue Date	Bond/Note Title	Original Issue Amount	Amount Outstanding
Fiscal Year 2004 (03/04)			
04/04	Multifamily Rental Housing Revenue Bonds (Hillandale Apartments Project)	\$ 6,660,000	\$ 4,950,000
06/04	Multifamily Rental Housing Revenue Bonds (Canebreak Apartments Project)	4,500,000	3,618,200
Fiscal Year 2005 (04/05)			
07/04	Multifamily Rental Housing Revenue Bonds (Bayside Apartments Project)	17,250,000	16,665,000
12/04	Multifamily Rental Housing Revenue Bonds (Wyndham Pointe Apartments Project)	9,400,000	6,605,645
12/04	Multifamily Rental Housing Revenue Bonds (Planters Retreat Apartments Project)	11,850,000	10,053,210
05/05	Multifamily Rental Housing Revenue Bonds (Wenmont Apartments Project)	6,210,000	5,477,627
Fiscal Year 2006 (05/06)			
09/05	Multifamily Rental Housing Revenue Bonds (Hallmark Homes Apartments Project)	12,840,000	9,420,454
09/05	Multifamily Rental Housing Revenue Bonds (Appian Way Apartments Project)	11,600,000	10,000,000
09/05	Multifamily Rental Housing Revenue Bonds (Cross Creek Apartments Project)	8,850,000	8,121,378
01/06	Multifamily Rental Housing Revenue Bonds (Rocky Creek Apartments Project)	12,745,000	5,875,000
Fiscal Year 2008 (07/08)			
01/08	Multifamily Rental Housing Revenue Bonds (Bridle Ridge Apartments)	7,885,000	7,430,000
Fiscal Year 2009 (08/09)			
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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

11. Conduit Debt (Continued)

Issue Date	Bond/Note Title	Original Issue Amount	Amount Outstanding
Fiscal Year 2011 (10/11)			
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	945,000
Fiscal Year 2015 (14/15)			
11/14	Multifamily Rental Housing Revenue Bonds (Ashley Arms Apartments)	6,600,000	6,510,000
11/14	Multifamily Rental Housing Revenue Bonds (Palmilla Apartments)	14,385,000	14,385,000
5/15	Multifamily Rental Housing Revenue Bonds (Village at River's Edge)	11,000,000	9,969,493
Fiscal Year 2016 (15/16)			
12/15	Multifamily Rental Housing Revenue Bonds (Columbia Gardens)	15,000,000	13,128,000
12/15	Multifamily Rental Housing Revenue Bonds (Willow Run)	15,000,000	12,945,000
Fiscal Year 2017 (16/17)			
07/16	Multifamily Rental Housing Revenue Loan (Waters at St James)	30,250,000	30,250,000
08/16	Multifamily Rental Housing Revenue Bonds (The Colony)	13,812,000	13,812,000
12/16	Multifamily Rental Housing Revenue Bonds (Waters at Berryhill)	7,250,000	7,250,000
12/16	Multifamily Rental Housing Revenue Bonds (Waters at Longcreek)	9,075,000	9,075,000
Fiscal Year 2018 (17/18)			
07/17	Multifamily Rental Housing Revenue Bonds (Various Rural Housing Properties)	24,948,000	24,948,000
11/17	Multifamily Rental Housing Revenue Bonds (Waters at Willow Lake)	9,500,000	2,827,711
Total		<u>\$292,560,000</u>	<u>\$258,416,718</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

12. Pension Plan

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an eleven member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems (Systems) and serves as co-trustee of the Systems in conducting that review. Effective July 1, 2017, the Retirement System Funding and Administration Act of 2017 assigned the PEBA Board of Directors as the Custodian of the Retirement Trust Funds and assigned PEBA and Retirement Systems Investment Commission (RSIC) as co-trustees of the Retirement Trust Funds.

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to and deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles (GAAP). For this purpose, 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. Investments are reported at fair value.

PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefit's link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the State of South Carolina and therefore, retirement trust fund financial information is also included in the State's CAFR.

12.A Plan Description

The South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the State, its public school districts, and political subdivisions.

The State Optional Retirement Program (State ORP) is a defined contribution plan that is offered as an alternative to SCRS to newly hired State, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

12. Pension Plan (Continued)

12.B Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

The majority of employees of the Authority are covered by SCRS. 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 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 Two member. A member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

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 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. Employee and employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution and a portion of the employer's contribution (five percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution, if applicable, which is retained by SCRS.

12.C Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the South Carolina Code of Laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of the benefit terms for the SCRS is presented below.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

12. Pension Plan (Continued)

12.C Benefits (Continued)

Under SCRS, a Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age sixty-five or with twenty-eight years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age fifty-five with twenty-five years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least ninety years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age sixty if they satisfy the five or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The Teacher and Employee Retention Incentive (TERI) program, established by Section 9-1-2210 of the South Carolina Code of Laws, 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. The TERI program ended June 30, 2018 and a member's participation may not continue after this date.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1st. Only those annuitants in receipt of a benefit on July 1st of the preceding year are eligible to receive the increase.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

12. Pension Plan (Continued)

12.D Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the percentage rate in the SCRS employer and employee contribution rates on the basis of actuarial valuations, but any such increase may not result in a differential between the employee and total employer contribution rate that exceeds 2.9 percent of earnable compensation for 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 PEBA 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; this increase is not limited to one-half of one percent per year.

If the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than ninety percent, then the PEBA Board, effective on the following July 1st, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than ninety percent. Any decrease in contribution rates must maintain the 2.9 differentials between the SCRS employer and employee contribution rates. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than ninety percent, then effective on the following July 1st, and annually thereafter as necessary, the PEBA Board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 90 percent.

The Retirement System Funding and Administration Act increases employer contribution rates to 13.56 percent for SCRS, effective July 1, 2017. It also removes the 2.9 percent differential and increases and establishes a ceiling on employee contribution rates at 9 percent for SCRS. The employer contribution rates will continue to increase annually by 1 percent through July 1, 2022. The legislation's ultimate scheduled employer rate is 18.56% for SCRS. The amortization period is scheduled to be reduced one year for each of the next ten years to a twenty year amortization schedule. The recent pension reform legislation also changes the long term funded ratio requirement from ninety to eighty-five.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

12. Pension Plan (Continued)

12.D Contributions (Continued)

Required employee contribution rates are as follows:

	<u>Fiscal Year 2018</u>	<u>Fiscal Year 2017</u>
SCRS		
Employee Class Two	9.00%	8.66%
Employee Class Three	9.00%	8.66%
State ORP		
Employee	9.00%	8.66%

Required employer contribution rates are as follows:

	<u>Fiscal Year 2018</u>	<u>Fiscal Year 2017</u>
SCRS		
Employer Class Two	13.41%	11.41%
Employer Class Three	13.41%	11.41%
Employer Incidental Death Benefit	0.15%	0.15%
State ORP		
Employer Contribution	13.41%	11.41%
Employer Incidental Death Benefit	0.15%	0.15%

The Authority's actual retirement and incidental death benefit program contributions to the SCRS for the fiscal year ended June 30, 2018 were \$907,016 and \$9,699 respectively.

12.E Net Pension Liability

At June 30, 2018, the Authority reported a liability of \$15,960,282 for its proportionate share of the net pension liability of the SCRS. The net pension liability of the SCRS was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016 projected forward to June 30, 2017. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the Authority's SCRS proportion was 0.070898 percent.

For the year ended June 30, 2018, the Authority recognized gross pension expense of \$1,574,333 for SCRS.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

12. Pension Plan (Continued)

12.E Net Pension Liability, Continued)

The net pension liability is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67 less that System's fiduciary net position. Net pension liability totals, as of June 30, 2017, for SCRS is presented below:

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	\$48,244,437,494	\$25,732,829,268	\$22,511,608,226	53.30%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Statement Nos. 67 and 68 are not applicable for other purposes, such as determining the plans' funding requirements.

12.F Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plan

At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to the pension plan from the following sources:

Deferred Outflows of Resources	SCRS
Differences between expected and actual experience	\$ 71,151
Net difference between projected and actual earnings on pension plan investments	\$1,287,596
Deferred amounts from changes in proportionate share and differences between employer contributions and proportionate share of total pension plan employer contributions	\$ 486,068
Changes in assumptions	\$ 934,303
Pension contributions subsequent to the measurement date	\$ 907,016
Deferred Inflows of Resources	
Difference between expected and actual experience	\$ 8,846
Net difference between projected and actual earnings on pension plan investments	\$ 842,060
Deferred amounts from changes in proportionate share and differences between employer contributions and proportionate share of total pension plan employer	\$ 365,423

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

contributions

12. Pension Plan (Continued)

12.F Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plan (Continued)

The \$907,016 reported as deferred outflows of resources related to the pension plan resulting from the Authority's contributions paid subsequent to the measurement date for the SCRS plan during the year ended June 30, 2018 will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension plan will be recognized in pension expense as follows for the SCRS plan:

<u>Year Ending June 30.</u>	<u>SCRS</u>
2019	\$393,067
2020	685,411
2021	596,073
2022	(111,762)
2023	—
Thereafter	—

During fiscal year 2018, the Authority recognized net pension expense from the deferred outflows of resources and deferred inflows of resources related to the pension plan of \$747,405.

12.G Actuarial Assumptions and Methods

Actuarial valuations of the ongoing plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina State statute requires that an actuarial experience study be completed at least once in a five-year period. An experience report on the Systems was most recently issued as of July 1, 2015.

The June 30, 2017, total pension liability, net pension liability, and sensitivity information shown in this report were determined by the consulting actuarial firm of Gabriel, Roeder, Smith and Company (GRS) and was based on an actuarial valuation performed as of July 1, 2016. The total pension liability was rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2017, using generally accepted actuarial principles. The Retirement System Funding and Administration Act was signed into law on April 25, 2017, and included a provision to reduce the assumed rate of return from 7.50% to 7.25% effective July 1, 2017. As a result of this legislation, GRS made an adjustment to the calculation of the roll-forward total pension liability for this assumption change as of the measurement date of June 30, 2017.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
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YEAR ENDED JUNE 30, 2018

12. Pension Plan (Continued)

12.G Actuarial Assumptions and Methods (Continued)

The following table provides a summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2017.

	<u>SCRS</u>
Actuarial Cost Method	Entry age normal
Actuarial Assumptions:	
Investment Rate of Return	7.25%
Projected Salary Increases	3.0% to 12.5% (varies by service) ¹
Benefit Adjustments	Lesser of 1% or \$500 annually
¹ Includes inflation at 2.25%	

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2016 Public Retirees of South Carolina Mortality table (2016 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvements in mortality using published Scale AA projected from year 2016.

Assumptions used in the determination of the June 30, 2017, total pension liability are as follows:

<u>Former Job Class</u>	<u>Males</u>	<u>Females</u>
General Employees	2016 PRSC Males multiplied by 100%	2016 PRSC Females multiplied by 111%

12.H Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments, as used in the July 1, 2016 actuarial valuations, was based upon the 30 year capital market assumptions. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
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12. Pension Plan (Continued)

12.H Long-term Expected Rate of Return (Continued)

	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Global Equity	45.0%		
Global Public Equity	31.0%	6.72%	2.08%
Private Equity	9.0%	9.60%	0.86%
Equity Options Strategies	5.0%	5.91%	0.30%
Real Assets	8.0%		
Real Estate (Private)	5.0%	4.32%	0.22%
Real Estate (REITs)	2.0%	6.33%	0.13%
Infrastructure	1.0%	6.26%	0.06%
Opportunistic	17.0%		
GTAA/Risk Parity	10.0%	4.16%	0.42%
Hedge Funds (non-PA)	4.0%	3.82%	0.15%
Other Opportunistic Strategies	3.0%	4.16%	0.12%
Diversified Credit	18.0%		
Mixed Credit	6.0%	3.92%	0.24%
Emerging Markets Debt	5.0%	5.01%	0.25%
Private Debt	7.0%	4.37%	0.31%
Conservative Fixed Income	12.0%		
Core Fixed Income	10.0%	1.60%	0.16%
Cash and Short Duration (Net)	2.0%	0.92%	0.02%
Total Expected Real Return	100.0%		5.31%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.56%

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
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YEAR ENDED JUNE 30, 2018

12. Pension Plan (Continued)

12.I Discount Rate and Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The discount rate used to measure the total pension liability was 7.25% percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS will be made based on the actuarially determined rates based on projections in the South Carolina State Code of Laws. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the Authority's proportionate share of the net SCRS pension liability calculated using the discount rate of 7.25 percent, as well as what the Authority's respective net pension liability would be if it were calculated using a discount rate of 1.00 percent lower (6.25 percent) or 1.00 percent higher (8.25 percent) than the current rate.

	1% Decrease	Current	1% Increase
Plan	(6.25%)	Discount Rate	(8.25%)
		(7.25%)	
SCRS	\$ 20,570,608	\$ 15,960,282	\$ 13,162,894

12.J Additional Information and Actuarial Information

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the Systems' audited financial statements for the year ended June 30, 2017 (including the unmodified opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2017.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

13. Post-Employment Benefits Other Than Pensions (OPEB)

The South Carolina Public Employee Benefit Authority (PEBA), which is described in Note 12, is the State agency responsible for the administration and management of the State's employee insurance programs and other post-employment benefits trusts. By law, the State Fiscal Accountability Authority (SFAA) also reviews certain PEBA Board decisions in administering the State Health Plan and other post-employment benefits.

13.A Plan Description

The Other Post-Employment Benefits Trust Funds (OPEB Trusts), collectively refers to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), were established by the State of South Carolina as Act 195, which became effective during May 2008. The SCRHITF was created to fund and account for the employer costs of the State's retiree health and dental plans. The SCLTDITF was created to fund and account for the employer costs of the State's Basic Long-Term Disability Income Benefit Plan.

In accordance with Act 195, the OPEB Trusts are administered by PEBA, Insurance Benefits, and the State Treasurer is the custodian of the funds held in trust. The PEBA Board has been designated as the Trustee.

The OPEB Trusts are cost-sharing multiple-employer defined benefit plans. Article 5 of the State Code of Laws defines the two plans and authorizes the Trustee to at any time adjust the plans, including its benefits and contributions, as necessary to insure the fiscal stability of the plans. In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents.

13.B Benefits

The SCRHITF is a healthcare plan that covers retired employees of the State of South Carolina, including all agencies, and public school districts. The SCRHITF provides health and dental insurance benefits to eligible retirees. Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
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YEAR ENDED JUNE 30, 2018

13. Post-Employment Benefits Other Than Pensions (Continued)

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 15-24 years of service for 50% employer funding.

The SCLTDITF is a long-term disability plan that covers employees of the State of South Carolina, including all agencies and public school districts and all participating local governmental entities. The SCLTDITF provides disability payments to eligible employees that have been approved for disability.

Management of the Authority evaluated the net OPEB liability, OPEB expense, and related deferred outflows and inflows of resources associated with the SCLTDITF, and has concluded that these items are immaterial to the Authority's financial statements as of June 30, 2018. Accordingly, no adjustments were made to the Authority's financial statements pursuant to the provisions of GASB Statement No. 75 for the SCLTDITF.

13.C Contributions and Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these post-employment and long-term disability benefits to be funded through annual appropriations by the General Assembly for active employees to PEBA, Insurance Benefits, and participating retirees to PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of PEBA, Insurance Benefits. For active employees who are not funded by State General Fund appropriations, participating employers are mandated by State statute to contribute at a rate assessed each year by the Department of Administration Executive Budget Office. The covered payroll surcharge for the year ended June 30, 2017 was 5.33 percent. The South Carolina Retirement System collects the monthly surcharge for all participating employers and remits it directly to the SCRHITF. Other sources of funding for the SCRHITF include mandatory transfers of accumulated PEBA, Insurance Benefits' reserves and income generated from investments. Employer contributions also include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy represents a portion of the health care expenditures paid on behalf of the employer's active employees. For purposes of GASB Statement No. 75, this expenditure on behalf of the active employee is reclassified as a retiree health care expenditure so that the employer's contributions towards the plan reflect the underlying age-adjusted, retiree benefit costs. For the year ended June 30, 2018, the Authority remitted \$342,999 to SCRS for the SCRHITF.

Basic long-term disability 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 was \$3.22 for the fiscal year ended June 30, 2017. The SCLTDITF premium is billed monthly by PEBA, Insurance Benefits, and transferred monthly to the SCLTDITF. It is also funded through investment income.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
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YEAR ENDED JUNE 30, 2018

13. Post-Employment Benefits Other Than Pensions (Continued)

In accordance with part (b) of paragraph 69 of GASB Statement No. 75, participating employers should recognize revenue in an amount equal to the employer's proportionate share of the change in the collective net OPEB liability arising from contributions to the OPEB plan during the measurement period from non-employer contributing entities for purposes other than the separate financing of specific liabilities to the OPEB plan. Therefore, employers should classify this revenue in the same manner as it classifies grants from other entities.

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Trusts, and additions to and deductions from the OPEB Trusts fiduciary net position have been determined on the same basis as they were reported by the OPEB Trusts. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Therefore, benefit and administrative expenses are recognized when due and payable. Investments are reported at fair value.

13.D Actuarial Assumptions and Methods

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plans (as understood by the employer and plan participants) and include the types of benefits provided at the time the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

13. Post-Employment Benefits Other Than Pensions (Continued)

Additional information as of the latest actuarial valuation for the SCRHITF:

Valuation Date:	June 30, 2016
Actuarial Cost Method:	Entry Age Normal
Inflation:	2.25%
Investment Rate of Return:	4.00%, net of OPEB Plan investment expense; including inflation
Single Discount Rate:	3.56% as of June 30, 2017
Demographic Assumptions:	Based on the experience study performed for the South Carolina Retirement System for the five year period ending June 30, 2015
Mortality	For healthy retirees, the 2016 Public Retirees of South Carolina Mortality Table for Males and the 2016 Public Retirees of South Carolina Mortality Table for Females are used with fully generational mortality projects based on Scale AA from the year 2016. Multipliers are applied to the base tables based on gender and employment type.
Health Care Trend Rate:	Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.15% over a period of 15 years
Aging Factors:	Based on plan specific experience
Retiree Participation:	79% for retirees who are eligible for funded premiums
Notes:	There were no benefit changes during the year; the discount rate changed from 2.92% as of June 30, 2016 to 3.56 as of June 30, 2017

The actuarial valuation was performed as of June 30, 2016. Update procedures were used to roll forward the total OPEB liability to June 30, 2017.

13.E OPEB Liability, OPEB Expense and Deferred Outflows and Inflows Related to OPEB

Additional items included in OPEB expense are the current period amortized portions of deferred outflows and/or inflows of resources related to changes in the Authority's proportionate share of the collective net OPEB liability and differences between the Authority's actual contributions and its proportionate share of total plan employer contributions.

As discussed in paragraph 86 of GASB Statement No. 75, differences between expected and actual experience and changes in assumptions are recognized in OPEB expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided OPEB through the OPEB plan (active and inactive members) determined as of the beginning of the measurement period.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
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13. Post-Employment Benefits Other Than Pensions (Continued)

The schedule presented below reflects the amortization of collective deferred outflows and inflows of resources related to OPEB outstanding at June 30, 2017. In addition to recognizing a proportionate share of the deferred outflows and inflows, the Authority also reports (a) deferred outflows and inflows related to changes in proportionate shares and differences between contributions and proportionate share of contributions; and (b) a deferred outflow related to contributions made after the measurement date. This deferred outflow includes payroll-related surcharge contributions and implicit subsidies.

At June 30, 2018, the Authority reported a liability of \$11,867,444 for its proportionate share of the State's net OPEB liability. The net OPEB liability, of which the Authority's proportionate share was \$12,676,836, was determined by an actuarial valuation which was performed as of June 30, 2016 and which was rolled forward to June 30, 2017. The Authority's proportionate share of the net OPEB liability was based on a projection of the Authority's long-term share of contributions to the OPEB Trust relative to the projected contributions of all participants, as actuarially determined. As of the actuarial valuation date, the Authority's proportionate share related to the SCRHITF was 0.087616%.

For the year ended June 30, 2018, the Authority recognized OPEB expense related to the SCRHITF for \$722,299. At June 30, 2018, the Authority recognized deferred outflows and inflows of resources related to OPEB from the following sources:

	SCRHITF	
	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between expected and actual experience	\$ 20,392	\$ 5,151
Changes of assumptions	-	1,116,671
Net difference between projected and actual earnings on pension plan investments	-	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	-	168
Authority contributions made subsequent to the measurement date	342,999	
	<u>\$ 363,391</u>	<u>\$ 1,121,990</u>

Deferred outflows related to the Authority's contributions made subsequent to the measurement date of \$342,999 for the SCRHITF will be recognized as a reduction of the OPEB liability during the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>SCRHITF</u>
Year ended June 30:	
2019	\$ (174,536)
2020	(174,536)
2021	(174,536)
2022	(174,536)
2023	(179,633)
Thereafter	(223,821)

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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13. Post-Employment Benefits Other than Pensions (Continued)

13.F Net OPEB Liability

The net OPEB liability is calculated separately for each OPEB Trust Fund and represents that particular Trust's total OPEB liability determined in accordance with GASB No. 74 less that Trust's fiduciary net position. The allocation of each employer's proportionate share of the collective net OPEB liability and collective OPEB expense was determined using the employer's payroll-related contributions over the measurement period.

The following table represents the components of the net OPEB liability as of June 30, 2017:

<u>OPEB Trust</u>	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>	<u>Plan Fiduciary Net Position as a % of Total OPEB Liability</u>
SCRHITF	\$ 14,659,610,970	\$ 1,114,774,760	\$ 13,544,836,210	7.60%

The total OPEB liability is calculated by the Trusts' actuary, and each Trust's fiduciary net position is reported in the Trust's financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the Trusts' notes to the financial statements and required supplementary information. Liability calculations performed by the Trusts' actuary for the purpose of satisfying the requirements of GASB Statement Nos. 74 and 75 and are not applicable for other purposes, such as determining the Trusts' funding requirements.

13.G Single Discount Rate

The single discount rate of 3.56% was used to measure the total OPEB liability for the SCRHITF. The accounting policy for this plan is to set the single discount rate equal to the prevailing municipal bond rate. Due to the plan's investment and funding policies, the difference between a blended discount rate and the municipal bond rate would be less than several basis points (several hundredths of one percent).

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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13. Post-Employment Benefits Other than Pensions (Continued)

13.H Long-term Expected Rate of Return

The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. This information is summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Expected Arithmetic Rate of Return</u>	<u>Allocation-Weighted Long-Term Expected Real Rate of Return</u>
U.S. domestic fixed income	80.00%	2.09%	1.67%
Cash	20.00%	0.84%	0.17%
Total	100.00%		1.84%
Expected inflation			2.25%
Total return			4.09%
Investment return assumption			4.00%

13.I Sensitivity Analysis

The following table presents the SCRHITF's net OPEB liability calculated using a single discount rate of 3.56%, as well as what the plan's net OPEB liability would be if it were calculated using a single discount rate that is one percent lower or one percent higher:

	<u>1% Decrease (2.56%)</u>	<u>Current Discount Rate (3.56%)</u>	<u>1% Increase (4.56%)</u>
SCRHITF Net OPEB Liability	\$ 15,951,988,645	\$ 13,544,836,210	\$ 11,604,082,103
Authority's Proportionate Share	13,976,494	11,867,444	10,167,033

Regarding the sensitivity of the SCRHITF's net OPEB liability to changes in the healthcare cost trend rates, the following table presents the plan's net OPEB liability, calculated using the assumed trend rates as well as what the plan's net OPEB liability would be if were calculated using a trend rate that is one percent lower or one percent higher:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
SCRHITF Net OPEB Liability	\$ 11,107,326,981	\$ 13,544,836,210	\$ 16,700,824,804
Authority's Proportionate Share	9,731,796	11,867,444	14,632,595

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
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13. Post-Employment Benefits Other than Pensions (Continued)

Additional Financial and Actuarial Information

Detailed information regarding the fiduciary net position of the OPEB Trusts is available in their audited financial statements for the fiscal year ended June 30, 2017 (including the unmodified audit opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2017. A copy of the separately issued financial statements for the trust funds may be obtained by writing to the South Carolina Public Employee Benefit Authority - Insurance Benefits Division, PO Box 11960, Columbia, SC 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.

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, 2018.

15. Commitments and Contingencies

Financial Award Commitments

As of June 30, 2018, the Authority has financial award commitments outstanding totaling \$7,752,109 under the Housing Trust Fund programs.

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, 2018, or earlier years will not have a material impact on the Authority's financial statements.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
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16. Subsequent Events

On August 14, 2018, the Authority issued Mortgage Revenue Bond, Series 2018A, in the amount of \$70,000,000. The proceeds are being used to purchase loans and mortgage backed securities made up of Authority loans.

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 fiscal year ended June 30, 2018, is presented on the following pages.

Statement of Net Position - June 30, 2018						
	Single Family	Mortgage Revenue	Homeownership Bond	Revenue Reserve	Eliminations	Totals
Assets						
Current assets:						
Restricted assets:						
Cash and cash equivalents	\$ 49,689,212	\$ 13,376,678	\$ 7,550,351	\$ 1,426,417	\$ -	\$ 72,042,658
Investments	19,432,014	4,584,279	-	18,124,316	-	42,140,609
Loans receivable	3,774,081	13,267,908	-	123,936	-	17,165,925
Accounts receivable - other	-	-	-	493,402	-	493,402
Accrued interest receivable:						
Loans	405,823	1,767,943	-	9,735	-	2,183,501
Deposits and investments	378,891	208,294	245,146	90,060	-	922,391
Total current assets	<u>73,680,021</u>	<u>33,205,102</u>	<u>7,795,497</u>	<u>20,267,866</u>	<u>-</u>	<u>134,948,486</u>
Non-current assets:						
Restricted assets:						
Investments	8,318,043	16,725,705	80,376,260	-	-	105,420,008
Loans receivable, net of current portion	77,843,203	402,145,560	-	5,145,353	-	485,134,116
Allowance for doubtful loans	(35,649)	(298,928)	-	-	-	(334,577)
Total noncurrent assets	<u>86,125,597</u>	<u>418,572,337</u>	<u>80,376,260</u>	<u>5,145,353</u>	<u>-</u>	<u>590,219,547</u>
Total assets	<u>159,805,618</u>	<u>451,777,439</u>	<u>88,171,757</u>	<u>25,413,219</u>	<u>-</u>	<u>725,168,033</u>
Deferred Outflows of Resources						
Deferred loss on refunding	-	911,802	-	-	-	911,802
Total deferred outflows of resources	<u>-</u>	<u>911,802</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>911,802</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

17. Segment Financial Information (Continued)

	Statement of Net Position - June 30, 2018					
	Single Family	Mortgage Revenue	Homeownership Bond	Revenue Reserve	Eliminations	Totals
Liabilities						
Current liabilities:						
Liabilities payable from restricted assets:						
Bonds payable	3,285,000	7,630,000	1,605,000	-	-	12,520,000
Accrued interest payable on bonds	1,992,225	4,606,166	685,223	-	-	7,283,614
Total liabilities payable from restricted assets	5,277,225	12,236,166	2,290,223	-	-	19,803,614
Total current liabilities	5,277,225	12,236,166	2,290,223	-	-	19,803,614
Non-current liabilities:						
Bonds payable, net of current portion and unamortized premiums	73,698,845	274,594,490	61,204,325	-	-	409,497,660
Total noncurrent liabilities	73,698,845	274,594,490	61,204,325	-	-	409,497,660
Total liabilities	78,976,070	286,830,656	63,494,548	-	-	429,301,274
Deferred Inflows of Resources						
Deferred gain on refunding	-	2,954,552	291,299	-	-	3,245,851
Total deferred inflows of resources	-	2,954,552	291,299	-	-	3,245,851
Net Position						
Restricted for:						
Debt service	5,277,225	10,486,166	1,510,223	-	-	17,273,614
Bond reserves	2,294,850	8,150,100	-	-	-	10,444,950
Housing projects and development	73,257,473	144,267,767	22,875,687	25,413,219	-	265,814,146
Total net position	\$ 80,829,548	\$ 162,904,033	\$ 24,385,910	\$ 25,413,219	\$ -	\$ 293,532,710

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

17. Segment Financial Information (Continued)

Statement of Revenues, Expenses, and Changes in Net Position - Year Ended June 30, 2018

	<u>Single Family</u>	<u>Mortgage Revenue</u>	<u>Homeownership Bond</u>	<u>Revenue Reserve</u>	<u>Eliminations</u>	<u>Totals</u>
Operating revenues						
Interest and other charges on loans	\$ 4,427,608	\$ 18,675,826	\$ -	\$ 130,037	\$ -	\$ 23,233,471
Income on deposits and investments	1,713,021	1,118,154	3,374,620	290,067	-	6,495,862
Net increase (decrease) in the fair value of investments	1,116,478	345,711	(3,582,273)	91,960	-	(2,028,124)
Administrative fees and other	46,973	36,073	-	81,295	-	164,341
Total operating revenues	<u>7,304,080</u>	<u>20,175,764</u>	<u>(207,653)</u>	<u>593,359</u>	<u>-</u>	<u>27,865,550</u>
Operating expenses						
Bond interest	3,930,000	8,047,296	2,045,800	-	-	14,023,096
Program services	194,645	1,383,800	40,160	5,965	-	1,624,570
Bond issuance expense	-	614,171	-	-	-	614,171
Other expenses	6,846	26,644	-	143,993	-	177,483
Total operating expenses	<u>4,131,491</u>	<u>10,071,911</u>	<u>2,085,960</u>	<u>149,958</u>	<u>-</u>	<u>16,439,320</u>
Operating income (loss)	<u>3,172,589</u>	<u>10,103,853</u>	<u>(2,293,613)</u>	<u>443,401</u>	<u>-</u>	<u>11,426,230</u>
Transfers						
Transfers in	-	2,707,764	-	4,280,849	(4,290,653)	2,697,960
Transfers out	-	(5,266,491)	-	(142,237)	4,290,653	(1,118,075)
Total transfers	<u>-</u>	<u>(2,558,727)</u>	<u>-</u>	<u>4,138,612</u>	<u>-</u>	<u>1,579,885</u>
Changes in net position	<u>3,172,589</u>	<u>7,545,126</u>	<u>(2,293,613)</u>	<u>4,582,013</u>	<u>-</u>	<u>13,006,115</u>
Net position, at beginning of year	<u>77,656,959</u>	<u>155,358,907</u>	<u>26,679,523</u>	<u>20,831,206</u>	<u>-</u>	<u>280,526,595</u>
Net position, at end of year	<u>\$ 80,829,548</u>	<u>\$ 162,904,033</u>	<u>\$ 24,385,910</u>	<u>\$ 25,413,219</u>	<u>\$ -</u>	<u>\$ 293,532,710</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

17. Segment Financial Information (Continued)

Statement of Cash Flows - Year Ended June 30, 2018						
	Single Family	Mortgage Revenue	Homeownership Bond	Revenue Reserve	Eliminations	Totals
Cash Flows From Operating Activities						
Receipt of loan principal payments	\$ 10,160,037	\$ 50,323,816	\$ -	\$ (1,102,459)	\$ -	\$ 59,381,394
Receipt of loan interest payments	4,472,893	18,570,179	-	135,319	-	23,178,391
Purchases of new loans	(6,979,539)	(80,054,005)	-	(10,952,299)	-	(97,985,843)
Interfund purchases/sales of loans	-	(10,952,299)	-	10,952,299	-	-
Administrative fees and other	46,974	36,073	-	81,296	-	164,343
Payments to vendors	(142,849)	(1,791,871)	(40,160)	(149,552)	-	(2,124,432)
Net cash flows provided by (used for) operating activities	7,557,516	(23,868,107)	(40,160)	(1,035,396)	-	(17,386,147)
Cash Flows From Noncapital Financing Activities						
Transfers from other programs	-	2,707,764	-	4,280,849	(4,290,653)	2,697,960
Transfers to other programs	-	(5,266,491)	-	(142,237)	4,290,653	(1,118,075)
Proceeds from sale of bonds	-	55,000,000	-	-	-	55,000,000
Premium received from sale of bonds	-	2,152,040	-	-	-	2,152,040
Principal payments on bonds payable	(3,115,000)	(45,255,000)	(12,310,000)	-	-	(60,680,000)
Interest payments on bonds payable	(4,070,112)	(9,131,792)	(2,301,293)	-	-	(15,503,197)
Net cash flows provided by (used for) noncapital financing activities	(7,185,112)	206,521	(14,611,293)	4,138,612	-	(17,451,272)
Cash Flows From Investing Activities						
Purchases of investments	-	(7,330,535)	-	(2,359,039)	-	(9,689,574)
Sale of investments	42,002,155	22,757,255	13,940,557	-	-	78,699,967
Income on deposits and investments	1,609,701	1,112,639	3,418,352	256,555	-	6,397,247
Net cash flows provided by (used for) investing activities	43,611,856	16,539,359	17,358,909	(2,102,484)	-	75,407,640
Net increase (decrease) in cash and cash equivalents	43,984,260	(7,122,227)	2,707,456	1,000,732	-	40,570,221
Cash and cash equivalents, beginning of year	5,704,952	20,498,905	4,842,895	425,685	-	31,472,437
Cash and cash equivalents, end of year	\$ 49,689,212	\$ 13,376,678	\$ 7,550,351	\$ 1,426,417	\$ -	\$ 72,042,658

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

17. Segment Financial Information (Continued)

Statement of Cash Flows - Year Ended June 30, 2018

	Single Family	Mortgage Revenue	Homeownership Bond	Revenue Reserve	Totals
Reconciliation of Operating Income (Loss) to Net Cash Flows Provided by (Used for) Operating Activities:					
Operating income (loss)	\$ 3,172,589	\$ 10,103,853	\$ (2,293,613)	\$ 443,401	\$ 11,426,230
Adjustments to reconcile operating income (loss) to net cash flows provided by (used for) operating activities:					
Provision for loan losses	22,499	78,691	-	-	101,190
Net (increase) decrease in the fair value of investments	(1,116,478)	(345,711)	3,582,274	(91,960)	2,028,125
Bonds interest expense reclassified to non-capital financing activities	3,930,000	8,047,296	2,045,799	-	14,023,095
Income on deposits and investments reclassified to investing activities	(1,713,021)	(1,118,154)	(3,374,620)	(290,067)	(6,495,862)
Change in assets and liabilities:					
Loans receivable	3,216,641	(40,528,434)	-	(1,102,053)	(38,413,846)
Accounts receivable	-	-	-	-	-
Accrued interest receivable - loans	45,286	(105,648)	-	5,283	(55,079)
Accounts payable, accrued expenses and unearned revenue	-	-	-	-	-
Total adjustments	4,384,927	(33,971,960)	2,253,453	(1,478,797)	(28,812,377)
Net cash flows provided by (used for) operating activities	\$ 7,557,516	\$ (23,868,107)	\$ (40,160)	\$ (1,035,396)	\$ (17,386,147)

18. Implementation of New Accounting Standard

During the fiscal year ended June 30, 2018, the Authority adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Due to implementing this new accounting standard, beginning net position for the business-type activities decreased by \$12,246,744. This decrease represents a restatement for the net OPEB liability that was not recognized under previous accounting standards.

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Required Supplementary Information
Schedule of the Employers' Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2018

	2018	2017	SCRS 2016	2015	2014
Authority's proportion of the net pension liability	0.070898%	0.067562%	0.070607%	0.072075%	0.072075%
Authority's proportionate share of the net pension liability	<u>\$ 15,960,282</u>	<u>\$ 14,431,143</u>	<u>\$ 13,390,958</u>	<u>\$ 12,408,926</u>	<u>\$ 12,927,684</u>
Authority's covered payroll during the measurement period	<u>\$ 5,718,578</u>	<u>\$ 5,169,442</u>	<u>\$ 5,144,169</u>	<u>\$ 5,481,134</u>	<u>\$ 5,390,921</u>
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll during the measurement period	279.095293%	279.162490%	260.313337%	226.393407%	239.804738%
Plan fiduciary net position as a percentage of the total pension liability	53.3%	52.9%	57.0%	59.9%	56.4%

Schedules of Required Supplementary Information
Schedule of the Employer's Pension Plan Contributions
For the Year Ended June 30, 2018

	SCRS									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 907,016	\$ 791,248	\$ 694,073	\$ 694,228	\$ 693,610	N/A	N/A	N/A	N/A	N/A
Contributions in relation to the contractually required contribution	907,016	791,248	694,073	694,228	693,610	N/A	N/A	N/A	N/A	N/A
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A	N/A	N/A
Authority's covered-employee payroll	\$ 5,863,935	\$ 5,718,578	\$ 5,169,442	\$ 5,144,169	\$ 5,481,134	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	15.46770%	13.83645%	13.42646%	13.49544%	12.65450%	N/A	N/A	N/A	N/A	N/A

* This schedule is presented to illustrate the requirement to show information for ten (10) years.
However, information for fiscal years 2009 through 2013 is not readily available.

Schedules of Required Supplementary Information
Schedule of the Employers's Proportionate Share of the Net OPEB Liability
For the Year Ended June 30, 2018

	SCRHITF	
	2018	2017
Authority's proportion of the net OPEB liability	0.087616%	0.087616%
Authority's proportionate share of the net OPEB liability	<u>\$ 11,867,444</u>	<u>\$ 12,676,836</u>
Authority's covered payroll during the measurement period	<u>\$ 5,718,578</u>	<u>\$ 5,169,442</u>
Authority's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll during the measurement period	207.524388%	245.226390%
Plan fiduciary net position as a percentage of the total OPEB liability	7.6%	6.6%

Schedules of Required Supplementary Information
Schedule of the Employer's OPEB Plan Contributions
For the Year Ended June 30, 2018

	SCRHITF									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 342,999	\$ 360,607	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions in relation to the contractually required contribution	342,999	360,607	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contribution deficiency (excess)	\$ -	\$ -	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Authority's covered-employee payroll	\$ 5,863,935	\$ 5,718,578	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	5.84930%	6.30589%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* This schedule is presented to illustrate the requirement to show information for ten (10) years.
However, information for fiscal years 2009 through 2016 is not readily available.

SINGLE AUDIT SECTION

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2018

Federal Grantor / Program Title	CFDA Number	Total Awards/ Expenditures
Department of Housing and Urban Development		
Section 8 Project Based Cluster:		
Section 8 - Housing Assistance Payments		
Program-Special Allocations	14.195	\$ 133,269,230
Total Section 8 Project Based Cluster		133,269,230
 HOME Investment Partnership Program	 14.239	 6,050,653
CDBG - State-Administered CDBG Cluster:		
HERA Neighborhood Stabilization Program	14.228	277,170
Total CDBG - State-Administered CDBG Cluster		277,170
Housing Choice Vouchers Cluster:		
Section 8 - Housing Choice Vouchers Program	14.871	13,755,816
Total Housing Choice Vouchers Cluster		13,755,816
 National Housing Trust Fund	 14.275	 125,518
Total Direct - Department of Housing and		
Urban Development		\$ 153,478,387

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, 2018

Accounting Principles

The Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Authority and has been prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. 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, 2018 include \$2,928,682 of awards expended for loans that are recorded as *Loans Receivable* in the Statement of Net Position and not included in *Housing Assistance Payments and Grant Awards Disbursed* on the Statement of Revenues, Expenses and Changes in Fund Net Position. The total balance of loans for which the federal government has continuing compliance requirements is \$81,953,948.

**Independent Auditor's 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
South Carolina 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, 2018, 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 5, 2018.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina
October 5, 2018

**Independent Auditor's Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance
Required by the Uniform Guidance**

Mr. George L. Kennedy, III, CPA
State Auditor
South Carolina 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 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, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2018.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Columbia, South Carolina
October 5, 2018

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

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?	No
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 2 CFR 200.516(a)?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.195	Section 8 Project Based Cluster
14.239	HOME Investment Partnership Program

Dollar threshold used to distinguish between Type A and Type B programs	<u>\$ 750,000</u>
Auditee qualified as a low risk auditee?	Yes

Section II - Financial Statement Findings

None reported

Section III - Federal Award Findings and Questioned Costs

None reported